



CITY OF HUNTINGTON BEACH

City Council Meeting – Council Member Items Report

To: City Council
From: Casey McKeon, Mayor Pro Tem and Pat Burns, Mayor
Date: April 1, 2025
Subject: **MILESTONE PAYMENT POLICY**

ISSUE STATEMENT

The City's existing practice for contract payments on services, such as on-call service agreements, involves the contractor submitting a monthly invoice within an agreed-upon not-to-exceed compensation, term, and start date. The invoice is then verified for services rendered, and payment is processed. However, not all on-call agreements require monthly payments, and some agreements may follow a fee schedule, including publicly bid Public Works contracts, which are subject to strict bid and fee regulations.

A milestone-based payment policy involves making payments at predefined stages of the project or work specified in the agreement. Each milestone represents a key stage of work that has been completed and approved. By breaking payments down into milestones, both the City and vendors can manage risks more effectively. Key benefits of milestone-based payments include:

1. Reducing Financial Risk: For the City, milestone payments minimize the risk of paying too much upfront for work that may not be completed. For the contractor or service provider, milestone payments ensure compensation as the project progresses, rather than waiting for a lump sum at the end.
2. Ensuring Accountability and Progress: Milestones act as progress checkpoints. Contractors are incentivized to meet specific objectives before receiving payment, encouraging them to stay on schedule and maintain high-quality work.
3. Improving Cash Flow: Milestone payments provide a steady stream of payables and receivables, avoiding the need to wait for a large payment at the project's conclusion.

When entering into contracts for large projects, it is beneficial to include provisions for progress payments tied to specific milestones.

RECOMMENDED ACTION

Direct staff to create a milestone payment policy.

ENVIRONMENTAL STATUS

Not applicable.

STRATEGIC PLAN GOAL

Non Applicable - Administrative Item