MEMORANDUM

First, This memo requests approval that the 2019 annual Escalation Rate be set at 2.75%.

Second, I request approval to adjust the Consultant Committee procedure for calculating the yearly escalation rate as outlined below.

The Consultant Committee met on January 10th and 24th, 2019 to discuss the recommended annual Escalation Rate to be used for determining the mean average salary rate used for fee calculations on 2019 standalone contracts. At the recommendation of the Consultant Committee, this escalation rate is established each year by the Assistant Commissioner, and is used to offset some of the consultant’s risk involved in determining a fixed salary rate for each classification during fee negotiations of standalone agreements. The escalation factor is intended to take into account changes in employee salaries over the life of the contract so the salaries used in the fee negotiations more accurately estimate the actual salaries over the life of the contract. The escalation factor for 2018 was set at 2%, but had been 3% for the previous several years.

The Consultant Committee received information from the Department’s Internal Audit Office on the annual contract adjustment rate calculation. Using the escalation rate calculation procedure approved in 2018 the Internal Audit Office reviewed the “Employment Cost Index - Professional, Scientific, and Technical Services” industry 5-year average numbers for the 12-month periods ending on September 30th of each given year. The rates are as follows:

- 2014:  1.9%
- 2015:  1.8%
- 2016:  1.9%
- 2017:  3.0%
- 2018:  2.8%

This equates to a 5 year rolling average, as of September 30, 2018 of 2.28%. This would relate to an annual escalation rate be set at 2.25%. Rounding to the next lowest ¼ percent.
In discussions with ACEC-NH the firms had issues with our calculation, specifically the 5-year rolling average calculation. They believed that this “look back” rate calculation didn’t reflect current salary rates or current salary rate increases due to the economic upturn. In their attached letter, including current salary rate surveys, their recommendation is we use just the previous year’s Employment Cost Index rate as our escalation rate. The “Employment Cost Index - Professional, Scientific, and Technical Services” industry for the 12-month periods ending on September 30th of 2018 was 2.8%. ACEC believes this rate is the most current and reflects more closely what is happening in the industry.

In follow-up discussion ACEC-NH understood that this could result in a more volatile rate with greater fluctuations from year to year. ACEC-NH was satisfied with this change because it would more closely reflect the current rates and salary practices in the industry.

The Committee believes this change would affect contract values in a minor way and is a fair compromise to ensure contract budgets are calculated in an equitable manner, and would therefore recommend this change. We would like your approval for this minor change in calculating our Annual Escalation Rate.

The Committee recommends approval that the 2019 annual escalation rate be set at 2.75%. This percentage is rounded to the next lowest ¼ percent.

cc: Consultant Committee
    Internal Audit Office