

Date of Hearing: March 29, 2023

ASSEMBLY COMMITTEE ON ACCOUNTABILITY AND ADMINISTRATIVE REVIEW

Cottie Petrie-Norris, Chair

AB 590 (Hart) – As Introduced February 9, 2023

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

SUMMARY: Would declare the intent of the Legislature to improve and expand the state's existing advance payment practices for state grants and contracts with nonprofits. Specifically, **this bill** would:

- 1) Authorize an administering state agency to advance a payment to a recipient entity, defined to mean a private, nonprofit organization qualified under federal law, subject to meeting specified requirements.
- 2) Require the administering state agency to prioritize recipient entities and projects serving disadvantaged, low-income, and under-resourced communities, and to ensure an advance payment to the recipient entity does not exceed 25% of the total grant or contract amount.
- 3) Require the recipient entity to satisfy certain minimum requirements, including providing an itemized budget and submitting documentation, as required by the administering state agency, to support the need for advance payment.
- 4) Require the Department of Finance or its designee to audit a state agency subject to these provisions or any recipient or subrecipient that received an advance payment.
- 5) Require the Department of Finance, on or before January 10, 2027, to report to the Legislature on the outcomes of the advance payments authorized by these provisions.

EXISTING LAW:

Authorizes a limited number of specified state departments and authorities, upon determination that an advance payment is essential for the effective implementation of a program, to advance to a community-based private nonprofit agency with which it has contracted for the delivery of services, funds not exceeding 25% of the annual allocation to be made to the agency during the fiscal year. Requires these specified departments to develop a plan, approved by the Department of Finance, to establish control procedures for advance payments. (**Government Code Section 11019(a)**)

Also, authorizes a county, upon determining that an advance payment is essential for the effective implementation of a program within the provisions of this section, and to the extent funds are available, and not more frequently than once each fiscal year, advance to a community-based private nonprofit agency with which it has contracted for the delivery of services, not to exceed 25 percent of the annual allocation to be made pursuant to the contract, during the fiscal year to the private nonprofit agency. (**Government Code Section 11019(c)**)

Establishes a pilot program, which is repealed on July 1, 2025, to explore improvements to the states existing advance payment practices for state-funded assistance grants. (**Government Code Section 11019.1**)

FISCAL EFFECT: Unknown, this bill has not been analyzed by a fiscal committee.

COMMENTS:

Proponents of this measure note that without access to advance payments, many nonprofits are unable to compete for state funding, while others are forced to pursue loans, with the associated interest, to cover initial costs with starting up state-contracted projects and services. According to a 2019 study, the inconsistent and limited access to advance payments contributes to and exacerbates inequities in the nonprofit sector. For example, 34 percent of Bay Area nonprofits receive government funding, while only 5 percent do in the Inland Empire, and only 1 percent in the Sierras. (“Causes Count, The Economic Power of California’s Nonprofit Sector,” 2019)

A February 17, 2022 joint legislative informational hearing of the Assembly and Senate Select Committees on Nonprofit Sector found that nonprofits play a vital role in building healthy communities, especially in areas of “high concentration of poverty, communities of color, and rural areas. Nonprofit services such as homeless shelters, senior food programs and health programs aim to meet the needs of less affluent communities.”

Advanced Payment Pilot. As part of last year’s state budget, AB 156 (Chapter 569, Statutes of 2022) authorizes, 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. Limits the advance payment to a local agency or nongovernmental entity to 25 percent 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 requires the recipient or any sub-recipients to cooperate with audits by the Department of Finance related to the advanced payments. Requires 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. Requires 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.

Is this proposal premature? Although there is currently an advance payment pilot program, providing advanced payments to private entities contracting with the state is not unique and has been selective permitted for a few decades. Today, there are over two dozen provisions in the California Codes authorizing various state agencies to provide advance payments when there is a justifiable need. What new information or lessons could be learned from a new pilot program that the state has not already learned over the past few decades?

According to the Author:

“AB 590 will remove a key funding barrier to bolster the nonprofit sector and outcomes for communities, while ensuring all nonprofits have fair and equitable access to state grants and contracts.”

Arguments in Support:

There is strong broad support for AB 590 from the nonprofit sector with a consistent message: The state relies on nonprofits to provide critical services to Californians in need of those services. However, a successful partnership between the state and nonprofits in providing these critical services depends on fair and equitable access to sufficient start-up funds to initiate and implement the programs.

Arguments in Opposition:

None on file.

PREVIOUS LEGISLATION:

AB 156 (Budget Committee), Chapter 569, Statutes of 2022, Section 15, until July 1, 2025, authorizes 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 limits 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. It requires the recipient or any sub-recipients to cooperate with audits by the Department of Finance related to the advanced payments.

REGISTERED SUPPORT / OPPOSITION:**Support**

California Access Coalition
California Alliance of Child and Family Services
California Association of Nonprofits
California Council of Community Behavioral Health Agencies (CBHA)
California Partnership to End Domestic Violence
California Releaf
Center for Nonprofit Management
Children's Institute
Community Alliance With Family Farmers
Community Bridges
El Concilio
Fresno Building Healthy Communities
Healthright 360
Inland Empire Community Collaborative
Inland Southern California United Way
Koreatown Youth + Community Center
Meals on Wheels California
Nonprofit Finance Fund (NFF)
Path (people Assisting the Homeless)
Rural Community Assistance Corporation (RCAC)
Santa Cruz Volunteer Center

Self-help Enterprises
Treepeople
United Ways of California (UWCA)

Opposition

None on file.

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