

# Project Budget | Cost of the Work | Construction Cost

## “PROJECT BUDGET”

As defined by the Corporate Finance Institute:

*“The Project Budget is a tool used by project managers to estimate the total cost of a project. A Project Budget template includes a detailed estimate of all costs that are likely to be incurred before the project is completed.”*

- The **Owner** prepares a project budget for the project which includes design costs, construction costs (labor, materials, permits, construction, insurance, and similar costs), financing costs, and may include marketing, real estate, occupancy, furnishings, equipment, and other associated costs. The project budget allows the Owner to determine how much the project is likely to cost and how to finance it. During the execution of the project, it allows the Owner to check whether or to the project is within its budget.
- There are different ways of preparing a project budget. Templates to prepare Project Budgets are available from different sources.

## “COST of the WORK”

“Cost of the Work Estimate” from the AIA B101 2017:

*“Cost estimate is the cost of the Project as designed by the Architect.”*

- The Architect prepares the Cost of the Work Estimate. The Architect delivers to the Owner an estimate of the Cost of the Work as part of the Schematic Design deliverables, and submits the estimate with objects and adjustments at the Design Development and Construction Documents phases.
- **The Architect revises and controls the Cost of the Work Estimate during the design stages.** The architect’s services related to the Cost of the Work are outlined in Article 6 of the AIA B101 2017.

“Cost of the Work” definition in the AIA B101 2017, 6.01:

*“The cost of the Work shall be the total cost to the Owner of all the elements of the Project design or specified by the Architect and shall include contractors’ general conditions costs, overhead and profit. The cost of the Work also includes the reasonable value of labor, materials, and equipment, donated to, or otherwise furnished by, the Owner. The Cost of the Work does not include the*

*compensation of the Architect; the costs of the land, rights-of-way financing or contingencies for changes in the Work; or other costs that are the responsibility of the Owner”.*

- This AIA definition is very important because it LEGALLY defines the cost of the project as DESIGNED BY THE ARCHITECT.
- When the Architect’s fee is based on the “Cost of the Work”, it does not vary regardless if the construction is completed or not.

## “CONSTRUCTION COST”

As defined by the CSI Project Resource Manual:

*“The “Construction Cost” includes building permit fees, materials, labor, tools, and equipment, bonds, insurance, and initial maintenance agreements associated with construction. The cost of construction will not be fully known until the project is completed.”*

As defined by The Law Dictionary:

*“A cost for a contractor to do his job and pay his men. Overhead and profit is also in this fee. The design, land cost, and consultation fee are not in this cost.”*

As defined by the Business Dictionary:

*“Expense incurred by a contractor for labor, material, equipment, financing, services, utilities, etc., plus overheads and contractor’s profit. Costs such as that of land, architectural design, consultant and engineer’s fees are not construction costs.”*

- In these definitions, **the Construction Cost is set and controlled by the Contractor, not the Architect.**
- This definition is important because when used as basis for the Architect’s fee, the fee can vary if the construction is modified or stops, so the risk to the Architect increases.



In summary, “Cost of the Work” and “Construction Cost” are not the same thing, and we must be very careful when using one or the other in our documents and communications.