

6 FAH-2 H-230 CONTRACT TYPES

(TL:CORH-2; 11-19-2003)
(Office of Origin: A/OPE)

6 FAH-2 H-231 GENERAL

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a. At the same time that the contracting officer determines the method of acquisition, he or she will determine the contract type. The phrase "contract type" refers primarily to the arrangement that will govern the compensation for the work to be done. Arriving at that arrangement is normally a matter of allocating, between the U.S. Government and the contractor, the risks involved in contract performance. It also involves consideration of contractor incentives to perform.

b. There are two fundamental types of contracts: Fixed-price and cost-reimbursement. Within these two broad contract types, there are specific types designed to meet specialized requirements. In addition, there are other contract types (indefinite-delivery, labor-hour, and time-and-materials) which will be discussed as they are widely used. The purpose of this discussion is to provide the COR with a basic knowledge of major differences. Further information regarding contract types may be obtained from the contracting officer.

6 FAH-2 H-232 FIXED-PRICE CONTRACTS

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Fixed-price is a broad designation meaning that the buyer and seller will agree in advance on a price that will represent full payment for the supplies/services to be provided under the contract. Fixed-price contracts are used when specifications are clearly defined and the contractor is required to deliver a product that conforms to the specifications or the completion of specific tasks before payment is made. This type of contract places maximum responsibility on the contractor to accomplish the work stipulated in the contract. Payment(s) for satisfactory completion is/are fixed and the contractor receives that/those prenegotiated, fixed amount(s), regardless of actual costs incurred.

6 FAH-2 H-233 COST-REIMBURSEMENT CONTRACTS

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Unlike fixed-price contracts, cost-reimbursement contracts are used when the work cannot be definitely described or its costs estimated with any reasonable degree of certainty. The U.S. Government is obligated to reimburse the contractor for his or her "best efforts," up to the cost limitation set forth in the contract, in meeting the contract's performance objectives and delivery dates. This type of contract places maximum responsibility on the U.S. Government to monitor performance to ensure that the contractor stays within budget and time constraints.

6 FAH-2 H-234 TYPES OF INDEFINITE-DELIVERY CONTRACTS

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If the exact delivery date is unknown when a contract is written, one of three types of indefinite-delivery contracts may be used:

(1) **Definite-quantity contract:** Provides for delivery of a specific amount of supplies or performance of services within a given period, at designated locations, on the order of the U.S. Government. The quantity needed is known, but the time of delivery is not; or

(2) **Indefinite-quantity contract:** Does not state the specific quantity of supplies but establishes minimum and maximum limits on the amount that can be ordered at one time, and on total quantity. This type provides flexibility as to both quantity and time of delivery; or

(3) **Requirements contract:** An agreement by the U.S. Government to buy **all** of its needs from the contractor for a certain stated period of time with no specified amount or time of delivery. It differs from an indefinite-quantity contract only to the extent that no minimum or maximum quantities for the contract are stated.

6 FAH-2 H-235 TIME-AND-MATERIALS AND LABOR-HOUR CONTRACTS

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- a. The time-and-materials contract provides for the payment of:

(1) Direct labor hours at specified fixed hourly rates (which include wages, overhead, general and administrative expenses, and profit);

(2) Material at cost; and

(3) When appropriate, material handling costs as a part of material cost.

b. Thus, the contractor is paid for time delivered rather than a measurable product with measurable quality attributes. Unless the contractor has underestimated the costs in the fixed hourly rate, the time-and-materials contract does not provide the contractor any incentive to control cost; therefore, close surveillance is essential.

c. The labor-hour contract is a variant of the time-and-materials contract, differing only in that the contractor does not supply materials.

6 FAH-2 H-236 THROUGH H-239 UNASSIGNED