

Budget and Accounting Tip:

May 2010:

How can you reduce dramatic cash flow fluctuations?

Setting up specific contingencies mitigates dramatic cash flow fluctuations. For example, current economic conditions can change over the life of a construction program. If escalation resumes, a program-level contingency, or money set-aside, can address market rate increases over the life of a construction program, which can span seven years to a decade.

A “catastrophic loss,” such as unanticipated toxic issues (toxic mold or naturally occurring asbestos,) or major construction claim settlements can deplete a program of money. Contingencies enable programs to avoid unintended debts. In addition, contingencies can address cash flow issues when funding is halted or delayed, which has occurred a lot in these dire economic times.

What types of contingencies do we recommend to normally set up? We recommend owner’s contingencies, project contingencies, construction contingencies, pre-construction contingences and escalation contingencies. What’s the difference between these categories and why have so many different kinds? It all depends. For information on these contingencies and typical percentages to set aside, contact us at info@capitalpm.com. Each contingency category differs by program and depends on geographical locations, current economic trends, and more, which are unique to each construction program.