



TO: BOARD OF DIRECTORS **BOD Meeting: 10/08/2026**
FROM: Katharine Wylie, Agency Administrator **Item: 3b)**
SUBJECT: STAFF REPORT - LAFCo MOU

RECOMMENDATION

Staff recommends the Board approve the Local Area Formation Committee (LAFCo) Memorandum of Understanding (MOU) to update the statutory Municipal Service Review.

ANALYSIS

Mendocino LAFCo is asking the District to take part in an updated Municipal Service Review (MSR) and to affirm its existing Sphere of Influence (SOI). The District is not proposing any change to its SOI.

The MSR is a statutory planning and governance review conducted by LAFCo, and it gives the District a chance to present current, accurate information on its governance, finances, services, operations, and future plans. The District's last MSR was completed in 2014, and its SOI was last reviewed in 2016. LAFCo is updating the review in response to a 2024 Mendocino County Grand Jury recommendation and has placed it in its FY 2026-27 work plan.

Because the District has changed significantly since 2014, including its governance, financial management, hospital operations, and relationship with Adventist Health, an updated MSR will create a current record of its structure and circumstances. Under the proposed MOU, LAFCo will conduct the study, and the District will provide information, cooperate, and cover the estimated cost.

FISCAL IMPACT

The MOU estimates the cost at approximately \$25,000, payable in installments with no interest.



Mendocino LAFCo

Encouraging Well-Planned Community Growth

200 S School Street | Ukiah, CA 95482

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July 29, 2026

Paul Garza, Jr., Board Chair
Mendocino Coast Health Care District
PO Box 579
Fort Bragg, CA 95437

RE: Municipal Service Review

Dear Mr. Garza:

In June 2024, the Mendocino County Grand Jury published its report, *Mendocino Coast Health Care District – Sick but Returning to Health*. In response to Finding F11, Recommendation R18 directed the Mendocino Local Agency Formation Commission (LAFCo/Commission) to prioritize preparation of a Municipal Service Review (MSR) for the Mendocino Coast Health Care District (MCHCD/district), noting that the Commission's last MSR for the District was adopted in 2014.

In its September 2024 response to the Grand Jury, the Commission committed to preparing an updated MSR for the District, contingent upon the availability of sufficient funding.

LAFCo is responsible for preparing MSRs and sphere of influence updates for cities and special districts throughout Mendocino County. Funding for these statutory planning responsibilities is adopted annually through the Commission's budget and is supported through apportionments shared equally among the County, the incorporated cities, and the independent special districts. Within each category, the County Auditor-Controller calculates each agency's individual share in accordance with Government Code section 56381, using revenue information reported annually to the State Controller's Office. A copy of Government Code section 56381 is enclosed for your reference.

The Cortese-Knox-Hertzberg Local Government Reorganization Act includes a unique apportionment provision for health care districts that operate hospitals. Under Government Code section 56381(b)(1)(D)), a health care district whose net operating revenues are negative is exempt from paying LAFCo apportionments until the fiscal year following the reporting of positive net operating revenues. While the District operated under this exemption for a number of years, LAFCo's review of the District's reported financial information indicates that the exemption no longer applies.

Based on the statutory apportionment methodology, the District's apportionments are summarized below:

- FY 23/24 - \$0 assessed (District appears to have been eligible for apportionment)
- FY 24/25 - \$0 assessed (District appears to have been eligible for apportionment)
- FY 25/26 - \$8,426
- FY 26/27 - \$11,971

When an eligible district is not included in the apportionment calculations, the remaining special districts bear a proportionally larger share of LAFCo's costs. Recognizing this circumstance, the Commission's Executive Committee requested in September 2024 that the District consider partnering with LAFCo to fund preparation of the MSR recommended by the Grand Jury.

July 29, 2026

To facilitate that effort, LAFCo staff developed a draft funding Memorandum of Understanding (MOU) outlining a cost-sharing arrangement for the study and provided it to District Administrator Kathy Wylie for review in July 2025. At that time, the District was completing a multi-year financial audit, and LAFCo agreed to Ms. Wylie's request that initiation of the MSR be deferred until the audit process was complete.

Presuming that the audit has been completed, LAFCo staff reached out again and requested comments on the draft MOU. As we have not yet received feedback, we are writing directly to the Board to request consideration of developing a proposed funding MOU and to ask that the Board authorize staff to work collaboratively with LAFCo in initiating preparation of the District's MSR.

The Commission has included the MCHCD MSR in its adopted FY 2026-27 Work Plan. Based on the scope of work, the estimated cost of the study is approximately \$25,000 to \$30,000. Executing the funding MOU will allow staff to begin assembling information, coordinating with District staff, and developing the MSR in accordance with the Commission's Work Program and the Grand Jury's recommendation.

LAFCo looks forward to working collaboratively with the District throughout this process. The MSR will provide an opportunity to evaluate the District's governance, services, finances, and future opportunities, while also documenting the significant progress the District has made in these areas. We would be happy to meet with the Board or staff to discuss the proposed MOU, answer any questions, and outline the anticipated MSR process.

Please contact Uma Hinman, Executive Officer, at eo@mendolafco.org or (707) 463-4470 to discuss next steps.

Sincerely,



Uma Hinman
Executive Officer

Enc: Government Code Section 56381

Cc: Maureen Mulheren, Chair, Mendocino LAFCo
Katharine Wylie, Administrator, MCHCD

Mendocino

Local Agency Formation Commission

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INVOICE

July 01, 2026

Mendocino Coast Hospital District
P. O. Box 579
Fort Bragg, CA 95437

Pursuant to the Cortese-Knox-Hertzberg Act, your agency's share of the 2026-27 budgeted cost of the Local Agency Formation Commission (LAFCO) is:

Invoice Number: 2729

Invoice Amount: \$11,970.84

Please send invoice amount payable to:

Mendocino County Auditor-Controller
501 Low Gap Road, Room 1080
Ukiah, CA 95482

The amounts payable are determined by the LAFCO approved budget for 2026-27 and the amount allocated to each agency is based on Government Code Section 56381.