

Payment Methods

Types of Payment Methods

Several types of payment methods are available for use in Federal-aid consultant contracts. All payment methods must be based on supportable and reasonable costs within the consultant's accounting system. A reasonable cost is one that does not exceed that which would be incurred by a prudent person in the conduct of a competitive business.

The Standard Consultant Contract, included as [Attachment D](#) to I.M. 3.305, contains a different "Attachment C – Fees and Payments" for each type of payment method described below.

1. Cost Plus Fixed Fee

This method should **only be used** for contracts that are estimated to be 18 months or more in duration, OR are estimated to be \$250,000 or more in total costs.

Using this method, the consultant is reimbursed for actual documented costs incurred and, in addition, receives a predetermined fixed fee. This method of payment is appropriate when the scope, complexity, character and duration is indeterminable at the time of negotiations, or where the work is of a nature that the contracting authority does not have experience or knowledge to permit an evaluation of the consultant's proposal on any other basis.

This method requires, as a prerequisite to equitable negotiations, that the contracting authority and consultant define as fully and completely as possible, and agree upon, the scope of services.

By definition, cost plus fixed fee includes payment of:

- a. Direct costs incurred, including:
 - Direct labor.
 - Direct non-salary costs incurred, such as the cost of materials incorporated into the contract work, travel expenses, computer charges, printing costs, expendable supplies, and payments to sub-consultants.

Direct costs should be estimated by classification/category of expense. Categories can include, but are not limited to: CADD, computer, mileage, printing, telephone, copying, meals and lodging. All direct cost categories, estimated by the consultant, need to be charged consistently to all types of contracts to be eligible for reimbursement.

- b. Indirect cost: Salary-related expenses and general overhead costs, which are calculated as percentages of direct labor. The overhead rate used should normally be estimated at the last verified rate. Under circumstances where the last verified rate is more than two years old, or where the last verified rate is not representative of the current business trend, an attempt should be made to negotiate a rate taking these circumstances into account. A three year average may be an acceptable alternative.
- c. Fixed fee: A fixed amount (fixed fee) over and above direct and indirect costs. The determination of the amount of fixed fee shall take into account the size, complexity, duration, and degree of risk involved in the work. The establishment of the fixed fee shall be project-specific. Fixed fees normally range from 6 to 15 percent of the estimated total direct and indirect costs. When determining a fixed fee, exclude travel expenses, printing costs, miscellaneous expenses, contingency, and any subconsultant fees.
- d. Contingency: An amount established to provide for reimbursement of unforeseen costs associated with the original contract items. The amount is normally 10% of direct and indirect costs, excluding any subconsultant fees. Under circumstances where the scope is not well defined, it may be appropriate to increase the amount of contingency.

Contingency is normally used to cover increases in wage rates and overhead cost and, under some circumstances, to cover a limited amount of unforeseen costs. Contingency is not to be used without the

prior written approval of the contracting authority and concurrence of the Iowa Department of Transportation (DOT), unless it is for overhead increases.

2. Fixed Overhead Rate

This method should **only be used** for contracts that are estimated to be less than 18 months in duration, OR are estimated to be less than \$250,000 in total costs.

This method is the same as the Cost Plus Fixed Fee describe above, except that the overhead rate is fixed for the duration of the contract instead of being adjusted each year.

3. Lump Sum

Using this method, the consultant undertakes to perform the services stated in the contract for an agreed amount as full compensation. This method of payment is appropriate only if the contracting authority has established the scope, complexity and duration of the work required to a degree that just compensation can be determined and evaluated by all parties at the time of negotiations. This method would be most appropriate for use on small and repetitious items of work of no more than 18 months in duration. Use of contingency on a lump sum contracts is not appropriate.

4. Specific Rates of Compensation

Using this method, the consultant is paid at an agreed and supported specific fixed hourly or daily rate for each class of employee directly engaged in the work. Such rates of pay include the consultant's estimated costs and net fee. This method of payment should be considered only for relatively minor items of work of indeterminable extent.

This method is recommended for CE services because of the indeterminate duration of the work.

Direct non-salary costs may be either set forth as an element of the specific rate or may be included in the contract as independent cost items. The specific rates, so determined, should be established by the consultant and found by the contracting authority to be reasonable and proper.

5. Unit Prices

Using this method, the consultant is paid on the basis of units of work performed. A unit of work may be defined as a measurement of work, such as linear feet (meters) of borings, number of right-of-way plats, tons (megagrams) of structural steel, or pounds (kilograms) of reinforcing steel. This method is appropriate when the cost of the work per unit can be determined, in advance with reasonable accuracy, but the extent of the work is indefinite.

Estimate of Proposed Consultant Fees

For all the types of contracts listed above, the consultant shall prepare a cost estimate to support the proposed fees. This estimate shall include direct and indirect costs the firm expects to incur, contingency (if any), and the expected fixed fee. For contracts using the Cost Plus Fixed Fee and Fixed Overhead Rate payment types, a similar estimate shall be attached to and made part of the contract (referenced as Attachment H – Consultant Fee Proposal in the Standard Consultant Contract). For the contracts using the other payment types, the cost estimate does not need to be part of the contract, but shall accompany the draft contract when submitted for review by the LPA and the Iowa DOT. An example cost estimate is shown in the Standard Consultant Contract.

The cost estimate shall also include subconsultant expenses. Subconsultant expenses should represent total estimated cost of work to be completed by an identified subconsultant. The estimated fee for the subconsultant should include direct labor, overhead, direct expenses, fixed fee and contingency, if any. The cost estimate should identify the type of payment method that will be used for each subconsultant. The subconsultant should also submit an estimate similar to one above so the subconsultant's expenses can be reviewed in the same manner as the prime consultant's.

Retention

A consultant contract may provide that a percentage of monthly payments be withheld until final payment is made or until final audit. This amount is often referred to as “retention” or “retainage.”

When the scope of the contract includes CE services, the contract shall provide for retention. The amount retained shall be held until the Iowa DOT has verified the consultant has provided all the construction documentation necessary for final reimbursement of construction costs. Once verified, the Administering Office will notify the LPA that the amount retained shall be released. The LPA shall not withhold retainage on CE services if the remaining documentation is not the responsibility of the consultant, or if the delay is for reasons beyond the ability of the consultant to control.

For contracts that do not include CE services, retention is optional. Situations which may warrant the use of retainage include, but are not limited to, the following:

- The LPA has no prior experience with the consultant.
- The consultant’s prior contracts have included large fluctuations in overhead rates.

When used for CE services, the Iowa DOT recommends that the amount retained be at least 3% but not exceed 5% of the amount payable. Lesser amounts of retainage may be used for services other than CE services.