

Item No. 13

The Board of Directors to consider recommendation from the Finance & Administration Committee to transfer \$200,000 of hydroelectric revenue from Fund 1508 to Fund 1509, the Castroville Seawater Intrusion Project.

RECOMMENDATION:

It is recommended that the Monterey County Water Resources Agency's Board of Directors:

Consider recommendation from the Finance & Administration Committee to transfer \$200,000 of hydroelectric revenue from Fund 1508 to Fund 1509, the Castroville Seawater Intrusion Project.

BACKGROUND:

In October 1984, the Agency (then Monterey County Flood Control and Water Conservation District) received an Advanced Feasibility Report (AFR) for the proposed Nacimiento Hydroelectric Project (NHP). The AFR conceived a two unit project, one that would operate at a target flow of 400 cubic-feet per second capable of generating 3,500 kilowatts and a second that would operate at a target flow of 25 cubic-feet per second capable of generating 250 kilowatts. The second unit was included to capture energy from releases made to meet the aquatic and riparian habitat management flow target established by the California Department of Fish & Wildlife. The total estimated capital cost to construct the NHP was \$4,890,000. The AFR concluded the NHP was technically, economically, and environmentally feasible and recommended construction be pursued.

In May 1985, the Board of Supervisors authorized the creation of the Monterey County Power Authority (MCPA) by approving a Joint Powers Agreement (JPA) between the County and the Agency. In August 1985, the Agency adopted Resolution 85-485 to introduce an Ordinance to authorize the MCPA to issue revenue bonds to finance the construction of the NHP and to waive the reading requirements in order to meet a Federal Energy Regulatory Commission deadline for an Exemption From Licensing. The authorized Ordinance 3089 was thus adopted in September 1985. The County took parallel actions. And in November 1985, the MCPA adopted Resolution 85-642 authorizing the issuance of Lease Revenue Bonds in the amount of \$4.9 million to finance construction of the NHP. The NHP went into operation in July 1987.

Also in November 1985, the County adopted Resolution 85-678 to authorize execution of a NHP Facility Lease and an Agency and Operating Agreement. A Site Lease between the Agency and MCPA was also executed, with the three separate agreements going into effect on December 1, 1985, to consummate the NHP financing arrangement with the MCPA. The Site Lease essentially made Agency land available to the MCPA to construct the NHP. The term of the lease was to run to December 2, 2005, unless extended or terminated through some other agreement, for a total sum of \$1. The Facility Lease with the County essentially secured the MCPA agreements and covenants adopted in its Resolution 85-642. The term of the lease was to run to December 1, 2005, unless extended or terminated through some other agreement. The rent paid by the County covered the interest and principal payments incurred by the MCPA, plus an additional sum to cover the MCPA administrative costs. The Facility Lease also established that the County would be responsible for maintenance to keep the NHP "in first class operating condition". The Agency and Operating Agreement essentially established the Agency as an agent of the MCPA to construct the

NHP, and an agent of the County to operate and maintain it. All revenue received by the Agency under its agreement with Pacific Gas & Electric was to be transferred to the County when and as received, and the County would then allocate “net proceeds” back to the Agency pursuant to the JPA at the end of each fiscal-year

Resolution 95-250, adopted in June 1995, assigned surplus NHP revenue to the CSIP and SVRP for a broad array of purposes. It also delegated the authority to allocate surplus revenues between the two projects to the General Manager.

CURRENT POLICY ON UTILIZATION OF NHP NET REVENUE:

Ordinance 4203, adopted in July 2003, declared the Board of Supervisors intent to adopt separate resolutions (§ Z) to 1) amend Resolution 85-292 and the Joint Powers Agreement for the Monterey County Power Authority to allocate the use of revenue generated by the Nacimiento Hydroelectric Plant following retirement of the Lease Revenue Bonds solely to MCWRA; and to 2) clarify Resolution 95-250 regarding the use of hydroelectric revenue generated by the Nacimiento Hydroelectric Plant.

In July 2003, the Agency adopted Resolution 03-295 to amend previously adopted Resolutions 85-292 and 95-250 based upon the “Recommended Strategy” developed by the Cost Allocation Committee (CAC) for funding the Salinas Valley Water Project (SVWP) and operation of Nacimiento and San Antonio Dams and Reservoirs. The CAC was convened by the Agency in 2001 to provide beneficiaries of the SVWP an opportunity to contribute to the development of the SVWP. Over the course of a year, the CAC developed the “Recommended Strategy” to address future SVWP and dam related cost obligations, which, among other things, made recommendations about the allocation and use of NHP net revenue.

The Recitals in Resolution 03-295 provide historical context to the action, which amends Resolution 85-292 to allocate all “net revenue”, including the County’s then existing 20% share, to the Agency; and amends Resolution 95-250 to allow for “up to” \$200,000 per year to be assigned to the Castroville Seawater Intrusion Project (CSIP) and/or the Salinas Valley Reclamation Project (SVRP), with the remaining balance, up to 100%, assigned to the Nacimiento and San Antonio “Capital Asset Management Program”. The allocation of hydroelectric revenue is to be determined during the Agency’s annual budgeting process.

FISCAL-YEAR 2026-27 (FY27) ALLOCATION OF NHP NET REVENUE:

During the annual budgeting process, Agency staff must consider prioritization within funds as well as across funds because while the ability to allocate money from one fund to another is generally limited, the allocation of the human resources necessary to implement fiscal-year priorities can significantly impact the utilization of available revenues and/or fund balances. Therefore, priorities cannot be simply viewed vertically within each fund but also must be considered horizontally across funds to achieve the Agency’s broad array of objectives.

The Hydroelectric Plant Fund 1508 (130) is unique in that it relies almost entirely upon electric generation revenue, which fluctuates significantly depending upon hydrological year type. Over the past 5 years, Fund 1508 has experienced a single year gain of \$634,000 and a single year loss of (\$441,000), a year-over-year swing of over \$1,000,000. In addition to year-over-year

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variability, Fund 1508 can experience successive years of loss, as witnessed during the 2020-2022 drought cycle, wherein Fund 1508 lost nearly \$700,000 over a three-year period. Therefore, when budgeting for NHP activities, it is important to take a multi-year view when considering priorities and forecasting potential expenses, and to maintain a robust fund balance to manage the known financial uncertainty. Based upon the net expenses incurred during the 2020-2022 drought cycle (total expenses – total revenue), staff recommends Fund 1508 maintain a minimum Fund Balance of \$1,600,000, and establish as an appropriate target, an average Fund Balance of \$2,000,000 (a 3-year drought reserve plus a 50% annual Operations & Maintenance reserve).

The NHP is also unique in that it created an unfunded regulatory mandate upon the Nacimiento & San Antonio Dams Operations and Maintenance Fund 1503 (116), the cost of which has grown significantly since creation of the Zone 2C Special Benefit Assessment, by bringing Federal Energy Regulatory Commission jurisdiction over Nacimiento Dam. The 2003 Engineer’s Report that was the basis of Zone 2C did not consider regulatory compliance cost whatsoever. When preparing the proposed FY27 NHP budget, staff began by accounting for the fixed costs (labor, insurance, county charges, etc.), then estimating the costs for needed maintenance. For FY27, those proposed activities absent any net revenue transfer are:

FY27 NHP Fixed Costs	\$ 613,457
FY27 NHP Maintenance Activities	
Facility inspections	\$ 40,000
Maintenance services	\$ 125,000
Meter calibration	\$ 10,000
Chatterbox update	\$ 20,000
PLC update	\$ 75,000
Electrical drawing updates	\$ 150,000
Sub-Total	\$ 420,000
Estimated Change to FB	\$ 332,039
Estimated Ending Fund Balance	\$ 2,441,914
Fund Balance to Expenses %	236%

Next, staff analyzed the needs of the Nacimiento & San Antonio Dams Operations and Maintenance Fund 1503 (116) and the Castroville Seawater Intrusion Project Fund 1509 (131) and the Salinas Valley Reclamation Project Fund 1510 (132), consistent with Resolution 03-295. As initially developed, Fund 1503 would have had Revenues of \$13,241,763 against projected Expenses of \$14,602,612, which would have had a Fund Balance impact of (\$1,360,849), leaving the estimated FY27 ending Fund Balance at 9% of projected expenses.

Funds 1509 and 1510, as proposed, have estimated Revenues of \$7,553,731 and \$6,165,240 versus projected Expenses of \$7,705,281 and \$6,348,903, respectively. The resulting impact to Fund Balance is estimated to be (\$151,550) and (\$183,663), leaving the respective, estimated FY27 ending Fund Balances at 17% and 23% of projected expenses.

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When considering a recommendation about the potential allocation of net revenue from the NHP, staff weighed the FY27 needs of each program area, and specific fund conditions, and concluded that continuing to transfer \$700,000 from Fund 1508 to Fund 1503, as is the case in the current FY26 adopted budget, had greatest merit. First, the condition of Fund 1503 Fund Balance is among the weakest in the Agency and is in stark contrast to the ongoing and future needs at Nacimiento & San Antonio Dams. The stronger financial situation in Funds 1509 and 1510 is facilitated by a system that allows for annual changes in revenues to recover necessary costs. Fund 1503 has no such mechanism. Additionally, CSIP, as a program, benefits from the annual dedication of approximately \$633,000 of Ad Valorem tax revenue for the repayment of debt for the Salinas Valley Water Project. While this funding relates, in part, to the Salinas River Diversion Facility, and is not the subject of Resolution 03-295, it does, nonetheless, benefit the same community of CSIP landowners and growers that are subject to expenses incurred under Funds 1509 and 1510, and further contributes to the better financial health of the CSIP program overall. For these reasons, staff again recommended the transfer of NHP net revenue to Fund 1503 rather than to 1509 and/or 1510.

CONSIDERATIONS:

On April 3, the Agency’s Finance & Administration Committee recommended that, in addition to the staff recommended transfer of \$700,000 from Fund 1508 to Fund 1503, \$200,000 be transferred from Fund 1508 to the CSIP Fund 1509. No specific activity was identified; rather, the additional funding would be to increase CSIP fund balance, though the Committee did discuss the potential of using the increased funding for the Well 11B02 Replacement Project. The proposed changes to fund balances are illustrated below:

BEFORE FUND TRANSFERS					
Fund 1503		Fund 1508		Fund 1509	
Estimated FY27 Revenue	\$ 13,241,763	Estimated FY27 Revenue	\$ 1,365,496	Estimated FY27 Revenue	\$ 7,553,731
Estimated FY27 Expenses	\$ 14,602,612	Estimated FY27 Expenses	\$ 1,033,457	Estimated FY27 Expenses	\$ 7,705,281
Fund Balance Impact	\$ (1,360,849)	Fund Balance Impact	\$ 332,039	Fund Balance Impact	\$ (151,550)
Estimated FY27 Ending FB	\$ 1,373,255	Estimated FY27 Ending FB	\$ 2,441,914	Estimated FY27 Ending FB	\$ 1,317,195
Proposed Transfers		Proposed Transfers		Proposed Transfers	
Revised FY27 Ending FB	\$ 1,373,255	Revised FY27 Ending FB	\$ 2,441,914	Revised FY27 Ending FB	\$ 1,317,195
Fund Balance to Expense %	9%	Fund Balance to Expense %	236%	Fund Balance to Expense %	17%
STAFF RECOMMENDED FUND TRANSFERS					
Fund 1503		Fund 1508		Fund 1509	
Estimated FY27 Revenue	\$ 13,241,763	Estimated FY27 Revenue	\$ 1,365,496	Estimated FY27 Revenue	\$ 7,553,731
Estimated FY27 Expenses	\$ 14,602,612	Estimated FY27 Expenses	\$ 1,033,457	Estimated FY27 Expenses	\$ 7,705,281
Fund Balance Impact	\$ (1,360,849)	Fund Balance Impact	\$ 332,039	Fund Balance Impact	\$ (151,550)
Estimated FY27 Ending FB	\$ 1,373,255	Estimated FY27 Ending FB	\$ 2,441,914	Estimated FY27 Ending FB	\$ 1,317,195
Proposed Transfers	\$ 700,000	Proposed Transfers	\$ (700,000)	Proposed Transfers	
Revised FY27 Ending FB	\$ 2,073,255	Revised FY27 Ending FB	\$ 1,741,914	Revised FY27 Ending FB	\$ 1,317,195
Fund Balance to Expense %	14%	Fund Balance to Expense %	169%	Fund Balance to Expense %	17%
FAC RECOMMENDED FUND TRANSFERS					
Fund 1503		Fund 1508		Fund 1509	
Estimated FY27 Revenue	\$ 13,241,763	Estimated FY27 Revenue	\$ 1,365,496	Estimated FY27 Revenue	\$ 7,553,731
Estimated FY27 Expenses	\$ 14,602,612	Estimated FY27 Expenses	\$ 1,033,457	Estimated FY27 Expenses	\$ 7,705,281
Fund Balance Impact	\$ (1,360,849)	Fund Balance Impact	\$ 332,039	Fund Balance Impact	\$ (151,550)
Estimated FY27 Ending FB	\$ 1,373,255	Estimated FY27 Ending FB	\$ 2,441,914	Estimated FY27 Ending FB	\$ 1,317,195
Proposed Transfers	\$ 700,000	Proposed Transfers	\$ (900,000)	Proposed Transfers	\$ 200,000
Revised FY27 Ending FB	\$ 2,073,255	Revised FY27 Ending FB	\$ 1,541,914	Revised FY27 Ending FB	\$ 1,517,195
Fund Balance to Expense %	14%	Fund Balance to Expense %	149%	Fund Balance to Expense %	20%

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The FAC recommendation raises two important policy questions for the Directors' consideration. First, regarding the additional draw from Fund 1508, if approved, is the fiscal priority to draw from the Fund Balance or to reduce planned maintenance activities for FY27? Staff recommends the former recognizing that the additional draw could impact future activities.

Second, if the Directors' deem the additional recommended draw from Fund 1508 acceptable, why not prioritize the dam safety project needs at Nacimiento & San Antonio? Resolution 03-295 does not fix an allocation of available net revenues between the dams and CSIP/SVRP; rather, based upon the CAC Recommended Strategy, it provides authority to the Agency to establish priorities between these program areas and dedicate available funding accordingly on an annual basis. Given the backlog of Federal Energy Regulatory Commission and State Division of Safety of Dams recommendations, coupled with the weaker financial state of Fund 1503, staff recommends continuing to prioritize dam safety projects.

STRATEGIC PLAN ALIGNMENT:

The above staff recommendations align with the Board of Directors adopted 2020 Strategic Plan Goal A, Strategies 1 & 3; Goal C, Strategy 3; and Goal D, Strategy 1.

OTHER AGENCY INVOLVEMENT:

Finance Committee

FINANCING:

Action on the Finance & Administration Committee recommendation has no effect on the current FY26 budget and undetermined effect on future year budgets.

Prepared and Approved by: Ara Azhderian, General Manager, (831) 755-4860