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UNDERSTANDING SPECIAL DISTRICTS AND PUBLIC DEBT

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Like city and county governments, special districts are autonomous governmental units, possessing the authority to enter into contracts, acquire real property, and issue debt. They emerged in the wake of expansive development following California's statehood. City and county governments who up until this time had managed to meet the demands of a disparate population for municipal services, such as sewer, streets and lighting, and fire protection, found themselves overburdened. In response, the State Legislature allowed for the creation of districts as agencies of the State to provide the local services other municipal entities could or would not provide.

The first special districts in the state were formed by individuals seeking to take advantage of the power of government, particularly eminent domain and the ability to issue debt for capital improvements. Early in the 1900s, several water districts were formed to develop agricultural and urban water supply projects. The majority of the state's health care districts were established between the late 1940s and the early 1950s to address a statewide shortage of hospital beds. In the 1950s, the needs of an expanding suburban population led to a second wave of water district formations.

The State Controller's Office, which collects financial data on special districts, identified 4,787 special districts in their 1996-97 fiscal year *Special Districts Annual Report*, released in May 2000. Among this number were 659 joint powers authorities and 235 public nonprofit corporations.

Since 1987-88, the number of special districts in the state has declined by 321 or 6.3 percent. During that time, joint powers authorities and nonprofit corporations have grown by 96 districts (12 percent) while the number of all other districts has fallen by 417 districts (9.7 percent). The Little Hoover Commission in their report on special districts titled *Special Districts: Relics of the Past or Resources for the Future* found that districts are seldom decommissioned even in the face of obsolescence. It is more likely, then, that the decline in special districts is due to mergers or consolidations, particularly within agencies that share the same governing bodies, than to anything else.

The Nature of Special Districts

The Little Hoover Commission's report provides a useful framework for understanding special districts in California. (The report can be obtained through the Little Hoover Commission's web site at http://www.lhc.ca.gov/lhcdir/report155.html.) Special districts may provide one specialized service or multiple services. They can be as large as the Metropolitan Water District in Southern California, serving 16 million people in six counties, or they can be as small as the Victory Maintenance District, serving a fraction of Amador County's 34,400 residents.

The laws under which each district was formed serve to distinguish special districts. There are approximately 60 different principal acts that provide districts with the unique authorities to organize, incorporate, and manage their activities. In addition, the statutes contain another 125 special acts that led to the creation of a particular special district. These authorizing acts serve to classify districts by the services they provide. Water districts are the most numerous, followed by fire protection, community services, cemetery and memorial districts.

Districts can also be identified by their structure of governance. Dependent districts are subdivisions of a multipurpose local government, county board of supervisors or city council. Independent districts are governed for the most part by board members elected directly by district voters. An appointed board governs a few districts, such as cemetery districts. In its 1996-97 report, the State Controller's Office identified 1,593 districts that were governed by a county board of supervisors in 1996-97, 179 governed by a city council, and 3,015 governed by either an elected or appointed board of directors.

Finally, districts may be distinguished by their sources of revenues. Districts that finance their operations with service fees are known as enterprise districts. Those that are funded through property taxes are known as non-enterprise districts. A few districts receive revenues from both sources. The State Controller reported that in 1996-97 enterprise revenues for special districts amounted to $13.4 billion. Non-enterprise revenues were reported to be $4.6 billion. Since

1992-93, revenues for enterprise districts has grown by 26 percent, while revenues for non-enterprise districts has grown by 13 percent.

Special districts used these revenues to pay for operations, maintenance, and debt service. In 1996-97, enterprise districts spent $12.1 million, while non-enterprise districts spent $4.4 million. Expenditures have grown by 18 percent among enterprise districts and 14 percent among non-enterprise districts since 1992-93.

Special District Debt

Among the powers accorded special districts is the authority to issue debt for capital improvement purposes. The amount of debt issued or authorized to be issued provides one way among others to consider the purposes and roles of special districts. A more complete understanding, however, can be obtained by comparing a district's actual debt liability or outstanding debt. Outstanding debt provides a window to a district's debt capacity, its debt rating, and its ability to allocate resources to other purposes than debt service.

To determine the amount of outstanding debt held by special districts, the California Debt and Investment Advisory Commission (CDIAC) turned to the data maintained by the State Controller's Office. CDIAC calculated the debt outstanding for all categories of special districts by subtracting the amount of the debt paid off from the amount issued. Because of the limitations of the data, however, only the debt originally issued as general obligation (GO) bonds and certificates of participation (COPs), herein identified as tax-supported debt, could be determined. All other types of debt, including commercial paper, Marks-Roos and Mello-Roos bonds, and conduit revenue bonds, were excluded from this review of special districts.

CDIAC's calculation of outstanding debt, comprised of GO and COPs debt, represented only a fraction of the total debt maintained by special districts. In fact, during fiscal year 1996-97, 46 percent ($3.4 billion) of the debt issued by special districts was issued in the form of Marks-Roos bonds. Another 8.7 percent ($667 million) was issued as Mello-Roos bonds. Neither of these forms of debt is captured by the following analysis.

In simple terms, COPs provide public agencies the opportunity to finance capital assets over a multi-year period without issuing bonds. A typical COP financing for a construction project might allow the public agency to enter into a tax-exempt lease with a lessor, such as a joint powers agency or nonprofit corporation. The lessor acquires the site, either by purchasing it or leasing it from the public entity, then, with the assistance of the public entity, undertakes construction of the project. The lessor's right to receive payments under the lease are assigned to a trustee, who executes and delivers to an underwriter certificates of participation in the lease payments. A portion of each lease payment may be designated as tax exempt interest. The proceeds of the sale of the certificates of participation are used to pay the costs of acquiring and constructing the improvements.

GO debt is commonly understood to be debt that is paid directly from the general revenues of the issuing agency. The market considers this form of debt to be the safest, in part because it has a "guaranteed" payment source and is paid off before other liabilities. The CDIAC's *California Debt Issuance Primer* offers more information on these and other types of debt.

As of 1996-97, all special districts, including joint powers authorities, public nonprofit corporations, and public financing and public financing corporations, had amassed $14.6 billion in tax-supported debt outstanding. This represented nearly 41 percent of the outstanding tax-supported debt held by all public agencies in California. In contrast, redevelopment agencies accounted for 26 percent of all outstanding tax-supported public debt and educational entities held 17 percent. Cities accounted for only 11 percent while counties accounted for slightly over 1 percent of the state's outstanding tax-supported public debt.

Public financing corporations, operating for the most part as nonprofit public benefit corporations, held 27 percent of the outstanding tax-supported public debt held by special districts as of 1996-97 (see Table 1, page 3). County water districts, municipal water districts, and metropolitan water districts accounted for 15 percent of all outstanding special district debt as did joint powers authorities. Other water-related agencies (13 percent) and improvement districts (8.2 percent) lagged slightly behind. Individually, all other categories of special districts accounted for less than five percent of the debt held by all special districts.

The categories of nonprofit corporation, joint powers authorities, improvement districts and other-related water agencies include a mixture of organizations that may issue debt under a variety of different laws and for different purposes. To avoid problems this may create in the context of this review, they have been excluded. Instead, this review concentrates on county water districts, municipal water districts, sanitation, and irrigation districts.

If one excludes joint powers authorities, public nonprofit corporations, public benefit corporations, and other water-related agencies, the category of county water districts accounted for the greatest debt among all other categories of special districts. These entities held $840 million in debt outstanding. Metropolitan water districts held $718 million in tax-supported debt. Sanitation districts and municipal water districts held $628 million and $551 million, respectively. Finally, irrigation districts accounted for $492 million in debt.

The average of debt issued by districts within these categories, however, did not exceed the average for all districts with outstanding debt. As of 1996-97, the 603 special districts in California that held debt, maintained an average balance of $24 million. This average was strongly influenced by the few categories of districts excluded from this review, particularly public financing corporations, which average $67 million in debt outstanding, and joint powers authorities, averaging $57.9 million. The average debt held by improvements districts, joint powers authorities, nonprofit and public benefit corporations, and public financing corporations exceeded all other special districts.

The outstanding debt held by county water district in 1996-97 was divided between $777 million (92.5 percent) COPs and $63 million (7.5 percent) GO debt (see Figure 1). Municipal water districts maintained $503 million debt in COPs (91.3 percent) and $48 million in GO debt (8.7 percent). Sanitation and sanitary districts held $577 million in COP debt (91.9 percent) and $51 million as GO debt (8.1 percent). Finally, outstanding irrigation districts debt was divided between $466 million in COPs (94.8 percent) and $25 million in GO debt (5.2 percent).

Table 1

Special District Tax-Supported Debt Outstanding 1996-97 #

(Dollars in Millions)

Type of District	Number of Districts Holding Debt	Total Number of Districts*	Percent of Districts Holding Debt	Outstanding Debt 1996-97	Percent of Total Debt Held by All	Average Debt per District
Cemetery Districts	1	255	0.4%	$ 0.2	0.0%	$ 0.2
Community Service Districts	58	311	18.7	106.7	0.7	1.8
County Waterworks Districts	15	34	44.1	3.3	0.0	0.2
Drainage Districts	4	23	17.4	9.8	0.1	2.4
Flood Control/Water Conservation Districts	8	40	20.0	81.9	0.6	10.2
Fire Protection Districts	11	386	2.8	15.3	0.1	1.4
Hospital/Healthcare Districts	20	80	25.0	254.9	1.8	12.7
Improvement Districts	33	N/A	N/A	1,197.8	8.2	**36.3**
Irrigation Districts	29	97	29.9	491.8	3.4	17.0
Joint Powers Authorities	38	659	5.8	2,201.2	15.1	**57.9**
Library Districts	1	14	7.1	14.5	0.1	14.5
Mosquito Abatement	1	48	2.1	2.1	0.0	2.1
Nonprofit Corporation	38	235	16.2	1,360.0	9.3	**35.8**
Port & Harbor Districts	3	13	23.1	14.5	0.1	4.8
Park/Open Space Districts	2	N/A	N/A	77.7	0.5	**38.9**
Public Financing Corporation	59	N/A	N/A	3,962.6	27.2	**67.2**
Public Utilities Districts	24	58	41.4	121.9	0.8	5.1
Recreation/Parks Districts	17	111	15.3	36.4	0.3	2.1
Sanitation Districts	60	171	35.1	627.8	4.3	10.5
Solid Waste Districts	1	N/A	N/A	5.5	0.0	5.5
County Water Districts	61	175	34.9	840.4	5.8	13.8
Metropolitan Water Districts	1	1	100	718.1	4.9	**718.1**
Municipal Water Districts	28	40	70.0	550.5	3.8	19.7
Other Water-related Districts	86	N/A	N/A	1,880.1	12.9	0.6
Wastewater Districts	4	N/A	N/A	6.0	0.0	1.5
Total	**603**	**4,787**	**12.6%**	**$14,581.1**	**100.0%****	**$24.2**

Source: State Controller's Office and CDIAC

\# Includes general obligation bonds and Certificates of Participation only

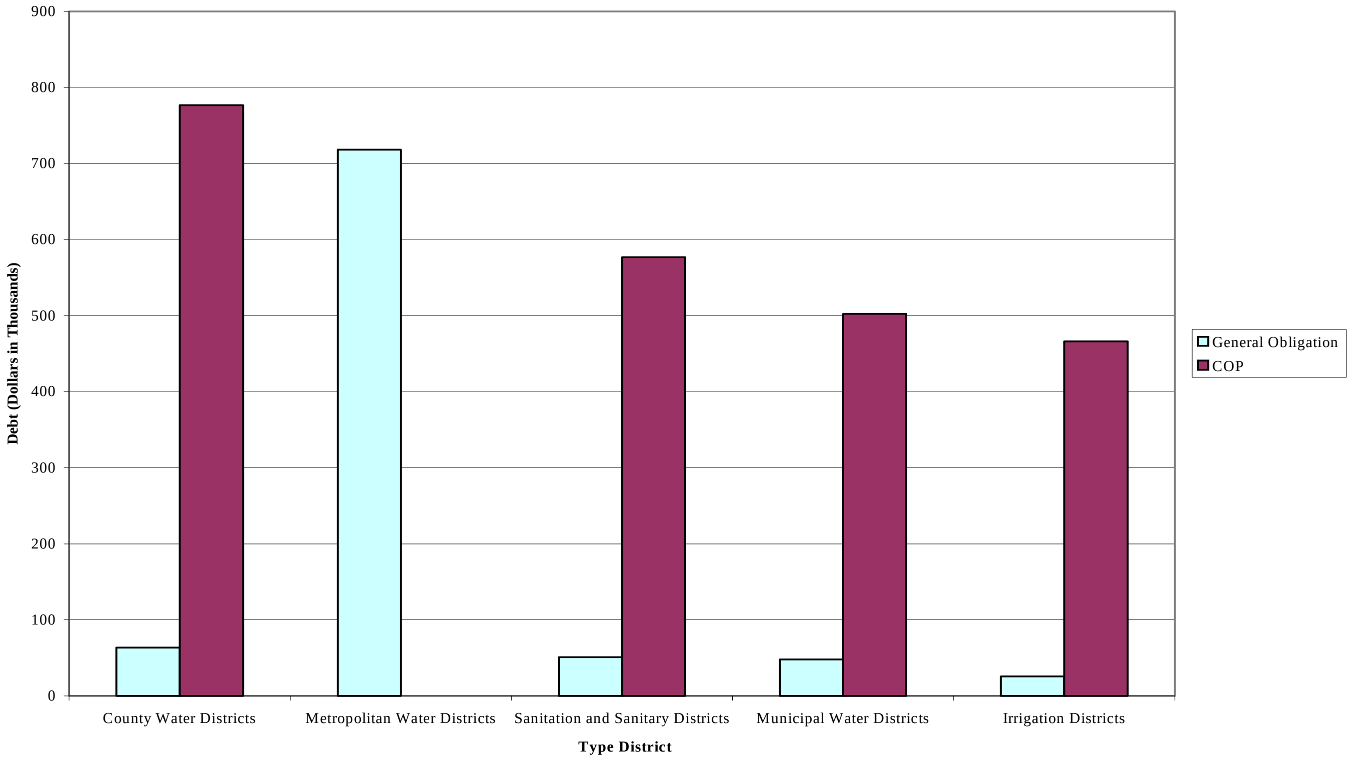
* Based on State Controller's Office *Special Districts Annual Report, Fiscal Year 1996-97*. Because Table 1 combines SCO and CDIAC data, the calculation of some categories of special districts within the context of this article was not possible.

** May not sum due to rounding

Bold numbers indicate "above-average" debt

N/A indicates that the data did not allow for this calculation

Figure 1
Special Districts Debt



This Offprint was previously published in DEBT LINE, a monthly publication of the California Debt and Investment Advisory Commission (CDIAC). CDIAC was created in 1981 to provide information, education, and technical assistance on public debt and investment to state and local public officials and public finance officers. DEBT LINE serves as a vehicle to reach CDIAC's constituents, providing news and information pertaining to the California municipal finance market. In addition to topical articles, DEBT LINE contains a listing of the proposed and final sales of public debt provided to CDIAC pursuant to Section 8855(g) of the California Government Code. Questions concerning the Commission should be directed to CDIAC at (916) 653-3269 or, by e-mail, at cdiac@treasurer.ca.gov. For a full listing of CDIAC publications, please visit our website at http://www.treasurer.ca.gov/stocda.htm.