The Comptroller General
of the United States

Washington, D.C. 20548

Decision

Matter of: Kidde, Inc., Weber Aircraft Division

File: B-223935; B-223935.2

Date: November 19, 1986

DIGEST

1. Where an offeror explains that the reason its base year price is 2.6 percent higher than its first option year price is because it will incur lower labor costs in the option year due to a shift in location of production facilities to a lower labor cost area, its offer is not mathematically unbalanced.

2. An offer is neither mathematically nor materially unbalanced where gross mathematical unbalancing is not present and the offeror adequately explains its cost structure.

DECISION

Kidde, Inc., Weber Aircraft Division (Weber), protests the award of a contract to McDonnell Douglas Corporation, Douglas Aircraft Company (Douglas) under request for proposals (RFP) No. F33657-86-R-0029, issued by the Department of the Air Force, Headquarters Aeronautical Systems Division (AFSC), to produce the the Advance Concept Ejection Seat (ACES II) for the F-16 aircraft.

The protest is denied.

This solicitation resulted in two awards. Weber was awarded a contract to produce 104 ACES II for the F-15 while Douglas received an award to produce the ACES II for the F-16. Weber protests the portion of the award to Douglas.

Initially, Weber protested on the grounds that although it was technically qualified it was not selected for award even though its offer was over $400,000 less than Douglas'. Subsequently, Weber expanded the bases of its protest by arguing that Douglas' pricing proposal is mathematically and materially unbalanced, inasmuch as it is front loaded. Weber also contends that the combination of options which may be awarded cannot be ascertained. Additionally, Weber states that since the Air Force intends to incorporate major changes into the ACES II, there is no quarantee that Douglas' alleged unbalanced bid will result in the lowest cost to the Air Force.

The solicitation called for quotes for a basic year quantity of 272 ACES II and also asked for offers for the most probable quantities for 3 option years. The following tables set out Douglas' and Weber's offers for the F-16 portion of the contract.

Douglas

	Quantity	Total Price	Price Per Seat	Percentage Change
Basic Year	272	$17,731,152	$65,188	
Option Year 1	284x	$18,029,809	63,485	-2.6%
Option Year 2	236x	$15,832,119	67,085	+5.6%
Option Year 3	236x	$16,968,696	71,901	+7.7%
	Total	$68,561,776		

Weber

	Quantity	Total Price	Price Per Seat	Percentage Change
Basic Year	272	$17,297,870	$63,595	
Option Year 1	284x	$18,954,959	66,743	+4.9%
Option Year 2	236x	$16,420,747	69,579	+4.2%
Option Year 3	236x	$17,098,094	72,450	+4.1%
	Total	$69,771,670		

x most probable quantity.

Since the solicitation stated that award would be based on the total price for the basic quantity and all options, the Army awarded to Douglas because its total price was $1,209,894 lower than Weber's. We deny Weber's protest that it should have been awarded the contract because it was low on the basic quantity because the RFP clearly stated that option prices would be evaluated.

Weber also argues that Douglas' proposal was mathematically unbalanced because Douglas' first option year price was

$300,000 more than its base year price. In this regard, Weber cites decisions of this office that state that the test for mathematical unbalancing is whether each bid item carries its share of the cost of the work plus profit, or whether the bid is based on nominal prices for some work and enhanced prices for other work. See Lear Siegler, Inc., B-205594.2, June 29, 1982, 82-1 C.P.D. ¶ 632. Weber also contends that Douglas' bid is materially unbalanced because there is reasonable doubt that the award will result in the lowest ultimate cost to the government. In this connection, Weber cites Riverport Industries, Inc., 64 Comp. Gen. 441 (1985), 85-1 C.P.D. ¶ 364, for the proposition that material unbalancing exists where a bidder front loads its bid, even though its overall price was the lowest because the bidder would be receiving an advance payment.

Finally, Weber argues that funding for future option years remains in doubt and even if all option years are funded there is no assurance that Douglas' price will be low due to a strong possibility that changes will occur to the ACES II. Weber refers to an Air Force news release which describes an improved type of parachute, the Automatic Inflation Module (AIM), which is being considered for use in several aircraft including the F-16. Since the incorporation of the AIM into the ACES II will have an impact on cost, Weber argues that the Air Force is not assured of receiving the lowest cost from Douglas. Weber similarly argues that it has learned that three engineering change proposals (ECP) will be incorporated into the present ACES II contract and as a result of the expected changes it cannot be said that Douglas' proposal represents the lowest price.

The Air Force points out that Douglas' price per ACES II unit varied -2.6 percent for the first option year, +5.6 percent for the second and +7.2 percent for the third whereas Weber's prices increased +4.9 percent for the first option year, +4.2 percent of the second and +4.1 percent for the third. The Air Force states that the reason Douglas' proposal has a higher unit price in the first year is because that year the ACES II will be produced at its plant in California. In an effort to be more competitive, Douglas is moving its operation to Florida, where labor rates are substantially lower, between the basic year and the first option year. Accordingly, the unit cost in the first option year drops.

Weber urges us to not consider the latter explanation on the basis that this Office has stated it will not examine business reasons for front loading a bid. Crown Laundry and Dry Cleaners, Inc., B-208795.2; B-209311, Apr. 22, 1983, 83-1

C.P.D. ¶ 438 and International Shelter Systems, Inc., B-218167, May 15, 1985, 85-1 C.P.D. ¶ 549.

We have recognized two aspects to unbalanced bidding, both of which must exist before a bid is rejected. First, the bid must be found to be mathematically unbalanced, which involves an assessment as to whether each bid item carries its share of the total cost of the work plus profit, or whether the bid is based on nominal prices for some work and enhanced prices for other work. Second, the bid must be materially unbalanced, that is, there must exist a reasonable doubt that an award to the bidder submitting a mathematically unbalanced bid will result in the lowest ultimate cost to the government. IMPSA International, Inc., B-221903, June 2, 1986, 86-1 C.P.D. ¶ 506 at 5.

An assessment of whether a bid is mathematically unbalanced must go beyond the mere percentage differentials between base and option period prices to determine whether those prices are accurate reflections of the actual costs that will be borne by the bidder in performing each year of the contemplated contract. Accordingly, the determinative question is whether the pricing structure is reasonably related to the actual costs to be incurred in each year. Fidelity Moving and Storage Co., B-222109.2, May 21, 1986, 86-1 C.P.D. ¶ 476. By necessity, therefore, our decisions allow offeror explanation of its prices to show why the offer may appear front loaded. See Fidelity Moving & Storage Co., B-222109.2, supra, and IMPSA International, Inc., B-221903, supra.

The Air Force has explained and Weber does not challenge the fact that Douglas' base year labor costs producing the ACES II in California will be higher than its labor costs in the first option year in Florida. As noted above, we will examine an offeror's reasons for apparent front loading. Higher labor costs in the base year of a contract and lower costs in the subsequent years due to labor efficiency have been held to be a reasonable explanation for a base/option year differential. Integrity Management International, Inc., B-217016, Dec. 11, 1984, 84-2 C.P.D. ¶ 654. In light of this explanation, we have no reason to believe that Douglas' proposal was mathematically unbalanced particularly in view of the fact that its per unit price in the base year is only 2.6 percent higher than its per unit price for the option year. Nor do we find Douglas' offer materially unbalanced. The decision cited by Weber concerning the prohibition against making advance payments (Riverport Industries, Inc., 64 Comp. Gen. 441, supra, involved gross mathematical unbalancing (over 1000 percent).

We do not think that there is substantial doubt that the Air Force will exercise the options. The contracting officer reports that there is a firm requirement from the F-16 system program office at Wright-Patterson Air Force Base, Ohio, for 241 ACES II for fiscal year 1988. The Air Force states that since there are several foreign nations, based on past experience, which will also be buying ACES II in fiscal year 1988, the most probable quantity of 284 for the first option year is a realistic projection upon which to base the award. Moreover, the Air Force notes that the government will receive the lowest ultimate cost just by exercising its option for the first option year. We think that the Air Force's projection provides a basis for its actions. Weber's argument, that there is no certainty of funding by Congress for future option years is unpersuasive since such reasoning would invalidate all solicitations calling for the evaluation of option years.

With regard to the possible incorporation of AIM into future ACES II production, the Air Force states that AIM is currently only in the test phase and the Air Force does not expect an engineering change proposal to incorporate AIM until fiscal year 1990 at the earliest. There is no reason to believe that either the possible future incorporation of AIM or other engineering change proposals will cause the government to fail to obtain the lowest ultimate cost here. Whether and to what extent such future changes may cause costs to vary for Weber or Douglas is speculative. Accordingly, we have no basis to sustain Weber's protest.

The protest is denied.

for Seymour Efros
Harry R. Van Cleve
General Counsel