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## CHAPTER 17. Contract Types

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## **17.1 Policy**

Fixed-price, cost-reimbursement, incentive, or any other type of contracts or combination of types of contracts may be used except cost-plus-a-percentage-of-cost contracts, which are prohibited.

## **17.2 Selecting Contract Types**

Contract types shall be selected according to the degree and timing of the responsibility to be assumed by the contractor for the costs of performance and according to the amount and nature of the profit incentive offered to the contractor for achieving or exceeding specified standards or goals.

Contracts resulting from sealed bidding shall be firm-fixed-price contracts or fixed-price contracts with economic price adjustment. Firm-fixed-price contracts also include fixed-rate and other types of unit-price contracts. Contracts resulting from other than sealed bidding may be of any type or combination of types that will promote the Authority's best interest.

## **17.3 Fixed Price Contract Types**

### **17.3.1 Fixed-Price Contracts**

Firm-fixed-price contracts shall be used for procuring goods, services, or construction on the basis of reasonably definite functional or detailed specifications and when the Contracting Officer can establish fair and reasonable prices at the outset.

### **17.3.2 Fixed-Price Contracts with Economic Price Adjustment**

Fixed-price contracts with economic price adjustment may be used to avoid contingencies in the contract when the stability of market and/or labor conditions are uncertain during an extended period of contract performance. The Contracting Officer must determine that the use of this contract type is necessary to protect the contractor and the Authority against significant fluctuations in labor or material costs.

### **17.3.3 Fixed-Price Contracts with Prospective Price Redetermination**

Fixed-price contracts with prospective price redetermination may be used only when the conditions for use of a fixed-price contract are not present and a fixed-price incentive contract would not be more appropriate.

### **17.3.4 Fixed-Ceiling-Price Contracts with Retroactive Price Redetermination**

Fixed-ceiling-price contracts with retroactive price redetermination may be used only for research and development estimated at \$100,000 or less and when it is established at the outset that a fair and reasonable firm-fixed price cannot be negotiated and that the amount involved and the short performance period make the use of any other fixed-price contract type impractical.

### **17.3.5 Firm-Fixed-Price, Level-of-Effort Term Contracts**

Firm-fixed-price, level-of-effort term contracts may be used only when the work required cannot otherwise be clearly defined, the required level of effort is identified and agreed upon in advance, and there is reasonable assurance that the intended result cannot be achieved by expending less than the stipulated effort.



### **17.3.6 Fixed-Price Incentive Contracts**

Fixed-price incentive contracts may be used when a firm-fixed-price contract is not suitable; the nature of the goods, services, or construction being procured and other circumstances of the procurement are such that the contractor's assumption of a degree of cost responsibility will provide a positive profit incentive for effective cost control and performance; and the contract includes incentives on technical performance and/or delivery and the performance requirements provide a reasonable opportunity for the incentives to have a meaningful impact on the contractor's management of the work.

## **17.4 Cost Reimbursement**

### **17.4.1 Cost-Reimbursement Contracts**

Cost-reimbursement contracts may be used only when uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use any type of fixed-price contract. These type of contracts require that the contractor's accounting system must be adequate for determining costs applicable to the contract. Only allowable and allocable costs shall be considered in reimbursing the contractor for work performed.

### **17.4.2 Cost-Plus-Fixed-Fee Contracts**

Cost-plus-fixed-fee contracts may be used for the performance of research or preliminary exploration or study and for other requirements where the level of effort required is unknown, or for development and testing when a cost-plus-incentive-fee contract is not practical. Cost-plus-fixed-fee contracts may be either completion (where the contractor is working toward a specific scope) or term (where the contractor is working within a specific duration).

### **17.4.3 Cost-Reimbursement Incentive Contracts**

Cost-reimbursement incentive contracts shall provide for an initially negotiated fee to be adjusted later by a formula based on the relationship of total allowable costs to total target costs. Cost-reimbursement incentive contracts shall be either cost-plus incentive fee or cost-plus award fee.

## **17.5 Time-and-Materials and Labor-Hour Contracts**

### **17.5.1 Time-and-Materials Contracts**

Time-and-materials contracts provide for acquiring goods or services on the basis of direct labor hours at specified fixed hourly rates, which include wages, overhead, general and administrative expenses, and profit, and actual cost for materials.

Time-and-materials contracts may be advantageous when it is not possible at the time of placing the contract to estimate accurately the extent or duration of the work or to anticipate costs with any reasonable degree of confidence.

Time-and-materials contracts shall contain a ceiling price that the contractor exceeds at its own risk. Appropriate surveillance of contractor performance shall be conducted to give reasonable assurance that efficient methods and effective cost controls are used in the absence of positive profit incentive to the contractor for cost control or labor efficiency,.

### **17.5.2 Labor-Hour Contracts**

Labor-hour contracts are a variation of the time-and-materials contracts, differing only in that materials are not supplied by the contractor.