

2025 NATIONAL TRAINING INSTITUTE



A Way To Improve Prompt Payments

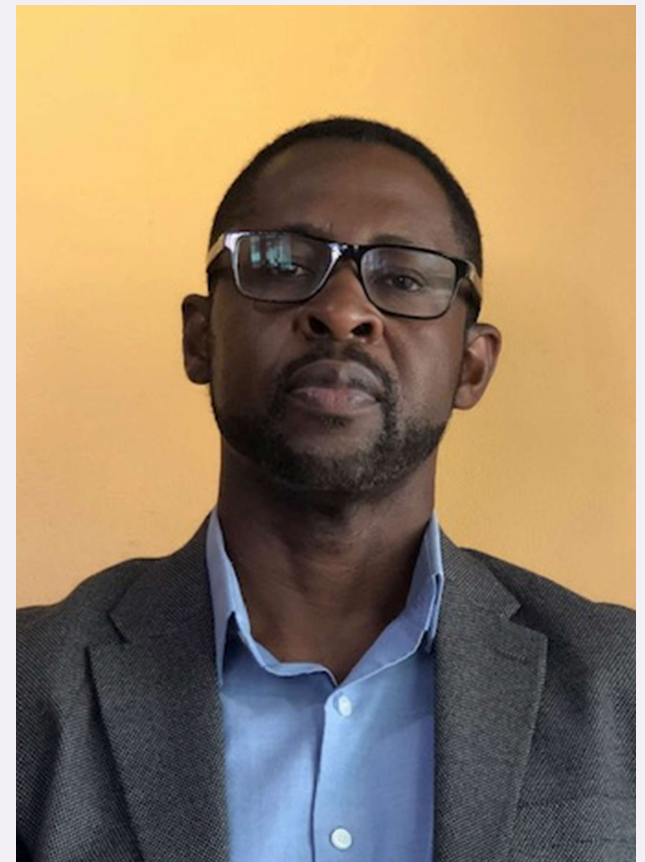
Building Trust and Transparency Through Innovation

Meet the Team



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Overview

Project Bank Accounts

- Current Practices and Impacts
- Introduction to PBAs
- PBA Benefits and Challenges
- Setting Up a PBA
- Practices for Managing PBAs
- Q & A / Discussion



Objectives

- Exchange of experiences and regional practices with prompt payment
- Sample contract language for payments
- What are PBAs and how they work
- Explore the benefits and challenges of PBAs in the U.S. context
- Learn practical steps to implement and manage PBAs
- Share real-world examples and best practices

The Prompt Payment Problem(s)

- Outdated payment method
- Cash flow pressure and bankruptcy
- Lack of transparency
- Contractors delaying payments to preserve their own cash flow or earned interest
- Non-payment is often not until discovered much later
- 2024 DBE Program Rule Change to proactively monitor prompt payments ([49 CFR 26.29\(d\)](#))



What are Public Agencies/Owners Doing?

Hennepin County: Favorable payment terms for SBEs

Sheltered market programs <\$500k (as per HC-modified AIA A201, section 9)

- SBE GCs **may** submit pay apps on a bi-weekly basis
- SBE GCs **must** notify subs that they can:
 - Submit bi-weekly pay apps
 - request early payment for materials & equipment not installed but purchased
- SBE GCs **may not** withhold retainage from SBE Subs for materials & equipment not installed but purchased

Projects >\$500K (as per HC-modified AIA A201, Section 9.3.1.9)

- GCs **must** permit SBE subs to request early payment for materials & equipment not installed but purchased
- GCs **may** not withhold retainage for materials & equipment not installed but purchased from SBE subs

Sample Payment Terms 1

Payment terms from HC-modified AIA A201 (for Small Construction Roster Program – contracts <\$500k)

§9.3.1.9 contractor is permitted to submit an application for payment on a bi-weekly basis. Additionally, Contractor shall:

- a) review such Application for Payment and include the total uncontested amount stated therein in Application for Payment to Owner, without retaining against the materials and equipment portion of requested amount;
- b) submit Applications for Payment to the Owner on a bi-weekly basis;
- c) notify SBE Subcontractors that they may submit the following on a bi-weekly basis:
 - 1) Applications for Payment that include the cost for materials and equipment purchases, but not yet installed, if such materials and equipment were included in a submittal approved by Owner and are included in an executed purchase order with a supplier;
 - 2) Submittals covering materials and equipment, for Owner's review and approval;
- d) Make payment within ten (10) days to an SBE Subcontractor after receipt of payment for Owner of the uncontested amount stated in the SBE Subcontractor's Application for Payment.



Sample Payment Terms 2

Payment terms from HC-modified AIA A201 (General Conditions) for contracts >\$500K

§ 9.3.1.9 The Contractor will permit CERT-certified Subcontractors, as defined herein, to submit an Application for Payment for which Contractor shall:

1. review such Application for Payment and include the total uncontested amount stated therein in an Application for Payment to Owner, without retaining against the materials and equipment portion of such requested amount; and
2. notify CERT certified Subcontractors that they may include in an Application for Payment the cost for materials and equipment purchased, but not yet installed, if such materials and equipment were included in a submittal approved by Owner and are included in an executed purchase order with a supplier. “CERT certified Subcontractor” means a Subcontractor certified as a Small Business Enterprise (SBE) by the Central Certification Program (“CERT”).

What is Your Local Agency Doing?



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70%

of contractors face payment delays

50%

*of contractors adjust their bids upward
due to anticipated delays*

~8%

*is the average markup on bids
to guard against slow payments*

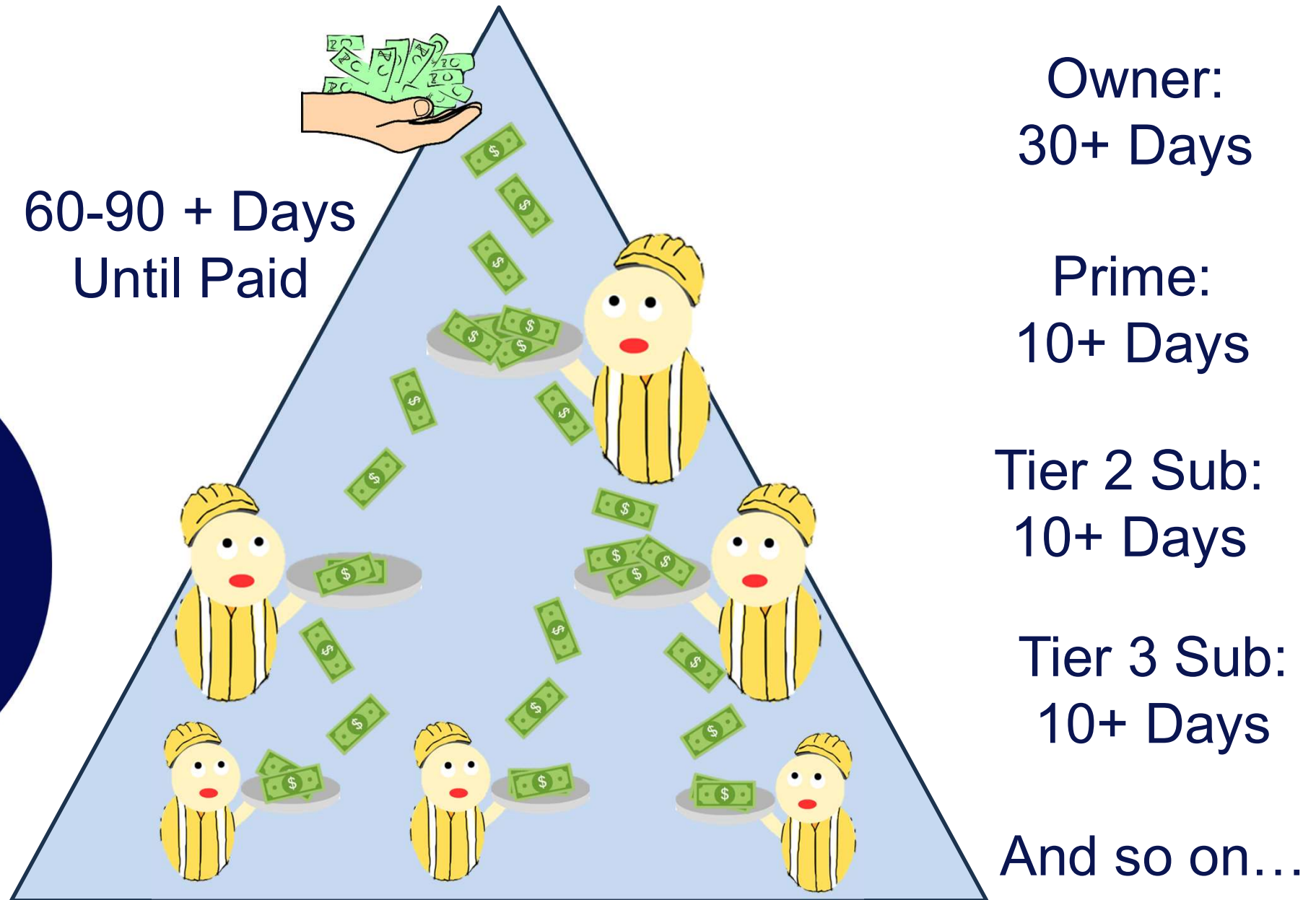
[Source: <https://www.businesswire.com/news/home/20250521182315/en/Constructions-Cash-Crunch-70-of-Contractors-Say-Payment-Delays-Threaten-Industry>]

What is a Project Bank Account (PBA)?

- Project Bank Account: A ring-fenced trust account used to hold project funds
- Agreed upon and set up with a bank at the start of a project
- Owned by the: “Prime” or “Prime and Owner”
- Authorized payments are deposited by the owner and paid to all contractors simultaneously

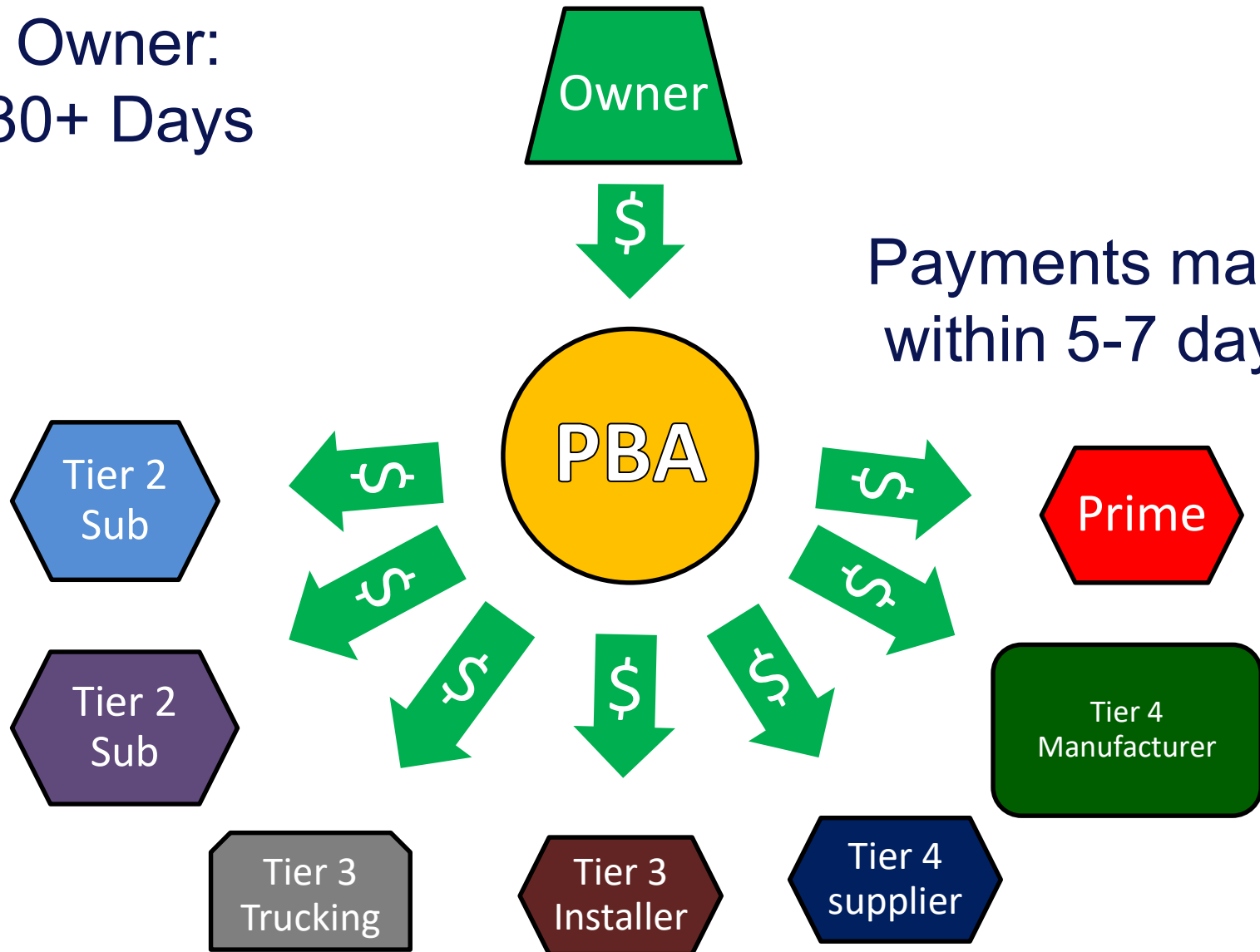


Traditional Construction Payment Cycle

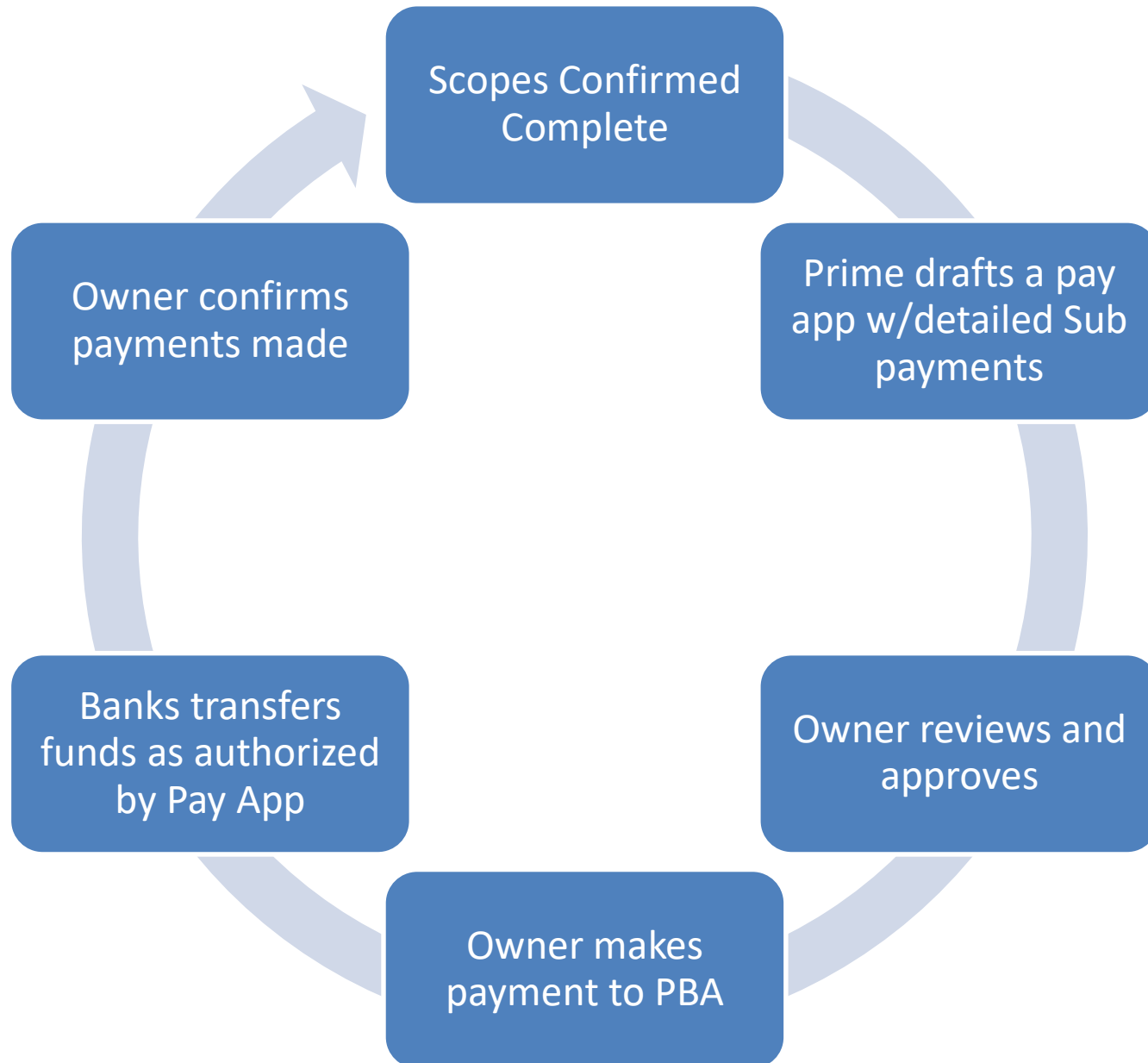


PBA Payment Process

Owner:
30+ Days



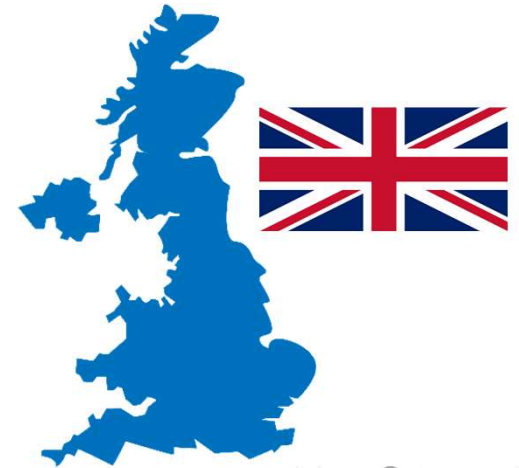
How does a PBA work



International Examples

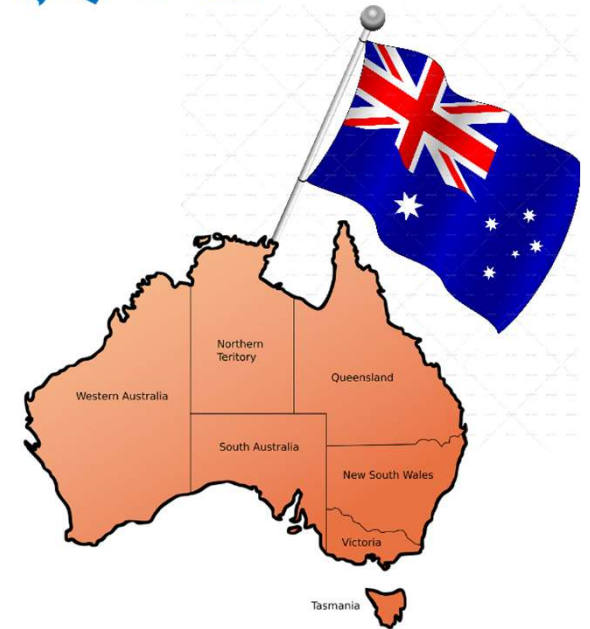
United Kingdom:

- Piloted in 2010 for highway projects
- Mandated in 2013 for public projects over \$5M
- 2016 – Today, PBAs are used on major infrastructure projects



Australia:

- Piloted in 2014
- Mandated in 2016 for Queensland government projects
- 2021 – Today, New South Wales and Western Australia begin piloting PBAs



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\$280B

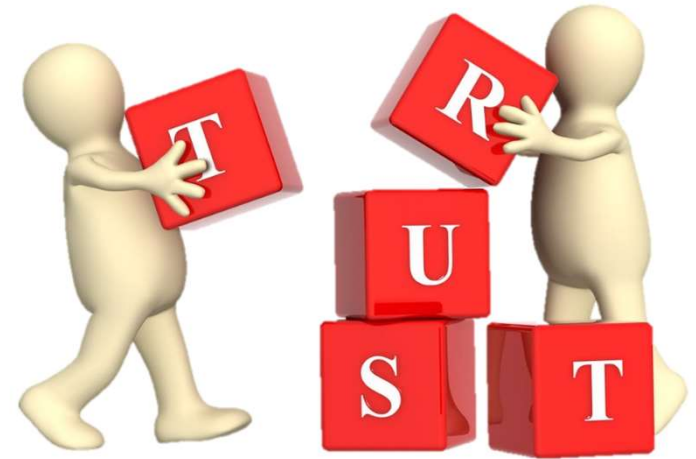
*Projected cost of slow payments to the US
Construction Industry in 2024
(based on an estimated spend of \$2 trillion)*

[source: <https://rabbet.com/reports/construction-payments-2024>]

Benefits of PBAs

Key Advantages

- Timely and secure payments
- Transparency
- Easier to audit payments
- Cost savings
- Reduced risk of bankruptcy and delays from non-payment
- Strengthens relationships and trust in project teams
- Your money, your project



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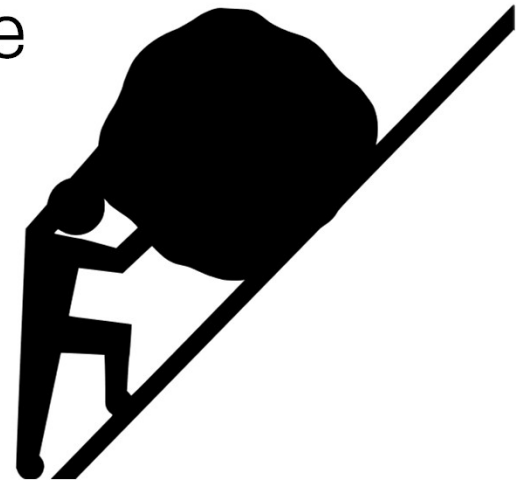


Benefits for Stakeholders

Stakeholder	Benefit
Owners	Greater transparency, improved reputation
Primes	Smoother cash flow, fewer legal issues and project delays
Subcontractors	Faster, reliable payment
Suppliers	Less exposure to contractor insolvency

Challenges for PBAs in the U.S.

- Fragmented Legal Landscape
- Banking system unfamiliar with PBAs
- Construction industry resistance to change
- Contractual and administrative challenges
- No Government Mandate or Incentive



Sharing: Our experience with engaging stakeholders in MN

Overcoming Challenges

- Education and stakeholder engagement
- Government pilot programs or incentives
- Leveraging established banking relationships
- Standardized PBA contract templates
- Use of digital platforms to manage PBA workflows
 - Future Financial technology development



92%

*of GCs had work delayed or stopped
due to slow payments to crews*

[source: <https://rabbet.com/reports/construction-payments-2024>]

Planning to Start a PBA

- Is the contract/project appropriate for a PBA?
- Decide who will be the Trustee of the PBA: Sole (Prime) or Joint (Prime/Owner) account?
- Is there a suitable bank to work with?
- Communicate and educate the internal stakeholders
- Outreach about PBAs to potential bidders/contractors



What Projects are best for PBAs

Project/Contract Characteristics

1. Lasting longer than 6 months
2. Valued at \$3 million or more net
 - Excluding insurance, taxes, & other costs
3. Has 2 or more tiers of subcontractors/suppliers
 - Subcontractor has a contract value of at least 1% of the net contract value



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The Roles within a PBA

Trustee(s) – the party responsible for managing the PBA for the benefit of named subcontractors “beneficiaries” and has authority to trigger payments

- Sole (Prime) – Owner still retains “read only” access
- Joint (Prime/Owner) – both signatures required to trigger payment

Beneficiaries - the Prime and any subcontractor who will be paid from the PBA.

- Any supplier involved in the project can be a Beneficiary, regardless of tier
- Subcontractors can “opt out” of the PBA



Choosing a Suitable Bank

What are banks required to do:

- Follow the Trust Deed agreement
- Not alter the operation of the trust deed or PBA
- Make bank transactions viewable to the Owner
- Ensure all payments are paid at the same time
- Payments only made to Beneficiaries (Prime and subs)
- Funds can not be used to offset any other contractor/supply chain liabilities

Banks in the US are familiar with trust and escrow accounts

Some states already have construction trust fund statutes to facilitate a PBA (not a mandate to have a PBA).

Internal Processes and Documents

- Review for compliance with applicable laws and requirements
- Incorporate template PBA contract language/forms
- Develop a communication plan for internal/external stakeholders
- Include Key Performance Indicators (KPIs) with contract management processes

Key Documents

1. The Trust Deed
2. Joining Deed
3. Bank Mandate
4. Account Opening Forms



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Outreach to External Stakeholders

Beyond just educating the potential bidders (primes and subcontractors) about PBAs

- Prepare resource packets for the Prime to use when engaging potential bidders
- Ensure that the use of a PBA on a project is communicated well in advance
- Updating your organization websites
- Engage the banks
- Engage the small business organizations
- Provide samples of the standard template documents for them to review

£17 billion

*the cumulative value of highway projects having used PBAs for payments by Highways England through 2025
(~\$22.7 Billion USD)*

[source: <https://constructingexcellence.org.uk/research-shows-project-bank-accounts-making-inroads-into-construction-payment-abuse/>]



Lessons Learned

From Hennepin County's perspective:

Increased small business participation

County reputation improved

From UK and Australia PBAs:

- Ensuring that Primes communicate a project will use a PBA to all potential subcontractors
- Document reasons why a subcontractor is “opting out” of a PBA
- Maximize the supply chain coverage
- Establish Key Performance Indicators (KPIs)

14%

The average discount a contractor would give if provided with timely payments.

Summary

[Source: <https://www.businesswire.com/news/home/20250521182315/en/Constructions-Cash-Crunch-70-of-Contractors-Say-Payment-Delays-Threaten-Industry>]



Summary & Key Takeaways

- PBAs foster trust, reduce disputes, and improve financial outcomes
- Implementation requires planning, stakeholder buy-in, and legal support
- U.S. construction sector can benefit from tested global models



“The rising tide lifts all boats.”

~ An aphorism made famous by John F. Kennedy



Resources and Further Reading

- [Hennepin County Contracting Opportunities and Programs](#)
- [Guidelines for deploying Welsh Government project bank account](#)
- Australian PBAs – Government Resources
 - [Government of Western Australia: PBA for Contractors](#)
 - [Government of Western Australia Public Transport Authority: PBA forms and documents](#)
- Information on Construction Trust Fund States in the US:
<https://nacmsts.com/construction-trust-fund-states/>
- Contact Jon Tao for additional resource PDF documents
 - The “Knotty” guide – A 12 Easy Step Guide to Setting Up a Project Bank Account in Wales
 - Sample Joint Contracts Tribunal (JCT) Project Bank Account documents for Wales



Q&A / Discussion

- What barriers might exist in your region or organization?
- Are there projects that could pilot a PBA approach?
- Would your region or agency contractors benefit from this?



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