



AGENDA REPORT

TO: Jestin D. Johnson
City Administrator

FROM: Erin Roseman
Finance Director

SUBJECT: Prompt Payment Penalties

DATE: June 10, 2024

City Administrator Approval


Jestin Johnson (Jun 27, 2024 21:09 PDT)

Date: Jun 27, 2024

RECOMMENDATION

Staff Recommends That The City Council Receive An Informational Report On Prompt Payment Interest Penalties Paid To City Vendors And Grantees Pursuant To The Prompt Payment Ordinance.

EXECUTIVE SUMMARY

This report was prepared in response to a request from the Finance & Management Committee on May 14, 2024. The City is required under Chapter 2.06 of the Oakland Municipal Code (*Prompt Payment*) to compensate local vendors and grantees who do not receive payment, for undisputed invoices, within 20 business days of receipt by the City. The calculation of the penalties is performed in the City's financial system at the time the payment is issued.

BACKGROUND / LEGISLATIVE HISTORY

Council [Ordinance No. 12857 C.M.S.](#) was established on January 15, 2008, and codified as Chapter 2.06 of the Oakland Municipal Code (OMC). The purpose of the Prompt Payment Ordinance is to establish policies and procedures to assure that local vendors receive prompt payment and to increase local business contracting opportunities with the City of Oakland.

On November 19, 2014, Council [Ordinance 13269 C.M.S.](#) amended OMC Chapter 2.06 to expand eligibility for this program to local grant recipients.

ANALYSIS AND POLICY ALTERNATIVES

OMC 2.06 establishes an interest penalty on valid invoices that remain unpaid for more than 20 business days, which is equivalent to a 30 calendar day month in the Oracle Financial System. The penalty is calculated at an interest rate of 10% annually and paid monthly. Thus, the interest compounds at each 30-day period. Interest calculation is automated and is applied to invoices from Oakland vendors and grantees when payments on valid invoices have not been completed within 30 calendar days.

Finance & Management Committee
July 9, 2024

Payment of prompt payment penalty interest is a relatively rare occurrence. As shown in **Table 1**, approximately one-half of one percent (0.5%) of all payments made by the City over the past five years included prompt payment interest.

Table 1: Five-Year History of Prompt Payment Penalties

| | Fiscal Year | | | | | Total |
|-----------------------------------------|-------------|--------|--------|--------|----------------------|---------|
| | 2020 | 2021* | 2022 | 2023 | 2024 year-to-date | |
| Number of interest payments | 88 | 1 | 167 | 344 | 127 | 727 |
| Total number of payments | 32,319 | 27,993 | 27,712 | 27,543 | 24,778 | 140,345 |
| Payments with interest penalties | 0.3% | 0.0% | 0.6% | 1.2% | 0.5% | 0.5% |

**Prompt payment was suspended during COVID emergency.*

The failure to pay invoices on a timely basis can stem from many reasons but is most typically a result of staffing challenges or inefficient approval processes. Many operating departments continue to experience high vacancy rates, particularly for fiscal staff, resulting in higher workloads. Once valid invoices are submitted for payment to the Accounts Payable Unit of the Finance Department, they are typically paid within one week.

The presentation of this report supports the Citywide priority **of responsive, trustworthy government**. It provides information on all prompt payment penalties made over the past five years and provides assurance to policymakers and the members of the public that these payments are compliant with the OMC 2.06.

FISCAL IMPACT

As shown in **Table 2**, the financial impact of prompt payment penalties, while substantial, is small relative to total City payments of nearly \$350 million over a five-year period.

Table 2: Five-Year Financial Impacts of Prompt Payment Penalties

| | Fiscal Year | | | | | Total |
|--------------------------------------|--------------|--------------|--------------|--------------|-------------------|---------------|
| | 2020 | 2021* | 2022 | 2023 | 2024 year-to-date | |
| Interest payments | \$10,839 | \$1 | \$56,804 | \$111,323 | \$33,811 | \$212,778 |
| Total payments | \$70,963,230 | \$77,519,723 | \$85,385,347 | \$93,135,971 | \$21,540,037 | \$348,544,308 |
| Payments with interest penalties (%) | 0.02% | 0.00% | 0.06% | 0.12% | 0.16% | 0.1% |
| Average interest payment | \$123.17 | \$1.42 | \$340.14 | \$323.61 | \$266.23 | \$292.68 |

*Prompt payment suspended during COVID emergency

Expenses for prompt payment penalties represented approximately one-tenth of one percent (0.1%) of all payment expenses over this period. The average prompt payment penalty was just under \$300.

Most City departments were responsible for less than \$10,000 in prompt payment interest over this five-year period. Departments with total interest payments in excess of this threshold are presented in **Table 3** and tended to be the departments with substantial overall payment activity. A five-year history of prompt payment penalties for all departments and vendors is included as **Attachment A**.

Table 3: Five-Year Financial Impacts of Prompt Payment Penalties by Major Department

| | Fiscal Year | | | | | Total |
|-----------------------------------------------|-------------|-------|----------|----------|-------------------|----------|
| | 2020 | 2021* | 2022 | 2023 | 2024 year-to-date | |
| Human Services Department | \$2,753 | | \$35,162 | \$41,035 | \$9,650 | \$91,964 |
| Planning and Building Department | \$168 | | \$12,050 | \$26,449 | \$517 | \$39,332 |
| Economic and Workforce Development Department | | | \$2,936 | \$14,561 | \$10,193 | \$27,739 |
| Capital Improvement Projects | \$3,071 | | \$324 | \$2,775 | \$5,096 | \$14,423 |
| Oakland Public Works Department | \$1,135 | | \$743 | \$5,026 | \$2,357 | \$10,158 |

*Prompt payment suspended during COVID emergency

PUBLIC OUTREACH / INTEREST

No outreach was deemed necessary for the proposed policy action beyond the standard City Council agenda noticing procedures because this report is for informational purposes only.

COORDINATION

This report was prepared by the Controller's Bureau.

SUSTAINABLE OPPORTUNITIES

Economic: There are no direct economic issues associated with this informational report.

Environmental: There are no direct environmental opportunities associated with this informational report.

Race & Equity: This report supports the City's equity goals through documentation of payments made to local Oakland vendors and grantees that provide services to the City. OMC 2.06 seeks to assure that local Oakland vendors and grantees are paid promptly and establishes a mechanism for their additional compensation when this does not occur. This report documents the payment of such additional compensation.

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That The City Council Receive An Informational Report On Prompt Payment Interest Penalties Paid To City Vendors And Grantees Pursuant To The Prompt Payment Ordinance.

For questions regarding this report, please contact STEPHEN WALSH, CONTROLLER, at 510-238-4906.

Respectfully submitted,



Erin Roseman (Jun 26, 2024 09:22 PDT)

ERIN ROSEMAN
Finance Director
Finance Department

Prepared by:
Stephen Walsh
Controller
Controller's Bureau

Attachments (1):

Attachment A: Five-Year History of Prompt Payment Penalties by Department and Vendor