

## **EXHIBIT 16-A**

### **Ordinance 152 Citizens Oversight Panel**

#### **2022 Annual Report**

##### **2022 Annual Report Recommendations**

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

1. **Full or Partial Sunset of the Water Supply Charge:** The Panel reminds the Board that the 2020-21 fiscal year was the fourth 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. 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 loan balance is \$2.2 million and the outstanding repayment to reserves was at \$5.8 million as of March 31, 2022. While the Panel supports the District's adopted policy and was pleased to see the District Board be proactive, it is anxious to clear the first two priorities in order to begin to address the third.

The Panel members understand, however, that the Monterey Peninsula Taxpayers Association lawsuit will receive a ruling in March or April of 2023. That lawsuit may result in an appeal, rather than a final outcome. The District believes in the next few years the Water Supply Charge will continue to be needed 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 each of the next few years will be insufficient to meet all District water supply needs the next few years, and those activities will again be subsidized by other District revenues, including the User Fee, but the User Fee itself will not be enough to supplant the Water Supply Charge until such projects are complete.

Panel majority view: 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.

Panel minority view: The Water Supply Charge has exceeded its time constraint and should be retired immediately. The District User Fee should be looked at for any additional expenditures on water supply.

- 2. Mechanics Bank Loan:** In 2013, the District undertook a \$4 million dollar loan from Mechanics Bank (nee RaboBank) to reimburse Aquifer Storage and Recovery (ASR) project costs paid by internal borrowing and to fund future planning costs for water supply. This was because the California Public Utilities Commission had disallowed the District's User Fee from Cal-Am bills since 2010 until reinstated in 2017. Of the proceeds, \$2.2 million were used to pay (or repay) ASR costs and \$1.5 million was available for future water supply planning and design.

The overall FY2021-22 District budget set aside \$500,000 for paying down the Mechanics Bank loan, which was done in August 2021. The current 2022-23 budget also has \$500,000 in it to pay down the loan which was done in January 2023. The principal balance is presently approximately \$2.2 million. June 30, 2023 is the date to pay it off in full or refinance, due to a 10-year balloon payment on a nominal 30-year loan. The loan itself specifically identifies the Water Supply Charge as security for repayment. Therefore, sunset of the charge cannot be considered until the loan is paid off or the security for repayment is revised. At the time of this report, Mechanics Bank had not yet identified costs and terms for refinancing.

Panel majority view: It should be a priority to pay-off the loan, but if there are other less costly alternatives, they should be considered. Pay-off should not immediately result in a sunset of the Water Supply Charge, rather all financial needs of the District should be considered and the adequacy of the User Fee to meet other needs, as well as water supply should be determined.

Panel minority view: The Water Supply Charge should have been dedicated to paying off the loan from the onset of the charge and if further payments are necessary, they should come from the User Fee while the Charge is ceased 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, the acquisition of Cal-Am's assets.

Panel majority view: Most 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 to 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 for Measure J.

Panel minority view: Measure J does not constitute a water supply project and is therefore not an appropriate use of Water Supply Charge funds.

- 4. Financial Report:** The attached financial report (Exhibit A) for the 2021-2022 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 \$17.7 million. Major revenue sources include the Water Supply Charge at \$3.4 million (19%), Property Taxes at \$2.0 million, (12%), User Fees at \$0.9 million (5%), and Pure Water Monterey water, which sold at cost for \$9.8 million (55%), reimbursing the expense to produce it. Capacity fees, project reimbursements, and interest make up the remaining 9%.

Total Expenditures were \$16.7 million. The largest components were Direct Personnel at \$1.5 million (9%) and Project Expenditures at \$13.4 million (80%). Legal, Project Expenditure Reimbursements, Fixed Asset Purchases, Indirect Labor, Debt Service, and Indirect Supplies and Services make up the remaining 11%. A more detailed account of Project Expenditures is also provided in Exhibit A.

Exhibit B shows inflows and outflows to the District's Water Supply Fund. An important conclusion is that in each of the ten 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 \$13.9 million during that timeframe.

- 5. Performance:** To date, the Water Supply Charge has been instrumental in funding design, construction, and operation of the following projects and on-going operations:

- Pure Water Monterey project, which provides 35% of our water supply
- Aquifer Storage & Recovery, which will eventually supply 13% of our supply.
- Local water Projects (Pacific Grove, MRY Airport, Del Monte Golf Course, others)
- Integrated Regional Water Management Planning (resulting in State grants)
- Federal Grants
- Water quality and level sampling/analysis region-wide. and
- Various studies for drought resilience and water supply alternatives.

Respectfully submitted by the Ordinance 152 Citizens Oversight Panel, February 13, 2023.



**EXHIBIT A**

**Monterey Peninsula Water Management District**

**Water Supply Charge Availability Analysis**

	FY 2021-2022 Unaudited Actuals
Beginning Fund Balance	\$8,469,682
Water Supply Charge	\$3,393,516
Capacity Fee	503,981
PWM Water Sales	9,828,000
Project Reimbursement	1,029,128
Property Taxes	2,058,683
User Fees	858,082
Interest	18,295
Reclamation Project	33,896
Other	7,812
Total Revenues	<u>\$17,731,393</u>
Direct Personnel	1,451,637
Direct Supplies & Services*	130,411
Legal	166,590
Project Expenditures [see below]	13,404,055
Project Expenditures-Reimbursements [see below]	362,982
Fixed Asset Purchases	39,471
Contingencies	0
Debt Service	719,308
Election Expense	0
Indirect Labor*	183,066
Indirect Supplies & Services*	264,775
Reserve	0
Total Expenditures	<u>\$16,722,295</u>
Net Revenue Over Expenses	<u>\$1,009,098</u>
Ending Fund Balance	\$9,478,780

	FY 2021-2022 Unaudited Actuals
<u>Project Expenditures</u>	
PWM Project	\$2,169,547
PWM Project - Expansion	\$583,200
PWM Project - Operating Reserve	\$480,403
PWM Project - Water Purchase	\$9,695,000
ASR Phase I	\$21,749
Reimbursement Projects	\$362,982
Cal-Am Desalination Project	\$0
ASR Expansion	\$0
Other Water Supply Projects - IFIM/GSFlow	\$17,586
Local Water Projects	\$0
Measure J/Feasibility Study	\$129,202
Drought Contingency Plan	\$0
Los Padres Long Term Plan	\$214,536
PB Reclamation Project	\$0
Other Project Expenditures	\$92,832
Total Project Expenses	<u>\$13,767,037</u>

\*: Indirect costs as percent of Water Supply Charge 13.2%

Recent Activities:

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



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

	Fiscal Year Ending											Total
	2023*	2022*	2021	2020	2019	2018	2017	2016	2015	2014	2013	
<b>Revenue</b>												
Water Supply Charge	\$ -	\$ 3,393,516	\$ 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	\$ 33,900,756
<b>Expenditures</b>												
Personel:												
Salaries	\$ 428,301	\$ 1,088,157	\$ 1,050,039	\$ 1,034,678	\$ 1,025,894	\$ 918,724	\$ 824,182	\$ 815,048	\$ 790,486	\$ 768,299	\$ 734,454	\$ 9,478,262
Employee Benefits and other	\$ 339,881	\$ 546,546	\$ 489,891	\$ 468,197	\$ 415,047	\$ 367,183	\$ 338,110	\$ 308,289	\$ 295,699	\$ 321,168	\$ 331,552	\$ 4,221,563
Services and Supplies:												
Project expenditures	\$ 654,141	\$ 4,072,037	\$ 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	\$ 41,119,779
Water purchases	\$ 5,451,391	\$ 9,695,000	\$ 6,041,594	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,187,985
Operating expenditures	\$ 149,734	\$ 270,392	\$ 290,370	\$ 236,163	\$ 240,055	\$ 154,660	\$ 143,059	\$ 166,695	\$ 344,266	\$ 143,720	\$ 130,241	\$ 2,269,355
Professional fees	\$ 116,665	\$ 291,384	\$ 201,588	\$ 192,081	\$ 313,446	\$ 357,070	\$ 214,106	\$ 378,388	\$ 284,904	\$ 304,978	\$ 363,081	\$ 3,017,691
Capital outlay	\$ 19,318	\$ 39,471	\$ 12,647	\$ 14,927	\$ 76,477	\$ 64,404	\$ 17,334	\$ 60,530	\$ 38,752	\$ 35,919	\$ 15,944	\$ 395,723
Debt Service:												
Principal	\$ -	\$ 617,383	\$ 96,405	\$ 93,157	\$ 90,175	\$ 86,953	\$ 83,881	\$ 80,508	\$ 78,059	\$ 75,215	\$ 38,368	\$ 1,340,104
Interest and other charges	\$ -	\$ 101,925	\$ 122,731	\$ 125,979	\$ 128,961	\$ 132,183	\$ 137,086	\$ 138,627	\$ 147,150	\$ 143,921	\$ 41,801	\$ 1,220,364
<b>Total Expenditures</b>	\$ 7,159,431	\$ 16,722,295	\$ 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	\$ 84,250,826
<b>Difference [surplus/(deficit)]</b>	\$ (7,159,431)	\$ (13,328,779)	\$ (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)	\$ (50,350,070)
<b>Other Revenue Sources</b>												
Project reimbursements	\$ 94,220	\$ 1,063,024	\$ 622,842	\$ 1,220,812	\$ 526,867	\$ 5,583,786	\$ 693,848	\$ 429,075	\$ 712,002	\$ 2,093,013	\$ 2,032,924	\$ 15,072,413
PWM Water Sales	\$ 5,451,391	\$ 9,828,000	\$ 5,908,182	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,187,573
Grants	\$ -	\$ -	\$ -	\$ -	\$ 200,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 38,342	\$ 238,342
<b>Difference [surplus/(deficit)]</b>	\$ (1,613,820)	\$ (2,437,755)	\$ (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	\$ (13,851,742)

Source: MPWMD Audited Financial Statement  
\* 2022 & 2023 unaudited figures

