



# Direct Labor Billing Information

The enclosed information discusses how to bill and support direct labor rates for WSDOT Negotiated Hourly Rate Agreements. Always review the respective agreement’s payment provisions before billing and contact the Consultant Services Office if you have questions at [consultantrates@wsdot.wa.gov](mailto:consultantrates@wsdot.wa.gov).

## 1. Direct Labor Rate vs. Billing Rate

There is a difference between labor costs and market billing rates for services provided on an hourly basis. A **billing rate** includes overhead, profit, and salary while a **wage or labor rate** is a raw labor cost.

The WSDOT Negotiated Hourly Rate Agreement’s Actuals Not to Exceed (ANTE) Table specifies the approved not-to-exceed (NTE) billing rate for each job classification listed on the ANTE Table. The billing rate is comprised of:

- (a) the direct (raw) labor rate
- (b) indirect cost rate as a percentage of direct labor, and
- (c) fixed fee (or profit) as a percentage of direct labor

Job Classification	Direct Labor NTE	ICR	Fixed Fee	Billing Rate
Engineer 1	\$45	120%	30%	\$112.50

The employee’s actual labor rate is the starting point for WSDOT negotiation of the direct labor rate, which is to be billed, up to the approved NTE for the respective job classification used. Proposals may estimate total labor by using average wage rates, but actual services shall be billed using the employee’s direct labor rate. If the employee’s actual payroll rate exceeds the respective job classification NTE on the ANTE, the NTE is the maximum that can be billed for the employee.

*“The CONSULTANT shall bill each employee’s actual classification, and **actual salary plus indirect cost rate plus fixed fee.**”<sup>1</sup>*

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<sup>1</sup> WSDOT Negotiated Hourly Rate Boilerplate, Section V – Payment Provisions  
WSDOT Contract Services Office  
March 28, 2023



## **2. Determining & Supporting Direct Labor Rates**

For a salary employee, the annual salary divided by 2,080 hours establishes the standard hourly rate used for billing on WSDOT Negotiated Hourly Rate Agreements. Consultants can also use 80 hours for biweekly pay periods, 86.67 hours for bimonthly pay periods, or 173.33 hours for monthly pay periods to determine the standard direct labor rate for salary employees. If the firm has part-time salary personnel or a standard workweek less than 40 hours, they must be prepared to show and support a different standard used for their timekeeping and billing.

WSDOT may request that firms provide payroll records for each employee billed. To support proposed direct labor rates, payroll records should clearly indicate each employee's salary or hourly rate. Per WSDOT Negotiated Hourly Rate Agreements, consultants shall have records available upon request from the State. As stated in the agreement language:

*“The CONSULTANT shall maintain and have accessible support data for verification of the components of the hourly rates, i.e., direct (raw) labor, indirect cost rate, and fixed fee (profit) percentage.”<sup>2</sup>*

In small and closely held firms, it can be difficult to determine hourly wage rates because owner draws, or distributions may contribute to the owner's salary. Due to fluctuations in work performed and resulting billings and collections, an owner may not take a salary in a month, then recoup in later months. In this situation, the owner should document how they determine the annual salary, i.e., which portion of the annual draws support the hours worked for the year (the annual salary) and which portion of the draws is a distribution of profits. The proposed direct labor rate should match the owner's hourly rate based on the computed annual salary. Please note for S Corporations, an owner's draw may not be used to support the owner's salary.

## **3. Invoicing WSDOT on A&E Agreements**

When invoicing WSDOT, the consultant should clearly identify the billing period on the invoice, the names and job classifications of all individuals billed. For Negotiated Hourly Rate Agreements, the billed job classification should correspond with a classification listed on the ANTE table and linked to the employee's actual job classification. The billed labor rate must use the employee's actual labor rate, yet not exceed the respective job classification direct labor NTE on the ANTE table. The resulting billed labor rate that includes overhead and fixed fee will be consistent with approved ANTE as well.

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<sup>2</sup> WSDOT Negotiated Hourly Rate Boilerplate, Section V – Payment Provisions  
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