

CITY OF MONTGOMERY

Cost/Price Analysis and Profit Negotiation Policy for Federal Grants

The purpose of this policy is to provide the City of Montgomery with sound guidelines to perform cost-price analysis and profit negotiations as elements of federal contract procurement processes regulated by the 2 CFR §200.318(i) General procurement standards, 2 CFR §200.324(a) Contract cost and price, and 2 CFR §200.324(b) Contract Cost and Price.

The City of Montgomery will conduct an “independent analysis” to evaluate cost and price prior to review of proposals, in order to ensure that the proposed costs are allowable, reasonable, and allocable. To determine the reasonableness of proposed costs, the City will obtain cost breakdowns showing all the elements of the scope of work and perform a cost analysis using the appropriate set of principles. If they are significantly different, the City will evaluate its initial estimate, compare it to the proposals received, and identify the appropriate price.

Cost Analysis

The City will prepare an independent Cost Analysis before receiving bids, proposals, and contract modifications, which includes the review and evaluation of the separate cost elements, including labor, supplies, equipment, profit, overhead, and general conditions.

An independent estimate will be made before receiving bids or proposals if one of the following applies when: evaluating competitive proposals

- there is a sole source or non-competitive proposal,
- only one bid is received after soliciting bids,
- the City does not have enough data to establish cost reasonableness, and the grantee is considering awarding the contract to a single bidder,
- negotiating modifications to contracts that impact the price or estimated cost,
- terminating a contract and the contractor is entitled to payment of reasonable costs incurred, or,
- awarding a cost-reimbursement contract

Price Analysis

The City of Montgomery will compare competitive prices received in response to the solicitation to each other, and will:

- compare proposed prices to prices on existing contracts or contracts proposed in the recent past, and will factor in any changing conditions, including market, inflation, material price changes
- apply rough approximations and review significant inconsistencies, which may require a deeper look at prices to determine if the items are truly comparable. The types of approximations might include price per pound, per square foot, per hour or other typical unit pricing mechanism
- review price lists, catalogs or market prices of similar products to determine the market prices generally available to the public

Non-competitive Proposals (Sole Source)

The City may receive a Non-competitive proposals, for which one of the following situations exists:

- the item is available only from a single source;
- the disaster emergency will not permit a delay resulting from competitive solicitation;
- the Federal agency or pass-through entity expressly authorizes noncompetitive proposals in response to a written request from the Grantee; or
- after solicitation of a number of sources, competition is determined inadequate.

If one of these occurs, the City will obtain a breakdown of proposed costs and perform a cost analysis on those costs. The major categories of costs include both direct costs (direct labor, equipment, supplies, travel and per diem, subcontractors and other direct costs) and indirect costs (overhead, general and administrative expenses and profit). In the process of analyzing costs, profit should be analyzed separately, based on complexity of the work, risk to the contractor, investment required, amount of subcontracting involved, and typical profit in the industry.

Negotiation of Profit

The City will negotiate profit as a separate element of the price for each contract in which there is no price competition and in all cases where cost analysis is performed. To establish a fair and reasonable profit, consideration must be given to the complexity of the work to be performed, the risk borne by the contractor, the contractor's investment, the amount of subcontracting, the quality of its record of past performance, and industry profit rates in the surrounding geographical area for similar work. The offeror's qualifications are evaluated and the most qualified offeror is selected, subject to negotiation of fair and reasonable compensation. The method, where price is not used as a selection factor, can only be used in procurement of A/E professional services. It cannot be used to purchase other types of services though A/E firms that are a potential source to perform the proposed effort.

**PASSED AND APPROVED BY THE CITY COUNCIL OF THE CITY OF MONTGOMERY, TEXAS,
ON APRIL 11, 2023.**

APPROVED:

ATTEST:

Bryan Sanford
Mayor

Nicola Browe
City Secretary