



NOTICE TO PROPERTY OWNERS OF PUBLIC HEARING REGARDING PROPOSED WATER AND SEWER RATES

Hearing Date & Time: November 2, 2022 7:00 PM

Hearing Location: Azalea Hall

1620 Pickett Road, McKinleyville, CA 95519

Why are you receiving this notice?

The McKinleyville Community Services District (MCS D) is mailing this notice to you because you are a water and/or sewer customer or are the owner of record of a property that receives water and/or sewer service. This notice is being provided pursuant to California Constitution Article XIID (also known as "Proposition 218"). Under the terms of Proposition 218, MCS D is required to notify property owners of proposed changes to property-related fees such as water and sewer service. This notice describes proposed changes to the water and sewer rates and gives information about a public hearing to be held on November 2, 2022 at Azalea Hall, 1620 Pickett Road, McKinleyville, CA, 95519.

What do water and sewer rates fund?

MCS D provides water and sewer service to approximately 5,800 residential and commercial customers. Monthly water and sewer rates charged to system users (customers) are the primary source of revenue to operate and maintain the water and sewer systems and are used solely for this purpose. Water and sewer rate revenue provides funding for costs related to system operations, maintenance, capital projects, debt service, administration, as well as costs related to prudent long-term operational or financial management of the utilities, such as maintaining adequate fund reserves and planning for contingencies. Water rate revenue also provides funding for costs related to wholesale water purchased from Humboldt Bay Municipal Water District (HBMWD).

The proposed rates are based on a comprehensive utility rate study and financial plan completed by an independent consultant. The rate structures for each utility were designed so that revenues derived from the proposed rates do not exceed the amount of revenue required for MCS D to provide the services, nor will the revenue from the water and sewer rates and charges be used for any purposes other than those for which they are imposed. The amount of the proposed rates imposed on any parcel or person as an incident of property ownership will not exceed their proportional cost of the service(s) attributable to such parcel; and no rate will be imposed for a service unless that service is actually used by, or immediately available to, the property owner or customer in question.

Why are rate increases needed?

A financial rate study was conducted which determined that MCS D's current water and sewer rates were not sufficient to pay for increased costs of operations and maintenance, routine repair and replacement of aging infrastructure, and future capital expenditures. Like most costs, those associated with maintenance and operations of the water and sewer utility increase over time. In addition, the water and sewer utilities combined have more than \$40 million in capital projects planned for the next five years to ensure the facilities are in place to ensure uninterrupted service to MCS D customers. Of these capital projects, slightly more than half are attributable to the water utility. Major planned capital expenditures include a 4.5 MG water storage tank, Highway 101 sewer main crossing replacements, and the Central Ave water and sewer main rehabilitation.

How the rates are determined and how they work

To develop water and sewer rates that will generate sufficient revenue to meet fiscal and policy objectives of the MCS D, a determination of the annual revenue required from water and sewer rates was completed. These revenue requirements were then compared to the total sources of funds under existing rates during each year of the forecast period to determine the adequacy of projected revenues to meet those requirements. Where a shortage of revenue was found, a series of revenue adjustments were calculated, which if implemented, will provide revenue sufficient to meet those needs. As previously mentioned, required revenue includes projected expenses for operations, maintenance, repair and replacement of aging system components, equipment, debt service, and capital projects. The revenue requirement for each utility also includes maintenance of designated reserves. Healthy reserve funds are critical to the ability of MCS D to serve its customers, respond to unforeseen and unpredictable costs, and provide funding for planned pipeline replacement programs. The reserves, like all elements of the water and sewer charges, may only be used to fund costs associated with those systems.

Water - Proposed water rates are comprised of a monthly Base (fixed) Charge and a Volume Charge. The Base Charge is based on the size of the meter and recovers fixed costs of providing water service, with certain fixed costs allocated equally to all accounts and others allocated based on the size of a customer’s water meter. The Volume Charge is based on the amount of water flow billed to an account, with two tiers of progressively higher rates tied to levels of consumption. Customers pay one rate for each 100 cubic feet (CF) of water consumed during a month, up to 800 CF, then pay a higher rate for any consumption above 800 CF in that month. The Volume Charge recovers the variable costs associated with the delivery of water service. The rate structure was designed so that each system user will be charged an amount that is proportional to the cost of serving that user.

In addition to the Base and Volume Charges, MCSD will pass through to customers the wholesale cost of water obtained by MCSD from the Humboldt Bay Municipal Water District (HBMWD). This pass through is necessary to ensure cost recovery of commodity water charges imposed by HBMWD which are beyond the control of MCSD. The HBMWD Pass Through will be included as a separate line item on customer water bills and will reflect only the direct cost of the water purchased from HBMWD for resale to MCSD customers. The amount of the HBMWD Pass Through charge for each customer will be based upon the amount of water used.

Sewer - For the proposed sewer rates, projected expenses are allocated between a monthly Base (fixed) Charge and a Volume Charge. The monthly Base Charge is the same for all sewer customers, with costs allocated based on number of accounts. The Volume Charge differs by customer type and recovers the variable costs of providing sewer service and costs associated with the strength of sewer discharge by each customer type. The rate structure was designed so that each system user will be charged an amount that is proportional to the cost of serving that user.

New water rates

MCSD is proposing to implement new water rates as a series of annual adjustments starting on January 1, 2023, and each January 1 until 2027. The following table summarizes the proposed water rates. The Fixed and Volume charges will go into effect and remain in effect until superseded by Board action.

**Proposed Monthly Water Rates
Calendar Years Beginning January 1, 2023 – January 1, 2027**

Description	Existing Rates	Projected For Calendar Year Beginning January 1:				
		2023	2024	2025	2026	2027
Monthly Base Charge by Meter Size:						
General Service						
5/8 Inch	\$ 19.80	\$ 20.45	\$ 21.68	\$ 22.98	\$ 24.13	\$ 25.10
3/4 Inch	\$ 29.11	\$ 28.39	\$ 30.10	\$ 31.90	\$ 33.50	\$ 34.85
1.0 Inch	\$ 47.52	\$ 44.28	\$ 46.93	\$ 49.75	\$ 52.24	\$ 54.34
1.5 Inch	\$ 93.06	\$ 83.98	\$ 89.02	\$ 94.36	\$ 99.08	\$ 103.06
2.0 Inch	\$ 147.91	\$ 131.63	\$ 139.53	\$ 147.89	\$ 155.29	\$ 161.54
3.0 Inch	\$ 291.85	\$ 242.81	\$ 257.37	\$ 272.80	\$ 286.46	\$ 297.97
4.0 Inch	\$ 459.76	\$ 401.63	\$ 425.72	\$ 451.25	\$ 473.83	\$ 492.88
6.0 Inch	\$ 915.75	\$ 798.69	\$ 846.60	\$ 897.36	\$ 942.27	\$ 980.15
8.0 Inch	\$1,464.41	\$1,275.17	\$1,351.65	\$1,432.70	\$1,504.40	\$1,564.87
Volumetric Rates Per 100 Cubic Feet:						
0 - 800 Cubic Feet	\$ 1.89	\$ 2.47	\$ 2.62	\$ 2.78	\$ 2.92	\$ 3.04
Over 800 Cubic Feet	\$ 4.73	\$ 3.32	\$ 3.51	\$ 3.73	\$ 3.91	\$ 4.07
HBMWD Pass Through ^[1]	\$ 1.76	\$ 1.76	\$ 1.81	\$ 1.89	\$ 1.97	\$ 2.04

Notes:

[1] All customers pay an additional pass-through charge per 100 cubic feet of flow used by Humboldt Bay Municipal Water District.

Drought Surcharge for Water

MCSD has adopted a Water Shortage Contingency Plan (WSCP) that complies with California Water Code Section 10632, which is designed to prepare for and respond to water shortages. All California urban water suppliers are required to prepare and adopt a WSCP as part of their Urban Water Management Plan.

The provisions of the WSCP shall take effect upon a declaration of a water shortage made by a resolution of the MCSD Board of Directors. Recommendation for the implementation of the WSCP shall be brought to the Board of Directors whenever the MCSD General Manager, upon engineering analysis of MCSD water supplies, information received from the wholesale water provider (HBMWD), or due to regulatory requirements, notices, or orders, finds and determines that a water shortage emergency exists or is imminent within the MCSD water service area. The WSCP shall remain in effect for the duration of the water shortage or until rescinded by the Board.

The analysis and proposed drought surcharge water rates here assume that a Stage 3 water shortage response action will be implemented. Under the stage 3 water shortage response action, a mandatory 10% reduction in water demand will go into effect along with these Drought Surcharge rates. These Drought Surcharge rates are intended to ensure adequate revenue is recovered through the rates under reduced demand. The surcharges are calculated based upon the same cost-of-service approach utilized for the basic water rates, assuming a ten percent (10%) reduction in water use and reflect the proportional cost of providing water service to customers. As with basic water rates, revenues generated through the Drought Surcharge will only be used to fund costs associated with the provision of water service.

Proposed Monthly Drought Rates

Calendar Years Beginning January 1, 2023 – January 1, 2027

Description	Existing Rates	Projected For Calendar Year Beginning January 1:				
		2023	2024	2025	2026	2027
Monthly Base Charge by Meter Size						
General Service						
5/8 Inch	N/A	\$ 20.45	\$ 21.68	\$ 22.98	\$ 24.13	\$ 25.10
3/4 Inch	N/A	\$ 28.39	\$ 30.10	\$ 31.90	\$ 33.50	\$ 34.85
1.0 Inch	N/A	\$ 44.28	\$ 46.93	\$ 49.75	\$ 52.24	\$ 54.34
1.5 Inch	N/A	\$ 83.98	\$ 89.02	\$ 94.36	\$ 99.08	\$ 103.06
2.0 Inch	N/A	\$ 131.63	\$ 139.53	\$ 147.89	\$ 155.29	\$ 161.54
3.0 Inch	N/A	\$ 242.81	\$ 257.37	\$ 272.80	\$ 286.46	\$ 297.97
4.0 Inch	N/A	\$ 401.63	\$ 425.72	\$ 451.25	\$ 473.83	\$ 492.88
6.0 Inch	N/A	\$ 798.69	\$ 846.60	\$ 897.36	\$ 942.27	\$ 980.15
8.0 Inch	N/A	\$ 1,275.17	\$ 1,351.65	\$ 1,432.70	\$ 1,504.40	\$ 1,564.87
Drought Surcharge Per 100 Cubic Feet						
Tier 1	N/A	\$ 0.47	\$ 0.50	\$ 0.53	\$ 0.56	\$ 0.58
Tier 2	N/A	\$ 0.57	\$ 0.60	\$ 0.64	\$ 0.67	\$ 0.70
Total Volumetric Rates Per 100 Cubic Feet (Standard Volumetric Rates plus Drought Surcharge)						
0 - 800 Cubic Feet	N/A	\$ 2.94	\$ 3.12	\$ 3.31	\$ 3.48	\$ 3.62
Over 800 Cubic Feet	N/A	\$ 3.89	\$ 4.11	\$ 4.37	\$ 4.58	\$ 4.77
HBMWD Pass Through ^[1]	\$ 1.76	\$ 1.76	\$ 1.81	\$ 1.89	\$ 1.97	\$ 2.04
Notes:						
[1] All customers pay an additional pass-through charge per 100 cubic feet of flow used by Humboldt Bay Municipal Water District.						

New sewer rates

In order to provide necessary funding for the sewer system, MCSD is proposing to implement new sewer rates as a series of annual adjustments starting on January 1, 2023, and each January 1 until year ending 2027. The following table summarizes the proposed sewer rates. The Fixed and Volume charges will go into effect and remain in effect until superseded by Board action.

Proposed Monthly Sewer Rates

Calendar Years Beginning January 1, 2023 – January 1, 2027

Description	Existing Rates	Projected For Calendar Year Beginning January 1:				
		2023	2024	2025	2026	2027
Monthly Base Charge ^[1]:						
All Customers	\$ 34.59	\$ 35.69	\$ 37.12	\$ 38.98	\$ 40.93	\$ 42.98
Volumetric Rates Per 100 Cubic Feet ^[2]:						
2 sewer Units/Commercial	\$ 3.03	\$ 3.13	\$ 3.25	\$ 3.41	\$ 3.58	\$ 3.76
Apartment/Multi Unit (Each)	\$ 2.89	\$ 3.13	\$ 3.25	\$ 3.41	\$ 3.58	\$ 3.76
Bakery	\$ 13.81	\$ 4.25	\$ 4.42	\$ 4.64	\$ 4.87	\$ 5.11
Barber/Beauty Shop	\$ 2.89	\$ 3.13	\$ 3.25	\$ 3.41	\$ 3.58	\$ 3.76
Car Wash	\$ 0.66	\$ 2.91	\$ 0.75	\$ 0.78	\$ 0.82	\$ 0.86
Church & Residence	\$ 3.41	\$ 3.13	\$ 3.25	\$ 3.41	\$ 3.58	\$ 3.76
Churches	\$ 3.03	\$ 3.13	\$ 3.25	\$ 3.41	\$ 3.58	\$ 3.76
Coast Guard Station/Airport	\$ 3.03	\$ 3.13	\$ 3.25	\$ 3.41	\$ 3.58	\$ 3.76
Dialysis Clinic	\$ 3.61	\$ 3.08	\$ 3.20	\$ 3.36	\$ 3.52	\$ 3.70
Fire Station/School	\$ 1.97	\$ 2.97	\$ 2.21	\$ 2.32	\$ 2.43	\$ 2.56
Gas Stations (No Market)	\$ 2.86	\$ 3.19	\$ 3.22	\$ 3.38	\$ 3.54	\$ 3.72
Laundromats	\$ 2.28	\$ 3.00	\$ 2.57	\$ 2.69	\$ 2.83	\$ 2.97
Market	\$ 11.56	\$ 4.26	\$ 4.43	\$ 4.64	\$ 4.88	\$ 5.12
Metered Septage Vault	\$ 3.24	\$ 3.55	\$ 3.64	\$ 3.82	\$ 4.01	\$ 4.21
Mobile Homes (Each)	\$ 2.89	\$ 3.13	\$ 3.25	\$ 3.41	\$ 3.58	\$ 3.76
Motels/Hotels	\$ 7.37	\$ 3.79	\$ 3.94	\$ 4.13	\$ 4.34	\$ 4.56
Office Building/Post Office	\$ 2.89	\$ 3.13	\$ 3.25	\$ 3.41	\$ 3.58	\$ 3.76
Restaurant/Tavern	\$ 13.81	\$ 4.25	\$ 4.42	\$ 4.64	\$ 4.87	\$ 5.11
Retail/Banks/Theater/Other	\$ 3.03	\$ 3.13	\$ 3.25	\$ 3.41	\$ 3.58	\$ 3.76
Round Table/Market	\$ 9.65	\$ 4.03	\$ 4.18	\$ 4.39	\$ 4.60	\$ 4.84
Sewer Only Accounts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sewer Units - Commercial	\$ 2.86	\$ 3.19	\$ 3.22	\$ 3.38	\$ 3.54	\$ 3.72
Single Family Residential	\$ 2.89	\$ 3.13	\$ 3.25	\$ 3.41	\$ 3.58	\$ 3.76
Two Sewer Units/Business	\$ 3.03	\$ 3.13	\$ 3.25	\$ 3.41	\$ 3.58	\$ 3.76
Two Sewer Units/Daycare	\$ 2.92	\$ 3.13	\$ 3.25	\$ 3.41	\$ 3.58	\$ 3.76
Brewery	\$ 23.12	\$ 11.20	\$ 11.63	\$ 12.20	\$ 12.81	\$ 13.45

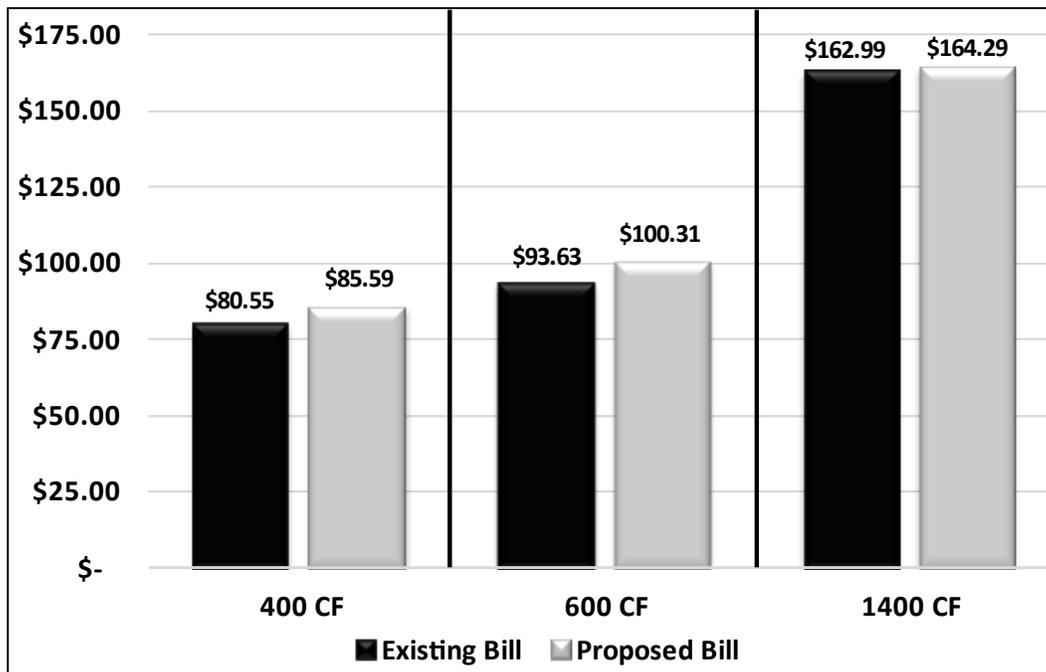
Notes:

[1] All sewer customers pay the same base charge.

[2] Each customer class pays a different volumetric rate based on the strength of their respective sewer discharge.

Impact on your bill

Per the proposed rates, effective January 1, 2023, for a typical single-family home that uses 600 CF (cubic feet) of water per month, the combined water and sewer bill would increase from \$93.63 per month currently to \$100.31 per month. The accompanying graph provides a summary of existing and proposed water rates under three usage scenarios, along with the difference.



How do you file a protest or participate in the public hearing?

MCSD will consider the new water and sewer rate structures and proposed revenue increase at a public hearing on Tuesday, November 2, 2022, at 7:00 p.m. at Azalea Hall, 1620 Pickett Road, in McKinleyville, CA 95519. You are invited to present oral or written testimony at the public hearing. **Any owner or customer of record of a parcel subject to the proposed rates may submit a written protest against the proposed rate revisions. If written protests are filed for a majority of the affected parcels, the proposed rate revisions will not be adopted.** There is a 120-day statute of limitations for challenging any new, increased, or extended fee or charge, commencing from the later of the effective date or of the date of the final passage, adoption, or approval of the resolution.

In order for a written protest to be counted it must include the following: a statement indicating that the identified property owner or customer of record is in opposition to the proposed water or sewer rate changes; the street address or Assessor's Parcel Number (APN) for the parcel(s) with respect to which the protest is made; and the name and signature of the owner or customer.

Protests may be mailed to P.O. Box 2037, McKinleyville, CA 95519, hand delivered to the MCSD offices at 1656 Sutter Road, McKinleyville, California 95519, or hand delivered to the Board Secretary at the Public Hearing at Azalea Hall on November 2, 2022. To be valid, a signed written protest must be received by the Board Secretary before the conclusion of the Public Hearing. Any protest submitted via e-mail or other electronic means will not be accepted. Please identify on the front of the envelope for any written protest, whether mailed or submitted in person to the Board Secretary, that the enclosed protest is for the Public Hearing on the Proposed Rate Changes – Water and Sewer Service Fees.

The Board of Directors will hear and consider all written and oral protests to the proposed rate changes at the Public Hearing. Oral comments at the Public Hearing will not qualify as formal protests unless accompanied by a written protest. Upon the conclusion of the Public Hearing, there will be no more written protests accepted and no more testimony taken, and the Board of Directors will consider adoption of the proposed rates for water and sewer service described in this notice. If written protests as outlined above, are not presented by a majority of property owners or customers of record, the Board of Directors will be authorized to adopt the proposed rates. While both property owners and customers of record may submit written protests, only one protest will be counted for each parcel. If adopted, the rates for water and sewer service will be in effect beginning January 1, 2023.