
THIRD READING

Bill No: AB 1039
Author: Hart (D), et al.
Amended: 8/13/26 in Senate
Vote: 21

SENATE GOVERNMENTAL ORG. COMMITTEE: 15-0, 7/8/25

AYES: Padilla, Valladares, Archuleta, Ashby, Blakespear, Cervantes, Dahle, Hurtado, Jones, Ochoa Bogh, Richardson, Rubio, Smallwood-Cuevas, Wahab, Weber Pierson

SENATE APPROPRIATIONS COMMITTEE: 7-0, 8/13/26

AYES: Cervantes, Seyarto, Cabaldon, Dahle, Grayson, Richardson, Wahab

ASSEMBLY FLOOR: 79-0, 6/2/25 - See last page for vote

SUBJECT: State-funded assistance grants and contracts: advance payments

SOURCE: California Association of Nonprofits

DIGEST: This bill 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.

ANALYSIS:

Existing law:

- 1) Authorizes a state agency administering a grant program or contract to advance a payment to a recipient entity, subject to specified requirements.
- 2) Requires the administering state agency, among other things, to prioritize recipient entities and projects serving disadvantaged, low-income, and under-resourced communities, to stipulate an advanced payment structure and request

process within the grant agreement or contract, and to ensure an advance payment to the recipient entity does not exceed 25% of the total grant or contract amount, except as specified.

This bill:

- 1) 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.
- 2) Limits the existing requirement an administering state agency prioritize recipient entities and projects, as specified, to grants and contracts advertised prior to January 1, 2026.
- 3) Eliminates the requirement to stipulate an advanced payment structure and request process, as specified.
- 4) 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.
- 5) Provides that recipient entities that receive advanced payments may advance funds from the advance payment to any sub-recipients in accordance with their grant program requirements or contract.
- 6) Requires the Strategic Growth Council (SGC), in consultation with the Department of Finance (DOF) and the Department of General Services (DGS) to develop a Statewide Advance Funds and Reconciliation Guide (Master Guide), as specified.
- 7) Requires every state agency to adopt the Master Guide as its standard operating procedure for the disbursement, tracking, and reconciliation of advance payments, as specified.
- 8) Requires the SGC to provide an annual training webinar for state agency staff to ensure uniform application of the Master Guide and dedicated technical assistance and guidance to community organizations and nonprofit entities.

Background

Author Statement. According to the author's office, "AB 1039 is necessary to address a key barrier that prevents under-resourced communities from applying for and implementing state-funded projects: inconsistent application of the state's advance pay policy for contracts and grants administered by state agencies across government. By ensuring nonprofits can secure a percentage of contracted funds up front for all new funding opportunities, effective January 1, 2026, AB 1039 will improve the nonprofit sector's capacity to provide quality services to communities and carry out state-funded priorities. The bill also supports stronger transparency about a funding opportunity's terms, including clearer indication of the available percentage of advance pay."

Nonprofits and the State. The state of California relies heavily on nonprofits to implement critical policies and provide essential services to its communities. These organizations play a pivotal role in addressing homelessness, building affordable housing, responding to climate change impacts, supporting victims of domestic violence, community infrastructure, and improving the lives of vulnerable community members in myriad ways. The eligibility criteria can vary depending on the specific grant. Generally, grants are categorized by applicant type, such as nonprofits, individuals, businesses, public agencies, or tribal governments. Each grant listing provides detailed eligibility requirements, which can be found on the California Grants Portal.

Action by Assembly and Senate Select Committees. On February 17, 2022, the Assembly and Senate Select Committees on the Nonprofit Sector held a joint hearing featuring panelists and public comment from nonprofit leaders across the state. The hearing, entitled, "A Blueprint to Ensure Nonprofits are Supported and Thrive during Future Emergencies," focused on the challenges nonprofits faced in implementing programs during the height of the COVID-19 Pandemic. The committees concluded that, "government contracting challenges remain a key barrier for nonprofits providing needed services. Strong government-nonprofit partnerships are vital to ensure Californians have access to quality services and programs, to support the nonprofit sector as key employers in the state, and to bolster economic recovery, particularly in historically underserved communities."

Advanced Payment Pilot. 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. The bill 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 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, the bill required the DOF, by January 10, 2025, to report to the Legislature on this program.

Advanced Payment Pilot Program Report. The report submitted by DOF in January of this year, evaluated the outcomes of the pilot project's effort to improve the state's ability to issue advance payments for state-funded local assistance grants. The program authorized six state agencies to provide upfront funding to eligible local agencies, nonprofit organizations, and other governmental entities, particularly those serving disadvantaged communities or experiencing cash flow constraints. Key criteria for eligibility included a cap on the advance amount (25% of the total grant) unless otherwise justified.

As of November 30, 2024, four of the six authorized agencies – Employment Development Department (EDD), Department of Toxic Substances Control (DTSC), Strategic Growth Council (SGC), and the Wildlife Conservation Board (WCB) – issued a total of 26 advance payments under the pilot program. These payments supported a variety of initiatives, including the Community Economic Resilience Fund, Transformative Climate Communities Program, and ecological restoration efforts.

Prior/Related Legislation

AB 880 (Bennett, 2025) revises the California Prompt Payment Act by requiring state agencies to reimburse a nonprofit grantee's indirect costs at specified rates and removes the \$500,000 cap that previously exempted certain Medi-Cal-related payments from penalty provisions. Additionally, the bill narrows the

circumstances under which the state can dispute an invoice and expands the definition of “grant” to include agreements with nonprofit organizations, as specified. (Pending on the Senate Floor)

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

According to the Senate Appropriations Committee, unknown, potentially significant costs for the SGC to develop the Master Guide and to create and implement training for agency staff.

Unknown costs for DGS to promote the Master Guide, incorporate its processes into the State Administrative Manual (SAM) and State Contracting Manual (SCM), and provide guidance to state agencies.

Unknown, potentially significant costs for state agencies to adopt the Master Guide and provide advance payments to recipient entities for 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 anticipates absorbable costs to modify its Grants Portal to track the percentage of grant or contract funds distributed in advance payments.

SUPPORT:

California Association of Nonprofits (Source)
211 San Diego
A New Beginning FFA
AAPI Equity Alliance
Abode Services
Academy of Leonardo's Apprentice
Accelerate Neighborhood Climate Action
Access Humboldt
AccountingX LLC
Advancing Students Forward
African American Community Services Agency
All for Kids
Alzheimer's Orange County
Amigos De Bolsa Chica
APIDANH Alliance

Arts and Culture El Dorado
Arts Orange County
ASIAN, INC.
Asociacion De Emprendedor@s
Aspiranet
Association for Environmental and Outdoor Education
Association of California Community and Energy Services
Association of California Goodwills
Association of California Symphony Orchestras
Autism Society Inland Empire
Bay Area Community Resources
Becky Foreman Facilitation and Training
Benjamin Jones Community Resource Center
Black Women for Wellness
Black Women for Wellness Action Project
Boys & Girls Club -- Laguna Beach
Brilliant Corners
Building Resilient Communities
CA Arts Advocates
California Alliance of Child and Family Services
California Association of Nonprofits
California Behavioral Health Association
California Center for Cooperative Development
California Community Living Network
California Council of Land Trusts
California Language Teachers' Association
California Partnership to End Domestic Violence
California School-age Consortium
Calle 24 Latino Cultural District
CalPride
Cameo Network
Camp Ocean Pines, INC
Canal Alliance
Capacity Impact Builders
Catalyst Family INC.
Caulder Lamm Alliance for Children, INC.
CEDAW Challenge Team
Center for Environmental Health
Center for Living and Learning
Centinela Youth Services

Central American Resource Center of California
Central American Resource Center of Northern California
Central Valley Immigrant Integration Collaborative
Central Valley Opportunity Center (CVOC)
Centro Inmigrante, INC.
Ceres Community Project
Charitable Ventures
Child & Family Center
Children's Fund
Children's Institute
Children's Law Center of California
Chrysalis
Church of Movement
City Garage
Coastal Kids
Comite Civico Del Valle, INC
Community Alliance With Family Farmers
Community Bridges
Community Environmental Council
Community Foodbank of San Benito
Community Interventions
Community Resource Project
Community Works
Compassion Institute
Contra Costa Senior Legal Services
Creative Alternatives
Crisis Support Services of Alameda County
Crop Swap LA
Crystal Clear Biz Ops
Culture Scholar Corporation
Cycle Advisors
DeafHope
Divine Truth Unity Fellowship Church DbA Rainbow Pride Youth Alliance
Dixie Fire Canopy Project
Donna Sternberg & Dancers
Dreams for Change
EconAlliance
EG SPEAKS
Elder Love USA, INC.
Embrace Change Now

Equal Justice Society
Equality California
ERISAT-Eritrean Satellite Television
Every Day Action
Exploratorium, the
EYESHINE
Fair Housing Advocates of Northern California
Faith in Action
Family Paths, INC.
Family Resource Center
Family Service Association
FASD Network of Southern California
Fathers and Mothers Who Care
First Mayor's House
Focused on Growth Academy
Folsom Cordova Community Partnership
Food Access LA
Food Share Ventura County
FORCES
Future Leaders of America
Give for a Smile
Giving 365
Global Refugee Awareness Healing Center
Grantland L Johnson Institute of Leadership Development
Grants and Grassroots
Greenlining Institute
Guadalupe-Nipomo Dunes Center
Guild for Psychological Studies
HARC, INC.
Heal the Ocean
Health Care Integrated Services
Healy Senior Center
High Desert Community Foundation
High Desert New Beginnings, INC.
Hispanic Foundation of Silicon Valley
Honore's Home of Care
Hospice Help Network
HSS, Inc.
Human Health Project
Inland Caregiver Resource Center

Inland Empire Community Collaborative
Inland Empire Community Foundation
Inland Empire Waterkeeper
Inland Equity Community Land Trusts
Instituto De Educacion Popular Del Sur De California
Integrated Learning Institute
Integrated Recovery Network
Jacob's Heart Children's Support Services
Jen Weiss Consulting
Jewish Family Service of San Diego
Jewish Family Services of Long Beach and Orange County
Joslyn Center for Seniors
Journey Center
Juarez Consulting INC.
Juma Ventures
Kamali'i Foster Family Agency
Kings River Conservancy
Kitchens for Good
Koinonia Family Services
Koreatown Youth + Community Center
KWMR, INC.
LA Cooperativa Campesina De California
LA N Sync Laity Institute of the Arts
LA Raza Centro Legal
Lake County Community Foundation
Lake Family Resource Center
Las Fotos Project
Latino Service Providers
LeadingAge California
League of California Community Foundations
Leah's Pantry, INC.
Lighthouse Silicon Valley
Little Brothers-friends of the Elderly- Bay Area
Little Manila Rising
Little Seeds Matter
Long Term Care Ombudsman Services of San Luis Obispo County
Los Angeles Conservation Corps
Los Angeles Neighborhood Initiative
Los Padres Forest Watch
Lumina Alliance

Making Hope Happen Foundation
MALO
Marin Shakespeare Company
Maternal and Child Health Access
Meals on Wheels Orange County
Media Alliance
Mendocino Private Industry Council, INC.
Microenterprise Collaborative of Inland Southern California
Mission Hope
Mixed Emotion Theatrix
Mixteco Indigena Community Organizing Project
Moffett Field Historical Society & Museum
Moreno Seeds Foundation
Mother Lode Rehabilitation Enterprises INC.
Mountain Homeless Coalition
Move Santa Barbara County
Music Changing Lives
National Black Grads
National Harm Reduction Coalition
Nature for All
Nehemiah Charitable Fund
Nevada County Media
New Horizons: Serving Individuals With Special Needs
Newport Beach Public Library Foundation
No Drugs America Association, INC
Nonprofit Connection Santa Cruz County
Northern California Grantmakers
Northern Santa Barbara County United Way
Open Paths Counseling Center
Operation New Hope
Orange County Coastkeeper
ORCD Global
Orcutt Area Seniors in Service, INC.
Out of the Ashes Organization
Outdoor Outreach
Oxnard Performing Arts Center Corporation
Pacific Arts Movement
Pacific Coast Farmers Market Association
Pacific Horizons of California
Parkview Legacy Foundation

Partnership for a Better San Diego
Pasadena Village
PathPoint
Peninsula Youth Theatre
Plumas Corporation
Pro Youth & Families
Radiant Health Centers
Rainbow Pride Youth Alliance
Rebuilding Together Peninsula
Rehabilitation and Employment Serve of the East Bay, INC.
Repeat Reuse
Rescue-a-life Foundation
Richmond Community Foundation
Rising Communities (formerly Community Health Councils)
Rising Sun Center for Opportunity
Riverside County Black Chamber Health and Wellness Foundation INC.
Rudolph J. and Daphne A. Munzer Foundation
Rural Community Assistance Corporation
Rural Community Assistance Corporation
S & L Foster Family Agency
Sacramento Philharmonic & Opera
Sage Pathways, INC
San Diego Energy District
San Dieguito River Valley Land Conservancy
Santa Barbara County Food Action Network
Santa Barbara County Immigrant Legal Defense Center
Santa Barbara Foundation
SCCCC Rebuilding Lives FFA
Self Help Enterprises
Services, Immigrant Rights and Education Network
Shangri-La Transitions
Sierra Nevada Alliance
Sierra Nevada Children's Museum
Silicon Valley Council of Nonprofits
South Asian Network
Southern California Brass Consortium, INC.
Southern California Grantmakers
Starting Over INC.
Starting Over Strong
Streetlights

Studio 395 Foundation
Tahoe Youth and Family Services
Teens 4 Teens Help
The Francisco Homes
The Good Part Perspective
The Green Lining Institute
The Heroic Journey SEL and Mental Health
The Impact Fund
The Joslyn Center
The Kinship Fund
The Mom & Dad Project
The Monterey and Salinas Valley Railroad and Historical Modeling Society
The Nonprofit Partnership
The School Garden Doctor
The Stephan Center
Thrive Alliance
Tracy Community Connections Center
TreePeople
True North Housing Alliance, INC.
Tuleyome
Union Station Homeless Services
United Ways of California
UpValley Family Centers of Napa County
Valley Intercommunity Council
Ventura Land Trust
Ventures
Vision Y Compromiso
Visionality
Walden Family Services
Watts of Power Foundation
World Be Well Organization
YMCA of Greater Long Beach
Yolo County Children's Alliance
You Life Skills and Leadership Educational Foundation
Youth Action Project

OPPOSITION:

None received

ARGUMENTS IN SUPPORT:

In support of this bill, CalNonprofits writes that, “[a]dvanced pay provisions are currently authorized but not mandated under state law via enactment of Assembly Bill 590 (Hart, Chapter 535, Statutes of 2023). By requiring advance pay under AB 1039 for new grant and contract opportunities, the state can continue to address hurdles that dissuade under-resourced communities from applying for and implementing state-funded projects. Many state grants and contracts remain reimbursement-based two years after enactment of AB 590.”

Further, the “lack of equitable access to advance payments is an unnecessary barrier to the nonprofit sector’s effective partnership with the state at a time when new threats are emerging every day from both the federal government and environmental challenges like devastating wildfires. Now more than ever we must prioritize stronger partnerships between nonprofits and the state. Under 1039, nonprofits that may be best equipped to deliver timely and effective projects (but short on up-front capital) would no longer be forced to pass on numerous grants and contracts to support vulnerable Californians.”

And, this bill is “part of the California Nonprofit Equity Initiative that our organizations, along with more than 500 other nonprofit and community leaders, is supporting to level the playing field for nonprofits. Improving how state government contracts with nonprofits is a question of equity for our most vulnerable communities and for the nonprofits that serve them. AB 1039 will strengthen the essential partnership between the state and nonprofits and our mutual efforts to deliver the highest quality services to the people of California.”

ASSEMBLY FLOOR: 79-0, 6/2/25

AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Fariás, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Chen, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Flora, Fong, Gabriel, Gallagher, Garcia, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Kalra, Krell, Lackey, Lee, Lowenthal, Macedo, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Celeste Rodriguez, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas

Prepared by: Brian Duke / G.O. / (916) 651-1530
8/17/26 10:38:00

**** **END** ****