SENATE COMMITTEE ON APPROPRIATIONS
Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

AB 1039 (Hart) - State-funded assistance grants and contracts: advance payments

Version: June 18, 2025
Urgency: No
Hearing Date: August 3, 2026

Policy Vote: G.O. 15 - 0
Mandate: No
Consultant: Janelle Miyashiro

Bill Summary: AB 1039 requires, rather than authorizes, an administering state agency to advance a payment to a recipient entity, as defined, in accordance with specified requirements for all grants and contracts entered into after January 1, 2026, and requires the solicitation for the grant or contract to state the percentage of funds that may be distributed as an advance payment, as specified.

Fiscal Impact:

- The Department of General Services (DGS) notes it may require a permanent, full-time Analyst II to coordinate with the Strategic Growth Council's Community Assistance for Climate Equity (CACE) program, which currently lacks the capacity to communicate with statewide procurement professionals regarding contract processes. If this position is required, DGS costs would range from the high tens of thousands to the low hundreds of thousands of dollars annually.

- Unknown, potentially significant costs for state agencies to provide advance payments to recipient entities for all grants and contracts. Actual costs will range from absorbable to hundreds of thousands of dollars per agency, depending on the contract type and whether the agency has existing advance payment processes in place in its grant disbursement or contracting practices.

- The California State Library (CSL) anticipates absorbable costs to modify its Grants Portal to track the percentage of grant or contract funds distributed in advance payments.

Background: As part of 2022-23 fiscal year (FY) state budget, AB 156 (Chapter 569, Statutes of 2022) authorized, until July 1, 2025, state agencies administering specified programs to advance payments to local agencies, nongovernmental entities, and other state agencies if certain criteria are met, including requiring advance payment recipients to provide an itemized budget, spending timeline, and work plan. AB 156 limited the advance payment to a local agency or nongovernmental entity to 25% of the total grant amount awarded to that recipient, unless the administering state agency determines that the project requires a larger advance.

The pilot program required the recipient or any sub-recipients to cooperate with audits by the Department of Finance (DOF) related to the advanced payments. It also required the administering state agency to prioritize local agency or nongovernmental entity recipients and projects serving disadvantaged, low-income, and under-resourced communities or organizations with modest reserves and potential cash flow problems.

The program requires the local agency and nongovernmental entity recipients to submit additional documentation and progress reports on the spend-down of funds, and to demonstrate good standing with the federal Internal Revenue Service. Finally, AB 156 required the DOF, by January 10, 2025, to report to the Legislature on this program.

AB 590 (Hart, Chapter 535, Statutes of 2023) created a permanent advanced payment program, and authorized state agencies administering a grant program to provide for advance payments to a recipient 501(c)(3) nonprofit organization, as specified. AB 3017 (Hart, Chapter 664, Statutes of 2024) extended that authorization for state agencies to additionally provide for advance payments to a federally recognized Indian tribe, as specified.

Proposed Law:

- Requires, rather than authorizes, an administering state agency to advance a payment to a recipient entity, as specified, for all grants and contracts advertised on or after January 1, 2026. The solicitation of the grant or contract shall state the percentage of the grant or contract funds that may be distributed as an advance payment.
- Limits the existing requirement that an administering state agency prioritize recipient entities and projects, as specified, to grants and contracts advertised prior to January 1, 2026.
- Eliminates the requirement to stipulate an advance payment structure and request process, and instead, requires an administering state agency making an advance payment to a recipient entity to consider utilizing advance payment best practices and processes identified and developed by the Strategic Growth Council's CACE program.
- Limits the requirement that recipient entities deposit funds received as an advance payment into a federally insured account to apply only to grants and contracts in excess of $10,000.
- Provides that recipient entities receiving advance payments may advance those funds to any sub-recipients in accordance with their grant program requirements or contract.
- Requires a state agency, when registering a grant with the CSL, to additionally include information about the percentage of the grant funds that may be distributed as an advance payment.

Related Legislation: AB 880 (Bennett, 2026) revises the California Prompt Payment Act (PPA) eliminating the $500,000 cap that previously exempted certain Medi-Cal payments from penalty provisions. AB 880 also narrows the circumstances under which the state can dispute an invoice and expands the definition of "grant" to include specified agreements with nonprofit organizations. AB 880 is pending in this committee.

Staff Comments: Costs for impacted agencies will vary according to the contract type and whether the agency already has advance payment processes in place. For comparison:

- The California Air Resources Board estimates total annual costs of $1.2 million (Greenhouse Gas Reduction Fund) to integrate advance payment terms into all its solicitations and contracts.
- The Office of Emergency Services (OES) anticipates costs to be minor and absorbable.

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