

Practice Update

California Construction's New Era: Comply with Mandatory Dispute Resolution Process or Risk a Work Stoppage

January 15, 2026

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Beginning January 1, 2026, California has a new mandatory statutory procedure governing private construction disputes, and failure to comply may give contractors the right to suspend work without penalty. The new law provides a step-by-step procedure and defined timelines that both owners and contractors must follow when disputes arise, including submission of a formal claim and participation in an informal conference and mediation. The change appears to be part of a continued effort by California to protect contractors and their cashflow by aligning the private construction industry dispute process with the established procedures used for public industry projects. While the new process is intended to promote early resolution and avoid costly litigation, the process contains procedural pitfalls that project owners must carefully navigate. Missteps may unintentionally entitle a contractor to stop work.

Legislative Rationale

The California legislature made four general findings supporting enactment of *Civil Code* § 8850:

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- all construction work that is complete and not in dispute should be paid in full and in a timely manner;
- delays in payment impose significant financial hardships on contractors, especially small, disadvantaged, and disabled enterprises;
- a lack of clear procedures for resolving disputes in contracts often leads to costly litigation; and
- prompt payment promotes economic stability within the construction industry.

Step-by-Step Dispute Resolution Process

The new procedures apply to any “Claim,” generally defined as a demand made by a contractor for: (a) a time extension or relief from delay damages or liquidated damages; (b) payment from the owner arising from work done under a contract but for which payment is not already addressed in the contract (change orders); or (c) payment of an amount disputed by the owner.

Key Steps and Timelines

1. Owner’s Response:

Upon receiving a Claim, the owner has **30 days** to provide a written response identifying what portion of the Claim is disputed and what portion is undisputed. Any undisputed amount must be paid by the owner within **60 days** of such response. If an owner fails to respond to a Claim within this time period, it will be deemed denied, but importantly this does not constitute an adverse finding with regard to the merits of the Claim.

2. Informal Conference:

If the owner fails to respond within 30 days, or if the contractor disputes the owner’s written response, the contractor may demand an informal meet-and-confer conference. The *owner* must then schedule such conference within **30 days** of receipt of the

demand. Within **10 business days** of the conference, if any portion of the Claim remains in dispute, the *owner* must provide a written statement identifying any disputed/undisputed portions. Any undisputed amount must be paid by the owner within **60 days** of such written statement.

3. Mediation:

If any dispute remains over the Claim after the informal conference, the Claim must be submitted to non-binding mediation, with both parties sharing the costs. The parties must agree on a mediator within **10 business days** after the owner's written statement of dispute. Importantly, if the parties cannot agree on a mediator, the *contractor* selects the mediator.

4. Contractual or Legal Dispute Resolution:

If mediation is unsuccessful, the Claim must follow the dispute resolution procedures in the parties' contract. If no such procedures exist in the contract, then generally the Claim will be heard via litigation as required by law.

Contractor's Right to Suspend Work

Importantly, if the owner fails to timely comply with any of the steps outlined in the law, the contractor has the right, after sending a 10-day written notice of intent to stop the work, to suspend the work, without penalty, until payment is received.

Interest Penalties

Beyond the right to stop work, any undisputed portions that are not timely paid are subject to interest at 2% per month. Disputed amounts later found to be owed will also be subject to interest at 2% per month beginning on the date those amounts would have been due if they were not disputed.

Opt-Out and Waiver Provisions

Parties cannot opt out of the requirements of *Civil Code* § 8850 in advance. After receipt of a Claim, the parties may agree to waive the informal conference and mediation provisions and proceed directly to the dispute resolution process provided in the parties' contract. Parties can also agree to supplemental Claims and dispute resolution provisions in their contract, provided that they do not impair the timeframes and procedures in the statute.

Scope and Applicability

The new procedures only apply to contracts entered into after January 1, 2026. The law does not apply to contracts entered into prior to that date. It also does not apply to residential projects that are not mixed use and do not exceed four stories.

Applicability to Subcontractors

The process detailed above does not directly relate to Claims by subcontractors that implicate the owner. However, a subcontractor that lacks privity of contract with the owner may request that the contractor assert the Claim on its behalf. The contractor has **30 days** to notify the subcontractor either that it submitted the Claim, or provide the reasons why it declined to do so. The subcontractor must approve of any settlement of that Claim between the contractor and owner.

Conclusion and Practical Guidance

Owners must diligently follow the procedures set forth in *Civil Code* § 8850, or risk having their contractors stop work. From an owner's perspective, this requires more administrative oversight and, in some respects, limits the amount an owner can withhold from a non-performing contractor. Taken in conjunction with California's new retention act (*Civil Code* § 8811 — explained [here](#)), owners will have less overall leverage to ensure that contractors properly and timely complete their work. Owners, developers, and all parties involved in construction

should therefore maintain detailed records of project deadlines and strict compliance with these new statutory procedures.

Akerman's Construction Practice is available to help you navigate this transition by evaluating your current practices, updating contract language to ensure compliance with this new statute, and helping to resolve any disputes that may arise under the statute.

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