Tool 5-7 - Cost Analysis

The grantee must conduct a price or cost analysis before:

1) Awarding a contract over $250,000;

2) Amending or completing a no-cost modification to a contract that is over $250,000; or

3) Amending a contract that is $250,000 or less to be more than $250,000.

The method and degree of analysis is dependent on the dollar value of the proposed contract and the nature of the goods or services to be acquired. As a starting point, grantees must prepare an Independent Cost Estimate (ICE) before receiving bids or proposals. This will serve as the Grantee's yardstick for evaluating the reasonableness of the contractor's proposed costs or prices. The table below defines cost analysis, specifies the situations when this method is used, and the techniques used to perform the analysis.

Cost Analysis: Evaluation of the separate elements that make up a total cost proposal or price (e.g., labor, materials, etc.) for both new contracts and modifications to determine if the costs are allowable and reasonable	Use cost analysis whenever there is not price competition, such as legitimate sole source situations, when price is negotiated, such as architect / engineering services, or when the competitive price is not a firm, fixed price	When performing a cost analysis, consider the: • Accuracy of the information submitted—is the cost allowable, allocable, and reasonable? • Necessity of the proposed cost items • Actual costs of previous contracts for the same or similar work • Engineering estimates of costs to complete the scope of work for the same or similar work • Application of audited or pre-negotiated indirect cost rates, labor and fringe benefit rates, or other factors • Additional factors including size, ownership, and in-house resources

		When analyzing or negotiating profit, consider the: • Complexity of the work to be performed (i.e. the more difficult the work, the more profit a contractor may be reasonably entitled to) • Contractor's risk (i.e., the higher the risk, the higher the reward) • Oversight needs for contracts with many subcontracts vs. a contract where the contractor is self-performing most of the work • Level of complexity of the work • Quality of the contractor's past performance • Industry profit rates in the surrounding geographical areas for similar work • Fact that some business owners require a higher profit margin due to size or systemic exclusion from equitable participation in the economy

When utilizing CDBG funds, Grantees should consider the historic and systemic inequities in procurement and contracting opportunities. Grantees can find more information on equity in procurement in Appendix B: Equity and Belonging Toolkit.

Note: The cost plus a percentage of cost and percentage of construction cost methods of contracting are specifically prohibited by 2 CFR 200. These types of contracts are not "reasonable" because they reward contractors for incurring greater costs.