

**STATE SYSTEM OF HIGHER EDUCATION
COMMONWEALTH OF PENNSYLVANIA**

**PROFESSIONAL FEE COST PRINCIPLES
for
Open-End Contracts for Professional Services**

1. Objectives

The State System of Higher Education (the System) and its universities will attempt to negotiate fair and reasonable fees for services under its contracts. The System will not, at any time, base the Professional's compensation solely on any percent-of-construction-cost method.

The Professional's fee proposals and all cost or pricing data required shall be submitted in accordance with the instructions contained herein.

These principles may differ from other Professional fee cost principles for services that have been, or are being, performed under other contracts with the System and/or its universities.

2. Open-End Contracts

Negotiations will be two-fold. Negotiation of overheads and billable rates will occur prior to contracts being put in place. Later, negotiation of fees for work orders will occur when work orders are put in place, and those negotiations will use the billable rates previously negotiated as part of the contracts. These processes are addressed later in this document, after definitions and concepts are discussed.

3. Reasonableness

A cost is reasonable if it does not exceed that which would be incurred by an ordinarily prudent person in the conduct of competitive business, considering: ordinary and necessary sound business practices, arms-length bargaining, laws and regulations, contract terms and specifications, reasonable explanation of significant deviations from established practices, and/or competitive constraints.

4. Direct Costs

A direct cost is any cost which can be identified specifically within the scope of the services for a project, and which is routinely chargeable directly to the project. Direct costs include direct labor costs, subconsultants' fees, and reimbursable expenses, as defined herein.

Direct Labor Costs

Direct labor costs normally include the salaries (hourly wage rates) for regular time for the Professional's employees.

For this contract, the hourly wage rates to be used will be for the various employee classifications as categorized by the System. The Proposed Standard Employee Classifications for the three types of System contracts are in Attachment 1. Wage rates will be for specific rates and not wage-rate "bands." The classification for each identified as the "2" should be the higher rate, and the "1" should be the lower rate. There is no standard definition of "2" and "1." They simply allow a firm to propose two rates for a classification. If a firm has additional classifications that it believes should be included in its contract, based on specialized types of services, they may be proposed. Similarly, a firm does not have to have all the classifications identified in Attachment 1.

Partners and principals are considered to be part of General & Administrative Overhead (G&A), and shall not have a direct labor hourly wage rate. If a partner or principal participates on a specific work order, their hourly rate shall be commensurate with the hourly rate for the employee classification in which the partner or principal is functioning for that work order.

Subconsultant Fees

Subconsultants are expected to adhere to these same Professional Fee Cost Principles.

Primary subconsultants who are on the Professional's team, and who the lead Professional would expect to use routinely on work orders, shall have billable rates included in the contract. These subconsultants' direct labor costs, labor overhead costs, and G&A shall be submitted through the lead Professional.

Specialty subconsultants who are on the Professional's team, but who will be used infrequently on work orders, do not have to have billable rates included in the contract. When they are needed on a work order, their billable rates can be negotiated for that work order, or their fee can be submitted as a lump sum.

The System does not allow a markup (overhead and/or profit) by the lead Professional on fees from subconsultants who are providing services as part of the Professional's team.

Subconsultants who are not on the Professional's team, but who are brought onto the team or procured specifically for a work order, will be addressed in the same manner as specialty subconsultants (see above).

Reimbursable Expenses

Separately-costed minor reimbursable expenses will be minimized. All minor expenses that could be costed against a specific project, but which are more easily accounted for in an overhead account, will be included in the Professional's G&A.

When authorized, reimbursable expenses will be identified as a not-to-exceed amount in the work order. Expenses will be invoiced and reimbursed only to the extent that they are incurred. There shall be no markup (overhead and/or profit) on reimbursable expenses.

The following expenses are not authorized reimbursable expenses. Instead, they shall be provided for in G&A:

- Mail, express mail, shipping, etc.

- Phone calls

- Copying/printing/reproduction for the professional's use (working sets, submittals, etc.)

- Reproduction being reimbursed through other means (bid sets paid for by bidders)

- Routine laboratory costs

- Routine permits and fees associated with being in business

- Meal costs and miscellaneous expenses associated with one-day travel

- Vehicle mileage for roundtrips of 200 miles or less

- Tolls associated with roundtrips of 200 miles or less

- All costs associated with CADD systems, BIM systems, estimating software, scheduling software, PM/CM software, and/or similar software licensing or subscriptions, and the administration, operations, and/or maintenance of such software

The following expenses may be authorized reimbursable expenses, but shall be subject to negotiations for a work order:

- Copying/printing/reproduction at the direction of, or for use by, the System (for other than regularly scheduled and required submittals and/or reports)

- Permits/fees required for the project

- Vehicle mileage for roundtrips in excess of 200 miles (marginal miles only)

- Tolls associated with roundtrips in excess of 200 miles

- Air travel (prior approval required; reimbursement limited to System limits)

- Car rentals (prior approval required; reimbursement limited to System limits)

- Travel, lodging, and meal costs associated with overnight travel (prior approval required; reimbursement limited to System limits)

5. Indirect Costs

An indirect cost is one that, because of its occurrence for common or joint objectives, is not readily subject to treatment as a direct cost. Indirect costs are grouped into Labor Overhead and G&A.

Labor Overhead This includes employment taxes, medical benefits, vacation, holiday time, etc. The labor overhead rate shall be calculated by dividing the total allowable labor overhead costs by the total direct labor costs for that same fiscal year.

G&A This includes the cost of being in business, such as real estate taxes, rent, utilities, etc. The G&A rate shall be calculated by dividing the total allowable G&A costs by the total direct labor costs for that same fiscal year.

The following are unallowable costs, and shall be deleted from any indirect cost analysis:

- Advertising/promotional/marketing cost
- Bad debts
- Contingencies
- Contributions and donations
- Dividend provisions, payments or distributions of profit (profit sharing)
- Employee bonus plans
- Entertainment costs
- Expenses identified as reimbursables in Section 4.
- Fines and penalties
- Idle facility costs
- Insurance costs on the lives of principals or employees when the firm is beneficiary
- Interest and other financial costs
- Initial organization or reorganization costs
- Losses on other contracts

The indirect costs, overhead rates, and resulting Total Labor Multiplier (Section 7.) should be tailored to the office where the work will be accomplished. In the case of multi-branch firms, only the indirect costs and overhead rates applicable to the specific location(s) where the work is to be performed will be included. Company-wide averages are not appropriate.

6. Profit

The System allows a fair and reasonable profit. Profit is provided for by its inclusion in the Total Labor Multiplier, and therefore is established for the duration of the contract. However, in certain exceptional cases, adjustments to profit for a work order may be made after considering degree of risk, nature of the work to be performed, extent of professional's investment, and/or amount of subcontracted work. The Professional shall provide a justification statement regarding any desired adjustments.

7. Total Labor Multiplier

The Total Labor Multiplier (TLM) consists of the combination of labor overhead and G&A plus a mark-up for profit. The TLM shall be determined as follows:

- 1) Determine the labor overhead rate, expressed as a decimal (i.e., 0.40)
- 2) Determine the G&A rate, expressed as a decimal (i.e., 1.10)
- 3) Add the two figures together, expressed as a decimal (i.e., 1.50)
- 4) Add 1.00 to the result (i.e., 2.50)
- 5) Multiply by a mark-up for 10% profit (i.e., multiply by 1.1, = 2.75)
- 6) The result is the TLM (i.e., 2.75)

8. Billable Rates

Billable rates are established by multiplying the hourly wage rates for the various employee classifications by the TLM. Billable rates will be included as part of the contract. The billable rates in the contract will be the only rates to be used for work orders.

Billable rates will be adjusted for escalation upon renewal of the contract every two years, based on the provisions of the contract.

9. Financial Statements

The System may request the Professional's latest audited financial statement. Financial statements will remain confidential within the System and will not become public information.

10. Negotiations and Award of an Open-End Contract

For the award of contracts, negotiations will focus on the billable rates for the various employee classifications. This may also require negotiation of indirect costs and overheads. Standard rates for reimbursables will not be negotiated or included as part of the contract.

11. Negotiations and Award of a Work Order

For the award of a work order, negotiations will focus on the fee for the services for that work order. This fee will be developed by the Professional as follows:

- 1) Identify the work tasks necessary to complete the scope of work under each design, service, or project phase. The number of work tasks should be in sufficient detail to explain what services/work/tasks the Professional will be accomplishing in each phase.
- 2) Assign the employee classifications necessary to accomplish each work task/phase.
- 3) Estimate the man-hours for each employee classification to accomplish each work task/phase.
- 4) Multiply the man-hours by the billable rates.
- 5) Total the costs for each work task/phase.
- 6) Total the costs for all work tasks/phases to arrive at the total work order fee.
- 7) If subconsultants' costs are not itemized per the process in 1) through 6) above, include their costs as a not-to-exceed lump sum(s), broken down by work task/phase. The System does not allow a markup by the Professional on fees from subconsultants who are providing services as part of the Professional's regular team. The System does, however, allow a maximum of 10% markup on fees for specialized subconsultants who are brought onto the team or procured specifically for the work order. The amount of such markup allowed will be inversely proportional to the amount of that subconsultant's services in relation to the Professional's overall services on that work order.
- 8) Itemize any required reimbursable expenses and total not-to-exceed amount, broken down by work task/phase. There shall be no markup on reimbursable expenses.
- 9) Additional Services, if necessary, should be added in one of two ways, in the following order of preference:
 - a. For Additional Services for which the complete scope of the Professional's services can be determined in advance, a firm fixed cost should be negotiated. That should be done by assigning man-hours by employee classification to work tasks/phases.
 - b. For Additional Services for which the complete scope of the Professional's services cannot be determined in advance, a not-to-exceed amount should be negotiated.

ATTACHMENT 1-1

Proposed Standard Employee Classifications for Wage Rates for Contracts for Architectural and Engineering Services

PROFESSIONAL:

Project Manager 2
Project Manager 1
Architect 2
Architect 1
Civil Engineer 2
Civil Engineer 1
Mechanical Engineer 2
Mechanical Engineer 1
Electrical Engineer 2
Electrical Engineer 1
Structural Engineer 2
Structural Engineer 1
Interior Designer 2
Interior Designer 1
Landscape Architect 2
Landscape Architect 1
Environmental Engineer 2
Environmental Engineer 1
Fire Protection Engineer 2
Fire Protection Engineer 1
Geotechnical Engineer 2
Geotechnical Engineer 1
Cost Estimator 2
Cost Estimator 1
Construction Manager 2
Construction Manager 1

TECHNICAL:

Designer 2
Designer 1
Draftsman 2
Draftsman 1
CADD Specialist 2
CADD Specialist 1
Spec Writer 2
Spec Writer 1
Surveyor 2
Surveyor 1
Survey Team
Clerical/Administrative Asst. 2
Clerical/Administrative Asst. 1

ATTACHMENT 1-2

Proposed Standard Employee Classifications for Wage Rates for Contracts for Construction Management Services

PROFESSIONAL:

Project Manager 2
Project Manager 1
Construction Manager 2
Construction Manager 1
Scheduler 2
Scheduler 1
Design Reviewer 2
Design Reviewer 1
Cost Estimator 2
Cost Estimator 1

TECHNICAL:

Site Superintendent 2
Site Superintendent 1
Quality Assurance Representative 2
Quality Assurance Representative 1
Clerical/Administrative Asst. 2
Clerical/Administrative Asst. 1

ATTACHMENT 1-3

Proposed Standard Employee Classifications for Wage Rates for Contracts for Commissioning Services

Supervisor/Manager
Commissioning Agent 2
Commissioning Agent 1
Clerical/Administrative Asst.