



Senate Bill 938

Cortese-Knox-Hertzberg Local Government Reorganization Act: LAFCO Protest Reforms

As Proposed to Be Amended

SUMMARY

SB 938 clarifies existing statutory provisions regarding consolidations and dissolutions of special districts, and creates new conditions under which a Local Agency Formation Commission (LAFCO) may initiate dissolution of a special district.

BACKGROUND

LAFCOs are independent regulatory commissions created by the Legislature to control the boundaries of cities, county service areas, and most special districts. Among the purpose of LAFCOs includes the discouragement of urban sprawl, the preservation of agricultural and open space lands, and the encouragement of the orderly formation and development of local agencies. In an effort to better meet these obligations, the duties and authority of LAFCOs were significantly modified by the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (AB 2838, Hertzberg). Chief among the act's provisions is the authority for LAFCOs to conduct Municipal Service Reviews, which, among other things, provide information to guide districts in performance improvement. These reviews can serve as a catalyst for LAFCOs to initiate district consolidations or dissolutions.

ISSUE

In 2017, the Little Hoover Commission released a [report](#) reviewing the state's 58 LAFCOs and recommended several measures to strengthen their oversight of special districts. Notably, the report highlighted a complicated and inconsistent set of rules for the dissolution or consolidation of a special district. If a LAFCO initiates an action, the action must go to a public vote if only 10 percent of the district's constituents protest; for a non-LAFCO initiation of the very same action, a public vote is only required if 25 percent of the affected constituents protest the action. These disparate protest thresholds make necessary special district consolidations and dissolutions considerably more difficult when initiated by a LAFCO. Further, they serve as a deterrent for LAFCOs to initiate action in the first place, even if meaningful efficiencies in the provision of public services could be achieved, or if a district is failing to meet its statutory requirements.

SB 938 (HERTZBERG)

Following the Little Hoover Commission report, the California Association of Local Agency Formation Commissions (CALAFCO) formed a working group to discuss the consolidation and dissolution process and to provide LAFCOs with the tools they need to carry out their statutory obligations. Consistent with agreements made in this three-year effort, SB 938, as proposed to be amended, creates specific conditions under which a LAFCO may initiate dissolution of a special district with a 25 percent protest threshold, including:

- Determinations for the proposed action must be documented in a Municipal Service Review and presented at a 21-day noticed public hearing;
- The district in question must be granted a minimum 12-month remediation period and an opportunity to provide a progress report to the LAFCO prior to taking any action;
- A second 21-day public hearing must be held to determine if the identified issues are mitigated, resulting in the LAFCO either terminating the dissolution, or moving forward under the standard protest hearing process outlined in existing law with a public notice period of 60 days.

SUPPORT

California Association of Local Agency Formation Commissions (Sponsor)

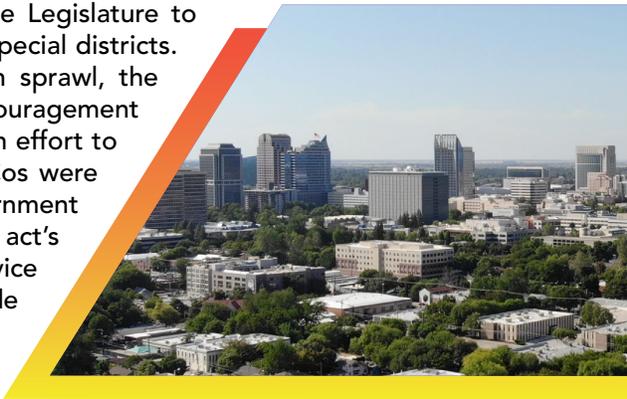


The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000: Protest Proceedings

**FACT SHEET:
SB 938 (HERTZBERG)**

BACKGROUND

LAFCoS are independent regulatory commissions created by the Legislature to control the boundaries of cities, county service areas, and most special districts. The purpose of LAFCoS includes the discouragement of urban sprawl, the preservation of agricultural and open space lands, and the encouragement of the orderly formation and development of local agencies. In an effort to better meet these obligations, the duties and authority of LAFCoS were significantly modified by the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (AB 2838, Hertzberg). Chief among the act's provisions is the authority for LAFCoS to conduct Municipal Service Reviews, which, among other things, provide information to guide districts in performance improvement. These reviews can serve as a catalyst for LAFCoS to initiate district consolidations or dissolutions.



In response to a recommendation made in the 2017 Little Hoover Commission report (Special Districts: Improving Oversight and Transparency), the California Association of Local Agency Formation Commissions (CALAFCO) initiated a working group of stakeholders in early 2019 to discuss the protest process for consolidations and dissolutions of special districts.

The statutes related to protest provisions and the disparate protest thresholds established for LAFCo-initiated actions (10 percent) and all other initiated actions (25 percent) make addressing necessary and appropriate special district consolidations and dissolutions considerably more difficult when initiated by a LAFCo. Further, they serve as a deterrent for LAFCo to initiate action, even if meaningful efficiencies in the provision of public services could be achieved or if a district is failing to meet its statutory requirements.

The working group agreed on three main deliverables:



First was to review the protest provisions within the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (The Act) for relevance and to delete any obsolete provisions, which was accomplished through AB 1581 (2021).



The second deliverable was to redraft existing scattered protest code sections within The Act into a single code section to simplify the reading of the code section.



The final—and most challenging—deliverable was to examine the differing protest thresholds relating to LAFCo-initiated actions and all other initiated actions.



AFTER CONSIDERABLE NEGOTIATION, THE WORKING GROUP GAVE CONSENSUS ON THE FOLLOWING CHANGES TO CKH:



The redrafting of existing protest code sections into one main section to simplify the reading of the section, and to add minor, non-substantive clarifications;



Create specific circumstances under which a LAFCo may initiate dissolution of a district with a 25% protest threshold, with determinations documented in a Municipal Service Review and presented at a 21-day noticed public hearing;



Allow for a minimum 12-month remediation period for the district with a progress report provided by the district to the LAFCo halfway through the remediation period; and



A second 21-day noticed public hearing to determine if the identified issues have been mitigated, which would result in the LAFCo either terminating the dissolution or moving forward with the dissolution using 25% protest threshold under the standard protest hearing process already in statute, with a public notice period of 60 days.



The overarching goal of these changes is to ensure that LAFCos have the tools they need to carry out their statutory obligations to ensure orderly and functioning local government services and to create greater consistency in the statute.

SUMMARY

SB 938 represents a collaborative three-year effort to clean up, consolidate, and clarify existing statutory provisions associated with consolidations and dissolutions, as well as codify the conditions under which a LAFCo may initiate dissolution of a district at the 25 percent protest threshold.

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