THIRD READING

Bill No: AB 880
Author: Bennett (D), et al.
Amended: 8/13/26 in Senate
Vote: 21

SENATE GOVERNMENTAL ORG. COMMITTEE: 15-0, 6/24/25
AYES: Padilla, Archuleta, Ashby, Blakespear, Cervantes, Choi, 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 government grants and contracts: payment of claims and grantees' indirect costs

SOURCE: California Association of Nonprofits

DIGEST: This bill revises the California Prompt Payment Act (PPA) 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, this 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.

ANALYSIS:

Existing law:

1) Requires, pursuant to the PPA, a state agency that awards a grant or services pursuant to a contract to make timely payments pursuant to the grant or contract.

2) Requires, that if an agency or the California State Controller (Controller) fails to take certain timely actions and payment is not issued within 45 calendar days from the state agency receipt of an undisputed notice, that state agency or the Controller, as applicable, to pay certain penalties, as specified.

3) Establishes the Department of General Services (DGS), in the Government Operations Agency (GovOps), for purposes of providing centralized services of state government.

This bill:

1) Revises the definition of "grant" to also mean a signed final agreement between a state agency and a nonprofit organization and deletes the $500,000 exception in current law.

2) Removes the existing definition of "nonprofit service organization" and instead defines "nonprofit service organization" to mean an organization that qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code.

3) Revises the existing condition in law regarding discrepancies to be of an amount greater than $250 or five percent of the invoice or claimed amount, whichever is less, in order to qualify as a reasonable cause for the state agency to dispute it.

4) Requires a state agency administering a grant program to, when awarding a grant, reimburse the grantee's indirect costs as requested by the grantee, as specified.

5) Prohibits a state agency from reimbursing the grantee's cost unless the grantee disclosed the requested rate amount in their grant program application.

6) Provides that for the purposes of calculating indirect costs and facilitating equitable distribution of indirect expenses to the cost objectives served, one ore more pools of indirect costs may be established. An indirect cost pool established pursuant to this bill shall be distributed to benefit cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

7) Provides that this bill applies to any grant program administered by a state agency, regardless of whether the funding source of the grant is state funds, federal funds, or a combination thereof.

Background

Author Statement. According to the author's office, "California's nonprofits are the backbone of our communities and the state should ensure, like the federal government does, that all costs are covered. The state relies on our nonprofit partners to serve so many Californians, we should treat them as equally as the federal government does."

California's Prompt Payment Act. Under the PPA, state agencies that acquire property or services pursuant to a contract with a business are required to make payment on the date required by the contract, or within 45 days of the state agency's receipt of an undisputed invoice. If this requirement is not met, state agencies must automatically calculate and pay appropriate late payment penalties as specified in Government Code Section 927, et seq. Late payments may occur for a variety of reasons, including administrative decisions relating to cash flow, bond sales, or delays in meeting conditions set forth in federal legislation.

Existing law specifies that state agencies pay applicable penalties, without requiring the claimant to submit an additional invoice for these amounts, whenever the state agency fails to submit a correct claim to the Controller by the required payment approval date and payment is not issued within 45 calendar days from the state agency receipt of an undisputed invoice. Penalties paid by a state agency to a certified small business, nonprofit organization, nonprofit public benefit corporation, and a small business or nonprofit that provides services or equipment under Medi-Cal shall be calculated at a rate of 10% above the United State Prime Rate on June 30th of the prior year.

Additionally, the PPA provides that if the Controller fails to make payment within 15 calendar days of receipt of the claim from a state agency, and payment is not issued within 45 calendar days from state agency receipt of an undisputed invoice, the Controller shall pay applicable penalties to the claimant without requiring that the claimant submit an invoice for these amounts. If the claimant is a resource conservation district, a certified small business, a nonprofit organization, a nonprofit benefit corporation, or a small business or nonprofit organization that provides services or equipment under the Medi-Cal program, the controller must pay a penalty at a rate of 10% above the United State Prime Rate on June 30 of the prior fiscal year, as specified.

However, existing law specifies that for the late payment penalty provisions of the PPA described above, a nonprofit organization is only eligible to receive a penalty payment if the contract or grant is an amount less than $500,000. Since 2013, DGS has overseen the PPA to ensure that government agencies, in a timely manner, pay their contracts awarded to a certified small business or nonprofit. The PPA indicates that nonprofits are only eligible to receive a penalty payment if the grant or contract awarded is an amount less than $500,000. Hence, the PPA only applies to a limited set of grants, excluding numerous nonprofits that provide essential services to California communities.

This bill revises the definition of the term "grant" in the PPA to include a signed final agreement between any state agency and a nonprofit, and deletes the $500,000 exception in the act. Additionally, this bill requires the discrepancy to be of an amount greater than $250 or five percent of the invoice or claimed amount, whichever is less, in order to qualify as a reasonable cause for the state agency to dispute it.

Negotiated Indirect Cost Rate Agreements. The federal Office of Management and Budget (OMB) issued rules in 2014 that require governments that hire nonprofits at all levels – local, state, and federal – to reimburse those nonprofits for their reasonable indirect costs when federal dollars are part of the funding stream. The federally negotiated indirect cost rate (NICRA) allows the Grants or Contracting officer to calculate the appropriate allocation of indirect costs associated and streamline the process. In addition, the OMB Uniform Guidance streamlines and clarifies cost allocation and other rules related to government grants and contracts, removing some areas of confusion and inconsistency while treating more of a nonprofit's expenses as direct costs.

The Uniform Guidance expressly requires pass-through entities (typically states and local governments) using federal funds and all federal departments/agencies to reimburse a nonprofit for the reasonable indirect costs it incurs. Nonprofits that have never had a federally approved NICRA can elect either the de minimis rate of 10% of their modified total directs costs or negotiate a higher rate in accordance with the federal cost principles. Nonprofits that have already negotiated a federal NICRA must be paid that amount. Generally, the mandate to pay indirect costs applies to most federal grant funds.

This bill similarly outlines guidelines for state agencies administering grant programs to reimburse grantees for their indirect costs. Grantees can choose from one of the three rates for reimbursement outlined in the bill: their federal NICRA, a flat 10% rate on direct costs, or a rate negotiated with another state agency within the last five years.

Prior/Related Legislation

SB 1246 (Limon, 2024) would have deleted, for the purposes of the PPA, the definition of the term “grant” from the PPA and delete the $500,000 exception in existing law and provide that only specified late payment penalties apply to a signed final agreement for a grant, as specified, or a grant by any state agency to a nonprofit organization. (Vetoed by Governor Newsom)

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

According to the Senate Appropriations Committee, 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.

SUPPORT: (Verified 8/13/26)

California Association of Nonprofits (Source)
211 San Diego
AAPI Equity Alliance

Abode Services
Academy of Leonardo's Apprentice
Access Humboldt
Accountingx LLC
Advancing Students Forward
African American Community Services Agency
All for Kids
Alzheimer's Orange County
Amigos De Bolsa Chica
Arts and Culture El Dorado
Arts Orange County
Asian, INC.
Aspiranet
Association for Environmental and Outdoor Education
Association of California Community and Energy Services
Association of California Symphony Orchestras
Autism Society Inland Empire
Bay Area Community Resources
Benjamin Jones Community Resource Center
Black Women for Wellness Action Project
Boys & Girls Club of Laguna Beach
CA Arts Advocates
California Abuse Prevention Center
California Behavioral Health Association
California Center for Cooperative Development
California Coalition for Youth
California Community Living Network
California Family Resource Association
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
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 Northern California
Central Valley Immigrant Integration Collaborative
Central Valley Opportunity Center
Centro Inmigrante, INC. Cdi
Ceres Community Project
Charitable Ventures
Child & Family Center
Children's Fund
Children's Law Center of California
Chrysalis
Church of Movement
City Garage
Coastal Kids
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
Dixie Fire Canopy Project
Donna Sternberg & Dancers
Dreams for Change
Econalliance
Eg Speaks
Embrace Change Now
Equal Justice Society
Equality California
Erisat-eritrean Satellite Television
Every Day Action

Exploratorium, the
Eyeshine
Fair Housing Advocates of Northern California
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
Foodshare Ventura County
Future Leaders of America
Give for a Smile
Global Refugee Awareness Healing Center
Grantland L Johnson Institute of Leadership Development
Grants and Grassroots
Guadalupe-nipomo Dunes Center
Guild for Psychological Studies
Harc, INC.
Heal the Ocean
Health Care Integrated Services
Healy Senior Center
High Desert Community Foundation
Hispanic Foundation of Silicon Valley
Hospice Help Network
Hss
Human Health Project
Inland Empire Community Collaborative
Inland Empire Waterkeeper
Instituto De Educacion Popular Del Sur De California
Integrated Recovery Network
Jacob's Heart Children's Support Services
Jen Weiss Consulting
Jewish Family Services of Long Beach and Orange County
Journey Center
Juarez Consulting INC.
Juma Ventures
Kamali'i Foster Family Agency

Kings River Conservancy
Kitchens for Good
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
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 Harm Reduction Coalition
Nature for All

Nevada County Media
New Horizons: Serving Individuals With Special Needs
Newport Beach Public Library Foundation
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.
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
Rebuilding Together Peninsula
Rehabilitation and Employment Serve of the East Bay, INC.
Rescue-a-life Foundation
Richmond Community Foundation
Rising Communities (formerly Community Health Councils)
Rising Sun Center for Opportunity
Rudolph J. and Daphne A. Munzer Foundation
S & L Foster Family Agency
Sacramento Philharmonic & Opera
Save Kids California
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
Services, Immigrant Rights and Education Network

Shangri-la Transistions
Sierra Nevada Alliance
Sierra Nevada Children's Museum
South Asian Network
Southern California Brass Consortium, INC.
Starting Over INC.
Starting Over Strong
Streetlights
Tahoe Youth and Family Services
Teens 4 Teens Help
The ARC and United Cerebral Palsy California
The Francisco Homes
The Good Part Perspective
The Greenlining Institute
The Heroic Journey Sel and Mental Health
The Impact Fund
The Joslyn Center
The Kinship Fund
The Monterery and Salinas Valley Railroad and Historical Modeling Society
The School Garden Doctor
The Stephan Center
Tracy Community Connections Center
True North Housing Alliance, INC.
Tuleyome
Union Station Homeless Services
Up Valley Family Centers of Napa County
Valley Intercommunity Council
Ventura Land Trust
Ventures
Vision Y Compromiso
Visionality
Watts of Power Foundation
YMCA of Greater Long Beach
Yolo County Children's Alliance
You Life Skills and Leadership Educational Foundation

OPPOSITION: (Verified 8/13/26)

None received

ARGUMENTS IN SUPPORT: In support of this bill, CalNonprofits writes that, "CalNonprofits is pleased to sponsor Assembly Bill 880 by Assemblymember Steve Bennet, and co-authored by Senators Limón and Umberg, to break down administrative barriers and ensure nonprofits can deliver on the state's goals to provide quality services to vulnerable Californians. Now more than ever we must prioritize stronger partnerships between nonprofits and the state and advance California's equity and access goals through legislation like AB 880, which will: require timely payments for services rendered by nonprofits by closing a problematic loophole in the state's PPA; and improve coverage of nonprofits' indirect costs, consistent with the federal government's approach. According to a new study issued by the nonpartisan Little Hoover Commission, nearly 60 percent of nonprofits say that do not receive sufficient funding for indirect costs, which includes expenses such as rent or utilities, and nearly one-quarter waited over three months to be paid by the state, with 72 percent moderately to severely impacted by delays when payments are late."

Further, "AB 880 directly addresses these contracting barriers, and we are grateful that these legislators have picked up the mantle of similar legislation (SB 1246 and SB 336) that advanced through the legislature unanimously last year only to be vetoed by the Governor. All nonprofit partners of the state deserve prompt payment and fair compensation by the state for the true cost of providing services funded by grants."

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

Prepared by: Brian Duke / G.O. / (916) 651-1530
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