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Comptroller General
of the United States

Washington, D.C. 20548

Decision

Matter of: Inventory Accounting Service

File: B-245906

Date: January 27, 1992

Darcy V. Hennessy, Esq., Moore, Bucher & Morrison, for the protester.
Kenneth J. Densmore, Esq., Department of the Navy, for the agency.
Barbara R. Timmerman, Esq., Office of the General Counsel, GAO, participated in the preparation of the decision.

DIGEST

The apparent low bid on a contract for rental and maintenance of washers and dryers for a 1-year base period and two 1-year options is materially unbalanced where there is a price differential of 1000 percent between the base year and either option year and the requirement is essentially the same for all 3 years. Since the agency has reasonable doubt that the acceptance of a bid which does not become low until well into the last option year ultimately would result in the lowest overall cost to the government, the bid was properly rejected.

DECISION

Inventory Accounting Service protests the award of a contract to Westbrook Industries, Inc. under invitation for bids (IFB) No. 00128-91-B-0085 issued by the Department of the Navy for rental and maintenance of washers and dryers at the Naval Training Center, Great Lakes, Illinois. Inventory Accounting challenges the Navy's determination that its bid was unbalanced. We deny the protest.

The IFB requested monthly and extended annual rental prices for a 1-year base period with two 1-year options. The prices were to include installation, maintenance, repair, and removal of 375 washers and 358 dryers located at various sites within the Center.

The agency received ten bids. Westbrook, the third-low bidder, filed a protest with the agency contending that the bids of the first and second low bidders, Inventory Accounting and Government Leasing Corporation, were materially unbalanced. After analyzing the offers, the contracting officer agreed with Westbrook and made award to that firm. Inventory Accounting then filed its protest with our Office.

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 specified for that item as well as overhead and profit. If the bid is based on nominal prices for some of the work and enhanced prices for other work, it is mathematically unbalanced. The second part of the test is to evaluate the bid to determine whether award to a bidder that has submitted a mathematically unbalanced bid will result in the lowest overall cost to the government. If award to a party that submits a mathematically unbalanced bid will not result in the lowest overall cost to the government, the bid is materially unbalanced and cannot be accepted. Westbrook Industries Inc., B-245019.2, Jan. 7, 1992, 92-1 CPD ¶ ___.

Inventory Accounting and Westbrook submitted the following prices:

	Inventory Accounting	Westbrook
Base Year	$224,400.00	$98,991.00
First Option Year	21,335.40	96,756.00
Second Option Year	21,335.40	92,719.20
Total	$267,070.80	$288,466.20

Inventory Accounting asserts that its bid is not unbalanced. The protester contends that its base year price legitimately includes the cost of acquiring the new equipment required by the contract, as well as installation and other start up costs, including insurance and a maintenance policy.

With regard to service contracts that involve evaluation of a base period and option periods, a bid will be questioned if, in terms of the pricing structure evident among the base and optional periods, it is neither internally consistent nor comparable to the other bids received. We have recognized that a large price differential between base and option periods, or between one option period and another, may be prima facie evidence of unbalancing. Professional Waste Systems, Inc.; Tri-State Services of Texas, 67 Comp. Gen. 68 (1987), 87-2 CPD ¶ 477.

The record shows that Inventory Accounting is seeking to recover 84 percent of its cost in the first year of the contract. In fact, Inventory Accounting's base year price is over 1000 percent higher than its option year price. We have held much smaller differentials to indicate by their very magnitude that the offer is unbalanced. D&G Contract Services, 68 Comp. Gen. 277 (1989), 89-1 CPD ¶ 219. We note additionally, that in comparison to the other bids submitted, Inventory Accounting's option year prices are the lowest while its base year price is the second highest of the 10 bids.

Inventory Accounting's bid is clearly frontloaded. Although business reasons for frontloading bids may well exist here, we cannot ignore the fact that a bid such as Inventory Accounting's enables it to use, during a base contract period, government funds more properly allocable to option periods and creates the prospect of a windfall if all options are not exercised. Id.

In this case, the Navy asserts a reasonable doubt that the options will be exercised due to changes in its personnel and funding structure. If the Navy declines to exercise any options, the cost of a contract with Inventory Accounting would be $224,400, over twice that of a contract with Westbrook. In response, the protester argues that the Navy's concern is unsubstantiated and that if the agency did not expect to exercise the options, it should have indicated that fact in the solicitation.

In cases of extreme frontloading where a bid does not become low until the end of the final option year, we have found the evidence of material unbalancing simply on the face of the bid. In such cases, because intervening events could cause the contract not to run to full term resulting in an inordinately high cost to the government, there necessarily exists a reasonable doubt that the bid in question would result in the lowest ultimate cost to the government. See Professional Waste Systems, Inc.; Tri-State Services of Texas, 67 Comp. Gen. 68 supra. Thus, an agency need not accept a bid which will have the effect of forcing it to exercise every option in order to obtain the lowest price overall. Contrary to the protester's assumption, an option is just that; its exercise must depend ultimately on an agency's needs rather than the coercive effects of an unbalanced contract.

The record here shows that Inventory Accounting's bid does not become the lowest until near the end of the last option year, in fact, not until the 33rd of 36 possible months. We consequently conclude that the Navy had sufficient reasonable doubt that acceptance of Inventory Accounting's bid would actually provide the lowest cost to the government.

The protest is denied.

Seymour Efros

for James Hinchman
General Counsel