Welcome to the second training module on Prevailing Wages for Architectural and Engineering firms contracting with Caltrans and Local Government Agencies on Public Works projects.

In the first module we introduced general information on Prevailing Wages for A&E firms. We welcome you to view the first module before this one to get a background on Prevailing Wages.

In this module we will discuss in greater detail the specific methods on how firms can account for Prevailing Wages.
These are the learning outcomes for this module:

- To understand how different methods for accounting for Prevailing Wages affect the Indirect Cost Rate (ICR)
- To understand how to bill Delta Base and Delta Fringe Costs under the different accounting methods
- To know the documentation requirements for each method
- To know the accounting method available for use on Safe Harbor Rate (SHR) firms
To recap what we presented in the first Prevailing Wage Training module:

- When there is a difference between the Department of Industrial Relations, or DIR, Prevailing Wage Rates and the employee rates then it is referred to as a Prevailing Wage Delta.
- There are three methods that A&E firms may use to account for prevailing wage delta costs.
  - The Direct Labor Cost Method
  - The Other Direct Cost Method
  - Indirect Labor/Overhead Cost Method, which is also known as the Overhead Cost Method
- It is allowable for a firm to use one accounting method for the Delta Base and a different accounting method for the Delta Fringe, provided the firm uses the same method respectively and consistently across all contracts.
- For those consultants who have not yet encountered deltas, they must choose an accounting method for the Delta Base and Delta Fringe and document it in a policy. The method must be consistently applied across all contracts.
  - Note: It is important for firms to understand the abilities and limitations of their accounting software in selecting an accounting method.

As a guide to assist A&E firms in gaining a better understanding of how to account and bill for Prevailing Wages, A&I has developed a Prevailing Wage Interpretive Guidance that can be accessed on A&I’s website which is listed on our resources page at the end of this module.
To provide a simple example, we will show you how to calculate a Prevailing Wage Delta for one employee’s hourly base rate.

Let’s assume John Smith’s hourly rate is $20.

The Prevailing Wage basic hourly wage rate for this classification established by DIR is $30.

Therefore, the difference, or the delta in this case, is $10.
Now in this example, we will show you how to calculate the total delta base and delta fringe cost for all employees for an entire year.

Let’s assume firm ABC has total combined employee hourly base wages of $1,000,000 which is a direct labor cost.

And the total combined hourly base wages and hourly fringe costs based on DIR’s Prevailing Wage rates is $1,020,000.

The difference or delta for the combined base and fringe in this case is $20,000.

In the following slides, we will show you how the method used to account for the Delta of $20,000 will affect the ICR.
The Effect of the Direct Labor Method

This illustration shows how the Direct Labor methodology impacts the indirect cost rate calculation.

As shown on the previous slide, the $20,000 delta is recorded in the Direct Labor account on the financial records.

We arrive at the indirect cost rate of 147.06% by dividing the total FAR allowable indirect costs of $1,500,000 / Total direct labor costs of $1,020,000.

Total FAR allowable indirect costs means that the costs are allowable in accordance with the Federal Acquisition Regulation (FAR), specifically 48 Code of Federal Regulations (CFR) Part 1, Chapter 31.

For those who are not familiar with indirect cost rate calculation, it is summarized as follows:

\[
\text{Indirect cost rate} = \frac{\text{Total FAR allowable indirect costs}}{\text{Total direct labor costs (billable and non-billable)}}
\]
The Effect of the Other Direct Cost Method

This illustration shows how the Other Direct Cost method impacts the ICR.

In this case the $20,000 delta, is recorded as an Other Direct Cost.

Under this method, there is NO impact to the indirect cost rate. As you can see the indirect cost rate remains the same at 150%. This is because the total FAR allowable indirect costs of $1,500,000 / Total direct labor costs of $1,000,000.

<table>
<thead>
<tr>
<th>OTHER DIRECT COST METHOD</th>
<th>Example</th>
<th>Add Prevailing Wage Deltas</th>
<th>Adjusted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total direct labor costs</td>
<td>$1,000,000</td>
<td>$20,000</td>
<td>$1,020,000</td>
</tr>
<tr>
<td>Total indirect costs</td>
<td>$1,600,000</td>
<td></td>
<td>$1,600,000</td>
</tr>
<tr>
<td>MINUS: FAR unallowable costs</td>
<td>$100,000</td>
<td></td>
<td>$100,000</td>
</tr>
<tr>
<td>Total FAR allowable indirect costs</td>
<td>$1,500,000</td>
<td></td>
<td>$1,500,000</td>
</tr>
<tr>
<td>Indirect cost rate</td>
<td>150.00%</td>
<td></td>
<td>150.00%</td>
</tr>
<tr>
<td>Prevailing wage other direct costs</td>
<td>$0</td>
<td></td>
<td>$20,000</td>
</tr>
</tbody>
</table>
The Indirect Labor or Overhead Cost Method

Next we will show you the impact to the ICR using the Indirect Labor/Overhead Cost method.

The $20,000 delta is recorded as Indirect Labor costs.

The adjusted indirect cost rate, impacted by having the Prevailing Wage delta added to the Overhead costs, is 152%. This is calculated by dividing the total FAR allowable indirect costs of $1,520,000 / Total direct labor costs of $1,000,000.
Here is a summary of all three methods so you can compare them.

As shown on the previous slides, each method affects the indirect cost rate differently.

- Under the Direct Labor Methodology, the ICR is 147.06%.
- Under the Other Direct Cost Methodology, the ICR is 150.00%.
- Under the Indirect Labor or Overhead Cost Methodology, the ICR is 152.00%.

Typically you would associate the PW Rates as Direct Labor costs as the labor relates to direct projects. However, some firms may elect to use the Other Direct Cost or Indirect Labor methodology.

Later in this training we will go through detailed examples of applying the indirect cost rate from each methodology to a Cost Proposal.
In this section, we will explain how to bill “Delta Base” and “Delta Fringe” under each method.

The first thing to understand when billing for Prevailing Wage contracts are the Multipliers.

Multipliers are values that are multiplied against the Delta Base and Delta Fringe to determine the amount to be billed.

Each methodology utilizes a different Multiplier.
This slide shows the Multiplier for each methodology.

Starting with the Direct Labor methodology, the costs billed for Delta Base and Delta Fringe are multiplied by the Indirect Cost Rate and the Fee Rate. The equation is: \((1+\text{OH Rate}) \times (1+\text{Fee Rate})\).

This is also known as the “Full multiplier.” It is called the full multiplier because it will reimburse the full delta costs plus the overhead and the fee.

For the Other Direct Cost methodology, because Delta Base and Delta Fringe are billed at cost, the multiplier is one. The multiplier is one because it will reimburse only the deltas.

The Indirect Labor/Overhead Cost methodology, the Delta Base and Delta Fringe cannot be billed under this method, because the Deltas are included as part of the overhead cost. For that reason the multiplier is zero.
Here is a matrix summarizing the Multipliers.

Please keep in mind that the reimbursement method must be consistent with the firm’s accounting treatment of such costs. The accounting method chosen affects how a firm is reimbursed for the deltas incurred, and it is the responsibility of A&E firms to provide support documentation for prevailing wage delta treatment upon request.

<table>
<thead>
<tr>
<th>Accounting Method</th>
<th>Multiplied to</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Labor</td>
<td>Delta Base or Delta Fringe * (1+OH)(1+Fee)</td>
</tr>
<tr>
<td>Other Direct Cost</td>
<td>Delta Base or Delta Fringe * 1</td>
</tr>
<tr>
<td>Overhead / Indirect Cost</td>
<td>Delta Base or Delta Fringe * 0</td>
</tr>
</tbody>
</table>

Must be consistent with the accounting method.
This is an example of a Cost Proposal that you would use for a Prevailing Wage Contract specifically for Actual Cost plus Fixed Fee or Specified Rate Contracts. This would not apply to Lump Sum Contracts.

This form is also referred to as the ADM-2033 for contracts with Caltrans or the 10-H4 for contracts with Local Agencies.

These forms can be found on A&I and Local Assistance’s webpages, for which we will provide links at the end of this module on the resources page.
On this slide, the green highlighted area is formula driven so you do not need to enter anything in this area. The circled areas in red are the areas that you will need to complete, and the ones that we will focus on in the rest of this training.
Now we will focus on what to input within the first section, which is where the Prevailing Wage Rates established by DIR and predetermined future increases will be entered.

An example of the DIR Determination Schedule where the Prevailing Wage rates are obtained will be displayed on the next slide. Please also note that in this example, the Prevailing Wage rate reflects an increase in the second year that was predetermined by DIR. We will discuss predetermined increases in an upcoming slide.

For this spreadsheet, you should identify each employee on the project and include their classification and shift (i.e. first shift or second shift). For each employee there should also be multiple rows to represent the salary rates for each year of the contract.
In this section, within each row you will need to enter the Prevailing Wage hourly base rate and Prevailing Wage hourly fringe rate for the particular employee as it relates to their classification.

The other cells in this area will then automatically calculate.
This is an example of a DIR Determination Schedule obtained from the DIR website. The web address is included at the bottom of the slide.

- The DIR Determination number, which is dependent on the advertisement date of the contract, type of work, and the location of the project, is located in the upper left hand side of the schedule. You should record this number on the cost proposal.

- To ensure the Consultant is using the correct DIR Determination Schedule, the advertisement date of the contract should fall between the Issue Date and the Expiration Date listed for each DIR Determination Schedule.
  - In this case, the advertisement date of the contract is September 1, 2016. The issue date of this schedule is August 22, 2016 and the expiration date is June 30, 2017. Therefore, this DIR Determination Schedule is applicable to this contract as the advertisement date is between those two dates.

- On the DIR Determination Schedule there are different rates depending on the classification Groupings. Ensure that you select the correct grouping based on the employee’s job classification.

- The cost proposal in the previous slide contains the following rates:
  - The prevailing wage Hourly Rate of $43.56 for the classifications in Group 1, and
  - The Fringe benefits hourly rate of $29.98 which is calculated by adding the costs under the columns: Health and Welfare, Pension, Vacation and Holiday, Training, and Other Payments.

Please make notes of these two hourly rates, $43.56 (Base) and $29.98 (Fringe) as they will be used in the upcoming slides.
DIR Predetermined Increases

For each DIR Determination Schedule, there may also be a related Predetermined Increase which will be added to either the Prevailing Wage hourly base rate, Prevailing Wage hourly fringe rate, or both as of a specific effective date.

The DIR Predetermined Increase that you see is related to the DIR# mentioned in the previous slide. It is **effective July 1, 2017 and shows a total increase of $2.05, which includes $1.46 allocated to the base hourly rate and $0.59 to the fringe hourly rate.**

Prevailing Wage rates on Cost Proposals should properly reflect increases as applicable.
Now let’s discuss the second section of the cost proposal.

In this section the consultant should enter the employee’s actual hourly base rate and estimated hourly fringe rate.

The actual hourly base rate will go under the column “Base Salary – Straight,” and the estimated hourly fringe rate will go under the column “Estimated Fringe.”

Note: upon billing, estimated hourly fringe rates should be restated at actual hourly fringe rates.

The rest of the columns in this section and the adjacent section to the right dealing with Deltas will self populate.
Now we will discuss the section of the cost proposal where you will enter hourly rates, effective dates, and escalation increases.

For each employee, there should be multiple rows to represent the hourly rate effective for each year of the life of the contract.

When entering the information, you will enter the effective dates and the actual hourly rate for the first year of the contract. Next you will enter the effective dates and the escalation increases for each subsequent year of the contract. Then, subsequent years’ hourly rates will automatically self populate using the escalation increases.
Example of ICR, Fee, and Multipliers

In this section, in the upper right hand corner, you should enter the applicable Indirect Cost Rate, Fee, and Multiplier which will be used to automatically calculate the Loaded Hourly Billing Rates.

*Typically*, for a Cost Proposal on Prevailing Wage contracts, *unless a firm maintains a single or combined rate*, you will only need a field office rate and not a home office rate.

You will also need to include in this section the appropriate Prevailing Wage multiplier for delta base and delta fringe, which as covered in the previous slides, is dependent on how you account for the deltas in your financial system.

We will discuss this in more detail in the next few slides.
This slide summarizes the multipliers used for the different accounting methods again.

The multiplier for the Other Direct Cost and the Indirect Cost/Overhead methods will always remain the same at 1 and 0 respectively.

1 meaning the delta base and delta fringe are recovered dollar for dollar as Other Direct Costs, and
0 meaning the delta base and delta fringe will be removed because they are recovered in the Overhead by the Indirect/Overhead Method.

The multiplier for direct labor will change depending on your ICR and the fee. In this example, the full multiplier is 2.6435, and it will be used in the next slide.
Now we will discuss the application of the Direct Labor Cost, Other Direct Cost, and Indirect Labor/Overhead Cost Methods.

In these examples, we will use non-exempt employees that are eligible to receive Over-Time at either time-and-a-half or double-time, and exempt employees that receive Over-Time at straight time.

The first example we will go over is the Direct Labor Method which treats delta base and delta fringe as direct labor.

In the top right corner, the Multiplier that is to be applied to both delta base and delta fringe is 2.6435 from the previous slide, and it should be entered in both the “Applicable Multiplier Delta Base” and the “Applicable Multiplier Fringe” sections.

This multiplier will automatically calculate the Prevailing Wage delta base, delta fringe, and Loaded Hourly Billing Rates.
The next example we will go over is the Other Direct Cost Methodology which treats the delta base and delta fringe as Other Direct Costs.

For all examples, the DIR Determination and Employee information are the same.

Under the Other Direct Cost Method the Field Office Rate is 150%, which we previously calculated on slide 7, and the multiplier is 1.

The new rate and multiplier should be entered in the top right hand corner of the cost proposal as was entered for the previous example.

Once entered, the rate and multiplier will automatically be applied to the delta base, delta fringe, and the loaded hourly billing rates.
In this last example, we will go over the Indirect Labor/Overhead Cost Methodology, which treats the delta base and delta fringe as overhead costs.

Under this methodology the Field Office Rate is 152%, as we previously calculated on slide 8, and the multiplier is 0.

The new rate and multiplier should be entered in the top right hand corner of the cost proposal as in the previous examples. Once entered the rate and multiplier will automatically be applied to the delta base, delta fringe, and the loaded hourly billing rates.
Documentation Requirements

In order to be eligible for reimbursement, Caltrans requires a written prevailing wage policy detailing the consultant’s accounting treatment of the deltas. The Prevailing Wage policy must be on company letterhead, dated, and certified by an appropriate officer that has the understanding and knowledge of the firm’s accounting policies.

The policy can be as simple as a few sentences, as long as the accounting method used for Delta Base and Delta Fringe are clearly stated. The method chosen for Delta Base can differ from Delta Fringe, they don’t need to be the same.

If a firm has their ICR audited, the firm must ensure their CPA tests the accounting treatment of prevailing wage deltas against their Prevailing Wage Policy and includes a disclosure note in the audit report on how the firm treats their deltas.

In addition, in order to be reimbursed by the contracting agency, the firm’s method used for billing deltas should be consistent with their Prevailing Wage accounting treatment and policy.
Safe Harbor Rate Firms

Firms utilizing a Safe Harbor Rate of 110% and participating on a prevailing wage contract are also required to have a prevailing wage policy.

Because the Safe Harbor Rate is not based on the development of the firm’s actual Overhead rate, firms utilizing the SHR can only be reimbursed for the prevailing wage deltas as either, an Other Direct Cost or as an Indirect Labor Cost.
Federal and State Requirements

If you would like to learn more about federal and state requirements pertaining to Prevailing Wage, please refer to the Davis-Bacon Act, the California Labor Code, and the California Code of Regulations.
These are additional resources that A&E firms can refer to specifically related to prevailing wages:

On A&E’s Website you will also find:
• Prevailing Wage Interpretive Guidance
• Prevailing Wage Training Modules
• Other interpretive guidance, webinars, and resources.
We hope this training gave you an understanding on how to account for Prevailing Wage rates on Prevailing Wage Contracts using the three different methodologies: Direct Labor Method, Other Direct Cost Method, and the Indirect Labor/Overhead Cost Method.

If you have not watched the first module, we encourage you to watch it as it discusses general information on Prevailing Wages and is a great tool to either introduce people to Prevailing Wages or to view them from a high level.

Should you have any questions or feedback, please feel free to contact us at the e-mail shown here.
This concludes our training. Thank you for your participation!