



## STAFF REPORT

Agenda Item No. 5a	
MEETING DATE	July 1, 2024
MEETING BODY	Mendocino Local Agency Formation Commission
FROM	Uma Hinman, Executive Director
SUBJECT	<b>PUBLIC HEARING</b> Mendocino County Waterworks District No. 2 Municipal Service Review and Sphere of Influence Update

### RECOMMENDED ACTION

Staff recommends the Commission take the following actions:

- 1) Find the Mendocino County Waterworks District No. 2 Municipal Service Review categorically exempt from the California Environmental Quality Act (CEQA) pursuant to Title 14 of the California Code of Regulations (14 CCR) §15306 (Class 6 Exemption); find the Mendocino County Waterworks District No. 2 Sphere of Influence Update exempt from CEQA pursuant to 14 CCR §15061(b)(3) (General Rule); and approve the Notice of Exemption for filing; and
- 2) Adopt LAFCo Resolution 2023-24-09, approving the Mendocino County Waterworks District No. 2 Municipal Service Review and Sphere of Influence Update Study and affirming the existing coterminous sphere of influence.

### BACKGROUND

This is a Public Hearing to consider public testimony and proposed adoption of Mendocino County Waterworks District No. 2 (MCWD2) Municipal Service Review (MSR) and Sphere of Influence (SOI) Update Study. This is the first MSR/SOI study for the District.

The Commission held a public workshop on the [Draft MCWD2 MSR/SOI Update](#) study (starting on PDF page 19 of 97) on March 4, 2024 to hear public/agency comments and provide direction on revisions to the draft study in preparation for this Public Hearing item. A video recording of the meeting is available [online](#) and the [summary minutes](#) are available on LAFCo's website.

The MCWD2 was formed on April 8, 1958 to provide wastewater collection and treatment services to the unincorporated coastal community of Anchor Bay. The District encompasses 103 parcels and is located on State Highway 1 approximately three miles north of Gualala and the Mendocino/Sonoma County line. The District provides services to approximately 100 residential and commercial customers. There have been no changes to the District boundary or SOI since its formation.

### Revisions List

Following is a list of revisions requested by the Commission during its March workshop:

- a) Section 2.1.3: include a summary of facilities or internal reference under Agency Profile.
- b) Section 2.4.1.1: clarify why savings has increased over time while the checking account is decreasing.
- c) Section 3.1.2: update "out of agency" language to reflect updated policy language "outside agency services."

- d) Section 3.3.1.7: include a strong recommendation for consolidation of GCSD and MCWD2 (Determination No. 29).

### **Sphere of Influence**

The District's sphere of influence (SOI) was established as a coterminous sphere with the 1984 Zion Study ([Resolution No. 84-15](#)); this is the first review of the SOI since then. This MSR/SOI Update provides a review of the District services and governance and makes a recommendation for the SOI boundary that is appropriate for the capacity of the District's system and projected growth in its service area.

The District has confirmed that their current boundary reflects existing service needs and projected service demands over the next five to ten years. There have been no annexations since formation, and growth is limited by a moratorium on water services provided by the North Gualala Water Company, which services the District's customers area. The District's SOI is recommended to be affirmed as a coterminous sphere.

### **CEQA Compliance**

The District's MSR is categorically exempt from further review under the California Environmental Quality Act (CEQA) pursuant to Title 14 of the California Code of Regulations (14 CCR) §15306 (Class 6 Exemption). This is based on the use of the municipal service review as a data collection and service evaluation study. There are no land use changes or environmental impacts created or recommended by the MSR. The information contained within the municipal service review may be used to consider future actions that will be subject to additional environmental review.

The District's SOI Update is exempt from further review under the California Environmental Quality Act pursuant to Title 14 of the California Code of Regulations §15061(b)(3) (General Rule). This is based on a determination with certainty that the sphere of influence update will have no possibility of significantly effecting the environment given that this update does not grant new municipal service powers or areas and no physical changes to the environment are anticipated, planned, or reasonably foreseeable as a result of the SOI Update.

A draft Notice of Exemption (NOE) is provided as Attachment 2.

### **Public Notice**

The 21-day Notice for this Public Hearing was properly published, posted, and distributed by Friday, June 7, 2024. The newspaper Proof of Publications are included as Attachment 4.

### **Public Comments**

No public comments have been received to date.

### **ATTACHMENTS**

- (1) Mendocino County Waterworks District No. 2 MSR/SOI Update 2024
- (2) Notice of Exemption
- (3) LAFCo Resolution No. 2023-24-09
- (4) Proof of Publication



*Photo Credit: Mike Nelson*

# Mendocino County Waterworks District No. 2 (Anchor Bay)

Municipal Service Review and  
Sphere of Influence Update

Prepared By:

**Mendocino LAFCo**

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<http://www.mendolafco.org/>

Workshop: March 4, 2024

Public Hearing: July 1, 2024

Adopted: [Publish Date]

LAFCo Resolution No: XXXX-XX-XX

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## ACRONYMS

ACS	American Census Survey
ADU	Accessory Dwelling Unit
AMI	Area Median Income
AOI	Area of Interest
APR	Annual Progress Report
BOS	Mendocino County Board of Supervisors
CALAFCO	California Association of Local Agency Formation Commissions
CalPERS	California Public Employees Retirement System
CDP	Census Designated Place
CEQA	California Environmental Quality Act
CKH	Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000
CPUC	California Public Utilities Commission
CRP	Capital Replacement Plan
CSDA	California Special Districts Association
DOF	Department of Finance
DUC	Disadvantaged Unincorporated Community
DWR	Department of Water Resources
EDU	Equivalent Dwelling Unit
FY	Fiscal Year
GC	California Government Code
GCSD	Gualala Community Services District
GPD	Gallons per day
GPM	Gallons per minute
HCD	Department of Housing and Community Development
HOA	Homeowners Association
I&I	Infiltration and inflow
IRWM	Integrated Regional Water Management
JADU	Junior Accessory Dwelling Unit
JPA	Joint Powers Authority
LAFCo	Local Agency Formation Commission
MCOG	Mendocino Council of Governments
MCWD2	Mendocino County Waterworks District No. 2
MGD	Million gallons per day
MHI	Median Household Income
MPO	Metropolitan Planning Organization
MSR	Municipal Service Review
MWCP	Mandatory Water Conservation Program
NGWC	North Gualala Water Company
NPDES	National Pollutant Discharge Elimination System
RCAC	Rural Community Assistance Corporation
RHNA	Regional Housing Needs Allocation
RTP	Regional Transportation Plan
RWQCB	Regional Water Quality Control Board
SB	Senate Bill
SDLF	Special District Leadership Foundation
SDRMA	Special District Risk Management Association



SDUC	Severely Disadvantaged Unincorporated Community
SOI	Sphere of Influence
SSO	Sanitary Sewer Overflows
SWRCB	State Water Resources Control Board
USDA	United States Department of Agriculture
WAT	California Water Code
WQO	Water Quality Order
WWTP	Wastewater Treatment Plant

# 1 INTRODUCTION

## 1.1 Local Agency Formation Commission

The Local Agency Formation Commission (LAFCo) is a quasi-legislative, independent local agency established by State legislation in 1963 to oversee the logical and orderly formation and development of local government agencies including cities and special districts. There is one LAFCo for each county in California.

LAFCo is responsible for implementing the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH) under California Government Code (GC) Section (§) 56000 et. seq. with goals to promote orderly growth, prevent urban sprawl, preserve agricultural and open space lands, and oversee efficient provision of municipal services.

LAFCo has the authority to establish and reorganize cities and special districts, change their boundaries and authorized services, allow the extension of public services, perform municipal service reviews, and establish spheres of influence. Some of LAFCo's duties include regulating boundary changes through annexations or detachments and forming, consolidating, or dissolving local agencies.

## 1.2 Mendocino LAFCo

The CKH Act provides for flexibility in addressing State regulations to allow for adaptation to local needs. Each LAFCo works to implement the CKH Act to meet local needs through the flexibility allowed in how state regulations are implemented through establishment of local policies to address the unique conditions of the county. As part of this process, Mendocino LAFCo has adopted policies, procedures and principles that guide its operations. These policies and procedures can be found on Mendocino LAFCo's website<sup>1</sup>.

Mendocino LAFCo has a public Commission with seven regular Commissioners and four alternate Commissioners. The Commission is composed of two members of the Mendocino County Board of Supervisors, two City Council members, two Special District Board of Directors members, and one Public Member-At-Large. The Commission also includes one alternate member for each represented category.

Table 1-1 below lists the current Commissioners, the organization they represent, if they are an alternate, and the date their term expires.

**Table 1-1: Current Mendocino LAFCo Commissioners, 2024**

<i><b>Commissioner Name</b></i>	<i><b>Position</b></i>	<i><b>Representative Agency</b></i>	<i><b>Term Expires</b></i>
Gerardo Gonzalez	Commissioner	City	2026
Candace Horsley	Commissioner	Special Districts	2026
Glenn McGourty	Commissioner	County	2024
Maureen Mulheren	Chair	County	2026
Mari Rodin	Commissioner	City	2025
Gerald Ward	Vice-Chair/Treasurer	Public	2026
Vacant	Commissioner	Special Districts	2024
Francois Christen	Alternate	Special District	2026
Douglas Crane	Alternate	City	2025
John Haschak	Alternate	County	2027

<sup>1</sup> Mendocino LAFCo Policies and Procedures Manual: <http://www.mendolafco.org/policies.html>.

<i>Commissioner Name</i>	<i>Position</i>	<i>Representative Agency</i>	<i>Term Expires</i>
Vacant	Alternate	Public	2027

Source: Mendocino LAFCo

### 1.3 Municipal Service Review

The CKH Act requires each LAFCo to prepare a Municipal Service Review (MSR) for its cities and special districts (GC §56430)<sup>2</sup>. MSRs are required prior to and in conjunction with the update of a Sphere of Influence (SOI)<sup>3</sup>. This review is intended to provide Mendocino LAFCo with the necessary and relevant information related to the services provided by Mendocino County Waterworks District No. 2 (MCWD2/District).

An MSR is a comprehensive analysis of the services provided by a local government agency to evaluate the capabilities of that agency to meet the public service needs of their current and future service area. An MSR must address the following seven factors:

1. Growth and population projections for the affected area.
2. The location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence.
3. Present and planned capacity of public facilities, adequacy of public services, and infrastructure needs or deficiencies including needs or deficiencies related to sewers, municipal and industrial water, and structural fire protection in any disadvantaged unincorporated communities within or contiguous to the sphere of influence.
4. Financial ability of agencies to provide services.
5. Status of, and opportunities for, shared facilities.
6. Accountability for community service needs, including governmental structure and operational efficiencies.
7. Any other matter related to effective or efficient service delivery, as required by commission policy.

Municipal Service Reviews include written statements or determinations with respect to each of the seven mandated areas of evaluation outlined above. These determinations provide the basis for LAFCo to consider the appropriateness of a service provider's existing and future service area boundary. This MSR Update studies the wastewater services provided by MCWD2. This review also provides technical and administrative information to support Mendocino LAFCo's evaluation of the existing boundary for the District.

With this MSR, Mendocino LAFCo can make informed decisions based on the best available data for the service provider and area. Written determinations (similar to 'findings'), as required by law, are presented in Chapter 3.3. LAFCo is the sole authority regarding approval or modification of any determinations,

<sup>2</sup> GC §56430 text can be found here: <https://law.justia.com/codes/california/2022/code-gov/title-5/division-3/part-2/chapter-4/section-56430/>.

<sup>3</sup> Assembly Committee on Local Government, "Guide to the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2020." December 2023.

policies, boundaries, spheres of influence, reorganizations, and provision of services. This MSR/SOI study makes determinations in each of the seven mandated areas of evaluation for MSRs.

Ideally, an MSR will support LAFCo and will also provide the following benefits to the subject agencies:

- Provide a broad overview of agency operations including type and extent of services provided;
- Serve as a prerequisite for a SOI Update;
- Evaluate governance options and financial information;
- Demonstrate accountability and transparency to LAFCo and to the public; and
- Allow agencies to compare their operations and services with other similar agencies.

#### 1.4 Sphere of Influence

The CKH Act requires LAFCo to adopt a Sphere of Influence (SOI) for all local agencies within its jurisdiction. An SOI is “a plan for the probable physical boundary and service area of a local agency or municipality as determined by the Commission” (GC §56076)<sup>4</sup>.

When reviewing an SOI for a municipal service provider, under GC §56425(e)<sup>5</sup>, LAFCo will consider the following five factors:

1. The present and planned land uses in the area, including agricultural and open space lands.
2. The present and probable need for public facilities and services in the area.
3. The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.
4. The existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency.
5. For an update of a sphere of influence of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protection, that occurs pursuant to GC §56425(g) on or after July 1, 2012, the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence.

Sphere of Influence studies include written statements or determinations with respect to each of the five mandated areas of evaluation outlined above. These determinations provide the basis for LAFCo to consider the appropriateness of establishing or modifying a service provider’s SOI or probable future boundary.

#### 1.5 Senate Bill 215

Senate Bill (SB) 215 (Wiggins) requires LAFCo to consider regional transportation plans and sustainable community strategies developed pursuant to SB 375 before making boundary decisions. SB 375 (Sustainable Communities and Climate Protection Act) requires each Metropolitan Planning Organization (MPO) to address regional greenhouse gas emission reduction targets for passenger vehicles in their

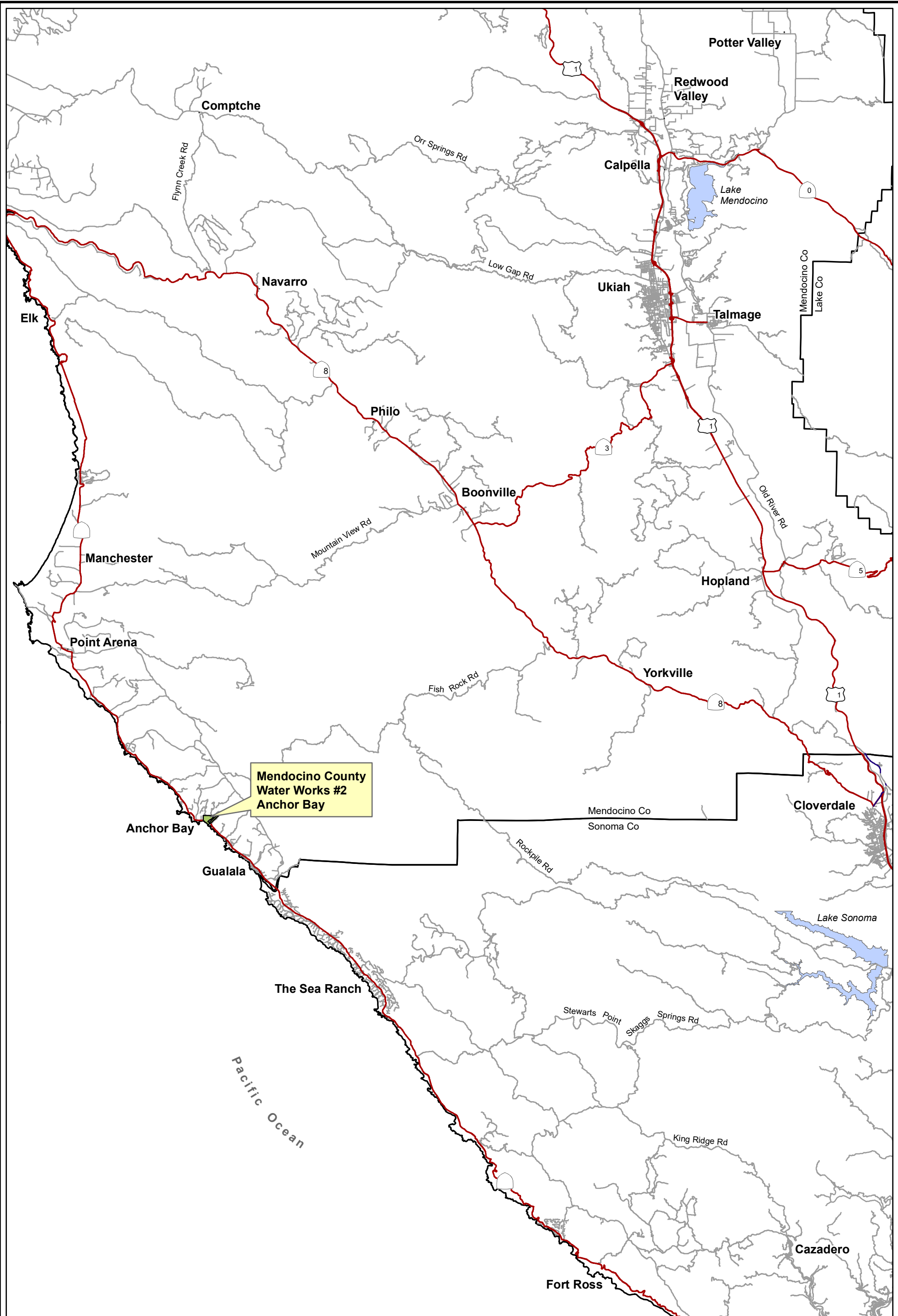
<sup>4</sup> GC §56076 text can be found here: <https://law.justia.com/codes/california/2022/code-gov/title-5/division-3/part-1/chapter-2/section-56076/>.

<sup>5</sup> GC § 56425-56434 text can be found here: <https://law.justia.com/codes/california/2010/gov/56425-56434.html>.

Regional Transportation Plan (RTP) by integrating planning for transportation, land use, and housing in a sustainable communities strategy.

Mendocino County is not located within an MPO boundary and therefore is not subject to the provisions of SB 375. However, the Mendocino Council of Governments (MCOG) supports and coordinates the local planning efforts of Mendocino County and the cities of Fort Bragg, Point Arena, Ukiah, and Willits to address regional housing and transportation needs and helps provide a framework for sustainable regional growth patterns through the 2018 Mendocino County Regional Housing Needs Allocation (RNHA) Plan and Vision Mendocino 2030 Blueprint Plan. MCOG is also responsible for allocating regional transportation funding to transportation improvement projects consistent with the 2017 RTP for Mendocino County.

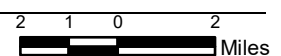
Mendocino County and the cities of Fort Bragg, Point Arena, Ukiah, and Willits are the local agencies primarily responsible for planning regional growth patterns through adoption and implementation of general plan and zoning regulations. While Mendocino County is not subject to the provisions of SB 375, LAFCo will review applicable regional transportation and growth plans when considering a change of organization or reorganization application.

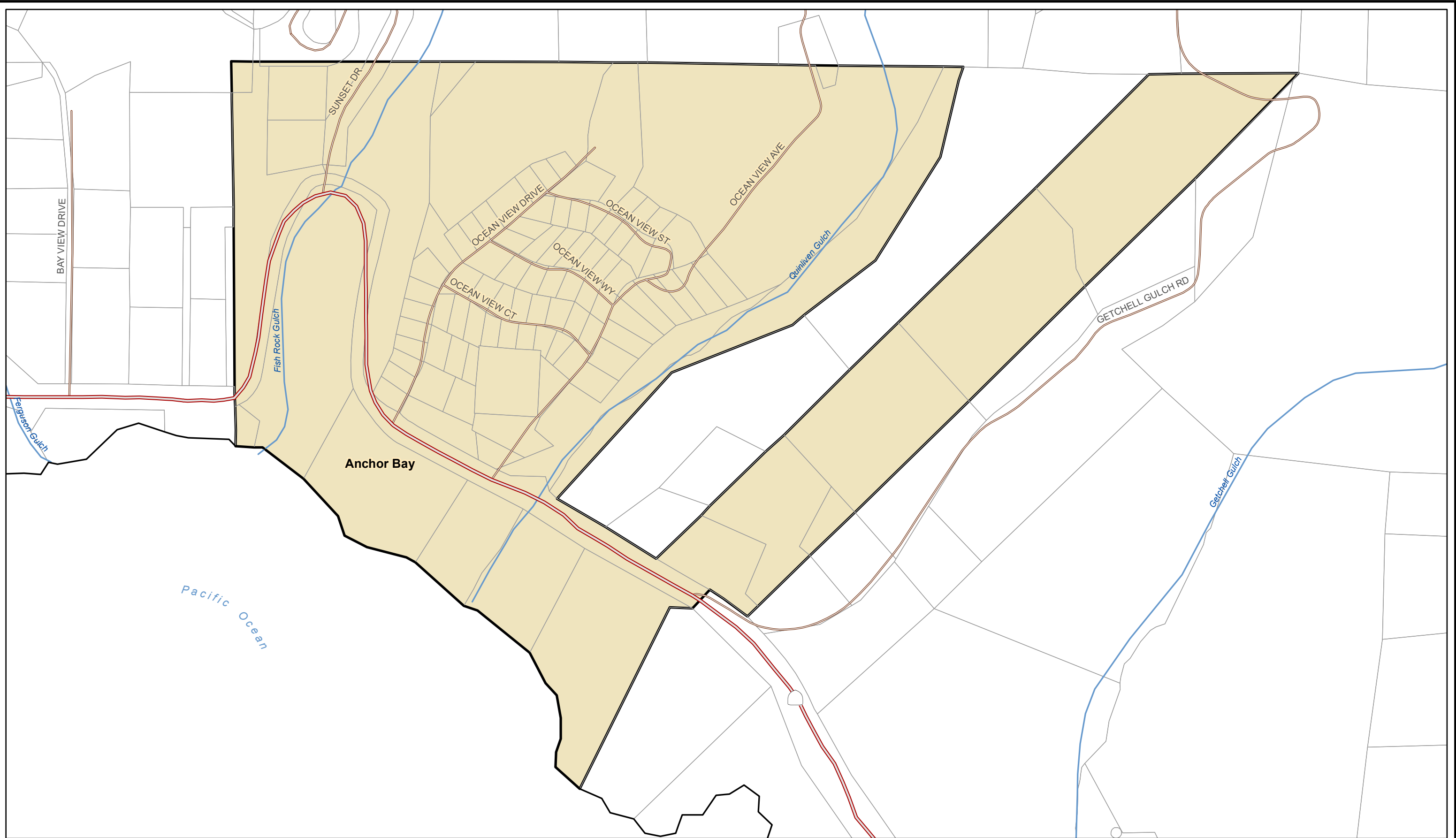


## Location - Mendocino County Water Works #2 Anchor Bay

- Mendocino County Water Works #2 Anchor Bay
- Highways
- Roads

Source: This map was prepared by the Mendocino County Division of Information Services, GIS Program, February 7, 2024.





# Mendocino County Water Works District No 2

Source: This map was prepared by the Mendocino County Division of Information Services GIS Program, June 12, 2023.  
Note: This map is not a survey product.

Mendocino County Water Works District No 2  
 Parcels

Highways  
 Roads  
 Streams

0 100 200 400 Feet



## 2 AGENCY OVERVIEW

<b>Table 2-1: MCWD2 Profile</b>	
<b>Agency Name:</b>	Mendocino County Waterworks District No. 2
<b>General Manager:</b>	Chris Troyan, under contract with Gualala Community Services District (GCSD)
<b>Board President:</b>	Linda-Marie Koza
<b>Office Location:</b>	GCSD Office 39150 S Highway 1, Suite 3, Gualala CA 95445
<b>Mailing Address:</b>	PO Box 104, Gualala CA 95445
<b>Phone Number:</b>	Office: (707) 884-1715 GM: (559) 679-3604 Chris Troyan Board President: (415) 717-3568
<b>Website:</b>	None; interim webpage on GCSD’s website for District Board agendas and minutes at <a href="https://gualalacsd.org/mcwd2">https://gualalacsd.org/mcwd2</a>
<b>Email:</b>	Ms. Koza: <a href="mailto:linda@lmkoza.com">linda@lmkoza.com</a> ; GCSD GM: <a href="mailto:ctroyan@gualalacsd.org">ctroyan@gualalacsd.org</a>
<b>Date of Formation:</b>	1958
<b>Agency Type:</b>	Independent Special District, Single-Service Provider
<b>Services Provided:</b>	Sewer collection and treatment
<b>Enabling Legislation</b>	California Water Code Division 16
<b>Board Meeting Schedule:</b>	Every 3 <sup>rd</sup> Thursday of the month, at Coast Life Support District, 38901 Ocean Drive, Gualala 95445

(RFI, 2023)

### 2.1 History

#### 2.1.1 Formation

The Mendocino County Waterworks District No. 2 (MCWD2/District) was formed on April 8, 1958, under [California Water Code \(WAT\) Section \(§\) 55100](#), by Mendocino County Board of Supervisors Resolution No. 3110 for the sole purpose of providing wastewater service to the Anchor Bay community. The District was governed by the Board of Supervisors (BOS) until July 1, 1996 when an elected MCWD2 Board of Directors was granted all the powers previously conferred upon the Board of Supervisors ([WAT §55310.2](#))<sup>6</sup>.

#### 2.1.2 Boundary

The District is in an unincorporated area of southwestern Mendocino County just north of the community of Gualala. The District serves the community of Anchor Bay, which is a Census Designated Place (CDP) (see Figure 1-2).

There have been no documented changes to the District boundaries since its original formation.

#### 2.1.3 Services

The MCWD2 is empowered to provide wastewater services to the coastal, unincorporated community of Anchor Bay. Services include the collection, treatment, and disposal of wastewater generated by

<sup>6</sup> WAT §55310.2 text can be viewed here: <https://law.justia.com/codes/california/2022/code-wat/division-16/part-3/chapter-1/section-55310-2/>.



residential and commercial connections within the service area, and maintenance of related facilities and equipment. For information regarding the District’s services and facilities, refer to Section 3.2.

2.1.3.1 LATENT POWERS

Latent powers are those services, functions, or powers authorized by the principal act under which the District is formed, but that are not being exercised or authorized by the Local Agency Formation Commission (LAFCo). Under Division 16 of the California Water Code ([WAT §55330](#)), latent powers available to County Waterworks Districts include water services, reclamation of saline water, and operation of recreational facilities in connection with water bodies owned or controlled by the District. The MCWD2 is a single-service provider delivering wastewater services only.

Any expansion of services would necessitate prior approval from LAFCo through an application for activation of latent powers, which generally follows the normal Commission proceedings for a change of organization or reorganization ([GC §56650 et seq.](#)). Water service for the service area of the District is currently provided by the North Gualala Water Company (NCWC), a private entity. There are no recreational opportunities for the District in connection with existing facilities.

2.2 Government Structure

2.2.1 Governing Body

The Board of Directors is the legislative body for the District and is responsible for establishing policy, adopting and amending the annual budget, enacting ordinances, adopting resolutions, and appointing committees.

The Board had only two serving members until the beginning of 2023, primarily due to limited numbers of residents meeting the eligibility requirements. According to WAT §55310.2, the Board of Directors of the MCWD2 shall consist of five members, elected at large. Board members must be residents of the District and registered to vote in Mendocino County at the time of election and throughout their four-year terms. The District has only recently achieved a full board.

The District is currently governed by a five-member Board of Directors elected at-large to serve staggered four-year terms (see Table 2-2). Of the current five board members, two were appointed by the County BOS (Wieneke and Lemmon) and two were appointed by the MCWD2 Board (McDonnell and Koza). It is unknown how Board Member Shelby was appointed.

Name	Office/Position	First Year of Service	Term Expiration	Serving Consecutive Terms
Alex McDonnell	Vice President	02/15/24	6/30/26	No
Jens Grant Shelby	Board Member	Unknown	6/30/26	Yes
Linda-Marie Koza	President	7/20/23	6/30/28	Yes
Lisa Wieneke	Secretary	10/19/23	6/30/26	No
Donna Lemon	Board Member	10/19/23	6/30/28	No

Source: RFI<sup>7</sup>

<sup>7</sup> Request for Information responses provided by District Board President Linda-Marie Koza in December 2023.

[California Water Code §55310.2](#) governs the process for appointment of Board of Director seats vacated prior to the scheduled term expiration date<sup>8</sup>. Any vacancy on the Board, other than upon the expiration of a term, shall be filled by a majority vote of the directors. However, no vacancy shall be filled by less than three member votes. If the Board fails to fill a vacancy within 60 days of the vacancy, or if the membership of the board is less than four, the BOS may appoint members to fill the vacancies. Appointed members shall serve until the next District election at which time the remainder of the unexpired term shall be filled by election in the manner provided in the code.

The Board of Directors elects officer positions annually at the first regular meeting of the calendar year. Officer positions include President, Vice President, and Secretary. The Board may create additional offices and elect Board members to fill those offices, provided that no Board member holds more than one office. District Board members do not receive compensation for their public service or a stipend for attending meetings; [WAT §55305](#) sets allowable compensation for the Board of Directors.

The Board currently has no vacancies, but as a small district generally has difficulty filling vacancies due to the eligibility requirement that Board members be, and remain, residents of the District and registered voters in the County throughout their terms. As discussed in Section 2.5, much of the District is comprised of vacation homes or short-term rentals with a small number of full-time residents who would qualify to sit on the District Board. This is a widespread problem for other small service providers within the region and throughout rural areas of California. Prior to January 2023, the Board had been unable to meet its full Board requirements for years and was operating with only two to three members.

Only one of the Board members has served the District for multiple consecutive terms, which can indicate difficulty with retaining eligible residents that meet the requirements to serve on the Board. Members who serve multiple terms could offer some benefit to the District through the establishment of long-standing working relationships in the community, historical knowledge of the organization, and maintaining institutional knowledge of the District. The inability of the District to fill vacancies in the recent past could signify future difficulties with filling Board seats and maintaining adequate services. Without a full Board, the conduct of regular District business is difficult and important planning and implementation of services may suffer.

### 2.2.2 Public Meetings

In accordance with the Brown Act, all District Board meetings are open to the public and are publicly posted a minimum of 72 hours prior to regular meetings, or a minimum of 24 hours prior to special meetings.

Public notices and meeting agendas are posted on a public board in front of the Anchor Bay Market and meeting dates/times and location are listed in the Independent Coast Observer. The District encourages the public to communicate with the District via email for information. In addition to timely public posting, agendas are emailed to all customers. The Board meets at the Coast Life Support office in Gualala, which is wheelchair-accessible, and all regular meetings are open to the public via Zoom. Almost all of the District's residential customers are members of a Homeowners Association (HOA). Agendas are also sent to HOA members and District business is reported at quarterly HOA meetings. For District customers who

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<sup>8</sup> See water code text here: <https://law.justia.com/codes/california/2022/code-wat/division-16/part-3/chapter-1/section-55310-2/>.

are not members of an HOA, the District communicates individually by email to encourage their attendance at Board meetings in person or on Zoom. Additionally, the District has recruited community members to serve on the three Citizens Advisory Committees described below (see Section 2.2.3).

Public meeting information, including past agendas, and approved meeting minutes are available on the Gualala Community Services District website for the year 2023 (<https://gualalacsd.org/mcwd2>). Minutes are kept for all District Board of Directors meetings by the Board Secretary or President and are adopted at a subsequent meeting.

### 2.2.3 Standing Committees

Committees assist in carrying out various functions of local government. The District appoint a Budget Committee in March 2024 consisting of two board members and contract staff.

However, the Board has established three Citizens Advisory Committees, formed with a combination of Board and community members, to assist the District in creating necessary governance documents as follows: 1) Policy Guidelines, 2) Personnel Manual, and 3) Conditions of Use Ordinance.

### 2.2.4 Public Outreach

With the passage of Senate Bill (SB) 929 in 2018, all special districts are required to establish and maintain a website with specific information and accessibility requirements by January 2020 (see Appendix B – Website Compliance Handout). A grant was offered to the District by the California Special Districts Association (CSDA) to develop and maintain a website, but the District Board decided that the resources required to set up and maintain a fully compliant website exceeded the capacity of both contract staff and Board volunteers. SB 929 does allow for special districts to exempt themselves from the website requirements upon adoption of a resolution declaring that a hardship exists that prevents the district from establishing or maintaining a website. The District adopted such a resolution at its January 18, 2024, meeting, and will review the decision every January so long as the hardship exists<sup>9</sup>.

However, with the recent contractual relationship with the Gualala Community Services District (GCSD) for management, operations and administrative support, the GCSD added a landing page to their website to host MCWD2's 2023 and 2024 meeting agendas and minutes for public reference. Eventually the District intends to post financial reports and Prop 218 rate information as well.

### 2.2.5 Complaints

Complaints may be directed to the District Board President or contracted General Manager. No complaints have been received since current District management and board leadership have been in place, e.g., calendar year 2023. It is not known if there were any complaints made prior to this time.

The Board is currently developing Policy Guidelines to be adopted sometime this year, which contains the following draft comprehensive complaint procedure:

- 1) An individual with a complaint should first discuss the matter with the General Manager to resolve the matter informally, if possible.
- 2) If an individual registering a complaint is not satisfied with the disposition of the complaint by the General Manager, it shall be forwarded to the Board President. At the option of the General

<sup>9</sup> Senate Bill No. 929 Section 53087.8 text can be found here:

[https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill\\_id=201720180SB929](https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201720180SB929)

Manager, he/she may conduct conferences and take testimony or written documentation in the resolution of the complaint. The General Manager shall memorialize his/her decision in writing, providing the individual registering the complaint with a copy.

- 3) If an individual filing a complaint is not satisfied with the disposition of the matter by the General Manager, he/she may request consideration by the Board of Directors by filing said request in writing within ten (10) days of receiving the General Manager's decision. The Board may consider the matter at its next regular meeting, call a special meeting, or decline to consider the matter further. In deciding, the Board may conduct conferences, hear testimony, and review the materials provided to the General Manager. The Board's final decision shall be memorialized in writing, copied to the individual registering the complaint. The action of the Board, including an action to decline to consider a complaint, is the last action of the District, not subject to further internal appeal. (RFI, 2023)

In part because the District serves such a small community, the District Board is often the first contact for customer complaints/inquiries.

### 2.2.6 Transparency and Accountability

The District adopted newly established Policy Manual and Bylaws in April 2024, which were provided to LAFCo. Bylaws serve as the legal guidelines of an organization by providing written rules that control internal affairs. They define the group's official name, purpose, requirements for membership, officers' titles, and responsibilities, how offices are to be assigned, the conduct of meetings, and the frequency of meetings. LAFCo staff queried the District for all policies related to operations, personnel, conflicts of interest, and financial matters; however, no documents were provided.

LAFCo staff recommends that the Commission review District policies related to operations, personnel, conflicts of interest, and financial matters at the next MSR Update or within three years of the completion of this MSR, whichever comes first.

The Political Reform Act requires all state and local government agencies to adopt and promulgate a Conflict-of-Interest Code pursuant to [GC §87300 et seq.](#) The District complied with this requirement with adoption of a Conflict-of-Interest Code on August 17, 2023.

The Political Reform Act also requires persons who hold office to disclose their investments, interests in real property, and incomes by filing a Statement of Economic Interests (Fair Political Practices Commission Form 700) each year according to [GC §87200](#). There is no record for previous years, but the District Board has completed their Form 700 filings for 2023.

According to Assembly Bill 1234, if a local agency provides compensation or reimbursement of expenses to its governing body, then all members are required to receive two hours of training on public service ethics laws and principles at least once every two years and establish a written policy on reimbursements under [GC §53235](#). While the District does not currently compensate its Board members, all Board members are encouraged to complete an online class and provide a certificate of completion to the District's legal counsel. Although the District does not have management staff subject to the requirements, the contract General Manager completes ethics training every two years.

Additionally, the District's attorney attends all District meetings to advise on procedures as needed.

The District does not maintain a website per SB 929. However, in compliance with the exemption procedures provided in SB 929, the District reviews annually and adopts resolutions with findings of financial hardship of establishing and maintaining a website.

Refer to Appendix A – Open Government Resources for a brief list of educational resources regarding open government laws and Appendix B – Website Compliance Handout for information on website compliance requirements.

## 2.3 Operational Efficiency

### 2.3.1 Management and Staffing

The MCWD2's contract with the GCSD includes staffing support from GCSD's General Manager and Administrative Assistant/Bookkeeper who work directly with the MCWD2 Board of Directors to lead and support operations of the District. The contract General Manager supervises the District's only employee and oversees the management of the District, including customer service, customer billings, customer complaints, and connection enforcement duties. As a result of the very limited District staffing, the Board of Directors assumes responsibility for annual budget preparation, expenditure monitoring, preparation of agendas, coordinating contract negotiations and all legal matters.

The District's paid staff is comprised of one part-time operator who works 20-hours a week and is managed by the contract General Manager (RFI, 2023).

#### 2.3.1.1 CONTRACT STAFFING AND SERVICES

In addition to its contract with GCSD for operations and administration, the District utilizes outside legal counsel and engineering contractors on an as-needed basis. Recently, the District contracted with MC Engineering to prepare and implement a Proposition (Prop) 218 Rate Study and process.

### 2.3.2 Agency Performance

A component of monitoring agency performance is routinely evaluating staff productivity. The District's contract General Manager and one operator are managed by GCSD; therefore, the District Board does not track employee workload and productivity. Performance evaluations are also managed by GCSD.

The District Board members monitor and evaluate agency operations through regularly monitoring financial reports and the monthly management reports and other communications provided by the District's contract General Manager.

#### 2.3.2.1 CHALLENGES

The District, until very recently, experienced significant challenges with governance and service provision, including an only recently established full Board. Additionally, in 2023 the District established a contract with GCSD for management, operations, and maintenance staff. The District is to be commended on proactively obtaining a full Board and contracting for experienced management, staffing, and legal counsel to identify and work towards compliance with the myriads of permit requirements, organizational duties, and system operations.

Additionally, the State Water Resources Control Board (SWRCB) has documented that the District received 22 violations in the last five years, all of which are still active in need of corrective action, albeit they appear to be common and relatively minor violations that pose no immediate threat to the District (refer to the following Sections for more information).

Further, the District reports that a complete rehabilitation of the collection system, lift stations, and the wastewater treatment plant (WWTP) is necessary to continue to provide services. While the District does not have a Capital Improvement Plan (CIP), a Prop 218 rate study was recently adopted, which included a skeletal CIP produced in collaboration with the Rural Community Assistance Corporation (RCAC). The District is also currently working with a contracted engineering firm to seek planning grants from the United States Department of Agriculture (USDA) and SWRCB to fund a comprehensive system analysis that would include a full CIP and summary of the necessary engineering for critical system upgrades.

It is apparent that the District is working diligently to improve on these items and LAFCo staff recognizes the significant efforts of the current Board to achieve compliance. However, the District is facing many organizational and financial challenges typical of very small, rural district.

LAFCo staff recommend the Commission review the District's efforts to achieve compliance with the requirements of district governance, reporting, operations and maintenance, and financial matters at the next MSR Update or within three years of the completion of this MSR, whichever comes first.

#### 2.3.2.2 DISTINGUISHED SERVICE

The current District Board President was awarded the Certificate in Special District Governance by the Special District Leadership Foundation (SDLF) in 2023.

#### 2.3.2.3 STRATEGIC OR SUCCESSION PLAN

The District does not currently have an established strategic plan, mission statement, or official goals. While the District is not legally obligated to develop these types of documents and/or plans, doing so could help the District develop identify and improve upon planning efforts, accountability, and transparency. In lieu of these documents, the Board has been reviewing progress and setbacks over the prior year during the annual budget development process.

However, the Board stated as part of the MSR process that a retreat is planned for the second half of 2024 that will be devoted to establishing a mission statement and official goals. The timing of the proposed retreat is dependent on completion of the rate study, the subsequent Prop 218 hearing with District customers, and the adoption of this MSR. The District stated that the information developed by these projects will help the Board understand the realities that need to be considered before establishing a mission statement and official goals within the next fiscal year.

### 2.3.3 Regional and Service-Specific Collaboration

The District participates in a Joint Powers Authority (JPA) with the Special Risk Management Authority (SDRMA) for insurance purposes. The SDRMA is a JPA formed under GC§ 6500 et. seq. and is comprised of California special districts and agencies including such districts. The relationship between the District and JPA is such that the JPA is not a component of the District for financial reporting issues. The SDRMA's purpose is to jointly fund and develop programs to provide stable, efficient, and long-term risk financing for special districts. These programs are provided through collective self-insurance, the purchase of insurance coverage, or a combination thereof (Calentano, 2023). The District purchases insurance through SDRMA but does not currently have any debt with SDRMA or any other lender.

The MCWD2 is an active member of the California Special District Association (CSDA). The Board President recently attended CSDA's annual leadership conference. Further, the contract General Manager will attend the 2024 CSDA conference. New Board members are encouraged to participate in these events as

well, to build and strengthen the Board’s knowledge and skill base. The Board also actively uses the CSDA Forum for peer-sharing of information and resources, including for example, utilizing a CSDA template for the Hardship Resolution to avoid the legal expense associated with drafting the document.

LAFCo staff recommends that the District consider future group participation efforts by attending regional and service-specific meetings and communicating with colleagues regarding industry standards, best management practices, changing regulations, and service delivery models implemented by other local agencies and organizations.

### 2.3.4 Shared Services and Facilities

The District does not jointly own or share any capital facilities or services with other agencies, apart from the management and staffing contract with GCSD. The contract provides for utilizing GCSD’s General Manager and Administrative Assistant/Bookkeeper, as well as GCSD’s operators on an as-needed basis.

The GCSD’s General Manager and Administrative Manager/Bookkeeper work directly with the MCWD2 Board of Directors and staff, providing administrative and operational support to help with budget preparation, expenditure monitoring, Discharge Permits compliance, and Regional Water Quality Control Board (RWQCB) reporting. The GCSD’s General Manager supervises the District’s part-time Operator and oversees the management of the District, including customer service and connection enforcement duties. In addition, by default, GCSD manages all issues that arise beyond what is anticipated in the contract. For example, GCSD managed the District’s response to a recent emergency construction project to bypass a compromised sewer hole, thereby avoiding a catastrophic failure and environmental disaster.

#### 2.3.4.1 ADJACENT PROVIDERS

Due to its geographical isolation, there are only two nearby public providers of wastewater services within the nearby vicinity: the GCSD and the City of Point Arena.

The GCSD is the closest of the two providers and, given the current relationship between the two districts, there is significant potential for future expanded collaboration or consolidation. Such an endeavor would require the support of both boards, the residents within the District, and authorization from LAFCo.

The NGWC is a privately-owned, public utility that has been serving the coastal communities around Anchor Bay and Gualala since 1953. The Company provides drinking water services to approximately 1,100 customers throughout the small coastal region. The boundaries of the MCWD2, as well as GCSD, are contained entirely within the NGWC’s boundaries and have customers in common. Private water companies are not under the jurisdiction of LAFCo; however, given the overlap in service boundaries, there may be opportunity for coordinated services in the future.

Service providers in the region are listed below:

#### Wastewater Services:

- Gualala Community Services District
- City of Point Arena Sewer System & Wastewater Treatment Plant
- Sea Ranch Sanitation Zone (Sonoma County)

#### Water Services:

- North Gualala Water Company
- Sea Ranch Water Company

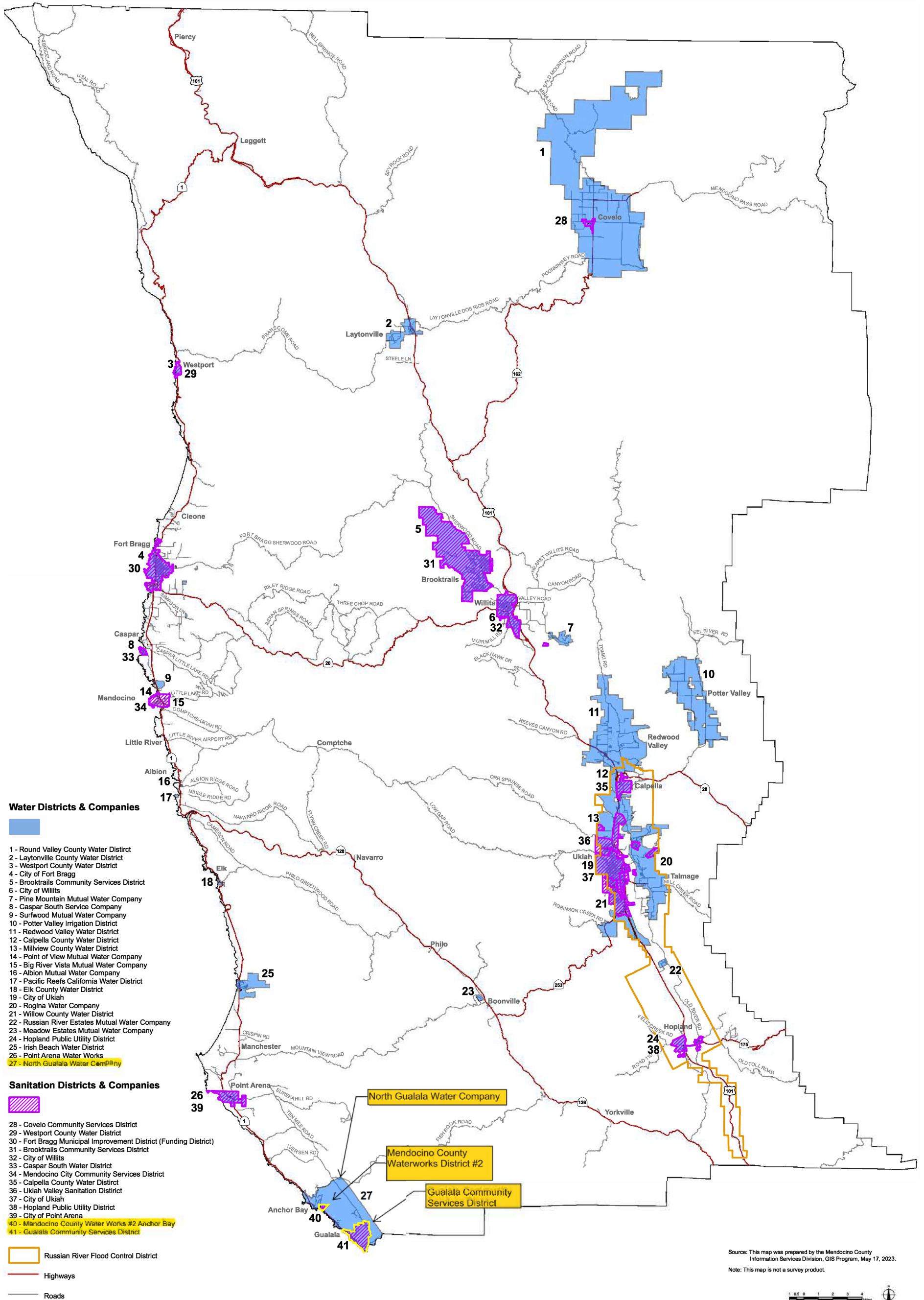
- Point Arena Water Works
- Stewarts Point Water System

For a regional map of Mendocino County's water and sanitation districts and companies see Figure 2-1.



Figure 2-1: Mendocino County Water and Sanitation Districts and Companies

# Mendocino County Water & Sanitation Districts & Companies



#### 2.3.4.2 DUPLICATION OF SERVICES

Continuing the established relationship with GCSD may support opportunities for the two districts to reorganize or consolidate, creating efficiencies of governance, operations, and infrastructure.

Additionally, the NGWC is a private water service provider that currently provides residential drinking water services to the Anchor Bay and Gualala areas, and which overlaps customers of both the MCWD2 and GCSD. Although the Company does not provide wastewater services, there is potential for consolidation of services under a single service-provider serving this region. Expansion of special district area and services require appropriate LAFCo process and approval.

#### 2.3.4.3 INTERAGENCY COLLABORATION

The District does not participate in any interagency collaborative arrangements or mutual aid agreements and does not participate in the Integrated Regional Water Management (IRWM) Program for the region (North Coast Resource Partnership)<sup>10</sup>. Participation in these types of regional planning programs often provides opportunity to pursue joint grant applications and to leverage other community resources; it may be beneficial to the District to consider participation in future IRWM efforts.

### 2.3.5 Governmental Structure and Community Needs

#### 2.3.5.1 ENHANCED SERVICE DELIVERY OPTIONS

Despite the contract support from GCSD, and because the administrative burden currently exceeds GCSD staff's capacity, the District Board is still more involved in administrative tasks than is typical or desired by the existing board members.

LAFCo staff recommends the District consider expanding the services provided by GCSD where possible. Additionally, to reduce the strain on GCSD's staff, the District should consider hiring support staff to supplement GCSD's team and relieve the District Board of the hands-on administrative work.

#### 2.3.5.2 GOVERNMENT RESTRUCTURE OPTIONS

Government restructuring options should be pursued if there are potential benefits in terms of reduced costs, greater efficiency, better accountability or representation, or other advantages to the public. The District has indicated a willingness to explore consolidation with GCSD, or alternatively some type of regionalization.

Given that GCSD already provides operations and maintenance activities for the District, consolidation could create efficiencies related to staffing and economies of scale benefitting both districts and their customers. GCSD staff have become intimately aware of the issues facing the District as they continue to identify and address long-deferred infrastructure and management issues.

LAFCo staff recommends that the MCWD2 and GCSD consider expanding the support provided by GCSD and explore consolidation of the agencies when resources and local support allow for it.

## 2.4 Finances

LAFCo is required to make determinations regarding the financial ability of the MCWD2 to provide public services. This section provides an overview of the financial health of the District and a context for LAFCo's

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<sup>10</sup> The North Coast Resource Partnership implements the region's Integrated Regional Water Management Program; more information can be found here: <https://northcoastresourcepartnership.org/>.

financial determinations. This MSR utilizes audited financial statements for Fiscal Years (FYs) 2018-2019, 2019-2020, 2020-2021 and 2021-2022, and the budget for FY 2022-2023 as the primary sources of information for this section. The District has not presented Management’s discussion and analysis from its most recent audit (FY 2021-2022) that generally accepted accounting principles have determined necessary to supplement, although not required, to be part of the basic financial statements.

In California, special districts are classified as either enterprise or non-enterprise, based on their source of revenue. MCWD2 operates as an enterprise District, meaning that charges for wastewater services are intended to pay for the costs of providing such services.

The primary funding source for the District is fees for services, which is generally a reliable and reoccurring revenue source, provided that adopted rates are sufficient to cover the actual cost of services. The District operates out of a single enterprise fund for operational and maintenance purposes (Refer to Figure 2-2: District Revenue and Figure 2-3: Revenues Over/Under Expenses).

The District’s sole fund is a proprietary fund. Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred. Operating revenues in the proprietary fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses essential to the primary operations of the fund and all other expenses are reported as non-operating expenses.

<b>Table 2-3: MCWD2 Financial Summary</b>				
	<b>FY 18-19</b>	<b>FY 19-20</b>	<b>FY 20-21</b>	<b>FY 21-22</b>
<b>Operating Revenues</b>				
Service charges	135,000	135,000	135,000	137,116
<b>Total Operating Revenues</b>	<b>135,000</b>	<b>135,000</b>	<b>135,000</b>	<b>137,116</b>
<b>Operating Expenses</b>				
Personnel and Related Benefits	78,163	77,978	73,063	59,067
Insurance	4,194	4,553	5,915	6,213
Operating Supplies	3,336	2,832	3,691	1,728
Chemicals	1,403	2,460	2,600	3,810
Repairs and Maintenance	18,183	28,428	6,077	486
Utilities	9,585	9,040	8,176	8,350
Permits	10,080	10,528	12,494	12,949
Research and Monitoring	6,004	18,792	5,108	6,199
Office Expense	811	1,650	1,148	830
Legal and Other Professional Services	5,666	6,179	5,816	6,121
Rent	1,440	1,440	1,440	1,440
Dues and Subscriptions	1,580	2,530	1,282	2,207
Depreciation	34,474	35,288	34,047	34,903
<b>Total Operating Expenses</b>	<b>174,847</b>	<b>201,698</b>	<b>160,857</b>	<b>144,303</b>
<b>Operating Income/(Loss)</b>	<b>(39,847)</b>	<b>(66,698)</b>	<b>25,857</b>	<b>(7,187)</b>
<b>Non-Operating Revenues (Expenses)</b>				
Interest Income	1,820	1,944	1,475	1,223

Assessments – Repair and Replacement Reserve	20,070	21,185	20,070	22,200
Miscellaneous Income	3,000	-	-	1,067
<b>Total Non-Operating Revenue (Expenses)</b>	<b>24,890</b>	<b>23,129</b>	<b>21,545</b>	<b>20,450</b>
<b>Net Income (Loss)</b>	<b>(14,957)</b>	<b>(42,569)</b>	<b>(4,312)</b>	<b>13,263</b>
<b>Beginning Net Position</b>	<b>911,575</b>	<b>896,618</b>	<b>853,049</b>	<b>848,737</b>
<b>Ending Net Position</b>	<b>896,618</b>	<b>853,049</b>	<b>848,737</b>	<b>862,000</b>

Source: (Celentano, 2019-2022)

The District’s cash accounts are summarized below:

Table 2-4: Cash Accounts				
Type	FY 18-19	FY 19-20	FY 20-21	FY 21-22
Cash and Cash Equivalents – Beginning of Year	\$344,968	\$341,536	\$344,849	\$364,705
Cash and Cash Equivalents – Ending of Year	\$341,536	\$344,849	\$364,705	\$352,353

Source: RFI

2.4.1.1 REVENUES AND EXPENDITURES

The District’s revenues and expenditures for FYs 2018-2019 through 2021-2022 are summarized in Table 2-3 and displayed in Figure 2-2: District Revenues and Expenses. District service charge revenues remained steady at \$135,000 for FY 2018-2019 through FY 2020-2021 and increased by \$2,116 in FY 2021-2022. Although the District’s current management and Board leadership were not involved in the budget or operation of the District in FY 2020-2021, it is believed the then-administrator estimated expenditures and proposed rate increases to the Board as it was then constituted. There was no Prop 218 process documented at the time.

The current management and Board transitioned into management of the District over the course of 2023 and at that time no changes were made to the rates for FY 2023-2024 as there was insufficient time to conduct a proper rate study and Prop 218 process. Notwithstanding, the District adopted a FY 2023-2024 budget, based on known and anticipated costs at mid-year, which exceeded the revenues for the FY under the old rates. Additional revenue for the District includes interest income, assessments for the repair and replacement reserve, and miscellaneous income.

The Board adopted a rate study and new rates in May 2024, which reflect annual rate increases over a five-year period. As recommended in the rate study, the first years’ rate increases will be eight percent for both residential and commercial users, with five percent increases in each of the subsequent four years. Additionally, the capital replacement program (CRP) fee will increase by 20 percent in the first year and five percent in each of the subsequent four years.

Expenditures increased 15.4 percent from FY 2018-19 to FY 2019-20, and then decreased a total of 28.5 percent over the next three years (Table 2-3). The top expenditures included maintenance/repairs, insurance, permits/fees, utilities, administration, and depreciation. Budgets for years prior to FY 2023-2024 did not include legal, engineering, project management, operating reserves, grant writing, and administrative expenses related to bringing the District into compliance with applicable rules and regulations.

As shown in Table 2-4 and Figure 2-7, the District's cash accounts indicate two different trends. The first is that the District's cash flows from operating activities are steadily decreasing each year while the District's savings account has been consistently increasing, as shown in each of the last five years. The District confirmed that the savings account that holds the funds collected on property tax bills as "Capital Reserve Assessment" is not currently invested in any capital improvements and the District's checking account is experiencing consistent decreases because the District regularly must rely on other means of funds of cover expenses.

As shown in Figure 2-3, the second trend is that the District had expenditures exceeding revenues for each of the last four fiscal years at an average of \$40,000 each year. Because existing revenues cannot cover expenses, the District has relied on its reserves to cover expenditures and is projected to do so again in 2024. The result is a continual drawdown on reserves, suggesting that the District is not in a stable financial position.

Due primarily to an outdated rate structure, expenditures have exceeded revenues for the past five years, which has required the District to draw down reserves to cover operational costs. While this indicates the District is not, and has not been, in a stable financial position, the new rate structure adopted in May 2024 will help to stabilize the District's finances and support the rebuilding of operational and capital replacement reserves.

It is worth noting that the District is actively pursuing grants to help with the necessary costs associated with infrastructure needs (see Section 2.4.2.4).

#### 2.4.1.2 ASSETS AND LIABILITIES

As demonstrated in Figure 2-4, the largest asset for the District is infrastructure for which depreciation costs have been accounted for in the expense section. As shown in Figure 2-5, the District does not have currently carry debt and its liabilities are limited to payroll taxes and accounts payable. Many special districts in California participate in the California Public Employees Retirement System (CalPERS) program and are struggling to cover unfunded liabilities because of costly employee retirements and pensions. Because the District does not participate in CalPERS, it is not subject to the increasing payments. This leaves the District in a better position for consolidation or reorganization discussions as any agencies interested in these efforts would not need to consider that particular debt.

The District indicated the need to replace most, if not all, of the existing infrastructure, including the WWTP. Because the District does not have a needs assessment or a CIP, it is not clear what the costs associated with these replacements would be. As they would likely be substantial, and the District is currently operating at a net loss, it is anticipated that the District would need to take on significant debt in the near future to pay for infrastructure needs.

#### 2.4.1.3 NET POSITION

The District is currently operating at a net loss because of substantial necessary investments into the District infrastructure (see Figure 2-6). The FY 2022-23 budget shows that this trend will continue in 2024, with a projected net income loss of \$44,908.

The District is investing significant resources in legal services in FY 2023-2024 to bring the District into compliance with the Brown Act, developing ordinances and policies that were lacking, and preparing the

rate study and Prop 218 process. Legal costs are expected to be lower in FY 2024-25 and beyond once the District has established the necessary administrative framework.

Figure 2-2: District Revenues and Expenses

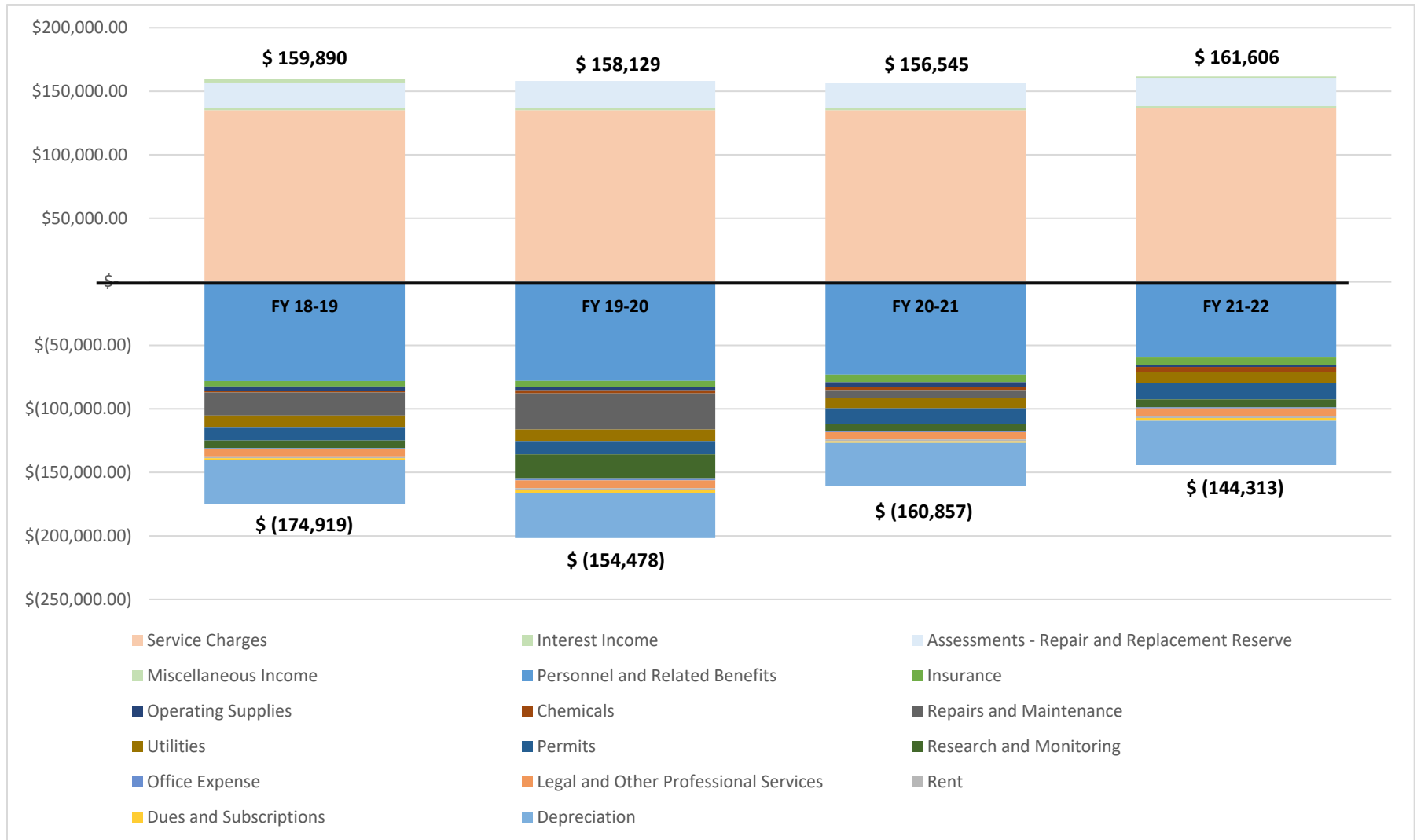


Figure 2-3: Revenues Over/Under Expenses



Figure 2-4: District Assets





Figure 2-5: District Liabilities

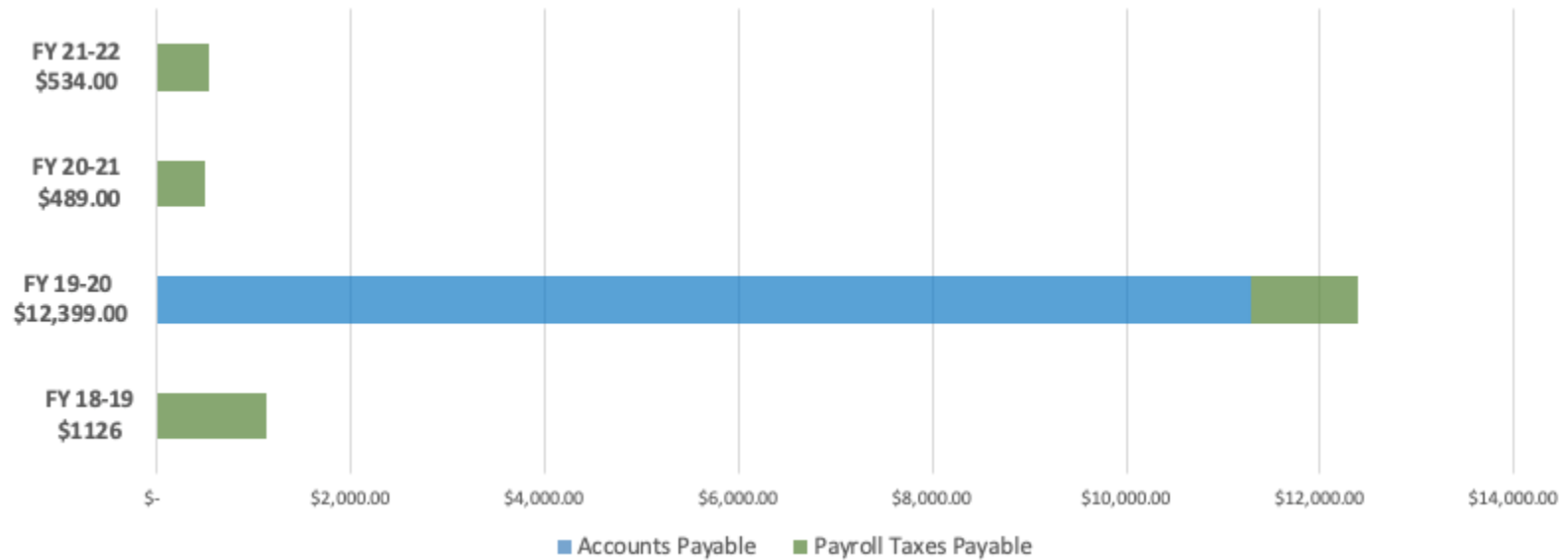


Figure 2-6: District Net Position

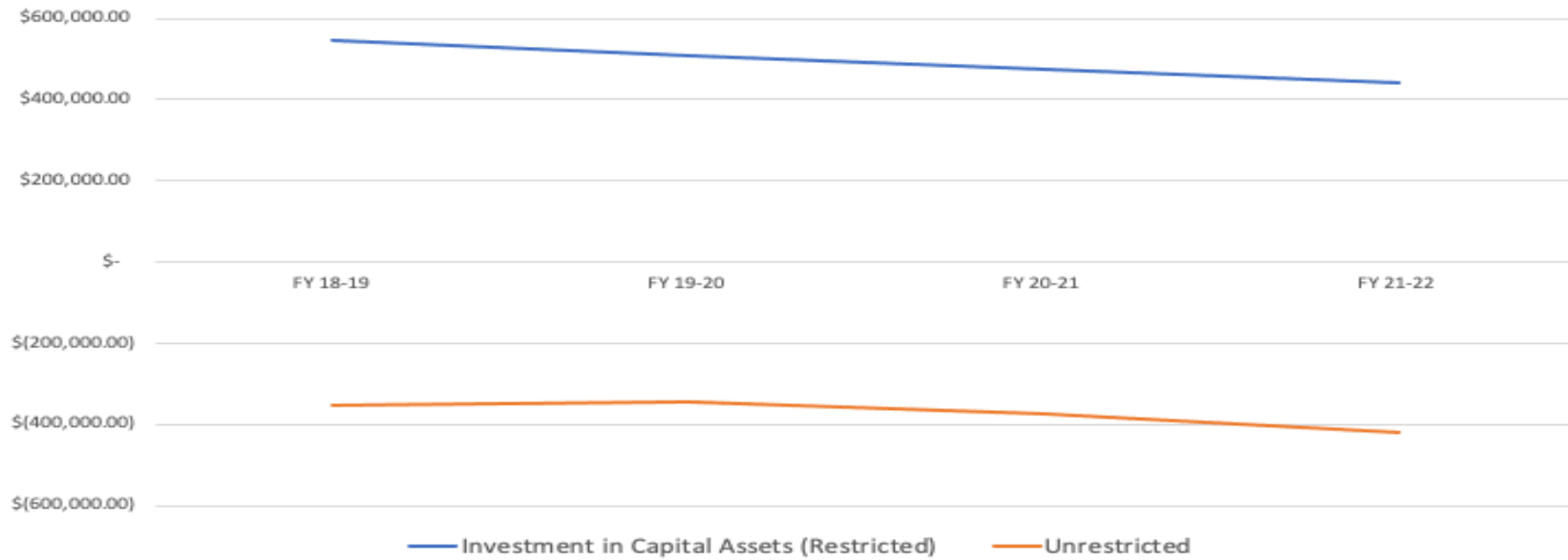
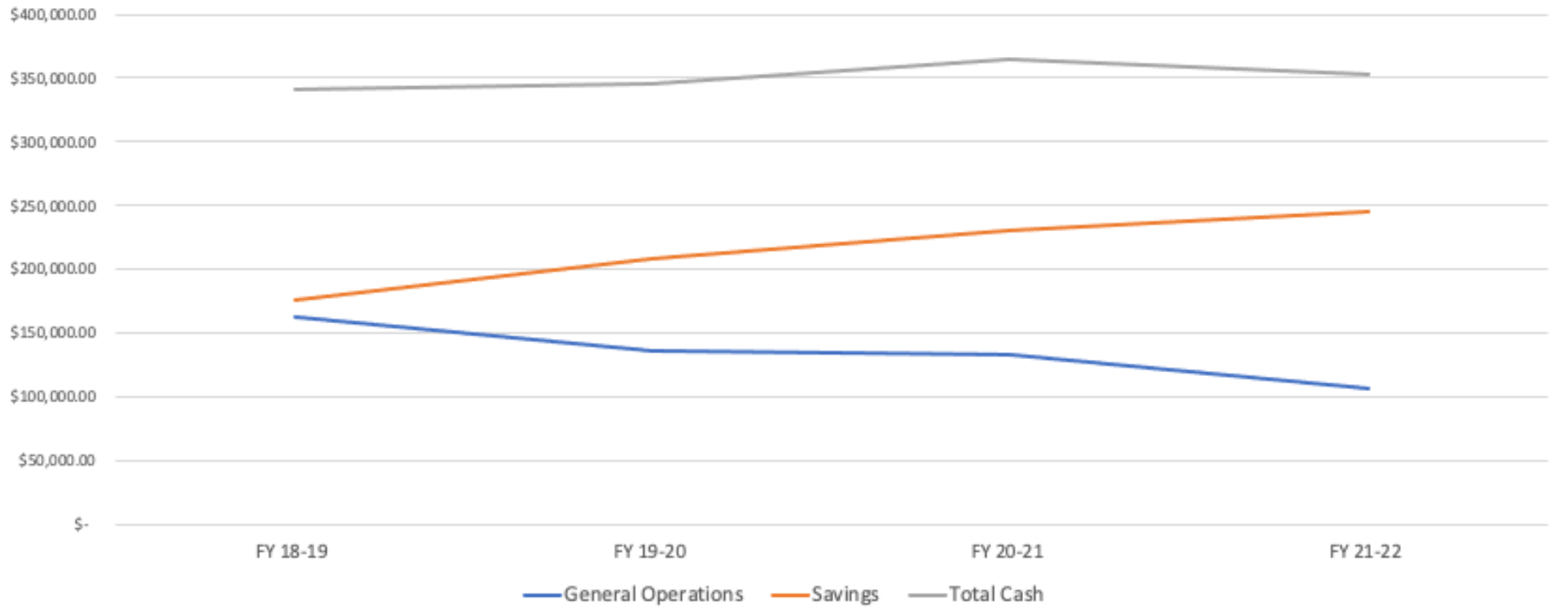


Figure 2-7: District Cash Accounts



## 2.4.2 Long Term Financial Considerations

### 2.4.2.1 RESERVES

Reserve policies provides a basis for an agency to accommodate unanticipated reductions in revenues, offset fluctuations in costs of providing services, and respond to fiscal emergencies such as revenue shortfalls, asset failure, and natural disaster. It also provides guidelines for sound financial management with an overall long-range perspective to maintain financial solvency and to mitigate financial risks associated with revenue instability, volatile capital costs, and emergencies. Further, a policy can set funds aside for replacement of capital assets as they age and for new capital projects. Additionally, adopting and adhering to a sustainable reserve policy enhances financial management transparency and helps achieve or maintain a certain credit rating for future debt issues.

In November of 2023, the Board adopted a reserves policy (District Resolution 23-24-10) requiring that the District maintain three months of operating expenses. The target amount for Operating Reserves is approximately \$53,000 based on the approved FY 2023-2024 budget of \$211,758. It is likely that the rate study will result in a larger annual operating budget because it will include items that hadn't been considered in previous budgets; therefore, the three-months' reserve amount may increase proportionally. It is expected that proposed rate increases for FY 2024-2025 will include allocation of funds to operating reserves.

At the end of FY 2023-2024, the District's capital replacement reserve account totals approximately \$235,000 (includes a \$34,000 insurance settlement claim that has not yet been deposited). The District has not needed to use capital reserves to pay operational expenses because most of the annual revenues from fees was received from the County at year-end.

The reserves policy also includes language regarding emergency reserves, equipment replacement reserves, and excess funds. The District will be working towards funding these reserves upon establishment of the new fee structure.

### 2.4.2.2 OUTSTANDING DEBTS/COST AVOIDANCE

The District currently has no debt. Although no information regarding cost-reduction measures was provided by the District, generally speaking, as a small district there are limited opportunities available to reduce costs while maintaining the expected service levels.

The contract amount with GCSD exceeds the amount the District had been paying to its previous administrator. However, the costs associated with the GCSD contract are invaluable as the arrangement has enabled the District to address long-deferred infrastructure and management issues that would have otherwise threatened the District's ability to provide adequate wastewater services. In addition, GCSD been able to provide engineering and grant expertise that the District did not previously have access to.

### 2.4.2.3 RATE RESTRUCTURING

In 2023, the District initiated a Prop 218 rate study and process, which successfully culminated in the adoption of new service rates in May 2024. The previous rate structure was adopted in 1989 and was subsequently amended in 1991 and 1992 and did not adhere to applicable laws such as Proposition 218.

The rate study recommends the District adopt a five-year budget (FYs 2024-2025 through 2028-2029) with annual service rate increases to comply with Prop 218 requirements, enhance revenue stability, meet budget predictions, and anticipate future inflationary costs.

The study proposed a change to the existing rate structure by redefining the customer classification of Equivalent Dwelling Unit (EDU), which specified the calculated average daily wastewater flow from a single-family residence. The study also recommended changing the definition of an EDU from 150 gallons per day (gpd)/residential customer to 100 gpd/residential customer to reflect the typical water usage range for residential customers (50 to 150 gpd/residential customer). This proposed calculation uses the average daily water usage over the last three full years for all residential users and divides it by the current total number of single-family residential users. For commercial customers, the study calculated the EDU equivalent based on the 100 gpd/residential customer calculation, or a charge at a minimum of 0.5 EDU per occupied rental space.

Wastewater sewer charges for residential and commercial customers with developed lots include a minimum flat rate sewer fee and Capital Replacement Plan (CRP) fee per EDU. The recommended rate increases the sewer fee and CRP fee. Undeveloped lots that are not creating wastewater flows will continue to be charged \$110/EDU based on past agreements with the District and will be defined as “standby fees”.

Prop 218 requires local governments to ensure that property-related fees comply with the measure's calculation requirements. Specifically, local governments must make sure that no property owner's fee is greater than the proportionate cost to provide the subject service to his or her parcel. Like assessments, this requirement may result in local governments setting property-related fee rates on a block-by-block, or parcel-by-parcel basis (LAO, 1996).

#### 2.4.2.4 CAPITAL IMPROVEMENT PLAN

The District does not maintain a CIP; however, the new rate includes a skeletal CIP. Additionally, the District is working with an engineering firm to assist with obtaining planning grants from the USDA and SWRCB to help fund a comprehensive analysis that would include a full CIP and summary of the necessary engineering of system upgrades.

The District is waiting for final approval of a USDA grant application to reimburse the District approximately \$135,000 that was spent on resolving an emergency cliff edge manhole replacement in 2023.

In addition, the District has applied for a technical grant from the State Water Board to address remaining infrastructure needs. Further, the GCSO has applied for a technical grant to analyze options for regionalizing services with MCWD2. After the State announces its funding priorities in July, the District intends to apply for a Planning Grant from the State Water Board which would enable MCWD2 to upgrade more of its system and to further investigate options for regionalization from the MCWD2's perspective.

### 2.4.3 Current Fiscal Health

The District is operating at a net loss based on the information provided in the financial audits (see Figure 2-6). Further, the District does not have sufficient reserves to create the standard documents and studies necessary to ensure adequate funding for future services. In addition to the new rate study, the District will require a needs assessment and a CIP for which the District has not yet allocated funding. Further, the District indicated that it needs a complete rehabilitation of the collection system, lift stations, and ultimately the wastewater treatment plant. The Board of Directors and contract General Manager have been exploring funding options to fund replacement of these systems.

## 2.5 Growth

### 2.5.1 Present and Planned Land Use and Development

The MCWD2 boundaries are entirely located within the unincorporated area of Mendocino County. Mendocino County has land use authority over privately-owned lands within the District boundary and makes land use decisions based on the County's General Plan and Zoning Regulations. The MCWD2 is also located in the Coastal Zone and is subject to the regulations of the Coastal Element, a part of Mendocino County's Local Coastal Plan as approved by the Coastal Commission. Any proposed changes to the land use or development patterns of the District area must be approved by the Coastal Commission (County of Mendocino General Plan, 2009).

#### 2.5.1.1 LAND USE

The specific land use General Plan designations within the District are Rural Residential (RR5 and RR10), Coastal Commercial (C), and Public and Semi-Public Facilities (PF). The principally permitted use in RR5 is residential and requires a minimum parcel size of five acres (RR10 = 10-acre minimum), though most of the residential parcels within District boundaries are only a fraction of an acre with two outlier residential parcels each approximately five-acres in size. The Rural Residential land use is not intended to be a growth area and residences should create minimal impact on agricultural viability. Included in the RR5 designation is the Anchor Bay Campground, which is currently a customer of the District for part, but not all, of its sewer needs.

The Coastal Commercial (CC) parcels are located along Highway 1 and serve the Anchor Bay community. Lastly, the Public and Semi-Public Facilities (PF) designation applies to one parcel in the center of the District that is occupied by the Fish Rock Cemetery. See Figure 2-8 for General Plan designations within the District boundary.

Parcels just south of the District are designated RR10, a residential land use that requires a minimum parcel size of 10-acres (County of Mendocino, 2023).

#### 2.5.1.2 DEVELOPMENT

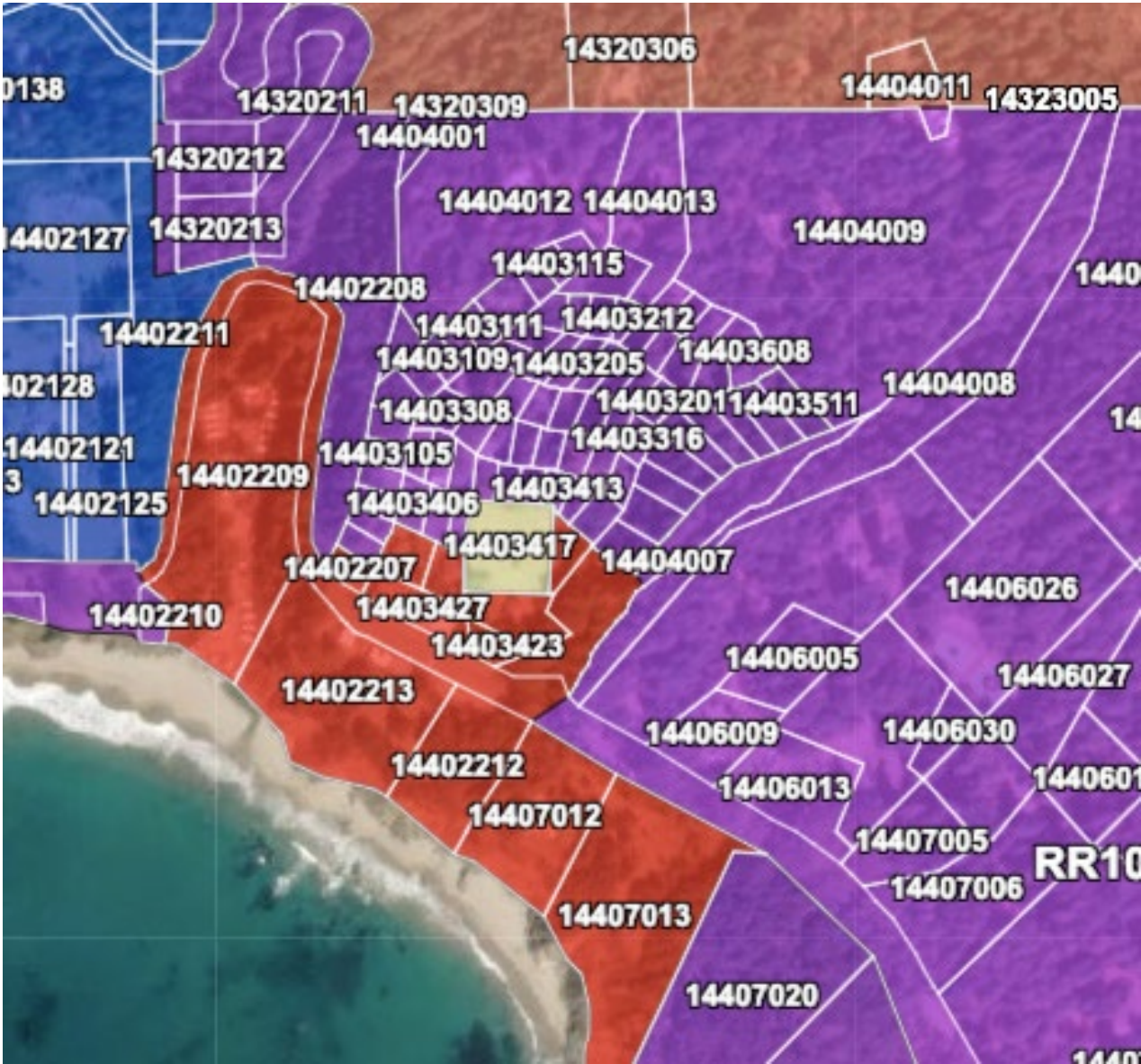
Future growth and development of the District is subject to Mendocino County land use regulations. The County has adopted plans and policies to regulate growth, including a General Plan and a Zoning Ordinance. The County's Zoning Ordinance contains three major geographical zones (Inland, Coastal, and Mendocino Town) and the Anchor Bay area is included in the Coastal Zone (County of Mendocino Coastal Element, 2021). As shown in Figure 2-9, the County's Zoning Map designates most of the Anchor Bay subdivision and surrounding parcels as single-family residential and coastal commercial.

Figure 2-8: Mendocino County General Plan Land Use Mapping



Source: Mendocino County Zoning Web Map

Figure 2-9: Mendocino County Zoning Map



Source: Mendocino County Zoning Web Map

### 2.5.2 Existing Population

The District serves an area limited to the unincorporated community of Anchor Bay, which is a Census Designated Place (CDP) with a population of approximately 473 residents and approximately 372 households ([US Census, 2022C](#)). The Anchor Bay CDP encompasses approximately 3.5 square miles and includes primarily rural residential properties and commercial development along Highway 1. Anchor Bay is located within Census Tract 111.02 in Mendocino County, which includes the area between Gualala to the south to areas just north of Manchester and has an estimated population of 4,305.

While MCWD2 serves a small number of commercial customers along Highway 1, the District consists primarily of second homes and short-term vacation rental properties. The number of wastewater connections that the District serves (approximately 100) does not change throughout the year, but demand for service increases during tourist seasons. It is also notable that the population within the District has increased because of refugees seeking shelter from numerous fires throughout the state and the COVID-19 pandemic; second homes are becoming primary homes.

### 2.5.3 Projected Growth

The District's population is projected based on development of approximately 103 parcels (13 parcels designated commercial, one parcel designated as public facility, and approximately 89 parcels designated as residential) (County of Mendocino, 2023). The State Department of Finance (DOF) projects that the population of Mendocino County will decline by a little more than 2.7 percent in the next 10 years, from 91,601 in 2023 to 89,091 in 2033 and 89,139 in 2043. (DOF, 2023)

The District anticipates little growth in resident population within the near-term (five years) and long-term (20 years) planning horizons. The projected decline of 2.7 percent throughout the County suggests that buildout of the residential parcels will not occur until well beyond the planning horizon of this document (DOF, 2023). Given that the MCWD2 is limited to a small number of developed commercial properties and residential properties in the Anchor Bay community with only a handful of undeveloped lots, the District will likely not need to accommodate much future development and is near buildout.

While there are a couple of large parcels that could theoretically be developed as a hotel or bed and breakfast, there are currently no development plans in place. This is likely in part because of water conservation efforts mandated by the California Public Utilities Commission (CPUC) since September of 2014. For their part, the NGWC, which provides potable water services to all MCWD2 customers (except those on wells), imposes its Mandatory Water Conservation Program (MWCP) when stream flows in the North Fork of the Gualala River are at or below specific levels<sup>11</sup>. During these times water use restrictions prohibit the use of water for construction purposes. Given the ebbs and flows of current drought trends, it is unlikely that any new construction will take place in the area.

However, changes to California housing laws could result in a slight increase in development and density within the District, as discussed below.

### 2.5.4 California Housing Goals

In 2017, the State of California passed SB 299 and SB 1069 to address the increasingly desperate need for affordable housing in the State. The legislation allowed local ordinances for Accessory Dwelling Unit (ADU)

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<sup>11</sup> For more information on NGWC's water conservation efforts see their website: <https://ngwco.com/conservation/mandatory-conservation/>.



construction in districts zoned for single and multifamily residential uses. An ADU is a secondary dwelling unit for one or more persons on the same parcel as a larger, primary dwelling. An ADU can either be attached or detached to the primary residential structure on the property but must include complete independent living facilities (including permanent provisions for entry, living, sleeping, eating, cooking and sanitation, and adequate water service and sewage disposal systems).

As codified by GC §65852.150, the California Legislature found and declared that, among other things, allowing ADUs in zones that allow single-family and multifamily uses provides additional rental housing and is an essential component in addressing California’s housing needs. In the years since, state ADU law has been revised to improve its effectiveness in creating more housing units.

New laws have since been passed which address barriers to their implementation at scale; for example, setting development criteria for ADUs, streamlined permit processing, and limiting impact fees. Implementation of state law requires updating local ordinances, estimating ADU capacity when used to address regional housing needs allocation (RHNA) in housing element updates, and a housing element program to incentivize and promote ADUs that can be offered at affordable rents.

As the state continues to pass legislation to help tackle the ongoing housing crisis, the inevitable impacts to service providers as a result of development will continue to mount. It is imperative that small districts such as MCWD2 stay up to date on legislative changes.

For additional information and data on housing legislation see Appendix C – Housing Legislation Trends and Results.

## 2.6 Disadvantaged Unincorporated Communities

Senate Bill 244, which became effective in January 2012, requires LAFCo to evaluate any Disadvantaged Unincorporated Communities (DUCs), including the location and characteristics of any such communities, when preparing an MSR that addresses agencies that provide water, wastewater, or structural fire protection services<sup>12</sup>. A DUC is an unincorporated geographic area with 12 or more registered voters with a Median Household Income (MHI) that is less than 80 percent of the State MHI. According to the American Census Survey (ACS) 2022 1-Year estimates, the statewide median household income for California was \$91,551 ([US Census, 2022A](#)). Thus, the MHI DUC threshold is \$73,240 and the threshold for Severely Disadvantaged Unincorporated Communities (SDUC) (less than 60 percent of the State MHI) is \$54,930.

DUCs are identified to address a myriad of issues from environmental justice to land-use planning. Linking these disparate issues together, the sole statutory criterion for determination of a DUC is the MHI. The smallest geographic units for which MHI data is publicly available are census block groups. Outside of heavily urbanized areas, however, census block groups are geographically expansive. They often include both incorporated and unincorporated territory and do not necessarily coincide with typically understood community boundaries. Although a block group might be identified as having a MHI of less than 80 percent, various portions of that block group could be significantly wealthier in rural areas, or the block group could split into an otherwise contiguous community.

<sup>12</sup> Technical advisory on SB 244 can be found here: [https://opr.ca.gov/docs/SB244\\_Technical\\_Advisory.pdf](https://opr.ca.gov/docs/SB244_Technical_Advisory.pdf).

As a result, within rural areas, such as Mendocino County, assembling income data for specific unincorporated communities is not always straightforward. In Mendocino County, identifying and mapping DUC locations is a complex process because the delineation of DUC boundaries often differs from those common to the local agency and the public. Some entities, such as Sonoma County LAFCo and Stanislaus County, utilize CDP communities to help provide usable geographies for DUC boundaries, but even then, mapping and data challenges persist. MHI ratios are subject to adjustment overtime and can result in a change to a community's disadvantaged status. Similarly, the number of registered voters can fluctuate during election years causing further variability. SB 244 describes the general characteristics of DUCs, but it does not provide specific guidance or methodology for how to identify them, other than providing the following criteria:

- Contains 10 or more dwelling units in close proximity to one another;
- Is either within a city SOI, is an island within a city boundary, or is geographically isolated and has existed for more than 50 years; and
- Has a median household income that is 80 percent or less than the statewide MHI
- For this analysis, per California Association of Local Agency Formation Commissions (CALAFCO) recommendation, calculated the “MHI Threshold” i.e., 80 percent of the statewide MHI as \$73,240, per the ACS MHI data (The MHI for the State of California is \$91,551) (US Census, 2022A)
- Income data was sourced from the ACS 5-year Estimates dataset for 2018-2022 and the 2022 ACS 1-Year Estimates.

This State legislation is intended to ensure that the needs of these communities are met when considering service extensions and/or annexations in unincorporated areas.

Mendocino County has an MHI of \$65,520 with a majority of the County considered DUCs including both the census tract and block group that the District is located within. (US Census, 2022B).

The community of Anchor Bay is a CDP covering 3.5 square miles that has a population of 473 (252 households and 372 total housing units) and a MHI of \$68,452 (US Census , 2022C). Because the District is located wholly within the Anchor Bay CDP, which has an MHI which is less than the Statewide MHI threshold of \$73,240, the District is considered to be located within a DUC.

It is also worth noting that the census block group in which the District is located (Block Group 3, 20 square miles) has a population of 1,866 (843 households) and a MHI of \$79,596 (Census Reporter, 2022A). The census tract the District is located within (Census Tract 111.02, 320 square miles) has a population of 4,827 (1,968 households) and a MHI of \$83,135 (Census Reporter, 2022B). By both measures, the District would not be considered to be located within DUC territory.

The residents within Anchor Bay receive adequate services with respect to fire, which is provided by South Coast Fire Protection <sup>13</sup>. Water services are provided by North Gualala Water Company, though it should be noted that there are properties within the District boundaries and adjacent properties that rely on well water. According to data sourced from the State Department of Water Resources (DWR), the District is

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<sup>13</sup> Source is the 2018 Mendocino LAFCo Multi-District Fire Protection Services SOI found here:

<https://www.mendolafco.org/files/01d2409c9/Multi-District+Fire+SOI+Update+Adopted+FINAL.pdf>.

located within Public Land Survey Section M11N15W1, which is documented as having 23 domestic wells<sup>14</sup>.

Some residents within the District boundary and adjacent properties continue to utilize septic tanks for their wastewater needs. Although the exact number of properties is unknown, the District estimates that there are approximately 10 properties within the District boundary using septic tanks, including at least one residence located on Getchell Gulch Road next to the District's wastewater treatment plant, a portion of homes located on Sunset Drive, and approximately two homes located on the upper-most parts of Ocean View Drive and Ocean View Avenue. Included in these estimates is also the Anchor Bay Campground, which is currently a customer of the District for part, but not all, of its wastewater needs.

According to the District President the campground may need their septic/sewer system to be upgraded to comply with MCWD2's Conditions of Use Policy and public health concerns. The District reported that the campground has a septic system that was reportedly determined to have failed in October 2022, which at the time was being used by the campground owners' permanent RVs, not by vacationing RVs that discharge to the District's sewer system. The campground's septic system is located at sea level, immediately adjacent to a stream that flows to the ocean across from a popular beach. The campground regularly sustains damage during major storms but there is evidence that the septic system has continued to be used.

While the residents of Anchor Bay are receiving the essential municipal services of fire, water, and wastewater, only fire services have proven to be adequate in the area. Both water and wastewater services could be improved in the areas that are utilizing septic and well operations. While these areas currently do not lack public services these properties could consider upgrading their systems. Particularly those utilizing septic as public health concerns have been identified.

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<sup>14</sup>Well Completion Report Map Application data can be found here:

<https://dwr.maps.arcgis.com/apps/webappviewer/index.html?id=181078580a214c0986e2da28f8623b37>.

## 3 MUNICIPAL SERVICES

A Municipal Service Review (MSR) is a comprehensive analysis of the services provided by a local government agency to evaluate the capabilities of that agency to meet the public service needs of the current and future service area. The MSR determinations inform the Sphere of Influence (SOI) Update process and assist the Local Agency Formation Commission (LAFCo) in considering the appropriateness of a public service provider's existing and future service area boundary. The information and analysis presented in Chapter 2 and 31 of this document form the basis for the MSR determinations provided under Section 3.3

### 3.1 Service Overview

This is the first MSR prepared for the District by Mendocino LAFCo.

#### 3.1.1 Services

Mendocino County Waterworks District No. 2 (District) provides sewer collection and treatment services to approximately 100 customers (residential, commercial and campground) along the costal corridor within the town of Anchor Bay. No other services are provided by the District.

##### 3.1.1.1 SERVICE AREA

The District service approximately 100 customers. This service area includes the Anchor Bay community of approximately 68 residences, the Anchor Bay Campground, and a small commercial area along State Highway 1. There are several customers who own more than one Equivalent Dwelling Unit (EDU); therefore, the actual number of treatment connections is closer to 100 (RFI, 2023).

#### 3.1.2 Outside Agency Services

The District does not provide any services outside of its jurisdictional boundaries.

### 3.2 Wastewater Services

#### 3.2.1 Service Overview

The District owns and operates a collection system and a wastewater treatment plant (WWTP) with a permitted outfall into the Pacific Ocean. Wastewater from the District's service area gravity flows first to Pump Station No. 1 then to Pump Station No. 2. Effluent reaches the WWTP by force main from Pump Station No. 1 located on Highway 1 downhill of the WWTP<sup>15</sup>. Secondary treated wastewater from the District's WWTP is discharged into the Pacific Ocean (see Figure 3-1). The Plant has an average dry weather design treatment capacity of 0.0240 million gallons per day (mgd).

Ocean discharges occur intermittently, approximately 120 days per year, primarily from October through April with an average duration of three hours and an average flow rate of 0.0120 mgd. The maximum daily flow rate during the 2016 permit period was 0.0615 mgd. Under Order No. R1-2016-0006, discharges occurred 105 days during the 2016-2017 discharge season, 78 days during the 2017-2018 discharge season, 113 days during the 2018-2019 discharge season, and 79 days during the 2019-2020 discharge season.

<sup>15</sup> More information on the watershed can be found here:

[https://www.waterboards.ca.gov/northcoast/water\\_issues/programs/watershed\\_info/mendocino\\_coast/gualala/](https://www.waterboards.ca.gov/northcoast/water_issues/programs/watershed_info/mendocino_coast/gualala/).

During the summer and other periods of dry weather, treated wastewater is irrigated through Discharge Point 002 onto 3.3 acres of forest land. The primary irrigation area is in the northwest side of the facility, and a second small irrigation area is located between the aeration pond and Getchell Gulch Road.

**Figure 3-1: District’s Ocean Discharge Location**



*Source: State Water Resource Control Board*

Operations and maintenance are performed by the District’s part-time operator, who is managed by the contract General Manager for the Gualala Community Services District (GCSD); GCSD’s operators assist as needed.

Table 3-1 shows that the average flow rates for the District have been steadily decreasing over the last five years.

<b>Parameter</b>	<b>Unit</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>Average</b>
Average Daily Flow	MGD	.007227	.005753	.005753	.004690	N/A	.005856
Average Dry Weather Flow	MG	.005616	.005575	.005575	.006968	N/A	.005934
Average Wet Weather Flow	MG	.014764	.009084	.009084	.004645	N/A	.009334
Maximum Daily Flow	MGD	.011180	.008994	.008994	.007488	N/A	.009164
Maximum Monthly Flow	MG	.398736	.023088	0.23088	0.22464	N/A	.167388

*(RFI, 2023)*

Little growth is likely to occur within the District and, based on current customer use and facilities, the District’s wastewater facilities have the capacity to serve anticipated buildout.

### 3.2.2 System History

The MCWD2 was formed in 1958 and operated under the Mendocino County Board of Supervisors (BOS) until July 1, 1996. While there is no available information that can be sourced, it is known that the District

was originally formed by a small number of property owners who slowly added more connections over time. No further history of services was provided to LAFCo staff.

According to the District President, the collection system was put into service in 1960 and the WWTP was went online in 1990. The District has implemented multiple repairs over the years, but no specific historical details were provided.

### 3.2.3 Facilities and Infrastructure

The District owns and operates a collection system and WWTP that is located off Highway 1 adjacent to the Anchor Bay subdivision the District serves (see Figure 3-3). The District's wastewater collection system consists of approximately 6,800 linear feet of gravity pipelines, 1,370 linear feet of pressurized force mains, 26 manholes, and two wastewater pump stations.

The WWTP consists of a headworks with bar screen, a 320,000-gallon mechanically aerated primary treatment pond, a 300,000-gallon aerated settling pond, a serpentine chlorine contact chamber for disinfection of treated wastewater, and dichlorination facilities.

Treated, disinfected effluent may be discharged to either the Pacific Ocean at Discharge Point 001 (after dichlorination) or to the forest irrigation system at Discharge Point 002. Aerators in the ponds run intermittently based on the dissolved oxygen levels, and pond retention times range from 15 to 20 days. Solids are retained in the pond (see Figure 3-2).

The ocean outfall (Discharge Point 001; see Figure 3-1) falls into a sea cave within the bluff, southeast of the WWTP. The outfall cave measures approximately 31.6 feet deep by 10.6 feet wide by seven to nine feet high. The outfall pipe is located near the back of the cave, extends through the roof of the cave, and is designed to provide a 35:1 initial dilution at a maximum discharge rate of 60 gallons per minute (gpm) (RFI, 2023).

**Figure 3-2: Aerial View of Wastewater Treatment Plant**

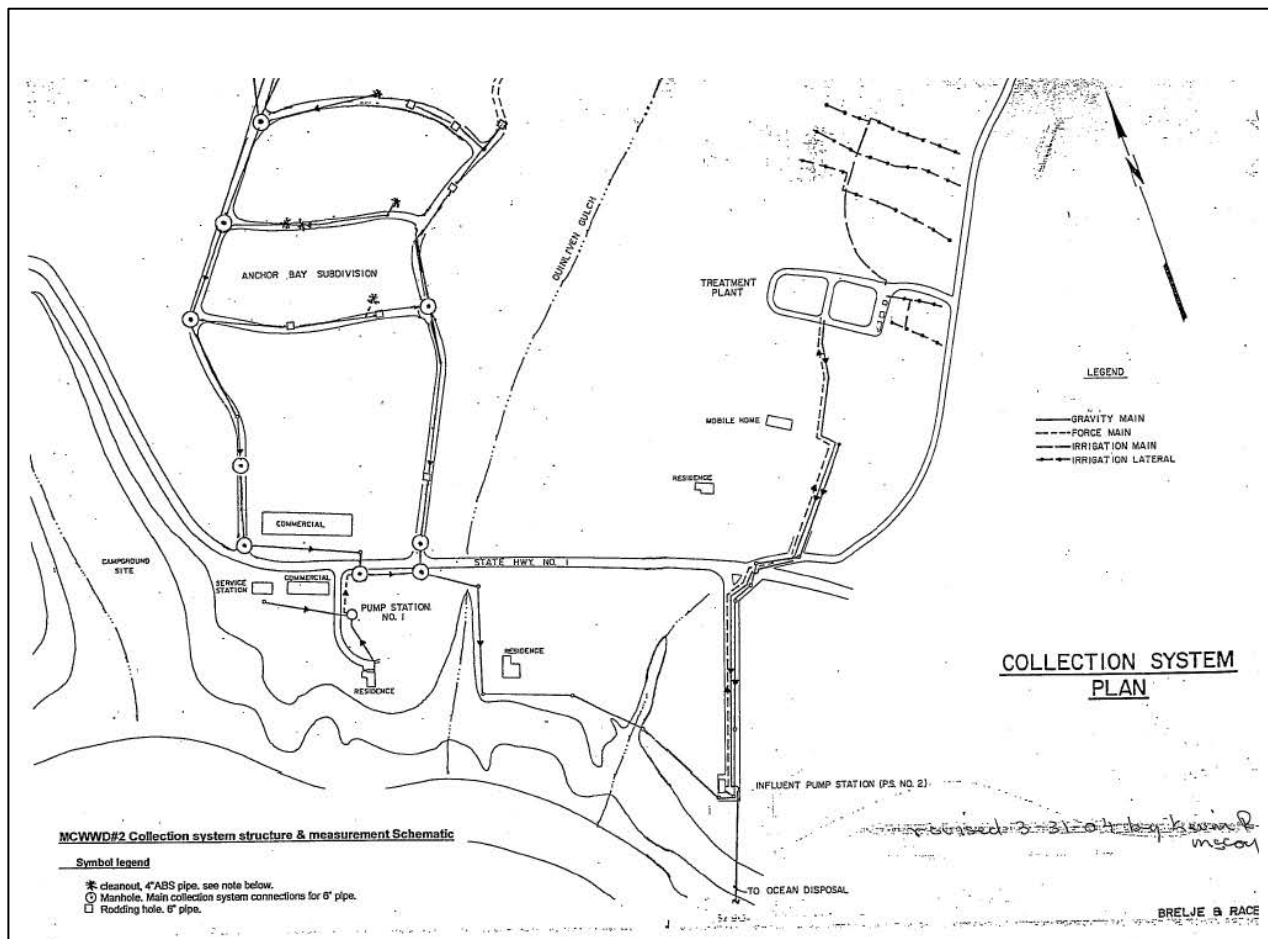


Source: Google Maps

The District indicates that a complete rehabilitation of the collection system, lift stations, and the WWTP is needed to maintain adequate services. Much of the collection system consists of material changes including the use of Orangeburg pipe, which only has a useful life of approximately 50 years. Infiltration and inflow issues have also been identified and are a result of aging infrastructure.

The newly adopted rates will allow the District to begin replacement of the Orangeburg pipes. A contract for planning and design of the first section of collection system replacement has been approved by the Board; construction is anticipated to begin in FY 2025-2026. Additionally, the Board of Directors and contract General Manager have been exploring funding options that could help cover the costs of any other infrastructure needs.

Figure 3-3: District Facilities Map



Source: North Coast RWQCB WDR R1-2021-0005, April 15/16, 2021.

3.2.3.1 SYSTEM IMPROVEMENTS

The District’s most recent system improvements took place after rainstorm damage in the early part of 2023. The District was notified by a customer that a manhole in their backyard was dangerously close to the cliff edge due to a landslide that occurred as a result of the storms. The District installed an emergency bypass to isolate the manhole and abandoned it in place. Completion of the project is scheduled for summer of 2024.

The District's rate study identified a number of short-term, high priority projects totaling approximately \$270,000 over the next five years:

- Collection System Improvements – The primary consideration is the replacement of the existing Orangeburg pipe, which is over 60 years old and has not been used as a pipeline material since the early 1960s. Orangeburg pipe is tar and cardboard, and is no longer an acceptable material.
- Large Lift Stations 1 and 2 – both lift stations are large, old and deteriorated with premature corrosion.
- Wastewater Treatment and Outfall Facilities – the facilities are old, deteriorated and lack monitoring capabilities.

Funding to implement these projects will require the District to generate additional CRP revenue through the new rate structure, along with funding assistance from the USDA Rural Development, State Water Resources Control Board SRF DFA Program, Community Development Block Grants, and others.

#### 3.2.3.2 ENGINEERING REPORTS

No engineering reports were provided to LAFCo staff.

#### 3.2.4 Service Adequacy

Based on information provided by the District regarding facilities, management practices, accountability, and financing, MCWD2's service is deficient. The District is not able to fund basic studies in order to determine adequate rates, does not have a website, has one part-time employee, and has a history of being unable to fill board vacancies. The District is not meeting some transparency and reporting requirements and has very little reserves. LAFCo staff acknowledge that the District is making strides to meet some of these requirements; however, inadequate funding is a major barrier to effective management and provision of services for the District. Though little growth within the District is anticipated, current facilities are not sufficient to serve any further development beyond what is currently provided. The District's infrastructure suffers from extensive deferred maintenance and is in need of a complete rehabilitation of the collection system, lift stations, and ultimately the wastewater treatment plant.

##### 3.2.4.1 REGULATORY PERMITS AND COMPLIANCE HISTORY

The District is currently regulated by Order No. R1-2021-0005 and National Pollutant Discharge Elimination System (NPDES) Permit No. CA0024040, adopted on April 15, 2021, with an expiration date May 31, 2026 (RFI, 2023). A summary of the District's regulatory measures as identified by the State Water Resources Control Board (SWRCB) is shown below in Table 3-2. The District has held an active permit with the SWRCB since 1986.

**Table 3-2: SWRCB – MCWD2 Regulatory Measure**



Reg Measure ID	Reg Measure Type	Region	Program	Order No.	WDID	Effective Date	Expiration Date	Status
443040	NPDES Permit	1	NPDMUNIOTH	<a href="#">R1-2021-0005</a>	1B83118OMEN	06/01/2021	05/31/2026	Active
405526	NPDES Permit	1	NPDMUNIOTH	<a href="#">R1-2016-0006</a>	1B83118OMEN	06/01/2016	05/31/2021	Historical
371496	NPDES Permit	1	NPDMUNIOTH	<a href="#">R1-2010-0038</a>	1B83118OMEN	12/01/2010	12/01/2015	Historical
133365	NPDES Permit	1	NPDMUNIOTH	<a href="#">R1-2005-0009</a>	1B83118OMEN	04/20/2005	04/20/2010	Historical
139168	NPDES Permit	1	NPDMUNIOTH	R1-1997-0024	1B83118OMEN	03/27/1997	03/26/2002	Historical
137776	NPDES Permit	1	NPDMUNIOTH	92-060	1B83118OMEN	06/25/1992	06/24/1997	Historical
137060	NPDES Permit	1	NPDMUNIOTH	86-004	1B83118OMEN	01/30/1986	01/30/1991	Historical

In November 2022, the SWRCB prepared a Treatment Facility Compliance Evaluation Inspection Report for the District as part of regular compliance and in response to an odor complaint received in September 2022. The results of the report indicated that the Facility was operating properly, and no odors were present at the time of the inspection; however, concern was noted about deferred maintenance identified during the inspection. Additionally, the SWRCB has documented that the District received 22 non-priority violations in the last five years, all of which remain active (SWRCB, 2023). A summary of the violations in the previous five years can be found in Table 3-4. It should be noted that almost all the violations documented by the SWRCB are minor offenses that are common for such facilities.

#### 3.2.4.2 SANITARY SEWER SPILLS

A sanitary sewer spill is a discharge of sewage from any portion of a sanitary sewer system due to a sanitary sewer system overflow, operational failure, and/or infrastructure failure. The SWRCB's Sanitary Sewer Spill Incident Map shows spill reports for individual locations where sewage was discharged from a sanitary sewer system enrolled under the Statewide General Waste Discharge Requirements for Sanitary Sewer Systems Order, Water Quality Order (WQO) No. 2022-0103-DWQ (the Statewide Sanitary Sewer Systems Order).

When searching the SWRCB's sanitary sewer overflow (SSO) incident data for MCWD2, six spill incidents were identified; all of which were Category 3 Spill Events<sup>16</sup>.

Category 3 Spill Events are defined as:

- A spill of equal to or greater than 50 gallons and less than 1,000 gallons, from or caused by a sanitary sewer system regulated under the General Order that does not discharge to a surface water; and
- A spill of equal to or greater than 50 gallons and less than 1,000 gallons, that spills out of a lateral but is caused by a failure or blockage in the main lines of the sanitary sewer system.

All the noted spill incidents from the SWRCB data can be found summarized below in Table 3-3.

Spill Event ID	Spill Date	Category	Volume	Reason
763097	10/16/2007	3	150 gallons spilled	Debris-General
763099	2/4/2008	3	500 gallons spilled	Pipe structural problem/failure
752083	4/28/2010	3	20 gallons spilled	Debris-General
785639	8/28/2012	3	5 gallons spilled	Other
790877	1/28/2013	3	300 gallons spilled	Root intrusion

<sup>16</sup> Data for Spill Events can be found here: [https://www.waterboards.ca.gov/water\\_issues/programs/ssol/](https://www.waterboards.ca.gov/water_issues/programs/ssol/).

792924	3/24/2013	3	100 gallons spilled	Root intrusion
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Source: SWRCB

Table 3-4 summarizes MCWD2’s violations for the last five years (spill incidents are not included in this list). The table includes the date the violation occurred, the violation type, a description of the violation, what corrective action has been taken (if any), and the status of the violation.

A total of eight violations were noted for 2023, most of which were responded to with “training related to proper sampling technique” as the corrective action.

Table 3-4: SWRCB – MCWD2 Violations

<i>Violation ID</i>	<i>Date</i>	<i>Type</i>	<i>Description</i>	<i>Corrective Action</i>	<i>Status</i>	<i>Classification</i>	<i>Source</i>
1117904	06/02/2023	LREP	Once Only One Time (MONRPT) (Evaluation of Sea Level Rise Impact on Sea Cave Discharge Outfall Work Plan) report for 2021/06/01 (2473157) was due on 01-JUN-23		Violation	B	Report
1115497	03/31/2023	CAT1	Biochemical Oxygen Demand (BOD) (5-day @ 20 Deg. C) Percent Reduction limit is 85 % and reported value was 80 % at EFF-001.	Smoke test to locate the I&I locations.	Violation	B	eSMR
1115498	03/31/2023	CAT1	Total Suspended Solids (TSS), Percent Removal Percent Reduction limit is 85.0 % and reported value was 51.0 % at EFF-001.	Need to conduct a smoke test to locate the I&I locations.	Violation	B	eSMR
1115496	03/07/2023	OEV	Total Coliform Daily Maximum limit is 230 MPN/100 mL and reported value was 1600 MPN/100 mL at EFF-001.	Training on proper sampling techniques.	Violation	B	eSMR
1115495	02/28/2023	OEV	Total Coliform Daily Maximum limit is 230 MPN/100 mL and reported value was 1600 MPN/100 mL at EFF-001.	Training on proper sample techniques.	Violation	B	eSMR
1115493	02/21/2023	OEV	Total Coliform Daily Maximum limit is 230 MPN/100 mL and reported value was 240 MPN/100 mL at EFF-001.	Watch training videos on proper sampling techniques.	Violation	B	eSMR
1115494	02/14/2023	OEV	Total Coliform Daily Maximum limit is 230 MPN/100 mL and reported value was 1600 MPN/100 mL at EFF-001.	Training on proper sample techniques.	Violation	B	eSMR
1115499	01/31/2023	DMON	No Ammonia sample was taken during the month of January. This was caused by the regular operator being injured in a car accident and the transition of finding a replacement.	None taken. The sample was missed due to events beyond our control.	Violation	B	eSMR
1112540	11/30/2022	DMON	The monthly ammonia sample was forgotten.	Have sampled for ammonia in December	Violation	B	eSMR
1109514	08/11/2022	DMON	coliform result on 8/4 was 41 MPN which exceeded the median value of 23 MPN. We are required to resample within 7 days. I did not get sample results until 8/22 and resampled on 8/24 with a result of 2 MPN.	The sample result of 2 MPN put us in compliance with a median value of 21MPN.	Violation	B	eSMR
1107108	08/02/2022	LREP	Once Only OneTime ( SUMRPT ) (Biological Survey Work Plan) report for 2021/06/01 (2473159) was due on 01-AUG-22		Violation	B	Report
1095491	09/22/2021	OEV	Total Coliform Monthly Median limit is 23 MPN/100 mL and reported value was 36 MPN/100 mL at LND-001.	The chlorine contact chamber was drained and cleaned	Violation	B	eSMR
1092303	05/20/2021	OEV	Total Coliform Daily Maximum limit is 230 MPN/100 mL and reported value was 240 MPN/100 mL at LND-001.	cleaned chlorine contact chamber and increased chlorine dose	Violation	U	eSMR
1092302	04/28/2021	OEV	Total Coliform Daily Maximum limit is 230 MPN/100 mL and reported value was 540 MPN/100 mL at EFF-001.	increased chlorine dose	Violation	U	eSMR

<b>Violation ID</b>	<b>Date</b>	<b>Type</b>	<b>Description</b>	<b>Corrective Action</b>	<b>Status</b>	<b>Classification</b>	<b>Source</b>
1089198	03/06/2021	DMON	lab was closed due to Covid outbreak missed weekly coliform and BOD/TSS samples	lab is now open	Violation	B	eSMR
1089197	02/20/2021	DMON	missed weekly BOD/TSS and coliform samples due to lab closure for Covid outbreak	lab is now open	Violation	B	eSMR
1077521	06/24/2020	OEV	Total Coliform 30-Day Median limit is 23 MPN/100 mL and reported value was 49 MPN/100 mL at LND-001.	We will clean the chlorine contact chamber and if necessary increase the chlorine.	Violation	U	eSMR
1069965	10/23/2019	OEV	Total Coliform 30-Day Median limit is 23 MPN/100 mL and reported value was 1600 MPN/100 mL at LND-001. *** MMP Exempt Reason: Discharge was to land, not to surface water.	coliform count is back within limits	Violation	B	eSMR
1071422	10/23/2019	OEV	Total Coliform Daily Maximum limit is 230 MPN/100 mL and reported value was 1600 MPN/100 mL at LND-001. *** MMP Exempt Reason: Discharge to land, not surface water.	increased chlorine and cleaned contact chamber	Violation	B	eSMR
1071421	09/25/2019	OEV	Total Coliform 30-Day Median limit is 23 MPN/100 mL and reported value was 30 MPN/100 mL at LND-001.	increase chlorine	Violation	U	eSMR
1071424	07/24/2019	OEV	Total Coliform 30-Day Median limit is 23 MPN/100 mL and reported value was 30 MPN/100 mL at LND-001.	increased chlorine	Violation	U	eSMR
1065579	07/24/2019	OEV	Total Coliform 30-Day Median limit is 23 MPN/100 mL and reported value was 70 MPN/100 mL at LND-001.	Increased the chlorine dose rate. Samples done since have been fine.	Violation	U	eSMR

Source: State Water Resources Control Board

### 3.2.4.3 CAPACITY

The design capacity of the WWTP is 24,000 gallons per day (gpd), but the permit capacity is only 19,000 gpd. The District has significant infiltration and inflow (I&I) issues within the collection system, heavily impacted by the result of strong storms which result in downed trees and power outages. There are numerous areas of root intrusion and areas where there is a change of material in the system, all of which create potential infiltration spots for groundwater to enter the collection system. In 2023, two of the violations involved issues that required the District to find the points of infiltration and inflow. The District does not appear to have the capacity to address emergencies adequately (RFI, 2023).

LAFCo staff recommends that the Commission review the District Board's efforts to define the I&I issues, incorporate into a CIP, and schedule for maintenance at the next MSR Update or within three years of the completion of this MSR, whichever comes first.

### 3.2.4.4 NEEDS AND DEFICIENCIES

The District is in need of a complete rehabilitation of the collection system, lift stations, and ultimately the wastewater treatment plant. The Board of Directors and contract General Manager have been exploring funding options to help cover the costs of upgrading these systems.

## 3.3 Determinations

This section presents the required MSR determinations pursuant to Government Code (GC) Section (§) 56430(a) for the MCWD2. This is the first MSR for the District.

### 3.3.1 MSR Review Factors

#### 3.3.1.1 GROWTH

Growth and population projections for the affected area

1. The estimated population of the District is 473 and is comprised of a small number of commercial property owners along Highway 1 and rural residences, many of which are second homes and short-term vacation rental properties.
2. With the commercial areas already built out, the District is limited in growth to buildout of any remaining undeveloped rural residential lots. Based on population projections for the County, it is unlikely buildout of the residential parcels will occur until well beyond the planning horizon of this document
3. The North Gualala Water Company (NGWC), which provides potable water services to MCWD2 customers (except those on wells), is currently imposing a moratorium on water services within its service area, which includes customers and boundaries of both the MCWD2 and the GCSD. Consequently, growth is anticipated to be negligible within the planning horizon of this study.

#### 3.3.1.2 DISADVANTAGED UNINCORPORATED COMMUNITIES

The location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence

4. The District is located within the Census Designated Place (CDP) of Anchor Bay which has a Median Household Income (MHI) of \$68,452. This is less than the MHI Disadvantaged Unincorporated Community (DUC) Threshold of \$73,240, therefore the District is considered to be in a DUC. While the residents of Anchor Bay are receiving the essential municipal services of fire, water, and wastewater,

only fire services have proven to be adequate in the area. Both water and wastewater services could be improved in the areas that are utilizing private septic systems and wells. While these areas currently do not lack public services, unsewered properties may benefit from future connection to the District's system should their private septic systems fail.

### 3.3.1.3 CAPACITY OF FACILITIES AND ADEQUACY OF SERVICES

Present and planned capacity of public facilities, adequacy of public services, and infrastructure needs or deficiencies including needs or deficiencies related to sewers, municipal and industrial water, and structural fire protection in any disadvantaged unincorporated communities within or contiguous to the sphere of influence

5. The District provides wastewater collection and treatment services to approximately 100 customers. Although the number of customers in the District does not fluctuate throughout the year, service demand increases during tourist seasons.
6. The District's wastewater collection system consists of approximately 6,800 linear feet of gravity pipelines, 1,370 linear feet of pressurized force mains, 26 manholes, and two wastewater pump stations.
7. The District conveys wastewater flows through its collection system from the Anchor Bay community, the commercial district, and Anchor Bay Campground to Pump Station No. 1 then to Pump Station No. 2. Effluent reaches the treatment plant by force main from Pump Station No. 1, located on Highway 1, downhill of the WWTP. The Plant has an average dry weather design treatment capacity of 0.0240 mgd.
8. The District's entire infrastructure system is in need of extensive repairs and rehabilitation in order to continue providing adequate service to its existing customers and protect public health.
9. The SWRCB issued a total of eight violations for the year 2023, and a total of 22 violations since July 2019.
10. Operations and maintenance are performed by the District's part-time operator, who is managed by the contract General Manager of the Gualala Community Services District (GCSD).
11. No boundary changes are pending or proposed.

### 3.3.1.4 FINANCIAL ABILITY OF AGENCY

Financial ability of agencies to provide services.

12. The District recently approved a new rate study, which includes a priority list of infrastructure improvement/replacement needs.
13. The District is attempting to obtain planning grants from the United States Department of Agriculture (USDA) and the SWRCB in order to help fund a comprehensive analysis that would include a full CIP and summary of the necessary engineering of system upgrades.
14. Due primarily to an outdated rate structure, expenditures have exceeded revenues for the past five years, which has required the District to draw down reserves to cover operational costs. While this indicates the District is not, and has not been, in a stable financial position, the new rate structure adopted in May 2024 will help to stabilize the District's finances and support the rebuilding of operational and capital replacement reserves.
15. The Board adopted a Proposition 218 rate study and new rates in May 2024, which reflect annual rate increases over a five-year period. As recommended in the rate study, the first years' rate increases will be eight percent for both residential and commercial users, with five percent increases in each of

the subsequent four years. Additionally, the capital replacement program (CRP) fee will increase by 20 percent in the first year and five percent in each of the subsequent four years. The new rate structure reflects service operations and maintenance and plans for capital replacement needs.

16. Funding to implement the capital replacement program will require the District to generate additional CRP revenue through the new rate structure, along with funding assistance from the USDA Rural Development, State Water Resources Control Board SRF DFA Program, Community Development Block Grants, and others.
17. The District adopted a reserves policy under Resolution 23-024-10 in November 2023, which requires the District to reserve at least three months of operating expenses. The District's current target for Operating Reserves is approximately \$53,000 based on the approved FY 2023-2024 budget of \$211,758. The District has not yet allocated actual funds to the reserve account because such funds were not anticipated in the current rates.
18. At the end of FY 2023-2024, the District's capital replacement reserve account totals approximately \$235,000.
19. The District is currently operating at a net loss because of substantial necessary investments into the District.
20. No cost avoidance measures have been identified.

#### 3.3.1.5 SHARED SERVICES AND FACILITIES

##### Status of, and opportunities for, shared facilities

21. The District operates with minimal staffing and facilities. However, since 2023 the District has maintained an agreement with GCSD to provide administrative services as well as General Manager responsibilities and facility operations on a part-time basis. The District does not own or lease any administrative facilities and currently shares office space with the GCSD and meeting space with Coast Life Support District.
22. The MCWD2 and GCSD are applying for planning grants to study options for regionalization or consolidation of services.
23. No other opportunities for shared facilities have been identified at this time.

#### 3.3.1.6 ACCOUNTABILITY, STRUCTURE AND OPERATIONAL EFFICIENCIES

##### Accountability for community service needs, including governmental structure and operational efficiencies

24. The District has difficulty filling Board vacancies, primarily due to the limited number of eligible and interested residents available to serve on the Board.
25. The District demonstrated accountability and transparency by disclosing financial and service-related information in response to LAFCo requests. However, some information requested from the District was not provided as past record keeping has been lacking and information was not available.
26. The District demonstrates accountability to its constituents through holding regular monthly board meetings and distribution of agendas, notices, and meeting records by email. The District does not maintain a website; however, the District adopted a Hardship Resolution in November of 2023, thus making the District compliant with Senate Bill (SB) 929. The GCSD hosts a land page for the MCWD2 on GCSD's website, which contains their meeting agendas and minutes for 2022 and 2023. It is recommended that the District Board review the decision to maintain its own website every January so long as the hardship exists.

27. Until recently, the District had struggled to meet transparency and reporting requirements, primarily due to an insufficient number of Board members and lack of staffing to manage and administer the District. Since FY 2022-2023, the District has made great strides towards improving governance and transparency, having established a full Board and contracted with GCSD for management, operations and administration services. While there has been substantial improvement, District board members have identified the difficulty in filling Board vacancies and a lack of funding as major barriers to effective governance of the District.
28. The District does not have a written mission statement or established goals and objectives. The District is planning a retreat in the second half of 2024 that will be dedicated to adopting a mission statement and associated goals.
29. The District relies heavily on the agreement with GCSD to maintain operations and provide adequate wastewater service. Given the District's overall position, consolidation or regionalization with GCSD should be considered. Towards that end, both the District and the GCSD are pursuing planning grants to explore options.

#### 3.3.1.7 OTHER SERVICE DELIVERY MATTERS

Any other matter related to effective or efficient service delivery, as required by commission policy
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30. There are no other matters related to service delivery required by Mendocino LAFCo Policy.



## 4 SPHERE OF INFLUENCE

The Local Agency Formation Commission (LAFCo) prepares a Municipal Service Review (MSR) prior to or in conjunction with the Sphere of Influence (SOI) review process. An SOI study considers whether a change to the SOI, or probable future boundary, of a local government agency is warranted to plan for the logical and orderly development of that agency in a manner that supports the Cortese-Knox-Hertzberg (CKH) Law and the policies of the Commission. The MSR and required determinations are presented in Chapters 2 and 3 of this document and form the basis of information and analysis for this SOI review. This chapter presents the SOI study and required determinations pursuant to California Government Code (GC) § (Section) 5642(e).

### 4.1 Mendocino LAFCo Policies

In addition to making the necessary determinations for establishing or modifying an SOI consistent with the CKH Act, the appropriateness of an agency's SOI is also based on an evaluation of consistency with local LAFCo policies. SOI policies can be found in the Mendocino LAFCo Policies and Procedures Manual adopted November 5, 2018<sup>17</sup>.

#### 10.1.1 Legislative Authority and Intent

An SOI is the probable 20-year growth boundary for a jurisdiction's physical development. The Commission shall use spheres of influence to:

- a) promote orderly growth and development within and adjacent to communities;
- b) promote cooperative planning efforts among cities, the County, and special districts to address concerns regarding land use and development standards, premature conversion of agriculture and open space lands, and efficient provision of public services;
- c) guide future local government reorganization that encourages efficiency, economy, and orderly changes in local government; and
- d) assist property owners in anticipating the availability of public services in planning for the use of their property.

#### 10.1.4 Reduced Spheres

The Commission shall endeavor to maintain and expand, as needed, spheres of influence to accommodate planned and orderly urban development. The Commission shall, however, consider removal of land from an agency's sphere of influence if either of the following two conditions apply:

- a) the land is outside the affected agency's jurisdictional boundary but has been within the sphere of influence for 10 or more years; or
- b) the land is inside the affected agency's jurisdictional boundary but is not expected to be developed for urban uses or require urban-type services within the next 10 years.

<sup>17</sup> Mendocino LAFCo Policies and Procedures Manual can be found here:

<https://www.mendolafco.org/files/8e5477867/FINAL+Adopted+Mendo+LAFCo+PP+Manual+2018+upd+12-15-23.pdf>.

### **10.1.5 Zero Spheres**

LAFCo may adopt a “zero” sphere of influence encompassing no territory for an agency. This occurs if LAFCo determines that the public service functions of the agency are either nonexistent, no longer needed, or should be reallocated to some other agency (e.g., mergers, consolidations). The local agency which has been assigned a zero sphere should ultimately be dissolved.

### **10.1.6 Service Specific Spheres**

If territory within the proposed sphere boundary of a local agency does not need all the services of the agency, a “service specific” sphere of influence may be designated.

### **10.1.7 Agriculture and Open Space Lands**

Territory not in need of urban services, including open space, agriculture, recreational, rural lands, or residential rural areas shall not be assigned to an agency’s sphere of influence unless the area’s exclusion would impede the planned, orderly, and efficient development of the area. In addition, LAFCo may adopt an SOI that excludes territory currently within that agency’s boundaries. This may occur when LAFCo determines that the territory consists of agricultural lands, open space lands, or agricultural preserves whose preservation would be jeopardized by inclusion within an agency’s sphere. Exclusion of these areas from an agency’s sphere of influence indicates that detachment is appropriate.

### **10.1.8 Annexations Are Not Mandatory**

Before territory can be annexed to a city or district, it must be within the agency’s SOI (GC. §56375.5). However, territory within an agency’s sphere will not necessarily be annexed. A sphere is only one of several factors that are considered by LAFCo when evaluating changes of organization or reorganization.

### **10.1.9 Islands or Corridors**

Sphere of influence boundaries shall not create islands or corridors unless it can be demonstrated that the irregular boundaries represent the most logical and orderly service area of an agency.

### **10.1.10 Overlapping Spheres**

LAFCo encourages the reduction of overlapping spheres of influence to avoid unnecessary and inefficient duplication of services or facilities. In deciding which of two or more equally capable agencies shall include an area within its sphere of influence, LAFCo shall consider the agencies’ service and financial capabilities, social and economic interdependencies, topographic factors, and the effect that eventual service extension will have on adjacent agencies. Where an area could be assigned to the sphere of influence of more than one agency, the following hierarchy typically applies:

- a) Inclusion within a city’s sphere
- b) Inclusion within a multi-purpose district’s sphere
- c) Inclusion within a single-purpose district’s sphere

Territory placed within a city’s sphere indicates that the city is the most logical provider of urban services. LAFCo encourages annexation of developing territory (i.e., area not currently receiving services) that is currently within a city’s sphere to that city rather than to one or more single-purpose special districts.

LAFCo discourages the formation of special districts within a city's sphere. To promote efficient and coordinated planning among the county's various agencies, districts that provide the same type of service shall not have overlapping spheres.

#### **10.1.11 Memorandum of Agreements (For City Sphere Amendments and Updates)**

Prior to submitting an application to LAFCo for a new city sphere of influence or a city sphere of influence update, the city shall meet with the County to discuss the proposed new boundaries of the sphere and explore methods to reach agreement on development standards and planning and zoning requirements as contained in GC §56425. If an agreement is reached between the city and County the agreement shall be forwarded to LAFCo. The Commission shall consider and adopt a sphere of influence for the city consistent with the policies adopted by LAFCo and the County, and LAFCo shall give great weight to the agreement to the extent that it is consistent with LAFCo policies in its final determination of the city sphere.

#### **10.1.12 Areas of Interest**

LAFCo may, at its discretion, designate a geographic area beyond the sphere of influence as an Area of Interest to any local agency.

- a) An Area of Interest (AOI) is a geographic area beyond the sphere of influence in which land use decisions or other governmental actions of one local agency (the "Acting Agency") impact directly or indirectly upon another local agency (the "Interested Agency"). For example, approval of a housing project developed to urban densities on septic tanks outside the city limits of a city and its sphere of influence may result in the city being forced subsequently to extend sewer services to the area to deal with septic failures and improve city roads that provide access to the development. The city in such a situation would be the Interested Agency with appropriate reason to request special consideration from the Acting Agency in considering projects adjacent to the city.
- b) When LAFCo receives notice of a proposal from another agency relating to the Area of Concern, LAFCo will notify the Interested Agency and will consider its comments.
- c) LAFCo will encourage Acting and Interested Agencies to establish Joint Powers Agreements or other commitments as appropriate.

## **4.2 Existing Sphere of Influence**

The existing SOI for the District is coterminous with the District's boundary. The SOI was established with the 1984 Zion Study and has not been reviewed by LAFCo since. The District has confirmed the adequacy of their existing boundary and SOI. The coterminous SOI is appropriate given the District's current operating level. There are no proposed SOI changes for MCWD2.

### **4.2.1 Study Areas**

Study areas are unique to a specific agency and are used to define the extent of one or more locations for SOI analysis purposes. Study areas may be created at different levels of scope and/or specificity based on the circumstances involved. The following descriptions demonstrate the array of scenarios that may be captured by a SOI study area.

- An area with clear geographic boundaries and scope of service needs based on years of interagency collaboration or public engagement and a project ready for grant funding or implementation.

- An area involving broader community regions or existing residential subdivisions with a large or long-term vision in need of fostering and/or establishing interagency partnerships.
- An area in early stages of conception that is not currently geographically well-defined and generally involves one or more ideas identified by agency or community leaders needing further definition.
- An area geographically defined by a gap between the boundaries of existing public service providers.
- An area adjacent to an existing agency's boundary slated for development needing urban services.

Study areas can result in a proposed SOI or sphere expansion area, or the designation of an Area of Interest to earmark areas for enhanced interagency coordination or for future SOI consideration.

The only study area in this SOI is the community of Anchor Bay. Due to its geographic isolation and financial standing, there are no other nearby areas that should be considered as a study area.

#### 4.2.2 Area of Interest Designation

LAFCo's Area of Interest Policy, per Section 10.1.12, provides for the designation or identification of unincorporated areas located near to, but outside the jurisdictional boundary and established SOI of a city or district, in which land use decisions or other governmental actions of another local agency directly or indirectly impact the subject local agency.

An AOI designation serves as a compromise approach that recognizes situations involving challenging boundary or municipal service delivery considerations, or for which urbanization may be anticipated in the intermediate or long-range planning horizons. It is a tool intended to enhance communication and coordination between local agencies.

An AOI designation is most helpful when the county and city or district can reach agreement that development plans related to LAFCo designated AOI will be treated the same as if these areas were within the city or district SOI boundary, particularly regarding notification to and consideration of input from the city or district.

No AOIs have been identified for MCWD2.

#### 4.3 [Proposed Sphere of Influence](#)

There are no proposed changes to the SOI at the time. The District and LAFCo staff recommend the Commission affirm the existing coterminous sphere.

#### 4.4 [Consistency with LAFCo Policies](#)

Mendocino LAFCo has established local policies to implement its duties and mandates under the Cortese-Knox-Hertzberg Act. This section identifies potential inconsistencies between the proposed SOI and local LAFCo policies.

The proposed District SOI is consistent with Mendocino LAFCo Policies (refer to Section 1.5 for the specific SOI policies).

#### 4.5 [Determinations](#)

In determining the Sphere of Influence (SOI) for an agency, LAFCo must consider and prepare written determinations with respect to five factors as outlined in Government Code §56425(e). These factors are as follows:

1. The present and planned land uses in the area, including agricultural and open space lands;

2. The present and probable need for public facilities and services in the area;
3. The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide;
4. The existence of any social or economic communities of interest in the area if the Commission determines that they are relevant to the agency; and
5. The present and probable need for public facilities and services (including sewers, municipal and industrial water, or structural fire protection) of any disadvantaged unincorporated communities within the existing Sphere of Influence.

LAFCo staff propose no change to the existing SOI for the District and recommend the Commission approve the SOI determinations as presented below.

#### 4.5.1 Present and planned land uses

The primary land uses within the District service area are described in Section 2.5.1.1. The entirety of the District is located within the Anchor Bay Census Designated Place (CDP) in coastal unincorporated Mendocino County. The primary uses of the coastal zone are rural residential uses and small commercial zones, agricultural uses also exist within the area. Future development in the District is limited in growth to buildout of any remaining undeveloped rural residential lots as the commercial district is already built out. Furthermore, based on population projections for the County, it is likely buildout of the residential parcels will not occur until well beyond the planning horizon of this document. Based on the District's location in the coastal zone, the area is subject to additional development regulations, and land use changes in the area must be approved by both the County and Coastal Commission.

#### 4.5.2 Present and probable need for facilities and services in the area

The District provides wastewater treatment services to approximately 100 customers. This service area includes the Anchor Bay community of approximately 68 residences, the Anchor Bay Campground, and a small commercial strip that straddles State Highway 1. There are several customers who own more than one equivalent dwelling unit (EDU); therefore, the actual number of connections is closer to 100. The District anticipates little growth in resident population within the near term (five years) and long-term planning horizon (20 years). Given that the MCWD2 is limited to a small number of commercial properties that are developed, and the residential properties in the Anchor Bay community with only a handful of undeveloped lots, the District will likely not need to accommodate much future development and is near buildout. While there are some large parcels that in theory could be developed as a hotel/bed and breakfast, there are no current development plans in plans and more notably, the North Gualala Water Company (NGWC) currently has a water moratorium in place that does not allow for any new connections for potable water. Until that moratorium is lifted, no new building permits will be issued. The projected decline of 2.7 percent throughout the County suggests that buildout of the residential parcels will likely not occur until well beyond the planning horizon of this document.

#### 4.5.3 The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide

The District provides wastewater conveyance services to approximately 100 wastewater connections. The District's wastewater collection system consists of approximately 6,800 linear feet of gravity pipelines, 1,370 linear feet of pressurized force mains, 26 manholes, and two wastewater pump stations. The District has experienced multiple violations; 22 since July 2019 and 8 within the last year (2023). Some of the

violation events are described as ‘beyond District control’ though many of these violations appear to have received corrective action in the form of training. The design capacity of the wastewater treatment plant (WWTP) is 24,000gallons per day (gpd), but the permit capacity is only 19,000 gpd. The District’s infrastructure is in need of extensive repairs in order to continue providing adequate service to its existing customers and does not appear to have the capacity to address emergencies despite its current efforts.

#### 4.5.4 The existence of any social or economic communities of interest in the area if the Commission determines that they are relevant to the agency

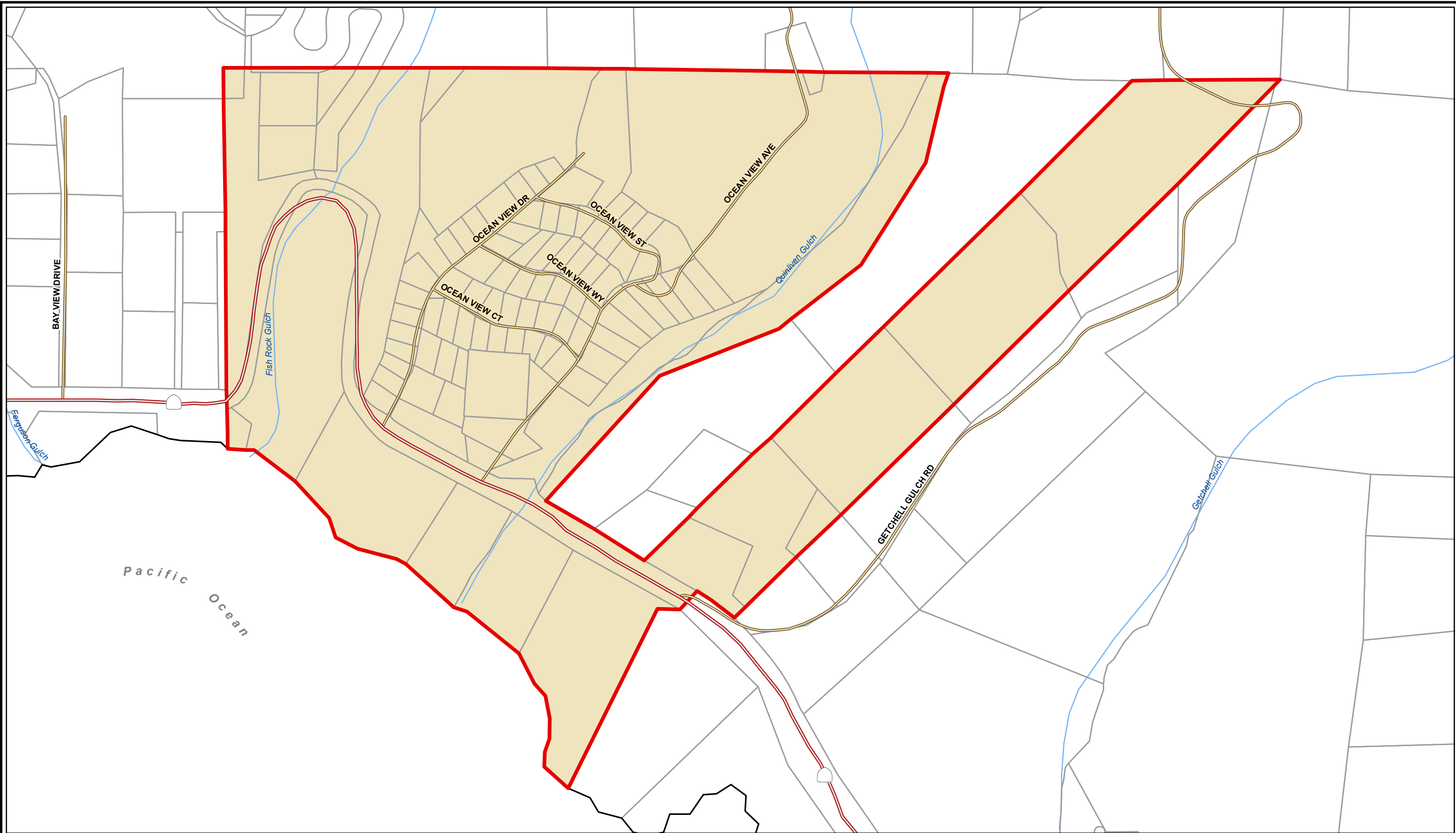
The District is located within the unincorporated coastal zone of Mendocino County and is wholly located within the Anchor Bay CDP. Most of the coastal zone is made up of rural uses and is geographically isolated from other communities. Given its isolated location and financial standing, no additional communities of interest have been identified for the District.

#### 4.5.5 The present and probable need for public facilities and services of any disadvantaged unincorporated communities

The District is located within the Anchor Bay CDP which has a Median Household Income (MHI) of \$68,452. With an MHI that is less than the Statewide MHI Threshold of \$73,240, the District is considered to be a Disadvantaged Unincorporated Community (DUC). While the residents of Anchor Bay are currently receiving the essential municipal services of fire, water, and wastewater, only fire services have proven to be adequate in the area. Both water and wastewater services could be improved in the areas that are utilizing private septic systems and wells. While these areas currently do not lack public services these properties could consider upgrading their system; particularly those utilizing septic as public health concerns.

### 4.6 Recommendation

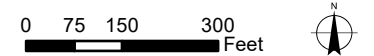
Pursuant to California Water Code (WAT) §55100, the Commission does hereby establish the functions and classes of services provided by the MCWD2 as limited to wastewater collection and treatment. Based upon the information contained in this report, it is recommended that the District Service Area Boundary and SOI for all services remain unchanged and coterminous (Figure 4-1).



### Mendocino County Waterworks District No. 2 - Anchor Bay

Source: This map was prepared by the Mendocino County Division of Information Services GIS Program, June 26, 2024.  
Note: This map is not a survey product.

- Mendocino County Waterworks No 2
- Sphere of Influence
- Parcels
- Highways
- Roads
- Streams



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## 6 ACKNOWLEDGEMENTS

### 6.1 Report Preparation

This Municipal Service Review and Sphere of Influence Update was prepared by Hinman & Associates Consulting, Inc., contracted staff for Mendocino LAFCo.

Uma Hinman, Executive Officer  
Spencer Richard, Analyst  
Jen Crump, Analyst

### 6.2 Assistance and Support

This Municipal Service Review and Sphere of Influence Update could not have been completed without the assistance and support from the following organizations and individuals.

Mendocino County Waterworks District No. 2	Linda-Marie Koza, Board President Chris Troyan, GCSD General Manager
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## 7 APPENDICES

### 7.1 Appendix A – Open Government Resources

The purpose of this appendix is to provide a brief list of some educational resources for local agencies interested in learning more about the broad scope of public interest laws geared towards government transparency and accountability. This appendix is not intended to be a comprehensive reference list or to substitute legal advice from a qualified attorney. Feel free to contact the Mendocino LAFCo office at (707) 463-4470 to make suggestions of additional resources that could be added to this appendix.

The websites listed below provide information regarding the following open government laws: (1) **Public Records Act** (Government Code §6250 et seq.), (2) **Political Reform Act** – Conflict-of-Interest regulations (Government Code §81000 et seq.), (3) **Ethics Principles and Training** (AB 1234 and Government Code §53235), (4) **Brown Act** – Open Meeting regulations (Government Code §54950 et seq.), and (5) **Online Compliance** regulations (Section 508 of the US Rehabilitation Act and Government Code §11135).

- Refer to the State of California Attorney General website for information regarding public access to governmental information and processes at the following link: <https://oag.ca.gov/government>.
- Refer to the State of California Attorney General website for information regarding Ethics Training Courses required pursuant to AB 1234 at the following link: <https://oag.ca.gov/ethics>.
- The Fair Political Practices Commission (FPPC) is primarily responsible for administering and enforcing the Political Reform Act. The website for the Fair Political Practices Commission is available at the following link: <http://www.fppc.ca.gov/>.
- Refer to the California Department of Rehabilitation website for information regarding Section 508 of the US Rehabilitation Act and other laws that address digital accessibility at the following link: <http://www.dor.ca.gov/DisabilityAccessInfo/What-are-the-Laws-that-Cover-Digital-Accessibility.html>.
- Refer to the Institute for Local Government (ILG) website to download the Good Governance Checklist form at the following link: [www.ca-ilg.org/post/good-governance-checklist-good-and-better-practices](http://www.ca-ilg.org/post/good-governance-checklist-good-and-better-practices).
- Refer to the Institute for Local Government (ILG) website to download the Ethics Law Principles for Public Servants pamphlet at the following link: [www.ca-ilg.org/node/3369](http://www.ca-ilg.org/node/3369).
- Refer to the Institute for Local Government (ILG) website for information regarding Ethics Training Courses required pursuant to AB 1234 at the following link: <http://www.ca-ilg.org/ethics-education-ab-1234-training>.
- Refer to the California Special Districts Association (CSDA) website for information regarding online and website compliance webinars at the following link: <http://www.csda.net/tag/webinars/>.

## 7.2 Appendix B – Website Compliance Handout

# California Website Compliance Checklist

Use this checklist to keep your district's website compliant with State and Federal requirements.

## Public Records Act

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SB 929

**Our district has created and maintains a website**

Passed in 2018, all independent special districts must have a website that includes contact information (and all other requirements) by Jan. 2020

SB 272

**Our Enterprise System Catalog is posted on our website**

All local agencies must publish a catalog listing all software that meets specific requirements—free tool at [getstreamline.com/sb272](http://getstreamline.com/sb272)

AB 2853 (optional):

**We post public records to our website**

This bill allows you to refer PRA requests to your site, if the content is displayed there, potentially saving time, money, and trees

## The Brown Act

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AB 392:

**Agendas are posted to our website at least 72 hours in advance of regular meetings, 24 hours in advance of special meetings**

This 2011 update to the Act, originally created in 1953, added the online posting requirement

AB 2257:

**A link to the most recent agenda is on our home page, and agendas are searchable, machine-readable and platform independent**

Required by Jan. 2019—text-based PDFs meet this requirement, Microsoft Word docs do not

## State Controller Reports

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Financial Transaction Report:

**A link to the Controller's "By the Numbers" website is posted on our website**

Report must be submitted within seven months after the close of the fiscal year—you can add the report to your site annually, but posting a link is easier

Compensation Report:

**A link to the Controller's PublicPay website is posted in a conspicuous location on our website**

Report must be submitted by April 30 of each year—you can also add the report to your site annually, but posting a link is easier

## Healthcare District Websites

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AB 2019:

**If we're a healthcare district, we maintain a website that includes all items above, plus additional requirements**

Including budget, board members, Municipal Service Review, grant policy and recipients, and audits

## Open Data

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AB 169:

**Anything posted on our website that we call "open data" meets the requirements for open data**

Defined as "retrievable, downloadable, indexable, and electronically searchable; platform independent and machine readable" among other things

## Section 508 ADA Compliance

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CA gov code 7405:

**State governmental entities shall comply with the accessibility requirements of Section 508 of the federal Rehabilitation Act of 1973**

Requirements were updated in 2018—if you aren't sure, you can test your site for accessibility at [achecker.ca](http://achecker.ca)



**California Special Districts Association**  
*Districts Stronger Together*

[csda.net](http://csda.net)



[getstreamline.com](http://getstreamline.com)

# The Brown Act: new agenda requirements

Tips for complying with AB 2257 by January, 2019

## Placement:

**What it says:** An online posting of an agenda shall be posted on the primary Internet Web site homepage of a city, county, city and county, special district, school district, or political subdivision established by the state that is accessible through a prominent, direct link to the current agenda.

**What that means:** Add a link to the **current agenda directly to your homepage**. It cannot be in a menu item or otherwise require more than a single click to open the agenda.

## Exception:

**What it says:** A link to the agenda management platform may be added to the home page instead of a link directly to the current agenda, if the agency uses an integrated agenda management platform that meets specified requirements, including, among others, that the current agenda is the first agenda available at the top of the integrated agenda management platform.

**What that means:** If you use an agenda management system, you may add a link to that system directly to your homepage (again, not in a menu item), if the format of the agenda meets the requirements below, and if the current agenda is the first at the top of the list.

## Format:

**What it says:** [agenda must be] Retrievable, downloadable, indexable, and electronically searchable by commonly used Internet search applications. Platform independent and machine readable. Available to the public free of charge and without any restriction that would impede the reuse or redistribution of the agenda.

**What that means:** You cannot add Word Docs or scanned (image-based) PDFs of your agenda to your website—Word Docs are not platform independent (the visitor must have Word to read the file), and scanned PDFs are not searchable. Instead, **keep your agenda separate from the packet** and follow these steps:

1. From Word or other document system: Export agenda to PDF
2. Add that agenda to your website (or to your agenda management system), and include a link to that agenda on your homepage
3. Then, you can print the agenda, add it to your pile of documents for the packet, and scan that to PDF - just keep the packet separate from the agenda (only the agenda must meet AB 2257)
4. Keep the link on the homepage until the next agenda is available, then update the link

Questions? Contact [sloane@getstreamline.com](mailto:sloane@getstreamline.com) or [dillong@csga.net](mailto:dillong@csga.net)

### 7.3 Appendix C – Housing Legislation Trends and Results

#### Mendocino County and ADUs

In response, the County of Mendocino has taken a number of steps to facilitate Accessory Dwelling Unit (ADU) construction and operation in an attempt to address the local housing crisis. This includes adopting an ADU ordinance which outlines specific development standards. Another General Plan update was adopted on 11/9/2021 which amended the Coastal Zoning Code component of the Local Coastal Plan to establish and revise standards for ADUs in the Coastal Zone.

Because Anchor Bay is located in the Coastal Zone of the County it is subject to coastal specific ADU regulations. The number of permitted ADUs within the Coastal Zone of Mendocino County (excluding the Gualala Town Plan area) is limited to 500 units. Junior Accessory Dwelling Units (JADU), which are accessory structures typically limited to 500 square feet in an existing space, are exempted from this cap. Any change to the cap on the number of ADUs shall require a Local Coastal Program amendment.

Per Section 20.458.040 - Public Health and Safety Requirements, of the County's Municipal Code, both an adequate water supply and sewage capacity must be available to serve the proposed new residence as well as existing residences on the property. Most notably, if the property is located in a service district (such as Pacific Reefs), the property owner must provide written approval from the service district specifically authorizing the connection of the ADU.

With respect to coastal resource protections, ADUs and JADUs are subject to additional requirements that impact the viability of their development. Some of the most pertinent requirements can be found in Section 20.458.045 of the County's Municipal Code.

#### The Larger Picture

As for how ADUs fit into the larger picture of the Mendocino County population trends, the housing data provided in the County's General Plan Annual Progress Report (APR) provides a reliable snapshot. Required by the Governor's Office of Planning and Research (OPR) and the State's Department of Housing and Community Development (HCD), every jurisdiction is required to provide an annual report detailing the progress made towards implementing their housing element and meeting their regional housing needs allocations (RHNA).

The data provided in the most recent APR for Unincorporated Mendocino County (adopted June 6<sup>TH</sup>, 2023 by the Board of Supervisors) suggests that despite strict development regulations in some places, ADUs are certainly a factor in local housing development trends. Out of the 143 housing development applications received in the 2022 reporting year, 38 were for ADUs; in 2021 a total of 102 housing development applications were received, of which 35 were for ADUs. This small number of ADUs compared to single-family home applications suggests that there could continue to be some limited development of ADUs throughout the unincorporated areas of the County. This kind of development could very slightly increase demand for wastewater services provided by the Mendocino County Waterworks District No. 2 (MCWD2) in Anchor Bay. However, any new development requires written approval from the service provider to authorize services.

#### Regional Housing Needs Allocation (RHNA)

It is worth noting that in response to statutory requirements, policy direction from the State HCD, and mandated deadlines for delivery of housing need allocation numbers to local jurisdictions within Mendocino County, the Mendocino Council of Governments (MCOG) adopted a Regional Housing Needs Plan in 2018.

Although MCOG does not typically deal with housing issues, they have been designated by HCD as the appropriate regional agency to coordinate the housing need allocation process. The political jurisdictions that comprise the region consist of the Mendocino County unincorporated area and the Cities of Ukiah, Fort Bragg, Willits and Point Arena.

The Regional Housing Needs Plan went through numerous iterations prior to being adopted which took into account different allocation factors for the methodology. Throughout the process, each member jurisdiction provided statements of constraints to HCD which detailed the land-constraints that challenge residential development in unincorporated Mendocino County. Water resources and availability was cited by multiple MCOG member jurisdictions as a constraint and contributed to the adjustments made by the state on the region's required housing allocations.

The RHNA allocations for Unincorporated Mendocino County are projected for a planning period between 8/15/2019 and 8/17/2027. Since adopting the Regional Housing Needs Plan in 2018 the County has made progress across all income levels; the number of housing units developed and how many remain with respect towards its RHNA allocation are detailed below broken down by income level and deed restricted versus non-deed restricted.

**Table 7-1: Mendocino County RHNA Allocations**

Income Level		RHNA Allocation	Projection Period - 01/01/2019-08/14/2019	2019	2020	2021	2022	Total Units to Date (All Years)	Total Remaining RHNA
Very Low	Deed Restricted	291	--	--	39	--	21	125	166
	Non-Deed Restricted		--	--	--	65	--		
Low	Deed Restricted	179	--	--	--	--	--	21	158
	Non-Deed Restricted		--	-	--	21	--		
Moderate	Deed Restricted	177	--	--	--	--	--	156	21
	Non-Deed Restricted		4	--	--	--	--		
Above Moderate		702	46	40	67	51	58	262	440
Total RHNA		1,349							
Total Units			50	60	149	186	119	564	785



\*Progress toward extremely low-income housing need, as determined pursuant to Government Code 65583(a)(1).

Extremely Low-Income Units*		145			15	26	21	62	83
-----------------------------	--	-----	--	--	----	----	----	----	----

(HCD, 2023)

With respect to how RHNA requirements may affect Anchor Bay, the State continues to push for more housing across the state including in communities located on the coast such as Anchor Bay. While these coastal communities are subject to additional regulation and governing bodies (i.e., the Coastal Commission), housing mandates can affect these areas just the same as more inland communities. While there is not currently much left to develop under current regulations in Anchor Bay, evolving legislation could allow for increased development potential that supports the State's housing goals.

#### Additional Recent State Housing Legislation

While the state legislator has made a concerted effort to progress ADU development throughout the state, there have been numerous other housing bills passed in recent years aimed at addressing the housing affordability crisis.

- Senate Bill (SB) 9 - Authorizes a property owner to split a single-family lot into two lots and place up to two units on each new lot. Therefore, the bill permits up to four units on properties currently limited to single-family houses. SB 9 also mandates that local agencies approve development projects that meet specified size and design standards.
- SB 10 - Establishes a process for local governments to increase the density of parcels in transit-rich areas or on urban infill sites to up to 10 residential units per parcel. Such an ordinance must be adopted between Jan. 1, 2021, and Jan. 1, 2029, and is exempt from the California Environmental Quality Act (CEQA).
- SB 35 - Applies in cities that are not meeting their Regional Housing Need Allocation (RHNA) goal for construction of above-moderate income housing and/or housing for households below 80 percent area median income (AMI). SB-35 amends Government Code (GC) Section (§) 65913.4 to require local entities to streamline the approval of certain housing projects by providing a ministerial approval process.

7.4 Appendix D – District Financial Audits

MENDOCINO COUNTY WATERWORKS DISTRICT #2

FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

MENDOCINO COUNTY WATERWORKS DISTRICT #2  
FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

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Board of Directors  
Mendocino County Waterworks District #2  
Ukiah, CA 95482

### Independent Auditor's Report

#### **Opinions**

I have audited the accompanying financial statements of the business-type activities Mendocino County Waterworks District #2 as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Mendocino County Waterworks District #2's basic financial statements as listed in the table of contents. In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Mendocino County Waterworks District #2 as of June 30, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinions**

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the Mendocino County Waterworks District #2 and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Mendocino County Waterworks District #2's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Mendocino County Waterworks District #2's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Mendocino County Waterworks District #2's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Required Supplementary Information**

The District has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of the basic financial statements.



Michael A Celentano  
Certified Public Accountant

November 3, 2022

MENDOCINO COUNTY WATERWORKS DISTRICT #2  
STATEMENT OF NET POSITION  
JUNE 30, 2022 AND 2021

<u>ASSETS</u>	<u>2022</u>	<u>2021</u>
<u>Current Assets</u>		
Cash in bank - Note 2	\$ 352,353	\$ 364,705
Accounts receivable	69,300	8,617
Prepaid expenses	<u>-</u>	<u>120</u>
Total Current Assets	421,653	373,442
<u>Capital Assets - Note 3</u>	<u>440,881</u>	<u>475,784</u>
Total Assets	<u>\$ 862,534</u>	<u>\$ 849,226</u>
<u>LIABILITIES</u>		
<u>Current Liabilities</u>		
Accounts payable	\$ -	\$ -
Payroll taxes payable	<u>534</u>	<u>489</u>
Total Current Liabilities	<u>534</u>	<u>489</u>
Total Liabilities	<u>\$ 534</u>	<u>\$ 489</u>
<u>Net Position</u>		
Investment in capital assets	\$ 440,881	\$ 475,784
Unrestricted	<u>421,119</u>	<u>372,953</u>
Total Net Position	<u>\$ 862,000</u>	<u>\$ 848,737</u>

MENDOCINO COUNTY WATERWORKS DISTRICT #2  
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>Operating Revenues</u>		
Charges for services	\$ 137,116	\$ 135,000
Total Operating Revenue	137,116	135,000
<u>Operating Expenses</u>		
Personnel and related benefits	59,067	73,063
Insurance	6,213	5,915
Operating supplies	1,728	3,691
Chemicals	3,810	2,600
Repairs and maintenance	486	6,077
Utilities	8,350	8,176
Permits	12,949	12,494
Research and monitoring	6,199	5,108
Office expense	830	1,148
Legal and other professional services	6,121	5,816
Rent	1,440	1,440
Dues and subscriptions	2,207	1,282
Depreciation	<u>34,903</u>	<u>34,047</u>
Total Operating Expenses	<u>144,303</u>	<u>160,857</u>
Operating Income (Loss)	(7,187)	(25,857)
<u>Non-Operating Revenues (Expenses)</u>		
Interest income bank	1,223	1,475
Assessments - repair and replacement reserve	22,200	20,070
Miscellaneous lincome	1,067	-
Refund of prior years sewer fees	<u>(4,040)</u>	
Total Non-Operating Revenues (Expenses)	<u>20,450</u>	<u>21,545</u>
Net Income (Loss)	13,263	(4,312)
<u>Net Assets, Beginning of Year</u>	<u>848,737</u>	<u>853,049</u>
<u>Net Assets, Ending of Year</u>	<u>\$ 862,000</u>	<u>\$ 848,737</u>

The accompanying notes are an integral part of these statements



MENDOCINO COUNTY WATERWORKS DISTRICT #2  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
<u>Cash Flows From Operating Activities</u>		
Cash received from customers	\$ 76,433	\$ 137,151
Payments to suppliers for goods and services	(50,213)	(65,150)
Payments to employees and related items	<u>(59,022)</u>	<u>(73,690)</u>
Net Cash Provided by Operating Activities	(32,802)	(1,689)
<u>Cash Flows From Capital and Related Financing Activities</u>		
Assessments - repairs and replacements	22,200	20,070
Miscellaneous income	1,067	-
Refund of prior year sewer fees	<u>(4,040)</u>	<u>-</u>
Net Cash Flows Provided by Capital and Related Financing Activities	19,227	20,070
<u>Cash Flows From Investing Activities</u>		
Interest	<u>1,223</u>	<u>1,475</u>
Net Cash Flows Provided by Investing Activities	<u>1,223</u>	<u>1,475</u>
Net Change in Cash and Cash Equivalents	<u>(12,352)</u>	<u>19,856</u>
<u>Cash and Cash Equivalents, Beginning of Year</u>	<u>364,705</u>	<u>344,849</u>
<u>Cash and Cash Equivalents, Ending of Year</u>	<u>\$ 352,353</u>	<u>\$ 364,705</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash (Used) by Operating Activities</u>		
Operating income (loss)	\$ (7,187)	\$ (25,857)
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	34,903	34,047
(Increase) decrease in current assets:		
Accounts receivable	(60,683)	2,151
Prepaid expenses	120	(120)
Increase (decrease) in current liabilities		
Accounts payable	-	(11,283)
Payroll taxes payable	<u>45</u>	<u>(627)</u>
Net Cash Provided by Operating Activities	<u>\$ (32,802)</u>	<u>\$ (1,689)</u>

The accompanying notes are an integral part of these statements

MENDOCINO COUNTY WATERWORKS DISTRICT #2  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The District was formed in 1958 under the provisions of the Water Code for the State of California. The District operates under a board of directors' form of government. Members of the board of directors were the County of Mendocino's Board of Supervisors until November 2, 1993 at which time they appointed an independent board of directors to serve the District. Legislation has passed making the District independent from the County of Mendocino starting July 1, 1996. Accordingly, the Board of Directors are an elected body of officials.

The District provides sewer services to residents and businesses within the district boundaries. The District's boundaries include a relatively confined region representing the area known as "Anchor Bay" which is located in the County of Mendocino. The District's financial statements include the accounts of all District operations.

Accounting Policies

The District's accounting and reporting policies conform to the generally accepted accounting principles as applicable to state and local governments.

The following is a summary of the more significant policies:

Basis of Presentation

The statement of Net Position and Statement of Activities display information about the reporting District as a whole.

The District is comprised of only one fund, the Enterprise Fund. Enterprise funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flows. All assets and liabilities are included on the Statement of Net Position.

Basis of Accounting

The District Statement of Net Position and Statement of Activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses, assets and liabilities resulting from an exchange are recognized when the exchange takes place.

When an expense is incurred for the purpose for which both restricted and unrestricted net position are available, the District's policy is to apply restricted net position first.

## Budget

The annual budget is prepared in accordance with the basis of accounting utilized by the District. The budget is amended from time-to-time as the need arises and is approved by the Board of Directors. The budget is not legally required and therefore budget to actual information has not been presented.

## Deposits and Investments

It is the District's policy for deposits and investments to either be insured by the FDIC or collateralized. The District's deposits and investments are categorized to give an indication of the level of risk assumed by the District as of June 30, 2022 and 2021. The categories are described as follows:

- Category 1 Insured, registered or collateralized, with securities held by the entity or its agent in the entity's name.
- Category 2 Uninsured and unregistered or collateralized, with securities held by the counter party's trust department or agent in the entity's name.
- Category 3 Uninsured and unregistered, or uncollateralized, with securities held by the counter party, or its trust department or agent but not held in the entity's name.

Deposits and investments as of June 30, 2022 and 2021 consisted of Category 1 type only.

## Receivables

Bad debts associated with accounts receivable for services are provided for by use of the allowance method. Other receivables, if any, are shown at the anticipated recoverable amount, unless otherwise noted.

## Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## Property, Plant and Equipment

Property, plant and equipment are recorded at cost or estimated cost if actual cost is not available. Donated assets are valued at their fair market value on the date donated. Assets with a value of \$1,000 or less are expensed in the year acquired.

Depreciation of plant, property and equipment is recorded as an expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of

Net Position. Depreciation is provided over the estimated useful lives using the straight-line method of accounting. The ranges of estimated useful lives are as follows:

Treatment plant	10-40 years
General plant assets	8-40 years

Proprietary Fund Financial Statements

The District has a sole fund which is considered a proprietary fund.

Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Activities and Changes in Net Position, and a Statement of Cash Flows for each proprietary fund.

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Position. The Statement of Activities and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts.

Operating revenues in the proprietary fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Note 2 - Cash

As of June 30, 2022 and 2021 cash consisted as follows:

	<u>2022</u>	<u>2021</u>
Cash		
General operations	\$106,903	\$133,796
Savings	<u>245,450</u>	<u>230,909</u>
Total Cash	<u>\$352,353</u>	<u>\$364,705</u>

All above deposits are either insured or collateralized and are considered for purposes of the Statement of Cash Flows as cash and cash equivalents. The deposits approximate fair market value.

State law requires uninsured deposits of public agencies to be secured by certain state approved investment securities. The District’s deposits are secured as part of an undivided collateral pool covering all public deposits with the financial institution.

The market value of the pool must be equal to at least 110% of the total public deposits held by the financial institutions.

Note 3 - Property, Plant and Equipment

Items included in the equipment account are almost solely related to the treatment facilities in the form of pumps, motors, regulators, filters, etc., which are anticipated to wear out much sooner than the facilities themselves. The Other Property account consists of assets not as directly related to the treatment facilities and equipment and may have been acquired after construction such as: fencing, drainage and berm road work, access road paving, etc.

The following is a summary of the changes in property, plant and equipment for the fiscal year:

	<u>Balance</u> <u>7/1/21</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/22</u>
Land	\$ 146,087	\$	\$	\$ 146,087
Treatment plant, structures and improvements	1,296,781			1,296,781
Equipment	138,937			138,937
Other property	<u>70,664</u>	<u>0</u>	<u>0</u>	<u>70,664</u>
Total Cost	1,652,469			1,652,469
Less accumulated depreciation	<u>(1,176,685)</u>	<u>(34,903)</u>	<u>0</u>	<u>(1,211,588)</u>
Net Book Value	<u>\$ 475,784</u>	<u>\$ (34,903)</u>	<u>\$ 0</u>	<u>\$ 440,881</u>

Depreciation expense of \$34,903 and \$34,047 were recorded as operating expense for the years ended June 30, 2022 and 2021, respectively.

Note 4 - Subsequent Events

Subsequent events are those events or transactions that occur subsequent to the effective date of the financial statements, but prior to the issuance of the final reports, which may have a material effect on the financial statement or disclosures therein.

There are no subsequent events that have occurred through November 3, 2022 that meet the above definition.

Note 5 - Joint Powers Agreement

The District participates in a joint venture under joint powers (JPA) with the Special Risk Management Authority (SDRMA) for insurance purposes. The SDRMA is a joint powers agency formed pursuant to Section 6500 et. Seq., California Government Code, is comprised of California special districts, and agencies including such districts. The relationship between the District and JPA is such that the JPA is not a component unit of the District for financial reporting purposes. The SDRMA's purpose is to jointly fund and develop programs to provide stable, efficient and long term risk financing for special districts. These programs are provided through collective self-insurance; the purchase of insurance coverage's; or a combination thereof.

Attachment 2

Notice of Exemption

(Exempt from fees per GOV Section 27383)

Appendix E

To: Office of Planning and Research
P.O. Box 3044, Room 113
Sacramento, CA 95812-3044

County Clerk
County of: Mendocino

From: (Public Agency): Mendocino LAFCo
200 S School Street
Ukiah, CA 95482

(Address)

Project Title: Mendocino County Water Works District No. 2 Municipal Service Review & Sphere of Influence Update

Project Applicant: N/A

Project Location - Specific:

Anchor Bay, 3 miles north of Gualala on State Hwy 1

Project Location - City: Anchor Bay Project Location - County: Mendocino

Description of Nature, Purpose and Beneficiaries of Project:

This is a LAFCo-initiated Municipal Service Review (MSR) and Sphere of Influence (SOI) Update for the Mendocino County Water Works District No. 2 prepared in accordance with California Government Code Sections 56430 and 56425

Name of Public Agency Approving Project: Mendocino Local Agency Formation Commission

Name of Person or Agency Carrying Out Project: Mendocino Local Agency Formation Commission

Exempt Status: (check one):

- Ministerial (Sec. 21080(b)(1); 15268);
Declared Emergency (Sec. 21080(b)(3); 15269(a));
Emergency Project (Sec. 21080(b)(4); 15269(b)(c));
[X] Categorical Exemption. State type and section number: 15306 (Class 6 Exemption)
Statutory Exemptions. State code number:

Reasons why project is exempt:

15306 (Information Collection): the MSR is a data collection and service evaluation study, does not make land use changes, and any future actions will be subject to additional environmental review.
15061(b)(3) (General Rule): the SOI Update does not grant new municipal service powers or areas and no physical changes to the environment are anticipated, planned, or reasonably foreseeable as a result of the SOI Update.

Lead Agency

Contact Person: Uma Hinman, Executive Officer Area Code/Telephone/Extension: (707) 463-4470

If filed by applicant:

- 1. Attach certified document of exemption finding.
2. Has a Notice of Exemption been filed by the public agency approving the project? Yes No

Signature: Date: 07/01/2024 Title: Executive Officer

Signed by Lead Agency Signed by Applicant

Authority cited: Sections 21083 and 21110, Public Resources Code.
Reference: Sections 21108, 21152, and 21152.1, Public Resources Code.

Date Received for filing at OPR:

### **Attachment 3**

## **Resolution No. 2023-24-09 of the Mendocino Local Agency Formation Commission**

### **Approving the Mendocino County Waterworks District No. 2 Municipal Service Review and Sphere of Influence Update 2024**

WHEREAS, the Mendocino Local Agency Formation Commission, hereinafter referred to as the “Commission”, is authorized to conduct municipal service reviews and establish, amend, and update spheres of influence for local governmental agencies whose jurisdictions are within Mendocino County; and

WHEREAS, the Commission conducted a municipal service review to evaluate the Mendocino County Waterworks District No. 2, hereinafter referred to as the “MCWD2 or District”, pursuant to California Government Code Section 56430; and

WHEREAS, the Commission conducted a sphere of influence update for the District pursuant to California Government Code Section 56425; and

WHEREAS, the Commission held a public workshop on March 4, 2024 to hear public and agency comments and provide direction on revisions to the District’s Draft MSR/SOI update; and

WHEREAS, the Executive Officer gave sufficient notice of a public hearing to be conducted by the Commission in the form and manner prescribed by law; and

WHEREAS, the Executive Officer’s report and recommendations on the municipal service review and sphere of influence update were presented to the Commission in the manner provided by law; and

WHEREAS, the Commission heard and fully considered all the evidence presented at a public hearing held on the Municipal Service Review and Sphere of Influence update on July 1, 2024; and

WHEREAS, the Commission considered all the factors required under California Government Code Sections 56430 and 56425.

NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED by the Mendocino Local Agency Formation Commission, as follows:

1. The Commission, as Lead Agency, finds the municipal service review is categorically exempt from further review under the California Environmental Quality Act pursuant to Title 14 of the California Code of Regulations §15306 (Class 6 Exemption). This finding is based on the use of the municipal service review as a data collection and service evaluation study. There are no land use changes or environmental impacts created or recommended by the MSR. The information contained within the municipal service review may be used to consider future actions that will be subject to additional environmental review.
2. The Commission, as Lead Agency, finds the sphere of influence update is exempt from further review under the California Environmental Quality Act pursuant to Title 14 of the California Code of Regulations §15061(b)(3) (General Rule). This finding is based on the Commission determining with certainty that the sphere of influence update will have no possibility of significantly effecting the environment given that this update does not grant new municipal



service powers or areas and no physical changes to the environment are anticipated, planned, or reasonably foreseeable as a result of the SOI Update.

3. This municipal service review and sphere of influence update is assigned the following distinctive short-term designation: “Mendocino County Waterworks District No. 2 MSR/SOI Update 2024”.
4. Pursuant to Government Code Section 56430(a), the Commission makes the written statement of determinations included in the municipal service review, hereby incorporated by reference.
5. Pursuant to Government Code Section 56425(e), the Commission makes the written statement of determinations included in the sphere of influence update, hereby incorporated by reference.
6. The Executive Officer shall revise the official records of the Commission to reflect this update of the sphere of influence for the District.

BE IT FURTHER RESOLVED that the Mendocino County Waterworks District No. 2 MSR/SOI Update 2024 is hereby approved and incorporated herein by reference and that a coterminous Sphere of Influence be established for the District as depicted in Exhibit “A”, attached hereto.

PASSED and ADOPTED by the Mendocino Local Agency Formation Commission this 1st day of July 2024 by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

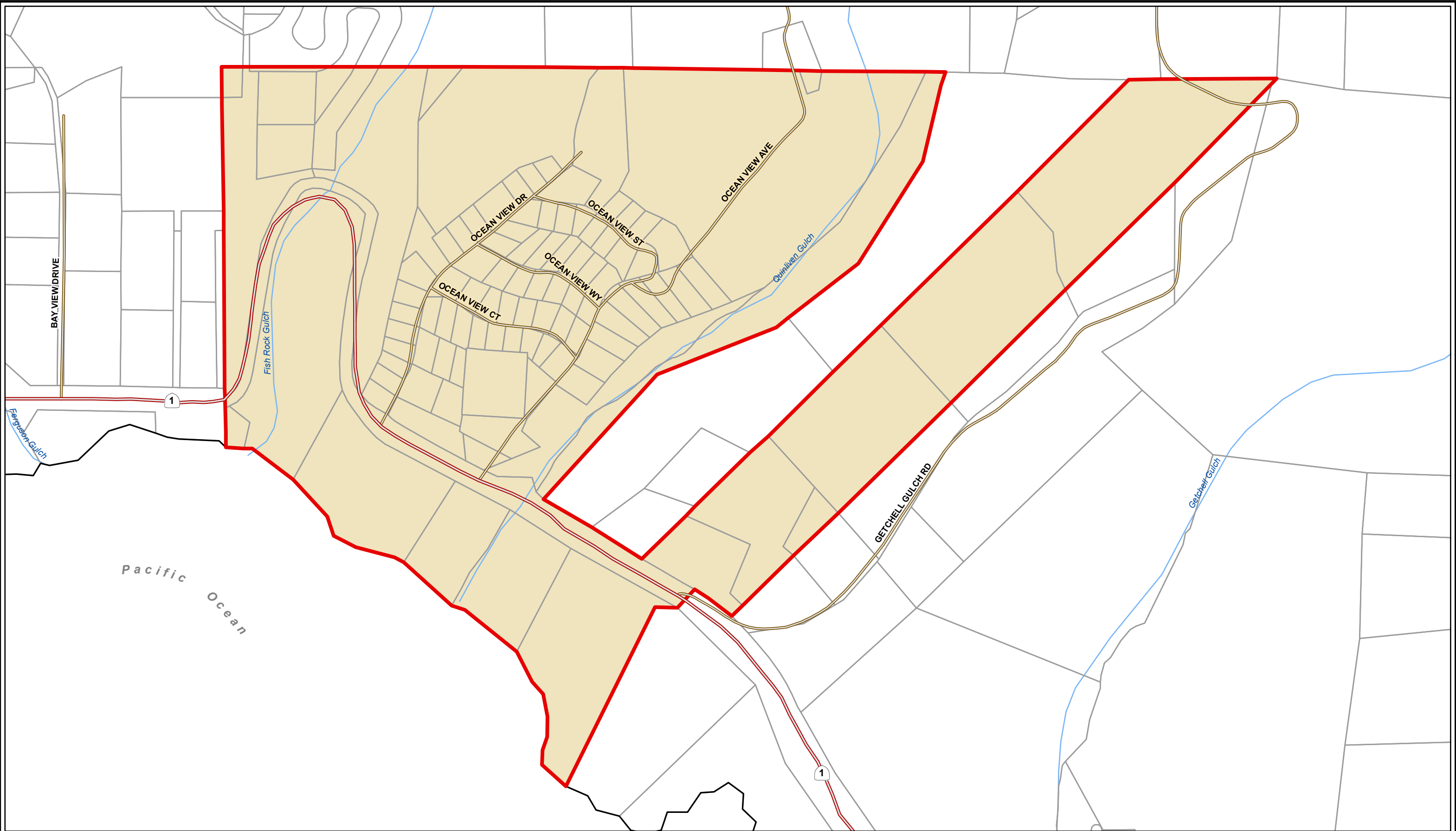
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MAUREEN MULHEREN,  
Commission Chair

ATTEST:

---

UMA HINMAN, Executive Officer



### Mendocino County Waterworks District No. 2 - Anchor Bay

Source: This map was prepared by the Mendocino County Division of Information Services GIS Program, June 26, 2024.  
Note: This map is not a survey product.

- Mendocino County Waterworks No 2
- Sphere of Influence
- Parcels
- Highways
- Roads
- Streams



# Independent Coast Observer

P.O. Box 1200  
Gualala, CA 95445

(707) 884-3501  
(707) 884-1710 fax  
[www.mendonoma.com](http://www.mendonoma.com)

## Proof of Publication of Mendocino Local Agency Formation Commission NOTICE OF PUBLIC HEARING

I, the undersigned say:

That I am over the age of eighteen and am not a party to or interested in the above entitled matter of proceeding; and am, and at all times embraced in the publication herein mentioned, was the principal clerk of the editor and publisher of the INDEPENDENT COAST OBSERVER, a weekly newspaper printed, published and circulated in the County of Mendocino, and adjudged a newspaper of general circulation by the Superior Court of California, Proceeding #15294, that the

above **Mendocino Local Agency Formation Commission NOTICE OF PUBLIC HEARING** of which is annexed a true printed copy, was printed in type not smaller than nonpareil and published in said newspaper on the following date(s), to wit: June 7, 2024.

I certify (or declare) under penalty of perjury that the foregoing is true and correct.  
Executed and dated at Gualala, California, this June 4, 2024

Signature 

(ICO Ad number 8028 )

## Public Notice

### MENDOCINO LOCAL AGENCY FORMATION COMMISSION NOTICE OF PUBLIC HEARING

NOTICE IS HEREBY GIVEN that on **Monday, July 1, 2024, at 9:00 AM** (or as soon thereafter as the matter may be heard) in a hybrid meeting format with in-person participation in the Mendocino County Board of Supervisors Chambers, 501 Low Gap Road, Ukiah, California, and remote (video or telephone) participation pursuant to GOV Section 54953 as described in the agenda to be posted at least 72 hours in advance of the meeting, and livestreamed at [www.youtube.com/MendocinoCountyVideo](http://www.youtube.com/MendocinoCountyVideo), the Mendocino Local Agency Formation Commission (LAFCo) will hold a Public Hearing to consider the Mendocino County Waterworks District #2 (Anchor Bay) Municipal Service Review (MSR) and Sphere of Influence (SOI) Update Study. This MSR/SOI Update is exempt from the provisions of the California Environmental Quality Act (CEQA) pursuant to Title 14 CCR § 15306 and § 15061(b)(3). Copies of all related documents may be reviewed once available (72 hours in advance of the meeting) at the LAFCo website ([www.mendolafco.org](http://www.mendolafco.org)) or at the LAFCo office. If you cannot attend the Public Hearing described in this notice, you may submit written comments prior to the hearing. Please direct comments, questions, and requests to review documents to LAFCo, 200 South School Street, Ukiah, CA 95482; e-mail: [eo@mendolafco.org](mailto:eo@mendolafco.org); phone: (707) 463-4470. All interested persons are invited to attend, be heard, and participate in the hearings. BY ORDER OF THE MENDOCINO LOCAL AGENCY FORMATION COMMISSION. UMA HINMAN, Executive Officer.  
(8028) June 7, 2024

# Fort Bragg Advocate-News

690 S. Main Street  
Fort Bragg, California 95437  
707-964-5642

2117504

MENDOCINO COUNTY LAFCO  
200 SOUTH SCHOOL ST  
UKIAH, CA 95482

## PROOF OF PUBLICATION (2015.5 C.C.P.)

### STATE OF CALIFORNIA COUNTY OF MENDOCINO

I am a citizen of the United States and a resident of the County aforesaid; I am over the age of eighteen years, and not a party to or interested in the above entitled matter. I am the Office Clerk of the Fort Bragg Advocate-News, a newspaper of general circulation by the Superior Court of the County of Mendocino, State of California under the date of May 9, 1952 - Case Number 9151, that the notice, of which the annexed is a printed copy (set in type not smaller than nonpareil), has been printed in each regular and entire issue of said newspaper and not in any supplement thereof on the following dates:

06/06/2024

I certify (or declare) under the penalty of perjury that the foregoing is true and correct.

Dated at Fort Bragg, California,  
June 6th, 2024



Sue Fullbright, LEGAL CLERK

Legal No. **0006833025**

**Mendocino Local Agency Formation Commission NOTICE OF PUBLIC HEARING.** NOTICE IS HEREBY GIVEN that on Monday, July 1, 2024, at 9:00 AM (or as soon thereafter as the matter may be heard) in a hybrid meeting format with in-person participation in the Mendocino County Board of Supervisors Chambers, 501 Low Gap Road, Ukiah, California, and remote (video or telephone) participation pursuant to GOV Section 54953 as described in the agenda to be posted at least 72 hours in advance of the meeting, and livestreamed at [www.youtube.com/MendocinoCountyVideo](http://www.youtube.com/MendocinoCountyVideo), the Mendocino Local Agency Formation Commission (LAFCo) will hold a Public Hearing to consider the **Mendocino County Waterworks District #2 (Anchor Bay) Municipal Service Review (MSR) and Sphere of Influence (SOI) Update Study.** This MSR/SOI Update is exempt from the provisions of the California Environmental Quality Act (CEQA) pursuant to Title 14 CCR § 15306 and § 15061(b)(3). Copies of all related documents may be reviewed once available (72 hours in advance of the meeting) at the LAFCo website ([www.mendolafco.org](http://www.mendolafco.org)) or at the LAFCo office. If you cannot attend the Public Hearing described in this notice, you may submit written comments prior to the hearing. Please direct comments, questions, and requests to review documents to LAFCo, 200 South School Street, Ukiah, CA 95482; e-mail: [eo@mendolafco.org](mailto:eo@mendolafco.org); phone: (707) 463- 4470. All interested persons are invited to attend, be heard, and participate in the hearings. BY ORDER OF THE MENDOCINO LOCAL AGENCY FORMATION COMMISSION. UMA HINMAN, Executive Officer.  
6-6/2024