



# MEMO

**TO:** HUD-DR TEAM  
**FROM:** , Engineering & CIP  
**DATE:**  
**RE:** Cost Reasonableness Memo for

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A requirement in procurement with HUD funding is the documentation of cost reasonableness. The federal standard is:

*§200.323 Contract cost and price.*

*(a) The non-Federal entity must perform a cost or price analysis in connection with every procurement action in excess of the Simplified Acquisition Threshold including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, the non-Federal entity must make independent estimates before receiving bids or proposals.*

The City will select a consultant from an approved list of on-call emerging firms for CDGB-DR projects. The consultant selection will be based on their overall qualifications presented in the SOQ as well as the technical approach presented which was for the Uhland Road project.

The cost analysis approach for this professional services agreement used two methods of analysis. First, an initial design fee was estimated from determining an initial construction cost. Typical engineering design fees are approximately 10 percent of the construction cost excluding construction phase services. Approximately five percent of the construction cost is expected for construction phase services which would be required for a project of this size. This provides an initial understanding for a reasonable design fee. Secondly, a design fee was determined by considering a breakdown of hours by position that the consultant would likely utilize for each major task required in the design.

With respect to the first analysis, a construction cost was estimated based on the requirements of the project. This project location was also under assessment in the Feasibility Study by AECOM, which included a construction cost estimate for drainage related elements of the project, hence providing a second independent construction estimate. The City estimate, including all components of construction, was \$3,641,000 while the AECOM estimate was \$3,044,000, both including an allowance for contingency. Therefore, an initial design fee estimate would be in the range of \$304,000 to \$364,000. Including construction phase services, these estimates increase to **\$456,500** and **\$546,000**.

Using the second method of analysis, a design fee estimate was developed by breaking the project into several tasks (e.g. preliminary engineering, 60, 90, and 100 percent designs) and allocating hours from typical labor categories. Average hourly costs, per labor category, were assigned following a review of engineering contracts negotiated by the City over the last five years. The estimate of hours was based on other design projects of various sizes including those containing similar elements to this project. With the inclusion of necessary sub-contractors e.g. survey, geotechnical investigation, this provided an

estimate with a total contract cost of **\$563,000**. Unknowns in this estimate are additional tasks that may be identified by the proponent during the negotiation of the contract, such as tasks relating to specific permitting requirements

Following selection, the consultant will submit a detailed scope in both a narrative format and with a spreadsheet itemizing labor hours by task and position. An hourly rate by position will also be submitted. A cost analysis will then look at the following:

- The necessity of cost items and a comparison of hourly rates to those as used in this cost estimate,
- reasonableness of proposed costs,

If additional tasks are identified above those originally requested, they will be evaluated to ensure they are allowable, allocable and reasonable to reach the intended goal of the project. OMB Circular A-87 Revised will be used in this analysis.

**Certification Approved by:**

*The Project Manager (PM) of the City of San Marcos, Texas certifies that the Cost Reasonableness summary provided above for the stated Project is accurate, complete, and in conformance with Office of Management and Budget requirements on the date certified.*

**Date:** \_\_\_\_\_