



CALIFORNIA STATE AUDITOR

Elaine M. Howle, State Auditor

FACT SHEET

Date: **October 15, 2009**

Report: **2009-501**

The California State Auditor released the following report today:

State Mandates

*Operational and Structural Changes Have Yielded Limited Improvements
in Expediting Processes and in Controlling Costs and Liabilities*

BACKGROUND

The California Constitution requires that whenever the Legislature or any state agency mandates a new program or higher level of service for a local entity, the State is required, with certain exceptions, to provide funding to reimburse the associated costs. The Commission on State Mandates (Commission) hears and decides if a test claim filed by a local entity identifies a reimbursable mandate. When a mandate exists, state law requires the Commission to adopt a statewide cost estimate, used to make initial funding decisions, within 12 months after receipt of the test claim, but also allows for extensions and postponements. The State Controller's Office (Controller) issues payments on mandate claims, performs audits of select mandate claims, and presents data annually to the Legislature emphasizing the funding shortfall between mandate claims and the funds appropriated to pay them.

KEY FINDINGS

During our review of mandate determination and payment processes, we noted the following:

- Costs for mandate activities performed during fiscal years 2003–04 through 2007–08 averaged \$482 million annually, and the State's liability for mandates grew to \$2.6 billion in June 2008, largely because of insufficient funding.
- The Commission still has a large backlog of test claims, including many from 2003 or earlier, and the average time elapsed for completing the test claim process through adoption of a statewide cost estimate increased to more than eight years in fiscal year 2008–09. The backlog and long processing times mean substantial costs will continue to build up before the Legislature can take any necessary action.
- The high level of audit adjustments for some mandate claims indicates that the State could save money if the Controller were able to fill 10 vacant audit positions.
- The Commission's backlog of incorrect reduction claims, which local entities file to contest audit adjustments, grew to \$57 million by June 2009, and creates uncertainty about what constitutes a proper claim.
- Recent reforms that could relieve the Commission of some of its workload have rarely been used, and a recent court case has stripped the Legislature of its ability to direct the Commission to reconsider mandate decisions when applicable laws change.
- A number of state and local entities have proposed mandate reforms that merit further discussion.

The significance of the issues we reviewed, in particular the large and growing liability, has prompted us to add the areas of mandate determination and payment to our list of issues that pose a high risk to the State.

KEY RECOMMENDATIONS

To ensure that the Commission resolves its backlogs and the Controller meets its responsibilities, including a heightened focus on mandate audits, both agencies should work with the Department of Finance to seek additional resources. Commission staff should also continue their efforts to establish a reconsideration process that will allow mandates to be revised as appropriate. Finally, the Legislature, along with relevant state agencies and local entities, should ensure the further discussion of reforms.

