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Owner's Project Risk: The Contractor Billing Problem

Written by: Shanthi Rajan, Founder and CEO, Linarc

Nearly eight in 10 trade partners reported work delays or stoppages in the past year due to delayed payments. — Rabbet 2024 Construction Payments Report

Not the weather. Not labor shortages. Delayed payments. For owners and construction managers, that number belongs on a project risk register, not a contractor's problem list.

When a trade partner cannot bill accurately or get paid on time, the instinct is to look away. In practice, it is a project delivery problem. And it does not stay downstream. Work slows. Crews shrink. Material orders stop. The owner who approved every pay application on time inherits a schedule no one warned them about.

What makes this harder to manage is the gap between payment released and payment received. Owners know what has been approved and disbursed to the general contractor. They rarely know how much has reached the trade partners in the field. A trade that is months behind on receivables does not send a notice. They reduce crew, defer orders, and move their best people to a project where cash is flowing. The schedule impact arrives without warning.

How an owner manages payment reliability is as consequential to project outcomes as how they manage schedule, scope, or safety. The question is whether it is being managed with the same discipline.

WHEN PAYMENT STOPS, SO DOES THE PROJECT

A trade partner under financial stress does not default dramatically. Crew sizes shrink. Material orders get pushed. The foreman who knows the job best moves to a project where cash is flowing. Production slows in ways that look, at first, like ordinary schedule variance. By the time the pattern is undeniable, weeks are already lost.

Among projects affected by late payments, 76% lose at least one week of schedule and 38% lose more than three weeks (Mobilization Funding, 2025). Those are not contractor losses. They are project losses, absorbed by owners in extended general conditions, delayed occupancy, and compressed closeout timelines.

Cash-constrained trade partners defer corrective work, reduce supervision, and struggle to retain skilled labor. Quality does not collapse overnight. It erodes gradually, in ways that are difficult to attribute and harder to recover from once the crew has moved on.

THE COST OWNERS DON'T SEE UNTIL IT'S TOO LATE

Contractors have learned to build payment uncertainty into their project planning. Float in schedules. Buffer in bids. Contingency in cash flow projections. What looks like a contractor absorbing risk is often that cost passing quietly back to the owner. Contractors inflate bids by an average of 8% to protect against slow payments (Built, 2025). On a $50 million project, that is $4 million with nothing to do with the work itself. It is the price of an unreliable billing process, baked in before the first shovel hits the ground.

When trade partner billings arrive late, in irregular amounts, or disconnected from field progress, cash flow forecasting becomes guesswork. Funding draws misalign. Contingency decisions get deferred. Procurement stalls. Scope changes sit in review because the baseline cost picture is too unclear to act on. Every delayed decision has a project cost.

Project managers, consultants, and accounting teams spend significant time each billing cycle reconciling invoices, chasing documentation, and resolving discrepancies that should never have existed. That overhead grows quietly across every project where payment reliability is treated as someone else's responsibility to manage.

WHEN THE NUMBERS LIE, EVERY DECISION IS COMPROMISED

Owners and construction managers run projects on information. Progress reports, earned value calculations, cost-to-complete projections, executive dashboards. All of it rests on one assumption: that billing reflects what has actually been built. When it does not, the numbers no longer represent the project. They represent the state of the billing process.

An owner reviewing a progress report that overstates or understates completion cannot make sound decisions about schedule acceleration, resource reallocation, or contingency deployment. A construction manager assessing earned value against a schedule of values never tied to execution sequencing is working from a fiction. The report looks complete. The project is not.

Change order management suffers the same way. When baseline cost and billing status are unclear, owners cannot assess the true financial impact of a scope change. Budget availability, critical path effect, completion forecast — these require a clean financial picture. When billing inconsistency has muddied it, owners decide on incomplete information or wait for clarity that may not come in time. Neither serves the project.

Inaccurate billing data does not announce itself. Reports get produced. Dashboards get updated. Meetings happen. The degradation is invisible until a decision made on bad data produces a consequence that cannot be undone.

WHEN BILLING BREAKS DOWN, THE LEGAL EXPOSURE IS THE OWNER'S TOO

Payment disputes do not stay disputes. They escalate. A trade partner waiting too long on a pay application becomes a lien filing, a bond claim, a formal dispute that outlasts the project. Twenty-five to 30% of construction projects experience some form of dispute or claim (Nix Patterson, 2023). The average dispute value in North America reached $60.1 million in 2025, up roughly 40% from the prior year, with an average resolution time of 12.5 months (Arcadis, 2025). These are not contractor numbers. They are project numbers, and owners sit at the center of them.

When trade billing breaks down, lien waivers are the first casualty. They arrive late, incomplete, or not at all. Owners lose visibility into who has actually been paid down the chain. A properly filed mechanic's lien clouds the property title, blocking any sale, refinancing, or clear title insurance until every claim is resolved. In 2023, 65% of trade partners filed liens due to slow payments, a 141% increase from the prior year (Rabbet, 2024). Preliminary notices were filed on projects valued at over $22.7 billion in 2024, a signal that payment stress is converting to formal dispute well before closeout. Those filings follow the asset.

A single unresolved dispute can delay closeout, complicate financing, trigger insurance complications, and consume legal fees that dwarf the original amount in question. Owners often do not see the stress accumulating at the trades level until it has converted into a claim against their property.

The $280 billion that slow payments cost the U.S. construction industry in 2024 did not evaporate (DocJoist, 2026). It was absorbed in inflated bids, delayed schedules, disputed claims, and legal fees. Owners who treat billing health as a contractor concern are absorbing a share of that cost on every project, without ever seeing it labeled for what it is.

WHAT OWNERS AND CONSTRUCTION MANAGERS CAN DO DIFFERENTLY

Payment and billing problems do not originate at the pay application. They originate in how projects are set up. By the time a disputed invoice lands on a construction manager's desk, the conditions that produced it were established weeks or months earlier. Owners and construction managers who recognize this hold a structural advantage: they can build the right conditions before the damage is done.

First, build payment transparency into contract terms. Define approval responsibilities, billing cycles, and documentation standards before work begins. Ambiguous language does not protect owners. It creates the conditions for disputes that cost an average of $60.1 million and 12.5 months to resolve (Arcadis, 2025).

Second, require pay applications to be progress based and tied to the schedule of values. Billing that cannot be reconciled against field progress is a project visibility problem, and the owner absorbs the cost of that opacity in every decision made on incomplete information.

Third, make payment contingent on verified proof of work completion. Documentation captured at execution, tied to specific work packages, is the foundation of a defensible pay application. Requiring it protects the owner as much as it disciplines the contractor.

Fourth, require conditional lien waivers at every pay application cycle. This is the most direct mechanism for closing the gap between payment released and payment received. If a trade partner cannot produce one, the owner now knows something about payment flow that no progress report would have revealed.

Fifth, monitor trade partner bonding capacity throughout the project, not just at prequalification. Bonding capacity is a direct function of financial health. A trade whose capacity is shrinking mid-project is signaling cash flow stress before it shows up as a crew reduction or a missed milestone.

Projects that embed these practices into standard project delivery do not eliminate every payment challenge. What they do is remove the friction that turns a billing problem into a project problem, and a project problem into a legal one. For owners and construction managers, that is not a courtesy to contractors. It is how projects get delivered.

About the Author

Shanthi Rajan is the founder and CEO of Linarc in Los Angeles, Calif. She leads company strategy, product vision, and operations, with a focus on solving complex field and coordination challenges in construction. Her role spans team leadership, customer engagement, and innovation in scheduling, workflows, and analytics. Shanthi is a frequent contributor to industry publications, writing on topics such as project controls, field productivity, AI in construction, and financial health indicators for contractors and trade partners.