Bednarz
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Comptroller General
of the United States

Washington, D.C. 20548

Decision

Matter of: DGS Contract Services, Inc.

File: B-250306

Date: January 15, 1993

Rickie Day for the protester.
Barry W. Walton for American Coin Meter of Oklahoma, Inc., an interested party.
Bobby G. Henry, Jr. Esq., and Gerald P. Kohns, Esq., Department of the Army, for the agency.
Christine F. Bednarz, Esq., and James A. Spangenberg, Esq., Office of the General Counsel, GAO, participated in the preparation of the decision.

DIGEST

On a solicitation for rental maintenance of washers and dryers for a base year and 4 option years, agency properly rejected apparent low bid as mathematically and materially unbalanced, where the bid exhibits substantial front-loading and does not become low until the final month of the final option year.

DECISION

DGS Contract Services, Inc. protests the rejection of its apparent low bid as unbalanced under invitation for bids (IFB) No. DABT39-92-B-0122, issued by the Department of the Army, for the lease and maintenance of washers and dryers at Fort Sill, Oklahoma. DGS disputes the determination that its bid was unbalanced.

We deny the protest.

The amended IFB, issued on July 16, 1992, contemplated the award of a firm, fixed-price contract for the lease and maintenance of an estimated 655 washers and 564 dryers during a 1-year base period and four 1-year options. The IFB required the contractor to install new equipment at the beginning of the contract period and to provide replacement equipment of the same make, model, and year as that initially installed. The work to be performed during each year of the contract was identical.

The IFB incorporated Federal Acquisition Regulation (FAR) § 52.217-5, which states that the government would evaluate bids for award purposes by adding the total price for all options to the total price for the basic requirement, although the evaluation of options would not obligate the government to exercise the options. The IFB also incorporated FAR § 52.214-10, which warned that the government may reject a bid as nonresponsive if the prices between line items or subline items are materially unbalanced. As defined by that clause, a materially unbalanced bid is one based on prices significantly understated for some work and overstated for other work, if "there is a reasonable doubt that the bid will result in the lowest overall cost to the [g]overnment," even if it is the low evaluated bid. FAR § 52.214-10(e).

Nine firms submitted bids by bid opening on August 27, 1992. DGS, the apparent low bidder, and American Coin Meter of Oklahoma, Inc. (ACM), the apparent second low bidder, submitted the following prices:

	DGS	ACM
Base Year	$172,610.40	$125,230.80
1st Option Year	172,610.40	125,230.80
2nd Option Year	172,610.40	125,230.80
3rd Option Year	59,974.80	125,230.80
4th Option Year	43,884.00	125,230.80
TOTAL	621,690.00	626,154.00

On August 29, 1992, the agency made a written request to DGS to verify its bid prices. The Army noted that the bid prices for the third and fourth option years appeared unreasonably low. In verifying its bid prices, DGS explained that its pricing structure reflected the fact that it paid for its equipment during the first 3 years of the contract and, thus, DGS did not allocate these acquisition costs to the final option years.

On August 31, 1992, ACM filed an agency-level protest alleging that DGS's bid was unbalanced. In response to that protest, the contracting officer determined that DGS had front-loaded its bid to recoup its equipment costs during the first 3 years of the contract and was thus mathematically unbalanced. The contracting officer also determined that DGS's total bid would not become lower than ACM's marginally higher bid until the final month of the final option year. The contracting officer therefore rejected DGS's low bid as mathematically and materially unbalanced and awarded the contract to ACM on September 4, 1992. On September 14, 1992, DGS filed this protest. DGS disagrees that its bid is unbalanced, arguing that the bid accurately reflects its performance costs as incurred, including equipment acquisition costs.

An examination of bid unbalancing has two aspects. First, the bid must be evaluated mathematically to determine whether each item carries its share of the cost of the work, plus overhead and profit; if the bid is based on nominal prices for some work and inflated prices for other work, it is mathematically unbalanced. The second aspect--material unbalancing--involves an assessment of the cost impact of a mathematically unbalanced bid. A bid is materially unbalanced if there is a reasonable doubt that award to the bidder submitting the mathematically unbalanced bid will result in the lowest ultimate cost to the government. Consequently, the government may not accept a materially unbalanced bid. FAR §§ 15.814, 14.404-2(g), 52.214-10(e); Inventory Accounting Serv., B-245906, Jan. 27, 1992, 92-1 CPD ¶ 116.

Here, DGS's price for the base period and two succeeding option periods is nearly three times higher than its price for the third option period and nearly four times higher than its price for the fourth option period; these deviations are significant enough to suggest mathematical unbalancing. Residential Refuse Removal, Inc., B-247198.6, Dec. 28, 1992, 92-2 CPD ¶ ___. While the differential between base and option period prices is not dispositive of whether a bid is mathematically unbalanced, the pricing structure of the bid must be reasonably related to the actual costs to be incurred during each year of the contract. Id; FAR § 52.214-10. Since the level of work required by this contract remains constant over the successive option periods, the large price differential between the base and option periods in DGS's bid does not appear reasonably related to the work required. Therefore, the bid is mathematically unbalanced. See Westbrook Indus., Inc., 71 Comp. Gen. 139 (1992), 92-1 CPD ¶ 30 (involving a solicitation for washer/dryer rental/maintenance where a similarly front-loaded bid was reasonably found mathematically unbalanced); Government Leasing Corp., B-245939, Jan. 27, 1992, 92-1 CPD ¶ 117; Aquasis Servs., Inc., B-228044, Nov. 2, 1987, 87-2 CPD ¶ 426. The explanation offered by the protester for its pricing methodology--that it amortized its equipment acquisition costs in the first 3 years of the contract to coincide with the equipment financing it obtained--amounts to an admission that the bid is front-loaded. Id.

DGS claims that the front-loading of its bid is allowable in this case, since it will be left with "used" equipment following contract performance, which most government agencies will not accept, and it must therefore front-load its bid to assure that it recovers its performance costs if all options are not exercised. A bidder's individual business decisions for front-loading its bid are generally immaterial to the issue of mathematical unbalancing, unless the contract is of a unique nature or the equipment required for performance will have little or no value to the ordinary bidder in the event of early contract termination. Residential Refuse Removal, Inc., supra; cf Roan Corp., B-211228, Jan. 25, 1984, 84-1 CPD ¶ 116. There is nothing in the record to establish that the washers and dryers required by this contract are of a unique or specialized nature, such that they would have little or no value if the contract options are not exercised. In the case of amortizing the costs of generic equipment such as this, DGS was expected to apportion its equipment costs over the evaluated contract period in order to avoid mathematical unbalancing. See Westbrook Indus., Inc., supra.; Government Leasing Corp., supra, D&G Contract Serv., B-232879, Dec. 12, 1988, 88-2 CPD ¶ 584. Inasmuch as the Army received reasonably-priced bids from other firms, such as ACM, willing to accept the risks inherent in proportionate pricing, the Army was not obliged to accept DGS's mathematically unbalanced bid if that bid was materially unbalanced. Westbrook Indus., Inc., supra.

Here, DGS's bid does not become low until the final month of the fourth and final option year. Where, as here, a bid does not become low until late in the contract term, it is materially unbalanced on its face. Id. While DGS argues that we should ignore the substantial front-loading of its bid, since "the government has failed to show that it has [a] reasonable expectation[] that all options would not be exercised," intervening events could alter the agency's initial intent to exercise all options, resulting in a windfall to the bidder and a higher cost to the government than otherwise would occur if a balanced bid were accepted. Residential Refuse Removal, Inc., supra. Based upon the substantial front-loading of DGS's bid, the agency reasonably doubted that the bid would provide the lowest overall cost to the government and properly rejected it as unbalanced. Id., Crown Laundry and Dry Cleaners, Inc., B-208795.2; B-209311, Apr. 22, 1983, 83-1 CPD ¶ 438; Solon Automated Servs., Inc., B-206449.2, Dec. 20, 1982, 82-2 CPD ¶ 548.

The protest is denied.

Robert P. Murphy

for James F. Hinchman
General Counsel