Spring 2026

CONSTRUCTION INDUSTRY ADVISOR

Finding a cash flow foothold in today's economy

Seize the golden opportunities of change orders

Is your company ready for agentic AI?

Bonding success may lie in your financial statements

Santora CPA Group

Right, By Your Side

220 Continental Drive, Suite 112, Newark, DE 19713

302-737-6200 ▲ 800-347-0116

www.santoracpagroup.com

Finding a cash flow foothold in today's economy

Cash flow management is a critical tool for any business. But it's especially important for construction companies, which operate in a notoriously slow-paying industry. Read on for some useful tips that may help your business find a cash flow foothold in today's uncertain economy.

Scene on the ground

In some ways, the landscape looks promising. As of this writing, interest rates appear likely to hold steady or decline slightly. Meanwhile, data center, warehouse and public sector projects are raising demand in some areas. In addition, the One Big Beautiful Bill Act (OBBBA), enacted last year, includes several tax provisions favorable to construction companies that began taking effect in 2026.

On the downside, the OBBBA also removed several incentives associated with sustainable construction projects. Meanwhile, tariff-related uncertainties continue to disrupt certain critical supply chains, and ongoing immigration operations continue to affect the construction labor market. Additionally, inflation remains a factor limiting demand in some sectors.

Such countervailing forces make proactive cash flow management vital. Without it, you can run into serious problems when, as so often happens in construction, bills come due before you've received the associated project revenues.

3 ways to break free

If your company has encountered cash flow blockages over the past year or so, you're not alone. Here are three tried-and-true ways to potentially break free:

1. Choose jobs and negotiate contracts strategically. Before bidding on a major project, confirm the owner's ability to pay by running a credit check and reviewing the person or entity's track record of timely payments on past jobs. This may not be feasible for every project, but it's a practice worth considering for higher-risk work.

As for the contract, don't settle for boilerplate language. Try to negotiate cash-flow-friendly terms. For instance, ask whether the owner will waive retainage if you provide a retention bond or a letter of credit.

Follow the numbers: Cash flow metrics

When it comes to cash flow management, top-performing construction companies follow the numbers. That is, they track key financial metrics to catch potential issues before major problems develop. The good news is you may already be calculating some of these measures if your surety requires it. And if you're not, now's a good time to start. Here are three to consider:

1. Current ratio. It measures your construction business's ability to meet short-term obligations by dividing current assets by current liabilities. A ratio at or below 1 suggests a company may struggle to cover short-term obligations without adequate cash flow. According to the Construction Financial Management Association's (CFMA's) 2025 *Financial Benchmarker* report, the 2024 industry benchmark for current ratio was 1.7.

2. Days in accounts receivable (or days sales outstanding). This equals the average time between issuing an invoice and receiving payment. A number over 30 days could indicate an impending cash shortage. The 2024 industry benchmark was a whopping 55.2 days, according to the CFMA report.

3. Days of cash. Calculating this metric shows how many days you can operate without bringing in additional revenue. A company with 20 or fewer days of cash is generally considered at risk. The 2024 industry benchmark was only 27 days, per the CFMA report.

An owner who insists on some retainage might at least be open to a progressive arrangement that phases out as more work is completed. Also, try to secure an upfront payment to cover costs you'll incur before breaking ground. And seek to include contractual penalties for late payments.

2. Bill better. It's easy to complain about owners dragging their feet, but payment delays aren't always entirely their fault. Some contractors contribute to the problem by billing inconsistently. Be sure you're using a formal schedule and sticking to the prescribed dates. Doing so helps "train" project owners to expect an invoice on a set date and to pay promptly. The schedule — and your contract — should include an escalation process for past-due payments, along with a reminder sent shortly before the due date.

Payment delays may also occur when invoices are confusing or incomplete. If you use a template, review and revise it regularly to ensure you're billing clearly and completely. Leverage technology as feasible. For instance, many enterprise resource planning systems allow you to run "cash flow by job" reports to support strong billing. Alternatively, a simple spreadsheet may be helpful.

3. Take advantage of financing (within reason). Incurring debt carries risks. But financing allows you to spread payments over time, which is usually better for cash flow than paying in full — unless you receive a significant discount for doing so. And remember, you can finance many more expenses than just materials, supplies and equipment; insurance is just one example.

Changes to the business interest expense deduction in the OBBBA make financing even more appealing. Starting with the 2025 tax year, amortization and depreciation are added back when calculating adjusted taxable income (ATI) for the 30% ATI limit on the deduction. As a result, you may be able to deduct more business interest than you have in recent years.

Strong grasp

You can't control macroeconomic conditions. Having a strong grasp of cash flow management, however, can grant you some peace of mind as you grapple with the construction industry's many challenges. For guidance along the way, work closely with your financial advisor. ■

Seize the golden opportunities of change orders

Dealing with change orders is an unavoidable part of running a construction business. Although often disruptive, they can actually be golden opportunities to increase project revenue. Unfortunately, many contractors lose money on change orders because they struggle to fully capture and charge all related costs. Let's look at some savvy ways to make sure that doesn't happen to you.

Cost classifications

You've probably experienced some of the common triggers for change orders. They include unforeseen site conditions, inaccurate or unclear specifications, owner-requested scope or design changes, unseasonable weather or other acts of nature, and materials shortages. Some costs associated with such changes are fairly obvious, but others are less so. To accurately price change orders, you generally need to consider three cost classifications.

Change orders can disrupt workflow, creating a ripple effect felt throughout a project.

First, there are direct costs. These include labor, materials and equipment, of course. But they can extend beyond the costs of the change-order work. For example, direct costs may also include staff time spent analyzing the changes, preparing estimates, and communicating with the owner or engineer. You could incur professional fees for redesign work. Or you might have to put in additional hours for supervision, safety meetings and cleanup. There's the cost of fuel, utilities and storage to consider as well.

The second classification is overhead. Unless you recover these costs as well, you could end up losing money on a change order. Overhead for construction businesses is generally divided into two subsets: 1) general and administrative, and 2) project (often referred to as "indirect costs"). As with many types of companies, general and administrative overhead includes rent, office equipment and utilities, and management and administrative staff salaries and benefits.

Project overhead/indirect costs relate to work being performed but can't be tied to any one job. Common examples include workers' compensation insurance premiums and payroll service fees.

More specific examples vary depending on your company's size and specialty. Ask your accounting professional for help identifying yours.

The third classification is consequential costs. Change orders can disrupt workflow, creating a ripple effect felt throughout a project. These consequential costs may include those associated with work delays, overtime, crew reassignment, site access issues and weather conditions. They could also include the cost of lost productivity resulting from, for instance, trade stacking — the need for multiple tradespeople to work in a limited space. Problems often arise, too, from "dilution of supervision." This is when the attention of project managers and on-site supervisors is diverted from planned work to change-order work.

Finer points

Ensuring adequate compensation for change-order work starts with the contract. Before signing, check any contractual limits on pricing change orders, such as maximum markup percentages.

Many contracts provide for a markup percentage of 10% to 15% for change orders, which is intended to cover overhead, indirect costs and profit. But it's often not enough to break even. A thorough analysis of a significant number of recent projects should tell you whether your typical markup percentages are sufficient. If they're not, try to negotiate higher limits.

In addition, train your project managers to familiarize themselves with each contract's change-order approval procedures. Implement controls to ensure these procedures are followed to the letter. For example, you should generally avoid beginning out-of-scope work until a change order is approved in writing.

Once a change is approved, stay focused on costs. Track all three cost classifications closely. Consequential costs are usually the most difficult to prove, so be sure to have systems in place to measure and document productivity, compare results to the originally budgeted hours, and calculate the impact of change-order work on productivity.

Beneficial superpower

The ability to manage change orders effectively is a "superpower" that often differentiates best-in-class construction businesses from those struggling to consistently turn a profit. So, why not put on your cape and start tracking *all* project costs? Your accounting professional can help you refine your company's job-costing method, markup structures and change-order procedures. ■

Is your company ready for agentic AI?

Artificial intelligence (AI) is getting a lot of attention these days, and the construction industry is hardly spared its influence. But AI is evolving. Although most people have had a conversation or two with a *generative* AI platform at this point, there's a new iteration of the technology gaining steam: *agentic* AI. For construction business owners, understanding what it is and what it can do for their companies is becoming increasingly important.

Here's the concept

Although the concepts and coding behind agentic AI are complex, the basic idea is straightforward: The technology acts as a 24-7 digital assistant. It doesn't just answer questions when prompted; it

proactively manages work and provides ongoing feedback within your defined boundaries.

Imagine an AI-driven platform that reviews your project schedules, tracks materials deliveries and updates the project managers when a shipment is delayed. Or picture a system that notices equipment sitting idle, analyzes upcoming job tasks and automatically suggests how to reassign those assets to keep that project or another one moving.

> *Agentic AI is particularly adept at making the day-to-day adjustments that many project managers struggle with.*

That's the power of agentic AI. And contractors who understand its potential and implement it effectively when they're ready may gain a competitive edge.

Let's talk specifics

There are many more ways your construction company might apply agentic AI. Here are a few to consider:

Project management and scheduling. We alluded to this above, but it warrants further discussion. As you know, construction schedules tend to change constantly in response to various factors. Agentic AI is particularly adept at making the day-to-day adjustments that many project managers struggle with. It can evaluate work-in-progress reports, weather patterns, labor availability and materials data to flag risks. Then the technology is able to, say, propose alternate schedules, help identify available subcontractors or recommend task resequencing.

Procurement and budget oversight. Because agentic AI can work across multiple data sources, it can help you monitor spending in real time. For example, the right platform can compare current materials pricing to historical trends, spot unusual cost spikes and send an alert when a job drifts off budget. Some systems are even able to draft purchase orders based on inventory thresholds or upcoming project tasks — subject to your approval, of course.

Safety and compliance. There's nothing more important than safety on the jobsite. AI-enabled monitoring may be trained to review photos and video to catch missing PPE, unsafe equipment placement or other hazards. But again, agentic AI doesn't just catch such problems; it proactively notifies relevant parties. To be clear, this doesn't negate the need for safety-wary project managers or even an on-site safety officer to ensure compliance. But it does provide another set of eyes (albeit electronic).

Not plug-and-play

Despite its great promise, agentic AI remains a new technology that poses notable risks to early adopters. You'll need to spend substantial resources to identify a suitable solution, implement it and train users on it. And once the platform is up and running, you'll have to follow strict cybersecurity practices and avoid overreliance on automated decisions. The truth is, as powerful as agentic AI may prove to be, it can't and shouldn't replace human experience and judgment — especially in a hands-on, high-risk industry such as construction. ■

Bonding success may lie in your financial statements

Many small to midsize construction businesses struggle with bonding capacity. You've likely tried to stick to long-standing, surety-pleasing practices such as presenting accurate estimates and staying on friendly terms with your bonding agent. However, you may be overlooking — or at least underusing — a "secret weapon" for bonding capacity: your financial statements.

What do the numbers say?

Start by reviewing the sections of your financial statements that outline your company's debt structure. Primarily, this means studying your balance sheet, though your statement of cash flows and footnotes may also be relevant.

For example, imagine you've used a $500,000 line of credit to buy $200,000 in heavy equipment, intending to pay it off over three to four years rather than securing a long-term equipment loan. Although functional, this strategy can reduce working capital and bond capacity because the entire outstanding balance is recorded as current liabilities. (Similarly, many contractors use cash reserves to buy equipment, giving up a current asset for a long-term asset, which also hurts working capital.)

Refinancing the equipment with a four-year term loan could improve your current ratio by moving all but the next 12 months of payments into long-term liabilities. This shift often strengthens the balance sheet in a surety's eyes, helping boost bonding capacity without changing your operations.

Next, examine notes receivable. Say you hold a $100,000 note from an entity in which you own a 50% interest. If that note has gone unpaid for 12 months, your surety may exclude it from working capital, reasoning that it's unlikely to be converted to cash soon. To improve your bonding position, you might work with the related entity to establish a documented repayment plan and begin converting that receivable into cash.

And how about inventory?

Some contractors buy large quantities of materials just before year end to take advantage of supplier discounts. This may be a smart purchasing strategy, but it can cause problems if your surety doesn't understand what those materials are or how soon they'll be used. Without proper disclosure, your bonding agent may assume the inventory is obsolete or excess and apply a steep discount.

A straightforward fix is to break out the main inventory components in your financial statement footnotes and disclose their intended uses on upcoming projects. This additional transparency can help ensure the inventory receives full surety credit, preventing unnecessary reductions in bonding capacity.

Who can help?

Proactively managing how debt, receivables and inventory are presented to your surety can positively impact bonding capacity. Ask your accounting professional for help ensuring your financial statements reflect your construction business's true strengths. ■

This publication is distributed with the understanding that the author, publisher and distributor are not rendering legal, accounting or other professional advice or opinions on specific facts or matters, and, accordingly, assume no liability whatsoever in connection with its use. ©2026