

Date of Hearing: March 27, 2019

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT
Cecilia Aguiar-Curry, Chair
AB 1253 (Robert Rivas) – As Introduced February 21, 2019

SUBJECT: Local agency formation commissions: grant program.

SUMMARY: Authorizes the Strategic Growth Council (SGC) to administer a grant program to finance certain local agency formation commission (LAFCO) activities. Specifically, **this bill:**

- 1) Requires the SGC to establish and administer a LAFCO grant program, including adopting guidelines, timelines, and application and reporting criteria for development and implementation of the program.
- 2) Specifies that program funding is subject to appropriation in the annual budget.
- 3) Provides that program funds awarded to participating LAFCOs shall be used to supplement, and not supplant, existing funding and staffing levels.
- 4) Mandates that funds shall not be used to conduct municipal service reviews (MSRs).
- 5) Requires the SGC, in granting funds under this program, to give preference to a LAFCO whose decisions are consistent with the goals of an adopted sustainable communities strategy.
- 6) Specifies the types of studies and LAFCO actions the program is authorized to finance.
- 7) Provides that a LAFCO shall repay the entire amount of the grant awarded by the SGC to the SGC if an eligible study is not completed within two years of the receipt of the grant funds. The LAFCO shall make repayment within 30 days from the two-year anniversary of receipt of the grant funds.
- 8) Specifies the process that the LAFCO must follow for a change of organization funded by this program, including holding a public hearing and subsequent protest proceedings, and reporting requirements following the completion of the LAFCO action.
- 9) Defines “disadvantaged community” as a community with an annual median household income that is less than 80% of the statewide annual median household income.
- 10) Includes findings and declarations.
- 11) Provides that this program shall become inoperative on July 31, 2025, and, as of January 1, 2026, is repealed.

EXISTING LAW:

- 1) Enacts the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH Act), which:

- a) Controls how local officials change the boundaries of cities and special districts, putting LAFCOs in charge of the proceedings; and,
 - b) Directs LAFCOs to ensure that services are effectively and efficiently delivered, and local governments can only exercise their powers and provide services where allowed to by LAFCO, including the formation of new cities and special districts, modifications of existing boundaries, and dissolutions of unsustainable special districts.
- 2) Defines "inactive district" to mean a special district that meets all of the following:
- a) The special district, as defined in LAFCO law, to mean an agency of the state, formed pursuant to general law or special act, for the local performance of governmental or proprietary functions within limited boundaries, as specified;
 - b) The special district has had no financial transactions in the previous fiscal year;
 - c) The special district has no assets and liabilities; and,
 - d) The special district has no outstanding debts, judgments, litigation, contracts, liens, or claims.
- 3) Requires the State Controller to notify the LAFCO in the county or counties in which the inactive district is located, if the State Controller has included the district on the list of inactive districts.
- 4) Requires the LAFCO to initiate dissolution of inactive districts by resolution within 90 days of receiving notification from the State Controller, unless the LAFCO determines that the district does not meet the specified criteria.
- 5) Requires the LAFCO to notify the State Controller, if the LAFCO determines that a district does not meet the criteria for an inactive district.
- 6) Requires the LAFCO to hold one public hearing, within 90 days of the adoption of the resolution initiating dissolution, on the dissolution of an inactive district.
- 7) Prohibits the dissolution of an inactive district from being subject to protest and election requirements or determinations by the LAFCO.
- 8) Prohibits the dissolution process for inactive districts in this bill from applying to a special district formed by special legislation during the period of time in which the district is authorized to obtain funding.

FISCAL EFFECT: This bill is keyed fiscal.

COMMENTS:

- 1) **Bill Summary.** This bill requires the SGC to establish and maintain a grant program to fund LAFCO actions and studies. Individual LAFCOs can apply to the SGC for funding. This measure requires the SGC to adopt guidelines, timelines, and application and reporting criteria for development and implementation of the program after consulting with CALAFCO.

This bill is sponsored by CALAFCO.

- 2) **Little Hoover Commission.** The Little Hoover Commission serves as California’s independent oversight agency by investigating government operations. Through reports and legislative proposals, it makes recommendations to the Governor and Legislature to promote economy, efficiency, and improved service in state operations. The Commission released the report “Special Districts: Improving Oversight and Transparency” in August 2017, making 20 different recommendations to improve the accountability and operation of special districts.

In the report, the Little Hoover Commission suggested that, “The Commission in its 2000 report and again in this study heard that certain LAFCOs and smaller districts lack the resources to propose consolidations and dissolutions. As part of the August 2016 hearing and June 2017 advisory committee meeting, the Commission was told a small one-time infusion of \$1 million to \$3 million in grant funding could save California taxpayers money if local government is streamlined and efficiency is improved. This funding could provide an incentive for LAFCOs or smaller districts to start a dissolution or consolidation process. Participants in the Commission’s public process suggested the Strategic Growth Council or Department of Conservation could administer this one-time funding. The Legislature should provide one-time grant funding to pay for specified LAFCO activities, particularly to incentivize LAFCOs or smaller special districts to develop and implement dissolution or consolidation plans with timelines for expected outcomes. Funding should be tied to process completion and results, including enforcement authority for corrective action and consolidation.”

- 3) **Author’s Statement.** According to the author, “Consistent with a recommendation made in the 2017 Little Hoover Commission report, AB 1253 would provide LAFCOs, or Local Agency Formation Commissions, with a one-time small infusion of grant-like monies to focus efforts on streamlining local government and improving efficiency in service delivery. There is a need for LAFCOs to conduct more in-depth studies of local agency service providers that could result in more options for greater efficiencies, the elimination of non-functioning organizations, or reorganization actions. AB 1253 would establish a grant-like funding program, administered by the Strategic Growth Council, to provide LAFCOs with funding to conduct analyses of local government agencies and services for the purpose of streamlining the delivery of local government services. Through AB 1253, LAFCOs would be able to address known service and governance concerns that could potentially save California taxpayers money. Grant funds will be used specifically to conduct special studies to identify and support opportunities to create greater efficiencies in the provision of municipal services and to potentially initiate actions based on those studies that remove or reduce local costs, thus incentivizing local agencies to work with the LAFCO in developing and implementing reorganization plans. The grant program would sunset on December 31, 2025.”
- 4) **Who Pays?** Traditionally, the agency that initiates dissolution, consolidation, annexation, or other change of organization pays for the costs associated with completing the process. LAFCOs are funded by the cities, counties, and, in 30 counties, special districts. CALAFCO states that one third of the 58 LAFCOs have an annual budget of less than \$100,000 and one-fifth have an annual budget of less than \$50,000.

- 5) **Governor’s Veto.** AB 2258 (Caballero, 2018) was identical to AB 1253 and was passed by the Legislature. However, the Governor vetoed AB 2258 stating, “I am returning Assembly Bill 2258 without my signature. Subject to an appropriation in the annual Budget Act, this bill requires the Strategic Growth Council to establish and administer a grant program to fund various activities performed by Local Agency Formation Commissions. This new spending proposal should be evaluated in the annual budget process where it can be weighed together with the state's other spending priorities.”
- 6) **Arguments in Support.** The sponsor argues that, “While many LAFCOs are initiating actions to create improved efficiencies in the delivery of local government services, the reality is that certain LAFCOs and smaller districts lack the resources to propose consolidations and dissolutions, especially those serving disadvantaged communities. A CALAFCO statewide survey in 2017 showed that lack of funding was one of the top reasons why LAFCOs do not initiate such actions. Through AB 1253, LAFCOs will be able to actively address known service and governance concerns that could potentially save California taxpayers additional money through the reorganization of local government agencies and improved efficiencies in service delivery.”
- 7) **Arguments in Opposition.** According to the opposition, “Current law provides that a LAFCO proposing to consolidate, dissolve, or initiate other types of reorganizations of a special district must hold an election to decide the fate of that district if at least 10 percent of residents in the affected territory protest the proposed action. This threshold reflects the right residents should have to participate in debates over who serves them, especially when LAFCOs commence involuntary actions, such as forced consolidation. Under this bill, the only difference between the LAFCO-initiated reorganizations at issue is that the reorganizations would be funded by the State, rather than the individual LAFCOs. The various protest thresholds in the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 have never depended on the source of funding. Creating two thresholds for the same proceeding complicates existing law and only serves to make it more difficult for residents to voice their concerns about LAFCO-initiated actions. Existing law must be maintained for such proceedings, regardless of funding.”

REGISTERED SUPPORT / OPPOSITION:

Support

CALAFCO [SPONSOR]

Association of California Healthcare Agencies

California Special Districts Association

LAFCOs of: Alameda, Butte, Contra Costa, El Dorado, Glenn, Los Angeles, Mendocino,
Merced, Napa, Nevada, San Benito, San Mateo, Santa Cruz, and Yolo

League of California Cities

Rural County Representatives of California

Opposition

Association of California Water Agencies (as amended)

Analysis Prepared by: Jimmy MacDonald / L. GOV. / (916) 319-3958