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GSA Office of Government-wide Policy

Acquisition Alert AA-2022-02

MEMORANDUM FOR THE GSA ACQUISITION WORKFORCE

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SUBJECT: Guidance on Addressing Inflation in GSA Contracts

1. What is the purpose of this document?

This Acquisition Alert (AA) highlights various means the acquisition community has to address the impact of inflation on GSA contracts.

The FAS Office of Policy and Compliance, PBS Office of Acquisition Management, PBS Office of Leasing, or Office of Administrative Services may issue supplemental guidance, consistent with this memo, to further address strategies to address inflation in GSA contracts.

2. Why is there a need to emphasize this now?

Inflation and uncertain economic market conditions erode scarce contracting dollars, cause severe hardship on federal partners, and discourage new entrants from pursuing federal acquisition.

The acquisition workforce has both the authority and the tools to take action to mitigate the impact of inflation in federal contracts. Overall objectives should be around working with GSA contractors to reduce risk rather than shift risk from one party to the other.

3. What are some types of considerations to help with uncertain economic market conditions?

(a) Economic Price Adjustment (EPA) Considerations

In times of high inflation or strong economic uncertainty, use of an EPA clause is a mechanism to further balance risk between the contract parties. The contracting officer should consider including an EPA clause to hedge against significant fluctuations in labor or material costs.

An EPA clause adds additional administrative oversight and monitoring requirements to the post-award tasks of the acquisition team. When considering use of an EPA clause, ensure proper oversight will be available prior to use.

(i) Funding

If an EPA clause is included, a primary consideration will be funding implications and whether there will be funding available to support the EPA when executed. For example, funding considerations can be especially important in regards to contracts funded from specific sources

such as BA54 or reimbursable work authorization (RWA) BA80 funds.

(ii) Clause Language

Acquisition Letter [MV-22-02](#) (including Supplement 1) specifically addresses the EPA clause for Federal Supply Schedules (FSS). Outside of FSS, there are other EPA clauses that may be used to adjust price.

For example, Federal Acquisition Regulation (FAR) 16.203-4 provides clauses that may be used when EPA flexibility is contemplated. The FAR also allows for agency-prescribed EPA clauses when the FAR EPA clause (e.g., 52.216-2, 52.216-4) is deemed inappropriate. Acquisition teams must consider the appropriate clause based on their requirement and analysis of the market.

Sample EPA clause language is included in the appendix.

(iii) Contract Administration and EPAs

Many EPA clauses include indices. During contract administration, if the acquisition team learns that an index is not effectively tracking market fluctuations, the contracting officer may change the applicable index through a bilateral modification.

EPA clauses also provide for upward and downward revisions of the stated contract price (e.g., unit price). EPAs must be evaluated to ensure the request is justified and documented in the file. When the request is based on a previously agreed upon market indicator, the justification should be straightforward, as the contract price and market indicator have already been determined fair and reasonable. Sample EPAs are included in the appendix.

In a fixed-price contract lacking an EPA clause, the contractor is obligated to perform at the fixed-price, and can only recover for increases to the fixed price that are the result of changes or other actions/inactions by the Government. As a general rule, since inflation is not a government-directed change, it cannot form the basis for an equitable adjustment. However, if the inflated costs are the direct result of Government action (for example, when Government delays the work into a period when higher costs are encountered), compensation is appropriate.

(iv) Subcontracting Plans

Acquisition teams must consider that an EPA increase to the total contract value may trigger the subcontracting requirement at FAR 19.702(a)(1)(iii).

(b) Importance of Speed in Acquisition

In times of high inflation, the longer a contract award takes, the less purchasing power GSA has. For example, if inflation is running 10% a year, and GSA was given \$1,000,000 for a project, if the contracting activity awards in 3 months, GSA would have the equivalent of \$975,000 in purchasing power. Whereas if it took the contracting activity 9 months to award, the purchasing power would shrink to \$925,000.

Considering the potential impact of inflation, contracting activities are strongly encouraged to use contract vehicles that streamline procedures and simplify acquisitions. Existing GSA purchasing program vehicles make it easier than ever to streamline procurement actions, resulting in shorter procurement lead times. Programs such as:

- [GSA Multiple Award Schedules](#)
- Professional services-focused Indefinite Delivery Indefinite Quantity (IDIQ) contracts such as [OASIS Small Business and OASIS 8\(a\)](#).
- Technology-focused Government-wide Acquisition Contracts (GWACs) such as [8\(a\) STARS](#), [VETS 2](#), and [Polaris](#)¹ Small Business
- And [many others](#)

GSA Multiple Award Schedules and IDIQs are designed to greatly reduce the time it takes to make an award. To maximize the time savings, COs should not apply FAR 15 procedures to buys against these streamlined vehicles or unnecessarily complicate evaluation considerations. COs are encouraged to make use of procedures, such as oral presentations, to address contractor capability quickly and efficiently.

(c) Benefits of Shorter Contracts

At GSA, it is common for contracts to be awarded for a total period of performance up to 5 years (or 60 months). For PBS specifically, in the facilities area it is not unusual to establish Blanket Purchase Agreements (BPAs) up to 10 years (or 120 months²).

In times of economic uncertainty, contracts extending over a relatively long period (e.g., greater than 5 years (or 60 months) may not be the best decision for either the contractor or GSA. The economic uncertainty and unpredictability may result in very high prices in order to accommodate for significant spikes in market pricing, or may result in less competition due to contractors not being willing to take on risk over such a long contract period³.

Therefore, acquisition planners are encouraged to consider reducing the total period of performance for acquisitions in order to help contractors more reasonably predict costs and not take on so much risk.

4. Who should I talk to if I need to utilize one of the considerations above?

Consistency in application of an EPA clause needs to be a priority so that contractors competing for or performing on various GSA contracts understand how the EPA will work regardless of region.

Consult with your budget office if introducing EPA clauses in programs which have not previously had such a clause. For other concerns on EPA clauses, consult with your Office of

¹ Once awarded

² Utilizing [PBS Class Deviation \(CD\) 2021-01](#)

³ In addition, FFP contracts, regardless of length, are only possible when the contractor is willing to accept such a contract representing the assumption of the risks involved. The combination of very lengthy contracts, and unwillingness of contractors taking on the risk of FFP contracts in an uncertain economic market environment, may negatively impact GSA's ability to attract diverse competition.

General Counsel.

For increasing the speed of acquisition, consider connecting with the GSA Acquisition Policy Division at GSARPolicy@gsa.gov and we can help provide streamlined language and samples, or connect you with your Acquisition Innovation Advocate.

For shorter contracts, as with acquisition planning for any requirement, analyze the benefits and risks with the complete acquisition team.

In all cases, don't hesitate to request feedback from industry during market research to determine which consideration (or other strategies) may work best for your specific requirement.

5. Where can I learn more?

The appendix provides sample clause language and EPAs that acquisition teams may use. The samples are purely illustrative, and acquisition teams should use the samples provided to help build strategies for their specific requirements.

Additionally, the FAS Office of Policy and Compliance, PBS Office of Acquisition Management, PBS Office of Leasing, or Office of Administrative Services may issue supplemental guidance that provides more specific guidance, examples, and processes specific to the Service-office

6. Questions?

Questions about this AA can be sent to GSARPolicy@gsa.gov. For questions specific to implementing these strategies into your specific requirement, please contact your Service-level policy office or assigned legal counsel.

Appendix

- Appendix A: [Sample of Economic Price Adjustment Clause Language](#)
- Appendix B: [Sample of Upward Economic Price Adjustment](#)
- Appendix C: [Sample of Downward Economic Price Adjustment](#)
- Appendix D: [Sample of No Economic Price Adjustment](#)

Appendix A Sample Economic Price Adjustment (EPA) Clause Language

The below language may be included in the solicitation for offerors to complete, or may be pre-completed by GSA and included with the solicitation or resultant contract.

Note that the FAR EPA clauses (i.e., 52.216-2 and 52.216-3) have fill-ins for offerors to complete.

Adding an example of the calculations as part of the solicitation is strongly recommended.

Material eligible for an EPA should be limited and consistent with market conditions.

This language must not be used or modified into any current contract without consulting with your assigned legal counsel.

The Government estimates that, solely for the purposes of any future EPA calculation, the material⁴ listed at “A” in the chart below represents 17%⁵ of the total price. Once the offer is accepted, the index monitor mechanism (or “C” in the chart below) is the reference point for calculating future adjustments (upward or downward). The aggregate of the increases (or decreases) to the Total Line Item Amount under this clause shall not exceed 10 percent of the original Total Line Item Amount.

EPA applies only if the material at “A” changes upward by “D” or downward by “E”.

The worksheet must be completed as the means for a future economic price adjustment, if applicable. Only material identified in this worksheet is eligible for an EPA.

- A. _____ (Material)
- B. _____ (Price per unit of measure at time of award)⁶
- C. _____ (Index monitor mechanism)
- D. _____ (Upward adjustment from B trigger percentage)
- E. _____ (Downward adjustment from B trigger percentage)

⁴ This sample language can be modified for use in labor adjustments, as opposed to material adjustments, as applicable. Labor indices that could potentially be used include the Bureau of Labor Statistics (BLS) Producer Price Index, or the Employment Cost Index.

⁵ This percentage must be updated by the acquisition team after conducting market research, reviewing historical costs, and preparation of the independent Government estimate. The number listed in the sample language is hypothetical, and used for example purposes only.

⁶ In contracts that do not require submission of certified cost or pricing data, the contracting officer shall obtain adequate data to establish the base level from which adjustment will be made and may require verification of data submitted.

F. _____ (Trigger percentage time measurement)

G. _____ (Contractor notification timing)

Total Line Item Amount: _____ (Fixed-Price)

Monthly adjustments submitted by the contractor must include documentation directly from the index monitor mechanism matching the information provided by the contractor.

The six month measurement period is on a rolling basis.

Any upward adjustment may be invoiced as soon as a modification to add the upward adjustment amount has been completed. In any case, modifications should be completed within 45⁷ days.

Any downward adjustment amount(s) will be removed from the final invoice of the applicable period of performance.

⁷ The number listed in the sample language is hypothetical, and used for example purposes only.

Appendix B
Sample of Upward Economic Price Adjustment

- A. Lumber (Material)
- B. \$1.00/Board Foot (Price per unit of measure at time of award)
- C. Producer Price Index (PPI) (Commodity: Lumber/Wood) (Index monitor mechanism)
- D. 7.5% or over (Upward adjustment from B trigger percentage)
- E. -7.5% or over (Downward adjustment from B trigger percentage)
- F. Every six months (Trigger percentage time measurement)
- G. Monthly (Contractor notification timing)

Total Line Item Amount: \$100,000 Fixed-price

Sample Application

The contract is awarded July 1. On August 1, and monthly thereafter, the contractor submits notification to the contracting officer regarding any change in the index monitor mechanism (“C” in the chart).

From July 1 to August 1, the PPI for the commodity increased .08%.
From August 1 to September 1, the PPI for the commodity increased 1.4%.
From September 1 to October 1, the PPI for the commodity increased 2.5%.
From October 1 to November 1, the PPI for the commodity decreased -1%.
From November 1 to December 1, the PPI for the commodity increased 4.5%.
From December 1 to January 1, the PPI for the commodity increased 2.7%.

Six Month calculation (“F”) = 10.18%.

Therefore, the unit price has increased \$0.10 (\$1.00 increased by 10.18%).

Increase in material price of 10.18%. The six month change is above the upward trigger amount (“D”).

The material represents 17% of the total line item price.

$17\% \times \$100,000 = \$17,000$ [% this material multiplied by the total line item amount]

$\$17,000 \times 10.18\% = \$1,730.60$ [Increase the funded line item by \$1,730.60 for the EPA.]

Appendix C
Sample of Downward Economic Price Adjustment

- A. Lumber (Material)
- B. \$1.00/Board Foot (Price per unit of measure at time of award)
- C. Producer Price Index (PPI) (Commodity: Lumber/Wood) (Index monitor mechanism)
- D. 7.5% or over (Upward adjustment from B trigger percentage)
- E. -7.5% or over (Downward adjustment from B trigger percentage)
- F. Every six months (Trigger percentage time measurement)
- G. Monthly (Contractor notification timing)

Total Line Item Amount: \$100,000 Fixed-price

Sample Application

The contract is awarded July 1. On August 1, and monthly thereafter, the contractor submits notification to the contracting officer regarding any change in the index monitor mechanism (“C” in the chart).

From July 1 to August 1, the PPI for the commodity increased .08%.
From August 1 to September 1, the PPI for the commodity increased .02%.
From September 1 to October 1, the PPI for the commodity decreased -3.75%.
From October 1 to November 1, the PPI for the commodity decreased -3.25%.
From November 1 to December 1, the PPI for the commodity increased .07%.
From December 1 to January 1, the PPI for the commodity decreased -1.70%.

Six Month calculation (“F”) = -8.53%.

Therefore, the unit price has decreased \$0.09 (\$1.00 decreased by -8.53%).

Decrease in material price of -8.53%. The six month change is above the downward trigger amount (“E”).

The material represents 17% of the total line item price.

$17\% \times \$100,000 = \$17,000$ [% this material multiplied by the total line item amount]

$\$17,000 \times -8.53\% = -\$1,450.10$ [Decrease the funded line item by \$1,450.10 for the EPA.]

Appendix D
Sample of No Economic Price Adjustment

- A. Lumber (Material)
- B. \$1.00/Board Foot (Price per unit of measure at time of award)
- C. Producer Price Index (PPI) (Commodity: Lumber/Wood) (Index monitor mechanism)
- D. 7.5% or over (Upward adjustment from B trigger percentage)
- E. -7.5% or over (Downward adjustment from B trigger percentage)
- F. Every six months (Trigger percentage time measurement)
- G. Monthly (Contractor notification timing)

Total Line Item Amount: \$100,000 Fixed-price

Example Application

The contract is awarded July 1. On August 1, and monthly thereafter, the contractor submits notification to the contracting officer regarding any change in the index monitor mechanism ("C" in the chart).

From July 1 to August 1, the PPI for the commodity increased 0.07%.
From August 1 to September 1, the PPI for the commodity increased 0.02%.
From September 1 to October 1, the PPI for the commodity increased 0.04%.
From October 1 to November 1, the PPI for the commodity increased 1.25%.
From November 1 to December 1, the PPI for the commodity increased 2.25%.
From December 1 to January 1, the PPI for the commodity increased 0.09%.

Six Month calculation ("F") = 3.72%.

Therefore, the unit price has increased \$0.04 (\$1.00 increased by 3.72%).

Increase in material price of 3.72%. The six month change is below the upward trigger amount ("E").

There is no EPA adjustment.