



U.S. Department
of Transportation
**Federal Aviation
Administration**

Memorandum

Subject: **ACTION:** Program Guidance Letter 12-03

Date: **JAN 13 2012**

From: Manager, Airports Financial Assistance Division,
APP-500

Reply to Nancy S. Williams
Attn. of: 202-267-8822

To: PGL Distribution List

This Program Guidance Letter (PGL) addresses the required price or cost analysis to be performed by sponsors. The attached Order 5100.38C, Paragraph 906 is to be substituted for the existing guidance and is effective immediately.

FAA Regional Airports Offices and Airports District Offices are encouraged to distribute this PGL widely to the airport and consultant community.

Frank J. San Martin

Substitute into Order 5100.38C for the existing guidance:

906. PRICE OR COST ANALYSIS. Per 49 CFR 18.36 (f) sponsors are required to perform a cost or price analysis for every procurement action that uses AIP funds, including contract modifications. This analysis is needed by the FAA to determine the reasonableness of cost (See Paragraph 1052) and to identify possible bid improprieties (See Paragraph 1053).

a. Description of Price vs. Cost Analysis:

(1) **Price Analysis.** A price analysis is a process analyzing a proposed *total* price without evaluating separate cost elements and proposed profit/fee. The purpose is solely to ensure that a *total* bid price is fair and reasonable.

(2) **Cost Analysis.** A cost analysis is the evaluation of separate elements such as labor, materials, etc., that make up the total price to determine if they are allowable, allocable, and reasonable.

b. Sponsor Requirements to Perform:

(1) A sponsor must generally perform a price analysis on each procurement and modification to a procurement (also called a change order or contract modification). In circumstances where price analysis is not possible or practicable (e.g. when a single bidder responds to a bid solicitation) then a cost analysis must be performed.

(2) Cost analysis is required if:

(a) The procurement does not have price competition, for example, in cases when there is only a single responsive bidder; or

(b) The sponsor is using a negotiated procurement method where contractors submit costs proposals; or

(c) The sponsor is negotiating a contract with a sole source; or

(d) The sponsor is negotiating a modification to an existing contract. This is usually a change order; or

(e) The proposed price is NOT within +/-10% of the sponsor's estimate. See c(1) below.

c. Elements of a Sponsor's Price or Cost Analysis.

(1) All price or cost analysis will begin with an estimate, which sponsors will prepare for all procurements under the AIP. Some contract modifications, such as change orders under Section d(1) below, may not require a separate cost estimate to

evaluate the proposed price change. The level of detail of the estimate will be dependent on the nature of the procurement, such as construction, equipment, land acquisition, engineering services, etc. and the estimated total price of the project. For construction and equipment projects this will be in the form of an engineer's estimate. For Architectural, Engineering, and Planning Consultant Services this will be in the form of an independent fee estimate consistent with the requirements of FAA Advisory Circular 150/5100-14D Section 2-12 and for land acquisition, appraisals and review appraisals consistent with FAA Order 5100.37B and FAA Advisory Circular 150/5100-17.

The items identified below are intended to assist the sponsor in completing the price or cost analysis. The analysis and or questions below are not intended to be used solely to determine whether a bidder is responsive or responsible under the requirements of the solicitation.

(2) The basic techniques that a sponsor can use to complete a price analysis include (but are not limited to):

- Comparing the prices received in response to the contract solicitation against each other and against the cost range that was developed for the project; or
- Comparing prices submitted to previous contract solicitation and previously executed contract prices with prices received under the current contract solicitation for the same or similar items and services in comparable quantities; or
- Applying rough metrics (such as dollars per ton or other units) to identify significant inconsistencies that may warrant additional inquiry; or
- Comparing the proposed price with competitive published catalogs or lists, published market prices or commodities, and similar indexes; or
- Comparing proposed prices against independent cost estimates prepared consistent with paragraph (1) above.

Not all items above may be necessary, but a sufficient number of comparisons are required to ensure that an effective price analysis has been performed.

(3) The basic technique that a sponsor can use to prepare a cost analysis includes a, b, and c below:

(a) Review the accuracy of the cost and pricing information submitted as follows:

- The reasonableness of the proposed costs. To be considered reasonable, proposed costs must meet three critical tests. The costs must be:

- *Allowable*. The applicable cost principles (see section (c) below) will usually state whether a type of cost is allowable or not.
- *Allocable*. This means that the costs are logically related to, or required in the performance of the contract. Costs may be allowable but not related to the work required under the contract.
- *Reasonable*. This term is generally defined as what a prudent business would pay in a competitive marketplace. A cost can be allowable and allocable, and still not be what a prudent businessperson would pay (e.g., first class airfare for a proposed subcontractor).

(See OMB Circular A-87, Attachment A Section C for more detailed information on cost allowability, allocability, and reasonableness.)

- The necessity for proposed cost items. The sponsor's technical personnel (e.g., engineer, architect, information systems specialist, etc.) should review the proposed direct cost elements to determine their necessity to the contract and reasonableness (e.g., in comparison to market rates). A cost may be allowable under the cost principles and even allocable to the type of work to be performed, *but* still not be necessary for the specific contract.
- The offeror's application of audited or pre-negotiated indirect cost (e.g., overhead) rates, labor and fringe benefit rates, or other factors.
- The effect of the offeror's current practices on future costs. Does the offeror have a track record of containing costs (completing contracts at or "under cost")? Does he/she overrun costs?
- The projection of the offeror's cost trends. Is there any indication that his/her costs are likely to increase or decrease over the life of the contract?

Not all items above may be necessary, but a sufficient number of comparisons are required to ensure that an effective cost analysis has been performed.

(b) Compare costs proposed by the offeror with:

- Actual costs previously incurred by the same contractor for the same or similar work. If it is a repetitive type of work or service, how much has it cost in the past? Apply any appropriate inflation factors or major changes in material costs.
- Actual costs of the same or similar work performed by other contractors.
- Previous cost estimates from the offeror or other offerors for the same or similar items.
- The methods proposed by the offeror with the requirements of the solicitation (i.e., do the costs reflect the technical approach proposed and the work required?).
- The sponsor's independent cost estimate, either created by the sponsor's staff or by the sponsor's representative (i.e. an independent architect, engineer, appraiser, etc).
- The original bid by the offeror if the proposal is associated with a change order or contract modification intended to provide additional quantities of an item in the original bid.

Not all items above may be necessary, but a sufficient number of comparisons are required to ensure that an effective cost analysis has been performed.

(c) Verify that the offeror's cost submissions comply with the appropriate set of cost principles as identified in FAA Order 5100.38, AIP Handbook, Office of Management and Budget (OMB) Circular A-87 for State, local and Indian tribal governments, and 48 CFR Part 31 when related to "for-profit organizations".

d. Price or cost analysis for a contract modification, supplemental agreement or change order. Adjustments to existing contracts and fees generally occurs under two scenarios. First, changes that add or reduce work to complete the original project scope such as additional quantities of or substitutions to a specific bid item. Second, modifications that add work beyond the scope of the contract. See Section 940 for more detail on contract modifications.

(1) Contract changes intended to adjust quantities of an item in the original contract, which has previously undergone a price or cost analysis, only requires a basic cost analysis to ensure unit prices are consistent with those in the original contract and confirm that the increased or decreased quantities are necessary to complete the original scope of work for the project.

(2) Contract changes intended to substitute or alter items included in the original contract that are necessary for the completion of the original project scope may only require a basic price analysis, such as comparing the proposed price with previous completed work or independent engineering estimates. In some cases, it is not always practicable to complete a detailed cost analysis. For example, when constructing buildings such as terminals, field changes may occur that modify a construction method, change a material or move the location of an installed item. It is not always practicable to conduct a detailed cost analysis based on the timing and complexity of the change.

(3) Contract changes intended to add work not included in the original contract or change the unit cost of an item included in the original contract must be clearly justified (See section 940) and a cost analysis must be performed.

(a) If the original bid included a line item and unit cost for the work outside of the contract that is being considered, then those costs can be used to perform a cost analysis similar to item (d)(1) above. For example, adding lighting units for a taxiway connector, when the original project scope was only for lighting a parallel taxiway.

(b) If the original bid does not include a line item and unit cost for the work outside the scope of the original contract that is being considered, then a cost analysis must be performed consistent with Section (c)(3) above.

e. Required submittals to the RO/ADO by the airport sponsor:

(1) For procurements:

(a) Price Analysis

- Sponsor's Project Estimate
- Tabulation of bids or bid abstract
- Sponsor's statement of price analysis performed and the sponsor's recommendation that FAA accept the statement and price analysis as evidence of cost reasonableness. The sponsor's representative may prepare the information; however, the sponsor is still considered the responsible entity for the statement and conclusions.

(b) Cost Analysis

- Sponsor's Project Estimate
- Tabulation of bids or bid abstract

- Evidence of cost analysis performed by the sponsor or sponsor's representative
- Sponsor's statement of cost analysis performed and the sponsor's recommendation that FAA accept the statement and price analysis as evidence of cost reasonableness. The sponsor representative may prepare the information; however, the sponsor is still considered the responsible entity for the statement and conclusions.

(2) For contract modification, supplemental agreement, or change order:

- Justification for change
- Sponsor's statement of price or cost analysis performed and the sponsor's recommendation that FAA accept the statement and analysis as evidence of cost reasonableness. The sponsor's representative may prepare the information; however, the sponsor is still considered the responsible entity for the statement and conclusions.