



Larry Hogan
Governor
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Lt. Governor
James F. Ports, Jr.
Secretary

March 29, 2022

The Honorable Guy Guzzone
Chairman, Senate Budget and Taxation Committee
3 West Miller Senate Office Building
Annapolis, MD 21401

Re: Letter of Information – House Bill 325 – State and Local Procurement – Payment Practices

Dear Chairman Guzzone and Committee Members:

The Maryland Department of Transportation (MDOT) takes no position on House Bill 325 but offers the following information for the Committee's consideration.

House Bill 325, as amended, requires the State to pay 9% interest on any invoices not paid within 37 days and requires a report from the Department of Legislative Services on certain invoice payment-related statistics.

The bill retains the current invoice payment period of 30 days but continues to mandate payment of interest on late invoices after a 7-day grace period. 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 if the invoice is unpaid after 37 days is not in the best interest of the State if, for example, the business provides its customers a 15-day grace period and charges only 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 meet 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. House Bill 325 reduces the State's ability to ensure that the goods and services meet all contractual requirements.

The Maryland Department of Transportation respectfully requests the Committee consider this information when deliberating House Bill 325.

Respectfully submitted,

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