Economic Adjustments And Price Adjustments Guide

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# What are Economic Adjustments and Price Adjustments?

Economic Adjustments (“EA”) are changes to the contract rates for goods/services during the life of a contract. They should be based on a clear methodology that is defined in the contract. The key decision criteria are the contract term and price certainty.

* These adjustments are generally made as part of the contract through an economic adjustment clause in the contract. Economic adjustment clauses set up an agreed upon fair and structured method to control pricing throughout the term of the contract. Not all economic impacts can be absorbed by a Contractor, when that occurs, the EA clause allows a Contractor to adjust the pricing to supply demands to customers and operate as a business. EAs are not always increased pricing; EAs can result in decreases in price. If a contract requires an EA, typically the clause has a regular cycle review period in which a Contractor can request or is automatically reviewed for economic adjustments, in many cases this is a yearly review of pricing trends to determine if a need to increase or decrease prices should occur by a certain margin using data.
* Most economic adjustments should be applied on an annual basis for the yearly change in the index. By using this objective criteria-based methodology, EAs are precise and on a predetermined schedule.

Price Adjustments (“PA”) adjust Contract prices for other reasons, NOT inflationary impacts. This may be due to materials availability, supply chain issues, worker shortages, or tariffs. These price adjustments may be scheduled, or unanticipated and responsive to Contractor conditions. They can be temporary in nature, or for the duration of the contract.

* + Temporary Price Adjustments may be necessary when the market price of contract goods/services becomes volatile and unstable, due to materials availability, supply chain issues, worker shortages, unforeseen tariffs, etc.
* These unstable conditions are based on unanticipated cost increases of certain raw materials, components, and logistical supply constraints that are unexpected changes to Contract prices.
	+ **These adjustments can be built into the original contract, or added as an amendment if necessary.**
	+ **More information on incorporating these adjustment strategies into a contract can be found in the Background Document for the Agency contract template on the Washington State Procurement Manual.**

Both Economic Adjustments and Price Adjustments are most effective when the adjustment is verified by an independent objective party, like the Bureau of Labor Statistics (BLS), before granting to the contractor. The most common data sources from the BLS are the Producer Price Index (PPI) and Employment Cost Index (ECI) for goods and services.

Most price adjustments should be applied on an annual basis for the yearly change in the index. By using this objective criteria-based methodology, economic adjustments are precise and on a predetermined schedule.

Not all contracts require the use of an Economic Adjustment and/or Price Adjustment. Contracts based on pricing models such as cost plus, discount off manufacturer price, or prevailing wage markup will not need Economic Adjustment language because such pricing models already allow for expected normal cost fluctuations. When establishing a contract, it is important to research the market and potential need for an EA/PA clause. Refer to the Background Document for the Agency contract template on the Washington State Procurement Manual. for more information.

# Why Do Economic Adjustments And Price Adjustments Exist?

Economic Adjustments and Price adjustment clauses with verification from an objective third party exist as an equitable and fair way to manage significant economic fluctuation during the contract term.

Economic Adjustments, and Price adjustments clauses, verify that requested (or automatic) price increases are based on larger market conditions, and reduce pricing manipulation of individual contractors.Also, these contract clauses allow businesses to submit bid prices free of contingencies to compensate for potential economic fluctuations over the long term. These contract provisions can ensure fair and equitable measures are taken on contract price increase for all parties, including the taxpayers of Washington.

If, on a longer term contract, an agency allows price increases without verification, the value of a Contract for the state of WA is lessened.

* Allowing price increases without verification can allow for higher pricing on contracts without justification.
* Costs for similar/same products can be obtained otherwise for better prices
* Any price increase on a contract has a direct budget impact on our customers.

What is the Bureau of Labor Statistics?

The Bureau of Labor Statistics (BLS) measures labor market activity, working conditions, price changes, and productivity in the U.S. economy to support public and private decision-making. The BLS publishes Producer Price Indexes (PPI) that measure the average change over time in the selling prices received by domestic producers of goods and services. PPIs measure price change from the perspective of the seller. This contrasts with other measures, such as the Consumer Price Index (CPI), that measure price change from the purchaser's perspective.

According to the [BLS FAQ’s](https://www.bls.gov/ppi/faqs/questions-and-answers.htm#2), one of the most common uses of PPI data is for contract adjustments. “PPI data are commonly used in adjusting purchase and sales contracts. These contracts typically specify dollar amounts to be paid at some point in the future. It is often desirable to include an adjustment clause that accounts for changes in input prices. For example, a long-term contract for bread may be adjusted for changes in wheat prices by applying the percent change in the PPI for wheat to the contracted price for bread.”

The BLS data is free to use, is collected using strict data integrity guidelines, and is reviewed regularly. It is meant to support both consumers and sellers, taking into account their economic status. The BLS data is recognized as a reputable data source nationwide and should be utilized, when possible, as it reduces risk to the Contracts and Procurement Division when making economic or pricing adjustments.

### **How do PPI’s work and what Resources are there?**

The BLS data is posted monthly and covers the change from the prior month; the data posted in March is based on information from February. After an index is first published, it is subject to recalculation to take into account late survey reports and corrections by respondents. Every index is recalculated on a systematic basis— four index months after being first published.

* [Introduction to Producer Price Index and How the Producer Price Index is Used for Contract Price Adjustment](https://www.bls.gov/ppi/videos/producer-price-index-videos.htm)
* [Frequently Asked Questions](https://www.bls.gov/ppi/faqs/questions-and-answers.htm#9)

### **Are other data sources considered other than the BLS’s PPI’s?**

Yes, other sources have been used to review price adjustments. The vendor community can inform the Agency of a source used according to their industry standards. When another source is suggested, it is important to establish this with all vendors on the contract. It is best to include the solicitation consideration before a contract is awarded.

# How to Conduct an Economic Adjustment And/Or Price Adjustment

Economic adjustments and Price Adjustments are conducted when a Contractor requests a price change or at the time of the contractually agreed automatic adjustment. This request or automatic adjustment date is what prompts the Agency to conduct an adjustment.

### **Step 1. Review Contract and Contractor Request**

Review the contract’s Economic adjustment language. First determine how the requested adjustment relates to the pricing on the contract and the contract language. This pricing could be firm, firm and fixed, designated EA/PA, index price adjustment like PPI, etc. It is important to refer to the contract language in the process to check for any conflicts or potential changes to this language to effectuate a fair outcome.

**1A. Contracts with no Adjustment language:** Contracts based on pricing models such as cost plus, discount off manufacturer price, or prevailing wage markup will not have EA language because such pricing models already allow for expected normal cost fluctuations. These pricing models typically adjust automatically due to market forces, and should not need any EA/PA language added, unless the business can prove that they increases are not handled in these pricing models.

**1B. Change to Adjustment language in the contract:** If the request for a price increase includes a reference that is incorrect or inaccurate, this is a flag to check if changing the language of the contract would be a more valuable solution. In the Contractor's request, they may indicate that the contract PPI is not as accurate as some other measure. Check the other measure for its application to the goods and services on the contract, and consider revising the adjustment language of the contract to a more appropriate metric.

**1C. Contract has Adjustment language:** If it’s time to do an economic adjustment or the Contractor asks for an adjustment that matches the contract language. Refer to the relevant contract language and proceed with the process as stated in the contract. Check any relevant PPI information from the BLS website and will confirm the dates for the adjustment and when they go into effect. Create an amendment .

**1D. Using the temporary price adjustment language:** This clause can be included in a contract, or contract amendment for situations where price volatility occurs due to unforeseen circumstances after the contract was drafted, such as materials availability, supply chain issues, worker shortages, or tariffs, etc. Such price changes should be in the state's best interest. Before adding a temporary price adjustment clause, check for an already existing temporary price adjustment clause in the contract.

If there is no existing contract language that permits a temporary adjustment, and such an adjustment is granted, amend the contract to include temporary price adjustment language. See the Economic Price Adjustment Section under [Contract Management](https://des.wa.gov/purchase/washington-state-procurement-manual#CM) for additional resources.

### **Step 2. Collect Data from the Contractor**

If the Contractor is asking for an adjustment that is not in the contract language. Request more supporting information and data from the Contractor that helps justify the price adjustment that is not in line with the current contract language. An agency may use the generic email template in the [Tools and Resources](#_Tools_and_Resources) section below with specific information, or at minimum, consider the following:

* Ask Contractors to provide supporting documentation to help establish the reasonableness of the price increase – e.g., copies of invoices from the manufacturer, copies of invoices to other public entity customers, independent market benchmark source materials that support the request, suggested PPIs if they are not identified in the contract, etc.
* Where the cost factor breakdown is not available or reasonable, depending on the contract scope and commodity, ask what other documentation the Contractor can provide to help analyze the price increase request.
* Other independent benchmark sources to validate the reasonableness of the requested price increase. These could be online public catalogs maintained daily for similar items (e.g., Grainger), other states’ pricing information, the GSA (federal government General Services Administration, or cooperative contracts.
* Please be wary of accepting a letter from a manufacturer at face value rather than requiring the Contractor to explore the pricing level on the market in general from other sources.
* Tariffs: If request is based in tariffs, contractor must prove they are importing goods subject to tariff, and/or provide the breakdown of how much the goods they are contracted for are goods with tariff impact (i.e. steel in a manufactured product).
* If multiple contractors are on contract, if the Contractors are selling similar items from manufacturers or have a similar supply chain, the adjustment should apply to all Contractors and be completed for all Contractors. If the Contractors have different manufacturers or supply chains as the reason for the price adjustment, an individual price adjustment for each Contractor should be pursued.

### **Step 3. Review Adjustments Requests**

Review the relevant information regarding the price adjustment. This is a step to check in and understand the price adjustment.

For requests not based on BLS data, the following are considerations on whether the amount of information provided by the Contractor is sufficient:

* Did they answer each question? If not, have them complete it all.
* Data they provided.
	+ Is it clear and understandable? If you have a question, ask the Contractor to clarify
	+ How many data points? More is better?
	+ If the data is from a third party, are they a disinterested party? (data from the manufacturer alone is less likely; we prefer to see the impact to other contracts to make sure that the manufacturer isn’t raising prices just for us)
	+ Do you have information on the impact in the industry? (prices in retail going up)

This is a good time to check with key customers on the contract regarding the price change and its impact on their business. Customer input might help make the final determination in the best interest of the State on how to proceed with the adjustment request that is not in line with the current contract language.

**Step 4. Compare Adjustment Request Against Independent Third Party Data for Verification.** Review PPI or CPI data or other relevant 3rd party data to verify if the requested price increase is also seen in the industry as a whole.

Alternatively, if the Agency is unable to review BLS data, the Agency can compare requested increases with changes made in other similar contracts or verify if the rate increase is within a range with them? (other agency’s/state’s, federal GSA, public catalogs)

For requests based on a tariff: Due diligence should be applied to verify that contractors are facing tariffs. If you need to track, verify or validate tariffs, check with the [U.S. International Trade Commission.](https://www.usitc.gov/) The U.S. International Trade Commission is the agency responsible for updating and publishing this information. Also review the [Harmonized Tariff Schedule](https://hts.usitc.gov/). This outlines the tariffs and categories for imports to the U.S. It is a comprehensive PDF, organized by commodity. The document details trade agreements and lists each tariff rate, so finding a specific rate may take some time if you're not accustomed to searching through it quickly.

* Tariffs will not apply in a service only contract when there are no goods involved.
* Tariffs will also likely not need any temporary price adjustment when a goods contract pricing is based on either a Manufacturer's Suggested Retail Price (MSRP) or a percentage off index. The tariff most often, will be reflected in this index or percentage off unless the business can demonstrate otherwise.

**Step 5. Draft EPA Amendment**

If the adjustment request is verified, create an amendment If temporary adjustment: Check if the contract has the temporary price adjustment clause. If not, add that in via an amendment. If this process results in a change to the contract language, amend the contract to change the contract adjustment language.

**Step 6. Send the Amendment to the Contractor**

Send an acceptance email that details the adjustment and the amendment.

Ensure that the Contractor is aware that contract prices are adjusted on the effective date of the amendment. Any orders made prior to the effective date of the economic price adjustment should have prices from the then-current pricing sheet. For example, a price adjustment signed in June to be effective July 1 does not apply to June orders.

* Consider negotiating with the contractor to allow customers to place orders for a specific window before new pricing is in effect for customer budgetary reasons.

**Step 7. Document final decisions**

Send customers a notice with the effective date of the price adjustment.

* If the Contractor provides the pricing sheet, check that the prices were adjusted correctly.
* Note the effective date of the price change in the price sheet where relevant

##

## Tools and Resources

* [Response email to Contractor requesting price increase](#_CS_–_Response) (Optional, alter to fit needs)
* [- Customer email to inform about Price Adjustment request](#_CS_-_Customer) (Optional, alter to fit needs)
* [- Contractor Price Adjustment Acceptance email (](#_CS_-Contractor_Price)Required, alter to fit needs)
* [– Temporary Price Adjustment Ending email](#_CS_–_Temporary) (Required, alter to fit needs)
* [– Contractor Price Adjustment Rejection email](#_CS_-_Price) (Required, alter to fit needs)
* [– Changing from EPA Language from Automatic Adjustment to Request](#_CS_–_Changing) (Optional, alter to fit needs)

### **Response email to Contractor requesting a price increase that is not in the contract’s Economic Adjustment clause**

For any request from a Contractor regarding a price increase not covered in the contract’s Economic Adjustment clause (or regarding a price increase when there is no applicable language in the contract), [Agency] must review the requested increase for reasonableness. T

[Agency] must justify any price increase for the use of state funds. If you would like to pursue a price increase, please make sure the following information is provided:

* Proposed price adjustment %:
	+ Current price list (excel format)
	+ Proposed price list (excel format)
* Cost breakdown of product/service.
	+ A cost breakdown would be needed if the product or service includes multiple variables. The cost breakdown must account for each factor's percentage of the rates. Below is an example. This is required for any price adjustment.
	+ A cost breakdown is needed if there are multiple price variables, and the request is for one of those variables. Example, a 10% increase on labor would not increase the overall contract rate by 10%, it would only increase the percentage of the total that is attributed to labor.
	+ If the product or service is all-encompassing of one variable, a cost breakdown is not needed; an example would be for an increase to an hourly rate on a services contract, which is all labor.



Reason(s) for the adjustment request (evidence supporting the requested increase

* + Vendor/manufacturer letter
	+ Evidence related to the cost breakdown
	+ Evidence for the % of the increase. .

### **Customer email to inform of Requested Price Adjustment**

Hello Customer,

As a major user on contract ####, we would like to contact you regarding the Contractor's request for a price increase. Due to REASON, the Contractor has requested a price adjustment of INFORMATION. Our analytics team is checking whether this increase affects the industry and is justified as an unanticipated increase. We want to check this increase in your organization.

### **Contractor Price Adjustment Acceptance Email**

[If you have done the temporary adjustment clause, add it already]

Under section #.#, Temporary/Economic Price Adjustment, [from Amendment #X to Contract #,] this is official notice that [Agency] has reviewed the request for a price adjustment. [Agency][ has determined that the following price increase will be approved and effective on XX. [For Temporary: This adjustment will be effective for X days ending on XX.]
 Price Adjustment:

### **Temporary Price Adjustment Ending email**

Under section #.#, Temporary Price Adjustment, [from Amendment #X to Contract #,] this is official notice that the temporary price adjustment effective on XX is expiring. The prices will revert to the prior agreed-upon pricing on XX.

### **Price Adjustment Rejection Email**

This email serves as official notice that [Agency] has completed its analysis of your requested price adjustment, and is rejecting the request.

[Agency] has determined that the requested price increase is not in line with

Section #.#, Temporary Price Adjustment/Economic Adjustment, [from {Amendment #X of} the Contract #,] and is being rejected for the following reasons:

• Incomplete data provided

• Data provided does not match industry trends/independently verifiable data

• The contractor did not respond to requests for clarifying information

• [Other]

## Frequently Asked Questions

* [How to prepare for Economic Adjustment and/or Price Adjustment ?](#_How_can_Contracts)
* [Contractor refuses to sign amendments and hold purchasing until adjustments are made, what do I do?](#_Contractor_refuses_to)
* [What to do when a Temporary Price Adjustments Ends and the Contractor needs it to continue?](#_What_to_do_1)
* [What should pricing be during the adjustment review?](#_What_should_pricing)
* [Are “Surcharges” considered under Economic Adjustment and/or Price Adjustments?](file:///C%3A/Users/kaylar179/AppData/Local/Microsoft/Windows/INetCache/Content.Outlook/85Q183XH/Surcharges#_Are_)
* [What if the Economic Adjustment and/or Price Adjustments language is vague?](#_What_if_the)

### **How to prepare for Economic Adjustment and/or Price Adjustment?**

When drafting a solicitation, it's crucial to address Economic Adjustments and/or Price Adjustments using data from the research phase. This helps staff decide on the Economic Adjustment section of the contract.

* The BLS website contains a Price Adjustment Guide that can help with EPA language: [Producer Price Index (PPI) Guide for Price Adjustment (bls.gov)](https://www.bls.gov/ppi/publications/price-adjustment-guide-for-contracting-parties.htm)

### **Contractor refuses to sign amendments and hold purchasing until adjustments are made, what do I do?**

Our contractual option is to cure for non-performance if the contractor fails to fulfill orders. With amendments, we can let the contract expire. These would be relevant in a responsibility check; a bad faith business effort is enough to make a bidder non-responsible, since it proves that the Contractor doesn’t want to work with the Agency or uphold their contract responsibilities.

When a contractor refuses to sign amendments, the tone and language used in their communication should vary based on the contractor's previous responses. Use your best judgment in these situations. A general example of communication might be as follows:

"Due to your company's refusal to fulfill orders under this contract because of a non-contract price increase, we will initiate a cure process. While you have the right to refuse orders related to the contract, this decision will be recorded as a sign of bad faith in your business efforts due to your failure to perform on the contract. These records may affect your company’s responsibility status in future contracts with [Agency]. They could lead to your company failing the responsibility assessment for future contract awards."

### **What to do when a Temporary Price Adjustment Ends and the Contractor needs it to continue?**

After a temporary price adjustment:

* If the Contractor wishes to maintain the same pricing after the adjustment ends, the Agency should reanalyze the data. This should be done 60 to 45 days before the adjustment period ends. Proceed to step 3.
* If the Contractor requests an additional increase beyond the first adjustment, the Agency reviews the new documentation and reviews the publicly available data for justification. Proceed to step 1.

### **What should pricing be during the adjustment review?**

Contractors must adhere to contract pricing throughout the process. A request for price adjustment does not imply approval. Orders should reflect the prices on the price sheet at the time of the order. Orders made before price adjustment approval will be charged the listed contract rate. Price adjustments are not retroactive.

### **Are “Surcharges” considered under Economic Adjustment and/or Price Adjustments?**

Surcharges are an additional fee to the price structure of a contract. Thus, there is no adjustment. Our contracts preclude additional fees. See the template language from the contract below:

“NO ADDITIONAL CHARGES. Unless otherwise specified herein, Contractor shall not include or impose any additional charges, including, but not limited to, charges for shipping, handling, insurance, or payment processing.”

In rare cases, a surcharge may be allowed as an additional cost in the contract. This must be justified with a valid reason and include a breakdown of the surcharge and its impact on the total contract price. The contractor should clearly outline how the surcharge applies, and the pricing methodology used.

### **What if the Economic Adjustment language is vague?**

* Suppose the language is vague and does not include all elements necessary to review. In that case, consider amending the Economic Adjustment language in the contract to be more specific. Refer to the [Background Document for the Agency contract template](https://www.des.wa.gov/sites/default/files/2025-02/Background-document-CnP-exhibitD-agency-contract-template.docx) on the [Washington State Procurement Manual.](https://www.des.wa.gov/purchase/washington-state-procurement-manual) for more information.