

DECISION



**THE COMPTROLLER GENERAL
OF THE UNITED STATES**
WASHINGTON, D. C. 20548

FILE: B-215102 **DATE:** January 7, 1985

MATTER OF: Crown Laundry and Cleaners, Inc.

DIGEST:

Protest by incumbent contractor providing laundry services from its own facility is denied where the protester has not shown that the procuring agency has unreasonably understated the cost to the government of making an award on the basis of using a government-owned facility.

Crown Laundry and Cleaners, Inc., protests the terms of invitation for bids No. DABT01-84-B-1005, issued by the Department of the Army for laundry services at Fort Rucker, Alabama. The specifications allowed the contractor to provide the laundry services from either a government-owned, contractor-operated (GOCO) facility, using existing equipment and space at Fort Rucker, or from a contractor-owned, contractor-operated (COCO) facility. Crown, the incumbent COCO contractor, challenges the provisions made in the solicitation for adding to the evaluated total of a GOCO bid the costs the government was expected to incur if award was made on a GOCO basis, alleging that the Army had understated such costs. The Army has postponed bid opening pending our decision. We deny the protest.

As indicated above, the solicitation provided for the consideration of offers submitted on either a GOCO or a COCO basis. In the event of an award on a GOCO basis, the Army agreed to provide to the contractor without charge (1) approximately 39,008 square feet of space for use as a laundry plant, office space for the contracting officer's representative, and a laundry pick-up point, (2) assorted laundry equipment, and (3) support services for the GOCO facility, including utilities (gas, electricity and water), insect and rodent control, on-post telephone service, building maintenance, and operation of a steam

production and distribution system. However, the Army indicated in the solicitation that certain costs associated with providing the above space, equipment and services would be added to a GOCO bid for purposes of evaluation. The Army set forth the estimated amount of nine such costs, including, among others, the cost of utilities, repairs and maintenance, boiler start-up and rent. The nine costs total \$146,914 (but stated to be \$146,824) for the base year, \$151,870 for the first option year and \$159,138 for the second option year. Bids were to be evaluated by adding the total price for the option year items to the total price for the base year items.

Prior to bid opening, Crown protested to our Office the amount of the GOCO evaluation penalty, alleging that the actual cost to the government of award on a GOCO basis would total \$358,937 for the base contract year, \$362,246 for the first option year and \$379,936 for the second option year. The Army subsequently amended the solicitation to provide for a total of \$162,180 for the base year, \$159,947 for the first option year and \$167,751 for the second option year to be added to GOCO bids.

Crown initially observes that the Army provided in the prior solicitation for laundry services at Fort Rucker that \$284,553 for fiscal year 1983, \$261,497 for fiscal year 1984 and \$274,279 for fiscal year 1985 would be added to GOCO bids for purposes of evaluation. Crown indicates that it can see no logical reason for the costs of award on a GOCO basis to have decreased to the extent claimed by the Army.

The Army has generally explained that this reduction in estimated costs resulted from such factors as (1) a reduction in the estimated cost of utilities as a result of the exclusion from estimated consumption of that portion associated with space not actually provided but nevertheless previously charged to a GOCO contractor, (2) basing estimates of future utilities consumption on prior meter readings rather than on guesses as to the past consumption of utilities, (3) the adjustment of other estimated costs to reflect only the space actually to be provided to a GOCO contractor, and (4) the use of current prices.

In regard to the cost of utilities, Crown, considering the cost of electricity, gas, water, and sewage, estimates that award on a GOCO basis will result in a base year cost to the government of \$85,128.

Although the Army admits that the cost of utilities will exceed its \$38,437 base year estimate in the solicitation as issued, it maintains that this cost will not exceed its \$46,034 estimate in the amended solicitation. The Army explains that its latest estimate is based on the estimated cost of supplying electricity, steam (including the natural gas, fuel oil and electricity consumed in producing the steam), water and sewage disposal and it has provided us with a detailed analysis of the various cost items involved.

We have previously held that elements of cost or savings to the government which are not included in the bid prices may properly be considered in evaluating bid prices to determine which bid will result in the most advantageous contract, provided that any amounts which are for application in such evaluation must be fairly representative on an actual or estimated basis of true costs or savings to the government. See also Clinton Engines Corp., 43 Comp. Gen. 327 (1963) (cost for transporting, modifying, installing government-owned equipment); cf. Lanson Industries, Inc., 60 Comp. Gen. 661 (1981), 81-2 C.P.D. ¶ 176; Yardney Battery Division, Yardney Electrical Corp., B-215349, Nov. 8, 1984, 84-2 C.P.D. ¶ _____ (cost of government-furnished equipment and materials).

The base year estimates of the cost of utilities and most other items for the base year are the critical estimates since the option year estimates are primarily derived by adding an inflation factor to the base year estimates. Accordingly, we will restrict our discussion to whether the Army's estimate of base year costs is fairly representative of those which will be incurred.

After examining the parties' explanations as to how they derived their conflicting estimates of the likely

base year cost of utilities, we conclude that Crown has failed to demonstrate that the Army has acted unreasonably in reaching its estimate. Cf. Apex International Management Services, Inc., B-212220.2, May 30, 1984, 84-1 C.P.D. ¶ 584 (A-76); Crown Laundry & Dry Cleaners Inc.-- request for reconsideration, B-204178.2, Aug. 9, 1982, 82-2 C.P.D. ¶ 115 (A-76). Crown's conflicting estimate of base year utility costs appears to be based upon either unexplained, speculative or mistaken assumptions.

We note that the Army's estimate that base year electric costs will total \$5,068.82 is based on metered electrical consumption in past years, adjusted downward to reflect the amount of electricity registered on the same meter but consumed by printing facilities that would not be provided to a GOCO laundry services contractor. The Army priced the electricity consumed at the rate of \$.0538 per kilowatt-hour found by the Army to be the direct cost to the government of purchasing power wholesale at a rate of .0485 per kilowatt-hour and distributing it throughout Fort Rucker. By contrast, Crown bases its estimate of \$21,941 for electricity on a largely unexplained estimate of consumption apparently priced at the purported commercial rate of \$.258 per kilowatt-hour, approximately five times the rate actually paid by the government.

Likewise, while the Army has explained that its \$38,765.81 estimate for the cost of steam to be provided in the base contract year was based on actual past consumption, Crown has failed to explain how it arrived at its estimate for the consumption of natural gas, the predominant fuel in the generation of steam at Fort Rucker, and thus how it derived its estimate that the gas would cost \$58,411.20.

As for the cost of water and sewage disposal for the base contract year, the Army explains that it assumed that each pound of laundry processed would require the use of 3 gallons of "process water" the 1983 guideline established by the International Fabricare Institute for allocating utility costs, and .63 gallons of "make-up water." The Army indicates that it then derived its total estimated cost of providing the water and disposing of the resulting

sewage, \$1,377, by reference to the established rates for water and sewage disposal at Fort Rucker and it has provided a detailed analysis of the costs considered in establishing those rates.

By contrast, Crown has based its estimate of \$4,776.36 for water and sewage disposal on (1) an undated and untitled article attributed to "IFI" and which described "actual" consumption as amounting to 4.5 gallons per pound of laundry rather than the "theoretical" 3 gallons and (2) an unexplained, speculative estimate of sewage treatment costs. Not only has Crown failed to show that the Army acted unreasonably in using a figure of 3.63 gallons, see Protek Industries, Inc., B-209505, Sept. 22, 1983, 83-2 C.P.D. ¶ 359, but, in any case, the resulting difference in cost is only \$329.34 when the water is priced at the established Fort Rucker rate.

Crown estimates that the base year cost for the maintenance and repair of the facilities to be provided to a GOCO contractor will total \$62,088, well above the Army's estimate of \$35,966. Crown admits that its estimate is based solely on the assumption that maintenance and repair costs are unlikely to decline below the \$62,088 figure set forth in the prior solicitation since the age of the facilities is increasing and wages and repair costs generally are also increasing.

However, the Army reports that the decline in estimated costs in fact reflected merely (1) the substitution of estimates based on past recorded costs for prior speculation as to the costs of maintenance and repair and (2) this year's reduction in the amount of space considered in calculating the cost of maintenance and repair to only that actually to be provided to a GOCO contractor. Since Crown has introduced no evidence to the contrary, we find that Crown has again failed to carry its burden of demonstrating the unreasonableness of the Army's estimate of maintenance and repair costs.

Nor do we believe that Crown has shown the unreasonableness of the Army's estimate that the start-up costs for a boiler to provide steam to a GOCO contractor would total only \$8,671. Crown's higher estimate of \$21,729 is

based on the expenditure of \$9,229 for labor to operate the boiler plus the \$12,500 in actual start-up costs identified in the prior solicitation.

The Army, however, explains that the cost of labor to operate the boiler was not included in its estimate of start-up costs because the labor required totaled less than one man-year and Army directives concerning cost comparisons require consideration only of whole man-years of labor. Cf. Contract Services Company, Inc., B-210796, Aug. 29, 1983, 83-2 C.P.D. ¶ 268. In any case, we note that in establishing the rate for steam, the Army considered not only the cost of fuel but also the cost of "Operations, other than fuel" and of the "Maint. [Maintenance] of boiler plants." Since the boiler was to produce steam, this suggests that the cost of labor to operate the boiler was already included in the cost of steam. In addition, the Army indicates that \$4,829 of the previously identified cost of start-up has already been expended. Since these funds were expended before bid opening and thus before any decision to award a contract to a GOCO firm, we do not believe that the Army was unreasonable in not adding this sum to GOCO bids for purposes of evaluation.

The Army provided in the amended solicitation that the rental value and cost of ownership of the laundry equipment and space to be provided to a GOCO contractor, estimated as \$47,126 for the base year, would be added to GOCO bids for purposes of evaluation. The Army explained in its response to this protest that this estimate included \$21,436 for the rental value of the laundry equipment to be provided. Crown, however, has replied that the rental value of the equipment in fact totals \$38,488.20, \$17,052.20 more than estimated by the Army.

Although the Army now admits that it overlooked equipment the base year rental value of which totals \$410.64, it nevertheless maintains that its estimate is otherwise accurate. The Army indicates that, in accordance with Department of Defense (DOD) policy, it calculated the rental cost of individual pieces of equipment

by first obtaining the current official cost for similar new equipment, then applying to that cost a standard DOD deflation factor to obtain the estimated initial acquisition cost, and finally by multiplying the estimated acquisition cost by a standard DOD monthly rental factor stated as a percentage of the acquisition cost.

The Army explains that some of the discrepancy between the two estimates of rental cost, a portion of which we estimate to total approximately \$3,200, resulted when Crown calculated the unit acquisition cost by applying the standard deflation factor to the current acquisition cost of similar new equipment as of July-August 1984, 4-5 months after the solicitation was issued and after Crown had filed this protest. By contrast, the Army derived the rental value based upon the acquisition cost of similar new equipment as of the time when the solicitation was issued.

The Army explains that the discrepancy was increased, by a sum which we estimate to total approximately \$8,900, when Crown included in its estimate the rental value of certain boiler plant equipment. Although the boiler was scheduled to provide steam to a successful GOCO contractor, the cost of generating that steam was already included in the evaluation factor for the cost of utilities. Moreover, the Army maintains, and the solicitation indicates, that the boiler plant equipment would not be provided to a GOCO contractor.

The Army next identifies three laundry "Pressing Units, Coat, Body-Bosom Ajax" for which Crown allocated a separate rental cost. However, these units were in fact included as part of the laundry "Shirt Unit" for which Crown and the Army had already allocated a rental cost. This duplication added approximately \$4,000 to Crown's estimate. The Army also points out that Crown erroneously added over \$270 to the rental value of the laundry folding machines to be provided to a GOCO contractor when it used an erroneous current acquisition cost figure for the machines.

Finally, the Army refers to policy directives from the Controller of the Army directing contracting activities to ignore depreciation and the cost of capital for units with a replacement value of less than \$1,000. The Army cites this policy as justification for excluding from its estimate approximately \$1,100 in rental costs for equipment considered by Crown in calculating its estimate.

We consider the \$410.64 error which the Army admits to having made in calculating the rental value of the laundry equipment to be provided to a GOCO contractor to be de minimis. Furthermore, given the Army's explanation as to the remaining discrepancies between the two estimates, we do not believe that Crown has shown the Army's estimate to be otherwise unreasonable.

The final issue is the reasonableness of the evaluation factor intended to reflect the rental value and cost of ownership of the equipment and space to be provided to a GOCO contractor. The Army indicates that the \$47,126 evaluation factor included \$25,690 as the rental value of the space calculated at a rate of \$.60 per square foot. Crown, however, contends that the true rental value of the space was approximately \$1.60 to \$1.75 per square foot and has submitted quotations from real estate agents in support of its claim.

The Army obtained from three commercial sources estimates of \$.05, \$.75 and \$1.00 per square foot as the rental value of a 42-year old, "temporary" wooden structure with concrete foundation used for an industrial/commercial activity and for which utilities were available. The Army then derived the \$.60 per square foot rental value used in its evaluation by averaging these three estimates. As indicated above, Crown contends that the Army has understated the rental value of its property. Crown asserts that those who provided the Army with estimates were not aware of all the requirements of the solicitation and has furnished other, higher rental estimates in support of its assertion. In particular, Crown contends that the real estate agent who had provided the Army with the estimate of \$.05 per square foot subsequently increased his estimate to \$2.00 per square foot upon being given "additional information."

The Army responds that the "requirements" which it allegedly failed to provide those who provided it with quotations were not in fact requirements of the IFB, or were addressed in the contacts the Army made with local realty sources, or were already present in the existing structure. In addition, the Army asserts that Crown's rental quotations appear to be based upon more modern and more substantially-constructed buildings and include some higher-priced "office space" which under the IFB the government is not required to provide to the contractor. With regard to the real estate broker who had provided a \$.05 per square foot quotation to the Army, his subsequent letter to Crown states in pertinent part:

"Modern buildings ranging in floor space from 1000 to 2500 square feet are presently leasing for from \$2.50 to \$3.50 per square foot.

"The same type structure ranging in square footage up to 15,000 square feet are presently leasing for approximately \$2.00 per square foot.

"The source of this information is present lease cost of floor space in existing shopping centers and office space."

The Army maintains that the \$2.00 per square foot quotation is based upon "modern buildings" consisting of "existing shopping centers and office space" not comparable to the Ft. Rucker laundry building.

We do not believe Crown has shown the Army's estimate of the rental value of its building to have been unreasonable. We recognize that the estimate of \$.05 per square foot given to the Army by one real estate agent was substantially lower than the other two and that had it been disregarded the estimated rental rate would have been \$.875 per square foot instead of \$.60. This is approximately one-third higher than the figure the Army used but still approximately half that which Crown contends should be applied. We note, however, that in his letter written to Crown after this protest was filed, which Crown has provided in support of its contention, the agent who had initially quoted the Army the figure of \$.05 per square

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foot did not specifically repudiate that figure or claim that he had given it on the basis of inadequate or misleading information. He simply states that, based upon the "present lease cost of floor space in existing shopping centers and office space," "modern buildings" of 15,000 square feet are presently leasing for approximately \$2.00 per square foot. We do not believe that this demonstrates that the Army's estimate of the rental value of a World War II-era "temporary" building in fair condition was unreasonable.

The protest is denied.

Milton F. Auer
for Comptroller General
of the United States