



LITTLE HOOVER COMMISSION

July 7, 2017

Carole D'Elia
Executive Director

TO: Commissioners

FROM: Carole D'Elia
Executive Director

SUBJECT: Summary of June 22, 2017, Roundtable on Special Districts

Thank you to everyone who participated in the June 22, 2017, roundtable discussion on the Little Hoover Commission's study of special districts in California.

The discussion focused on evaluating potential recommendations for the Commission's special districts report. The meeting provided an opportunity for the 17 invited participants who attended as well as dozens more to provide feedback to the Commission on the potential recommendations and also suggest alternatives or additional recommendations. Prior to the June 2017 meeting, the Commission convened two public hearings in August and October of 2016 and an advisory committee meeting in November 2016. The Commission also discussed potential recommendations at its February and April 2017 business meetings. The Commission's goal of the June 22, 2017 meeting was to learn whether the potential recommendations would improve efficiency, could be implemented or might have unintended consequences.

This document is intended to summarize the discussion by the participants. It will be distributed to the Commissioners to inform them of the points raised by the participants. This document does not contain Commission conclusions or final recommendations. Please let us know if we have misconstrued a topic of discussion or omitted an important point made during the meeting.

Governance – Potential Recommendations

A significant portion of the June 2017 meeting was dedicated to discussing governance issues, particularly opportunities to bolster the effectiveness of Local Agency Formation Commissions (LAFCO), either through additional funding or expanding authority through statutory changes.

One-Time Grant Funding to Assist LAFCOs and Special Districts

The executive director of the California Association of Local Agency Formation Commissions (CALFACO) began the discussion with a focus on three items: funding, authority and process. She indicated expanding LAFCO funding is not a new conversation. Additional funding was considered after legislation required the Municipal Service Reviews in 2000 and was resurrected in 2011 with a recommendation from California Forward that local agencies needed incentives to make recommendations for consolidations.

She said potential partners to administer or oversee additional funding could include the Office of Planning & Research partnering with the Department of Conservation or the Strategic Growth Council.

A representative from the California Special Districts Association (CSDA) agreed with the recommendation to provide one-time funding to pay for specified LAFCO and special district activities, particularly funding to pay for high priority Municipal Service Reviews and development and implementation of dissolution or consolidation plans. A water district representative added that a one-time funding infusion would allow the state to assess the efficacy of investing additional resources to improve local government efficiency.

Several meeting participants preferred a small infusion of \$1 million to \$3 million from the State General Fund over other alternatives, such as diverting additional property taxes to fund LAFCOs. Any alternative involving property tax should be within the Educational Revenue Augmentation Fund (ERAF), an early 1990s diversion of property taxes from local governments, including special districts, to fund education. In 2004, voters enacted protection for local property taxes and any new shift, per the Constitution, requires a two-thirds vote of the Legislature.

Opportunities to Bolster LAFCO Authority

The CALAFCO executive director noted that two potential recommendations, giving LAFCOs authority to dissolve inactive districts and easing the process to add special district representatives to the 28 county LAFCOs that do not have special district representation, are already under consideration by the Legislature with SB 448 (Wieckowski) and AB 979 (Lackey). She suggested another potential recommendation for the Commission to consider: provide LAFCOs, under certain conditions, the authority to approve certain administrative functions of a district outside existing principal acts.

Participants representing special districts asked the Commission to reconsider recommending lowering protest thresholds for LAFCOs to dissolve special districts, but agreed it was a topic that could benefit from additional study. Currently it takes 10 percent of a special district's constituents to protest a proposed LAFCO dissolution or consolidation of a district or districts compared to 25 percent of a special district's constituents for a dissolution or consolidation initiated by a special district. Advocates suggested it is more difficult to protest in a large district versus a small one given that 10 percent in a district serving 1,000 clients is just 100 people, as compared to a district serving millions that requires hundreds of thousands of constituents to generate enough votes for a protest. Special district advocates argued that changing the voter protest threshold might have the unintended consequence of reducing public and voter engagement.

Participants had varying viewpoints on the potential recommendation to require special districts to hold a public hearing after a LAFCO completes a Municipal Service Review. A supervisor from Calaveras County suggested that LAFCOs need to establish a relationship with districts under review, so there are early conversations and so that a final report is not just dropped on a district. The California Special Districts Association representative suggested having a draft Municipal Service Review for the district to review at least 45 days prior to a LAFCO vote on the review so that district representatives have an opportunity to engage in the process before the review is finalized. The CALAFCO representative said she supported ongoing dialogue during the review process, but also added that LAFCOs approach civic engagement in accordance with their unique areas. She added that the LAFCOs are dependent upon the district to provide information to include in the review. An executive officer from a Local Agency Formation Commission said that his organization conducts its reviews in cooperation with the local

government entity. Districts have several opportunities to comment on a draft, internally with staff and again when the document is presented for public comment. If the document is controversial or the LAFCO is recommending a change in the service area, they extend the public comment period.

A representative from a local utility district said that a recent review for consolidation of two districts in San Bernardino County received very little public comment. She suggested that most constituents do not know who provides services – the water and wastewater districts under review were a form of government the many don't even know exist.

Transparency – Potential Recommendations

Participants engaged in a robust discussion on opportunities to improve information provided on special district websites as well as other opportunities for improving public engagement and outreach. Commissioners encouraged districts to “tell their story” in plain language. There are very few government entities that are in a position to let people know that they are out there working directly for them and that taxes and fees fund local services, said Chair Nava. Participants generally agreed providing basic information in an easy-to-understand format would help build trust in local government.

Improving Websites

The CSDA representative expressed concerns from the members of his organization about mandates that might micromanage or require a one-size-fits-all template for what a district should include on a website and where on the website it should be posted. Small, rural districts have limited revenue and also may lack Internet access. The unintended consequence may be that these districts then opt not to have a website at all rather than be out of compliance. He said that thresholds for revenue should be considered as well as exemptions for districts without Internet access.

The CSDA representative said the association has made website transparency a priority and its workgroup on this topic is generally supportive of a website requirement for special districts. A Commissioner responded that the goal of additional transparency is not micromanaging, but rather consistently making information available that answers basic questions about a district: how many employees are there and what are they paid, where does the revenue come from and how is money spent in the district. The goal, he said, is to build trust.

A representative for the Association of California Health Care Districts said that her association supports a bill under consideration in the Legislature requiring all health care districts to have a website. Currently, only seven primarily rural districts do not have a website. She added that some items on the list included with the Commission's potential recommendation would be difficult for districts operating large hospitals to comply with, such as fees and coordination with local government agencies. Several special district representatives commented that the coordination description was vague and agreed compliance could be difficult.

A representative from a rural district indicated Internet access is very limited for his constituents. The library is the local gathering spot and could be the location for additional community education and outreach. A representative from the Institute for Local Government echoed the need to “meet folks where they're at,” particularly in small, rural districts. The CSDA representative suggested that K-12 civic education curriculum should include more information on local government.

Standardizing Current Reporting Requirements

Several meeting participants made comments on the need to standardize information that currently is required to be submitted to the State Controller's Office, particularly standardized definitions for reserves. Reserves were discussed at length at the Commission's August 2016 hearing. Others suggested that reporting requirements should align with nationally recognized accounting standards, such as those required by the Governmental Accounting Standards Board.

Several participants acknowledged positive efforts on standardization underway with the State Controller's Office to develop definitions, standardize terminology and make it easier for the public to find the information already provided on the State Controller's website. A representative from the State Controller's Office acknowledged the ongoing dialogue with special districts and efforts to improve data collection, but also said that the software database, Access 97, used by the department has significant limitations. Participants cautioned against adding additional reporting mandates without providing resources for updating the technology used to collect and report data. Another representative from the State Controller's Office said they try to collect as much data as possible to the level needed, but also acknowledged the difficulty with lots of idiosyncrasies in various statutes related to special districts that make it challenging to standardize requirements.

The executive director of CALAFCO stated that a lot of LAFCOs provide basic information on their websites about all districts in their county including posting the Municipal Service Reviews and links to district websites. Some provide more, including information about revenue, taxes, user fees and debt, but this information is only as accurate or up-to-date as provided by the districts. She indicated if the information is easily accessible on the State Controller's website, it was duplicative to require it on each LAFCO website.

Climate Change Adaptation – Potential Recommendations

As expected, the majority of the discussion at the June meeting centered on the governance and transparency recommendations. Concerns expressed regarding the recommendations related to climate change adaptation included ensuring that all levels of government should formally include climate adaptation and climate mitigation as key operational considerations within their governing documents and missions, not just special districts. Several participants voiced concerns about replicating the program established by the East Bay Municipal Utility District in which real estate transactions trigger an inspection of sewer lines on the property and require repairs if broken. These participants did support a recommendation to conduct a cost-benefit analysis of this type of program to better understand the feasibility of potential legislation requiring utility districts to replicate the program.

Health Care Districts

The representative from the Association of Health Care Districts indicated her association's support of the potential recommendations related to health care districts. These recommendations came out of an association workgroup and members are already working toward achieving these goals. The CALAFCO executive director stated that her organization had established a workgroup to explore relationships between LAFCOs and health care districts.

Next Steps

This memo will be shared with the Commissioners for their consideration before adopting final recommendations for the special districts study. If you have anything you would like to add to this summary or if you would like to provide additional information for the special districts study in general, please contact me at (916) 445-2125. We hope that Commission staff may continue to draw upon your expertise if there are any points that need to be clarified or to request additional information. Thank you again for your input, participation and time.

Meeting Participants*

1. Debby Cherney, Deputy General Manager, Eastern Municipal Water District
2. Steve Heide, Finance Manager, Chino Valley Independent Fire District
3. José Henríquez, Executive Officer, El Dorado Local Agency Formation Commission
4. Gay Jones, Board Member, California Association of Local Agency Formation Commissions, Sacramento Metro Fire District, Board Member and Sacramento LAFCO Commissioner
5. Jill Kanemasu, Acting Division Chief, Local Government Programs & Services Division, Office of State Controller Betty T. Yee
6. George Lolas, Chief Operating Officer, Office of State Controller Betty T. Yee
7. Amber King, Senior Legislative Advocate, Association of California Health Care Districts
8. Steve Lucas, Executive Officer, Butte Local Agency Formation Commission
9. Jimmy MacDonald, Consultant, Senate Government and Finance Committee
10. Scott Morgan, Deputy Director of Administration and State Clearinghouse Director, Governor's Office of Planning and Research
11. Pamela Miller, Executive Director, California Association of Local Agency Formation Commissions
12. Kyle Packham, Advocacy and Public Affairs Director, California Special Districts Association
13. Sarah Rubin, Program Manager, Public Engagement, Institute for Local Government
14. Wendy Ridderbusch, Director of State Relations, Association of California Water Agencies
15. Herb Schultz, CEO, Desert Healthcare District
16. Gareth Smythe, Executive Fellow, Governor's Office of Planning and Research
17. Christina Valencia, Chief Financial Officer, Inland Empire Utilities Agency

*Several dozen others attended the meeting and many provided comments, however, not all participants provided names, titles or contact information. The list above reflects those who were invited by the Commission and who attended the meeting.