

Mistaken Taboo: Project Overhead

Executive summary. Field overhead carries different names with different contractors and owners. Discussed here is what field overhead is, and why it's important for owners to understand.

Project estimation. When a construction project is estimated, a good estimate will be one that captures all costs related to a project. These costs include, minimally, the following:

- **Direct costs** – the cost of the actual work (laying the pipe, erecting the steel, purchasing the concrete, et cetera). This is the cost of the worker in the ditch, the machine digging the hole, and the material being put in the hole.
- **Project overhead** – the cost to support the direct costs. This includes project management and project support services (concrete testing, permit acquisition, portable toilets, et cetera).
- **Corporate overhead** – this is the cost required to keep the lights on and the management paid back home in the corporate office.



Alternate names. Project overhead as described above carries different names including field overhead, general conditions, and indirect costs. There's likely more names for it. But, as described above, it is a necessary cost. The trouble most contractors run into when seeking reimbursement for this cost is that owners state that "overhead is included in the markups".

Retrain the brain. Read carefully what's in your markups in your contract for extra work. And consider a retraining of the owner's mind, and maybe even your own mind. If the contract talks about reimbursement for overhead or indirect costs in a markup tied to labor, etc., start classifying your project overhead costs as direct costs. Why? Well, because this project engineer and this copier and this portable toilet are all directly tied to this project. They are direct costs to the work.

This is a direct cost to the job and removing the stigma of the project engineer being a "jobsite overhead" cost may make reimbursement under a change order easier.

What are the costs of overhead? Of course, this is an answer which varies widely between contractors. Most contractors will estimate jobsite overhead discretely – by that I mean that the hours of project manager, the cost of the job trailer rental, and all the other jobsite indirect costs are entered as individual line item costs. Whereas the cost of the corporate overhead is a percentage of some other global cost within the bid. In my experience, I see jobsite overhead usually costing approximately 20% of the total cost of the bid (the cost of the project, not the final price to the owner – they're very different!), and I see corporate office overhead costing approximately 7% of the total job value (job value is the bottom line total price of the project to the owner).



My story. This is a neverending battle with owners: how do I convince him or her that the costs for field management are real and must be compensated outside of the normal markups listed in the contract. I have no silver bullet solution. Each owner is different. I do know one thing and that is that I know the difference in these costs. One suggestion is to escrow your bid and ensure that the costs discussed above are clearly lined out in the escrow documents. You may also consider embedding a jobsite overhead cost in the hourly rate of your workers. In other words, if you are able to calculate from your bid that jobsite overhead is 12% of labor on the project, simply embed an additional component in your hourly rate which includes this cost. You better be ready to discuss your labor breakdown though. Work safe!