The use of an equitable price adjustment clause is recommended for state contracts if there is a possibility of significant economic fluctuation during the contract term. Price adjustment clauses generally encourage companies to participate in the state procurement process. The use of a price adjustment clause also allows companies to submit bid prices free of the contingencies that would otherwise be included to compensate for potential economic fluctuations.

Not all term contracts entered into by the State of Alaska require a contract price adjustment clause. In general, short-term contracts for one year or less should not include a price adjustment clause. Long-term contracts should not include a price adjustment clause unless it is unreasonable for the contractor to maintain firm pricing over the term of the contract, including any renewals.

Under some circumstances it may be appropriate to consider price decreases in the contract. Potential price decreases may be addressed by adding the following language to the price adjustment clause in the solicitation; “Price decreases will be handled in the same manner as price increase adjustments.”

Contract price adjustment clauses should be based on objective criteria and not subject to some form of negotiation process, except for unique circumstances when it is not possible to utilize the price adjustment clauses covered in this guide. Most price adjustments should be applied on an annual basis, or at the beginning of each renewal period if possible. The following guidelines are provided to simplify the selection and application of price adjustment clauses. Four of the more common contract adjustment clauses are presented in this guide.

**Consumer Price Index**

The Consumer Price Index (CPI) is the most common type of price adjustment clause used in state contracting. It is included in many types of state contracts; storage and delivery services, office supplies, vessel charters and janitorial contracts to name a few. Below is a suggested CPI clause:

**Consumer Price Index (CPI):** Contract prices for equipment and/or service will remain firm through \(\text{through } 200\_\text{, }\). Contractors must request price adjustments, in writing, 30 days prior to the renewal date. If a contractor fails to request a CPI price adjustment 30 days prior to the adjustment date, the adjustment will be effective 30 days after the State receives their written request.

Price adjustments will be made in accordance with the percentage change in the U.S. Department of Labor Consumer Price Index (CPI-U) for All Urban Consumers, All Items, Anchorage Area.

The price adjustment rate will be determined by comparing the percentage difference between the CPI in effect for the base year six month average (January through June OR July through December 200\_); and each (January through June OR July through December 200\_ six month average) thereafter. The percentage difference between those two CPI issues will be the price adjustment rate. No retroactive contract price adjustments will be allowed.
If your contract will include a CPI-based price adjustment clause, the following six areas should be considered during development of the solicitation:

**One: Clearly identify the price(s) to be adjusted.** The standard CPI clause serves to adjust all contract prices. If the adjustment should only affect the price of certain items, those items must be clearly identified.

**Two: Determine the frequency of the price adjustment.** Price adjustments are normally made on an annual basis, typically at contract renewal. CPI reports for the recommended region (Anchorage) are released semi-annually - every six months. The January to June report is available in August and the July to December report is available in February. The reports are available online at:

http://data.bls.gov/labjava/outside.jsp?survey=cw

**Three: Identify which index series will be used as the base index.** The CPI-U (All Urban Consumers) is the index that should be used. Always use the seasonally unadjusted series because they better represent the actual change in prices paid by consumers.

**Four: Select an area.** Under most circumstances, State of Alaska contracts should use the Anchorage, Alaska location, which is the only available location for Alaska.

**Five: Select an item.** The use of “All Items” is recommended because it is an average of all items in the CPI. The average represents a better picture of overall costs in the marketplace.

**Six: Identify your base index date range (i.e. January to June 20__, or July to December 20__).** The base index date range is selected by determining when the price adjustment will take effect and the scheduled release of the semi-annual CPI report. For example, if a contract was awarded on October 1, 2001, and the renewal date occurs each September 30th, price adjustments should be effective each October 1st, beginning in 2002. By selecting the January to June 2001 base index date range for this contract, the CPI report would be available each August. This will allow sufficient time for the procurement officer to review the CPI report, perform the calculation and issue an amendment to adjust the prices prior to the contract renewal date of September 30th.

The first CPI price adjustment for this contract would be based on a comparison between the January to June 2001 and January to June 2002 CPI reports, the next comparison would be between the January to June 2001 and January to June 2003 CPI reports, etc.:

- Contract Renewal Date: Each September 30th, beginning in 2002
- CPI Base Index Date Range: January to June 2001
- First Adjustment Comparison: January to June 2001 and January to June 2002
- Second Adjustment Comparison: January to June 2001 and January to June 2003
- Third Adjustment Comparison: January to June 2001 and January to June 2004

Note that in each instance the original January to June 2001 index is used as the base. In this example, it would not be possible to use the July to December CPI date range because the report for that period is not available until February, after the contract renewal date.

The following example indicates how to adjust contract pricing when using the CPI as a contract price adjustment clause: *(Remember, all price adjustments should be rounded to equal the pricing structure of the contract in question. For example, if the price is $1.653 per item, make sure that you round the CPI adjusted price to the same number of decimal places to ensure accuracy).*

**EXAMPLE**
Contract renewal date: September 30, 2002
Price to be adjusted: $1.653 each
Adjustment period: Annually

CPI Index in use: CPI-U All Urban Consumers, All Items, Anchorage Area.

First Adjustment Period:

| Current index: January to June 2002 | 158.2 |
| Base index: January to June 2001 | 154.9 |
| Subtract the Base index from the Current index | 158.2 – 154.9 = 3.3 |
| Divide the result by the Base index | 3.3 / 154.9 = .0213 |
| Multiply the result by 100 to obtain percentage | .0213 x 100 = 2.13% |
| Multiply the price to be adjusted by the % increase | $1.653 x .0213 = $0.35 |
| Add the price to be adjusted to the adjustment amount | $1.653 + $0.35 = $1.688 |

CPI adjusted price for contract term October 1, 2002 through September 30, 2003 | $1.688 |

Second Adjustment Period:

| Current index: January to June 2003 | 162.00 |
| Base index: January to June 2001 | 154.9 |
| Subtract the Base index from the Current index | 162.0 – 154.9 = 7.1 |
| Divide the result by the Base index | 7.1 / 154.9 = .0458 |
| Multiply the result by 100 to obtain percentage | .0458 x 100 = 4.58% |
| Multiply the price to be adjusted by the % increase | $1.653 x .0458 = $0.76 |
| Add the price to be adjusted to the adjustment amount | $1.653 + $0.76 = $1.729 |

CPI adjusted price for contract term October 1, 2003 through September 30, 2004 | $1.729 |

It is important to note that with each price adjustment, the original CPI Base index date range (January to June 2001 in this example) must be compared to the most current CPI index date range (January to June 2002, 2003, etc.). Equally important is to always make the adjustment to the original contract price. In other words, do not adjust a price that has been previously adjusted.

Producer Price Index

Generally, the Producer Price Index (PPI) price adjustment clause is used for certain commodity contracts and in instances when the vendor does not have control over the wholesale price of the desired product. For example, in an office move contract, the labor prices should be adjusted with a CPI adjustment while the cardboard box price could be adjusted with the PPI because the contractor does not have control over the actual price of cardboard. Below is a suggested PPI clause:

Producer Price Index (PPI): Contract prices are to remain firm through ______, 200_.

Annually beginning ______, 200_, the contractor may request price adjustments. Requests must be in writing and must be received thirty (30) days prior to the adjustment date. If a contractor fails to request a PPI price adjustment 30 days prior to the adjustment date, the adjustment will be effective 30 days after the State receives their written request.

Price adjustments will be made in accordance with the percentage change in the U.S. Department of Labor Producer Price Index (PPI), Commodity Group ____ Item Code ____ for ______, issued for ______ of each contract term. The percentage difference between the
**Note:** PPI data issued by the Bureau of Labor Statistics may be revised for up to four months after the original release date.

Similar to the CPI price adjustment clause, if your contract will include a PPI based price adjustment clause, the following six areas should be considered during development of the solicitation:

**One: Clearly identify the price(s) to be adjusted.** The standard PPI clause serves to adjust all contract prices. If the adjustment should only affect the price of certain items, those items must be clearly identified.

**Two: Determine the frequency of the price adjustment.** Price adjustments should normally be made on an annual basis, typically at contract renewal. PPI pricing data is published on or about the 15th of the month. Yearly data is released in the middle of January of each year. The reports are available online at:


**Three: Identify which Commodity Group will be used.** The group selected should correspond to a product type, i.e., farm products, machinery and equipment, etc. Always list the commodity group number in your contract documents. As an example, commodity group (09) is Pulp, Paper, and allied products.

**Four: Select the item within the commodity group chosen in step three.** This selection should represent the average index for a particular group of products, rather than the product itself. For example, within the Pulp, Paper, and allied products commodity group (09) chosen in step three, it would be better to select the item Paper boxes and containers (091503), rather than a specific type of box within the group. Always list the item number within your contract documents, in this example, the selection is (091503) Paper boxes and containers.

The PPI index chosen in steps three and four would be referred to as PPI Index, Pulp, Paper, and allied products, Paper boxes and containers, 09-091503.

**Five: When selecting your index, the use of unadjusted PPI indexes is recommended for state contracts.** Unadjusted indexes offer a more stable environment for contract price adjustments. Seasonally unadjusted indexes should be used because they better represent the actual change in selling prices received by producers.

**Six: Identify your base index month (i.e. April 2001).** The base index month is selected by determining when the price adjustment will take effect and the scheduled release of the “final” PPI index data. Commodity indexes are subject to revision four months after the original publication (e.g. first-published PPI figures for April are available in May, usually during the second week and the final PPI figures for April are published in September). The standard PPI clause referenced above states that only final PPI index data will be used for the price adjustment.

The selected PPI base index date should normally be at least eighteen months prior to the first price adjustment date to allow for proper comparison. For example, if a contract was awarded on October 1, 2001, and the renewal date occurs each September 30th, price adjustments should be effective each October 1st, beginning in 2002. By selecting the April 2001 base index date for this contract, the first-published PPI figures would be available approximately May 15th of each year and the final PPI index data would be available during the middle of each September. This
should allow sufficient time (approximately 15 days) for the procurement officer to perform the calculation, adjust the contract and issue an amendment prior to the contract renewal date of September 30th. It would also be acceptable to use the March 2001 based index date in this example, which would allow approximately 45 days between issuance of the final PPI figures and the contract renewal date.

In this example, the first PPI price adjustment for this contract would be based on a comparison between the April 2001 and the April 2002 PPI reports, the next comparison would be between the April 2001 and April 2003 PPI reports, etc.:

<table>
<thead>
<tr>
<th>Contract Renewal Date:</th>
<th>Each September 30th, beginning in 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>PPI Base Index:</td>
<td>April 2001</td>
</tr>
<tr>
<td>First Adjustment Comparison:</td>
<td>April 2001 and April 2002</td>
</tr>
<tr>
<td>Second Adjustment Comparison:</td>
<td>April 2001 and April 2003</td>
</tr>
<tr>
<td>Third Adjustment Comparison:</td>
<td>April 2001 and April 2004</td>
</tr>
</tbody>
</table>

Note that in each instance the original April 2001 index is used as the base. The use of May 2001 data as the base index would not allow a contract price adjustment to occur since the final May data will not be available until October, after the contract has been renewed.

The following example indicates how to adjust contract pricing when using the PPI as a contract price adjustment clause: *(Remember, all price adjustments should be rounded to equal the pricing structure of the contract in question. For example, if the price is $1.653 per item, make sure that you round the PPI adjusted price to the same number of decimal places to ensure accuracy).*

**EXAMPLE**

<table>
<thead>
<tr>
<th>Contract renewal date:</th>
<th>September 30, 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price to be adjusted:</td>
<td>$1.653 per box</td>
</tr>
<tr>
<td>Adjustment period:</td>
<td>Annually</td>
</tr>
</tbody>
</table>

PPI Index in use: Pulp, Paper and allied products, Paper boxes and containers, 09-091503.

**First Adjustment Period:**

- **Current index:** April 2002
- **Base index:** April 2001
- **Subtract** the Base index from the Current index: $172.0 - 175.9 = -3.9
- **Divide** the result by the Base index: $-3.9 / 175.9 = -0.022
- **Multiply** the result by 100 to obtain percentage: $-0.022 \times 100 = -2.20$
- **Multiply** the price to be adjusted by the % decrease: $1.653 \times -0.022 = 0.036$
- **Subtract** the decrease from the price to be adjusted: $1.653 + 0.036 = 1.617$

| PPI adjusted price | for contract term October 1, 2002 through September 30, 2003 | $1.617 |

**Second Adjustment Period:**

- **Current index:** April 2003
- **Base index:** April 2001
- **Subtract** the Base index from the Current index: $173.2 - 175.9 = -2.7$
- **Divide** the result by the Base index: $-2.7 / 175.9 = -0.015$
Multiply the result by 100 to obtain percentage

\[-.015 \times 100 = -1.5\%\]

Multiply the price to be adjusted by the % decrease

\[$1.653 \times -.015 = \$0.025\]

Subtract the decrease from the price to be adjusted

\[$1.653 + -.025 = \$1.628\]

<table>
<thead>
<tr>
<th><strong>PPI adjusted price</strong> for contract term October 1, 2003 through September 30, 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$1.628</strong></td>
</tr>
</tbody>
</table>

The example shown above demonstrates the same application process that is used for the CPI price adjustment, however, due to changes in the selected PPI, this example shows a price decrease instead of a price increase.

Similar to a price increase request from the contractor, the Contract Administrator is required to notify the contractor in writing at least 30 days prior to the implementation of a price decrease.

As with the CPI price adjustment, it is important to note that with each price adjustment, the original base index must be compared to the most current comparison index. In addition, remember that the price to be adjusted is always the original price and not a previously adjusted price.

**Manufacturers Price List**

If a CPI or PPI adjustment clause is not appropriate, it may be possible to utilize a Manufacturer’s Price List (MPL) as a price adjustment clause. The use of a MPL for price adjustments within a State of Alaska contract requires that certain conditions be addressed prior to the solicitation process, as well as during contract administration.

- The name of the MPL must be specifically listed in the solicitation, such as the most current “State and Local Government Price List,” “Suggested Retail Price List”, or “Commercial Price List”. The “State and Local Government Price List” should be used in most cases if it’s available.
- All offerors must be required to bid on the same MPL, if the price list is limited to a specific manufacturer’s products, a brand specific determination must be completed.
- The price list should be published or otherwise available on the Internet.
- The price list must specify actual prices and be used regularly by a significant number of large customers so that it cannot be manipulated in an improper manner.
- The date of the MPL that will be used to initially evaluate bids/offers must be identified in the solicitation.
- The evaluation criteria used in the solicitation must be based on an actual purchase, or the cost of a hypothetical purchase. It is not possible to base the evaluation simply on the lowest percentage discount or markup offered due to the potential need to apply Alaska’s bidder and product preferences. The application of preferences to a percentage discount or markup will not allow for proper calculation of the preferences.
- The use of a MPL requires using agencies to verify pricing on a regular basis to ensure the contractor is using the most current price list.

Below is a suggested MPL clause, it may be modified if necessary:

Contract prices shall be based on the ______________ Price List and shall remain firm until the issuance of a revised Price List. Revised Price Lists shall be submitted to the contract administrator within 14 days of the date of issuance. If requested by using agencies, the contractor must also provide the revised Price List within 14 days of an agency’s request.

Bid prices shall be a percentage (in minimum increments of one tenth of a percent) that will be deducted from (discount), or added to (mark-up), or no (zero) discount or markup deducted from or added to, the most current price list. No additional charges will be allowed. Bid evaluation will be based on a
hypothetical purchase of $______. The discount or mark-up and any applicable Alaska preferences will be applied to arrive at the final price for bid evaluation:

\[(\$____ + \text{ or } - \text{ Percentage Mark-up/discount}) = \text{Total, adjusted by Alaska preferences if applicable}\]

The offered percentage shall:

1. apply to the Price List in effect at the time of order placement by the state, retroactive price adjustments will not be allowed,
2. apply to all updates and revisions to the price list during the life of the contract including its renewals, if any,
3. remain firm through the term of the contracts resulting from this solicitation and all renewals of the contracts, if any, and
4. apply to all items.

The bidder's failure to indicate the percentage discount, mark-up or no discount (zero) offered in the bid will cause the State to consider the offer to be nonresponsive and reject the bid. The discounts/markups obtained as a result of this ITB are for the purchase of one each of the items. Contract users may negotiate additional discounts for the purchase of more than one each of a desired item.

Below is an example of an original MPL as well as a revised MPL for contract administrator approval.

**Original MPL submitted with bid**
Ace Office Supplies Manufacturers Suggested Retail Price List
Current as of September 30, 2004

<table>
<thead>
<tr>
<th>SKU</th>
<th>Description</th>
<th>Retail Price</th>
<th>Markup / Discount</th>
<th>Contract Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>A-156952</td>
<td>Ace Staple Remover</td>
<td>$3.99</td>
<td>- 40%</td>
<td>$2.39</td>
</tr>
<tr>
<td>A-156953</td>
<td>Ace Stapler, Model 747</td>
<td>$7.99</td>
<td>+ 6 %</td>
<td>$8.47</td>
</tr>
<tr>
<td>S-34659</td>
<td>Swingline staples</td>
<td>$4.99</td>
<td>- 16 %</td>
<td>$4.19</td>
</tr>
</tbody>
</table>

**Revised MPL submitted for price adjustment approval**
Ace Office Supplies Manufacturers Suggested Retail Price List
Current as of September 30, 2005

<table>
<thead>
<tr>
<th>SKU</th>
<th>Description</th>
<th>Retail Price</th>
<th>Markup / Discount</th>
<th>Contract Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>A-156952</td>
<td>Ace Staple Remover</td>
<td>$4.49</td>
<td>- 40%</td>
<td>$2.69</td>
</tr>
<tr>
<td>A-156953</td>
<td>Ace Stapler, Model 747</td>
<td>$5.99</td>
<td>+ 6 %</td>
<td>$6.35</td>
</tr>
<tr>
<td>S-34659</td>
<td>Swingline staples</td>
<td>$2.99</td>
<td>- 16 %</td>
<td>$2.51</td>
</tr>
</tbody>
</table>

The use of a MPL will increase the level of contract administration required. To ensure the correct pricing structure is used, regular communication between the vendor and the contract administrator must be present. It is the responsibility of the vendor to provide a revised MPL to the contract administrator within 14 days of issuance.

**Percentage Price Increase**

If a CPI, PPI or MPL adjustment clause is not appropriate, it may be possible to base the potential price adjustments on a Percentage Price Increase clause. The maximum percent of increase should be five percent or less, and in most instances a maximum of two or three percent should be used. Keep in mind that an annual four or five percent increase would raise contract prices by a total of twenty or twenty-five percent if adjustments are made over a five-year period. In most cases, a twenty or twenty-five percent price increase would be excessive for a five-year contract period.
It may be advantageous to use the average percentage of CPI increase over the past several years as the maximum amount of price adjustment. For example, between June 2000 and June 2003, the CPI experienced an average percentage increase of 2.59%. Below is a suggested Percentage Price Increase clause:

**CONTRACT PRICE ADJUSTMENTS:** The Contractor may request a Percentage Price Increase adjustment, in writing, 30 days prior to the contract renewal date. If a contractor fails to request a Percentage Price Increase adjustment 30 days prior to the renewal date, the adjustment will be effective 30 days after the State receives their written request.

*Said price increase may not, under any circumstances, exceed ______ percent of the price of the contract for the preceding 12 months. No retroactive contract price adjustments will be allowed.*

In some cases, it may be appropriate to require the contractor to provide evidence that justifies the need for a price increase. If so, the contractor is required to submit evidence satisfactory to the state that proves certain conditions exist. The price increase evidence is then independently evaluated and approved by the procurement officer or contract administrator. However, this process may require a substantial amount of time reviewing and approving evidence submitted by the contractor. If a decision is made to require evidence to justify price increases, the following language may be added to the standard Percentage Price Increase clause:

*The contractor must provide the procurement officer clear and convincing evidence, satisfactory to the State, that all of the following conditions exist:*

1. the increase is the result of increased costs at the manufacturer's level and not costs under the contractor's control, and that;
2. the increase will not produce a higher profit margin for the contractor than that on the original contract, and that;
3. the increase affects only certain items that are clearly identified by the contractor.

*Some acceptable forms of the evidence referred to above may take the form of a certified invoice from the manufacturer. The price increase evidence provided by the contractor shall be independently verified and approved by the procurement officer or contract administrator prior to the effective date of the price increase.*

By using this clause, the adjusted pricing is approved based upon clear and convincing evidence provided by the contractor. The evidence must prove that the increase is a result of increased costs at the manufacturer’s level, the original profit margin is the same, and the price increase affects only items that have been identified by the contractor.

Below are two examples of the application of a Percentage Price Increases:

**EXAMPLE # 1**

3% Price Increase:

<table>
<thead>
<tr>
<th>SKU</th>
<th>Description</th>
<th>Contract Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>A-568425</td>
<td>Acme Widget</td>
<td>$3.28</td>
</tr>
</tbody>
</table>

**CPI Average Adjusted Pricing Structure**
As of September 30, 2003

<table>
<thead>
<tr>
<th>SKU</th>
<th>Description</th>
<th>Contract Price</th>
<th>3 Year CPI Average Increase</th>
<th>Amount of Increase</th>
<th>Adjusted Contract Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>A-568425</td>
<td>Acme Widget</td>
<td>$3.28</td>
<td>3%</td>
<td>$.10</td>
<td>$3.38</td>
</tr>
</tbody>
</table>

**EXAMPLE # 2**

Evidence justified Percentage Price Increase:

**Original Pricing Structure**

as of September 30, 2002

<table>
<thead>
<tr>
<th>SKU</th>
<th>Description</th>
<th>Contract Price</th>
<th>Wholesale Price</th>
<th>Profit Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>A-456889</td>
<td>Traffic Cones</td>
<td>$16.99</td>
<td>$9.00</td>
<td>47.00%</td>
</tr>
</tbody>
</table>

**Adjusted Price Structure**

as of September 30, 2003

<table>
<thead>
<tr>
<th>SKU</th>
<th>Description</th>
<th>Contract Price</th>
<th>Wholesale Price</th>
<th>Profit Margin</th>
<th>Percent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>A-456889</td>
<td>Traffic Cones</td>
<td>$17.29</td>
<td>$9.20</td>
<td>47.00%</td>
<td>1.76%</td>
</tr>
</tbody>
</table>

In example number two above, the requested price increase would be approved if the contractor submitted evidence that the three conditions described in the Percentage Price Increase clause above were satisfied.

If you have questions not addressed within this document, please contact your Department’s Procurement Specialist or the Division of General Services at 465-2250.