



AMSTERDAM HOUSING AUTHORITY  
**Construction Cost Analysis Overview**

Follow this guide to perform a cost analysis.

The Cost Analysis is a critical process in construction process. It is a comprehensive review and evaluation of the separate of cost which make up the contractors proposal.

Step 1: Obtain a detailed cost breakdown of the contractor's proposal from the Construction Cost Analysis worksheet that show:

Direct Costs – A direct cost is any cost that can be identified specifically with an element of the contract.

Indirect Costs – An Indirect cost (overhead) is any cost not identified with a single, final cost objective, but is identified with two or more final cost objectives.

Profit

Step 2: Determining Allowability – The factors to be considered in determining whether a cost is allowable include the following:

Reasonableness – A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. Reasonableness depends upon a variety of considerations and circumstances, including:

- a. Whether it is the type of cost generally recognized as ordinary and necessary for the work to be performed.
- b. The contractor's responsibilities to AHA

Allocability – A cost is allocable of it:

- a. Is incurred specifically for the contract.
- b. Benefits the contract.
- c. Is necessary for the overall performance of the contract.

Review the direct costs, reimbursable costs, and indirect costs (overhead) against the above standards. Reference 48 CFR Subpart 31.2 for additional information on allowable costs.

Step 3: Negotiate Profit – A cost analysis also requires profit negotiation as a separate element of the price. In negotiating profit the following should be considered:

The complexity of the work to be performed.

The risk borne by the contractor.

The contractor's investment.

The industry profit rates in the surrounding geographical areas for similar work.

Certification:

I certify that a cost analysis has been performed as noted above for:

\_\_\_\_\_  
(Construction Contract or Construction Contract modification)

AHA Contracting Officer Signature: \_\_\_\_\_ Date: \_\_\_\_/\_\_\_\_/\_\_\_\_