

Date of Hearing: May 6, 2026

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Buffy Wicks, Chair

AB 2640 (Hadwick) – As Amended April 9, 2026

Policy Committee:	Local Government	Vote:	10 - 0
	Education		9 - 0

Urgency: No                      State Mandated Local Program: No                      Reimbursable: No

**SUMMARY:**

This bill authorizes a local agency, including a school district, to offset any reduced reimbursements from any unpaid reimbursement claims, request an adjustment, or 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) Requires the SCO to 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 on or after January 1, 2027, 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 are determined by the SCO to exist.
  - b) Request an adjustment to the payment of claims pursuant to existing law.
  - c) Remit funds to the SCO.
- 3) Requires, if the local agency or school district does not exercise its selection option in item 2), above, 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.

**FISCAL EFFECT:**

Estimated ongoing General Fund costs to the SCO of approximately \$155,000 annually for one staff position for increased workload.

The Legislative Analyst’s Office recently warned of General Fund structural deficits of around \$35 billion per year in the 2027-28 fiscal year and ongoing.

**COMMENTS:**1) **Purpose.** 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. [This bill] 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.

2) **Background. State Mandates.** The California Constitution requires 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). The Constitution also creates specific exceptions such as when the mandate defines a new crime.

The Legislature established the Commission on State Mandates (Commission) as a quasi-judicial body to mediate disputes between the state and local agencies over what constitutes a reimbursable state mandate. To claim reimbursement, a local agency must submit a test claim to the Commission outlining the increased costs or level of service. If the Commission determines the claim is a reimbursable mandate, the Commission calculates the amount the state must pay local agencies based on actual costs or another Reasonable Reimbursement Methodology (RRM) the Commission develops. Existing law and regulations establish timeframes for filing test claims and establish the reimbursement process.

Typically, within one year of an initial claim for reimbursement, the Commission prepares a statewide cost estimate based on the claims or the RRM. The mandate is then 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 Controller prorates the claims. If the funds to cover the remaining deficiency are not appropriated in the Budget Act, the Controller reports this information to the legislative budget committees and the Commission.

According to the SCO, as of October 2024, the state owes local governments collectively \$883.3 million, including estimated accrued interest. This figure includes funds owed for claims for active state-mandated programs, unpaid claims from prior fiscal years, and outstanding “incorrect reduction” claims filed with the Commission on State Mandates.

**SCO Audits.** Existing law authorizes the SCO to audit any mandate claim by a local agency within three years of reimbursement. If the local government claimed reimbursement for activities not included in the Commission's parameters and guidelines or did not provide sufficient evidence for the claim, the SCO may reduce the reimbursement amount and may charge interest if the claim was already paid. The SCO must notify the claimant in writing within 30 days after the issuance of remittance advice of any adjustment for reimbursement resulting from the audit. The local government must pay any disallowed payments back to the state. These repayments must occur even if the state has other outstanding debts owed to that local government.

This bill, instead of requiring a local agency to pay back disallowed payments resulting from an audit, allows a local government the option to offset the reduced reimbursement amount from other unpaid reimbursement claims owed to the local government.

According to the State Association of County Auditors, the sponsor of the bill, "[This bill] does not relieve the agency of the obligation to repay the subject funds; rather it provides a fair mechanism to correct the issue with significantly less harm to local agency services by utilizing funding that is owed to that agency."

- 3) **Related Legislation.** AB 964 (Hadwick), of this legislative session, is substantially similar to this bill and authorizes local agencies to offset any reduced reimbursements from any unpaid reimbursement claims or to remit funds to the SCO. AB 964 was held on this committee's suspense file.

**Analysis Prepared by:** Jennifer Swenson / APPR. / (916) 319-2081