

CONCURRENCE IN SENATE AMENDMENTS

AB 1039 (Hart)

As Amended August 21, 2026

Majority vote

SUMMARY

This bill would require, rather than authorize, 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, 2027, 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.

Senate Amendments

- 1) Expand the definition of "recipient entity" to include a private, nonprofit organization qualified under state law.
- 2) Require an administering state agency to advance a payment to an eligible recipient in accordance with defined requirements for any grant and contract advertised on or after January 1, 2027, with a total award value of \$150,000 or less, receiving an initial disbursement of 25% of the total award, as specified.
- 3) Limit 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, as described.
- 4) Authorize an administering state agency to opt out of the default advance payment requirement for a specific funding opportunity if the agency determines it would create an irreconcilable conflict with federal law, bond requirements, or a documented high-risk profile of the specific program, as specified.
- 5) Require, on or before July 1, 2027, the Strategic Growth Council (SGC), in consultation with the Department of Finance (DOF) and the Department of General Services (DGS), shall develop a Statewide Advance Funds and Reconciliation Guide (Master Guide), as specified.
- 6) Require every state agency to adopt the Master Guide as its standard operating procedure for the disbursement, tracking, and reconciliation of advance payments, as specified.
- 7) Make technical and clarifying changes.

COMMENTS*Background.*

Grants play a vital role in strengthening local communities in California by funding initiatives and programs that address diverse needs. These grants create a ripple effect by uplifting individuals and empowering organizations, ultimately strengthening the fabric of the community as a whole.

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 countless 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.

Prior to the enactment of AB 590 (Hart), Chapter 535, Statutes of 2023, state law allowed over 20 specified state agencies to provide an advance payment of up to 25% of the annual contract amount to a nonprofit organization contracted for the delivery of services. AB 156 (Committee on Budget), Chapter 569, Statutes of 2022, established, until July 1, 2025, a new pilot program to explore possible improvements to the state's existing advance payment practices for specified state-funded local assistance grants administered by a small number of state agencies. As part of the pilot program, the DOF must prepare, by January 10, 2025, a report on the number of payments advanced, including by program and geographic location, with a summary of any adverse audit findings.

AB 590 more broadly authorized, in perpetuity, any administering state agency to advance 25% of any total grant or contract payment to a recipient 501(c)(3) non-profit entity meeting certain minimum requirements. AB 590 also authorized DOF to audit an administering state agency or recipient entity receiving an advance payment, with DOF generally estimating a per-audit cost of approximately \$200,000, to be reimbursed by the relevant state agency. AB 3017 (Hart), Chapter 664, Statutes of 2024, added certain tribes to the definition of a "recipient entity" eligible to receive an advance payment of a state grant or contract.

Advanced Payment Pilot Program Report. The report submitted by the DOF in January evaluated the outcomes of a pilot project designed 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 entities, nonprofits, and other governmental organizations, particularly those serving disadvantaged communities or facing cash flow constraints. Key eligibility criteria included an advance cap of 25% of the total grant amount, unless a higher percentage was specifically justified.

As of November 30, 2024, four of the six authorized agencies – Employment Development Department, Department of Toxic Substances Control, SGC, and the Wildlife Conservation Board – 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.

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."

According to the Author

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."

Arguments in Support

CalNonprofits writes that, "[a]dvanced pay provisions are currently authorized but not mandated under state law via enactment of AB 590 (Hart, 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 this bill, 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 finally, 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."

Arguments in Opposition

None on file.

FISCAL COMMENTS

According to the Senate Committee on Appropriations, "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."

VOTES:

ASM GOVERNMENTAL ORGANIZATION: 22-0-0

YES: Blanca Rubio, Davies, Alvarez, Berman, Bryan, Carrillo, Dixon, Fong, Gabriel, Gipson, Macedo, McKinnor, Nguyen, Pacheco, Ramos, Michelle Rodriguez, Sanchez, Solache, Soria, Ta, Valencia, Wallis

ASM APPROPRIATIONS: 14-0-1

YES: Wicks, Arambula, Calderon, Caloza, Dixon, Elhawary, Fong, Mark González, Hart, Pacheco, Pellerin, Solache, Ta, Tangipa

ABS, ABST OR NV: Sanchez

ASSEMBLY FLOOR: 79-0-0

YES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, 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

UPDATED

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