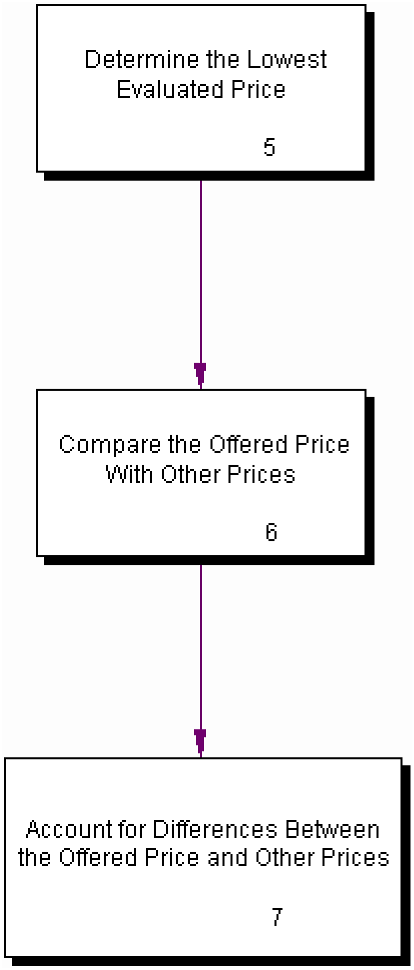
Ch 5 - Identifying and Applying Price-Related Factors

5.0 Chapter Introduction

Procedural Steps. The figure below shows where this chapter fits into the conduct of a price analysis.

Steps in Analyzing Prices
(Chapters 5-7)



Identify Price-Related Factors (FAR 14.201-5(c) and 15.204-5(e)). As you prepare any solicitation, you must identify the price-related factors to be considered in the contract award decision. **Assure that contract award criteria address all price-related factors that will have a significant and quantifiable effect on the total cost of the acquisition**. The price-related factors identified in this chapter are not meant to provide an exhaustive list of price-related factors that you could consider during offer evaluation. However, the chapter does address several key price-related factors that may be applicable to your contracting situation.

If you identify other price-related factors that may affect the total cost of a particular acquisition, you should consider those factors as you develop your contract award criteria.

Use Price-Related Factors (FAR 14.201-6(q) and 52.215-1(f)(6)). Once you identify price-related criteria for offer evaluation, you must consider those criteria in offer evaluation. Generally, your evaluation should follow this 4-step procedure:

Step 1. Determine solicitation provisions.

Step 2. Determine total price offered.

Step 3. Evaluate award combinations.

Step 4. Make award decision.

5.1 Assumed Administrative Cost Factors

When to Consider Administrative Cost Factors. When multiple award of different line items in the solicitation is possible, you must consider the effect of different award combinations on the total cost to the Government. Since it will cost more to administer each additional contract, you must consider that cost in your evaluation.

General Evaluation Requirements (FAR 14.201-6(q), 52.214-22, and 52.215-1(f)(6)).

Step 1. Determine Solicitation Provisions.

In sealed bidding, if the contracting officer determines that making multiple awards might be economically advantageous to the Government, you must consider the costs of making multiple awards in offer evaluation. FAR prescribes an assumed administrative cost of $500 for issuing and administering each contract.

When using negotiation procedures, other contract objectives may preclude consideration of the cost of multiple awards (e.g., multiple awards are preferred for most indefinite-quantity indefinite-delivery contracts). If consideration is appropriate, you could use the same $500 cost estimate or a different reasonable estimate supported by a documented rationale.

Step 2. Determine Offered Price(s).

Determine the price(s) in each offer for each item or group of items being considered for contract award.

Step 3. Evaluate Possible Award Combinations.

In your evaluation of offers, consider the estimated administrative cost for each contract (e.g. $500) when evaluating the possible award combinations. In relatively simple award situations, you might be able to determine the proper award decision without detailed calculations. In most situations, however, you must evaluate all possible award combinations. If the number of offerors is so large that evaluation of all possible methods of award would be prohibitive, you may exclude offerors that obviously have no chance of receiving the award. When determining which offerors do have a chance of receiving an award, consider the following:

- A successful offeror will NORMALLY be low on one or more items.
- If there are many offerors who are low on different items, it MAY BE POSSIBLE for a firm with offers close to the low offer on many items to win an award when the cost of contract administration is considered.

Step 4. Make Award Decision.

Select the offers that provide the lowest evaluated prices.

Evaluation Example (FAR 52.214-22).

Step 1. Determine Solicitation Provisions.

As an example of the evaluation process, consider an award under sealed bidding procedures. Assume that the invitation for bids states that award will be made to the responsive and responsible bidder with the lowest evaluated price and includes the following clause:

EVALUATION OF BIDS FOR MULTIPLE AWARDS
(MAR 1990)

In addition to other factors, bids will be evaluated on the basis of advantages and disadvantages to the Government that might result from making more than one award (multiple awards). It is assumed, for the purposes of evaluating bids, that $500 would be the administrative cost to the Government for issuing and administering each contract awarded under this solicitation, and individual awards will be for the items or combinations of items that result in the lowest aggregate cost to the Government, including the assumed administrative costs.

Step 2. Determine Offered Price(s).

In your evaluation of bids, consider the possible award combinations. Bids on the three different line items in the solicitation were received from two bidders. The extended line item totals, unit price multiplied by quantity, are shown in the table below.

Item	Bid 1	Bid 2
1	$74,000	$74,450
2	$94,750	$94,250
3	$22,125	$21,500

Step 3. Evaluate Possible Award Combinations.

Given the evaluation criteria and the bids, there are three possible methods of contract award:

- Multiple Awards
- Award All Items to Bidder 1
- Award All Items to Bidder 2

Multiple Awards. Awards to both Bidders 1 and 2. Looking at the bids without considering the $500 evaluation factor, making multiple awards appears to be the logical decision. Following this procedure, the total evaluated price would be:

Item	Bidder 1 Award	Bidder 2 Award	Total Price
1	$74,000		$ 74,000
2		$ 94,250	$ 94,250
3		$ 21,500	$ 21,500
Admin. Cost	$ 500	$ 500	$ 1,000

Evaluation Price	$74,500	$116,250	$190,750

Award All Items to Bidder 1. If all items were awarded to Bidder 1, the total evaluated price would be:

Item	Bidder 1 Award	Bidder 2 Award	Total Price
1	$ 74,000		$ 74,000
2	$ 94,750		$ 94,750
3	$ 22,125		$ 22,125
Admin. Cost	$ 500		$ 500
Evaluation Price	$191,375		$191,375

Award All Items to Bidder 2. If all items were awarded to Bidder 2, the total evaluated price would be:

Item	Bidder 1 Award	Bidder 2 Award	Total Price
1		$ 74,450	$ 74,450
2		$ 94,250	$ 94,250
3		$ 21,500	$ 21,500
Admin. Cost		$ 500	$ 500
Evaluation Price		$190,700	$190,700

Step 4. Make Award Decision.

In this case, your decision should be to award the entire requirement to Bidder 2, because that decision would result in the lowest aggregate evaluated price to the Government. Although multiple awards appears to offer the lowest total contract price, you can see that, when the assumed administrative cost was factored in, the total evaluated price is lowest if all items are awarded to Bidder 2.

5.2 Buy American Act Criteria

In This Section. The Independent Government Estimate is only one preliminary estimate of contract price. As a minimum, your research, should consider the data sources identified in this section.

- 5.2.1 FAR Criteria
- 5.2.2 DFARS Criteria

Buy American Act Requirement (FAR 25.102 and DFARS 225.102). The Buy American Act requires that only domestic end products be acquired for public use, except articles, materials, and supplies-

- For use outside the United States;
- For which the cost would be unreasonable, as determined in accordance with FAR or agency guidance;
- For which the agency head determines that domestic preference would be inconsistent with the public interest;
- That are not mined, produced, or manufactured in the United States in sufficient and reasonably available commercial quantities, of a satisfactory quality; or
- Purchased specifically for commissary resale.

5.2.1 FAR Criteria

Applicability of FAR Guidance (FAR 25.105). Apply FAR guidance in evaluating offers under the Buy American Act unless your agency prescribes different evaluation criteria. For example, the Defense Federal Acquisition Regulation Supplement (DFARS) prescribes procedures unique to the Department of Defense.

Key Terms (FAR 25.101). Consider the following definitions as you apply FAR Buy American Act criteria:

- **Components** -- articles, materials, and supplies incorporated directly into the end products.
- **Domestic end product** --
  - An unmanufactured end product mined or produced in the United States, or
  - An end product manufactured in the United States, if the cost of its components mined, produced, or manufactured in the United States exceeds 50 percent of the cost of all its components. The cost of each component includes transportation costs to the place of incorporation into the end product and any applicable duty (whether or not a duty-free entry certificate is issued). Components of foreign origin of the same class or

kind that are not mined, produced, or manufactured in the United States in sufficient and reasonably available commercial quantities of a satisfactory quality or which the agency head determines that domestic preference would be inconsistent with the public interest are treated as domestic. Scrap generated, collected, and prepared for processing in the United States is considered domestic.

- **Domestic offer** -- an offered price for a domestic end product, including priding to destination.
- **End product** -- articles, materials, and supplies to be acquired for public use under the contract.
- **Foreign end product** -- an end product other than a domestic end product.
- **Foreign offer** -- an offered price for a foreign end product, including transportation to destination and duty (whether or not a duty-free certificate is issued).

General Buy American Act Implementation (FAR 52.225-1 and 52.225-3(b)). To implement Buy American Act requirements, insert FAR Buy American Act--Supplies clause into any solicitation for supplies, or for services involving the furnishing of supplies, within the United States, unless the solicitation is restricted to domestic end products, the acquisition is made under the European Community Agreement or Trade Agreements Act, or another exception to the Buy American Act applies. This clause requires the contractor to deliver only domestic end products, except those:

- For use outside the United States;
- That the Government determines are not mined, produced, or manufactured in the United States in sufficient and reasonably available commercial quantities of a satisfactory quality;
- For which the agency determines that domestic preference would be inconsistent with the public interest; or
- For which the agency determines the cost to be unreasonable.

Note that the fourth exception allows you to award to a firm offering a foreign product if the cost of domestic end items is considered unreasonable. The FAR establishes criteria for determining the low evaluated offer when both domestic and foreign end items have been offered in response to your solicitation.

When you insert the above clause into a solicitation, assure that you also insert the FAR Buy American Certificate. That provision requires offerors to identify any offered items that are not known domestic end products.

Distinguishing Domestic from Nondomestic End Products (FAR 52.225-1). How can you determine whether an offered product is domestic or foreign for the purposes of applying the FAR evaluation criteria? The FAR Buy American Certificate requires each offeror to identify any product being offered that is not a known domestic end product:

BUY AMERICAN CERTIFICATE (DEC 1989)

The offeror certifies that each end product, except those listed below, is a domestic end product (as defined in the clause entitled "Buy American Act-Supplies"), and that components of unknown origin are considered to have been mined, produced, or manufactured outside the United States.

Excluded End Products Country of Origin:

(List as necessary)

Offerors may obtain from the contracting officer lists of articles, materials, and supplies excepted from the Buy American Act.

(End of provision)

Caveats (FAR 25.103, 25.102(a), 25.108, 25.2, 25.400, 52.225-3, and DFARS 225.105).

There are several caveats that you must consider as you decide whether to use FAR Buy American Act criteria in offer evaluation:

- FAR Buy American Act guidance does not apply to all Federal departments and agencies. For example, the Department of Defense (DoD) and the National Aeronautics and Space Administration (NASA) have determined that it is inconsistent with the public interest to apply the restrictions of the Buy American Act to their acquisitions of certain supplies mined, produced, or manufactured in certain foreign countries.

Federal departments and agencies (e.g., the DoD) have different criteria for determining when the cost of domestic end items should be considered unreasonable. Check your agency's FAR Supplement before applying the FAR criteria.

- Note that FAR Buy American Act--Supplies clause does not apply to acquisitions made under the Trade Agreements Act of 1979 and other trade agreements including the:
  - North American Free Trade Agreement (for Canadian and Mexican products);
  - Caribbean Basin Economic Recovery Act;
  - U.S. - Israeli Free Trade Area Agreement; or
  - Agreement on Civil Aircraft.
- The FAR contains a long list of articles, materials, and supplies that various agencies have determined are not mined, produced, or manufactured in the United States in sufficient and reasonably available commercial quantities of a satisfactory quality. That list is furnished for information only. Check your agency's FAR Supplement for guidance.
- The FAR contains still other exceptions and qualifications to the general FAR requirements.
- The policy on construction material is contained in FAR 25.2.

General Evaluation Requirements (FAR 25.105).

Step 1. Determine Solicitation Provisions.

Decide whether to consider the FAR Buy American Act criteria in offer evaluation.

- Determine whether the FAR Buy American Act--Supplies clause was required for the acquisition and incorporated in the solicitation.
- If the clause was required, you must examine the Buy American Certificate submitted by each offeror to determine if any firm is offering a foreign product. If any offeror lists an Excluded End Product on the

Certificate, the Buy American Act criteria would apply **unless**:

- The country of origin or the product is covered by one of the many exceptions to application of those criteria, or

No competing firm has offered a domestic product (i.e., an "unexcluded" end product) in response to your solicitation.

Step 2. Determine Offered Price(s).

Identify the price(s) in each offer for each item or group of items being considered for contract award. Identify the duty applicable to each foreign offer.

Step 3. Evaluate Possible Award Combinations.

Evaluate each item or group of items for which award may be made in accordance with solicitation contract award criteria.

- Unless the agency head determines otherwise, consider the offered price of a domestic end product unreasonable when the lowest acceptable domestic offer exceeds the lowest acceptable foreign offer, inclusive of duty, by:
  - More than 6 percent, if the domestic offer is from a large business; or
  - More than 12 percent, if the domestic offer is from a small business concern.
- If applying the 12-percent factor would result in an award of more than $250,000 to a domestic concern, but applying the 6-percent factor would not, the agency head must decide whether award to the domestic concern would involve unreasonable cost.
- Never apply either the 6-percent or 12-percent factor to offers of:
  - Israeli end products at or above $50,000;
  - Canadian end products above $25,000; or
  - Mexican end products above $53,150.

Step 4. Make Award Decision.

Award to the offeror with the offer that provides the best value for the Government under the criteria established in the solicitation. Settle ties in favor of domestic offers.

Evaluation Example.

Step 1. Determine Solicitation Provisions.

Assume that a solicitation states that award will be made to the responsible offeror with a technically acceptable offer and the lowest evaluated price. The Buy American Act applies to the acquisition, with no applicable exception to the Act for the acquisition or the end product.

Examining the Buy American Certificate in each offer, you discover that Offeror 2 and Offeror 3 left their respective certificates blank, meaning (presumably) that they are offering domestic end items. Offeror 1 states that the country of origin for its product is Greater Aquatica.

Since no exception applies to products from Aquatica, you must apply the FAR Buy American Act criteria.

Step 2. Determine Offered Price(s).

The table below lists the evaluated price of each offer. The price for the foreign end product includes all applicable duties.

Offeror	End Product	Business Size	Offer
1	Foreign	Small	$168,000*
2	Domestic	Large	$179,000
3	Domestic	Small	$180,000

* Item is not duty exempt. The price includes a $1,900 duty.

Step 3. Evaluate Possible Award Combinations.

All offers are technically acceptable. Offeror 2 is a large business and Offeror 3 is a small business.

Since the foreign offer is low, you must use Buy American Act requirements to evaluate the low offer and the low domestic offer. Because the low domestic offeror is a large business, you must use the 6-percent factor to adjust Offer 1 as follows:

Offeror	Offer	Apply 6-Percent Factor	Evaluated Offer
1	$168,000	.06 x $168,000 = $10,080	$178,080
2	$179,000	N/A	$179,000
3	$180,000	N/A	N/A

Step 4. Make Award Decision.

Based on the evaluation above, you should award to Offeror 1, the offeror with the low evaluated price.

Evaluation Example Note: Offer 1 was not compared with Offer 3, because Offer 3 was not the low domestic offer.

If Offeror 1 had been in competition ONLY with Offeror 3, Offer 3 would have won the competition, because the adjustment factor would have been 12 percent for a small business.

If the offers had exceeded $250,000 and applying the 12-percent factor would result in an award to a domestic concern but applying the 6-percent factor would not, the agency head would have to decide whether award to a domestic concern would involve an unreasonable cost.

5.2.2 DFARS Criteria

Applicability of DFARS Criteria (DFARS 225.105). If your organization is subject to Defense Federal Acquisition Regulation Supplement (DFARS) guidance, use the DFARS procedures instead of the FAR procedures, to determine when the cost of a domestic end product is unreasonable under the Buy American Act.

Key Terms (DFARS 225.000-70, 252.225-7001(a), and DFARS 252.225-7007(a)). Consider the following definitions as you determine the applicability of DFARS Buy American Act criteria:

- **Defense equipment** -- any equipment, item of supply, component, or end product purchased by the DoD.
- **Domestic concern** -- a concern incorporated in the United States or an unincorporated concern having its principal place of business in the United States.
- **Domestic end product** --
  - An unmanufactured end product which has been mined or produced in the United States; or
  - An end product manufactured in the United States, if the cost of its qualifying country and its components which are mined, produced, or manufactured in the United States exceeds 50 percent of the cost of all its components. The cost of components includes transportation costs to the place of incorporation into the end product and any U.S. duty (whether or not a duty-free entry certificate is issued). Consider a component to have been mined, produced, or manufactured in the United States (regardless of its source in fact) if the end product in which it is incorporated is manufactured in the United States and the component is of a kind:
  - Determined to be not mined, produced, or manufactured in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality; or
  - Which the Secretary concerned determines would be inconsistent with the public interest to apply the restrictions of the Buy American Act.
- **Foreign concern** -- any concern other than a domestic concern.
- **Nondesignated country end product** -- any end product which is not a U.S. made end product or a designated country end product.
- **Nonqualifying country** -- a country other than the United States or a qualifying country.
- **Nonqualifying country end product** -- an end product which is neither a domestic nor qualifying country end product.
- **Nonqualifying country offer** -- an offer of a nonqualifying country end product, including the price of transportation to destination.
- **Qualifying country** -- a term used to describe certain countries with memoranda of understanding or international agreements with the United States.
- **Qualifying country component** -- an item mined, produced, or manufactured in a qualifying country.

- **Qualifying country end product** --
    - An unmanufactured end product mined or produced in a qualifying country; or
    - An end product manufactured in a qualifying country if the cost of the components mined, produced, or manufactured in the qualifying country and its components mined, produced, or manufactured in the United States exceed 50 percent of the cost of all its components.
- **Qualifying country offer** -- an offer of a qualifying country end product, including the price of transportation to destination.
- **Source --** when restricted by such words as foreign, domestic, qualifying country, etc., refers to the actual manufacturer or producer of the end product or component.
- **U.S. made end product** -- an article that:
    - Is wholly the growth, product, or manufacture of the United States; or
    - In the case of an article that consists in whole or in part of materials from another country or instrumentality, has been substantially transformed in the United States into a new and different article of commerce with a name, character, or use distinct from that of the article or articles from which it was so transformed.

Solicitation Requirement (FAR 6.302-3, DFARS 225.109, and DFARS 252.225-7000). To implement Buy American Act requirements, insert DFARS Buy American Act and Balance of Payments Program clause into any solicitation for supplies, or for services involving the furnishing of supplies.

- Do not use the clause if an exception to the Buy American Act or Balance of Payments Program is known to apply or if you are using another clause related to trade agreements.
- You need not use the clause if nonqualifying country end products are ineligible for contract award, including end products restricted:
    - To domestic or domestic and qualifying country sources under Appropriations and Authorization Act restrictions;
    - To domestic and domestic and Canadian sources; and
    - Under industrial mobilization restrictions.

- You may use the clause if nonqualifying country end products are ineligible, but you anticipate a waiver of eligibility restrictions.

This clause:

- Advises offerors that a price offered for a nonqualifying country end product must include all applicable duties.
- Advises offerors that each nonqualifying country offer will be adjusted for evaluation by adding an amount equal to 50 percent of the offer, inclusive of duty.
- Requires the contractor to deliver "only domestic end products," unless its offer specified delivery of nondomestic end products. If an offeror that offers a qualifying country end product receives a contract, the firm must deliver a qualifying country end product or a domestic end product.

Distinguishing Domestic from Nondomestic End Products (DFARS 252.225-7000). How can you determine whether an offered end product is a domestic, qualifying country, or nonqualifying country for the purposes of applying the DFARS evaluation criteria? The DFARS Buy American Act--Balance of Payments Program Certificate requires each offeror to identify any product being offered that is not a known domestic end product.

BUY AMERICAN ACT-BALANCE OF PAYMENTS PROGRAM CERTIFICATE (DEC 1991)

(a) Definition.

"Domestic and product," "qualifying country," "qualifying country end product," and "nonqualifying country end product" have the meanings given in the Buy American Act and Balance of Payments Program clause of this solicitation.

(b) Evaluation.

Offers will be evaluated by giving preference to domestic end products and qualifying country end products over nonqualifying country end products.

(c) Certifications.

(1) The Offeror certifies that-

(i) Each end product, except those listed in paragraphs (c)(2) or (3) or this clause. is a domestic end product; and

(ii) Components of unknown origin are considered to have been mined. produced. or manufactured outside the United States or a qualifying country.

(2) The Offeror certifies that the following end products are qualifying country end products:

Qualifying Country End Products

Line Item Number	Country of Origin
_______________	_______________

(List only qualifying country end products.)

(3) The Offeror certifies that the following end products are non-qualifying country end products:

Nonqualifying Country End Products

Line Item Number	Country of Origin (If known)
_______________	_______________________

Caveats (DFARS 225.102, 225.105, 225.872-1, and 252.225-7001). There are several caveats that you must consider as you decide whether to use DFARS Buy American Act criteria in offer evaluation:

- DFARS procedures identify public interest exceptions to Buy American Act requirements.
  - The DoD has determined that it is inconsistent with the public interest to apply the restrictions of the Buy American Act to the acquisition of defense equipment which is mined, produced, or manufactured in countries identified as qualifying countries. These countries are excepted because of the provisions of a memorandum of understanding or other international agreement.
- The DoD has determined that individual acquisitions for products of four qualifying countries (Austria, Finland, Sweden, and Switzerland) may, on a purchase-by-purchase basis, be exempted from application of the Buy American Act.
- The Under Secretary of Defense (Acquisition and Technology) has determined that, for procurements subject to the Trade Agreements Act, it is inconsistent with the public interest to apply the Buy American Act to information technology products in Federal Supply Group 70 or 64 that are substantially transformed in the United States.
- Specific exceptions can be approved when the purposes of the Buy American Act are not served by applying its requirements in a particular acquisition situation.
- Consider requesting a public interest exception in appropriate situations. An exception may be appropriate:
  - If accepting the low domestic offer will involve substantial foreign expenditures, or accepting the low foreign offer will involve substantial domestic expenditures;
  - To ensure access to advanced state-of-the-art commercial technology; or
  - To maintain the same source of supply for spare and replacement parts for an end item that qualifies as an American good; or in order not to impair integration of the military and commercial industrial base.
  - A determination to grant a public interest exception must be made:

        - At a level above the contracting officer for acquisitions valued at less than $100,000;
        - By the head of the contracting activity for acquisitions valued at $100,000 or more but less than $1,000,000; or
        - By the agency head for acquisitions valued at $1,000,000 or more.
- Except in certain identified situations, a determination that an article, material, or supply is not reasonably available is required where no domestic offer is received or when domestic offers are insufficient to meet the requirement and award is made to a nonqualifying country end product. The determination must be approved:
    - At a level above the contracting officer, for acquisitions estimated not to exceed $25,000;
    - By the chief of the contracting office for acquisitions estimated not to exceed $250,000;
    - By the head of the contracting activity (HCA) or immediate deputy for acquisitions estimated not to exceed $2 million; or
    - By the head of the agency, or designee at a level no lower than an HCA for acquisitions estimated to exceed $2 million.
- Scrap is domestic in origin if generated in, collected in, and prepared for processing in the United States.

General Evaluation Requirements (DFARS 225.105, 225.872-1, 252.225-7000, and DFARS 252.225-7001).

Step 1. Determine Solicitation Provisions.

Decide whether to consider the FAR Buy American Act criteria in proposal evaluation.

- Determine if the Buy American Act and Balance of Payments Program clause was required for the acquisition and incorporated in the solicitation.
- If the clause was required, examine the Buy American Certificate-Balance of Payments Program Certificate submitted by each offeror to determine if any firm is offering a foreign product and if any firm identifies a nonqualifying country end product on the Certificate.

Step 2. Determine Offered Price(s).

Identify the price(s) in each offer for each item or group of items being considered for contract award. Identify the duty applicable to each foreign offer.

Step 3. Evaluate Possible Award Combinations.

If the Act applies to the acquisition, add 50 percent to the price of the lowest offer of a product from a nonqualifying country. Qualifying country offers are specifically excluded from application of the requirements of the Buy American Act because of the provisions of memoranda of understanding or other international agreements.

As you evaluate nonqualifying country offers, consider the following:

- When a nonqualifying country offer includes more than one item, apply the 50-percent factor:
    - On an item-by-item basis; or
    - On a group basis, it the solicitation specifically provides for award on a group basis.
- When application of the factor would not result in the award of a domestic end product (e.g. when no domestic offers are received or when a qualifying country offer is lower than the domestic offers) evaluate nonqualifying country offers without the 50-percent factor.
- If duty is to be exempted through the inclusion of the FAR Duty-Free Entry clause, you must still evaluate the nonqualifying country offer inclusive of duty. If award is made on the nonqualifying country offer, award at the offered price minus the duty.
- If the evaluation procedures result in a tie between a nonqualifying country offer and a domestic offer, make award on the domestic offer.
- If an offer is for a U.S. made end product, domestically produced end product, product of a small business, but is not a domestic end product, treat the offer as a nonqualifying country offer.

Step 4. Make Award Decision.

Award to the offeror with the lowest evaluated price, after application of the Buy American criteria in Step 3. Settle ties in favor of domestic offers.

Evaluation Example (DFARS 252.225-7000).

Step 1. Determine Solicitation Provisions.

Assume that the solicitation states that award will be made to the responsible offeror with a technically acceptable offer and the lowest evaluated price. The Buy American Act applies to this acquisition, with no applicable exception to the Act for the lens assembly or the end product.

You examine the Buy American--Balance of Payments Program Certificates submitted by Offeror 2 and Offeror 3 and find that they left their certificates blank, indicating that the items are domestic end products. Offeror 1 states that the country of origin for its product is Lower Aquatica (a nonqualifying country).

Step 2. Determine Offered Price(s).

The following table lists the evaluated price of each offer, after applying all other price-related factors in the RFP.

Offeror	End Product	Offer
1	Nonqualifying	$168,000*
2	Domestic	$179,000
3	Domestic	$180,000

* Item is not duty exempt. The price includes a $1,000 duty.

Step 3. Evaluate Possible Award Combinations.

You have investigated and found that the Buy American Act applies to this acquisition. Use the Buy American criteria to evaluate offers as follows:

Offeror	Offer	Apply 50-Percent Factor	Evaluated Offer
1	$168,000	.50 x $168,000 = $84,000	$252,000
2	$179,000	N/A	$179,000
3	$180,000	N/A	$180,000

Step 4. Make Award Decision.

Based on the evaluation above, you should select Offer (the low evaluated offer) for contract.

Evaluation Example Note (DFARS 225.872-1). Note that the decision would have been different if Offer 1 had been a product produced in a qualifying country, a country for which the DoD has determined it inconsistent with the public interest to apply the restrictions of the Buy American Act-Balance of Payment Program.

If Offer 1 had been a qualifying country offer, you would not apply the 50 percent adjustment factor. As a result, you would evaluate all offers without the adjustment factor:

Offeror	Offer	50-Percent Factor	Evaluated Offer
1	$168,000	N/A	$168,000
2	$179,000	N/A	$179,000
3	$180,000	N/A	$180,000

Without the adjustment factor, you select Offeror l for contract award.

5.3 Government Furnished Production And Research Property Factors

This section examines the factors that you must consider when soliciting and evaluating offers that may involve Government furnished production and research property:

- 5.3.1 - Eliminate Competitive Advantage
- 5.3.2 - Consider Costs And Savings To The Government

Government Production and Research Property (FAR 45.301). The term "Government production and research property" means Government-owned facilities, Government-owned special test equipment, and special tooling to which the Government has title or has the right to acquire title.

5.3.1 Eliminate Competitive Advantage

Factors in Offer Evaluation (FAR 45.201). When evaluating offers, you must make the maximum practical effort to:

- Eliminate any competitive advantage accruing to a contractor possessing Government furnished production and research property.
- Consider any costs or savings to the Government related to providing such property, regardless of any competitive advantage that may result.

When to Consider as a Price-Related Factor (FAR 45.201 and 52.245-9). To eliminate the competitive advantage that may result when an offeror offers to perform a contract with Government furnished production and research property, you can:

- **Adjust the offers of contractors proposing to use Government furnished production and research property.**
    - This is the **preferred method** for eliminating the competitive advantage. During offer evaluation, adjust any offers proposing the use of furnished production and research property using a factor equal to the rent that would be charged for use of the property under the requirements of the FAR Use and Charges clause. Only use the adjusted price in your evaluation. Do not include the adjustment in the price of any resulting contract award.
    - Do not adjust proposals using a rental equivalent factor when the contracting officer determines that using the factor would not affect the choice of contractor.
- **Charge the contractor rent for using Government furnished production and research property.** Only charge contractors rent **when adjustment of offers for offer evaluation is not practical**. Any offeror or subcontractor may use Government furnished production and research property after obtaining the written approval of the cognizant contracting officer. Charge rent in accordance with the provisions of the FAR Use and Charges clause.

Solicitation Requirements (FAR 45.205). When you anticipate that Government production and research property will be offered for use in a competitive acquisition, the solicitation:

- Should normally require the contractor to assume all costs related to making the property available for use (such as payment of all transportation or rehabilitation costs).
- The solicitation must describe offer evaluation procedures, including rental charges or equivalents to be evaluated, and require all offerors to submit with their offers the following information:
    - A list or description of all Government production and research property that the offeror or its subcontractors propose to use on a rent-free basis. The list must include property offered for use in the solicitation, as well as property already in possession of the offeror and its subcontractors under other contracts.
    - Identification of the facilities contract or other instrument under which property already in possession of the offeror and its subcontractors is held and written permission for its use from the cognizant contracting officer.
    - The dates during which the property will be available for use (including the first, last, and all intervening months) and, for any property that will be used concurrently in performing two or more contracts, the amounts of the respective uses in sufficient detail to support proration of the rent.
    - The amount of rent that would otherwise be charged, computed in accordance with FAR requirements.
- The solicitation must provide that using Government production and research property (other than as described and permitted in the solicitation) will not be authorized under the contract unless such use is approved in writing by the contracting officer with property cognizance, and either rent (calculated in accordance with the FAR Use and Charges clause) is charged, or the contract price is reduced by an equivalent amount.

General Evaluation Requirements (FAR 45.205).

Step 1. Determine Solicitation Provisions.

The solicitation must describe the evaluation procedures to be used, including the rental charges or equivalents to be evaluated, and information the offeror must submit with its offer.

Step 2. Determine Offered Price(s).

Step 3. Evaluate Possible Award Combinations.

Before you evaluate the pricing aspects of contractor use of Government production and research property on the contract, contact the contracting officer with property cognizance to confirm that the property is available for use on the contract. Follow the offer evaluation procedures set forth in the solicitation.

Step 4. Make Award Decision.

Whichever method you use, select the offer that provides the best value for the Government under the criteria established in the solicitation.

Determine the price(s) in each offer for each item or group of items being considered for contract award. Also identify what property each offeror is proposing to use on the contract and the estimated period of use.

Evaluation Example (FAR 45.205 and 52.245-9).

Step 1. Determine Solicitation Provisions.

Assume that the solicitation states that award will be made to the responsible offeror with a technically acceptable offer and the lowest evaluated price. It also includes the following provision:

> For purposes of offer evaluation, any offer predicated on rent-free use of Government production and research property will be adjusted to eliminate possible competitive advantage. The adjustment will be made using a rental equipment adjustment factor equal to the allocable rent that would otherwise be charged for use of the Government property. Rent will

be computed in accordance with FAR 52.245-9, Use and Charges.

Step 2. Determine Offered Price(s).

Two offers were received in response to the solicitation.

Offeror	Offer
1	$352,000
2	$347,000

Only Offer 2 proposes rent-free use of GFP. It proposes rent-free use of one APEX Model 5209, Serial #14345089, machine tool, for a period of one month during production.

Step 3. Evaluate Possible Award Combinations

Contact the contracting officer responsible for the GFP to ensure that the proposed GFP will be available for use on your contract, as requested by the offeror.

Assume that the contracting officer with property cognizance further advises you that it is less than two years old and cost $200,000. Using the FAR Use and Charges clause, you determine that a fair and reasonable rental cost is $6,000.

Using the $6,000 in evaluation, you find:

Offeror	Offer	GFP Rental Equivalent	Evaluated Price
1	$352,000	N/A	$352,000
2	$347,000	$6,000	$353,000

Step 4. Make Award Decision.

Based on the evaluation above, you should award to Offeror 1. This will result in the lowest evaluated price to the Government.

5.3.2 Consider Costs And Savings To The Government

When to Consider as a Price-Related Factor (FAR 45.201). When evaluating offers, consider any other costs or savings to the Government that will result from providing production or research property, regardless of any competitive advantage that may result.

Solicitation Requirements Related to Costs (FAR 45.202-3 and 45.205). The solicitation:

- Should normally require the contractor to assume all costs related to making the property available for use (such as payment of all transportation or rehabilitation costs).
- Must describe these costs or savings will be considered in offer evaluation.
- Must specify any costs to the Government related to furnishing Government production and research property either as dollar amounts or as formulas.
  - Limit consideration to the cost of:
  - Reactivation from storage;
  - Rehabilitation and conversion; and
  - Making the property available on an f.o.b. basis.
  - If (under the terms of the solicitation) the contractor will bear the transportation cost of furnishing Government production and research property or the cost or making it suitable for use, do not use additional evaluation factors related to those costs.
- Specify the dollar amount of any savings to the Government related to contractor use of Government production and research property. Examples of such savings include any savings that result from avoiding the costs of deactivating tools and them in layaway, storage, or idle status.

General Evaluation Requirements (FAR 45.202-3).

Step 1. Determine Solicitation Provisions.

The solicitation must specify savings that will be considered in offer evaluation as dollar values. Costs must be stated using dollar values or formulas. Do not provide for any adjustment to consider costs that will be borne by the contractor.

Step 2. Determine Offered Price(s).

Determine the price(s) in each offer for each item or group of items being considered for contract award. Review each offer to determine whether it specifies use of the identified property.

Step 3. Evaluate Possible Award Combinations.

In offer evaluation, identify the costs and savings in each offer related to Government production and research property. Use the costs and savings specified in the solicitation.

Step 4. Make Award Decision.

Make award to the firm whose offer is most advantageous to the Government under the terms of the solicitation. Include consideration of the costs and savings to the Government that result from the use of the Government production and research property.

Evaluation Example (FAR 45.202-3).

Step 1. Determine Solicitation Provisions.

Assume that the solicitation states that award will be made to the responsible offeror with a technically acceptable offer and the lowest evaluated price. It also includes the provision below. The amount of $9,000 represents the cost of deactivating and placing the tools in storage and maintaining them there for the period of the contract. A complete list of the tools involved is included elsewhere in solicitation.

> In addition to any other proposal adjustments, $9,000 will be deducted from any offers proposing to use the GFP identified in Solicitation Paragraph L-XX. The $9,000 represents the costs that the Government will avoid if the identified GFP is not placed in storage.

Step 2. Determine Offered Price(s).

You have received two offers. Both propose use of the tooling described in the solicitation. Offer 1 includes the estimated costs of relocating the tooling from the plant of Offeror 2. Offer 2 does not propose relocation costs because the tooling is already located at the offeror's plant.

Offeror	Offer
1	$364,000
2	$370,000

Step 3. Evaluate Possible Award Combinations.

Both offers propose use of the tooling described in the solicitation. As a result, the $9,000 savings identified in the solicitation will be deducted from the price offered by each of the offerors. No additional adjustment is required to consider the cost to the Government related to relocating the equipment. The relocation cost is included in Offer 1 and there is no relocation cost associated with Offer 2, because the property is already located at Offeror 2's facility.

Offeror	Offer	Government Savings	Offer Evaluation
1	$364,000	$9,000	$355,000
2	$370,000	$9,000	$361,000

Step 4. Make Award Decision.

In your evaluation, you should deduct $9,000 from both offers. As a result, there would be no change in the dollar difference between the two offers. You should award to Offeror 1.

5.4 Transportation Costs

When to Consider as a Price-Related Factor (FAR 47.301, 47.301-1, and 47.301-2). When transportation costs are not included in item purchase price, you must consider them as part of any supply contract award decision. Your objective is to ensure that acquisitions are made on the basis most advantageous to the Government, and that supplies arrive in good order, in good condition, on time, at the required place.

Work with your agency transportation officer during solicitation and evaluation of offers to ensure that all necessary transportation factors are considered, including transportation costs.

F.o.b. Definition (FAR 47.001). The term **free on board (f.o.b.)** is used in conjunction with a physical point to determine:

- The responsibility and basis for payment of freight charges; and
- Unless otherwise agreed to, the point at which title for goods passes to the buyer or consignee.

For example: Contracts with **"f.o.b. origin" generally require the Government to pick up the deliverable** at the contractor's warehouse, with the Government responsible for shipping costs from the warehouse. In contrast, **"f.o.b. destination" contracts generally requires the contractor -- at the contractor's expense -- to ship the contract item** to a Government loading dock.

Usually, the f.o.b. point is either the place of shipment origin or final shipment destination but it can be anywhere in between. For example, the f.o.b. point could be an airport or dock where the shipment will be consolidated with other items for transport to a final destination.

Solicitation Requirements (FAR 47.304-1, 47.303, 47.305-1, 52.247-45, 52.247-46, 52.247-47, 52.247-49, 52.247-50, and 52.247-51). As you prepare each supply solicitation, the contracting officer must generally determine the contract f.o.b. terms on the basis of lowest overall cost. The solicitation must:

- Specify whether offerors must submit offers based on:
  - F.o.b. origin;
  - F.o.b. destination;

    - Both f.o.b. origin and f.o.b. destination; or
    - Either f.o.b. origin or f.o.b. destination at the discretion of the offeror.
- Include the appropriate clauses to describe the packing, marking, and other delivery terms for the f.o.b. point selected (e.g., f.o.b. origin; f.o.b. origin, contractor's facility; f.o.b. origin, freight allowed; or f.o.b. destination).
- Requirement that the offeror furnish the Government as much of the following data as is applicable to the particular acquisition:
    - Modes of transportation and, if rail transportation is used, names of rail carriers serving the offeror's facility.
    - The number of railroad cars, motor trucks, or other conveyances that can be loaded per day.
    - Type of packaging (e.g., box, carton, crate, drum, bundle, skids) and when applicable, package number from the governing freight classification.
    - Number of units packed in one container.
    - Guaranteed maximum shipping weight; cubic measurement; and length, width, and height of each container.
    - Minimum size of each shipment.
    - Number of containers or units that can be loaded in a car, truck, or other conveyance of the size normally used (specify type and size) for the commodity.
    - Description of material in terms of the governing freight classification or tariff (or Government rate tender) under which lowest freight rates are applicable.
    - Benefits available to the Government under transit arrangements made by the offeror.
    - Other information related to the f.o.b. point selected.
- Must describe how offers will be evaluated for contract award, such as:
    - F.o.b. Origin and/or F.o.b. Destination Evaluation;
    - Evaluation -- F.o.b. Origin;
    - Shipping Point(s) Used in Evaluation of F.o.b. Origin Offers;
    - Destination Unknown;
    - Evaluation of Export Offers; or
    - No Evaluation of Transportation Costs.

General Evaluation Requirements (FAR 47.304-1, 47.304-1(a), 47.304-1(b), and 47.306).

Step 1. Determine Solicitation Provisions.

The solicitation must specify the acceptable f.o.b. terms and the basis for offer evaluation.

- If the solicitation requires that all offerors be made **f.o.b. destination**, transportation must be included in the offered. No further consideration of transportation costs is required.
- When offers are quoted **f.o.b. origin**, consider the following factors along with purchase price when evaluating prices:
  - The cost of transportation from the offeror's designated point of origin to the destination defined in the solicitation. The Government normally uses land transportation rates in proposal evaluation.
  - When provided for in the solicitation, proposed cost-reimbursable differentials based on possible routing conditions. These contingencies may be included by offerors to compensate for an unfavorable routing condition. Evaluation is based on the routing conditions anticipated at the time of award.
- When offers may be quoted **either f.o.b. origin or f.o.b. destination**, your evaluation of:
  - F.o.b. destination offers will not require adjustment to consider the cost of transportation.
  - F.o.b. origin offers must consider the factors described above.

Step 2: Determine Offered Price(s).

Determine the price(s) in each offer for each item or group of items being considered for contract award. You must also examine each offer to identify the f.o.b. terms and to determine whether the offered terms comply with solicitation requirements.

Step 3. Evaluate Possible Award Combinations.

Evaluate offers using the specific criteria set forth in the solicitation. In evaluating transportation costs

- You must use the lowest available freight rates and related accessorial and incidental charges that are:
  - In effect on, or become effective before, the expected date of initial shipment; and
  - On file or published on the date of bid opening or due date for offers.
- If rates or related charges become available after the bid opening or the due date of offers, do not use them in evaluation unless they cover transportation for which no applicable rates were in effect at the time of bid opening or the due date of offers. (FAR 47.306-2)

Evaluation Example (FAR 47.305-2, 47.306-2, and 52.247-45).

Step 1. Determine Solicitation Provisions.

Assume that the solicitation states that award will be made to the responsible offeror with a technically acceptable offer and the lowest evaluated price. It also includes the following provision:

> Offers are invited on the basis of both f.o.b. origin and f.o.b. destination, and the Government will award on the basis the contracting officer determines to be most advantageous to the Government. An offer on the basis of f.o.b. origin only or f.o.b. destination only is acceptable, but will be evaluated only on the basis submitted.

Step 2. Determine Offered Price(s).

Three offers were received. One offers the item f.o.b. destination. The others offer the item f.o.b. origin.

Offeror	F.O.B. Point	Offer
1	Origin	$435,000
2	Destination	$450,000
3	Origin	$436,000

Step 3. Evaluate Possible Award Combinations.

From the cognizant transportation officer, you obtain information on the lowest available transportation cost and incidental charges. Specific shipping costs are shown below, for each offer:

Offeror	F.O.B. Point	Offer	Transportation Cost	Evaluated Price
1	Origin	$435,000	$2,600	$437,600
2	Destination	$450,000	N/A	$450,000
3	Origin	$436,000	$1,500	$437,500

Step 4. Make the Award.

Make award to the offeror with the lowest evaluated price, Offeror 3.

5.5 Options And Multi-Year Contracting

This section examines the factors that you must consider when soliciting and evaluating offers involving options and multi-year contracting.

- 5.5.1 - Options
- 5.5.2 - Multi-Year Contracting

Longer-Term Business Relationships. Contracts are normally written to acquire supplies and services in support of identified requirements. Funded contracts include funds approved by Congress for the current year.

Options and multi-year contracting are two methods of establishing longer-term relationships with contractors. Either of these techniques may be used in sealed bidding or negotiation.

5.5.1 Options

Contract Options (FAR 17.201 and 17.207). Options are unilateral rights prescribed in a contract, which, for a specified time, permit the Government to elect to purchase additional supplies or services called for in the contract or to elect to extend the term of the contract.

The Government is under no obligation to exercise any options prescribed in a particular contract. Options may be exercised at award or at a later time as prescribed in the contract. Options are funded when exercised using funds available at that time.

When to Include Contract Options (FAR 17.202(d)). For either sealed bidding or negotiation, the contracting officer:

- Should include options in solicitations and contracts when it is in the Government's interest.
- Should normally not include options when:
  - The foreseeable requirements involve:
  - Minimum economic quantities (i.e., quantities large enough to permit startup costs recovery and the production of required supplies at a reasonable price); and
  - Delivery requirements far enough into the future to permit competitive acquisition, production, and delivery.
  - An indefinite quantity or requirements contract would be more appropriate than a contract with options. However, this does not preclude the use of an indefinite quantity contract or requirements contract with options.
- Must not include options if:
  - The contractor will incur undue risks (e.g., the price or availability of necessary materials or labor is not reasonably foreseeable);
  - Market prices for the supplies or services involved are likely to change substantially; or
  - The option represents known firm requirements for which funds are available unless:
  - The basic quantity is a learning or testing quantity; and
  - Competition for the option is impracticable once the initial contract is awarded.
- May include options in service contracts if there is an anticipated need for a similar service beyond the

first contract period. The contracting officer's decision to include options should consider the:

- Government need for continuity in contractor operations; and
- Potential cost of support disruption.

Solicitation Requirements (FAR 17.203). When you expect that the contract(s) will include an option clause, include the clause and the related evaluation provision in the contract solicitation. Solicitations containing an option clause:

- Must:
  - State the basis of evaluation, either exclusive or inclusive of the option;
  - Inform offerors that the Government may exercise the option at time of award (when appropriate).
  - State that offerors may offer varying prices for options, depending on the quantities actually ordered and the dates (when appropriate).
  - Specify the price at which the Government will evaluate the option (e.g., highest option price offered or option price for specified requirements), whenever:
  - Offerors may offer varying prices for options, depending on the quantities actually ordered and the dates when ordered; and
  - The Government may exercise an option at the time of award.
  - When the solicitation requires that option price(s) not exceed those of the initial requirement:
  - Specify that the Government will accept an offer containing an option price higher than the base price only if the acceptance does not prejudice any other offeror; and
  - Limit option quantities for additional supplies to not more than 50 percent of the initial quantity of the same contract line item. In unusual circumstances, an authorized person at a level above the contracting officer may approve a greater percentage of quantity.
- Should normally not limit option prices. If prices will be considered in the evaluation for contract award, never limit option prices.
- May (in unusual circumstances) require that options be offered at prices no higher than those for the initial

requirement (e.g., when the option cannot be evaluated for contract award or future competition for the option is impracticable).

Evaluation (FAR 17.206).

Step 1. Determine Solicitation Provisions.

The solicitation must specify the option requirements and how option offers will be evaluated. Based on the evaluation provisions, your evaluation must either include or exclude option offers in your evaluation.

Step 2: Determine Offered Price(s).

Determine the price(s) in each offer for each item or group of items being considered for contract award. Also identify the price for any option that will be consider in evaluating offers for contract award.

Step 3. Evaluate Possible Award Combinations.

Evaluate offers using the specific criteria set forth in the solicitation.

Step 4. Make Award Decision.

Award to the firm whose offer provides the best value to the Government under the terms of the solicitation.

5.5.2 Multi-Year Contracting

Multi-Year Contracting (FAR 17.103, 17.104, and 17.105-1(d)). Multi-year contracting is a special contracting method used to acquire known requirements in quantities and total cost not exceeding planned requirements for up to five years (unless otherwise authorized by statute).

This contracting method can be employed even though the total contract funds ultimately to be obligated are not available at the time of contract award. However, if funds are not appropriated to support the succeeding year's requirements, the agency must cancel the contract. The multi-year contract may provide for a cancellation payment to be made to the contractor if appropriations are not made.

The key difference between a multi-year contract and a multiple year contract is that the multi-year contract buys more than one year's requirement without establishing and having to exercise an option for each program year after the first.

When to Use Multi-Year Contracting (FAR 17.103 and 17.105-1). Multi-year contracting may be used for the acquisition of either supplies or services.

In the DoD, NASA, and the Coast Guard, the agency head may enter into a multi-year contract for supplies if the agency head expects that:

- A multi-year contract will result in substantial savings over the estimated cost of carrying out the program using annual contracts;
- The minimum production rate, procurement rate, and total quantities purchased are expected to remain substantially unchanged during the contemplated contract period;
- The design for the supplies to be acquired is stable and the associated technical risks are not excessive;
- Contract funding will be requested at a level that will avoid contract cancellation throughout the contemplated contract period; and

The estimates of both the contract cost and the cost avoidance related to multi-year contracting are realistic.

In other agencies, the contracting officer may enter into a multi-year contract if the head of the contracting activity determines that:

- The need for the supplies or services is reasonably firm and continuing over the contract period; and
- A multi-year contract will serve the best interests of the United States by encouraging full and open competition or promoting economy in administration, performance, and operation of agency programs.

In practice, multi-year contracting is rarely used by any agency other than the Department of Defense.

Reasons for Using Multi-Year Contracting (FAR 17.105-2). Reasons for multi-year contracting include:

- Lower costs;
- Enhanced standardization;
- Reduced administrative burden;
- Substantial continuity of production or performance (avoiding annual startup costs, preproduction testing costs, make-ready expenses, and phaseout costs);
- Contractor work forces stabilization;
- Avoidance of the need to establish quality control techniques and procedures for a new contractor each year;
- Broadened competitive base with opportunity for participation by firms not otherwise willing or able to compete for lesser quantities, particularly in cases involving high startup costs; and
- Increased incentives to contractors to improve productivity through investment in capital facilities, equipment, and advanced technology.

Congressional Notification (FAR 17.108). For the DoD, NASA, and Coast Guard, a multi-year contract which includes cancellation ceiling in excess of $100 million may not be awarded until the agency head gives written notification of the proposed contract and the proposed contract cancellation ceiling to the committees on armed services and appropriations of the House of Representatives and Senate.

For other agencies, a multi-year contract which includes a cancellation ceiling in excess of $10 million may not be awarded until the agency head gives written notification of the proposed contract and of the proposed cancellation ceiling to the appropriate agency oversight committees and the committees on appropriations of the House of Representatives and the Senate.

The contract may not be awarded until the thirty-first day after the required notification date.

Solicitation Requirements (FAR 17.106-2). Solicitations for multi-year contracts must identify all the factors that will be considered in offer evaluation, including:

- Requirements by item of supply or service for the:
  - First program year; and

  - Each program year of the multi-year contact.
- Criteria for comparing the lowest evaluated offer for the first program year requirements to the lowest evaluated offer on the multi-year requirements.
- A provision that permits the Government to only consider offers for the first-year requirement , if the Government determines before award that only those requirements are needed.
- A provision specifying a separate cancellation ceiling (on a percentage or dollar basis) and applicable dates for each program year subject to cancellation.
- A statement that award will not be made on less that the first year program requirements.
- If Government administrative costs of annual contracting will be considered in offer evaluation, they must be reasonably estimated and stated in the solicitation.

Never use the cancellation ceiling as an offer evaluation factor.

General Evaluation Requirements.

Step 1. Determine Solicitation Provisions.

The solicitation must identify all the factors related to multi-year contracting that will be considered in offer evaluation. Because the factors can be complex and vary substantially from contract to contract, you should take special care to assure that you understand all factors before you begin offer evaluation.

Step 2: Determine Offered Price(s).

Determine the price(s) for each offer for the first program year and each program year of the multi-year contact.

Step 3. Evaluate Possible Award Combinations.

Evaluate offers using the specific factors set forth in the solicitation, including criteria for comparing the lowest evaluated offer for the first program year requirements to the lowest evaluated offer on the multi-year requirements.

Step 4. Make Award Decision.

Award to the firm whose offer provides the best value to the Government under the terms of the solicitation.

5.6 Life-Cycle Costs

*Life-Cycle Cost (*FAR 7.101). Life-cycle cost is the total cost to the Government of acquiring, operating, supporting, and (if applicable) disposing of the items being acquired.

- Acquisition costs are all costs, including contract costs, associated with acquiring an item for Government use. For complex items, several contracts may be required and costs may involve research and development as well as production, delivery, and installation of the item.
- Operating and support costs are all costs, including contract costs, associated with equipment, supplies, and services needed to operate and maintain an operational system.
- Disposal costs are all costs, including contract costs, associated with removing equipment from service and disposing of it. Evaluations that consider life-cycle cost should also consider any significant salvage or resale value at the time of disposal.

When to Consider as a Price-Related Factor. Consider life-cycle cost in acquisition planning whenever the costs of item of system operation, support, and disposal are significant in comparison with the cost of acquisition. Consideration is particularly important when you expect that offers will include items that have substantially different operation, support, and disposal costs.

Source selection consideration can be appropriate for an item as simple as an automobile tire or as complex as a major weapon system. For more complex systems, planning should also address:

- Factors with a significant effect on life-cycle cost results, and implement tradeoff studies to evaluate alternative actions which could reduce costs related to those factors.
- Life-cycle costs in product design.
- Contract commitments (when appropriate) that will affect control of life-cycle cost results.

Follow-on efforts subsequent to purchase to further reduce life-cycle cost.

Solicitation Requirements. If you intend to consider life-cycle costs in offer evaluation, the solicitation must:

- Advise prospective offerors how life-cycle costs will be considered in making the contract award decision.
  - Award may be made based on lowest evaluated cost, including life-cycle costs, or life-cycle costs may be considered as a factor in an award decision that also considers other characteristics of the item or system.
  - When life-cycle costs continue over a period of years, solicitations will often provide for adjustments to consider one or more of the following:
  - Time value of money.
  - Cost uncertainty.
  - Inflation.
- Require offerors to estimate key elements of life-cycle cost. To estimate preparation, the solicitation must provide relevant information (e.g., projected item usage, operating environment, and the operating period that will considered in offer evaluation).
- Require offerors to provide relevant cost estimates along with appropriate information to support life-cycle cost estimates.
  - Estimate requirements typically include elements such as:
  - Average unit price, including (when appropriate) recurring and nonrecurring production costs;
  - Unit operating and support costs (e.g., manpower, energy, and parts requirements);
  - Unit disposal costs (e.g., the cost of removing equipment from the Government facility);
  - Unit salvage or residual value.
  - Related information should provide estimate support (e.g., test or operational data).

General Evaluation Requirements.

Step 1. Determine Solicitation Provisions.

When life-cycle costs will be considered as a price-related factor in offer evaluation, the solicitation must identify life-cycle cost estimate requirements, the information needed to support those estimates, and how those estimates will be considered in making the contract award decision.

Step 2: Determine Offered Price(s).

Determine the price(s) for each offer. Also identify and evaluate life-cycle cost estimates required for offer analysis. Ask questions such as the following:

- ***Is the estimating methodology reasonable and supported by the information provided?***
- ***Are the costs realistic when compared with other known information, including past cost performance?***
- ***Is the estimate complete in its consideration of all identified cost elements?***

Step 3. Evaluate Possible Award Combinations.

Evaluate offers using the specific criteria set forth in the solicitation, including any adjustments for:

- Time value of money;
- Cost uncertainty; or
- Inflation.

Step 4. Make Award Decision.

Award to the firm whose offer provides the best value to the Government under the terms of the solicitation.

5.7 Energy Conservation And Efficiency Factors

When to Consider as a Price-Related Factor (FAR 23.203). The cost of energy is an important cost of operating many items and systems. Accordingly, agencies must consider energy efficiency in the procurement of products and services. In particular:

- Acquisition team members must consider energy conservation and efficiency data along with estimated cost and other relevant factors in the preparation of plans, drawings, specifications, and other product descriptions.

Contracting officers should consider energy efficiency as a price related factor when the results would be meaningful, practical, and consistent with agency programs and needs. Consideration will be typically be most meaningful when you are contracting for items or systems that consume substantial amounts of energy.

Solicitation Requirements (FAR 23.202). When you intend to consider energy efficiency as price-related factor in offer evaluation, the solicitation:

- Must advise prospective offerors how energy efficiency will be considered in making the contract award decision.
  - Award may be made based on lowest evaluated cost, including energy cost, or energy cost may be considered as a factor in an award decision that also considers other technical characteristics of the item or system.
  - When energy costs continue over a period of years, solicitations will often provide for adjustments to consider one or more of the following:
  - Time value of money.
  - Cost uncertainty.
  - Inflation.
- Should (when applicable) advise prospective offerors about energy efficiency standards that prescribe a minimum level of energy efficiency for covered contract items.
- Should (when applicable) require offerors to provide product information from the energy use and efficiency labels that provide information on covered contract items (e.g., central air conditioners, clothes dryers, clothes washers, freezers, and room air conditioners).

General Evaluation Requirements (FAR 23.203).

Step 1. Determine Solicitation Provisions.

When energy cost will be considered as a price-related factor in offer evaluation, the solicitation must identify any cost information required from each offeror and state how energy costs will be considered in making the contract award decision.

Step 2. Determine Offered Price(s).

Determine the price(s) in each offer for each item or group of items being considered for contract award. Also assure that the offer contains the information required by the solicitation to evaluate energy-related factors in price analysis.

Step 3. Evaluate Possible Award Combinations.

Evaluate offers using the specific criteria set forth in the solicitation, including any adjustments for:

- Time value of money;
- Cost uncertainty; or
- Inflation.

Step 4. Make Award Decision.

Award to the firm whose offer provides the best value to the Government under the terms of the solicitation.

Evaluation Example.

Step 1. Determine Solicitation Provisions.

Assume that you are acquiring 1,000 hot water heaters with a 50 gallon capacity. Because of extreme hard water conditions in area water systems, technical personnel estimate useful life at five years.

The solicitation states that award will be made to the responsible offeror with a technically acceptable offer and the lowest evaluated price. It also includes the following provision:

> Award will be made to the firm whose offer will provide the lowest total discounted cost of acquisition and ownership to the Government during the first five years of operation, considering price and energy cost. Estimates of energy cost will be based on the energy use and efficiency label provided by the manufacturer under 42 U.S.C. 6296

Step 2. Determine Offered Price(s).

You received two offers. The prices shown below are for 1,000 units. Annual energy costs are total estimated costs for the 1,000 units. Energy costs are based on the projected hours of operation and the energy use and efficiency label figures provided by each offeror and are calculated as follows:

Offeror	Offer	Annual Energy Cost
1	$360,000	$560,000
2	$370,000	$520,000

Step 3. Evaluate Possible Award Combinations.

As stated in the solicitation provision, expenditures and receipts must be "discounted." In terms of your analysis, discounting refers to the financial concept of the time value of money. Under that concept, the net present value of a dollar paid (received) today is more than the net present value of dollar paid (received) at any future time, because the holder of the money can collect interest.

Net present value, will depend on the amount of the payment (receipt), the discount (interest) rate, and the time when the payment (receipt) will take place. For example:

- If you must pay one dollar today, the net present value of the payment is one dollar;

If you must pay one dollar one year from now and the discount (interest) rate is 10 percent, the net present value is $.90909. In other words, $.90909 invested at 10 percent interest will be worth approximately $1.00 at the end of one year.

Net present value analysis allows you to consider the time value of money in comparing alternatives with different expenditures/receipts at different points in time. Using net present value analysis, financial experts in your organization have calculated that the net present value of an annual energy cost for five years is the annual cost multiplied by 3.97581. The net present value of an annual cost of $1.00 for five years would be $3.97581 ($1 x 3.97581). The net present value of $100 for five years would be $397.581 ($100 x 3.97581). The net present value of $1,000 would be $3,957.81 ($1,000 x 3.97581).

In accordance with the solicitation provision, evaluate the offers by summing proposed price and net present value of the 5-year energy cost. Note that the energy cost for one year is greater than the price of the heaters.

Offeror	Offer	Net Present Value of 5-Year Energy Cost	Evaluated Price
1	$360,000	$560,000 x 3.97581 = $2,226,453.60	$2,586,453.60
2	$370,00	$520,000 x 3.97581 = $2,067,421.20	$2,437,421.20

Step 4. Make Award Decision.

Make award to the offeror with the lowest evaluated price, including consideration of annual energy-related costs for five years. In this case, Offeror 2 should receive the contract award.

5.8 Lease Vs. Purchase Factors

Lease vs. Purchase Decision (FAR 7.401). Agencies should consider whether to lease or purchase equipment based on a case-by-case evaluation of comparative costs and other factors.

- As a minimum, the acquisition team should consider the following factors:
  - Estimated length of time that the equipment will be used and the extent of use during that period;

    - Financial and operating advantages of alternative types of equipment;
    - Cumulative rental payments for the estimated period of use;
    - Net purchase price;
    - Transportation and installation costs;
    - Maintenance and other service costs; and
    - Potential obsolescence of the equipment because of imminent technological improvements.
- In addition, the acquisition team should consider the following factors (as appropriate) depending on the type, cost, complexity, and estimated period of equipment use:
    - Availability of purchase options;
    - Potential for use of the equipment by other agencies after its use by the acquiring agency;
    - Trade-in or salvage value;
    - Imputed interest; and
    - Availability of a servicing capability, especially for highly complex equipment.

When to Purchase (FAR 7.402(a)). Generally, the purchase method is appropriate if the equipment will be used beyond the point at which cumulative leasing costs exceed purchase costs. The acquisition team should not rule out equipment purchase, in favor of leasing, merely because future technological advances might make the selected equipment less desirable.

When to Lease (FAR 7.402(b)(2)). The lease method is appropriate when it is advantageous to the Government. The lease method may also serve as an interim measure when the circumstances:

- Require immediate equipment use to meet program or system goals; but
- Do not currently support acquisition by purchase.

When to Consider as a Price-Related Factor. Generally the lease vs. purchase decision is not made as part of an evaluation of competitive offers. Rather, it is made based on data collected especially for that purpose.

However, there are situations in which it may make sense to solicit such competition. For example, if equipment requires a unique maintenance capability, you might solicit competition to determine which alternative offers the best value, lease including maintenance or purchase with contract or in-house maintenance.

General Evaluation Requirements.

Step 1. Determine Solicitation Provisions.

The solicitation should define what costs you will consider in the award decision and how you will consider those costs. For example:

- Will you adjust a flow of expenditures over time for an imputed (assumed) cost of money?
- Will you adjust expenditure estimates to consider the probability of incurrence?

Step 2. Determine Offered Price(s).

Determine the price(s) in each offer for each item or group of items being considered for contract award. Also assure that each offer includes any other information required for offer evaluation.

Step 3. Evaluate Possible Award Combinations.

Evaluate offers using the specific criteria established in the solicitation.

Step 4. Make the Award.

Award to the firm whose offer provides the best value to the Government under the terms of the solicitation.

Evaluation Example.

Step 1. Determine Solicitation Provisions.

Assume that you have a requirement for material handling equipment to replace existing equipment that is beyond repair. Even with the new equipment, the present operating facility will close in 24 months. At that time, purchased equipment will be sold at auction. Rental equipment will be returned to the vendor. Because of the limited period of use, you are soliciting offers for lease as well as for purchase. You expect the operation and maintenance cost to be the same with all items offered, as a result you will only consider the costs related to acquisition and disposal.

The solicitation states that award will be made to the responsible offeror with a technically acceptable offer and the lowest discounted cost to the Government. It also includes the following provision:

> The Government will acquire the equipment identified in Section B by either lease or purchase. The method of acquisition and the successful offeror will be determined based on the lowest discounted total cost to the Government for acquisition and disposal. Operation and maintenance costs will not be considered in offer evaluation.

Step 2. Determine Offered Price(s).

Offers were received from two firms. One offer was based on Government purchase of the item, the other on Government lease. The proposed lease is for a two-year period.

Offer	**Government Expenditure Beginning of Year 1**	**Government Expenditure End of Year 1**
1 (Purchase)	$146,000	N/A
2 (Lease)	$70,500	$70,500*

* The lease payment is due at the beginning of each year. For analysis purposes, the beginning of Year 2 is the same as the end of Year 1.

Step 3. Evaluate Possible Award Combinations.

To evaluate the cost to the Government, you must consider all of the relevant costs and receipts that would result from purchase or lease of the equipment.

- **For the purchase**, there would be an expenditure of $146,000 at the beginning of Year 1 to purchase the equipment. There would also be a receipt at the end of Year 2 when the equipment is sold at auction. Your best estimate of the sale value is $6,000.

For the lease, there would be an expenditure at the beginning of Year 1 for the first 12-month lease cost. There would be a second expenditure at the end of Year 1 for the second 12-month lease cost. There would be no receipt or expense at the end of Year 2.

Offeror	Government Expenditure Beginning of Year 1	Government Expenditure End of Year 1	Government Receipt End of Year 2
1 (Purchase)	$146,000	N/A	$12,000
2 (Lease)	$70,500	$70,500	N/A

As stated in the solicitation provision, expenditures and receipts must be "discounted." In terms of your analysis, discounting refers to adjustment for the net present value of a dollar expenditure or receipt at a later time.

- A dollar spent at the beginning of Year 1 would not be adjusted.
- If the interest rate is 10 percent:
  - The net present value of $1.00 spent at the end of Year 1 would be $.90909 (i.e., $.90909 invested at 10 percent will be worth approximately $1.00 at the end of one year).

The net present value of a dollar to be spent or received at the end of Year 2 is $ .82645 (i.e., $.82645 invested at 10 percent will be worth approximately $1.00 at the end of two years).

Using the established values for net present value at the end of one year and at the end of two years, the net present value of the purchase and lease options would be:

Offeror	Government Expenditure Beginning of Year 1	Government Expenditure End of Year 1	Government Receipt End of Year 2	Evaluated Price
1 (Purchase)	$146,000	N/A	$9,917 ($12,000 x .82645)	$136,083
2 (Lease)	$70,500	$64,091 ($70,500 x .90909)	N/A	$134,591

Step 4. Make Award Decision.

Make award to the offeror with the lowest evaluated cost to the Government, Offeror 2.

5.9 Small Disadvantaged Business Price Evaluation Adjustment

Small Disadvantaged Business Price Evaluation Adjustment. (FAR 19.201(b) and 19.1101).

The small disadvantaged business price evaluation adjustment (PEA) is a price-related factor that may be applied in contract award decisions where a small disadvantaged business (SDB) concern is competing with one or more concerns that are not SDB. Joint ventures that include an SDB may also qualify for a price adjustment if they meet requirements identified in the FAR.

The Department of Commerce will annually determine the applicable PEA factor(s). A factor may apply to all SDB concerns offering items in a Major Group in the Standard Industrial Classification (SIC) manual or it may only apply to SDB concerns from identified regions of the country.

- The determination affects solicitations issued on or after the effective date of the determination. Ongoing acquisitions are not affected.
- The effective date of the determination must be no less that 60 days after its publication date.

Determinations are summarized on the Internet at http://www.arnet.gov/References/sdbadjustments.htm.

When to Consider as a Price-Related Factor (FAR 19.1102 and USD-DP(DAR) Memo, January 25, 1999-PDF format).

All competitive solicitations must provide for consideration of the applicable PEA set by the Department of Commerce (DoC) unless one of the following exemptions applies:

- The acquisition is:
  - Less than or equal to the simplified acquisition threshold;
  - Awarded pursuant to the 8(a) program;
  - Set aside for small business concerns; or
  - Set aside for HUBZone small business concerns.

Your agency has authority to deviate from the PEA requirement. For example, the Strom Thurman Defense Authorization Act for Fiscal Year 1999, prohibits the Department of Defense (DoD) from implementing the PEA requirement if the Secretary of Defense at the beginning of the fiscal year determines that the DoD achieved the 5 percent goal for SBD awards in the most recent fiscal year for which data are available.

Solicitation Requirements. (FAR 19.307(a)(1), 19.1104, 52.219-1, and 52.219-23).

Assure that the FAR Small Business Program Representations provision is inserted in any solicitation that exceeds the micro-purchase threshold when the contract is to be performed inside the United States, its territories or possessions, Puerto Rico, the Trust Territory of the Pacific Islands, or the District of Columbia. Among other things, this provision permits each offeror to represent that it is an SDB.

Review *http://www.arnet.gov/References/sbdadjustments.htm* to determine if a PEA applies to the SIC of one or more of the items included in a solicitation and the amount of the required adjustment. When a PEA applies to any solicitation item and the solicitation is not otherwise exempted from the requirement:

- Insert the FAR Notice of Price Evaluation Adjustment for Small Disadvantaged Business Concerns clause in the solicitation. If a PEA is authorized on a regional basis, insert the clause even if the place of performance is not in an authorized region.
    - Use Alternate I of the clause when the contracting officer determines that there are no SDB manufacturers that can meet the requirements of the solicitation. This alternate permits the contractor to provide end items manufactured by any small business instead of end items manufactured by an SDB as required by the basic FAR clause.
    - Use Alternate II of the clause when a price evaluation adjustment is authorized on a regional basis. This alternate only permits a PEA adjustment when it might affect award to an SDB in the designated region.

Assure that the appropriate PEA percentage is inserted into the FAR Notice of Price Evaluation Adjustment for Small Disadvantaged Business Concerns clause.

General Evaluation Requirements. (FAR 19.1103 and 52.219-1(b)(2)).

Step 1. Determine Solicitation Provisions.

The solicitation must identify all factors that will be considered in offer evaluation. In particular:

- Assure that the solicitation includes the FAR Notice of Price Evaluation Adjustment for Small Disadvantaged Business Concerns clause and the Small Business Program Representations provision.
- Review offeror representations to identify any SDB offerors.
- Identify the PEA percentage cited in the FAR Notice of Price Evaluation Adjustment for Small Disadvantaged Business Concerns clause.

- Identify any SDB offerors that have waived PEA use in offer evaluation. Offerors may waive use for many different reasons (e.g., inability to comply with requirements to obtain manufactured items from an SDB).

Step 2. Determine Offered Prices

Determine the price(s) in each offer for each item or group of items being considered for contract award.

Step 3. Evaluate Possible Award Combinations.

Evaluate offers using the specific criteria set forth in the solicitation. Add other evaluation factors (e.g., transportation costs or factors to consider rent-free use of Government facilities) to the offers before applying the price evaluation adjustment. In applying the PEA:

- As you evaluate offers, add the PEA factor cited in the FAR Notice of Price Evaluation Adjustment for Small Disadvantaged Business Concerns clause to all offers, except:
  - Offers from:
  - SDB concerns that have not waived the PEA; or
  - If the PEA for small disadvantaged business concerns is authorized on a regional basis, offers from small disadvantaged business concerns, whose address is in such a region, that have not waived the PEA;
  - Otherwise successful offers of eligible products under the Trade Agreements Act when the acquisition equals or exceeds the applicable FAR application dollar threshold;
  - Otherwise successful offers where application of the factor would be inconsistent with a Memorandum of Understanding or other international agreement with a foreign government;
  - For DoD, NASA, and Coast Guard acquisitions, otherwise successful offers from historically black colleges and universities or minority institutions; or
  - For DoD acquisitions (when PEA consideration is required), otherwise successful offers of qualifying country end products.

- Apply the PEA factor on a line item basis or apply it to any group of affected items on which award may be made.
- Do not evaluate offers using the PEA when it would cause award, as a result of this adjustment, to be made at a price that exceeds fair market price by more than the factor as determined by the Department of Commerce.

Step 4. Make Award Decision.

Award to the firm whose offer provides the best value to the Government under the terms of the solicitation.

(FAR 25.402 and 52.219-23(c), DFARS 225.000-70 and DFARS 252.225-7001)

Evaluation Example (FAR 19.1103, 52.219-1(b)(2), and 52.219-23(c)).

Step 1. Determine Solicitation Provisions.

Assume that the solicitation states that award will be made to the responsible offeror with a technically acceptable offer and the lowest evaluated price.

- It also includes the FAR Notice of Price Evaluation Adjustment for Small Disadvantaged Business Concerns clause and the Small Business Program Representations provision.
- The PEA cited in the solicitation is 10 percent.

Step 2. Determine Offered Price(s).

Three domestic offers were received. Offeror 1 is a large business, but not an SDB concern. Both Offeror 2 and Offeror 3 are SDB concerns. However, Offeror 3 has waived PEA use in offer evaluation.

Offeror	Evaluation Status	Offer
1	Large Business	$365,000

2	SDB -- No PEA Waiver	$401,500
3	SDB -- Waived PEA	$396,000

Step 3. Evaluate Possible Award Combinations.

Using the 10 percent PEA factor cited in the solicitation, the evaluated price for each offer is shown below:

Offeror	Offer	Price Evaluation Adjustment	Evaluated Price
1	$364,000	$365,000 x .10 = $36,400	$400,400
2	$401,500	- 0 -	$401,500
3	$396,000	$396,000 x .10 = $39,600	$435,600

Step 4. Make the Award.

Make award to the offeror with the lowest evaluated price, Offeror 1.

5.10 HUBZone Price Evaluation Preference

HUBZone Program (FAR 19.1301, 19.1305, 19.1306, and FAR 19.1307).

The Historically Underutilized Business Zone (HUBZone) Act of 1997 created the HUBZone Program (sometimes referred to as the HUBZone Empowerment Contracting Program). The purpose of the Program is to provide Federal contracting assistance for qualified small business concerns located in historically underutilized business zones, in an effort to increase employment opportunities, investment, and economic development in those areas.

HUBZone Program assistance in a particular contracting situation could involve either a:

- Full and open competition HUBZone price evaluation preference (PEP) following the guidelines presented in this section;
- HUBZone set-aside; or
- HUBZone sole source award.

Participating Agencies. Until September 30, 2000, only following agencies will participate in the HUBZone Program:

- Department of Agriculture.
- Department of Defense.
- Department of Energy.
- Department of Health and Human Services.
- Department of Housing and Urban Development.
- Department of Transportation.
- Department of Veterans Affairs.
- Environmental Protection Agency.
- General Services Administration.
- National Aeronautics and Space Administration.

On or after September 30, 2000, all Federal agencies that employ one or more contracting officers will participate in the Program.

When to Consider a HUBZone Preference (FAR 19.1304(f) and 19.1307(a)).

If you are in a participating agency, you must consider a PEP for HUBZone small business concerns in any acquisition conducted using full and open competition, unless:

- The acquisition is expected to be less than or equal to the simplified acquisition threshold;
- Price is not a selection factor (e.g., an architect-engineer acquisition);
- All fair and reasonable offers will be accepted (e.g., the award of multiple award schedule contracts); or
- The acquisition is for a commissary or exchange resale item.

Solicitation Requirements (FAR 13.307(a), 19.1308, 52.219-1, and 52.219-4).

If you are in a participating agency:

- Assure that the FAR Small Business Program Representations provision with its Alternate II is inserted in any solicitation that exceeds the micro-purchase threshold when the contract is to be performed inside the United States, its territories or possessions, Puerto Rico, the Trust Territory of the Pacific Islands, or the District of Columbia. Among other things, this provision permits each offeror to represent that it is a HUBZone small business concern.
- When you anticipate full and open competition, assure that the FAR Notice of Price Evaluation Preference for HUBZone Small Business Concerns clause is inserted in any solicitation that exceeds the micro-purchase threshold. This clause:
    - Informs prospective offerors that a 10-percent PEP will be considered in contract award;
    - Establishes guidelines that an offeror must meet to qualify for the evaluation preference, including related contract performance requirements; and
    - Permits the offeror to waive PEP consideration.

General Evaluation Requirements (FAR 19.1307 and 52.219-1(b)).

Step 1. Determine Solicitation Provisions.

The solicitation must identify all factors that will be considered in offer evaluation. In particular:

- Assure that the solicitation includes the FAR Notice of Price Evaluation Preference for HUBZone Small Business Concerns clause and the Small Business Program Representations provision with its Alternate II.
- Review offeror representations to identify any offeror representing that it is a HUBZone small business concern.
- Identify any HUBZone concern that has waived PEP consideration. Offerors may waive PEP consideration for many different reasons (e.g., inability to comply with requirements that at least 50 percent of all

manufacturing cost (excluding materials cost) will be performed by the contractor or another HUBZone small business concern).

Step 2. Determine Offered Prices

Determine the price(s) in each offer for each item or group of items being considered for contract award.

Step 3. Evaluate Possible Award Combinations.

Evaluate offers using the specific criteria set forth in the solicitation. As you evaluate offers consider the following PEP requirements:

- For each offer, calculate the base offer (BO). The BO is the total evaluated price considering **all** price-related evaluation factors (e.g., transportation cost, small disadvantaged business concern price evaluation adjustment (PEA), etc.) except the PEP.
- Calculate the final evaluated price.
    - For the following offers, the BO is the final evaluated price:
    - Offers from HUBZone small business concerns that have not waived the PEP;
    - Otherwise successful offers from small business concerns;
    - Otherwise successful offers of eligible products under the Trade Agreements Act when the acquisition equals or exceeds the applicable FAR dollar threshold; and
    - Otherwise successful offers where application of the factor would be inconsistent with a Memorandum of Understanding or other international agreement with a foreign government.
- For other offers:
    - If a PEA was added to the offered price in calculating the BO, calculate the final evaluated price as follows:

Final Evaluated Price = BO + [.10 x (BO - PEA)]

- If a PEA was not added to the offered price in calculating the BO, calculate the final evaluated price as follows:

Final Evaluated Price = BO + [.10 x BO]

Step 4. Make Award Decision.

Award to the firm whose offer provides the best value to the Government under the terms of the solicitation.

Evaluation Example (FAR 19.1103 and 52.219-1(b)).

Step 1. Determine Solicitation Provisions.

Assume the solicitation states that award will be made to the responsible offeror with a technically acceptable offer and the lowest evaluated price. It also includes the FAR:

- Notice of Price Evaluation Preference for HUBZone Small Business Concerns clause;
- Notice of Price Evaluation Adjustment for Small Disadvantaged Business Concerns; and
- Small Business Program Representations provision with its Alternate II.

Step 2. Determine Offered Price(s).

Four domestic offers were received. Offeror 1 is an SBD concern located in a HUBZone. Offeror 2 is an SDB not located in a HUBZone. Offeror 3 is a small business not located in a HUBZone. Offeror 4 is a large business. The HUBZone concern did not waive the PEP.

Offeror	Evaluation Status	Offer
1	HUBZone SBD	$220,000
2	SBD	$231,000
3	Small Business	$240,000

4	Large Business	$223,200

Step 3. Evaluate Possible Award Combinations.

A 10-percent PEA is only price-related factor that must be considered before PEP evaluation. The calculation of the final evaluated price is shown below:

Offeror	Offer	Base Offer (After PEA)	Final Evaluated Price
1	$220,000	$220,000	$220,000
2	$210,000	$210,000	$210,000 + [.10 x $210,000) = $231,000
3	$200,000	$200,000 + (.10 x $200,000) = $220,000	$220,000 + [.10 x ($220,000 - $20,000)] = $240,000
4	$186,000	$186,000 + (.10 x $186,000) = $204,600	$204,600 + [.10 x $186,000) = $223,200

Step 4. Make the Award.

Make award to the offeror with the lowest evaluated price, Offeror 1.

Evaluation Example Note. Suppose that the contracting officer rejected Offer 4 because Offeror 4 was nonreponsible. That would affect the remainder of the analysis because you must not add the PEP to an otherwise successful offer from a small business concern. The calculation of the final evaluated price is shown below:

Offeror	Offer	Base Offer (After PEA)	Final Evaluated Price
1	$220,000	$220,000	$220,000

2	$210,000	$210,000	$210,000
3	$200,000	$200,000 + (.10 x $200,000) = $220,000	$220,000 + [.10 x ($220,000 - $20,000)] = $240,000

Now Offeror 2 has the lowest evaluated price after all other price-related factors are considered.