1.0 *Purpose:*
To establish criteria for the selection of the various contract types that are approved for use at VTA.

2.0 *Scope:*
This Policy applies to all VTA departments and all vendors participating in the established VTA procurement process.

3.0 *Responsibilities:*
It is the responsibility of the Purchasing and Materials Manager to draft and obtain approval of this Policy to assure organizational understanding and compliance with this Policy.

4.0 *Policy:*
The following types of contracts will be used for procurement purposes at VTA.

4.1 FIRM FIXED PRICE CONTRACT:

DESCRIPTION:
A firm fixed price contract establishes a price that is not subject to adjustment based on the cost of performance. It places upon the contractor, full responsibility for all costs and the resulting profit or loss thereby maximizing the contractor's incentive to control costs and perform effectively. A specific type of Firm Fixed Price Contract that is used in civil and certain other types of construction contracting is a Fixed Unit Price Contract. In this type of contract, VTA estimates the quantities for each line item that is to be bid.

Contractors bid fixed prices for each line item, multiply the bid price times the VTA supplied quantities to calculate a bid price for each line item. All line items are totaled for the total bid price.

WHEN TO USE:
This type of contract shall be used for buying commercial type products or other supplies or services where clearly defined performance or functional specifications or design specifications exist and where performance uncertainties do not impose unreasonably high risks on the contractor.

4.2 FIXED PRICE WITH ESCALATION:

DESCRIPTION:
This contract type is characterized by a lump-sum price subject to upward or downward adjustment based on contingencies specified in the contract. Economic price adjustments are of three general types:

- Adjustments based on established prices.
- Adjustments based on actual costs of labor and materials.
- Adjustments based on cost indexes of labor, material or other acceptable index.

WHEN TO USE: This type of contract shall be used when a Firm Fixed Price contract is unfeasible due to the burden of unreasonable risk that may be placed on the bidder in times when the future cost of labor or material is difficult to project.

4.3 <u>FIXED PRICE INCENTIVE CONTRACT:</u>

DESCRIPTION:
A fixed price incentive contract is a fixed price contract that provides for adjusting profit and establishing the final contract price by applying a formula based on the relationship of total final negotiated cost to total target cost. For each item subject to incentive price revision, the contract specifies a target cost, a target profit, a target price, a price ceiling and a profit adjustment formula. The price ceiling is the maximum that may be paid to the contractor, except for adjustments specifically provided for under contract clauses. When contract performance is complete, VTA and the contractor shall negotiate the final cost and the final price is established by applying the formula.

WHEN TO USE:
A fixed price incentive contract is appropriate when the parties can negotiate at the outset an initial target cost, target profit, and a profit adjustment formula that will provide a fair and reasonable incentive and a ceiling that provides for the contractor to assume an appropriate share of the risk. When the contractor assumes a considerable or major share of the cost responsibility under the adjustment formula, the target profit should reflect this responsibility.

4.4 <u>COST REIMBURSEMENT CONTRACT:</u>

DESCRIPTION:
The contractor is reimbursed for allowable incurred costs only and receives no additional fee. CAMM, working with the Project Manager shall determine an estimate of the total cost of the contract, which the contractor shall exceed (except at his own risk) without the approval of the Purchasing and Materials Manager.

WHEN TO USE:
This type of contract is used for consultant services and research and development contracts with nonprofit organizations.

4.5 COST SHARING CONTRACT:

DESCRIPTION:
A cost-sharing contract is a cost reimbursement contract under which the contractor receives no fee and is reimbursed only an agreed-upon portion of its allowable costs.

WHEN TO USE:
This contract type is suitable where there is a high probability that the contractor will receive substantial commercial benefits as a result of the contract performance.

4.6 COST PLUS FIXED FEE CONTRACT:

DESCRIPTION:
The contractor receives a set fee and is reimbursed for all costs allowable under established cost principles.

WHEN TO USE:
This type of contract should 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.

No cost plus fixed fee contract shall be awarded unless:

- The contractor's accounting system is adequate for determining cost applicable to the contract or,
- Appropriate VTA surveillance during performance will provide reasonable assurance that efficient methods and cost controls are used.

4.7 COST PLUS A PERCENTAGE OF COST CONTRACTS:
Cost plus a percentage of cost contracts are not approved for use.

4.8 COST PLUS AWARD FEE CONTRACTS:

DESCRIPTION:
A cost plus award fee contract is a cost reimbursement contract that provides for a fee consisting of (a) a base amount (which may be zero) fixed at the inception of the contract and (b) an award amount, based upon a judgmental evaluation by VTA.

WHEN TO USE:
When it is felt that other contract types are not appropriate and the use of an award fee will provide motivation for excellence in contract performance.

4.9 INDEFINITE DELIVERY CONTRACTS:

DESCRIPTION:
This type of contract establishes firm prices, with orders to be placed directly by using departments or by specified purchasing offices with deliveries made directly to specified locations.

WHEN TO USE:
An indefinite delivery contract may be used when it is known or anticipated that there will be requirements for supplies or service over a period of time, but quantities, times or places of delivery are not known at the time of the contract award.

4.10 TIME AND MATERIAL/LABOR HOUR CONTRACTS:

DESCRIPTION:
These contracts provide for supplies and services on the basis of direct labor hours at specified fixed hourly rates and materials costs. **This is the least preferred method of contracting.**

WHEN TO USE:
This type of contract may be used only when it is not possible at the time of awarding the contract: to estimate with accuracy the extent of duration of the work, or to anticipate costs with any reasonable degree of confidence and that a determination has been made that no other type of contract is suitable. The contract must state a ceiling price and the contractor shall not exceed that amount except at his own risk.

This type of contract shall be used with caution and only when other contract types are not adequate for VTA's needs. This type of contract shall be used only with the approval of the Purchasing and Materials Manager.

A labor hour contract differs from the time and materials contract in that the contractor supplies no materials.

4.11 CONTRACT TERM:

FEDERALLY FUNDED CONTRACTS:
Contracts for services or supplies shall not be for a period of performance exceeding five years inclusive of options without prior written Federal Transit Administration (FTA) approval. The requirements of FTA Circular 4220.1F shall apply in these cases.

NON-FEDERALLY FUNDED CONTRACTS:
As a prudent business practice, all other contracts shall not be for a term exceeding seven years unless approved in writing in advance by the General Manager.

5.0 Definitions:
N/A.

6.0 Summary of Changes:
No change to Policy requirements. This Policy was updated to the new format.

7.0 Approval Information:

Prepared by	*Reviewed by*	*Approved by*
4/28/11 Thomas B. Smith Purchasing and Materials Manager	Joseph T. Smith Chief Financial Officer	Michael T. Burns General Manager

5/11/11
Date Signed