



# PEPS Fireside Chat

## Negotiation Center Updates

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# #EndTheStreakTX

End the streak of daily deaths on Texas roadways.



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# Profit and Escalation Workshop



A series of workshops with consultant representatives as subject matter experts to provide perspective on:

- the impacts of contracts of longer duration (5 years or more)
- the competitive labor market
- the reality of Profit, or Operating Margin, to the consultant community

# Escalation



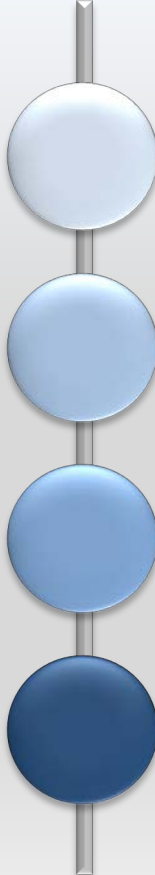
Contracts have evolved from 2 years in duration to 5 years or more

Competitive labor market

Basis for determination of percent of change

Consistent application of escalation

# The Escalation Policy



Escalation applies to long-term SD and ID contracts as deemed appropriate by the PEPS Negotiation Center Manager. Long-term is 5 years or longer.

Escalation will be negotiated and applied to labor rates and unit costs as deemed appropriate by the PEPS Negotiation Center Manager

Escalation is determined using the US Bureau of Labor Statistics Producer Price Index (PPI) for Transportation Engineering Projects

When approved by PEPS Division Director, other applicable indexes may be used in the determination of the escalation percentage of change



# The Escalation Policy

A 3-year average of the annual PPI will be used. Any escalation above the 3-year annual PPI percentage must be justified and documented by the PEPS Negotiations Center Manager and approved by PEPS Division Director

Escalation will be applied at the beginning of the 3<sup>rd</sup> year from the date of execution and applied every 2<sup>nd</sup> year thereafter, unless an exception is granted by the PEPS Division Director

Escalation may be considered for a contract that does not currently include escalation only with a Supplemental Agreement that includes an extension of time or a change in the scope of services.

The TxDOT Project Manager and Prime Provider should provide information about basic factors associated with the project to the PEPS Negotiations Center Manager

Profit



Project size

Complexity

Duration of schedule

Degree of risk

Discipline of work



# The Profit Policy

Allowable profit shall be negotiated by the PEPS Negotiation Center Manager and shall be assigned to the contract based on multiple risk factors

Profit is a negotiable part of all contracts and varies depending on characteristics of the contract and other basic factors

Basic factors that may determine the allowable profit assigned for each contract include the project size, complexity, duration, discipline of work and degree of risk

The TxDOT Project Manager and Prime Provider should provide information about the basic factors associated with the project to the PEPS Negotiation Center Manager

# The Profit Policy

The PEPS Negotiation Center Manager shall use their professional experience and engineering judgment to determine a fair and reasonable rate for profit

A typical range is between 8 and 12 percent. Deviation for special circumstances beyond these limits must be approved by the PEPS Division Director

PEPS Negotiation Center Manager will consider the profit rate as part of the entire rate schedule negotiations

# Questions and Discussion





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