Improving City Payment Timelines

LBEAC Meeting Discussion

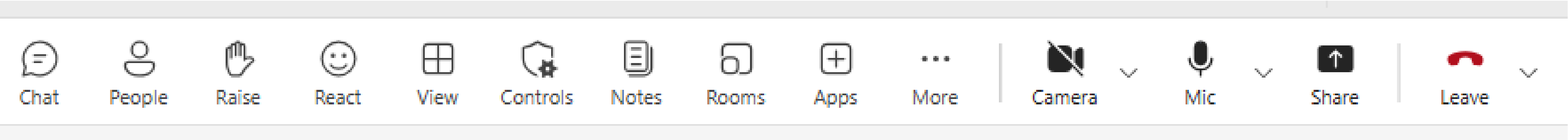
Agenda

Introductions

- Hello 👋 ! I am Anh, a project manger in the City Administrator's Office. Thank you for allowing me to be in this important space and for joining this discussion.
- **If you are able to, please share your name and business in the meeting chat (e.g. "Jane Doe, ABC Business").**

Meeting Logistics

I am going to demo some meeting features now!



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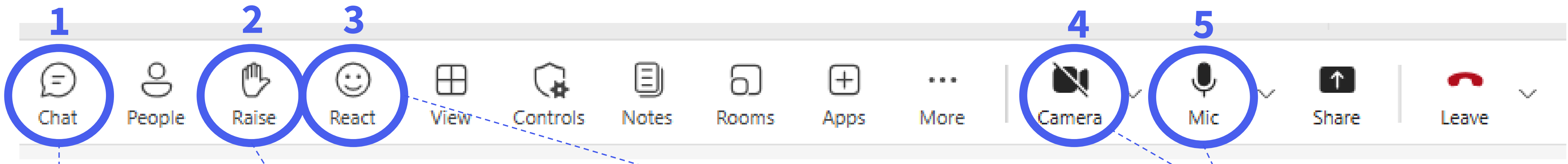
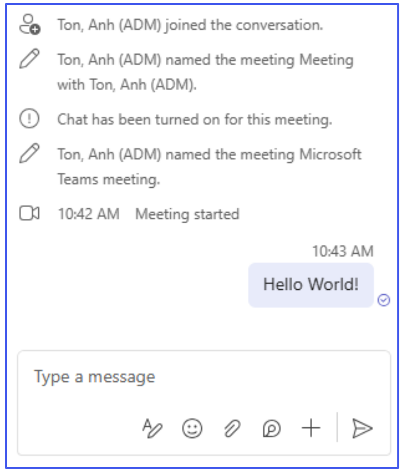
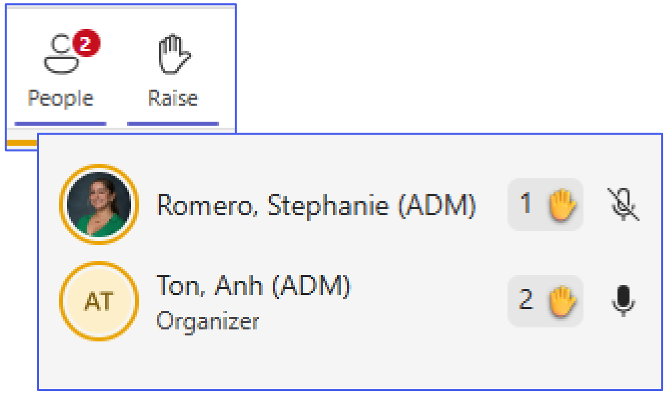


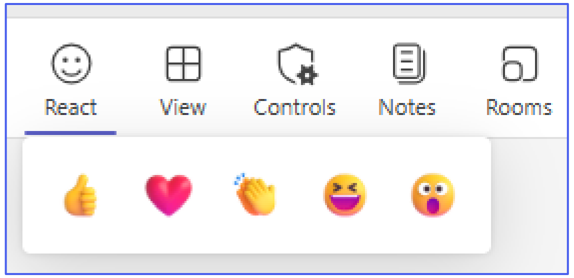
1 The chat panel



2 The raise hand function



3 The reactions



4 & 5 The camera/mic on/off buttons

Meeting Norms

We have a lot of people on the call today! To keep things manageable:

1. 🔇 **Please mute yourself when you are not talking** to minimize external noises. Video is optional.
2. 🙋 **Use the raise hand functions** so we can ensure fair speaking opportunities.
3. 💬 Feel free to put your thoughts in the chat but remember:
   - **Please don’t “spam”** 🥩 **the chat** 🤖 – stay on topic and keep the discussion moving.
   - Constructive criticism is welcome 👍! Rude or disrespectful comments are not ❌.
   - I try to respond to comments in the chat, but it can be hard to run the meeting and read through comments at the same time. Please give me grace 🙏!
4. Approach today’s conversation with **curiosity** rather than judgement.
5. Bring a **solutions-oriented lens**.

Meeting Goals

1. **Provide an update** on our project to improve City payment timelines
2. **Prioritize** among different solutions to further explore
3. Share our planned **next steps**
4. **Collect further anecdotes/sentiments** that we can incorporate into the final project products

Welcome Poll

- **Question 1:** Have you experienced a payment delay from the City as a prime contractor?
- **Question 2:** Have you experienced a payment delay as a subcontractor working on a City project?
- **Question 3:** How long does you feel like it takes for you to receive a payment? (From the time you first submit an invoice to when you receive the payment)

PROJECT CONTEXT

Why are we looking at payment timelines?

Prompt payment is a core component of effective partnerships between the City and its suppliers – but the City has a reputation for being a slow, inflexible, and opaque payer.

- Slow payments can have many downstream effects:
  - **Small and local businesses often have limited working capital** and do not have the capacity to weather long periods of nonpayment. This can lead to businesses not being able to meet payroll, incurring debt, or drawing down credit lines as they await payment from the City.
  - A reputation for **slow payments can affect the City's costs of project delivery**. According to a 2022 survey of City construction contractors, roughly 70% of survey respondents said that payment timelines had a "high impact" or "very high impact" in their bid or proposal prices for City projects.

- At the same time, however, the ability to withhold payments is an important the City retains to ensure contractors are completing their work and complying with City requirements.

Project Objective

How can the City improve its payment timelines for invoices while retaining proper oversight and accountability?

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Thank you to the LBEAC and LBE community 🫡!!!

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The Work So Far

Research Conducted

We conducted data analysis and interviews with:

9 City staff in finance, accounting, or project control roles

10 City staff in project management, construction management roles

18 construction or construction-adjacent firms who have worked with the City in a prime and/or subcontractor capacity

1 professional service firm contracted in a project management role with a Chapter 6 department

2 technical assistance organizations focused on improving practices in the construction industry

1 peer jurisdiction

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What we've learned

1. Payment **challenges are multidimensional**, spanning **policy, procedural, technological, budgetary, communications, and capacity issues.**
2. **No single role or function is a primary bottleneck;** rather, it's the City's culture and approval structures that inhibit timely payments.
3. These **challenges are not limited to construction sector**; can't have a conversation about late payments without someone asking, "What about grants? What about professional services?"
4. To build momentum for change, we realized we need to **bring more visibility to this project and broaden our scope!** We want to hear more voices before we finalize our report.

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PRELIMINARY FINDINGS

How long does the City take to pay? (Part 1: The Data Story)

What the Data Tells Us
Capital Outlay (Construction) Invoices Only

75 days
"Invoice Receipt" to Payment Date

95 days
"Invoice Date" to Payment Date

The City's prompt payment policy includes a 30-day benchmark.

Section 9.03 of Division 00 establishes a 45-day timeline

Against 45-day benchmark

34%
Late Payment dates

Against 30-day benchmark

63%
Late Payment dates

Data covers FY23-25 (three-year span)

How long does the City take to pay? (Part 1: The Data Story)

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Against 45-day benchmark	**Against 30-day benchmark**
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Section 9.03 of Division 00 establishes a 45-day timeline

Data covers FY23-25 (three-year span)

What the Data Does Not Tell Us

- How long did it take to get to an "undisputed" invoice?
- What were the reasons something took longer than 30 – 45 days?

How long does the City take to pay? (Part 2: The People Story)

From the people perspective, payment timelines were highly variable and often depended on the specific department or project team a supplier was working with.

Answers to the question, "How long does the City typically take to pay?"			
Firm 1	90 – 100 days when in sub position	Firm 10	60 – 90 days
Firm 2	45+days	Firm 11	30 – 145 days
Firm 3	21 – 90 days	Firm 12	60 – 90 days
Firm 4	About a month	Firm 13	Unsure
Firm 5	60 days	Firm 14	60+ days
Firm 6	10 – 90 days	Firm 15	About 6 weeks
Firm 7	45 – 160 days	Firm 16	60 days
Firm 8	21 days – 6 months	Firm 17	6 weeks
Firm 9	3 days – 60 days	Firm 18	N/A

What causes payment delays?

There is no single cause or point of delay – issues with payment delays are multi-dimensional, often touching on different people, responsibilities, functions, and systems.

Invoice Components

Technological Issues

City Procedure and Practices

Budgetary Issues

Challenges with Invoice Components

Challenges with invoice components come in many flavors.

Basic Invoicing Requirements

Paperwork
- Progress schedule update
- List of authorized change orders
- Certified Payroll
- Subcontractor invoices
- Supporting documents

Other
- Verified supplier compliance status
- Insurance up to date
- Original invoices

Frequently Cited Challenges

Subcontractor Invoices
- Different departments require different tiers of sub invoices
- Sub invoices may not meet City requirements
- Single sub could slow payments for others

Certified Payroll
- Reporting requirements can feel onerous and duplicative
- Continued certification may still be required for those who are not actively working on a project

Supporting Documentation
- Different expectations from different project teams

Accounting & Compliance Standards
- Intense scrutiny of low-value sums or incidentals (e.g. soda)

Specific Expenses & Requirements
- Insurance
- Limited guidance on Other Direct Costs
- Variance from Schedule of Values requiring administrative approval

Challenges with City Procedures & Practices

Procedures at a High level

START Project-level approval

Construction Managers, Inspectors, Resident Engineers, Project Managers, etc.

Administrative approval

Contract Administrators, Directors, Bureau Heads, Department Heads, etc.

Accounting/finance approval

Accounting, financial analysts, budget analysts

Systems approval

PeopleSoft, Construction or Project Managers

Frequently Cited Challenges

Approval and Project Structures

- Multiple levels of approvals, multiple approvers within each level
- Sometimes multiple approvals from the same person for one payment
- Sequential approvals mean one person being out of office can put a full stop to the approval process
- Certain projects require invoice approval across multiple departments, adding to process confusions

Communications & Transparency

- Figuring out where a payment in its approval process or what the cause of delay is can be frustrating
- Suppliers feel like the City does not proactively communicate and that answers to payment processing questions are often vague
- Escalation pathways are unclear when there are issues
- The automated communications from the City's financial system are confusing and lack details for suppliers

Challenges with Technology & Payment Systems

Various Systems

Frequently Cited Challenges

Systems Design and Downtime

- Many different systems may be used for different aspects of a project, which ultimately surfaces in the payment process (PeopleSoft, Unifier, SOLIS, LCPtracker)
- Sync issues between systems can cause delays
- Project set-up issues can cause frustration and delay payment reporting
- While SOLIS has some payment tracking ability, there is no visibility into payment status on PeopleSoft

Challenges with Budget

🧱 🚧 🚩

- Unfortunately, budgetary and project financing challenges are beyond this project’s scope.
- However, we do want to acknowledge that some interviewees shared that the City’s budgeting and project financing mechanisms (e.g. bond releases) can sometimes contribute to payment delays.

We're going to do another poll and then discussion.

- **Question 1: Which of these challenges have you experienced?**
  - ❑ Invoice components
  - ❑ City Procedures & Practices
  - ❑ Technology & Payment Systems

- **Question 2: Which of these challenges should be our top priority to fix?**
  - ❑ Invoice components
  - ❑ City Procedures & Practices
  - ❑ Technology & Payment Systems

- **Question 3: What other challenges have you experienced that we have not mentioned?**

NOW, LET’S GET TO EXPLORING SOLUTIONS.

What’s the right direction? How can we get there?

What are potential ways to address the issues? 🔍 🗺️

Help us gut-check whether these ideas should be further explored! 🤔

Note: We don't yet know how feasible these ideas would be – we're looking for help with priority-setting.

City process-focused ideas to explore

1. Create and regularly update tailored trainings about construction payments for City staff in different types of roles.
2. Create space for City staff to meet, discuss, and proactively address payment issues.
3. Explore the use of automation in invoice review.
4. Redefine what "invoice acceptance" means and make documents on invoicing guidelines more accessible.
5. Re-visit approval requirements and consider setting a cap on the number of steps it should take to process a payment.

Supplier-facing ideas to explore

1. Create a user-friendly payment tracking dashboard.
2. Clarify and standardize practices for accepting invoices with annotations and consider standardizing a new materiality or tolerance standard.
3. Clarify and standardize practices for paying undisputed amounts while other line items undergo further analysis ("short pay").
4. Consider decoupling certain administrative compliance requirements from payment processing and consider other enforcement options.
5. Explore whether mobilization payments can be used to support LBEs early in projects and the standards that would be required for documentation/accountability of LBE advances in mobilizations.

Let’s look at ideas that would more directly touch suppliers. (1/5)

Supplier-facing ideas to explore

1. **Create a user-friendly payment tracking dashboard.**
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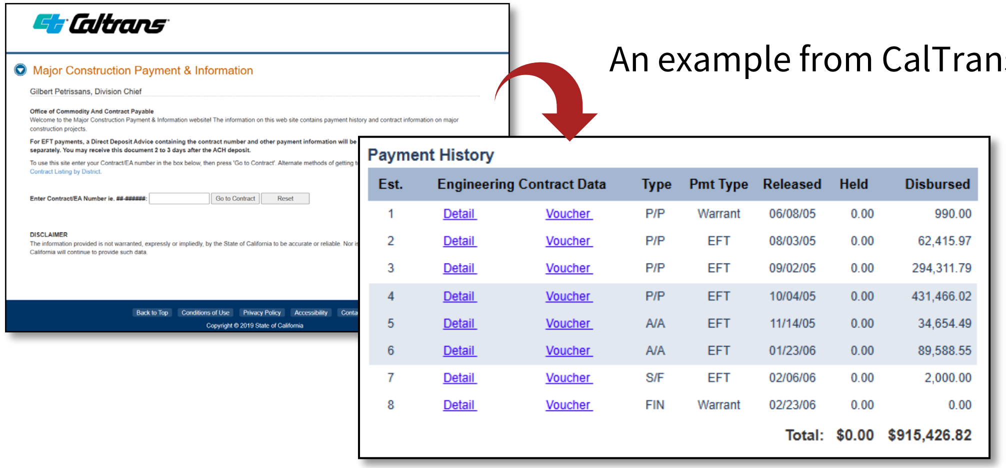

Est.	Engineering Contract Data		Type	Pmt Type	Released	Held	Disbursed
1	Detail	Voucher	P/P	Warrant	06/08/05	0.00	990.00
2	Detail	Voucher	P/P	EFT	08/03/05	0.00	62,415.97
3	Detail	Voucher	P/P	EFT	09/02/05	0.00	294,311.79
4	Detail	Voucher	P/P	EFT	10/04/05	0.00	431,466.02
5	Detail	Voucher	A/A	EFT	11/14/05	0.00	34,654.49
6	Detail	Voucher	A/A	EFT	01/23/06	0.00	89,588.55
7	Detail	Voucher	S/F	EFT	02/06/06	0.00	2,000.00
8	Detail	Voucher	FIN	Warrant	02/23/06	0.00	0.00
					Total:	$0.00	$915,426.82

An example from CalTrans

What it Could Fix

- Transparency & tracking challenges from the suppliers’ perspective

What it Would Take

- Deep dive into data governance and potential pre-work around data quality clean-up
- Deep dive into data visualization or data presentation needs
- Exploration of whether currently tracked data is sufficient for addressing information gaps

Let’s look at ideas that would more directly touch suppliers. (2/5)

Potential Ideas: Supplier-touching

1. Create a user-friendly payment tracking dashboard.
2. **Clarify and standardize practices for accepting invoices with annotations and consider creating a new materiality or tolerance standard.**
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In other words, update City’s standards so that we’re not spending disproportionate effort fixing rounding errors.

The federal government’s cost accounting standards has an example of when to consider something “material” and “immaterial”, which in turn determines how rigorously something needs to be examined:

> **48 CFR § 9903.305 *The cost of administrative processing of the price adjustment modification shall be considered. If the cost to process exceeds the amount to be recovered, it is less likely the amount will be material.***

What it Could Fix

- Fewer instances where a rounding errors or minimal differences stop the payment process

What it Would Take

- Collaboration with City finance and accounting leaders to have a shared framework for materiality or tolerance
- Shared understanding of City’s materiality policies with external auditors
- Culture change

Let’s look at ideas that would more directly touch suppliers. (3/5)

Supplier-facing ideas to explore

1. Create a user-friendly payment tracking dashboard.
2. Clarify and standardize practices for accepting invoices with annotations and consider standardizing a new materiality standard.
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5. Explore whether mobilization payments can be used to support LBEs early in projects and the standards that would be required for documentation/accountability of LBE advances in mobilizations.

The City’s accounting policies already allow for undisputed amounts to be paid while disputed amounts are resolved, but this can be hard to implement in practice.

What it Could Fix

- Continued capital flow while issues are being resolved

What it Would Take

- Collaboration with City finance and accounting leaders to have a shared framework for “short pay” practices
- Systems feasibility analysis
- Shared understanding of City’s materiality policies with external auditors
- Culture change

Let's discuss ideas that would more directly touch suppliers. (4/5)

Supplier-facing ideas to explore

1. Create a user-friendly payment tracking dashboard.
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CalTrans Example:

9-1.16E(3) Performance Failure Withholds

During each estimate period you fail to comply with a Contract part, including the submittal of a document as specified, such as QC plans, schedules, traffic control plans and water pollution control submittals, the Department withholds a part of the progress payment except as specified below for the failure to submit a document during the last estimate period. For 1 performance failure, the Department withholds 25 percent of the progress payment but does not withhold more than 10 percent of the total bid. For multiple performance failures, the Department withholds 100 percent of the progress payment but does not withhold more than 10 percent of the total bid. **During the last estimate period, if you fail to submit a document as specified, the Department withholds $10,000 for each document**. The Department returns the withhold within 30 days after receipt of the document.

What it Could Fix

- Continued capital flow instead of full payment stops while issues are being resolved

What it Would Take

- Collaboration with City finance and accounting leaders
- Analysis of systems feasibility
- Conversations with auditors
- Culture change

Let's discuss ideas that would more directly touch suppliers. (5/5)

Supplier-facing ideas to explore

1. Create a user-friendly payment tracking dashboard.
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5. **Explore whether mobilization payments can be used to support LBEs early in projects and the standards that would be required for documentation / accountability of LBE advances in mobilizations.**

As defined in the California Public Contract code, **mobilization can be used for:**

> ***…preparatory work and operations, including, but not limited to, those necessary for the movement of personnel, equipment, supplies and incidentals*** *to the project site, for the establishment of all offices, buildings and other facilities necessary for work on the project,* ***and for all other work and operations which must be performed or costs incurred prior to beginning work on the various items on the project site.***

What it Could Fix

- Fewer periods of nonpayment while work is already commencing

What it Would Take

- Consultations with legal teams on what can/cannot be used for mobilization
- Shared practices among project and contract managers

Vote and then open discussion

If the City could only implement 1 - 2 of these solutions, which would you pick?

1. Create a user-friendly payment tracking dashboard.
2. Clarify and standardize practices for accepting invoices with annotations and consider standardizing a new materiality standard.
3. Clarify and standardize practices for short-paying.
4. Consider decoupling certain administrative compliance requirements from payment processing and consider other enforcement options.
5. Explore whether mobilization payments can be used to support LBEs early in projects and the standards that would be required for documentation / accountability of LBE advances in mobilizations.

BROADENING PROJECT PERSPECTIVES

What's next for this project?

Reminder: The Project Vision 🌄

What are the project's goals? 🎯

Short-term Goals:

- Catalog and diagnose the different payment issues.
- Develop recommendations on solutions.

Long-term Goals:

- Implement the solutions!
- Reduce and better measure timelines

Reminder: The Project Vision 🌄

What are the project's goals? 🎯

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Long-term Goals:

- Implement the solutions!
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What would it take to reach these goals? 🏃

- **The reality:** The **City Administrator's Office cannot fix this problem on its own.**
- We will **need to work collaboratively across departments, individual roles, funding streams, and City partners** to explore changes to policies, procedures, and practice – *this is the hard work of systems change!*
- This likely means **an incremental approach, cross- sector approach**.

Where do we go from here?

The case for change will be made stronger if we can hear from and build support from multiple sectors for different solutions.

Oct '26

Conduct additional public engagement process to hear from different types of suppliers and grantees

Nov '26

Finalize report & hold final report share-out session

Dec '26

Begin implementation planning

Jan '27

Do the work!

Engagement Summary

Date	Engagement	Who would most benefit from this session?
Thursday, September 3 *10am – 12 pm*	**LBEAC Presentation**	• LBEs (primarily construction and construction-adjacent and general services)
Wednesday, September 30 *1 – 3 pm*	**In-person community workshop (cross-sector)**	• All supplier types (grantees and contractors)
Tuesday, October 7 *1 - 2:30 pm*	**Nonprofit-focused virtual workshop**	• Nonprofit suppliers
Tuesday, October 27 *3 – 4:30 pm*	**Services-focused virtual workshop**	• General and professional services suppliers
TBD	**Synthesis and findings recap**	• Anyone interested in hearing the final recap

Sign Up Links

In-Person Workshop on September 30

This is the sign-up link.

Professional & General Services-focused Workshop on October 27

Sign up here.

THANK YOU!

We appreciate your time.