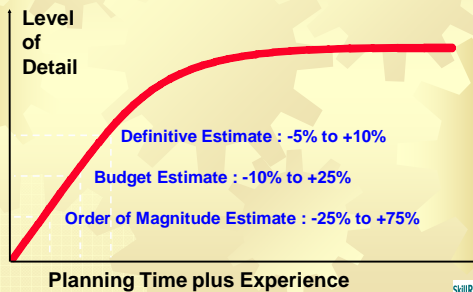


Budgeting Relationship



Types of Budget Estimates

- Order of Magnitude (Preliminary)
 - Supports decisions on project viability
 - Includes historical cost data
 - Actual cost within -25% to +75%
- Budget Estimate
 - Supports project planning decisions
 - Includes parametric modeling cost data
 - Actual cost within -10% to +25%
- Definitive
 - Supports project implementation
 - Includes cost data for each WBS activity
 - Actual cost within -5% to +10%



Obtaining Cost Data

- Experience from past projects
- Functional subject matter experts
- Lessons learned
- Vendor quotes or bids
- Catalogs
- Cost estimating guides
- Buyers



Major Cost Categories

- Capital Costs
 - Equipment
 - Facility Modifications
- Expenses
 - Labor costs
 - Material costs
 - Vendor/consultant costs



Facilities Modification

- Line reconfiguration
- Alterations to existing building/structure
- New process flow
- Relocation of utility hook-ups

Other Cost Components

- Overhead
- Management or contingency reserve



Project Overhead

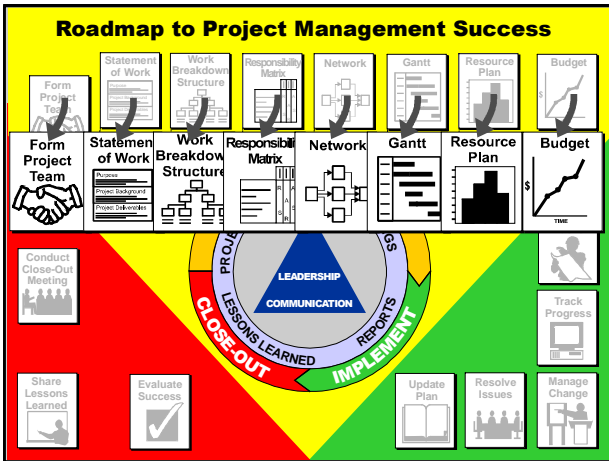
- Equipment rental
- Travel
- Consultants
- Contract labor
- Facility support

Illustration showing a computer monitor, an airplane, and two people shaking hands, representing project overhead costs.

Contingency Reserve

- Weather delays
- Changes in design
- Unforeseen price increases
- Estimating errors
- Other project risks

Illustration showing a stack of money, representing a contingency reserve.

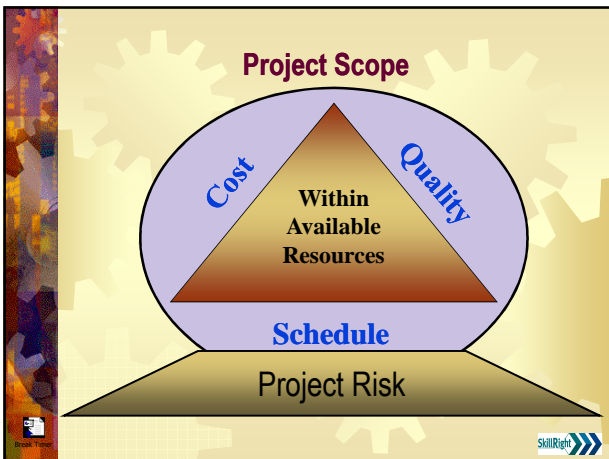


What Is Risk?

Risk can be defined as:

“Any threat to project success.”

Illustration showing a group of people on a small island in the middle of a body of water, representing a risk or challenge.



Risk Management

“Risk Management is the art and science of identifying, analyzing and responding to risk factors throughout the life of the project and in the best interests of its objectives.”

Source: PMI

Section 3.0

End of Planning Phase

