



August 15, 2022

Mr. John M. Tenaglia
Principal Director
Defense Pricing and Contracting
Office of the Undersecretary of Defense for
Acquisition and Sustainment

RE: Guidance on Inflation and Economic Price Adjustments

Dear Director Tenaglia,

On behalf of the American Council of Engineering Companies (ACEC) – the business association of the nation’s engineering industry – we wish to convey serious concerns over the ongoing economic challenges being faced by firms working for federal agencies and request additional accommodations consistent with the Federal Acquisition Regulation (FAR). We appreciate DPC’s progress towards providing relief to federal contractors through its recent *Guidance on Inflation and Economic Price Adjustments*, but we believe further relief is allowable within the FAR and would encourage your office’s review of this additional flexibility.

Founded in 1906, ACEC is a national federation of 52 state and regional organizations representing more than 5,600 engineering firms and 600,000+ engineers, surveyors, architects, and other specialists nationwide. ACEC member firms drive the design of America’s infrastructure and the built environment, engaging in a wide range of engineering works that support the missions of the Defense Department and civilian agencies in transportation, energy, water and wastewater, dams, levees, and public buildings, to name a few.

Like many federal contractors, ACEC member firms are experiencing significant pressures on salaries and other costs, driven largely by a severe and chronic engineering workforce shortage. Recent industry surveys demonstrate that compensation levels are rising significantly, and businesses of all sizes have open positions unfilled. In order to attract and keep the talent we need to serve our clients firms must increase salaries consistent with the current marketplace.

We appreciate the Department’s recognition that its industry partners are facing significant headwinds – particularly through the recent guidance memo to contracting officers to help manage risk of inflation that is impacting current and future contracts. The reality is inflation has historically been on a 2 – 3% annual trajectory, and most escalation clauses for government work in recent years were typically in this range.

The FAR provides a framework for procurement and contracting policies that reflect market conditions and the negotiation of fair and reasonable rates (e.g. Part 31). It is imperative that the Department’s policies are consistent with those expectations and utilize other provisions to provide additional relief.

Specifically, we request the Department include FAR 52.216-4, Economic Price Adjustment-Labor and Material for all new contracts for Architect and Engineering services. As you know, this provision allows contractors to work with their contracting officers to propose and negotiate a price adjustment and contract modification when contractors are required to make salary increases to stay competitive during inflationary conditions experienced by the industry.

We also request that contracts that have two or more years remaining be modified to accommodate current market conditions. Many firms are working with contract terms and rates set prior to this significant inflationary period, creating a situation where they could be operating at a loss.

We recognize the need for contracting policies that are fair to both sides. By fully utilizing the flexibilities that already exist *within* the FAR that align contract terms with current economic conditions, we ensure that DOD and other agencies have access to the qualified and experienced engineering services they need. This is particularly critical now, as the nation's demand for engineering services will increase significantly with the implementation of the Infrastructure Investment and Jobs Act (IIJA).

We welcome the opportunity to discuss our points and recommendations over a meeting with key stakeholders within your organization. Thank you for your attention and consideration and we look forward to hearing from you.

Sincerely,

A handwritten signature in black ink that reads "Linda Bauer Darr". The signature is written in a cursive style and is centered on the page.

Linda Bauer Darr
President and CEO

cc: Dr. William A. LaPlante
Under Secretary of Defense for Acquisition & Sustainment

The Honorable Lesley Field
Acting Administrator for Federal Procurement Policy at Office of Management and Budget