

Updated: January 1, 2015

MEMORANDUM

To: CALAFCO
FROM: Clark A. Alsop
Paula C.P. de Sousa
RE: CALAFCO: The Metamorphosis of Special Districts: Current Methods for Consolidation, Dissolution, Subsidiary District Formation and Merger

This Memorandum is intended to provide an updated overview of the typical methods for the reorganization of special districts. Of course, the procedures and processes for the consolidation, dissolution, merger and establishment of a subsidiary district may take various forms not delineated herein. Each Local Agency Formation Commission (“LAFCO”) should work with its legal counsel to follow appropriate procedures.

QUESTIONS PRESENTED

1. What are the various ways a special district may be modified under the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (Gov. Code § 56000 et seq.)¹ (the “Act”)?
2. How does the Act restrict the processes to modify special districts?

SHORT ANSWERS

1. Districts may be modified through the following means or combination thereof:
 - A. Consolidation;
 - B. Dissolution, including Dissolution with Annexation;
 - C. Merger;
 - D. Establishment of a Subsidiary District.
2. These specific limitations apply to some of the processes listed above:
 - A. Consolidation: Historically, only districts formed under the same principal acts could be consolidated. As of 2005, the consolidation of two or more special districts not formed pursuant to the same principal act is permitted subject to certain procedures.
 - B. Merger: A city must consent to a merger affecting its territory whether LAFCO initiates it or the voters approved it.
 - C. Establishment of a Subsidiary District: A subsidiary district may be established only if it meets certain statutory requirements regarding the amount of subsidiary district territory and the number of district voters within the governing city’s territory. Additionally, a city must consent to establishment of a subsidiary district affecting its territory.

¹ All further citations are to the Government Code unless otherwise specified.
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DISCUSSION

A. CONSOLIDATION

1. Brief History

In 1986, the State Legislature amended the Act to include, in part, a definition for the term “consolidation.” Under the Act, a “consolidation” is defined as “the uniting or joining of two or more . . . districts into a single new successor district.” (§ 56030.) Prior to January 1, 2005,² only districts formed pursuant to the same principal act could consolidate. Now, the Act permits consolidation of two or more special districts not formed pursuant to the same principal act if certain procedures are followed. Additionally, as of July 1, 1994, LAFCOs have had the power to initiate proposals to consolidate districts. (§ 56375(a).) Before 1994, only districts or petitioners could initiate a consolidation proceeding.

Sections 56859 and 56860 require that proceedings to form a consolidated district must be conducted as authorized in the principal act of the district to be formed. (§ 56859.) However, Section 56100 specifies that for purposes of reorganization, LAFCO serves as the conducting authority and that the reorganization provisions of the Act prevail over any conflicting laws in the principal act of the district, subject to a commission determination.³

2. LAFCO-Initiated Consolidation

LAFCO may only initiate a consolidation that is consistent with a recommendation or conclusion of a study prepared pursuant to Sections 56378, 56425, or 56430 and the LAFCO determinations specified in Section 56881(b). (§ 56375(a)(3).) Sections 56378, 56425, and 56430 require LAFCO to study existing agencies and make determinations regarding spheres of influence, and to conduct service reviews of the municipal services provided in the area under review.

Section 56881(b) requires LAFCO to make both the following determinations with regard to a proposed LAFCO-initiated consolidation:

- (1) Public service costs of a proposal LAFCO is authorizing are likely to be less than or substantially similar to the costs of alternate means of providing the service; and
- (2) Consolidation promotes public access and accountability for community services needs and financial resources.

Although not required, where LAFCO initiates a consolidation, Section 56827(c) “encourages” LAFCO to utilize a reorganization committee to review the consolidation proposal.

² Assembly Bill 2067, passed on September 10, 2004 and effective January 1, 2005, amended Section 56030 to permit consolidation of districts not formed pursuant to the same principal act. The Bill contained a sunset provision reinstating the prior law on July 1, 2008, but Senate Bill 819, passed July 20, 2007, deleted the sunset provision effective January 1, 2008.

³ The California Legislature enacted a significant overhaul of California’s Public Employee retirement system in 2013. The effects of that legislation on special district employees as a result of reorganizations is beyond the scope of this paper.

Section 56668 requires LAFCO to consider the factors set forth in Appendix “A” to this Memorandum in evaluating the consolidation proposal. LAFCO may also impose terms and conditions pursuant to Sections 56885.5 and 56886. It is important to keep in mind that if a conflicting proposal is submitted to LAFCO within 60 days of the submission of the original consolidation proposal, LAFCO cannot approve the original consolidation proposal until it considers the second conflicting proposal. (§ 56657.)

a. Protest/Election/Certificate of Completion

LAFCO must provide notice and hold a public protest hearing in the affected territory for a LAFCO-initiated consolidation. (§ 57008.) The protest hearing must be noticed pursuant to Section 57025 (regarding method and timing of notice) and Section 57026 (regarding content of notice). At any time prior to the conclusion of the protest hearing, any registered voter within inhabited territory that is the subject of a proposed consolidation, or any owner of land within inhabited or uninhabited territory subject to a proposed consolidation, may file a written protest against the consolidation. (§ 57051.)

LAFCO is not required to place the LAFCO-initiated consolidation before the voters unless written protests have been filed in accordance with the requirements of Section 57113. (§57077.2(b)(4).) For changes of organization consisting of consolidation of two or more districts, Section 57113 requires that LAFCO submit a consolidation to the voters if LAFCO receives protests signed by either of the following:

- (a) In the case of inhabited territory, protests have been signed by either of the following:
 - (1) At least 10 percent of the number of landowners within any subject agency within the affected territory who own at least 10 percent of the assessed value of land within the territory. However, if the number of landowners within a subject agency is less than 300, the protests shall be signed by at least 25 percent of the landowners who own at least 25 percent of the assessed value of land within the territory of the subject agency.
 - (2) At least 10 percent of the voters entitled to vote as a result of residing within, or owning land within, any subject agency within the affected territory. However, if the number of voters entitled to vote within a subject agency is less than 300, the protests shall be signed by at least 25 percent of the voters entitled to vote.
- (b) In the case of a landowner-voter district, the territory is uninhabited and protests have been signed by at least 10 percent of the number of landowners within any subject agency within the affected territory, who own at least 10 percent of the assessed value of land within the territory.

However, if the number of landowners entitled to vote within a subject agency is less than 300, protests shall be signed by at least 25 percent of the landowners entitled to vote.

(§ 57113(a) and (b) (emphasis added).) For LAFCO-initiated proposals, the method of and formula for calculating protests are the same regardless of whether a resolution of objection is filed by a subject agency. (§ 57077.2(b)(4).)

If a sufficient protest is made, LAFCO is required to submit the consolidation to the voters. LAFCO’s resolution must designate the territory in which the elections will be held, provide the question to be submitted to the voters, specify any consolidation terms and conditions, and state the vote required to confirm the consolidation. (§§ 57115, 57118.) The election will be held within the territory of each district ordered to be consolidated. (§ 57118(a).) The election procedures and requirements are set forth in Section 57125 et seq.

If an election is held and the majority of voters vote against the consolidation in any of the districts ordered to be consolidated, LAFCO must adopt a certificate of completion terminating proceedings. (§§ 57177.5(b), 57179.) However, if the majority of the voters in both districts ordered to be consolidated vote in favor of consolidation, LAFCO must execute a certificate of completion confirming the order of consolidation. (§ 57177.5(a).) If no election is required to be held, the LAFCO Executive Officer must still execute a certificate of completion and make the requisite filings. (§ 57200.)

b. Effect of Consolidation⁴

After the LAFCO Executive Officer files the requisite certificate of completion, the consolidated district succeeds to all the “powers, rights, duties, obligations, functions, and properties of all predecessor districts” which consolidated to form the consolidated district. (§57500.) Included in these rights and duties is liability of the consolidated district for all debts of the predecessor districts. (§ 57502.) The consolidated district “steps into the shoes” of the predecessor districts because it is as if the “consolidated district had been originally formed under the principal act.” (§ 57500.)

c. Effective Date

Finally, the consolidation’s effective date is the date set forth in LAFCO’s resolution, so long as it is neither earlier than the date the certificate of completion is executed, nor later than nine months after an election in which the majority of voters vote for the consolidation. (§ 57202(a).) If LAFCO’s resolution does not establish an effective date, the consolidation is

⁴ This section of the Memorandum summarizes the default general conditions applicable to consolidations, as set out in Section 57500 et seq. Pursuant to Section 57302, these general conditions only apply if LAFCO does not impose any of the specific terms and conditions authorized under Section 56886. In the event LAFCO does impose terms and conditions under Section 56886, Section 57302 states that those terms and conditions become the “exclusive terms and conditions of the change of organization or reorganization and shall control over the general provisions of this part.” The language in Section 57302 conflicts with newly enacted revisions to Section 56886, which specifies that terms and conditions imposed under Section 56886 “shall prevail in the event of a conflict between a specific term and condition authorized [pursuant to Section 56866] and any of the general provisions [set out at Section 57300 et seq.].” The Legislative Committee of the California Association of Local Agency Formation Commissions (“CALAFCO”) will undertake a review of the inconsistencies between Sections 56886 and 57302.

effective on the date the consolidation is recorded by the county recorder, or if there are two counties involved, on the last date of recordation. (§ 57202(c).)

3. District-Initiated Consolidation

a. Initiated by One District

The legislative body of a district wishing to consolidate with another district must submit a Resolution of Application to the LAFCO Executive Officer of the principal county. (§ 56658(a).) The Application must contain the components set forth in Appendix “B” to this Memorandum, which include, in part, a Resolution of Application (see Appendix “C”) and a Plan for Providing Services (see Appendix “D”).

At least five days before the hearing, the Executive Officer must prepare a report on the Application, including his or her recommendation on the Application, and must give a copy of the report to every affected district, agency, and city. (§ 56665.) At the hearing, LAFCO hears and receives written and oral protests and evidence as well as the Executive Officer’s report and the Plan for Providing Services. (§ 56666.) Section 56668 requires LAFCO to consider the factors set forth in Appendix “A” to this Memorandum in evaluating the proposal to consolidate. LAFCO may also impose terms and conditions pursuant to Sections 56885.5 and 56886. It is important to keep in mind that if a conflicting proposal is submitted to LAFCO within 60 days of the submission of the consolidation proposal, LAFCO cannot approve the original consolidation proposal until it considers the conflicting proposal. (§ 56657.)

i. Protest/Election/Certificate of Completion

Where a subject agency has not objected by resolution, the voter/landowner petition requirements for written protest are subject to Section 57077.2(b)(2). (§ 57077.2.) Section 57077.2(b)(2) provides that the applicable protest threshold is the threshold set out in Section 57077.2(b)(1)(A) and (B), i.e.:

- (A) In the case of inhabited territory, protests have been signed by either of the following:
 - (i) At least 25 percent of the number of landowners within the territory subject to the consolidation who own at least 25 percent of the assessed value of land within the territory.
 - (ii) At least 25 percent of the voters entitled to vote as a result of residing within, or owning land within, the territory.
- (B) In the case of a landowner-voter district, the territory is uninhabited and protests have been signed by at least 25 percent of the number of landowners within the territory subject to the consolidation, owning at least 25 percent of the assessed value of land within the territory.

To summarize, where a subject agency does not object to the consolidation, the protest is measured in the entire affected territory.

(Id.) On the other hand, if a subject agency does file a resolution of objection, then the method of, and formula for, calculating protests are set forth in Section 57077.2(b)(3), which provides:

- (A) In the case of inhabited territory, protests have been signed by either of the following:
 - (i) At least 25 percent of the number of landowners within any subject agency within the affected territory who own at least 25 percent of the assessed value of land within the territory.
 - (ii) At least 25 percent of the voters entitled to vote as a result of residing within, or owning land within, any subject agency within the affected territory.
- (B) In the case of a landowner-voter district, the territory is uninhabited, and protests have been signed by at least 25 percent of the number of landowners within any subject agency within the affected territory, owning at least 25 percent of the assessed value of land within the subject agency.

(Id. (emphasis added).) Notably, where a subject agency has objected, the protest calculation is measured/calculated within any subject agency within the affected territory, as compared to measuring/calculating protests within the entire territory subject to consolidation, as is the case for consolidations without subject agency objection. Regardless, if LAFCO is required to submit a consolidation to the voters pursuant to either Section 57077.2(b)(2) or Section 57077.2(b)(3) protest thresholds, then the election must be held within the territory of each district ordered to be consolidated. (§57118(a).) LAFCO's resolution must provide the question to be submitted to the voters, specify any consolidation terms and conditions, and state the vote required to confirm the consolidation. (§ 57115.) The election procedures and requirements are set forth in Section 57125 et seq.

If an election is held and the majority of voters vote against the consolidation in any one of the districts ordered to be consolidated, LAFCO must adopt a certificate of completion terminating proceedings. (§§ 57177.5(b), 57179.) However, if the majority of the voters in the districts ordered to be consolidated vote in favor of consolidation, LAFCO must execute a certificate of completion confirming the order of consolidation. (§ 57177.5(a).) If no election is required to be held, the LAFCO Executive Officer must still execute a certificate of completion and make the requisite filings. (§ 57200.)

ii. *Effect of Consolidation*⁵

After the LAFCO Executive Officer files the certificate of completion, the consolidated district succeeds to all the “powers, rights, duties, obligations, functions, and properties of all predecessor districts” which consolidated to form a consolidated district. (§ 57500.) Included in these rights and duties is liability of the consolidated district for all debts of the predecessor districts. (§ 57502.) The consolidated district “steps into the shoes” of the predecessor districts because it is as if the “consolidated district had been originally formed under the principal act.” (§ 57500.)

iii. *Effective Date*

The consolidation’s effective date is the date set forth in LAFCO’s resolution, so long as it is neither earlier than the date the certificate of completion is executed, nor later than nine months after an election in which the majority of voters vote for the consolidation. (§ 57202(a).) If LAFCO’s resolution does not establish an effective date, the consolidation is effective on the date the consolidation is recorded by the county recorder, or if there are two counties involved, on the last date of recordation. (§ 57202(c).)

b. *Initiated by Two or More Districts*

Consolidation may also be initiated by the legislative bodies of two or more special districts. In order to start the consolidation process, the districts must adopt “substantially similar” Resolutions of Application to consolidate the districts. (§ 56853(a).) The Application must contain the components set forth in Appendix “B” to this Memorandum, which include, in part, a Resolution of Application (see Appendix “C”) and a Plan for Providing Services (see Appendix “D”).

LAFCO may change the terms of the consolidation set forth in the districts’ proposal. (§ 56853(b).) However, after any material modification to any of the terms of the consolidation proposal, LAFCO must provide mailed written notice of the change to the districts and cannot move forward on the consolidation for 30 days following that mailing without the districts’ written consent. (§ 56853(b).) During this 30 day time period, either district may file a written demand with the LAFCO Executive Officer, demanding that LAFCO make determinations only after notice and hearing on the proposals. If no written demand is made by either district, LAFCO may make those determinations without notice or a hearing. However, LAFCO cannot make any changes that would delete or add districts to the proposed consolidation without the written consent of the applicant districts. (§ 56853(c).)⁶

i. *Protest/Election/Certificate of Completion*

Upon receiving the districts’ proposals to consolidate, LAFCO must approve, or conditionally approve, the consolidation unless LAFCO receives a protest petition from the statutorily-mandated number of landowners/voters required to submit the consolidation to an election, as described below. (§ 56853(a).) Moreover, if a conflicting proposal is submitted to

⁵ See, Footnote 4.

⁶ “The application of any provision of this subdivision may be waived by consent of all the subject agencies.” (§ 56852(b).)

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LAFCO within 60 days of the submission of the proposal to consolidate, LAFCO cannot approve the proposal to consolidate until it considers the conflicting proposal. (§ 56657.)

LAFCO will order consolidation subject to confirmation of the voters, if it receives protests meeting the voter/landowner requirements of Section 57077.2(b)(1). (§ 57077.2.) Section 57077.2(b)(1) sets forth the following protest threshold:

- (A) In the case of inhabited territory, protests have been signed by either of the following:
 - (i) At least 25 percent of the number of landowners within the territory subject to the consolidation who own at least 25 percent of the assessed value of land within the territory.
 - (ii) At least 25 percent of the voters entitled to vote as a result of residing within, or owning land within, the territory.
- (B) In the case of a landowner-voter district, the territory is uninhabited and protests have been signed by at least 25 percent of the number of landowners within the territory subject to the consolidation, owning at least 25 percent of the assessed value of land within the territory.

(§ 57077.2 (b)(1).)

If sufficient protest requires LAFCO to submit a consolidation to the voters as calculated pursuant to Section 57077.2(b)(1), the election will be held within the territory of each district ordered to be consolidated. (§ 57118(a).) LAFCO’s resolution must provide the question to be submitted to the voters, specify any consolidation terms and conditions, and state the vote required to confirm the consolidation. (§ 57115.) The election procedures and requirements are set forth in Section 57125 et seq.

If an election is held and the majority of voters within the territory of any district vote against the consolidation, LAFCO must adopt a certificate of completion terminating proceedings. (§§ 57177.5(b), 57179.) However, if the majority of the voters in both districts ordered to be consolidated vote in favor of consolidation, the LAFCO Executive Officer must execute a certificate of completion confirming the order of consolidation. (§ 57177.5(a).) If no election is required to be held, LAFCO must still execute a certificate of completion and make the requisite filings. (§ 57200.)

ii. Effect of Consolidation⁷

After the LAFCO Executive Officer files the requisite certificate of completion, the consolidated district succeeds to all the “powers, rights, duties, obligations, functions, and properties of all predecessor districts” which were consolidated to form a consolidated district. (§ 57500.) Included in these rights and duties, a consolidated district becomes liable for all debts

⁷ See, Footnote 4.

of the predecessor districts. (§ 57502.) The consolidated district “steps into the shoes” of the predecessor districts because it is as if the “consolidated district had been originally formed under the principal act.” (§ 57500.)

iii. *Effective Date*

Finally, the effective date of the consolidation is the date set forth in LAFCO’s resolution, so long as it is neither earlier than the date the certificate of completion is executed, nor later than nine months after an election in which the majority of voters approved the consolidation. (§ 57202(a).) If LAFCO’s resolution does not establish an effective date, the consolidation is effective on the date the consolidation is recorded by the county recorder, or if there are two counties involved, on the last date of recordation. (§ 57202(c).)

4. **Petition-Initiated Consolidation**

Special districts may be consolidated by petition signed by the requisite number of registered voters or landowners, depending upon the specifics of the district’s statutory authorization. Prior to circulating any petition, however, the proponents for change of organization must file a notice of intention to circulate a petition with LAFCO. (§ 56700.4(a).) After a notice of intention to circulate the petition is filed, the petition may be circulated for the appropriate signatures. (§ 56700.4(b).) For a consolidation, voters or landowners must sign a petition as follows:

- (a) For registered voter districts, by not less than 5 percent of the registered voters within each of the several districts.
- (b) For landowner-voter districts, by landowner-voters within each of the several districts constituting not less than 5 percent of the number of landowner-voters owning land within each of the several districts and who also own not less than 5 percent of the assessed value of land within each of the several districts.

(§ 56865.)

The petitioners must submit an Application for consolidation to the LAFCO Executive Officer of the principal county. (§ 56658(a).) Like a Resolution of Application filed by districts wishing to consolidate, the Application must contain those elements set forth in Appendix “B” to this Memorandum. Additionally, the petition must contain all of the requirements delineated in Section 56700(a) attached to this Memorandum as Appendix “C.” Within 30 days, excluding Saturdays, Sundays, and holidays, after the date of receiving a petition, the Executive Officer must cause the petition to be reviewed by either the Registrar of Voters or County Assessor, and must “prepare a certificate of sufficiency indicating whether the petition is signed by the requisite number of signers.” (§ 56706(a).) Once an application is deemed complete by the Executive Officer, the Executive Officer issues a certificate of filing to the applicant. (§ 56658(d)-(h).) Within 90 days of issuing the certificate of filing, the Executive Officer must set a hearing. (§ 56658(h).)

Before LAFCO may take action on a proposal to consolidate, LAFCO must hold a public hearing on the proposal. (§ 56662(b).) Section 56668 requires LAFCO to consider the factors set forth in Appendix “A” to this Memorandum in evaluating the proposal to consolidate. LAFCO may also impose terms and conditions pursuant to Section 56885.5 and 56886.

a. Protest Election/Certificate of Completion

LAFCO is still not required to place the consolidation before the voters unless written protests have been filed meeting 1) the threshold in Section 57077.2(b)(2), if a subject agency has not objected by resolution to the proposal, or 2) the threshold in Section 57077.2(b)(3), if a subject agency has objected by resolution to the proposal. (§ 57077.2(a).) These threshold limits are described in greater detail in Section A(3) of this Memorandum, above.

If LAFCO is required to submit a consolidation to the voters pursuant to Section 57077.2(b)(2), the election will be held within the territory of each district ordered to be consolidated. (§ 57118(a).) LAFCO’s resolution must provide the question to be submitted to the voters, specify any consolidation terms and conditions, and state the vote required to confirm the consolidation. (§ 57115.) The election procedures and requirements are set forth in Section 57125 et seq.

If an election is held and the majority of voters within the territory of any subject district vote against the consolidation, LAFCO must adopt a certificate of completion terminating proceedings. (§§ 57177.5(b), 57179.) However, if the majority of the voters in each district vote to consolidate the districts, LAFCO must execute a certificate of completion confirming the order of consolidation. (§ 57177.5(a).) If no election is required to be held, LAFCO must still execute a certificate of completion and make the requisite filings. (§ 57200.)

b. Effect of Consolidation⁸

After the LAFCO Executive Officer files the requisite certificate of completion, the consolidated district succeeds to all the “powers, rights, duties, obligations, functions, and properties of all predecessor districts” which consolidated to form a consolidated district. (§ 57500.) Included in these rights and duties, a consolidated district becomes liable for all debts of the predecessor districts. (§ 57502.) The consolidated district “steps into the shoes” of the predecessor districts because it is as if the “consolidated district had been originally formed under the principal act.” (§ 57500.)

c. Effective Date

Finally, the consolidation’s effective date is the date set forth in LAFCO’s resolution, so long as it is neither earlier than the date the certificate of completion is executed, nor later than nine months after an election in which the majority of voters vote for the consolidation. (§ 57202(a).) If LAFCO’s resolution does not establish an effective date, the consolidation is effective on the date the consolidation is recorded by the county recorder, or if there are two counties involved, on the last date of recordation. (§ 57202(c).)

⁸ See, Footnote 4.

5. Additional Procedures for Consolidation of Districts Not Formed by Same Principal Act

Districts not formed under the same principal act may be consolidated if certain procedures are followed. In the past, only districts formed under the same principal act could be consolidated into a single district. For instance, under the former law, two municipal water districts could consolidate but an irrigation district and a municipal water district could not, even though they may have exercised many of the same powers and duties. After the 2004 and 2007 amendments,⁹ the Act now permits the consolidation of two or more special districts not formed pursuant to the same principal act. For example, an irrigation district may consolidate with a municipal water district through LAFCO-initiated, district-initiated, or petition-initiated procedures as outlined above, subject to the following additional requirements and limitations.

a. LAFCO-Initiated Consolidation

As outlined in Section A(2) above, LAFCO may initiate a consolidation of districts. Where LAFCO initiates a consolidation of two or more special districts not formed pursuant to the same principal act, the proposal must be consistent with a recommendation or conclusion of a study prepared pursuant to Section 56378 or the written statement of determinations specified in Section 56430(a). (§ 56826.5(b).) The proposal must also ensure that services currently provided by both districts will not be hampered, that public services costs of the proposal are likely to be less than, or substantially similar to the costs of alternate means of providing the service, and that the consolidation promotes public access and accountability for community service needs and financial resources. (§ 56826.5(b)(1) – (3).)

b. District-Initiated Consolidation

As outlined in Section A(3)(a) and A(3)(b) above, special districts may initiate consolidation by resolution of application—by one district or jointly by two or more districts. In addition to all of the requirements delineated in Section 56700(a) and attached to this Memorandum as Appendix “C,” Section 56700(b) requires that an Application for consolidation of districts not formed pursuant to the same principal act must either:

- (1) Designate the district that shall be the successor and specify under which principal act the successor shall conduct itself;
or
- (2) State that the proposal requires the formation of a new district and includes a plan for services prepared pursuant to Section 56653.

c. Petition-Initiated Consolidation

As outlined in Section A(4) above, special districts may be consolidated by petition signed by the requisite number of registered voters or landowners, depending upon the specifics of the district’s statutory authorization. Proponents must file a notice of intention with LAFCO,

⁹ Assembly Bill 2067, passed on September 10, 2004 and effective January 1, 2005, amended Section 56030 to permit consolidation of districts not formed pursuant to the same principal act. The Bill contained a sunset provision reinstating the prior law on July 1, 2008. Senate Bill 819 deleted the sunset provision effective January 1, 2008.

circulate a petition for signatures, and submit an Application for consolidation. (§ 56700.4(a) and (b); § 56865(a) and (b).) In addition to all of the requirements delineated in Section 56700(a) and attached to this Memorandum as Appendix “C,” the Application for consolidation of districts not formed pursuant to the same principal act must do either of the following:

- (1) Designate the district that shall be the successor and specify under which principal act the successor shall conduct itself;
or
- (2) State that the proposal requires the formation of a new district and includes a plan for services prepared pursuant to Section 56653.

(§ 56700(b).)

d. Limitations on Consolidation of Districts Not Formed Under Same Act

LAFCO may approve a proposal for reorganization that includes the consolidation of two or more special districts not formed pursuant to the same principal act only if both the following conditions are met:

- (1) The commission is able to designate a successor or successors, or form a new district or districts, authorized by their respective principal acts to deliver all of the services provided by the consolidating districts at the time of consolidation.
- (2) The commission determines that public services costs of the proposal are likely to be less than or substantially similar to the costs of alternate means of providing the service, and the consolidation promotes public access and accountability for community service needs and financial resources.

(§ 56826.5(a); § 56881(b).) The Act also requires LAFCO to determine whether any service provided at the time could be discontinued due to a lack of authority under the principal act of the successor. (§ 56886.5(b).) For example, an irrigation district and municipal water district may not be consolidated into a single irrigation district if the laws governing the resulting irrigation district would not allow it to perform all the functions of the extinguished water district. In this case, the commission shall consider the formation of a new district that is authorized to provide the service or services. (Id.)

B. DISSOLUTION

1. Brief History

As a result of the Gotch Amendment (AB 1335) to the Cortese-Knox Local Government Reorganization Act of 1985, proposals to dissolve a special district may be initiated by LAFCO itself. (§ 56000.) The purpose of the Gotch Amendment was to consolidate overlapping districts into a more coherent system of local government or dissolve districts that have outlived their purpose. However, by 2000, five years after the passage of the Gotch Amendment, only one LAFCO-initiated proposal had led to the dissolution of a special district. (Little Hoover Commission, Special Districts: Relics of the Past or Resources for the Future? 9 (2000).)

The Act defines “dissolution” as:

The disincorporation, extinguishment, or termination of the existence of a district and the cessation of all its corporate powers, except as the commission may otherwise provide pursuant to Section 56886 or for the purpose of winding up the affairs of the district.

(§ 56035.)

At present, the procedures for a dissolution may be commenced by the district, by petition, or by LAFCO itself.

2. LAFCO-Initiated Dissolution

A dissolution may be initiated by LAFCO if it is consistent with a recommendation or conclusion of a study prepared pursuant to Sections 56378, 56425, or 56430, and LAFCO makes the determinations specified in Section 56881(b). (§ 56375(a)(3).) Sections 56378, 56425, and 56430 require LAFCO to study existing agencies and make determinations regarding spheres of influence and conduct service reviews of the municipal services provided in the area for review.

Section 56881(b) requires LAFCO to make both of the following determinations with regard to the proposed dissolution:

- (1) Public service costs of a proposal that LAFCO is authorizing are likely to be less than or substantially similar to the costs of alternate means of providing the service.
- (2) The proposed dissolution promotes public access and accountability for community services needs and financial resources.

Before LAFCO may dissolve a district, LAFCO must hold a public hearing on the dissolution proposal. (§ 56662(b).) Section 56668 requires LAFCO to consider the factors set forth in Appendix “A” to this Memorandum in evaluating the proposal to dissolve a district.

a. **Protest/Election/Certificate of Completion**

LAFCO is not required to place the dissolution before the voters, unless the required written protests have been filed as set out in Section 57113. (§ 57077.1(b)(3).) These threshold limits are detailed in Section A(2)(a) of this Memorandum, above. Additionally, if a change of organization only consists of a single dissolution, and the dissolution is “consistent with a prior action of the commission pursuant to Sections 56378, 56425, or 56430,¹⁰ the commission may” order the dissolution without an election after “holding at least one noticed public hearing, and after conducting protest proceedings in accordance with this part.” (§ 57077.1(c)(2).) However, LAFCO must terminate proceedings entirely if a majority protest exists pursuant to Section 57078. (Id.)

If the requirements of Section 57077.1(c) are not met, and if a sufficient protest is made, LAFCO is required to submit the dissolution to the voters.¹¹ LAFCO’s resolution must designate the territory in which the elections will be held (which, in the case of a district dissolution, is the territory of the district ordered to be dissolved), provide the question to be submitted to the voters, specify any dissolution terms and conditions, and state the vote required to confirm the dissolution. (§§ 57115 & 57118.) The election procedures and requirements are set forth in Section 57125 et seq.

If an election is held and the majority of voters vote against the dissolution, LAFCO must adopt a certificate of termination proceedings. (§ 57179.) However, if the majority of the voters vote for the dissolution of a district, LAFCO must execute a certificate of completion confirming the order of dissolution. (§ 57176.) If no election is required to be held, the LAFCO Executive Officer must still execute a certificate of completion and make the requisite filings. (§ 57200.)

¹⁰ Sections 56378, 56425, and 56430 require LAFCO to study existing agencies and make determinations regarding spheres of influence, and to conduct service reviews of the municipal services provided in the area under review.

¹¹ Section 57102, however, permits the commission to order the dissolution without an election (except in the case of a hospital district dissolution) if it makes any of the following findings specified in Section 57102. Section 57102 provides as follows:

- a) In any resolution ordering a dissolution, the commission shall make findings upon one or more of the following matters:
 - (1) That the corporate powers have not been used, as specified Section 56871, and that there is a reasonable probability that those powers will not be used in the future.
 - (2) That the district is a registered-voter district and is uninhabited.
 - (3) That the board of directors of the district has, by unanimous resolution, consented to the dissolution of the district.
 - (4) That the commission has authorized, pursuant to subdivision (a) of Section 57077.1, the dissolution of the district without an election.
- (b) If the commission makes any of the findings specified in subdivision (a), the commission may, except as otherwise provided in Section 57103, order the dissolution of the district without election.

The requirement provisions of Section 57077.1(c) control over the provisions of Section 57102, as applicable.

b. Effect of Dissolution¹²

After the LAFCO Executive Officer files the requisite certificate of completion, the dissolved district is extinguished and all of its corporate powers cease except to wind up the affairs of the district, or as required by a term or condition imposed on the dissolution by LAFCO. (§ 57450.) If the terms and conditions of the dissolution call for annexation of the district into a single existing district, the remaining assets of the dissolved district are distributed to the existing successor district. (§§ 57451(d), 56886.) If the dissolution calls for annexation and distribution of remaining assets of a dissolved district into two or more existing districts, then the existing district containing the greater assessed value of all taxable property within the territory of the dissolved district shall become the successor district. (§ 57451(e).) For dissolution without annexation, a city or county will become the successor agency for the district depending on which one contains the greatest assessed value of all taxable property within the territory of the dissolved district. (§ 57451(c).) A successor agency collects the dissolved district's assets and is empowered to wind up the business of the district - ensuring that all debts are paid, distributing assets and all other lawful purposes for the benefit of the lands, inhabitants and taxpayers within the territory of the dissolved district, as far as practicable. (§ 57452.) In the case of dissolution with annexation, the successor agency "steps into the shoes" of the former district and assumes its corporate powers over the dissolved district's territory. (§ 56886.)

c. Effective Date

Finally, the dissolution's effective date is the date set forth in LAFCO's resolution, so long as it is neither earlier than the date the certificate of completion is executed, nor later than nine months after an election in which the majority of voters vote for the dissolution. (§ 57202(a).) If LAFCO's resolution does not establish an effective date, the dissolution is effective on the date the dissolution is recorded by the county recorder, or if there are two counties involved, on the last date of recordation. (§ 57202(c).)

3. District-Initiated Dissolution (Either by Dissolving District or Affected Local Agency)

The legislative body of a district may begin the process to dissolve the district by adopting a Resolution of Application, which must be submitted to LAFCO. (§§ 56654(a); 56858(a).) The Application must contain the components set forth in Appendix "B" to this Memorandum, which include, in part, a Resolution of Application (see Appendix "C") and a Plan for Providing Services (see Appendix "D"). At least 21 days before adopting the resolution, however, the district may give mailed notice to LAFCO and any affected districts and counties. (§ 56654(c).)

¹² This section of the Memorandum summarizes the default general conditions applicable to dissolutions, as set out in Section 57450 *et seq.* Pursuant to Section 57302, these general conditions only apply if LAFCO does not impose any of the specific terms and conditions authorized under Section 56886. In the event LAFCO does impose terms and conditions under Section 56886, Section 57302 states that those terms and conditions become the "exclusive terms and conditions of the change of organization or reorganization and shall control over the general provisions of this part." The language in Section 57302 conflicts with newly enacted revisions to Section 56886, which specifies that terms and conditions imposed under Section 56886 "shall prevail in the event of a conflict between a specific term and condition authorized [pursuant to Section 56866] and any of the general provisions [set out at Section 57300 *et seq.*]." The Legislative Committee of CALAFCO will undertake a review of the inconsistencies between Sections 56886 and 57302.

Not less than five days prior to the hearing, the Executive Officer must prepare a report on the Application, including his or her recommendation on the Application, and must give a copy of the report to every affected district, agency, and city. (§ 56665.) At the hearing, LAFCO hears and receives written and oral protests and evidence as well as the Executive Officer's report and the Plan for Providing Services. (§ 56666(b).) Section 56668 requires LAFCO to evaluate the dissolution proposal pursuant to the factors set forth in Appendix "A" to this Memorandum. LAFCO may also impose terms and conditions on the dissolution pursuant to Section 56885.5 and 56886.

a. Protest/Election/Certificate of Completion

LAFCO is required to place the dissolution before the voters if written protests have been filed meeting Section 57077.1(b)(1), where a subject agency has not objected by resolution to the proposal, or Section 57077.1(b)(2), if a subject agency has objected by resolution to the proposal. (§ 57077.1(a).) Section 57077.1(b)(1) sets forth the following protest threshold:

- (A) In the case of inhabited territory, protests have been signed by either of the following:
 - (i) At least 25 percent of the number of landowners within the affected territory who own at least 25 percent of the assessed value of land within the territory.
 - (ii) At least 25 percent of the voters entitled to vote as a result of residing within, or owning land within, the affected territory.
- (B) In the case of a landowner-voter district, that the territory is uninhabited, and that protests have been signed by at least 25 percent of the number of landowners within the affected territory owning at least 25 percent of the assessed value of land within the territory.

Alternatively, Section 57077.1(b)(2) requires that written protests meet the following threshold:

- (A) In the case of inhabited territory, protests have been signed by either of the following:
 - (i) At least 25 percent of the number of landowners within any subject agency within the affected territory who own at least 25 percent of the assessed value of land within the territory.
 - (ii) At least 25 percent of the voters entitled to vote as a result of residing within, or owning land within, any subject agency within the affected territory.

- (B) In the case of a landowner-voter district, that the territory is uninhabited, and that protests have been signed by at least 25 percent of the number of landowners within any subject agency within the affected territory, owning at least 25 percent of the assessed value of land within the subject agency.

If LAFCO is required to submit a dissolution to the voters pursuant to Section 57077.1(b), the election will be held within the territory of the district ordered to be dissolved.¹³ (§ 57118(a).) LAFCO's resolution must provide the question to be submitted to the voters, specify any dissolution terms and conditions, and state the vote required to confirm the dissolution. (§ 57115.) The election procedures and requirements are set forth in Section 57125 et seq.

If an election is held and the majority of voters vote against the dissolution, LAFCO must adopt a certificate of termination proceedings. (§ 57179.) However, if the majority of the voters vote for the dissolution of a district, LAFCO must execute a certificate of completion confirming the order of dissolution. (§ 57176.) If no election is required to be held, the LAFCO Executive Officer must still execute a certificate of completion and make the requisite filings. (§ 57200.)

Notwithstanding the above, if a change of organization only consists of a single dissolution that is "consistent with a prior action of the commission pursuant to Sections 56378, 56425, or 56430,"¹⁴ and the dissolution is "initiated by the district board," then LAFCO may "immediately approve and order the dissolution without an election or protest proceedings pursuant to this part." (§ 57077.1(c)(1).)¹⁵ Alternatively, if a single dissolution is initiated by an affected local agency and if that single dissolution is "consistent with a prior action of the commission pursuant to Sections 56378, 56425, or 56430," then commission may" order the dissolution without an election after "holding at least one noticed public hearing, and after conducting protest proceedings in accordance with this part." (§ 57077.1(c)(2).) However, LAFCO must terminate proceedings entirely if a majority protest exists pursuant to Section 57078. (Id.)

b. Effect of Dissolution¹⁶

After the LAFCO Executive Officer files the requisite certificate of completion, the dissolved district is extinguished and all of its corporate powers cease, except to wind up the affairs of the district, or as required by a term and condition imposed on the dissolution by LAFCO. (§ 57450.) If the terms and conditions of the dissolution call for annexation of the district into a single existing district, the remaining assets of the dissolved district are distributed to the existing successor district. (§§ 57451(d), 56886.) If the dissolution calls for annexation and distribution of remaining assets of a dissolved district into two or more existing districts, then the existing district containing the greater assessed value of all taxable property within the

¹³ See, Footnote 22 regarding where an election is held for a reorganization consisting of dissolution with annexation.

¹⁴ Sections 56378, 56425, and 56430 require LAFCO to study existing agencies and make determinations regarding spheres of influence, and to conduct service reviews of the municipal services provided in the area under review.

¹⁵ See, Footnote 11.

¹⁶ See, Footnote 12.

territory of the dissolved district shall become the successor district. (§ 57451(e).) For dissolution without annexation, a city or county will become the successor agency for the district depending on which one contains the greatest assessed value of all taxable property within the territory of the dissolved district. (§ 57451(c).) A successor agency collects the dissolved district's assets and is empowered to wind up the business of the district; ensuring that all debts are paid, distributing assets and all other lawful purposes for the benefit of the lands, inhabitants and taxpayers within the territory of the dissolved district, as far as practicable. (§ 57452.) In the case of dissolution with annexation, the successor agency "steps into the shoes" of the former district and assumes its corporate powers over the dissolved district's territory. (§ 56886.)

c. Effective Date

Finally, the dissolution's effective date is the date set forth in LAFCO's resolution, so long as it is neither earlier than the date the certificate of completion is executed, nor later than nine months after an election in which the majority of voters vote for the dissolution. (§ 57202(a).) If LAFCO's resolution does not establish an effective date, the dissolution is effective on the date the dissolution is recorded by the county recorder, or if there are two counties involved, on the last date of recordation. (§ 57202(c).)

4. Petition-Initiated Dissolution

Special districts may be dissolved by petition signed by the requisite number of registered voters or landowners, which are set forth in Section 56870. Prior to circulating any petition, however, the proponent for change of organization must file a notice of intention to circulate a petition with LAFCO. (§ 56700.4(a).) After a notice of intention to circulate the petition is filed, the petition may be circulated for the appropriate signatures. (§ 56700.4(b).) Except as provided in Section 56871,¹⁷ petitions for the dissolution of a district must be signed by:

- (a) For registered voter districts, by either of the following:
 - (1) Not less than 10 percent of the registered voters within the district.
 - (2) Not less than 10 percent of the number of landowners within the district who also own not less

¹⁷ Section 56871 sets forth alternative petition requirements if the petition for dissolution of a registered voter district is signed by three or more registered voters within the district (or by three or more landowners within a landowner-voter district) provided certain additional requirements are met. Under Section 56871, such a petition is deemed sufficient if the petition recites that the district has been in existence for at least three years, that the district has not used its corporate powers and that one or more of the following conditions have existed or now exist:

- (a) That during the three-year period preceding the date of the first signature upon the petition any of the following events have not occurred:
 - (1) There has not been a duly selected and acting quorum of the board of directors of the district.
 - (2) The board of directors has not furnished or provided services or facilities of substantial benefit to residents, landowners, or property within the district.
 - (3) The board of directors has not levied or fixed and collected any taxes, assessments, service charges, rentals, or rates or expended the proceeds of those levies or collections for district purposes.
- (b) That during the one-year period preceding the date of the first signature upon the petition a quorum of the duly selected and acting board of directors has not met for the purpose of transacting district business.
- (c) That, upon the date of the first signature upon the petition, the district had no assets, other than money in the form of cash, investments, or deposits.

than 10 percent of the assessed value of land within the district.

- (b) For landowner-voter districts, by not less than 10 percent of the number of landowner-voters within the district who also own not less than 10 percent of the assessed value of land within the district.

(§ 56870.)

Once a petition is qualified by the Executive Officer, the Executive Officer issues a certificate of filing to the applicant. (56658(d)-(h).) Within 90 days of issuing the certificate of filing, the Executive Officer must set a hearing. (§ 56658(h).) Within 35 days of the hearing, LAFCO must adopt a resolution making determinations approving or disapproving the proposal, with or without terms and conditions. (§ 56880.) If a conflicting proposal is submitted to LAFCO within 60 days of the submission of the proposal to dissolve, then LAFCO cannot approve the proposal to dissolve until it considers the conflicting proposal. (§ 56657.)

a. Protest/Election/Certificate of Completion

Where a subject agency has not objected by resolution, an election must be held if written protests are received meeting the voter/landowner petition requirements of Section 57077.1(b)(1). (§ 57077.1(a).) Where a subject agency files a resolution of objection, an election must be held if written protests have been filed meeting the threshold level set forth in Section 57077.1(b)(2). These thresholds are set forth in Section B(3)(a), above. Additionally, if a change of organization only consists of a single dissolution that is “consistent with a prior action of the commission pursuant to Sections 56378, 56425, or 56430,¹⁸” and the dissolution is initiated by petition, the commission may order the dissolution without an election after “holding at least one noticed public hearing, and after conducting protest proceedings in accordance with this part.” (§ 57077.1(c)(2).) However, LAFCO must terminate proceedings entirely if a majority protest exists pursuant to Section 57078. (Id.)¹⁹

If LAFCO is required to submit a dissolution to the voters pursuant to Section 57077.1(b), the election will be held and the measure must pass within the territory of each district ordered to be dissolved.²⁰ (§ 57118(a).) LAFCO’s resolution must provide the question to be submitted to the voters, specify any dissolution terms and conditions, and state the vote required to confirm the dissolution. (§ 57115.) The election procedures and requirements are set forth in Section 57125 et seq.

If an election is held and the majority of voters vote against a dissolution, LAFCO must adopt a certificate of termination proceedings. (§ 57179.) However, if the majority of the voters vote for the dissolution, the LAFCO Executive Officer must execute a certificate of completion

¹⁸ Sections 56378, 56425, and 56430 require LAFCO to study existing agencies and make determinations regarding spheres of influence, and to conduct service reviews of the municipal services provided in the area under review.

¹⁹ See, Footnote 11.

²⁰ See, Footnote 22 regarding where an election is held for reorganizations consisting of dissolution with annexation.

confirming the order of dissolution. (§ 57176.) If no election is required to be held, LAFCO must still execute a certificate of completion and make the requisite filings. (§ 57200.)

b. Effect of Dissolution²¹

After the LAFCO Executive Officer files the requisite certificate of completion, the dissolved district is extinguished and all of its corporate powers cease except to wind up the affairs of the district, or as required by a term or condition imposed on the dissolution by LAFCO. (§ 57450.) If the terms and conditions of the dissolution call for annexation of the district into a single existing district, the remaining assets of the dissolved district are distributed to the existing successor district. (§§ 57451(d), 56886.) If the dissolution calls for annexation and distribution of remaining assets of a dissolved district into two or more existing districts, then the existing district containing the greater assessed value of all taxable property within the territory of the dissolved district shall become the successor district. (§ 57451(e).) For dissolution without annexation, a city or county will become the successor agency for the district depending on which one contains the greatest assessed value of all taxable property within the territory of the dissolved district. (§ 57451(c).) A successor agency collects the dissolved district's assets and is empowered to wind up the business of the district - ensuring that all debts are paid, distributing assets and all other lawful purposes for the benefit of the lands, inhabitants and taxpayers within the territory of the dissolved district, as far as practicable. (§ 57452.) In the case of dissolution with annexation, the successor agency "steps into the shoes" of the former district and assumes its corporate powers over the dissolved district's territory. (§ 56886.)

c. Effective Date

Finally, the dissolution's effective date is the date set forth in LAFCO's resolution, so long as it is neither earlier than the date the certificate of completion is executed, nor later than nine months after an election in which the majority of voters vote for the dissolution. (§ 57202(a).) If LAFCO's resolution does not establish an effective date, the dissolution is effective on the date the dissolution is recorded by the county recorder, or if there are two counties involved, on the last date of recordation. (§ 57202(c).)

5. Dissolution with Annexation

The Act's provisions expressly allow LAFCO to "select" a successor to "step into the shoes" of the dissolved district. Section 56886 permits LAFCO to impose a condition on a dissolution that will grant one agency all of the remaining assets of the dissolved district. (§ 56886(h) and (i).) When LAFCO imposes such conditions, the agency granted all of the dissolved district's remaining assets becomes the "successor" agency pursuant to Section 57451. Specifically, Section 57451(d) provides that:

If the terms and conditions provide that all of the remaining assets of a dissolved district shall be distributed to a single existing district, the single existing district is the successor.

²¹ See, Footnote 12.

In such an instance, for example, if one of the remaining assets of a dissolved district is that district's water distribution facilities, including pipelines and water treatment facilities, these assets will be put to use for the purpose of distributing water by the successor district. The provisions of Section 57463 support this conclusion. Section 57463 provides that after all debts are paid, any assets remaining may be used for any lawful purpose of the public agency to which the assets have been distributed for the benefit of the lands, inhabitants and taxpayers within the territory of the dissolved district, as far as practicable. (§ 57463.) Applying the intent of Section 57463 to the water distribution facilities example would allow the public agency to which the assets have been distributed to continue to use the water distribution facilities. In essence, the agency receiving the dissolved district's remaining assets, which may be the successor agency, steps into the shoes of the dissolved district.

a. Initiation of Reorganization Consisting of Dissolution with Annexation

A reorganization consisting of a dissolution with annexation may be initiated by petition, Resolution of Application by one special district, or if initiated pursuant to Section 56853, the reorganization can be initiated by the legislative bodies of two or more special districts.

i. Protest/Election/Certificate of Completion

When a reorganization application consists of a dissolution of one or more districts and the annexation of all or substantially all the territory into another district and the application is initiated by two or more districts pursuant to Section 56853, the protest thresholds to trigger an election are set out in Section 57077.3(b)(1)(A) and (B). Section 57077.3(b)(1)(A) and (B) provides as follows:

- (A) In the case of inhabited territory, protests have been signed by either of the following:
 - (i) At least 25 percent of the number of landowners within the affected territory who own at least 25 percent of the assessed value of land within the territory.
 - (ii) At least 25 percent of the voters entitled to vote as a result of residing within, or owning land within, the affected territory.
- (B) In the case of a landowner-voter district, that the territory is uninhabited, and that protests have been signed by at least 25 percent of the number of landowners within the affected territory, owning at least 25 percent of the assessed value of land within the territory.

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For proposals initiated by a single special district, or by petition, LAFCO must order the reorganization subject to confirmation by the voters if it receives protests meeting the following thresholds:

- (1) In the case of inhabited territory, protests have been signed by either of the following:
 - (A) At least 25 percent of the number of landowners within any subject agency within the affected territory who own at least 25 percent of the assessed value of land within the territory.
 - (B) At least 25 percent of the voters entitled to vote as a result of residing within, or owning land within, any subject agency within the affected territory.
- (2) In the case of a landowner-voter district, the territory is uninhabited, and protests have been signed by at least 25 percent of the number of landowners within any subject agency within the affected territory, owning at least 25 percent of the assessed value of land within the subject agency.

(§ 57077.4(b)(1)(A) and (B).)

For dissolution with annexation initiated under Section 56853, if LAFCO is required to submit the reorganization to the voters pursuant to Section 57077.3(b), the election will be held and the measure must pass within the territory of each district ordered to be dissolved. (§ 57118(a).) On the other hand, if the dissolution with annexation is initiated by petition or by Resolution of Application by one district, and if there is sufficient protest under Section 57077.4, the election will be held separately within the territory of each affected district that has filed a petition meeting the requisite protest requirements.²² LAFCO's resolution must provide the question to be submitted to the voters, specify any reorganization terms and conditions, and state the vote required to confirm the dissolution. (§ 57115.) The election procedures and requirements are set forth in Section 57125 et seq.

If an election is held and the majority of voters vote against the reorganization, LAFCO must adopt a certificate of termination proceedings. (§ 57179.) However, if the majority of the voters vote for the dissolution, the LAFCO Executive Officer must execute a certificate of completion confirming the order of reorganization. (§ 57176.) If no election is required to be held, LAFCO must still execute a certificate of completion and make the requisite filings. (§ 57200.)

²² Section 57118(f) requires that elections for reorganizations consisting of a dissolution and annexation be held separately within the territory of each affected district that has filed a petition meeting the requirements of Section 57077.4(b).

C. **MERGER**

1. **Brief History**

Prior to 1965, the state of the law in California was that the inclusion of the entire territory of a special district within the boundaries of a city resulted in the automatic merger of the special district into the city, thereby eliminating the special district. The rationale behind this doctrine, dubbed the “Doctrine of Automatic Merger,” was the avoidance of the “duplication of functions - otherwise two distinct governmental bodies claiming to exercise the same authority, powers and franchises simultaneously over the same territory would ‘produce intolerable confusion, if not constant conflict.’” (*City of Downey v. Downey Water Dist.* (1962) 202 Cal.App.2d 786, 792 (citations omitted).)

In 1965, the Legislature enacted the District Reorganization Act of 1965, effective September 17, 1965 (Stats 1965 ch 2043 §§ 2), adding Government Code section 56400 as follows:

The Legislature hereby declares that the doctrine of automatic merger of a district with a city or the merger by operation of law of a district with a city shall have and be given no further force or effect. The existence of a district shall not be extinguished or terminated as a result of the entire territory of such district being heretofore or hereafter included within a city unless such district be merged with such city as a result of proceedings taken pursuant to this division.

This very language is now part of the Act and is set forth in Section 56116.

A merger now can only occur as a result of proceedings taken pursuant to the Act. The term “merger” for purposes of the Act is defined as:

The termination of the existence of a district when the responsibility for the functions, services, assets, and liabilities of that district are assumed by a city as a result of proceedings taken pursuant to this division.

(§ 56056.)

2. **LAFCO-Initiated Merger**

LAFCO may initiate a merger of a district with a city if it is consistent with a recommendation or conclusion of a study prepared pursuant to Sections 56378, 56425, or 56430 and LAFCO makes the determinations specified in Section 56881(b). (§ 56375(a)(3).) Sections 56378, 56425, and 56430 require LAFCO to study existing agencies and make determinations regarding spheres of influence and conduct service reviews of the municipal services provided in the area for review. Section 56881(b) requires LAFCO to make all of the following determinations with regard to the proposed merger:

- (1) Public service costs of a proposal that the LAFCO is authorizing are likely to be less than or substantially similar to the costs of alternate means of providing the service.
- (2) Promotes public access and accountability for community services needs and financial resources.

Before LAFCO may take action on a proposal to merger, LAFCO must hold a public hearing on the proposal. (§ 56662(b).) Section 56668 requires LAFCO to consider the factors set forth in Appendix “A” to this Memorandum in evaluating a merger proposal.

All proposals for merger, except for proposals for the merger of an existing subsidiary district, also must consider the establishment of a subsidiary district as well.²³

a. Protest/Election/Certificate of Completion

LAFCO is required to place a merger before the voters, regardless of whether a subject agency has objected, where written protests have been filed in accordance with Section 57113. (§ 57107(b)(3).) Notwithstanding Section 57107(b), the commission shall not order the merger without the consent of the subject city. (§ 57107(c).) Section 57113 requires LAFCO to submit a merger to the voters if LAFCO receives protests signed by the following:

- (a) In the case of inhabited territory, protests have been signed by either of the following:
 - (1) At least 10 percent of the number of landowners within any subject agency within the affected territory who own at least 10 percent of the assessed value of land within the territory. However, if the number of landowners within a subject agency is less than 300, the protests shall be signed by at least 25 percent of the landowners who own at least 25 percent of the assessed value of land within the territory of the subject agency.
 - (2) At least 10 percent of the voters entitled to vote as a result of residing within, or owning land within, any subject agency within the affected territory. However, if the number of voters entitled to vote within a subject agency is less than 300, the protests shall be signed by at least 25 percent of the voters entitled to vote.

²³ Section 56118 specifically provides: “Except for a proposal for the merger of a then existing subsidiary district, any proposal for a merger or establishment of a subsidiary district authorized by this division shall contain a request in the alternative, requesting either a merger or the establishment of a subsidiary district, as may be determined during the course of the proceedings. Any proposal requesting only merger shall be deemed to also include a request for the establishment of a subsidiary district and any proposal requesting only the establishment of a subsidiary district shall be deemed to also include a request for merger.”

- (b) In the case of a landowner-voter district, the territory is uninhabited and protests have been signed by at least 10 percent of the number of landowners within any subject agency within the affected territory, who own at least 10 percent of the assessed value of land within the territory. However, if the number of landowners entitled to vote within a subject agency is less than 300, protests shall be signed by at least 25 percent of the landowners entitled to vote.

If required to submit a merger to the voters, the election will be held within the “entire territory of each district ordered to be merged with. . . or both within the district and within the entire territory of the city outside the boundaries of the district.” (§ 57118(b)).²⁴ LAFCO’s resolution must also provide the question to be submitted to the voters, specify any merger terms and conditions, and state the vote required to confirm the merger. (§ 57115.) The election procedures and requirements are set forth in Section 57125 et seq.

If an election is held and the majority of voters vote against the merger, LAFCO must adopt a certificate of termination proceedings. (§ 57179.) In addition, no new proposal for a merger or establishment of a subsidiary district involving the same district may be filed within two years of the date of the certificate of termination proceedings. (§ 57112 (a).) LAFCO may waive this prohibition if it finds the prohibition is detrimental to the public interest. (§ 57112(b).) However, if the majority of the voters vote for a merger, the LAFCO Executive Officer must execute a certificate of completion confirming the order of merger.²⁵ (§ 57177.) If no election is required to be held, LAFCO must still execute a certificate of completion and make the requisite filings. (§ 57200.)

²⁴ Pursuant to Section 57108, however, if a petition meeting certain requirements is submitted prior to the conclusion of the protest hearing, the election will only be called, held and conducted within the district to be merged with, or established as, a subsidiary district of a city. Section 57108 provides as follows:

At any time prior to the conclusion of the protest hearing by the commission ordering the district to be merged with or established as a subsidiary district of a city, a petition may be filed with the executive officer referring, by date of adoption, to the commission’s resolution making determinations and requesting that any election upon that question be called, held, and conducted only within that district. Any petition so filed shall be immediately examined and certified by the executive officer by the same method and in the same manner as provided in Sections 56707 to 56711, inclusive, for the examination of petitions by the executive officer.

The commission shall forward the proposal to the affected city, and the affected city shall call, hold, and conduct any election upon the question of a merger or the establishment of a subsidiary district only within the district to be merged or established as a subsidiary district, if the executive officer certifies that any petition so filed was signed by either of the following:

- (a) In the case of a registered voter district, by not less than 10 percent of the registered voters of the district.
- (b) In the case of a landowner-voter district, by not less than 10 percent of the number of landowner-voters within the district who also own not less than 10 percent of the assessed value of land within the district.

²⁵ Section 57177 establishes additional requirements for certificates of completion confirming a merger and/or establishment of a subsidiary district.

b. Effect of Merger²⁶

On the effective date of the merger, the district ceases to exist and all district funds and all district property is vested in the city. (§§ 57525 & 57526.) The city becomes liable on all debts of the merged district. (§ 57531.) The city must use district funds and property to pay outstanding bonds and other obligations of the merged district. (§ 57528.) If any debts are to be paid from taxes levied on property in the district, the city council will collect those taxes as they become due as provided for under the principal act of the merged district. (§ 57529.) All funds that are unencumbered by debt may be used for any lawful purpose by the city, however, the city, “so far as may be practicable,” shall use those funds to benefit the land and inhabitants within the former merged district area. (§ 57533.)

c. Effective Date

Finally, the merger’s effective date is the date set forth in LAFCO’s resolution, so long as it is neither earlier than the date the certificate of completion is executed, nor later than nine months after an election in which the majority of voters vote for the merger. (§ 57202(a).) If LAFCO’s resolution does not establish an effective date, the merger is effective on the date the merger is recorded by the county recorder, or if there are two counties involved, on the last date of recordation. (§ 57202(c).)

3. District/City-Initiated Merger

The legislative body of a district or city wishing to merge with a city or district must submit a Resolution of Application to the LAFCO Executive Officer of the principal county. (§ 56658(a).) The Application must contain the components set forth in Appendix “B” to this Memorandum, which include, in part, a Resolution of Application (see Appendix “C”) and a Plan for Providing Services (see Appendix “D”).

Within 30 days of receiving the Application, the Executive Officer must determine if it is complete and acceptable for filing. (§ 56658(c).) If no determination is made within this time frame and the appropriate fees have been paid, then the Application shall be deemed to have been accepted for filing. (§ 56658(e).) The Executive Officer must accept an Application for filing if it is in the form prescribed by LAFCO and it contains all the information required in Appendix “B.” (§ 56658(e).) Within 90 days of accepting a proposal for filing, the Executive Officer must set a hearing date. (§ 56658(h).)

²⁶ This section of the Memorandum summarizes the default general conditions applicable to mergers, as set out in Section 57525 *et seq.* Pursuant to Section 57302, these general conditions only apply if LAFCO does not impose any of the specific terms and conditions authorized under Section 56886. In the event LAFCO does impose terms and conditions under Section 56886, Section 57302 states that those terms and conditions become the “exclusive terms and conditions of the change of organization or reorganization and shall control over the general provisions of this part.” The language in Section 57302 conflicts with newly enacted revisions to Section 56886, which specifies that terms and conditions imposed under Section 56886 “shall prevail in the event of a conflict between a specific term and condition authorized [pursuant to Section 56866] and any of the general provisions [set out at Section 57300 *et seq.*].” The Legislative Committee of CALAFCO will undertake a review of the inconsistencies between Sections 56886 and 57302.

Before the hearing, the Executive Officer must prepare a report on the Application, including his or her recommendation on the Application and give a copy of the report to every affected district, agency, and city. (§ 56665.) At the hearing, LAFCO hears and receives written and oral protests and evidence as well as the Executive Officer's report and the Plan for Providing Services. (§ 56666.) Section 56668 requires LAFCO to consider the factors set forth in Appendix "A" to this Memorandum in evaluating the merger proposal. LAFCO may also impose terms and conditions pursuant to Section 56885.5 and 56886.

a. Protest/Election/Certificate of Completion

LAFCO is required to place a merger before the voters, if written protests have been filed meeting the requirements of Section 57107(b)(1), where a subject agency has not objected by resolution to the proposal, or Section 57107(b)(2), where a subject agency has objected by resolution to the proposal. (§ 57107(a).) Notwithstanding Section 57107(b), the commission shall not order the merger without the consent of the subject city. (§ 57107(c).) Section 57107(b)(1) sets forth the following protest threshold:

- (A) In the case of inhabited territory, protests have been signed by either of the following:
 - (i) At least 25 percent of the number of landowners within the affected territory who own at least 25 percent of the assessed value of land within the territory.
 - (ii) At least 25 percent of the voters entitled to vote as a result of residing within, or owning land within, the affected territory.
- (B) In the case of a landowner-voter district, that the territory is uninhabited, and that protests have been signed by at least 25 percent of the number of landowners within the affected territory owning at least 25 percent of the assessed value of land within the territory.

Section 57107(b)(2) requires the following protest threshold:

- (A) In the case of inhabited territory, protests have been signed by either of the following:
 - (i) At least 25 percent of the number of landowners within any subject agency within the affected territory who own at least 25 percent of the assessed value of land within the territory.
 - (ii) At least 25 percent of the voters entitled to vote as a result of residing within, or owning land within, any subject agency within the affected territory.

- (B) In the case of a landowner-voter district, that the territory is uninhabited and protests have been signed by at least 25 percent of the number of landowners within any subject agency within the affected territory, owning at least 25 percent of the assessed value of land within the subject agency.

If LAFCO is required to submit a merger to the voters pursuant to Section 57107, the election will be held within the “entire territory of each district ordered to be merged with. . . or both within the district and within the entire territory of the city outside the boundaries of the district.” (§ 57118(b).)²⁷ LAFCO’s resolution must provide the question to be submitted to the voters, specify any terms and conditions, and state the vote required to confirm the merger. (§ 57115.) The election procedures and requirements are set forth in Section 57125 et seq.

If an election is held and the majority of voters vote against the merger, LAFCO must adopt a certificate of termination of proceedings. (§ 57179.) In addition, no new proposal for a merger or establishment of a subsidiary district involving the same district may be filed within two years of the date of the certificate of termination proceedings. (§ 57112(a).) LAFCO may waive this prohibition if it finds the prohibition is detrimental to the public interest. (§ 57112(b).) However, if the majority of the voters vote for the merger, the LAFCO Executive Officer must execute a certificate of completion confirming the order of merger. (§ 57177.)²⁸ If no election is required to be held, LAFCO must still execute a certificate of completion and make the requisite filings. (§ 57200.)

b. Effect of Merger²⁹

On the effective date of the merger, the district ceases to exist and all district funds and all district property is vested in the city. (§§ 57525 & 57526.) The city becomes liable on all debts of the merged district. (§ 57531.) The city must use district funds and property to pay outstanding bonds and other obligations of the merged district. (§ 57528.) If any debts are to be paid from taxes levied on property in the district, the city council will collect those taxes as they become due as provided for under the principal act of the merged district. (§ 57529.) All funds that are unencumbered by debt may be used for any lawful purpose by the city, however, the city, “so far as may be practicable,” shall use those funds to benefit the land and inhabitants within the former merged district area. (§ 57533.)

c. Effective Date

Finally, the merger’s effective date is the date set forth in LAFCO’s resolution, so long as it is neither earlier than the date the certificate of completion is executed, nor later than nine months after an election in which the majority of voters vote for the merger. (§ 57202(a).) If LAFCO’s resolution does not establish an effective date, the merger is effective on the date the merger is recorded by the county recorder, or if there are two counties involved, on the last date of recordation. (§ 57202(c).)

²⁷ See, Footnote 24.

²⁸ See, Footnote 25.

²⁹ See, Footnote 26.

4. Petition-Initiated Merger

A district of limited powers which overlaps a city may be merged into a city by petition signed by the requisite number of registered voters or landowners, depending upon the specifics of the district's statutory authorization. Prior to circulating any petition, however, the proponents for change of organization must file a notice of intention to circulate a petition with LAFCO. (§ 56700.4(a).) After a notice of intention to circulate the petition is filed, the petition may be circulated for the appropriate signatures. (§ 56700.4(b).) For a merger, voters or landowners must sign a petition as follows:

- (a) For a registered voter district, by either of the following:
 - (1) Five percent of the registered voters of the district.
 - (2) Five percent of the registered voters residing within the territory of the city outside the boundaries of the district.
- (b) For a landowner-voter district, by either of the following:
 - (1) Five percent of the number of landowner-voters within the district who also own not less than 5 percent of assessed value of land within the district.
 - (2) Five percent of the registered voters residing within the territory of the city outside the boundaries of the district.

(§ 56866.)

The petitioners must submit an Application for merger to the LAFCO Executive Officer of the principal county. (§ 56658(a).) The Application must contain those elements set forth in Appendix "B" to this Memorandum. Additionally, the petition must contain all of the requirements delineated in Section 56700 attached to this Memorandum as Appendix "C." Once a petition is qualified by the Executive Officer, the Executive Officer issues a certificate of filing to the applicant. (§ 56658(d)-(h).) Within 90 days of issuing the certificate of filing, the Executive Officer must set a hearing. (§ 56658(h).)

Before LAFCO may take action on a merger proposal, LAFCO must hold a public hearing on the proposal or report and recommendation of a reorganization committee. (§ 56662(b).) Section 56668 requires LAFCO to consider the factors set forth in Appendix "A" to this Memorandum in evaluating the proposal. LAFCO may also impose terms and conditions pursuant to Section 56885.5 and 56886.

a. Protest/Election/Certificate of Completion

LAFCO is required to place a merger before the voters, if written protests have been filed meeting the requirements of Section 57107(b)(1), where a subject agency has not objected by resolution to the proposal, or Section 57107(b)(2), where a subject agency has objected by resolution to the proposal. (§ 57107(a).) These threshold limits are delineated in Section C(3)(a), above. Notwithstanding Section 57107(b), the commission shall not order the merger without the consent of the subject city. (§ 57107(c).)

If LAFCO is required to submit a merger to the voters pursuant to Section 57107, the election will be held within the “entire territory of each district ordered to be merged with. . . or both within the district and within the entire territory of the city outside the boundaries of the district.” (§ 57118(b).)³⁰ LAFCO’s resolution must provide the question to be submitted to the voters, specify any merger terms and conditions, and state the vote required to confirm the merger. (§ 57115.) The election procedures and requirements are set forth in Section 57125 et seq.

If an election is held and the majority of voters vote against the merger, LAFCO must adopt a certificate of termination proceedings. (§ 57179.) However, if the majority of the voters vote for the merger, LAFCO Executive Officer must execute a certificate of completion confirming the order of merger. (§ 57177.)³¹ If no election is required to be held, LAFCO must still execute a certificate of completion and make the requisite filings. (§ 57200.)

b. Effect of Merger³²

On the effective date of the merger, the district ceases to exist and all district funds and all district property is vested in the city. (§§ 57525 & 57526.) The city becomes liable on all debts of the merged district. (§ 57531.) The city must use district funds and property to pay outstanding bonds and other obligations of the merged district. (§ 57528.) If any debts are to be paid from taxes levied on property in the district, the city council will collect those taxes as they become due as provided for under the principal act of the merged district. (§ 57529.) All funds that are unencumbered by debt may be used for any lawful purpose by the city, however, the city, “so far as practicable” shall use those funds to benefit the land and inhabitants within the former merged district area. (§ 57533.)

c. Effective Date

Finally, the merger’s effective date is the date set forth in LAFCO’s resolution, so long as it is neither earlier than the date the certificate of completion is executed, nor later than nine months after an election in which the majority of voters vote for the merger. (§ 57202(a).) If LAFCO’s resolution does not establish an effective date, the merger is effective on the date the merger is recorded by the county recorder, or if there are two counties involved, on the last date of recordation. (§ 57202(c).)

³⁰ See, Footnote 24.

³¹ See, Footnote 25.

³² See, Footnote 26.

5. Limitations on Merger

As stated above the subject city must consent to the merger. (§ 57107(c).)

D. ESTABLISHMENT OF A SUBSIDIARY DISTRICT

1. A Brief History

The procedures for establishment of a subsidiary district were established by the legislature in 1965 by the adoption of the District Reorganization Act of 1965, effective September 17, 1965 (Stats 1965 ch 2043 §§ 2), which added Government Code sections 56073, 56401, and 56405.

For purposes of the current version of the Act, the term “subsidiary district” is a district in which a city council is designated as, and empowered to act as, the ex officio board of directors of the district. (§ 56078.) A subsidiary district may be established if, upon the date of the commission’s order, the commission determines that either of the following situations exist:

- (a) The entire territory of the district is included within the boundaries of a city.
- (b) A portion or portions of the territory of the district are included within the boundaries of a city and that portion or portions meet both of the following requirements.
 - (1) Represents 70 percent or more of the area of land within the district. . . .
 - (2) Contains 70 percent or more of the number of registered voters who reside within the district as shown on the voters’ register in the office of the county clerk or registrar of voters.

(§ 57105.)

2. LAFCO-Initiated Establishment of a Subsidiary District

LAFCO may initiate the establishment of a subsidiary district if it is consistent with a recommendation or conclusion of a study prepared pursuant to Sections 56378, 56425, or 56430, and LAFCO makes the determinations specified in Section 56881(b). (§ 56375(a)(3).) Sections 56378, 56425, and 56430 require LAFCO to study existing agencies, to make determinations regarding spheres of influence, and to conduct service reviews of the municipal services provided in the area for review. Section 56881(b) requires LAFCO to make all of the following determinations with regard to the proposed establishment of a subsidiary district:

- (1) Public service costs of a proposal that the LAFCO is authorizing are likely to be less than or substantially similar to the costs of alternate means of providing the service.

- (2) The proposal promotes public access and accountability for community services needs and financial resources.

Before LAFCO may take action on a proposal for the establishment of a subsidiary district, LAFCO must hold a public hearing on the proposal. (§ 56662(b).) Section 56668 requires LAFCO to consider the factors set forth in Appendix “A” to this Memorandum in evaluating the proposal for the establishment of a subsidiary district.

All proposals for establishment of a subsidiary district must also consider merger.³³

a. Protest/Election/Certificate of Completion

The protest and election procedures and the requirements for a certificate of completion for the establishment of a subsidiary district initiated by LAFCO are the same as the procedures applicable to LAFCO-initiated mergers, as more particularly described in Section C(2)(a), above.

b. Effect of the Establishment of a Subsidiary District³⁴

On or after the effective date of the establishment of a subsidiary district, the city council shall be designated, and shall be empowered to act as the ex officio board of directors of the district. The district shall continue to operate as a separate legal entity with all of the powers, rights, duties, obligations, and functions provided for by the principal act, except for any provisions relating to the selection or removal of the members of the board of directors of the district. (§ 57534.) If a court determines that holding office both as a member of city council and as a member of the board of directors is incompatible, the court may order that person to vacate the board of director position but not the position on city council. (§ 57535.) The court must order the position on the board of directors to be filled in accordance with the principal act of the subsidiary district. (§ 57535.)

³³ Section 56118 specifically provides: “Except for a proposal for the merger of a then existing subsidiary district, any proposal for a merger or establishment of a subsidiary district authorized by this division shall contain a request in the alternative, requesting either a merger or the establishment of a subsidiary district, as may be determined during the course of the proceedings. Any proposal requesting only merger shall be deemed to also include a request for the establishment of a subsidiary district and any proposal requesting only the establishment of a subsidiary district shall be deemed to also include a request for merger.”

³⁴ This section of the Memorandum summarizes the default general conditions applicable to establishment of a subsidiary district, as set out in Section 57525 *et seq.* Pursuant to Section 57302, these general conditions only apply if LAFCO does not impose any of the specific terms and conditions authorized under Section 56886. In the event LAFCO does impose terms and conditions under Section 56886, Section 57302 states that those terms and conditions become the “exclusive terms and conditions of the change of organization or reorganization and shall control over the general provisions of this part.” The language in Section 57302 conflicts with newly enacted revisions to Section 56886, which specifies that terms and conditions imposed under Section 56886 “shall prevail in the event of a conflict between a specific term and condition authorized [pursuant to Section 56866] and any of the general provisions [set out at Section 57300 *et seq.*].” The Legislative Committee of CALAFCO will undertake a review of the inconsistencies between Sections 56886 and 57302.

c. Effective Date of the Establishment of a Subsidiary District

The effective date for the establishment of a subsidiary district is the same as the effective date for a merger, as more particularly described in Section C(2)(c), above.

3. District-Initiated Establishment of a Subsidiary District

The legislative body of a district wishing to establish itself as a subsidiary district may submit a Resolution of Application to the LAFCO Executive Officer of the principal county. (§ 56658(a).) The Application must contain the components set forth in Appendix “B” to this Memorandum, which include, in part, a Resolution of Application (see Appendix “C”) and a Plan for Providing Services (see Appendix “D”).

Before the hearing, the Executive Officer must prepare a report on the Application including his or her recommendation on the Application and give a copy of the report to every affected district, agency, and city. (§ 56665.) At the hearing, LAFCO hears and receives written and oral protests and evidence as well as the Executive Officer’s report and the Plan for Providing Services. (§ 56666.) Section 56668 requires LAFCO to consider the factors set forth in Appendix “A” to this Memorandum in evaluating the proposal. LAFCO may also impose terms and conditions pursuant to Section 56885.5 and 56886.

a. Protest/Election/Certificate of Completion

The protest and election procedures and the requirements for a certificate of completion for the establishment of a subsidiary district initiated by a district are the same as the procedures applicable to district-initiated mergers, as more particularly described in Section C(3)(a), above.

b. Effect of the Establishment of a Subsidiary District³⁵

On or after the effective date of the establishment of a subsidiary district, the city council shall be designated, and shall be empowered to act as the ex officio board of directors of the district. The district shall continue to operate as a separate legal entity with all of the powers, rights, duties, obligations, and functions provided for by the principal act, except for any provisions relating to the selection or removal of the members of the board of directors of the district. (§ 57534.) If a court determines that holding office both as a member of city council and as a member of the board of directors is incompatible, the court may order that person to vacate the board of director position but not the position on city council. (§ 57535.) The court must order the position on the board of directors to be filled in accordance with the principal act of the subsidiary district. (§ 57535.)

c. Effective Date of the Establishment of a Subsidiary District

The effective date for the establishment of a subsidiary district is the same as the effective date for a merger, as more particularly described in Section C(3)(c), above.

³⁵ See, Footnote 34.

4. City-Initiated Establishment of a Subsidiary District

The legislative body of a city wishing to establish a subsidiary district may submit a Resolution of Application to the LAFCO Executive Officer of the principal county. (§ 56658(a).) The Application must contain the components set forth in Appendix “B” to this Memorandum, which include, in part, a Resolution of Application (see Appendix “C”) and a Plan for Providing Services (see Appendix “D”).

Section 56861 requires LAFCO to provide notice to subject districts within ten days of receiving such a proposal. Subject districts may then either 1) consent to the proposal or 2) adopt a resolution of intent to submit an alternative proposal. If a subject district files a resolution of intention to file an alternative proposal, the Executive Officer may not take further action on the original proposal for 70 days. (§ 56862.) If the subject district fails to submit an alternative proposal during that 70 day period, it is deemed to have consented to the original proposal. (*Id.*) If the subject district submits a timely alternative proposal, the Executive Officer will analyze and report on both the original proposal and the alternative proposal so that “both proposals may be considered simultaneously at a single hearing.” (*Id.*)

Before LAFCO may take action on a proposal for the establishment of a subsidiary district, LAFCO must hold a public hearing on the proposal. (§ 56662(b).) Section 56668 requires LAFCO to consider the factors set forth in Appendix “A” to this Memorandum in evaluating a proposal for the establishment of a subsidiary district. LAFCO may also impose terms and conditions pursuant to Sections 56885.5 and 56886.

a. Protest/Election/Certificate of Completion

The protest and election procedures and the requirements for a certificate of completion for the establishment of a subsidiary district initiated by a city are the same as the procedures applicable to city initiated mergers, as more particularly described in Section C(3)(a), above.

b. Effect of the Establishment of a Subsidiary District³⁶

On or after the effective date of the establishment of a subsidiary district, the city council shall be designated, and shall be empowered to act as the ex officio board of directors of the district. The district shall continue to operate as a separate legal entity with all of the powers, rights, duties, obligations, and functions provided for by the principal act, except for any provisions relating to the selection or removal of the members of the board of directors of the district. (§ 57534.) If a court determines that holding office both as a member of city council and as a member of the board of directors is incompatible, the court may order that person to vacate the board of director position but not the position on city council. (§ 57535.) The court must order the position on the board of directors to be filled in accordance with the principal act of the subsidiary district. (§ 57535.)

c. Effective Date of the Establishment of a Subsidiary District

The effective date for the establishment of a subsidiary district is the same as the effective date for a merger, as more particularly described in Section C(3)(c), above.

³⁶ See, Footnote 34.

5. Petition-Initiated Establishment of a Subsidiary District

A proposal to establish a district of limited powers as a subsidiary district of a city may be initiated by petition. Section 56866 requires that the petition be signed as follows:

- (a) For a registered voter district, by either of the following:
 - (1) Five percent of the registered voters of the district.
 - (2) Five percent of the registered voters residing within the territory of the city outside the boundaries of the district.

- (b) For a landowner-voter district, by either of the following:
 - (1) Five percent of the number of landowner-voters within the district who also own not less than 5 percent of assessed value of land within the district.
 - (2) Five percent of the registered voters residing within the territory of the city outside the boundaries of the district.

Section 56861 requires LAFCO to provide notice to subject districts within ten days of receiving such a proposal. Subject districts may then either 1) consent to the proposal or 2) adopt a resolution of intent to submit an alternative proposal. If a subject district files a resolution of intention to file an alternative proposal, the Executive Officer may not take further action on the original proposal for 70 days. (§ 56862.) If the subject district fails to submit an alternative proposal during that 70 day period, it is deemed to have consented to the original proposal. (*Id.*) If the subject district submits a timely alternative proposal, the Executive Officer will analyze and report on both the original proposal and the alternative proposal so that “both proposals may be considered simultaneously at a single hearing.” (*Id.*)

Before LAFCO may take action on a proposal for the establishment of a subsidiary district, LAFCO must hold a public hearing on the proposal. (§ 56662(b).) Section 56668 requires LAFCO to consider the factors set forth in Appendix “A” to this Memorandum in evaluating a proposal for the establishment of a subsidiary district. LAFCO may also impose terms and conditions pursuant to Section 56885.5 and 56886.

a. Protest/Election/Certificate of Completion

The procedures for protest, election and the requirements for the certificate of completion are the same as a petition-initiated merger, as more particularly described in Section C(4)(a), above.

b. Effect of the Establishment of a Subsidiary District³⁷

On or after the effective date of the establishment of a subsidiary district, the city council shall be designated, and shall be empowered to act as the ex officio board of directors of the district. The district shall continue to operate as a separate legal entity with all of the powers, rights, duties, obligations, and functions provided for by the principal act, except for any provisions relating to the selection or removal of the members of the board of directors of the district. (§ 57534.) If a court determines that holding office both as a member of city council and as a member of the board of directors is incompatible, the court may order that person to vacate the board of director position but not the position on city council. (§ 57535.) The court must order the position on the board of directors to be filled in accordance with the principal act of the subsidiary district. (§ 57535.)

c. Effective Date of the Establishment of a Subsidiary District

The effective date for the establishment of a subsidiary district is the same as the effective date for a merger, as more particularly described in Section C(4)(a), above.

6. Limitations on the Establishment of a Subsidiary District

A proposal for the establishment of a subsidiary district cannot go forward without the consent of the subject city. (§ 57107(c).) Additionally a subsidiary district may only be established if on the date of LAFCO's order the statutory requirements regarding the amount of subsidiary district territory and the number of district voters within the governing city's territory are met.

³⁷ See, Footnote 34.

APPENDIX "A"
FACTORS

Section 56668.

Factors to be considered in the review of a proposal shall include, but not be limited to, all of the following:

- (a) Population and population density; land area and land use; per capita assessed valuation; topography, natural boundaries, and drainage basins; proximity to other populated areas; the likelihood of significant growth in the area, and in adjacent incorporated and unincorporated areas, during the next 10 years.
- (b) The need for organized community services; the present cost and adequacy of governmental services and controls in the area; probable future needs for those services and controls; probable effect of the proposed incorporation, formation, annexation, or exclusion and of alternative courses of action on the cost and adequacy of services and controls in the area and adjacent areas. "Services," as used in this subdivision, refers to governmental services whether or not the services are services which would be provided by local agencies subject to this division, and includes the public facilities necessary to provide those services.
- (c) The effect of the proposed action and of alternative actions, on adjacent areas, on mutual social and economic interests, and on the local governmental structure of the county.
- (d) The conformity of both the proposal and its anticipated effects with both the adopted commission policies on providing planned, orderly, efficient patterns of urban development, and the policies and priorities in Section 56377.
- (e) The effect of the proposal on maintaining the physical and economic integrity of agricultural lands, as defined by Section 56016.
- (f) The definiteness and certainty of the boundaries of the territory, the nonconformance of proposed boundaries with lines of assessment or ownership, the creation of islands or corridors of unincorporated territory, and other similar matters affecting the proposed boundaries.
- (g) A regional transportation plan adopted pursuant to Section 65080.
- (h) The proposal's consistency with city or county general and specific plans.
- (i) The sphere of influence of any local agency which may be applicable to the proposal being reviewed.
- (j) The comments of any affected local agency or other public agency.

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- (k) The ability of the newly formed or receiving entity to provide the services which are the subject of the application to the area, including the sufficiency of revenues for those services following the proposed boundary change.
- (l) Timely availability of water supplies adequate for projected needs as specified in Section 65352.5.
- (m) The extent to which the proposal will affect a city or cities and the county in achieving their respective fair shares of the regional housing needs as determined by the appropriate council of governments consistent with Article 10.6 (commencing with Section 65580) of Chapter 3 of Division 1 of Title 7.
- (n) Any information or comments from the landowner or owners, voters, or residents of the affected territory.
- (o) Any information relating to existing land use designations.
- (p) The extent to which the proposal will promote environmental justice. As used in this subdivision, "environmental justice" means the fair treatment of people of all races, cultures, and incomes with respect to the location of public facilities and the provision of public services.

Section 56668.3.

- (a) If the proposed change of organization or reorganization includes a city detachment or district annexation, except a special reorganization, and the proceeding has not been terminated based upon receipt of a resolution requesting termination pursuant to either Section 56751 or Section 56857, factors to be considered by the commission shall include all of the following:
 - (1) In the case of district annexation, whether the proposed annexation will be for the interest of landowners or present or future inhabitants within the district and within the territory proposed to be annexed to the district.
 - (2) In the case of a city detachment, whether the proposed detachment will be for the interest of the landowners or present or future inhabitants within the city and within the territory proposed to be detached from the city
 - (3) Any factors which may be considered by the commission as provided in Section 56668.
 - (4) Any resolution raising objections to the action that may be filed by an affected agency.
 - (5) Any other matters which the commission deems material.
- (b) The commission shall give great weight to any resolution raising objections to the action that is filed by a city or a district. The commission's consideration shall be based only on financial or service related concerns expressed in the protest.

Except for findings regarding the value of written protests, the commission is not required to make any express findings concerning any of the factors considered by the commission.

Section 56668.5.

The commission may, but is not required to, consider the regional growth goals and policies established by a collaboration of elected officials only, formally representing their local jurisdictions in an official capacity on a regional or subregional basis. This section does not grant any new powers or authority to the commission or any other body to establish regional growth goals and policies independent of the powers granted by other laws.

APPENDIX "B"
CONTENTS OF A PROPOSAL APPLICATION

Each application must include the following information:

- a. A petition or resolution of application initiating the proposal;
- b. A statement of the nature of each proposal;
- c. A map and description acceptable to the executive officer of the boundaries of the subject territory for each proposed change of organization or reorganization;
- d. Any data and information as may be required by any regulation of the commission;
- e. Any additional data and information as may be required by the executive officer pertaining to any of the matters or factors which may be considered by the commission;
- f. The names of the officers or persons, not to exceed three in number, who are to be furnished with copies of the report by the executive officer and who are to be given mailed notice of the hearing.

(§ 56652.)

APPENDIX “C”

CONTENTS OF A RESOLUTION OR PETITION OF APPLICATION

A resolution of application must include the following:

- a. State the proposal is made [pursuant to Part 3 of Division 3 of the Act [(§ 56650 et seq.)];
- b. State the nature of the proposal and list all proposed changes of organization;
- c. Set forth a description of the boundaries of the affected territory accompanied by a map showing the boundaries;
- d. Set forth any proposed terms and conditions;
- e. State the reason or reasons for the proposal;
- f. State whether the petition is signed by registered voters or owners of land.
- g. Designate not to exceed three persons as chief petitioners, setting forth their names and mailing addresses.
- h. Request that the proceedings be taken for the proposal [pursuant to Part 3 of Division 3 of the Act (§ 56650 et seq.)]; and
- i. State whether the proposal is consistent with the sphere of influence of any affected city or affected district.

(§§ 56654 and 56700.)

APPENDIX “D”
PLAN FOR PROVIDING SERVICES

Local agencies submitting a resolution of application for a change of organization must submit a plan for providing services which must include the following:

- b. . . .
 - 1. An enumeration and description of the services to be extended to the affected territory;
 - 2. The level and range of those services;
 - 3. An indication of when those services can feasibly be extended to the affected territory;
 - 4. An indication of any improvement or upgrading of structures, roads, sewer or water facility, or other conditions the local agency would impose or require within the affected territory if the change of organization or reorganization is completed;
 - 5. Information with respect to how those services would be financed.

(§ 56653(b).)