

**OREGON DEPARTMENT OF TRANSPORTATION
SMALL BUSINESS GROUP TWICE-MONTHLY PAYMENTS
PILOT PROJECT**

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Summary Report

by

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16. Abstract Oregon Department of Transportation (ODOT) recently completed a pilot study on small business payment practices. In the study, three pilot projects were tested where payments to small business contractors were changed from a monthly payment to twice-monthly payments. It was initially theorized that twice-monthly payments may attract a greater percentage of small businesses. Evaluation of the pilot studies was carried out by Portland State University. The researchers evaluated the economic benefits of twice-monthly payments to small businesses as compared to the costs of processing an added monthly payment. A cursory review of internal practices and efficiencies was also conducted. The following report summarizes and highlights the findings of this research project (a full report is available at: http://www.oregon.gov/ODOT/TD/TP_RES/docs/ TwiceMonthly Payments/ Twice Monthly.pdf).					
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SI* (MODERN METRIC) CONVERSION FACTORS

APPROXIMATE CONVERSIONS TO SI UNITS					APPROXIMATE CONVERSIONS FROM SI UNITS				
Symbol	When You Know	Multiply By	To Find	Symbol	Symbol	When You Know	Multiply By	To Find	Symbol
<u>LENGTH</u>					<u>LENGTH</u>				
in	inches	25.4	millimeters	mm	mm	millimeters	0.039	inches	in
ft	feet	0.305	meters	m	m	meters	3.28	feet	ft
yd	yards	0.914	meters	m	m	meters	1.09	yards	yd
mi	miles	1.61	kilometers	km	km	kilometers	0.621	miles	mi
<u>AREA</u>					<u>AREA</u>				
in ²	square inches	645.2	millimeters squared	mm ²	mm ²	millimeters squared	0.0016	square inches	in ²
ft ²	square feet	0.093	meters squared	m ²	m ²	meters squared	10.764	square feet	ft ²
yd ²	square yards	0.836	meters squared	m ²	m ²	meters squared	1.196	square yards	yd ²
ac	acres	0.405	hectares	ha	ha	hectares	2.47	acres	ac
mi ²	square miles	2.59	kilometers squared	km ²	km ²	kilometers squared	0.386	square miles	mi ²
<u>VOLUME</u>					<u>VOLUME</u>				
fl oz	fluid ounces	29.57	milliliters	ml	ml	milliliters	0.034	fluid ounces	fl oz
gal	gallons	3.785	liters	L	L	liters	0.264	gallons	gal
ft ³	cubic feet	0.028	meters cubed	m ³	m ³	meters cubed	35.315	cubic feet	ft ³
yd ³	cubic yards	0.765	meters cubed	m ³	m ³	meters cubed	1.308	cubic yards	yd ³
NOTE: Volumes greater than 1000 L shall be shown in m ³ .									
<u>MASS</u>					<u>MASS</u>				
oz	ounces	28.35	grams	g	g	grams	0.035	ounces	oz
lb	pounds	0.454	kilograms	kg	kg	kilograms	2.205	pounds	lb
T	short tons (2000 lb)	0.907	megagrams	Mg	Mg	megagrams	1.102	short tons (2000 lb)	T
<u>TEMPERATURE (exact)</u>					<u>TEMPERATURE (exact)</u>				
°F	Fahrenheit	(F-32)/1.8	Celsius	°C	°C	Celsius	1.8C+32	Fahrenheit	°F

*SI is the symbol for the International System of Measurement

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Oregon Department of Transportation - Small Business Group
Twice-Monthly Contractor Payments
Pilot Project Summary

The Small Business Group (SBG), an advisory body to the Oregon Department of Transportation (ODOT), suggested that ODOT consider a change in its payment policy to contractors, paying twice a month instead of monthly. The SBG anticipated that small businesses might be more willing to participate in ODOT construction projects with twice-monthly payments as this could potentially ease cash flow problems, common to many of the small businesses ODOT contracts with.

ODOT agreed to a small scale test of twice-monthly payments to gauge both the magnitude of internal costs and the reaction of small business contractors to the change. The project began by selecting three construction projects; chosen for project staff willingness to track the internal costs and accept the additional workload associated with the bimonthly payments. These three projects were:

<u>Contract</u>	<u>Description</u>	<u>Date Let</u>	<u>Cost</u>
13367	District #1 Signal Upgrade	4/26/07	\$ 1,271,814
13370	US 26: Langersand Rd-Cherryville Dr.	5/10/07	\$ 1,374,704
13385	Kellog Creek-MP 9.19	6/14/07	\$ 5,414,975

The Center for Urban Studies at Portland State University (PSU) expressed interest in conducting the study and was awarded the contract. As per the agreement, ODOT provided the internal time and cost estimates for the project expenses and PSU staff designed, carried out and wrote a report for the evaluative study.

PSU identified two basic research questions:

1. Are ODOT's additional costs for the twice monthly payment less than the economic benefit to the contractors, or less than any benefit that might be derived from added interest in ODOT road construction projects?
2. Are there internal efficiencies that ODOT could pursue that would result in benefits similar to those provided by the twice-monthly payment?"

Toward this end, PSU staff developed a set of survey questions. The 12 to 17 question surveys were tailored to the history of the company bidding on the pilot projects:

- Companies who had not bid on the pilot projects;
- Pilot project bidders who were not selected;
- Successful pilot project bidders working on the projects as prime contractors; and
- Successful pilot project bidders working on the projects as sub-contractors.

The survey questions specifically asked about:

- The nature, size, and ownership of the company;
- The products and/or services offered by the company;
- The successes the company previously had bidding on ODOT contracts;
- The importance of twice-monthly payments to the company;
- The hours of work the company spends per billing to ODOT;
- Improvements needed in the ODOT bidding process.

PSU sent surveys to 279 companies offering services directly related to ODOT construction projects. PSU received 91 completed surveys.

Results:

- Current ODOT contractors are mixed in their attitude about twice-monthly payments. Those who were successful bidders were less enthusiastic about the twice-monthly payments than non-winners. Neither group gave a rating above a neutral five, on a ten point scale.
- None of the contract winners indicated any monetary gain as a result of the twice monthly payments. Further, none of the subcontractors reported a receipt of the second monthly payment. This probably reflects the short term or fixed price nature of some of the work.
- The reported time needed to complete the request for payments under the twice-monthly system is greater by one to two hours than under the current once a month system.
- All bidders indicated that they would have bid on the pilot projects even if it had not included the twice-monthly payment clause.
- The survey results indicate that bimonthly payments do generate added interest from specific sectors of contractors who had not previously bid on ODOT contracts. This would indicate that twice-monthly payments could bring in additional bidders and thereby reduce the cost of construction projects over a longer period. However, the survey also revealed resistance due to other concerns in the contracting process.

Recommendations:

The additional cost to ODOT to process twice-monthly payments is not inconsequential. For the estimated 180 projects annually with an average duration of six months, it would cost ODOT between \$216,000 and \$669,600 to process the additional pay payments. Because of fiduciary and public trust considerations, there does not appear to be a substantial net positive economic benefit associated with the twice-monthly payment system.

Of greater importance on the scale of contractor's payment concerns are late payments and missed quantity payments. Given these concerns, there exists the possibility for ODOT to meet the needs of the contractors by enhancing some existing programs and examining internal procedures. Two existing programs, Bid Express (electronic bidding) and the Small Business Road Construction Program, have the potential to deal with a number of the concerns expressed by small and Disadvantaged Business Enterprises (DBE).

Bid Express, which went state wide in June 2007, allows firms to bid on ODOT projects electronically, reducing the contractor's paper work and time spent on the bid process. For ODOT, Bid Express may reduce some of its cost for handling and storing paper bids.

The continued development of the Small Business Road Construction Program, which allows small businesses and DBE's to bid on projects worth \$100,000 or less, should meet the need expressed for "smaller projects." It should also help small businesses and DBE's develop the experience and skills necessary to successfully compete with larger more experienced contractors for more sizable road construction projects.

Improved operational efficiencies resulting from Bid Express, a reduction in paper work, improved consistency in the payment processes and access to smaller sized projects are believed to be better approaches to meeting the needs of small businesses and DBE's.

While the value of the twice-monthly payments does not appear to out-weigh the additional cost, twice monthly-payments are a worthy goal. In the long run, it would add value to ODOT's customers if only because it could reduce issues associated with the inevitable missed or disputed quantities and delayed payments. If ODOT can reduce costs associated with the second Pay Period, twice-monthly payments should be revisited.

Additionally, the report makes three recommendations for internal changes ODOT should consider to the contracting process:

1. ODOT should reexamine its payment procedures to ensure that they are efficient and do not contain unnecessary paper work, or steps. This review should examine ways to ensure that contractors are given the opportunity to review Pay Notes prior to submission.
2. ODOT should examine contractor bonding and insurance requirements and tailor them to contract size and reduce potentially needless burdens on small businesses and DBE's.
3. ODOT should reexamine its road construction project marketing. Some non ODOT bidders are confused on where to go and who to talk to for information about road construction projects. A more tailored or targeted marketing strategy may bring more bidders into the process.

A full report on this project is available on the Oregon Department of Transportation website at: http://www.oregon.gov/ODOT/TD/TP_RES/docs/TwiceMonthly Payments/Twice_Monthly.pdf.