

Governing in the Shadows

Evaluating the Online Financial Transparency of Special District Governments

Special districts perform important governmental functions, but often fail to make spending and budget information available online.

What are special districts?

Special districts are agencies that exist outside the normal parameters of local, state or federal general purpose governments.

Definitions of “special districts” vary, but most include a few key features:

- Special districts are **government entities** established by a citizen vote or legislation.
- Special districts provide a **specific service** or set of related services for a designated area that would otherwise typically be provided by a government entity, such as public transit, housing, or fire protection.
- Special districts operate with significant **fiscal autonomy**, and have the power to draft their own budgets separate from the state or local government’s budget review process.

Why financial transparency matters

Special districts often operate in the shadows of the political system, poorly understood by the public and often doing business without adhering to modern standards of budget or spending transparency.

Nationwide, there are more than 38,000 special districts, many of them charged with fulfilling key governmental functions, that spend more than \$200 billion annually. The creation of special districts can enable large expenditures to occur mostly or entirely off the budgets of state or local general purpose governments. Special district debt is also typically absent from state financial reporting.

The potential for special districts to be used to evade normal forms of governance and established fiscal limitations makes transparency and accountability in their spending and operations particularly important.



Signage for the Lyons Fire Protection District in Colorado (left), and the Sonoma County Agricultural Preservation and Open Space District of California (right).

Special districts fall short of modern fiscal transparency standards

A review of 79 special districts, of various sizes, function types and geographic locations, for online access to three basic components of financial reporting – a record of checkbook-level spending, a budget document, and an audited annual financial report – found that:

- Seven special districts, 9 percent of those evaluated, received leading scores for providing all three of the components of financial reporting online.
- 30 special districts, 38 percent, received lagging scores for providing only one or two of the basic components online.
- 42 special districts, 53 percent, received failing scores for providing only one of the basic financial transparency criteria.
- Of the failing districts, 11, or 14 percent of evaluated districts, received a score of zero, having made little to no evident effort to provide online financial transparency information.

Recommendations

State and local governments can take steps to improve special district financial transparency. These include:

- **Creating a central registry of special districts:** A central registry would help keep track of the number of districts and serve as a record of current contact information for district officials.
- **Establishing uniform reporting and transparency requirements:** Creating consistent regulations could help clarify the confusing patchwork of special district financial reporting requirements where they do exist. Many states lack any special district requirements.
- **Identifying a government agency to track district financial reporting:** Establishing one entity in charge of collecting and maintaining special district financial documents would make the information more accessible and more easily tracked.

In addition, special districts themselves can take steps to improve transparency, such as partnering with the state or county government to incorporate special district checkbook spending into the larger government's checkbook.

Special district finances are important to citizen understanding of government spending

As of 2012, there were more than 38,000 special districts in the U.S., making up over 40 percent of all state and local government entities. The number of special districts in the United States has grown dramatically from 1952 to 2012: while other forms of local government grew at a modest rate of 5 percent, the number of special districts more than tripled, making them the fastest growing form of local government.

Budget and spending transparency holds government officials accountable for making smart decisions. Special districts should be held to government financial transparency standards in order to ensure citizens have the best understanding of their government's spending possible.

Top States with Most Special Districts, 2012

State	Number of Special Districts
Illinois	3,227
California	2,861
Texas	2,600
Colorado	2,392
Missouri	1,854
Pennsylvania	1,756
Kansas	1,523
Washington	1,285
Nebraska	1,269
New York	1,174

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