SENATE RULES COMMITTEE AB 2640
Office of Senate Floor Analyses
(916) 651-4171

THIRD READING

Bill No: AB 2640
Author: Hadwick (R), et al.
Amended: 6/18/26 in Senate
Vote: 21

SENATE LOCAL GOVERNMENT COMMITTEE: 6-0, 6/17/26
AYES: Durazo, Choi, Arreguín, Cervantes, Laird, Seyarto
NO VOTE RECORDED: Ashby

SENATE APPROPRIATIONS COMMITTEE: 7-0, 8/13/26
AYES: Cervantes, Seyarto, Cabaldon, Dahle, Grayson, Richardson, Wahab

ASSEMBLY FLOOR: 76-0, 5/26/26 - See last page for vote

SUBJECT: Commission on State Mandates: state mandates

SOURCE: State Association of County Auditors

DIGEST: This bill authorizes local agencies to request to offset any reimbursement adjustments resulting from audits by the State Controller's Office (SCO) from any unpaid reimbursement claims.

ANALYSIS:

Existing law:

1) Requires 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.

2) Creates specific exceptions when the state may not have to reimburse local governments for the new level of service, including when the local agency affected requests the mandate.

3) Establishes the Commission on State Mandates (the Commission) 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.

This bill:

1) Authorizes a local agency, after receiving a notice from SCO of any adjustments resulting from an audit of mandate reimbursement claims, to elect, at its discretion, to have SCO do either of the following before the local agency or school district remits funds to SCO:

   a) Offset any reduced reimbursement identified 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 that local agency or school district, whether appropriated or not, if those unpaid claims exist. This only applies to claim adjustments that occur after January 1, 2027.

   b) Adjust the payment of claims to correct for any underpayments or overpayments that occurred in previous fiscal years.

2) Provides that, 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.

Background

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.

Comments

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."

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. This bill does not appropriate funds for reimbursements, but it does give local agencies the opportunity to receive funds the Legislature has not yet appropriated. While this bill 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.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

SUPPORT: (Verified 8/14/26)

State Association of County Auditors (Source)
California Contract Cities Association
California Special Districts Association
California State Association of Counties
City of Norwalk
City of Thousand Oaks
County of Butte
League of California Cities

Rural County Representatives of California
Urban Counties of California

OPPOSITION: (Verified 8/14/26)

None received

ASSEMBLY FLOOR: 76-0, 5/26/26
AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Chen, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Flora, Fong, Gabriel, Gallagher, Garcia, Gipson, Jeff Gonzalez, Mark González, Hadwick, Harabedian, Hart, Hoover, Irwin, Jackson, Johnson, Kalra, Krell, Lackey, Lowenthal, Macedo, McKinnor, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas
NO VOTE RECORDED: Haney, Lee, Muratsuchi, Celeste Rodriguez

Prepared by: Jonathan Peterson / L. GOV. / (916) 651-4119
8/14/26 16:15:50

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