

Common Methods of Payment for Engineering Services

There are several allowable methods of developing a price for consulting engineering services. The pricing method utilized to compensate a consulting engineer may vary depending upon the following factors: 1) the time it will take to complete the job and meet time constraints placed on the job by the owner, 2) the ability to estimate the cost of the "unknowns" that may occur, and 3) estimates of the difficulty of administering the project. The following are typical methods of pricing used.

Lump sum is a one-time payment of money, as opposed to a series of payments. A lump sum contract specifies that a predetermined scope of services will be furnished for a fixed fee. This amount remains fixed unless there is a change in the scope of services. A fixed lump sum fee agreement should include a stated time limit for the performance of the services. This method is often used for studies and reports and can be used for design and construction administration services.

Not to Exceed pricing establishes an agreed upon ceiling for the job above which charges for services are not allowed to go above. Hourly fees are well suited for consultation services, testimony in court, or similar work involving miscellaneous personal service. Most engineers have standard published schedules of hourly rates for various classifications of technical and non-technical employees. Can be used for studies, reports, design, and construction administration.

Time and materials pricing is a method that bases charges on actual time and cost of materials to deliver a specific product. Generally, this is captured as hourly fees and expenses. Typically, additional services are charged under this method.

Percentage of Construction Costs method of pricing relies on establishing the total cost of construction. An agreed upon percentage of this cost is then charged for the services delivered. This method is approved by federal agencies including the USDA.

Cost-plus a percentage of cost pricing is a pricing method relies on determining the cost of doing the job and then charging for that plus an extra percentage of that cost. It is used primarily because it is easy to calculate and requires little information. There are several varieties, but the common thread in all of them is that you first calculate the cost of the product, and then include an additional amount to represent profit. Cost-plus pricing has been criticized as promoting wasteful expenditures and is not approved for publicly-funded engineering services contracts.