



Proposition 218 Hearing

Mendocino City Community Services District

ROBERT D. NIEHAUS, INC.

NOVEMBER 28, 2022

Proposition 218

In November 1996, California voters passed Proposition 218, the “Right to Vote on Taxes Act.” This constitutional amendment protects taxpayers by limiting the methods by which local governments can create or increase taxes, fees and charges without taxpayer consent.

Between 2002 and 2017, California courts have ruled that fees associated with providing sewer services are “property-related” and thus under the jurisdiction of Prop 218.

The principal requirements for fairness of the fees, as they relate to public sewer service, are as follows:

- ▶ Revenues derived from the fee or charge shall not exceed the funds required to provide the property related service.
- ▶ Revenues derived by the fee or charge shall not be used for any other purpose other than that for which the charge was imposed.
- ▶ The amount of the fee or charge imposed upon any parcel shall not exceed the proportional cost of service attributable to the parcel.

Prop 218 Process

- Notices for a rate adjustment should be mailed out to all parcels within the District no later than 45 days before the hearing
- Notices must contain:
 - Date/location of hearing
 - How to protest
 - Rates/fees proposed and reason the fees are required
- Valid protests are counted at the end of the Hearing
 - Valid protests include parcel owners or responsible occupants, 1 protest allowed per parcel, in writing
 - Valid protest must contain information which sufficiently identifies where service is provided
- Hearing is successful if 50 percent or less of the parcel owners decline to protest

Purpose of Rate Study

- Ensure sufficient funding for Mendocino City CSD
- Ensure Proposition 218 Compliance
- Develop utility rates that are equitable to all customers
- Project the best financial plan to provide long-term stability of the utilities

Current Rates

Wastewater Customers Pay:

\$50.60 a month per Equivalent Single-Family Dwelling (ESD).

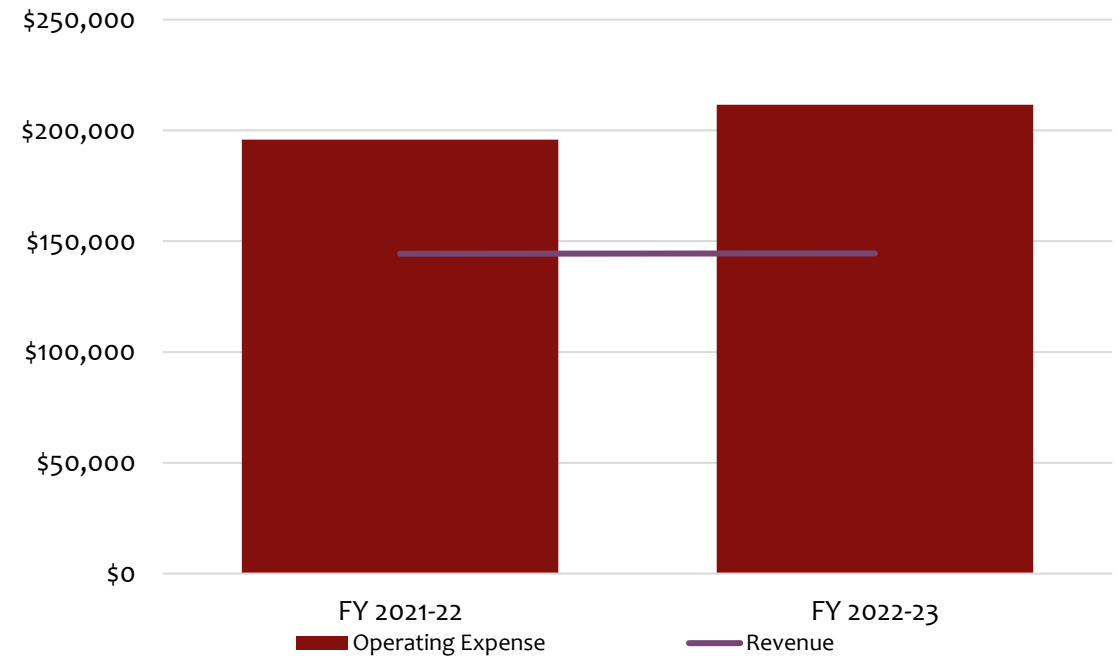
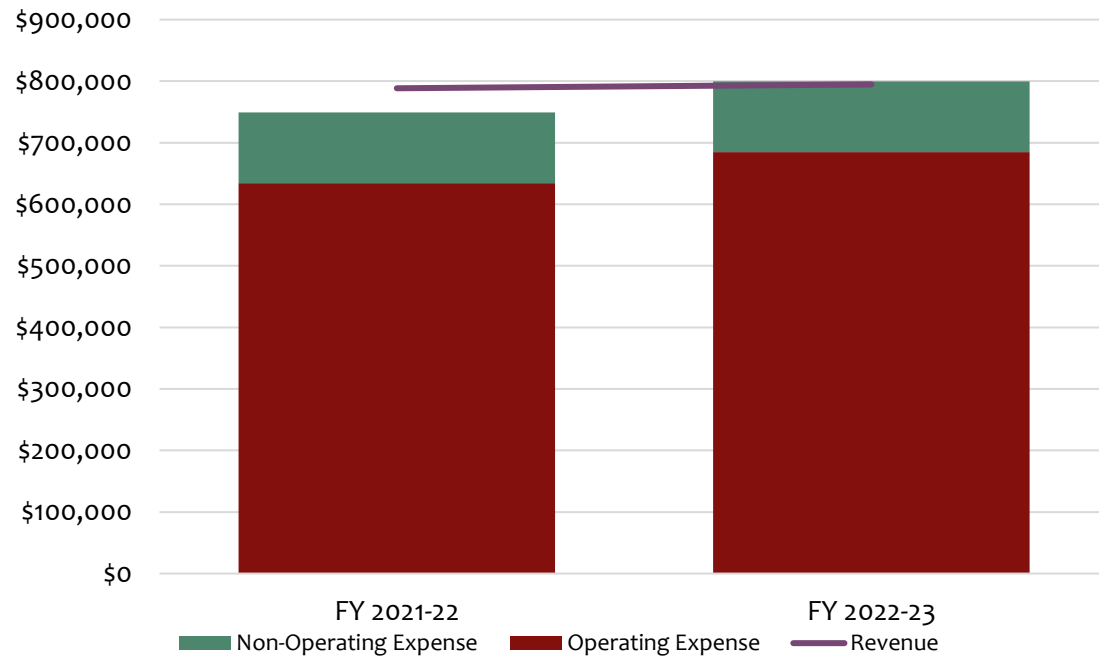
Groundwater Management Customers Pay:

\$10.63 a month per ESD

One ESD is equal to a 1-2 bedroom single-family residence in the District with a theoretical water demand of 200 gallons per day.

Current Budget

- ▶ For FY 2022-23 we projected a negative net balance of approximately \$5,000 for the sewer utility and negative \$67,000 for the Groundwater Management Utility



Increased costs of operation

Expense Escalation Factors	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
Overall Inflation Rate:	4.3%	3.8%	3.8%	2.8%	2.8%
Utility/Chemical Inflation Rate:	8.4%	6.4%	6.4%	2.8%	2.8%
Treatment Inflation Rate:	6.0%	6.0%	6.0%	6.0%	6.0%
Employee Expenses Inflation Rate:	9.0%	4.0%	4.0%	4.0%	4.0%
Equipment Inflation Rate:	7.8%	5.1%	5.1%	2.2%	2.2%
Fuels and Automobile Inflation Rate:	8.7%	7.3%	7.3%	2.7%	2.7%
Construction Inflation Rate:	8.4%	5.9%	5.9%	4.2%	4.2%
Insurance Inflation Rate	9.0%	2.9%	2.9%	2.9%	2.9%
No Escalation:	0.0%	0.0%	0.0%	0.0%	0.0%

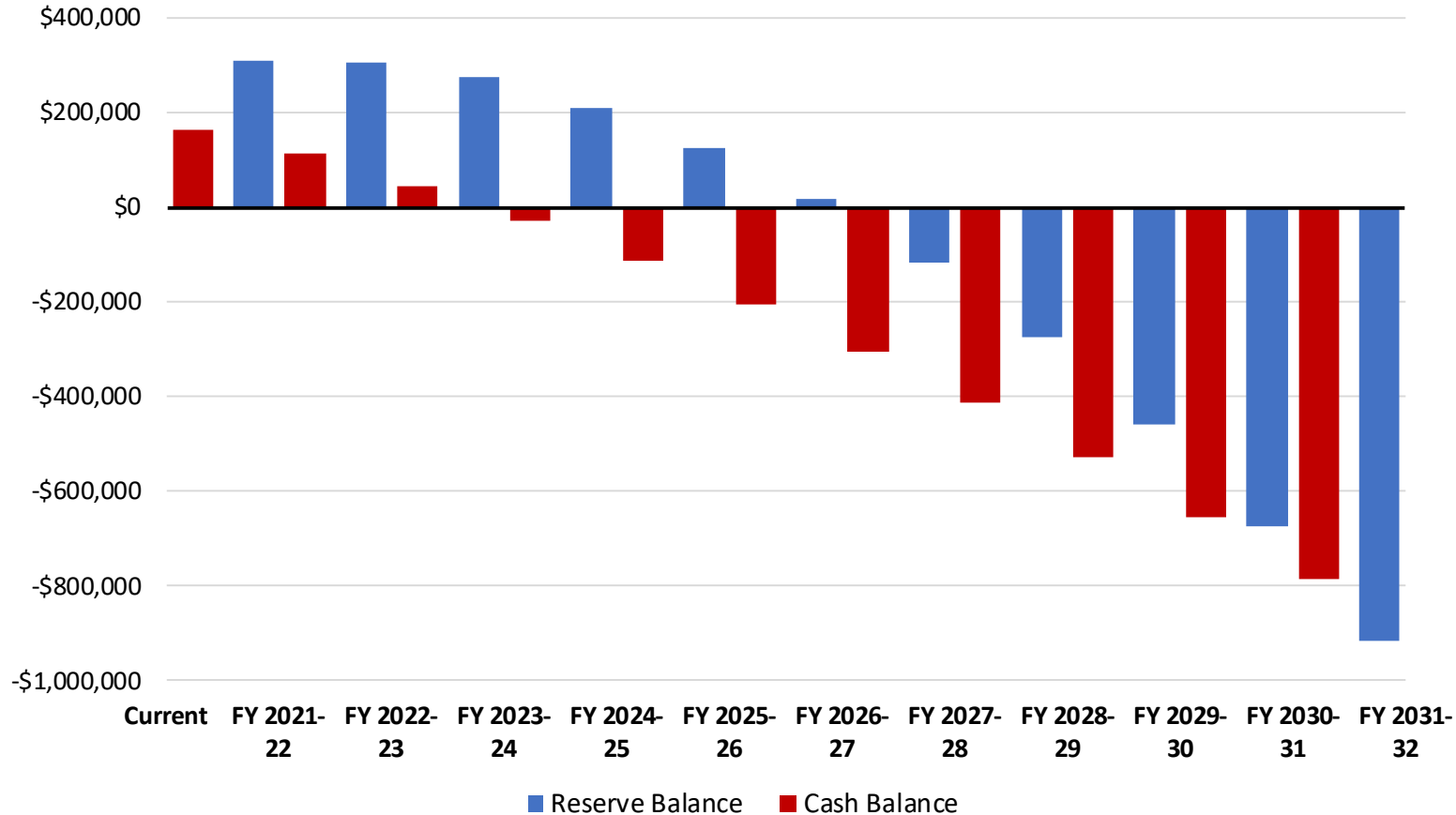
Sources: US Bureau of Labor Statistics, Engineering News Record, California Department of Finance, California Department of Transportation

Revenues and Expenses Under Current Rates

Category	Sewer										
	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32
Revenue from Rates	\$672,542	\$678,850	\$680,671	\$682,493	\$684,314	\$686,136	\$687,958	\$689,779	\$691,601	\$693,422	\$695,244
Other Operating Revenue	\$6,873	\$6,873	\$6,873	\$6,873	\$6,873	\$6,873	\$6,873	\$6,873	\$6,873	\$6,873	\$6,873
Non-Operating Revenue	\$109,187	\$109,187	\$109,187	\$109,187	\$109,187	\$109,187	\$109,187	\$109,187	\$109,187	\$109,187	\$109,187
Total Revenue	\$788,602	\$794,910	\$796,731	\$798,553	\$800,374	\$802,196	\$804,018	\$805,839	\$807,661	\$809,482	\$811,304
Operating Expenses	\$634,149	\$684,841	\$714,407	\$745,357	\$770,176	\$795,857	\$822,432	\$849,875	\$878,272	\$907,657	\$938,066
Debt Service	\$115,000	\$115,000	\$115,000	\$115,000	\$115,000	\$115,000	\$115,000	\$115,000	\$115,000	\$115,000	\$115,000
Total Expense	\$749,149	\$799,841	\$829,407	\$860,357	\$885,176	\$910,857	\$937,432	\$964,875	\$993,272	\$1,022,657	\$1,053,066
Net Revenue	\$39,453	-\$4,931	-\$32,675	-\$61,805	-\$84,801	-\$108,661	-\$133,415	-\$159,036	-\$185,611	-\$213,175	-\$241,762

Category	Groundwater Management										
	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32
Revenue from Rates	\$132,575	\$132,634	\$133,035	\$133,438	\$133,842	\$134,247	\$134,654	\$135,062	\$135,471	\$135,881	\$136,292
Other Operating Revenue	\$11,794	\$11,794	\$11,794	\$11,794	\$11,794	\$11,794	\$11,794	\$11,794	\$11,794	\$11,794	\$11,794
Non-Operating Revenue	\$88	\$88	\$88	\$88	\$88	\$88	\$88	\$88	\$88	\$88	\$88
Total Revenue	\$144,457	\$144,516	\$144,917	\$145,320	\$145,724	\$146,129	\$146,536	\$146,944	\$147,353	\$147,763	\$148,174
Operating Expenses	\$195,912	\$211,573	\$220,707	\$230,268	\$237,936	\$245,870	\$254,080	\$262,558	\$271,331	\$280,409	\$289,803
Debt Service	\$0	\$1	\$2	\$3	\$4	\$5	\$6	\$7	\$8	\$9	\$10
Total Expense	\$195,912	\$211,574	\$220,709	\$230,271	\$237,940	\$245,875	\$254,086	\$262,565	\$271,339	\$280,418	\$289,813
Net Revenue	-\$51,455	-\$67,058	-\$75,791	-\$84,951	-\$92,216	-\$99,745	-\$107,550	-\$115,621	-\$123,986	-\$132,655	-\$141,639

Cash Balances



- Produces no reserves
- Funds no capital projects
- Negative net balance not sustainable
- System fails

Additional Considerations

- State **sewer treatment** standards are getting more stringent, and more costly!
- There is no current **capital funding plan** in place, these costs are also increasing, even as the plant gets older (around \$440,000 a year is needed based on estimates of total fixed assets and age of system)
- In order to borrow, revenues must cover **debt service ratios**

- Groundwater management costs increase with **drought** conditions (currently in drought)
- **Legal expenses** continue to increase for groundwater management

- **Reserves** are needed to ensure that future capital funding needs are met as well as potential operating emergencies

Proposed Revenue Adjustments

Sewer					
	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
Revenue Adjustment	33.0%	15.0%	12.0%	6.0%	6.0%

Funds Operations

Contributes to CIP Reserve (\$265,000 a year)

Contributes to O&M Reserve (\$79,000 a year)

Groundwater Management					
	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
Revenue Adjustment	42.0%	15.0%	12.0%	6.0%	6.0%

Funds Operations

Contributes to O&M Reserve (\$13,000 a year)

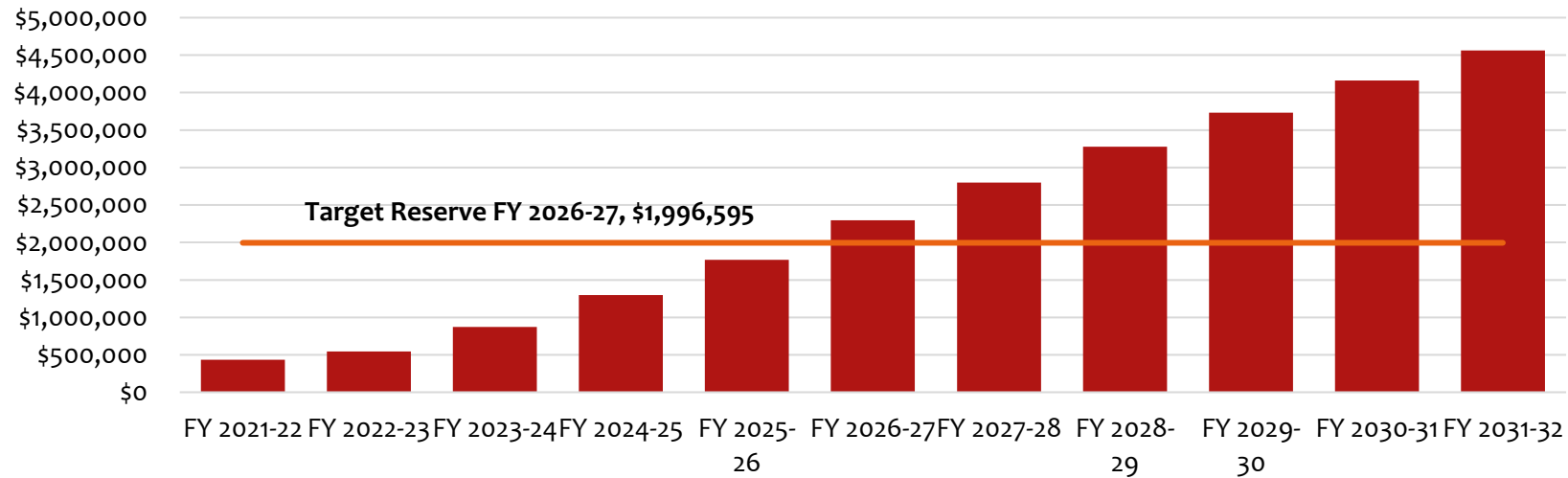
Proposed Rates

Monthly Bill Sewer						
Unit	Current	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
Per ESD	\$50.60	\$67.30	\$77.39	\$86.68	\$91.88	\$97.39

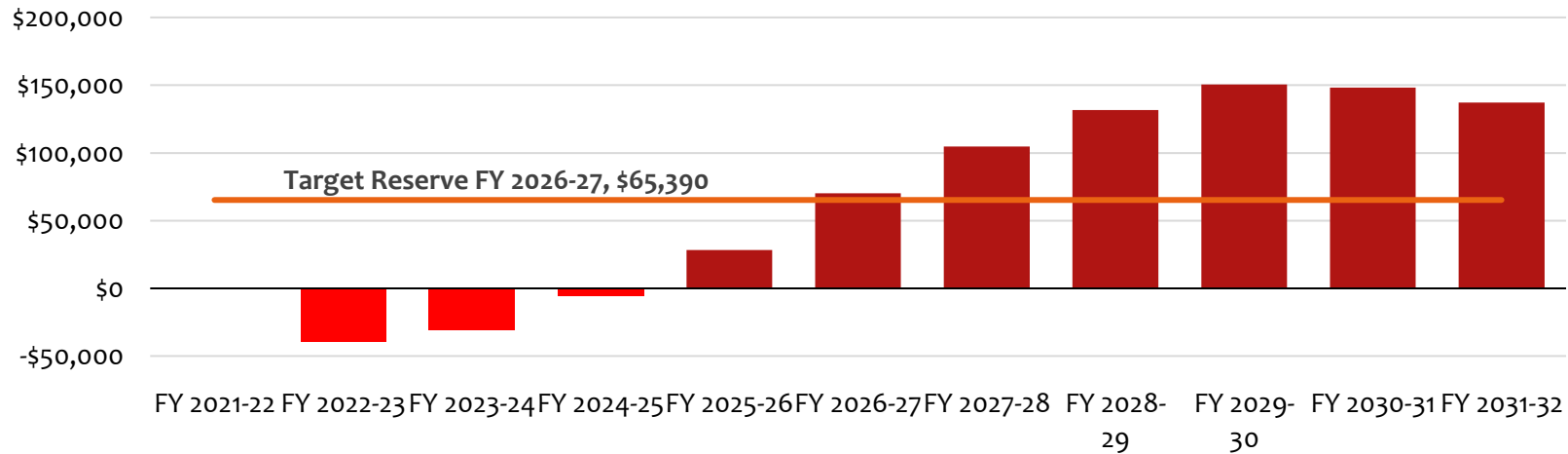
Monthly Bill GWM						
Unit	Current	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
Per ESD	\$10.63	\$15.09	\$17.35	\$19.43	\$20.60	\$21.84

Reserve Funding

Sewer



Groundwater Management



Final Thoughts

- ▶ According to Proposition 218, the District cannot make a profit, revenues must equal expenses, including reserves.
- ▶ If additional funding becomes available or costs do not increase as projected, the Board can choose to not raise rates any year.
- ▶ Deferring maintenance and revenue adjustments just means that you will have to pay more later to make up the difference.
- ▶ The Drought doesn't appear to be going away any time soon.
- ▶ The current wastewater treatment plant is in dire need of repairs.

Thank You