



DEPARTMENT OF TRANSPORTATION
FEDERAL HIGHWAY ADMINISTRATION
WASHINGTON, D.C. 20590

OFFICE OF
THE ADMINISTRATOR

December 15, 1988

IN REPLY REFER TO:
HNG-1/HHO-32

Mr. T. Peter Ruane
President, American Road and
Transportation Builders Association
501 School Street, SW.
Washington, D.C. 20024

Dear Mr. Ruane:

Thank you for your November 21 letter concerning the Eichleay Formula for calculating home office overhead costs. You enclosed a resolution adopted by ARTBA's Board of Directors recommending that we advise the States to use the formula.

I appreciate your providing the analysis by Mr. Bennett D. Greenberg, as well as a copy of the resolution. We are familiar with the Eichleay Formula method of calculating home office overhead costs, and we have no objection to its use in appropriate circumstances.

The Federal Highway Administration's participation in the cost of overhead claims depends on the case. In general, we cannot participate in home office overhead costs when a State's standard specifications for extra work orders and force account work provide for full compensation in the contract unit prices and such prices are used to determine cost. On the other hand, extended home office overhead may be an eligible cost when the contractor is delayed by the State and the contractor is not able to charge home office overhead expenses to earnings. He also must be prevented from doing or unable to do other work, which the overhead could properly be allocated to, because of the delay.

As you probably know from our reaction in other cases, we are reluctant to mandate standardized contract language unless required to do so by law. Mandatory language usurps the States' responsibilities. Our position applies to the Eichleay Formula, as well. We do not believe the States should be required to use it. We recognize the value of the formula, but only when it is used in appropriate cases. As Mr. Greenberg aptly stated, ". . . other formulas . . . may be employed when they can be shown to lead to a more reasonable result." Therefore, home office overhead losses and the use of the Eichleay Formula should be considered on a case-by-case basis.

We will distribute copies of this correspondence to our field offices, along with a request that they forward copies to the State highway agencies. In this way, our field representatives and the States will be able to review Mr. Greenberg's analysis and ARTBA's resolution along with our comments.

Sincerely yours,

Lowell B. Jackson, P.E.
Deputy Administrator