



**California Special
Districts Association**

Districts Stronger Together

DATE: August 8, 2016

TO: The Honorable Pedro Nava, Chair, Little Hoover Commission

FROM: Neil McCormick, Chief Executive Officer, CSDA
Kyle Packham, Advocacy and Public Affairs Director, CSDA

RE: Little Hoover Commission Review of Special Districts

Thank you for inviting the California Special Districts Association (CSDA) to participate in the Little Hoover Commission's (Commission) August 25 public hearing on special districts in California. We appreciate the opportunity to share our perspective on the recent trends related to special districts, as well as the emerging challenges faced by districts as they deliver essential services and infrastructure to millions of Californians.

Most importantly, we see this as another opportunity to promote understanding and awareness of local government and special districts in particular. Across our state, nation, and world, all levels of government face what seems to be growing levels of scrutiny. CSDA is striving to take a proactive approach to this issue, which this written testimony will speak to.

We look forward to actively participating in the Commission's review as an opportunity to build upon our efforts toward addressing political perceptions and meeting challenges related to special districts and the communities they serve.

About Special Districts

First, I'd be happy to give a quick overview of why special districts exist and what they do. Special districts are local governments, created by a community's residents, funded by those residents, and overseen by those residents to provide a new or enhanced level of service and infrastructure to the community. This may be a service that didn't exist previously, or it may have simply not met the full needs and desires of the community. Either way, special districts are formed when it's something the community wants; they want it done well; and they want it done with local control.

Focused Service

It's often asked, "What makes special districts so special?" The answer is the "specialized" services that special districts provide. Unlike general purpose governments, special districts focus on providing one service, or sometimes a small suite of services, to a community. It is this focused service that leads to efficiency and effectiveness. By focusing on doing one thing really well, special districts excel at innovation. It also allows them to plan ahead, think long-term, and practice sustainable decision-making.

In his prominent book, *Good to Great*, Jim Collins analyzes the difference between good businesses and great businesses. After an exhaustive study, Collins narrowed the difference down to what he referred to as the "Hedgehog Concept". According to Collins, a great business is one that finds one thing that people need, that the business is passionate about, and focuses



**California Special
Districts Association**

Districts Stronger Together

on doing that one thing better than anyone else in the world. This is exactly what special districts do in the public sector.

Connecting governance, revenue authority, and service delivery is central to the success of special districts. One classic example of bureaucratic wrangling and inefficiency that faces larger bureaucracies is the governmental department that goes out of its way to spend every last dime remaining in the fourth quarter so that next year's budget isn't raided by the other departments.

With special districts, in a sense, the department is the agency. Therefore, service specialists are empowered to raise and expend revenues toward the services and infrastructure they deliver. If they can save a buck in the fourth quarter, that's a buck they can reserve and later expend on a valuable innovation or an important long-term capital improvement project—or it's one less dollar the district will need to raise in fees or taxes in the future.

History

In the 1880s, agriculture in the fertile Central Valley was limited to dry farms and low-value crops. Local farmers had a desire to tap into the water supply of the Tuolumne River, and the farmers themselves used their land as collateral to build diversion dams. Over time, it became clear that a collective, long-term solution was needed.

In 1887, the Legislature passed the Wright Act, named after the Modesto attorney who had been elected to office on a pro-irrigation platform. The Wright Act provided the legal foundation for the formation of water districts and, ultimately, other special districts that now deliver a wide range of services used daily by millions of Californians. The Turlock Irrigation District was formed the same year, making it the oldest special district in California.

The Legislature continued to develop new types of special districts as tools to help residents come together to solve community problems. Special districts became a popular mechanism for providing desired community services without the complex bureaucracies that often accompany larger general purpose governments.

For instance, in 1915, the Legislature created mosquito abatement districts because of widespread salt marsh mosquitos in the San Francisco Bay and high rates of malaria in rural counties. These districts continue to protect the public today from such mosquito borne diseases as West Nile and Zika. Because there weren't enough hospital beds after World War II the Legislature created hospital districts, so that communities could create and manage their own healthcare and wellness needs. Then in 1994, the Legislature evolved hospital districts into healthcare districts to meet the growing need for community-based health and wellness services and fill gaps in the healthcare delivery system.

Throughout California's history, special districts have empowered residents to find local solutions to fit the unique needs of their community. It is this local approach that continues to make special districts a popular method for delivering essential public services and infrastructure in communities throughout the state.



**California Special
Districts Association**

Districts Stronger Together

Scale

When it comes to the number of special districts, CSDA always emphasizes that the primary attention should be upon quality over quantity. Ultimately, the residents who receive the services and fund the services should determine how those services are provided. So it is the quality of service the residents receive for the amount of fees and taxes they are willing to pay that is most important. More simply, it is less about the numbers and more about the residents' needs, the residents' desires, and the residents' satisfaction.

That being said, we have provided a list of the type and number of independent special districts below in response to the Commission's request. First, we have listed the number of cities, counties, and school districts for context.

While school districts are different than special districts, they are similar in that they provide one specific service to communities—education. Therefore, school districts offer an important framework of comparison, from a numerical standpoint, in order to understand the number of entities it takes to deliver focused service to communities throughout a state the size of California. Accordingly, rather than lumping all special districts together, we have broken them out by type of district. While imperfect, this is a more relevant numerical comparison than the combined total number of all different types of districts.

Exhibit A, attached to this letter, is a document entitled, *Laws Governing Special Districts*. This document includes the enabling acts and other information related to each type of district listed below and will give a better understanding of the roles and services each district type offers.

Number of Local Entities:

Counties: 58

Cities: 482

School Districts: 1,022

Airport Districts: 10

California Water Districts: 132

California Water Storage Districts: 8

Citrus Pest Districts: 9

Community Services Districts: 321

Cotton Pest Abatement Districts: 1

County Sanitation Districts: 37

County Water Districts: 169

Fire Protection Districts: 346

Harbor Districts: 7

Health Care Districts: 79

Irrigation Districts: 92

Levee Districts: 13

Library Districts: 13

Mosquito Abatement and Vector Control Districts: 47

Municipal Utility Districts: 5

Municipal Water Districts: 37



**California Special
Districts Association**

Districts Stronger Together

Police Protection Districts: 3
Port Districts: 5
Public Cemetery Districts: 248
Public Utility Districts: 54
Reclamation Districts: 150
Recreation and Park Districts: 95
Resource Conservation Districts: 99
Sanitary Districts: 66
Transit Districts: 17
Water Conservation Districts: 13
Water Replenishment Districts: 2
Veterans Memorial Districts: 27

As with cities, towns, parishes, counties, and other jurisdictions, the definition of special district is not uniform from one state to the next. Nonetheless, the United States Census attempts to track the number of special districts across the nation. While the Census defines special districts slightly broader than does CSDA, their definition remains consistent across the 50 states, offering a relevant comparison.

Census data from the 2012 Census of Governments indicates that the number of special districts nationwide have grown by 209% since 1962, while the number of districts in California have only grown by 46%. Moreover, the number of special districts in California have declined by 5% since its peak in 1997, while the number nationwide continued to grow by 10% during that same period. Finally, special districts in California make up 7.5% of the nationwide total number of special districts, while the population of California makes up 12% of the nationwide total.

Density

According to the 2012 Census of Governments and 2010 Census Data, California has 13,021 residents for each special district. Ranked from most residents per special district (1) to least residents per special district (50), California ranks 17.

As a measure of “density”, the fewer residents per special district the higher the density of special districts in the state. By this measure, 33 states have a higher density of special districts per capita than does California. In other words, California is in the 34th percentile, or lowest one-third, in terms of density of special districts per capita among the 50 states.

Range

In terms of the range of special districts, they are as diverse in revenue, staff, and population as the communities they serve. California is not a one-size-fits-all kind of state, and the needs, hopes, and desires of our communities are wide-ranging. From Modoc to Marin, from Calaveras to Costa Mesa, and from San Francisco to San Bernardino, the climate, topography, socio-economics, and political settings are simply different. Therefore, it follows that these communities would choose different tools to meet their local service and infrastructure needs.



Geographical considerations around a state that includes beaches, deserts, valleys, and mountains have an obvious impact on service needs. However, so does population, economy, and political culture. To generalize, special districts in the more urban areas along California's coast tend to be larger in nature. They often seek to maximize economies of scale, overcome political boundary lines with regional solutions, and provide innovative solutions to big problems.

For example, Metropolitan Water District of Southern California is a regional water wholesaler that delivers water to 26 member public agencies—ultimately serving 19 million people in Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura counties. To supply the more than 300 cities and unincorporated areas in Southern California with reliable and safe water, Metropolitan owns and operates an extensive water system including: the Colorado River Aqueduct, 16 hydroelectric facilities, nine reservoirs, 819 miles of large-scale pipes and five water treatment plants. In fact, Metropolitan is the largest distributor of treated drinking water in the United States. It delivers an average of 1.5 billion gallons of water per day to a 5,200 square-mile service area.

On the other hand, special districts in the more rural areas of inland California tend to be leaner in nature. They often enhance local control so constituents don't need to drive hours to a distant county seat or navigate a larger bureaucracy. Districts in these areas tend to address the limited needs of an independent community that appreciates rural living; and they afford residents a mechanism to limit the amount of government they must pay for and be governed by.

For example, the Pine Cove Water District within the rural Idyllwild mountain community in Riverside County provides retail water service to 1,098 connections. It has no connection to State or imported water because its 18 wells produce between 32 and 43 million gallons annually. It is known for having reliable, as well as great tasting and excellent quality, water for its residents.

In summary, urban special districts more typically serve to centralize and regionalize governance of a particular service over a large population or area. Meanwhile, rural special districts more typically serve to localize governance and service delivery for small communities. Neither style of governance is incorrect, they are simply concentrated on the needs and desires of who they serve.

In some parts of the state, communities are transitioning, and it is in these parts where local leadership via a local process is essential to successfully transitioning services that continue to meet the needs and desires of residents. Some may suggest that the answer to these challenges is a top-down approach from the Capitol. However, imposing the views and interests of Sacramento upon local communities usually hurts more than helps. The most successful community transitions may involve support from the State, but they must involve buy-in from within, locally. This requires time, intentionality, and local leadership.

For example, the residents of Lompico County Water District, in the mountains north of Santa Cruz, voted 287 to 74 in May to impose upon themselves an assessment of \$48 per month for the next 10 years in order to fund improvements necessary to consolidate with the San Lorenzo Valley Water District. This was no easy feat. One year ago, a proposed 30-year bond failed by



California Special Districts Association

Districts Stronger Together

one vote. Ultimately, the three-year consolidation process garnered community buy-in because of local leadership, and Lompico board president Lois Henry was one of those local leaders. When local leaders are empowered to lead a community, true, effective, and sustainable transformation occurs. When change in local governance and local services is forced from the top down, it disempowers the local solutions communities need to succeed long-term.



May 5, 2016 Lompico Sentinel: Lois Henry, president of the Lompico County Water District board and a Lompico resident for 45 years, awaits the merger vote count with fellow board member Rob Hansel, left, and Rick Rogers, on staff of San Lorenzo Valley Water District (Jondi Gumz -- Santa Cruz Sentinel).

Professional Development

One of the major transformative efforts undertaken following the May 2000 Commission report was a coming together of special district leaders to professionalize the special district community. This effort has grown exponentially every year, with record numbers of attendees now going through CSDA's professional development programs. In 2015, we provided 63 workshops, webinars, and conferences representing over 4,239 attendees (elected and staff). By comparison, in 2002 CSDA offered 12 workshops representing 379 attendees (elected and staff).

CSDA Conferences, Workshops, and Webinars

A major component of CSDA's mission and activities focuses on professional development for elected officials and staff at special districts.

The foundation of our governance training efforts is set in curriculum developed by subject matter experts and key stakeholders from local government. CSDA's Special District Leadership Academy (SDLA) consists of 4 content modules covering core governance principles and responsibilities including Governance Foundations, Setting Direction/Community Leadership, Board's Role in Human Resources, and Board's Role in Finance & Fiscal Accountability totaling over 20 hours of education. In its first year, 2002, the SDLA saw 34 elected officials go through



**California Special
Districts Association**

Districts Stronger Together

the program. Since then, it has consistently grown each year with over 180 elected officials expected to graduate through the program just in 2016. The SDLA curriculum is reviewed and updated annually to ensure it remains current.

With an emphasis on promoting the importance of continuing education in districts, CSDA continues to grow other program offerings and now offers a wide array of opportunities for district elected officials and staff to stay current on responsibilities, laws, and best practices through workshops, webinars, and conferences. Additionally, on-demand webinars have recently been added to allow for even greater access to content at lower costs for attendees.

A new and promising trend this year has been the development of partnerships between two LAFCOs, Mendocino and Calaveras, with CSDA to deliver free trainings to special district officials in their respective counties. These partnerships led to four trainings throughout Mendocino County, including, “Understanding Special District Laws”; “Government Best Practices”; “What is Public Engagement and Why Do It?”; and “Financing Options for Special Districts and Other Local Governments”. One training occurred in Calaveras County, entitled, “Boards Role in Finance and Fiscal Accountability”.

Special District Leadership Foundation

The Special District Leadership Foundation (SDLF) is a non-profit 501c3 formed in 1999 to promote and recognize excellence in the governance and management of special districts. Since the Little Hoover Commission’s 1999-2000 review of special districts, significant proactive strides have been made through the efforts of SDLF and others to promote the visibility and accountability of special districts. Exhibit B, attached to this letter, is an overview of some of SDLF’s work. More can be found at www.sdlf.org. There are currently four recognition programs offered by SDLF:

- Special District Administrator Certification – Currently 51 Certificate Holders
- Recognition in Special District Governance – Currently 219 Certificate Holders
- District Transparency Certificate of Excellence – Currently 118 Certificate Holders
- Districts of Distinction Accreditation – Currently 32 Accredited Districts

Each of these programs have specific requirements that must be met in order to earn the recognition with all of them focused on going above and beyond legal requirements through the implementation of best practices. Nearly all of the programs require periodic renewal in order to maintain the recognition.

In addition to the recognition programs, SDLF has also created a ‘High Performing District Checklist’ that serves as a best practices tool for districts to reference and is specific to the areas of finance and human resources. This is available to all special districts at no cost in print and online with numerous links to other resources to help them implement the best practices. Ultimately, the vision of SDLF is that every special district in California has well-trained, knowledgeable decision-makers and engages the public through a transparent process.

Another area of development for SDLF has been providing special districts with professional development opportunities that otherwise may not be attainable due to certain cost factors. SDLF has created three different annual scholarship categories that have allowed both elected



California Special Districts Association

Districts Stronger Together

officials and staff from small districts and disadvantaged communities to attend important educational events by covering their registration costs. The scholarships started in 2012 and this year SDLF expects to award over \$40,000 in scholarships.

CSDA Member Services

Since the May 2000 Commission report, CSDA has worked to continually build member access to tools and resources that will help districts better serve their communities. Through networking, collaboration, and pooled resources, special districts work together more efficiently and effectively. Some of these services include, but certainly are not limited to:

- Regular salary surveys.
- Legal assistance and policy guidance.
- Library of sample policies and other documents.
- Request for Proposal clearinghouse
- Regular informational updates through email, blogs, listserv, and website.

Accountability, Visibility, and Public Engagement

Streamline

More and more Californians have come to expect digital access to their local agencies. However, the transition to the digital sphere can be expensive. For this reason, CSDA partnered with Streamline, a division of Digital Deployment to offer its members a simple, affordable, and high quality solution. The Streamline website builder was developed in 2015 with special districts in mind. With no start up fees and no commitment, CSDA members can create and launch a website that will meet all legal requirements and SDLF transparency guidelines. Depending on the district's annual revenue, they may pay as little as \$10 per month for the service, which includes software maintenance and hosting. Additional information can be found at www.getstreamline.com.

CSDA Mapping Project

In 2012, CSDA embarked on an ambitious project to develop an interactive map to help raise awareness of the diversity of special districts. This geographic information system, developed in partnership with California CAD Solutions, contains location points and boundaries for the independent special districts in California.

CSDA invested a significant amount of time and resources gathering information and data from all over the state to develop this free resource. More notably, CSDA was able to overlay more than 90% of boundary lines for all independent special districts in the state. The map is available at www.csdanet.net.

CSDA Public Outreach Campaign

As part of its public outreach and awareness efforts, CSDA developed a public outreach campaign aimed at educating the public about special districts and the services they provide to communities throughout the state.

The *Districts Make the Difference* campaign launched in January 2016 using a website-based platform that features valuable information and resources regarding the structure, functionality, and purpose of special districts. Informational materials such as videos, posters, factsheets, and



**California Special
Districts Association**

Districts Stronger Together

infographics have been developed and these are promoted through the use of various social media platforms, including Facebook, Twitter, and YouTube.

Access to this campaign, its accompanying materials, and social media pages is available by visiting www.DistrictsMakeTheDifference.org

ILG Public Engagement Program

The Institute of Local Government (ILG) is preparing to launch a major new public engagement tool for special districts, cities, and counties. ILG's Public Engagement Program has received generous support from The James Irvine Foundation to develop a new public engagement framework that will include example actions and implementation checklists which build upon ILG's existing public engagement resources (publications, tipsheets, webinars) to support local government officials and staff to implement specific public engagement policies and activities that result in systemic changes in resident engagement practices. The current effort will include 'beta-training' to test the new framework and support local governments in understanding how to implement the policies and practices outlined so challenges and barriers are avoided or overcome and successful implementation is more likely.

The overarching goal of the ILG Public Engagement Program is to imbed effective and inclusive public engagement practices that encourage data-driven and representative local decision-making. To achieve this, ILG will:

- Encourage more experimentation and use of public engagement and collaboration in local communities by elected officials, staff and residents; and
- Foster greater inclusion of those frequently under-represented in local public engagement (including impoverished, working poor, immigrants, and renters), through more responsive and targeted processes and cross-sector partnerships.

ILG Public Engagement Program objectives include:

- To develop the foundational components of a Public Engagement Actionable Framework for Local Governments, along with companion training curriculum for elected officials and local government staff to implement the framework; test the framework through two beta-trainings including communities in the Inland Empire and Central Valley with evaluative follow up to document impact; and develop communication, implementation, and sustainability plans.
- To develop a public engagement awards program, linked to ILG's Public Engagement Actionable Framework to honor outstanding efforts by local governments.
- To revise internal evaluation systems per recommendations of 2015 evaluation consultants in order to have more consistent data and improved documentation of impact.
- To continue to promote the importance of civic and public engagement from the local to legislative levels through promotion of ILG's Public Engagement Program resources and leadership in the California Consortium on Public Engagement.

ILG's mission is to promote good government at the local level with practical, impartial and easy-to-use resources for California communities. ILG's program areas include: public engagement, local government basics, ethics and transparency, sustainable communities, and collaboration and partnerships.



**California Special
Districts Association**

Districts Stronger Together

CSDA is a proud partner of ILG and looks forward to supporting and promoting this important program. To learn more about ILG visit, ca-ilg.org

State Mandated Transparency Programs

In addition to the voluntary efforts on the part of special districts, significant mandates have been placed upon special districts by the California Legislature since the Commission's last review in 1999-2000. Generally, special districts meet similar standards as other local agencies; however, special districts must often exceed the standards for the state and some local agencies:

Public Financial Transaction and Compensation Reports

Since 1949, special districts have been required to submit a financial transaction report to the State Controller. However, in 2014, legislation was passed to additionally require completion of a compensation report, and to require that both the compensation and financial transaction reports be posted or linked to a conspicuous place on each special district's website. The Controller now provides all of this information in an open data format at www.bythenumbers.ca.gov and www.publicpay.ca.gov.

Ethics Training for Board Members

In 2005, the State enacted legislation mandating special district board members complete at least two hours of training in general ethics principles and ethics laws.

Posting of Board Agendas to Website

In 2012, the State enacted legislation mandating special districts post board agendas to their websites as part of the existing Brown Act open meeting requirements.

Elections

In 2015, CSDA successfully sponsored changes to Elections Code Section 10404 to empower special districts to move board elections to the same day as statewide general elections in even-numbered years, as well as provisions to allow for the consolidation of all mail ballot elections conducted by other agencies. Due to upfront costs and potential technological limitations, these opportunities to move elections to even years all require the consent of county elections officials.

High Risk Local Agency Audit Program

In 2015, regulations went into effect empowering the State Auditor to identify local government agencies that are at high risk for the potential of waste, fraud, abuse, or mismanagement, or that have major challenges associated with their economy, efficiency, or effectiveness. Thus far, the State Auditor identified six cities as potential high risk local government entities, determining that two of them, Hemet and Maywood warranted a full State audit.

The State Auditor solicited input from CSDA in developing its regulations and the process for the program. It is our understanding that the Auditor is currently reviewing special districts as part of its ongoing program.



**California Special
Districts Association**

Districts Stronger Together

Regular Financial Audits

Although a requirement before the May 2000 Commission report, it is important to note that Government Code Section 26909 mandates regular audits of special districts by the county auditor or a certified public accountant. If the audit is performed by a certified public accountant, the audit must be filed with the State Controller and county auditor.

CSDA's Transparency Policy Principles

On September 5, 2014, CSDA's Board of Directors approved transparency policy principles. In summary, CSDA believes districts are made stronger through an engaged and informed public. It is the responsibility of every state and local agency, regardless what service they may provide.

Statewide policies seeking to promote transparent and accountable governance should do so through promoting the following values:

- Equal Application – Requirements are applied equitably to all levels and types of local and state government, with modifications only to reflect pertinent differences in specific governance structures.
- Uniformity – Information is presented in ways that facilitate comparisons between different government agencies and levels.
- Efficiency – Government agencies should be able to carry out transparency efforts with minimal cost impacts to residents, property owners, or taxpayers that could diminish core service delivery. In addition, policies should not seek to create redundant or duplicative transparency efforts.
- Accuracy – Information is correct, timely and does not advance misconceptions. Every reporting agency can clearly understand the information requests and process for reporting.
- Clarity – Data is shared in meaningful ways that promote greater awareness and understanding of governance structures, policies, and/or finances.

Efficient and Effective Formation, Reorganization, and Dissolution

As the Lompico County Water District example attests, special district consolidations can and do occur successfully with local leadership. CSDA opposes top-down, one-size-fits-all approaches to local government reorganization. However, we are not opposed to consolidation in general. Perhaps one of the most progressive steps California ever took related to local government was the invention of the Local Agency Formation Commission (LAFCO) system.

CSDA supports a local LAFCO process that meets the following criteria:

- Facilitates an open and public local process.
- Includes the input and participation of all affected parties.
- Conducts an objective analysis.
- Gives the residents who receive and pay for the services the final say.

CKH of 2000

The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 established significant new LAFCO provisions that directly respond to many of the Commissions 1999-2000 review. Presumably the California Association of Local Agency Formation Commissions will speak to these updates in its written testimony. However, to say the least, the imposition of municipal service reviews (MSRs) and the authority for LAFCOs to self-initiate dissolution and



California Special Districts Association

Districts Stronger Together

reorganization actions represent major new powers to shape more efficient and effective local governance. Moreover, since 2000, most LAFCOs have moved in a far more independent direction in terms of their structure and culture.

Special District Representation on LAFCO

Special districts now have representation on 30 of the 58 LAFCOs, with Santa Clara County representing the most recent addition.

Given the decisions LAFCOs make regarding dissolutions, reorganizations, boundaries and spheres of influence, as well as the increasingly significant MSR and other reports they produce, obtaining representation on LAFCO is a valuable and worthwhile endeavor for special districts. Furthermore, as a key stakeholder in the delivery of core local services, along with cities and counties, special districts bring a meaningful perspective to the LAFCO process that diversifies decision-making.

Growing the number of LAFCOs with special district representation is something CSDA supports and is actively encouraging. It will improve the balance and diversity of LAFCOs, promote a more inclusive and engaged local government culture, and support and diversify LAFCOs' revenue base.

Reserves

For countless families, saving for a rainy day is common-sense. For special districts, reserve funds are not just money in a bank; they are fundamental resources for ensuring reliable, essential services and community security.

Special district reserves have helped many districts to weather the 2008 financial crisis and the "Great Recession" that followed, which was characterized by a collapse in the housing market resulting in lower property tax revenues for local governments. Those local, state, and federal governments with insufficient reserves resorted to major service cuts, layoffs, furloughs, and/or tax increases during this difficult period, some even filed for bankruptcy.

Special districts designate money toward savings in order to balance their budget, respond to emergencies, keep rates affordable, maintain current infrastructure, and plan for future public works projects that meet community needs and expectations:

- **Balancing Budgets** – Over the course of the fiscal year, short-term reserves help balance the ebb and flow of revenues versus expenditures.
- **Emergency Preparation** – In the event of a disaster, communities can't afford not to have savings readily available to quickly repair critical local infrastructure and bring core services back online. For some districts, one natural disaster can easily cost millions of dollars in repair costs.
- **Affordable Rates** - With appropriate savings, special districts are able to use resources wisely and smooth out the highs and the lows of volatile economic conditions, rather than spend their entire surplus and then seek new revenue or jeopardize services.
- **Infrastructure Maintenance** – Reserves mean the pipes are fixed, roofs are patched, and worn equipment is replaced without going back to the taxpayers or ratepayers to pay for routine upkeep.



- Planning for the Future – A long-term, thoughtful approach to public infrastructure requires the foresight to plan for, and discipline to save for, future needs.

Special district reserves are also a key factor in credit rating agency determinations of district credit worthiness and the ratings of special district bonds. Higher credit ratings lead to lower bond interest rates which ultimately save taxpayer money:

- <http://fitchratings.com/site/dam/pdf/usp/Key-Rating-Factors>
- This water district quotes Fitch ratings as stating that their “sound formal reserve policies and covenants ensure healthy liquidity levels” (<http://www.emwd.org/home/showdocument?id=70> page viii)

There are many factors to maintaining sufficient reserve levels and ultimately the fact that one agency has larger or smaller reserves than another agency is not, in and of itself, a bad thing. The key is for agencies to establish a clear and well-articulated rationale for the accumulation and management of reserve funds. It is critical to understand that a reserve fund is designated by a public board to carry out specific purposes in a manner consistent with other financial policies, budgetary practices, district programs, and legal requirements.

Only a case-by-case analysis can truly evaluate any given reserve level, and one must take into account the unique circumstances of each district. For example, an infrastructure heavy district with low annual personnel costs will require a much higher reserve, based on percentage of annual budget, than would a personnel intensive entity, like a school district. Legal considerations are also worth noting, such as the fact that public cemetery districts are required by law to maintain an endowment fund capable of funding the maintenance of existing interments in perpetuity.

In response to the Commission’s 2000 report, CSDA formed a task force comprised of special district managers and independent finance industry experts to identify both the essential elements of a reserve policy and the issues to be discussed during policy development. The *Special District Reserve Guidelines* were produced by the task force as a tool for special district governing officials and administrators to assist them in fulfilling their commitment to provide cost-effective and efficient public services for the communities they serve. CSDA commissioned a second task force in 2012 to produce a *Special District Reserve Guidelines, Second Edition*. This document is attached as Exhibit C to this written testimony.

Property Taxes

Special districts are established by local voters and all special district taxes and assessments are approved by voters. Statewide, voters have expressed consistent and overwhelming resolve to keep their property tax dollars local in support of the core services their special districts provide.

Property taxes establish a firm financial foundation for special districts to build the infrastructure necessary to maintain a strong economy and healthy environment. “Non-enterprise” services like fire protection, parks and recreation, mosquito abatement, public cemeteries, resource conservation, and others rely primarily on property taxes. However, “enterprise” service delivery also gains invaluable benefits from property tax support.



Many “enterprise” districts rely on property taxes in order to:

- Secure and repay the most cost-effective bonds for infrastructure projects.
- Perform environmental conservation that offers a broad public benefit.
- Deliver certain non-enterprise functions as part of comprehensive service efforts.
- Offer stable, long-term rate plans, as well as rate relief when appropriate for disadvantaged residents.

One of the most notable recent examples of the indispensable nature of property taxes for special districts delivering enterprise services comes from the drought plaguing California for the last four years. In 2015, the State Water Board began imposing mandatory conservation of up to 36% of water used by special district customers. Because a majority of water district operational costs are fixed and not dependent on water usage, this resulted in a drastic cut in monthly revenue collected from water users.

If not for property tax revenue—along with prudent reserve funds—many of our state’s water providers likely would not have weathered this drought. And, while the State Water Board’s mandatory restrictions have ended, the drought continues. We should not allow this moment to pass without extracting the lesson as to the value of diversification and stability that property tax revenue offers to the enterprise district portfolio.

Should the example of the ongoing statewide drought not persuade, let us consider some of the adverse effects of shifting local revenues:

- When property taxes are diverted away from special districts, taxpayers pay more and receive less because residents must either pay new taxes and fees or lose essential services.
- The Educational Revenue Augmentation Fund (ERAF), first imposed in the 1990s, shifts over \$500 million a year in 1% ad valorem property taxes away from special districts. Former redevelopment agencies (RDAs) still divert nearly \$500 million more per year away from special districts to fund payments to remaining enforceable obligations. These shifts impose continued hardships on special districts and their constituents, forcing increases in other tax assessments, deferred infrastructure projects, and reduced services.
- Higher rates on water, sanitation and other “enterprise” services impose a painful burden on working families, which is more regressive than a balanced revenue portfolio that includes a sufficient property tax base.
- In the wake of the growing housing crisis, special districts face rising operational costs as they strive to provide the infrastructure and service levels that families and businesses depend on for quality of life and job creation.

Because the broad benefits from special district projects accrue directly to property taxpayers, an ad valorem property tax is a fair and equitable means for those who benefit to share in the cost of district services and infrastructure. A clear nexus of benefit historically exists between



the taxpayer and the property value improvement generated from property tax investments in water, wastewater, and other essential services and infrastructure provided by special districts.

Evolving Roles and Practices

Special districts, together with CSDA and its sister organizations are continually evaluating and evolving their roles and practices to better serve California's communities. Three examples of concerted efforts currently underway include resource conservation districts, healthcare districts, and veterans memorial districts.

Resource Conservation Districts

Resource conservation districts mobilize communities to take on pressing environmental challenges, including drought, climate change, and tree mortality. Led by the California Association of Resource Conservation Districts, these special districts have raised over \$1 million in private funding to sponsor a transformative capacity building process. Designed to empower resource conservation districts to meet today's threats and exceed the public's expectations, a few of the objectives within this plan are noted below:

- Standards and guidelines that clearly outline the legal requirements of the State, industry best practices, and goals to aspire to.
- Voluntary accreditation system through the Department of Conservation that recognizes districts that comply with standards and guidelines and reach benchmarks of success (expected implementation by end of 2016).
- Individualized in-depth assistance for 10 resource conservation districts by an organizational development professional.

Healthcare Districts

Healthcare districts promote healthy communities through preventative programs, senior care, efforts to improve fitness and combat obesity, as well as traditional medical services like hospitals and clinics. Organized through the Association of California Healthcare Districts, these special districts have embarked on a formal process, with action-oriented outcomes to develop a set of best practices and a package of reforms to better meet the health, governance, and transparency needs of 21st century communities. A professionally-facilitated working group has already convened and will have met four times by the end of August.

Veterans Memorial Districts

Dedicated to the memory of all who proudly served and protected their country, veterans memorial districts honor the nearly two million veterans residing in California with permanent living memorials, including facilities the whole community benefits from. Initiated by CSDA, these special districts will be modernizing their principal act next year. CSDA is already coordinating with appropriate legislative committees and stakeholders. The goal will be to both update the act, first established in 1935, and to consider opportunities for improved service delivery to better meet the needs of a new generation of veterans.



Potential Opportunities

As outlined in this written testimony, much progress has been made over the last 16 years to improve and evolve special districts in California. However, CSDA is growing its efforts to ensure special districts are valued by their communities as efficient and effective service providers. Special districts are a resource for the future.

CSDA considers the following concepts as potential opportunities to help special districts best serve their communities. While these concepts have not been fully vetted or endorsed by CSDA, we recognize the merit in further review. Therefore, as the Little Hoover Commission narrows its review of special districts in advance of its next hearing in October, we encourage consideration of these opportunities, which we would be eager to collaborate upon in order to weigh their value and viability.

Revenue Opportunities

The most challenging aspect of local governance today is securing sufficient revenue. For all of the problems and struggles, the thing that would help most is the one thing that is hardest to come by, and that's money. The bottom line is that healthcare, workers' comp, construction, wages, and state regulations are all getting more expensive and taxes and fees are getting more difficult to approve. Proposition 13 of 1978, Proposition 218 of 1996, and Proposition 26 of 2010 all reduced the tax and fee authority of local boards.

- Special Tax Vote Thresholds
 - It seems illogical that the vote threshold for local government general taxes, that can be spent on anything, require a 50% vote, while special taxes, where the voter knows where the money will be spent, require a two-thirds vote.
- Local Government General Obligation Bond Vote Thresholds
 - It seems equally illogical that school bonds require a 55% vote threshold, while local government bonds require a two-thirds vote threshold.
- Unfunded State Mandates
 - The California State Mandates Commission has recently ruled, and argued in the case of *Paradise Irrigation District v. Commission on State Mandates* that mandates do not merit reimbursement by the State if the local agency has fee authority. This appears to fly in the face of Proposition 1A of 2004 and is now being appealed to the Appellate Court. All of this is occurring as the State imposes costly new burdens on local governments every year, crowding out resources available to meet the needs of their communities.
- State Responsibility Area (SRA) Fire Fee
 - As discussed in the attached Sacramento Bee articles, Exhibit D, the SRA fee has had a chilling effect on the passage of local fire fees and taxes to support local fire protection efforts. The state policy of the SRA was to provide support to areas that had insufficient fire services. However, the consequence is that it is actually stifling, and eventually bankrupting, whatever local services these areas do have.



Recommendation 3 from the May 2000 Little Hoover Commission Report

The May 2000 Little Hoover Commission Report was broad and far-reaching. Of the dozens of findings and recommendations within the report, Recommendation 3 contained a framework of concepts that could facilitate thoughtful and meaningful progress in local governance.

As Finding 3 stated, “Research is needed that will help policy-makers and community leaders know when consolidations will achieve improved efficiency and service and identify strategies for facilitating those consolidations. Policy-makers also need guidelines, best practices and access to a cadre of experts who can provide technical assistance and training.”

Recommendation 3 offered four sub-recommendations. While we think they need to be further shaped, particularly in light of changes that have occurred over the last 16 years, the concepts have merit in terms of the following potential opportunities:

- Study long-term outcomes of consolidation and reorganization.
- Enhance and expand the cadre of trainers for LAFCOs.
- Develop and encourage special districts to establish performance measures, which could be incorporated into appropriate LAFCO guidelines and/or best practices.

This 2000 Commission recommendation suggested the California Policy Research Center as a resource in coordinating and conducting these efforts. While CSDA does not have direct experience with that entity, nor an opinion as to its appropriateness at this time, we would encourage consideration of CALAFCO, ILG and SDLF, along with CSDA, in coordinating, collaborating upon and/or conducting these type of efforts.

Special District Representation on LAFCOs

As noted above, CSDA supports and encourages special district representation on LAFCOs. One potential opportunity to facilitate the successful local adoption of district representation on the remaining 28 LAFCOs would be to remove the bureaucratic red-tape associated with the current process.

Under current law, independent special district selection committees are able to appoint LAFCO representatives through a mail ballot or in person election. All actions taken are valid by majority vote, so long as a quorum participates. Applying these same standards to the process for adopting special district representation could maintain local control, while streamlining the process.

State Grant Funding for LAFCO Studies

Given the State’s keen interest in promoting improved local governance, and the amount of attention given to the issue over the years, the State may wish to support the important work of LAFCOs through a small investment in grant funding. A minor allocation of \$1-3 million could fund dozens of the most critically needed MSR or reorganization studies by LAFCOs.

Proper MSRs, and particularly reorganization studies, require professional analyses. Changing governance and essential service providers is a complicated and high stakes process that imposes long-lasting effects on communities. These decisions require a thoughtful, deliberate, and well-examined process, and a thorough study is fundamental.



A potential opportunity would be to set up a grant program through the Governor's Office of Planning and Research. The program could outline parameters such that it would fund the most critical studies first—the "lowest hanging fruit". It could also set funding eligibility guidelines in order to incentive professionalism and best practices by LAFCOs.

Secretary of State Roster of Public Agencies

Current law requires the governing body of each public agency to file with the Secretary of State (SOS), on a form prescribed by the SOS, and also with the county clerk of each county in which the public agency maintains an office, a statement of facts containing the following information:

- The public agency's full, legal name.
- Its official mailing address.
- The name and residence or business address of each member of the governing body of the public agency.
- The name, title, and residence or business address of the chairman, president, or other presiding officer, and clerk or secretary of the governing body of such public agency.

Furthermore, should any of those facts change, public agencies are required by law to notify the Secretary of State and the local county clerk of those changes using the same form prescribed by the Secretary of State within 10 days of said change (Govt. Code Section 53051).

In reviewing the SOS roster of public agencies, the existing process does not appear to be working well, leaving a deficiency of statewide data related to local agencies. A potential opportunity would be to update the law with an improved process that ensures this actually occurs. Doing so would ensure the State Controller, LAFCOs, policymakers, and the public have a comprehensive and accurate accounting of special districts and other local agencies in California.

It would be pertinent to involve the State Controller, CALAFCO, County Elections officials, the League of California Cities, CSDA, and of course the SOS in any such conversations on this matter to ensure an efficient and effective system is redesigned. It also may be possible to streamline the reporting or consolidate it with other existing reporting mechanisms.

Modernization of Principal Acts

Efforts by the former Senate Local Government Committee recast laws pertaining to fire protection districts (1987), recreation and park districts (2001), mosquito and vector control districts (2002), public cemetery districts (2003), and community services districts (2005). In 2017, CSDA hopes to continue this effort with veterans memorial districts. A potential opportunity would be to continue this effort with remaining special district principal acts in the coming years.

Representation on COGs

Some of the concerns within the May 2000 Commission report dealt with the coordination of regional infrastructure. One potential opportunity for addressing this concern would be to provide special districts the opportunity to participate on Councils of Government (COGs). Currently, very few COGs offer representation to special districts.



**California Special
Districts Association**

Districts Stronger Together

“Red Teams”

A potential opportunity would be to develop a roster of experienced professionals who could respond to critical situations and help small districts in disadvantaged communities correct course or build a stronger foundation. This roster, or what some have referenced as “red teams” may include retired general managers or other officials willing to offer low cost or pro bono services to communities in need.

Regional Board Member Trainings

CSDA is considering expanding its board training program to include more regional trainings. Additional scholarship support to promote attendance of these trainings could yield significant results.

Management Succession Planning

A “silver tsunami” is approaching all levels of government, and CSDA is looking for opportunities to prepare for the next generation of local leaders. CSDA has initiated a coaching program, partnered with CallCMA’s “Preparing the Next Generation”, and formed “So You Want to be a GM?” workshops. Still, we are eager to do more.