

Weighted Average Overhead Rates for Calculation of Net Fee

On March 7, 2005, the Department announced a change in the method of calculating the net fee (profit) portion of fees in consultant agreements. The new method used a statewide average overhead rate for all net fee calculations, and eliminated profit on non-salary direct costs. The net fee percentages currently used (listed in Chapter 2 of the Department's Consultant Contract Administration Manual) are not impacted by this change. A separate rate was provided for geotechnical work in recognition of the typically higher cost structures for this work. Weighted average overhead rates for Engineering and Geotechnical work will be revised annually on or about May 1 as new fiscal year information becomes available.

Please note that this change in policy is limited to the calculation of net fee (profit) amounts and does not impact allowable overhead rates.

Current Average Overhead Rates Effective May 19, 2008

General	160.31%
Geotechnical	172.03%

The revised rates will **apply to proposals for agreements and modifications received in Consultant Services on or after May 19, 2008**, and similarly for task order proposals (for existing agreements) received in District or other offices.

These rates were calculated based on a weighted average with the weighting based on funds encumbered from FY 2003 through FY 2008 (as of 12-31-07). Sixty (60) firms were included in calculations for the overall rate, and ten (10) firms were included in the geotechnical rate. An example on how to compute the net fee calculation is shown below. Questions should be directed to Mark Barton, Dan Krajcovic or Mat Mauger in the Office of Consultant Services.

Example - ABC Engineering, Inc.

Total Direct Labor (DL)	\$150,000
ABC Engineering's Overhead Rate	145%
Weighted Average Overhead Rate (Engineering)	160.31%
Net Fee Percentage	12%

$$\begin{aligned}\text{Net Fee Calculation} &= [\text{DL} + \text{DL}(\text{Weighted Avg O/H Rate})] \times (\text{Net Fee}\%) \\ &= [\$150,000 + \$150,000(1.6031)] \times (.12) \\ &= [\$150,000 + \$240,465] \times (.12) \\ &= \$46,856\end{aligned}$$

OR

$$\begin{aligned}&= [(\text{DL}) \times (1.00 + \text{Weighted Avg O/H Rate})] \times (\text{Net Fee}\%) \\ &= 150,000(2.6031)(.12) \\ &= \$46,856\end{aligned}$$