Contract Types Quick Reference Guide

A procurement contract is a legal agreement between a buyer and seller that defines the terms of work for a specific project. It establishes:

- Each party's roles and responsibilities
- Expected deliverables, timelines and performance standards
- Legal safeguards that reduce risk for all parties and stakeholders

Once all parties agree to the contract terms, they are legally required to follow them. Failure to meet the contract's requirements may result in legal consequences.

Below is a quick reference table defining the three most common contract types and their subcategories. The following page will define each type of contract in detail to ensure that municipalities select the correct contract type for their scope of work.

Contract Type	Quick Definition	Contract Sub-Categories
Fixed Price	A contract wherein the buyer agrees to pay a pre-determined, fixed amount for a defined scope of goods or services, regardless of surplus costs that may incur.	» Firm Fixed Price » Fixed Price Incentive » Fixed Price with Economic Adjustment
Cost Reimbursement	A contract wherein both buyer and vendor agree to the scope of a project without knowing the full price up front, but buyer agrees to reimburse vendor costs incurred.	» Cost Plus Fixed Fee » Cost Plus Incentive Fee » Cost Plus Award » Cost Plus Percentage of Cost
Time and Materials	A contract wherein the buyer agrees to pay for all hours worked at an agreed rate, plus cost of materials consumed within a set scope or timeframe.	» Labor-Hour

Fixed Price Contract: A fixed price contract is designed to cover only a limited set of goods or a specific service. Because the price is "fixed", the contract ensures that the buyer only pays a set amount, regardless of additional unexpected costs incurred by the vendor or contractor, unless otherwise specified through a clause covering price adjustments.

Firm Fixed Price Contracts: A firm fixed price contract is similar to a fixed price contract, except these contracts are not subject to any adjustment based on the contractor's costs incurred while performing the contract, unless through a change order. While a fixed price contract may include a clause for price adjustments, firm fixed price contracts do not, giving the contractor full responsibility for all costs and any resulting profits or losses.

Fixed Price Incentive: A fixed price incentive contract is a fixed price contract that provides for adjusting profit and the established contract price based on the difference between the original contract cost and the final cost.

Fixed Price with Economic Adjustment: A fixed price with economic adjustment contract falls under the fixed price contract category, except this particular contract type provides for adjustments based on economic movement. In these contracts, the original "fixed cost" may be adjusted higher or lower based on relevant economic factors affecting any specified contingencies. There are three sub-types of this contract type:

- ***Adjustments based on established prices:*** Prices are adjusted based on the original established price.
- ***Adjustments based on actual costs:*** Prices are adjusted based on increases or decreases in labor or material, as experienced by the contractor throughout the duration of the contract.
- ***Adjustments based on cost indexes:*** Prices are adjusted based on increases or decreases in labor or material based on standards or indexes specifically identified in the contract.

Cost Reimbursement Contract: A cost reimbursement contract provides for payment of allowable and reasonable incurred costs in performing the contract that occurs. This contract establishes an estimate of total expected costs with a price ceiling that a contractor may not exceed except through approval of the soliciting entity.

Cost Plus Fixed Fee Contract: A cost-plus fixed fee contract provides for payment to the contractor of a negotiated fee that is fixed in the original contract. This fixed fee does not vary with the actual cost, but it may be adjusted based on changes within the scope of work performed under contract.

Cost Plus Incentive Fee Contract: A cost plus incentive fee contract provides an initially negotiated fee to be adjusted later, based on the relationship of total allowable costs to the target cost. This contract type allows a contractor to earn a fee that goes up or down depending on how well the contractor controls the project costs against a pre-determined price target.

Cost Plus Award Contract: A cost plus award contract provides a fee consisting of a base amount determined during the creation of a contract and an award amount based on a contractor's performance throughout the duration of the contract.

Cost Plus Percentage of Cost Contract: A cost plus percentage of cost contract requires the buyer to reimburse all legitimate project costs along with a pre-determined fee to be paid out to the contractor. This type of contract can occur if indirect costs are stated as a

percentage of base costs and are not adjusted to reflect the actual indirect costs incurred by the contractor. *It is important to note that a cost plus percentage of cost contract is prohibited under 2 C.F.R. § 200.324(c)*.

Time and Materials Contract: A time and materials contract provides for acquiring supplies or services based on direct labor hours as specified by fixed hourly rates and/or actual cost for materials that are used for the product. These contracts are used when it is not possible to accurately estimate total contract or project cost and it has been determined that no other contract type is suitable. The contract must include a ceiling or 'Not To Exceed' price with language that the contractor exceeds at their own risk. The contracting entity should exercise oversight around performance and cost controls.

Labor-Hour Contract: A labor-hour contract is a variation of the time-and-materials contract, differing only in that materials are not supplied by the contractor.

Disclaimer: This Contract Quick Reference Guide summarizes common contract types and definitions. It is designed solely as a quick reference aid to help municipal staff verify that contract type aligns with municipal goals or project scope. This document is not a substitute for the full regulatory text, official program guidance, or agency-specific procurement policies. It does not provide legal interpretation or advice and does not guarantee full compliance and should not be relied upon as the sole source of information when drafting procurement documents. All users are responsible for consulting the authoritative regulations and any applicable state or local procurement rules to confirm the correct action.