



**California Special
Districts Association**
Districts Stronger Together

ABOUT SPECIAL DISTRICTS GUIDE

CALIFORNIA SPECIAL DISTRICTS ASSOCIATION
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WHAT IS A “SPECIAL DISTRICT”?

Special districts are local government agencies that provide essential services to millions of Californians. Local residents form special districts when they want their community to have new or better services and infrastructure. Each special district focuses on a specific set of services, like fire protection, water, healthcare, or parks, among others. It is this focused service that allows for innovation and long-term planning to meet the community’s needs.

Special districts specialize in meeting the needs of residents of all types of communities, ranging from small neighborhoods to large regions. They often cross boundary lines, such as city and county borders, to overcome and respond to shared community challenges and interests. Special districts can build and operate urgently needed infrastructure without straining city, State, or county finances.

As publicly owned and operated local agencies, special districts are created by and held accountable to local residents. Special districts are governed by board members, which are residents of the district and usually elected by the community. In some instances board members are appointed by other local elected officials. The public can attend and comment during board meetings and obtain the district’s public records.

HISTORY OF SPECIAL DISTRICTS

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.

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, which allowed landowners to form new public entities to deliver irrigation water, provided the legal foundation for the formation of water districts and, ultimately, the 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.

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. After World War II there weren’t enough hospital beds and the Legislature created hospital districts, now called healthcare districts, so that communities could create and manage their own healthcare needs.

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.



INDEPENDENT AND DEPENDENT SPECIAL DISTRICTS

Throughout California there are two general types of special districts:

INDEPENDENT and DEPENDENT

Dependent special districts are governed by other governmental entities. For example, city councils or county boards of supervisors frequently serve as the board of dependent special districts. Essentially, dependent special districts are better understood as components of other government bodies.

Independent special districts are, just as they sound, “independent” from other governments. They are directly accountable to the people they serve. Arguably the most “local” form of government, independent special districts are typically governed by a board of directors elected directly by the voters. In some instances, board members are appointed to fixed terms by other local elected officials. Such boards retain “independence” from the appointing board as they represent the community, not the appointing body, and cannot be replaced by the appointing body until the expiration of their term.

This guide will concentrate mainly on independent special districts and, going forward, will use the term special district and independent special district interchangeably.

WHAT SPECIAL DISTRICTS ARE NOT

It is important to understand the distinction between independent special districts and other forms of local government. Special districts are created by local residents, governed by local residents, and held accountable by local residents.

Independent special districts are not the State government. Independent special districts operate via local control and answer to the residents, voters, and landowners they serve. While some State departments provide oversight for special districts, such as the requirement that special districts submit annual audits to the State Controller, special districts are neither directly controlled by nor considered a part of the State government.

Independent special districts are not county or city governments. County and city governments are “general purpose” governments and can provide a broad array of services. Independent special districts are “limited purpose” and can only provide services clearly outlined by law. A city council or county board of supervisors may serve as the board of directors for a dependent special district, but independent special districts are separate legal entities that are 100% “independent” from city and county governments.

Independent special districts are not school districts or community college districts. School districts provide public education services and receive significant revenue from the State government. Independent special districts can be confused with school districts because they both use the word “district.” However, special districts cannot provide K-14 public education.



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Independent special districts are not “Mello-Roos” districts, community facilities districts, or benefit assessment districts. Independent special districts are a form of local government, with an independent governing board, that provide services to the community. “Mello-Roos” districts and benefit assessment districts are financing mechanisms that can be created by counties, cities, school districts, and special districts in order to finance infrastructure development or public services.

CREATED BY VOTERS

Special districts are formed by local voters. Typically, special districts are organized when local residents or landowners notice a need in the community and determine the creation of a special district provides the solution. Signatures are gathered on a petition, which is then given to the Local Agency Formation Commission (LAFCO) for review. If the LAFCO approves the proposed new special district, then the question of whether to create the district must be put before the voters or landowners for final approval. Voters can override a LAFCO’s determination in favor of creating a special district through what is known as a “protest hearing.”

While special districts are most often created directly by the voters and residents they serve, on rare occasions they are created through special action of the State Legislature. Also, the formation of dependent special districts can be initiated by a city or county.

Voters, furthermore, must approve any new taxes that special districts receive. Proposition 218, which amended the California State Constitution in 1996, requires that new or increased special taxes be approved by a two-thirds vote. When new special districts are proposed, the LAFCO will often condition the formation of the district on the successful passage of a new special tax to fund the district. Thus, in practical effect, many proposed special districts require two-thirds voter approval for their formation.



WHY ARE SPECIAL DISTRICTS FORMED?

SPECIAL DISTRICTS PROVIDE ESSENTIAL LOCAL SERVICES

Special districts are created when local residents or landowners wish to receive new or upgraded services in their community. For example, residents in a rural area may not have access to a nearby library. These residents can come together to form a library district to benefit the community. Or maybe a community is located in an unincorporated area where emergency fire and medical services have slow response times. The residents may choose to form a fire protection district to more effectively serve their community.

Special districts can provide a wide range of services:

- Airport districts manage airports that enhance local economies.
- Cemetery districts provide cost-effective burial services and preserve historical community information.
- Community services districts offer over 30 different types of services, such as police protection, garbage removal, road maintenance and street lighting.
- Fire protection districts protect homes, businesses, and the environment from fires and respond to medical emergencies.
- Harbor and port districts manage recreational, economic, and environmental coastal infrastructure.
- Healthcare districts promote the physical and mental health of communities, which may include preventative care, nutrition education, health clinics, traditional hospitals, or other services.
- Irrigation districts deliver water resources, as well as electric power to rural residents and agriculture.
- Library districts provide access to educational and informational resources, including collections of books, photographs, newspapers and videos.
- Mosquito and pest abatement districts control mosquito populations and reduce the spread of vector borne diseases.
- Reclamation and levee districts protect lives and property from the threat of flooding.
- Recreation and park districts provide parks, open spaces, and community programs to improve quality of life.
- Resource conservation districts identify local conservation needs and support land managers in implementing solutions.
- Sanitation districts treat and recycle wastewater.
- Transit districts provide public transportation services that connect regions.
- Utility districts supply a variety of services, which include water, power, and garbage.
- Veterans memorial districts maintain memorials to our veterans and provide other veteran services.
- Water districts deliver water to residential, commercial, agricultural and industrial areas.



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FOCUSED SERVICES

Unlike general purpose governments, special districts provide one service or a small suite of specialized services. This allows communities to receive the services they need at a price the community is willing to pay. Because of this, special districts are able to focus on their mission and develop innovative solutions to meet community needs. Broader and more complex governments, in contrast, can often be spread in multiple directions.

Focused service also promotes public access to and accountability of special districts. If someone has an issue with their water service, it may be easier to attend their local water district board meeting than drive to the county seat to take up the issue. At the water district board meeting, the entire agenda and the board's primary focus is the residents' water service. For a general purpose government that may only be a small item buried on a long agenda, if it's on the agenda at all.

A special district board member may have more expertise to listen and respond to the issue than board members that must understand a myriad of issues, some of which may have greater political ramifications.

Single function, or single service, special districts provide only one type of service. Most special districts are single service. California water districts, for example, provide residential, industrial, commercial, and agricultural water services only. Multi-Function districts can provide a greater variety of services, though the services are often related. For example, irrigation districts provide water and infrastructure for irrigating agricultural land but can also provide electricity services to communities. This is because these districts might operate dams in order to irrigate land and these dams can also be used to generate hydroelectric power.

Community services districts or CSDs are the most complex special districts. They can provide up to 32 different services ranging from water service, to fire protection, to recreation and parks. However, most CSDs are only authorized by their LAFCO to provide two or three of those 32 different services, depending on the needs of the community.

FLEXIBLE TO MEET LOCAL NEEDS

Special districts can cross city and county lines to provide focused services to communities of different sizes, allowing them to address their common needs. Special districts can be small, such as a fire protection district serving a rural unincorporated area. Special districts can also cover multi-county regions, which is the case for many transit districts that provide public transportation services for residents of multiples cities and counties. The boundaries of a special district are not dependent on the county or city that the residents live in. Instead, special district boundaries are defined by the common needs of communities and the services they want to be provided.



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HOW ARE SPECIAL DISTRICTS GOVERNED?

THE BOARD OF DIRECTORS

Most independent special districts have boards elected directly by the residents or landowners in the district, making special districts directly accountable to the people they serve. Some types of special district boards are appointed to fixed terms. Either way, special district boards serve the same function. The special district board of directors is the governing body of the special district.

The board of directors sets the policies for the special district, which is carried out by the district's employees. The special district's general manager is charged with overseeing the day to day operation of the district and reports directly to the board of directors. All district policies and decisions are public and the district's residents can make sure their board members continue to represent the best interests of the community.

STATUTORY AUTHORITY FOR SPECIAL DISTRICTS

All special districts are created based on laws passed by the State Legislature. These laws also determine which services the districts can provide and how districts are managed and governed. Most special districts are created by laws that are applicable to specific types of special districts. These laws are known as "principal acts." For example, California water districts have a specific principal act that governs all California water districts.

Sometimes, the Legislature will identify certain factors or challenges that would make the formation of a special district under one of the general principal acts problematic. In these situations, the Legislature can create a "special act" district. These districts have a law that applies to that individual district only. This gives the Legislature room to make adjustments needed to allow the district to perform its best in specific local circumstances.

BROWN ACT AND OPEN MEETINGS

All special districts must obey California's open meeting law, commonly known as the "Brown Act." This law is designed to encourage public participation in local government business and to ensure all decision making is transparent. Special district board members must only consider and make decisions in an open and public meeting. This means that a majority of the board cannot meet in secret to discuss potential decisions. The Brown Act even prohibits a majority of the board from having these discussions over the phone or via email. That way, the public can watch the deliberations of the board members and understand their decision process.

The Brown Act also ensures the public has a role at each special district meeting. The board of directors of a special district cannot vote on any decision until members of the public have first had an opportunity to share their opinion with the board. This guarantees that special district board members are able to hear from all interested residents and will be able to take the comments of the people they serve into consideration before acting on any matter.



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PUBLIC RECORDS

The public has the right to look at and request copies of the public records kept by a special district due to the provisions in the California Public Records Act. The exceptions to the rule that all records must be made available for public inspection are generally limited to records that, if they were shared, could interfere with a person's right to privacy or pose threats to security. Exceptions also involve records that must remain confidential to allow the district to effectively conduct its business, such as records related to ongoing criminal investigations and legal proceedings.

AUDITS AND REPORTING

Special districts are required to submit to annual, independent audits conducted by the county auditor or a certified public accountant. This information is filed with the State Controller's Office. The annual audit can be changed to a multi-year audit if approved unanimously by the district board and the county board of supervisors, but only under very limited conditions. Similarly, special districts must also annually report financial transactions and information on annual compensation to the State Controller's Office, which makes this information publically available.

Special tax and bond revenues are also subject to additional reporting requirements. Local officials are required to issue annual reports on how they spend parcel or special revenues. The report includes the amount of funds collected and spent, as well as the status of projects for which the special tax was imposed.

Any local bond that is subject to voter approval, and provides for the sale of bonds by a special district, must be transparent. A special district must file a report that indicates the purpose of the bond, create a specific account into which the proceeds will be submitted, and file an annual report on how bond proceeds were actually spent.

LOCAL AGENCY FORMATION COMMISSIONS AND MUNICIPAL SERVICE REVIEWS

Local Agency Formation Commissions (LAFCOs) also provide a level of oversight for special districts. LAFCOs are independent commissions, formed by the Legislature, that approve the formation, reorganization, and dissolution of special districts and other public agencies in order to guide orderly development and growth of municipal services.

Municipal Service Reviews, or MSRs, are completed by LAFCOs at least every five years. MSRs comprehensively study existing and future public service conditions and evaluate organizational options for accommodating growth, preventing urban sprawl, and making sure that critical services are efficiently and cost-effectively provided.



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ETHICS

Special districts must also comply with State ethics laws. The Fair Political Practices Commission (FPPC) requirements include disclosure of gifts and money received by public officials and specified employees and the annual filing of a Statement of Economic Interest detailing financial holdings for individuals. Special district board members are prohibited from voting on or otherwise attempting to influence any decision in which the board member has a financial interest. Gift disclosures and the annual filing of a Statement of Economic Interest allows the FPPC and the public to ensure board members make decisions solely to benefit their constituents.

Assembly Bill 1234 created requirements for every public official of a local agency to attend ethics training. All board members serving a special district must receive this training when elected or appointed, and must repeat the training every two years. This training requirement helps special district board members understand their ethical duties and disclosure requirements.

SPECIAL DISTRICT LEADERSHIP FOUNDATION

Special districts can also undergo voluntary trainings. The Special District Leadership Foundation (SDLF) is an independent, non-profit organization formed to promote good governance and best practices among California's special districts through certification, accreditation, and other recognition programs. These programs can be completed by administrators, board members, or the special district as a whole. Individual board members complete programs by participating in continuing education and completing evaluations, which demonstrate their knowledge and skills in special district governance. Districts complete programs and obtain recognition primarily by adopting good governance best practices in the district's policies and procedures.



HOW ARE SPECIAL DISTRICTS FINANCED?

ENTERPRISE AND NON-ENTERPRISE DISTRICTS

“Enterprise districts” are special districts funded primarily through charging fees for services. For example, water districts charge their customers fees for water delivery and health care districts, which can operate hospitals, bill patients for medical care. “Non-enterprise districts” are special districts funded primarily through local property taxes. They provide services that are not conducive to user fees. For example, fire protection services are provided to all residents and benefit the community as a whole.

Enterprise districts rely less on property tax revenue in comparison to non-enterprise districts. However, property tax revenue remains an important source of funding for many enterprise districts. Property tax revenues help to provide financial stability for special districts due to the diversification of revenue sources. Likewise, non-enterprise districts may derive some revenue from limited user fees. For example, a recreation and park district may charge a fee for joining a soccer league.

OVERVIEW OF SPECIAL DISTRICT FINANCING

Special districts use many different funding sources to establish and maintain the infrastructure needed to promote a strong economy and healthy environment. These funding sources are used by districts to deliver the essential services local residents depend on. The community plays a vital role in approving any new or increased taxes or fees.

The foundational revenue source for special districts is the one percent ad valorem property tax, more commonly known simply as “property tax.” Proposition 13, passed by voters in 1978, amended the California Constitution to limit how property taxes are levied and collected. The amount of property tax levied on a property may not exceed one percent of the property’s value, subject to a maximum two percent upward annual adjustment to account for inflation. Due to these restrictions, as property values rise, a property is often taxed at a much lower rate than its true value. The county auditor-controller collects the property taxes and distributes revenues to all the local governments within its boundaries, including special districts, school districts, cities, and the county, based on formulas in State law.

Special districts can also pass “special taxes.” A special tax is a property tax for a specific, or “special” purpose. These taxes can be referred to as parcel taxes. Unlike the 1% ad valorem property tax, which is based on property value, these taxes are a fixed rate per property parcel based on either square footage or a flat charge. Proposition 218 requires that a special tax be approved by two-thirds of registered voters in the district. Special taxes may be reduced or repealed by popular vote.

Proposition 218 also placed limits on the property related fees special districts can set. Property related fees include fees for services such as residential water delivery and wastewater disposal. Special districts cannot set a fee that is greater than the cost of providing the service to the property. New or increased fees are subject to procedural requirements, including majority protests, created by Proposition 218. Fees may also be reduced or repealed by a popular vote.



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Many special districts are also required to contribute property tax revenues to supplement the State's responsibility to maintain K-12 school funding levels by contributing to the Education Revenue Augmentation Fund (ERAF). Starting in 1992, in response to the State's budget woes, the Legislature implemented the first ERAF, shifting property tax revenue from local governments to schools, thus relieving the State of some of its fiscal responsibility to fund schools. A second shift (ERAF II) was implemented in 1993, but took less from local governments and exempted health and safety agencies. Both are still ongoing.

In 2004, in a compromise with the local governments, a third shift (ERAF III) was allowed to take place, but only for two years, and significant restrictions were placed on the State's ability to raid local government funding through the passage of Proposition 1A. Local funding was further protected by the overwhelming passage of Proposition 22 in 2010.



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ADDITIONAL RESOURCES

The following is a list of some additional publications and resources, which cover in greater depth the topics addressed in this guide.

FORMATION AND ORGANIZATION

Guide to Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (2002), Assembly Local Government Committee

It's Time to Draw the Line: A Citizen's Guide to LAFCos (May 2003), Senate Local Government Committee

GENERAL INFORMATION

Hawkins Report, (1974), Local Government Reform Task Force

Special Districts: Relics of the Past or Resources for the Future? (May 2000), Little Hoover Commission

What's So Special About Special Districts (October 2010), Senate Local Government Committee Committee

GOVERNANCE

A Local Official's Guide to Ethics Laws (2005), Institute for Local Government

Integrity and Accountability: Exploring Special Districts' Governance (November 2003), Senate Local Government Committee

Open & Public IV: A Guide to the Ralph Brown Act (2007), League of California Cities

Open, Ethical Leadership: AB 1234 Compliance Training for Special Districts, California Special Districts Association Political Reform Act (2007), Fair Political Practices Commission

Summary of the California Public Records Act (2004), California Attorney General's Office

The Brown Act: Open Meetings for Local Legislative Bodies (2003), California Attorney General's Office

INDEPENDENT SPECIAL DISTRICT TYPE SPECIFIC

A New Law for a New Mission: SB 515 and the Fire Protection District Law of 1987 (October 1987), Senate Local Government Committee

Community Services, Community Needs (March 2006), Senate Local Government Committee

For Years to Come: A Legislative History of SB 341 and the "Public Cemetery District Law" (August 2004), Senate Local Government Committee

Parks, Progress and Public Policy: A Legislative History of Senate Bill 707 and the "Recreation and Park District Law" (October 2001), Senate Local Government Committee

Science, Service, and Statutes: A Legislative History of Senate Bill 1588 and the "Mosquito Abatement and Vector Control District Law" (September 2003), Senate Local Government Committee

PUBLIC WORKS

Guide to CEQA, Solano Press Books

REVENUE AND FINANCE

Assessing The Benefits of Benefit Assessment, 2nd Edition (December 2004), Senate Local Government

Property Taxes: Why Some Local Governments Get More Than Others (August 1996), Legislative Analyst's Office

Proposition 26 Guide for Special Districts, (2013), California Special Districts Association

Proposition 218 Guide for Special Districts, (2013), California Special Districts Association

Special District Reserve Guidelines, (2013), California Special Districts Association

The State Appropriations Limit (April 2000), Legislative Analyst's Office

Understanding Proposition 218 (December 2006), Legislative Analyst's Office