

SUBJECT: Electronic funds transfers for paying state vendors

COMMITTEE: State Affairs — favorable, without amendment

VOTE: 13 ayes — Wolens, S. Turner, Alvarado, Brimer, Carter, Counts, Danburg, Hunter, D. Jones, Longoria, McCall, Ramsay, Stiles

0 nays

2 absent — Craddick, Hilbert

WITNESSES: For — None

Against — None

On — Andrea Cowan and Kenny McLeskey, Comptroller's Office

DIGEST: HB 1209 would, effective September 1, 1998, amend the Government Code to require the Comptroller's Office to use electronic funds transfers (ETF) in making payments to vendors contracting with state agencies. The bill would expressly provide that no exemptions from this requirement would be allowed because of claims that EFT was impractical or more costly than paper warrants.

The comptroller could make direct payments to vendors that had contracted through the General Services Commission for goods or services to state agencies, and could bundle payments for more than once invoice or from more than one state agency to the same vendor. In addition, the comptroller could allow or require a state agency to schedule payments to a vendor and would prescribe the circumstances under which advance scheduling of payments would be allowed or required. The comptroller would have to require advance scheduling of payments when it would be advantageous to the state.

Vendors could be required to provide account information to the comptroller, if needed.

Effective September 1, 1999, HB 1209 would repeal a current provision that

a vendor must petition agencies within six months to claim any interest due because of a late payment. Under the bill, the comptroller would compute the interest owed because of the late payment and pay the interest at the same time it made payment on the principal. Neither the comptroller nor the agency could require a vendor to petition or wait an extra day for the interest due. The comptroller could require necessary and timely information to make such payments and could adopt necessary rules. This change would apply to any interest due on a payment that became overdue on or after September 1, 1999.

**SUPPORTERS
SAY:**

HB 1209 would streamline payment procedures for vendors doing business with the state government and save the state time and money in processing invoices.

The Comptroller's Office already has authority to use EFT for vendors that voluntarily request state payment by this method. However, very few vendors take advantage of this program. In fiscal 1995, the comptroller issued almost 7.6 million payments for goods, services, refunds, and travel reimbursements. Only 580,000 — about 8 percent — of these payments were paid via EFT.

In the latest Texas Performance Review report *Disturbing the Peace*, the comptroller recommended that the Legislature require payment of vendors via EFT. Under mandate from the Balanced Budget Downpayment Act of 1996, the federal government began using EFT payments for all its outgoing transactions. As of July 1996, all new recipients of federal government payments had to begin accepting electronic payments. After January 1999, all payments to individuals and businesses with bank accounts will have to be made via EFT, with waivers being available for businesses that have a hardship or some circumstance that prevents them from utilizing EFT.

EFT is safer, more reliable, and less expensive than using paper checks. It helps reduce such crimes as mail theft and check forgery, prevents lost and damaged checks, saves money on postage and check production cost, and cuts losses by reducing late-payment interest. Vendors would benefit from EFT as well. The National Automated Clearing House Association has estimated that private companies save about \$10 for each payment received by EFT rather than by check.

HB 1209 also would provide more efficiencies in the payment process. The Comptroller's Office usually does not now pay a vendor directly when issuing a paper check. Instead, the office issues a check, which is forwarded to the state agency for mailing. If the comptroller could pay vendors directly and promptly through EFT, vendors would be more likely to do business with the state and would pass along savings in the form of lower prices for goods and services.

In fiscal 1995, Texas agencies paid more than \$43,000 in penalty interest. The fiscal note to HB 1209 showed that for fiscal 1998-99, the prompt payment of vendors would save almost \$1.4 million from general revenue related funds and more than \$3 million from other funds. Reduced mail costs should save \$180,288 from general revenue and \$401,290 from other funds.

HB 1092 would help the state take advantage of prompt-pay discounts offered by many vendors. The Uniform State Accounting System can already schedule payments for a future date, although this feature is not used by many agencies. After the initial cost to update the USAS, savings to the state for fiscal 1999 would be more than \$1 million.

Since the state sometimes pays a single vendor hundreds of warrants each month, allowing the comptroller to bundle payments would greatly reduce the volume of payments issued and EFT transactions made each year.

There may be some initial difficulty for some financial institutions receiving payment records, or addenda records, that must accompany EFT payments. These records provide necessary information for a vendor to determine what any one payment is for. However, banks have a real incentive for reducing the number of checks they process because each check payment converted to an electronic one saves a bank 80 cents in processing costs. Also, the Comptroller's Office could assist banks during the transition period by providing services to make the payment records for each EFT available.

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OPPONENTS
SAY:

HB 1209 should include some provision for businesses that are unable to use EFT. The federal government offers waivers to businesses for hardships or other circumstances that prevent them from utilizing EFT and so should Texas.