

March 29, 2022

The Honorable Shane E. Pendergrass
Chair, House Health and Government Operations Committee
241 House Office Building
Annapolis, MD 21401

Re: Letter of Information – Senate Bill 250 – State and Local Procurement – Payment Practices

Dear Chair Pendergrass and Committee Members:

The Maryland Department of Transportation (MDOT) takes no position on Senate Bill 250 but offers the following information for the Committee's consideration. Senate Bill 250, as amended, requires the State to pay 9% interest on any invoices not paid within 30 days, requires a report from the Department of Legislative Services on certain invoice payment-related statistics, and requires a report from the Department of Information Technology, in consultation with several State agencies including MDOT, to prepare a report on certain aspects of payment processing systems.

The bill retains the current invoice payment period of 30 days but continues to mandate payment of interest on late invoices. The bill self-imposes a higher standard on the State than exists in the market and will result in increased costs to the State for interest payments. It is unclear why the State would require itself to pay interest on late invoices if that is not required by the vendor's normal billing practices.

For example, the billing practice of many companies is to provide a grace period after a bill due date and then a late payment fee will be applied. That fee is typically a fixed dollar amount or an interest charge of 5% or less. An alternative solution may be for State law to permit businesses to charge the State a late fee in accordance with the contract terms and/or the company's standard billing practices if payment time exceeds 30 days. **To require the payment of 9% interest beginning on the day after the bill due date is not in the best interest of the State if, for example, the business provides its customers a 5-day grace period and charges 3% interest.**

Additionally, the bill states that the 30-day payment clock begins upon receipt of an invoice; however, there are no requirements for that invoice to be an acceptable invoice that meets all submission requirements or to address amounts in dispute. Amounts in dispute may include goods or services that were not received or did not meet specifications. Senate Bill 250 reduces the State's ability to ensure that the goods and services provided meet all contractual requirements.

In Section 3 of Senate Bill 250, a report is required regarding certain payment processing systems. Please note that the current version of the bill contains conflicting information about the due date of that report.

The Maryland Department of Transportation respectfully requests the Committee consider this information when deliberating Senate Bill 250.

Respectfully submitted,

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