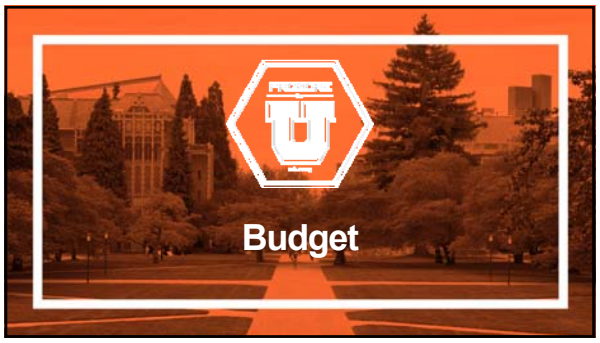

Learning Objectives

- Understand how a construction budget is created
- Identify the types of costs and different budget components
- Identify who is responsible for the project budget
- Create and modify a project budget
- Update a project budget
- Understand how change affects the project budget

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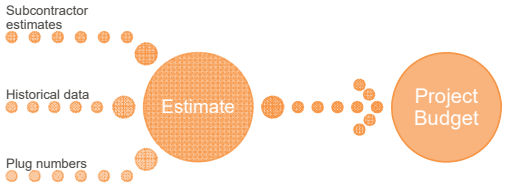
How is a project budget created?

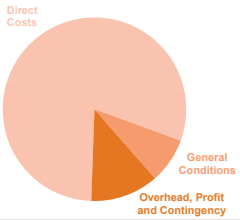


Types of Costs

Direct Costs
- Labor
- Material
- Commitment
- Equipment
- Owner Cost
- Professional Services
- Other

General Conditions

Accounting for overhead and profit
- Overhead
- Profit
- Contingency



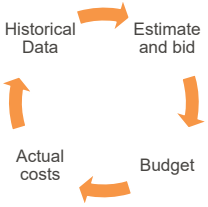
Overhead, Profit and Contingency

Overhead
- **Overhead** expenses are those that are not specific to any particular job, and represent the contractor's cost of doing business.

Profit
- **Profit** is what is left for the owner once construction expenses and overhead has been paid for each job.

Contingency
- **Contingency** is money set aside to cover unexpected costs during the construction process.

Using Budget Data



Who is responsible?

Project Manager

- Sets original budget and project cost codes
- Has final authority for approving payment of invoices
- Works with owners on change orders, errors, and omissions
- Determines overall project schedule and site management

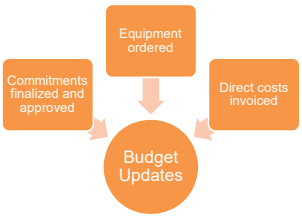
Project Engineer/Estimator

- Works with subcontractors to get bid numbers
- Uses historical data to determine costs of in-house crews
- Uses plug numbers when bid information is not received
- Returns to subcontractors to revise/refine bid numbers after project is awarded
- Defines scopes of work for each contractor

Superintendent

- Schedules daily tasks and contractors to stay within project schedule
- Enforces scopes of work for each contractor
- Ensures quality of installation for each building component
- Manages site safety, SWPPPs, and temporary utilities and facilities

Update a Project Budget



Budget Modifications

- A budget modification moves money from one line item to another, and is used to modify the budget to accurately reflect current conditions
  - Use surpluses to cover deficits & replenish contingency
  - Use contingency to cover budget deficits
- Think of it as pots of money that are moved around within the job

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Example – Budget Deficit

- When assembling the estimate for a project, you could not get any responses from a subcontractor for the flooring portion of a 2500 SF job. You reviewed historical data and put in a plug number of $6/SF, or $15,000.
- You were awarded the job and are securing contractors. The lowest contractor bid you receive is for $6.25/SF, or $15,625, and you enter into a subcontract. You are **over budget** on this line item **by $625**.
- Since you have a commitment for this portion of work, you will modify your budget to reflect the new cost of work by adding $625 to the line item.
- This money has to come from somewhere to cover the additional cost. Where does this money come from?

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Example – Budget Surplus

- On the same job as before, you only received one quote from a subcontractor for the door installation. The quote you received was $8,500, and you used this number for your bid.
- You were awarded the job and are securing contractors. Now that you have the job, more subcontractors are willing to give you a bid since they know you have the work. You receive three additional bids, and the lowest bid is $7,825, which is **$675 lower** than your original bid/budget number.
- Since you have a commitment for this portion of work, you will modify your budget to reflect the new cost of work by reducing the budget line item by $675.
- Where money has to go somewhere. Where does this money go?

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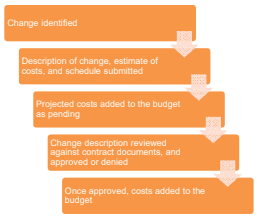
Changes to the Contract

A **change order** is an *amendment to a construction contract,* and represents the mutual consensus between the parties on a change to the work, the price, the schedule, or some other term of the contract.

- Prime Contract
- Subcontract
- Internal



Procore's project budget

Sub Job

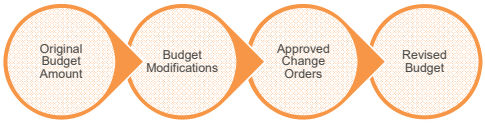
Cost codes

- Level of detail

Category

- Other
- Labor
- Commitment
- Materials
- Owner Cost
- Professional Services
- Equipment

Procore's project budget



Procore's project budget

Pending Budget Changes

Projected Budget

Committed Costs

Direct Costs

Job to Date Costs

Procore's project budget

Budget Exercises

+ Budget Exercises #1.0 - #3.0

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Budget Exercise #4.0: Change Management

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Questions?

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