

Management Instruction

Economic Pay Adjustments for Highway and Inland Domestic Water Contracts

This management instruction establishes guidelines and procedures for making economic pay adjustments for regular and temporary highway and inland domestic water contracts. Contracts for box delivery and combination routes may be adjusted as costs are incurred in accordance with these guidelines. For transportation routes, contracts with terms of 2 years or less may not be adjusted. Contracts for transportation routes with terms greater than 2 years may be adjusted as indicated in these guidelines. A matrix is attached to these instructions that shows box delivery/combination routes versus transportation route adjustments.

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1 Policy

11 General

Section 5005(b)(1) of Title 39, U.S. Code, provides that the Postal Service, with the consent of a mail transportation supplier, may adjust the rate of compensation allowed under a contract because of increased or decreased costs resulting from changed economic conditions occurring during the term of the contract. It is Postal Service policy to allow regular and temporary highway and inland domestic water transportation suppliers an adjustment in the rate of compensation when changed economic conditions or operational requirements occur over which the supplier has little or no control, subject to the provisions of this management instruction.

12 Scope

This management instruction applies only to adjustments in the rate of compensation due to changed economic conditions or operational requirements. Adjustments because of significant service changes must be negotiated between the supplier and the contracting officer and put in writing before the changes are made.

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ACRONYMS AND DEFINITIONS

CBA — collective bargaining agreement

CO — contracting officer

COR — contracting officer's representative

cost statement — another term for PS Form 7463

CPIW — Consumer Price Index for urban wage earners

DN — Distribution Networks

economic adjustments — adjustments made due to changed economic conditions (not due to operational requirements or significant service changes)

HCR-TPC — highway contract route transportation pay cycle

PM — Purchasing Manual

PS Form 7463 — Cost Statement — Highway Transportation Contracts

SCA — Service Contract Act

ST-CMC — Surface Transportation Category Management Center

This management instruction does not apply to emergency contracts, except as specifically stated in other sections of this management instruction. Refer questions relating to the interpretation of these instructions that cannot be resolved by a Distribution Networks (DN) contracting officer to the manager of Surface Transportation Category Management Center (ST-CMC).

2 Authority

21 General

The contracting officer (CO) or the contracting officer's representative (COR) is responsible for approving or disapproving all contract compensation adjustments covered by this management instruction. The ST-CMC manager is responsible for conducting periodic reviews of contract adjustments at the DNs through the Supply Management Review for Excellence Program. The COR may approve adjustments up to 10 percent of the annual contract rate. Adjustments exceeding 10 percent must be approved by the CO. Adjustments made under the provisions of these guidelines may be made only with the consent of the supplier except for exceptions noted in other sections of this document and stated in the contract.

22 Criteria for Approval

The supplier's full request for economic adjustment may be granted if:

221 For Box Delivery and Combination Routes

- a. The requested amount is less than or equal to the allowable amount, or
- b. The supplier has completed the appropriate section of PS Form 7463, *Cost Statement — Highway Transportation Contracts* (also called the cost statement), requesting that the CO grant the maximum adjustment based on either:
 1. The Consumer Price Index — Urban Wage Earner (CPI) numbers available when the adjustment is processed, or
 2. The application of a new wage determination. Economic adjustments due to the application of new wage determinations occur only as a result of the determination of minimum prevailing Service Contract Act (SCA) wages and fringe benefits applicable at the beginning of a renewal period, or when an increased or decreased wage determination is otherwise applied to the contract and becomes applicable to the contract by operation of law, and the supplier increases or decreases wages or fringe benefits of employees working on the contract in order to comply with

the SCA. Such adjustments are determined in accordance with the Postal Service *Purchasing Manual (PM)* Clause 9-12, Fair Labor Standards Act and Service Contract Act — Price Adjustment (January 1997).

The criteria for fuel adjustments are addressed in section 62.f.

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For Transportation Routes

The supplier's full request for economic adjustment may be granted if:

- a. The requested amount is less than or equal to the allowable amount.
- b. The supplier has completed the appropriate section of PS Form 7463, *Cost Statement — Highway Transportation Contracts* (also called the cost statement), requesting that the CO grant the maximum adjustment based on the application of a new wage determination. Economic adjustments due to the application of new wage determinations occur only as a result of the determination of minimum prevailing Service Contract Act (SCA) wages and fringe benefits applicable at the beginning of a renewal period, or when an increased or decreased wage determination is otherwise applied to the contract and becomes applicable to the contract by operation of law, and the supplier increases or decreases wages or fringe benefits of employees working on the contract in order to comply with the SCA. Such adjustments are determined in accordance with Postal Service *Purchasing Manual (PM)* Clause 9-12, Fair Labor Standards Act and Service Contract Act — Price Adjustment (January 1997).
- c. For contracts with terms of up to 2 years, the supplier must consider any off-year CBA costs as part of the contract award or renewal rate.
- d. For contracts with terms beyond 2 years, SCA/CBA adjustments will be made as required by statute (but not more frequently than every 2 years).
- e. The criteria for fuel adjustments are addressed in section 62.f.

Requests for less than the allowable amount may not be adjusted upward.

3 Basic Principles

The following basic principles apply to the adjustment process:

- a. A request for an adjustment in the rate of compensation may be initiated by the supplier or the Postal Service. Postal Service-initiated adjustments other than those related to the cost of fuel are limited to the amount of increases granted during the term of the contract. Any exception to the above policy must be stated in the contract.

- b. To be eligible for an economic adjustment, the supplier must submit, prior to the contract award, a completed PS Form 7468-A, *Highway Transportation Contract Bid or Renewal Worksheet*.
- c. PS Form 7463 is designed to identify the supplier's operating cost items at the beginning and end of the period for which an adjustment is requested. To receive consideration for an adjustment in compensation, the supplier must provide documented evidence of actual increased costs on those items requiring documentation.
- d. Cases involving suspected fraud require the CO to submit a written report, accompanied by supporting evidence, to the ST-CMC manager. The manager may refer the file to the Office of the Inspector General for review and investigation.
- e. When a completed PS Form 7463 is submitted to the CO, it becomes the basis not only for the requested adjustment but also for comparison with future costs.
- f. The Postal Service will not allow a contract rate adjustment for the purpose of recovering a deficiency in income in cases where the proposal or renewal price was predicated on revenue to be derived from other sources that did not materialize or that did materialize but were later lost.
- g. The supplier is expected to conduct an efficient operation and provide equipment that reflects favorably on the Postal Service's image."
- h. Fixed-price contracts: In those instances where the Postal Service and the supplier enter into a fixed-price contract, risk related to increased costs, except as specified in the contract, will be the responsibility of the supplier. If the supplier initiates operational or other business changes that improve efficiency and/or performance, the resulting cost reductions will be for the benefit of the supplier. However, in those instances where improvements require operational or contractual changes, the Postal Service must approve the impact on operations and/or the change. The resulting savings will be shared between the Postal

Service and the supplier based on a negotiated agreement (see *Purchasing Manual* section 2.2.10).”

4 **Limitations and Restrictions**

41 **Adjustments**

Adjustments are allowed only for cost changes that occur during the contract term or as otherwise specified in this management instruction.

42 **Proposal Errors**

Proposal errors or omissions in the supplier’s cost statement are the responsibility of the supplier. The Postal Service does not allow adjustments for them, except as discussed in chapter 4 of the *Purchasing Manual*.

43 **Eligibility Periods**

431 **Box Delivery and Combination Routes**

Adjustments are not allowed before the beginning of the 14th highway contract route transportation pay cycle (HCR-TPC) after proposal closing or the beginning of the 8th HCR-TPC in which the renewal was effective after the effective date of the contract renewal and not before the beginning of the 14th HCR-TPC (including the HCR-TPC of the last effective adjustment) thereafter, except that one-line adjustments may be allowed as stated in section 44. The CPIW comparison date on a novated or subcontracted contract is the same as the previous supplier’s comparison date.

432 **Transportation Routes**

For contracts with terms of greater than 2 years, the supplier may be eligible for one contract adjustment beginning with the first day of the third year of the contract. Requests for adjustments must be submitted to the contracting officer (CO) no later than 60 days prior to the end of the second year of the contract term and will become effective the first day of the third year of the contract. Adjustments to the cost statement will not be retroactive.

44 One-Line Adjustments

One-line adjustments must be processed and approved as outlined in section 6 of this management instruction. In instances where a one-line adjustment will result in a changed cost to another line item, the affected line item(s) (e.g., change in equipment, fuel cost, or insurance (gross receipts) may also be adjusted. Adjustments that increase or decrease the supplier's compensation may be processed as one-line adjustments due to the changed conditions listed below:

- a. Fuel price changes. Adjustments are made in accordance with the fuel purchase plan.
- b. The application of a new wage determination. Economic adjustments due to the application of new wage determinations occur only as a result of the determination of minimum prevailing SCA wages and fringe benefits applicable at the beginning of a renewal period, or when an increased or decreased wage determination is otherwise applied to the contract and becomes applicable to the contract by operation of law, and the supplier increases or decreases wages or fringe benefits of employees working on the contract in order to comply with the SCA. Such adjustments are determined in accordance with PM Clause 9-12, Fair Labor Standards Act and Service Contract Act — Price Adjustment (January 1997). Note that contracts of fewer than 2 years are not eligible for increases in SCA wages and fringe benefits. Suppliers should consider any collective bargaining agreement "off-year" costs as part of the original price proposal.
- c. Insignificant minor service changes that affect one line item.
- d. Adjustments to documented line items. Where applicable, documented line items may be adjusted as part of a regular economic pay adjustment or in conjunction with a, b, and c above or with a negotiated service change. For box delivery and combination routes, adjustments to documented line items will be retroactive to the date costs were incurred provided that the supplier notified the CO of increases within 60 days of the supplier's knowledge of increases. For Transportation routes, adjustment will be effective in accordance with section 43 above.

45 Unanticipated Costs

For box delivery and combination routes, all adjustments during the first 13 HCR-TPCs of a new contract, or during the first 7 HCR-TPCs of a renewal contract, are further restricted to those items that could not have been reasonably anticipated at the time of the proposal submission or contract renewal, whichever is later. Adjustments in rate of compensation during the first 7 or 13 HCR-TPCs for any reason other than those listed in section 44 may be made only with the prior written approval of the ST-CMC manager.

For transportation routes, for contracts with terms of 2 years or less, the supplier must include all costs in the contract award or renewal rate. For contracts with terms longer than 2 years, one adjustment may be made to the contract after it has been in effect for 2 years, in accordance with section 62 of this document.

46 Nonallowable Increases

Nonallowable increases consist of:

- a. Cost increases for items that were omitted in the original or renewal cost statement.
- b. Increased labor cost resulting from a supplier's choice to hire a driver or supervisor in lieu of personal operation during the term of the contract, except as provided for in q(4) of section 62.
- c. Rate of pay on emergency contracts. Quarterly adjustments may be made to emergency contracts as described in section 62.f.

47 Adjustment Limits

For box delivery and combination routes, contract adjustment limits are as follows:

- a. Adjustments in the rate of compensation for PS Form 7463, lines 1b, 5, and 17, are limited to an amount that does not exceed the CPIW percentage change.
- b. Adjustments in the rate of compensation for non-CPIW line items are limited to the actual cost changes documented by the supplier.

For transportation routes, the contract is not eligible for adjustments in the rate of compensation for PS Form 7463, lines 1b, 5, and 17.

5 Initiating the Request

51 Supplier Responsibility

To initiate an adjustment request, the supplier must complete and submit PS Form 7463 and the required documentation to the CO.

Note: PS Form 7463 is available from the CO upon request. The supplier should verify the information in column I upon receipt.

52 Postal Service Responsibility

521 **Completion and Verification of PS Form 7463**

Upon receipt of the request for adjustment PS Forms 7463, the CO will forward the forms to the supplier within 5 working days, with PS Form 7463, column I, completed to show (whichever is later):

- a. The last approved cost and the CPIW number used in developing the current column I, or
- b. The CPIW number in effect the month prior to the date of proposal closing or renewal.

Other pertinent Postal Service forms are to be sent to the supplier at this time. The CO will also advise the supplier of the CPIW number available when the PS Forms are mailed and alert the supplier to verify column I.

522 **Review of PS Form 7463**

When completed PS Forms are received from the supplier, the CO must verify them through an itemized comparison with the last approved PS Form 7463.

523 **Analysis and Approval of Adjustment(s)**

After a specialist completes an initial review of the adjustment(s), the CO's designee must review the entire file. The CO or COR, as appropriate, must approve or disapprove the adjustment(s). The CO is responsible for ensuring that the adjustment file contains all Postal Service forms, correspondence, and documentation concerning the request.

524 **Documentation of Adjustments**

Each file must contain an itemized summary showing the reason for each non-CPIW-changed line item.

6 **Processing the Request**

61 Processing of Requests

It is the intent of the Postal Service to process adjustment requests in a timely manner. However, the adjustment process cannot begin until after receipt of pertinent documentation. A PS Form 7463 is required for all adjustments other than fuel. For fuel adjustments, written documentation is required (via letter, fax or e-mail).

62 Analyzing PS Form 7463

PS Form 7463 analysis consists of the following:

a. *Item 1.*

1. *Item 1A, Vehicle Cost.*

- (a) The annual vehicle cost should reflect the sum of the depreciation and the interest paid on the vehicle(s) purchased or leased as shown on the last approved cost statement.
- (b) The vehicle cost is adjustable on box delivery and combination routes only. The annual cost of each vehicle is subject to individual adjustment only when replacement equipment is placed in service on the route. The value of the replacement equipment must exceed the present value in order for the additional compensation to be considered. When a supplier changes equipment on the route, the allowable increase is determined as follows:
 - (i) Identify whichever is the later of:
 - a) The CPIW number used in computing the most recent adjustment due to replaced equipment, or
 - b) The CPIW number of the month prior to the solicitation proposal closing date.
 - (ii) Establish the percentage change formula using the procedure in section 632.
- (c) If the supplier agrees, use CPIW computation dates that will yield less than the maximum dollar adjustment which the supplier may otherwise be eligible. As an example, based on previous adjustments for equipment changes, the supplier may be eligible to use a comparison period from August 1996 to August 2001. To keep the contract rate competitive, the supplier may use a comparison period that will produce a total dollar increase that is less than the period cited above (e.g., August 1996 to August 2000). The maximum adjustment to which the supplier will be entitled; however, may not exceed the amount determined by the CPIW computation.

Exception: The ST-CMC manager may authorize the CO to approve an increase in excess of CPIW for equipment replacement cost (purchased or leased) in unusual or unique situations. The supplier must provide complete documentation justifying an exception.
- (d) All replacement equipment involved in requests for economic cost adjustment must be properly documented and inspected as directed by the CO.

- (e) A supplier may be granted an increase in the cost of leased equipment, provided that such an increase has actually been incurred. However, the allowable amount of the adjustment is limited to the same guidelines as outlined in section 62.
 - (f) The approved annual cost divided by the annual miles equals the new rate per mile. The rate per mile (unit cost) will be carried out five decimal places.
2. *Item 1B, Operational Cost.* This includes cost of repairs, repair labor, tires, and other miscellaneous operational costs not carried in other line items on this form. For box delivery and combination routes only, an allowable increase in this line is the amount determined by using procedures outlined in section 63. (No documentation is required.)
- b. *Item 2 Taxes.* This is for personal property taxes for vehicles to be used on the route or other business taxes specifically required to operate the mail transportation business. Documentation, such as a tax receipt or tax bill, is required. For box delivery and combination routes, the contract may be adjusted for increases in taxes with appropriate documentation. Transportation routes with contract terms for less than 2 years are not eligible for an adjustment. The Postal Service may negotiate an adjustment for expenses incurred after 2 years for federal, state or local assessments when knowledge of the increase was unknown or could not reasonably have been known by the supplier at the time of contract award/renewal. Documented requests must be made 60 days prior to the last day of year 2 of the contract and will become effective on the first day of year 3 of the contract. The supplier will not be eligible for another adjustment for at least 2 years.
 - c. *Item 3, Vehicle Registration.* This should show registration fees for all vehicles used on the route. For box delivery and combination routes, the contract may be adjusted for increases in vehicle registration with appropriate documentation. Transportation routes with contract terms for less than 2 years are not eligible for an adjustment. The Postal Service may negotiate an adjustment for expenses incurred after 2 years for federal, state or local registration fees when knowledge of the increase was unknown or could not reasonably have been known by the supplier at the time of contract award/renewal. Documented requests must be made 60 days prior to the last day of year 2 of the contract and will become effective on the first day of year 3 of the contract. The supplier will not be eligible for another adjustment for at least 2 years.
 - d. *Item 4, Miscellaneous.* This is for listing miscellaneous expenses associated with the annual cost (not contract term cost) for the service. This line item is not adjustable.

e. *Item 5, General Overhead Cost.* General overhead includes all management expenses not included in other line items. Included are general supervision and all related supervisory costs (not included in line item 17) such as telephone, office expenses, garage rents, parking fees, bulk fuel handling cost, terminal cost, interest and insurance (except interest and insurance on vehicles, etc.). An allowable adjustment (for box delivery and combination routes only) in this line item is the amount determined by using procedures outlined in section 631. (No documentation is required.)

f. *Item 6, Fuel.* When directed by the contracting officer, the supplier agrees to purchase all of its fuel for its contracted service or accept compensation for fuel in accordance with the document titled Fuel Management Program.

Details discussing the specific processes for fuel cost calculations are contained in the document titled Fuel Management Program.

g. *Item 7, Oil.* Base the adjustment for the cost of oil on documented unit cost.

h. *Item 8, Insurance.* For box delivery and combination routes, the contract may be adjusted for increases in insurance with appropriate documentation. Transportation routes with contract terms for less than 2 years are not eligible for an adjustment to insurance. For transportation contracts with terms greater than 2 years, documented requests must be made 60 days prior to the last day of year 2 of the contract and will become effective on the first day of year 3 of the contract. The supplier will not be eligible for another adjustment for at least 2 years.

Adjustments will be determined based on the following:

1. *General.* This item is the cost of insurance on vehicles used in the performance of service on the route. (Insurance coverage carried by suppliers for terminal facilities, keyman insurance coverage, etc. should be included in Item 5, General Overhead Cost.) The adjustment will be allowed only when there is an increase or decrease in cost of "same coverage" as reflected in the last approved cost statement (see Realignment). Cost of additional coverage purchased at the option of the supplier is not allowable. Also, no adjustment will be allowed for the higher cost of insurance caused by the supplier's high accident rate or other actions within the reasonable control of the supplier that result in increased premiums.
2. *Documentation.* The supplier is required to document both previous and current insurance cost. Policies must be provided that reflect amounts and types of coverage and premium cost identifying vehicles used on the route.

3. *Gross Receipts*. The CO allows an adjustment of a supplier's insurance cost when the policy cost is based on a percentage of the supplier's annual gross receipts and the request for an insurance adjustment is accompanied with a request for any adjustment that changes the annual rate. In computing the amount of increased insurance cost, use the following procedure:

- Step 1 Determine the total of column III of PS Form 7463 exclusive of insurance. (Insurance cost may be included, however, provided that the supplier provides proof that the insurance carrier uses insurance cost in developing total insurance cost).
- Step 2 Identify the documented gross receipts insurance rate per \$100 and change to a decimal equivalent.
- Step 3 Subtract decimal equivalent of insurance premium rate (e.g., 7.05 percent converted to .0705) from decimal equivalent of gross adjustment base (100 percent expressed as 1.0000).
- Step 4 Determine the new contract rate by dividing step 1 by 3.
- Step 5 The difference between amounts in steps 4 and 1 is the allowable insurance cost.
- Step 6 The new contract rate multiplied by the gross receipts insurance rate (expressed as a decimal) must equal the allowable insurance cost found in section 62.h(3), step 5.

Example:

- Step 1 Total of column III of PS Form 7463 exclusive of insurance cost = \$47,904.00
- Step 2 Documented gross receipts insurance rate = \$7.05 per \$100.00
Expressed as a decimal equivalent (move decimal 2 places to the left) = .0705
- Step 3 1.000 less .0705 = .92950
- Step 4 New contract rate = \$47,904.00 divided by .92950 = \$51,537.00
- Step 5 Allowable insurance cost = \$51,537.00 less \$47,904.00 = \$3,633.00
- Step 6 \$51,537 x .0705 = \$3,633.00

Note: The procedure described above is applicable to the cost statement any time there is an increase or decrease in the contract annual rate. In processing adjustments that reduce the contract annual rate, the CO may process the insurance reduction as outlined above. The adjustments may reduce the contract rate to below the original proposal price.

- i. *Item 9, Miscellaneous Road Taxes.* The supplier is responsible for the payment of all federal highway use tax, state highway use tax, state mileage tax, and state road tax. For box delivery and combination routes, the contract may be adjusted for increases due to additional state or federal taxes incurred by the supplier when properly documented. Transportation routes with contract terms for less than 2 years are not eligible for an adjustment to miscellaneous road taxes. For transportation contracts with terms greater than 2 years, requests must be made 60 days prior to the last day of year 2 of the contract and will become effective on the first day of year 3 of the contract. The supplier will not be eligible for another adjustment for at least 2 years.
- j. *Item 10, Tolls.* For box delivery and combination routes, the contract may be adjusted for new or increased toll fees when they incur and properly documented. Transportation routes with contract terms for less than 2 years are not eligible for an adjustment to tolls. For transportation contracts with terms greater than 2 years, requests must be made 60 days prior to the last day of year 2 of the contract and will become effective on the first day of year 3 of the contract. The supplier will not be eligible for another adjustment for at least 2 years.
- k. *Item 11, Total Field and Operational Cost. Sum of items 1 through 10.*
- l. *Item 12, Straight Time.*
 - 1. The contract rate of compensation may be adjusted to offset increased driver costs resulting from the application of a new wage determination. Economic adjustments due to the application of new wage determinations occur only as a result of the determination of minimum prevailing SCA wages and fringe benefits applicable at the beginning of a renewal period, or when an increased or decreased wage determination is otherwise applied to the contract and becomes applicable to the contract by operation of law, and the supplier increases or decreases wages or fringe benefits of employees working on the contract in order to comply with the SCA. Such adjustments are determined in accordance with PM Clause 9-12, Fair Labor Standards Act and Service Contract Act — Price Adjustment (January 1997).
 - 2. The allowable adjustment is determined by multiplying the allowable hours by the hourly straight time rate.

3. The allowable hours are the hours shown on the cost statement of the original proposal, renewal contract, subcontract, last approved adjustment, or negotiated service change, whichever is latest, plus increased hours necessitated by service change orders, new or revised statutes, or other changed conditions affecting the hours required to perform the service. Conversely, service change orders, new or revised statutes, or other changed conditions that enable the supplier to reduce paid hours will reduce the allowable hours and offset allowable increases in other line items (or result in a reduction in the annual rate).
 4. Payroll journals or check stubs that reflect the number of hours paid, in addition to fringe benefits and the gross amount paid, will normally constitute sufficient documentation to support increased costs for these items. If the supplier has a collective bargaining agreement with employees, that document should normally be sufficient to document the employees' salary scale. The incorporation of a new wage determination into a contract requires the supplier to pay, as a minimum, the new wage rate. Therefore, a request for adjustment when a new wage determination is incorporated into a contract should be allowed without immediate documentation. The CO may require the supplier to furnish copies of payroll journals and/or check stubs within 90 days after the effective date of the increased wage rate. If the supplier fails to provide the requested information within 60 days of receipt of the request for the information, the contracting officer may retroactively rescind the adjustment. If the supplier provides the requested documentation at some later date, the adjustment will become effective the first day of the HCR-TPC in which the documentation is received.
 5. The wages of terminal employees and/or supervisors are to be included in either item 1b or item 5 and, therefore, are not to be considered in this item.
- m. *Item 13, Overtime.* The allowable adjustment is determined by multiplying the allowable hours by the hourly overtime rate.
 - n. *Item 14, Payroll Taxes.* This is for federal or state payroll taxes paid on salaries of drivers. The contract rate of compensation may be adjusted to offset any increased cost incurred for these payroll taxes. Social Security tax paid by employers is based on a percentage rate of each employee's earnings up to the maximum as specified by law. The rates for federal and state unemployment compensation are controlled by federal and state governments. The supplier must adequately document the cost of federal and state unemployment compensation taxes when a request for an economic cost adjustment is filed. Worker's compensation is based on the experience factor of the employer and, therefore, may vary from year to year and supplier to

supplier. The supplier may be allowed up to the manual rate for worker's compensation without consideration of experience modification. As an example, the supplier may, due to a low claims record, reduce rates below the manual rate. The resulting savings may be realigned to another line item. Self-employment tax paid by the supplier is not an adjustable item.

- o. *Item 15, Fringe Benefits.* This item is for the cost of employee health and welfare, pension benefits, vacations, and holidays based on the number of employees reflected by the number of hours in items 12 and 13.

The Postal Service allows adjustments based on increased costs resulting from a new wage determination. Economic adjustments due to the application of new wage determinations occur only as a result of the determination of minimum prevailing SCA wages and fringe benefits applicable at the beginning of a renewal period, or when an increased or decreased wage determination is otherwise applied to the contract and becomes applicable to the contract by operation of law, and the supplier increases or decreases wages or fringe benefits of employees working on the contract in order to comply with the SCA. Such adjustments are determined in accordance with PM Clause 9-12, Fair Labor Standards Act and Service Contract Act — Price Adjustment (January 1997). Fringe benefits are computed on the basis of the number of hours employees work. In cases where an employee does not work 40 hours per week, the fringe benefits are prorated according to the number of hours worked.

- p. *Item 16, Total Operations Labor Cost.* Sum of items 12 through 15. For transportation routes only:
 - 1. The supplier must consider all costs (including off-year adjustments for collective bargaining agreements) in its award or renewal rate. No adjustments will be made during the first 2 years of the contract.
 - 2. For contracts with terms longer than 2 years, SCA/CBA adjustments will be made in accordance with the statute, but not more frequently than every 2 years.
- q. *Item 17, Supplier's Wages, Personal Driving/Supervision.* Contract adjustments to Supplier's Wages, Personal Driver/Supervision apply to box delivery and combination routes only.
 - 1. The allowable adjustment in the supplier's wages granted solely for changed economic conditions is limited to the amount shown on the last approved cost statement multiplied by the percentage increase/decrease in CPIW since proposal closing, renewal, or last approved economic cost adjustment, whichever is the latest. (No documentation is required.)

2. Determine the adjustment by multiplying the annual cost by the appropriate CPIW multiplier and then dividing the product by the allowable hours shown on the last approved cost statement to obtain the per hour unit cost. If new hours are being added to the contract, multiply the new annual hours by the new hourly rate to determine the new annual cost.
 3. The supplier's wages may be increased in all cases to allow the supplier at least the minimum wages established by the Fair Labor Standards Act (as amended). If local minimum wages exceed Fair Labor Standards Act wages, the CO may adjust the supplier's hourly wage rate up to the local minimum wage.
 4. Contracting officers are authorized to approve one-time payments when the illness of the supplier forces the supplier to temporarily employ a driver. Any reasonable increase over the hourly rate that suppliers were receiving for their own driving time may be approved. The one-time payment is normally limited to the amount of increased cost for a period of 30 days or less. Requests for compensation that exceed 30 days must be approved by the ST-CMC manager or the manager's designee.
- r. *Item 18, Total Cost.* Sum of items 11, 16, and 17.
 - s. *Item 19, Return on Investment.* Return on investment may be adjusted only when vehicles used on a route are replaced and an increase is allowed and a value previously appeared in line 19. The adjustment in return on investment is limited to a maximum of 10 percent of the change allowed in item 1a.
 - t. *Item 20, Total Contract Rate.* Sum of items 18 and 19.

63 Establishing CPIW Factors and Percentage

631 Establishing CPIW Factors

Perform the following steps to establish the CPIW factors for an economic adjustment.

Step 1 Identify the HCR number.

Step 2 Identify the date the request is received by the CO.

Step 3 Determine the beginning month of the comparison period. This is the month that contains one of the following dates, whichever is latest:

- Proposal Closing Date.
- Renewal Date.
- Last Economic Adjustment Date (if applicable).

- Not applicable — Return to supplier, denied.

- Step 4 Determine the ending month of the comparison period. This is the month prior to the month in which the request is received by the CO (see step 2).
- Step 5 Determine the beginning CPIW number. This is the CPIW number for the month prior to the beginning month identified in step 3.
- Step 6 Determine the ending CPIW number. This is the CPIW number for the month prior to the I-ICR-TPC in which the request is received by the CO. The data gathered in this section will be used to calculate the percentage change formula in section 632.

Note: The CPIW comparison date is adjustment-specific and not line-item-specific. As an example, when submitting an economic adjustment, a supplier may elect to request a CPIW adjustment on line items 1b and 5. At the next adjustment, the CPIW comparison dates would be the same for all line items adjustable by CPIW, except items 1a(1) or 1a(2) equipment.

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Establishing the Percentage Change Formula

The supplier will be allowed an amount equal to the percentage change in the CPIW for those items adjustable by CPIW changes. Determine the percentage change as described in the example below:

- Step 1 Determine the effective date of adjustment. This is the first day of the highway contract route transportation pay cycle in which the request was received.
- Step 2 Identify the beginning CPIW number (from section 631, step 5).
- Step 3 Identify the ending CPIW number (from section 631, step 6).
- Step 4 Calculate the percentage factor. Divide the ending CPIW number by the beginning CPIW number. Carry the decimal to 5 places.
- Step 5 Calculate the new allowable amount per line item. Use the line items in column III of the most recently approved cost statement. Multiply a line item by the percentage factor.

Note: Apply only to line items eligible to be adjusted by CPIW changes.

Example: Establishing the Percentage Change Formula for an Economic Adjustment

- Step 1 Effective date of adjustment: October 6, 2001.

Step 2 Beginning CPIW number (from part 631, step 5):
169.1

Step 3 Ending CPIW number (from part 631, step 6): 174.8

Step 4 $174.8 \text{ divided by } 169.1 = 1.03371$

Step 5 (For a line item in which the last approved amount is, for example, \$2,500.00:)
 $\$2,500.00 \times 1.03371 = \$2,584.28$, the new allowable amount.

633 **Approving the Request**

The CO or COR issues orders on PS Form 7440, *Contract Route Service Order*, and provides a copy to the supplier.

634 **Denying the Request**

When an adjustment request is denied, the CO or COR advises the supplier of the reason for this action. A detailed explanation is required.

635 **Supplier Appeals**

When a supplier makes a request for adjustment in compensation for economic reasons, and the CO's allowance is less than that requested, the CO will advise the supplier in writing of each item disallowed in whole or in part and the specific reasons why. After the CO has provided a final decision, if the adjustment is disputed by the supplier, the case may be appealed by the supplier in accordance with the *Claims and Disputes* clause of the contract.

7 **Effective Date**

71 **General**

Adjustment of different line items may be effective on different dates as prescribed in the following section. Economic adjustments, that is, an adjustment solely for economic reasons, including supplier's wages, for awarded contracts will not be granted more frequently than every 13 HCR-TPC5 (364 days). The first economic adjustment after a renewal may be granted seven HCR-TPC's (196 days) after the effective date of the renewal and every HCR-TPC5 (364 days) thereafter.

72 **Other Than One-Line Adjustments**

The effective date of an approved economic adjustment (other than one-line adjustments and documented line items) is the first day of the HCR-TPC in which the completed PS Form 7463 is received. If the supplier's initial request is not supported by the necessary documenta-

tion and the supplier fails to respond to the CO's request for documentation within 28 days of the request (either providing the requested documentation or advising the CO when the documentation will be provided), the adjustment for all line items will become effective the first day of the HCR-TPC in which the necessary documentation is received.

73 New Wage Adjustments

Adjustments due to the application of a new wage determination will be allowed only as a result of the determination of minimum prevailing SCA wages and fringe benefits applicable at the beginning of a renewal period, or when an increased or decreased wage determination is otherwise applied to the contract and becomes applicable to the contract by operation of law (normally only on the 2-year anniversary date of the contract). Adjustments due to such application of a new wage determination are treated as one-line adjustments. The adjustment is effective on the date when the new wage determination becomes applicable to the contract, but in no event shall adjustments that increase compensation be effective earlier than the date when the supplier incurs the increased costs. Further, the supplier must provide all relevant supporting data for his or her increased costs and request adjustment within 60 days after the new wage determination becomes applicable to the contract. If the adjustment request and supporting data are not received within 60 days, the effective date is the first day of the highway contract route transportation pay cycle in which the request and supporting data are received.

74 Documented One-Line Adjustments

Adjustments in documented line items for box delivery and combination routes will be retroactive to the date costs were incurred provided that the supplier has notified the CO of increases within 60 days of the supplier's knowledge of increases. If the supplier fails to notify the CO of increases within 60 days of having knowledge of those increases, then the increased costs will become effective the first day of the HCR-TPC in which documentation is received in accordance with section 44.

For transportation routes, adjustments to the cost statement will not be retroactive.

75 Replaced Equipment Adjustments

Adjustments in the rate of compensation due to the supplier's election to replace equipment on a route will be effective the date that such equipment was placed in service on the route, provided that the supplier

notifies the CO within 60 days of the date replacement equipment was actually placed in service on the route. Adjustments for equipment are treated as documented one-line adjustments (see section 74).

8 Changes While Adjustment Is Pending

81 Subcontracts

If a route is subcontracted while a contract adjustment is pending, any adjustment that is determined to be due the supplier will be allowed to the subsupplier.

82 Service Change

Any pending cost adjustment, if known at the time of processing a negotiated service change that would have an effective date preceding the service change effective date, may be processed along with the service change but must be calculated separately (i.e., develop a cost statement for each). This will prevent an amendment to the service change at a later date.

83 Death

If a supplier dies before completing a pending adjustment, the supplier's estate or next of kin should be given an opportunity to complete the adjustment case. Any adjustment thus allowed will be allowed to the subsupplier if the route is subcontracted.

84 Interim Adjustments

841 Contracting Officer

The CO or COR may approve a supplier's request for an interim adjustment when it is determined that there may be a delay in processing the supplier's request. In cases where there is a dispute, interim adjustments may be for the full amount that is not in dispute.

842 Qualifying Adjustments

The CO or COR shall qualify all interim adjustments with a statement on PS Form 7440 that the amount is not final and is subject to modification after final approval of the adjustment request.

Attachment: U.S. Postal Service Surface Transportation CMC Adjusting Highway Contract Routes

Adjustment Matrix (correlates with section 62)

	Line Item	Box Delivery Combination	Transportation
1A	Vehicle Cost	An adjustment when vehicle is replaced (section 62.a).	No adjustments allowed. Vehicle cost for the term of the contract must be included in the offer/renewal.
1B	Operational Cost	Allowable increase based on Consumer Price Index — Urban Wage Earner (CPIW) (sections 22 and 62.a).	No adjustments allowed. Operational cost for the term of the contract must be included in the offer/renewal.
2	Taxes	Adjustment with documented proof (tax receipt or tax bill) of increase (section 62.b).	No adjustment allowed for contracts with terms of 2 years or less. For contracts with terms longer than 2 years, an adjustment will be considered after the second year. Documented requests must be made 60 days prior to the last day of year 2 of the contract and will become effective on day 1 of year 3 of the contract.
3	Vehicle Registration	Adjustment with documented proof (receipt or bill) of increase (section 62.c).	No adjustment allowed for contracts with terms of 2 years or less. For contracts with terms longer than 2 years, an adjustment will be considered after the second year. Documented requests must be made 60 days prior to the last day of year 2 of the contract and will become effective on day 1 of year 3 of the contract.
4	Miscellaneous	No adjustment (section 62 item d).	No adjustment.
5	General Overhead Cost	Allowable increase based on Consumer Price Index — Urban Wage Earner (CPIW) (sections 22, 62.e., and 63). No documentation required.	No adjustment.
6	Fuel	Adjustments made in accordance with the fuel program.	Adjustments made in accordance with the fuel program.
7	Oil	Adjustment is based on documented unit cost.	No adjustment.

	Line Item	Box Delivery Combination	Transportation
8	Insurance	Adjustment is allowed when there is an increase or decrease in cost of "same coverage" (section 62.h).	No adjustment allowed for contracts with terms of 2 years or less. For contracts with terms longer than 2 years, an adjustment will be considered after the second year. Documented requests must be made 60 days prior to the last day of year 2 of the contract and will become effective on day 1 of year 3 of the contract.
9	Miscellaneous Road Taxes	Increases due to additional state or federal taxes incurred by the supplier are allowable when properly documented.	No adjustment allowed for contracts with terms of 2 years or less. For contracts with terms longer than 2 years, an adjustment will be considered after the second year. Documented requests must be made 60 days prior to the last day of Year 2 of the contract and will become effective on day 1 of year 3 of the contract.
10	Tolls	New or increased tolls fees are allowable when incurred.	No adjustment allowed for contracts with terms of 2 years or less. For contracts with terms longer than 2 years, an adjustment will be considered after the second year. Documented requests must be made 60 days prior to the last day of year 2 of the contract and will become effective on day 1 of year 3 of the contract.
12	Straight Time	May be adjusted to offset increased driver costs resulting from the application of a new wage determination or collective bargaining agreement (CBA). Contract may be adjusted for off-year increases documented in the CBA applied to the contract in accordance with section 62.l.	May be adjusted to offset increased driver costs resulting from the application of a new wage determination or CBA. <i>For contracts with terms of 2 years or less, costs for off-year increases in the CBA must be included in the offer/renewal.</i>
13	Overtime	Adjustments will be made in accordance with section 62.m.	Adjustments will be made in accordance with section 62 item m. <i>For contracts with terms of 2 years or less, costs for off-year increases in the CBA must be included in the offer/renewal.</i>
14	Payroll Taxes	Adjustments will be made in accordance with section 62.n.	Adjustments in the percentage rate may be changed based on documented evidence of a federal or state increase. <i>For contracts with terms of 2 years or less, costs for off-year increases in the CBA must be included in the offer/renewal.</i>

	Line Item	Box Delivery Combination	Transportation
15	Fringe Benefits	Adjustments will be made in accordance with the Service Contract Act (see Clause 9–12, Fair Labor Standards and Service Contract Act — Price Adjustment, and section 62.o).	Adjustments will be made in accordance with the Service Contract Act (see Clause 9–12, Fair Labor Standards and Service Contract Act – Price Adjustment; and Section 62.o). <i>For contracts with terms of 2 years or less, costs for off-year increases in the CBA must be included in the offer/renewal.</i>
17	Supplier's Wages, Personal Driving/Supervision	Allowable increase based on Consumer Price Index — Urban Wage Earner (CPIW) (sections 22, 62.q., and 63). No documentation required.	No adjustments.
19	Return on Investment	Return on investment may be adjusted only when vehicles used on a route are replaced and an increase is allowed and a value previously appeared in line 19. The adjustment in return on investment is limited to a maximum of 10 percent of the change allowed in item 1a.	No adjustments.

