

It's a "No" On Two Key Nonprofit Bills, Says Newsom

10.01.24 | Linda J. Rosenthal, JD



The California charitable community now has the answer to how much of its ambitious California Nonprofit Equity Initiative became law at the conclusion of the 2023-24 Legislative Session.

The 2023 segment of the two-year proceedings resulted in enactment of the key bill among the seven items comprising the Equity Initiative legislative package: [AB 590](#) (Hart). Governor Gavin Newsom signed into law this measure paving “...[the way to advance payments for nonprofits with state grants and contracts.](#)” The new statute authorizes “state agencies to provide nonprofits [up to 25% of contracted funds up front, with a priority on nonprofits serving vulnerable communities.](#)”

In 2024, there were two more apparent successes by the time lawmakers adjourned at the end of August.

- [SB 1246](#) (*Limon*): Features advance payments for all: Incentivizes the state to make timely payments and prevents very small discrepancies from holding up reimbursements.
- [SB 336](#) (*Umberg*): Standardizes indirect cost coverage: Creates a streamlined and fair framework for compensating nonprofit partners for their indirect costs.

Lawmakers in each legislative chamber passed both measures unanimously. The two bills then went to the governor’s office for an up or down decision. See [On Gov. Newsom’s Desk: Two New Nonprofit Bills](#) (September 5, 2024), *FPLG Blog*.

There they sat until the final day or so before the September 30th deadline. “One predominant theme this year ... : ‘the state is low on money.’” See [A few takeaways as Newsom seals fate of this year’s state bills](#) (October 1, 2024, 6:30 am PT) Ryan Fonseca, *The Los Angeles Times*. Of over 1,000+ measures approved by lawmakers in 2024, the governor [rejected over one in five](#).

It was a brutal year even for popular legislation like SB 1246 (Limon) and SB 336 (Umberg). . See [SB 1246 veto message](#) dated September 28, 2024 and [SB 336 veto message](#) dated September 29, 2024.

So ... is that it? The end of the line?

Not necessarily.

[Update, 10/3/24: – The California Association of Nonprofits has issued a written statement: [Governor Newsom Vetoes Priority Nonprofit Legislation](#)]

Important Grantmaking Reform Measures

The [California Nonprofit Equity Initiative](#) was a package of seven related bills to accomplish a goal long on the sector's wish list; that is, a significant reform of the state's cumbersome and oppressive grantmaking process. Through the hard work and dedication since the fall of 2022 of the California Association of Nonprofits (CalNonprofits) and a group of dedicated volunteers calling themselves the Coalition for Contracting Equity, the reform idea ripened into a concrete legislative proposal ready to go in early 2023. See [Major Legislative Push in CA To Reform Grantmaking](#) (February 27, 2023), [FPLG Blog](#) and [Formal Launch of CA Grantmaking-Reform Legislation](#) (March 22, 2023), [FPLG Blog](#).

The Administration had, all along, supported the idea of major grantmaking reforms. But a great deal had changed on the ground in the two years since 2022. A record budget surplus in 2022 had evaporated.

California constitutionally requires a balanced budget each fiscal year. Lawmakers and the executive branch have grappled with two years of deficits since then. There's no getting around the fact that money concerns have moved front and center. What is the cost of any proposed legislation?

Despite the growing gloominess about the prospects of easily passing this second wave of legislation, CalNonprofits and its allies did not let up over the summer of 2024. The marching orders to the entire nonprofit community were included in a new message on July 15, 2024: "Take Action! Urge Gov. Newsom to Support CA Nonprofit Equity Bills.... These two bills are critical to easing the unfair burdens nonprofits face when contracting with the state. [SB 1246](#) (Limón) incentivizes the state to make timely payments, and [SB 336](#) (Umberg) ensures better coverage of indirect costs. We need Governor Newsom to understand how important these bills are to strengthening the nonprofit sector." See [Urgent Action Item on Nonprofit Legislation Pending in CA](#) (July 17, 2024), [FPLG Blog](#).

With the pointed reminder that "[y]our voice makes a difference," CalNonprofits expressly brought up an unfortunate non-veto-veto episode from 2023: "You may recall that the Governor vetoed a bill similar to SB 1246 last year – so his signature is not a sure thing by any means"

There was a third bill still viable at the time of the July 15th call to action by CalNonprofits. [AB 2322](#) (Hart and Bennett) proposed to streamline payments and reduce application and reporting requirements for small grants, but lawmakers declined to advance it during the August voting.

A Bit of Light in the Veto Messages?

Although AB 590 (Hart) had sailed through the Legislature in 2023 and was signed into law by Governor Newsom, the two additional bills approved by lawmakers in 2024 – (measures important to achieving the goal of comprehensive grantmaking reform) – were apparently just a bridge too far in the deteriorating deficit climate. They were among the many tough calls that the governor made during September 2024.

But consider that the veto messages for these two California Nonprofit Equity Initiative measures were neither firm nor unequivocal rejections of the proposed reforms. In each, the governor left the door open a tad for interested stakeholders, legislative allies, and executive-branch officials to work on rewrites over the next few months in time for the 2024-25 Legislative Session beginning early next year. See:

- Letter from the governor dated September 28, 2024, returning SB 1246 to the State Senate, including a statement of the reasons he could not “sign this bill.”

“...Nonprofit organizations play a critical role in supporting our state’s communities, and I commend the author’s continued effort to support these organizations. I also understand the goal of ensuring that our nonprofit partners are receiving payments in a timely manner; however, this broad expansion will have a significant impact across all state agencies that are currently working to decrease administrative costs.”

Governor Newsom continues: “I believe a more focused evaluation of this issue is warranted, to help ensure nonprofits are provided the financial stability they need while taking into account the unintended consequences when broad requirements are placed across the state’s disparate range of programs. I encourage the author and stakeholders to continue working with my administration on an approach to advance the goals of this bill while considering the current fiscal environment and the totality of the impacts.”

He concludes: “In partnership with the Legislature this year, my Administration has enacted a balanced budget that avoids deep program cuts to vital services and protected investments in education, health care, climate, public safety, housing, and social service programs that millions of Californians rely on. It is important to remain disciplined when considering bills with significant fiscal implications that are not included in the budget, such as this measure.”

- Letter from the governor dated September 29, 2024, returning SB 336 to the State Senate, including a statement of the reasons he could not “sign this bill.”

“This bill requires a state agency administering a grant program to reimburse grantees for indirect costs related to the grant program at one of four rate structures, as requested by the grantee in its state grant application.”

“Nonprofits provide valuable resources and services, often to our most underserved communities, which is why I signed AB 590 last year to authorize advance payments to nonprofit organizations. While funding agencies understand the need to cover indirect costs, this bill could have unintended consequences by allocating a significant amount of grant funding toward indirect costs, rather than project implementation, which would create cost pressures to balance services to Californians. I encourage the Legislature to continue working on this issue to find a balance between funding

indirect costs and project implementation.”

In both cases, the governor’s “no” included some wiggle room.

A Veto Override?

The possibility of a veto override exists but is a long-shot only. Although there was unanimous support in both legislative chambers for each of the bills (and granting that there are blue super majorities in the Assembly and in the Senate sufficient to pull off an override), veto battles are disfavored in the Golden State.

As we’ve explained in earlier posts, it’s just not done here. There hasn’t been one since 1979.

An “... old Sacramento adage uses baseball imagery to explain the power of California’s chief executive at the end of the legislative process: ‘The governor bats last.’” See [Column: Once California’s governor vetoes a bill, lawmakers almost never challenge the decision](#) (September 30, 2018) John Myers, *The Los Angeles Times* [“...a vote to override is ‘seen as a significant insult to the governor and major disruption to the balance of power relationship between the three branches.’”]

Nevertheless, the status notices for SB 1246 and for SB 336 show they are back in the Senate offices pending possible override consideration.

Conclusion

This is a breaking story and there will undoubtedly be news reports, expert and stakeholder commentary, and interesting developments in the coming days. We’ll pick up this thread again at that time. [See Update, above].

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