



Wes Moore
Governor
Aruna Miller
Lieutenant Governor
Paul J. Wiedefeld
Acting Secretary

March 6, 2023

The Honorable Joseline A. Pena-Melnyk
Chair, House Health and Government Operations Committee
House Office Building, Room 241
Annapolis MD 21401

RE: Letter of Opposition – House Bill 1154 – State Procurement – Payment Practices

Dear Chair Pena-Melnyk and Committee Members:

The Maryland Department of Transportation (MDOT) respectfully opposes House Bill 1154 due to the significant interest costs that the State will incur unnecessarily.

House Bill 1154 reduces the amount of time from 30 to 15 days that State agencies have to pay invoices and reduces the amount of time from 45 to 15 days for which an invoice can be outstanding before interest is charged. Beginning on the 16th day after payment was due, interest will begin to accrue at a rate of 9 percent per year.

The bill states that the 30-day payment clock begins upon receipt of an invoice; however, there are no requirements for the invoice to be an acceptable invoice that meets all submission requirements. The bill also does not address for amounts that may be in dispute, such as goods or services that were not received or did not meet specifications. House Bill 1154 reduces the State's ability to effectively manage contracts by ensuring that goods and services meet all contractual requirements before payment is made.

A 30-day payment period is common in the payment industry. MDOT strives to make payments on all invoices as quickly as possible but reducing the invoice review time to 15 days is not achievable for complex invoices. It also does not take into account State holidays or weekends, which further reduces the time available to pay invoices. Rushing to pay invoices may result in billing errors that are not identified and corrected, which may cost taxpayers millions of dollars.

In December 2022, the Department of Legislative Services (DLS) issued a report on vendor payments, in accordance with Chapters 157 and 158 of 2022, that found that the incidence of late payments to vendors has generally increased over the past few years. Statewide, in 2022, approximately 75,000 payments totaling nearly \$1.2 billion were paid late. Key reasons cited by DLS based on a survey of State agencies include staffing shortages, an outdated financial management system, the COVID-19 pandemic, and a cybersecurity breach. Reducing the amount of days that State agencies have to process payments before addressing these issues will exacerbate an already significant problem and the late payment interest requirement will cost the State tens, if not hundreds, of millions of dollars.

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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). Whether the invoice is a one-page monthly utility bill or a consulting or construction invoice that is hundreds of pages long and is seeking payment of tens of millions of dollars, every invoice requires verification to ensure that billed amounts agree with work completed, that the rates charged on the invoice agree with the rates established in the contract, that all required supporting documentation is present and agrees to the invoice, and that there is sufficient funding remaining on the contract or purchase order. In addition, multiple project or task managers may need to review the invoice if the monthly billing includes multiple projects or tasks on the same invoice.

For these reasons, the Maryland Department of Transportation respectfully requests the Committee grant House Bill 1154 an unfavorable report.

Respectfully submitted,

Jaclyn Hartman
Chief Financial Officer
Maryland Department of Transportation
410-865-1035

Pilar Helm
Director of Government Affairs
Maryland Department of Transportation
410-865-1090