

JUL 16 2010
TIME: 3:45 PM BY: AC
FILE NO. OPA-PA: 09-012

1 Department of Education
2 Laura J. Mooney
3 Legal Counsel
4 P.O. Box DE
5 Hagåtña, Guam 96932
6 (671) 300-1537 • (671) 472-5003 (Fax)


7 **PROCUREMENT APPEAL**

8 In the Appeal of) Docket No. OPA-PA-09-012
9)
10 Z4 Corporation,) SUBMISSION OF SUPPLEMENTAL
11) DOCUMENT
12)
13 Appellant.)

14 The Appellee, Department of Education through its legal counsel, Laura J. Mooney
15 hereby submits Ms. Roseann M. Jones, Ph.D., Professor of Economics memorandum dated
16 July 16, 2010 regarding calculation of profit.

17 Dated this 16th day of July, 2010.

18 DEPARTMENT OF EDUCATION

19 By: 
20 LAURA J. MOONEY
21 Counsel for Department of Education
22
23
24
25



UNIVERSITY OF GUAM

School of Business and Public Administration

Unibetsedåt GUAHAN

Roseann M. Jones, PhD

July 16, 2010

TO: Laura J. Mooney
Council for Guam Department of Education

FROM: Roseann M. Jones, PhD
Professor of Economics

RE: Procurement Appeal, Docket No. OPA-PA-09-012

I offer my professional opinion on the calculation of profit in the matter of Docket No. OPA-PA-09-012.

Overview

The pricing technique used by most business firms is cost-plus pricing, also called full-cost pricing. This technique has two parts. The first is an estimate of per-unit cost (in construction a price per square foot is common), which includes the variable costs of production. In the second part, the firm adds a markup (generally in the form of a percentage). This markup is meant to include certain costs that cannot be allocated to any specific product (such as administrative costs) and to provide a return on the firm's investment.

Specific Comments to this Case

1. Return on Investment: Profit Rate Calculation

For General Contractors on Guam, the percentage of profit used in cost estimates ranges from 4 to 8 percent. Specialty contractors, such as alarm installers, may require the higher rate of 8 percent. A profit rate of 4 percent is typical; a profit rate of 20 percent is extraordinary. The current cost of capital used for return on investment is 2.25 percent.

2. Economic Compensation: Loss of Opportunity

Typically firms will seek compensation for lost opportunity. This includes items such as costs associated with deploying resources in preparation for project start-up and for the loss of opportunity to bid on other projects. Typically these claims, when documented, are considered under economic loss, opportunity costs.

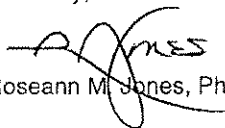
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3. Economic Compensation: Profit Loss

In the construction industry on Guam, documented direct costs and a documented estimate of opportunity loss is compensated. Compensation for estimated profits is not. As profits are factored into the contractor's original cost model, separate compensation would inflate the compensation award and be a form of double dipping.

Please contact me, should you wish any additional information on this statement.

Sincerely,


Roseann M. Jones, PhD

/rmj