Eichleay Formula Calculations

This paper is intended to be a fairly straight forward explanation of how to perform Eichleay formula calculations. It is not a definitive text on calculation of delay damages. There are normally many components to consider when calculating delay damages and the Eichleay formula deals with only one of these components.

The Eichealy Formula is widely used as a method of calculating home office overhead damages in construction delay cases. This component of delay damages often accounts for a very large portion of the amounts claimed.

If you are currently dealing with a case or claim involving construction delays you will probably need more information than is presented here. Construction delay claims are among the most complicated claims and almost always require the services of an expert to both determine damages and to defend against them.

Information presented in this article is categorized into the following specific sections.

- The basic formula
- A sample calculation
- Problems associated with using and applying Eichleay

The Basic Eichleay Formula

The basic Eichleay calculation normally comes at the end of a project when all work has been completed. In that case, the following 3 step calculation is used to determine damages.

1. Allocable Overhead. This is a calculation to determine the portion of the home office overhead that should be allocated to this project. This project is expected to pay it's fair share of home office overhead and this is a way of calculating that amount.

$$\frac{\text{Total contract billings}}{\text{Total company billings}} \times \text{Total home office overhead} = \text{This project's allocable overhead}$$

2. Daily allocable overhead. Next, we want to determine a daily rate for the allocation of home office overhead.

$$\frac{\text{Allocable Overhead}}{\text{Number of days of contract performance including delay days}} = \text{Daily allocable overhead rate}$$

3. Home office overhead damages. This is simply a matter of multiplying the number of compensable delay days by the daily allocable overhead rate.

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Daily allocable overhead rate X **Compensable delay days** = **Home office overhead damages**

A sample basic calculation

Let's assume that we have a contract amount of $2,700,00. The contractor has suffered compensable delays amounting to 45 calendar days. During this period, the contractor has 5 projects underway whose aggregate value is $10,000,000. The contractor's home office overhead during this period totaled $250,000. The duration of this project, including delays, totals 265 days. Our sample calculation of home office overhead damages follows:

1. This project's allocable overhead

$$\frac{\$2,700,000}{\$10,000,000} \times \$250,000 = \$67,500$$

2. Daily allocable overhead.

$$\frac{\$67,500}{265 \text{ days}} = \$254.72 \text{ per day}$$

3. Home office overhead damages. This is simply a matter of multiplying the number of compensable delay days by the daily allocable overhead rate.

$$\$254.72 \text{ per day} \times 45 \text{ days} = \$11,462$$

Thus, in this case, our **contractor's claim is $11,462** in compensation for home office overhead that should have been allocated to this job because of the increased duration of the project.

Problems Associated with applying the Eichleay Formula

1. The Eichleay formula is considered an estimate or an approximation and it's accuracy can be questioned. Even so, the Eichleay formula is generally considered to be a reasonable basis for estimating the amount of unabsorbed home office overhead resulting from construction delays.
2. It is reasonable when questioning the validity of Eichleay calculations to demand that the calculations be based upon audited financial statements to determine actual home office overhead costs. Many small contractors may not have audited information available and even larger contractors may not have audited information available immediately upon the completion of a project.
3. An objection to the inclusion of certain components in the value of home office overhead may arise. For example, on public works projects which are obtained through hard bidding, the cost of advertising and entertainment may be disallowed.
4. Some state courts may not recognize Eichleay as an acceptable method for

calculating delay damages.

5. It can be difficult to accept Eichleay calculations if the delay occurs late in the project. As an extreme example, if the delay occurs when the project is 99% complete, it can be argued that all allocable home office overhead expense has already been paid to the contractor.

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Last updated 03/27/2006