

Date of Hearing: April 22, 2026

ASSEMBLY COMMITTEE ON EDUCATION
Darshana R. Patel, Chair
AB 2640 (Hadwick) – As Amended April 9, 2026

[Note: This bill is double referred to the Assembly Local Government Committee and was heard by that Committee as it relates to issues under its jurisdiction.]

SUBJECT: Commission on State Mandates: state mandates

SUMMARY: Authorizes local agencies, including school districts, to offset any reduced reimbursements from any unpaid reimbursement claims or to remit funds to the State Controller's Office (SCO). Specifically, **this bill:**

- 1) Requires the SCO to notify the claimant in writing within 30 days of any adjustment to a claim for reimbursement that results from an audit or review, instead of 30 days after the issuance or remittance advice.
- 2) Specifies that the SCO shall allow a local agency or school district, at the sole discretion of the local agency or school district, to do any of the following:
 - a) Offset any reduced reimbursement, identified in an audit or review by the SCO, from any balances of unpaid claims for reimbursement of state-mandated local costs in chronological order beginning with the earliest claim, attributed to the local agency or school district, whether appropriated or not, to the extent sufficient unpaid reimbursement claims determined by the SCO to exist;
 - b) Request an adjustment to the payment of claims; or
 - c) Remit funds to the SCO.
- 3) Requires, if the local agency or school district does not exercise its selection option in (2) by notifying the SCO within 45 days of receiving the adjustment notification, the SCO to first attempt to offset any reduced reimbursement. Requires, if an unpaid reimbursement claim does not exist, the SCO to adjust the payment of claims in subsequent fiscal years.
- 4) Makes other technical changes.

EXISTING LAW:

- 1) Provides that a reimbursement claim for actual costs filed by a local agency or school district is subject to the initiation of an audit by the SCO no later than three years after the date that the actual reimbursement claim is filed or last amended, whichever is later. However, if no funds are appropriated or no payment is made to a claimant for the program for the fiscal year for which the claim is filed, the time for the SCO to initiate an audit shall commence to run from the date of initial payment of the claim. In any case, an audit shall be completed not later than two years after the date that the audit is commenced. (Government Code (GC) 17558.5)

- 2) Specifies that the SCO may conduct a field review of any claim after the claim has been submitted, prior to the reimbursement of the claim. (GC 17558.5)
- 3) Provides that the SCO shall notify the claimant in writing within 30 days after issuance of a remittance advice of any adjustment to a claim for reimbursement that results from an audit or review. The notification shall specify the claim components adjusted, the amounts adjusted, interest charges on claims adjusted to reduce the overall reimbursement to the local agency or school district, and the reason for the adjustment. Remittance advices and other notices of payment action shall not constitute notice of adjustment from an audit or review. (GC 17558.5)
- 4) Specifies that the interest rate charged by the SCO on reduced claims shall be set at the Pooled Money Investment Account rate and shall be imposed on the dollar amount of the overpaid claim from the time the claim was paid until overpayment is satisfied. (GC 17558.5)
- 5) Authorizes any school district, county office of education (COE), or charter school to elect to receive block grant funding for state mandate reimbursement. (GC 17581.6)

FISCAL EFFECT: Unknown

COMMENTS:

Need for the bill. According to the author, “The State of California owes cities, counties, special districts, schools and community colleges over \$1.8 billion in unpaid reimbursable state mandate claims. Even after a reimbursement is issued, an audit or review may reduce the reimbursement amount paid. The local government then must pay that reduced amount, plus interest, back to the State. These repayments must occur even if the local government has other outstanding claims owed to them. For small, rural counties with tight budgets, repaying even a fraction of what little reimbursement they are owed can cripple their financial health. Assembly Bill 964 provides financial relief to local governments facing a massive back log of unpaid claims. By allowing a local government to offset any reduced reimbursement from other unpaid reimbursement claims, local governments can hold on to critical funding for their under resourced communities.”

Key provisions of the bill. This bill requires the SCO to notify a claimant in writing within 30 days of any adjustment that results from an audit or review, instead of 30 days after the issuance or remittance advice. This bill also requires the SCO to allow a local agency or school district, at the sole discretion of the local agency or school district, to offset any reduced reimbursement, as prescribed, or to remit funds to the SCO. The State Association of County Auditors is the sponsor of this bill.

State mandates. In 1979, the voters amended the California Constitution requiring the state to reimburse local governments for the cost of new programs or higher levels of service mandated by the Legislature, the Governor, or any state agency (Section 6 of Article XIII B). Despite this change, not all mandates are reimbursable. The Constitution also creates specific exceptions when the state does not have to reimburse local governments for the new program or higher level of service, including when:

- The local agency affected requests the mandate;
- The mandate defines a new crime or changes an existing definition of a crime;
- The Legislature enacted the mandate prior to 1975; or
- The mandate concerns constitutional requirements to provide the public access to public meetings and records.

The Legislature established the State Mandates Commission (Commission) in 1984 as a quasi-judicial body to mediate disputes between the state and local agencies over what constitutes a reimbursable mandate. The Commission is tasked with resolving the complex legal questions associated with determinations of state-mandated costs. The Commission's membership includes the Director of the Department of Finance (DOF), State Treasurer, SCO, Director of the Office of Land Use and Climate Innovation (formerly the Office of Planning and Research), two local government members appointed by the Governor (a city councilmember, member of a county board of supervisors, or a governing board member of a school district), and one public member appointed by the Governor with experience in public finance.

When the Legislature established the Commission, it also created additional circumstances under which the state does not have to reimburse local agencies for state-mandated local programs, including when:

- The mandate has been declared existing law or regulation by action of the courts;
- The mandate is federally mandated;
- The local agency has the authority to levy service charges, fees, or assessments sufficient to pay for the mandated program or increased level of service;
- There is offsetting savings from an appropriation or another bill; or
- The mandate is necessary to implement a ballot measure approved by the voters.

Proposition 1A. Proposition 1A, passed by voters in 2004, generally required the state to pay all outstanding non-education mandate costs each year or suspend the mandate's requirements, halting the practice of delaying payments indefinitely while still requiring local agencies to provide the mandated services. Proposition 1A allowed those delayed payments to be paid over a term of years. Local agencies worked with the state to secure the final repayment for pre-2004 mandate debt in the 2015-16 state budget. That debt, which at one time totaled more than \$1 billion, is now fully paid.

Submitting test claims. When a local agency wants to claim that a state law or executive order increases costs, it submits a test claim to the Commission outlining the increased costs or level of service. The Commission hears the claim and decides whether it is a reimbursable state mandate. If the Commission determines that the requirement in question is a reimbursable mandate, it calculates the amount the state must pay local agencies based on actual costs or

another Reasonable Reimbursement Methodology (RRM) the Commission develops. Current law and regulations establish timeframes for when test claims are required to be filed.

Reimbursement process. If the Commission determines there are costs mandated by the state, it also determines the amount to be subvented to local agencies and school districts for reimbursement. The Commission is then required to adopt “Parameters and Guidelines” that list the specific activities that are reimbursable. Once the Commission has adopted Parameters and Guidelines, local governments can submit claims for reimbursement based on the actual costs of the required activities. Alternatively, the Commission can adopt a RRM, a process intended to streamline the documentation and reporting process for mandates. An RRM allows local governments to be reimbursed based on general allocation formulas or other approximations of costs, rather than detailed documentation of actual costs.

After the Commission adopts parameters and guidelines, those parameters and guidelines are sent to the SCO. The SCO then has 90 days to issue claiming instructions. Local governments then have 120 days to file their initial reimbursement claims with the SCO. Following the receipt of the initial reimbursement claims, the Commission estimates the statewide costs and sends the statewide cost estimate to the Legislature. Typically, within one year of local governments submitting claims for reimbursement, the Commission prepares a statewide cost estimate based on the claims or the RRM. After the cost estimate is prepared, mandates are considered for funding in the state budget. Proposition 1A (2004) requires the Legislature to fund, suspend, or repeal non-education-related mandates. Suspending mandates relieves local governments of performing the mandate for one year, while repealing a mandate permanently eliminates it.

If the amount the Legislature appropriates is insufficient to pay all of the reimbursement claims filed and approved for reimbursement, the SCO will prorate the claims. If the funds to cover the remaining deficiency are not appropriated in the Budget Act, the SCO is required to report this information to the legislative budget committees and the Commission.

Local educational agency (LEA) reimbursements. In the 2012-13 fiscal year, the state created two education mandate block grants—one for all active K-12 mandates and one for all active community college mandates. The block grants are an alternative mechanism for LEAs to seek mandate reimbursement. Instead of submitting detailed claims on an ongoing basis listing how much was spent on each mandated activity, or using specific RRMs for specific mandates, LEAs can choose to receive funding for all mandated activities through the block grants. LEAs may both participate in the mandate block grant and, if the mandated program is not specifically listed in GC 17581.6(f), an eligible LEA may file a mandate reimbursement claim with the SCO, but the mandate claim may only be paid when the Legislature appropriates funds for it.

LEAs now participate in the block grants. The current mandate block grant funding rates include:

LEA	Grade Span	2024–25 Funding Rate per Average Daily Attendance
COE	Grades K–8	\$38.21
COE	Grades 9–12	\$73.62
COE	Countywide*	\$1.28
School Districts	Grades K–8	\$38.21

School Districts	Grades 9–12	\$73.62
Charter Schools	Grades K–8	\$20.06
Charter Schools	Grades 9–12	\$55.76

* Countywide average daily attendance (ADA) is defined as the aggregate number of units of ADA within the county attributable to all school districts for which the county superintendent of schools has jurisdiction pursuant to EC 1253, charter schools within the county, and the schools operated by the county superintendent of schools.

Those LEAs opting not to participate in the block grants are authorized to continue to submit claims to the SCO for reimbursement at a later date. However, since it is the understanding of the Committee that all K-12 LEAs use the block grant, this bill will likely have no practical effect for K-12.

SCO audits and reductions. State law authorizes the SCO to audit any mandate claim within three years of reimbursement, and an audit must be completed within two years of when the audit commenced. However, if no funds are appropriated or no payment is made to a claimant for the mandate for the fiscal year for which the claim is filed, the time for the SCO to initiate an audit must commence to run from the date of initial payment of the claim. When auditing a claim or RRM, the SCO reviews whether the local government’s claim for reimbursement follows the Parameters and Guidelines set out by the Commission. The SCO also verifies the information provided by the local government is accurate and sufficient to support the reimbursement. If the local government claimed reimbursement for activities not included in the Parameters and Guidelines or did not provide sufficient evidence for the claim, the SCO may reduce the reimbursement and may charge interest when the claim was already paid. The SCO is required to notify the claimant in writing within 30 days after the issuance of a remittance advice of any adjustment to a claim for reimbursement. As detailed by a Legislative Analyst’s Office review in 2016:

Last year, the SCO issued roughly 130 audit reports related to mandate claims. Each audit report included an average of five local government reimbursement claims for particular mandates. Overall, this reflects an audit of roughly 1% of claims. In the 1%, or roughly 650 claims, audited, the SCO identified errors in 60% of them. As a result, reimbursements to local governments were reduced by \$170 million. While those claims audited were reduced by a significant amount, these reductions reflect a small share of the state’s mandate payments overall. Moreover, this error rate likely does not reflect the error rate across all claims as SCO targets audits based on the risk factors discussed above. (Notably, reductions to community college claims reflected over half of the total adjustments.) Each audit report, which typically is performed by one auditor, requires six months to one year to complete.

If a local government believes the SCO incorrectly reduced its reimbursement, the local government may appeal the decision to the Commission. To overturn a reduction, the Commission must find that the SCO’s reduction was arbitrary, capricious, or did not have sufficient evidence to support a reduction.

Arguments in support. The California State Association of Counties writes, “This measure will authorize the Controller to allow a local government to offset any reduced reimbursement from other unpaid reimbursement claims occurring on or after January 1, 2027. This change would provide local governments with financial relief instead of allowing the state to claw back funds

while still owing debts to that same local government. This mechanism supports cash-strapped local governments and retains critical funding for under-resourced communities. Local governments continue to support efforts to modernize the state mandate claiming and reimbursement process. AB 2640 represents a modest, but important, step towards these reform efforts and provides needed fiscal flexibility for local agencies.”

Related legislation. AB 964 (Hadwick) of the 2025-26 Session is identical to AB 2640 (Hadwick). This bill was held in the Assembly Appropriations Committee.

SB 1016 (Committee on Budget and Fiscal Review), Chapter 38, Statutes of 2012, established the mandate block grant for schools.

SB 805 (Monteith), Chapter 154, Statutes of 1996, authorized the Governor to appoint two new members to the Commission on State Mandates: a governing board member of a school district, a city council member, or a member of a county or city and county board of supervisors to the local elected official positions, provided that no more than one member shall come from the same category.

SB 2337 (Foran), Chapter 1479, Statutes of 1984, established the Commission on State Mandates.

Proposition 4 (1979), the Government Spending “Gann Limit” Initiative, included a requirement that the state government reimburse local governments for the costs of complying with state mandates.

REGISTERED SUPPORT / OPPOSITION:

Support

California Special Districts Association
California State Association of Counties (CSAC)
County of Shasta, Auditor-Controller
League of California Cities
Rural County Representatives of California (RCRC)
Sacramento; County of
State Association of County Auditors
Urban Counties of California (UCC)

Opposition

None on file

Analysis Prepared by: Marguerite Ries / ED. / (916) 319-2087