



Understanding & Negotiating Payment Types

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- Understanding Payment Types

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- Negotiating Specified Rate and Lump Sum

Understanding Payment Types

Martha

Elements of Each Payment Type



Other
Direct
Expenses

Direct
Labor

Profit

Overhead



Specified Rate (SR)

- Payment is made for each hour worked and includes all labor costs. Other Direct Expenses are paid. No guarantee of “maximum amount not to exceed”.

Lump Sum (LS)

- Payment is made for each deliverable and includes all costs. Maximum not to exceed = guaranteed lump sum for contract.

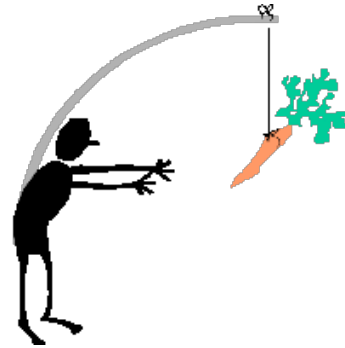
Unit Cost (UC)

- Payment is made for each completed unit and includes all costs. No guarantee of “maximum amount not to exceed”.



Cost plus Fixed Fee (CPFF)

- Payment is made for each hour based on actual salary rates.
- Overhead rate is provisional and may be audited.
- Profit rate is negotiated.
- The prime provider's profit \$ is guaranteed as the Fixed Fee – incentive to maximize efficiency.
- No guarantee of “maximum amount not to exceed” for contract.



How does Risk vary by payment type?



| Agreement with the Provider | SR | LS | UC | CPFF | Impact to Risk |
|---|----|----|----|------|--|
| TxDOT pays for actual hours spent | ↓ | | | ↓ | Reduces risk of overpayment |
| TxDOT pays for complete deliverables | | ↓ | ↓ | | Reduces risk of needing more money |
| TxDOT pays for other costs as needed | ↓ | | | ↓ | Reduces risk of overpayment |
| Fixed Fee is guaranteed | | | | ↕ | Risk of overpayment of profit is balanced by only paying for actual hours and cost |
| Max amount not to exceed is guaranteed | | ↑ | | | Increases risk of overpayment |
| Documentation required for hours, costs | ↓ | | | ↓ | Reduces risk of overpayment |

For vague or variable scopes – Specified Rate or Cost Plus Fixed Fee should be used:

- Tracking hours and requiring documentation of costs gives more control to PM
- When profit is tied to hours (SR), there is no incentive to finish. A Fixed Fee (CPFF) is a great incentive!

Payment Types for Standard Disciplines



| | Cost Plus Fixed Fee | Specified Rate (SR) | Unit Cost (UC) | Lump Sum (LS) |
|-------------------------------------|---------------------|---------------------|----------------|---------------|
| Engineering | | | | |
| Advanced Planning | | ★ | ☆ | |
| Bridge Inspection | | ★ | ★ | |
| Construction Engineering Inspection | | ★ | ☆ | |
| Construction Phase Services | | ★ | | |
| Geotechnical Engineering / Services | | ★ | ★ | |
| Materials Engineering / Testing | | ★ | ★ | |
| Plans, Specifications and Estimate | ★ | ★ | ☆ | ☆ |
| Repetitive Tasks | | | ★ | |
| Schematic Design and Environmental | ★ | ★ | ☆ | ☆ |
| Surveying | | ★ | ★ | ☆ |
| Architecture | | | | ☆ |

☆ For these disciplines, **UC** may be used for a part of the overall contract – e.g. Surveying, Materials testing, etc.

☆ **Best Practices:** **LS:** only appropriate when scope is well defined, and schedule is controlled by TxDOT and the Provider.

Negotiating Specified Rate and Lump Sum

Mindy



Schematic / Environmental / Plans, Specifications & Estimate

Two-phase approach

1. Schematic /
Environmental

2. PS&E

Not well defined and many
unknowns

Well defined



Schematic /
Environmental

Plans, Specifications
& Estimate

Level of Effort shown as
Specified Rate

Level of Effort shown as
Deliverables for **Lump Sum**

North

South*

*Many unknowns

North

South

Negotiations and Development of the Attachment E - Fee Schedule



55 Workdays (skipping holidays)

Negotiation Center (Rate Tables)

Pre-Negotiation Report

Base Rates

Profit

Applied Escalation

Scoping Meeting (Scope of Services)

PEPS PcE

TxDOT PM

Provider PM

SME's

Level of Effort (Summary Table)

Specified Rate (Work Breakdown Schedule)

Lump Sum (Table of Deliverables)

Unit Cost & ODE's

Schedule (Gantt Chart)

LOE – Specified Rate – WBS – Sch / Env (North & South)



| | | | | | | |
|----|---|--|--|------------------------|--------------------------|---------------------------|
| 3 | TASK DESCRIPTION | | | | | |
| 4 | Schem-ENV | | | | | |
| 5 | Work Authorization Termination Date: | | | Project Manager | Engineer (Design) | Engineer (Project) |
| 6 | CONTRACT RATE PER HOUR - SPECIFIED RATES | | | \$1.00 | \$1.00 | \$1.00 |
| 7 | CSJ: 0001-01-001 | | | | | |
| 8 | FC 102(110)- FEASIBILITY STUDIES | | | | | |
| 9 | Route and Design Studies | | | | | |
| 10 | Prepare/submit alignment and proposed roadway schematic (including associated MS Office and MicroStation media files) | | | 1.00 HR | 1.00 HR | 1.00 HR |
| 11 | Produce, obtain, review, and evaluate traffic data (e.g. existing, 25-yr projected, etc.) | | | | | |

| | | | | | | |
|----|---|--|--|-----------------|----------------------|----------------------------|
| 3 | TASK DESCRIPTION | | | | | |
| 4 | Schem-ENV | | | | | |
| 5 | Work Authorization Termination Date: | | | ative/Cl | TOTAL LABOR | NO. OF |
| 6 | CONTRACT RATE PER HOUR - SPECIFIED RATES | | | al | HRS AND COSTS | DRAWINGS |
| 7 | CSJ: 0001-01-001 | | | | | LABOR HRS PER SHEET |
| 8 | FC 102(110)- FEASIBILITY STUDIES | | | | | |
| 9 | Route and Design Studies | | | | | |
| 10 | Prepare/submit alignment and proposed roadway schematic (including associated MS Office and MicroStation media files) | | | | 3.00 | 1.00 |
| 11 | Produce, obtain, review, and evaluate traffic data (e.g. existing, 25-yr projected, etc.) | | | | | 3.00 |



LOE – Lump Sum – Table of Deliverables – PS&E (North & South)



| TABLE OF DELIVERABLES for Lump Sum Payment Method | |
|---|------------------------------------|
| Summary of Activities and Deliverable Items | Summary of Lump Sum Payments |
| FC 102(110) | \$1.00 |
| FC 120(120) | \$1.00 |
| FC 130(130) | \$1.00 |
| FC 160(150) | \$1.00 |
| FC 160(160) | \$1.00 |
| FC 160(161) | \$1.00 |
| FC 160(162) | \$1.00 |
| FC 160(163) | \$1.00 |
| FC 145(145,164) | \$1.00 |
| FC 160(170) | \$1.00 |
| (Add or delete Function Codes (FCs) applicable to specific project.) | |
| | |
| | |
| | \$10.00 |

LOE – Lump Sum – Table of Deliverables – PS&E (North & South)



| TxDOT Instructions | | | | Provider Instructions | | | | | | | |
|--|---|---|---|--|-----------------------------------|---|---|---|--|-------------------------------------|--|
| <p>Payments will be made according to the following Table of Deliverables.</p> <p>Partial payments on Lump Sum are not allowed (i.e. partial payment on each line item is not allowed).</p> <p>Provider must complete the entire <u>deliverable</u> associated with the line item. (The percentage of work is only an indicator of the progress of work associated with the deliverable.)</p> <p>Columns H-K of this spreadsheet should not be shown in the executed contract/WA. Instead, they should be shown after execution as the invoices are submitted by the provider.</p> | | | | <p>Lump Sum payments are paid based upon receipt of the deliverables as indicated in this document.</p> <p>The entire deliverable for each line item shown must be completed before the lump sum amount can be paid.</p> <p>This method will require tracking of paid line items based upon the TOD shown.</p> | | | | <p>The provider shall include this document as an attachment to each Invoice Package:</p> <p style="text-align: center;">Invoice Detail for Lump Sum Payments</p> <p>Complete the applicable detail information shown below. All deliverables completed and billed (by line item), according to the TOD should be shown. Partial payment on a line item is not allowed.</p> <p>Highlight the current payable line items that correspond to the invoice package submitted.</p> | | | |
| Function Code | Deliverable Submittal | Summary of Activities and Deliverable Items | Estimated Percentage of Work by Function Code | Lump Sum Amount Payable for listed Deliverables | Cumulative Total By Function Code | Cumulative Percentage of Work by Function | Date Deliverables Submitted to the TxDOT PM (Deliverable subject to acceptance according to the terms of the contract.) | Provider Invoice Number | Provider Invoice Date (date submitted for payment) | Total Amount Billed (per line item) | |
| 21 | FC 102(110) | | | | | | | | | \$0.00 | |
| 22 | FC 120(120) | | | | | | | | | \$0.00 | |
| 23 | FC 130(130) | | | | | | | | | \$0.00 | |
| 24 | FC 160(150) | | | | | | | | | \$0.00 | |
| 25 | FC 160(160) | | | | | | | | | \$0.00 | |
| 26 | FC 160(161) | | | | | | | | | \$0.00 | |
| 27 | FC 160(162) | | | | | | | | | \$0.00 | |
| 28 | FC 160(163) | | | | | | | | | \$0.00 | |
| 29 | FC 160(170) | | | | | | | | | \$0.00 | |
| | (Add or delete FCs applicable to specific project.) | | | | | | | | | | |
| 30 | | | | | | | | | | | |
| 31 | | | | | | | | | | | |
| 32 | | | | | | | | | | \$0.00 | |
| 33 | | | Sub-Total | \$0.00 | \$0.00 | #DIV/0! | | | | \$0.00 | |

30%, 60%, 90% or 95%, 100% etc.



Preliminary Engineering

LOE – Lump Sum – Table of Deliverables – PS&E (North & South)



| Function Code | Deliverable Submittal | Summary of Activities and Deliverable Items | Estimated Percentage of Work by Function Code | Lump Sum Amount Payable for listed Deliverables | Cumulative Total By Function Code | Cumulative Percentage of Work by Function |
|---------------|-------------------------|---|---|---|-----------------------------------|---|
| 20 | | | | | | |
| 21 | Preliminary Engineering | Data Collection, Design Criteria... | 1.00% | \$1.00 | | |
| 22 | | FC 120(120) | | | | |
| 23 | | FC 130(130) | | | | |
| 24 | | FC 160(150) | | | | |
| 25 | | FC 160(160) | | | | |
| 26 | | FC 160(161) | | | | |
| 27 | | FC 160(162) | | | | |
| 28 | | FC 160(163) | | | | |
| 29 | | FC 160(170) | | | | |
| 30 | | (Add or delete FCs applicable to specific project.) | | | | |
| 31 | | | | | | |
| 32 | | | | | | |
| 33 | | | Sub-Total | \$0.00 | \$0.00 | #DIV/0! |



Payment Type - Personalities



Specified Rate



Lump Sum



Cost Plus Fixed Fee



Unit Cost



Other Direct Expenses

Questions and Discussion






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