



HOUSE GOVERNMENT, LABOR, AND ELECTIONS COMMITTEE
House Bill 1336
Procurement Contracts and Construction Contracts: Payments
March 6, 2026
Information

Chair Wells, Vice Chair Kerr and members of the committee, thank you for the opportunity to offer testimony on House Bill 1336. House Bill 1336 proposes to extend Maryland's existing prompt payment requirements to local government owners and further revises the timelines, notifications, and interest provisions that govern payments to contractors and subcontractors. As introduced, the bill would require payment within 30 days of receiving a proper invoice – 15 days for Small Business Reserve contracts – and mandates that if any portion of a payment is withheld, the procuring entity must provide written notice within a set timeframe explaining the reasons for the withholding. It also establishes an interest rate of 2% per month on unpaid amounts and authorizes contractors to suspend work if payment has not been made after proper notice.

The University System of Maryland (USM) is comprised of twelve distinguished institutions, and three regional centers. These institutions are located throughout the state, from western Maryland to the Eastern Shore, with the flagship campus in the Washington suburbs. The USM includes three Historically Black Universities, comprehensive institutions and research universities, and the country's largest public online institution.

Efforts to improve the construction payment process are appreciated, but House Bill 1336 presents several practical concerns regarding how its structure may unintentionally impose operational strain on public entities – especially the institutions that comprise the USM. In addition, the bill could have an impact on complex non-construction projects such as large IT implementations that can include milestone payments and result in a dispute over the quality of work that was completed (or not) as the case may be.

First, the bill compresses payment timelines without offering relief for the structural complexities that state and local agencies face in disbursing funds. A mandatory 30-day window – and for some contracts, just 15 days – does not account for the layers of review, verification, and processing that must occur to ensure fiscal accuracy and compliance. These shortened deadlines could place agencies in a position where meeting the statutory requirement is extremely difficult. 15 days is generally reasonable time to notify the vendor of improper invoicing or any other reason payment /partial payment would be withheld or delayed with respect to general goods and services contracts.

Second, granting contractors the ability to stop work after 14 days of nonpayment introduces a significant project-delivery risk. Even with the best intentions, delays can occur for reasons outside an agency's control, and the possibility of work stoppage after such a short interval could disrupt essential operations and increase project costs. Other states also have a carve out where the penalty does not apply for payments that are being disputed. The biggest risk is the threat to suspend work which contractually may also be a trigger for mobilization fees and cause for project delays which has a cascading impact on completion and ultimately liquidated damages for missing key milestone dates.

Third, the bill's "2% per month interest rate" – effectively 24% annually – is unusually high for public-sector procurement and could have unintended fiscal consequences. Because even conscientious delays would trigger steep interest charges, agencies may be forced to factor potential penalties into contract pricing, ultimately increasing overall project costs.

Finally, the USM is concerned about the potential for misuse. The bill's framework, although well-intentioned, may inadvertently encourage some actors to dispute charges or leverage the threat of interest accrual and work suspension to their advantage, placing public agencies at a disadvantage even when acting in good faith.

The USM supports more balanced changes to improve predictability for contractors while also recognizing the operational realities and fiduciary responsibilities of USM institutions.

Thank you for the opportunity to provide this information regarding House Bill 1336.

