45A.137 Definitions for section -- Required contract provisions -- Terms for undisputed and disputed invoices -- Interest penalty -- Secretary to promulgate administrative regulations -- Payment resolution process -- Required reporting.

(1) As used in this section:

(a) "Purchasing agency" means a unit or body of state government that receives goods or services from a contractor or vendor; and

(b) "Undisputed amount" means a good-faith, valid, accurate, and timely request for payment that has been submitted to an entity owing money, and for which the entity has reviewed and confirmed that the money is due and owing.

(2) All contracts shall include but not be limited to the following provisions for:

(a) Timely payments in accordance with KRS 45.451;

(b) Penalties for nonpayment. Payments that are not timely received shall be subject to a penalty:

1. In accordance with KRS 45.454, and except as provided in KRS 371.405, an interest penalty of one percent (1%) shall be applied and added to any undisputed amount for each month or fraction thereof after thirty (30) business days following the receipt of the goods or services, or receipt of the invoice by the purchasing agency; or

2. In accordance with the payment terms of the contract;

(c) Addressing partial payment. Partial payment terms shall be included to:

1. Allow disbursement of partial payment for undisputed amounts in the invoice or an agreed-upon payment process for goods received or services performed that are not rejected or deficient; or

2. Not allow disbursement of partial payment for goods received or services performed that are not rejected or deficient;

(d) A payment process for the disbursement of funds. When invoices are utilized for payment, terms shall be included for the invoice requirements, including form, format, delivery, necessary information, supporting documentation, and communication and notification procedures for complete invoices. For deliverables-based contracts, terms shall be included to establish milestones that shall be fully met before payment;

(e) A payment schedule that may include an initial disbursement of funds upon execution of the contract for project initiation; and

(f) A payment resolution process in accordance with subsection (7)(c) of this section.

(3) Any undisputed amount shall be paid:

(a) Within thirty (30) business days of receipt of the goods, services, or contractor's invoice; or

(b) In accordance with the negotiated payment terms of the contract.

(4) (a) The purchasing agency shall make a good-faith effort of notifying the contractor or vendor that an invoice has been rejected, of any errors in an

invoice, or any requirement of additional or missing information in an invoice within fifteen (15) business days from receipt of the goods, services, or invoice, or in accordance with the terms of the contract.

(b) 1. If the purchasing agency transmits a rejection notice to the contractor or vendor, there shall be a ten (10) calendar day correction period for the contractor or vendor to remedy any problems in the delivery of a good or service or submit a corrected invoice to fulfill the approval requirements. Utilization of the ten (10) calendar day correction period shall not create a new date of submission or receipt for all items included in the invoice or terms of the contract and shall not be considered a new invoice for calculation of the late payment fee pursuant to KRS 45.454.

2. If a contractor or vendor fails to remedy the problem with the good or service, or fails to submit a corrected invoice within the ten (10) calendar day correction period, the submitted invoice shall be considered a new invoice with a new date of submission for calculation of the late payment fee pursuant to KRS 45.454.

(5) In accordance with KRS 45.458, the interest penalty shall be paid by the purchasing agency and the amount of the payments shall not be deducted from the contract budget, and modifications shall not be made to the budget of the contract, the total award of the contract, funds encumbered or obligated for the contract, or total amount available to fulfill the contract agreement as awarded by the contracting agency.

(6) If a contractor or vendor has not received payment within thirty (30) business days for an undisputed amount and has executed a loan, line of credit, revolving credit, or other financial instrument in order to fulfill the obligations and continue performance of the contract, the contractor or vendor may recover from the purchasing agency the interest and costs of credit borne until the date payment has been issued.

(7) The secretary shall promulgate administrative regulations in accordance with KRS Chapter 13A relating to contract payments no later than October 1, 2026, to implement this section. The administrative regulations shall include:

(a) Procedures for correcting an invoice submission error when the purchasing agency does not reject the goods or services received;

(b) Procedures for partial payment of invoices by a purchasing agency for portions of an invoice; and

(c) A payment resolution process to resolve late payment claims by contractors or vendors that includes but is not limited to:

1. That a contractor may notify the purchasing agency the payment is overdue and information to include when a payment has not been received within the thirty (30) day period after receipt of an invoice;

2. The method and manner payment disputes shall be submitted to the purchasing agency for resolution by the secretary;

3. Information required to be included when a contractor or vendor submits

an administrative payment dispute;

4. The time period by which the purchasing agency shall submit a response to the secretary and contractor or vendor, not to exceed ten (10) days;

5. The time period for the secretary to issue a determination or written notice not to exceed thirty (30) days from submission of a payment dispute; and

6. The requirement for the purchasing agency to issue payment within five (5) business days from when the determination or written notice establishes the total payment due. The secretary may grant an extension to pay upon receipt of a joint request between the contractor and purchasing agency.

(8) The Finance and Administration Cabinet shall make the payment resolution process to resolve a late payment claim with instructions for contractors and vendors available on its website no later than October 1, 2026.

(9) (a) Beginning on July 1, 2027, the Finance and Administration Cabinet shall submit a written report every six (6) months to the Legislative Research Commission for referral to:

1. The Interim Joint Committee on Appropriations and Revenue, or House and Senate Standing Committees on Appropriations and Revenue, as appropriate; and

2. The Interim Joint Committee on State Government, or Senate Standing Committee on State and Local Government and House Standing Committee on State Government, as appropriate.

(b) The report shall include the quantity of late payment contract disputes submitted to the secretary of the Finance and Administration Cabinet, including but not limited to:

1. Purchasing agency at issue;

2. Unpaid amount alleged or disputed;

3. Duration of late payment claimed; and

4. Determination issued.

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