

BUDGET LETTER

SUBJECT: LATE PAYMENT PENALTY INTEREST RATES	NUMBER: 07-13
REFERENCES: GOVERNMENT CODE SECTIONS 926.19 AND 927 ET SEQ.; STATE ADMINISTRATIVE MANUAL SECTIONS 8474 ET SEQ.	DATE ISSUED: July 27, 2007
	SUPERSEDES: BL 06-19

TO: Agency Secretaries
Department Directors
Departmental Budget Officers
Departmental Accounting Officers
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE

This Budget Letter (BL) advises state departments of the current penalty rates and the penalty interest factors per day for late payment penalties. It also serves as an update to the State Administrative Manual (SAM) Sections 8474 et seq. to include late payment penalties to *specific* grantees, as required by Chapter 861, Statutes of 2006 (AB 2541), effective January 1, 2007.

Those grants that are subject to this Chapter are defined as, "a signed final agreement between any state agency and a local government agency or organization authorized to accept grant funding for victim services or prevention programs administered by any state agency." Late payment penalties due a local government grantee will be calculated at the rate due other businesses; late payment penalties due other grantees will be calculated at the rate due small businesses and nonprofit organizations.

The Government Code (GC) requires different penalty rates for late payments of:

- A. Invoices from small businesses or nonprofit organizations for goods/services, and invoices/claims from nongovernmental agency grantees, for those grants as defined above.
- B. Invoices from other businesses for goods/services, and invoices/claims from governmental agency grantees, for those grants as defined above.
- C. Other amounts due.

The California Prompt Payment Act (Act), GC Section 927 et seq., requires state departments to automatically calculate and pay the appropriate late payment penalties if they fail to pay properly submitted, undisputed invoices or claims on the date required by the contract or grant. The Act applies to invoices for goods and/or services acquired by state departments and specific grant claims. *Late payment penalties subject to this section accrue on amounts due during Budget impasse, with the exception of amounts due to nonprofit public benefit corporations.*

The GC Section 926.19 requires state departments to pay interest on other types of undisputed payments such as refunds, unless otherwise provided for in statute. Interest is due 31 days after the department notifies the person or the person notifies the department of the payment. *Late payment penalties subject to this section do not accrue during Budget impasse.*

Late payment penalties incurred after July 1, 2007 are subject to the following rates:

	Penalty Interest Rate Per Annum	Penalty Interest Factor Per Day
GC Section 927 et seq.		
A. Small businesses and nonprofit organizations (This rate <i>does not</i> change annually, GC 927.6a)	91.25%	0.0025

B. Other businesses, including local governments that administer specific grants (This rate changes annually, GC 927.6b)	6.121%	0.0001677
USE THIS RATE WHEN CALCULATING CAL-Card LATE FEES		

GC Section 926.19

A. Undisputed payments (e.g., refunds) (This rate changes annually)	4.121%	0.0001129
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Late payment penalties incurred during fiscal year 2006-07 are subject to the following rates:

	Penalty Interest Rate Per Annum	Penalty Interest Factor Per Day
GC Section 927 et seq.		
Other businesses, including local governments that administer specific grants (This rate changes annually, GC 927.6b.)	4.873%	0.0001335
GC 926.19		
Undisputed payments (e.g., refunds) (This rate changes annually.)	2.873%	0.0000787

To arrive at the daily penalty, multiply the amount due by the applicable penalty interest factor per day, as shown. The daily penalty is then multiplied by the number of days the payment is late to calculate the total penalty amount.

For additional information, please refer to the State Administrative Manual Sections 8474 et seq. and the Department of Finance, Fiscal Systems and Consulting Unit (FSCU) website:
http://www.dof.ca.gov/FISA/FSCU/fscu_FAQs.htm.

If you have questions regarding this BL or other fiscal year rates, please contact the FSCU Hotline at (916) 324-0385 or e-mail FSCUHotline@dof.ca.gov.

/s/ Veronica Chung-Ng

Veronica Chung-Ng
Program Budget Manager