
March 3, 2020

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

Re: Letter of Information – House Bill 747 – State and Local Procurement – Payment Practices

Dear Chair Pendergrass and Committee Members:

The Maryland Department of Transportation (MDOT) takes no position on House Bill 747 but offers the following information for the Committee's consideration.

House Bill 747 reduces the amount of time from 30 to 15 days that State agencies have to pay invoices, reduces the amount of time from 45 to 15 days for which an invoice can be outstanding before interest is charged, and requires the State to proactively pay 9 percent interest on bills unpaid after 15 days, rather than requiring the contractor to bill for interest.

Together, MDOT and the Maryland Transportation Authority (MDTA) pay approximately 125,000 invoices each year (excluding more than 180,000 customer payments and refunds that the MDOT Motor Vehicle Administration processes each year). Once invoices are approved for payment, they are transmitted to the Comptroller's General Accounting Division (GAD) for payment. The interface between the State's and MDOT's accounting system may take up to two days, and the GAD requires five days to make payment on approved invoices. Under House Bill 747, this seven-day payment processing time effectively reduces the number of days allowed for invoice review from fifteen days to eight days. This eight-day turnaround time includes weekends and holidays, and could be as little as four days. Often, the verification work for ensuring a payment should be remitted involves field work. Field personnel that are responsible for verifying the work that was billed was completed, are often visiting job sites and may not be in the office several days.

A 30-day payment period is common in the payment industry. Processing invoices within only 15 days is not achievable for some types of invoices. Rushing through invoices to meet the 15-day deadline could lead to billing errors not being identified and corrected, or significant interest penalties specified in the legislation if the State fails to meet the 15-day processing deadline.

A 15-day payment processing period may be achievable for invoices for standard monthly payments like utilities and rent but would be challenging for more complex invoices like consultant and construction invoices. Consultant and construction invoices are often higher dollar value invoices (\$1,000,000+) and may be hundreds of pages long; they may involve complex contracts with a variety of contract terms, line items, unit costs for materials; they may

The Honorable Shane E. Pendergrass
Page Two

involve payroll rosters that must be verified against the invoice; they may contain multiple task orders that need to be reviewed by multiple task order/project managers; and finally, they typically bill for millions of dollars in one invoice. Trying to rush payment of these large invoices may result in less thorough review, which could result in the State failing to identify billing errors and incorrectly paying erroneous billing charges.

Lastly, under House Bill 747, if the 15-day payment processing time is not met, interest charges of 9 percent will accrue. This is a very high interest rate in today's market. An interest rate of 9 percent on a multi-million dollar invoice will add up quickly. The bill also requires the State to proactively pay interest on invoices that are outstanding for more than 15 days. Currently, the State is only required to pay interest if a contractor bills for it and certain conditions are met. Under House Bill 747, the incidence and amount of interest payments will increase.

The Maryland Department of Transportation respectfully requests the Committee consider this information when deliberating House Bill 747.

Respectfully submitted,

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