

USACE Seattle District, JBLM Area Office

Guidelines for Pricing Modifications

Congratulations on your contract award. The Corps of Engineers has pricing restrictions and traditions that may differ from your experience with other companies or state and local governments. Before you submit a modification proposal, we recommend you review your pricing structure against guidelines prepared by the JBLM Area Office. At the pre-construction conference, you received information about the JBLM Preconstruction Packet posted on the USACE Seattle District internet website. Chapter 8 addresses modifications and claims. The following guidelines address typical areas that cause delays to successful negotiations. Our staff relies on Federal Acquisitions Regulations (FAR), Board (court) decisions and negotiating experience to develop positions. **Please distribute this guide to your subcontractors.** Remember, the more pricing information you submit, the quicker our staffs can reach price agreement.

- **As-built Drawings Markup.** Typically not allowed. Federal boards determined contractors must include an allowance, for annotating modifications to as-built drawings, in the original bid. The only exception involves a contract with an unusually large number of changes or difficult changes that exceed that in a normal contract.
- **Bond, Insurance, B&O Tax.** We allow actual costs. Unlike the State, we allow B&O as a separate markup, if not already included in your overhead percentage. (The State includes B&O in the 22% overhead/profit markup.) Normally, we will only pay for one bond. The government expects the contractor to set up a bond arrangement that has subcontractors share in the prime's bonding cost.
- **Contingencies.** Typically not allowed as an unsubstantiated markup. We consider contingencies a factor evaluated to establish the profit percentage based on who assumes the risk.
- **Credit Modifications.** Unlike Washington State, federal boards determined contractors must return overhead, profit, insurance and bond on credit modifications. We expect you to return bid-climate markups.
- **Direct Equipment.** Do not submit "price book" rates for owned equipment. You may not charge more than rates in EP 1110-1-8, *Construction Equipment Ownership and Operating Expense Schedule*, available on-line at <http://www.usace.army.mil/inet/usace-docs/eng-pamphlets/ep.htm>. Clearly separate owned from rental equipment. If you use rental equipment, you pay sales tax based on where you use the equipment, not on where you rented it. We generally allow actual (relative to Blue Book rates) for rental equipment. You may not charge separately for any vehicles, such as pickups, carried under your field or home office overhead percentage.
- **Direct Labor.** Do not submit "price book" labor rates. Use actual hourly wages paid (Davis-Bacon minimum), with a separate markup for fringe benefits and labor burden. In your first proposal, submit a breakdown to verify the components of your labor markup.
- **Direct Material.** Provide detailed lists of all planned material, with actual direct costs for each component. As with labor, avoid "price book" material costs. Calculate tax based on where you will install the material, not the point of purchase. In lieu of detailed lists, we usually will accept vendor quotes, if you have three sources to verify competitive pricing. List all discounts. (Failure to disclose discounts to deliberately mislead the Government is fraud.)
- **Direct Supervision.** Washington State allows 15% labor markup for supervision. We allow a percentage labor markup for supervision by working foremen, provided you have no direct hours in the proposal for the effort. Either list actual hours or use a percentage markup -- never both. You may not add costs for salaried supervisors; they belong in your field overhead percentage.
- **Estimating, Scheduling and Negotiating Fees.** Typically not allowed. Federal boards determined contractors must include an allowance for modifications in the original bid. The exception involves a contract with an unusually large number of changes or difficult changes that exceed expectations of a normal contract.
- **Extended Overhead.** We allow costs for extended field overhead, to the extent a contractor can prove damage and delays caused solely by the government. To receive compensation, you must provide detailed justification

with before and after (approved) schedules to document time-related costs. The government will not pay for concurrent delays. If weather or contractor actions contribute to time growth, you will not receive monetary compensation but you may receive additional time.

- **Material Handling.** We consider delivery costs included in your material price. We consider uncrating and handling costs included in your labor price. This office typically rejects percentage markups for material handling.
- **Miscellaneous Material.** Not allowed. We consider this a contingency already covered by an allowance for small tools and consumables.
- **Overhead.** We expect you to list actual home office overhead (general and administrative expenses or G&A) on each proposal. FAR Part 31.205 addresses allowable overhead costs. You must reduce the G&A percentage for unallowable costs such as advertising, charities, contributions, donations, recruiting, bad debts, entertainment, fines, penalties, interest and federal income tax. For small subcontractors, we typically allow 5% G&A. Any subcontractor or prime receiving pass-through costs typically receives G&A and reduced profit. **Special note:** An October 1996 ASBCA decision determined a contractor may NOT add a percentage to modifications for field office overhead (FOOH). The Board held that a contractor normally does not incur additional FOOH costs to administer modifications that do not extend contract time. Northwest Area Office will only allow FOOH as a daily rate to the extent your schedule proves the Government has sole responsibility for the time extension.
- **Profit.** Per FAR, you must use a method to calculate profit on modifications. The Corps of Engineers use the Weighted Guidelines Method, where profit varies from 3 to 12 percent dependent on seven weighted factors. Using this scale, average conditions would equate to 7.5 percent profit. For format, see Figure 8-3 Profit Template.
- **Project Management.** Boards consider project management part of either home or field overhead. We will not allow separate payment for project management, unless you can clearly prove your job costing system excludes project managers from overhead. (Washington State includes this effort in a fixed overhead/profit allowance.)
- **Safety.** Unlike Washington State, we typically do not allow a separate markup for safety. Northwest Area Office considers safety already included in either your labor burden or field office overhead. (Washington State allows up to 2% for safety but a lower office overhead/profit percentage than the Corps.) We will allow direct safety costs for one-time applications related specifically to a modification. For example, if we extend a roof, we would allow costs to extend roof barriers. We would not, however, pay for portable barriers you intend to reuse on other projects.
- **Small Tools & Consumables.** We typically allow up to 3% of labor for prime or subcontractor trades that actually use small tools and consumables. We will not allow separate markups for both small tools and consumables. We also will not allow percentage markups on proposals that contain detailed breakdowns for consumables such as nails, wire nuts, tape, etc.
- **Subcontracts.** Provide breakdowns in the same detail as pricing by the prime. Exclude field office overhead unless the subcontractor requires a time extension.
- **Technical Submittals.** Boards consider the effort to engineer field changes part of either home or field overhead. We will not allow separate payment for preparing submittals, unless you can clearly prove your job costing system excludes engineering from overhead. (Washington State includes this effort in the fixed overhead/profit allowance.)
- **Travel.** We expect contractors to use local trades and avoid travel expenses. When you can justify bringing in outside workers or specialists, travel and subsistence may not exceed rates established by GSA for federal employees; i.e., no first-class accommodations or first-class travel.
- **Warranty Markup.** Not allowed. (Manufacturers already provide warranties on equipment and material.) This means a contractor markup for warranty would equate to a contingency for poor workmanship.