

Special Districts: Oversight Issues for Policymakers

This document is a partial list of topics that may be of interest to the committees, and which may assist Members of the Legislature in conducting oversight of special districts. It is by no means intended to be a comprehensive list of possible concerns.

Transparency and Accountability

Like other units of local government, special districts are accountable to the voters who elect their boards of directors. Special district board members are elected by the districts' voters or (in the case of a dependent district) appointed by either the city council or county board of supervisors. In its 2000 report on special districts, the Little Hoover Commission said:

If no news is good news, the vast majority of districts are successful, and clearly many are. But most Californians would be hard pressed to identify the providers of some of their most basic services or to assess whether fees are appropriate and the quality is what it should be.¹

Since the issuance of this report, the Legislature has implemented its recommendations with respect to giving LAFCO's more responsibility to oversee special districts, and giving policymakers and community members convenient access to special districts' financial information.

Although the law provides for the direct election of board members for independent special districts, voter participation is typically very low. In "The Formation of American Local Government," Nancy Burns found that involvement of 2 to 5 percent of the electorate was regarded as an unusually high turnout.² Analysis conducted by the Little Hoover Commission also indicated that special district elections are far less likely to be contested (meaning there was not more than one person running per seat), and there were usually fewer candidates for special districts than for general purpose government.

Despite the best efforts of responsible special districts, the fragmentation of government and service delivery necessarily impose a burden on residents if they are to remain well-informed, active participants in local affairs. Is it reasonable for the Legislature to expect the average citizen to be aware of their sewer district, conservation district, library district, mosquito abatement district, etc.? By decentralizing accountability, residents may not know who to call when a problem arises (e.g. trash collection, median maintenance).

In *its Concept Statement No. 1*, the Governmental Accounting Standards Board (GASB) argues that: "public accountability is based on the belief that the taxpayer has a 'right to know,' a right to receive openly declared

¹ "Special Districts: Relics of the Past or Resources for the Future?" Little Hoover Commission, 2000.

² Burns, Nancy, "The Formation of American Local Government: Private Values in Public Institutions," 1994.

facts that may lead to public debate by the citizens and their elected representatives."³ Larita Killian proposes a three part test to determine if a special district is meeting GASB's intent:⁴

1. Are citizens aware of the entity's existence and its role and responsibilities?
2. Can citizens access information about the entity's performance at reasonable cost to the citizen, in terms of time and effort?
3. Can citizens communicate with officials of the government entity to express questions and concerns?

Efficiency

A common selling point for special districts is that they provide focused services at lower cost than general purpose governments. In "The Political Economy of Special Purpose Government," Kathryn Foster's comprehensive study found that services generally cost more per capita when delivered by special districts than by general purpose government. It could be argued that higher costs are to be expected if specialized government provides higher quality service, but it is difficult to prove that the service is in fact better. At a minimum, policy makers and taxpayers should know about the likelihood of higher costs when they make decisions about local government and service delivery.

Property Tax Allocations

In its 2000 report, the Little Hoover Commission (Commission) found that "taxpayers do not understand how their property taxes are allocated among the special districts that serve them. And they do not know how these allocations affect their rates or quality of services, preventing them from providing feedback to district officials."

The Commission also found that many enterprise districts (those that charge user fees) continue to receive property taxes, resulting in some of the highest reserves. Proposition 13 allowed those special districts that received property taxes prior to 1978, to continue receiving them. The result is that property taxes subsidize user fees and lead to disparate fees across the state for the same type of service.

Special districts often maintain fund balances to save for capital projects instead of issuing bonds, thereby decreasing the cost of the project. But independent enterprise special districts are able to amass larger reserves than may be necessary. In 1996-97, this subset of special districts received \$421 million in property tax allocations. "Water districts, which generate the highest annual revenues [from user fees] and maintain the largest reserves of all special districts, received 38 percent of that amount, a total of \$161 million."⁵

The Little Hoover Commission recommended that the Legislature annually review enterprise special districts' property tax allocation and modify the formulas as necessary. Not unlike Governor Brown's FY 2011-12 budget proposal to reallocate Redevelopment Agency funds, the Commission also recommended that the

³ "Concept Statement No. 1: Objectives of Financial Reporting," Governmental Accounting Standards Board, 1987.

⁴ "Three Reasons to Revisit Special Districts," Journal of Governmental Financial Management, Summer 2009.

⁵ "Special Districts: Relics of the Past or Resources for the Future?" Little Hoover Commission, 2000.

Legislature allow counties to reclaim and reallocate property tax revenue from enterprise special districts. The Legislature may wish to consider that if done on a repeated basis, the latter might spur the merger of special district functions into general purpose governments.

Alternatives

Current law provides the following options for the reorganization of special districts:

- consolidation of special districts
- merger into general purpose government
- formation of a subsidiary district
- dissolution of special governments.

These actions can be initiated by the special districts themselves, by general purpose governments (cities and counties), or by the LAFCO.

Policymakers looking to encourage use of the above alternatives should also consider that local government budgets are often stretched thin. As such, special districts may provide a measure of protection to the basic services they provide. In 2000, the Commission on Local Governance for the 21st Century—created by then-Speaker Hertzberg—concluded that "the public is not engaged" and that "most Californians have little interest in the day-to-day functioning of government or preparing plans for future growth."⁶

Policymakers must determine if the disinterest of many—or even most—Californians negates their responsibilities to maintain an open, accessible, and efficient government for those residents who are interested.

⁶ "Growth Within Bounds: California Governance in the 21st Century," Commission on Local Governance for the 21st Century, 2000.