Date: October 1, 1998

Subject: Overhead Schedule for Chemical Storage Facility Contract Agreements

This is a summary of current procedures related to overhead payments for construction of salt storage facilities used by contract counties and municipalities. The basis for the procedures is a May 28, 1982, maintenance memorandum (attached) which explains the reasons for a change, at that time, in the agreements with counties.

Counties and municipalities are compensated for overhead related to construction of salt storage facilities to be used for salt to be applied to state trunklines in accordance with Supplement A of the Chemical Storage Facility Contract Agreement.

A fee rate is established for off-site work (contract administration) such as preparing the pre-bid material, advertising, bid taking, awarding of the contract and all remaining contract administration costs. This fee is not subject to audit.

On-site work performed by county or municipal forces such as site preparation, inspection, quality control, etc. will be entitled to overhead at a separate rate. Overhead will be applied under the terms which govern overhead as defined in the currently effective State Highway Maintenance contract between MDOT and the local agency. All costs associated with on-site work performed by county or municipal forces are subject to audit adjustment.

Both fee rates are paid according to the rates and terms included in the supplement A of the Chemical Storage Facility Contract (see attached copies for both counties and municipalities). The attached guide for salt shed construction describes the key provisions of the salt shed construction program.

Calvin Roberts
Engineer of Maintenance
(Signature on file)

Attachment
Date: May 28, 1982

Subject: Revised Overhead Schedule for Salt Storage Facility Contract Agreements

In the past, except where counties elected to have overhead audited to cost, a county desiring any size of salt storage facility received a flat rate of 7.5 percent overhead applied to the total cost of constructing the facility. Aside from on-site work by county forces, this overhead rate covered the costs of off-site administration such as preparing the prebid material, advertising, bid taking, award of the contract, and all remaining contract administration costs. For a $25,000.00 small capacity structure this amounted to $1,875.00. Under these circumstances, a county requiring a large capacity $150,000.00 structure, and performing very little more in the way of contract administration, received the disproportionately greater sum of $11,250.00.

Because of this inequity and the Commission Auditor’s concerns over the high overhead costs the flat rate was generating, we revised our standard contract agreement toward effecting improvements.

The contract agreements now contain a Supplement A which defines overhead. A copy of this supplement is attached for your review.

A contract administration fee is established by negotiation between the department and the county, depending on the amount of off-site work to be performed by the county. If a reasonable figure cannot be agreed upon, the county must supply documentation substantiating their anticipated costs.

All on-site work performed by county forces will be entitled to overhead at the same rate and under the same terms as the overhead designated in the prevailing State Highway Maintenance Contract.

We believe this revised schedule to be much more equitable, and having received the approval of the Contracts Section and Commission Audit, its use was implemented as of March 15, 1982. Please inform any counties that will be constructing salt storage facilities as to what they may anticipate as regards overhead costs compensation.

Donald E. Orne
Engineer of Maintenance
(Signature on file)

Attachment
“Supplement A”; 1 pg.
Supplement A

Overhead and Board Force Account Costs

There shall be no overhead applied to items of work performed or materials supplied on which competitive bids are taken.

Compensation to the BOARD for direct expenses incurred shall be governed as follows:

1. A contract administration fee is established at __________ and shall include all direct expenses associated with off-site work, such as the preparation of plans, proposal and specifications, advertising, bid taking, award of contracts, and accounting associated with contractor payments and materials purchased by bids. This fee is not subject to audit.

2. Administrative overhead applicable to this agreement will be applied under the terms which govern overhead as defined in the currently effective State Highway Maintenance contract between the Michigan Department of Transportation and the Board of County Road Commissioners of the County of __________ except as stated in paragraph 1 above. Administrative overhead designated at __________ % shall be applied to all costs associated with on-site preparation, inspection, quality control, etc. The total cost associated with on-site work including overhead is estimated at __________. All costs associated with on-site work performed by BOARD forces are subject to audit adjustment.