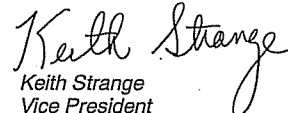


# Management Instruction

## 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.

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Unit	Transportation Portfolio

  
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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.

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 Transportation Portfolio (TP) manager.

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#### DEFINITIONS

**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 (a 28-day period)  
**PM** — *Purchasing Manual*  
**PS Form 7463** — Cost Statement — Highway Transportation Contracts  
**TP** — Transportation Portfolio  
**SCA** — Service Contract Act

## 2 Authority

### 21 General

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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 TP manager is responsible for conducting periodic reviews of contract adjustments at the DNs. 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 this management instruction 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

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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, 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 (CPIW) 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 Postal Service *Purchasing Manual* (PM) Clause 9-12, Fair Labor Standards Act and Service Contract Act — Price Adjustment (January 1997).

Except as noted above, 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 Transportation Portfolio 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. Decreases in the cost of specific items due to the supplier's initiative will be used to offset increases in other items only to the extent that increases were previously granted for these specific items during the contract term, with the following exceptions:
  - (1) When the supplier chooses to initiate fuel conservation measures, the CO will allow the realignment of the cost statement (PS Form 7463) such that affected line items may be increased to the extent of the corresponding reduction in the fuel line. If, for example, a supplier purchases new equipment that is more fuel-efficient than that presently operated, any cost savings realized from lower fuel

consumption may be reallocated to another line item(s). This amount is to be in addition to the consumer price index (CPI) computation normally allowed for the change in equipment.

- (2) When suppliers request a realignment of costs under these provisions, they must identify in writing to the CO the specific conservation action they propose to take or have taken and the corresponding line item(s) in the cost statement to be adjusted.
- (3) The Postal Service does not expect to benefit directly from a supplier's reduced operating costs. Only increased costs applicable to the specific contract services may be considered.

## 4 Limitations and Restrictions

### 41 Adjustments

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

### 42 Proposal Errors

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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

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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 subchapter 44. The CPIW comparison date on a novated or subcontracted contract is the same as the previous supplier's comparison date.

## 44 One-Line Adjustments

One-line adjustments must be processed and approved as outlined in chapter 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. This section does not apply to highway transportation contracts that require the supplier to purchase all fuel (with limited exceptions) from fueling servicer(s) designated by the CO. For such contracts, pay adjustments based upon changes in fuel prices are determined in accordance with Part I of the Fuel Purchase Instructions included in the contract.
- 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).
- c. Insignificant minor service changes that affect one line item.
- d. Adjustments to documented line items. 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. 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.

## 45 Fuel Adjustments (Renewal Only)

This section does not apply to highway transportation contracts that require the supplier to purchase all fuel (with limited exceptions) from fueling servicer(s) designated by the CO. For such contracts, pay adjustments based upon changes in fuel prices are determined in accordance with Part I of the Fuel Purchase Instructions included in the contract.

The following limitations apply to renewal fuel adjustments:

- a. At the time of negotiation of a renewal contract, the supplier must show the then-approved cost for fuel as the cost of fuel for the

renewed contract. On the effective date of renewal, if the supplier's average cost of fuel for the immediately preceding 28-day period has increased or decreased by 5 cents or more per gallon from the renewal price, a one-line fuel adjustment effective on the day of the renewal may be allowed, provided that the request is received within 60 days after the renewal date. The effective date for a fuel cost adjustment received later than 60 days after the renewal date will be calculated as outlined in subchapter 73. If the CO has reason to believe that a supplier's cost for fuel has decreased sufficiently since signing the renewal contract, the CO will require the supplier to complete a new certification of the fuel cost for the immediately preceding 28-day period. If the supplier's cost of fuel has in fact decreased by 5 cents or more per gallon, the new cost will be effective as of the date of renewal.

- b. In instances where a supplier's average cost of fuel has not increased or decreased by 5 cents or more per gallon on the effective date of renewal, there will be no change in the rate. However, the supplier will be allowed a one-line fuel adjustment in accordance with the current instructions whenever the average cost of fuel changes by 5 cents or more per gallon from the renewal cost.

## 46 Unanticipated Costs

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 subchapter 44 may be made only with the prior written approval of the TP manager.

## 47 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 subchapter 62.
- c. Rate of pay on emergency contracts. Exceptions are made for fuel cost increases after an emergency contract has been in effect for 56 days. One-line fuel adjustments may not have an effective date prior to 56 days from start of contract regardless of certification date. To be considered for a fuel adjustment, the supplier is required to identify both fuel consumption and cost per

gallon concurrent with or prior to start of the contract. The allowable increase or decrease is limited by the actual amount of change in the cost per gallon of fuel, provided that the amount of change must be at least 5 cents per gallon.

## 48 Adjustment Limits

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.

## 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 on receipt.

### 52 Postal Service Responsibility

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

Upon receipt of the request for adjustment PS Forms, the CO will forward the PS 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 PS 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 PS 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 Completing Within 28 Days

The adjustment request must be completed within 28 days after receipt of a completed PS Form 7463 and other pertinent documentation.

### 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 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 part 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 Transportation Portfolio 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 subchapter 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. The allowable increase in this line is the amount determined by using procedures outlined in subchapter 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.

c. *Item 3, Vehicle Registration*

This should show registration fees for all vehicles used on the route. Any increase in cost incurred by the supplier as a result of increased registration fees is allowed only when properly documented.

d. *Item 4, Miscellaneous*

This is for listing miscellaneous expenses associated with the annual cost (not contract term cost) for the service.

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.). The allowable adjustment in this line item is the amount determined by using procedures outlined in section 163. (No documentation is required.)

f. *Item 6, Fuel*

This section does not apply to highway transportation contracts that require the supplier to purchase all fuel (with limited exceptions) from fueling servicer(s) designated by the CO. For such contracts, pay adjustments based upon changes in fuel prices are determined in accordance with Part I of the Fuel Purchase Instructions included in the contract.

(1) *Certification.* All cost adjustments for fuel are based on the change in the actual or prevailing self-service fuel price per gallon. The supplier must furnish a fuel certification form for the price of all fuel (with limited exceptions) purchased during the certification period. This certification is a statement showing:

- (a) The type of fuel purchased.
- (b) The type of purchase made (wholesale, retail commercial, or retail supplier-owned). (See f(4) of subchapter 62.)
- (c) Names, locations, and telephone numbers of the suppliers of fuel.
- (d) The amount and price of fuel purchased from each supplier during a consecutive 28-day period prior to the date of request. The quantity should compare favorably with the consumption reflected on the cost statement (approximately 1/13 of annual gallons). As an example, a supplier who uses 130,000 gallons of fuel per annum might certify approximately 10,000 gallons for a certification period. Good judgment must be used in evaluating the number of gallons listed on the certification form(s).
- (e) The relationship of the supplier to the fuel company, if any. If fuel was purchased from more than one source, the supplier must specify the above information for each source. The CO may require a supplier to provide documentation of the actual price (in the form of receipts/invoices, etc.) when deemed necessary or

appropriate. However, the CO must require the supplier to provide fuel receipts not less frequently than once per annum.

(2) *Calculation of Cost*

- (a) Increases or decreases in fuel cost are based on the allowed gallons shown on the last approved cost statement multiplied by the average price per gallon for the 28-day period shown on the certification. The average cost per gallon is a weighted average based on the quantity of fuel purchased at each price.
- (b) The CO aggregates fuel prices from a reasonable number of sources in general metropolitan areas where suppliers purchase fuel to establish prevailing fuel rates for wholesale and retail. The CO may also contact the sources to verify the price of fuel shown in the supplier's certification.

(3) *Filing Eligibility.* Suppliers may file for a fuel adjustment in the form of a one-line adjustment request when the average price of fuel for the certification period changes by at least 5 cents per gallon from the unit cost allowed in the last approved cost statement. A fuel certification statement as described in f(1) of subchapter 62 must accompany these one-line adjustment requests. In addition, each supplier must have filed a fuel purchase plan as described in f(6) of subchapter 62. Fuel price changes submitted with economic adjustments do not require a 5-cent per-gallon change in order for the price to be adjusted.

(4) *Fuel Purchases.* Suppliers may purchase fuel from any source. Depending on where and how (retail or wholesale) purchases are made, one of the following will apply:

- (a) *Wholesale Purchase.* The supplier will be allowed compensation for the actual wholesale price paid for fuel. If the wholesale price per gallon exceeds the prevailing self-service retail commercial rate, the adjustment will be allowed based on the prevailing self-service retail (if available) commercial rate. The calculation of this amount is described in f(2) of subchapter 62.
- (b) *Retail Purchase — Commercial Fuel Company.* The supplier will be allowed compensation for the actual retail price paid for self-service retail fuel purchases (where a choice is available). The calculation of this amount is described in f(2) of subchapter 62.
- (c) *Retail Purchase — Supplier-Owned Fuel Company.* A supplier-owned fuel company is a fuel company that is substantially owned or controlled by a supplier, a member of the supplier's immediate family, the officers of the corporation (if the supplier is a corporation), their

immediate families, and partners or their immediate families. Such fuel companies will be considered as retail fuel companies, and a purchase from such a source by a supplier will be considered as retail purchase from a supplier-owned fuel company. The supplier may be allowed, as compensation, the area prevailing wholesale rate for the type of fuel purchased. If the prevailing wholesale rate per gallon exceeds the prevailing self-service retail commercial rate, the adjustment will be allowed based on the prevailing self-service retail (if available) commercial rate. The calculation of this amount is described in f(2) of subchapter 62.

(5) *Reexamination of Prior Fuel Allowances*

(a) *New Certification.* To avoid continuous reimbursement to a supplier at a higher rate, all contracts may be reviewed monthly by the CO to identify instances where it is suspected that a supplier is being allowed reimbursement for fuel costs greater than those actually being incurred. For any contracts in which the amount currently allowed exceeds the current prevailing self-service price (either wholesale or retail, as appropriate) by at least 5 cents per gallon in the area where the fuel is purchased and at least 60 days have elapsed from the effective date of the last fuel adjustment and no new fuel certification has been filed, the CO may require the supplier to file a new certification. The new certification is to cover the 28-day period starting with the immediately preceding 28 days from the date of receipt by the supplier of the recertification request. COs must send recertification notices via certified/return receipt First-Class® Mail. Suppliers have 60 days from the date they receive the notice to provide the recertification.

(b) *New Fuel Allowance.* The fuel allowance will be recomputed on the basis of the new certification if the change has been at least 5 cents per gallon. The effective date of the new rate will be the first day of the HCR-TPC that began during the certification period. If the requested recertification has not been received by the due date, the fuel allowance will be recomputed based on the area prevailing self-service rate (wholesale or retail, as appropriate) with an effective date of the first day of the HCR-TPC that began during the requested certification period. This change will be processed regardless of the amount of change in fuel price.

(6) *Fuel Purchase Plan.* During the term of the contract, the supplier may elect to change fuel purchase plans. No change will be permitted, however, that will result in an increase in the total compensation allowed the supplier. Therefore,

suppliers may be required to appropriately realign the specific line items of their cost statement. Likewise, the supplier will be given the opportunity to realign the cost statement so that the fuel purchase plan change does not result in a reduction in the total compensation. To change plans, the supplier must, in writing, provide the CO with the following information:

- (a) The type of change desired:
  - (i) Wholesale to retail commercial.
  - (ii) Wholesale to retail supplier-owned.
  - (iii) Retail commercial to wholesale.
  - (iv) Retail commercial to retail supplier-owned.
  - (v) Retail supplier-owned to wholesale.
  - (vi) Retail supplier-owned to retail commercial.
  - (vii) Changes in purchase ratio (specify).
- (b) The last 28 days of fuel certification under the current plan and the first 28 days of fuel certification under the proposed plan.
- (c) A realigned cost statement that shows the increased or decreased fuel line item cost and offsetting decreased or increased cost on another line item(s).
- (d) A new fuel purchase plan showing the effective date of the new plan. (The effective date must be the same as the first day of the fuel recertification period.) Suppliers must notify the CO within 60 days of the date they permanently change the manner in which they purchase fuel and must change their fuel purchase plan accordingly within that 60-day period. Failure to do so may result in termination of the contract for default.

g. *Item 7, Oil*

Base the adjustment for the cost of oil on documented unit cost.

h. *Item 8, Insurance*

- (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* below). 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) *Realignment.* In instances where the current costs shown in *Item 8, Insurance*, can be reduced due to the development of supplier or industry-initiated programs, the supplier may be permitted to realign the cost statement to reflect the new documented insurance costs and retain the money to the extent that it is used in the development and maintenance of programs or other initiatives designed to reduce insurance cost. As an example, a supplier may, with approval, elect to assume responsibility for a portion of liability claims or develop a safety program that reduces insurance cost. The cost statement may be realigned and the supplier permitted to retain the savings for the maintenance of the programs or liability exposure. However, the annual contract rate may not be increased as a result of any such realignment. Decreases in insurance costs that are not due to the development of documented supplier or industry-initiated programs may not be realigned and may decrease the annual contract rate to the extent increases have been granted during the term of the contract. (Such decreases would include general rate reductions, change of insurance carriers, etc.)
- (3) *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.
- (4) *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:
  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).
  2. Identify the documented gross receipts insurance rate per \$100 and change to a decimal equivalent.
  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).
  4. Determine the new contract rate by dividing step 1 by 3.
  5. The difference between amounts in steps 4 and 1 is the allowable insurance cost.

6. The new contract rate multiplied by the gross receipts insurance rate (expressed as a decimal) must equal the allowable insurance cost found in h(4)5 of subchapter 62.

**Example:**

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

This item is for federal highway use tax, state highway use tax, state mileage tax, and state road tax. Increases due to additional state or federal taxes incurred by the supplier are allowable when properly documented.

j. *Item 10, Tolls*

New or increased toll fees are allowable when incurred.

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.

q. *Item 17, Supplier's Wages, Personal Driving/Supervision*

- (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 Transportation Portfolio 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 in item 1A. 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

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## 64 Change Formula for an Economic Adjustment

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### 641 Establishing CPIW Factors

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

1. Identify the HCR #.
2. Identify the date the request is received by the CO.

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.

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).
5. Determine the beginning CPIW number. This is the CPIW number for the month **prior to** the beginning month identified in step 2.
6. Determine the ending CPIW number. This is the CPIW number for the month prior to the HCR-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 part 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:

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.
2. Identify the beginning CPIW number (from part 631, step 5).
3. Identify the ending CPIW number (from part 631, step 6).
4. Calculate the percentage factor. Divide the ending CPIW number by the beginning CPIW number. Carry the decimal to five places.

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

1. Effective date of adjustment: October 6, 2001
2. Beginning CPIW number (from part 631, step 5): 169.1
3. Ending CPIW number (from part 631, step 6): 174.8
4.  $174.8 \text{ divided by } 169.1 = 1.03371$
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.

643 **Approving the Request**

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

644 **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.

645 **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 provision of the contract.

## 7 Effective Date

### 71 General

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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-TPCs (364 days). The first economic adjustment after a renewal may be granted seven HCR-TPCs (196 days) after the effective date of the renewal and every HCR-TPCs (364 days) thereafter.

### 72 Other Than One-Line Adjustments

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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 documentation 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 One-Line Fuel Adjustments

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This section does not apply to highway transportation contracts that require the supplier to purchase all fuel (with limited exceptions) from fueling servicer(s) designated by the CO. For such contracts, pay adjustments based upon changes in fuel prices are determined in accordance with Part I of the Fuel Purchase Instructions included in the contract. The effective date for supplier-initiated one-line fuel adjustments will be the first day of the HCR-TPC that begins during the certification period, provided the request for adjustment and supporting documentation are received within 60 days after the last day covered in the certification period. If the request is not received in this time period, the effective date will be the first day of the HCR-TPC in which the request is received. The CO must process the adjustment as explained in subchapter 62.

## 74 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.

## 75 Documented One-Line Adjustments

Adjustments in documented line items 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 subchapter 44.

## 76 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 subchapter 75).

## 8 **Changes While Adjustment Is Pending**

### 81 **Subcontracts**

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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**

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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**

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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**

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#### 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.