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**Ordinance No. 152
Oversight Panel**

Members:

*John Bottomley
Paul Bruno
Jason Campbell
Jody Hanson
Todd Kruper
George Riley
Christine Monteith
John Tilley*

MPWMD Contacts:

*General Manager,
David J. Stoldt

Administrative Services
Manager, Suresh Prasad

Executive Assistant,
Arlene Tavani*

AGENDA

**Ordinance No. 152 Oversight Panel
Of the Monterey Peninsula Water Management District**

Monday, October 31, 2016, 10 am
District Conference Room, 5 Harris Court, Building G, Monterey, CA

Call to Order

Comments from Public -- *The public may comment on any item within the District's jurisdiction. Please limit your comments to three minutes in length.*

Action Items -- *Public comment will be received on Action Items. Please limit your comments to three minutes in length.*

1. Consider Adoption of Minutes of June 7, 2016 Committee Meeting
2. Approve 2016 Annual Report to MPWMD Board

Discussion Items -- *Public comment will be received on Discussion Items. Please limit your comments to three minutes in length.*

3. Review of Revenue and Expenditures of Water Supply Charge Related to Water Supply Activities

Other Items -- *Public comment will be received on Other Items. Please limit your comments to three minutes in length.*

4. Update on District User Fee and CPUC
5. Water Supply Project Update

Adjourn

Staff reports regarding these agenda items will be available for public review on Thursday, October 27, 2016 at the District office and website. After staff reports have been distributed, if additional documents are produced by the District and provided to the Committee regarding any item on the agenda, they will be made available at 5 Harris Court, Building G, Monterey, CA during normal business hours. In addition, such documents will be posted on the District website at www.mpwmd.net. Documents distributed at the meeting will be made available in the same matter. Upon request, MPWMD will make a reasonable effort to provide written agenda materials in appropriate alternative formats, or disability-related modification or accommodation, including auxiliary aids or services, to enable individuals with disabilities to participate in public meetings. Please send a

description by 5 PM on Thursday, October 27, 2016. Requests should be sent to the Board Secretary, MPWMD, P.O. Box 85, Monterey, CA, 93942. You may also fax your request to the Administrative Services Division at 831-644-9560, or call 831-658-5600.

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ORDINANCE NO. 152 OVERSIGHT PANEL

1. CONSIDER ADOPTION OF MINUTES OF JUNE 7, 2016 COMMITTEE MEETING

Meeting Date: October 31, 2016

From: David J. Stoldt
General Manager

Prepared By: Arlene Tavani

SUMMARY: Draft minutes of the June 7, 2016 committee meeting are attached as **Exhibit 1-A**.

RECOMMENDATION: Review the minutes and adopt them by motion.

EXHIBITS

1-A Draft Minutes of June 7, 2016 Committee Meeting



EXHIBIT 1-A

DRAFT MINUTES
Ordinance No. 152 Oversight Panel of the
Monterey Peninsula Water Management District
June 7, 2016

Call to Order The meeting was called to order at 10:35 am in the conference room at the offices of the Monterey Peninsula Water Management District.

Committee members present:

John Bottomley
Paul Bruno
Jason Campbell
Jody Hanson
Todd Kruper
John Bottomley
George Riley
Christine Monteith

MPWMD Staff members present:

David J. Stoldt, General Manager
Suresh Prasad, Administrative Services Manager
Arlene Tavani, Executive Assistant

District Counsel Present:

Heidi Quinn

Committee members absent:

John Tilley

Comments from the Public:

No comments were directed to the committee.

Discussion Items

1. Update on Annual Water Supply Spending – Discuss Proposed Budget and Capital Improvement Plan for FY 2016-17

Stoldt reviewed Exhibit 1-A, 2016-17 Capital Improvement Plan, with the committee and responded to questions. Prasad reviewed Exhibit 1-B, Water Supply Charge Proposed Budget. He stated that the Net Revenue Over Expenses shows a shortage of \$795,650. This will be covered by shifting a percentage of 2016-17 Mitigation and Conservation fund revenues to the Water Supply Fund. There will be no need to return that money to the Conservation and Mitigation funds. However, funds that were previously transferred from the MPWMD Reserves must be replenished. Stoldt explained that Pure Water Monterey Project (PWM) expenses have been partially funded from MPWMD Reserves. When debt funding for PWM has been obtained, Water Supply Charge (WSC) funds will be used to pay back the MPWMD Reserves. In response to a question from the committee, Stoldt stated that the estimated cost for PWM is \$83 to \$113 million depending on reimbursements received. The estimated costs are: \$7 million for conveyance and diversion facilities; \$36 million for the reclamation facility; \$27 million for the pipeline; and other costs related to injection

facilities and engineering. The maximum cost per acre-foot has been capped at \$1,720. The estimated cost for the 6.4 mgd desalination plant is \$4,800 per acre-foot, and the 9.6 mgd desalination plant is approximately \$4,400 per acre-foot. The difference in cost between the two desalination plants is approximately \$1,200 to \$2,300 per acre-foot, depending upon assumptions, and that is the number that the PWM cost is being compared to. Typically, the California Public Utilities Commission (CPUC) only considers the cost of operation and financing for the first year and does not consider future replacement and energy costs. Over time, the desalination project replacement and energy costs will increase, so PWM is reasonable and a benefit to ratepayers over its lifecycle, but the CPUC must agree to the methodology of determining cost.

2. Review of Revenues and Expenditures of Water Supply Charge Related to Water Supply Activities

Prasad reviewed Exhibit 2-B, Water Supply Charge Availability Analysis. He noted that the 16.1% listed as indirect costs as a percent of the WSC reflects the July 2015 through March 31, 2016 time period. By June 30, 2016, the percentage will be reduced based on receipt of the entire \$3,400,000 that is expected to be received from the WSC.

Action Items

3. Develop Recommendation for 2016 Annual Report

The committee discussed development of recommendations for an Annual Report to the MPWD Board of Directors. It was agreed that Stoldt would prepare a report that states: the committee accepts the Board of Directors plan to collect the user fee and WSC for three years; the District should prioritize payoff of the Rabobank loan and develop a blueprint for ending the WSC. Stoldt will submit a draft report to the committee members for review. Comments should be directed only to Stoldt. The Annual Report should be submitted at the July 18, 2016 Board of Directors meeting.

Comments from the committee and Stoldt. (a) The main concern is: when will the WSC sunset. (b) The District must exhibit fiscal restraint if it will simultaneously collect both the WSC and the User Fee. (c) Propose that each year, \$1.5 million from the WSC be allocated to payment of the Rabobank loan. *Stoldt – as we continue to collect the WSC and the user fee, a sinking fund would be established to pay off the Rabobank loan. Once the amount of revenue the user fee will provide is known, it could be collected for three years and then a portion of the WSC could be sunset based on the portion of PWM and desalination project expenses that will have been paid. If the desalination project is delayed and there is no immediate need for the WSC, it should not be de-authorized. The District needs the opportunity to implement the WSC again if needed.* (d) Collecting two sources of revenue is appropriate because: the commitment to development of the desalination project is unpredictable; Cal-Am revenues will be in flux; and under collection of Cal-Am revenues will be an issue. (e) How was the WSC intended to augment revenues when collection of the user fee was denied? *Stoldt – the user fee generated approximately \$2.4 million each year but it was not enough to build a water supply project. The WSC was proposed to generate approximately \$3.4 million per year.* (f) The District is now viewed as a partner in water supply development. (g) A good solution would be for the District to spend \$600,000 each year from the WSC to pay off the Rabobank loan, in the event that desalination is not approved and another water supply option must be funded.

4. Consider Adoption of Minutes of September 24, 2015 and February 29, 2016 Committee Meetings

On a motion by Riley and second of Kruper, the minutes of the September 24, 2015 and February 29, 2016 committee meetings were approved unanimously on a vote of 7 – 0 by Riley, Kruper, Bottomley, Bruno, Campbell, Hanson, and Monteith. Tilley was absent.

Other Items

5. Update on District User Fee and CPUC

Stoldt reviewed the information provided in the staff report. He noted that an all-hands meeting between the Office of Ratepayer Advocates, Cal Am and the CPUC has been scheduled on June 22, 2016 to discuss issues related to reinstatement of the user fee. Definitive action must be taken soon, so that Cal Am can modify its rate request to include or exclude the user fee.

6. Water Supply Project Update

No report.

Adjourn: The meeting was adjourned at 12:10 pm

ORDINANCE NO. 152 OVERSIGHT PANEL

2. APPROVE 2016 ANNUAL REPORT TO MPWMD BOARD

Meeting Date: October 31, 2016 **Budgeted:** N/A

From: David J. Stoldt **Program/
General Manager** **Line Item No.:** N/A

Prepared By: David J. Stoldt **Cost Estimate:**

General Counsel Approval: N/A
Committee Recommendation: N/A
CEQA Compliance: N/A

Please see **Exhibit 2-A** for discussion at the meeting.

EXHIBIT

2-A Draft 2016 Annual Report

EXHIBIT 2-A

Ordinance 152 Citizens' Oversight Panel 2016 Annual Report

2015-16 Topics of Discussion

The following areas of discussion represent four key topics the Panel has identified of particular interest or concern during the current 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 "PUC Decision No. 11-03-035 (rejecting Cal-Am's application for authorization to collect the District's user fee, and also rejecting the settlement agreement entered into by Cal-Am, the District, and the Division of Ratepayer Advocates [now ORA]) and PUC Decision No. 13-01-040 (denying the District's application for rehearing) are set aside. The matter is remanded to the PUC for further proceedings consistent with the views expressed herein." The District, Cal-Am, and ORA filed a Joint Motion to reinstate the User Fee last week.

Therefore, it is incumbent upon 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 General Manager and Chief Financial Officer thoroughly examined the issue and in April the Board adopted the following recommended strategy:

Collect both charges for at least 3 years. This would be done 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.

Have only a single MPWMD User Fee Surcharge on Cal-Am bill, instead of a mitigation surcharge, a conservation surcharge, and the User Fee. Remove the existing Conservation Surcharge and Mitigation Program expenses from the Cal-Am rates as soon

as practicable. Capture in MPWMD User Fee budget. Cal-Am to remain responsible for its rebate budget until the User Fee has capacity.

Remove the same programs from the next GRC period (2018-2020).

Calculate solely on “Total Water Service Related Charges” line on bill, plus any Water Revenue Adjustment Mechanism (WRAM) surcharge, ensuring that the User Fee is based solely on Cal-Am water and meter revenues.

The Citizens Oversight Panel cautiously supports this plan. The panel believes significant 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 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 used to replace expenditures for the Aquifer Storage and Recovery project in a timely fashion.

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 borrowing from its credit line or use of reserves. It is expected that the practice will continue in the 2016-17 budget for GWR. Such near-term borrowing to meet current pay-as-you-go capital costs is expected by the District to be repaid from future Water Supply Charge collections and, ultimately a reimbursement from State Revolving Fund loan proceeds. The Panel is very concerned that obligating future collections does not result in a balanced budget and results in 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 and the Airport well repurposing. As such, the Panel recommends appropriation of a similar sum of money from the Water Supply Charge from future budgets. A summary of such projects to-date is attached.

Local Water Project Funding To-Date

Project	Status
Pacific Grove \$200,000	First \$100,000 spent; Anticipate construction start this fall; Will save 88 AFY
Old Del Monte Golf Course \$80,000	Two wells completed; Awaiting CEQA review of pond; Expect pond construction by February; Will save 40-50 AFY
Monterey Regional Airport \$30,000	Completed study; Identified 104 AFY of non-potable supply; Will attempt to find users in FY 2016-17
City of Monterey \$85,000	Storm water capture study; No expenditures to date; Trying to obtain state grant moneys
City of Seaside \$106,900	Laguna Grande non-potable well; No expenditures to date
Monterey County Fairgrounds \$75,000	Replumb bathrooms to well water; No expenditures to date; Almost 50% reduction in water due to retrofits; Suggest canceling grant

Primary Panel Function

The Ordinance 152 Citizen's Oversight Panel (the "Panel") is a committee formed for the sole purpose of providing a forum for public involvement in the budgeting and expenditure of the District's annual Water Supply Charge. The Panel is directed to meet quarterly and review proposed expenditure of funds for the water supply activities of the District. The Board does not seek consensus from the Panel, but rather input on the ongoing budgeting and expenditure of revenues raised by the water supply charge on water supply related activities. The Panel will submit an annual report for consideration by the Board of Directors. This document serves as that annual report. In the Panel's by-laws, the report is to be submitted at the September Board meeting, however, the initial panel was not constituted until December 2012, meeting for the first time in early 2013. Hence, the first year of the Panel's activities just closed.

Also under its by-laws, the Panel is expected to visit District facilities – to be scheduled by the District – to become better acquainted with water supply projects and operations. During the past year, the Panel visited the Aquifer Storage and Recovery site and heard a presentation on the Pure Water Monterey Groundwater Replenishment project.

The Panel will also, from time to time, be requested to provide community input with respect to water supply-related activities. One key area during the past year was the Panel's encouragement of the creation of funding for Local Water Project, as discussed more within this report.

Pursuant to the Ordinance, proceeds of the water supply charge may only be used to fund District water supply activities, including capital acquisition and operational costs for Aquifer Storage and Recovery (ASR), Groundwater Replenishment (GWR), and desalination purposes, as well as studies related to project(s) necessary to ensure sufficient water is available for present beneficial water use in the main CAW system. In addition to direct costs of the projects, proceeds of this annual water supply charge may also be expended to ensure sufficient water is available for present beneficial use or uses, including water supply management, water demand management, water augmentation program expenses such as planning for, acquiring and/or reserving augmented water supply capacity, including engineering, hydrologic, legal, geologic, financial, and property acquisition, and for reserves to meet the cash-flow needs of the District and to otherwise provide for the cost to provide services for which the charge is imposed. No more than fifteen (15%) of proceeds collected by reason of Ordinance No. 152 shall be used to fund general unallocated administrative overhead.

Panel Composition

The Panel meets the definition of a "legislative body" as defined by the Brown Act; therefore, all meetings shall be noticed and open to the public in compliance with the Brown Act.

The Panel is comprised of 9 members who shall reside within the boundaries of the Monterey Peninsula Water Management District. Members of the Panel shall serve at the pleasure of the District Board.

The Board shall appoint one member from a panel of three persons nominated by the Monterey Peninsula Taxpayers Association, and the Board shall appoint one member from a panel of three persons nominated by the Monterey County Association of Realtors, and each Director shall appoint 1 member to the Panel. Appointees must reside within the District boundaries and may be associated with a community group, but does not have to officially represent any community group.

- a) Each appointee shall serve a term of two years, with terms expiring on January 1, or on the date the appointing Director vacates office as a member of the MPWMD Board of Directors, whichever shall occur first.
- b) A quorum of five (5) Panel members shall be required for an official meeting to be conducted. Action may be taken by majority vote of those Panel members present.
- c) The General Manager will serve as Chair to the Panel, for purposes of facilitating meetings. District staff will provide support to the committee as appropriate.

ORDINANCE NO. 152 OVERSIGHT PANEL

**3. REVIEW OF REVENUE AND EXPENDITURES OF WATER SUPPLY CHARGE
RELATED TO WATER SUPPLY ACTIVITIES**

Meeting Date: October 31, 2016

From: David J. Stoldt
General Manager

Prepared By: Suresh Prasad

SUMMARY: Please refer to **Exhibit 3-A** that will be discussed at the October 31, 2016 committee meeting.

EXHIBITS

3-A MPWMD Water Supply Charge Availability Analysis

EXHIBIT 3-A

Monterey Peninsula Water Management District

Water Supply Charge Availability Analysis

	FY 2014-2015 Revised Budget	FY 2014-2015 Audited Actuals	FY 2015-2016 Revised Budget	FY 2015-2016 Unaudited Actuals	FY 2016-2017 Adopted Budget	FY 2016-2017 thru 09/30/2017
Beginning Fund Balance		\$3,892,112		\$3,511,577		\$1,060,306
Water Supply Charge	\$3,400,000	\$3,327,701	\$3,400,000	\$3,391,535	\$3,400,000	(\$2,376)
Carry-Forward Prior Year Water Supply Charge/Reserve	0	0	4,117,150	0	1,617,350	0
Loan Proceeds for ASR	0	0	0	0	0	0
Capacity Fee	175,000	159,250	175,000	502,298	212,500	74,523
Project Reimbursement	626,900	712,002	444,100	429,074	595,600	-
Property Taxes	657,750	740,898	425,500	473,446	598,400	-
Grants	-	-	-	-	110,400	-
Interest	4,500	20,199	4,500	28,552	14,000	(1,002)
Other	-	12,112	-	12,908	10,000	549
Capital Equipment Reserve Fund	41,800	-	44,800	44,000	-	-
Total Revenues	\$4,905,950	\$4,972,162	\$8,611,050	\$4,881,813	\$6,558,250	\$71,694
Direct Personnel	908,936	884,281	956,119	916,597	960,450	279,491
Legal	230,000	241,583	250,000	334,749	240,000	14,276
Project Expenditures [see below]	3,760,400	3,259,930	6,219,550	5,329,436	3,690,050	116,526
Project Expenditures-Reimbursements [see below]	591,400	113,455	409,000	55,564	966,500	116,166
Fixed Asset Purchases	78,150	38,752	74,400	60,530	19,800	3,711
Contingencies	10,250	-	25,000	-	23,200	-
Debt Service	230,000	225,209	230,000	219,136	230,000	-
Election Expense	-	-	20,000	14,720	-	-
Measure O Costs	-	185,583	-	-	-	-
Indirect Labor*	200,314	200,314	203,781	203,781	204,750	51,188
Indirect Supplies & Services*	204,000	203,590	223,200	198,571	223,500	41,004
Total Expenditures	\$6,213,450	\$5,352,697	\$8,611,050	\$7,333,084	\$6,558,250	\$622,361
Net Revenue Over Expenses**	(\$1,307,500)	(\$380,535)	\$0	(\$2,451,271)	\$0	(\$550,667)
Ending Fund Balance		\$3,511,577		\$1,060,306		\$509,639
Project Expenditures	FY 2014-2015 Adopted Budget	FY 2014-2015 Audited Actuals	FY 2015-2016 Revised Budget	FY 2015-2016 Unaudited Actuals	FY 2016-2017 Adopted Budget	FY 2016-2017 thru 09/30/2017
Groundwater Replenishment Project	\$2,494,000	\$2,524,911	\$4,633,000	\$4,140,005	\$1,576,500	\$19,063
ASR Phase I	\$522,400	\$307,218	\$323,300	\$371,104	\$1,025,900	\$8,650
Reimbursement Projects	\$591,400	\$113,455	\$409,000	\$55,564	\$966,500	\$116,166
Cal-Am Desalination Application	\$75,000	\$106,614	\$140,000	\$92,253	\$200,000	\$0
ASR Expansion	\$50,000	\$1,320	\$8,300	\$0	\$18,500	\$0
Other Water Supply Projects - IFIM/GSFlow	\$75,000	\$72,301	\$255,000	\$149,410	\$152,000	\$43,386
Local Water Projects	\$150,000	\$0	\$466,000	\$147,256	\$386,900	\$0
Alternate Desal Project	\$225,000	\$153,133	\$350,000	\$350,057	\$0	\$0
Drought Contingency Plan	\$0	\$0	\$0	\$0	\$192,900	\$14,380
Other Project Expenditures	\$169,000	\$94,433	\$43,950	\$79,351	\$137,350	\$31,047
Total Commitments	\$4,351,800	\$3,373,385	\$6,628,550	\$5,385,000	\$4,656,550	\$232,692

*: Indirect costs as percent of Water Supply Charge 11.9% 12.1% 12.6% 11.9% 12.6% 12.6%

Recent Activities: **Amount**

Cal-Am Desal Structuring & Financing Order	460,000
Cal-Am Professional Fees for Contribution of Public Funds	75,000
GWR bond counsel services	90,000
GWR accounting services for debt equivalence	10,000
GWR Consultant to assess externalities	178,637

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