

# Managing Design Project Costs

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## CONSULT YOUR ATTORNEY

The information contained herein should not be regarded as a substitute for legal advice. Readers are strongly advised to consult an attorney for advice regarding any matter related to contract terms.

## SUMMARY

Effective management of design project costs enables a firm to receive compensation for services rendered and, if necessary, facilitates a prompt response to any monetary disputes. Teamwork, clear communication, and concise contract provisions help firms manage design project costs.

## INVOLVE THE TEAM

Managing design project costs (not to be confused with the construction project costs, though the two are closely related) begins with a clear, concise owner-architect agreement. The project manager, office administrator, and chief financial officer (and/or accountant or bookkeeper) should be involved in the internal contract review process to ensure that the contract includes adequate provisions to enable them to fulfill their financial management responsibilities.

## NEGOTIATE CLEAR CONTRACT TERMS

Whether or not one uses an AIA contract form, the contract must include provisions with respect to the architect's project costs (and, therefore, payment) to help the firm complete the project profitably. Among other things, the contract should make the following clear:

- The scope of services to be provided
- The design project start date
- The design project completion date
- Major project calendar milestones
- The number of meetings with third parties included in the base fee (landlords, governmental authorities, and so on)

- A list of reimbursable expenses and their unit billing rate
- The understanding with respect to the hiring, supervision, and payment of consultants, including liability for their work
- A list of additional services *not* included in the base fee, such as additional meetings with third parties, physical building models, virtual building models, renderings, and multiple review of submittals—to name just a few—as well as the understanding with respect to the unit cost, cost control and approval process, and billing procedures for such services
- Provisions for adjustment in the architect's fee for changes in the project schedule caused by events outside of the architect's control, such as the failure of third parties to perform in a timely manner or lengthy governmental approval processes (to cover overhead costs that the architect may incur for schedule delays, whether or not the scope of services changes)
- Provisions for adjustment in the architect's fee for services whose scope is difficult to determine in advance or is likely to change, such as construction contract bidding and negotiation and construction observation
- Communication procedures
- The base fee and the terms and conditions of billing and payment

## MANAGE COSTS FROM THE START

As soon after the execution of the contract as possible, arrange a meeting of your project manager, office administrator, and chief financial officer (or accountant/bookkeeper), and their client counterparts to discuss and agree upon work and information flow procedures.

The goals of the meeting are:

- To review and confirm communication procedures and the terms and conditions of billing and payment as enumerated in the contract and to agree on any necessary logistical details to implement them
- To identify client billing requirements, invoice format requirements, monthly invoice "cutoff" dates, and any procedures that will help streamline invoice payment
- To identify the person(s) in each organization who will receive, log, distribute internally, and track project communications such as transmittals (and their accompanying documents), requests for information (RFIs), change orders, and applications for payment.

A clear, mutual understanding of work and information-flow procedures and proper, timely documentation of ongoing design project costs will enable the firm to be properly compensated for the full scope of services provided or enable the parties to act promptly to resolve possible disputes before large sums of money are at stake.

An experienced and knowledgeable office administrator can perform many of these essential tasks, maintain a good working relationship with the client, alert the project manager when the boundary between the original scope of work and additional services has been crossed, track these costs for prompt billing, and together with the project manager secure the necessary approval of the client for these additional services.

## RESOURCES

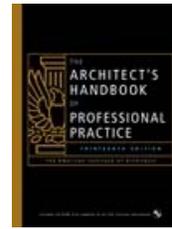
### More Best Practices

The following AIA Best Practices provide additional information related to this topic:

- 17.04.01 Strategies for Negotiating Fees
- 18.02.03 Owner-Architect Agreements for Small Projects
- 13.04.03 Elements of Realistic Project Budgets

### For More Information on This Topic

See also "Project Controls," by Lowell Getz, CPA, and Frank A. Stasiowski, FAIA, *The Architect's Handbook of Professional Practice, 13th edition*, Chapter 14, page 444.



See also the 14th edition of the *Handbook*, which can be ordered from the AIA Bookstore by calling 800-242-3837 (option 4) or by email at [bookstore@aia.org](mailto:bookstore@aia.org).



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### Key Terms

- Practice
- Business planning
- Quality control programs
- Project management guidelines

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