



**California Special
Districts Association**
Districts Stronger Together

February 17, 2021

Angie Wei
Legislative Affairs Secretary
Office of the Governor
State Capitol
Sacramento, CA 95814

Keely Martin Bosler
Finance Director
California Department of Finance
State Capitol, Room 1145
Sacramento, CA 95814

RE: Special District COVID-19 Impacts and Priorities

Dear Ms. Wei and Ms. Bosler:

On behalf of over 1,000 independent special districts and affiliates, the California Special Districts Association (CSDA) appreciates the opportunity to meet with you to discuss special district COVID-19 response and impacts and to have a conversation about how we can best work with the administration to address special district concerns moving forward.

In preparation for our February 18, 2021 discussion, below we provide an update on our requests of the administration and background on special district COVID-19 response and impacts. Additionally, we have enclosed an updated infographic on special district impacts and two one-pagers on priority policy issues that could have a marked impact on special district finances and local economic recovery.

REQUEST FOR RELIEF AND GUIDING PRINCIPLES

Unlike the State, cities, counties, businesses, and non-profits, special districts have not received direct access to coronavirus relief funding. In fact, based on a survey of our membership only about 11 percent of special districts have received any form of federal, state, or local COVID-19 financial support.

Special districts project \$2.43 billion in fiscal impacts due to COVID-19 response by December 2021, with \$1.92 billion in budget impacts already realized since the Governor's March 2020 emergency orders. Without special district access to state and/or federal assistance, communities statewide will experience further reductions to essential services and to the 120,000 front-line workers employed by special districts.

CSDA respectfully requests the following actions to provide relief to special districts in the ongoing efforts to confront the pandemic:

1. EQUITABLE ACCESS TO COVID-19 FUNDING ASSISTANCE AND OTHER ECONOMIC RECOVERY MEASURES

Where special districts are providing services prioritized by your administration, we ask that the special districts providing these services to local communities be equitably included, in the appropriate scope and scale, in local government investments:

Access to Coronavirus Relief Funds. Extend revenue relief to special districts, who have not been able to access prior state or federal funds to mitigate COVID-19 impacts, and explicitly include special districts when making future determinations. Like our city and county partners, special districts are delivering

essential services to our communities. However, unlike cities and counties, special districts have not been included in state or federal stimulus funding or received access to the same financial tools.

Assistance in Accessing Future Federal Relief. Support on special district efforts to secure access to federal local government coronavirus relief funding.

Inclusive Investments in Infrastructure Projects and Economic Stimulus Funding. As the state addresses the unmet needs and service gaps we are facing in communities across California, in addition to appropriately seeking answers to the vital needs of small businesses and schools it is imperative the administration simultaneously consider the essential role of local government – including special districts – as an economic driver. Many special districts report delaying capital improvement projects due to COVID-19 impacts, which translates to a lack of investment in local economies and a retraction of job opportunities in communities throughout California. Additionally, special districts employ an essential workforce of over 120,000. As a direct result of COVID-19 related budgetary challenges, 33 percent of special districts have or will have to reduce their workforce and 42 percent have or will have to reduce their services. In disadvantaged communities, the number of districts reducing service levels rises to 47 percent.

The consequences of special district revenue shortfalls and reduced staffing and service levels on the lives and livelihoods of communities must be a consideration in the overall context of these discussions. Compounding these challenges, over one-third of special districts report experiencing impacts from 2020 natural disasters. Commensurately, we ask that special districts be specifically included in any investments dedicated to a green economy and/or climate resiliency and adaptation projects as a way of boosting local economies today and laying the foundation for thriving communities for all Californians in the years ahead.

- 2. DO NO HARM.** Special Districts, like all local governments are meeting the moment, often with less resources. With special districts and other local governments striving to maintain operations and concurrently prepare for the next disaster, one of the most impactful measures that can be taken is to hold off on any new legislation and regulations that would create additional financial and staff burdens on local entities. While such proposals are well-intentioned, we ask for a pause on these discussions until local government can begin to rebound from the current crisis. New mandates, duties, compliance with new regulations, costs, or reductions in revenue only impede recovery and efficient delivery of service. Some ideas and proposals that warrant being paused or rejected during these difficult times include property tax deferrals, curbs on development impact fees and connection and capacity charges, revenue losses from new tax increment financing schemes, changes in pension law that would increase pension costs on public employers, and any new mandates.

DEMONSTRATED NEED

Notwithstanding an anticipated 2.43 Billion in fiscal impacts by the end of the year, special districts have not been included in the State and federal resources made directly available to cities, counties, small business, non-profits, and individuals to aid in COVID-19 response impacts.

Special districts provide many of the same or similar types of services cities provide to their residents and provide the infrastructure and essential services that cities or counties do not otherwise provide to their communities. However, special districts receive neither sales nor income tax revenue, relying instead on property tax revenues, fees for service, and other sources of income such as leases and grants. Many of these funding streams have been dramatically compromised due to pandemic response operations.

The districts who have continually reported experiencing the highest proportions of financial duress also provide public services most critical to COVID-19 community response, including:

- Water treatment and delivery
- Sanitation and wastewater services

- Fire and police protection
- First response and emergency services and healthcare
- Parks and recreation or open space

Small and rural counties are often served by special districts, who provide the critical and life sustaining services in areas of the state that have received the least investment. As noted in the January 19, 2021 State Auditor Report, urban counties received twice the amount of Coronavirus Relief Funds compared to smaller counties in California, despite similar COVID-19 transmission rates and impacts. When special districts are additionally left out of funding opportunities for local government, the inequity in the state's investment in these smaller and often disadvantaged communities is further compounded. To secure a more equitable outcome, it is crucial the state not only target investments to smaller regions, disadvantaged communities, and vulnerable populations, but also prioritize the essential service providers to these same groups by including special districts in its funding and resource determinations.

Despite the challenges presented by revenue losses and pandemic response impacts, special districts continue to reliably operate and maintain the state's critical infrastructure and deliver essential local services to California's communities. However, local communities are experiencing direct impacts from reduced staffing and service levels as impacts continue to mount and assistance continues to be withheld.

SUMMARY OF SPECIAL DISTRICT IMPACTS

The pandemic's fiscal toll on special districts is greater than previously expected, with revenue losses most substantial among recreation and park, port and harbor/transit, fire protection, healthcare/emergency services, and water districts. As of February 5, 2021, special districts report:

Expected total impact, March 2020-December 2021:	\$2.43 billion
Experienced total impact as of Feb. 5, 2021:	\$1.92 billion
Proportion reducing essential services:	42 percent
Proportion reducing workforce:	33 percent
Proportion serving a disadvantaged community:	58 percent
Proportion impacted by 2020 disasters:	36 percent
Accessed relief funding:	11 percent

Budget Impacts Continue to Accelerate:

- **\$250 Million:** Just two months into the state's orders, direct impact statewide as of May 5, 2020 to special districts was approximately \$250 million, with roughly \$80 million in unbudgeted emergency management costs and an estimated \$167 million in operating revenue loss due to COVID-19.
- **76 percent:** As of May 5, 2020, 24 percent of districts were currently experiencing significant budget or cash flow issues or would be by June 2020, and 76 percent expected to experience cashflow issues by June 2021, which means approximately 1,500 special districts experiencing financial duress by summer.
- **\$1.26 Billion:** Just four months into the state's orders, as of July 1, 2020 special districts reported an anticipated \$1.26 billion in budget impacts between the onset of the pandemic and July 2021 (the end of the fiscal year).
- **\$2.43 Billion:** As of February 5, 2021 reported budgetary impacts had dramatically increased to an estimated \$1.9 billion in actual revenue impacts and \$2.54 billion in anticipated total losses and expenditures projected through the end of the calendar year, with approximately 86 percent of the overall impacts reported as revenue loss.
- **11 percent:** Only an estimated 11 percent of California's approximately 2,000 independent special districts received any form of fiscal assistance from federal, state, or local COVID-19 relief programs. Those who were granted access received relief in the form of FEMA reimbursements, special CARES Act funding programs (healthcare, transit), and a handful of local county grant program assistance.

Direct Community Impacts:

- **120,000+:** Special districts contribute to the vitality of their local economies, providing over 120,000 jobs statewide and creating many more employment opportunities in their communities through local infrastructure projects.
- **42 percent:** As of February 5, 2021, over the same period, 42 percent of special districts have reduced their workforce levels or plan to. **33 percent:** As of February 5, 2021, since the inception of the state's COVID-19 response measures in March 2020, one in three districts have established sustained cuts in service levels or plan to in the near future.
- **40 percent:** As of May 5, 2020, 40 percent of districts reported they anticipated cutting services critical to public health and safety, such as fire protection-related services, sanitation and wastewater services, utility-related services (water and electrical utility), or first response and healthcare services (including ambulance, emergency services, non-emergency medical transport, and hospital services).

While impacts span across all district types and services, districts of varying sizes and financial resources, and districts serving communities across California's geographical and socioeconomic spectrum, those most at risk have the smallest operating revenues often serving the most vulnerable populations.

- **55 percent** Have operating revenues \$1 million and below.
- **58 percent:** Of the special districts reporting COVID-19 fiscal impacts, 58 percent provide services to a disadvantaged community.
- **36 percent:** Of the special districts reporting COVID-19 fiscal impacts, 36 percent of districts were impacted by a 2020 natural disaster.
- **52 percent:** Of those districts who were disaster-impacted, 52 percent experienced direct impacts on budget and/or infrastructure.

SPECIAL DISTRICTS CONFRONTING COVID-19

Our members are on the front lines, ensuring the delivery of critical services to California's communities such as water, wastewater, electricity, fire and police protection, healthcare delivery and first response, access to parks and open space, transportation and commerce, and more.

- **Utility services** provided by special districts have made it possible for California's stay at home orders to be successfully adhered to as residents' immediate needs for water, sanitation, and electricity continue to be provided for in a safe and reliable manner, even when customer payments are outstanding. Publicly owned utility providers have experienced soaring arrearages, with unpaid water bills totaling \$1 billion statewide according to the State Water Resources Control Board; juxtaposed against the Legislative Analyst Office's projection of \$400 million in statewide rental debt, utility arrearages cast a large shadow on the economic stability of Californians most impacted by coronavirus response impacts. Funding assistance would allow customers to receive relief from economic and utility debt and will stabilize utility agencies' impacts.

Despite the substantial revenue losses special districts who provide utility services are experiencing, these districts continue to work with their customers on payment plans and other options, including increasing public education and outreach. Some districts have postponed critical rate increases, while others are looking at whether future rate increases will be necessary, acknowledging affordability issues may be exacerbated in many communities least able to pay more. Unfortunately, in many cases, these actions have necessitated the deferral of maintenance and suspension of capital improvement projects fundamental to the immediate and long-term prosperity of local economies.

- **Fire and police protection, healthcare, and other districts with first responders**, health, and safety workers are critical to local COVID-19 response in communities throughout the state. Despite being the first line of defense and increasing their community responses to combat the pandemic, these districts have experienced notable revenue losses due to the state's COVID-19 measures. For example:
 - Healthcare districts shut down and then limited non-COVID19 hospital and community patient care services while simultaneously increasing staffing to prepare for a surge and equipping staff to be able to care for patients adequately and safely.
 - Fire protection districts curtailed ambulance services to reduce loads on hospitals, foregoing revenues critical to district operations, while many concurrently pivoted operations to address local needs, such as creating mobile units with physicians able to triage on site, placing nurses in dispatch centers, and assigning ambulance units to testing sites to expedite access.
- **Recreation and Park districts, Library districts, and Community Services districts** serve as the connective tissue for quality of life in their community, delivering critical childcare, educational, and health and wellness services local families depend on. Revenue losses have been substantial due to cancelled sports leagues, instructional classes, tours, fundraisers, facility rentals, and other programs that generate the revenues that sustain ongoing operations. At the same time, these districts have dedicated available resources to meet the specific needs of their communities during this public health crisis. For example:
 - Many Recreation and Parks districts developed programs to offer affordable child-care, assisting healthcare and essential workers with childcare needs.
 - Districts operating parks and open spaces have served as a mental health outlet for Californians throughout the state, ensuring access to trails, open spaces, and opportunities for physical activity and to connect with nature during the duration of the state's COVID-19 restrictions. These facilities have received exponentially greater usage than normal throughout the pandemic, with reduced funding to maintain them.
 - Library districts created innovative programming to fill gaps created by distance learning, providing virtual homework clubs, one-on-one tutoring, literacy programs, drive through material check out, and more to ensure equity in access to educational opportunity. Additionally, some of these districts diverted their staff resources to contribute to the immediate and urgent public health needs of their patrons, including making and distributing masks for their community before they were readily accessible and meal delivery for the elderly and vulnerable.

Transit, Airport, and Port and Harbor districts have experienced a sharp curtailment in ridership and operational revenues which have had an immediate impact on both employment and commerce and will continue to have lasting ripple effects on the process of economic development. While federal programming has targeted some transportation-based impacts, losses continue to significantly outpace resources. And yet these districts continue to serve as the backbone of local economies, maintaining services and keeping passengers who rely upon public transit safe.

Just as California is calling for federal assistance, we recognize this extraordinary crisis necessitates partnership from all levels of government to manage impacts over the longer term. We continue to seek your partnership and that of local, State, and federal leaders as we work to rebound from the mounting economic impacts of COVID-19 response. CSDA respectfully asks for your support and looks forward to meeting with you to discuss how we can best work toward solutions together.

Sincerely,



Alyssa Silhi
Legislative Representative

CC: The Honorable Toni Atkins, President pro Tempore, California State Senate
The Honorable Anthony Rendon, Speaker, California State Assembly

The Honorable Scott Wilk, Senate Republican Leader
The Honorable Marie Waldron, Assembly Republican Leader
The Honorable Nancy Skinner, Chair, Senate Committee on Budget and Fiscal Review
The Honorable Jim Nielsen, Vice-Chair, Senate Committee on Budget and Fiscal Review
The Honorable Phil Ting, Chair, Assembly Committee on Budget
The Honorable Vince Fong, Vice-Chair, Assembly Committee on Budget
The Honorable Mike McGuire, Chair, Senate Governance and Finance Committee
The Honorable Cecilia Aguiar-Curry, Chair, Assembly Local Government Committee
The Honorable Tom Lackey, Vice-Chair, Assembly Local Government Committee



California Special Districts Association
Districts Stronger Together

SPECIAL DISTRICTS COVID19 IMPACTS

More than 2,000 independent special districts continue providing critical infrastructure and essential services to millions of Californians. Unlike cities, counties, businesses, and non-profits, these local governments have not received direct federal or state Coronavirus relief funding.

Total Fiscal Impact

\$2.43 billion
March 2020 – December 2021, projected

\$1.92 billion
Realized by February 5, 2021

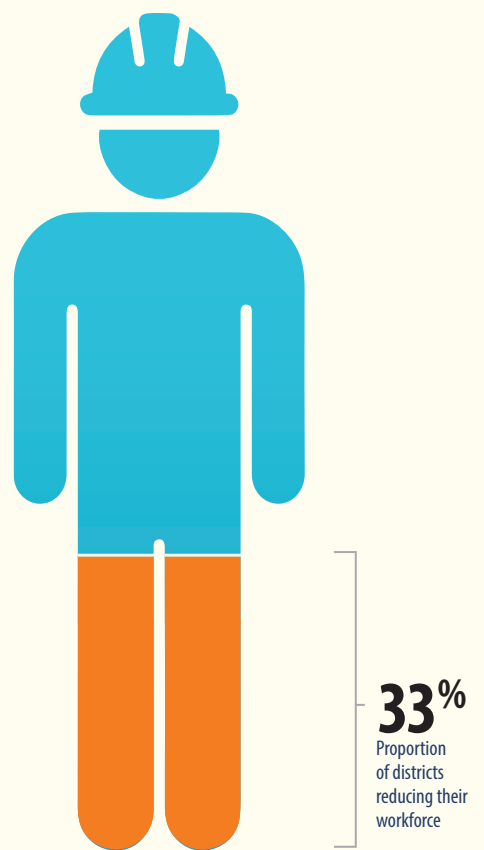
Approximately 86 percent of the overall impacts are reported as revenue losses.

Community Impact: Economic Development

120,000+
Special districts employ over 120,000 front-line workers statewide.

58%
Special districts reporting COVID-19 fiscal impacts provide services to a disadvantaged community.

Community Impacts: Reduced Workforce



Community Impacts: Reduced Essential Services

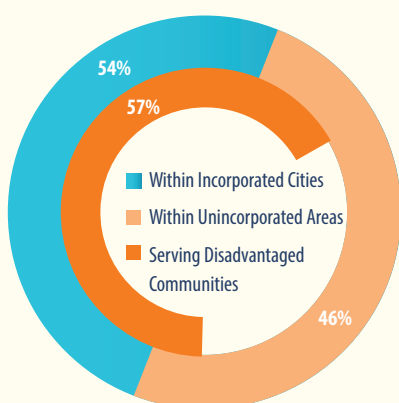


SPECIAL DISTRICTS OPERATE CRITICAL FACILITIES AND INFRASTRUCTURE AND PROVIDE LOCAL SERVICES ESSENTIAL TO THE PUBLIC'S HEALTH AND SAFETY
Airport, Harbor/Port, Flood Control/Levee, Healthcare, Fire Protection, Sanitation, Utility/Energy, Water, Transit

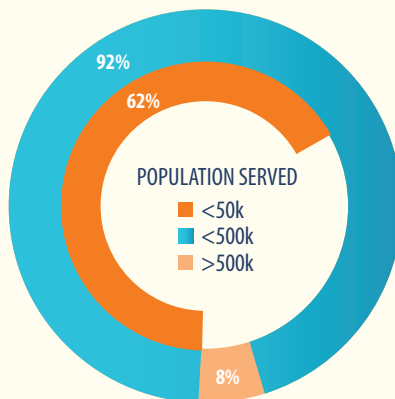


SPECIAL DISTRICTS MEET THE NEEDS OF CALIFORNIA'S DIVERSE COMMUNITIES

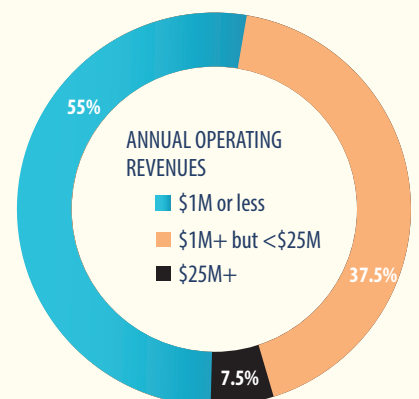
SPECIAL DISTRICTS SERVE VARIED COMMUNITIES



SPECIAL DISTRICTS SERVE COMMUNITIES LARGE AND SMALL



SPECIAL DISTRICTS HAVE A SPECTRUM OF FINANCIAL RESOURCES



Without special district access to COVID-19 funding relief, communities statewide will continue to experience reductions in essential services, cuts to front-line workforces, and deferrals of critical infrastructure projects.

11%

ONLY 11% OF ALL CALIFORNIA SPECIAL DISTRICTS HAVE RECEIVED ANY FEDERAL, STATE, OR LOCAL COVID-19 FISCAL ASSISTANCE. WE CALL ON THE STATE TO ENSURE SPECIAL DISTRICT ACCESS TO COVID-19 FUNDING RELIEF.

*Data and assumptions: The California Special Districts Association conducted a statewide survey January 13 through February 5, 2021 open to all independent special districts across California regardless of membership status. Data captured for this survey represents individual responses from 223 special districts.



California Special Districts Association
Districts Stronger Together

Special Districts Are Essential To California's Climate Preparedness



To Help Prepare Communities Against the Next Disaster the Governor and Legislature Must:

- 1. Create a reliable funding source** for projects related to community resiliency due to changing climate conditions.
- 2. Specify special districts are universally eligible** if they are also doing the work.
- 3. Prioritize equity and accessibility** by allowing for advance payment of grant funds, providing for technical assistance, streamlining the grants process, and expanding access for smaller communities and the agencies who serve them.
- 4. Ensure funding is adequate** to accomplish the goal of proposed projects and delivered in an efficient and timely manner.
- 5. Target funding to shovel-ready projects** to transition to climate resilient infrastructure faster and enhance economic recovery opportunities in local communities.

Special districts build, operate, and maintain the critical infrastructure and natural lands that will need to stand strong against rising temperatures and drought, increasingly severe storms, insect outbreak and catastrophic wildfire, sea level rise and ocean acidity, flooding, and erosion.



Special Districts Are Innovative Leaders In Building Community Resiliency Against Climate Impacts

Many special districts throughout the state are leaders in climate adaptation, preparing their communities to be resilient. However these projects require substantial funding to plan and implement. To meet the needs of communities statewide, the state must allocate additional resources to prepare critical infrastructure against future disasters.

These local governments need the state, as a global leader on climate adaptation, to be a strong partner in order to meet the urgent and growing needs of California's communities to ensure the delivery of reliable and consistent essential local services that keep Californians healthy and safe.

- SEA WATER INTRUSION
- PROTECTING HEADWATERS
- FOREST MANAGEMENT
- DEFENSIBLE SPACE
- RESILIENT WATER SUPPLY
- ZERO EMISSIONS FUTURE
- RENEWABLE ENERGY
- ENVIRONMENTAL RESTORATION
- CLEAN POWER



WHAT IS AN INDEPENDENT SPECIAL DISTRICT?

Independent special districts are local agencies, separate and apart from any counties, cities, or other government agencies. Often formed by the communities they serve, California's special districts provide vital services like water and energy, fire protection and public safety, wastewater treatment, parks and recreation, open space, and much more. They safeguard our communities, keep our families healthy, and help our state thrive. (csda.net/special-districts/learn-about)



**California Special
Districts Association**
Districts Stronger Together



WHAT IS AN INDEPENDENT SPECIAL DISTRICT?

Independent special districts are local agencies, separate and apart from any counties, cities, or other government agencies. Often formed by the communities they serve, California's special districts provide vital services like water and energy, fire protection and public safety, wastewater treatment, parks and recreation, open space, and much more. They safeguard our communities, keep our families healthy, and help our state thrive. (csda.net/special-districts/learn-about)

What Are Development Impact Fees?

Development impact fees are those fees authorized by the Mitigation Fee Act that are assessed to mitigate the impact of development and help fund the infrastructure needed to provide essential services to growing communities.



More About Development Impact Fees

All development: commercial, residential, or industrial comes with associated impacts and needs for services. Special districts use impact fees to fund the infrastructure necessary to provide essential services to the community such as fire protection, parks and open space, flood protection, libraries, and more.

Other fees such as “**connection and capacity charges**” are different from “impact fees”. While both are governed largely by the Mitigation Fee Act, and both provide essential local infrastructure, connection fees and capacity charges are one-time fees that reflect the reasonable cost of service provided to the customer by a water or sewer agency. In addition to the stringent requirements of the Mitigation Fee Act, connection and capacity charges are also governed by **Proposition 26**, which prohibits an agency from waiving, discounting, or establishing differential rates that pass on costs associated with obtaining water and/or wastewater service to the general customer base or to other fee payers.



How Are Impact Fees Spent?

The Mitigation Fee Act allows local agencies to purchase real property such as land for parks, open space or other uses.

Fees may also be spent on related facilities and equipment such as a fire station with the associated fire-fighting apparatus, or a community park and recreation facility with playgrounds and athletic fields. Impact fees cannot be spent on general or ongoing operations or unrelated facilities.



How Are Impact Fees Assessed?

Only those local agencies that have land-use authority (cities and counties) may impose impact fees. However, cities and counties may impose and collect fees on behalf of an independent special district to facilitate the delivery of essential services in a growing community.

Fees must meet several requirements, determined by a “nexus study”, which is an analysis to determine the appropriate fee based on its relationship to the planned development and associated services. This includes specifying the purpose and use of the fee, and may also include identifying what facilities will be built, the need for the planned facility, and the costs to construct it.



How Are Districts Held Accountable for the Fees?

Special Districts are held to the same transparency standards that we have come to expect from our local agencies, including public records and public meetings law. Their boards are directly accountable to their community, with most board members directly elected by the public they serve or sometimes appointed to fixed-terms by another elected body.

Nexus studies and fee schedules are public and are presented at a public hearing. The land-use authority must also approve the fees. The funds collected can not be co-mingled with other funds. The fund balances and expenditures are public and subject to certain timelines and statutory requirements to ensure that the funds are spent as intended.