

1 AN ACT relating to state contracts.

2 ***Be it enacted by the General Assembly of the Commonwealth of Kentucky:***

3 ➔Section 1. KRS 45A.035 is amended to read as follows:

- 4 (1) The secretary of the Finance and Administration Cabinet shall have power and  
5 authority over, and may, except as otherwise expressly provided in this code, adopt  
6 regulations pursuant to KRS Chapter 13A and consistent with this code governing  
7 the purchasing, management, and control of any and all supplies, services, and  
8 construction, and other items required to be purchased by the Commonwealth. The  
9 secretary shall consider and decide matters of policy with regard to state  
10 procurement. The secretary shall have the power of review with respect to the  
11 implementation of administrative regulations and policy determinations.
- 12 (2) Administrative regulations shall be promulgated governing the following:
- 13 (a) Conditions and procedures for delegations of purchasing authority;
  - 14 (b) Prequalification, suspension, debarment, and reinstatement of prospective  
15 bidders;
  - 16 (c) Small purchase procedures;
  - 17 (d) Conditions and procedures for the purchase of items for resale;
  - 18 (e) Conditions and procedures for the purchase of agricultural products in  
19 accordance with KRS 45A.645;
  - 20 (f) Conditions and procedures for the use of source selection methods authorized  
21 by this code, including emergency purchases;
  - 22 (g) Opening and rejection of bids or offers, consideration of alternate bids, and  
23 waiver of informalities in offers;
  - 24 (h) Confidentiality of technical data and trade secrets information submitted by  
25 actual or prospective bidders or offerors;
  - 26 (i) Partial, progressive, and multiple awards;
  - 27 (j) Supervision of storerooms and inventories, including determination of

- 1 appropriate stock levels and the management, transfer, sale, or other disposal  
 2 of state-owned property;
- 3 (k) Definitions and classes of contractual services and procedures for acquiring  
 4 them;
- 5 (l) An appeals process to resolve disputes arising from specifications requiring  
 6 items deemed to be equivalent or a sole brand as specified in KRS 45A.170;f  
 7 and;
- 8 (m) Use of reverse auctions as defined in KRS 45A.070; and
- 9 (n) Policies and procedures governing timely payments, partial payments,  
 10 reimbursement, and resolution for contract payments in violation of KRS  
 11 45.453 and Section 2 of this Act.

12 The secretary may promulgate other administrative regulations as deemed advisable  
 13 to carry out the purposes of this code.

14 ➔SECTION 2. A NEW SECTION OF KRS CHAPTER 45A IS CREATED TO  
 15 READ AS FOLLOWS:

16 (1) As used in this section:

- 17 (a) "Purchasing agency" means a unit or body of state government that  
 18 receives goods or services from a contractor or vendor; and
- 19 (b) "Undisputed amount" means a good-faith, valid, accurate, and timely  
 20 request for payment that has been submitted to an entity owing money, and  
 21 for which the entity has reviewed and confirmed that the money is due and  
 22 owing.

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

- 24 (a) Timely payments in accordance with KRS 45.451;
- 25 (b) Penalties for nonpayment. Payments that are not timely received shall be  
 26 subject to a penalty:
- 27 1. In accordance with KRS 45.454, and except as provided in KRS

- 1                   371.405, an interest penalty of one percent (1%) shall be applied and  
2                   added to any undisputed amount for each month or fraction thereof  
3                   after thirty (30) business days following the receipt of the goods or  
4                   services, or receipt of the invoice by the purchasing agency; or  
5                   2. In accordance with the payment terms of the contract;  
6                   (c) Addressing partial payment. Partial payment terms shall be included to:  
7                   1. Allow disbursement of partial payment for undisputed amounts in the  
8                   invoice or an agreed-upon payment process for goods received or  
9                   services performed that are not rejected or deficient; or  
10                   2. Not allow disbursement of partial payment for goods received or  
11                   services performed that are not rejected or deficient;  
12                   (d) A payment process for the disbursement of funds. When invoices are  
13                   utilized for payment, terms shall be included for the invoice requirements,  
14                   including form, format, delivery, necessary information, supporting  
15                   documentation, and communication and notification procedures for  
16                   complete invoices. For deliverables-based contracts, terms shall be included  
17                   to establish milestones that shall be fully met before payment;  
18                   (e) A payment schedule that may include an initial disbursement of funds upon  
19                   execution of the contract for project initiation; and  
20                   (f) A payment resolution process in accordance with subsection (7)(c) of this  
21                   section.  
22                   (3) Any undisputed amount shall be paid:  
23                   (a) Within thirty (30) business days of receipt of the goods, services, or  
24                   contractor's invoice; or  
25                   (b) In accordance with the negotiated payment terms of the contract.  
26                   (4) (a) The purchasing agency shall make a good-faith effort of notifying the  
27                   contractor or vendor that an invoice has been rejected, of any errors in an

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

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

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

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

24 (6) If a contractor or vendor has not received payment within thirty (30) business  
25 days for an undisputed amount and has executed a loan, line of credit, revolving  
26 credit, or other financial instrument in order to fulfill the obligations and  
27 continue performance of the contract, the contractor or vendor may recover from

1 the purchasing agency the interest and costs of credit borne until the date  
2 payment has been issued.

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

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

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

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

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

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

17 3. Information required to be included when a contractor or vendor  
18 submits an administrative payment dispute;

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

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

25 6. The requirement for the purchasing agency to issue payment within  
26 five (5) business days from when the determination or written notice  
27 establishes the total payment due. The secretary may grant an

1 extension to pay upon receipt of a joint request between the contractor  
2 and purchasing agency.

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

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

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

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

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

18 1. Purchasing agency at issue;

19 2. Unpaid amount alleged or disputed;

20 3. Duration of late payment claimed; and

21 4. Determination issued.