



Executive Directive 2007-08
Payment Policies for Construction Contracts
August 29, 2007

The City and County of San Francisco places a high value on having productive and efficient working relationships with vendors under contract to provide goods and services. City residents and vendors alike benefit when the City's contracting processes are fair, efficient, and transparent.

Outdated processes that add needless uncertainty to construction contractors' finances ultimately have a significant cost to the City and its residents. This uncertainty keeps potential contractors from bidding on City projects, reducing competition and increasing costs to the City. Moreover, these barriers undermine San Francisco's longstanding policies designed to encourage small, local businesses to bid on government contracts. The City's processes surrounding payment and financial requirements should be managed to minimize the real and perceived economic uncertainty on construction contractors.

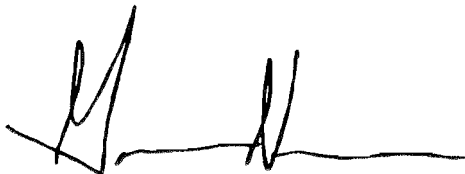
By virtue of the power and authority vested in me by Section 3.100 of the San Francisco Charter to provide administration and oversight of all departments and governmental units in the executive branch of the City and County of San Francisco, I hereby issue this Executive Directive to become effective immediately:

1. **Construction Contract Start-Up.** To facilitate prompt payment, an approved contract must be in place prior to commencement of work. Departments are not authorized to allow contractors to commence work until such a contract has been established.
2. **Payment of Periodic Invoices During Construction.**
 - All City Departments shall make every effort to pay vendors within fifteen (15) business days after receipt of an undisputed invoice for work performed. The Controller will issue prompt payment guidelines to assist City Departments in meeting this timeline.
 - If there is concern about any particular portion of an invoice, the City shall notify the contractor of the concern within seven (7) calendar days after receipt of the invoice. The remainder of the invoice shall be paid within fifteen (15) business days.
 - City Departments shall make every effort to minimize delay of payments. Payments to contracts shall be made in full except for those instances in which essential forms have not been submitted by the contractor, in which case subsequent payments may be withheld until the forms have been submitted.
 - Payments to contractors may be subject to periodic reporting and/or post-audits by the Controller to verify compliance with the timelines in this directive and City codes. The Controller may recommend corrective action for departments that do not meet prompt payment guidelines.

On an annual basis, City Departments with construction contracting authority shall present data to the Mayor, at SFStat or in another forum determined by the Mayor, detailing the number of payments made within fifteen (15) business days and the number of disputed invoices.

3. **Contract Retention.** Departments shall minimize retention to the maximum extent practical within the constraints of Administrative Code Section 6.22(J), except where there are extenuating circumstances.
4. **Advance Payment.** For long-lead items and other special circumstances, City Departments are encouraged to insert contract provisions that allow the City to assist in the payment of materials that have been purchased, stored in bonded facilities but not yet installed. These provisions should limit the financial risk to the City of such payments.
5. **Project Close-Out.** Departments shall minimize the time needed to close out a project and make final payment. On an annual basis, City Departments with construction contracting authority shall present to the Mayor, at SFStat or in another forum determined by the Mayor, data indicating effectiveness in minimizing project close-out times.
6. **Stop Notices.** The Controller shall make an effort to post stop notices online in a timely manner to help provide departments, contractors and subcontractors with prompt information about payment disputes.
7. **Ongoing Analysis of Risk and City Requirements.** The City Administrator, City Attorney and other City entities shall study and present to the Mayor and the Construction Contracting Task Force, within ninety (90) days after the issuance of this directive, policy options or recommendations that address the following questions: In the area of risk analysis, are the City's various construction contracting risk requirements (e.g., contract retention, performance bonds, building risk, workers' compensation, etc.) within industry standards, well-coordinated and appropriately applied? In the area of retention, shall the retention requirements in Administrative Code section 6.22(J) be changed to allow a higher level of flexibility to City Departments?

For questions concerning this Executive Directive, please contact Fred Abadi, Director of Department of Public Works, at 554-6920.



Gavin Newsom
Mayor