

PHYSICAL PLANT
OPERATING POLICY AND PROCEDURE

PP/OP 04.04: Development of Standard Labor Charge Rates

DATE: November 3, 2010

PURPOSE

The purpose of this Physical Plant Operating Policy and Procedure (PP/OP) is to establish procedures for the development of standard labor charge rates for the cost centers under the 4site and Banner System for service accounts.

This PP/OP will be reviewed in August of each year by the Superintendent for Building Maintenance and Construction Work Control, Director for Services and the Associate Director for Business Office and Material Resources with recommendations forwarded to the Managing Director for Physical Plant.

POLICY/PROCEDURES

1. **General**

- a. Shop Rates – Establishment of shop rates for maintenance functions is an integral part of the Physical Plant cost accounting system to collect all costs associated with service accounts. Each Building Maintenance and Construction (BMC) and Transportation Services work center funded by a service account has a calculated standard shop rate. These standard rates will be updated at the beginning of each fiscal year and anytime significant changes occur in rate calculation factors. The standard rates include all overhead costs that support activities necessary to maintain vehicles, buildings, and perform minor construction. Shop rate component details are addressed in paragraphs 2 through 6 of this PP/OP.
- b. Responsibility Centers – The following Physical Plant superintendents and supervisors have responsibility for the productive activities of the craftspeople under their control and related operation costs for the following specific Physical Plant shops that are under the shop rate accounting system:
 - (1) Superintendent of Structure
 - (a) Cabinet
 - (b) Structural Maintenance & Repair
 - (c) Carpenter

- (d) Lock
 - (e) Paint
- (2) Superintendent of Heating and Air Conditioning
 - (a) Electronic Maintenance
 - (b) HVAC
 - (c) Insulation/Asbestos Abatement
- (3) Superintendent of Mechanical
 - (a) Plumbing
 - (b) Steam
 - (c) Electric
- (4) Director Physical Plant Services
 - (a) Vehicle Maintenance
 - (b) Refuse Collection
- c. Service Account – Building Maintenance-Reimbursable Projects (17A100-C20008-S10) and University Motor Pool-General Services-Reimbursable Projects (17A099-C20019-S10) are service accounts used to pay for all labor, supplies and materials, parts, contracts, training, and other goods and services necessary to do maintenance, repair, and construction work on all types of Texas Tech facilities, utility distribution systems, vehicles, department equipment, etc. This includes all work done by Building Maintenance and Construction shops and Transportation Services on all Texas Tech facilities and vehicles.
- d. Key Labor Charge Rate Terms and Definitions – Attachment A contains key definitions of common terms used within Physical Plant cost accounting and shop rate development.
- e. Shop Rate Development – Shop rates must be developed for every trade. The rate will be formulated in four distinct parts:
 - (1) Part 1: Shop Personnel and Salary Summary

- (2) Part 2: Indirect Labor Support Costs
- (3) Part 3: Indirect equipment supplies and support costs
- (4) Part 4: Shop Rate Calculations

2. Part 1: Shop Personnel and Salary Summary

Each shop rate must include pertinent data summarizing for each shop's total assigned personnel with current salaries. The required information for each craft code will be obtained and formulated for this part as follows:

a. Manager for Physical Plant Resources

- (1) Update the Job Cost/BMC report in the Human Resources Management System by September 15:
 - (a) Current employees assigned to each trade and their actual salaries
 - (b) Support personnel and their actual salaries

b. Building Maintenance and Construction (BMC) Work Control Superintendent

Using the Job Cost/BMC report from the Human Resources Management System, the information is entered into a computer spreadsheet program for shop rate formulation and calculation. Only position title will be used. Actual employee name(s) will not be entered.

3. Part 2: Indirect Labor Support Costs

This part will be used to identify the indirect labor support costs including: supervisory, work control, clerical, accounting, safety, training, security, purchasing, personnel and payroll, and any engineering staff employees who support the work centers and serve the entire Physical Plant division. This overhead labor cost will be obtained and entered in Part 2 as follows:

a. Manager for Physical Plant Resources

- (1) For BMC work centers, Manager for Physical Plant Resources will identify all employees in the Job Cost/BMC report who are fully or partially paid from service account 17A100-C20008-S10 and not directly assigned to a specific shop rate trade. The report will be made available to the BMC Work Control Superintendent in the same format and time frame as required in paragraph 1a. For employees with partial percentage, only the actual portion of salary paid from the account will be indicated.

- (2) For Transportation Services, Manager for Physical Plant Resources will identify employees who are fully or partially paid from service account, 17A099-C20019-S10. Information will be provided to the Director for Physical Plant Services as described in paragraph 2a above.

b. BMC Work Control Superintendent

The indirect labor support costs will be entered into the database for Part 2 shop rate formulation and calculation for all craft codes. Indirect labor costs will be used for the correct craft codes that are related. For example, account 17A100-C20008-S10 will be used for BMC shop and 17A099-C20019-S10 for the Transportation Services cost centers.

4. Part 3: Indirect Equipment and Supplies Support Costs

Shop rate development will also include indirect equipment, supplies, and administrative support costs to be allocated across all responsible craft code shop rate calculations. These are the expenditures necessary to accomplish shop functions, but not directly traced to a given unit of work. All equipment, supplies, materials, and other expenditures as approved will be purchased and charged to an annual 4Site standing work order. Formulation of these indirect costs will be as follows:

a. Director for Physical Plant Services

- (1) Prior to the start of each fiscal year, the Director for Physical Plant Services will review and identify indirect costs that require inclusion in the shop rate.

b. BMC Work Control Superintendent

- (1) At the beginning of each fiscal year, BMC Work Control Superintendent will review and identify indirect costs that require allocation across the BMC shop rates to be charged back to customers of Physical Plant services.
- (2) The list of approved indirect costs items will be included in the BMC indirect budget and expenditures will be monitored as reported monthly on the indirect budget variance report.
- (3) Establish a 4Site standing work order for each indirect item to collect the annual cost of expenditures against account number 17A100-C20008-S10 shop support.

- (4) Ensure these established work orders are sent to Physical Plant Associate Director for Business Office and Material resources for distribution to the appropriate managers and supervisors with instructions that work order numbers are used on requisition documents for indirect materials, equipment, and administrative supplies that support BMC craft code shops.
- (5) The indirect material, equipment, and administrative supplies approved to support annual costs will be entered into the data base for Part 3 shop rate formulation and calculation for BMC craft code and Transportation Service shops.
- (6) Each item listed will include a brief description and the source of the projected cost will be described in parenthesis.

5. Part 4: Shop Rate Calculations

The next part will be the shop rate calculation to determine the charge rate to be used for the current fiscal year. To formulate and calculate shop rates, the information provided in Parts 1, 2, and 3 will be the source and used in Part 4. A detailed explanation of the Direct Labor Index Percentage is attached to the work sheet. The labor rates will be entered in Part 4 as follows:

- a. BMC Work Control Superintendent
 - (1) Enter the required information into the established database.
 - (2) Present the shop rate formulation and calculation for all four parts to the Director for Building Maintenance and Construction for review and approval prior to entering into 4Site System for current fiscal year.
- b. Director for Building Maintenance and Construction and Director for Physical Plant Services
 - (1) Review work center rates and all parts of the formulation to ensure accurate costs and figures were used.
 - (2) Review the shop rates with the Managing Director for Physical Plant for approval.
 - (3) The BMC Work Control Superintendent will be notified of the approved shop rates to be entered into the 4Site System. The overtime rate is determined by recalculating the shop rate using the above procedures but with all shop labor calculated at 1.5 times. (This calculation is one-tenth above the actual calculated rate to allow for the cost of the longevity calculations for overtime hours.)

6. Shop Rate Maintenance and Update

Once the shop rates have been approved and entered into the current fiscal year 4Site system, the assigned shop rates will be reviewed and adjusted as necessary at the end of each quarter (first week of December, March, June, and September). If any out-of-cycle salary increases for employees (merit or statutory) occur in the middle of a quarter, the rates will be immediately updated. At the close of each quarter, the following functions will be accomplished:

- a. Manager of Physical Plant Resources – Review employee information files and update assignments and salaries as required. A revised listing of the hourly employees for the shop rate craft codes and listing of the monthly employees for the respective service accounts will be submitted to the BMC Work Control Superintendent by the first work day following the quarter. The reports will be submitted as described in paragraphs 2a, and 3a.
- b. BMC Work Control Superintendent
 - (1) Review employee personnel listings and make the appropriate changes to Part 2, Indirect Labor Support summary.
 - (2) Run a 4Site standing work order summary for all work orders used for cost collection in Part 3, Indirect Equipment, Materials, and Supplies Support. Compare actual cost with a projection comparison of the amount entered into the shop rate.
 - (3) Review the shop rate information and cost comparison with the Director for Building Maintenance and Construction.
- c. Director for Building Maintenance and Construction
 - (1) Review the quarterly shop rate comparison and highlight areas that may require adjustment for the remaining fiscal year.
 - (2) Coordinate with Associate Director for Physical Plant Business Office and Material Resources for funds analysis to include Transportation Services account status.
- d. Physical Plant Financial Committee

Composed of the Managing Director for Physical Plant, Associate Director for Physical Plant, Associate Director for Business Office and Material Resources, Director for Building Maintenance and Construction and Director for Physical Plant Services the committee will complete the following:

- (1) The Director for Building Maintenance and Construction will brief the current fund account status.
- (2) Compare fund account trends and make adjustment to shop rates as required.
- (3) The Associate Director for Business Office and Material Resources will submit all Division shop rates to the Office of Administration and Finance for approval by the appropriate administrative member as prescribed by TTU OP 62.23.

RESPONSIBILITIES**POSITION****SECTION****MONTH**

Director for Building
Maintenance & Construction

Review

August

Associate Director for Business
Office and Material Resources

Director for Services

APPROVED: _____
Reviewer

APPROVED: _____
Reviewer

APPROVED: _____
Reviewer

APPROVED: _____
Director for Physical Plant