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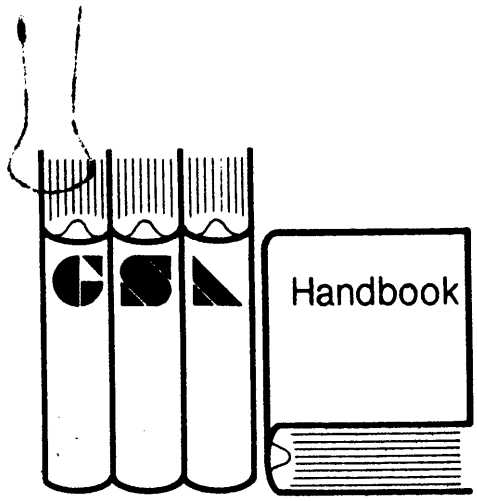

Contract Value Incentive Clauses

General Services Administration

CONTRACT VALUE INCENTIVE CLAUSES

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CHAPTER 1. INTRODUCTION

PART 1. GENERAL

1. Scope. This handbook prescribes requirements for use of Value Incentive Clause (VIC) in PBS contracts and supplements ch. 5B of the General Services Administration Procurement Regulations (41 CFR 5B). It also provides administrative guidelines and procedures for acting on contractor proposals received pursuant to the clause.

2. Definitions and abbreviations. A listing of definitions and abbreviations common to use with regard to the Value Incentive Clause is provided in fig. 1-2.

3. Authority.

a. All authority exercised in connection with the guidelines and procedures prescribed in this handbook shall be in accordance with existing redelegations of authority and administrative limitations except as modified herein.

b. Regional Commissioners and Assistant Commissioners are authorized to consider requirements in all PBS publications as general guidance rather than rigid standards except to the extent otherwise provided in subpar. (2) below in order to approve and implement results from value management (VM) efforts.

(1) Where definite advantages can be expected, deviations are authorized providing a professional judgment has been made that a safe, adequate, more economical, or better design or procedure will result.

(2) This authorization for worthwhile deviations does not apply to deviations from statutory requirements, Federal Procurement Regulations, General Services Administration Procurement Regulations (Chapter 5B), or Executive Orders. Examples of statutory requirements include provisions for the handicapped, air and water pollution abatement and control, and the use of specifications which are nonproprietary.

4 thru 7. Reserved.

VIC - Value Incentive Clause, language provided in a contract permitting the contractor to submit cost saving ideas to the contracting officer and share in the savings if approved.

VCP - Value Change Proposal, the contractor's written proposal suggesting a change to the contract in order to save instant costs, collateral costs, or future acquisition costs.

Instant cost - Cost to be borne by the contractor to perform his work under the current contract.

Collateral cost - Cost to be borne by the owner in using contract work after completion of the contract.

Development cost - All cost borne by the contractor in developing a VCP up to the point in time where it is accepted.

Implementation cost - All cost borne by the contractor, after acceptance, in order to implement a VCP.

Life Cycle Cost - The total costs of acquisition and ownership or use of an asset for a stated period of time.

Ownership Cost - The total costs to operate, maintain, repair, replace, or support an asset for a stated period of time.

CAVS - Contract Administration Value Specialist, an individual designated by the procuring office to be specially trained in VIC procedures and to provide administrative support for processing VCP's.

DAR - Duly Authorized Representative, an individual designated by the Contracting Officer to represent him in administering contract performance.

Figure 1-2. Definitions and abbreviations

PART 2. BACKGROUND

8. Purpose. The VIC invites industry to challenge unrealistic or unessential Government contract requirements and to profit by doing so. The procurement phase is the last opportunity to save on work before it is actually delivered and is very often the last opportunity to have significant impact on ownership costs before they are solidified by procurement. The Government desires to benefit from the experience and knowledge of its contractors in the areas of cost, new materials, techniques, and industry standards.

9. Incentive. The VIC rewards contractors who propose changes to contract documents which will result in reducing cost without sacrificing required quality or function. The sharing incentive arrangement is established to encourage contractor initiative and ingenuity in identifying and successfully challenging high cost areas in contracts. The following types of incentives can be provided in the VIC:

a. Instant sharing. Contractors may share in savings realized by modifying or eliminating work required under the terms of the instant contract. All of our VIC's provide for instant sharing.

b. Collateral sharing. In addition to instant sharing, all VIC's provide that a contractor may share in any savings in future Government costs of ownership of the work provided under the instant contract, caused as a result of a proposal to change contract requirements. Note that there need not be a savings in the instant contract for the contractor to qualify for collateral sharing. However, there must be a life cycle savings for him to so qualify.

c. Royalty sharing. Only contracts for equipment or supplies provide for royalty sharing. When a contractor submits a Value Change Proposal (VCP) under one of these contracts that causes a unit price reduction on the item being purchased, the contractor may receive a royalty share of savings on every future item ordered by GSA within a stated period of time. Future orders need not be with the same contractor in order for him to qualify.

10. Risk. The VIC encourages entrepreneurship by paying contractors equitably for the financial risks they undertake to develop VCP's. While the clause seeks to encourage contractors to engage in VM, they are not required to do so. Entirely permissive in nature, the clause allows a contractor to ignore this provision and still perform under his contract. If a contractor does participate, he risks the investment of his resources in preparing and submitting VCP's. He is required to do this while maintaining the contract schedule or face the risk of paying liquidated damages for delays incurred as a result of his participation. The Government in turn, is risking its investment in administering and managing the program and in processing and evaluating proposals submitted.

11. Sharing. The fixed sharing percentages shown in the VIC are established to equitably distribute the degree of risk between contractor and Government, while providing sufficient incentive to motivate contractor submittal and Government acceptance of VCP's. Since contractor work is often subcontracted, the VIC provides that the Government receive a slightly reduced share in order to broaden the base of participation. By doing this, the VIC provides motivation for subcontractor participation while providing prime contractors with incentives to encourage subcontractor participation and to forward such proposals to the Government.

12. Performance of VM. Contractors who utilize the methodology of VM and actually perform VM analysis will be most successful in minimizing the risk of their participation. Application of VM techniques should be encouraged by the Government; however, it is essential to understand that the VIC does not require the contractor to do VM per se or to apply its methodology in order to have an acceptable VCP. Where or how a contractor arrives at an idea does not matter. What does matter, in order for the contractor to have a valid VCP is that:

a. The contractor develop and present it at his own expense;

b. The proposal is specific in nature requesting a specific change and offering a specific price adjustment; and,

c. The proposal identifies itself as being submitted pursuant to the VIC of a specific contract.

13. Proposal evaluation. Even though the VIC does not require contractors to use VM methodology, the Government must evaluate VCPs against the standards of the VM program. The clause, intent and objectives, together with proposal data requirements as set forth by the VIC, are designed to guide contractor participation in the proper direction.

14. Program benefits. The VIC provides Government employees with a tool to utilize in achieving objectives in their area of interest other than merely saving money. This paragraph reviews some of the benefits to be gained by recognizing the potential of the clause and utilizing it effectively to serve a wide variety of objectives.

a. Research. Some proposals offered by contractors have involved new and untested materials or procedures that one might be reluctant to try without more knowledge. Managers have used these proposals effectively by approving them as research applications where the risk or consequence of failure was low. Identifying and monitoring these applications can provide a good opportunity to try something new at minimal expense to the Government.

b. Change orders. Sufficiently motivated, contractors have shifted their concentration from searching for extras to collect upon to searching for VM credit change orders to submit. When contractors find it more profitable to perform VM for the Government than submit claims, both parties benefit.

c. Proprietary materials. Frequently, Government cannot specify materials it desires because they are proprietary. When such materials are more economical they can be incorporated into the contract through the change procedure or under the VIC.

d. Performance. GSA and others have been pleasantly surprised to learn that most VCPs offer attendant benefits to some element of performance. Fig. 1-14 portrays a summary of 162 approved contractor changes during the years 1972-1974. Each change was rated by the regional office at the time of approval on the 14 factors shown. Out of a possible 2,268 ratings, 20.3 percent showed positive benefit while 2.4 percent showed negative benefit which were not sufficient to warrant disapproval of the VCP.

VCP IMPACT ON OTHER FACTORS

FACTORS	NOT APPLICABLE	GREAT BENEFIT	SOME BENEFIT	NO EFFECT	SOME DIS-ADVANTAGE	LARGE DIS-ADVANTAGE
APPEARANCE	57	3	9	87	6	0
MAINTAINABILITY	20	14	32	90	5	1
RELIABILITY	26	9	22	102	3	0
PERFORMANCE	18	7	30	104	3	0
TIME	35	10	50	63	4	0
STANDARDIZATION	55	8	28	70	1	0
QUALITY	29	6	15	108	4	0
SIMPLIFICATION	19	14	96	31	2	0
WEIGHT	49	4	39	63	7	0
AVAILABILITY	45	9	33	72	3	0
FIRE PROTECTION	52	0	6	98	6	0
PACKAGING	162	-	-	-	-	-
HANDLING	162	-	-	-	-	-
SAFETY	53	0	8	99	2	0
(List other factors used to judge VCP)						
Acoustics	58	0	4	95	5	0
Vibration	60	0	5	93	4	0

Figure 1-14. VCP performance effectiveness

e. Design deficiencies. The VIC has also been used to solve costly design deficiencies. When contract plans are in error or are incomplete, this often results in costly changes to the contract. Contractors have been known to submit VCP's voluntarily that result in correcting inherent design deficiencies. In some cases, a problem created by defective design may suitably be overcome or circumvented by a VCP solution. But, in other situations, it might be very imprudent to resolve the problem by and through the mechanism of the VIC in the construction contract; it could result in the Government's inability to recover damages (see FPR 1-16.901-253, clause 2 of SF 253) from the architect when there are damages not eliminated by the VCP solution.

f. Reducing cost. In an effort to stay within budget limitations and gain contractor cooperation, Contracting Officers have requested the contractor investigate certain areas of the contract requirements and submit VCP's. Care should be taken to identify only the area of Government receptivity for VCP submittal without providing a specific alternate solution for the contractor's consideration. After all, the contractor's share is payment for services rendered and part of his service is the expense of investigating the subject and arriving at his own alternate solution if he cares to do so.

15. Program cost. Since the VIC does not require the contractor to perform VM, the inclusion of the clause should not in itself increase costs to the Government.

a. In accordance with the above, VM shall not be allowed as a direct charge against cost type contracts or negotiated contracts containing the VIC.

b. However, the cost of VM is an allowable indirect charge to the extent that it is reasonable in the conduct of the contractor's business as a whole and allocable to the particular contract.

c. Notwithstanding the requirements of a and b, developmental costs of successful VCP's are deductible from over-all cost savings in accordance with VIC.

16. Reserved.

PART 3. CONTRACTOR MOTIVATION

17. Necessity for motivation. Experience has shown that the incentive to share savings is not in itself sufficient motivation to induce active and repetitive contractor participation. Where contractors failed to participate, the reasons given most frequently for lack of motivation were:

a. Program objectives were not fully supported at all levels of the procuring activity.

b. Review time was often inordinately long or contractors did not receive replies to their proposals.

c. Reasons for disapproval of VCP's were often diplomatic and bureaucratic rather than valid technical rataionale for unacceptability

d. And lastly, contractors found that the Government would not accept the same degree of risk in approving a VCP that they would take in approving any other change order for extra work or correction of a deficiency.

18. Responsibility. It is the responsibility of each Regional Commissioner to motivate contractors to participate by submitting VCP's.

19. Emphasis. The emphasis on motivation is keyed to participation. A large volume of proposals is desired and repetitive submittal by the same contractor is desired. Quantity is desired at the sacrifice of some proposal quality, if necessary, to initiate participation. Ultimately, proposal quality must increase and be stressed because this will impact on the approval rate. The objective of this emphasis is to encourage contractors to freely offer to reduce their contract price. Any action or attitude that results in stemming the flow of VCP's is counter productive; it reduces the opportunity for PBS to capture the windfall savings, the truly original and creative idea that occurs only once in a thousand submittals.

20. Motivational techniques. No single idea or procedure set forth in this handbook will be sufficient to stimulate an effective contractor program. Accomplished in total, however, they can have quite an impact toward achieving success. The administrative procedures set forth in ch. 3 were formulated toward the sole objective of not impairing contractor motivation to participate. From the permissibility of contractor payment to even utilizing letters of rejection as a motivational tool, all contribute to this objective.

21. Contractor training. While training of contractors is not the responsibility of the Government, it is to Government advantage to ensure that contractors profit from program participation.

a. Indicators of need for contractor training are:

(1) High disapproval rates;

(2) Failure to participate;

(3) Many marginal quality ideas;

(4) Incomplete proposals; and

(5) Failure to repeat participation.

b. Training opportunities for contractors that have proven valuable in promoting better participation are:

(1) Permitting contractors, under contract with the Government, to attend courses held for Government employees for contractual VM training.

(2) Supporting industry-sponsored training efforts;

(3) Government hosting of 1-day seminars developed to promote contractor participation; and

(4) Training conferences for individual contractors, under contract with the Government, when necessary to improve participation or gain a new participant.

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CHAPTER 2. CLAUSES

PART 1. GENERAL PROVISIONS

1. Scope. This chapter provides the requirements for applicability and incorporation of the appropriate VIC in each of the various types of contracts let by or for PBS.

2. New procurements. The applicable VIC shall be included in all solicitations as hereinafter specified.

3. Existing contracts. Existing contracts of any dollar value may be modified, by bilateral agreement, to incorporate the provisions of the applicable VIC. This action is encouraged if it can be reasonably expected to motivate contractor participation and no change is made in contract price, completion, or delivery time. Contractor requests for inclusion of the VIC shall not be refused unless coupled with a demand for an increase in contract price, an extension of performance time, or other similar condition.

4. Use in smaller procurements. The appropriate VIC may be incorporated into solicitations of smaller size procurements at the option of the Contracting Officer.

5. Use in special contracts. The appropriate VIC normally should be incorporated into all special contracts such as for turnkey, performance specification, or building systems contracts. Contact the Director, Value Management Division (PCV) for special guidance, or waiver, if necessary.

6 thru 8. Reserved.

PART 2. CONSTRUCTION CONTRACTS

9. Clause. GSA Form 2653, Value Incentive Clause (Construction Contract), illustrated in fig. 2-9, is prescribed for use in all solicitations estimated to result in contracts in excess of $10,000 for procurement of construction, renovation, and repair and alteration work.

10 thru 12. Reserved.

VALUE INCENTIVE CLAUSE

(CONSTRUCTION CONTRACT)

1. *OBJECTIVES*–This clause applies to any cost reduction proposal (hereinafter referred to as a Value Change Proposal or VCP) initiated and developed by the Contractor for the purpose of changing any requirement of this contract. This clause does not, however, apply to any such proposal unless it is identified by the Contractor, at the time of its submission to the Government, as a proposal submitted pursuant to this clause.

1.1 VCP's contemplated are those that would result in net savings to the Government by providing either: (1) a decrease in the cost of performance of this contract, or; (2) a reduction in the cost of ownership (hereinafter referred to as collateral costs) of the work provided by this contract, regardless of acquisition costs. VCP's must result in savings without impairing any required functions and characteristics such as service life, reliability, economy of operation, ease of maintenance, standardized features, esthetics, fire protection features and safety features presently required by this contract. However, nothing herein precludes the submittal of VCPs where the Contractor considers that the required functions and characteristics could be combined, reduced or eliminated as being nonessential or excessive to the satisfactory function served by the work involved.

1.2 A VCP identical to one submitted under any other contract with the Contractor or another Contractor may also be submitted under this contract.

1.3 A proposal to decrease the cost of performing the contract solely or principally by substituting another Subcontractor for one listed by the Contractor in his bid is not a VCP. In considering a VCP which, as an incident thereof, would entail substitution for a listed Subcontractor, maintaining the objective of the Subcontractor listing will be taken into account along with factors cited in paragraph 1.1 above.

2. *SUBCONTRACTOR INCLUSION*–The Contractor shall include the provisions of this clause, with a provision for sharing arrangements that meet or exceed the minimum percentage contained herein, in all first-tier subcontracts in excess of $25,000, and in any other subcontract which, in the judgment of the Contractor, is of such nature as to offer reasonable likelihood of value change proposals. At the option of the first-tier Subcontractor, this clause may be included in lower tier subcontracts. The Contractor shall encourage submission of VCPs from Subcontractors; however, it is not mandatory that the Contractor accept and/or transmit to the Government VCPs proposed by his Subcontractors.

3. *DATA REQUIREMENTS*–As a minimum, the following information shall be submitted by the Contractor with each VCP:

3.1 A description of the difference between the existing contract requirement and the proposed change, and the comparative advantages and disadvantages of each; including justification where function or characteristic of a work item is being reduced;

3.2 Separate detailed cost estimates for both the existing contract requirement and the proposed change, and an estimate of the change in contract price including consideration of the costs of development and implementation of the VCP and the sharing arrangement set forth in this clause;

3.3 An estimate of the effects the VCP would have on collateral costs to the Government, including an estimate of the sharing that the Contractor requests be paid by the Government upon approval of the VCP;

3.4 Architectural, engineering or other analysis, in sufficient detail to identify and describe each requirement of the contract which must be changed if the VCP is accepted, with recommendation as to how to accomplish each such change and its effect on unchanged work;

3.5 A statement of the time by which approval of the VCP must be issued by the Government to obtain the maximum cost reduction during the remainder of this contract, noting any effect on the contract completion time or delivery schedule; and,

3.6 Identification of any previous submission of the VCP including the dates submitted, the agencies involved, the numbers of the Government contracts involved, and the previous actions by the Government, if known.

4. *PROCESSING PROCEDURES*–Six copies of each VCP shall be submitted to the Contracting Officer, or his duly authorized representative. VCPs will be processed expeditiously; however, the Government will not be liable for any delay in acting upon a VCP submitted pursuant to this clause. The Contractor may withdraw, in whole or in part, a VCP not accepted by the Government within the period specified in the VCP. The Government shall not be liable for VCP development cost in the case where a VCP is rejected or withdrawn. The decision of the Contracting Officer as to the acceptance of a VCP under this contract shall be final and shall not be subject to the "Disputes" clause of this contract.

4.1 The Contracting Officer may modify a VCP, with the concurrence of the Contractor, to make it acceptable, and the Contractor's fair share will be based on the VCP as modified.

4.2 Pending written acceptance of a VCP in whole or in part, the Contractor shall remain obligated to perform in accordance with the terms of the existing contract.

4.3 An approved VCP shall be finalized through an equitable adjustment in the contract price and time of performance by the execution of a contract modification pursuant to the provisions of this clause bearing a notation so stating.

4.4 When the necessity to proceed with a VCP (in whole or in part) does not allow sufficient time for execution of a contract modification, the Government may issue a letter accepting the VCP (in whole or in part), authorizing the Contractor to proceed with the work, as changed, on the basis of contract price adjustment to be determined at the earliest practicable date but not to be less than the decrease nor more than the increase, as the case may be, than the decrease or increase set forth in the VCP submitted and accepted.

5. *COMPUTATIONS FOR CHANGE IN CONTRACT COST OF PERFORMANCE*–Separate estimates shall be prepared for both the existing (instant) contract requirement and the proposed change. Each estimate shall consist of an itemized breakdown of all costs of the Contractor and all Subcontractors' work in sufficient detail to show unit quantities and costs of labor, material, and equipment.

Figure 2-9. Construction clause
(Part 1 of 2)

5.1 Contractor development and implementation costs for the VCP shall be included in the estimate for the proposed change. However, these costs will not be allowable if they are otherwise reimbursable as a direct charge under this contract.

5.2 Government costs of processing or implementation of a VCP shall not be included in the estimate.

5.3 If the difference in the estimates indicate a net reduction in contract price, no allowance will be made for overhead, profit and bond. The resultant net reduction in contract cost of performance shall be shared as provided hereinafter.

5.4 If the difference in the estimates indicate a net increase in contract price, the price shall be adjusted pursuant to an equitable adjustment that will include Contractor's overhead and profit on his additional work or the additional work of one of his subcontractors.

6. *COMPUTATIONS FOR COLLATERAL COSTS*–Separate estimates shall be prepared for collateral costs of both the existing contract requirement and the proposed change. Each estimate shall consist of an itemized breakdown of all costs and the basis for the data used in the estimate. Cost benefits to the Government include, but are not limited to: reduced costs of operation, maintenance or repair, extended useful service life, increases in usable floor space, and reduction in the requirements for Government furnished property. Increased collateral costs include the converse of such factors. Computation shall be as follows:

6.1 Costs shall be calculated over a 20-year period on a uniform basis for each estimate and shall include Government costs of processing or implementing the VCP.

6.2 If the difference in the estimates as approved by the Government indicate a savings, the Contractor shall divide the resultant amount by 20 to arrive at the average annual net collateral savings. The resultant savings shall be shared as provided hereinafter.

6.3 In the event that agreement cannot be reached on the amount of estimated collateral costs, the Contracting Officer shall determine the amount. His decision is final and is not subject to the provisions of the "Disputes" clause of this contract.

7. *SHARING ARRANGEMENTS*–If a VCP is accepted by the Government, the Contractor is entitled to share in instant contract savings and collateral savings not as alternatives, but rather to the full extent provided for in this clause. For the purposes of sharing under this clause, the term "instant contract" will include any changes to or other modifications of this contract, executed subsequent to acceptance of the particular VCP, by which the Government increases the quantity of any item of work or adds any item of work. It will also include any extension of the instant contract through exercise of an option (if any) provided under this contract after acceptance of the VCP. The Contractor shall be entitled to a contract modification for instant or collateral savings shares on changes or options only at such time as a change order has been issued or an option has been exercised.

7.1 When only the prime Contractor is involved, he shall receive 50% and the Government 50% of the net reduction in the cost of performance of this contract.

7.2 When a first-tier Subcontractor is involved, he shall receive a minimum of 30%, the prime Contractor a maximum of 30%, and the Government a fixed 40% of the net reduction in the cost of performance of this contract. Other Subcontractors shall receive a portion of the first-tier Subcontractor savings in accordance with the terms of their contracts with the first-tier Subcontractor.

7.3 When collateral savings occur the Contractor shall receive 20% of the average one years net collateral savings.

8. *ADJUSTMENTS TO CONTRACT PRICE*–

8.1 The method for payment of instant savings shares shall be accomplished by reducing the contract price by an amount equal to the Government's share of the savings.

8.2 Collateral savings shares and costs of increased work shall be paid by increasing the contract price.

9. *DATA RESTRICTION RIGHTS*–The contractor may restrict the Government's right to use any sheet of a VCP or the supporting data, submitted pursuant to this clause, in accordance with the terms of the following legend if it is marked on each such sheet:

> The data furnished pursuant to the Value Incentive Clause of contract No. _____ shall not be disclosed outside the Government for any purpose other than to evaluate a VCP submitted under said clause. This restriction does not limit the Government's right to use information otherwise available, from the contractor or from another source without limitations, or if release of the data is required under the Freedom of Information Act.

In the event of acceptance of a VCP, the Government shall have the right fully to utilize such proposal on this and any other Government contract.

CSA FORM 2653 BACK (REV. 11-77)

Figure 2-9. Construction clause (Part 2 of 2)

PART 3. SERVICE/TERM CONTRACTS

13. Clause. GSA Form 3369, Value Incentive Clause (Service/Term Contract), illustrated in fig. 2-13, is prescribed for use in all solicitations estimated to result in contracts in excess of $50,000 for:

a. Term contracts for repair and alteration or maintenance work;

b. Service contracts for equipment and facility maintenance and for security or protection service; and

c. Fixed price or incentive type contracts (ITC) for janitorial services.

14. Intent. This clause is specially designed to facilitate cost savings ideas for contracts structured to base work ordered, payments made on quoted unit prices, quantities and items of work, and/or productivity or performance standards. It is our intent to permit contractors to propose changes that provide for alternative ways to perform required functions such as to:

a. Substitute hardware, systems, or facility improvements for manpower and labor or vice versa;

b. Improve specified procedures, methods, or frequency to improve productivity; and

c. Delete quantities of one type of work in order to substitute another type of work.

15 thru 17. Reserved.

VALUE INCENTIVE CLAUSE

(Service or Term Contract)

1. *OBJECTIVES* This clause applies to any cost reduction proposal (hereinafter referred to as a Value Change Proposal or VCP) initiated and developed by the Contractor for the purpose of changing any requirement of this contract. This clause does not, however, apply to any such proposal unless it is identified by the Contractor, at the time of its submission to the Government, as a proposal submitted pursuant to this clause.

1.1 Deviations to a solicitation suggested by offerors and accepted by the Government prior to award will not qualify for value incentive sharing under the terms of this clause.

1.2 VCP's contemplated are those that would result in net savings to the Government by providing either: (1) a decrease in the cost of performance of this contract, or; (2) a reduction in the cost of ownership (hereinafter referred to as collateral costs) of the work provided by this contract, regardless of acquisition costs. VCP's must result in savings without impairing any required functions and characteristics such as service life, reliability, economy of operation, ease of maintenance, standardized features, esthetics, fire protection features and safety features presently required by this contract. However, nothing herein precludes the submittal of VCP's where the Contractor considers that the required functions and characteristics could be combined, reduced or eliminated as being non-essential or excessive to the satisfactory function served by the work involved.

1.3 A VCP identical to one submitted under any other contract with the Contractor or another Contractor may also be submitted under this contract.

2. *SUBCONTRACTOR INCLUSION*—The Contractor shall include the provisions of this clause, with a provision for sharing arrangements that meet or exceed the minimum percentage contained herein, in all subcontracts in excess of $25,000, and in any other subcontract which, in the judgment of the Contractor, is of such nature as to offer reasonable likelihood of value change proposals. At the option of each Subcontractor, this clause may be included in lower tier subcontracts. The Contractor shall encourage submission of VCP's from Subcontractors; however, it is not mandatory that VCP's be submitted nor is it mandatory that the Contractor accept and/or transmit to the Government VCP's proposed by his Subcontractor.

3. *DATA REQUIREMENTS*—As a minimum, the following information shall be submitted by the Contractor with each VCP:

3.1 A description of the difference between the existing contract requirement and the proposed change, and the comparative advantages and disadvantages of each; including justification where function or characteristic of the work is being reduced;

3.2 Separate detailed cost estimates for both the existing contract requirement and the proposed change, and an estimate of the change in contract price including consideration of the costs of development and implementation of the VCP and the sharing arrangement set forth in this clause;

3.3 An estimate of the effects the VCP would have on collateral costs to the Government, including an estimate of the sharing that the Contractor requests be paid by the Government upon approval of the VCP;

3.4 Technical, engineering or other analysis in sufficient detail to identify and describe each requirement of the contract which must be changed if the VCP is accepted, with recommendation as to how to accomplish each such change and its effect on unchanged work;

3.5 A statement of the time by which approval of the VCI must be issued by the Government to obtain the maximum cost reduction noting any effect on the contract completion time or delivery schedule; and

3.6 Identification of any previous submission of the VCP including the dates submitted, the agencies involved, the numbers of the Government contracts involved, and the previous actions by the Government, if known.

4. *PROCESSING PROCEDURES*—Six copies of each VCP shall be submitted to the Contracting Officer, or his duly authorized representative. VCP's will be processed expeditiously; however, the Government will not be liable for any delay in acting upon a VCP submitted pursuant to this clause. The Contractor may withdraw, in whole or in part, a VCP not accepted by the Government within the period specified in the VCP. The Government shall not be liable for VCP development cost in the case where a VCP is rejected or withdrawn. The decision of the Contracting Officer as to the acceptance of a VCP under this contract shall be final and shall not be subject to the "Disputes" clause of this contract.

4.1 The Contracting Officer may modify a VCP, with the concurrence of the Contractor, to make it acceptable, and, the Contractor's share will be based on the VCP as modified.

4.2 Pending acceptance of a VCP in whole or in part, the Contractor shall remain obligated to perform in accordance with the terms of the existing contract.

4.3 An approved VCP shall become effective through written notice and/or issuance of an equitable adjustment in the contract price and time of performance by the execution of a contract modification pursuant to the provisions of this clause bearing a notation so stating.

4.4 When the necessity to proceed with a VCP (in whole or in part) does not allow sufficient time for execution of a contract modification, the Government may issue a letter accepting the VCP (in whole or in part), authorizing the Contractor to proceed with the work, as changed, on the basis of contract price adjustment to be determined at the earliest practicable date but not to be less than the decrease nor more than the increase, as the case may be, than the decrease or increase set forth in the VCP submitted and accepted.

5. *COMPUTATIONS FOR CHANGE IN COST PERFORMANCE*—Separate estimates shall be prepared for both the existing contract requirement and the proposed change. Each estimate shall consist of an itemized breakdown of all costs of the Contractor and all Subcontractors' work in sufficient detail to show unit quantities and costs of labor, material, and equipment.

Figure 2-13. Service/term clause
(Part 1 of 2)

5.1 Contractor development and implementation costs for the VCP shall be included in the estimate for the proposed change. However, these costs will not be allowable if they are otherwise reimbursable as a direct charge under this contract.

5.2 Government costs of processing or implementation of a VCP shall not be included in the estimate.

5.3 If the difference in the estimates indicates a net reduction in contract price, no allowance will be made for overhead, profit, and bond. Benefits accruing from reduction in interest and other finance charges (if any) resulting from a VCP shall be allowed for in the estimate. The resultant net reduction in contract cost of performance shall be shared as provided hereinafter.

5.4 If the difference in the estimates indicate a net increase in contract price, the price shall be adjusted pursuant to an equitable adjustment that will include Contractors overhead and profit on his additional work or the additional work of one of his subcontractors.

6. *COMPUTATIONS FOR COLLATERAL COSTS*–Separate estimates shall be prepared for collateral costs of both the existing requirement and the proposed change. Each estimate shall consist of an itemized breakdown of all costs and the basis for the data used in the estimate. Cost benefits to the Government include, but are not limited to: reduced costs of operation, maintenance or repair, reduction to future service requirements, and reduction in the requirements for Government furnished property. Increased collateral costs include the converse of such factors. Computation shall be as follows:

6.1 Costs shall be calculated over a 10-year period on a uniform basis for each estimate and shall include Government costs of processing or implementing the VCP.

6.2 If the difference in the estimates as approved by the Government indicate a savings, the Contractor shall divide the resultant amount by 10 to arrive at the average annual net collateral savings. The resultant savings shall be shared as stipulated hereinafter.

6.3 In the event that agreement cannot be reached on the amount of the estimated collateral costs the Contracting Officer shall determine the amount. In either case, the Contracting Officer's decision will be final and not subject to the provisions of the "Disputes" clause of this contract.

7. *SHARING ARRANGEMENTS*–If the VCP is accepted by the Government, the Contractor is entitled to share in instant contract savings and collateral savings not as alternatives, but rather to the full extent provided for in this clause. For the purposes of sharing under this clause, the term "instant contract" will include any changes to or other modifications of this contract, executed subsequent to acceptance of the particular VCP, by which the Government increases the quantity of any item of work or adds any item of work. It will also include any extension of the instant contract through exercise of an option (if any) provided under this contract after acceptance of the VCP. The Contractor shall be entitled to a contract modification for instant or collateral savings shares on changes or options only at such time as a change order has been issued or an option has been exercised.

7.1 When only the prime Contractor is involved, he shall receive 50% and the Government 50% of the net reduction in the cost of performance of this contract.

7.2 When a Subcontractor is involved, he shall receive a minimum of 30%, the prime Contractor a maximum of 30%, and the Government a fixed 40% of the net reduction in the cost of performance of this contract. Other Subcontractors shall receive a portion of the first-tier Subcontractors savings in accordance with the terms of their contract with the first-tier Subcontractor.

7.3 When collateral savings occur, the Contractor shall receive 20% of the average one years net collateral savings.

8. *ADJUSTMENT TO CONTRACT PRICE*–The method for payment of instant savings shares, collateral savings shares, or price increase shall conform to one or more of the following options as may be agreed upon by the Contracting Officer and the contractor prior to approval of the VCP.

8.1 Option 1. Reduce the contract price or lump sum payment for changed work by the Governments share of the net reduction in cost of performance.

8.2 Option 2. Increase the contract price, or make a lump sum payment to provide for contractor collateral savings shares or pay for increased work.

8.3 Option 3. Reduce the current contract unit prices by the Government's unit price share of the net reduction in cost of performance.

8.4 Option 4. Make lump sum payment for reductions in future quantities of work agreed not to be ordered under the contract as a direct result of the VCP.

8.5 Option 5. Provide for reduced new unit prices and quantities of new work reflecting the Government's savings share.

8.6 Option 6. Provide for a period of free service equivalent to the Government's share of savings.

8.7 Option 7. If this is a cost-plus-award-fee (incentive type) contract, adjust the individual target ceilings of direct cost elements upward and/or downward, as appropriate, to provide for the reduction of direct cost elements by the total net savings and/or to provide for increased acquisition costs and then make a lump sum payment for the contractor's share of instant savings or collateral savings.

9. *DATA RESTRICTION RIGHTS*–The contractor may restrict the Government's right to use any sheet of a VCP or the supporting data, submitted pursuant to this clause, in accordance with the terms of the following legend if it is marked on each such sheet:

> The data furnished pursuant to the Value Incentive Clause of contract No. _____ shall not be disclosed outside the Government for any purpose other than to evaluate a VCP submitted under said clause. This restriction does not limit the Government's right to use information otherwise available, from the contractor or from another source without limitations, or if release of the data is required under the Freedom of Information Act.

In the event of acceptance of a VCP, the Government shall have the right fully to utilize such proposal on this and any other Government contract.

GSA FORM 3369 BACK (REV. 11-77)

Figure 2-13. Service/term clause
(Part 2 of 2)

PART 4. LEASE CONTRACTS

18. Clause. GSA Form 2947, Value Incentive Clause, (Leases for Equipment and Facilities), illustrated by fig. 2-18, is prescribed for use in all solicitations involving leases for one year or more for:

a. Lease construction;

b. Lease of 30,000 (or more) square feet of net occupiable (or net usable) space; and

c. All other annual leases of supplies, equipment, or services made by or for PBS which amount to an annual cost of $50,000 or greater.

19. Intent. Since enactment of the Federal Property and Administrative Services Act of 1949, as amended, it has been our practice to acquire space by issuing invitations for bids or solicitations for offers containing specifications which require the bidder or offeror to adhere strictly to the specifications and/or performance requirements without deviation or change both before and after award. In addition, during the term of a lease we often spend tax dollars to alter or improve space for tenants through mutual agreement with the lessor. In order to encourage lessors to participate in reducing costs without sacrificing the quality or function of leased space, it is our intent to permit lessors to:

a. Submit proposals after award which will reduce the cost of his construction but still satisfy our needs;

b. Submit proposals during occupancy which will reduce operation and/or maintenance cost reflected in the rental cost;

c. Submit proposals to reduce the cost of requested alteration or improvements to space during the term of the lease;

d. Submit proposals regarding retrofit for energy savings which have a payback period during the remaining term of the lease; and,

e. Submit proposals to reduce costs by changing the specified requirements, methods, procedures, or frequency of other leased supplies, equipment, or services.

20 thru 22. Reserved.

VALUE INCENTIVE CLAUSE

(Leases for Equipment and Facilities)

1. *OBJECTIVES*–This clause applies to any cost reduction proposal (hereinafter referred to as Value Change Proposal or VCP) initiated and developed by the lessor for the purpose of changing any requirement of this contract or lease (hereinafter referred to as a lease). This clause does not, however, apply to any such proposal unless it is identified by the lessor, at the time of its submission to the Government, as a proposal submitted pursuant to this clause.

1.1 Deviations to a solicitation suggested by offerors and accepted by the Government prior to award will not qualify for value incentive sharing under the terms of this clause.

1.2 VCP's contemplated are those that would result in net savings to the Government by providing either: (1) a decrease in the cost of performance of this lease; or, (2) a reduction in the cost of use (hereinafter referred to as collateral costs) of the space, work, or equipment provided by this lease, regardless of acquisition costs. VCP's must result in savings without impairing any required functions and characteristics such as service life, reliability, economy of operation, ease of maintenance, standardized features, esthetics, fire protection features, and safety features presently required by the lease. However, nothing herein precludes the submittal of VCP's where the lessor considers that the required functions and characteristics could be combined, reduced, or eliminated as being nonessential or excessive to the satisfactory function served by the item involved.

1.3 A VCP identical to one submitted under any other lease with the lessor or another lessor may also be submitted under this clause.

2. *SUBCONTRACTOR INCLUSION*–The lessor shall include the provisions of this clause, with a provision for sharing arrangements in accordance with the percentage contained herein, in all subcontracts for services or work, entered into after the date of the lease, in excess of $50,000, and in any other subcontract which, in the judgment of the lessor, is of such nature as to offer reasonable likelihood of Value Change Proposals. At the option of each Subcontractor, this clause may be included in lower tier subcontracts. The lessor shall encourage submission of VCP's from subcontractors; however, it is not mandatory that VCP's be submitted nor is it mandatory that the lessor accept and/or transmit to the Government VCP's proposed by his Subcontractors.

3. *DATA REQUIREMENTS*–As a minimum, the following information shall be submitted by the lessor with each VCP:

3.1 A description of the difference between the existing lease requirement and the proposed change, and the comparative advantages and disadvantages of each, including justification where a function or characteristic of the work is being reduced;

3.2 Separate detailed cost estimates for both the existing lease requirement and the proposed change, and an estimate of the change in rental or other costs to be incurred during the initial and renewal lease terms, including consideration of the costs of development and implementation of the VCP and the sharing arrangement set forth in this clause;

3.3 An estimate of the effects the VCP would have on collateral costs to the Government, including an estimate of the sharing that the lessor requests be paid by the Government upon approval of the VCP;

3.4 Specifications, engineering or other technical analysis in sufficient detail to identify and describe each requirement of the contract which must be changed if the VCP is accepted, with recommendation as to how to accomplish each such change and its effect on other lease requirements;

3.5 A statement of the time by which acceptance of the VCP must be issued by the Government to obtain the maximum cost reduction, noting any effect on the date of possession; and,

3.6 Identification of any previous submission of the VCP including the dates submitted, the agencies involved, the numbers of the Government contracts involved, and the previous action by the Government, if known.

4. *PROCESSING PROCEDURES*–Six copies of each VCP shall be submitted to the Contracting Officer, or his duly authorized representative. VCP's will be processed expeditiously; however, the Government will not be liable for any delay in acting upon a VCP submitted pursuant to this clause. The lessor may withdraw, in whole or in part, a VCP not accepted by the Government within the period specified in the VCP. The Government shall not be liable for VCP development cost in the case where a VCP is rejected or withdrawn. The decision of the Contracting Officer as to the acceptance of a VCP under this clause shall be final and shall not be subject to the "Disputes" clause of the lease.

4.1 The Contracting Officer may modify a VCP, with the concurrence of the lessor, to make it acceptable, and the lessor's share will be based on the VCP as modified.

4.2 Pending acceptance of a VCP, in whole or in part, the lessor shall remain obligated to perform in accordance with the terms of the lease.

4.3 An approved VCP shall become effective through an equitable adjustment when the rental or other changes are made by issuance of a lease amendment or a supplement to the lease pursuant to the provisions of this clause bearing a notation so stating.

4.4 When the necessity to proceed with a VCP (in whole or in part) does not allow sufficient time for execution of a contract modification, the Government may issue a letter accepting the VCP (in whole or in part), authorizing the Contractor to proceed with the work, as changed, on the basis of contract price adjustment to be determined at the earliest practicable date but not to be less than the decrease nor more than the increase, as the case may be, than the decrease or increase set forth in the VCP submitted and accepted.

5. *COMPUTATIONS FOR CHANGE IN COST OF PERFORMANCE*–Separate estimates shall be prepared for both the existing requirement and the proposed change. Each estimate shall consist of an itemized breakdown of all costs of the lessor and all Subcontractors' work in sufficient detail to show unit quantities and costs of labor, material, and equipment.

5.1 Lessor development and implementation costs for the VCP shall be included in the estimate for the proposed change. However,

Figure 2-18. Lease clause
(Part 1 of 2)

these costs will not be allowable under the VCP if they are otherwise reimbursable under the lease.

5.2 Government costs of processing or implementation of a VCP shall not be included in the estimate.

5.3 If the difference in the estimates indicates a net reduction in price, no allowance will be made for overhead or profit. Benefits accruing from reductions in interet and other finance charges (if any) resulting from a VCP shall be included for in the estimates. The resultant net reduction in cost of performance shall be shared as provided hereinafter.

5.4 If the difference in the estimates indicates a net increase in price, the price shall be adjusted pursuant to an equitable adjustment that will include lessor's overhead and profit on the additional work of the lessor or the additional work of one of his subcontractors.

6. *COMPUTATIONS FOR COLLATERAL COSTS*–Separate estimates shall be prepared for collateral costs of both the existing requirement and the proposed change. Each estimate shall consist of an itemized breakdown of all costs and the basis for the data used in the estimate. Cost benefits to the Government might include, but are not limited to: reduced costs of operation, maintenance or repair; and reduction in the requirements for Government furnished property. Increased collateral costs include the converse of such factors. Computations shall be as follows:

6.1 Costs shall be calculated over the remaining firm term of the lease on a uniform basis for each estimate and shall include Government costs of processing or implementing the VCP.

6.2 If the difference in the estimates as approved by the Government indicates a savings, the lessor shall divide the resultant amount by the remaining firm term of the lease to arrive at the average annual net collateral savings. The resultant savings shall be shared as provided hereinafter.

6.3 In the event that agreement cannot be reached on the amount of estimated collateral costs, the Contracting Officer shall determine the amount. His decision is final and is not subject to the provision of the "Disputes" clause of the lease.

6.4 Costs included for work and services under an alternate bid (if any) for operation, services, and maintenance, if accepted by the Government, shall be considered current costs rather than collateral costs for sharing purposes.

7. *SHARING ARRANGEMENTS*–If a VCP is accepted by the Government, the lessor is entitled to share in contract savings and collateral savings not as alternatives, but rather to the full extent provided for in this clause. For the purposes of sharing under this clause, contract savings will include any changes to or other modifications of the lease, executed subsequent to acceptance of the particular VCP, by which the Government increases the quantity of any item of work or adds any item of work. It will also include any extension of the instant lease through exercise of an option (if any) provided under the lease after acceptance of the VCP. The lessor shall be entitled to a contract modification for instant or collateral savings shares on changes or options only at such time as a change order has been issued or an option has been exercised.

7.1 When only the lessor is involved, he shall receive 50% and the Government 50% of the net reduction in the cost of performance of the lease.

7.2 When a Subcontractor is involved, he shall receive 30%, the lessor 30%, and the Government 40% of the net reduction in the cost of performance. Other Subcontractors shall receive a portion of the first-tier Subcontractor savings in accordance with the terms of their contract with the first-tier Subcontractor.

7.3 When collateral savings occur, the lessor shall receive 20% of the average one year's net collateral savings.

8. *ADJUSTMENT TO CONTRACT PRICE*–The method for payment of instant savings shares, collateral savings shares, or price increase shall conform to one of the following options as may be agreed upon by the Contracting Officer and the lessor prior to approval of the VCP:

8.1 Option 1. The annual rental shall be decreased by an amount equal to the Government's share of the net reduction in cost of performance as prorated over the remaining firm term of the lease.

8.2 Option 2. A lump sum payment for changed work shall be reduced by the Government's share of the net reduction in cost of performance.

8.3 Option 3. The annual rental shall be decreased by an amount equal to the full net reduction in cost of performance as prorated over the remaining firm term of the lease and the lessor paid a lump sum cash payment equal to his share of the savings.

8.4 Option 4. A period of rent free use equivalent to the Government's share of savings shall be provided.

8.5 Option 5. The annual rental shall be increased by an amount equal to the increase in price as prorated over the remaining firm term of the lease or by a one time lump sum cash payment.

9. *DATA RESTRICTION RIGHTS*–The contractor may restrict the Government's right to use any sheet of a VCP or the supporting data, submitted pursuant to this clause, in accordance with the terms of the following legend if it is marked on each such sheet:

> The data furnished pursuant to the Value Incentive Clause of contract No. _____ shall not be disclosed outside the Government for any purpose other than to evaluate a VCP submitted under said clause. This restriction does not limit the Government's right to use information otherwise available, from the contractor or from another source without limitations, or if release of the data is required under the Freedom of Information Act.

In the event of acceptance of a VCP, the Government shall have the right fully to utilize such proposal on this and any other Government contract.

GSA FORM 2947 BACK (REV. 11-77)

Figure 2-18. Lease clause
(Part 2 of 2)

PART 5. EQUIPMENT CONTRACTS

23. Clause. GSA Form 3368, Value Incentive Clause (Equipment Contract), illustrated by fig. 2-23, is prescribed for use in all solicitations estimated to result in contracts in excess of $50,000 for procurement of equipment for construction or maintenance work.

24. Intent. Often under fast-track, phased or bid packaged construction projects, equipment such as chillers, substations, boilers, elevators, and other building components are contracted for separately. In addition, major pieces of manufactured equipment are purchased to repair or maintain facilities. It is our intent to permit manufacturers, suppliers, and other contractors to:

a. Submit cost savings proposals regarding design, performance, and capacities of specified equipment;

b. Submit cost savings proposals regarding equipment interface with other building or system components; and,

c. Submit cost saving proposals regarding methods and procedures for packaging, shipping, installation, testing, and servicing of the equipment.

25 thru 27. Reserved.

VALUE INCENTIVE CLAUSE

(Equipment Contract)

1. *OBJECTIVES*–This clause applies to any cost reduction proposal (hereinafter referred to as a Value Change Proposal or VCP) submitted after award by the Contractor for the purpose of changing any requirement of this contract. This clause does not, however, apply to any such proposal unless it is identified by the Contractor, at the time of its submission to the Contracting Officer, as a proposal submitted pursuant to this clause.

1.1 VCP's contemplated are those that would result in net savings to the Government by providing either: (1) a decrease in the cost of performance of this contract, or; (2) a reduction in the cost of ownership (hereinafter referred to as collateral costs) of the work provided by this contract, regardless of acquisition costs. VCP's must result in savings without impairing any required functions and characteristics such as service life, reliability, economy of operation, level of operational performance, ease of maintenance, standardized features, and safety features, presently required by this contract. However, nothing herein precludes the submittal of VCP's where the Contractor considers that the required functions and characteristics could be combined, reduced, or eliminated, as being non-essential or excessive to the satisfactory function served by the work involved.

1.2 A VCP identical to one submitted under any other contract with the Contractor may also be submitted under this contract.

2. *SUBCONTRACTOR INCLUSION*–The Contractor shall include the provisions of this clause, with a provision for sharing arrangements that meet or exceed the minimum percentage contained in paragraph 8.2, in all subcontracts in excess of $25,000, and, in any other subcontract which, in the judgment of the Contractor, is of such nature as to offer reasonable likelihood of value change proposals. At the option of each Subcontractor, this clause may be included in lower tier subcontracts. The Contractor shall encourage submission of VCP's from Subcontractors; however, it is not mandatory that VCP's be submitted nor is it mandatory that the Contractor accept and/or transmit to the Government VCP's proposed by his Subcontractors.

3. *DATA REQUIREMENTS*–As a minimum, the following information shall be submitted, by the Contractor with each VCP:

3.1 A description of the difference between the existing contract requirement and the proposed change, and the comparative advantages and disadvantages of each; including justification where function or characteristic of the work is being reduced;

3.2 Separate detailed cost estimates for both the existing contract requirement and the proposed change, and an estimate of the change in contract price including consideration of the costs of development and implementation of the VCP and the sharing arrangement set forth in the clause;

3.3 An estimate of the effects the VCP would have on collateral costs to the Government, including an estimate of the sharing that the Contractor requests be paid by the Government upon approval of the VCP;

3.4 Technical analysis in sufficient detail to identify and describe each requirement of the contract which must be changed if the VCP is accepted, with recommendation as to how to accomplish each such change, and its effect on unchanged work;

3.5 A statement of the time by which approval of the VCP must be issued by the Government to obtain the maximum cost reduction, noting any effect on the contract completion time or delivery schedule; and

3.6 Identification of any previous submission of the VCP, including the dates submitted, the agencies involved, the numbers of the Government contracts involved, and the previous actions by the Government, if known.

4. *PROCESSING PROCEDURES*–Six copies of each VCP shall be submitted to the Contracting Officer. VCP's will be processed expeditiously; however, the Government will not be liable for any delay in acting upon a VCP submitted pursuant to this clause. The Contractor may withdraw, in whole or in part, a VCP not accepted by the Government within the period specified in the VCP. The Government shall not be liable for VCP development cost in the case where a VCP is rejected or withdrawn. The decision of the Contracting Officer as to the acceptance or rejection of a VCP under this contract shall be final and shall not be subject to the "Disputes" clause of this contract.

4.1 The Contracting Officer may modify a VCP, with the concurrence of the Contractor, to make it acceptable, and the Contractor's share will be based on the VCP as modified.

4.2 Pending written acceptance of a VCP in whole or in part, the Contractor shall remain obligated to perform in accordance with the terms of the existing contract.

4.3 An approved VCP shall become effective through written notice and/or issuance of an equitable adjustment in the contract price and/or time of performance by the execution of a contract modification pursuant to the provisions of this clause bearing a notation so stating.

4.4 When the necessity to proceed with a VCP (in whole or in part) does not allow sufficient time for execution of a contract modification, the Government may issue a letter accepting the VCP (in whole or in part), authorizing the Contractor to proceed with the work, as changed, on the basis of contract price adjustment to be determined at the earliest practicable date but not to be less than the decrease nor more than the increase, as the case may be, than the decrease or increase set forth in the VCP submitted and accepted.

5. *COMPUTATIONS FOR CHANGE IN COST OF PERFORMANCE*–The Contractor shall prepare separate estimates for both the existing (Instant) contract requirement and the proposed change. Each estimate shall consist of an itemized breakdown of all costs of the Contractor and all Subcontractors' work in sufficient detail to show unit quantities and total costs of labor, material, overhead and equipment.

5.1 Contractor development and implementation costs for the VCP shall be included in the estimate for the proposed change. However, these costs will not be allowable if they are otherwise reimbursable as a direct charge under this contract.

5.2 Government costs of processing or implementation of a VCP shall not be included in the estimate.

5.3 If the difference in the estimates indicate a net reduction in contract price, the profit of the original contract price will remain the same and will not change as a result of the VCP. The resultant net reduction in contract cost of performance shall be shared as provided hereinafter.

5.4 If the difference in the estimates indicate a net increase in contract price, the price shall be adjusted pursuant to an equitable

Figure 2-23. Equipment clause
(Part 1 of 2)

adjustment that will include Contractor's overhead and profit on his additional work or the additional work of one of his subcontractors.

6. *COMPUTATIONS FOR COLLATERAL COSTS*–The Contractor shall prepare separate estimates for collateral costs of both the existing requirement and the proposed change. Each estimate shall consist of an itemized breakdown of all costs and the basis for the data used in the estimate. Cost benefits to the Government include, but are not limited to: reduced costs of operation, maintenance or repair, software, extended useful service life, replacement or future acquisition, logistical support, and reduction in requirements for Government furnished property or future acquisition. Increased collateral costs include the converse of such factors. Computation shall be as follows:

6.1 Costs shall be calculated over a 10-year period on a uniform basis for each estimate and shall include the Contractor's best estimate of the Government's costs of processing or implementing the VCP.

6.2 If the difference in the estimates indicate a savings, the Contractor shall divide the resultant amount by 10 to arrive at the average annual net collateral savings. The resultant savings shall be shared as stipulated hereinafter.

6.3 In the event that agreement cannot be reached on the amount of the estimated collateral costs, the Contracting Officer shall determine the amount. In either case, the Contracting Officer's decision will be final and not subject to the provisions of the "Disputes" clause of this contract.

7. *COMPUTATIONS FOR FUTURE ACQUISITIONS*–If a VCP is accepted under this clause and used in future solicitations, the Contractor will be paid a royalty share of savings realized by the General Services Administration on future purchases, if any, of items utilizing the VCP or on modifications made to other existing contracts to utilize the VCP within the royalty sharing period.

7.1 To qualify for royalty sharing, the VCP must result in a unit price reduction for an item under this contract. The Contractor will be paid for the actual number of items purchased during, and limited to, the periods of time as follows; for indefinite quantity and requirements contracts, the next 24 month contract period following the expiration of this contract; or for definite quantity contracts, any solicitation issued that utilizes the VCP during the next 24 month period commencing with the date of modification of this contract accepting the VCP.

7.2 For purposes of determining the Contractor's royalty share, the "unit price reduction" under this contract is the Contracting Officer's estimate of the effect which the VCP would have had on the Contractor's cost of performance if the change had been included in the original specifications under this contract (this estimate shall not take into account any costs of developing or implementing the change).

8. *SHARING ARRANGEMENTS*–If a VCP is accepted by the Government, the Contractor is entitled to share in instant and/or future contract savings, or collateral savings to the full extent provided for in this clause. For the purposes of sharing under this clause, the term "instant contract" shall not include any changes to or other modifications of this contract, executed subsequent to acceptance of the particular VCP, by which the Government increases the quantity of any item of work or adds any item of work. It shall not include any extension of the instant contract through exercise of an option (if any) provided under this contract after acceptance of the VCP. Such actions shall be eligible for future acquisition savings. If the Contractor submits under this clause a proposal which is identical, or substantially similar, to one previously received by the Contracting Officer under a different contract with the Contractor for substantially the same terms and both proposals are accepted by the Government, the Contractor shall share instant contract savings realized under this contract, but he shall not share future acquisition savings.

8.1 If the prime Contractor is solely responsible for the VCP, he shall receive 50% and the Government 50% of the net reduction in the cost of performance of this contract.

8.2 If a Subcontractor is responsible for the VCP, the prime Contractor agrees that the Subcontractor shall receive a minimum of 25%, the prime Contractor a maximum of 25%, and the Government a fixed 50%, of the net reduction in the cost of performance of this contract. Other Subcontractors shall receive a portion of the first-tier Subcontractor savings in accordance with the terms of their contract with first-tier Subcontractor.

8.3 When collateral savings occur the Contractor shall receive 20% of the average one years net collateral savings.

8.4 When future acquisition savings occur, the Contractor shall receive a royalty share qual to 30% of the unit cost reduction realized under the instant contract.

9. *ADJUSTMENT TO CONTRACT PRICE*–

9.1 The method for payment of instant savings shares shall be accomplished by reducing the contract price by an amount equal to the Government's share of the savings.

9.2 Payments for accepted VCP's involving price increases and/or collateral sharing will be accomplished by adjusting the current contract price by the amount of the increase. All orders placed after acceptance of the VCP will be paid for at the increased price until expiration of the current (Instant) contract.

9.3 Payments for accepted VCP's involving price decreases and/or royalty sharing will be accomplished by adjusting the current contract unit price by the price decreases and, if the current Contractor submitting the accepted VCP, receives the "future" contract, that unit price will be increased, as provided for in paragraph 8.4, at the time of award for the new contract period.

9.4 If a different Contractor receives the future contract, the Contractor submitting the accepted VCP shall be paid, as provided for in paragraph 8.4, by multiplying the savings by the number of units actually purchased by the Government. In this case, royalty shares will be permitted to accumulate and paid quarterly.

10. *DATA RESTRICTION RIGHTS*–The Contractor may restrict the Government's right to use any sheet of a VCP or the supporting data, submitted pursuant to this clause, in accordance with the terms of the following legend if it is marked on each such sheet:

> The data furnished pursuant to the Value Incentive Clause of contract No. _____ shall not be disclosed outside the Government for any purpose other than to evaluate a VCP submitted under said clause. This restriction does not limit the Government's right to use information otherwise available, from the contractor or from another source without limitations, or if release of the data is required under the Freedom of Information Act.

In the event of acceptance of a VCP, the Government shall have the right fully to utilize such proposal on this and any other Government contract.

GSA FORM 3368 BACK (10-77)

Figure 2-23. Equipment clause
(Part 2 of 2)

PART 6. SUPPLY CONTRACTS

28. Clause. GSA Form 2984, Value Incentive Clause (Fixed Price Supply Contract), illustrated by fig. 2-28, is prescribed for use in all purchase orders or solicitations for supplies, made by or for PBS, and estimated to result in purchases in excess of $50,000.

29. Intent. During construction, initial outfitting, relocation or operation of facilities, PBS is occasionally authorized to procure furniture, furnishings, materials, and other personal property. Whether for Government-owned or leased facilities it is desired that contractors have the opportunity to submit cost savings proposals on such supplies.

VALUE INCENTIVE CLAUSE
[Fixed Price Supply Contract]

1. **INTENT AND OBJECTIVES**—This clause applies to any cost reduction proposal (hereinafter referred to as a Value Change Proposal or VCP) submitted after award by the Contractor for the purpose of changing any requirement of this contract. VCP's may be submitted only by Contractors holding current contracts and only for those items awarded to the Contractor. This clause does not, however, apply to any such proposal unless it is identified by the Contractor, at the time of its submission to the Contracting Officer, as a proposal submitted pursuant to this clause.

1.1 VCP's contemplated are those that would result in net savings to the Government by providing either: (1) a decrease in the cost of performance of this contract, or; (2) a reduction in the cost of ownership (hereinafter referred to as collateral costs (as determined in accordance with paragraph 6) of the work provided by this contract, regardless of acquisition costs. VCP's must result in savings without impairing any required functions and characteristics such as service life, reliability, economy of operation, level of operational performance, ease of maintenance, standardized features, esthetics, fire protection features, and safety features, presently required by this contract. However, nothing herein precludes the submittal of VCP's where the Contractor considers that the required functions and characteristics could be combined, reduced, or eliminated, as being non-essential or excessive to the satisfactory performance of the work involved.

1.2 A VCP identical to one submitted under any other contract with the Contractor may also be submitted under this contract.

1.3 Notwithstanding any other provisions of this contract regarding computations for VCP, such computations shall be based only on contracts entered into by General Services Administration.

1.4 Reference is made to GSA Form 1424 (Rev. 2-75) Provision 39, Patent Indemnity, delete subsentence "(a) the infringement results from compliance with specific written instructions of the Contracting Officer directing a change in the supplies to be delivered or services to be performed or in the materials or equipment to be used or directing a manner of performance of the contract not normally used by the contractor."

1.5 Cost data submitted by the contractor in support of the VCP shall comply with the requirements of Federal Procurement Regulations 41 CFR 1-15, Contract Cost Principles and Procedures.

2. **SUBCONTRACTOR INCLUSION**—The Contractor may include the provisions of this clause, with a provision for sharing arrangements that meet or exceed the minimum percentage contained in paragraph 8.2, in all subcontracts in excess of $25,000, and, in any other subcontract which, in the judgment of the Contractor, is of such nature as to offer reasonable likelihood of value change proposals. At the option of each Subcontractor, this clause may be included in lower tier subcontracts. The Contractor may encourage submission of VCP's from Subcontractors; however, it is not mandatory that VCP's be submitted nor is it mandatory that the Contractor accept and/or transmit to the Government VCP's proposed by his Subcontractors.

3. **DATA REQUIREMENTS**—As a minimum, the following information shall be submitted, by the Contractor with each VCP:

3.1 A description of the difference between the existing contract requirement and the proposed change, and the comparative advantages and disadvantages of each; including justification where function or characteristic of the work is being reduced;

3.2 Separate detailed cost estimates for both the existing contract requirement and the proposed change, and an estimate of the change in contract price including consideration of the costs of development and implementation of the VCP and the sharing arrangement set forth in the clause;

3.3 An estimate of the effects the VCP would have on collateral costs (as determined in accordance with paragraph 6) to the Government, including an estimate of the sharing that the Contractor requests be paid by the Government upon approval of the VCP;

3.4 Technical analysis in sufficient detail to identify and describe each requirement of the contract which must be changed if the VCP is accepted, with recommendation as to how to accomplish each such change, and its effect on unchanged work;

3.5 A statement of the time by which approval of the VCP must be issued by the Government to obtain the maximum cost reduction, noting any effect on the contract completion time or delivery schedule; and

3.6 Identification of any previous submission of the VCP, including the dates submitted, the agencies involved, the numbers of the Government contracts involved, and the previous actions by the Government, if known.

4. **PROCESSING PROCEDURES**—Six copies of each VCP shall be submitted to the Contracting Officer. VCP's will be processed expeditiously; however, the Government will not be liable for any delay in acting upon a VCP submitted pursuant to this clause. The Contractor may withdraw, in whole or in part, a VCP not accepted by the Government within the period specified in the VCP. The Government shall not be liable for VCP development cost in the case where a VCP is rejected or withdrawn. The decision of the Contracting Officer as to the acceptance or rejection of a VCP under this contract shall be final and shall not be subject to the "Disputes" clause of this contract.

4.1 The Contracting Officer may modify a VCP, with the concurrence of the Contractor, to make it acceptable, and the Contractor's share will be based on the VCP as modified.

4.2 Pending written acceptance of a VCP in whole or in part, the Contractor shall remain obligated to perform in accordance with the terms of the existing contract.

4.3 An approved VCP shall become effective through written notice and/or issuance of an equitable adjustment in the contract price and/or time of performance by a contract modification pursuant to the provisions of this clause bearing a notation so stating. Where an approved VCP also involves any other applicable clause of this contract such as "Termination for Convenience of the Government," "Suspension of Work," or "Changes," then that clause shall be cited in addition to this clause.

5. **COMPUTATIONS FOR CHANGE IN COST OF PERFORMANCE**—The Contractor shall prepare separate estimates for both the existing (Instant) contract requirement and the proposed change. Each estimate shall consist of an itemized breakdown of all costs of the Contractor and all Subcontractors' work in sufficient detail to show unit quantities and total costs of labor, material, overhead and equipment.

5.1 Contractor development and implementation costs for the VCP shall be included in the estimate for the proposed change. However, these costs will not be allowable if they are otherwise reimbursable as a direct charge under this contract.

5.2 If the VCP results in a net reduction in contract price, Government costs of processing or implementation of a VCP shall not be included in the estimate.

5.3 If the difference in the estimates indicate a net reduction in contract price, the profit of the original contract price will remain the same and will not change as a result of the VCP. The resultant net reduction in contract cost of performance shall be shared as stipulated hereinafter.

5.4 If the difference in the estimates, as approved by the Government, indicate a net increase or decrease in contract price, the price shall be adjusted by contract modification.

5.5 If the VCP is accepted by the Government the contractor's share will be based upon the actual cost reduction applicable in this and other concurrent contracts to which the VCP is applied.

6. **COMPUTATIONS FOR COLLATERAL COSTS**—The Contractor shall prepare separate estimates for collateral costs of both the existing requirement and the proposed change. Each estimate shall consist of an itemized breakdown of all costs and the basis for the data used in the estimate. Cost benefits to the Government include, but are not limited to: reduced costs of operation, maintenance or repair, extended useful service life, replacement or future acquisition, logistical support, and reduction

GENERAL SERVICES ADMINISTRATION **GSA FORM 2984 [Rev. 6-76]**

Figure 2-28. Supply clause
(Part 1 of 2)

in requirements for Government furnished property. Increased collateral costs include the converse of such factors. Computation shall be as follows:

6.1 Costs shall be calculated over a 10-year period on a uniform basis for each estimate and shall include the Contractor's best estimate of the Government's costs of processing or implementing the VCP.

6.2 If the difference in the estimates indicate a savings, the Contractor shall divide the resultant amount by 10 to arrive at the average annual net collateral savings. The resultant savings shall be shared as stipulated hereinafter.

6.3 The determination of the reasonableness, allocability and allowability of collateral costs contained in the Contractor's estimates shall be made by the Contracting Officer. In the event that agreement cannot be reached on the amount of the estimated collateral costs the Contracting Officer shall determine the amount. In either case, the Contracting Officer's decision will be final and not subject to the provisions of the "Disputes" clause of this contract.

7. **COMPUTATIONS FOR FUTURE ACQUISITIONS**—If a VCP is accepted under this clause and used in future solicitations the Contractor will be paid a royalty share of savings realized by the General Services Administration on future purchases, if any, of items utilizing the VCP or on modifications made to other existing contracts to utilize the VCP within the royalty sharing period.

7.1 To qualify for royalty sharing, the VCP must result in a unit price reduction for an item under this contract. The Contractor will be paid for the actual number of items purchased during, and limited to, the periods of time as follows; for indefinite quantity and requirements contracts, the next 12 month contract period following the expiration of this contract; or for definite quantity contracts, any solicitation issued that utilizes the VCP during the next 12 month period commencing with the date of modification of this contract accepting the VCP.

7.2 For purposes of determining the Contractor's royalty share, the "unit price reduction" under this contract is the Contracting Officer's estimate of the effect which the VCP would have had on the Contractor's cost of performance if the change had been included in the original specifications under this contract (this estimate shall not take into account any costs of developing or implementing the change).

8. **SHARING ARRANGEMENTS**—If a VCP is accepted by the Government, the Contractor is entitled to share in instant and/or future contract savings, or collateral savings to the full extent provided for in this clause. For the purposes of sharing under this clause, the term "instant contract" shall not include any changes to or other modifications of this contract, executed subsequent to acceptance of the particular VCP, by which the Government increases the quantity of any item of work or adds any item of work. It shall not include any extension of the instant contract through exercise of an option (if any) provided under this contract after acceptance of the VCP. Such actions shall be eligible for future acquisition savings.

If a VCP accepted by the Government results in a net reduction in contract price, the Contractor is entitled to share in instant and future acquisition savings but not in collateral savings. If a VCP, accepted by the Government, results in a net increase in contract price, the Contractor shall share in collateral savings, but not in future acquisition savings. In case of accepted price increases, the current contract will be modified to allow for the increase in price plus the amount allowed for collateral savings for the remainder of the current (instant) contract period. The amount of sharing shall be at the rates provided below.

If the Contractor submits under this clause a proposal which is identical, or substantially similar, to one previously received by the Contracting Officer under a different contract with the Contractor for substantially the same terms and both proposals are accepted by the Government, the Contractor shall share instant contract savings realized under this contract, pursuant to paragraph 8.1 of this clause, but he shall not share future acquisition savings.

8.1 If the prime Contractor is solely responsible for the VCP, he shall receive 50% and the Government 50% of the net reduction in the cost of performance of this contract.

8.2 If the subcontractor is responsible for a VCP submitted under this contract, the Government shall receive a fixed 50% of the net reduction in the cost of performance with the remaining 50% of the net reduction being shared by the contractor and the subcontractor as they may mutually agree.

8.3 When collateral savings occur the Contractor shall receive 20% of the average one years net collateral savings.

8.4 When future acquisition savings occur, the Contractor shall receive a royalty share equal to 30% of the unit cost reduction realized under the instant contract.

9. **ADUSTMENT TO CONTRACT PRICE**—

9.1 The method for payment of instant savings shares shall be accomplished by reducing the contract unit price by an amount equal to the Government's share of the savings.

9.2 Payments for accepted VCP's involving price increases and collateral sharing will be accomplished by adjusting the current contract unit price by the amount of the increase plus the increase as provided for in paragraph 8.3. All orders placed after acceptance of the VCP will be paid for at the increased unit price until expiration of the current (Instant) contract.

9.3 Payments for accepted VCP's involving price decreases and royalty sharing will be accomplished by adjusting the current contract unit price by the price decreases and, if the current Contractor submitting the accepted VCP, receives the "future" contract, that unit price will be increased, as provided for in paragraph 8.4, at the time of award for the new contract period.

If a different Contractor receives the future contract, the Contractor submitting the accepted VCP shall be paid, as provided for in paragraph 8.4, by multiplying the savings by the number of units actually purchased by the Government. In this case, royalty shares will be permitted to accumulate and paid quarterly.

10. **DATA RESTRICTION RIGHTS**—The Contractor may restrict the Government's right to use any sheet of a VCP or of the supporting data, submitted pursuant to this clause, in accordance with the terms of the following legend if it is marked on each such sheet:

> The data furnished pursuant to the Value Incentive Clause of contract * shall not be disclosed outside the Government, or duplicated, used, or disclosed in whole or in part, for any purpose other than to evaluate a VCP submitted under said clause. This restriction does not limit the Government's right to use information contained in this data if it is or has been obtained or is otherwise available, from the Contractor or from another source, without limitations, nor, shall this restriction apply in any respect after a period of two years from the date the VCP is submitted. If such a proposal is accepted by the Government under said contract after the use of this data in such an evaluation the Government shall have the right to duplicate, use, and disclose any data reasonably necessary to the full utilization of such proposal as accepted, in any manner and for any purpose whatsoever, and have others so do.

In the event of acceptance of a VCP the Contractor hereby grants to the Government all rights to use, duplicate or disclose, in whole or in part, in any manner and for any purpose whatsoever, and to have or to permit others to do so, data reasonably necessary to fully utilize such proposal on this and any other Government contract.

In lieu of repeating the above legend, Contractors may use a reference as follows on the appropriate sheet, "This sheet is restricted as provided in paragraph 10 of the Value Incentive Clause of Contract number * "

*Contractor will insert the applicable contract number.

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Figure 2-28. Supply clause
(Part 2 of 2)

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CHAPTER 3. PROCEDURES

PART 1. ADMINISTRATION

1. Staff support. Each procurement office shall designate a contract administration specialist to serve as the single point of contact for all Value Incentive Clause (VIC) matters. This individual is hereinafter designated as the Contract Administration Value Specialist (CAVS).

a. Before assignment or within six months after assignment the CAVS shall receive Value Management (VM) training in a 40-hour workshop. In addition, the CAVS shall have a minimum of 16 hours of specialized training in VIC contract administration.

b. The CAVS shall be responsible for performing the following functions in support of the VIC program:

(1) Determining the need for and arranging for Government and contractor training in proper use of the VIC, preparation of Value Change Proposals (VCP's), and processing procedures.

(2) Attending pre-award or post-award conferences to encourage contractor participation and explain proper utilization of the VIC.

(3) Screening all VCP's for completeness, verifying accuracy of data submitted and expediting proposal processing.

(4) Preparing all status letters, approval letters of direction to proceed, and disapproval letters for signature and release by the proper authority.

(5) Preparing all special program reports, and initiating appropriate awards and crossfeed bulletins.

2. Relationships with the contractor. The following special relationships shall govern between all Government personnel and the contractor for the VM program.

a. Verbal divulgence. Verbal divulgence of a VCP idea by the Contractor will not jeopardize the Contractor's right to his fair share of the savings on the instant contract. In fact, contractors shall be encouraged to sound out the Government for receptivity prior to expenditure of effort of preparing a complete submittal where the effort would be of major size.

b. Receptivity. Generally, in all cases the contractor shall be encouraged to pursue his proposal except where there is a readily apparent clear cut technical reason for disapproval. The technical reason will be

communicated to the contractor at the time of nonreceptivity. The contractor will be advised that informal receptivity does not ensure final approval but merely indicates the Government's willingness to research the proposal in greater depth. Similarly, the contractor should be advised that nonreceptivity does not preclude the contractor's right to a formal submittal or his right to a fair climate of review by all Government personnel.

c. Fair review. A fair climate of review will be afforded the contractor for all VCP's. Contractors will be advised that only after objective and impartial review will a decision be made. However, this should not preclude obtaining reviews from partial or unobjective sources to identify reasons for rejection prior to making a final decision within the total cost concept parameters of the program.

3. Post-award conference. The CAVS shall be invited to these conferences to review VIC contract provisions, encourage participation and outline program procedures, intent, data requirements, and benefits.

4. Subcontractor participation.

a. The VIC provisions in ch. 2 require that the clause be incorporated into all first-tier subcontracts in excess of a given dollar value, either $25,000 or $50,000. While it is not economical to audit this requirement for compliance, the Government must be responsive to complaints from subcontractors who have been deliberately excluded from VM participation.

b. In addition, these VIC provisions provide minimum sharing amounts for first-tier subcontractors who initiate VCP's. Before honoring this sharing, the Government is responsible for ensuring that the contractual relationship between the prime and subcontractor does in fact contain a VIC; and, that the sharing arrangements are proper.

5. Interpretation of VIC. The Central Office Director, Value Management Division (PCV), is appointed to make findings and recommendations to contracting officers on any matter of contract interpretation concerning the VIC that may be requested.

6. Time extensions. Time extensions for VCP's may be granted where necessary. Note, however, that the VIC states that the Government will not be liable for any delay in acting upon a VCP. Care must be exercised by all personnel handling VCP's not to void this provision by creating a constructive change for time extension.

a. Indecision regarding a VCP can give the contractor false hopes while the proposal is brewing. Failure to meet a contractor-requested deadline for a decision has caused claims for time extension, especially if the proposal is eventually approved.

b. If the Government requires more time to evaluate a VCP, and the VCP appears to warrant the evaluation, it is best to obtain a time extension on the contractor's offer or grant him one on the contract. However, consideration of extending contract completion time must include, as a collateral cost to the Government, the cost impacts of such a time extension.

c. VCP's that involve correcting design deficiencies, for example, can involve time extension for reasons other than value management. Approval or disapproval of this type of VCP has no bearing on whether or not a time extension is granted.

d. Conversely, VCP participation can avoid time extensions that would otherwise be required. And, if significant reductions in contract price or effort result from VCP participation, Contracting Officers should be aware of the potential to reduce the scheduled completion time.

7. Buy American Act (41 U.S.C. March 3, 1933). In order to prevent the VIC from being used as a device for circumventing the Buy American Act, care shall be taken not to accept VCP's offering the substitution of foreign material for domestic material, both of which meet specifications. Foreign material may be acceptable under a VCP only if its use is caused by a technical change to a contract requirement or a clearly superior product is offered, and if the facts are such that the Contracting Officer can (and does) make a Finding and Determination, under either basis specified in the Act for permitting an additional exception to the prohibition against non-domestic products.

8. Substitution of materials. Proposals to substitute different materials, equipment, or systems are valid as VCP's when offered under the VIC, result in a savings to the Government, and are technically acceptable.

9. Inspection and guarantees. Once a VCP is contractually approved, it becomes subject to all other provisions of the contract similar to any other change order. The contractor is subject to inspection for workmanship, performance, and tests. He is responsible for correction of defects and meeting all contract warranties and guarantees for changes approved under VM. For all practical purposes, once a VM change is approved it loses its identity and becomes as much a part of the contract as any other part.

10 thru 15. Reserved.

PART 2. PROCESSING

16. VCP receipt. The VIC requires the contractor to submit his VCP to the Contracting Officer or his Duly Authorized Representative (DAR). Within PBS the DAR is most likely to be a construction manager, construction engineer, buildings manager or realty specialist depending on the contract type and amount.

a. Upon receipt of a VCP, the DAR shall immediately forward copies to the CAVS. Then he shall review it for completeness. The proposal should include information regarding each of the six data elements mentioned in the VIC. It should recommend a specific contractual modification, making a specific dollar offer.

b. The DAR shall seek additional information or clarification of information, if necessary, from the contractor. The DAR shall forward to the CAVS his recommendations regarding approval. The DAR shall indicate in his transmittal letter if effort is in progress to secure additional data from the Contractor.

c. VCP's may be assigned an identifying number at the time of receipt in accordance with existing procedures for all contract changes except that a "V" shall be placed immediately preceding the number to facilitate identifying it as a VCP action.

d. Approval or disapproval authority for VCP's shall be exercised solely by Contracting Officers without redelegation.

17. Review responsibility. Regions must make every reasonable attempt to evaluate thoroughly every promising VCP submitted by a contractor. The extent of such evaluation should be commensurate with the value of the VCP on both the instant contract and any other potential application.

a. CAVS. The CAVS shall conduct a preliminary technical evaluation of the VCP to prevent wasting the time of others on a totally unacceptable or incomplete proposal. He shall:

(1) Ensure the VCP meets the intent and objectives of the contractor VM program,

(2) Take appropriate steps to seek additional data or clarification of data as necessary, and

(3) Forward potentially acceptable VCP's to appropriate organizations for concurrent review.

b. Architect-engineer (A-E). A-E's should be requested to comment on all VCP's under the terms of their design contract when applicable. They should be advised that the Government is giving favorable consideration to the proposal, and requested to respond by a deadline date.

c. Client agency. Client agencies should be asked to comment on VCP's from an operational point of view when applicable. They should be encouraged to respond by a deadline date in order to maximize their savings on the idea.

d. Construction Management Division (CMD). The CMD is responsible for providing the technical evaluation of the proposal. They shall:

(1) Review contractor calculations and/or perform required calculations to verify adequacy of the proposed change or support reasons for disapproval;

(2) Review the cost estimates covering changed work of the instant contract to insure they provide a reasonable basis for issuing a direction to proceed; and

(3) Review VCP's for possible ripple effect on trades or systems not directly involved in the proposal. These areas should be identified and taken into account to avoid future related contractor claims.

e. Buildings Management Division (BMD). The BMD is responsible for providing technical evaluation of all VCP's from the life cycle ownership, and the fire and accident prevention points of view. They shall:

(1) Provide technical comment as to the acceptability of the VCP,

(2) Review the contractor's claimed collateral savings for acceptability,

(3) Identify other collateral factors not covered in the contractor's proposal, and

(4) Provide the Government estimate of collateral savings on which to base the contractor's saving share.

f. Space Management Division (SMD). The SMD is responsible for reviewing all VCP's which impact on the assignment, distribution, utilization or scheduled availability of space.

g. Federal Protective Service Division (FPSD). The FPSD is responsible for reviewing all VCP's which impact on guarding and security system installation.

18 Decision process. The CAVS shall receive, consolidate and evaluate all review comments. He shall take appropriate action to resolve all adverse review comments when their resolution would make an otherwise unacceptable VCP acceptable.

a. Whenever comments cannot be resolved, and the CAVS believes that approval would be in the best interest of the Government, the VM Board shall hear the reasons for disapproval and shall submit its recommendation to the Contracting Officer.

b. Prior to a decision to disapprove a VCP the CAVS and/or VM Board shall insure that consideration has been given to the factors shown in fig. 3-18.

c. The CAVS shall prepare the proper approval or disapproval letter and coordinate it for signature of the Contracting Officer.

Consider whether the VCP;

Can be accepted in part rather than rejected in whole,

Can be modified to be made acceptable,

Would be a valid item for research,

Is being rejected because it is proprietary,

Is being rejected for lack of funds, or

Inherently corrects a contractual deficiency.

Figure 3-18. Factors to consider before disapproval of a VCP.

19. Processing time. Processing time for all VCP actions must be held to a bare minimum. Guidelines for processing VCP's shall be 30 calendar days. No proposal shall exceed this time limitation without the Contractor receiving a status letter. In order to meet this time limitation it is suggested that processing time be scheduled as shown in fig. 3-19.

Field review	4 days
mailing	2 days
CAVS review	2 days
mailing/routing	2 days
Concurrent technical review	9 days
mailing/routing	2 days
Resolution of comments	6 days
Decision letter	3 days
	30 days

Figure 3-19. VCP processing time

20. Status letter. In the event that the target PBS processing time or the decision date requested by the contractor cannot be met, the contractor shall be notified in writing. The CAVS shall prepare a status letter for signature by the Contracting Officer that (1) acknowledges receipt of the VCP, (2) indicates why and where his proposal is delayed, and (3) gives an expected decision date.

21. VCP approval. The normal means of approving VCP's shall be by final lump-sum contract modification. In those instances where mutual agreement cannot be reached on the amount of contract price adjustment for the changed work and the collateral savings or on time extension in time to avoid delay in job progress, the Contracting Officer may issue a letter accepting a VCP (in whole or in part) and directing the contractor to proceed with the accepted VCP prior to execution of the formal contract modification. In such event, Contracting Officers shall use a letter format similar to that illustrated by fig. 3-21, to permit implementation of approved VCP's at the earliest time possible. The letter of direction shall contain the following minimal data:

a. Identification of the change to be made. A short description of the basic subject matter changed and referenced to the contractor's specific proposal is sufficient.

b. When applicable, it should document any mutually agreed upon clairifications or modifications to the technical content of the contractor's VCP.

c. It shall contain a statement limiting the effect on price of the instant contract such as:

(1) Approval is based upon a credit of not less than $XXX to work under this contract, subject to upward negotiation, and sharing in accordance with the provisions of the Value Incentive Clause of this contract.

(2) Approval is based upon an increase in contract price of not more than $XXX to work under this contract, subject to downward negotiation in accordance with the equitable adjustments and Value Incentive Clause of this contract.

(3) Approval is based upon no change in contract price of work to be performed under this contract.

d. It shall contain a statement regarding the obligation of collateral sharing at the time of VCP acceptance such as:

(1) Government computation of collateral savings indicates a one year average net savings of $XXX, to be shared in accordance with the Value Incentive Clause of this contract.

UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION
Public Buildings Service
Washington, DC 20405

General Contractor
Anywhere, U.S.A.

IN REPLY REFER TO:
DATE: July 20, 1971
CONTRACT NO.: 71-88888
MODIFICATION NO.: V123
PROJECT TITLE: Any F.O.B.

Gentlemen:

Your VCP, dated July 4, 1971, proposing the substitution of fiberglas lavatories for vitreous china lavatories under the above contract is approved subject to the following conditions:

a. Lavatories in washrooms for maintenance personnel will not be changed. The Government will have the right to select colors of the fiberglas lavatories from the manufacturer's standard stock. The contractor will submit certification of product compliance with ASNI Code K66.7.

b. Approval is based upon a credit of not less than $9,328 to work under this contract, subject to upward negotiation, and sharing in accordance with the provisions of the Value Incentive Clause of this contract.

c. The contractor's estimate of collateral impact amounting to a one year average savings of $3,900 is deemed reasonable, subject to further review and sharing in accordance with the provisions of the Value Incentive Clause of this contract.

d. Approval is based upon no change in contract time for completion.

Accordingly, you are directed to proceed with the change. You will be notified in the near future regarding final negotiations and consummation of this approval by formal modification to the contract.

Sincerely,

John Jones
Contracting Officer

Copy to:
CAVS
Contract Files
Architect-Engineer
Etc.

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Because of the variations in the subject matter, a form shall not be printed, reproduced, or stocked by the Central Office or regional offices for this purpose.

Figure 3-21. Sample PDL letter of direction

(2) Government computation of collateral costs indicates no tangible savings exist as a result of this VCP.

(3) The contractor's estimated collateral impact amounting to a one year average savings of $XXX is deemed reasonable, subject to further review and sharing in accordance with the provisions of the Value Incentive Clause of this contract.

e. It shall contain a statement regarding completion time such as:

(1) Approval is based upon no change in schedule for completion or occupancy.

(2) Approval is based upon a reduction in schedule for completion or occupancy of XXX days.

(3) Approval is based upon a maximum increase in schedule for completion or occupancy of XXX days.

f. When applicable it shall identify the date of expiration of royalty sharing period and pertinent unit price reduction to be used as a basis for future payments, all subject to further negotiation.

22. Contract modification. All VCP's shall be incorporated into the contract by an amendment or supplemental agreement. All such documents for VCP's shall:

a. Cite that the amendment or supplemental agreement is pursuant to the VIC of the contract.

b. Clearly show the instant contract and collateral savings as well as the net increase of decrease in contract price for each specific VCP or unit price reduction if applicable, and the expiration date of royalty payment if applicable.

23. VCP disapproval. VCP disapproval shall be by letter to the contractor. The manner in which a proposal is rejected is extremely important in fixing the contractor's attitude toward future program participation. For this reason, the following requirements shall govern issuance of disapproval letters:

a. The letter shall include sufficient specific reasons for disapproval. Acceptable reasons must involve some specific technical, operational, or economical area. General statements such as those shown in fig. 3-23.1 are not acceptable.

b. The letter should reveal all known objections to the proposal the first time so that the contractor does not waste time satisfying those reasons only to have it disapproved a second time for different reasons.

"There is no time to review it."

"It violates a design manual or guide specification."

"The user dislikes it."

"We have no funds to accept it." *

"It is uneconomical."

*See ch.3-48.

Figure 3-23.1 Unacceptable reasons for disapproval

c. The letter should thank the contractor for his presentation, and it should convey the impression his proposal was carefully considered. To ensure this, it should be personally signed and should not be a form letter. Care should be taken to word the closing paragraph to fit the situation.

d. A sample letter, conveying the above requirements, is shown in fig. 3-23.2.

24. Reconsideration. Contractors should be permitted to request reconsideration of the specifics of a disapproval letter. The rationale for disapproval could have been caused by failure of the contractor to fully communicate all the specifics of his proposal. He could also make a counter proposal to eliminate the reasons for disapproval thereby making it acceptable. Reconsideration of a VCP should not be feared by Government employees. It is more desirable to freely communicate objections concerning a proposal between Government and contractor rather than spend a long time researching the validity of reasons for disapproval merely to solidify a position.

25. Disputes and appeals. The VIC provides that the contractor cannot dispute the decision to accept or reject a VCP. Also, he cannot dispute the Government's computation of collateral costs or savings. However, he can dispute and appeal the following matters:

UNITED STATES OF AMERICA
GENERAL SERVICES ADMINISTRATION
Public Buildings Service
Washington, DC 20405

General Contractors
Anywhere, U.S.A.

IN REPLY REFER TO:
DATE: JULY 20, 1971
CONTRACT NO: 71-88888

Gentlemen:

Your VCP, dated July 4, 1971, proposing the substitution of fiberglas lavatories for vitreous china lavatories has been carefully evaluated. Unfortunately, it cannot be accepted for the following reasons:

a. The resinated compound of fiberglas offered has a flash point of 165 degrees F. In the eventuality of the material becoming consumed in a building fire, there is a likelihood that poisonous gases would be released. This would impair safe egress of building occupants and fire fighting.

b. The product does not have a U.L. rating or certification of compliance with ANSI Code K66.7.

I encourage your continued interest in our value management program and thank you for your participation to date.

Sincerely,

Copy to:
CAVS
Contract Files
Contracting Officer
Architect-Engineer
Etc.

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

Keep Freedom in Your Future With U.S. Savings Bonds

Because of the variations in the subject matter, a form shall not be printed, reproduced, or stocked by the Central Office or regional offices for this purpose.

Figure 3-23.2. Sample disapproval letter

a. Interpretation of the VIC,

b. Settlement and negotiation of cost for work under the instant contract for approved VCP's, and

c. Extension of time for completion.

26 thru 30. Reserved.

PART 3. COMPUTATIONS

31. Estimating method. Savings are computed by itemizing the total direct costs of the contract requirement or method and the proposed new requirement or method. The VIC requires two separate estimates both for instant contract savings or increases and for collateral savings. Mere differences between scope, size, quantity, unit prices or total costs are not acceptable. Direct costs must be itemized.

32. Markup percentages.

a. Profit. The Government does not receive profit as a credit for a VCP from either prime contractors or subcontractors. Anticipated profit on the basic contract is untouched; otherwise it would penalize the contractor for his voluntary suggestions to reduce cost. Profit is allowed, however, on work to be performed by a new subcontractor or new supply source when brought into the contract pursuant to a VCP. Profit is also allowed the prime contractor on any increased cost to the instant contract.

b. Overhead. Overhead should not be reflected in either estimate where there is a reduction in subcontractor or prime contractor price. Normally overhead is not reduced due to contractor VM participation and, the difference in overhead lost on the credit to be received by the Government for a VCP is normally much less than the risk a contractor takes in program participation. However, an increase or payment of additional overhead is permitted on work performed by a new subcontractor or a new supply source when brought into the contract pursuant to a VCP. Overhead is also allowed the prime contractor on any increased cost to the instant contract.

c. Bond. Primarily applicable to construction contracts, and service and term contracts, costs for bonding credits or additions should not be included.

d. Financing charges. When applicable under the instant contract, savings or increases in interest or other financing charges should be reflected in the calculations. When such benefits do not accrue to the appropriation used to pay the contractor under the instant contract then they should properly be taken into consideration under collateral cost (life-cycle-cost) calculations.

33. Development and implementation cost. In accordance with the VIC, these contractor costs are added to the cost of the proposed change. Development costs are those costs that the contractor will lose if the proposal is rejected. Implementation costs are those costs to be paid the contractor, for work performed by him, if the proposal is approved.

The only costs allowable are those costs identifiable by the contractor for the development and implementation of a specific VCP, not for his cost in program participation under the contract.

34. Government costs. Government costs of processing and/or implementing VCP's shall not be included in the estimate of costs for instant contract work. These costs shall, however, be used in the computations for collateral costs and in the decision-making process of the Government regarding whether to accept or reject a VCP. It is essential that contract negotiators understand the rationale for this provision:

a. Keep in mind the fact that, in essence, the contractor already has all the Government money under the terms of our contract with him (by obligation).

b. The contractor's VCP is, in theory, his offer to return some of the money given him by the Government, to the Government (by credit or reduction of our obligation).

c. The best Government position is to subtract nothing from the credit the contractor offers. In that way the Government maximizes the share it receives which should be its objective. Fig. 3-34 illustrates a common situation which frequently occurs.

NEGOTIATING CASE HISTORY

The contractor submits a VCP claiming $10,000 savings. He wants a $5,000 share.

Not to be taken, a sharp Government representative says, "Oh no! That idea doesn't save $10,000!! It costs us $1,000 to process a change order. I won't give him half of $10,000 when the true savings are only $9,000. The most he'll ever get from me is $4,500!"

Therefore, the Government proceeds to reduce the net savings to $9,000 before sharing with the contractor.

The Result - The Government receives a $4,500 credit to the contract. Had the Government left well enough alone, it would have received a $5,000 contract reduction.

The Moral - Do not be blinded by how large the contractors share is. Look at it from the other point of view.

Figure 3-34. A negotiating pitfall

35. Collateral costs. Collateral costs include any cost parameter that can be quantified and expressed in terms of dollar impact. To this end, the only guidance that can be given to the estimator of collateral costs is to remember it is just an estimate. It need not be precise -- it need only be reasonable. The function of the collateral cost estimate is to enable management to make a value judgement regarding the acceptability of the VCP. If it is good enough to be the basis for a management decision then it will be acceptable to be used as a basis for rewarding the contractor should a collateral savings result. Estimates should be made on a cost basis for those portions of the work involved or impact on cost of ownership being provided under the instant contract. Benefits resulting from application of the VCP to other contracts or PBS standards and criteria are important and should be noted, but they should not be included in the figures used to calculate the contractor's share.

a. Government costs. Government costs attributable to implementing and processing a specific VCP should be recovered by adding them to the collateral costs of the proposed change. Such costs should be specifically identifiable to the VCP as extra charges caused solely by the single VCP rather than general overhead and other costs attributable to the program as a whole. Some of the cost factors that should be considered are:

(1) Additional or new testing and/or inspection requirements imposed by the VCP,

(2) Fees paid to an A-E for review of the VCP,

(3) Drawing revisions to portray as-built conditions changed as a result of the VCP, and

(4) Any increase in cost of performance of the instant contract paid for adopting the VCP.

b. Evaluation rationale. The VIC requires that the basis for estimating collateral costs be given. This is necessary because of the wide range of collateral parameters that could be considered depending on the substance of the change and the many ways that can be devised to quantify these parameters. Some collateral factors and suggested ways to calculate them are:

(1) Collateral costs for extension or reduction in contract completion can be assigned a value on the basis of the liquidated damages per calendar day shown in the contract.

(2) Differences in useable floor space can be valued by the current square foot market rate for equivalent leased space.

(3) Changes in service life can be valued on the basis of the cost for its frequency of replacement over the stipulated life cycle years. For example; paint that lasts 3 years must be repainted 6-2/3 times in 20 years, whereas paint that lasts 4 years need be redone only 5 times in 20 years. Note that the stipulated life cycle for service and term contracts, equipment contracts, and supply contracts is 10 years. For lease contracts, the life cycle is the remaining years of the lease.

(4) Cost of energy can be valued based on operating hours, unit quantities of consumption, unit costs, average weather patterns and forecasted inflation/escalation rates.

(5) Changes in fire protection quality might be evaluated on the basis of comparable commercial insurance rates for each system.

(6) Repetitively occurring maintenance, repair or operation costs can be summed over the life span in the clause by considering quantity, frequency, and unit cost.

(7) One-time costs or fixed charges for demolition, moving, packaging, etc. can be added to the proper estimate.

(8) Reliability and performance differences can often be expressed in terms of the probability of failure, the size of failure permitted, the response necessary to correct the failure, and the cost consequences of one such failure. Failure analysis has many applications in construction such as air conditioning breakdown, electrical outages, elevator breakdown, ruptured piping, fire resistivity, alarm sensitivity, etc. The cost impact analysis might typically include: Salaries for lost time caused by building evacuation and/or nonproductivity, loss of property, repair and restoration, and disruption expenses.

c. Collateral cost sources.

(1) One source of information for collateral costs is the "Annual Experience Exchange Report of Office Building Operations" published by the National Association of Building Owners and Managers. Whenever an information source such as this is used, care should be exercised to use the same source of information for any given factor in both estimates of collateral costs.

(2) Another source of data is the PBS Life-Cycle Planning and Budgeting Model (LCPBM). The LCPBM can be utilized to provide collateral cost differences between use of various building systems. Contact the Central Office, Director, Value Management Division (PCV) for guidance in using the system.

d. Life cycle. Each of the different VIC's specify the number of years on which to base collateral costs. These life spans provide a contractual basis for contractor payment and ensure that comparisons of alternatives is made over the same period of time. These are:

(1) Construction clause - 20 years,

(2) Service & Term clause - 10 years,

(3) Lease clause - remaining firm term of lease,

(4) Equipment clause - 10 years, and

(5) Supply clause - 10 years.

36. Royalty calculations. Royalties are offered under both the equipment and supply contract clauses.

a. Royalties are paid under these clauses only if there is a unit price reduction in the cost of an end item being procured. They may be situations where there is an instant contract cost savings on the contract, but not a unit price reduction which would then not make a royalty sharing applicable.

b. The test for royalty savings is to review the savings and see if they are one-time savings or recurring savings. Royalty savings must be recurring.

c. In calculating the unit price reduction on which to base the contractor's share, one must delete from the instant contract cost computations all one-time costs for items such as VCP development, testing, and implementation; and all one-time savings for items such as operating manuals, packaging and shipping when applicable.

d. In addition, there may occur an obligation for royalty sharing even though there is an increase in cost to the instant contract. For example, the Government might pay for new tooling to implement an idea that results in a unit price reduction on a piece of equipment yet, only a few pieces of equipment remain to be produced under the instant contract which will not offset the tooling costs. In this case, royalty payments would not begin until the increased first costs were offset by accumulated savings on future procurements.

37. Repair and alteration (R&A) example. Fig. 3-37 provides a sample computation for a change to repair and alteration work under the construction contract clause. This is the simplest form of change where both the prime and subcontractor save money in their work.

Situation: Repair and alteration project under construction.

Description of change:

Substitute fiberglass lavatories in countertops and base units for vitreous china lavatories and ceramic work on floor and walls under and behind installation.

INSTANT CONTRACT COMPUTATIONS

	Contract Cost		Proposal Cost	Difference
Subcontractor A:				
fixtures & plumbing	$ 18,750	fixtures & plumbing	$ 14,060	
		VCP preparation	40	
	$ 18,750		$ 14,100	($ 4,650)
Prime contractor:				
ceramic work	$ 6,405	vanity base units	$ 1,760	
		VCP preparation	40	
		Subcontract negot.	40	
	$ 6,405		$ 1,840	($ 4,565)
			net savings	($ 9,215)

COLLATERAL COMPUTATIONS

	Costs Before		Costs After	Difference
20 year costs				
washing floors	$312,000	washing floors	$237,120	
washing walls	32,000	washing walls	28,400	
		revise drawings	480	
	$344,000		$266,000	($78,000)
			average one years savings	($ 3,900)

ADJUSTMENT TO CONTRACT PRICE (Figure 2-9)

Under 8.1 reduce the contract amount by the Government savings share, 40% of $9,215, or $3,686 and,
Under 8.2 increase the contract amount by 20% of $3,900, or $780 for collateral sharing.

Figure 3-37. R&A example

38. New construction example. Fig. 3-38 provides a sample computation for a building system change under the construction contract clause. Note the following about this example:

a. A new subcontractor (C) is introduced to the project. He receives overhead and profit on his portion of his new work.

b. Two previous subcontractors (A) and (D) are dismissed from the project. They do not have to give up their estimated overhead and profit on their portion of the work. All costs shown are direct costs.

39. Term contract example. Fig. 3-39 provides a sample computation for a change to the unit prices and quantities of a term contract under the service and term contract clause. Note the following about this example:

a. The guaranteed minimum quantity of work does not play a role in computing the new prices for the instant contract. It does play a useful role in computing the average unit cost savings for collateral benefits.

b. The contractor and Government both receive their share of the savings as work is ordered.

40. Service contract example. Fig. 3-40 provides a sample computation for a change to a facility and manpower plan of a service contract under the service and term contract clause. Note the following about this example:

a. The facility, in an "as-is" condition, is considered a constructive part of the contract, hence is subject to a VCP. Similarly, the manpower plan developed by the contractor, not the Government in this example, is also part of the contract conditions by the very nature of it's use and acceptance.

b. Subcontractor (A) is a new party to the contract and receives overhead and profit on his new work.

c. In adjusting the contract price there are two possible methods subject to mutual agreement. Method 1 requires the contractor pay for the new work from the savings he accumulates over the contract period but does not change the unit prices. Method 2 advances the contractor money for the new work while the Government accumulates the full savings over the contract period through reduced unit prices.

(1) Method 1 poses some complexity in invoicing if progress payments are based on unit prices rather than percentages of service completed.

(2) Method 2 is simpler for invoicing purposes but requires initial funding of the change.

Situation: Project under construction.

Description of change:

Substitute a carpeted, 12-inch raised floor system with two junction boxes per bay for an underfloor electric duct system; finished concrete floor fill, separate carpeting and pre-set electrical inserts on 5-foot centers.

INSTANT CONTRACT COMPUTATIONS

	Contract Cost		Proposal Cost	Difference
Subcontractor A:				
underfloor duct	$450,000		0	
		VCP cost	$ 100	
	$450,000		$ 100	($ 449,900)
Subcontractor B:				
electric work	$250,000	electric work	$ 100,000	
		VCP cost	300	
	$250,000		$ 100,300	($ 149,700)
Subcontractor C:				
	0	raised floor	$ 910,000	
		overhead & prof.	136,500	
	0		$1,046,500	$1,046,500
Subcontractor D:				
carpeting	$380,000		0	
		VCP cost	$ 500	
	$380,000		$ 500	($ 379,500)
Prime contractor:				
floor fill & finish	$400,000	forming	$ 30,000	
		VCP cost	1,000	
		Subcontracting	500	
	$400,000		$ 31,500	($ 368,500)
			net savings	($ 301,100)

COLLATERAL COMPUTATIONS

	Costs Before	Costs After	Difference
20 year costs			
changing outlets	$100,000	$ 50,000	
carpet replacement	200,000	85,000	
installing telephones	75,000	40,000	
	$375,000	$ 175,000	($ 200,000)
		average one years savings	($ 10,000)

ADJUSTMENT TO CONTRACT PRICE (Figure 2-9)

Under 8.1 reduce the contract amount by the Government savings share, 40% of $301,100 or $120,440 and,
Under 8.2 increase the contract price by 20% of $10,000, or $2,000 for collateral sharing.

Figure 3-38. New construction example

Situation: Term contract provides a minimum guarantee of 10,000 square feet of new ceiling work with lighting with an option to perform up to 25,000 square feet at quoted prices.

Description of change:

Substitute task lighting requiring 75 foot candles of light on a 15 square foot work surface in each area of 100 square feet in lieu of uniformly distributed lighting of 100 foot candles.

INSTANT CONTRACT COMPUTATIONS

	Contract Cost (SF)		Proposal Cost (SF)	Difference (SF)
Prime contractor:				
light fixtures, 1 per 25 sf @ $75 ea.	$3.00	light fixtures 1/100 sf @ $60	$ .60	($2.40)
outlets, 1 per 25 sf @ $20 ea.	.80	outlets, 1/100 sf @ $30 ea	.30	($ .50)
panels, 1 per 50 fixtures	.24	panels, 1/50 fixtures	.06	($ .18)
ceiling tile, 15 sf per 25 sf space	.60	ceiling tile, 90 sf/ 100 sf	.90	$ .30
	$4.64		$1.86	($2.78)
			$200 VCP development net savings =	$ .02 ($2.76)

COLLATERAL COMPUTATIONS

	Costs Before	Costs After	Difference
10 year costs for 10,000 sf space			
electricity	$12,000	$3,000	
fixture maintenance and cleaning	4,000	1,000	
relamping	16,000	4,000	
	$32,000	$8,000	($24,000)
		average one years savings	($ 2,400)
		or	($ .24 per sf)

ADJUSTMENT TO CONTRACT PRICE (Figure 2-13)

Under Option 2 increase price by 20% of $ .24 ($ .048 per sf) to provide for collateral sharing and,
Under Option 3 determine the Government share of the unit price reduction, 50% of $2.76 ($1.38 per sf) and reduce the contract unit price of $4.64 by $1.38 to a new unit price of $3.26 for the proposed schedule of work. Reduce or increase other unit prices by 50% of their cost differences so that:

Lighting	3.00 - 1.20 =	$1.80/sf
Outlets	.80 - .25 =	.55/sf
Panels	.24 - .09 =	.15/sf
Tile	.60 + .15 =	.75/sf
VCP cost	+ .01 =	.01/sf
		$3.26/sf

Figure 3-39. Term contract example

Situation: Guard service contract where below described change will be implemented in the last six months of a one year contract. Contract contains a one year renewal option.

Description of change:

Revise the contractors approved manpower plan to delete all guard service from door #2 of building 21 and install a video camera and buzzer lock system to be controlled at door #1 of the building.

INSTANT CONTRACT COMPUTATIONS

	Contract Cost		Proposal Cost	Difference
Prime contractor:				
direct labor 1/2 year				
normal hours	$ 2,000	VCP processing	$ 100	
overtime	750			
holidays, weekends	1,200			
fringe benefits	800			
	$ 4,750		$ 100	($ 4,650)
Subcontractor A:				
	N.A.	monitoring sys.	$3,000	
		overhead & prof.	300	$ 3,300
			$3,300	
Prime contractor:				
			net saving 1st year	($ 1,350)
optional year				
normal hours	$ 4,000			
overtime	1,500			
holidays, weekends	2,400			
fringe benefits	1,600		0	($ 9,500)
	$ 9,500		0	
			net saving 2nd year	($10,850)

COLLATERAL COMPUTATIONS

	Costs Before		Costs After	Difference
10 years labor	$91,000	instant contract increase	0	
		10 yrs system maintenance	$5,000	
		10 yrs electricity	1,000	
totals	$91,000		$6,000	($85,000)
		average one years savings		($ 8,500)

ADJUSTMENT TO CONTRACT PRICE (Figure 2-13)

Method 1:

Under Option 1 reduce contract price by 50% of $1,350 or, $675 and,
Under Option 2 increase contract price by 20% of $8,500 or, $1,700.

Method 2:

Under Option 2 increase contract price by $3,300 for monitoring system plus $1,700 for contractor collateral share and,
Under Option 5 reduce the full quantities of labor from the manpower plan to reflect an annual savings of $9,500 and make a lump sum payment of $675.

Figure 3-40. Service contract example

41. Lease contract example. Fig. 3-41 provides a sample computation for a change to a leased facility under the lease clause. Note the following about this example:

a. The facility, in an "as-is" condition occupied by the Government, is considered a constructive part of the contract as well as the level of services (heat, maintenance, operating conditions, cleaning) provided is considered the contracted for norm. Any deviation to these could be considered as subject to changed lease conditions. Also, part of the normal conditions expected is relatively uninterrupted use of the item being leased.

b. Whether metered separately or not, the energy being utilized in the facility is provided by the lessor under the terms of the lease contract, thus it is eligible for instant contract sharing. If it were paid for by the Government directly to the utility company then such savings would fall under the collateral savings benefits with respect to the lessor.

c. In adjusting the contract price there are two possible methods subject to mutual agreement. Method 1 requires the lessor to pay for the new work from the savings he accumulates over the contract period but changes the rental rate only by the remaining Government share, if any. Method 2 advances the lessor money for the new work while the government accumulates the full savings over the lease period through reduced rental rates.

(1) Method 1 requires less initial Government funding but also provides higher lease rates to be used as a basis for renewal of leases through options. It could also cost the Government financing charges on the lessors loan to perform the work which are included in the proposal cost.

(2) Method 2 provides an interest free loan to the lessor to accomplish the work and makes the largest impact in reducing rental rates which will benefit exercise of future lease options.

42. Supply contract example. Fig. 3-42 provides a sample computation for a change to a general supply contract. These same procedures are applicable to the equipment clause except for differing sharing rates. Note the following about this example:

a. The change affected an order of 100 sets of furniture, hence the instants costs shown are for that order. The change could very well have been submitted on the open schedule itself, without the presence of a specific order. Then the instant furniture costs would be reflected as unit prices and the implementing costs treated as one-time lump sum payments.

b. The collateral savings are based on Government shipping from warehouses after receipt. Any shipping provided by the contractor under the terms of the instant contract would fall under instant and royalty sharing provisions.

c. The royalty computations reflect only recurring unit price savings without contractor or Government development or implementation costs.

43 thru 45. Reserved.

Situation: Five years remaining under a six year lease with energy escalation the third year and the lessor provides utilities under the rental rate structure.

Description of change:

Modify the heating control system to reduce the BTU consumption provided under terms of the existing lease and allow for moderate tenant interruptions while doing so.

INSTANT CONTRACT COMPUTATIONS

	Lease Cost		Proposal Cost	Difference
Subcontractor A:				
	0	modify heating sys.	$ 15,000	
		overhead & profit	2,250	
		VCP preparation	2,000	
	0		$ 19,250	$19,250
Lessor				
energy cost under lease for 2 years	$ 60,000	energy cost as prepared for 2 years	$ 46,000	
energy cost with escalation during next 3 years	99,000	energy cost with escalation prepared for next 3 years	75,900	
		VCP implementation	2,000	
	$159,000		$123,900	($35,100)
			net savings over next 5 years of lease	($15,850)

ADJUSTMENT TO CONTRACT PRICE (Figure 2-18)

Method 1:

Under Option 1 calculate the Government share as 40% of $15,850 ($6,340) and then divide that amount by the remaining 5 years of the lease to get $1,268, and reduce the annual rental by that amount each year.

Method 2:

Under Option 2 provide a lump sum payment of $21,250 implementing costs and, Under Option 3 provide a lump sum savings share of 60% of $15,850 ($9,510) and, reduce the lease price by the full savings of $27,590 ($21,250 + $6,340) or $5,518 per year.

Method 3:

Under Option 2 provide a lump sum payment of $21,250 implementing costs, and, Under Option 1 reduce the lease price by the Government implementing cost and its savings share, $27,590 ($21,250 + $6,340), as provided over five years or, $5,518 per year.

Figure 3-41. Lease contract example

Situation: One year general schedule supply contract exists to provide office excellence furniture. 100 sets are effected by the change. An average of 1,500 sets per year are purchased.

Description of change:

In manufacturing desks, credenzas, and bookcases the contract requires a specified core material be laminated with a 3 component high pressure laminate. Substitute use of a low pressure, single component melamine.

INSTANT CONTRACT COMPUTATIONS

	Contract Cost		Proposal Cost	Difference
Prime contractor:				
60x30 flat top desk	$ 47,500		$ 35,600	
66x18 credenza	30,900		23,100	
36x14 book case	6,700		5,000	
		VCP development	500	
		testing	2,000	
	$ 85,000		$ 66,200	
			net savings on order	($18,900)

COLLATERAL COMPUTATIONS

	Costs Before		Costs After	Difference
10 year freight based on 1,500 sets per year				
desk - 46,500 cwt	$139,500	desk -41,850 cwt	$125,500	
cred - 31,500 cwt	94,500	cred -28,350 cwt	85,050	
b.c. - 9,750 cwt	29,250	b.c. - 8,775 cwt	26,325	
		Gov't testing	3,000	
	$263,250		$239,875	($23,375)
		average one years savings		($ 2,337)

ROYALTY COMPUTATIONS

	Unit Price Before	Unit Price After	Difference
desk	$475	$356	($119)
credenza	309	231	(78)
book case	67	50	(17)
set	$851	$637	($214)

ADJUSTMENT TO CONTRACT PRICE (Figure 2-28)

Under 9.1 reduce the unit price of the 100 sets on order by 50% of $18,900 ($9,450) or $94.50 per set.
Under 9.2 increase the unit price of the 100 sets on order by 20% of $2,337 ($467.40) or $4.67 per set.
Under 9.3 reduce the unit price of each item by 70% of its unit price reduction so that:

desk - 475 - 83.30 = $391.70
credenza - 309 - 54.60 = 254.40
book case - 67 - 11.90 = 55.10
set - 851 - 149.80 = $701.20

Above unit prices apply to all future orders placed under this contract for the items involved. All future contracts let within a 12 month period from the date of this contract modification will have their unit prices increased by 30% of the above agreed upon unit price reductions.

Figure 3-42. Supply contract example

PART 4. FINANCIAL MANAGEMENT

46. Discussion. In general, funds appropriated for a specific procurement shall be used to pay the contractor's instant share and collateral share. The concept of using contract funds for these purposes is based on the following rationale:

a. First, each proposal that is approved requires a modification to requirements of the current contract. Hence, the expenditure of funds from a given appropriation involves only the work provided by that appropriation.

b. Second, the collateral provisions relate to savings made in work provided by that specific contract and not to work provided by the funds of any other contract. Contract funds are frequently used to pay for change orders that create savings in a facility during its occupancy. The collateral sharing incentive can be viewed in parallel with the change order procedure since that cost of incorporating the VM change (the shares paid) creates similar savings in a facility's life.

47. Funding sources. In general, when additional funds are needed to approve a VCP on the instant contract, use the following funds in the order of priority and availability shown:

a. Funds accumulated from the Government's share of instant savings from other VM changes on the same contract.

b. Funds set aside for change orders on the contract but not yet reserved for other purposes.

c. Funds transferred to the contract from other sources (if legally available, and use of such funds would not constitute an illegal augmentation of an appropriation).

d. Royalty shares are paid from the appropriation for subsequent projects.

48. Insufficient funds. VCP's shall not initially be disapproved on the grounds of insufficient funds. When such a situation occurs, the Contracting Officer shall take the following course of action:

a. Forward a copy of the VCP to the Central Office, Director, Value Management Division (PCV), and request the funds required.

b. Advise the contractor that his proposal is technically acceptable; however, final approval must be deferred while funding is being sought.

49. Government processing costs. Costs for the review of VCP's and administration of the VIC shall be charged and accounted for in accordance with the HB, Resource Management System, fig. 6-2, PBS P 3400.10, where the third character of the work symbol shall be "N."

50. Payment. Incentive sharing is considered money earned for services rendered and is not considered as profit or fee.

a. Payment of contractor shares for collateral, instant and/or royalty savings shall normally be included in the regular progress payments.

b. However, in the interest of motivating contractor participation and/or gaining publicity, vouchers may be submitted in an amount covering the total sum of the contractor's share so that a separate check in that specific sum can be prepared. Delivery of such a check to the contractor should be delayed until an appropriate award ceremony can be arranged. To avoid excessive administrative burden, one of the following general guidelines should govern the justification for following this procedure.

(1) Utilize for significantly large individual VCP's, or groups of smaller dollar value VCP's amounting to over $5,000.

(2) Utilize for a contractor's first successful VCP effort.

(3) Utilize at another ceremony in the presence of other dignitaries to add another factor of praise and recognition when deserved.

51. Invoicing. Contractors may submit invoices and receive payment for their incentive shares and costs in accordance with the following schedule:

a. Instant and collateral saving shares. Payable immediately after signature of the formal amendment to the contract;

b. Royalty saving shares. Payable immediately after orders or contracts are placed for additional items incorporating the change;

c. Development cost. Payable immediately after signature of the formal change to the contract;

d. Implementation cost. Payable after work to be done has been satisfactorily performed; and

e. Savings on optional contract work. Payable immediately after the option to perform the work is exercised.

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CHAPTER 4. REPORTING

CHAPTER 4. REPORTING

1. General. The reporting requirements established in this chapter will facilitate the monitoring of utilization of Value Incentive Clauses (VIC's) by contractors, responsiveness of regional offices in processing Value Change Proposals (VCP's), and calculation of our return-on-investment.

2. Semi-annual cost report. A report of costs incurred by regional offices in administering the VIC program element and processing VCP's shall be submitted each April 1 and October 1 to the Director, Value Management (PCV). Negative reports are required.

a. Purpose. The function of this report is to:

(1) Provide data on which to calculate regional office return-on-investment; and

(2) Permit analysis of the potential for savings as a function of dollar volume of contract workload and regional efforts expended.

b. Content. The report shall provide costs and manhours expended during the previous six-month period for the following items:

(1) Marketing. Includes participation in post-award conferences training, related travel and contractor assistance.

(2) Program direction. Includes effort of the CAVS and VM Board in monitoring, reviewing and reporting.

(3) Technical review. Includes all internal VCP review and processing costs not elsewhere accounted for.

(4) Negotiations. Includes all internal costs expended after initial VCP approval by the Contracting Officer, auditors and estimators in executing the final contract change.

(5) Other costs. Includes additional Architect-Engineer (A-E) fees obligated during the reporting period for VCP activity and all other related government implementing costs.

c. Format. A memorandum format is prescribed for this report.

d. Preparation. The CAVS shall prepare the report by estimating the manhours and costs utilized for the above items unless data is otherwise available from regional records such as the management information system, resource management systems, contract files and other expenditure records.

e. Report control symbol. Report control symbol OA-46-PB has been assigned to this semi-annual report.

3. VCP detail report. Fig. 4-3 illustrates this report, GSA Form 2698, VCP Detail Report, and provides preparation instructions.

a. Purpose. The function of this report is to:

(1) Provide a technical abstract of each VCP to facilitate exchange of ideas between regions for reapplication to current work; and

(2) Provide data on which to perform statistical analysis on approval rates, processing time, and return-on-investment.

(3) Provide a guide to ensure technical review of factors relating to impact on future ownership and use of the change.

b. Preparation. It is suggested that the front of the form be filled out as completely as possible by the CAVS at the initial receipt of the VCP. Then, the form be circulated with the VCP for use during technical review with the back of the form used as a checkoff sheet and appropriate comments. A separate GSA Form 2698 shall be prepared for each VCP submitted by a contractor or lessor.

c. Submittal. CAVS's are responsible for ensuring that reports are prepared properly and submitted on time. They shall prepare a letter of transmittal of the reports for signature of their division director.

(1) Submittal shall be quarterly, within 10 days of the end of each quarter. The submittal shall consist of the accumulated VCP Detail Reports, GSA Form 2698, for all VCP's processed during the previous three months.

(2) Original report copies shall be forwarded to the Director, Value Management Division (PCV). Attach a copy of the contractor's VCP submittal to each report form to provide background data for crossfeed use and for use in reviewing VCP's for potential criteria changes.

d. Report control symbol. Report control symbol OA-45-PB has been assigned to this quarterly report.

VCP DETAIL REPORT

REPORTS CONTROL SYMBOL: OA-45

REPORTING ACTIVITY | DATE

1. VCP DATE	2. DECISION DATE	3. DAYS IN PROCESSING	4. DECISION
			☐ APPROVED ☐ WITHDRAWN ☐ DISAPPROVED

5. SUBJECT OF CHANGE *(System and component)*

6. DESCRIPTION OF CHANGE *(Before and after)*

7. QUANTITIES INVOLVED

8. CONTRACT TITLE, LOCATION	9. TYPE OF CONTRACT CLAUSE
	☐ SUPPLY ☐ CONSTRUCTION ☐ LEASE

10. CONTRACTOR'S NAME	11. CONTRACT NO.	12. CHANGE NO.

13. INSTANT CONTRACT COSTS/SAVINGS *(Show in thousands of dollars)*

GOVERNMENT SHARE	$	CONTRACTOR SHARE	$	INSTANT CONTRACT INCREASE	$
OTHER IDENTIFIABLE GOVERNMENT IMPLEMENTING COSTS	$				

14. COLLATERAL SAVINGS *(Show in thousands of dollars)*

AVERAGE ONE YEAR SAVINGS	$	CONTRACTOR SHARE	$	LIFE CYCLE USED *(In years)*	

15. FUTURE ACQUISITION DATA

UNIT PRICE REDUCTION	$	PROBABLE FUTURE PURCHASE *(Quan.)*		ROYALTY PERIOD *(Expiration date)*	

16. DISAPPROVAL/WITHDRAWAL REASONS

GENERAL SERVICES ADMINISTRATION GSA FORM 2698 (REV. 1-76)

Figure 4-3. VCP detail report
(Part 1 of 3)

17. VCP IMPACT ON OTHER FACTORS

JUDGE THESE FACTORS	NOT APPLICABLE	GREAT BENEFIT	SOME BENEFIT	NO EFFECT	SOME DIS-ADVANTAGE	LARGE DIS-ADVANTAGE
APPEARANCE						
MAINTAINABILITY						
RELIABILITY						
PERFORMANCE						
TIME						
STANDARDIZATION						
QUALITY						
SIMPLIFICATION						
WEIGHT						
AVAILABILITY						
FIRE PROTECTION						
PACKAGING						
HANDLING						
SAFETY						

(List other factors used to judge VCP)

18. REMARKS *(Comment requested on great benefit or large disadvantage)*

19. FOR FURTHER INFORMATION CONTACT

NAME/TITLE	OFFICE ADDRESS	TELEPHONE *(Include area code)*

GSA FORM 2698 BACK (REV. 4-76)

Figure 4-3. VCP detail report
(Part 2 of 3)

INSTRUCTIONS FOR COMPLETING
GSA FORM 2698, VCP DETAIL REPORT

General.	Use a separate GSA Form 2698 for each VCP.
Item 1.	Enter the date shown on the Contractor's or Lessor's letter transmitting the VCP.
Item 2.	The date to be entered here shall be taken from the earliest piece of correspondence indicating a decision.
Item 3.	The difference in days between the dates entered in Items 1 and 2.
Item 4.	Check the appropriate space.
Item 5.	Indicate general system affected by the change and the part, component, or assembly. Examples:

lighting system	- energy reduction
contract conditions	- time for completion
plumbing system	- lavatories
architectural	- partitioning system

Item 6.	Give a brief account of the change, describing the basic differences between what is required and what is proposed.
Item 7 thru 12.	Self explanatory.
Item 13 thru 15.	Complete all spaces by filling in appropriate dollar values or the term "N.A." when not applicable. The values used here shall be the best estimate available at the time of preparation. Normally this will be directly abstracted from the Contractors' or Lessors' VCP or the Government's letter of approval. Do not delay the report for the sake of obtaining actual negotiated amounts. Make all entries in thousands of dollars, rounding off to the nearest tenth.
Item 16.	If disapproved by the Government or withdrawn by the Contractor or Lessor, give a brief account of reason for the action. Where the Contractor or Lessor has been invited to resubmit the VCP with certain changes or additional supporting data, so indicate.
Item 17.	Complete this table by checking the appropriate space. Use your best judgment when evaluating impact of the VCP on the intangible factors listed. List any other factor that you think is involved with specific VCP or played a role in the decision making process.
Item 18.	Self explanatory.
Item 19.	Indicate technical person who has knowledge of change; not person who prepared report.

Figure 4-3. VCP detail report
(Part 3 of 3)

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CHAPTER 5. AWARDS

CHAPTER 5. AWARDS

1. Background. The quantity and quality of contractor participation under a voluntary incentive clause arrangement depends in large measure on the initiative and response to the program of operating personnel. The Value Incentive Clause (VIC) creates additional workload in contract administration, processing contract modification, technical support, and administrative support. Much of this workload is an additional duty for an employee which warrants management recognition when performed in an exceptional manner.

2. Employee incentive awards. All employees are eligible for incentive awards in connection with Value Management (VM) contract incentive activity in accordance with the HB, Incentive Awards (OAD P 3620.1) and the performance standards established below.

3. Employee performance standards. Ch. 4-2 of the HB, Incentive Awards, indicates that before a supervisor can single out an employee for superior performance, standards should be set that represent normal or "expected" performance. The standards provided herein shall be used to judge the performance level of employee contribution and involvement in VM contract incentive activity.

a. One-time performance. Fig. 5-3.1 provides the expected and superior performance standards for special achievement awards for "one-time" work performance. Potential recipients of this award would be contracting officers, inspectors, building managers, resident engineers, realty specialists, and other individuals (or groups) who perform in an exceptional manner on a single procurement. Initiation of value management changes by Government employees on their own, shall also be considered in making performance awards.

b. Sustained performance. Fig. 5-3.2 provides the expected and superior performance standards for special achievement awards for performance of a "continuing" nature over at least a six month period. Potential recipients of this award would be individuals (or groups) assigned responsibility for screening, reviewing, processing, reporting, and otherwise administering VIC participation or other cost saving changes to contracts.

4. Contractor citations. Regional Commissioners, Public Buildings Service, (PBS), are encouraged to recommend contractors for receipt of VM Excellence citation awards when outstanding Value Change Proposal (VCP) performance participation is evident and deemed worthy of recognition, or for other program promotional purposes. Requests for citations should be addressed to the Director, Value Management Division (PCV) who will prepare the citation for the signature of the Commissioner, PBS. In general, the following criteria should be considered when recommending a citation:

a. Repetitive VCP participation on three or more contracts;

b. Savings on a single contract that total more than one percent of the contract value;

c. Accumulated savings of more than $500,000 by a contractor over a period of several years; and

d. A unique functional change or a highly creative change.

One-Time Performance Standards
VM Contract Incentive Activity

Expected Performance	Superior Performance
Encourage contractor VIC participation	Demonstrate exceptional motivational skill in obtaining participation
Explain VIC participation procedures	Negotiate voluntary participation goals with contractors and achieve that performance
Advise contractor of his VIC rights	Request VIC submittals and/or provide assistance in identifying areas of VM opportunity
Expected Results	**Superior Results**
One VCP for contracts in the range $25,000 - $1,000,000	Two VCP's in this range from one contract
Two VCP's for contracts greater than $1,000,000	Four VCP's in this range from one contract
An average VCP savings of $2,000 (Government share)	An average VCP savings of $4,000 for three or more VCP's
A 40% approval rate for single contracts	A 60% approval rate for single contracts

Figure 5-3.1 One-time performance standard

Sustained Performance Standards
VM Contract Incentive Activity

Expected Performance	Superior Performance
Objectivity and fairness in review	Suggesting a modification to a VCP to cause it to be approved when it would otherwise have been disapproved
Establishing and meeting an established program goal	Exceeding a program goal by more than 10%
Submitting GSA Form 2698, VCP Detail Report, as required	Selecting significant actions from the 2698 report, reutilizing them in other contracts and preparing them for crossfeed to other regions
Expected results	**Superior results**
An approval percentage of 40%	An approval percentage of 60%
An average processing time of 45 calendar days	An average processing time of 30 calendar days
A return on investment of $10:$1	A return on investment of $15:$1
A participation rate (in terms of numbers of VCP's submitted) that equals 25% of the number of contracts let that exceed $50,000 in value	A participation rate that equals 50% of the number of contracts let that exceed $50,000 in value

Figure 5-3.2 Sustained performance standard