

Payment Due

A payment by a governmental entity, including a college district, under a contract executed on or after September 1, 1987, is overdue on the 31st day after the later of the date the governmental entity receives the goods under the contract, the date the performance of service under the contract is completed, or the date the governmental entity receives the invoice for the goods or service. However, a payment under a contract executed on or after September 1, 1993, owed by a political subdivision whose governing body meets only once a month or less frequently is overdue on the 46th day after the later event of those described above. The renewal, amendment, or extension of a contract executed on or before September 1, 1993, is considered to be the execution of a new contract. *Gov't Code 2251.021*

Interest

A payment begins to accrue interest on the date the payment becomes overdue. The rate of interest that accrues on an overdue payment is the rate in effect on September 1 of the fiscal year in which the payment becomes overdue. The rate in effect on September 1 is equal to the sum of one percent and the prime rate as published in the Wall Street Journal on the first day of July of the preceding fiscal year that does not fall on a Saturday or Sunday.

Interest on an overdue payment stops accruing on the date the governmental entity or vendor mails or electronically transmits the payment.

The unpaid balance of a partial payment made within the prescribed period accrues interest, unless the balance is in dispute.

Gov't Code 2251.025(a)–(c), .029(a)

A political subdivision, including a college district, shall compute interest imposed on the political subdivision under Government Code Chapter 2251. The political subdivision shall pay the interest at the time payment is made on the principal. The political subdivision shall submit the interest payment with the net amount due for the goods or service. The political subdivision may not require a vendor to petition, bill, or wait an additional day to receive the interest due. The political subdivision may not require a vendor or subcontractor to agree to waive the vendor's or subcontractor's right to interest under Chapter 2251 as a condition of the contract between the parties. *Gov't Code 2251.027*

Early Payment Discount

The intent of the legislature is that a governmental entity should take advantage of an offer for an early payment discount. A governmental entity may not take an early payment discount a vendor offers unless the governmental entity makes a full payment within the discount period. If a governmental entity takes an early payment

discount later, the unpaid balance accrues interest beginning on the date the discount offer expires. *Gov't Code 2251.030(a)–(c)*

Exceptions

Except as provided by Government Code Chapter 2251, Subchapter D [see ALTERNATE VENDOR REMEDY FOR NONPAYMENT OF CONTRACT, below], Government Code Chapter 2251, Subchapter B [see PAYMENT DUE, INTEREST, and EARLY PAYMENT DISCOUNT, above] does not apply to a payment made by a governmental entity, including a college district, a vendor, or a subcontractor if:

1. There is a bona fide dispute between the political subdivision and a vendor, contractor, subcontractor, or supplier concerning the goods delivered or the service performed that causes the payment to be late;
2. There is a bona fide dispute between a vendor and a subcontractor or between a subcontractor and its supplier about the goods delivered or the service performed that causes the payment to be late;
3. The terms of a federal contract, grant, regulation, or statute prevent the governmental entity from making a timely payment with federal funds; or
4. The invoice is not mailed to the person to whom it is addressed in strict accordance with any instruction on the purchase order relating to the payment.

Gov't Code 2251.002(a)

**Alternate Vendor
Remedy for
Nonpayment of
Contract**

A vendor may suspend performance required under a contract with a governmental entity, including a college district, if the governmental entity does not pay the vendor an undisputed amount within the time limits provided above and the vendor gives the governmental entity written notice informing the governmental entity that payment has not been received and stating the intent of the vendor to suspend performance for nonpayment.

The vendor may not suspend performance before the later of the tenth day after the date the vendor gives the notice.

A vendor who suspends performance is not:

1. Required to supply further labor, services, or materials until the vendor is paid the amount provided for under Government Code Chapter 2251, plus costs for demobilization and remobilization; or

2. Responsible for damages resulting from suspending work if the governmental entity with which the vendor has the contract has not notified the vendor in writing before performance is suspended that payment has been made or that a bona fide dispute for payment exists.

A notification under item 2 that a bona fide dispute for payment exists must include a list of the specific reasons for nonpayment. If a reason specified is that labor, services, or materials provided by the vendor or the vendor's subcontractor are not provided in compliance with the contract, the vendor is entitled to a reasonable opportunity to cure the noncompliance of the listed items or offer a reasonable amount to compensate for listed items for which non-compliance cannot be promptly cured.

Gov't Code 2251.051

Disputed Payment

A governmental entity shall notify a vendor of an error in an invoice submitted for payment by the vendor not later than the 21st day after the date the entity receives the invoice. If a dispute is resolved in favor of the vendor, the vendor is entitled to receive interest on the unpaid balance of the invoice submitted by the vendor beginning on the date that the payment for the invoice is overdue. If a dispute is resolved in favor of the governmental entity, the vendor shall submit a corrected invoice that must be paid within 30 days of receipt. The unpaid balance accrues interest if the corrected invoice is not paid by the appropriate date. *Gov't Code 2251.042*