

Ordinance 152 Citizens Oversight Panel

2017 Annual Report

2017 Topics of Discussion

The following areas of discussion represent five key topics the Panel has identified of particular interest or concern during the recent calendar year.

1. **Reinstatement of District User Fee:** District Ordinance No. 152 which established the Water Supply Charge states in its Section 10.C(b) that the District shall not collect a Water Supply Charge “to the extent alternative funds are available via a charge collected on the California American Water Company bill.” On January 25, 2016 the California Supreme Court filed its opinion in the suit the District brought against the California Public Utilities Commission (CPUC or PUC), determining to reinstate the User Fee.

The User Fee began collection in July 2017. Therefore, the Panel reminds the Board to examine its needs and availability of its two primary funding sources and develop a plan for their use, including reductions or possible sunsets of either or both.

The Citizens Oversight Panel cautiously supports the plan adopted by the District Board in April 2016 to collect both fees for a 3-year period for 4 key reasons: (i) the User Fee would primarily fund programs already in Cal-Am surcharges (District conservation and river mitigation), so there is little “new” revenue; (ii) the Monterey Peninsula Taxpayers Association lawsuit over the Water Supply Charge remains unresolved, hence that revenue remains at risk; (iii) there are still large near-term expenditures required on water supply projects; and (iv) Cal-Am has a recent history of significant revenue undercollection, so the viability of the User Fee is at risk until the CPUC rules on a more stable rate design, and the predictability of the User Fee revenue is better known. After that time, begin to sunset or reduce collections of either or both, if possible.

The panel believes progress is being made on a permanent water supply solution for which large scale expenditure of District funds are being made. A 3-year “wait-and-see” period through June 2020 makes sense. However, the Panel expects the District to maintain fiscal discipline and keep its financial “house in order.”

The Panel believes that during this period the District should (a) develop a meaningful plan to sunset the Water Supply Charge, in whole or in part, and (b) develop a plan to retire the Rabobank loan that was initiated to pay for the Aquifer Storage and Recovery water supply project in a timely fashion after the District’s User Fee was suspended by the CPUC.

2. **15% Overhead Calculation:** The District presently allocates “indirect labor, supplies, and services” to the calculation of overhead. However, the District continues to include certain labor costs of the General Manager, division managers, and other staff as direct costs of “water supply.” Some members of the Panel believe that some costs identified by the District as direct costs should not be included as overhead. District staff disagrees. The Panel will continue to examine levels of associated overhead.
3. **Deficit Spending:** The Pure Water Monterey groundwater replenishment (GWR) project budget continues to cause the District to incur the use of reserves. It is expected that the practice will no longer be necessary now that construction has begun and costs are reimbursed through a State Revolving Fund loan. However, we understand planning for possible expansion, as well as the treatment cost of water from the project that goes into reserves is a cost of the District until that water is sold to Cal-Am. The Panel is very concerned about future claims on the Water Supply Charge which impairs the ability of the District to “sunset” the charge in a timely fashion.
4. **Local Projects:** The Panel continues to support the use of a portion of the Water Supply Charge for Local Projects, such as the Pacific Grove non-potable water source, the Airport well repurposing, the Monterey regional stormwater planning, and the Del Monte Golf course alternate supply project. As such, the Panel recommends continuing the program where possible.
5. **The Monterey Peninsula Taxpayers Association lawsuit:** We understand that the appeal of the lawsuit has been heard and a decision is expected by the end of May, hence that revenue remains at risk. The Panel will expect an update following the decision and how the outcome affects the 3-year transition plan.

Respectfully submitted by the Ordinance 152 Citizens Oversight Panel, March 19, 2018