SBA Procedural Notice

TO:	Regional Administrators (RAs), Area Directors (ADs), District Directors (DDs), Deputy District Directors (DDDs), Area Directors (ADs), Commercial Market Representatives (CMRs), Procurement Center Representatives (PCRs), Assistant District Directors (ADDs) for Business Development (BD), and Business Opportunity Specialists (BOS)	CONTROL NO.:	8000-597
SUBJECT:	Application of the HUBZone Price Evaluation Preference in Best Value Procurements	EFFECTIVE:	8/19/2003

The Office of Government Contracting and Business Development is issuing this notice to provide guidance in the use of the Historically Underutilized Business Zone (HUBZone) Price Evaluation Preference (PEP) in *best value* procurements.

The purpose of the HUBZone Program is to provide Federal contracting assistance to qualified HUBZone small business concerns, in an effort to increase employment opportunities, investment, and economic development in historically underutilized business zones. The HUBZone Program was administratively implemented on June 11, 1998, in Part 126 of Title 13 of the Code of Federal Regulations.

The PEP is one of the contracting mechanisms that procuring activities use in evaluating offers from qualified HUBZone small business concerns in full and open competitions. Implementation of the PEP is described in 13 CFR 126.613. The regulation provides examples for use in full and open competitions, but does not include an explanation on using the PEP in *best value* procurements.

The objective of the *best value* approach to source selection is to select the source whose proposal has the highest degree of credibility and whose performance can be expected to best meet the Government's requirements at an affordable price. The same objective applies to acquisitions awarded under the HUBZone Program.

An agency can obtain best value in negotiated acquisitions by using any one or a combination of source selection approaches. A trade-off process is appropriate when it may be in the best interest of the Government to consider award to other than the lowest priced offeror or other than the highest technically rated offeror.

The following is an example that outlines the process for evaluating the PEP in best value procurements.

EVALUATION CRITERIA

Award will be made to the offeror whose proposal contains the combination of factors offering the greatest value to the Government. The contracting officer will make this determination by comparing the difference in the value of technical, management and past performance features to the difference in cost to the Government. In performing this cost/technical trade-off analysis, the Government is more concerned with obtaining superior technical and management features than with making an award at the lowest overall cost to the Government. However, the Government will not make an award at a significantly higher overall cost to the Government to achieve slightly superior technical or management features.

The evaluation also includes a risk assessment for the overall management, technical and past performance areas. Cost will be evaluated to determine expected contract costs and to assess completeness of proposals, and cost realism, reasonableness, and risk.

In this example, technical, management and past performance, when combined, are significantly more important than cost or price. This will be the basis for award.

STEPS IN THE PROPOSAL EVALUATION PROCESS:

- Step 1. Conduct initial technical evaluation of proposals and cost/price analysis
- Step 2: Determine competitive range
- Step 3: Conduct discussions, if necessary
- Step 4: Request best and final offer
- Step 5: Complete final evaluation of proposals
    - Apply HUBZone Price Evaluation Preference (and Small Disadvantaged Business Price Evaluation Adjustment, if necessary) to develop the evaluated cost/price

	Large Business (LB)	**Small Business (SB)**	**HUBZone SBC (HZ)**
Evaluation Factor	*Rating/Proposal Risk*	*Rating/Proposal Risk*	*Rating/Proposal Risk*
Technical	Marginal/High	Marginal/High	Acceptable/Moderate
Management	Acceptable/Moderate	Acceptable/High	Exceptional/Moderate
Past Performance	Acceptable/Moderate	Acceptable/Moderate	Exceptional/Low
Proposed Cost	$18,823,089/Low	$25,762,505/Moderate	$20,164,718/Moderate
Evaluated Cost	**$20,705,397/Moderate**		**$20,164,718/Moderate**

Evaluations may be conducted using any rating method or combination of methods, including color or adjectival ratings, numerical weights, and ranking order. In this example, adjectival ratings are used. They are Exceptional, Acceptable, Marginal and Unacceptable. The risk of contract performance is assessed as High, Moderate, Low, or Very Low.

- Step 6: Conduct Cost/Price-Technical Trade-off Analysis (Cost/Benefit Analysis)
    - Since the HUBZone small business concern's (SBC's) offer is within 10% of the Large business's offer, the trade-off analysis is made between the Large business and HUBZone SBC only.
        - If the HUBZone offeror has the higher technical evaluation ranking and the lower "evaluated" cost/price, then the HUBZone offer is considered to represent the overall *best value* to the Government.
        - However, if the HUBZone has the higher technical evaluation ranking and the higher "evaluated" cost/price, a trade-off analysis is conducted to determine whether the difference in higher expected technical value is worth the higher "evaluated" cost/price.
    - If the HUBZone is not considered the overall *best value* to the Government, the trade-off analysis must then be made between the Large business and the Small business concern.
        - The technical evaluation ranking and the "proposed" (not "evaluated") cost/prices of the Large business and Small business concern are then compared.

- Step 7: Make Award Decision
    - In this example, award should be made to the HUBZone SBC.
        - The HUBZone's offer/proposal exceeded the minimum requirements and contained enhancing features in a manner that would "most" benefit the Government.
        - The HUBZone's proposal was technically superior to those of the other two offerors. The superior technical ratings, lower risks and the technical strengths associated with the HUBZone's technical ratings justified the Government paying a premium for that firm's proposal.

This notice is effective immediately. Any questions pertaining to the notice may be addressed to Linda G. Williams, Associate Administrator for Government Contracting on (202) 401-8150.

Fred C. Armendariz
Associate Deputy Administrator
for Government Contracting and
Business Development

Expires: