

Beyond the Honeymoon Phase - Lay the Groundwork for Additional Indirect Compensation

Congratulations! After all the time you invested in estimating, planning, and bidding you just got word that you've been awarded the job. You're now officially in the "honeymoon phase" of the project. But what happens next? Now is the time to lay the groundwork and give a "heads up" about what costs you will incur daily on the project, just in case there are delays later on down the road. While no subcontractor wants to be in a position where you have to seek additional compensation, things like unforeseen conditions, extra work, delays and/or disruptions--- these are all issues that may force you to incur additional costs that weren't reflected in your bid. When these situations occur, it's critical for you to document and communicate as frequently and thoroughly as possible...lining the documentation trail, not for today, but for 6-18 months from now when payment is being negotiated. Two issues must be proven in cases like these: entitlement to additional compensation; and the amount of additional compensation you are entitled to.

Additional compensation can generally be divided into two categories: Direct and Indirect costs. Direct costs arise from the labor, materials and/or equipment required to perform the work which is outside your initial scope of work. Indirect costs are overhead costs that are necessary to allow you to complete the work. When a Subcontractor is delayed for any reason, you incur both types of costs. However, while it's impossible to predict Direct costs in advance, Indirect costs are more "fixed." The following are some examples of Indirect costs:

Home Office Indirect Costs

Corporate Management Time
Accounting Staff Time
Payroll Staff Time
Information Technology Staff Time
Engineering Staff Time
Insurance
Bonding
Home Office Space Rental

Field Indirect Costs

Job Site Office Rental & Supplies
Job Site Storage Rental
Project Management Staff Time (i.e. PM, Superintendent, QC, Support Staff, etc.)
Facilities Rental Equipment (i.e. Fencing, Porta-Potty, etc.)
Utilities (i.e. Phone, Data, Water and Power)
Loss of Use of On Site Owned Equipment

In order to quantify Indirect costs, meet with your estimating department. They should be able to provide you with the total indirect costs that were factored into the bid, based on the following formula:

$$\frac{(\text{Home Office Overhead Costs} + \text{Field Overhead Costs})}{\times \text{Your Planned Number of Work Days on the Project}}$$

To increase your chances of recovering Indirect costs, it's best to lay the ground work early in the project relationship. After the "honeymoon" is over, and before possible disputes arise, you should identify and quantify Indirect costs and give notice of these costs to other parties to the Subcontract. This notice should be provided in the form of a letter, which states the amount, and your intent to recover these additional costs in the event the project duration is extended.. You can download a free template of a "Notice of Indirect Costs" letter by [clicking here](#). By providing formal notice, your chances of recovering extended indirect costs are increased tremendously. In the "what if" world of construction, when it comes to the possibility of being delayed for one reason or another, it's usually best to follow the Boy Scout's motto and "Be Prepared."

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