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Economic Pay Adjustments for Highway and Inland Domestic Water Contracts

Reference

PM-4.4.1

Document Category

Policy

Content

This document establishes policies 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 change in accordance with these policies. 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.

Owner

Senior Director, Transportation Strategies

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Summary of Major Changes

This policy supersedes the April 2005 edition of Management Instruction PM-4.4.1-2005-1, *Economic Pay Adjustments for Highway and Inland Domestic Water Contracts*.

Summary of Major Changes:

- Removed obsolete and updated relevant references.
- Updated document formatting.
- Separated policy and procedure into separate documents.

Availability

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Address questions about this policy to the owner.

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Contents

| | |
|---|----------|
| 1 Purpose | 1 |
| 2 Scope | 1 |
| 3 Roles & Responsibilities | 1 |
| 4 Policies | 2 |
| 4.1 Authority | 2 |
| 4.1.1 Criteria for Approval..... | 2 |
| 4.1.1.1 Box Delivery and Combination Routes | 2 |
| 4.1.1.2 Transportation Routes | 3 |
| 4.2 Basic Principles | 3 |
| 4.3 Limitations and Restrictions | 4 |
| 4.3.1 Adjustments..... | 4 |
| 4.3.2 Proposal Errors..... | 4 |
| 4.3.3 Eligibility Periods for Box Delivery and Combination Routes | 4 |
| 4.3.4 Simple Adjustments | 4 |
| 4.3.5 Nonallowable Increases | 5 |
| 4.3.6 Adjustment Limits | 5 |
| 4.4 Effective Date | 5 |
| 4.4.1 New Wage Adjustments | 5 |
| 5 Acronyms | 6 |
| 6 Definitions | 6 |
| 7 Related Documents | 6 |

1 Purpose

It is Postal Service policy to allow regular and temporary highway and inland domestic water transportation contracts to receive an adjustment in the rate of compensation when changed economic conditions or operational requirements occur over which either party to the has little or no control, subject to the provisions of this policy.

2 Scope

Pursuant to 39 United States Code § 5005(b)(1), the Postal Service may, by mutual agreement with the mail transportation supplier, adjust compensation rates under a contract to reflect increased or decreased costs resulting from changed economic conditions occurring during the term of the contract.

This policy 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 (CO) and documented in writing prior to implementation.

Note: This policy does not apply to emergency contracts, except as specifically stated in Section 4.3.5, *Nonallowable Increases*.

Note: For contract delivery services (CDS) contracts, refer questions relating to the interpretation of these instructions to the Executive Manager, Transportation Services Category Management Center or the Manager of Transportation Contracts (CDS). Refer other questions relating to the interpretation of these instructions that cannot be resolved by a CO to the Director, Surface Transportation Category Management Center (ST-CMC).

3 Roles and Responsibilities

The following table lists roles and responsibilities associated with contract compensation adjustments within this document.

| Role | Responsibility |
|--|--|
| <i>Contracting Officer (CO)</i> | <ul style="list-style-type: none"> Approves or denies all economic pay contract compensation adjustments for highway and inland domestic water contracts. |
| <i>Director, Surface Transportation Category Management Center (ST-CMC) or Executive Manager, Transportation Services Category Management Center (CDS)</i> | <ul style="list-style-type: none"> Resolves interpretation questions not answered by the CO (for non-CDS contracts). |
| <i>Executive Manager, Transportation Services Category Management Center (CDS)</i> | <ul style="list-style-type: none"> Answers questions about instruction interpretation for CDS contracts. |
| <i>Manager of Transportation Contracts (CDS)</i> | <ul style="list-style-type: none"> Conducts periodic reviews of adjustments to CDS contracts. |
| <i>Manager of Transportation</i> | <ul style="list-style-type: none"> Conducts periodic reviews of adjustments to surface |

| Role | Responsibility |
|---|---|
| <i>Contracts (Highway Contract Route)</i> | contracts. |
| <i>Supplier</i> | <ul style="list-style-type: none"> ▪ Requests adjustments to compensation when economic or operational changes occur beyond their control. ▪ Submits documented evidence substantiating any claimed cost increases. |

4 Policies

4.1 Authority

The CO is responsible for approving or denying all contract compensation adjustments covered by this policy. The Manager of Transportation Contracts (Highway Contract Route) is responsible for conducting periodic reviews of adjustments to surface contracts.

The CO may approve adjustments to the annual contract rate. Adjustments made under the provisions of these guidelines may be made only with the consent of the supplier except for exceptions stated in the contract.

4.1.1 Criteria for Approval

4.1.1.1 Box Delivery and Combination Routes

For box delivery and combination routes, either party to the contract may request a change to compensation due to changed economic conditions. A request for economic adjustment by either party may be granted if:

- a. The requested amount is less than or equal to the allowable amount pursuant to the Percentage Change Formula in the PM-4.4.1, *Economic Pay Adjustments for Highway and Domestic Inland Water Contracts* procedures, or
- b. The requesting party has asked for the maximum adjustment based on either:
 - (1) The Consumer Price Index (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 *Clause 9-12: Fair Labor Standards Act and Service Contract Act — Price Adjustment*.

The criteria for fuel adjustments are addressed in Contract Terms and Conditions.

4.1.1.2 Transportation Routes

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 requested that the CO grant the maximum adjustment based on the application of a new wage determination. For details on economic adjustments due to the application of new wage determination, refer to 4.1.1.b.(2), above.
- c. For contracts with terms of up to 2 years, the supplier must consider any off-year collective bargaining agreement (CBA) costs as part of the contract award or renewal rate.
- d. For contracts with terms beyond 2 years, SCA/CBA adjustments may be made as required by statute (but not more frequently than every 2 years).

The criteria for fuel adjustments are addressed in Contract Terms and Conditions .

4.2 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 either party to the contract.
- b. To receive consideration for an adjustment in compensation, the requesting party must provide documented evidence of actual changed costs on those items requiring documentation.
- c. Cases involving suspected fraud require the CO to submit a written report, accompanied by supporting evidence, to the ST-CMC manager or CDS manager. The manager may refer the file to the Office of the Inspector General for review and investigation.
- d. When documentation of increased costs are submitted to the CO, it becomes the basis not only for the requested adjustment but also for comparison with future costs.
- e. 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.
- f. The supplier is expected to conduct an efficient operation and provide equipment that reflects favorably on the Postal Service's image.
- g. 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.

4.3 Limitations and Restrictions

4.3.1 Adjustments

Contracts eligible for adjustments due to new wage revisions through the SCA are not eligible for CPI adjustments.

Adjustments are permitted only for cost changes that occur during the contract term or as otherwise specified in this policy.

4.3.2 Proposal Errors

Proposal errors or omissions in the supplier's cost statement are the responsibility of the supplier.

4.3.3 Eligibility Periods for Box Delivery and Combination Routes

Adjustments are not allowed within the first 12 months of the period of performance following contract award, and within the first 6 months following a renewal. Subsequent adjustments can begin 12 months afterwards on an annual basis. Simple adjustments may be permitted in accordance with the PM-4.4.1, *Economic Pay Adjustments for Highway and Inland Domestic Water Contracts* procedures. The CPI comparison date on a novated or subcontracted contract is the same as the previous supplier's comparison date.

4.3.4 Simple Adjustments

Adjustments that increase or decrease the supplier's compensation may be processed as simple adjustments due to the changed conditions listed below:

- a. Fuel price changes. The criteria for fuel adjustments are addressed in Contract Terms and Conditions.
- 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 Clause 9-12, Fair Labor Standards Act and Service Contract Act — Price Adjustment.

Note: Contracts of fewer than 2 years are not eligible for increases in SCA wages and fringe benefits. Suppliers should consider any CBA "off-year" costs as part of the original price proposal.

- c. Insignificant minor service changes that affect a single cost component.
- 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 effective on the date costs were provided by the supplier as notification to the CO.

4.3.5 Nonallowable Increases

Nonallowable increases consist of:

- a. Cost increases for items that were omitted in the original or renewal contract.
- 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 Contract Terms and Conditions.
- c. Rate of pay on emergency contracts. Quarterly adjustments may be made to emergency contracts as described in Contract Terms and Conditions.

4.3.6 Adjustment Limits

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

- a. Adjustments to the rate of compensation are limited to an amount that does not exceed the CPI percentage change.
- b. Adjustments to the rate of compensation for non-CPI 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 non-documented cost factors.

4.4 Effective Date

Economic adjustments for awarded contracts may not be granted more frequently than every 2 years.

4.4.1 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 simple adjustments. The adjustment is effective on the date when the new wage determination becomes applicable to the contract, but in no event may adjustments that increase compensation be effective earlier than the date when the supplier incurs the increased costs.

5 Acronyms

| Acronym | Description |
|------------|---------------------------------|
| <i>CBA</i> | Collective bargaining agreement |
| <i>CDS</i> | Contract delivery services |

| Acronym | Description |
|-----------------------------|---|
| CO | Contracting officer |
| CPI | Consumer Price Index |
| SCA | Service Contract Act |
| ST-CMC | Surface Transportation Category Management Center |
| 6 Definitions | |
| <i>Economic adjustments</i> | Adjustments made due to changed economic conditions (not due to operational requirements or significant service changes). |
| <i>Simple adjustment</i> | An adjustment made only to a single cost component. |

7 Related Documents

- PM-4.4.1, *Economic Pay Adjustments for Highway and Inland Domestic Water Contracts* procedures

