SENATE COMMITTEE ON LOCAL GOVERNMENT
Senator María Elena Durazo, Chair
2025 - 2026 Regular

Bill No:	AB 2640	**Hearing Date:**	6/17/26
Author:	Hadwick	**Fiscal:**	Yes
Version:	4/9/26	**Consultant:**	Peterson

COMMISSION ON STATE MANDATES: STATE MANDATES

Authorizes local agencies to request to offset any reimbursement adjustments resulting from audits by the State Controller's Office from any unpaid reimbursement claims.

Background

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 or any state agency (Section 6 of Article XIII B). However, not all mandates are reimbursable. The Constitution also creates specific exceptions when the state may not have to reimburse local governments for the new level of service:

- 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; and
- The mandate concerns constitutional requirements to provide the public access to public meetings.

The Legislature established the Commission on State Mandates (the Commission) in 1984 as a quasi-judicial body to mediate disputes between the state and local agencies over what constitutes a state mandate and requires the state to reimburse local agencies. When the Legislature created the Commission, it also created additional circumstances under which the state may not have to reimburse local agencies for state-mandated local programs, including when:

- The mandate has been declared existing law or regulation by 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; and
- The mandate is necessary to implement a ballot measure approved by the voters.

Submitting test claims. When a local agency wants to claim 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 methodology the Commission develops. Even if the Commission approves a claim, the local agency who submitted the claim does not receive the reimbursement until the state makes an appropriation for it.

Mandate audits and adjustments. After the Commission approves the claim, the State Controller's Office (SCO) can conduct a review of any claim. Once the state pays the local agency, the local agency is subject to an audit from SCO for three years after the mandate filing. If the state does not appropriate funds, or does not pay the claimant for the fiscal year the local agency filed the claim, the time for SCO to initiate the audit runs from the initial payment of the claim. Regardless, SCO must complete the audit no later than two years from starting the audit.

If the audit shows an underpayment or overpayment, SCO must notify the local agency in writing within 30 days after issuance of any adjustment of the claim. The notification must include:

- The components of the claim adjustment;
- The adjustment amount;
- Interest charges on claims adjusted to reduce the overall reimbursement to the local agency; and
- The reason for the adjustment.

These provisions do not limit adjustments when inaccuracies in reimbursement amounts result from attempts to defraud the state, or when a delay in the completion of the audit results from willful acts of the local agency to avoid reaching a settlement agreement. If SCO reduces a claim, the local agency can file an incorrect reduction claim to the Commission.

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 percent of claims. In the 1 percent, or roughly 650 claims, audited, the SCO identified errors in 60 percent 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."

To avoid audits requiring local agencies to repay amounts they did not budget for, the State Association of County Auditors wants to create a process for these repayments to come from claims the state has yet to pay.

Proposed Law

Assembly Bill 2640 requires SCO to allow a local agency to do any of the following at the sole discretion of the local agency or school district:

- Offset any reduced reimbursement identified through an audit from the balances of any unpaid reimbursement claims beginning with that agency's earliest outstanding claim,

regardless of whether the Legislature appropriates funds for that claim, if SCO determines sufficient unpaid reimbursement claims exist;
- Request an adjustment to the payment of claims to correct for any underpayments or overpayments that occurred in previous fiscal years; and
- Remit funds to SCO.

If the local agency does not select any of these options by notifying SCO within 45 days of receiving the adjustment notification, SCO must first attempt to offset any reduced reimbursement as described above. If an unpaid reimbursement claim does not exist, SCO must adjust the payment of claims to correct for any underpayments or overpayments that occurred in previous fiscal years.

Comments

1. Purpose of 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 2640 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. Who decides? While the Commission decides which mandate claims to approve, it is ultimately up to the Legislature to appropriate funds to cover these reimbursements. AB 2640 does not appropriate funds for reimbursements, but it does give local agencies the opportunity to receive funds the Legislature has not yet appropriated. While AB 2640 gives local agencies access to state funds without legislative appropriation, it could help the state avoid having reimbursement claims accrue interest leading to increased state costs.

3. I can see clearly now. AB 2640 allows local agencies to offset any reduced reimbursement identified through an audit from the balances of any balances of unpaid reimbursement claims, but does not clearly identify the roles of the county auditor who must make the election, and the SCO who must perform the offset. The Committee may wish to consider amending the bill to more clearly outline the roles and process for these offsets to occur.

4. Let's get technical. Committee staff recommends the following technical amendment:

- On page 3, line 13, replace "claims" with "claim."

Assembly Actions

Assembly Committee on Local Government:	10-0
Assembly Committee on Education:	9-0
Assembly Committee on Appropriations:	15-0
Assembly Floor:	76-0

Support and Opposition (6/12/2026)

Support: State Association of County Auditors (Sponsor)
California Special Districts Association
California State Association of Counties (CSAC)
City of Norwalk
City of Thousand Oaks
County of Butte
League of California Cities
Rural County Representatives of California (RCRC)
Urban Counties of California (UCC)

Opposition: None Submitted

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