

22.404-12 Labor standards for contracts containing construction requirements and option provisions that extend the term of the contract.

(a) Each time the *contracting officer* exercises an *option* to extend the term of a contract for *construction*, or a contract that includes substantial and segregable *construction* work, the *contracting officer* must modify the contract to incorporate the most current wage determination.

(b) If a contract with an *option* to extend the term of the contract has indefinite-delivery or indefinite-quantity *construction* requirements, the *contracting officer* must incorporate the wage determination incorporated into the contract at the exercise of the *option* into *task orders* issued during that *option* period. The wage determination will be effective for the complete period of performance of those *task orders* without further revision.

(c) The *contracting officer* must include in fixed-price contracts a clause that specifies one of the following methods, suitable to the interest of the Government, to provide an allowance for any increases or decreases in labor costs that result from the inclusion of the current wage determination at the exercise of an *option* to extend the term of the contract:

(1) The *contracting officer* may provide the *offerors* the opportunity to bid or propose separate prices for each *option* period. The *contracting officer* must not further adjust the contract price as a result of the incorporation of a new or revised wage determination at the exercise of each *option* to extend the term of the contract. Generally, this method is used in *construction*-only contracts (with *options* to extend the term) that are not expected to exceed a total of 3 years.

(2) The *contracting officer* may include in the contract a separately specified *pricing* method that permits an adjustment to the contract price or contract labor unit price at the exercise of each *option* to extend the term of the contract. At the time of *option* exercise, the *contracting officer* must incorporate a new wage determination into the contract, and *must* apply the specific *pricing* method to calculate the contract price adjustment. An example of a contract *pricing* method that the *contracting officer* might separately specify is incorporation in the *solicitation* and resulting contract of the *pricing* data from an annually published unit *pricing* book (e.g., the U.S. Army Computer-Aided Cost Estimating System or similar *commercial product*), which is multiplied in the contract by a factor proposed by the contractor (e.g., .95 or 1.1). At *option* exercise, the *contracting officer* incorporates the *pricing* data from the latest annual edition of the unit *pricing* book, multiplied by the factor agreed to in the basic contract. The *contracting officer* must not further adjust the contract price as a result of the incorporation of the new or revised wage determination.

(3) The *contracting officer* may provide for a contract price adjustment based solely on a percentage rate determined by the *contracting officer* using a published economic indicator incorporated into the *solicitation* and resulting contract. At the exercise of each *option* to extend the term of the contract, the *contracting officer* will apply the percentage rate, based on the economic indicator, to the portion of the contract price or contract unit price designated in the *contract clause* as labor costs subject to the provisions of the *Construction Wage Rate Requirements* statute. The *contracting officer* must insert 50 percent as the estimated portion of the contract price that is labor unless the *contracting officer* determines, prior to issuance of the *solicitation*, that a different percentage is

more appropriate for a particular contract or requirement. This percentage adjustment to the designated labor costs *must* be the only adjustment made to cover increases in *wages* and/or benefits resulting from the incorporation of a new or revised wage determination at the exercise of the *option*.

(4) The *contracting officer* may provide a computation method to adjust the contract price to reflect the contractor's actual increase or decrease in *wages* and fringe benefits (combined) to the extent that the increase is made to comply with, or the decrease is voluntarily made by the contractor as a result of incorporation of, a new or revised wage determination at the exercise of the *option* to extend the term of the contract. Generally, this method is appropriate for use only if contract requirements are predominately services subject to the *Service Contract* Labor Standards statute and the *construction* requirements are substantial and segregable. The methods used to adjust the contract price for the service requirements and the *construction* requirements would be similar.

Parent topic: [22.404 Construction Wage Rate Requirements statute wage determinations.](#)