

Cost Reasonableness Policy

The City of San Marcos will adhere to the following Cost Reasonableness Policy for all CDBG-DR purchases as required.

Per 2 CFR § 200.404, a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

Independent Cost Estimate

An Independent Cost Estimate (ICE) is required for each procurement action. The ICE is an estimate of goods/services to be acquired under a contract or a modification. The purposes of composing an ICE is to determine cost reasonableness. If a significant period of time elapses or market conditions change between the time the ICE was prepared and offers received, then an update to the ICE must be prepared. The City determines that a significant amount of time between when the ICE was prepared and when offers are received as six (6) months. The ICE is prepared before the solicitation or modification.

An ICE is required for the following:

1. A New Contract
2. Modification to Existing Construction Contract (Change Order)
3. A Procurement Action exceeding the Simplified Acquisition Threshold
4. Not enough Competitive Bids Submitted and the City has determined to proceed with choosing a contractor without re-soliciting bids

An ICE is generally not necessary for micro purchases which are under \$2,000. Nor is it generally necessary for a Change in Service to an existing contract, when separate and proper documentation of the cost reasonableness is provided for said Change in Service.

In developing the ICE, the following may be used:

- Price last paid for similar procurement
- Catalog price, or other advertised offers
- Comparison of previous bid prices
- Personal experience
- Other historical information
- Detailed analyses

Roles and Responsibilities

The ICE shall be developed by the staff team under which the procurement action is associated with. The project manager shall provide final acceptance and signature, should it be required.

For example, a new professional services contract for engineering design requiring an ICE, shall be developed by the project team in the Engineering and CIP Department at the City who is responsible for managing and reviewing the specific project for the services provided. The project manager assigned for this project will review, accept, and sign the ICE, verifying the validity of the Cost Estimate.

All research and sources for the ICE, as well as the method or calculation used should be documented in the project or procurement file to refer back to as needed during the cost reasonableness evaluation.

Methods of Determining Cost Reasonableness

Prior to making an award, the City will support the award by documenting that the price/cost for the goods or services is reasonable. A Price or Cost Analysis is always required. The ICE developed prior to issuing the solicitation should always be used as a reference in evaluating bids or negotiated competitive proposals.

Cost Analysis vs. Price Analysis

Factor	Cost Analysis	Price Analysis
Type of Procurement	<ul style="list-style-type: none"> • RFQ/RFP • Sole Source/Noncompetitive • All Contract Modifications • Small Purchase • Factors other than Price Determining Choice of Vendor/Contractor 	<ul style="list-style-type: none"> • Sealed Bid • Micro Purchase • Small Purchase
Items Being Procured	<ul style="list-style-type: none"> • Professional Services • A/E Consultant Services • Labor and Materials 	<ul style="list-style-type: none"> • Supplies • Equipment • Construction
Basis for Estimate	<ul style="list-style-type: none"> • Previous proposals • Previous purchases • Estimating software • Federal rates 	<ul style="list-style-type: none"> • Published prices for commercial products/services • Price set by law/regulation • Previous proposals and purchases • Federal rates
Approach	<ul style="list-style-type: none"> • Individual line items of a proposal or bid is reviewed and compared to the estimate, the market rate, and other quotes provided 	<ul style="list-style-type: none"> • Overall or total price of the quote is reviewed and compared to the estimate, the market rate, and other quotes provided

Price Analysis Method

Price analysis is a simple comparison of prices quoted by suppliers, contractors, etc., to each other and to the ICE. This method is typically used for small purchases, Sealed Bids, and simple competitive proposals when only the price paid is the determining factor and fair competition is present. Usually three (3) or more quotes is adequate competition. Once the Contracting Officer determines that the

prices quoted or offered in response to the solicitation are **reasonable**, the City will award the solicitation to the lowest bidder/offeror.

- Small Purchase Procedures are assessed by comparing the following:
 - Bids to each other
 - Bids to ICE
 - Bids to other sources of pricing such as previous purchases, price lists, catalogs or ads
 - For purchases under \$2,000 need only compare quotes received.
- Sealed Bids are assessed by comparing the following:
 - Bids to ICE if adequate offers have been received (3 or more offers)
 - If insufficient competition, (less than 3 offers received), and it has been determined using the City's current Bidding, Procurement, and Purchasing policies that re-solicitation is not appropriate, the following will be used:
 - Prior historical prices (consider inflation)
 - Published catalogs
 - Third-party estimate
- Simple Competitive Proposal Procedures are assessed by comparing the following:
 - Comparing bids to bids
 - Bids to ICE
 - If insufficient competition, (less than 2 offers) the City will use the following:
 - Prior historical prices (consider inflation)
 - Published catalogs
 - Third-party estimate

Micro Purchases

Micro-purchase means a purchase of supplies or services using simplified acquisition procedures, the aggregate amount of which does not exceed the micro-purchase threshold.

In order to determine if a micro-purchase is reasonable, a Small Purchase Quotes Documentation Form will be completed and filed for the micro-purchase.

Cost Analysis Method

A Cost Analysis is a detailed evaluation of the separate elements that make up the total proposed cost or price. Each element of cost is reviewed and evaluated to determine its reasonableness, allocability and allowability. Reasonableness refers to market prices or other data. Allocability refers to distributing the cost proportionately to each category, and allowability refers to federal cost eligibility. This method is used mostly for complex competitive proposals and for noncompetitive proposals. This method is required for the following circumstances:

- Price is not the determining factor for the award,
- There is no competition in the marketplace,
- There is inadequate competition and alternative means cannot be used,

e.g., comparison to prior prices for the same or similar items/services or to competitive price lists/indices or to professional estimate

- There is a contract modification that changes the scope and impacts price, or
- Prices vary widely (from the ICE)

Once the Contracting Officer determines that the prices quoted or offered in response to the solicitation are **reasonable**, the City will award the solicitation to the lowest bidder/offeror.

Roles and Responsibilities

The applicable method of determining cost reasonableness shall be developed by the staff team under which the procurement action is associated with. The project manager shall provide acceptance and signature. The Purchasing Department shall be responsible for final acceptance, signature, and execution of the Procurement Method associated with the cost reasonableness used.

For example, a change in service to an existing professional services contract for engineering design will require a memorandum (using the Cost Reasonableness Template for Change In Service), shall be developed by the project team in the Engineering and CIP Department at the City who is responsible for managing and reviewing the specific project for the services provided. The project manager assigned for this project will review, accept, and sign the memorandum, verifying the validity of the Cost Estimate. The Cost Estimate and any other documentation associated with the Procurement Method will be sent to the Purchasing Department for final acceptance, signature, and execution of said documentation.

The draft and original documentation records, at minimum, shall be saved and filed by the department responsible for cost reasonableness. The final, executed, signed document, at minimum, shall be saved and filed by the Purchasing Department.

In the event of insufficient competition for Sealed Bids, the department responsible requesting the bids for the project shall determine and provide documentation supporting the decision for re-solicitation or proceeding with the received bids based on professional expertise. The department responsible will then proceed with completing the Cost Reasonableness method appropriate.