

The California Local Government Finance Almanac

Little Hoover Commission

Public Hearing: "Special District: Relics of the Past or Resources for the Future?"

Remarks by Michael Coleman

It's a pleasure to be with you to discuss California's Special Districts. Please understand that my remarks today express my professional understanding and personal opinion, and are not necessarily those of the League of California Cities, the California State Association of Counties, the California Society of Municipal Finance Officers or anyone other than me.

Special Districts are vital and effective components of California's mosaic of local government service providers. That's as true now as it was before Proposition 13 or decades before that. Local circumstances differ, service preferences and needs differ, and the ability for a community to make different choices regarding local public services is vital to respond to those differences and make the best use of limited taxes and charges.

So I start here with the principle of **local choice**: our finance and governance systems should be flexible enough to accommodate different choices among communities as to service levels and the allocation of resources. And as priorities and needs change, citizens in communities should have the ability, through their elected policy makers, to alter services and funding among municipal services.

Imagine...

Imagine with me that you are on a city council of a full service city. But in your city each of the departments has its own fixed share of the general fund. The police department gets 25 percent, the fire department gets 35 percent, parks gets 10 percent, streets 10 percent, libraries 5 percent, planning 2 percent, etc. You, the elected policy makers, have no discretion to shift around those amounts even if there are more pressing needs in one department versus another – services and departments that serve the same constituents. But then imagine that each of these departments is a separate agency, each with its own elected board determining separately how to provide those services, how to spend those fixed allocations of funds.

From the standpoint of the individual program agencies, their board members, the employees working in those areas, the advocates who care especially about that program like the library boosters or the parks advocates ... from their standpoint these fixed allocations and independent policy making board are ideal, much better than having programs and spending questioned each year alongside other local public services. Greater funding security means less anxiety about longer term program commitments and the assurance that any program savings from underspending will come right back to that program area.

But from the standpoint of the constituent, the taxpayer, these fixed allocations may not reflect the comparative public service needs of the community. The fixed allocations may be decades out of date and out of step with current priorities. Funding is balkanized and irrespective of changing technologies, service demands, priorities about what's most important to a community such that local libraries may have to severely reduce staffing and hours, even as the parks agency serving the same constituents is able to provide staffing and compensation levels to its employees that exceed any others in the western US.

It Happens ...

So let’s look at a real world example. For years after the Legislature established the post-Proposition 13 shares to local agencies, this rural fire protection district struggled with its low share, less than 7 percent of the property taxes collected in the district. It was a volunteer fire protection district in a relatively rural area and had never imposed a very high property tax rate prior to Proposition 13 and so it was stuck with a low share afterward even as the city that was essentially coterminous grew, putting pressure on the fire agency for more full time professionals, new technology, new standards, higher compensation to retain staff. The fire district would appear each year before the city council budget hearings asking for additional funding. In some years the city council might oblige but would at the same time point out that the city was not a full service agency, that fire service was not among the city’s responsibilities. After many years, the fire district placed a parcel tax on the ballot. Sixty percent of voters said yes, and it failed, short of the two-thirds needed. A few years later voters approved a parcel tax at the two-thirds level with a mailed ballot election and calling it a benefit assessment. The added fire taxes in this community are over \$300 per year for a single family home.

A fire district ten miles away receives nearly three times the average property tax share. In fact, this district’s 19 percent share rivals the base share allocation to most full service cities – cities that are responsible for fire funding in addition to police, parks, streets, etc. This agency’s employees are among the most well paid in the country, it’s equipment and facilities and service levels meet and exceed top standards. There are no supplemental fire parcel taxes or benefit assessments. But cities in the service area of this district struggled through the recent downturn, reducing library hours and street maintenance. No one at the local level has the authority or joint responsibility to consider if there might be an allocation of property tax revenues that would better reflect the priorities and needs of that community.

Some Principles for a Good Governance and Finance Structure

Let me stipulate a few foundational principles here.

First, the authority to re-allocate revenues from taxes should be tied at the hip with the responsibility for the services for which those taxes are intended. Policy makers with the power to shift revenues from one program to another should shoulder the responsibilities for those programs.

Second, it doesn’t work if members of the board don’t all have that multi-disciplinary responsibility. If one member only is responsible to the library district, another only to planning and streets and police, another to county services, then the members are not accountable for a balance among priorities that well better reflect the overall needs of their constituents.

Third, the choice about how to provide a service is different and not impaired by the choice about how much to spend on a program area. That is, law enforcement services can and are be provided by an in-house department or via a contract with the county or another local agency. A fire special district may be the best, most efficient service provider, but if the city is responsible for the service and provides it via contract with the district, then the city council can periodically assess the performance, cost and service levels along with other needs in the community.

Fourth, service needs and priorities among local communities differ. A great virtue of local government is the ability of local communities to choose for themselves what’s important, what their needs are, and to make different choices in later years as those needs and priorities change.

The Point ...

A side-effect of Proposition 13's tax limitation victory is that it took away local control of the rate and the local allocation of revenues so communities can no longer affect their property tax revenues in response to differences in property values, service demands, and willingness to pay. The allocation of tax revenues is less efficient, less transparent, less responsive, and less accountable to citizens than it could be.

Because of this balkanized property tax allocation, based on nearly 40 year old relative shares, citizens

- ✓ Cannot reallocate resources as their community changes, as new challenges arise, and as needs and priorities change.
- ✓ Face unnecessary added pressures for tax increases where the need for funding might be solved by a more efficient allocation of revenues among the local agencies serving the area.

Communities should be empowered with the authority they need to allocate revenues according to their particular needs and preferences. We have a local property tax apportionment system that fragments local governance: no local authority exists to allocate revenues among the core municipal services to better match local service level preferences as they exist today, not 30 or 40 years ago.

Local authority to alter property tax allocations could be provided to communities by giving a local agency the ability to reallocate property tax shares going to all municipal functions including police, fire, libraries, parks, water, sewer, transit, etc. Given the authority to alter revenue allocations, that agency would also have to assume the responsibility for the services. Logically, this means that agency would be the city, or – in unincorporated areas – the county.

A special district is, in many cases I do not doubt, the best most efficient and effective service provider and should be engaged to provide these services on contract with the city.

This is not a new concept. It was essentially at the core of the Legislative Analyst's Office's "Making Government Make Sense" in 1994. In their 2000 report on property tax allocation the LAO proposed that the property tax be boiled down to a school share and a non-school share and that local general purpose governments (cities and counties) be given authority to make allocations from the non-school share. In effect, all cities would become "full service," responsible for all municipal services (fire, police, parks, library, etc.). Special districts could continue to be service providers under arrangement with cities and counties, but would no longer be "taxing entities." Cities could contract out services or choose to allocate parts of their property tax share to redevelopment or special districts. LAO argued that this would improve local control, provide better land use development incentives, and improve local governance.

Good local governance requires:

- ✓ Ability to set priorities across a broad spectrum of needs.
- ✓ Ability to coordinate programs for efficient service delivery.
- ✓ Ability to fund these programs adequately with revenues that are rationally tied to the program.
- ✓ Ability to change priorities, funding allocations, and service delivery methods as circumstances change.

Enterprise Special Districts.

While we are on the property tax, there’s this matter of enterprise special districts, also a topic that the LAO and I and others have been raising for decades. Given the unique 1 percent limit on property taxes in California, why are we subsidizing utilities with general tax revenues?

I’ll start here with another couple of principles. First, specific and general benefit. This comes out of our constitution and in this case I think there is some logic. Fees are best used for services where there is specific benefit provided to the fee payor. Taxes are best used for services that provide general benefit, or where the service recipient is unable to pay, or where it’s impractical or problematic to charge a fee. Second, if the price of a public resource commodity is subsidized, it will be over-used. If there is a public benefit to that subsidy and overuse, then the policy may be sensible. But if we are effectively encouraging overuse of a limited resource or service, such as water or energy, then we are fostering waste. Moreover, since general property tax revenues are precious and limited, we are not funding and providing services from other local programs at the levels we may want to if we had the choice.

Going back to that imaginary city, imagine if the water department of the city got a fixed 5 percent of the property tax. The user fees are subsidized. Perhaps there’s a logic in that; rate affordability programs or some other program of general benefit. But the community (the citizens, the taxpayers, the voters) has no choice to even seriously consider if this is the best allocation of resources. Local communities should have the power to determine the best allocation of these limited property tax dollars.

I commend the members of the commission and your staff on these efforts. If this was easy work, then the longstanding recommendations of policy wonks such as myself would have found their way into practice a long time ago.



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