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

AB 880 (Bennett) - State government grants and contracts: payment of claims and grantees' indirect costs

Version: February 19, 2025
Urgency: No
Hearing Date: August 13, 2026
Policy Vote: G.O. 15 - 0
Mandate: No
Consultant: Janelle Miyashiro

Bill Summary: AB 880 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.

*********** ANALYSIS ADDENDUM – SUSPENSE FILE ***********
The following information is revised to reflect amendments adopted by the committee on August 13, 2026

Fiscal Impact:
- The Department of General Services (DGS) estimates costs of $174,000 annually for the first two years to update regulations and the State Contracting Manual (SCM). Additionally, DGS anticipates $85,000 in ongoing annual costs to manage an increase in workload to calculate invoice discrepancies, resolve errors with contractors, and handle contract (Service Revolving Fund).

- Unknown, potentially significant increase in state contracting costs, to the extent that raising the PPA cap for nonprofits results in the state paying more late penalties. Actual costs will depend on individual contract terms and agency capacity to process the expanded scope of payments on time.

- Unknown, potentially significant cost pressures for state agencies. Allowing grantees to select indirect cost reimbursement rate of up to 35 percent will likely increase the portion of overall grant funding spent on a grantee's indirect costs (General Fund, special fund, and federal funds). Because this bill does not increase total funding for individual programs, paying higher overhead reimbursements means less money remains for a program's authorized core purpose. Actual costs will range from absorbable to hundreds of thousands of dollars per entity, depending on their specific contracting activities and grant terms.

Author Amendments:

- Establish an indirect cost rate cap of 35 percent.

- Add Senator Richardson and Senator Rubio as coauthors.

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