

**SUBJECT:** Retaining interest requirements on local government contracts

**COMMITTEE:** Business and Industry — favorable, without amendment

**VOTE:** 9 ayes — Brimer, Rhodes, Corte, Dukes, Elkins, Giddings, Janek, Solomons, Woolley  
0 nays

**WITNESSES:** None

**BACKGROUND :** The Government Code specifies that governmental entities, including local governments, must make payment to contractors within specified time periods. Overdue payments incur interest. Political subdivisions must compute and remit any interest due along with the payment, and may not require the contractor to petition, bill, or wait an additional day for the interest due.

**DIGEST:** HB 2506 would prohibit political subdivisions from requiring vendors or subcontractors to waive their right to interest on overdue payments.  
  
The bill would apply only to contracts entered into on or after its effective date.

**SUPPORTERS SAY:** HB 2506 would provide important economic protections to vendors and subcontractors negotiating with cities and county governments. Because of the keen competition for municipal contracts, local governments often enjoy a substantial bargaining advantage over vendors. In some cases, these entities have used this leverage to pressure vendors into waiving or surrendering their right to collect interest on overdue payments.  
  
This bill would prevent local governments from using their position of economic advantage to unfairly force vendors and subcontractors to surrender monies that they rightfully deserve by law. Political subdivisions should not be allowed to avoid the consequences of operating in a free-market economy; if they fail to make contractual payments in a timely manner, they should be obliged to pay the added economic costs just as a private business entity would have to do under similar circumstances.

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HB 2506 would ensure that vendors doing business with a city would be able to enjoy the full benefit of their bargain, so long as they properly performed their part of the contractual agreement. It would help preserve the integrity of the contract bidding and granting process, since vendors would not have to waive statutory rights in order to win or retain a city or county contracts.

The bill also would provide added incentive for cities and counties to pay vendors and contractors on time, since there would be a certainty that they would have to pay interest on any late payments made. In this way, it could also help prevent cash-flow problems that could result when a local government failed to make contractual payments on time.

OPPONENTS  
SAY:

No apparent opposition.