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June 15, 2023

The Honorable Judge Neel
Humboldt County Superior Court
825 5th Street
Eureka, CA 95501

RE: Response to Humboldt Civil Grand Jury Report, "Incorporating the City of McKinleyville: To Be, or Not to Be?"

Dear Judge Neel and the Members of the Humboldt County Civil Grand Jury:

McKinleyville Community Services District (MCSD) appreciates the opportunity to respond to the above referenced Report. MCSD is a Special Service District of Distinction and is a fully functioning, adequately staffed, and appropriately capitalized public entity formed under the California Community Services Districts Act (California Government Code Section 61000 et seq.). MCSD is able to perform its designated powers of water, sewer, parks & recreation, and streetlights provision to the McKinleyville area. We also assist the County of Humboldt in providing law enforcement and library services to the community of McKinleyville. MCSD is on sound financial footing. All of our water and sewer systems are sufficiently funded, and our rate structure and capital improvement projects financing are based on MCSD continuing to function as an autonomous CSD. Obviously, MCSD has substantial concern about any structural changes that could compromise its obligations to rate payers as a result of municipal incorporation.

MCSD was a bit surprised to read in the Grand Jury Report that the incorporation inquiry was, in part, based on "Interviews with people involved with the MMAC, the MCSD, and the LAFCo." None of the senior Staff or current MCSD Board Members were interviewed as part of the Report. Given the potential ramifications on the operations, functioning and financial stability of MCSD if incorporation were to proceed, we find it a significant oversight not to consult the District during the development of the Report.

Notwithstanding the above, MCSD is thankful for the opportunity to comment, and offers the following preliminary comments and concerns regarding the issue:

1. Initial Feasibility Analysis

If this matter progresses to the point that an Initial Feasibility Analysis (IFA) is authorized, financed and performed, any IFA must address the following:

- In addition to the requirements in Recommendation 5, any IFA must be performed by a qualified contractor with previous demonstrated experience conducting IFA studies in areas where an existing Special Services District was currently functioning. Related to

this issue, as the Grand Jury is likely aware, new incorporations are relatively rare in California and incorporating an area as large as McKinleyville will require detailed assessments by competent professionals.

- In light of the substantial existing debt covenants affecting MCDS's water and wastewater treatment plants and infrastructure and capital improvement schedules included as a component of those covenants, any incorporation assessment should fully evaluate MCSD continuing to function as a standalone California Community Services District, providing services to any municipality. MCSD does not believe its infrastructure can be dedicated to any municipality under its existing debt covenants and rate structure and will need to continue to operate independently.

- Any IFA must fully evaluate options for municipal integration of municipal services with existing MCSD services.

- Any IFA must fully evaluate existing MCSD debt service covenants and revenue stream dedication requirements and evaluate any incorporation projections based on MCSD's existing service area and rate structure. In the event land area outside of existing MSCD water and wastewater infrastructure is considered and new service areas are contemplated, detailed consideration must be given to service constraints and rate assessment areas related to any "new" service.

- Related to the foregoing, it appears that the Grand Jury Report is motivated, in part, based on growth assumptions and the desire for increased residential development. Any IFA evaluating the subject must be based on **existing** water and sewer infrastructure, with existing utility services constituting the baseline. Any IFA must carefully evaluate water and sewer infrastructure plant capacity as the driver of any future growth modeling. Related to this, as noted, MCSD currently has long term capital improvement plans built into its rate structure based on existing conditions, and reasonable future development based on in place zoning, and capacity based and natural (topography based) constraints on MCSD service areas. Whether additional services are available in the event of incorporation is a complex assessment with practical and financial impacts on MCSD operations. Consequently, any IFA must fully evaluate how incorporated areas would receive water and sewer service (among other services), and whether in-place infrastructure may service the area, and its impact on existing MCSD rate payers.

2. Timing

Although the timeline in the "Recommendations" section of the Grand Jury Report seems rather tentative, MCSD does not believe that at this time McKinleyville Municipal Advisory Committee (MMAC) has the authority or capacity to manage any "other sources of funding" to facilitate any IFA preparation or can do so within the tight timeframes presented. It is important to note that the MMAC has only advisory authority to the Board of Supervisor and cannot independently take any actions related to the whether the incorporation process proceeds. Since those Recommendations are not directed at MCSD, MCSD will allow Humboldt County to respond to the Report's Recommendations. Of note, if any IFA is to be prepared, MCSD suggests that any such study be "tiered" in scope, focusing first on the practical constraints on future incorporation and development based on existing service infrastructure, utility rates, and the mechanism (by contract service or otherwise) by which the most critical utility services (i.e., water, sewer,

streets, parks, etc.) can be provided to an incorporated area based on the existing, largely "built-out" infrastructure already operated by MCSD in the area.

It is our opinion that completion of a competent report on this subject matter will take much longer than the time periods allotted in the Grand Jury Report.

To make certain the District's concerns are raised with other entities evaluating this matter, we ask that a copy of this correspondence be shared with John Ford (Humboldt County Community Development Director), Collette Santsche (LAFCo Executive Officer), Lisa Dugan (MMAC Chair) and Kevin Jenkins (MIESC Chair), and any other persons/entities involved in the review. Thank you for inviting MCSD to respond, and please feel free to let the District know if you need any additional information.

Sincerely,

Patrick Kaspari, P.E.
General Manager, MCSD

Gregory P. Orsini
Board President, MCSD

Cc: The Humboldt County Civil Grand Jury, 825 5th St, Eureka, CA 95501