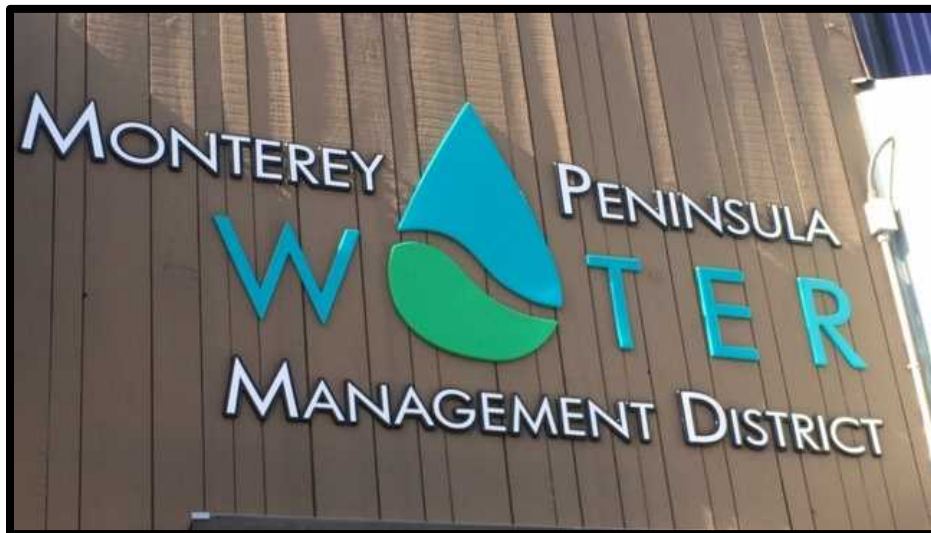


2021 Municipal Service Review and Sphere of Influence Study:

Monterey Peninsula Water Management District



Adopted by the Commission on December 6, 2021

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COUNSEL

Kelly L. Donlon, General Counsel
Paula C. P. de Sousa, Partner, Best Best & Krieger, LLP, Attorneys at Law

LOCAL AGENCY FORMATION COMMISSION OF MONTEREY COUNTY

132 W. Gabilan Street, Suite 102, Salinas, CA 93901
P.O. Box 1369, Salinas, CA 93902
(831) 754-5838
www.monterey.lafco.ca.gov

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DISTRICT AT A GLANCE
2021 MUNICIPAL SERVICE REVIEW AND SPHERE OF INFLUENCE STUDY
MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

Monterey Peninsula Water Management District – At a Glance	
Formation Date	1978
Legal Authority	West’s Calif. Water Code Appendix Chapter 118, Sections 118-1 to 118-901 (“District Law”)
Board of Directors	Seven directors: Five elected from voter divisions, plus two ex officio directors consisting of one director appointed by the Monterey County Board of Supervisors from its membership, and one elected official or chief executive officer appointed by a committee comprised of mayors from jurisdictions within the District boundaries
District Area	109,376 acres – existing district boundaries Approximately 139 acres – proposed expansion
Sphere of Influence¹ Area	Same as existing district boundaries Approximately 139 acres – proposed expansion and concurrent annexation
Proposed activation of latent powers	To provide and maintain potable water production and distribution services for retail customers throughout its territory
Population	Approximately 112,000
Authorized Powers	<ul style="list-style-type: none"> • Water management • Water augmentation • Water reuse and reclamation • Water conservation • Limited water services to seven golf courses and one school within the Del Monte Forest (Wholesale delivery of potable water, retail delivery of reclaimed water) • Environmental protection and mitigation • Permitting and regulatory compliance
Budget (FY 2021-22)	\$29.5 million in projected revenues and expenses
Mission Statement	Sustainably manage and augment the water resources of the Monterey Peninsula to meet the needs of its residents and businesses while protecting, restoring, and enhancing its natural and human environments.
Board Chair	Alvin Edwards
General Manager	David Stoldt
Office	5 Harris Court, Building G, Monterey, CA 93940
Website	mpwmd.net
Meetings	Regular Board meetings are held the third Monday of each month, except in January and February, at 6:00 p.m.

¹ A Sphere of Influence is defined by LAFCO of Monterey County as “A plan for the probable physical boundaries and service area of a local agency, as determined by LAFCO ([California Government Code] section 56076). The area around a local agency eligible for annexation and extension of urban service within a twenty-year period.”

EXECUTIVE SUMMARY

INTRODUCTION

This Municipal Service Review and Sphere of Influence Study provides information about the services and boundaries of Monterey Peninsula Water Management District (“MPWMD” or “District”). The report is for use by the Local Agency Formation Commission in conducting a statutorily required review and update process.

The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (“Cortese-Knox-Hertzberg Act”) requires that the Commission conduct periodic reviews and updates of Spheres of Influence of all cities and special districts in Monterey County (Government Code section 56425). It also requires LAFCO to conduct a review of municipal services before adopting Sphere updates (Government Code section 56430).

A Municipal Service Review (“MSR”) is a comprehensive review of municipal services in a designated geographic area, which provides information and evaluates the provision of services, and recommends actions when necessary, to promote the efficient provision of those services. MSRs are intended to serve as tools to help LAFCO, local agencies and the public better understand the municipal service structure and to develop information to update the Spheres of Influence of cities and special districts.

As discussed in the Key Findings, below, this study finds that MPWMD effectively provides water management, water augmentation, water reuse and reclamation, water conservation, limited retail water service, environmental protection and mitigation, and permitting and regulatory compliance services throughout its service area. The District’s various services have become progressively more broad-based over time, in step with community needs and construction of additional facilities. The District’s requested activation of latent powers as described below would be necessary for the District to expand the services it provides to meet voter-approved Measure J.

LAFCO will also consider this Study in its review of an application submitted by the District to LAFCO in February 2021, as amended and updated in May 2021 (hereinafter the “Proposal.”) Submitted pursuant to voter-approved Measure J, the Proposal consists of two elements:

1. Activation of latent powers to provide and maintain potable water production and distribution services for retail customers, and
2. Annexation of approximately 139 acres (about 58 parcels) in the Yankee Point and Hidden Hills areas, adjacent to the District’s existing boundaries, with a corresponding Sphere of Influence Amendment.

The Executive Officer issued the Certificate of Filing for the District’s Proposal on July 30, 2021. The District initiated its proposal in order to proceed with exploring the potential acquisition of the Cal-Am Monterey Water System through negotiation or a condemnation proceeding, consistent with the 2018 voter-approved Measure J, as described in further detail below.

REPORT OVERVIEW AND ORGANIZATION

This Executive Summary presents a brief overview of the study, key findings, and recommended actions.

The main body of the Study evaluates the District’s sphere of influence and boundaries, existing and proposed District services, population and projected future growth, and other relevant considerations.

The Determinations section concludes the study with statutory determinations required for all municipal service reviews and sphere of influence studies pursuant to the Cortese-Knox-Hertzberg Act.

The Study concludes with an Appendices section with sources and acknowledgements.

KEY FINDINGS

Following are the key findings of the Municipal Service Review and Sphere of Influence Study:

1. MPWMD is effectively and dependably carrying out its mission.

The District has a consistent track record of successfully providing water management, water augmentation, water reuse and reclamation, water conservation, limited retail water service, environmental protection and mitigation, and permitting and regulatory compliance services to its residents. The District is governed by a board of directors and is professionally managed and staffed. The District functions as a responsive and accountable form of local government for the communities it serves. The District has been awarded special recognition by receiving the Certificate of Excellence in Financial Reporting award from the Government Finance Officers Association of the United States and Canada in 2016, 2017, and 2020 and receiving the District Transparency Certificate of Excellence from the Special District Leadership Foundation in 2020.

2. The District's sphere of influence, as currently designated, generally delineates an appropriate geographic area for MPWMD to carry out its mission and provide services. The District's proposed 139-acre sphere amendment and annexation in the Yankee Point and Hidden Hills areas is consistent with the District's legislative purposes and its future plans.

The proposed sphere amendment and annexation of 58 parcels located within Cal-Am's Monterey Water System is essentially a cleanup action that would provide consistency between Cal-Am's service area and MPWMD boundaries. Inclusion within MPWMD would allow the District to provide its water management and other services to these parcels, as well as include them in a potential acquisition effort pursuant to Measure J. No additional areas that would benefit from MPWMD services or facilities have been identified at this time.

3. MPWMD currently carries out a broad range of water-related functions. Potential future expansion of the District's services to include retail potable water services appears to be feasible.

Since its formation in 1978, MPWMD's services have increased and broadened in scope as the District has constructed additional facilities in furtherance of its legislative mission. District services have incrementally evolved into a broad range of activities over the decades.

In keeping with this evolution, and pursuant to a voter mandate (Measure J, approved in 2018 by in-District voters), in 2021 the District's Board of Directors applied to LAFCO, as required by State law, for activation of a "new or different class of services" – in this instance, latent District powers to provide and maintain potable water production and distribution services for retail customers².

MPWMD has submitted to LAFCO detailed reports – including the "Raftelis Report" among other information – as part of its Proposal, to demonstrate that the District will have sufficient revenue to acquire Cal-Am's Monterey Water System and carry out retail potable water services. An independent third-party consultant hired by LAFCO to financially review the District's Proposal concluded, in part, that "The Raftelis Report provides a reasonable basis for a LAFCO determination that the MPWMD proposal will have sufficient revenues, although uncertainties exist. A review of key assumptions and methodologies indicates that the conclusions are reasonable; however, major cost items could change as a result of eminent domain proceedings."

Should the Commission approve the Proposal, it is anticipated that the District will proceed to potentially acquire Cal-Am's Monterey County District water system, either via a negotiated purchase or by use of eminent domain, pursuant to Measure J. Should the acquisition effort succeed, the District

² In this context, "latent" refers to powers that a special district such as MPWMD is legally enabled to provide, but is not currently providing.

would subsequently take over operating the water system, either directly or by contract with another public or private entity.

4. The District proactively plans for its long-term capital improvement needs and funding levels.

MPWMD has adopted and annually adjusts a capital improvement plan that identifies future infrastructure needs and corresponding funding needs. The capital improvement plan ensures continuity of high-quality public services. The District's stable revenue base and proactive financial policies and practices will allow the District to build reserve funds to meet future needs.

5. The State Water Resource Control Board's 2009 Cease-and-Desist Order, as amended, which requires the reduction of California American Water's pumping from the Carmel River by 2022 (through an approved time extension), and projected future water needs within the District's boundaries remain significant challenges for the District's long-term water supply.

In the context of the State Water Resource Control Board's 2009 Cease-and-Desist Order, unauthorized diversions of Carmel River water accounted for a use of approximately 3,400 acre-feet per year (AFY) within the District at the time the order was issued. As required by the Cease-and-Desist Order, this 3,400 AFY of water must be replaced by an alternate permanent source or sources.

Informed by these facts, MPWMD is taking active measures to diversify the water supply within the District through its own efforts and partnering with other entities to focus on conservation, aquifer storage and recovery, Pure Water Monterey, and other projects; thereby reducing reliance on Carmel River pumping and addressing future water needs of the communities it serves.

RECOMMENDED ACTIONS

Based on the analysis and recommendations in this study, the Executive Officer recommends adoption of a resolution to:

1. Find that, pursuant to Section 15306 of the California Environmental Quality Act ("CEQA") Guidelines, the service review and sphere of influence study is categorically exempt, in that the study consists of basic data collection, research, management, and resource evaluation activities that will not result in a serious or major disturbance to an environmental resource, and pursuant to Section 15061(b)(3), because it can be seen with certainty that there is no possibility that this study may have a significant effect on the environment; and
2. Approve this Municipal Service Review and Sphere of Influence Study for Monterey Peninsula Water Management District and adopt its recommended determinations.

MUNICIPAL SERVICE REVIEW AND SPHERE OF INFLUENCE STUDY

DISTRICT OVERVIEW

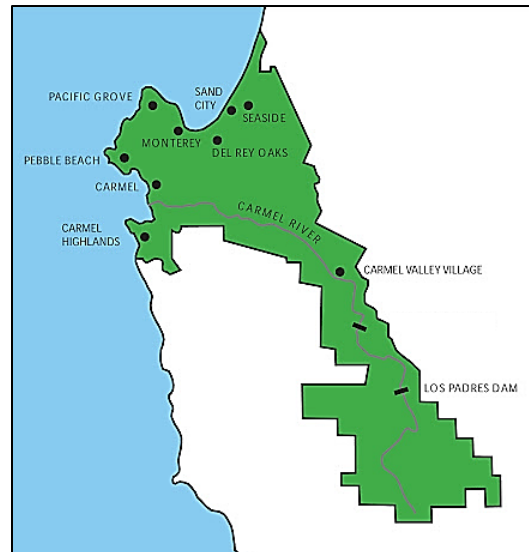
District Origins

The Monterey Peninsula Water Management District was created by the California Legislature in 1977 and ratified by the local voters in 1978. In the enabling legislation, the Legislature determined:

“The Legislature further finds and declares that, within the Monterey Peninsula area which will be served by the public district created by this law, the water service is principally supplied by a privately owned water supplier which does not have the facilities nor the ability to perform functions which are normally performed by public agencies, including the ability to raise sufficient capital for necessary public works, contract with, or provide necessary assurances to, federal and state agencies for financing of water projects and supplying of water, and the regulation of the distribution of water developed within or brought into such service area. Therefore, the Legislature finds and declares that it is necessary to create a public agency to carry out such functions which only can be effectively performed by government, including, but not limited to, management and regulation of the use, reuse, reclamation, conservation of water and bond financing of public works projects.” (*Water Code Appendix, Section 118-2*)

District-Served Areas

The Water Management District’s boundaries include the Cities of Carmel-by-the-Sea, Del Rey Oaks, Monterey, Pacific Grove, Seaside, and Sand City, and portions of unincorporated Monterey County including Pebble Beach, Carmel Highlands, Carmel Valley, Hidden Hills, the Monterey Regional Airport, and a portion of the Highway 68 corridor. District boundaries include the Carmel River Groundwater Basin and the Seaside Basin. In-district population is approximately 112,000.



Summary of Primary District Responsibilities

MPWMD is charged with four primary areas of responsibility:

1. Managing the development of potable water supplies and the delivery of this water to users in the Monterey Peninsula area,³
2. Protecting the Monterey Peninsula area from drought impacts and promoting water conservation,
3. Promoting water reuse and reclamation of storm and wastewater, and
4. Protection of the environmental quality of the Monterey Peninsula area’s water resources, including the protection of instream fish and wildlife resources .

MPWMD must navigate the complex relationships among its responsibilities and balance competing interests to reasonably achieve each of the four primary responsibilities. While it continues to pursue development of new water resources, MPWMD carefully manages the Monterey Peninsula area’s limited water supplies. The District does this principally by regulating the amount of water that can be produced and delivered by the public and private water distribution systems within its District boundaries.

³ The District currently provides limited wholesale delivery of potable water and retail delivery of reclaimed water. The District does not currently function as a retail potable water service provider – a role currently served by the California American Water Company (Cal-Am). Pursuant to voter-approved Measure J, in February 2021 the District submitted an application requesting that LAFCO activate latent District powers relating to retail water services. If LAFCO approves the District’s application, the District will potentially seek to acquire the Cal-Am water system in the future pursuant to Measure J.

Existing Boundaries and Sphere of Influence

MPWMD's existing boundaries and sphere encompass approximately 109,376 acres, or 170.9 square miles. The District's original boundaries were established in Section 118-102 of the District Law. In 1998, SB 342 established that the District's territory does not include any territory located within the City of Marina. The District's sphere and boundaries are coterminous, i.e. the District has no additional designated sphere of influence beyond its current boundaries.

Partial Overlap with Marina Coast Water District

Overlap of MPWMD and MCWD Jurisdictional Boundaries

Marina Coast Water District is a special district providing water and wastewater services to Marina, parts of Seaside, and several adjacent unincorporated areas. MPWMD's existing sphere and boundaries partly overlap with those of MCWD. The overlap occurs in the Ord Community (former Fort Ord) portion of the City of Seaside, where MCWD has long provided extraterritorial services and formally annexed certain parcels in 2019 (LAFCO file 18-03).

If LAFCO were to wholly approve MPWMD's pending request for activation of latent powers relating to retail potable water services throughout MPWMD's boundaries (including where the existing overlap with MCWD occurs), then both agencies would have legal authority to provide potable water services in the boundary overlap area. LAFCO's policies generally discourage such "duplications of authority to provide similar services." **A map of the overlap area is provided in this Study's Appendix section.**

The District has expressed no interest in providing retail potable water services to areas in MCWD's boundaries. Staff has discussed the overlap with MPWMD's General Manager, who was agreeable to a condition of approval in the draft resolution for the Commission's consideration of the latent powers activation proposal (scheduled for a public hearing on October 25, 2021). Should the Commission approve MPWMD's latent powers activation request, the condition of approval would exclude from such approval any areas that are within MCWD's jurisdictional boundary as amended from time to time.

Overlap of MPWMD Boundary and MCWD Future Study Area

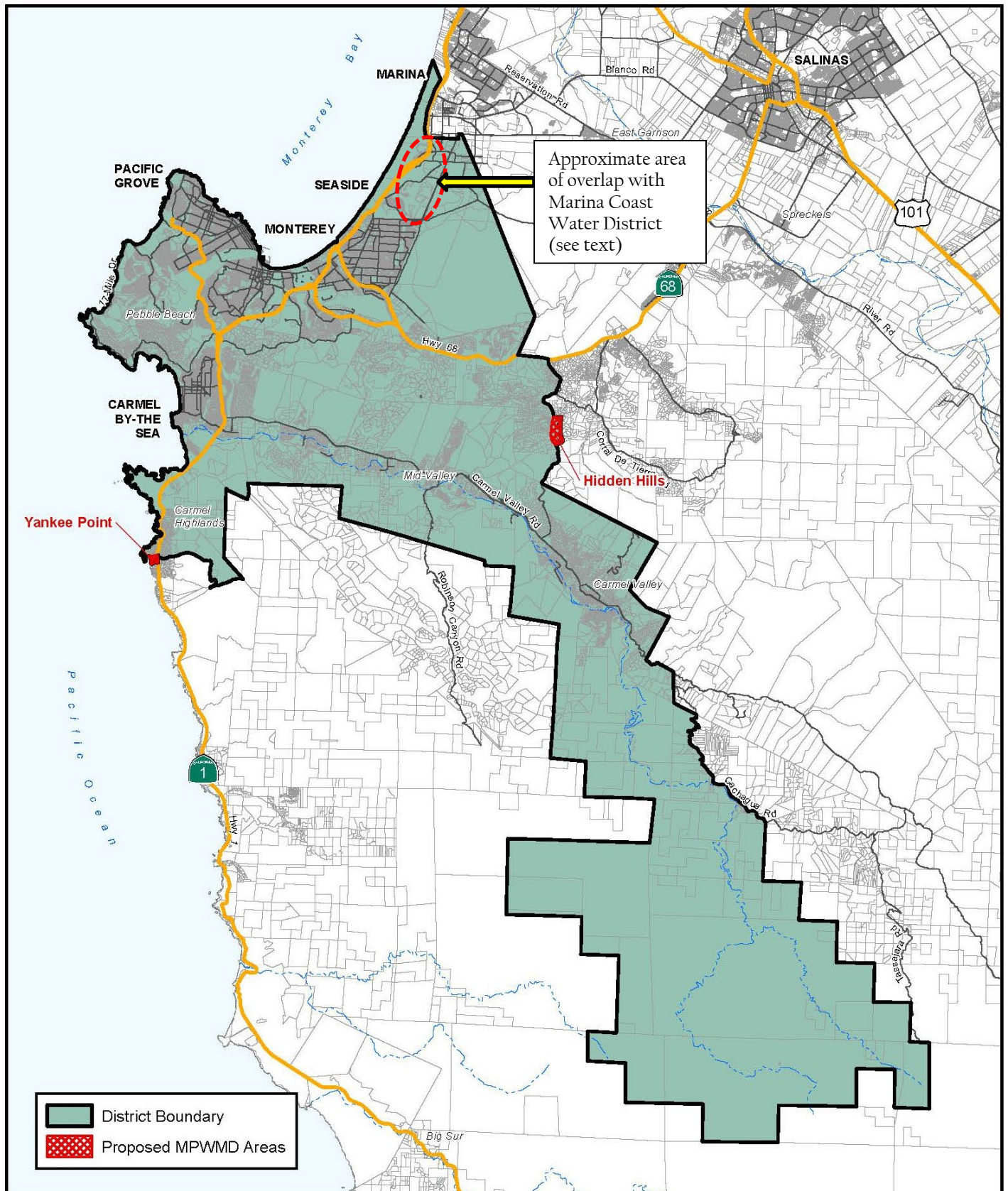
MPWMD's boundary also overlaps with a Future Study Area that LAFCO designated for Marina Coast in 2019⁴. MCWD's designated Future Study Area consists of certain former Fort Ord parcels in Seaside, Del Rey Oaks, and Monterey that may be developed and require services in the future, but were excluded from the 2018 Ord Community to annexation to MCWD, in part because development was not imminent.

LAFCO staff has discussed this overlap with the General Managers of both MPWMD and MCWD. Both managers were receptive to addressing future water-service needs and roles in this area via subsequent, longer-term discussions and coordination involving both districts as well as the affected land-use permitting jurisdictions (Cities of Seaside, Del Rey Oaks, and Monterey). These discussions may result in an amendment to the existing Memorandum of Agreement between the two districts, effectively resolving the potential duplication. A future boundary pullback by MPWMD in this general area is also a possibility, following a currently pending internal process of adjusting MPWMD's election districts ("redistricting" process).

For present purposes, LAFCO staff will recommend an additional condition of approval in the draft resolution for the Commission's consideration of the latent powers activation proposal. This condition will require MPWMD to establish, and agree to, an initial framework for future discussions with the affected jurisdictions on how to address long-term water service needs in the subject area. This topic is also discussed in the Executive Officer's report for the October 25, 2021 public hearing for the Proposal.

⁴ Monterey LAFCO's locally adopted policies define a Future Study Area as "Territory outside of an adopted Sphere of Influence that may warrant inclusion in the sphere in future years. Further study would have to be completed prior to inclusion."

Figure 1: District Current Boundaries and Proposed Expansion Areas

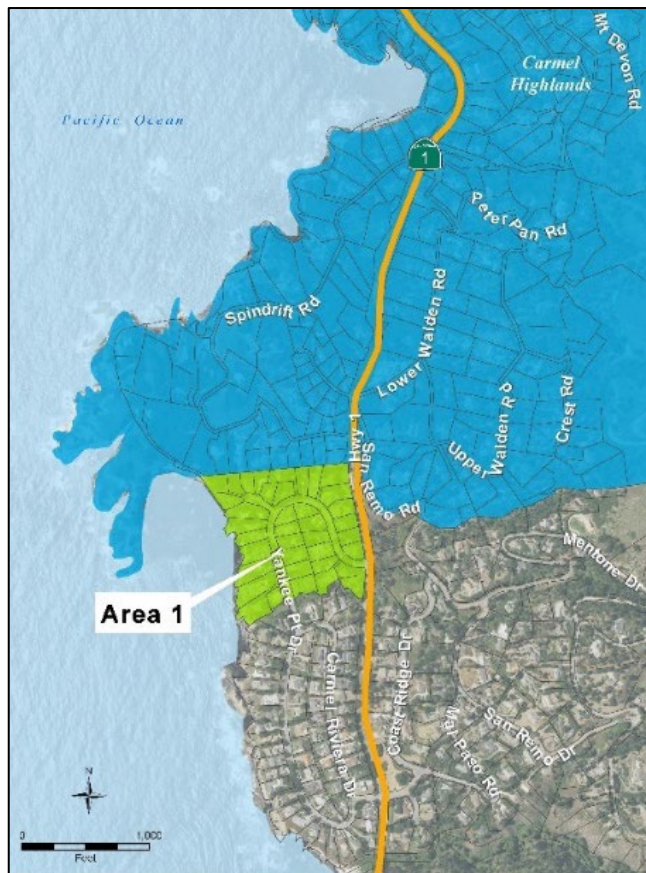


2021 Sphere of Influence Amendment and Annexation Proposal

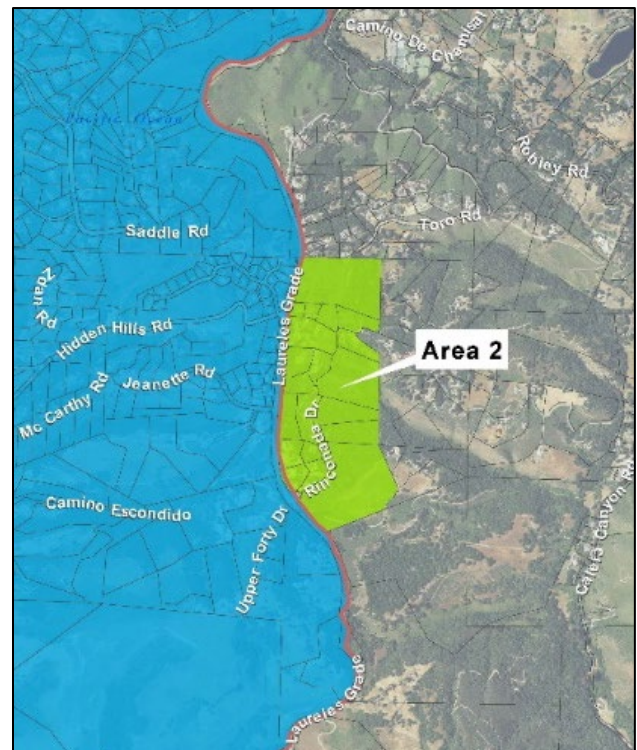
Along with the activation of latent powers relating to retail potable water services, the District is currently proposing a sphere of influence amendment and concurrent annexation of approximately 58 parcels on about 139 acres in the South Carmel Highlands (Yankee Point) and Highway 68 (Hidden Hills) areas.

Because these 58 parcels lie within Cal-Am’s Monterey Water System, they utilize water supplies that MPWMD currently manages. However, these 58 parcels are outside the District’s boundaries. The proposed sphere of influence amendment and annexation of these parcels is essentially a clean-up action that would provide consistency between Cal-Am’s service area and District boundaries. Inclusion within the District would allow MPWMD to provide its water management and other services to these parcels, as well as include them in a potential acquisition effort pursuant to Measure J. The proposed action would also be consistent with the District’s legislative purposes as summarized in the District Overview section, above.

No additional areas are currently proposed by the District, or recommended by staff, for inclusion in the District’s sphere of influence or boundaries. The recommended determinations at the end of this Study support approval of the District’s proposed sphere amendment and annexation. More-detailed annexation maps for the subject areas are included in the Study’s Appendix section.



Proposed annexation area #1:
 South Carmel Highlands / Yankee Point (approx. 38 parcels)
 Single-family residential neighborhoods



Proposed annexation area #2:
 Hidden Hills (approx. 20 parcels)
 Single-family residential neighborhoods

Summary of District Services

Since formation in 1978, the District's services have increased and broadened in scope as the District has constructed additional facilities in furtherance of its mission over the years. The District has identified the following as its current primary functions:

- **Water management:** Managing the water supply within its boundaries is one of MPWMD's primary responsibilities. The District ensures an adequate water supply through developing its own water supply projects and through cooperating or partnering with other agencies on water supply projects. The District provides oversight of water supplies – primarily the Carmel River and Seaside groundwater basin – that Cal-Am and other smaller water systems rely upon to provide retail potable water service⁵.
- **Water augmentation:** Primarily, the District owns the Aquifer Storage and Recovery project, located in Seaside, and operates these facilities in coordination with Cal-Am. This project is further described on the next page, and in the **Water Supply Augmentation** section within this Study's Future Challenges and Opportunities chapter.
- **Water reuse and reclamation:** The District partners with MIW and Cal-Am in making purified recycled water available to the Monterey Peninsula area, as part of the Pure Water Monterey project. MIW collects, treats, and purifies wastewater from various sources before conveying and injecting the water into the Seaside Groundwater Basin. MIW sells the purified water to MPWMD, which has jurisdiction over the Basin. then sells the purified water to Cal-Am, which extracts the water from the Basin and delivers it to its customers in its Monterey Bay service district
- **Water conservation:** The District provides water conservation outreach and materials to water users within its jurisdiction. This includes provision of free water saving devices, seminars, and outreach on saving water, as well as rebates for purchase of water saving devices.
- **Limited water services** including retail delivery of reclaimed water to seven golf courses and one school within the Del Monte Forest, and wholesale delivery of potable water from the Pure Water Monterey project to Cal-Am. Related services include setting rates and charges. Beginning in 2013, the District expanded its operations to include billing for water supply-related services to approximately 38,000 property owners. The District also performs meter-reading functions for non-Cal-Am water users, customer service and response, water quality sampling, water level monitoring, stream flow gauging, maintenance and repairs to production, treatment, and storage facilities, recordkeeping, regional forecasting (periodic assessments of water supply and demand to inform decisionmakers of current and future water supply needs), and various similar functions.
- **Environmental protection and mitigation**, including stewardship of the Carmel River basin and mitigation of environmental impacts of water extraction
- **Permitting and regulatory compliance**, including oversight of water supplies through a water allocation system and regulatory oversight of District-issued Water Permits, which allow an applicant to obtain a building permit and set a water meter or intensify water use on an existing water connection.

MPWMD holds two permits for its Aquifer Storage and Recovery (ASR) project, which is discussed on the next page. One is issued by the SWRCB for the taking of water from the Carmel River. The

⁵ In-district residents receive potable water primarily from groundwater wells in the Seaside and Carmel Valley groundwater basins, which is augmented by wintertime Carmel River flows, water from local advanced purified water sources, and from a desalination plant in Sand City. Cal-Am, an investor-owned utility, is the primary entity that currently provides potable retail water services to the Monterey Peninsula area. It is estimated that Cal-Am's Monterey Water System, which is almost entirely within the District's boundaries, serves a population of approximately 100,000.

other is issued by the Central Coast Regional Water Quality Control Board (“RWQCB”) for injection of this water into the Seaside groundwater basin. Cal-Am holds a permit regulated by the SWRCB Division of Drinking Water (“DDW”) for delivery of water, including water produced through the ASR Project, to customers through its water system.

MPWMD serves as project manager for the injection well portion of the Monterey One Water (MIW) joint powers authority’s MIW’s Pure Water Monterey Project. However, MPWMD’s role in the project does not extend to regulatory reporting, which remains MIW’s role and responsibility.

Facilities

For purposes of this Study, the MPWMD’s primary district-owned facilities are:

Aquifer Storage and Recovery facility: The District began the ASR Project in 1998. The District owns ASR facilities east of General Jim Moore Boulevard in the City of Seaside and operates the facilities in coordination with Cal-Am. The ASR Project involves the diversion of excess winter and springtime flows from the Carmel River system for recharge and storage in the Seaside groundwater basin. The excess water is captured by Cal-Am wells in the Carmel Valley during periods when flows in the Carmel River exceed fisheries bypass flow requirements, treated to potable drinking water standards, and then conveyed through Cal-Am’s distribution system to ASR facilities in the Seaside groundwater basin. This facility – along with other water supply augmentation efforts that the District supports and participates in – is further discussed in this Study’s **Future Challenges and Opportunities - Water Supply Augmentation** subsection.



Sleepy Hollow Steelhead Rearing Facility: The facility holds juvenile steelhead trout – a population designated as Threatened under the federal Endangered Species Act – that are rescued from the lower Carmel River during the summer. Construction began in late 1995 and the first test fish were received in late 1996. Along with fish-rearing channels, troughs, and holding tanks, a small, 800-square-foot, office/lab/shop building is also on the site. With a capacity of approximately 47,000 juvenile fish, nearly 100,000 healthy steelhead have been released thus far.



MPWMD Offices: District operations are headquartered in a two-story office building at the Ryan Ranch business park in the City of Monterey. The District currently has 28 authorized permanent, full-time positions.

Water Supply Infrastructure within District Boundaries

The greater Monterey Peninsula area’s potable water system is currently owned and operated not by the District but by Cal-Am, an investor-owned utility. Cal-Am’s Monterey Water System is generally located within the District’s jurisdictional boundary⁶.

As this Study discusses and evaluates, the District has an application on file requesting that LAFCO activate latent District powers relating to retail water services. If LAFCO approves the District’s application, the District will potentially seek to acquire the Cal-Am water system pursuant to Measure J in the future and become the Peninsula’s retail potable water provider. The next chapter of this Study, **Proposed Activation Of Latent Powers**, addresses this potential future scenario.

Shared Facilities and Services

⁶ In addition to the requested latent powers activation, the District’s current proposal to LAFCO includes a sphere of influence amendment and annexation of approximately 139 acres, as discussed in this Study.

MPWMD has partnered with Marina Coast Water District (“MCWD”) and Cal-Am to share the use of water pipelines for Carmel River water delivery to MPWMD’s Aquifer Storage and Recovery project. MPWMD has also worked with MCWD to share recycled water pipelines to convey advanced treated water from MIW’s facilities north of Marina to the Seaside groundwater basin injection site to accomplish MPWMD and MIW’s Pure Water Monterey Project. This multi-agency collaboration continues as MPWMD and MIW proceed with planning the Pure Water Monterey Expansion Project.

MPWMD has also developed partnerships with CAWD and PBCSD as they worked together in delivering the CAWD/PBCSD Reclamation Project. Please see the **Water Supply Augmentation** subsection in the Future Challenges and Opportunities chapter of this Study for additional information regarding the CAWD/PBCSD Reclamation Project, Aquifer Storage and Recovery, and the Pure Water Monterey Project and its proposed Expansion.

In March 2013, the Monterey Peninsula Regional Water Authority (which disbanded in December of 2020), the District, County of Monterey, and Cal-Am entered into an agreement to form the Monterey Peninsula Water Supply Project Governance Committee. The purpose of the Committee is to ensure efficient and effective public input into the development and operation of the MPWSP, primarily related to decisions concerning contracts for a future desalination plant and related facilities. The Committee met regularly from March 2013 through September 2019. The Committee has issued cancellation notices since November 2019, generally corresponding to Cal-Am’s difficulties in obtaining the required California Coastal Commission permit needed to proceed with the project. Through its public meetings, the Committee has performed an important role in providing local input, recommendations, and guidance to Cal-Am in developing the MPWSP.

**PROPOSED ACTIVATION OF LATENT POWERS;
POTENTIAL FUTURE DISTRICT FACILITIES AND SERVICES**

Activation of Latent Powers Proposal

MPWMD's Proposal includes activation of latent powers to provide and maintain potable water production and distribution services for retail customers. The latent powers requested for activation would be necessary in order for the District to implement voter-approved Measure J, as described in further detail below. The District has submitted this proposal to LAFCO in its effort to potentially proceed with an acquisition of Cal-Am's Monterey Water System through negotiation or an eminent domain proceeding. MPWMD's District Law (California Water Code Appendix, Chapter 118, Sections 118-1 to 118-901) provides for many authorized powers. Table 1 below describes three areas of authorized powers under District Law and specific aspects of each area for which the District requests activation from LAFCO. The District already performs some of the latent powers for which the District is seeking activation on a limited scale, such as selling retail water to seven golf courses and a school within Del Monte Forest. However, the District is seeking LAFCO approval for activation of the latent powers listed in Table 1 to ensure that the District's powers are activated throughout its jurisdiction.

Table 1: District Authorized Powers Seeking to Activate	
Section of District Law	Activation Sought
Section 118-325 of the District Law, and except as otherwise limited by the District Law, the District has the power to do any and every lawful act necessary in order that sufficient water may be available for any present or future beneficial use or uses of the lands or inhabitants within the District, including, but not limited to, irrigation, domestic, fire protection, municipal, commercial, industrial, recreational, and all other beneficial uses and purposes.	Produce and deliver water for all stated purposes directly to retail customers throughout the District (in addition to the District's eight retail water service customers within the Del Monte Forest)
Section 118-326 of the District Law authorizes the District to fix, revise, and collect rates and charges for the services, facilities, or water furnished by it, and authorizes the District to collect its rates and charges via the tax roll or other billing methods. Section 118-308 of the District Law authorizes the District, by resolution or ordinance, to fix and collect rates and charges for the providing of any service it is authorized to provide.	Authorize the District to fix, revise, and collect rates and charges for water directly delivered to retail customers throughout the District
Section 118-328 of the District Law, the District has the power, among other things, (a) to acquire public or private water systems necessary or proper to carry out the purposes of the District Law; (b) to store water in surface or underground reservoirs within or outside of the District for the common benefit of the District; (c) To conserve and reclaim water for present and future use within the District; (d) To appropriate and acquire water and water rights, and import water into the District and to conserve and utilize, within or outside of the District, water for any purpose useful to the District.	Acquire public or private water systems necessary or proper to carry out the purposes of the District Law; To appropriate and acquire water and water rights, and import water into the District and to conserve and utilize, within or outside of the District, water directly to retail customers throughout the District

Basis for District to Seek Activation of Latent Powers

On November 6, 2018, voters within the Water Management District passed an initiative known as Measure J by 56% (23,757 voted yes) to 44% (18,810 voted no). Measure J directed the District to study the feasibility of taking over Cal-Am's water system and, if found financially feasible, to pursue acquisition through voluntary purchase or the use of eminent domain.

Measure J directed the District to add Rule 19.8 to the District Rules and Regulations, Regulation I, General Provisions as follows:

Rule 19.8. Policy of Pursuing Public Ownership of Monterey Peninsula Water Systems

- A. It shall be the policy of the District, if and when feasible, to secure and maintain public ownership of all water production, storage and delivery system assets and infrastructure providing services within its territory.
- B. The District shall acquire through negotiation, or through eminent domain if necessary, all assets of California American Water, or any successor in interest to California American Water, for the benefit of the District as a whole.
- C. The General Manager shall, within nine (9) months of the effective date of this Rule 19.8, complete and submit to the Board of Directors a written plan as to the means to adopt and implement the policy set forth in paragraph A, above. The plan shall address acquisition, ownership, and management of all water facilities and services within and outside the District, including water purchase agreements as appropriate. The plan may differentiate treatment of non-potable water services.

District's Feasibility Evaluation

Note: Documents referred to below, including – but not limited to – the Raftelis Report, the Barclays letter, the Operations Plan, the Contract Management Plan, and the Berkson report are on file with LAFCO and available for public review. The documents are further discussed in the Executive Officer's report for the public hearing for the District's Proposal (LAFCO's regular December 6, 2021 meeting, agenda item 14, attachment 3).

Consistent with Measure J, the District decided to evaluate whether the following four measures, taken together, indicate that it is in the public interest to acquire Cal-Am's system and adequately satisfy the criterion of "feasible" from paragraph A of Rule 19.8:

1. Cost to ratepayers: Will the system be less costly to operate; how soon will total cost savings (including acquisition costs) inure to ratepayers?
2. Quality and delivery of service: Can the District provide operations and quality of water service as good as or better than the current operator?
3. Governance: Will public ownership provide greater local control, oversight, and transparency in rate-setting, capital planning, and operations?
4. Legally Permissible: Will the acquisition pass muster under California's Eminent Domain Law if Cal-Am challenges the District's "right to take" its Main System?

To conduct its feasibility evaluation, the District hired Raftelis Financial Consultants, Inc. to prepare the Preliminary Valuation and Cost of Service Analysis Report which was completed in November 2019. The **Raftelis Report** concluded that the District's proposed acquisition of the Cal-Am Monterey Water System is financially feasible. In completing the report, Raftelis prepared

- A financial forecast under Cal-Am's continued ownership,
- A valuation assessment for acquiring the Cal-Am system,
- A financial forecast under the District's ownership,
- Estimated costs and costs savings under several District ownership scenarios; and
- A cost-of-service evaluation.

2021 MSR & Sphere Study:

The report's cost-of-service evaluation results indicate that, by acquiring and operating Cal-Am's Monterey Water System, MPWMD can realize significant annual reductions in revenue requirements and projected monthly water bills. The projected reductions in revenue requirements under MPWMD's ownership are a result of the following differences between Cal-Am and MPWMD ownership and operation:

- Lower corporate and administrative overhead costs: An estimated \$7.2 million in Cal-Am corporate administrative overhead would be avoided under MPWMD and replaced with approximately \$1.8 million in District operations and administrative costs.
- Operating cost differences: The District's ability to utilize existing administrative staff and eliminate redundant positions, net of higher pension and benefit costs under public ownership.
- Cost of public financing (4.0% interest rate) versus rate of return and Cal-Am profit (7.61%): The tax-exempt annual debt interest rate for MPMWD is lower than taxable corporate debt and Cal-Am's allowable rate of return. The public financing interest rate was reviewed by Barclays and was deemed to be reasonable.
- Reduction in revenue requirements of an estimated \$10.1 million per year (2021 estimate) under public ownership, resulting from inapplicability of property and income taxes.
- Elimination of rate regulatory expenses estimated at \$330,000 per year (2021 estimate).

The District also directed its investment banking consultant, Barclays Capital Inc., to assess financial feasibility. In its September 24, 2019 Letter of Confidence to the District, Barclays affirmed that the District could pay for the acquisition of Cal-Am's Monterey Water System by rates and charges of the District, through water bills, after acquisition by the District. The **Barclays letter** concluded that, "given the assumptions for capital and operational costs, revenues and rates established by the District and Raftelis, the District is able to finance the proposed purchase of the System based on comparisons with financing structures and coverage margins for similar water systems." Barclays' conclusions are based on the Raftelis Report and its findings.

On September 20, 2020, the District Board of Directors authorized expenditure of funds to update Raftelis' additional work on rate impacts and formal appraisal work, which is needed to move forward with acquisition. If the District is successful in acquiring the Monterey Water System through a negotiated sale or an eminent domain proceeding, the District will proceed with obtaining publicly issued debt financing to purchase the water system from Cal-Am and to fund the first two to three years of capital improvement funding requirements.

The District's acquisition of Cal-Am's Monterey Water System is expected to be financed by installment purchase Certificates of Participation secured by the revenues of the Water Utility Enterprise Fund (a proprietary fund for all utility operations, including conservation and mitigation, for which water volumetric rates and meter charges are collected). The District will set rates in a publicly transparent process based on periodic rate studies performed by the District's rate consultant within a Proposition 218 process, which allows property owners and rate payers to participate in the setting of water rates and charges. The District anticipates setting rates and charges such that net revenues of the utility will meet operations and maintenance expenses, debt service, ongoing renewal, and replacement funding, and to establish rate stabilization funds.

The District has also evaluated operations for the utility upon successful acquisition of the Monterey Water System through its Monterey Peninsula Water System **Operations Plan**, adopted by the District Board on October 29, 2020. The Operations Plan evaluates a scenario in which the District fully staffs all functions – operational, regulatory, engineering, and other – and provides the uninterrupted provision of potable water service. The Operations Plan is modeled on integrating existing Cal-Am staff and methods.

The District additionally evaluated operations assuming a third-party contract operator model, called the Monterey Water System **Contract Management Plan**, accepted by the District Board on October 29, 2020. Both plan alternatives provide a roadmap for the District to successfully comprehend and operate the Cal-Am system.

Review of the District’s Activation of Latent Powers Proposal

The District has submitted information as part of its Proposal to demonstrate that it will have sufficient revenue to acquire the Monterey Water System and carry out retail potable water services. The District’s Proposal includes a detailed plan for services including supplemental information required for approval of a “new or different service,” per Government Code sections 56824.10 – 56824.14 of the Cortese-Knox-Hertzberg Act.

The District provided evidence in the Raftelis Report that MPWMD would be able to achieve reduced costs through public ownership of the Monterey Water System as compared to projections of Cal-Am’s continued ownership. Additionally, the District’s Proposal includes evidence in the form of Barclay’s September 24, 2019 Letter of Confidence that the District will have sufficient revenues to carry out the proposed new services, should the District proceed to acquire the Monterey Water System from Cal-Am.

LAFCO engaged a consulting firm, Berkson Associates, to perform an independent financial review of the Raftelis Report. Berkson Associates also reviewed comments submitted to LAFCO related to financial aspects of the District’s Proposal. In its summary of findings, the October 2021 *Financial Review of MPWMD Proposal to Provide and Distribute Potable Water* (“Berkson Report”) concludes, in part, that

- **“The Raftelis Report provides a reasonable basis for a LAFCO determination that the MPWMD proposal will have sufficient revenues, although uncertainties exist. A review of key assumptions and methodologies indicates that the conclusions are reasonable; however, major cost items could change as a result of eminent domain proceedings.”**

Responding to issues raised in correspondence by Cal-Am’s legal counsel regarding financial feasibility of the potential acquisition, the District submitted additional feasibility-related information in letters to LAFCO dated November 15 and 17, 2021. On November 19, Berkson Associates provided an additional memo supplementing the original Berkson Report.

As of this writing, the Commission is scheduled to consider the District’s Proposal at a public hearing at 4:00 PM on Monday, December 6, 2021. The Executive Officer’s report for the public hearing will include updated staff analysis and recommendations concerning the Proposal. Following the end of the public hearing, the Commission may approve, conditionally approve, or deny the Proposal.

Potential Future Ownership and Operation of Cal-Am’s Monterey Water System

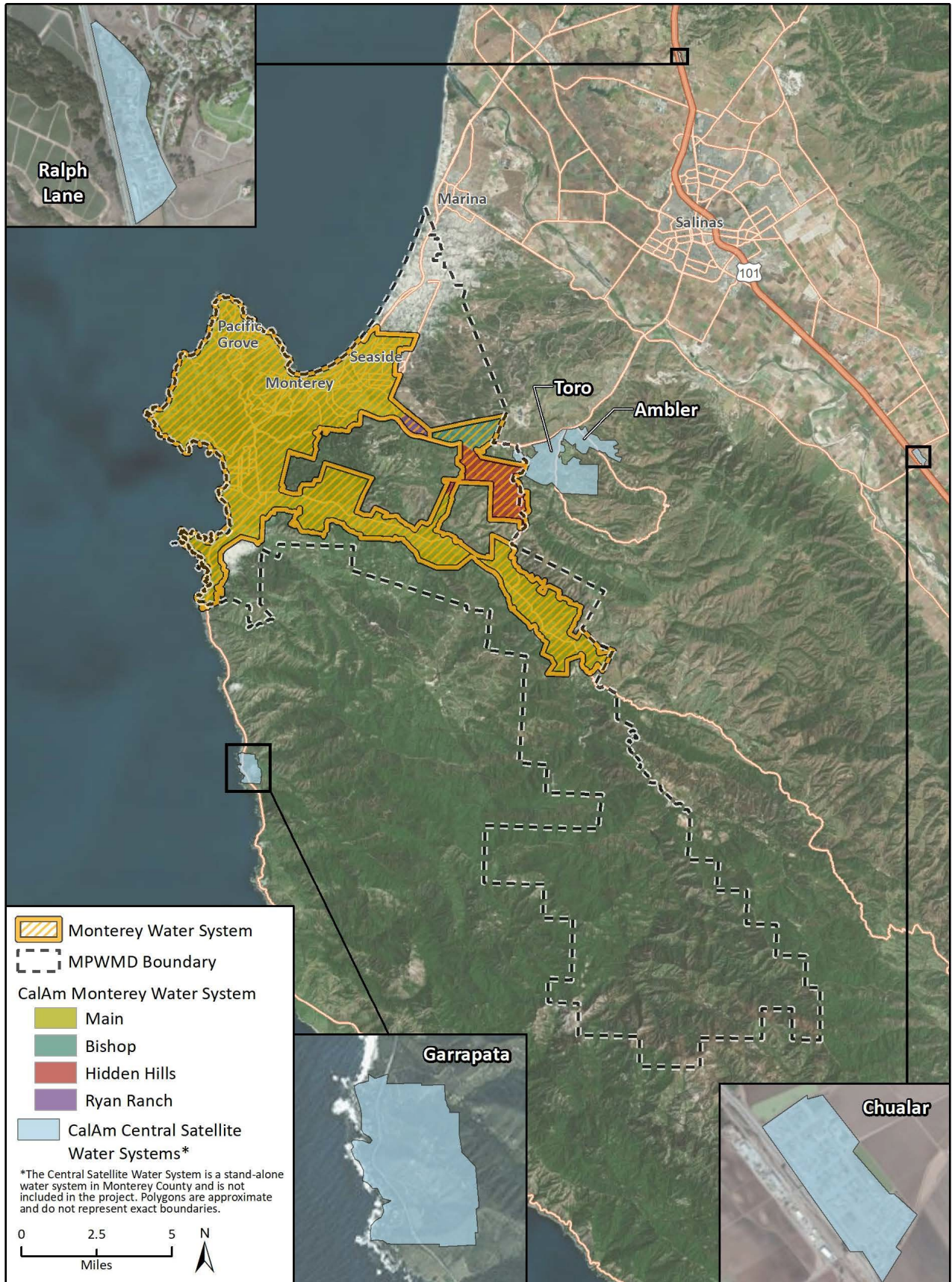
If LAFCO approves the Proposal, it is anticipated that the District will proceed to potentially acquire Cal-Am’s Monterey County District water system, either via a negotiated purchase or by use of eminent domain, pursuant to Measure J as discussed above. Should the acquisition effort succeed, the District would subsequently take over operating the water system, either directly or by contract with another public or private entity, also as discussed previously in this Study.

Cal-Am’s Main Monterey County District water system serves approximately 40,000 customers in the incorporated cities of Carmel-by-the-Sea, Del Rey Oaks, Monterey, Pacific Grove, Sand City, and Seaside, and in the unincorporated areas of Carmel Highlands, Carmel Valley and Pebble Beach. The District, which is generally located within MPWMD’s boundaries, includes the “Main” system plus the service areas of Bishop (about 385 customers), Hidden Hills (about 454 customers), and Ryan Ranch (about 212 customers), that are also within the MPWMD boundaries.

The Central Satellite areas, which are not subject to acquisition by MPWMD, include the areas of Ambler Park, Ralph Lane, Chualar, Toro, and Garrapata. These areas are located outside of MPWMD boundaries and serve a total of approximately 1,086 customers. A map depicting Cal-Am’s water system areas within its Monterey County District is provided in Figure 2.

Cal-Am’s Monterey Water System includes 88 water storage facilities and 614 miles of water distribution mains. Currently, water supply for most customers comes from: (1) underflow in the Carmel River Alluvial Aquifer withdrawn from shallow wells in Carmel Valley; (2) mid-depth and deep wells in the Seaside Basin; and (3) deep wells along Highway 68 corridor. Since 2003, Cal-Am has not pumped any of its supply directly from the Carmel River. Most of the Carmel River withdrawal comes from shallow wells located near the river in its lower reaches.

Figure 2: Cal-Am Monterey District water system (Source: District's environmental impact report for the proposal)



POPULATION AND GROWTH

Current in-district population is approximately 106,000 (based on available Census data and estimates) to 112,000 (District’s estimate). District staff estimates that about 94 residents live in the proposed sphere of influence amendment and annexation area, representing about a 0.1% proposed increase to the total population already served by the District.

For several decades leading up to the 1990 Census, the Monterey Peninsula and Carmel Valley areas served by the District experienced overall population growth. As illustrated in Table 2 below, the 2000 census illustrates a population decline which can be attributed to the closing of the Fort Ord military base. From 2000 to the present, the District’s population has been generally stable.

Table 2: Population of Cities and unincorporated areas within MPWMD, 1990 to 2019				
	1990	2000	2010	2019
City of Seaside	38,901	31,696	33,025	33,748
Sand City	192	261	334	334*
City of Del Rey Oaks	1,661	1,650	1,624	1,624*
City of Monterey	31,954	29,674	27,810	28,178
City of Pacific Grove	16,117	15,522	15,041	15,413
City of Carmel-by-the-Sea	4,239	4,081	3,722	3,722*
Unincorporated areas	21,479	22,954	23,059	23,059*
Total	114,543	105,838	104,615	106,078

Source: U.S. Census Bureau. Note: Population estimates for unincorporated areas include Pebble Beach, Carmel Highlands, and Carmel Valley communities. 2019 figures reflect the Census Bureau’s 2019 estimates; full 2020 Census data was unavailable as of this Study’s preparation.

*2019 estimates were unavailable for the asterisked jurisdictions. Therefore, the table reuses 2010 Census data.

The Association of Monterey Bay Area Governments (AMBAG) does not prepare specific population projections for special districts. However, growth projections for the unincorporated Monterey County as a whole may provide a reasonable proxy for the growth of unincorporated areas served by the District. AMBAG projects that unincorporated Monterey County will grow from 106,744 in 2020 to 110,326 in 2045 (a less-than-2% total growth rate in that period, compared to 11% for the County as a whole). As shown in Table 3 below, it is projected that the District’s population will grow to 119,915 in 2045, representing an approximate 9% increase from 2019.

Table 3: Population Projections Cities and unincorporated areas within MPWMD, 2025 to 2045					
	2025	2030	2035	2040	2045
City of Seaside	34,497	35,107	35,634	36,582	38,316
Sand City	430	516	756	1,012	1,198
City of Del Rey Oaks	1,693	1,734	1,859	2,330	2,650
City of Monterey	28,044	28,650	29,032	29,342	29,639
City of Pacific Grove	15,290	15,395	15,530	15,676	15,817
City of Carmel-by-the-Sea	3,946	3,954	3,964	3,974	3,984
Unincorporated Areas	27,864	27,975	28,087	28,199	28,311
Total	111,764	113,331	114,862	117,115	119,915

Source: Association of Monterey Bay Area Governments, 2022 Regional Growth Forecast final draft

The population projections in this table are based on the existing population plus the anticipated occupancy of new development. The projections likely overstate population growth in Cal-Am service area due to some growth attributable to build-out of the former Fort Ord, an area primarily served by Marina Coast Water District as the water purveyor.

Governance

MPWMD is governed by a seven-member board of directors. Five are elected from voter divisions. Two ex officio directors consist of one director appointed by the Monterey County Board of Supervisors from its membership and one elected official or chief executive officer appointed by a committee comprised of mayors from jurisdictions within the District boundaries. The five members elected from voter divisions serve staggered four-year terms. Recent elections campaigns have been vigorous and active.

Transparency and Accountability

The District Board periodically holds strategic planning workshops to provide an opportunity for the exchange of ideas between Board members, staff, and the public. In early 2021, the District Board held strategic planning workshops to discuss the District's vision, mission and goals. The District's Mission Statement, Vision Statement, Values, and One and Three-year Goals are posted on its website.

The board of directors is subject to California Water Code Appendix, Chapter 118, Sections 118-1 to 118-901, and Meeting Rules of MPWMD, which describes general rules and conduct of business as approved by the board in September 2019. Per California Water Code, Chapter 118-206, board members receive compensation for his/her services at a rate of \$30 for attending each board meeting, but shall not receive pay for more than three meetings in any calendar month. In accordance with Meeting Rules of MPWMD, Directors shall be eligible to receive reimbursements for travel, meals, lodging, and other reasonable and necessary expenses for attending board meetings, committee meetings, advisory body meetings, conferences, and each day's service rendered as a member of the board by request of the board. Reimbursement rates shall be the actual cost incurred, or must otherwise coincide with rates set by Internal Revenue Service Publication 463 or its successor publication(s).

District Board members receive the State-required ethics training and sexual harassment prevention training at least every two years. Limitations on public gifts are outlined and directors are referred to State Fair Political Practices Committee Documents for detailed information. Directors and staff submit Form 700 Statements of Economic Interests as required by the State. The District's website hosts detailed information concerning District services. In addition to meeting agendas and agenda materials, the website provides District financial information, periodic newsletters, annual financial audits, annual reports, copies of District resolutions, ordinances, and rules & regulations.

In November 2020, MPWMD received the District Transparency Certificate of Excellence from the Special District Leadership Foundation ("SDLF") in recognition of its outstanding efforts to promote transparency and good governance. To receive the award, a special district must demonstrate the completion of essential governance transparency requirements, including conducting ethics training for all board members, properly conducting open and public meetings, and filing financial transactions and compensation reports to the State Controller in a timely manner. SDLF is an independent, non-profit organization formed to promote good governance and best practices among California's special districts through certification, accreditation, and other recognition programs.

Board of Directors Meetings

Board meetings are open and accessible and are publicly noticed in accordance with the Brown Act. Each board meeting has a time on the agenda reserved for public comments. The board limits closed session discussions to issues allowed by State law. The Meeting Rules of MPWMD state that the notice and agenda for each public meeting shall be prominently posted outside the District's main office. Regular MPWMD Board meetings, prior to March 2020, were held at the MPWMD Conference Room at 5 Harris Court, Building G, in Monterey.

Since the COVID-19 pandemic, Board meetings are held the third Monday of each month, except in January and February, at 6:00 pm with virtual (electronic) participation using Zoom. MPWMD Board and Committee meetings are held in compliance with Governor Gavin Newsom's Executive Order N-08-21,

which rescinded Executive Order N-29-20, setting a date of October 1, 2021 for public agencies to transition back to public meetings held in full compliance with the Brown Act. With the recent enactment of AB 361, urgency legislation signed by Governor Gavin Newsom on September 16, 2021, virtual (electronic) meetings may possibly continue if the District Board makes certain findings.

Potential Future Role Regarding Retail Potable Water Services

If the Commission approves the District's Proposal and the District successfully acquires Cal-Am's Monterey Water System, the District Board would become responsible for setting water rates and charges through a public Proposition 218 process. The District Board would be the decision-making body approving water rates and charges, annual budgets, and priorities of the water utility. District acquisition and subsequent governance of the Monterey Water System could provide additional opportunities for local control, participation, and accountability.

Staffing and Regulatory Oversight

Staffing

The District has an authorized staff of 28 full-time employees. In addition, the District hires three to six part-time employees each year. District staff is comprised of five departments including the General Manager's Office, Administrative Services, Water Resources, Environmental Resources, and Water Demand.

The District employs a licensed civil engineer as the District Engineer, and also employs a second licensed civil engineer. The District employs a certified hydrologist as the Water Resources Manager.

The District is proactive in maintaining staff skills through training provided by Regional Government Services (a joint powers authority operating around the state), California Special Districts Association, and Association of California Water Agencies. Training provided for MPWMD employees during the last two years include:

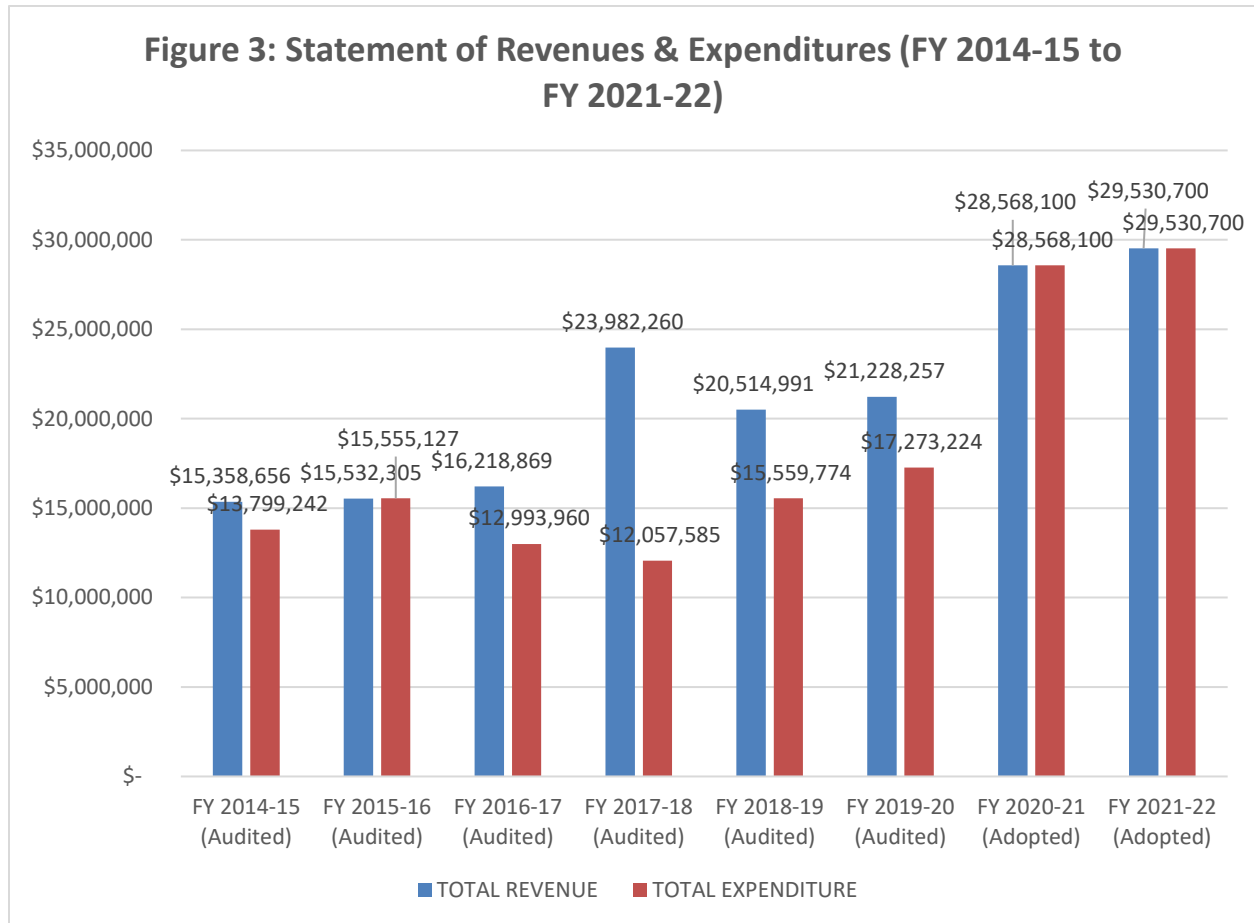
- For all staff: Ethics, sexual harassment prevention, supervisor/leadership training, and other topics as needed
- For finance staff: Generally Accepted Accounting Principles annually



FINANCES

This section highlights the District’s financial performance during the most recent fiscal years. The most recent audited financial statements were prepared for Fiscal Year 2019-20. LAFCO evaluated MPWMD’s financial health from 2015 to 2020, including the last adopted budgets for FY 2020-21 and FY 2021-22. The sources used by LAFCO are available in the **Appendices** section.

At the end of Fiscal Year 2019-20, total revenue collected was approximately \$21.2 million, representing a 3.5% increase from the previous year (\$20.5 million in FY 18-19). Total expenses for FY 2019-20 were approximately \$17.3 million, which increased from the previous year by 11% (\$15.6 million in FY 18-19). The District has ended each fiscal year with a surplus, excluding FY 2015-16, as shown in Figure 3. LAFCO staff believes that this positive trend will continue based upon the District’s ongoing conservative budgetary practices which are also reflected in the FY 2021-22 adopted budget. LAFCO staff also notes that MPWMD has been awarded special recognition by receiving the Certificate of Excellence in Financial Reporting award from the Government Finance Officers Association of the United States and Canada in 2016, 2017, and 2020.



Revenues

Governmental Operations Revenue

Approximately two-thirds of total District revenue comes from Governmental Operations revenue sources. These funds include Property Taxes, Water Supply Charge, User Fees, Project Reimbursements, Investment Income, and Other Governmental Operations Revenue. Table 4 provides a breakdown of the District's Governmental Operations revenue by source.

Revenue	Amount
Property Taxes	\$ 2,215,716
Water Supply Charge	\$ 3,355,193
User Fees	\$ 5,535,384
Project Reimbursements	\$ 1,562,927
Investment Income	\$ 398,262
Other Governmental Operations Revenue	\$ 1,097,487
Total Governmental Operations Revenue	\$ 14,164,969

Wastewater Reclamation Project (Proprietary Fund) Revenue

The District derives about one-third of its revenue from Carmel Area Wastewater District/Pebble Beach Community Services District (Proprietary Fund) revenues. In FY 2019-20, Water Sales (approximately \$3 million) and a fixed-cost charge (approximately \$4 million) represent 100% of Wastewater Reclamation Project revenues. Table 5 provides a breakdown of the District's Proprietary Fund revenue by source.

Revenue	Amount
Water Sales	\$ 3,014,672
Fixed Cost Charge	\$ 4,048,616
Total Proprietary Fund Revenue	\$ 7,063,288

Expenditures

Governmental Operations Expense

The remaining 76% of total expenses derive from Governmental Operations revenue sources. Table 6 provides a breakdown of the District's Governmental Operations costs by source.

Expense	Amount
Salaries and Employee Benefits	\$ 3,786,478
Services and Supplies	\$ 9,037,774
Capital Outlays	\$ 45,011
Debt Service – Principal	\$ 93,157
Debt Service – Interest and Other Charges	\$ 125,979
Total Governmental Operations Expense	\$ 13,088,399

Wastewater Reclamation Project (Proprietary Fund) Expense

The District's Wastewater Reclamation Project (Proprietary Fund) expenses represented approximately 24% of total expenditures during FY 2019-20. Table 7 shows the total expenditures derived from Governmental Operations and Proprietary Fund expense.

Expense	Amount
Plant Costs	\$ 1,845,316
Distribution Costs	\$ 444,669
General and Administration	\$ 211,049
Potable Water	\$ 3,517
Amortization	\$ 1,680,274
Total Proprietary Fund Expense	\$ 4,184,825

Net Position

The District's annual net income equals revenues minus expenses. That figure, plus one-time capital contributions – such as grant funds – constitutes the annual change in the District's net position. Net position includes the net value of capital assets, restricted assets, and unrestricted assets. Net position is the difference in value between an agency's assets and liabilities.

As of June 30, 2020, the total net position balance ended with approximately \$49.1 million. The following table highlights the net position balance from 2014 to 2020. As shown in Table 8, the District's fund balance has increased steadily over the last four years from \$23.6 to \$49.1 million.

	FY 2014-15 (Audited)	FY 2015-16 (Audited)	FY 2016-17 (Audited)	FY 2017-18 (Audited)	FY 2018-19 (Audited)	FY 2019-20 (Audited)
Net Position – Beginning of Year	\$22,454,481	\$23,672,090	\$23,572,695	\$23,801,857	\$34,927,461	\$41,634,150
Net Position – End of Year	\$23,672,090	\$23,572,695	\$26,081,411	\$34,927,461	\$41,634,150	\$49,124,742
Change (\$)		\$(99,395)	\$2,508,716	\$8,846,050	\$6,706,689	\$7,490,592

Assets and Liabilities

MPWMD maintains a strongly positive net position. As shown in Table 11 above, MPWMD has a net position, assets minus liabilities, of approximately \$49.1 million.

The District's total assets are \$75.8 million, the majority of which represents capital assets of approximately \$53 million. Capital assets include water resale rights, facilities such as ASR facilities, water reserves, buildings and structures, computer equipment, vehicles, and construction in progress. These physical assets have financial value but are not available for spending. Cash, investments, accounts receivable, and other assets make up the balance of about \$22.8 million.

Liabilities are approximately \$27.1 million, of which \$7.5 million is "current" (short-term) in nature, primarily accounts payable and certificates of participation. Non-current liabilities of \$19.6 million include \$5.1 million in certificates of participation in long-term debt associated with the District's capital improvement projects. Non-current liabilities also include approximately \$9.7 million in net pension liability and Other Post-Employment Benefit liability related to the District's participation in the California Public Employees' Retirement System.

Fund Balance/Reserves

MPWMD's projected reserve balances on June 30, 2021 totaled approximately \$18.1 million. This amount consisted of \$15.6 million in the General Operating Reserve, \$581,500 in the Capital/Equipment Reserve, \$500,000 in the Mechanics Bank Reserve, \$328,944 in the Flood/Drought Reserve, \$300,000 in the Pension Reserve, \$300,000 in the OPEB Reserve, \$250,000 in the Litigation/Insurance Reserve, and \$222,524 in the Debt Reserve. After deducting restricted and committed fund balances from the \$18.1 million total, the District would have approximately \$14.4 million in unrestricted fund balances. This amount will be critical in the event that the District faces any litigation, major capital improvement projects, emergency repairs, or exposure due to abandonment of acquisition of Cal-Am's private water system in the future.

District Budget and Financial Planning

Each year the District Board of Directors reviews and adopts an annual budget and updates its three-year capital improvement plan. The budget is a detailed annual operating plan that identifies estimated costs and revenues. The budget includes the projects, services, and activities to be carried out during the year, along with available revenues.

The adopted FY 2021-22 MPWMD budget anticipates approximately \$29.5 million in revenues and expenses. The budget includes approximately \$8.4 million in project expenditures, including water supply projects ASR 1 & 2, Pure Water Monterey, local water projects, other water supply projects, mitigation projects, and non-reimbursable conservation & rebate program activities. The budget also relies on a net transfer of approximately \$4.2 million from reserves to cover anticipated expenditures. The use of reserves was primarily due to Pure Water Monterey Project and ASR Project expenditures. The budget includes \$400,000 in legal services. Budget control is maintained through monthly financial statements comparing actual expenditures to budgeted expenditures which is reviewed by the Board of Directors.

The availability of revenues to fund the budget depends partly on water sales and a fixed cost charge as described in the Revenues subsection above. These two categories comprise all of the District's Wastewater Reclamation Project revenues.

MPWMD endeavors to be cost-effective and reduce expenses for the District and its constituents. Some cost-saving practices include competitive bidding for capital projects and major purchases, preventive maintenance for fleet vehicles, and obtaining grant funds and low-interest loans for capital projects. The District's finances are professionally audited by a qualified accounting firm annually, in accordance with State law and best practices.

District Financial Powers

The District has broad financial powers, which are granted to the District through District Law. In summary, Section 118-305 provides for borrowing money and issuance of bonds; Section 118-306 provides for the levy and collection of taxes; Section 118-307 provides for issuance and refunding of bonds, and retirement of indebtedness; Section 118-308 provides for the District to adopt regulations respecting the exercise of its powers, and to fix and collect rates and charges for the providing or the availability of any service it is authorized to provide or make available for the sale, lease, or disposition of water; Section 118-325 provides for general powers to do any and every lawful act necessary in order that sufficient water may be available for any present or future beneficial use; Section 118-326 provides for the sale and disposal of waters and the fixing, revising, and collecting of rates and charges for the services, facilities, or water furnished by it; and Section 118-372 provides for the governing board of any member unit to raise the funds to make payments required by any agreement with the District.

A component of the District's financial powers was challenged when it adopted Ordinance No. 152, which imposes an annual charge on certain property within the District to support the District's water supply projects. However, the Monterey County Superior Court and Sixth District Court of Appeal upheld the District's lawful use of this financial power. Should the Commission vote to approve the proposed activation of a latent power, the District's broad financial powers and ability to withstand a legal challenge in implementing a financial power provide additional evidence that the District has the means to ensure that it will have sufficient revenue to carry out retail potable water services.

Water Supply Limitations and Water Augmentation Efforts

For decades, the Monterey Peninsula has faced challenges to establishing a secure and reliable water supply for residents and businesses. The State Water Resource Control Board's 2009 Cease-and-Desist Order, as amended in 2016, will require creation of a replacement water supply by prohibiting unauthorized diversions of Carmel River water after December 31, 2021, which account for a water use of approximately 2,800 acre-feet per year ("AFY") within the District. Additionally, adjudication of the Seaside groundwater basin in 2006, as amended in 2007, mandates significant reductions in water extractions.

MPWMD has built many partnerships as it endeavors to overcome these water supply challenges for its constituents. Some examples include the CAWD/PBCSD Reclamation Project, ASR Project, and Pure Water Monterey Project. These efforts are further described in this section. MPWMD continues to take active measures to diversify the water supply within the District through conservation and water augmentation efforts, thereby reducing reliance on Carmel River diversions and Seaside groundwater basin extractions.

Existing Water Usage and Production Rights

In water year 2020 (a water year runs from October 1st to September 30th), customers in Cal-Am's Monterey Water System service area, which is almost exclusively within the District's boundaries, used 9,680 AFY of water. Of this total amount, 6,425 AFY of water was pumped from the Carmel River basin, 2,219 AFY came from the Seaside basin, and 1,036 AFY came from various water projects and authorized water entitlements.

Cal-Am is under the State Water Resources Control Board's ("SWRCB") Cease-and-Desist Order to terminate unauthorized diversions of Carmel River basin water (i.e., pumping that exceeds 3,376 AFY of water), and to develop a replacement water supply by December 31, 2021.

The Seaside basin was adjudicated in 2006, which was later amended in 2007. The adjudication decision established a Natural Safe Yield of 3,000 AFY from the Seaside basin. Of the 3,000 AFY, Cal-Am has a production right of 1,474 AFY. However, only 774 AFY will be available in the near term, while Cal-Am begins replacing its accumulated deficit of overdrafting the basin. This replacement process will occur through in-lieu recharge by leaving 700 AFY of its production right in the basin for 25 years.

The District completed phase one of its Aquifer Storage and Recovery ("ASR") Project in 2008 and phase two in 2013, securing an average of 1,300 AFY of augmented water. Permits 20808A and 20808C comprise two water rights that support the ASR Project. Monterey One Water ("MIW") in partnership with MPWMD has further augmented water supplies available to Monterey Peninsula residents by 3,500 AFY through completion of the Pure Water Monterey Project in 2020.

Milestones Affecting Water Supply

In June 1980, the District Board approved formation of a groundwater charge zone including all District territory, except portions of the District lying within Sand City. The districtwide groundwater zone was formed to provide the legal basis for a comprehensive well-monitoring program consisting of well registration, well metering, and water production reporting. Formation of the groundwater charge zone was not intended to generate revenues, and it was acknowledged that no groundwater fees would be levied on any produced naturally occurring groundwater. Rather, it was adopted simply to monitor groundwater usage and its effect on water supply.

In 1995, the State Water Resources Control Board ("SWRCB") issued Order No. WR-95-10 finding that Cal-Am, the private water company serving as the primary retail water purveyor within MPWMD boundaries, was diverting 10,730 AFY of water, or 70% of its Carmel River diversions, without a valid basis of right from the Carmel River and ordered Cal-Am to reduce its diversions. Order No. WR-95-10 entitled Cal-Am to 3,376 AFY for the Monterey Water System from all Carmel River diversions, including diversions from Los Padres Reservoir, as well as subsurface flow pumped from the Carmel Valley Alluvial

Aquifer. In October 2009, the SWRCB issued a cease-and-desist order (“CDO”) for all unauthorized diversions of water from the Carmel River. Finally, in July 2016 the SWRCB adopted Order WR 2016-0016, amending Order WR-2009-0060, and extending the date by which Cal-Am must terminate all unlawful diversions from the Carmel River from December 31, 2016 to December 31, 2021. The revised CDO set milestones for Cal-Am to meet to reach the 2021 reduced diversion targets. Cal-Am also has an additional 1,488 AFY water right for Carmel River diversions per Permit 30215A that is available during non-drought years, issued in 2012.

In 2003, Cal-Am filed an action to adjudicate the Seaside groundwater basin (*Cal-Am v. Cities of Seaside, Sand City, Del Rey Oaks, et al.*). MPWMD and Monterey County Water Resources Agency intervened in the case. The court decision was filed in 2006 and was amended in 2007. In the decision, the court quantified rights to water from the Seaside groundwater basin and set the relative priority for those rights. The court imposed a “physical solution” to manage the Seaside groundwater basin, determined the basin safe yield at 3,000 AFY and appointed a watermaster to administer the judgment. Of the 3,000 AFY, Cal-Am has a production right of 1,474 AFY. However, Cal-Am would like to reduce this production to only 774 AFY once a permanent replacement water supply is available in order to begin replacing its accumulated deficit of over drafting through in-lieu recharge by leaving 700 AFY of its production right in the basin for 25 years. The court declared the Seaside groundwater basin to be an overdrafted basin and mandated groundwater pumping reductions starting in 2009. The court’s decision stated that the Seaside Basin Watermaster was not in conflict with MPWMD’s statutory authority, and that MPWMD has the power to manage and augment Seaside groundwater. The court retained continuing jurisdiction to resolve potential conflicts between MPWMD and the Seaside Basin Watermaster.

District’s 2020 Analysis of Water Supply and Demand

In May 2020, the District completed a report entitled *Supply and Demand for Water on the Monterey Peninsula* to analyze existing and future water needs of the Monterey Peninsula. The report estimates that a range of 10,884 to 12,287 AFY will be necessary to meet existing and forecasted water demand. The report concludes that either the Monterey Peninsula Water Supply Project desalination plant (to provide 6,252 AFY of augmented water) or the Pure Water Monterey Expansion Project (to provide 2,250 AFY of augmented water) will be able to meet the long-term needs of the Monterey Peninsula and lift the Cease-and-Desist Order. The District’s analysis demonstrates that the Pure Water Monterey Expansion Project could realize a significantly lower cost of water produced than the Monterey Peninsula Water Supply Project desalination plant. However, it is apparent that both projects are currently in permitting or planning stages. As of September 27, 2021, the Pure Water Monterey Expansion Project reached a significant milestone by receiving necessary approvals from the MPWMD and MIW Boards to authorize an amended water purchase agreement with Cal-Am. In conclusion, neither project will meet the December 31, 2021 deadline set by the SWRCB to provide a replacement water supply to Carmel River diversions.

Derived from data in Appendix A to the District’s May 2020 *Supply and Demand for Water on the Monterey Peninsula* report, Tables 9 and 10 below indicate that water demand within the District may increase by an additional 984 AFY (568 AFY for population growth + 416 AFY for employment growth = 984 AFY total) by 2040 – an average increase of approximately 49 AFY per year, in total. **It is noted that public questions and controversy exist regarding some of the assertions made in the District’s report.**

Table 9: Water Required for <u>Population</u> Growth, Based on AMBAG 2018 Regional Growth Forecast								
	Monterey	Pacific Grove	Carmel-by-the-Sea	Sand City	Seaside	Del Rey Oaks	Unincorp. County*	Total
Population in 2020	28,726	15,349	3,833	544	34,301	1,949	7,182	91,884
Population in 2040	30,976	16,138	3,876	1,494	37,802	2,987	7,541	100,814

Population Increase (Year 2020 to 2040)	2,250	789	43	950	3,501	1,038	359	8,930
Gallons per Capita per Day (GCD)	56.8	56.8	56.8	56.8	56.8	56.8	56.8	56.8
Cumulative Increase in AFY by 2040	143	50	3	60	223	66	23	568

*Note: In Tables 9 and 10, the District’s population figure for the unincorporated County represents the portion of the County’s jurisdiction that resides within Cal-Am’s service area, and is therefore smaller than the unincorporated population within the overall MPWMD jurisdictional boundary.

Table 10: Water Required for <u>Employment Growth</u> , Based on AMBAG 2018 Regional Growth Forecast								
	Monterey	Pacific Grove	Carmel-by-the-Sea	Sand City	Seaside	Del Rey Oaks	Unincorp. County*	Total
Jobs in 2020	34,434	5,093	2,998	1,569	10,161	371	4,300	58,926
Jobs in 2040	40,173	5,808	3,378	1,810	11,299	432	4,845	67,745
Increase (2020 to 2040) to	16.7%	14.0%	12.7%	15.4%	11.2%	16.4%	12.7%	15.0%
Commercial Consumption in 2019 (AFY)	1,371	248	203	54	282	21	651	2,830
Commercial Consumption in 2040 (AFY)	1,600	283	229	62	314	24	734	3,246
Cumulative AFY Increase by 2040	229	35	26	8	32	3	83	416

*See note for the previous table

In February 2021, the MPWMD Board received an updated analysis from its staff indicating that – based on lower revised population projections through 2045 in AMBAG’s final draft 2022 Regional Growth Forecast – the total water demand increase in the revised 25-year period from 2020 to 2045 may be 927 AF or 37.1 AFY, instead of the numbers cited above.

Water Supply Augmentation

MPWMD’s constituents currently rely on groundwater for about a third of their potable water supply. The District has succeeded in developing additional water supplies for the Monterey Peninsula, through its own projects or in partnership with other entities, and continues its water supply augmentation efforts considering the SWRCB’s Cease-and-Desist Order January 1, 2022 deadline.

Substantial cuts to the amount of water that can be diverted from the Carmel Valley Alluvial Aquifer are expected to take effect by 2022. Based on Order No. WR-95-10, Cal-Am has the right to divert 3,376 AFY from the Carmel River based on pre-1914 appropriative water rights, riparian water rights, and License I1866. Cal-Am also has a 1,488 AFY water right per Permit 30215 that is available during non-drought years. All other water diversions and extractions from the Carmel River are subject to the SWRCB Cease-and-Desist Orders WR 2009-0060 and WR 2016-0016. The reduction schedule set in place by the SWRCB will result in the effective diversion limit from the Carmel Valley Alluvial Aquifer being reduced from 8,310 AFY in 2020 to 3,376 AFY (3,576 AFY in non-drought years) in 2022. Unless Cal-Am receives an extension from the SWRCB regarding its Cease-and-Desist Order, there will likely be a water supply deficit in authorized groundwater or Carmel River extractions while additional water supplies are being secured.

In summary, the District anticipates a water supply deficit in authorized groundwater or Carmel River extractions unless additional water supplies are secured. Table II below, derived from information from the District’s 2020 *Supply and Demand for Water on the Monterey Peninsula* report, lists available sources of water supply. Cal-Am’s Monterey Peninsula Water Supply Project (“MPWSP”) desalination plant has not yet received all permits needed to proceed and may continue to encounter additional legal challenges. For these reasons, supply has been shown with two scenarios, one relying on the desalination plant and one relying on the Pure Water Monterey expansion, a project also in the planning and development phase as a backup.

The District’s analysis shows that, with Monterey Peninsula water consumption of approximately 9,680 AFY in water year 2020 and water demand projected to increase by 984 AFY by 2040 (as shown in Tables 9 and 10 above), completion of either Cal-Am’s MPWSP desalination plant or MIW/MPWMD’s Pure Water Monterey Expansion Project will be more than sufficient to meet anticipated water demand for at least the next 20 years. As of late September 2021, the MPWMD and MIW Boards of Directors have authorized execution of an amended water purchase agreement with Cal-Am, which is a significant step forward in allowing the Pure Water Monterey Expansion Project to proceed.

Table II: Monterey Peninsula Available Supply (Acre-Feet per Year)			
Supply Source – See further discussion in the accompanying text, below	“Baseline”	With Desalination	With Pure Water Monterey Expansion
MPWSP (Desalination Plant)	0	6,252	0
Pure Water Monterey	3,500	3,500	3,500
PWM Expansion	0	0	2,250
Carmel River	3,376	3,376	3,376
Seaside Basin	774	774	774
Aquifer Storage & Recovery (ASR)	1,300	1,300	1,300
Sand City Desalination Plant	94	94	94
Total Available Supply	9,044	15,296	11,294

Notes: 1) In water year 2020, customers in Cal-Am’s Monterey Water System service area used approximately 9,680 AFY of water. 2) As discussed on the previous page, in two recent analyses (in 2020 and 2021), MPWMD has estimated future growth in water demand to be approximately in the range of 37 to 49 AFY annually through 2040 or 2045.

Built and planned water augmentation projects for the Monterey Peninsula, including those referenced in Table II, are further described below.

Monterey Peninsula Water Supply Project (MPWSP/ Desalination Plant)

In order to meet the requirements of Cease-and-Desist Order 95-10 to develop an alternative water source in lieu of unauthorized diversions of the Carmel River, Cal-Am began the planning process for the Monterey Peninsula Water Supply Project (“MPWSP”) in 2012. Through Decision 18-09-017, the California Public Utilities Commission certified the MPWSP combined EIR in 2018, which would include construction of a desalination plant located in unincorporated Monterey County on Charles Benson Road, northeast of the City of Marina, and up to seven subsurface slant wells to produce approximately 6,752 AFY of desalinated water.



Cal-Am is currently working to obtain a required water source permit for the project, which was denied by the City Marina and is being appealed to the California Coastal Commission. The total project cost is estimated to be approximately \$313 million. The appeal is still outstanding as of the preparation of this Study.

Pure Water Monterey Project

Monterey One Water (“MIW”) in partnership with MPWMD developed the “Pure Water Monterey Groundwater Replenishment Project” to deliver 3,500 AFY of purified recycled water to replenish the Seaside groundwater basin. MIW certified the project’s Final EIR in 2015 and approved two modifications to the project in 2016 and 2017. The project was completed in 2019 and advanced treated water started being injected into the Seaside groundwater basin in February 2020.

Pure Water Monterey provides both purified potable water for domestic use, as well as a supply for irrigating agricultural areas in the Salinas Valley. The project is the first of its kind to utilize not just wastewater, but stormwater, food industry processing water, and impaired surface waters of the State.

Cal-Am is under a SWRCB Cease-and-Desist Order to secure replacement water supplies and cease over-pumping of the Carmel River. The Pure Water Monterey Project water helps Cal-Am to comply with the Cease-and-Desist Order by allowing it to reduce diversions from the Carmel River system by 3,500 AFY by injecting the same amount of purified recycled product water into the Seaside groundwater basin.



Pure Water Monterey Expansion Project

Since 2019, MIW in partnership with MPWMD proceeded with environmental review of the Pure Water Monterey Groundwater Replenishment Project Expansion, which would deliver an additional 2,250 AFY of purified recycled water for injection into the Seaside groundwater basin. MIW’s intention, as stated in their Board Resolution No. 2019-19, is that “the potential expansion of the Pure Water Monterey Project was a back-up plan to, and not as an option in the place of, the Cal-Am desalination project,” and was only being pursued “to have a ready-to-go alternative plan in place in the event that the Cal-Am desalination project is delayed beyond the Cease-and-Desist Order deadline of December 31, 2021.” In April 2021, MIW certified the Final Supplemental EIR for the Pure Water Monterey Expansion Project. As of September 27, 2021, the MPWMD and MIW Boards of Directors have authorized execution of an amended water purchase agreement with Cal-Am, which is a significant step toward the Pure Water Monterey Expansion Project potentially moving forward.



The Expansion project would assist Cal-Am in compliance with the SWRCB’s Cease-and-Desist Order by allowing Cal-Am to reduce diversions from the Carmel River system by an additional 2,250 AFY by injecting the same amount of water into the Seaside groundwater basin.

Aquifer Storage and Recovery Project

MPWMD began to undertake ASR expansion planning in 2008 in cooperation with Cal-Am at a site that is adjacent to the phase one site in the Seaside Basin. The phase two ASR Project also consists of two ASR wells (completed in 2011 and 2013) that are designed to store up to 2,900 AFY of excess Carmel River flows. Water recovered from the phase two site ASR wells will be treated at the phase one ASR treatment facility prior to delivery to Cal-Am system customers.

Aquifer recharge is accomplished via injection of these excess flows into specially designed ASR wells drilled in the Seaside groundwater basin. The recharged water is temporarily stored underground utilizing the available storage space within the aquifer system. During periods of high demand, other existing Cal-Am production wells in the Seaside groundwater basin and/or the ASR wells can be used to recover the previously recharged water, which in turn allows for reduced extractions from the Carmel River system during seasonal dry periods. From 1998 to 2020, through the ASR Project, the District diverted a total of 9,951 AFY of Carmel River water for injection and storage in the Seaside basin.

Sand City Water Supply Project

The Sand City Water Supply Project is a 300 AFY reverse osmosis desalination facility. More specifically, the project is a brackish water treatment plant that was completed in 2010. The system includes four brackish water feed wells, a concentrate disposal well and associated pipelines and appurtenances. Sand City and Cal-Am entered into a 30-year lease, whereby Cal-Am operates the plant and distributes water through their system. In exchange, the lease will allow Sand City to recoup its project costs over time.

Sand City's current water needs are about one-fifth of its desalination facility's capacity. In the interim, the additional water produced is used by Cal-Am in place of water taken from the overdrafted Carmel River aquifer.

Local Water Project Grant Program

Since 2013, the District has implemented an annual Local Water Project Grant Program to encourage projects to apply for grant funding to support direct water supply benefit. Eligible projects would include developing a new water supply to offset existing unauthorized over pumping of the Carmel River, or may create a new additional supply of water that may serve future needs of the Monterey Peninsula.

As an example, the District has provided funding to projects in Pacific Grove, the Airport District, the Pebble Beach Company, and Seaside to reduce potable water use.

Carmel Area Wastewater District/Pebble Beach Community Services District Reclamation Project

Three public agencies, the Pebble Beach Community Services District ("PBCSD"), Carmel Area Wastewater District ("CAWD") and the District; and a private company, the Pebble Beach Company ("PBC") have partnered to implement a project known as the CAWD/PBCSD Reclamation Project ("Reclamation Project") In phase one of the Reclamation Project the agencies constructed tertiary wastewater treatment facilities to produce recycled water from the secondary effluent produced at the CAWD wastewater treatment plant. The agencies also constructed a distribution system to transport recycled water for irrigation of seven golf courses, athletic fields, and other recreational areas within Pebble Beach.

Certificates of Participation in the amount of \$33.9 million, which were executed and delivered at the direction of MPWMD in December 1992, financed phase one of the Reclamation Project. The PBC guaranteed payment of debt service as well as any operating deficiencies, yet MPWMD remains as the holder and respondent obligator for payment. CAWD and PBCSD began construction of the Reclamation Project in January 1993. The agencies completed project construction in October 1994.

Sustainable Groundwater Management Act (SGMA)

Since 2015, the statewide Sustainable Groundwater Management Act (“SGMA”), Water Code section 10720 et seq. “requires groundwater-dependent regions to halt overdraft and bring basins into balanced levels of pumping and recharge through local planning efforts.”⁷ The purposes of SGMA are to provide for sustainable management of groundwater subbasins, to establish standards and regulations for local sustainable groundwater management, and to provide local agencies with additional powers and authority to sustainably manage its groundwater for its constituents through the formation of groundwater sustainability agencies (“GSAs”).

Under SGMA, one or more eligible public agencies may apply to the State for authorization to take responsibility for each currently over drafted groundwater basin or portion of a basin. The State selects and designates an agency as the GSA for that basin or subbasin. The GSA then writes a sustainability plan and implements the plan after it has been approved by State water regulatory agencies.

MPWMD applied for, and received, authorization from the State Department of Water Resources (“DWR”) to be the exclusive GSA for the Carmel Valley Alluvial Aquifer. DWR has designated the Carmel Valley Alluvial Aquifer as a high-priority basin. However, at the request of MPWMD, DWR consulted with the State Water Resources Control Board and determined that the Carmel Valley Alluvial Aquifer comprised surface water flowing in a known and definite channel underground, and is therefore not considered groundwater. Therefore, DWR determined that the aquifer was not subject to a Groundwater Sustainability Plan, even though MPWMD became its GSA in 2015. The Seaside groundwater basin is not subject to SGMA because it is already an adjudicated basin that is regulated by the Seaside Groundwater Basin Watermaster.



⁷ California Department of Water Resources, < <https://water.ca.gov/water-basics/groundwater> >

DETERMINATIONS

MUNICIPAL SERVICE REVIEW DETERMINATIONS

Per Government Code Section 56430(a)

1. Growth and population projections for the affected area

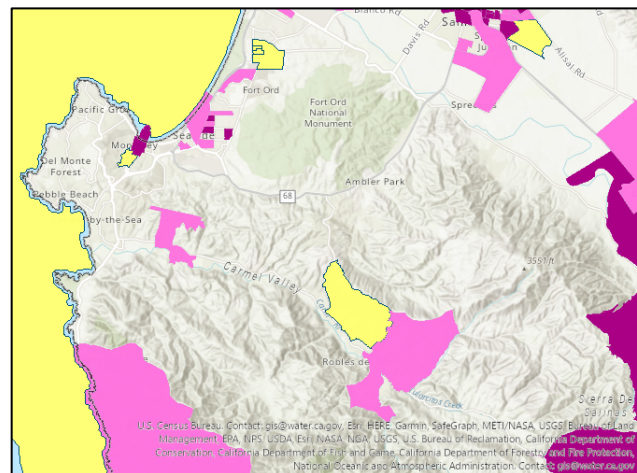
The MPWMD's existing sphere of influence includes the Cities of Carmel-by-the-Sea, Del Rey Oaks, Monterey, Pacific Grove, Seaside, and Sand City, and portions of unincorporated Monterey County including the Pebble Beach, Carmel Highlands, Carmel Valley, Hidden Hills, Monterey Airport District, and a portion of the Highway 68 corridor. Future population growth in the District's existing sphere is likely to be modest.

Based on the District's estimates and available Census data, MPWMD has a current in-district population of approximately 106,000 to 112,000. AMBAG does not prepare specific population projections for special districts. However, growth projections for the unincorporated Monterey County as a whole may provide a reasonable substitute for the growth of unincorporated areas served by the District. AMBAG projects that unincorporated Monterey County will grow from 106,744 in 2020 to 110,326 in 2045 (a <2% total growth rate in that period, compared to about 11% for the County as a whole). Using AMBAG's projections as provided in Table 3 in the **Population and Growth** section above, it is anticipated that the District's population will grow to just under 120,000 in 2045 (an approximately 9% total growth rate in that period, compared to approximately 11% for the County as a whole).

2. The location and characteristics of any disadvantaged unincorporated communities ("DUCs") within or contiguous to the sphere of influence

State law requires identification and analysis of service issues within Disadvantaged Unincorporated Communities as part of municipal service reviews and sphere of influence reviews. Disadvantaged unincorporated communities are defined as territory that constitutes all or a portion of a disadvantaged community including 12 or more registered voters or some other standard as determined by the Commission. A disadvantaged community is defined as a community with an annual median household income that is less than 80 percent of the statewide annual median household income (Water Code Section 79505.5). The most recent US Census Bureau data (2015-2019 American Community Survey Five-Year Estimates) indicates that the statewide annual median household income is \$75,235 (in 2019 dollars). Eighty percent is \$60,188.

Two areas in the unincorporated Carmel Valley community meet the definition of a Disadvantaged Unincorporated Community based on Census-Designated Block Group information. The first area is generally located South of Jack's Peak County Park, east of the former Rancho Canada Golf Club and west of the intersection of Carmel Valley Road and Valley Greens Drive. This area is located within the district boundaries. The first area's median annual household income is \$56,228. The second area is generally located east of Esquiline and Holman Roads, west of San Clemente Drive and Chupines Creek, and north of San Clemente Reservoir. Most of this area is located within the district boundaries. The second area's median annual household income is \$49,052. No changes to the District's existing Sphere of Influence are proposed in any of these areas. Since no service changes are proposed to be added or removed to these two areas at this time, there will be no negative effect upon this population.



With the exception of the two areas in the unincorporated Carmel Valley community, the remaining areas identified as disadvantaged communities – shown in pink and magenta on the map above – are within the jurisdictional boundaries of the Cities of Monterey or Seaside, i.e. they are not unincorporated. These are areas that are also already currently served by the District and located within District boundaries.

3. Present and planned capacity of public facilities, adequacy of public services, and infrastructure needs and deficiencies (Including Needs or Deficiencies Related to Sewers, Municipal and Industrial Water, and Structural Fire Protection in Any Disadvantaged Unincorporated Communities Within, or Contiguous to, the Sphere of Influence)

The District is a capable provider of water management, water augmentation, water reuse and reclamation, water conservation, limited retail water service, environmental protection and mitigation, and permitting and regulatory compliance services within its existing boundaries. The District has constructed, acquired and adequately maintains its water supply and other infrastructure. Concerns regarding the adequacy of the regional water supply will continue throughout the Monterey Peninsula and the Carmel Valley areas. Availability of water will continue to be a constraint on future development until replacement water supplies are developed.

4. Financial ability of agency to provide services

The District has demonstrated a financial ability to provide services within its boundaries. The District has historically maintained a positive balance of revenues over expenses. The District budgets revenues and expenses annually and concurrently updates its three-year capital improvement plan. Its financial status is reviewed annually in professionally prepared audits. This service review's **Finance** section, above, outlines relevant financial information for the District, and demonstrates the District's financial soundness.

The District's Proposal includes activation of latent powers to provide and maintain potable water production and distribution services for retail customers. The District commissioned the Raftelis Report which found that acquisition of the Cal-Am water system is financially feasible and would lead to reduced water rates to consumers. In response, Cal-Am's counsel refuted the acquisition costs and assumptions in the Raftelis Report. To gain more understanding regarding this conflicting information the Commission retained a consultant (Berkson Associates) to prepare an independent review of the financial documents received entitled *Financial Review of MPWMD Proposal to Provide and Distribute Potable Water*. The Berkson Associates report concluded, in part, that "The Raftelis Report provides a reasonable basis for a LAFCO determination that the MPWMD proposal will have sufficient revenues, although uncertainties exist. A review of key assumptions and methodologies indicates that the conclusions are reasonable; however, major cost items could change as a result of eminent domain proceedings."

5. Status of, and opportunities for, shared facilities

MPWMD consistently partners with public agencies and private companies to help manage and augment existing water supplies. Since 1992, the District partnered with CAWD and PBCSD to complete and implement the CAWD/PBCSD Reclamation Project. The District worked with MCWD and Cal-Am to implement its water supply project known as the ASR Project. The District, MIW, and MCWD partnered to share recycled water pipelines needed to convey advanced treated water from MIW's facilities north of Marina to the Seaside groundwater basin injection site for the Pure Water Monterey Project. The District continues to collaborate with MIW and MCWD to plan and implement the Pure Water Monterey Expansion Project.

6. Accountability for community service needs, including government structure and operational efficiencies

Registered voters within the District elect five of the seven directors through five voter divisions established within the District's boundaries. Elections are frequently vigorous and active. The District maintains an informative website and meets the requirements of State law for transparency, accountability and ethics as outlined in this review. Approval of the District's Proposal will bring

additional voters into the District, giving them voting rights in District governance and increasing public participation and awareness of District operations and activities.

If the Commission approves the District's Proposal and the District succeeds in acquiring Cal-Am's Monterey Water System, the District Board would set water rates and charges through a public Proposition 218 process that would be subject to protest by property owners and customers (rate payers). The District Board would be the decision-making body approving water rates and charges, annual budgets, and priorities of the publicly owned water utility. District acquisition and subsequent governance of the Monterey Water System would provide additional opportunities for local control, participation, and accountability. Under Cal-Am's existing ownership of the water system, the California Public Utilities Commission in San Francisco makes water rate decisions.

7. Any other matter related to effective or efficient service delivery, as required by commission policy

In review of local LAFCO Policies and Procedures relating to spheres of influence and changes of organization, the LAFCO Commission has adopted standards for the evaluation of proposals for a change of organization or reorganization, which includes duplication of authority to perform similar functions.

If the Commission approves MPWMD's Proposal for activation of latent powers to provide and maintain potable water production and distribution services for retail customers, a potential for duplication of authority to perform similar functions would exist where MPWMD's northern boundaries currently overlap with MCWD's southern boundaries. MCWD currently provides potable water service to former Fort Ord lands in this area, such as Seaside Highlands and Presidio of Monterey Annex housing.

In its May 3, 2021 amended LAFCO Proposal, MPWMD identifies the potential for overlap in authority with MCWD. As memorialized in a 2009 agreement between MPWMD and MCWD, MPWMD recognizes MCWD's rights to provide water and wastewater services within overlapping service areas and former Fort Ord areas served by contract, but not yet annexed by MCWD. The Executive Officer's report and draft resolution for the Commission's consideration of the District's latent powers activation proposal, at a public hearing scheduled for October 25, 2021, will include conditions of approval addressing the existing overlap between the District's jurisdictional boundary and the jurisdictional boundary and Future Study Area of Marina Coast Water District..

Through approving Measure J, MPWMD's voters established a new District policy to pursue public ownership of the Cal-Am Monterey Water System for the benefit of the District as a whole. Through passage of Measure J and the submission of the Proposal to LAFCO, in-district voters and the District's Board of Directors have demonstrated a desire for the District to acquire the Cal-Am system and provide efficient delivery of retail potable water services.

SPHERE OF INFLUENCE DETERMINATIONS

Per Government Code Section 56425(e)

Based on the recommended determinations in this section, and the information in this study, this study provides support for the recommended Sphere of Influence expansion for Monterey Peninsula Water Management District.

I. The Present and planned land uses in the area, including agricultural and open-space lands

MPWMD's existing sphere and boundaries encompass a wide range of land uses, including open spaces and agricultural land. The primary agricultural area within the District's sphere is Carmel Valley and surrounding rangelands. MPWMD's proposed sphere and annexation area contains no agricultural or open space lands. The Proposal area consists of existing developed lands and other lands designated for residential development.

2. The present and probable need for public facilities and services in the area

The District's proposed, approximately 139-acre Sphere of Influence amendment is an appropriate cleanup action that would enable the District to bring two small outlying areas already being served by the Cal-Am Monterey Water System into the District's boundaries. The District's operations and activities meet the existing and proposed boundary expansion area's need for water management, water augmentation, water reuse and reclamation, water conservation, environmental protection and mitigation, and permitting and regulatory compliance services. With moderate population growth the need for these services will continue to increase. The District maintains and continues to invest in infrastructure to serve its existing and future customers.

3. The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide

MPWMD has consistently demonstrated the capacity to provide its range of services to constituents in both its existing and proposed sphere of influence. The District actively plans and budgets for facilities needed to ensure continuity of these services for current and future constituents. MPWMD has limited its Proposal area (current sphere of influence amendment and annexation proposal) to only include areas served by Cal-Am's Monterey Water System that are located outside of the District's boundaries.

The Monterey Peninsula has faced long-term challenges with securing a reliable water supply. The State Water Resource Control Board's 2009 Cease and Desist Order, as amended in 2016, will require creation of a replacement water supply by prohibiting Cal-Am's unauthorized diversions of Carmel River water after December 31, 2021. Additionally, adjudication of the Seaside groundwater basin in 2006, as amended in 2007, mandates significant reductions in water extractions. MPWMD is taking active measures to diversify the water supply within the District through conservation, Aquifer Storage and Recovery, and Pure Water Monterey, thereby reducing reliance on Carmel River pumping and addressing future water needs of the communities it serves.

4. The existence of any social or economic communities of interest in the area, if the Commission determines that they are relevant to the agency

There are no social or economic communities of interest in the area that have been determined to be relevant to the District.

5. For an update of a sphere of influence of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protection, that occurs pursuant to subdivision (g) on or after July 1, 2012, the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence.

Two areas were identified as disadvantaged unincorporated communities within the District's existing sphere of influence. The first area is generally located South of Jack's Peak County Park and primarily receives potable water service from the Cal-Am Monterey Water System. The second area is east of Esquiline and Holman Roads and primarily receives potable water service from the Cal-Am Monterey Water System. The District provides limited retail water service to seven golf courses and a school within Del Monte Forest. However, the District does not provide potable retail water service. Since the District does not provide potable retail water service, the District does not qualify as a special district that provides one of these public facilities or services.

APPENDICES

A. Sources and Acknowledgements

B. MPWMD Sphere of Influence Amendment and Annexation Proposal Maps, and
Map of Partial Existing MPWMD Overlap with Marina Coast Water District

C. Adopted Fiscal Year 2021-22 MPWMD Budget Comparison by Year

D. MPWMD Statement of Net Position as of June 30, 2020

E. Statement of Revenue, Expenses, and Changes in Fund Balances as of June 30, 2020

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SOURCES AND ACKNOWLEDGEMENTS

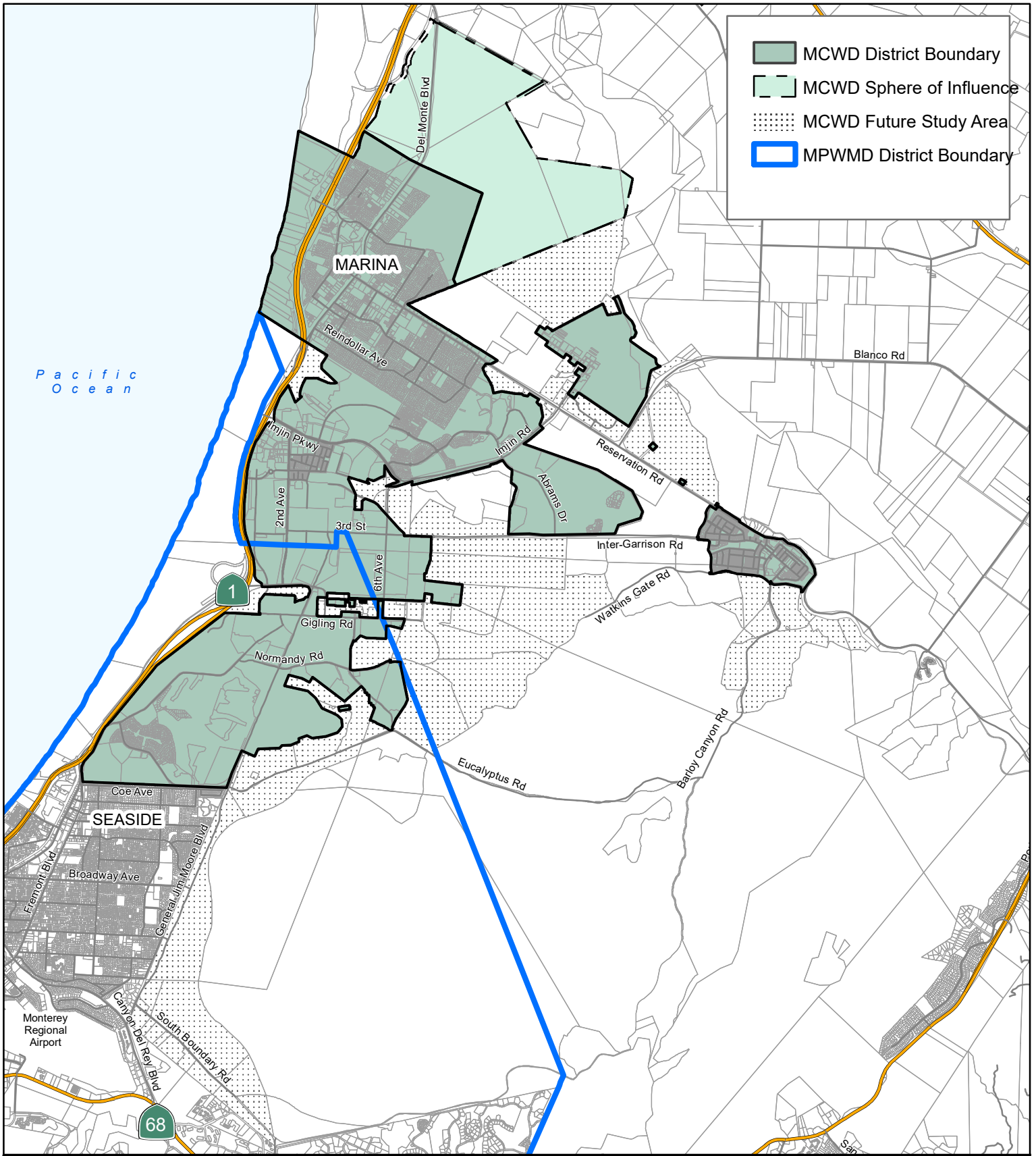
Information that LAFCO received from District representatives was essential in developing this study. District staff met with LAFCO staff and provided, through the District's web site, copies of audits, financial statements, budgets, policies and procedures, District Law, and the 2020 Draft and Final Environmental Impact Report regarding the Potential Acquisition of Monterey Water System and District Boundary Adjustment prepared by the District with assistance from Rincon Consultants, Inc. Key District representatives who contributed to development of the draft document included District General Manager David Stoldt and District Counsel David Laredo.





LAFCO's earlier Municipal Service Review and Sphere of Influence Study provided additional background information about the District. LAFCO staff also referred to the Association of Monterey Bay Area Governments ("AMBAG") 2018 Regional Growth Forecast, published in June 2018.

Kelly L. Donlon, LAFCO General Counsel and Paula C. P. de Sousa, Special Counsel provided legal advice to LAFCO.

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Map of existing overlap between MPWMD and Marina Coast Water
District Yankee Point annexation overview map
Hidden Hills annexation overview map

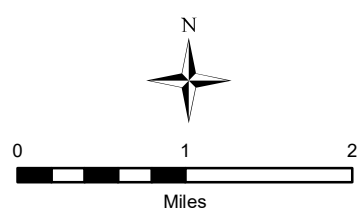


-  MCWD District Boundary
-  MCWD Sphere of Influence
-  MCWD Future Study Area
-  MPWMD District Boundary

LAFCO of Monterey County
 LOCAL AGENCY FORMATION COMMISSION

P.O. Box 1369
 Salinas, CA 93902
 Telephone (831) 754-5838

132 W. Gabilan St., Suite 102
 Salinas, CA 93901
 FAX (831) 754-5831

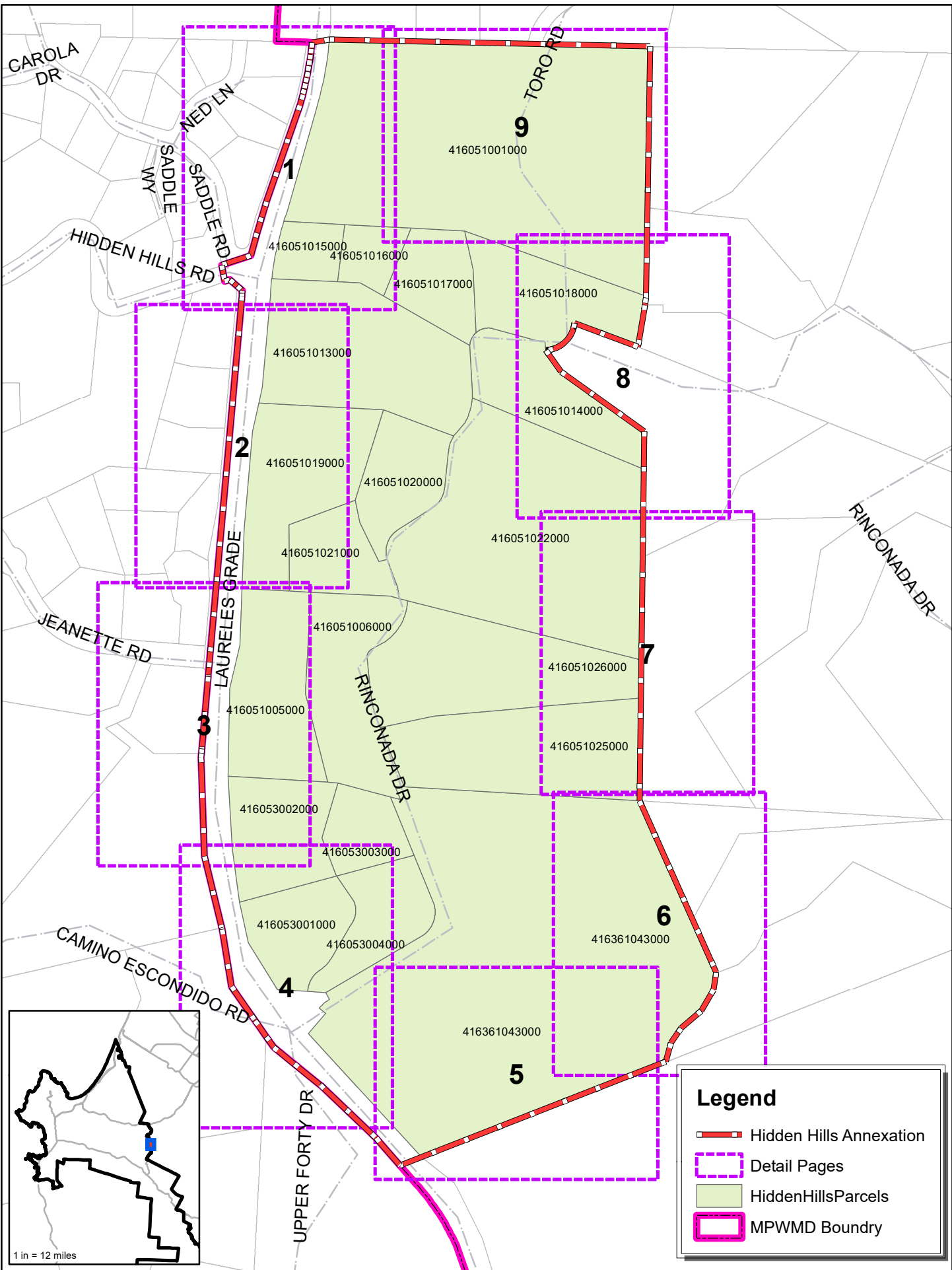


COUNTY WATER DISTRICTS

**MARINA COAST
 WATER DISTRICT**

Last LAFCO-Approved change: 4/22/2019
 Map Produced: 10/11/2021

Monterey Peninsula Water Management Agency
Hidden Hills Annexation



Legend

- Hidden Hills Annexation
- Detail Pages
- HiddenHillsParcels
- MPWMD Boundry

**Monterey Peninsula Water Management District
Expenditures Comparison by Year
Fiscal Year 2021-2022 Budget**

	FY 2019-2020 <u>Revised</u>	FY 2020-2021 <u>Revised</u>	FY 2021-2022 <u>Proposed</u>	Change From Previous Year	Percentage Change
PERSONNEL					
Salaries	\$2,704,600	\$2,651,200	\$2,611,200	(\$40,000)	-1.51%
Retirement	588,500	647,400	707,100	59,700	9.22%
Unemployment Compensation	3,000	3,000	12,000	9,000	300.00%
Auto Allowance	6,000	6,000	6,000	0	0.00%
Deferred Compensation	9,400	9,400	10,000	600	6.38%
Temporary Personnel	55,100	10,000	50,000	40,000	400.00%
Workers Comp. Ins.	71,300	85,000	66,800	(18,200)	-21.41%
Employee Insurance	396,100	376,700	365,900	(10,800)	-2.87%
Employee Insurance - Retirees	83,000	129,000	141,000	12,000	9.30%
Medicare & FICA Taxes	49,100	46,800	43,600	(3,200)	-6.84%
Personnel Recruitment	3,000	3,000	3,000	0	0.00%
Other Benefits	1,500	1,500	2,000	500	33.33%
Staff Development	28,500	5,800	32,800	27,000	465.52%
Subtotal	\$3,999,100	\$3,974,800	\$4,051,400	\$76,600	1.93%
SERVICES & SUPPLIES					
Board Member Comp	\$33,900	\$33,900	\$34,000	\$100	0.29%
Board Expenses	5,100	10,000	8,000	(2,000)	-20.00%
Rent	23,200	23,200	24,200	1,000	4.31%
Utilities	33,200	33,200	33,200	-	0.00%
Telephone	50,700	46,500	50,000	3,500	7.53%
Facility Maintenance	56,200	56,300	56,600	300	0.53%
Bank Charges	3,900	15,100	15,000	(100)	-0.66%
Office Supplies	17,400	18,300	19,000	700	3.83%
Courier Expense	6,100	6,100	6,000	(100)	-1.64%
Postage & Shipping	6,800	6,800	5,900	(900)	-13.24%
Equipment Lease	13,900	13,900	23,000	9,100	65.47%
Equip. Repairs & Maintenance	7,000	7,000	7,000	-	0.00%
Printing/Duplicating/Binding	500	500	500	-	0.00%
IT Supplies/Services	190,000	220,000	231,000	11,000	5.00%
Operating Supplies	16,900	16,100	16,700	600	3.73%
Legal Services	400,000	400,000	400,000	-	0.00%
Professional Fees	357,100	360,200	455,000	94,800	26.32%
Transportation	35,000	33,000	30,000	(3,000)	-9.09%
Travel	31,100	8,000	19,600	11,600	145.00%
Meeting Expenses	6,100	16,800	16,600	(200)	-1.19%
Insurance	65,100	98,000	134,000	36,000	36.73%
Legal Notices	3,100	3,100	3,100	-	0.00%
Membership Dues	34,900	38,300	35,400	(2,900)	-7.57%
Public Outreach	4,500	1,900	2,600	700	36.84%
Assessors Administration Fee	20,000	20,000	30,000	10,000	50.00%
Miscellaneous	3,000	3,000	3,100	100	3.33%
Subtotal	\$1,424,700	\$1,489,200	\$1,659,500	\$170,300	11.44%
FIXED ASSETS	213,900	229,000	298,500	\$69,500	30.35%
PROJECT EXPENDITURES					
Project Expenses	12,451,700	11,698,800	8,416,300	(3,282,500)	-28.06%
PWM Water Purchase	0	4,800,000	9,695,000	4,895,000	101.98%
Reimbursement Projects	2,106,000	4,351,900	3,643,700	(708,200)	-16.27%
ELECTION EXPENSE	0	200,000	0	(200,000)	-100.00%
CONTINGENCY	70,000	70,000	70,000	0	0.00%
Subtotal	\$14,841,600	\$21,349,700	\$22,123,500	\$773,800	3.62%
DEBT SERVICE	230,000	230,000	230,000	0	0.00%
FLOOD/DROUGHT RESERVE	0	0	0	0	0.00%
CAPITAL RESERVE	49,500	324,400	339,300	14,900	4.59%
GENERAL FUND BALANCE	43,350	500,000	500,000	0	0.00%
PENSION RESERVE	100,000	100,000	100,000	0	0.00%
OPEB RESERVE	100,000	100,000	100,000	0	0.00%
MECHANICS BANK RESERVE	0	500,000	500,000	0	0.00%
RECLAMATION PROJECT	1,000,000	0	0	0	0.00%
Subtotal	\$1,522,850	\$1,754,400	\$1,769,300	\$14,900	0.85%
EXPENDITURE TOTAL	\$21,788,250	\$28,568,100	\$29,603,700	\$1,035,600	3.63%

**Monterey Peninsula Water Management District
Revenues Comparison by Year
Fiscal Year 2021-2022 Budget**

	FY 2019-2020 <u>Revised</u>	FY 2020-2021 <u>Revised</u>	FY 2021-2022 <u>Proposed</u>	Change From <u>Previous Year</u>	Percentage <u>Change</u>
Property Taxes	\$2,050,000	\$2,050,000	\$2,200,000	\$150,000	7.32%
Permit Fees - WDD	175,000	150,000	\$150,000	0	0.00%
Permit Fees - WDS	56,000	48,000	\$48,000	0	0.00%
Capacity Fee	500,000	400,000	\$400,000	0	0.00%
User Fees	5,000,000	5,000,000	\$5,000,000	0	0.00%
Water Supply Charge	3,400,000	3,300,000	\$3,400,000	100,000	3.03%
PWM Water Sales	0	4,800,000	\$9,828,000	5,028,000	104.75%
Interest	230,000	200,000	\$130,000	-70,000	-35.00%
Other	15,000	15,000	\$15,000	0	0.00%
Subtotal District Revenues	<u>11,426,000</u>	<u>15,963,000</u>	<u>21,171,000</u>	<u>5,208,000</u>	<u>32.63%</u>
Reimbursements - CAW	\$1,499,700	\$1,754,700	\$1,219,500	-\$535,200	-30.50%
Reimbursements - Reclamation Tank	\$0	\$500,000	\$500,000	\$0	0.00%
Reimbursements - Watermaster	35,000	35,000	\$39,600	4,600	13.14%
Reimbursements - Reclamation	20,000	20,000	\$20,000	0	0.00%
Reimbursements - Other	126,300	126,300	\$23,000	-103,300	-81.79%
Reimbursements - Recording Fees	6,000	6,000	\$10,400	4,400	73.33%
Reimbursements - Legal Fees	16,000	16,000	\$16,000	0	0.00%
Grants	468,000	2,495,400	\$2,335,200	-160,200	-6.42%
Subtotal Reimbursements	<u>2,171,000</u>	<u>4,953,400</u>	<u>4,163,700</u>	<u>-789,700</u>	<u>-15.94%</u>
Carry Forward From Prior Year	2,314,300	7,058,100	\$2,788,100	-4,270,000	-60.50%
From Capital Reserve	28,500	66,900	\$95,000	28,100	42.00%
From Fund Balance	5,848,450	526,700	\$1,385,900	859,200	163.13%
Other Financing Sources:	0	0	\$0	0	0.00%
Transfers In	250,000	200,000	\$448,200	248,200	124.10%
Transfers Out	-250,000	-200,000	-\$448,200	-248,200	124.10%
Subtotal Other	<u>8,191,250</u>	<u>7,651,700</u>	<u>4,269,000</u>	<u>-3,382,700</u>	<u>-44.21%</u>
Revenue Totals	<u><u>\$21,788,250</u></u>	<u><u>\$28,568,100</u></u>	<u><u>\$29,603,700</u></u>	<u><u>\$1,035,600</u></u>	<u><u>3.63%</u></u>

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2020
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2019)

	Governmental Activities	Business-Type Activities	2020 Total	2019 Total
ASSETS:				
Cash and cash equivalents	\$ 1,740,967	\$ 1,394,351	\$ 3,135,318	\$ 2,024,520
Investments	16,830,773	310,477	17,141,250	14,936,648
Receivables, net	1,548,342	800,165	2,348,507	3,493,328
Restricted reserves	222,524	1,176	223,700	223,262
Internal balances	1,113,139	(1,113,139)	-	-
Capital assets, net:				
Water rights	-	37,947,686	37,947,686	38,946,365
Nondepreciable	4,430,485	2,674,387	7,104,872	2,898,426
Depreciable	7,940,798	-	7,940,798	6,503,243
Total assets	<u>33,827,028</u>	<u>42,015,103</u>	<u>75,842,131</u>	<u>69,025,792</u>
DEFERRED OUTFLOWS OF RESOURCES:				
PERS contributions	516,231	-	516,231	458,759
Deferred pension adjustments	738,242	-	738,242	842,793
Deferred OPEB adjustments	170,170	-	170,170	209,745
Total deferred outflows of resources	<u>1,424,643</u>	<u>-</u>	<u>1,424,643</u>	<u>1,511,297</u>
LIABILITIES:				
Accounts payable	3,105,603	918,802	4,024,405	2,452,454
Accrued liabilities	111,157	-	111,157	88,587
Long-term debt:				
Due within one year	396,417	2,952,000	3,348,417	3,179,508
Due in more than one year	13,419,969	6,204,000	19,623,969	22,708,088
Total liabilities	<u>17,033,146</u>	<u>10,074,802</u>	<u>27,107,948</u>	<u>28,428,637</u>
DEFERRED INFLOWS OF RESOURCES:				
Deferred pension adjustments	527,975	-	527,975	474,302
Deferred OPEB adjustments	506,109	-	506,109	-
Total deferred inflows of resources	<u>1,034,084</u>	<u>-</u>	<u>1,424,643</u>	<u>474,302</u>
NET POSITION:				
Net investment in capital assets	9,874,997	33,122,073	42,997,070	35,982,819
Restricted for debt service	222,524	1,176	223,700	223,262
Unrestricted (deficit)	7,086,920	(1,182,948)	5,903,972	5,428,069
Total net position	<u>\$ 17,184,441</u>	<u>\$ 31,940,301</u>	<u>\$ 49,124,742</u>	<u>\$ 41,634,150</u>

See Notes to Basic Financial Statements.

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MONTEREY PENINSULA WATER MANAGEMENT DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020
(WITH SUMMARIZED TOTALS FOR JUNE 30, 2019)

	Water Supply	Conservation	Mitigation	2020 Total	2019 Total
REVENUES:					
Property taxes	\$ 2,215,716	\$ –	\$ –	\$ 2,215,716	\$ 2,059,154
Water supply charge	3,355,193	–	–	3,355,193	3,410,398
User fees	789,399	1,461,133	3,284,852	5,535,384	4,862,354
Connection charges, net of refunds	575,511	–	–	575,511	591,240
Permit fees	–	191,852	50	191,902	251,850
Project reimbursements	1,220,812	246,295	95,820	1,562,927	973,715
Investment income	193,985	97,347	106,930	398,262	327,035
Legal fee reimbursements	–	1,800	–	1,800	3,600
Recording fees	–	35,040	–	35,040	7,530
Grants	–	16,288	270,363	286,651	1,726,815
Miscellaneous	2,192	1,706	2,685	6,583	1,889
Total revenues	<u>8,352,808</u>	<u>2,051,461</u>	<u>3,760,700</u>	<u>14,164,969</u>	<u>14,215,580</u>
EXPENDITURES:					
Personnel:					
Salaries	1,034,678	531,410	983,462	2,549,550	2,648,339
Employee benefits and other personnel	468,197	283,266	485,465	1,236,928	1,146,616
Services and supplies:					
Project expenditures	5,995,887	588,814	1,220,998	7,805,699	5,437,144
Operating expenditures	236,163	182,207	273,007	691,377	808,029
Professional fees	192,081	141,698	206,919	540,698	627,771
Capital outlay	14,927	11,740	18,344	45,011	425,271
Debt service:					
Principal	93,157	–	–	93,157	90,175
Interest and other charges	125,979	–	–	125,979	128,961
Total expenditures	<u>8,161,069</u>	<u>1,739,135</u>	<u>3,188,195</u>	<u>13,088,399</u>	<u>11,312,306</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>191,739</u>	<u>312,326</u>	<u>572,505</u>	<u>1,076,570</u>	<u>2,903,274</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	–	270,102	–	270,102	1,900,758
Transfers out	(270,102)	–	–	(270,102)	(1,900,758)
Total other financing sources (uses)	<u>(270,102)</u>	<u>270,102</u>	<u>–</u>	<u>–</u>	<u>–</u>
NET CHANGE IN FUND BALANCES	(78,363)	582,428	572,505	1,076,570	2,903,274
FUND BALANCES – BEGINNING OF YEAR	<u>8,584,956</u>	<u>3,835,014</u>	<u>4,595,369</u>	<u>17,015,339</u>	<u>14,112,065</u>
FUND BALANCES – END OF YEAR	<u>\$ 8,506,593</u>	<u>\$ 4,417,442</u>	<u>\$ 5,167,874</u>	<u>\$18,091,909</u>	<u>\$17,015,339</u>

See Notes to Basic Financial Statements.

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