



Illinois Department of Transportation

2300 South Dirksen Parkway / Springfield, Illinois / 62764

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#03-14

Consultant Services Compensation Formulas for Federally Funded Engineering Projects

COUNTY ENGINEERS/SUPERINTENDENT OF HIGHWAYS
MUNICIPAL ENGINEERS/DIRECTORS OF PUBLIC WORKS
CONSULTING ENGINEERS

This circular letter is to inform you of changes to our policy concerning compensation of engineering consultants utilizing federal funds. Specifically, the Direct Labor Multiple (DLM) method of compensation has now been approved for use with federal funds and a change to the current Cost-Plus-Fixed-Fee (CPFF) method is being implemented.

- DLM methodology allows every consultant a different percentage of profit depending on the level of a firm's overhead. The DLM formula is as follows:

$$\text{DLM} = [(2.85 + R) \times \text{DL}] + \text{DC}$$

- The current CPFF formula, compensates the consultant for actual payroll, overhead, fringe benefits, and direct costs plus a fixed fee. All consultants receive the same percentage of profit (14.5%). Under the revised CPFF method of compensation, the consultant will now be provided the opportunity to select between the following two formulas:

$$\text{CPFF} = 14.5\%[\text{DL} + R(\text{DL}) + \text{OH}(\text{DL}) + \text{In house DC}]$$

or

$$\text{CPFF} = 14.5\%[\text{DL} + R(\text{DL}) + 1.4(\text{DL}) + \text{In house DC}]$$

Where:

DL = Direct Labor

DC = Direct Costs

OH = Consultants Firm's Actual Overhead Factor

R = Complexity Factor

With these changes also comes the option to include an efficiency factor. When provided in a Consultant Agreement, the consultant has the opportunity to share in any direct labor cost savings achieved by the efficiencies of the consultant from the original direct labor estimate. Upon submission and approval of the final bill, when the negotiated direct labor cost upper limit is not reached, the consultant will be entitled to 1% of the remaining funds. The efficiency factor is applied as follows:

1. DLM The local agency negotiates man-hours and the upper limit of compensation. When the actual payroll multiplied by the multiplier $(2.85 + R)$ is less than the negotiated payroll multiplied by the specified multiplier, the consultant is entitled to 1% of the difference. When the final bill is submitted and approved, the local agency requests the consultant to submit a bill for 1% of the remaining funds when the direct labor upper limit is not reached.
2. CPFF An efficiency factor may also be applied to those contracts using the cost plus fixed fee method. When the contract's direct labor cost upper limit is not reached, the consultant will receive 1% of the difference between negotiated and actual direct labor plus overhead.

Either of the two compensation methods may be selected by the local agency. The selected method must be indicated prior to soliciting prospective consulting firms. For those projects recently advertised with the CPFF method of compensation, where negotiations have not been completed, the local agency may offer the choice of methods to the consultant.

These changes in the method of compensation for engineering work are effective immediately.

If you have any questions, please call Greg Lupton at (217) 785-1670.

Sincerely,



Darrell W. Lewis, P.E.
Acting Engineer of Local Roads and Streets