

FAVORABLE SUPPORT OF HB 747/ SB933

State and Local Procurement- Payment Practices

Dear Chair Pendergrass, and Members of the Health and Governmental Operations Committee

House Bill 747 proposes to alter the current procurement payment policy from 30 days to 15 days.

As a certified small business owner in Maryland, would provide a much needed component to small, disadvantaged, and minority business participation and growth in our state. My business would certainly be significantly impacted in a positive way by the proposed change in payment terms. In addition to being an MDOT Certified MBE/SBE/DBE we are also CATS + Master Contractors as of 2019 and have been looking forward providing services to the State of Maryland.

Building An Economic Eco-system In Which Smaller Businesses Thrive:

The State and Local Procurement-Payment Practices provides a vital component needed to provide a foundation for economic growth, stability and vitality that has been challenging for smaller businesses to fully participate in. The component that is missing is consistent, stable, predictable, cash flow. It is well documented and understood that putting money in the hands of people stimulates the economy. But when you put money into the hands of Business Owners and Entrepreneurs you generate jobs, income, and taxes and it is these things that keep a state going.

Shlomo Maital, an MIT managerial professor, has written, “The health and wealth of a large number of individual businesses — small, medium, and large — determine the economic health and wealth of a nation. It is business that creates wealth, not countries or governments. It is business that decides how well or poorly we are.”

In the current environment of CASH APP, PayPal, Zelle, and EFT's, waiting for payment on average of 45-65 days (and sometimes as far out as 90 days) is truly a hardship, a liability and a potential death knell for smaller businesses. Although the State of Maryland procurement rules provide for payment in 30 days, that is typically not the norm. It is well known among the business community that doing work for the state means being paid no sooner than 45-65 days as the norm. However, those payments can easily stretch out to 90 days and sometimes as far out as 120 days. This is simply unsustainable for a small business. Being paid in this manner keeps our businesses in a cycle of unprofitability, and the inability to be competitive in our own state, where we *should* be able to realize the most success.

The Impact of Net 30 Payment on Smaller Businesses:

Slow or delayed payments of any kind causes severe hardship on smaller businesses, which is one reason why many smaller businesses bypass contracting with the State of Maryland altogether. Many of my colleagues abandon Maryland for Washington DC and the Federal Government.

While doing business with the State of Maryland offers significant opportunity, and our MDOT Certification program is the gold standard for the nation with over 7,000 firms registered, only a very small fraction of those firms are actually doing business with Maryland! Additionally, Maryland has the Small Business Reserve program that has been specifically designed for small business to participate as prime contractors with the state. A major problem is the wait time to actually receive payment.

As I evaluate which opportunities to pursue, I must consider the entire capture to payment cycle for any opportunity that arises. As a small business, waiting for payment (even 30 days) can negate the potential positives of any opportunity. The simple truth is that by the time a business actually receives payment in a Net 30 payment system, the costs incurred to deliver those products and services have been escalating, and that escalation can easily negate any potential profit, push us into the red on a contract/project, or simply put us out of business. I have heard many stories from previous business owners to this effect, and narrowly escaped that same fate myself with a Maryland county school system.

The current understanding or advice is that smaller businesses should get loans or lines of credit to cover the lag time between service/product delivery and payment. While it is important businesses build a strong financial infrastructure, we must understand that money costs money. In order to finance a project/contract up front, smaller businesses must borrow, typically at higher (and sometimes exorbitant) interest rates, and often we have to absorb that expense because we are operating in an environment of lowest price bids and contracts “most advantageous to the state”. Most smaller businesses like mine, are working on razor thin margins already, so this added expense decreases profitability or erases it completely, leaving little to no capital to invest back into the business. Many times, we are pushed into “factoring” invoices. Having to resort to this type of financing as a smaller business makes it extremely difficult if not impossible to grow.

As alluded to earlier, we are operating in a climate in which it is often the lowest bid that wins, which means businesses that are located in Maryland can end up being less competitive than out of state businesses. In other jurisdictions and in the Federal Government Net 15 Payment is often the rule and not the exception. So, when we are bidding against other companies that are not located in the State of Maryland, but they have access to capital more rapidly because they are being paid in Net 15 versus Net 30, those businesses enjoy lower costs giving them an advantage. Their labor rates and mark ups will be less because their costs of doing business are less translating into lower prices, higher profitability, and more flexibility in their bid price. And, even though they will be paid by the State of Maryland in Net 30, they can offset the payment lag with payments from other jurisdictions - **Not high cost financing.**

Additionally, there are many unintended and unseen consequences for small businesses in the Net 30 payment system - which is actually closer to 45+ days. As we attempt to grow our small businesses, we face the reality of delaying payments to subcontractors, Independent Contractors, vendors, and suppliers. These are relationships (often hard won relationships) that are harmed as we are forced to explain that their payments are delayed because we are waiting on payment. Trade credit is ruined as many suppliers will cancel accounts after 45 days of non-payment. Oh, and their credit terms start when they invoice us...not when we are able to invoice the state. Business credit (and many times personal credit) is ruined as late payments are reported to Dunn & Bradstreet (which of course just increases the cost of financing in the future). Small

Businesses are often left carrying payroll and other expenses 60 - 90 - 120 days once work is completed. Many of these obstacles become insurmountable and eventually take their toll on the business and it simply may not recover.

The accelerated “Net 15” payment provision will benefit my business in the following ways:

- Provides a vital component required for the growth and stability of my business
- Increases capacity to perform more work in the state where my company is headquartered
- Increases competitiveness in the bidding process against out of state businesses
- Increases profitability due to the reduced cost of contract/project financing (Not higher prices.)
- Increases ability to invest back into my business
- Increases my ability to hire more employees and pay a livable wage
- Provides ability to establish stronger business credit and financial relationships
- Increases purchasing power
- Increases the potential for survival and longevity

Since small business accounts for 80% of employment in Maryland, making this one change will stimulate both hiring and spending having a positive effect on our economy. This is the type of action that builds an economic eco-system that is crucial to developing, maintaining, and sustaining a robust economic engine.

We have a Small Business Reserve Program, a Minority Business Enterprise Program, tons of outreach programs, and Ready Set Grow Training Session. They are all well run, and beneficial, but none of these programs will have the impact that receiving payment in 15 days will have in building a climate where entrepreneurs can succeed. Many of those outreaches include an “Access to Capital” component, and yes, access to capital is important to business growth. I would say that having access to our “earned” capital in 15 days or sooner is *critical* to our small businesses in State of Maryland.

The State of Maryland is “Open for Business” and I would like to participate.

Thus, I urge a favorable report on Senate Bill 442/House Bill 313.

Respectfully,

Harris Floyd
Principal/Owner
202.256.1045
www.easy-av.com

