



**California Special
Districts Association**
Districts Stronger Together

March 6, 2017

The Honorable Pedro Nava
Little Hoover Commission
925 L Street, Suite 805
Sacramento, CA 95814

RE: February 23 Business Meeting of the Little Hoover Commission

Chair Nava:

This letter is intended to follow-up on a number of questions raised by Commissioners during the February 23, 2017 Business Meeting of the Little Hoover Commission (Commission), specifically during the discussion regarding the Commission's draft report on special districts.

The California Special Districts Association (CSDA) would be remiss if we did not recognize that over the course of the three hearings and multiple business meetings since August of 2016, we have been impressed by the communication, outreach, and perspective your staff has brought to the review process. Similarly, we appreciate the leadership you have demonstrated as Chair of the Commission. Your good humor, balanced treatment of witnesses, and search for evidenced-based information is refreshing and most welcomed.

However, CSDA must confess concern over some of the arguments put forth during the February 23 meeting. Our concern is not because special districts were challenged, or the "status quo" upset. We have welcomed the opportunity to discuss such challenges over these past seven months. Rather, our concern is that some of the rhetoric exercised at the meeting was ill-informed.

Our goal throughout the Commission's review has been to serve as a resource and to promote an accurate and thoughtful understanding of special districts and the services they provide. It is with this purpose that we share the following information in response to comments expressed during the Commission's February 23 business meeting.

The "Right" Number of Special Districts

One Commissioner commented that 4,700 special districts in California is too many. Other Commissioners seemed to sympathize with this sentiment in previous business meetings.

We must ask, what is the "right" number for any local government? Are 58 counties the right number? Or, 482 cities? Or, 1,022 school districts? What if we were to offer to the Commission that we could *cut* the number of special districts by more than half? Would that address the concern?

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The fact is we *can* reduce the 4,700 number by more than 50 percent immediately. Pages 3-4 of our August 8, 2016 written testimony submitted to the Commission detail that there are actually less than 2,200 independent special districts in California. The 4,700 number that Commissioner Scott Barnett cited is taken from the State Controller's report, which includes non-profit corporations, dependent special districts, and joint powers authorities.

Regardless of the numbers, as our written testimony details, the discussion should focus on the *quality* rather than the quantity. *Fewer* local governments does not necessarily equal *better* local government. Similarly, consolidating into *bigger* governments does not always result in *better* government.

Special Districts Are Methodically Consolidating Where Appropriate

One Commissioner inquired why it seemed as though special districts in California were "exploding" in number.

The fact is we can address this concern immediately. Page 4 of our written testimony notes that Census data from the 2012 Census of Governments indicates that the number of special districts in California has declined by five percent since its peak in 1997, while the number nationwide continued to grow by 10 percent during that same period. Far from "exploding", the number of special districts in California has actually bucked the nationwide trend and is gradually declining. This is particularly impressive given the population in California, and presumably the demand for services, has *increased* by 20.8 percent since 1997. There are now fewer special districts serving substantially more residents.

Why might the number of special districts in California have declined since 1997? We hypothesize that much of it has to do with the updates to LAFCO law (known as "Cortese-Knox-Hertzberg") in 2000. This update empowered LAFCOs with new tools that has led to consolidations and other reorganizations where appropriate.

Some might say that a five percent reduction over 20 years is too slow. However, it is important to consider that we are dealing with local services for thousands of unique communities. These are complex issues that involve public infrastructure, debts, liabilities (including pension obligations), taxes, fees, property (including water) rights, employee rights, and voter rights. And, when it comes to water, sewer, fire protection, and other essential services in California, a methodical approach is the right approach.

RDA Dissolutions and Oversight Boards as Examples

One Commissioner referred to redevelopment (RDA) dissolutions and RDA oversight boards as a potential example for dealing with special districts.

While the RDA experience is a great example for several things, it is not an example of a good approach for special districts. Just a few lessons from the RDAs:

- **Bonds, Junk Bonds**

As outlined in the report, "The 2012-13 Budget: Unwinding Redevelopment" by the Legislative Analyst's Office (LAO), the mere *proposal* to dissolve RDAs in January 2011 created enough uncertainty in the RDA bond market to *double* interest rates. According to the LAO,

“Specifically, about two-thirds of the bond issuances in 2011 had interest rates greater than seven percent—compared with less than one-quarter of bond issuances in 2010. In fact, RDAs issued more tax allocation bonds with interest rates exceeding eight percent during the first six months of 2011 than they had in the previous ten years.”

- **Law Lawsuit Land**

Forced dissolution is a recipe for litigation. According to a 2015 League of California Cities analysis, there have been 204 lawsuits filed in the wake of RDA dissolution. At a 2014 Assembly Budget Committee oversight hearing, the Department of Finance noted that tentative rulings in just a handful of these lawsuits could potentially affect up to \$3.4 billion. Given the greater amount of complexity and vast infrastructure holdings involved with special districts, these numbers would likely just scratch the surface.

- **Now You See Me, Now You Don't**

As significant as some RDA's may have been with regard to financing economic development and affordable housing activities, they were essentially financing mechanisms. They did not directly employ a skilled workforce beyond some managerial duties and they were not responsible for delivering the daily essential services of residents. Average Californians probably didn't even notice that 400 RDAs went away overnight. That would not be the case if people woke up and their neighborhood recreation and park district went away, let alone their water, wastewater, or fire protection district.

- **I Say Soda, You Say Pop**

RDA dissolution law established over 400 RDA oversight boards, one for each former RDA. These boards look a lot like Local Agency Formation Commissions (LAFCOs). They each have a special district member, city member, county member, and public member. In July 2018 they will look even more like LAFCOs when they consolidate into one RDA oversight board per county. The suggestion that something like an RDA oversight board would provide the right solution, essentially supports the existing LAFCO model.

“Death Sentence” Is a Fitting Name for a Dangerous Proposal

One Commissioner dubbed the idea of a ten-year sunset for all special districts a “death sentence” and suggested the Commission, “start on the extreme end” and “do something more radical.”

A ten-year sunset for special districts would be an extremely radical and costly approach that could very well result in a literal death sentence for residents in some communities. Special districts are responsible for essential services and public infrastructure for millions of people throughout California. Premature, poorly executed, or poorly conceived dissolutions would have very real and very serious implications for both life and property.

An extremely radical approach that could disrupt special district services would be dangerous, and is the last thing our communities need right now. Residents create, fund, and oversee special districts to address a need that isn't otherwise being met. Districts are formed when it's something the community wants; wants it done well; and wants it done with local control and flexibility.

Special Districts Are Diverse in their Nature

One Commissioner noted that we cannot look at all special districts the same.

CSDA could not agree more. Special districts are uniquely formed by diverse communities to address specialized needs. They come in all shapes and sizes and confront myriad challenges with vastly different levels of resources. It is impossible to productively take a one-size-fits-all approach to local government, and it is both counterintuitive and hazardous to consider a top-down approach to local government.

Flip-Side is Community Engagement

One Commissioner acknowledged that special districts offer the opportunity for increased levels of community engagement.

Special districts offer an avenue for residents to take a proactive approach to civic engagement. The politics and fundraising required to successfully win election to a federal, state, and sometimes even county or city office is an insurmountable barrier to most citizens. Many residents even feel as though their votes do not "count" for these elections, and that access is limited to the politically connected.

Agendas and hearings for some large, centralized governments, including many general purpose governments can be long (those who have attended can attest), and the amount of time spent on certain specific local issues can sometimes be insignificant or non-existent due to time constraints. Such issues may be relegated to unaccountable "advisory bodies" or civil servants. Constituents may need to travel hours to participate, may never attain an audience with their elected representative, and may struggle to navigate a large and daunting bureaucracy. Special districts may come with their own set of challenges, but it is important to note the trade-offs involved.

We All Want a Local Approach

One Commissioner stated that, ultimately, we want a local approach.

Again, CSDA could not agree more. Many disenfranchised voters find nothing worse than somebody from up in Sacramento or D.C. coming to their community and saying, "we are from the government, and we are here to help."

CSDA is not "anti-consolidation" nor are we "pro-consolidation". We are pro-community and pro-quality, local, service. When it comes to consolidation, CSDA supports a local LAFCO process that meets the following criteria:

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

Let's Make Sure We Are Fixing a Problem That Actually Exists

One Commissioner cautioned to make sure we are fixing a problem that actually exists.

This is an important question. What is the problem the Commission is trying to address? CSDA has been engaged on these issues from the moment we were contacted about the Commission's

review, and we have participated in each of the three public hearings occurring since August 2016. Dozens of special district officials have sacrificed days' worth of their time and committed personal and public resources to travel to Sacramento and participate in these hearings. We have been forthcoming and responsive, and we have provided hundreds of pages of documentation and background.

Nonetheless, at the February 23 meeting, a Commissioner, who did not attend a single one of these three hearings, raised questions that were previously addressed in detail during both written and oral testimony.

In light of this diversion from an otherwise productive and healthy review by the Commission, we simply ask that the Commission respect the time and resources of our membership. We have repeatedly stated and demonstrated throughout this process that we want to be constructive toward meeting challenges related to special districts and the communities they serve. But, doing so requires we all take the time, as you and your staff have done, to come together in the same room to focus on the facts.

As we stated in our first written correspondence on August 8, 2016:

"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."

These words are all the more poignant given the discourse that has occurred in our nation in the months since it was first submitted. We don't think that anybody on the Commission or within the special districts community is looking to further erode the public's trust in its government. We seek your help to work constructively with the Commission so that together we can help special districts be as successful as possible in serving their communities.

We have attached our previously provided written testimony for the Commission's reference, and look forward to participating in the upcoming fourth hearing planned for this fall. Your willingness to speak to our members at CSDA's legislative conference in Sacramento on May 17 is greatly appreciated. It is a demonstration of our mutual commitment to constructive dialogue. Our membership thanks you in advance for your willingness to share your time and experience.

Sincerely,



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