SENATE COMMITTEE ON APPROPRIATIONS
Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

AB 2640 (Hadwick) - Commission on State Mandates: state mandates

Version: June 18, 2026
Urgency: No
Hearing Date: June 29, 2026
Policy Vote: L. GOV. 6 - 0
Mandate: No
Consultant: Mark McKenzie

Bill Summary: AB 2640 would authorize a local agency, after receiving a notice from the State Controller (SCO) of any adjustments resulting from an audit of mandate reimbursement claims, to have the SCO offset any reduced reimbursement amount from any balances of unpaid reimbursement claims that are owed to the local agency, as specified.

Fiscal Impact:
- Unknown General Fund revenue reductions in a given fiscal year to the extent local agencies opt to offset amounts owed to the state, as reflected in an SCO audit, from previous balances of unpaid claims, rather than remitting funds to the SCO for those overpayments. These amounts would be more than offset in a future fiscal year by reducing the amounts that would be paid to local agencies for state-mandated program liabilities from previous fiscal years and avoid interest payments that accrue on unpaid balances. In short, the bill would result in near term General Fund revenue losses that would be more than offset by future General Fund savings. The overall impacts are unquantifiable and would depend upon the specific outcomes of any SCO audits, amounts of any required adjustments, balances of any unpaid claims for reimbursement, and the timing and amounts of any budget appropriations for local agency mandate reimbursements in the future.

- The SCO estimates minor and absorbable costs for staff time to coordinate with local agencies regarding audit results and effectuate any direction from local agencies to offset any reduced reimbursements identified in an audit from unpaid claims balances. (General Fund)

Background: In 1979, California’s voters approved Proposition 4, which amended the California Constitution (Section 6 of Article XIII B) to require the state to reimburse local governments (cities, counties, special districts, and school districts) for the costs of state-mandated new programs or higher levels of service, with specified exceptions. Additional exemptions were enacted in statute when the Legislature established the Commission on State Mandates (CSM). Historically, the state often deferred reimbursement, so voters approved Proposition 1A in 2004, which amended the Constitution to require the state to either appropriate funds in the annual budget act to pay for mandate reimbursements, or to take specific action to suspend or repeal the mandates. Proposition 1A does not apply to education-related mandates.

The Legislature established the CSM in 1984 to render sound quasi-judicial decisions and to provide an effective means of resolving disputes over the existence of state-mandated local programs. Local governments may file “test claims” with the CSM alleging that state statutes or executive orders impose new programs or higher levels of service upon them. After receipt of comments on the test claim, the CSM hears and determines whether a reimbursable state-mandated new program or higher level of service has been imposed. If a test claim is approved, the CSM determines the amount to be subvened to local agencies or school districts for reimbursement through the adoption of parameters and guidelines, which detail specific activities that have been deemed reimbursable and may specify reimbursement based on actual costs incurred by a local agency or include a reasonable reimbursement methodology. The CSM is also required to adopt and report to the Legislature estimates of the statewide costs of mandated programs. After the cost estimate is prepared, mandates are considered for funding in the state budget.

Once the CSM issues parameters and guidelines for a reimbursable mandate, the SCO issues claiming instructions for local governments that enumerate how to file for reimbursement for mandated activities with the SCO. Existing law authorizes the SCO to audit any local agency mandate claim within three years of reimbursement. If the state does not appropriate funds for a specified mandate, or does not pay the claimant for the fiscal year the local agency filed a claim for reimbursement, the time for the SCO to initiate a claim runs from the initial payment of the claim. Generally, the SCO identifies claims to audit based on certain criteria, such as the size of the claim, the variance in claimed costs, and prior audit experience. The SCO reviews whether the local government’s claim for reimbursement follows the CSM parameters and guidelines, and verifies that 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, did not provide sufficient evidence for the claim, or the SCO deems a claim to be excessive or unreasonable, the SCO may reduce the reimbursement amount. The SCO must notify the claimant in writing within 30 days of any adjustment to a claim for reimbursement that results from an audit or review, which must specify the components adjusted, the amounts adjusted, interest charges on claims adjusted, and the reason for the adjustment. If the SCO reduces a claim amount, the local agency may file an incorrect reduction claim with the CSM. A local government must pay back any disallowed or adjusted payments back to the state, with interest, regardless of any outstanding balances owed to the local agency.

A 2016 report by the Legislative Analyst’s Office on local government mandates noted that: “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.”

Proposed Law: AB 2640 would authorize a local agency or school district, at its discretion, to have the SCO do either of the following before the local entity remits funds for overpayments of reimbursement claims identified in an audit or review:

- Offset any reduced amounts identified in an SCO audit after January 1, 2027 from any balances of unpaid mandate reimbursement claims in chronological order beginning with the earliest claim, attributed to the local agency or school district, if those unpaid claims exist.
- Adjust the payment of claims to correct for any underpayments or overpayments that occurred in previous fiscal years, as specified in existing law.

If the local agency does not select one of these options by notifying the SCO within 45 days of receiving the adjustment notification, the 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, as specified in existing law.

Staff Comments: The SCO annually reports to the Legislature on the unpaid claims and deficiencies related to state-mandated programs. According to the April 30, 2026 SCO report, there is an overall net appropriation deficiency of approximately $1.8 billion that is owed to local governments, which includes state-mandated program payable balances of $1.59 billion as of April 1, 2026, plus approximately $337 million in accrued interest, net of budget appropriations and payments.

This bill is intended to relieve local governments of the burden of using scarce resources to pay back any adjustments for mandate claims resulting from an SCO audit, and instead credit those adjustments against amounts owed to the local government from previous mandate underpayments and deficiencies. As noted above, this may result in reductions in General Fund revenues in the short term, which would be more than offset as a result of reduced appropriations in future years to pay reimbursement claims and accrued interest.

-- END --