



Price Proposal Preparation



October 6, 2022



Agenda

- Components of a price proposal
- Understanding Indirect Costs
- Tax consequences
- Impact on getting it wrong

Components of a Price Proposal

Direct costs

Indirect costs*

Profit

Bonds

Taxes

Common points of failure

Speaking the Language

- Proposal Types
 - Cost proposal
 - Price proposal
- Solicitation Types
 - Competitive
 - Sole Source
 - Single Source

Handout #1

Cost Estimate Example

Direct Costs

- Labor
 - Labor Acts (Service contracts or Construction contracts)
 - Wage determination is required when:
 - Service contracts > \$2,500
 - Construction contracts > \$2,000
 - <https://sam.gov/content/wage-determinations> (handout)
- Materials
 - Suppliers or Vendors
 - Check for Buy American Act clause in solicitation
 - Check for prohibited sources in solicitation
- Equipment
 - Rented or Leased
 - Owned
 - <https://www.usace.army.mil/Cost-Engineering/EP1110-1-8/> (rate for owned equipment)



Understanding Fringe Benefits

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Understanding the basics

- **The Davis–Bacon Act of 1931 (DBA)**
Now Officially Called Construction Wage Rate Requirements Statute
- **State Prevailing Wage Laws**
- **Local Living Wage Laws**
- **The McNamara-O’Hara Service Contract Act of 1965 (SCA)**

Now Officially Called Service Contract Labor Standards Statute





Successful Contractors focus on the 3 C's

Compliance

Government contractors must comply with all federal, state, and local prevailing laws.

Cost Savings

Reduce the payroll burden and increase profits on existing contracts.

Competitiveness

Lower bids to increase their win/loss ratio.

Why should a government contractor be concerned about fringe benefits?

- **Compliance**
- **Cost Containment**
- **Future Profits**
- **Unions**
- **Executive Orders and Compliance**
- **The Patient Protection and Affordable Care Act (PPACA), commonly called the Affordable Care Act (ACA) or “Obamacare”**
- **Employee Expectations**



A person is working at a desk, using a calculator and a pen. The scene is overlaid with a semi-transparent orange filter. The person's hands are visible, holding a pen and writing on a document. A calculator is on the desk, and a pair of glasses is in the foreground. The background shows a stack of papers and a pen holder.

What must a contractor do to satisfy the fringe benefit obligation?

Mandatory Employer Spend

- Unique to government contractors
- Example: \$8 per hour contractually obligated to be spent on fringe benefits. $\$8 \times 160 \text{ hours per month} = \$1,280$
- Employer paid benefits = medical, ancillary, retirement
- Employer drives participation



In a low bid environment

| Cost Saving Analysis | No Benefit Plan | Benefit Plan |
|---|-----------------|--------------------|
| Cash | | |
| Prevailing Wage | \$20.00 | \$20.00 |
| Health & Welfare Fringe | \$8.00 | \$0.00 |
| Payroll Burden on Cash Wages*: | | |
| FICA 7.65% | \$2.14 | \$1.53 |
| Workers Compensation/(G/L) Premiums | \$0.70 | \$0.50 |
| Pre-Tax Benefits: | | |
| Health & Welfare Benefit Plan | \$0.00 | \$8.00 |
| <hr/> | | |
| Total Employer Cost per Hour: | \$30.84 | \$30.03 |
| Hourly Savings per Employee | | \$0.81 |
| Annual Savings per Full Time Employee (2,080 Hrs) | | \$1,684.80 |
| Employer's Annual Estimated Savings | | \$84,240.00 |

*Based on 50 employees; used for illustration purposes only; percentages will vary by employer.

Advantages to using Fringe dollars for benefits?

- **Employers who use fringe dollars to pay for benefit plans are able to:**
 - Reduce workers compensation and general liability cost
 - Reduce payroll tax burden
 - Reduce job costs
 - Increase profitability
 - Win more bids!

A person is shown from the chest down, sitting at a desk. They are wearing a light-colored, long-sleeved button-down shirt. Their right hand is holding a pen and writing on a spiral-bound notebook. On the desk in front of them is a calculator, a pair of black-rimmed glasses, and several sheets of paper. One of the papers has a bar chart and a pie chart on it. The entire scene is overlaid with a semi-transparent orange filter. The text is centered over the image in a white, bold, sans-serif font.

So how does a contractor position themselves correctly, but also keep up employee expectations?

Strategies designed to win contracts

- ✓ Spend no more than the fringe available
- ✓ Design full-time and part-time plans
- ✓ Create an hourly based benefit plans to align with the variable spend requirement
- ✓ Implement reserve accounts that protect the employer when hours drop
- ✓ Flexible/Comprehensive benefit plans including medical, dental, vision, life, & retirement to retain and recruit top talent



Questions?

Contact Boon Today!

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Indirect Costs*

- Various Names (AKA)
 - G&A - General & Administrative
 - HOOH – Home Office Overhead
 - Indirect
- Determine what's allowable and how to calculate it
- Worksheet (handout)
 - Normalize the costs
 - Equipment life expectancy
https://cs.thomsonreuters.com/ua/fixa/cs_us_en/ass_life_tbl/hid_help_asset_lives.htm
 - Determine a daily rate or annual percentage

More Indirect Costs

- FAR Part 31.205, Selected Costs
<https://www.acquisition.gov/far/31.205>
- Review your indirect costs regularly and make updates
- Control or reduce your indirect cost to be competitive

Profit or Fee (greed factor)

- Based on contract type (FFP to Cost type - over 19 types of contracts)
- Based on risk (higher the risk, higher the profit rate)
- Guidance found at FAR Part 15.404-4, Profit
<https://www.acquisition.gov/far/15.404-4>
- How badly do you need this contract?
 - 1st federal contract – low profit rate
 - Don't need a federal contract – high profit rate
- Know your competitors
 - Incumbent
 - Their needs
 - Their technology
 - Their means and methods

Bonds & Insurance

- Bid bond
- Payment & Performance Bonds
- Insurance:
 - Liability (could be an indirect cost)
 - Construction (could be an indirect cost)
 - L&HWCA (usually a direct cost) *
- FAR Part 28, Bonds & Insurance
<https://www.acquisition.gov/far/part-28>
- Sureties
<https://fiscal.treasury.gov/surety-bonds/list-certified-companies.html>

Taxes

- Business and Occupation (B&O) Taxes (handouts)
- Eight states have it (WA, OR, TN, TX, DE, MI, NV, OH)
 - Different rates and thresholds

<https://dor.wa.gov/taxes-rates/business-occupation-tax/business-occupation-tax-classifications>

- Cities have B&O Taxes
 - WA: 49 cities have B&O Taxes
 - Different rates and thresholds

<https://wacities.org/docs/default-source/resources/bando-taxes/botaxrates.pdf>



QUESTIONS



Summary

- Remember all the components of a price proposal
 - Direct, Indirect, Profit, Bonds, Insurance and Taxes
- Calculate your Indirect Cost Rate & review regularly
- Include your bond costs
- Know the tax rate(s) for place of performance
- Better to overprice than to lose money starting on day 1

See your local PTAC for assistance

For the WA Olympic Peninsula it is:

James Davis at 360-377-9499

Kitsap@washingtonptac.org

To find your local Washington PTAC office go to:

<https://washingtonptac.org>

To find a PTAC office in other states go to:

<https://www.aptac-us.org>