

INDEPENDENT COST ESTIMATE/ COST OR PRICE ANALYSIS

PURPOSE: Explain to a subrecipient (1) what an Independent Cost Estimate (ICE) is; (2) how to determine when to perform an ICE; and (3) how to perform and submit an ICE to DRMT for review of a federally-funded procurement.

1. INDEPENDENT COST ESTIMATE

When conducting local purchases, the Federal Transit Administration (FTA) requires subrecipients to determine price reasonableness. In addition to FTA requirements, the California Department of Transportation (Caltrans) Division of Rail & Mass Transportation (DRMT) requires subrecipients to provide documentation supporting their determination of price reasonableness. An Independent Cost Estimate (ICE) is the first step in determining price reasonableness. FTA Procurement Circular 4220.1F states:

FTA Circular 4220.1F, Chapter VI, 6.:

6. COST AND PRICE ANALYSIS. The Common Grant Rules require the recipient to perform a cost analysis or price analysis in connection with every procurement action, *including* contract modifications. The method and degree of analysis depends on the facts and circumstances surrounding each procurement, but as a starting point, the recipient must make independent estimates before receiving bids or proposals.

In addition to C4220.1F, FTA's *Best Practices Procurement Manual* (BPPM) includes sections discussing cost or price analysis as part of the ICE. The FTA links below provide additional guidance for subrecipient reference. Please note the links are not maintained by Caltrans:

- http://www.fta.dot.gov/12831_6186.html
- http://www.fta.dot.gov/13057_6149.html
- <https://www.transit.dot.gov/funding/procurement/best-practices-procurement-manual>

An ICE is a benchmark for evaluating the reasonableness of the contractor's proposed cost or price, and may range from a simple budgetary estimate to a complex estimate, based on inspection of the product, review of drawings or specifications, and prior procurement data.

An ICE is an independent assessment of what you would expect to pay for goods or services, based on a reliable sources, such as paid historical prices, industry standard, or market survey. Subrecipients may also request informal cost estimates from suppliers or manufacturers when developing and ICE. If any outside party assists in developing the ICE, appropriate steps must be taken to ensure that organizational conflicts of interests are avoided and that the outside party does not obtain any competitive advantage from advance knowledge of the estimate. For contracts with optional extensions or other modifications, a subrecipient must make an ICE before executing the option or modification.

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2. DETERMINING WHEN TO PERFORM AN INDEPENDENT COST ESTIMATE

An ICE is required for all procurement exceeding the federal micro purchase threshold, currently established at \$3,500.00, except for construction contracts over \$2,000.00. Small purchases are between \$3,500.00 and \$150,000.00. Purchases above \$150,000.00 require a full solicitation (i.e., request for proposal or invitation for bids).

Below each threshold is summarized with the ICE requirement as well as additional documentation required.

Micro-purchases:

Purchases up to \$3,500.00

Do not require a formal ICE to determine price reasonableness.

- Complete the Micro-Purchase Documentation Form on the DRMT webpage and submit to the appropriate Program liaison.

Small purchases

Purchases between \$3,500.00 and \$150,000.00

Formal ICE is required.

Small Purchase procurements requires the following information:

- Independent Cost Estimate (ICE);
- Specification or scope of work;
- Firms from whom quotations were requested; and
- Quotations received. If quotations are requested orally, record must show from whom they were received, together with the date and amount.

The Small Purchase Documentation Form on the DRMT webpage prompts for the documentation necessary for DRMT approval of a Small Purchase.

Full solicitations require an ICE

Purchases at or over \$150,000.00

Formal ICE is required.

DRMT needs for the following information to conduct the initial review of a request for proposal (RFP) or invitation for bid (IFB):

- Independent Cost Estimate (ICE);
- FTA required clauses matrix (on DRMT website), with RFP and contract page identified for each clause;
- Draft RFP/IFB (including scope of work/ specification, and draft contract, including options, if applicable); and
- Subsequent documentation for contract award to be collected for full approval from DRMT.

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DRMT will request and maintain some procurement related documentation in order to provide approval. It is the subrecipient's responsibility to maintain proper documentation for each federally funded purchase. A procurement file must document the basis for decisions made at each step of the procurement process, and actions taken providing essential information in the event of an audit, investigation or litigation. (FTA BPPM, Chapter 2.4.1, File Documentation).

3. PERFORMING AND SUBMITTING AN INDEPENDENT COST ESTIMATE:

An ICE must be completed before receiving bids or proposals. FTA is flexible as to how a subrecipient determines a fair and reasonable price range. All prices must be documented in the procurement file and submitted to DRMT for FTA audit purposes. The most common ICE methods:

- A. *Publicly published price lists*
- B. *Recently invoiced price*
- C. *Outreach/market survey*

A. *Publicly published price lists:*

Typically appropriate for goods. Price lists or catalogs are acceptable price sources for off-the-shelf items such as technology, and office supplies. Price lists are often available online or in printed advertisements. Prices posted on a store shelf are also acceptable.

B. *Recently invoiced price:*

Typically appropriate for goods or services. If a subrecipient recently purchased similar goods or services, a recent invoice may help determine a fair and reasonable price. Recently may vary, according to circumstances--DRMT considers technology procurements over 6 months old not sufficiently relevant to determine a current fair and reasonable price range.

C. *Outreach/market survey:*

Typically appropriate for goods or services. A subrecipient may contact other agencies to determine a fair and reasonable price, so long as the agency is of similar size and the purchase or project is of similar scope.

Cost Analysis:

A cost analysis determines the cost of each aspect of a project, including, but not limited to labor rates, materials, and other direct costs such as travel, overhead, and profit. Subrecipients using this method may be required by firms to enter into non-disclosure agreements when dealing with proprietary information. A cost analysis must be performed when an offeror is required to submit elements of the estimated cost in their offer. A cost analysis is also required when a price analysis cannot determine the reasonableness of the proposed contract price.

Cost analysis typically applies to situations where the product or services being offered is not susceptible to being evaluated against other commercially available items of similar products or services. Examples include architectural-engineering (A&E)

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services where only one cost proposal is solicited from the highest ranking firm, or a sole source procurement for other types of services (FTA BPPM, Chapter 5.2, Cost and Price Analysis).

1. Prepare the ICE for submittal:

A subrecipient attaches the ICE to a cover sheet detailing:

- A. Printed on your agency letterhead
- B. Project description and scope of work or specification;
- C. Subrecipient and project manager contact information;
- D. Contract action type (new, option exercise, or amendment/modification);
- E. FTA grant program & Standard Agreement number, if available; and
- F. Narrative of price quotes gathered from the agency's procurement research in addition to the range that is determined from the price quotes to be fair and reasonable.
- G. Signature of person identified by the authorizing resolution.

DRMT may require additional documentation or an updated ICE based on the project type or market conditions. DRMT must grant procurement approval prior to any purchase supported with FTA funds.

2. Submittal to DRMT:

Submit the ICE and cover sheet to the DRMT grant program liaison electronically. If the ICE is for a new contract, include other documents and forms for concurrent review. These may include; Micro purchase, Small Purchase, or RFP/IFB forms and documents. If the ICE is for the exercise of an option or for amendment/modification of an existing contract, include a copy of the contract and of the proposed modification.

3. DRMT Review:

After DRMT determines the ICE to be complete, establishing a fair and reasonable price range, DRMT will formally notify the subrecipient in writing to move forward with the procurement.