

# **SPECIAL DISTRICTS**

## **Summary**

In May of 2000, the Little Hoover Commission, a state investigative agency, published a report, “Special Districts: Relics of the Past or Resources for the Future?” This report is an overview of the 2,200 independent special districts in California. The study does not examine individual special districts, but urges community civic resources to do so. In 2001, The Sacramento County Civil Grand Jury did a study of its special districts. Subsequently, the Little Hoover Commission sent letters to other grand juries urging them to do the same in their respective counties.

## **Reason for Investigation**

This investigation was initiated by the Sonoma County Grand Jury members at the urging of the Little Hoover Commission as mentioned in the above Summary.

## **Background**

Special districts in California were established over 100 years ago as a method for small, usually rural, communities to provide services for themselves that were beyond the reach or interest of county or city government. Most of the early special districts were related to the distribution of water, either for irrigation or domestic use, or both. Special districts provide additional services such as fire protection, sanitation, community services, parks and recreation, cemetery and memorial, mosquito abatement, and others. Occasionally a single special district provides several of the above services. These special districts are authorized and prescribed by over 50 state statutes.

Sonoma County has 48 special districts.

Financially, special districts are of two kinds – enterprise and non-enterprise. In general, an enterprise district charges fees for its services to the citizens who use them. Typically, most enterprise districts are water and/or sanitation districts. Non-enterprise districts get their funding from property taxes. Volunteer fire departments are examples of non-enterprise districts. Some districts have dual funding, i.e. fees for certain services and tax revenue for others.

Most special districts have financial reserves. These are generally of two kinds:

- Designated reserves are funds put aside for specific purposes e.g., purchasing new water pumps, that are known to be needed at some future date
- Undesignated reserves are funds put aside for non-specific reasons.

Boards of directors govern the special districts. If the district is dependent, the board is usually the Board of Supervisors of the county on which they are dependent. If the district is independent, it has its own Board of Directors. Although the boards have regular public meetings, there usually is little involvement by the citizens whom the districts serve.

## **Investigative Procedures**

The Grand Jury:

1. Interviewed the following persons:
  - An officer of a special district
  - Two auditors from the Sonoma County Auditor's office.
2. Reviewed the following documents:
  - Little Hoover Commission report, "Special Districts: Relics of the Past or Resources for the Future?"
  - The 2000 Sacramento County Civil Grand Jury's report of its county's special districts
  - Annual Report of Financial Transactions of Special Districts for fiscal years 2000 and 2001 for 48 special districts in Sonoma County
  - Budget for fiscal year 2001 for three special districts
  - Auditor's report for fiscal year 2001 for three special districts.

The investigation centered on the information contained in the "Annual Report of Financial Transactions of Special Districts." Each special district files this report with the State Controller every year.

The Grand Jury focused its investigation on undesignated reserves to determine if they were excessive and limited its investigation to enterprise districts. The reason for this limitation is that non-enterprise districts typically are smaller and struggling, and the possibility for them to acquire large reserves is highly unlikely.

## **Findings**

- F1. The Little Hoover Commission and the Sacramento County Grand Jury reached the following conclusions:
  - The format and content of the financial reports often mask, rather than illuminate, useful information
  - With rare exceptions, compensation to Special District Board members was modest
  - Excessive undesignated reserves, found to exist in a few of the special districts studied, was the major concern of the investigators.
- F2. The Sonoma County Civil Grand Jury found no evidence of any enterprise district in Sonoma County to have excessive undesignated financial reserves.
- F3. The State Legislature passed SB282 in 2001. This bill "...requires the Controller to make available annually, in a separate report, published in an electronic format on the Controller's Web site, specified information regarding the assets, liabilities, and equity of the selected special districts." The intent of this bill is to make financial reports of special districts clearer, more informative, and easily accessible to the public.

## **Recommendation**

R1. We urge citizens to avail themselves of the information on the Controller's website when it becomes available, and to take an active interest in the special districts that serve them.

## **Required Responses to Findings**

None

## **Required Responses to Recommendation**

None