

# **MISSION AND INSTALLATION CONTRACTING COMMAND**



## **INDEPENDENT GOVERNMENT COST ESTIMATE GUIDE**

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# Mission and Installation Contracting Command Independent Government Cost Estimate Guide

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*NOTE: Please take caution when using IGCE templates such as those at the end of this guide. Always be sure to revise them to fit the applicable procurement.*

*NOTE: This guide is to be used in conjunction with the Army Contracting Command's (ACC) Contract File Internal Control Requirements for Independent Government Cost Estimates (IGCE) Desk Book and its subsequent updates.*

# Mission and Installation Contracting Command Independent Government Cost Estimate Guide

## Foreword

1. This guide presents standard requirements to foster a strong internal control process for Independent Government Cost Estimate (IGCE) documentation in contract files. It also provides basic guidance on how to prepare an IGCE and the types of price/cost elements that are usually included in an IGCE. This guide is not intended to cover every possible acquisition, but rather presents information regarding the minimum requirements for IGCE documentation and also the basic cost/price elements that are usually included in an IGCE. This IGCE guide primarily focuses on estimates regarding services and provides a narrative explanation of common elements of costs typically found in such estimates. Contracting personnel are reminded that the IGCE is a budgetary estimate and is one of the least preferred methods of price analysis; hence, it should not be used as the sole means of determining a proposed price as fair and reasonable.
2. In accordance with Army Regulation 70-13, Management and Oversight of Service Acquisitions, Section 3-3.c, the IGCE may also be referred to as a Government Estimate (GE) or an Independent Government Estimate (IGE). Format and contents of the IGCE will vary in accordance with the complexity and value of the requirement.
3. As the name implies, the IGCE must be developed independently by the Government. While use of vendor catalogs and other methods of market research should be encouraged, estimators must be discouraged from contacting vendors for specific quotations. This is particularly true in sole source situations. If the estimator must contact a vendor to better understand specifications, pricing, discounts, etc. then two very important steps must be taken:
  - a. discuss the need to contact the vendor with the responsible contracting officer (KO), and
  - b. make it very clear, in writing, to the vendor that market research is the purpose of the contact, more information is needed about the product or pricing, and no quotation of any kind is being requested.
4. In addition, KOs are responsible for documenting the responses to the above questions in the Business clearance/negotiation memoranda.
5. To judge the reliability of a Government estimate, the contracting officer must understand how the estimate was prepared. Every estimate involves assumptions. Knowing and understanding those assumptions will provide insight into the estimator's understanding of the development of a reliable estimate. If the rationale used to develop the estimate is not clear or does not appear reasonable, ask questions. Asking questions about the IGCE and accompanying documentation can help identify assumptions that are not consistent with market realities, thus allowing the estimator to improve the IGCE before the contracting process begins.
6. It is important to determine what the estimator knows about the item or service being requested and what type of analysis was used in estimate development. The most reliable estimates are prepared by estimators who know their item and who have performed detailed market research. The depth of the estimator's market information will have a substantial impact on the quality of the estimate. Knowing the sources of information used by the estimator will

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make it easier to evaluate the reliability of the estimate. Estimators are required to identify the sources of information used to develop their estimate.

7. Just as past vendor performance is an indicator of future contract performance, the quality of past estimator performance is an indicator of the quality of the current estimate. In evaluating estimates, ask: "Have the estimator's past estimates been close to contract prices which were determined fair and reasonable through analysis using other cost/price analysis techniques?" If the answer is yes, greater reliance can be placed on current estimates developed using similar techniques. If the answer is no, less reliance should be placed on these estimates.

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## I. Independent Government Cost Estimate (IGCE).

1. The IGCE is a cost estimate developed by the Government requiring activity based on the requirements of the Performance Work Statement (PWS) or the Statement of Work (SOW). The IGCE is an unbiased realistic cost estimate developed by Government personnel. It reflects a clear understanding of the requirements, without potential contractor influence. The IGCE must become part of the contract file.
2. The IGCE is:
  - a. developed by the Government without contractor influence;
  - b. an aid in achieving best value and shared risk contract;
  - c. based on market research;
  - d. an analysis of reasonable and required resources to perform the contract;
  - e. projected, anticipated, or probable cost/price of a proposed Federal acquisition; and
  - f. benchmark for establishing cost/price analysis.
3. The IGCE is used to:
  - a. project and reserve funds for acquisition or Federal procurement as part of the acquisition planning process;
  - b. determine if assumptions in a cost proposal are based on the same or similar assumptions as the Government: and
  - c. determine fair and reasonable pricing, normally as a complement to more preferred pricing techniques.
4. The IGCE is prepared:
  - a. for every new acquisition in excess of the Simplified Acquisition Threshold (SAT);
  - b. prior to Request for Proposal (RFP), Request for Quotation (RFQ) and Invitation for Bids (IFB) for new fixed-price contracts and cost-reimbursement contracts;
  - c. when the contract period is one-year or multiple years;
  - d. when requested for some individual projects under an existing contract;
  - e. when requested (by the KO) for any contract less than the SAT; and
  - f. when there is a change to the performance work statement that impacts the contract cost.
5. The IGCE is typically not required when:
  - a. modifying a contract to exercise priced options or to provide incremental funding; or
  - b. placing task/delivery orders under an indefinite-delivery orders under an indefinite-delivery contract for fixed-price services or supplies.

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6. The estimate submitted with the procurement request shall include a basis for the Government's estimate using current validated data whether at the price level or at the cost element level. The dollar value, type of procurement, and the complexity of the procurement will determine how detailed the IGCE is to be. Cost element or price values alone are not adequate without a basis to support the estimated values. The estimator must provide an adequate narrative validating the source or the basis of the information comprising the estimate.

a. The IGCE must include the:

- (1) name of the preparer and position title;
- (2) preparer's organization;
- (3) preparer's contact information, to include telephone and email;
- (4) date IGCE was prepared; and
- (5) basis of estimate information.

b. In accordance with DASA (P) PARC Policy Alert #12-26, issued on 13 April 2012 in response to AAA Report: A-2012-0011-ALC, KOs should review the IGCE, if over the SAT, to determine if the IGCE contains proper substantiation, as follows:

- (1) the IGCE contains enough detail to verify the validity of the contractor's proposal;
- (2) the IGCE provides sufficient narrative and analytical detail, to include reference material, to support its preparation;
- (3) the IGCE is reviewed, signed (hand or Common Access Card [CAC]) and dated by the preparer, and includes the preparer's organization, position, title and telephone number;
- (4) the IGCE is reviewed, signed (hand or CAC) and dated by the preparer's immediate supervisor, and includes the reviewer's organization, position, title, rank/grade and telephone number; and
- (5) the IGCE includes a signed (hand or CAC) certification that the IGCE was developed independently by the Government prior to seeking any formal proposals from contractors. If the estimator has had a need to contact a vendor, please see the requirements on page 1.

**II. Basis for an IGCE.** There are generally two bases for an IGCE: price estimate and cost estimate.

1. The Price Estimate.

a. The price estimate is generally used for supplies, equipment, and simple services that are routinely available on the open market at competitive prices. The price estimate is not broken down into the various cost elements and depends upon the bottom line prices paid or available in the market place. The following may be used when developing the price estimate:

- (1) prices and quotes, such as published or current catalog prices;
- (2) previous prices and quantity purchased (Historical Data);
- (3) quantity of items to be purchased; and
- (4) Market Surveys and other miscellaneous sources of pricing data.

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b. **Published Data.** If the estimator uses published data to develop the IGCE, ensure the estimator provides a copy of or identifies the published data. For example, if the price estimate is based on a catalog price, the estimator should provide a copy of or identify the catalog with the date, the appropriate pages for the offered items, and any related discounts. If the item in the catalog is slightly different than the current requirement, ensure the estimator adjusted the catalog price accordingly. Just as with historical pricing data, the estimator must be able to identify and document any price-related differences and be able to adjust the catalog price to account for the differences. Information that can be used in developing the price estimate includes the following:

(1) **Manufacturer and Dealer Catalogs.** These catalogs can often be found on the company's website. Typical data available in manufacturer and dealer catalogs includes: product descriptions, pictures, prices and quantity discounts, minimum order requirements, delivery data, and points of contact for quotes and orders.

(2) **Product Brochures and Promotional Material.** These provide much greater detail about specific products than would normally be included in a catalog with other products. This type of information may also be available on the company's website. While details on pricing and delivery are often included, this information may be excluded in order to provide greater latitude in negotiating the terms of sale.

(3) **Trade Journals.** Provide a variety of information from different sources, including advertisements, product evaluations, and independent articles.

(4) **Government or Independent Testing.** Includes product testing by Government or independent laboratories. Successful testing of a product by the Government may result in inclusion of that product on a Qualified Products List (QPL). When a QPL applies to a particular product, all potential offerors must be on the QPL list or demonstrate they meet or can meet QPL standards before the date set for contract award. Underwriters Laboratory (UL) is probably the best known independent testing laboratory. Testing and approval by UL is essential for a wide variety of electrical products, for contract awards in those areas.

(5) **Source Identification Publications.** There are thousands of publications which are designed to provide assistance in locating possible sources of product information. The most widely accepted of these are the Yellow Pages and the Thomas Register of American Manufacturers. Many firms advertise in both the Commercial and Business Yellow Pages; however, the Business Yellow Pages specialize in the business and industrial products that are more relevant to Government acquisition. Both Commercial and Business Yellow Pages identify firms by the products or services that provided. The Thomas Register devotes 23 volumes to assisting buyers identify potential product sources. The volumes are divided into four sections:

- (a) **Products and Services** – companies listed by product or service;
- (b) **Company Profiles** – capabilities and contact information are presented for listed firms;
- (c) **Catalog Files** – detailed product information, specifications, drawings, photos, availability, and performance data; and

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(d) Inbound Traffic Guide – intermodal guide to transportation sources.

(6) Federal Supply Schedules (FSS). The General Services Administration (GSA) directs and manages the FSS program that provides Federal agencies with a simplified process for obtaining commonly used supplies and services at prices associated with volume buying. GSA establishes indefinite delivery contracts with commercial firms to provide supplies and services at stated prices for given periods of time.

(7) GSA Advantage is an electronic on-line shopping mall maintained by the GSA to support Government operations. With GSA Advantage, a wide variety of product information may be obtained which may be used in pricing the same or similar products. Research capabilities include browsing or searching for items using key words, part numbers, National Stock Numbers, or vendor names; comparing features, prices, and delivery options; and configuring products and adding accessories.

(8) Government Economic Data: The Government develops and publishes large amounts of economic data. The best known source to use for Government acquisitions is the Department of Labor's (DoL) Bureau of Labor Statistics (BLS; <http://www.bls.gov>). Indexes and other data available from the BLS website includes:

(a) Consumer Price Index – monthly report on changes in the prices paid by urban consumers for a fixed market basket of consumer goods and services;

(b) Producer Price Index – monthly report on the selling prices received by domestic producers of goods and services; and

(c) Employment Cost Index – monthly report on the change in the cost of labor, free from the influence of employment shifts among occupations and industries.

(9) Non-Government Economic Data. Non-Government sources of economic and market data include purchasing organizations, commodity or industry publications, and economic analysis services.

(10) One of the most noted purchasing organizations that publishes market data is the Institute for Supply Management (ISM; <http://www.ism.ws/>). The ISM provides members with monthly information on market price trends and product availability. Data are based on the actual experience and projections of purchasing managers throughout the country.

(11) Some commodity and industry publications that provide specific market data include the following:

(a) American Metal Market (<http://www.amm.com/>) – daily information on the metals industry from scrap to precious metals including prices;

(b) Chemical Marketing Reporter (<http://www.chemexpo.com/>) – weekly information on market indexes, current prices, and price changes;

(c) Platt's Oilgram Price Report (<http://www.platts.com/>) – daily information on current oil prices; and

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(d) Random Lengths (<http://www.randomlengths.com/>) – weekly information on prices of wood products.

(12) Commercial economic analysis services have also been established to provide estimators with current analyses of general market conditions and price trends. Currently, the economic analysis service most widely accepted by Government purchasing organizations is Global Insight, Inc (<http://www.ihs.com/products/global-insight/index.aspx>). A number of Government agencies contract with Global Insight which gives them access to Global Insight's economic analysis and forecasts.

c. Historical Pricing Data. If the estimator uses historical data to develop the IGCE, ensure the following was accomplished by the estimator:

(1) Identified and documented, in the IGCE narrative, the previous contract number, date awarded, period of performance/delivery schedule, quantity, unit price, terms and conditions ((i.e. packaging, delivery, financing, discounts, payment terms, etc.), basis used to determine the previous price fair and reasonable (e.g. competition, cost analysis, comparison to IGCE, etc), and any other data necessary to compare the previous price to the current price. When using historical prices, the estimator must verify the prior price is a valid basis for comparison to establish comparability. The estimator must be able to:

(a) Identify and document price-related differences (e.g. market conditions, quantity, geographic location, purchasing power of the dollar, extent of competition, terms and conditions of the acquisition, technology, and Government unique requirements); and

(b) Factor out price related differences.

(2) The estimator is required to assign a dollar value to each identified difference, if possible. The estimator could use quantitative analysis techniques (Contract Pricing Reference Guides, Volume 2; <https://acc.dau.mil/CommunityBrowser.aspx?id=406579&lang=en-US>) to estimate the effect of each factor on contract price. If the estimator cannot objectively adjust the price for the factor involved (e.g. the effect on price of unique Government terms and conditions), the estimator may need to make a subjective adjustment. Whatever the method used, the estimator must document the information used and how it was used in making the adjustment.

(3) In addition, for a historical price to be useful, the prior price should have been determined fair and reasonable based on adequate price or cost analysis. Be wary of the use of a prior price which was itself based on a prior price to determine price reasonableness. In addition, there should not be a significant time lapse between the last acquisition and the current one unless an escalation factor has been applied to bring the prior purchase to current dollars, and the terms and conditions of the current acquisition should not be significantly different from the last acquisition.

d. Market Research Data from Other Sources. Other important sources of market data include trade and professional associations and state and local watchdog agencies. Trade and professional associations can provide information about sources, source responsibility,

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commercial standards, and cost drivers. Professional organizations devoted to business development and the maintenance of responsible business practices, such as the Chamber of Commerce and Better Business Bureau, can provide substantial information on pricing, available competition, and the responsibility of identified sources. State and local watchdog agencies can provide information on the capabilities and pricing of sources, particularly sources accused of price gouging or poor performance.

e. Reliance on the Price Estimate. The KO must ensure the estimate is valid and reliable and can be used as a price analysis tool for determining reasonableness.

### 2. The Cost Estimate.

a. The cost estimate is more detailed than the price estimate and requires a breakdown of costs anticipated in performance of the contract. The following are three main tasks the cost estimator must accomplish in developing an estimate that is an accurate prediction of the future.

(1) The cost estimator has to know what the product or service is, how it will be used, and what the marketplace is before preparing the estimate.

(2) Since quantity and quality are the drivers of the estimate, the cost estimator must determine what quantities of materials are needed to produce an end item and what skill levels are required to perform the contract specifications.

(3) The cost estimator must project what the costs of those materials and labor will be during contract. Basic costs may include the following:

- (a) Labor
- (b) Payroll Additives/Labor Burden (Fringe Benefits).
- (c) Material
- (d) Other direct costs
- (e) Indirect costs (overhead)
- (f) General and Administrative (G&A) costs
- (g) Profit/fee

#### b. Labor costs.

(1) Labor costs are often the most significant part of the IGCE in terms of dollars for service contracts. Direct labor is the “touch” labor directly applied to the performance of the contract requirements. Indirect labor includes costs of personnel in a support capacity that support the direct performance of the service contracted (e.g. supervisory, inspection, maintenance, custodial, clerical, etc). Most direct labor and some of the indirect labor effort is covered by the Department of Labor wage determinations provided under the provisions of the Service Contract Act (SCA) for services or Davis Bacon Act (DBA) for construction, and these are considered “non-exempt.” All non-exempt employees MUST be paid at a rate no less than that identified on the applicable wage determination. “Exempt” personnel are not covered by the wage determination but should receive comparable benefits and wages to equivalent employees in both industry and the Government.

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(2) Non-Exempt employees, skilled, unskilled, and clerical, are required by law (Service Contract Act (SCA), Davis-Bacon Act (DBA) or Walsh-Healey Act) to be paid a minimum wage rate, minimum fringe benefits, and are regulated by the DoL. Wages for non-exempt labor are not escalated during option years. Special effort should be made to provide the most accurate estimates of skill types and the number of hours required of each skill to perform the effort. A review of the most recent Area Wage Determination (AWD) may assist in determining applicable skills classes. Use of the Government position descriptions (PDs), as well as the AWD, serves as an excellent starting place for estimating wages.

(3) Exempt employees, usually management, are exempt from the SCA and are therefore not covered by DoL Wage Determinations. Special attention should be given to the skill and number of managers required. Salaries can be estimated. A useful tool in estimating these types of salaries is the Government PD, for Government Service (GS) or Wage Grade (WG) employees, performing the same or similar duties. The BLS Occupational Employment Statistics (OES) is an excellent resource. The hourly salary rates for exempt employees are escalated for option years or for any contract performance that will cross fiscal years. Appropriate escalation rates vary depending on the current economic climate, the location that services are to be performed, and the standard operating procedures of each contractor.

(4) The IGCE should identify the labor categories and the hours required for each task that comprises the Performance Work Statement. For instance, the effort of a carpenter for renovation of one set of kitchen cabinets might be limited to 100 hours with proportional benefits, whereas a contract which envisions a full time carpenter working under the terms of a contract year, would project for a full year cost with all benefits.

(5) There are two types of Labor Costs:

- (a) Unburdened: Includes only salary; and
- (b) Burdened: (fully loaded) Includes salary plus an allocation of costs for overhead, general and administrative (G&A), profit/fee, and any escalation for option years.

(i) Using burdened rates simplifies the cost estimating process. The accuracy of this method depends on the availability of recent, competitively negotiated burdened rates that have similar skill requirements as the current acquisition. Only labor estimates are needed.

(ii) Identify the labor categories and the effort required. The effort of a plumber for renovation of one bathroom might be limited to 100 hours labor with associated benefits. A contract for a full time plumber working a contract year would project for a full year price or cost with all benefits.

(iii) Annual work hours are divided into productive and non-productive time. Productive time is time the worker spends actually performing their duties. Non-productive time includes paid leave time or paid time off (PTO), and potentially other paid non-productive time such as breaks, training time, downtime and so forth. The sum of productive and non-productive time is available time (usually 52 weeks at 40 hours/week). Productive time is charged directly to the contract as direct labor, while non-productive time is usually charged to fringe benefits overhead pools and charged indirectly to the contract through a fringe benefits burden rate. Alternatively,

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non-productive time may be calculated separately and charged directly to the contract as part of direct labor. The IGCE may determine productive hours as follows:

Annual available hours (52 wks x 40 hrs/wk)	2,080
Less non-productive (leave) time	200*
Productive hours	1,880

\*This figure is arbitrary for the purpose of providing a calculation example.

(iv) The SCA Area Wage Determinations usually mandate a minimum amount of time for holidays (normally the ten Federal holidays, although 11 have been incorporated in some based on Collective Bargaining Agreement results) and a longevity “formula” for vacation/personal leave. Typically, SCA-subject positions may have 160 or more hours of leave mandated as a minimum. Exempt personnel may receive more, less or the same leave. The main points to remember are:

(A) The IGCE may consider 2,080 hours as available time. Remember that staffing must take into account leave time; therefore, staffing is usually greater than the sum of task times. Also remember that, if travel time is involved between “jobs,” this should be taken into account as part of non-productive time.

(B) The IGCE can also estimate productive work year as discussed above. Productive time would be charged direct, while PTO would be typically charged as part of fringe benefits.

(C) Recommend working closely with the contracting office to obtain the most recent wage rates for the estimate. Wage determinations for the DBA covering the construction and repair/maintenance trades and the SCA skills for service contracts can be accessed at <http://www.wdol.gov>.

c. Payroll Additives/Labor Burden (Fringe Benefits). Once the basic skills and hours have been assessed, payroll additives or labor burdens must be calculated. Typical groupings of fringe benefits and payroll taxes in the IGCE are below.

### (1) Health and Welfare (H&W).

(a) H&W includes life, accident and health insurance plans, sick leave, pension plans, civic and personal leave, severance pay, and savings and thrift plans. For Non-Exempt or SCA employees, the applicable H&W benefit rate is listed in each SCA wage determination. The H&W benefit rate in most SCA wage determinations is based on data from the BLS. The Employment Cost Index private industry data is used to derive the single “total” benefits rate. The SCA prevailing H&W benefits rate is adjusted annually on June 1. On June 1, 2012, the new H&W rate was increased to \$3.71 per hour.

(b) For each area, the DoL issues two “standard” (or “consolidated”) prevailing wage determinations that are identical except for the fringe benefit requirements. Because the fringe benefit compliance standards are different, the two types of prevailing wage determinations are not interchangeable.

(c) ODD-NUMBERED wage determinations (e.g., 2007-2011) apply to most SCA contracts. These wage determinations require the contractor to satisfy the health and welfare fringe benefit requirements on a “fixed cost” per employee basis. Compliance must be calculated using all hours paid for (including paid time off) up to 40 hours a week, 2080 hours a year, and

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the contractor must meet the minimum fringe benefit requirement as specified by the wage determination for each individual employee. 29 C.F.R. § 4.175(a)

(d) EVEN-NUMBERED wage determinations (e.g., 2005-2012) are to be applied only to contracts where an even-numbered SCA wage determination applied to the preceding contract of the same federal agency for the same services in the same location. These wage determinations allow the contractor to comply with the fringe benefit requirement on an “average cost” basis. Compliance must be calculated using all hours worked. The term “all hours worked” includes overtime hours and is not limited to 40 hours per week or 2,080 hours per year for each employee; however, the term “all hours worked” does not include paid leave hours, such as for vacations, holidays, or sick leave. Also, it does not include unpaid leave time, such as that provided under the Family and Medical Leave Act. Under the average cost concept, the fringe benefits provided by the contractor may vary among individual service employees, and compliance is achieved when the actual cost of these benefits divided by the total hours worked by service employees in a payment period equals or exceeds the amount required by the wage determination. 29 C.F.R. § 4.175(b)

(e) If a collective bargaining agreement (CBA) is in existence, Section 4(c) of the SCA provides that no contractor or subcontractor under a contract which succeeds a contract subject to the SCA, under which substantially the same services are furnished, shall pay any service employee under such contract less than the wages and fringe benefits (including accrued wages and fringe benefits and any prospective increases in wages and fringe benefits) provided for in a CBA to which such service employees would have been entitled if were employed under the predecessor contract. (29 C.F.R. § 4.1b.)

(f) In almost all cases, the DOL issues a wage determination that recognizes the application of the fringe benefits (and wages) contained in the predecessor contractor’s CBA. However, section 4(c) of the SCA is self-executing, and can apply regardless of whether such a contract wage determination was issued or incorporated in the contract. Certain administrative requirements and limitations may affect application of the predecessor contractor’s negotiated wages and fringe benefits. (29 C.F.R. §§ 4.1b(b)) Section 4(c) of the SCA does not require a successor to follow terms of the CBA other than the wage and fringe benefit provisions.

(g) In 29 C.F.R. § 4.163, regulatory guidance is provided specifically concerning compensation standards, including fringe benefits, under section 4(c) of the SCA.

(h) H&W Compliance must be calculated using the predecessor contractor’s CBA or DOL’s wage determination, that recognizes the application of the fringe benefits (and wages) contained in the predecessor contractor’s CBA.

(i) Similar H&W benefits should also be projected for Exempt employees.

(2) Payroll taxes.

(a) Federal Insurance Contributions Act (FICA). FICA tax rate is 7.65% (6.2% for Social Security and 1.45% for Medicare). This rate has been constant for a number of years and rarely changes, but may change in the future. Multiply 6.2% by the total wages up to the maximum FICA wage base limit which varies by year (\$110,100 for calendar year 2012) and 1.45% by the total wages; there is no wage base limit for Medicare tax. **Therefore, all wages are subject to the Medicare tax.**

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(b) Federal Unemployment Taxes (FUTA). FUTA is set by the Government. FUTA is paid on the first \$7,000 of total wages and is multiplied by a factor of either 6.0% or 0.6% (employers can take a credit of up to 5.4% of taxable income if they pay State Unemployment Taxes). If State Unemployment Taxes are included in the IGCE, use the minimum FUTA rate of 0.6% in the IGCE. This rate changes periodically; therefore, check the IRS web page at <http://www.irs.gov/pub15> for current rates. If an employee makes less than \$7,000 (per IRS pub 15 (2012)), the factor of 0.6% is only applied to the total wages paid, not the entire \$7,000 amount. FUTA will generally not exceed \$42 (0.6% x \$7,000) for any single employee annually.

(c) State Unemployment Taxes (SUTA). In every state, employers are required to pay state unemployment taxes, commonly referred to as SUTA. SUTA tax rates and caps are usually different in each state. Costs are charged to employers and NOT to employees. Tax amounts are calculated, for each employee, based on the actual wages paid to the employee and the unemployment experience rate of the company. Taxes due for each employee are usually capped at a maximum wage amount called the cutoff amount. Each state has different SUTA cutoff thresholds. In addition, each state has differing minimum and maximum rates. For new business a default rate is established and it also varies by state. Since the tax rates and caps change periodically, it would be a good idea to check <http://workforcesecurity.doleta.gov/unemploy/content/sigpros/2010-2019>, which is a website that has updated rates and caps for all states. Open the link and go to the bottom of the page and select the state needed. For IGCE purposes use the new employer rate; however, for negotiation purposes recommend obtaining the actual SUTA rate the employer is paying.

(d) Workers' Compensation Insurance (WCI). WCI is insurance designed to cover injuries and associated benefits that arise from work related injuries. WCI rates vary from state to state and are mainly based on the contractor's type of business, the jobs the employees perform, and claims-related experience. Each job type is assigned a classification code. Riskier work is classified as such and assigned a higher premium. Thus, a business might pay 48 cents in premiums for every \$100 in payroll that goes to a clerk in a retail store. By contrast, a business might pay \$9 in premiums for every \$100 in payroll that goes to a roofer in a construction company. An experience modifier may also be applied to the premiums based on loss experience. The experience modifier adjusts the premiums of a particular contractor based on a comparison of past losses of that contractor to what is calculated to be average losses of other contractors in that state in the same business, adjusted for size. WCI rates are applied to total wages. Based on BLS, WCI rates range between 0.5 – 4.1% (0.5% for less riskier types of business such as financial businesses and 4.1% for higher risk businesses such as construction). To obtain WCI rates go to [www.bls.gov/ncs/ect](http://www.bls.gov/ncs/ect). Choose "ECT Databases-Employment" then "Employer Cost for Employee Compensation" from the menu and complete the screens for the "Multi-screen Data Search" option. Choose "27 Workers' Compensation" option on the "Compensation Component" scrolling dialogue box. After selecting "27 - Workers' Compensation" a selection has to be made based on Employer/Employee Characteristics. An Employer/Employee Characteristics selection can be made based on either occupation, number of employees, or location. Finally, a Sector (Civilian, Private Industry or State and Local Government) has to be selected. Private Industry should be selected. For IGCE purposes use a

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rate between 0.5 - 4.1%; however, for negotiation purposes recommend obtaining the actual rate(s) the contractor pays their insurance provider.

(e) Retirement and Pension Plans. Usually applies to exempt employees (i.e. managerial, supervisory, administrative and professional) and non-exempt employees' subject to a CBA. Retirement and Pension Plans for SCA or non-exempt employees are usually covered under the H&W rate. To obtain retirement rates go to [www.bls.gov/ncs/ect](http://www.bls.gov/ncs/ect) and follow the steps as described above and choose "18 Retirement and Savings" option on the "Compensation Component" scrolling dialogue box.

(f) Paid Leave. This category includes holidays, paid vacation, sick leave, jury duty leave and other types of leave paid by the employer. This is usually 2,080 hours minus total productive hours, multiplied by the hourly rate. To obtain paid leave rates go to [www.bls.gov/ncs/ect](http://www.bls.gov/ncs/ect) and follow the steps as described above and choose "04 Paid Leave" option on the "Compensation Component" scrolling dialogue box.

(g) Alternatively, a straight line approach using an average overall burden rate can be used to compute fringe benefits. To obtain this rate go to [www.bls.gov/ncs/ect](http://www.bls.gov/ncs/ect) and follow the steps as described above and choose "03 Total Benefits" option on the "Compensation Component" scrolling dialogue box. One of these rates may be used, as applicable, in place of the separate computation of benefits as outlined above. This may not be adequate for some high cost areas of the country or for SCA categories. Whichever method is used, document rationale in the IGCE cost narrative.

(h) Material Estimates. Material estimates are for those types of materials which will be used in the manufacturing of an item for Government use, such as tanks, aircraft, etc. Material costs can be estimated using catalog prices, price quotes, market surveys, and historical data. The emphasis in estimating material costs should be on accuracy of type and quantity.

### d. Other Direct Costs.

(1) The Other Direct Costs category provides an estimate of the types of costs not included in labor and material, such as travel costs, necessary for the contractor to perform the work expected to be accomplished. These costs can be charged directly against the specific requirement. Normal office supplies are generally included in overhead or G&A, but any items used in direct support of the contract, such as subcontractor costs, travel, lease of equipment, per diem, etc should be included in other direct costs. Item descriptions, quantities and related cost estimates can be obtained using catalogs, price quotes, market surveys, historical data, etc. The emphasis in estimating other direct costs should be on accuracy of type and quantity.

(2) As an example, if bonds or other securities will be required – the direct costs of these securities must be identified and incorporated into the IGCE. Although a basic bid bond generally has no direct cost, it is contingent upon payment of a percentage of bid or proposal cost upon award and issue of performance and payment bonds. Performance and payment bonds will generally cost the vendor anywhere from 1% to 3% of the total bid or proposal price. This cost will be included in the vendors "price." A review of past bonding requirements may provide a

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reasonable range for the IGCE. In the absence of other data, recommend a cost of 2% be used for estimating purposes.

### e. Indirect (Overhead) Costs.

(1) FAR 2.101 defines an indirect cost as “any cost not directly identified with a single, final cost objective, but identified with two or more final cost objectives or an intermediate cost objective. It is not subject to treatment as a direct cost.” Costs that are incurred for or that only benefit an identifiable unit or activity of the contractor’s internal organization, such as an engineering or manufacturing department, are considered indirect costs.

(2) Because of their nature, indirect costs cannot be charged to final cost objectives on an individual basis. Therefore, indirect costs must be classified and grouped together into indirect cost pools, typically an overhead cost pool, which, in turn, is allocated to final cost objectives using an indirect cost allocation base that best links the cost pool to the cost objectives. A contractor can have multiple, separate overhead pools for engineering, manufacturing, material handling, or for certain off-site activities. A small contractor might have only one overhead pool. Examples of overhead pool costs are:

- (a) department supervision;
- (b) depreciation of department buildings and equipment;
- (c) training of department employees; and
- (d) fringe benefits of department employees.

(3) To allocate means to distribute overhead pool costs to contracts. In order to distribute overhead pool costs, the contractor must select an allocation base. There must be a relationship between the selected allocation base and the pool of costs to be allocated to contracts. For example, an engineering overhead pool would logically be allocated over total engineering direct labor dollars or engineering direct labor hours. Additional information regarding the allocation of indirect costs to contracts can be found at FAR 31.203, Indirect costs.

(4) Overhead rates are developed by dividing the overhead pool costs by the selected allocation base, e.g., direct labor dollars or direct labor hours. Both the pool and the base must cover the same time period, such as the fiscal year. For example, suppose labor overhead costs (supervision, training, fringe benefits) are equal to \$10, and the base (direct labor dollars) is equal to \$100. Using the formula pool/base, the overhead rate in this instance is 10%. Indirect rates are typically portrayed in percentages.

### f. General and Administrative (G&A) Costs.

(1) G&A costs are typically management, financial or other expenses incurred for the overall operation of a business. These costs are distributed equally across all contracts, Government and private sector. It includes costs such as utilities, office rent, compensation packages, employee training, business taxes, liability and other business insurances, legal costs, as well as non-contract specific leases, equipment and supplies, human resources, accounting,

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finance, public relations, contract administration, legal, and an expense allocation from the corporate home office.

(a) Total Cost Input. Used as an allocation base for G&A and is equal to all costs incurred by the contractor except G&A.

(b) Value Added Cost Input. Used as an allocation base for G&A and is equal to total cost input except G&A, material and subcontract costs

(c) Single Element Cost Input. Used as an allocation base for G&A and is equal to direct labor dollars, direct labor hours, or direct material costs.

(2) Because of their nature, G&A pool costs cannot be charged to final cost objectives on an individual basis. Therefore, these costs must be classified and grouped together into an indirect cost pool. The pool in turn is allocated to final cost objectives using an indirect cost allocation base that best links the G&A cost pool to the cost objectives, such as those listed above.

(3) The G&A rate is developed by dividing total general and administrative expenses by the selected allocation base, e.g., total cost input (i.e., total direct and indirect costs, except G&A), value added cost input (i.e., total cost input except G&A, material and subcontract costs), or single element cost input (e.g., direct labor dollars, direct labor hours, direct material costs).

(4) G&A costs can and do vary significantly. Due to the disparity in company size, type, and geographical location, no “typical” G&A rate exists.

### g. Profit/Fee.

(1) Profit or fee is the dollar amount over and above any allowable costs paid to a contractor for performance and represents the true reason the contractor is in business. The actual amount of profit/fee can and does vary. It is based on the contractor’s perceived risk in attempting the project. The more complex or difficult the project, the greater the likelihood the contractor might fail, thus the greater the risk-and the higher profit the contractor would expect to receive. This amount is very difficult to estimate.

(3) However a profit/fee percentage is determined, it is applied to the bottom line cost for a total overall price to the Government.

(4) Fee structure may also be broken down in different types of fees such as award, incentive, or fixed fee. For purposes of the estimate, however, a straight percentage may be used. There are guidelines for these fee structures in FAR 16; the KO can help with limitations.

(5) Review of current or previous contract documents is usually an excellent place to start research. These documents may be obtained from the activity files or the supporting contracting office files. Document the profit/fee projection strategy on the IGCE.

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## III. Escalation Considerations for the IGCE.

a. The impact of economic changes in costs or price (usually “inflation”) should be considered when forecasting option year costs or prices in developing the IGCE. The following should provide basic information on how to use escalation techniques in the IGCE for base (or first) year as well as option years.

b. Develop the base year estimated costs as described above, adjusting as necessary to provide a realistic price/cost.

c. To forecast the option year(s) cost, appropriate escalation factors are applied to the previous cost elements to bring them up to a realistic value. If the contract performance involves more than one year, different escalation factors may be applied dependent on the labor/material mix as appropriate. The following methodologies may be used, as appropriate.

e. The DoL Consumer Price Index (CPI) provides data and percentage of change in inflation/escalation factors. CPI information is available at <http://www.bls.gov/cpi/>. When projecting inflation, a review of major cost factors for the specific requirement should be considered. Inflation rates for specific commodities may be much higher or much lower than the average and must be factored into the equation dependent on the current circumstances. In addition, geographic locations for work performance should be considered. Global Insight provides escalation index forecasting services for labor, materials and other costs, which can be particularly helpful in development of IGCEs. The Defense Contract Audit Agency (DCAA) and some ACC contracting organizations have access to Global Insight projections. An average factor between 2% and 4% is generally considered reasonable for labor escalation. Remember not to escalate non-exempt labor – this applies to exempt labor only.

f. As an example, assume that:

<b>Base Year (2010) Labor rate</b> <b>\$30.00</b>	<b>Projected Escalation Factor</b> <b>for 2011 is 2.4% (.024)</b>	<b>Projected Escalation Factor</b> <b>for 2012 is 3.0% (.03)</b>
2010	2011	2012
\$30.00	$\$30.00 \times 1.024 = \$30.72$	$\$30.72 \times 1.030 = \$31.64$

g. Market trends should be considered when projecting option year(s) escalation rates and should be justified in a short narrative. A market survey will provide information on current market prices and potential volatility of prices in the market place. In addition, when computing a projected escalation rate a review of previous Treasury interest rates will provide an overall view of market prices.

## IV. Commercial Supply IGCE .

a. IGCE documentation may determine the market value of an item. The IGCE preparer may use methods such as:

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(1) General Services Administration (GSA) Schedules. The schedules are pre-priced and awarded to multiple firms for specific products or services. GSA schedules may be found at <http://www.gsadvantage.gov/>.

(2) Published price lists from individual companies that are published for use by the general public.

(3) Catalog pricing, such as a department store.

(4) Market survey of a comparison of the prices offered within the local area for an item.

(5) Comparison of previous purchases of the same item, assuring comparability in quantities, conditions, terms, and performance times. Adjustments should be considered for inflation, etc., when appropriate.

### V. Definitions.

1. **Catalog Price.** A price included in a catalog, price list, schedule, or other form that is regularly maintained by the manufacturer or vendor, is either published or otherwise available for inspection by customers, and states prices at which sales are currently, or were last, made to a significant number of buyers constituting the general public. ***FAR 2.101***

2. **Cost analysis.** Is the review and evaluation of any of the separate cost elements and profit or fee in an offeror's or contractor's proposal as needed to determine a fair and reasonable price or to determine cost realism, and the application of judgment to determine how well the proposed costs represent what the cost of the contract should be, assuming reasonable economy and efficiency. ***FAR 15.404-11***

3. **Cost or pricing data.** All facts that, as of the date of price agreement, or, if applicable, an earlier date agreed upon between the parties that is as close as practicable to the date of agreement on price, prudent buyers and sellers would reasonably expect to affect price negotiations significantly. Cost or pricing data are factual, not judgmental; and are verifiable. While they do not indicate the accuracy of the prospective contractor's judgment about estimated future costs or projections, they do include the data forming the basis for that judgment. Cost or pricing data are more than historical accounting data; they are all the facts that can be reasonably expected to contribute to the soundness of estimates of future costs and to the validity of determinations of costs already incurred. ***FAR 2.101***

4. **Direct cost.** Any cost that is identified specifically with a particular final cost objective. Direct costs are not limited to items that are incorporated in the end product as material or labor. Costs identified specifically with a contract are direct costs of that contract. All costs identified specifically with other final cost objectives of the contractor are direct costs of those cost objectives. ***FAR 2.101***

5. **Fair and reasonable price.** A *fair and reasonable price determination* is an assessment by the Government that an offeror's proposed price for a supply or service can be considered "fair and reasonable" on the basis of applying one or more price analysis techniques. [FAR Part 15](#) (Contracting by Negotiation) does not explicitly define the term "fair and reasonable." The concept of a *fair and reasonable price* has elsewhere been described as the price that a prudent businessperson would pay for an item or service under competitive market conditions, given a

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reasonable knowledge of the marketplace. Regardless of the precise definition, the FAR clearly establishes the need for determining a price to be fair and reasonable price before a Government KO or ordering officer may award contracts or place orders. *DAU*

6. General and Administrative Expense (G&A). Any management, financial, and other expense which is incurred by or allocated to a business unit and which is for the general management and administration of the business unit as a whole. G&A expense does not include those management expenses whose beneficial or causal relationship to cost objectives can be more directly measured by a base other than a cost input base representing the total activity of a business unit during a cost accounting period. *FAR 2.101*

7. Indirect Cost. Any cost not directly identified with a single final cost objective, but identified with two or more final cost objectives or with at least one intermediate cost objective. *FAR 2.101*

8. Market Prices. Current prices that are established in the course of ordinary trade between buyers and sellers free to bargain and that can be substantiated through competition or from sources independent of the offerors. *FAR 2.101*

9. Negotiations. Bargaining (give and take) process between two or more parties (each with its own aims, needs, and viewpoints) seeking to discover a common ground and reach an agreement to settle a matter of mutual concern or resolve a conflict. Use of any method to award a contract other than sealed bidding. <http://www.businessdictionary.com/>

10. Price Analysis. The process of examining and evaluating a proposed price without evaluating its separate cost elements and proposed profit. *FAR 15.404-1(b)*

11. Reasonable Cost. A cost that in its amount and nature, is consistent with what a reasonable person would incur in the conduct of the same business in the same or similar circumstances. <http://www.businessdictionary.com/>

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**Remember the requirements for an IGCE when using these examples. For example, the preparer must sign, date, and include job title.**

## Appendix A-1

### Independent Government Cost Estimate Operation of Waste Water Treatment Plant/Process (WWTP) Fort Huge, Texas

Requirement: The requirement is for operation and maintenance of the wastewater treatment plant at Fort Huge, Texas. The basic specifications are: The aeration pond on the west end is 20 acres, the oxidation pond is 90 acres, and the polishing pond on the east end is 18 acres. Total volume in all three ponds is about 883 acre-feet (287,878,300 gallons), and the permitted treatment capacity for the pond system is 10.2 MGD (million gallons per day).

Performance: The performance area will be in Bell County, Texas for the purposes of the SCA. Wages for Non-exempt personnel will be based on AWD 2005-2523 (Revision 10 effective 6/15/2010).

The contract duration encompasses a base year and four (4) one-year option periods, a total of 60 months. Incorporation of the cost impact of FAR 52.217-8, Option to Extend Services, is procedural and is not included in this IGCE. The following cost estimate is for the base year, which is anticipated to encompass 12 months from xxxxxxxx to yyyyyyy. The IGCE is based on anticipated award of a firm fixed price contract with constant staffing year to year. The base year detail summary is shown in the cost schedule below.

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Labor							
	<u>Labor Classification</u>	<u>FLSA Status</u>	<u>AWD Code</u>	<u>FTEs</u>	<u>Hours</u>	<u>Hrly Rate</u>	<u>Labor \$</u>
	Superintendent	E	N/A	1	1920	\$ 24.18	\$ 46,425.60
	Foreman	E	25210	3	5760	\$ 17.18	\$ 98,956.80
	Stationary engineer	E	25070	1	1920	\$ 18.97	\$ 36,422.40
	Secretary II	NE	01312	1	1920	\$ 13.39	\$ 25,708.80
	Accounting Clerk III	NE	01313	1	1920	\$ 14.69	\$ 28,204.80
	Capenter, maintenance	NE	23130	2	3840	\$ 15.84	\$ 60,825.60
	Plumber, Maintenance	NE	23810	6	11520	\$ 18.49	\$ 213,004.80
	WTP Operator	NE	25210	6	11520	\$ 15.62	\$ 179,942.40
	Mechanic, Maintenance	NE	23110	3	5760	\$ 15.95	\$ 91,872.00
	Helper/Laborer	NE	23580	3	5760	\$ 13.19	\$ 75,974.40
	<b>TOTAL DIRECT LABOR</b>	NE					<b>\$ 857,337.60</b>
	Fringe Benefits/Payroll Taxes				\$ 857,337.60	39.372%	\$ 337,550.96
	Labor Overhead				\$ 857,337.60	11%	\$ 94,307.14
	<b>TOTAL LABOR COST</b>						<b>\$ 1,289,195.70</b>
	Supplies				\$ 1,289,195.70	15%	\$ 193,379.35
	Replacement Equipment				\$ 193,379.35	150%	\$ 290,069.03
	Other direct Costs						\$ 27,635.00
	<b>TOTAL COST INPUT BASE</b>						<b>\$ 1,800,279.08</b>
	G&A Expense				\$ 1,800,279.08	15%	\$ 270,041.86
	Profit Base				\$ 2,070,320.94	8%	\$ 165,625.68
	<b>TOTAL PRICE</b>						<b>\$ 2,235,946.62</b>

**Basis of Estimate:** The following narrative provides explanation for the various elements of cost and profit that comprise the IGCE.

**Direct Labor:**

**Staffing:** The labor classifications and staffing (number of FTEs) were determined based on studies of similar WWTPs in Texas, and encompass operation and maintenance of the facility.

**Wages:** Inasmuch as a number of the occupations are subject to the SCA, and an AWD will likely be incorporated into any awarded contract, the IGCE depicts labor positions in terms of those that are exempt from (“E”), and those that are subject to, the provisions of the SCA (“Non-exempts” or “NE”). Based on the current revision of the applicable AWD, the labor position code for the specific position is indicated and the associated minimum wage was used to estimate the labor costs. The Superintendent position is based on current wages for the Water Treatment Operator position plus 10% for supervisory duties; (hence the code, despite the “E” indicator of FLSA status). The Stationary Engineer is based on the AWD position (code 25070) although it is treated as an Exempt.

**Fringe benefits/Payroll Taxes:** Were based on determining the total percentage rate using the various benefits (paid time off, payroll taxes, H&W, and WCI). It was chosen so as to at least meet the AWD requirements for leave and health & welfare (H&W). Retirement is usually not part of the benefits “package” based on previous experience, and is not required by the AWD.

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Labor Overhead: Was estimated at 11% of total labor based on the average of previous billings over a ten-year period.

Supplies: This cost element encompasses everything from chemicals used in the water treatment processes to paper used in office paperwork. Unit prices were based on the lowest of three (3) prices displayed on various websites for each of the major items in similar quantities, and discounts were taken where quantity discounts were listed. This has also been determined through billings and invoices to correlate to 15% of total labor cost during a given year.

Replacement equipment: Refers to those assemblies and subassemblies of processing equipment which would be scheduled for replacement during the particular year as part of remedial maintenance. This has been determined through billings and invoices to be approximately 150% of the cost of supplies during a given year; unit price checks and this cost relationship were used to estimate this element of cost.

G&A: A rate of 15% was used based on previous billings over a ten-year period. The base was total cost input.

Profit: A rate of 8% of total costs was estimated based on previous billings over a ten-year period, as well as review of similar services at other Army installations.

Escalation in the Option Years: Escalation of 3% per annum was applied to exempt labor, supplies and replacement equipment, which produced various total escalation factors used to establish the option year amounts shown in the price schedule below. The overall rates of escalation are shown in the rightmost column. The 3% rate was based on previous experience at Fort Huger (amounts billed). This produced the following total amounts by option year with the overall increase shown in the rightmost column. The cost buildup by option year is in the attached Excel workbook (double-click the icon to activate the workbook).

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## Appendix A-2

### Independent Government Cost Estimate (IGCE) Grass Cutting Services Fort Huger, TX

Requirement: Fort Huger has a total of 238,432 acres of foliage that require mowing, weeding, trimming and mulching according to schedules that vary with the seasons. These areas are, for the most part, not contiguous. Although travel time between these non-contiguous areas would be a factor, it would vary depending on the technical approach. The pricing methodology used takes the most efficient set of transit and preparation times into account. These services have been procured using NAICS code 561730, Landscaping Services.

Basis of Estimate: This IGCE is based on the award prices of the previous contract, W9118Q-06-D-4833, issued 25 September 2006. The total price of that contract was \$13,789,322.45 for a base year and three (3) option years. The contract was procured on a competitive negotiated basis, and the price was determined fair and reasonable based on adequate price competition as well as technical evaluation that included staffing and technical approach. Inasmuch as award was made to the lowest price, and the contractor has adequately performed all requirements, its staffing was determined optimal, to include task times and transit/preparation time. Adequate competition is also anticipated for this requirement. Based on the CLIN structure of the contract, the firm fixed prices were as follows:

<b>Contract Period</b>	<b>Period of Performance</b>	<b>Effective Escalation Rate</b>	<b>Period Price</b>
Base Year	25 Sep 06 – 24 Sep 07		\$3,366,948
1 <sup>st</sup> Option Year	25 Sep 07 – 24 Sep 08	1.57%	\$3,419,978
2 <sup>nd</sup> Option Year	25 Sep 08 – 24 Sep 09	1.57%	\$3,473,842
3 <sup>rd</sup> Option Year	25 Sep 09 – 24 Sep 10	1.57%	\$3,528,555
<b>TOTAL</b>			<b>\$13,789,322</b>

Escalation was applied to exempt labor, equipment and supplies at 3% per year. Escalation was also applied to G&A at 4% for Option I, 3% for Option II, and 2.6% for Option III. Exempt labor, supplies and equipment comprise approximately 46% of the total costs, which equates to an effective escalation rate of 1.38% (46% x 3%). In addition, G&A and Profit comprise approximately 6.2% of the total direct costs, which equates to an effective escalation rate of .19% (6.2% x 3%). Based on the proposed costs per year, the effective escalation rate proposed is approximately 1.57% (1.38 + .19) per year. See table below for a breakdown of the costs.

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Fully Burdened Labor		Base Year		Option I		Option II		Option III
Non-Exempt (SCA Positions)		\$ 1,631,286.29		\$ 1,631,286.29		\$ 1,631,286.29		\$ 1,631,286.29
Exempt		\$ 287,874.05		\$ 287,874.05		\$ 296,510.27		\$ 305,405.58
Escalation on Exempt Labor	0.00%	\$ -	3.00%	\$ 8,636.22	3.00%	\$ 8,895.31	3.00%	\$ 9,162.17
Total Labor		\$ 1,919,160.34		\$ 1,927,796.56		\$ 1,936,691.87		\$ 1,945,854.04
Supplies & Equipment		\$ 1,258,116.64		\$ 1,258,116.64		\$ 1,295,860.14		\$ 1,334,735.94
Escalation on S&E	0.00%	\$ -	3.00%	\$ 37,743.50	3.00%	\$ 38,875.80	3.00%	\$ 40,042.08
Subtotal		\$ 3,177,276.98		\$ 3,223,656.70		\$ 3,271,427.81		\$ 3,320,632.06
G&A	2.88%	\$ 91,604.53	3.00%	\$ 96,709.70	3.09%	\$ 101,234.35	3.17%	\$ 105,149.56
		\$ 3,268,881.51		\$ 3,320,366.40		\$ 3,372,662.17		\$ 3,425,781.62
Profit	3.00%	\$ 98,066.45	3.00%	\$ 99,610.99	3.00%	\$ 101,179.86	3.00%	\$ 102,773.45
Total Costs		\$ 3,366,947.96		\$ 3,419,977.39		\$ 3,473,842.03		\$ 3,528,555.07

The new contract will be for a base and four option years. Anticipated award date is 25 September 2010. The requirements of the PWS have remained unchanged except for the addition of one option year. Therefore, the assumption is that prices obtained through competition will still be valid without adjustment, except for proper escalation into future years. The effective escalation factors for the option years are listed in the table below and are based on projections of compound Army Inflation Indices (O&MA) contained in the *2010 Army Inflation Indices*, factored at 3.25%. See below for link.

<http://asafm.army.mil/offices/office.aspx?officecode=1400>

Contract Period	Period of Performance	Effective Escalation Rate	Period Price
Base Year	25 Sep 10 – 24 Sep 11	4.28%	\$3,679,488.03
1 <sup>st</sup> Option Year	25 Sep 11 – 24 Sep 12	1.69%	\$3,741,649.50
2 <sup>nd</sup> Option Year	25 Sep 12 – 24 Sep 13	1.72%	\$3,805,830.65
3 <sup>rd</sup> Option Year	25 Sep 13 – 24 Sep 14	1.74%	\$3,872,099.01
3 <sup>rd</sup> Option Year	25 Sep 14 – 24 Sep 15	1.78%	\$3,940,904.48
<b>TOTAL</b>			<b>\$19,039,971.67</b>

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## Appendix A-3

### SAMPLE IGCE FORMAT FOR FIRM-FIXED-PRICE CONTRACT/ORDER

Description of Goods or Service	Quantity (items or hours)	Estimated Unit Price or Labor Rates*	Estimated Fixed Price Per Line Item
_____	_____	X	=
_____	_____	X	=
_____	_____	X	=
_____	_____	X	=
_____	_____	X	=
_____	_____	X	=
		<b>Estimated Total Firm Fixed Price</b>	<b>\$</b>

\*Estimated unit prices may be obtained through market research, catalog prices, published price lists, GSA schedules, and previous purchases.

Basis of estimate:

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## Appendix A-4

### SAMPLE IGCE FORMAT FOR COST REIMBURSEMENT TYPE CONTRACT/ORDER

Direct Labor by Category	Person Hours	Rate	Total
		X	=
		X	=
		X	=
		X	=
		<b>Labor Subtotal</b>	<b>\$</b>
<b>Fringe Benefits (xx% of labor)</b>			<b>\$</b>
<b>Overhead (xx% of labor &amp; fringe)</b>			<b>\$</b>
<b>Other Direct Costs (ODC)</b>			
Subcontracts			
Material, Equipment, etc.			
Travel & Per Diem			
Consultants			
Other			
<b>Total Other Direct Costs</b>		<b>ODC Subtotal</b>	<b>\$</b>
<b>General and Administrative Expense (xx% of labor, fringe, overhead &amp; ODC)</b>			<b>\$</b>
<b>Total Estimated Cost (Labor + Fringe+Overhead+ODC+G&amp;A)</b>		<b>Subtotal</b>	<b>\$</b>
<b>Fee*/Profit (xx% of Total Estimated Cost)</b>			<b>\$</b>
<b>Total Estimated Cost &amp; Fee**</b>		<b>Total</b>	<b>\$</b>

\* Statutory fee limitations, as presented at FAR 15. 404-4(b), are as follows:

(4)(i) The contracting officer shall not negotiate a price or fee that exceeds the following statutory limitations, imposed by 10 U.S.C. 2306(d) and 41 U.S.C. 254(b):

(A) For experimental, developmental, or research work performed under a cost-plus-fixed-fee contract, the fee shall not exceed 15 percent of the contract's estimated cost, excluding fee.

(B) For architect-engineer services for public works or utilities, the contract price or the estimated cost and fee for production and delivery of designs, plans, drawings, and specifications shall not exceed 6 percent of the estimated cost of construction of the public work or utility, excluding fee.

(C) For other cost-plus-fixed-fee contracts, the fee shall not exceed 10 percent of the contract's estimated cost, excluding fee.

\*\*Repeat for each option year.

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Appendix A-5

## GENERIC SAMPLE FORMAT FOR INDEPENDENT GOVERNMENT COST ESTIMATE

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<u>Direct Labor by Category</u>	<u>Person Days</u>	<u>Rate</u>	<u>Total</u>		
_____	_____		X	\$___ =	\$_____
_____	_____		X	\$___ =	\$_____
_____	_____		X	\$___ =	\$_____
_____	_____		X	\$___ =	\$_____
_____	_____		X	\$___ =	\$_____
_____	_____		X	\$___ =	\$_____

**Direct Labor Subtotal**      \$\_\_\_\_\_

Fringe Benefits (\_\_\_\_\_ % of Labor)      \$\_\_\_\_\_

Overhead (\_\_\_ % of labor and fringe benefits)      \$\_\_\_\_\_

Direct Material Costs

Purchased parts and supplies \$\_\_\_\_\_

Subcontracts \$\_\_\_\_\_

Other Material \$\_\_\_\_\_

**Total Material Costs Subtotal**      \$\_\_\_\_\_

Other Direct Costs

Travel \$\_\_\_\_\_

Consultants \$\_\_\_\_\_

Other \$\_\_\_\_\_

**Total Other Direct Costs Subtotal**      \$\_\_\_\_\_

**TOTAL DIRECT COSTS**      \$\_\_\_\_\_

General and Administrative Expense

(\_\_\_\_\_ %) X TOTAL DIRECT COSTS \$\_\_\_\_\_

**Subtotal**      \$\_\_\_\_\_

Profit \$\_\_\_\_\_

**TOTAL ESTIMATED COST**      \$\_\_\_\_\_

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Appendix A-6

**BACKUP TO IGCE - DIRECT LABOR WORKSHEET**

PERIOD OR TASK 1			
LABOR CATEGORY	HOURLY RATE*	NO. OF HRS.	TOTAL
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
TOTAL PERIOD OR TASK 1			\$

PERIOD OR TASK 2			
LABOR CATEGORY	HOURLY RATE*	NO. OF HRS.	TOTAL
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
TOTAL PERIOD OR TASK 2			\$

PERIOD OR TASK 3			
LABOR CATEGORY	HOURLY RATE*	NO. OF HRS.	TOTAL
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
TOTAL PERIOD OR TASK 3			\$

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PERIOD OR TASK 4			
LABOR CATEGORY	HOURLY RATE*	NO. OF HRS.	TOTAL
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
TOTAL PERIOD OR TASK 4			\$

PERIOD OR TASK 5			
LABOR CATEGORY	HOURLY RATE*	NO. OF HRS.	TOTAL
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
TOTAL PERIOD OR TASK 5			\$
TOTAL LABOR			\$

LABOR SUMMARY			
LABOR CATEGORY	AVER. RATE	NO. OF HRS.	TOTAL
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
SUMMARY TOTAL			

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## Appendix A-7

### SAMPLE IGCE FORMAT FOR LABOR HOUR OR TIME & MATERIALS CONTRACT/ORDER

Direct Labor by Category	Person Hours		Loaded* Hourly Rate	=	Total
_____	_____	X	_____	=	_____
_____	_____	X	_____	=	_____
_____	_____	X	_____	=	_____
_____	_____	X	_____	=	_____
_____	_____	X	_____	=	_____
			<b>Labor Subtotal</b>		\$ _____
<b>Direct Material Cost (if any)</b>					
<b>Purchased Parts and Supplies</b>					
<b>Other Material</b>					
			<b>Direct Material Subtotal</b>		\$ _____
<b>Materials Handling , if applicable, (xx% x Direct Material Subtotal)</b>					\$ _____
<b>TOTAL ESTIMATED CEILING PRICE (Labor subtotal + direct material + materials handling)</b>					\$ _____

\*Loaded hourly rates (also referred to as burdened rates) include wages, overhead, general and administrative expenses and profit.

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## Appendix A-8

### IGCE Time and Material (T&M) Contract [SAMPLE]

**Direct Labor:**

<u>Labor Category</u>	<u>Hours</u>	<u>Labor Rate</u>	<u>Price</u>
Program Manager	80	\$112.00	\$ 8,960.00
FOIA Specialist	9600	\$87.50	\$840,000.00
Administrative Assistant	1920	\$34.00	<u>\$ 65,280.00</u>
Total Labor			\$914,240.00

**Other Direct Costs (ODCs):**

Material (include detailed description)	\$ 2,500.00
Travel	\$ 10,000.00
Total ODCs	\$ 12,500.00
 Total Price	 \$926,740.00

Notes:

A separate IGCE is needed for each year of the requirement, along with a summary IGCE for the total effort.

For requirements to be awarded under GSA Federal Supply Schedule (FSS), the total cost for incidentals for the entire effort cannot exceed \$3,000.

GSA FSS labor rates are fully loaded (i.e. inclusive of G&A, overhead and profit).

For requirements not to be awarded under GSA FSS, G&A, overhead and profit must be included as separate cost elements in the IGCE.

Travel is always IAW the Federal Travel Regulations (FTR). The contract may provide for restrictions on payment of local travel (within a 50 mile radius of the workplace) and profit on travel.

The Government payment for contractor employees to attend training varies depending upon the contract provisions and the contractor's accounting system. Training costs may be charged direct to the contract (if the contract allows) or indirectly through the overhead (depending on the accounting system). The cost of training includes the training class itself and the employee's time to attend the class. If the training is unique to DHS, it may be charged direct to the contract. For example, if DHS uses a certain information system that was developed specifically for DHS, contractor employees would require training on that information system. In this case, we would pay for both the training class and the employee's time in class.

# Mission and Installation Contracting Command Independent Government Cost Estimate Guide

## Appendix B

### Example of Contracting Officer's Request for Conforming IGCE Documentation

OFFICE SYMBOL

MEMORANDUM FOR REQUIRING ACTIVITY

SUBJECT: Independent Government Cost Estimate (IGCE) for (acquisition title)

1. A properly documented IGCE provides an important safeguard by establishing internal controls and an audit trail for the Government's final contract price. Documentation should include the following items as the minimum conforming standards expected. Accordingly, the undersigned requests that subject IGCE documentation include all of the following:

a. The name(s) of the IGCE preparer(s), approving reviewer(s) and position title(s);

b. The preparer(s) organization and contact information (telephone & e-mail);

c. A signature and date (either hand signed or Common Access Card signed) for the preparer(s) and approving reviewer(s);

d. A narrative supporting how the costs/prices were developed with sufficient analytical support such as spreadsheet information or a word document that explains the purpose, scope, IGCE preparer conclusions and clearly identifies reference material used.

e. A statement certifying the IGCE was developed independently and prior to seeking any formal proposals from contractors; such as: "The IGCE preparer(s) and IGCE approving reviewer(s) certify the IGCE was developed independently and prior to seeking a formal proposal from any contractor."

2. All IGCE information shall be retained in the contract files per FAR 4.803(a)(7).

Contracting Officer's Signature Block