

# ALAMEDA-CONTRA COSTA TRANSIT DISTRICT



## STAFF REPORT

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**MEETING DATE:** 11/9/2022

**Staff Report No. 22-564**

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**TO:** AC Transit Board of Directors  
**FROM:** Michael A. Hursh, General Manager/Chief Executive Officer  
**SUBJECT:** Changing Payment Terms for SBE/LBE/DBE Firms

### BRIEFING ITEM

**AGENDA PLANNING REQUEST:** ☒

**RECOMMENDED ACTION(S):**

Consider receiving a report on the possible actions District staff can take to expedite payment to small, local and disadvantaged businesses. [Requested by President Ortiz - 9/14/2022]

Staff Contact:  
Chris Andrichak, Chief Financial Officer  
Lynette Little, Director of Civil Rights & Compliance

**STRATEGIC IMPORTANCE:**

Goal - Prioritize Diversity, Equity, Inclusion and Accessibility

Initiative - Internal and External Diversity, Equity, Inclusion and Accessibility Programs and Priorities

Expediting payments to the District's small, local and disadvantaged businesses will help strengthen the community of businesses that provide equitable and relevant service to the public.

**BUDGETARY/FISCAL IMPACT:**

No immediate fiscal impact is associated with this report. However, additional resources and staff time will be required based on what strategies are pursued.

**BACKGROUND/RATIONALE:**

At the September 14, 2022, Board of Directors Regular Meeting, President Ortiz requested "a report on changing the default payment terms on purchase orders from the standard net 30 (payment 30 days after approval of invoice) to net 15 (payment 15 days after approval of invoice) for small, local, disadvantaged business enterprises". Staff reviewed this request and examined several possible strategies to achieve an expedited payment to this business community.

Following is a brief overview of the invoice processing procedure at AC Transit to provide background on possible areas of improvement. Once an invoice is received from a vendor, Accounts Payable (AP) staff ensures there is a purchase order and/or contract in place, then the invoice is reviewed and approved (or denied) by the Project Manager. After approval of the invoice, the document is sent to the Contract

Manager/Buyer/Receiving Team for review based on the contract terms (if applicable) and to catalog the item. Then after acceptance of the invoice, AP will make a payment (check or electronically) to the vendor. For goods/materials that require formal reviewing or asset tagging, inventory control staff will need to catalog the goods/materials before the invoice is paid. The payment of invoices for goods is generally approved faster than payment approval for services. The District is not always able to meet the standard of 30 days for many reasons in the process above, often due to incorrect invoices submitted by the vendor, delays in approvals, or complications in the procurement process. Staff has reached out to procurement staff at peer agencies, and they generally have the same issues with payment timeline compliance.

Currently, AC Transit does not have an automated invoice processing system. All invoices are processed manually using Peoplesoft to make payments. Staff has reviewed options for invoice processing systems but has prioritized resources for other needed improvements to the procurement process. A new invoice tracking system would need to integrate with the District's financial management system (PeopleSoft) and potentially the asset management system (Ellipse). Currently, AP staff cannot quickly identify whether or not a vendor is a small business. To prioritize these payments, staff would need to customize the procurement system to 'flag' these purchase orders and/or vendors.

A successful strategy to expedite payments needs to be manageable in the long term with available resources. The first and easiest strategy to implement would be for Procurement and AP staff to recruit more Small/Local/Disadvantaged Business (SLDBE) vendors to register for electronic payments. While staff has been pushing vendors to sign up for electronic payment for the past couple of years, there has not been a focus on SLDBE vendors. This can be done concurrently with the other strategies identified below. Approximately 22% of the District's suppliers are registered for electronic payments so there is significant room for expansion.

The Procurement Department along with AP and Contracts Compliance met to formulate more strategies to achieve the goal of paying SLDBEs faster. Staff would initially focus the proposed changes to only SLDBEs that receive purchase orders that are \$50,000 or less. This is a much smaller list of about 20 vendors compared to all SLDBEs that receive purchase orders from the District (which is about 210). Staff believes focusing on smaller purchase orders will mean focusing on smaller vendors who are least able to handle payment delays.

Current staffing and systems will not allow for a blanket policy of faster payments to SLDBEs. The District does not certify small or disadvantaged businesses, so staff relies on other governing bodies for the certification (such as the Alameda County Transportation Commission, the State of California, BART, and others). The process of confirming the active certification status of all vendors that receive a purchase order (about 7,000 vendors total) would take a significant amount of time. In addition, small business certification is only valid for one year which would require annual review of these vendors. The AP department has two clerks and one manager and would require increased staffing to maintain certification status and consistently achieve faster payment cycles for all SLDBEs.

Another strategy would be the implementation of incremental progress payments that would allow vendors to receive payment prior and invoice at shorter frequencies. Not all contracts or procurements fit this approach, but staff can consider whether the circumstances allow for it.

In summary, staff recommends a campaign to on-board more vendors to use electronic payments and attempt to expedite payment to all SLDBEs with contracts less than \$50,000 to assess whether it is realistic for staff is

able to achieve consistent positive results. In the long term, staff will look to implement a new invoice tracking system and implement the ability to identify and review small business certifications as resources and time allow.

**ADVANTAGES/DISADVANTAGES:**

The advantages of employing these strategies would be to support small, local, and disadvantaged businesses that require greater availability of operating capital. This would enhance AC Transit's reliability with the business community and potentially encourage more small businesses to compete for District contracts. The disadvantage to these actions is the staff time required and potential additional resources needed to prioritize these payments. Additionally, the net 15 days payment strategy would only apply to those small, disadvantaged, or local vendors with direct contracts with the District. Vendors at the subcontractor level would not benefit from this payment strategy change.

**ALTERNATIVES ANALYSIS:**

Alternatively, the Board could reject the aforementioned strategies and maintain a Net 30 payment cycle for all vendors.

**PRIOR RELEVANT BOARD ACTION/POLICIES:**

None

**ATTACHMENTS:****Prepared by:**

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**Approved/Reviewed by:**

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