

# Ordinance 152 Citizens Oversight Panel

## 2021 Annual Report

### 2021 Annual Report Recommendations

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

1. **Dual Collection of the Water Supply Charge and District User Fee:** The Panel reminds the Board that the 2019-20 fiscal year was the third year of dual collection of the Water Supply Charge and the User Fee. Therefore, the Panel discussed whether it would be advisable to plan for its continued use over the next several years or perhaps consider reductions or even sunset of the Water Supply Charge.

The User Fee was re-established for collection on the Cal-Am bills in July 2017. The Panel recognizes the plan adopted by the District Board in April 2016 to collect both fees for a 3-year period was said to be needed because: (i) the User Fee would primarily fund programs previously in Cal-Am surcharges (District conservation and river mitigation), so there may be little “new” revenue initially; (ii) there were still large near-term expenditures required on water supply projects; and (iii) Cal-Am had a recent history of significant revenue undercollection, so it made sense to have a period of collection until the predictability of the User Fee revenue was better known. However, that period has passed and much has been learned.

At its October 19, 2020 meeting the District Board adopted a policy that if User Fee collections in a fiscal year exceed the budget, then the excess will be applied in the following fiscal year budget in the following priority: First, to pay off the Mechanic’s Bank loan; Second, to repay reserves used for water supply project costs; Third, to sunset the Water Supply Charge. The Panel supports the District’s adopted policy and was pleased to see the District Board be proactive.

2. **Financial Report:** The attached financial report (Exhibit A) for the 2020-2021 fiscal year shows the details of water supply project revenues and expenses. The following summary uses round numbers for ease of discussion.

Total Revenues were \$13.42 million. Major revenue sources include the Water Supply Charge at \$3.4 million (26%), Property Taxes at \$2.1 million, (16%), User fees at \$843,000 (6%), and Pure Water Monterey water, which sold at cost for \$5.9 million (44%), reimbursing the expense to produce it. Capacity fees, project reimbursements, and interest make up the remaining 8%.

Total Expenditures were \$13.45 million. The largest components were Direct Personnel at \$1.35 million (10%) and Project Expenditures at \$10.75 million (80%). Legal, Project

Expenditure Reimbursements, Fixed Asset Purchases, Indirect Labor, Debt Service, and Indirect Supplies and Services make up the remaining 10%. A more detailed account of Project Expenditures is also provided.

Exhibit B shows inflows and outflows to the District's Water Supply Fund. An important conclusion is that in each of the nine years since the inception of the Water Supply Charge, it has been annually insufficient to meet all water supply related District expenditures. As a result, the District has subsidized water supply related activities by \$9.8 million during that timeframe.

The overall FY2020-21 District budget set aside \$500,000 for paying down the Mechanics Bank loan, which was done in August 2021. The current 2021-22 budget also has \$500,000 in it to pay down the loan. The principal balance entering the 2022-23 Fiscal Year is expected to be approximately \$2.2 million. June 30, 2023 is the date to pay it off in full or refinance.

The Panel members understand, however, in the next few years the District intends that the Water Supply Charge will primarily be used to pay ongoing capital costs of Project Expenditures, including: Aquifer Storage and Recovery project, the Pure Water Monterey operating reserve, a fourth deep well for Pure Water Monterey, and the recently authorized Pure Water Monterey Expansion. It is likely the collections will be insufficient to meet all MPWMD water supply needs next year, and those activities will again be subsidized by other District revenues, including the User Fee. The majority of Panel members believe this illustrates the continuing importance of the Water Supply Charge in funding projects and activities to meet the ongoing need for adequate and reliable water supplies and reserves. A Panel minority believes the Water Supply Charge has exceeded its time constraint and should be retired immediately.

- 3. Measure J Costs:** The Panel is currently in disagreement over whether the Water Supply Charge was intended solely for projects to solve the region's longstanding water supply problem, or could also be used to fund any of the costs related to Measure J, such as the cost of the LAFCO process, an appraisal and rate study, costs related to a "right to take" bench trial, the costs related to a subsequent jury trial to establish fair compensation, and/or the costs of acquisition.

The goal of Measure J included, if feasible and beneficial, the acquisition of water supply facilities as part of the District's water supply mission, with the expectation that under public ownership, a safe, adequate, and reliable water supply could be provided in a more affordable, sustainable, locally responsive and transparent way. A majority of Panel members agree with Outside Counsel's 2019 determination that it would be legal to use the Water Supply Charge on Measure J costs, and urges the District maintain flexibility to do so if necessary. A Panel minority believes Measure J does not constitute a water supply project and is therefore not an appropriate use of Water Supply Charge funds.

At this time, the majority of the Panel recommends that the District does not aggressively pursue a sunset of the Water Supply Charge at the expense of sufficiency of District reserves for liquidity, on-going new water supply projects, and need for flexibility.

Respectfully submitted by the Ordinance 152 Citizens Oversight Panel, February 24, 2022.

EXHIBIT A

Monterey Peninsula Water Management District

Water Supply Charge Availability Analysis  
FY 2020-21

	Audited Actuals
Beginning Fund Balance	\$8,506,593
Water Supply Charge	\$3,422,117
Capacity Fee	474,040
PWM Water Sales	5,908,182
Project Reimbursement	622,842
Property Taxes	2,090,954
User Fees	843,136
Interest	52,882
Reclamation Project	0
Other	3,322
Total Revenues	\$13,417,475
Direct Personnel	1,356,864
Direct Supplies & Services*	115,453
Legal	102,623
Project Expenditures [see below]	10,750,030
Project Expenditures-Reimbursements [see below]	440,685
Fixed Asset Purchases	12,647
Contingencies	0
Debt Service	219,136
Election Expense	39,477
Indirect Labor*	183,066
Indirect Supplies & Services*	234,405
Reserve	0
Total Expenditures	\$13,454,386
Net Revenue Over Expenses**	(\$36,911)
Ending Fund Balance	\$8,469,682
	0
<u>Project Expenditures</u>	<u>Audited Actuals</u>
PWM Project	\$1,233,201
PWM Project - Expansion	\$0
PWM Project - Operating Reserve	\$751,683
PWM Project - Water Purchase	\$6,041,594
ASR Phase I	\$2,448,823
Reimbursement Projects	\$440,685
Cal-Am Desalination Project	\$0
ASR Expansion	\$0
Other Water Supply Projects - IFIM/GSFlow	\$7,433
Local Water Projects	\$0
Measure J/Feasibility Study	\$198,200
Drought Contingency Plan	\$0
Los Padres Long Term Plan	\$27,893
PB Reclamation Project	\$0
Other Project Expenditures	\$41,203
Total Project Expenses	\$11,190,715
*: Indirect costs as percent of Water Supply Charge	12.2%

Recent Activities:

ASR Chemical Building  
Measure J/Feasibility Study  
PB Reclamation Project Financing  
PWM Reserve Water  
PWM Water Purchase

\*\* Deficit balances are paid from combination of loan, interfund borrowing,  
line of credit proceeds, or fund balance

EXHIBIT B

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT  
Water Supply Charge Report (Water Supply Fund)

	Fiscal Year Ending										Total
	2021	2020	2019	2018	2017	2016	2015	2014	2013		
<b>Revenue</b>											
Water Supply Charge	\$ 3,422,117	\$ 3,355,193	\$ 3,410,398	\$ 3,405,008	\$ 3,391,354	\$ 3,382,389	\$ 3,327,701	\$ 3,412,207	\$ 3,400,873	\$ 3,400,873	\$ 30,507,240
<b>Expenditures</b>											
Personel:											
Salaries	\$ 1,050,039	\$ 1,034,678	\$ 1,025,894	\$ 918,724	\$ 824,182	\$ 815,048	\$ 790,486	\$ 768,299	\$ 734,454	\$ 734,454	\$ 7,961,804
Employee Benefits and other	\$ 489,891	\$ 468,197	\$ 415,047	\$ 367,183	\$ 338,110	\$ 308,289	\$ 295,699	\$ 321,168	\$ 331,552	\$ 331,552	\$ 3,335,136
Services and Supplies:											
Project expenditures	\$ 5,149,121	\$ 5,995,887	\$ 2,284,777	\$ 1,850,300	\$ 3,595,023	\$ 5,384,999	\$ 3,373,391	\$ 6,465,907	\$ 2,294,196	\$ 2,294,196	\$ 36,393,601
Water purchases	\$ 6,041,594	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,041,594
Operating expenditures	\$ 290,370	\$ 236,163	\$ 240,055	\$ 154,660	\$ 143,059	\$ 166,695	\$ 344,266	\$ 143,770	\$ 130,241	\$ 130,241	\$ 1,849,229
Professional fees	\$ 201,588	\$ 192,081	\$ 313,446	\$ 357,070	\$ 214,106	\$ 378,388	\$ 284,904	\$ 304,978	\$ 363,081	\$ 363,081	\$ 2,609,642
Capital outlay	\$ 12,647	\$ 14,927	\$ 76,477	\$ 64,404	\$ 17,334	\$ 60,530	\$ 38,752	\$ 35,919	\$ 15,944	\$ 15,944	\$ 336,934
Debt Service:											
Principal	\$ 96,405	\$ 93,157	\$ 90,175	\$ 86,953	\$ 83,881	\$ 80,508	\$ 78,059	\$ 75,215	\$ 38,368	\$ 38,368	\$ 722,721
Interest and other charges	\$ 122,731	\$ 125,979	\$ 128,961	\$ 132,183	\$ 137,086	\$ 138,627	\$ 147,150	\$ 143,921	\$ 41,801	\$ 41,801	\$ 1,118,439
<b>Total Expenditures</b>	\$ 13,454,386	\$ 8,161,069	\$ 4,574,832	\$ 3,931,477	\$ 5,352,781	\$ 7,333,084	\$ 5,352,707	\$ 8,259,127	\$ 3,949,637	\$ 3,949,637	\$ 60,369,100
<b>Difference [surplus/(deficit)]</b>	\$ (10,032,269)	\$ (4,805,876)	\$ (1,164,434)	\$ (526,469)	\$ (1,961,427)	\$ (3,950,695)	\$ (2,025,006)	\$ (4,846,920)	\$ (548,764)	\$ (548,764)	\$ (29,861,860)
<b>Other Revenue Sources</b>											
Project reimbursements	\$ 622,842	\$ 1,220,812	\$ 526,867	\$ 5,583,786	\$ 693,848	\$ 429,075	\$ 712,002	\$ 2,093,013	\$ 2,032,924	\$ 2,032,924	\$ 13,915,169
PWM Water Sales	\$ 5,908,182	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,908,182
Grants	\$ -	\$ -	\$ 200,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 38,342	\$ 38,342	\$ 238,342
<b>Difference [surplus/(deficit)]</b>	\$ (3,501,245)	\$ (3,585,064)	\$ (437,567)	\$ 5,057,317	\$ (1,267,579)	\$ (3,521,620)	\$ (1,313,004)	\$ (2,753,907)	\$ 1,522,502	\$ 1,522,502	\$ (9,800,167)

Source: MPWMD Audited Financial Statement