

5B Contract Pricing for Construction Services

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5B Contract Pricing for Construction Services

This chapter addresses various aspects of contract pricing for construction contracts including price evaluation and cost principles.

5.1 Price Evaluation

5.1.1 General

5.1.2 Analyzing Proposals

5.1.2-10 *Price and Cost Analysis*

Price or cost analysis is necessary to determine the reasonableness of a proposed price or cost estimate and to assist in determining an offeror's understanding of the work and ability to perform the contract.

5.1.2-20 *Price or Cost Analysis Report*

After completing price or cost analysis on a proposal, a summary report is prepared for the evaluated proposals. The length and detail in a report depends on the complexity and dollar value of the purchase. Detail the information considered, the weight given to each element of information and why, and the logic used to support the determination that the price is or is not reasonable.

5.1.2.a *Price Analysis*

Price analysis is the preferred method of analysis for construction proposals. Even when cost analysis is performed to evaluate individual cost elements, some form of price analysis must be performed to ensure that the overall price is fair and reasonable and that there is no need for further evaluation. The contracting officer is responsible for selecting and using whatever price analysis techniques ensure a fair and reasonable price.

5.1.2.a-10 *Life Cycle Costing*

5.1.2.a-20 *Price Analysis Techniques*

How detailed the price analysis is depends on the dollar value and the nature of the project. Often, a combination of techniques works best. The techniques outlined in 5.1.2.a-21 through 5.1.2.a-24 are among the most commonly used.

5.1.2.a-21 *Competitive Proposals*

Comparing offers to determine which offer is the lowest is a form of price analysis. Unless there is doubt about the adequacy of competition, this method is considered conclusive. Ensure that the prices being compared were submitted on the same basis.

5.1.2.a-22 *Prices Paid in the Past*

If the price offered is the same as, or less than, a price recently paid for similar work, the current proposal is likely to be reasonable. Determine whether the past prices being used for comparison were themselves adequately analyzed for reasonableness. Further, take into account price trends (up or down) caused by market conditions or other factors. Price history information can be obtained from the records of the purchasing office, the requesting office, or other offices. Ensure that the price history applies to the same item under the same conditions. If not, adjust the prices to reflect the change in conditions.

5.1.2.a-23 *Cost Estimates*

If a detailed cost estimate has been developed, compare the offered price to that estimate. Ensure that the estimate takes into account all factors that affect the price.

5.1.2.a-24 *Comparability*

To perform price analysis, a base to compare the offered price to is needed. That basis for comparison, usually the Postal Service estimate, should itself be known to be reasonable. Ensure that the proposal and the base are comparable. Comparing competitive proposals is an effective method of price analysis as the evaluator is assured that the items are comparable and, presuming that the firms involved are competing with one another, that the lowest price submitted is reasonable.

To determine comparability, consider workmanship requirements of the specification, quantities of work involved, performance time, and wage rates published by the Department of Labor. Also consider:

- a. Whether the drawings or specifications are clear.
- b. Whether estimating errors have been made.
- c. Whether the offerors are colluding and not really competing.

5.1.2.b ***Adequate Price Competition*** 

5.1.2.c ***Cost Analysis*** 

Cost analysis is appropriate when there is not adequate price competition and no method of price analysis ensures a fair and reasonable price. Cost analysis is limited to those cost elements that the contracting officer decides need close analysis. When limited analysis of specific cost elements or factors suffices, the contracting officer should obtain only the data needed for that analysis.

5.1.2.c-10 *Cost Analysis Techniques*

In analyzing proposed costs, apply the allowability factors set forth in PM 5.2. The following techniques are applied in performing cost analysis:

- a. Determine that all cost information requested in the solicitation package is furnished in each proposal. Request any missing cost information from the contractor.
- b. Evaluate the reasonableness of proposed costs by comparing two major areas: (1) quantities of resources and (2) unit cost of each resource. A lump-sum contract requires the evaluation of a single cost figure, while a unit-price contract requires the evaluation of several resource categories. Technical personnel should assist in the evaluation of cost proposals if needed.
- c. Evaluate direct labor costs to determine whether:
 - (1) Individual rates are commensurate with the type of effort.
 - (2) The total amount of labor is reasonable for the work requirements.
 - (3) The total amount paid is comparable to that paid for similar work in the local labor market.
 - (4) The proper classification and skill mixes have been proposed.
- d. Evaluate direct material costs to determine whether:
 - (1) Types and quantities are reasonable and realistic.
 - (2) Costs are traceable to, and can be supported by, documentation, such as bills of materials, contractor offers, and proposed subcontractors.
 - (3) Costs are reasonable as compared to actual prices for those geographical areas.
- e. Evaluate other direct costs (subcontractors, travel, and consultants) to determine their validity. Although it is difficult to assess proper indirect or overhead costs for a specific project, these costs should be evaluated and a determination of their reasonableness made.

5.1.2.c-20 *Other Techniques*

5.1.2.c-21 *Historical Comparisons*

Historical comparisons include comparing proposed costs to current costs for the same requirement, determining past costs paid for the same or similar requirements, and reviewing past proposals or offers received. When using this technique, determine whether costs paid previously resulted from adequate competition. If previous competition was inadequate, consider the historical data of no value unless there is evidence to the contrary (for instance, the same costs in another competitive situation). Another pitfall to the historical comparison technique is the danger of comparing costs of projects or situations that are dissimilar.

5.1.2.c-22 *Comparisons Using Market Data*

Use resources such as newspapers, trade journals, and market indexes to validate assumptions, identify the need for an adjustment, and implement adjustments as necessary. For example, use the *Engineering News-Record Building Cost Index* to adjust a past cost paid to a current offeror. Indexes of all types can be used to support the development of various estimates, which can then be compared against offered costs.

5.1.2.c-23 *Cost-Estimating Relationships*

This source of comparison typically includes unit costs such as dollars per pound, per square foot, per loaded labor-hour, and other similar units. The estimates are useful in identifying gross inconsistencies.

5.1.2.c-24 *Comparison with Postal Service Estimates*

Compare the offeror's proposal to the Postal Service estimate. The Postal Service estimate is a valid standard for comparison if it is based on a realistic engineering analysis.

5.2 **Cost Principles**

5.2.1 **General** 

5.2.2 **Contract Costs** 

5.2.2.a **Total Cost** 

5.2.2.b **Direct Costs** 

Direct costs include labor, material, equipment, and other costs. Typically, labor is the largest segment.

5.2.2.b-10 **Labor Costs**

Labor is usually the most significant single element of cost for construction work. For contracts over \$2,000, minimum wage rates are set (see 9.4.2.a). Most contractors base proposals on the prevailing rates and not on higher rates. Therefore, the most important consideration is the proposing contractor's assumptions concerning the productivity of labor; that is, how much work is done in an hour. This is a key distinguishing factor among competing proposals, since they are all based on the same set of Postal Service specifications and drawings. Many construction-estimating guides provide standard labor productivity factors for certain types of construction work. It is common practice among construction contractors to use these standards, making their own adjustments.

5.2.9 **Educational Institutions**

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