



payment procedures

The SCHEDULE of VALUES | Applications for Payment | Certification

Payment Procedures are very important because delays in the processing of payments to the Contractor can cause serious problems to the Project team, and specially to the Contractor.

- The payment procedures need to be in place before the Work starts, approved by the Owner, the Contractor, and the Architect, and well understood among all the team members who will participate in the process.
- Approval of the procedures includes the approval of the forms used, the method of transmitting the documentation, and the processing schedule, including time required by the parties to prepare, review, certify, and respond.
- The milestones and tasks of the payment process should be included in the Project Schedule.

YOU MIGHT NOT BE INVOLVED IN THE REVIEW OF THE SCHEDULE OF VALUES FORMAT, BUT YOU SHOULD HAVE A COPY IF YOU ARE PROCESSING THE APPLICATIONS FOR PAYMENT

The General Conditions of the Contract define the duties of each party regarding the Applications for Payment, the Certificates for Payment, and the progress payments, as well as associated concepts such as Substantial Completion and Final Completion, and occupancy of the Owner of completed portions of the Work.

- Delays in payment to the contractor cause delays or even stop the Work and losses to all involved, included the Owner.
- The Owner and Architect objective is to keep payments in line with the actual value of completed work.

SCHEDULE OF VALUES

- This document allocates to each component of the Work its share in the total cost of the construction. The Contractor is required to submit the Schedule of Values before submitting the first Application for Payment.
- The purpose of this document is to help the Owner and the Architect for evaluate the Applications for payment in relation to the amount of work accomplished.
- For each project, the Contractor and the Owner should decide on the information to be included in the Schedule of Values, the level of detail, and the format, so the Architect and the Owner can substantiate the accuracy of the Applications for Payment.
- The requirement of submitting a Schedule of Values may be omitted if the Owner agrees or in project which are small or have a short duration.

APPLICATIONS FOR PAYMENT

The most important items of the Applications for Payment Form, are:

- The Contractor's Certification that the work covered by the application was performed and
- That all amounts for which prior applications were made were paid.

The AIA documents for Application for Payment are:

- The AIA G702 which is the standard form.
- The AIA G702/CMA to be used when there is a Construction Manager on board that will process the Applications.
- The AIA G703 which is the continuation sheet for both the G702 and the G702/CMA.

Using standard forms is generally more efficient and reduces risk. If the Owner has its own forms, have DR lawyers take a look at them.

Two things to look for:

- **Payments for Materials not Stored on the Project Site** - These should be authorized by the Owner before construction begins.
- **Front end loading:** The Contractor assigns inflated values to operations done early on the Project - this is dangerous because there might not be money enough to pay for operations done late in the Project.

INFORMATION IN THIS MODULE IS TAKEN FROM the AIA MASTERSPEC Evaluation Sheet for Section 012900 - Payment Procedures.

THE PAYMENT PROCESS

Contractor reports on job progress submits Application for payment; Architect reviews and certifies, Owner receives and pays Contractor, Contractor pays subcontractors and everyone else it own money to.

Payments are typically processed every month, except at Substantial Completion and at Final Completion. Payment dates are established in the Agreement.

RETAINAGE

This is a percentage of each progress payment to the Contractor retained by the Owner to make sure that the Contractor will return to complete the Work and that there are enough funds to finish paying for the Work. The percentage of the payment being retained might be diminished as the Work progresses if agreed by the Contractor and the Owner. The amount being retain is documented in the Agreement.

MECHANIC'S LIEN

Is a claim that a contractor, subcontractor, or supplier may place against a property to secure payment for work performed or material supplied. Liens must be settled for an Owner to have clear title to the property. A lien waiver, executed by a contractor or subcontractor, relinquishes the right to place a lien against the property, and is usually tied to a certification that amounts due have been paid. Many owners require a partial release of lien for the amount requested in the Applications for Payment, protecting the Owner against a lien being filed after payment is made.



