



Monterey County

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Board Report

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Consider approving and recommending that the Monterey County Board of Supervisors approve a proposal to modify the Water Resources Agency Accounting Fund Structure for FY 2018-19 to create more transparency in how revenues are reported in the Agency Budget and the Monterey County Advantage Accounting System as recommended by Rodney Craig Goodman Jr., CPA and the County Auditor-Controller's Office:

- a. Create a General Fund 111 by combining the following Agency Funds : 111, 113, 117, 118, 120, 123, 125, 126, 128, 129, 114, 115, 130 that are financed by the following revenue type: Ad Volorem taxes, Royalties, Hydro-electric, Developer Fees/Permits, Rent; and
- b. Combine Special Assessment Revenue and Water Delivery/Service Charges for the Castroville Seawater Intrusion Project (CSIP) Transfer Fund 119, CSIP Operations and Maintenance Fund 131, Salinas Valley Reclamation Project (SVRP) Operations and Maintenance Fund 132, Salinas River Diversion Facility Operations and Maintenance Fund 134 and Debt Service/Rate Stabilization Fund 303;and
- c. Combine Debt Service Funds for the Salinas Valley Water Project Bond (SVWP) Funds 133 and 313
- d. Transfer remaining balances from SVWP Constructions Funds 422 and 423 to Fund 313 the Debt Service Fund for the SVWP Bond.

RECOMMENDATION:

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

- a. Create a General Fund 111 by combining the following Agency Funds : 111, 113, 117, 118, 120, 123, 125, 126, 128, 129, 114, 115, 130 that are financed by the following revenue type: Ad Volorem taxes, Royalties, Hydro-electric, Developer Fees/Permits, Rent; and
- b. Combine Special Assessment Revenue and Water Delivery/Service Charges for the Castroville Seawater Intrusion Project (CSIP) Transfer Fund 119, CSIP Operations and Maintenance Fund 131, Salinas Valley Reclamation Project (SVRP) Operations and Maintenance Fund 132, Salinas River Diversion Facility Operations and Maintenance Fund 134 and Debt Service/Rate Stabilization Fund 303;and
- c. Combine Debt Service Funds for the Salinas Valley Water Project Bond (SVWP) Funds 133 and 313
- d. Transfer remaining balances from SVWP Constructions Funds 422 and 423 to Fund 313 the Debt Service Fund for the SVWP Bond.

Approve and recommend that the Monterey County Board of Supervisors approve a proposal to modify the Water Resources Agency Fund Structure to create more transparency in how

revenues are reported in the Agency Budget and the Monterey County Advantage Accounting System as recommended by Rodney Craig Goodman Jr., CPA and the County Auditor-Controller's Office.

SUMMARY/DISCUSSION:

On January 26, 2015 the Water Resources Agency approved and recommended that the Monterey County Board of Supervisors approve this recommendation to modify the Water Resources Agency Fund Structure to create more transparency in how revenues are reported in the Agency Budget and the Monterey County Advantage Accounting System as recommended by Rodney Craig Goodman Jr., CPA and in collaboration with the County Auditor Controller's Office. This report is coming back to the Board of Director's for minor changes from the original proposal that was approved by this Board in January 2015. The additional changes are described below.

The Monterey County Water Resource Agency has a complex fund accounting structure that includes 15 sources of revenue spread amongst 26 fund accounts. As mentioned in the report by Rodney Craig Goodman Jr., CPA, "Currently, many of these revenues are being allocated to multiple funds without being transferred. This makes budgeting more difficult and it adds a sense of entitlement to these dollars in other funds. If there is an agreement to backfill debt service charges to zones with ad valorem taxes, it would be less transactions and cleaner if the WRA General Fund just transferred the appropriate amount of ad valorem to fund the debt service payment." What Mr. Goodman is referring to is the Agency's most recent Salinas Valley Water Project Bond and its requirement to pledge all revenue to debt service to pay the annual bond payment. As a result, the Agency accumulates all pledged revenue into the Debt Service Fund 133 to ensure the annual payment of the bond and then redirects the remaining ad valorem to several smaller funds. By restructuring the Fund accounts, it enables the agency to classify it's revenue based on the defined fund types described in the attached recommendations of John Goodman Jr., CPA and requires the agency to seek authorization from the Agency Board of Directors when transferring these monies between Funds, therefore, creating a clear audit trail.

- The yellow highlighted funds as shown in Attachment No. 1: 111, 113, 114, 115, 117, 118, 120, 123, 125, 126, 128, 129 and 130) will be combined into one general fund of the WRA. Historically each of these zones (zones 3, 5, 7, 11, 14, 15, Storm Drain Maintenance #2, and Gonzales Slough) has made a claim to the ad valorem taxes attributed to each respective zone. However, the reason these zones appear to have a share of ad valorem taxes is because at the time proposition 13 was implemented these zones were considered the WRA. Thus, each of these zones was included in the applicable tax rate areas established between 1977 and 1979. I am unaware of any legal restrictions on the use of these ad valorem taxes either in California statutes or any WRA contractual agreement. Instead, the ad valorem taxes collected from these zones should be considered the discretionary revenues of the WRA. Discretionary revenues are non-earmarked moneys that may be spent as the WRA Board of Supervisors authorizes. With that said, any projects approved in these zones would require the use of these discretionary dollars because these zones do not have any other source of moneys, such as voter approved direct assessments or benefit assessments.

- The green highlighted funds as shown in Attachment No. 1: 112, 116, 121, 122, 124, 127 will remain in a separate special revenue fund due to either a direct assessment or benefit assessment that the voters passed to fund the prevention of flooding within each of these zones (zones 1, 1A, 2C, 8, 9, 12, and 17). Direct assessments or benefit assessments are voter approved tax assessments, above the one percent ad valorem taxes, which are earmarked for a specific purpose and cannot be used for an alternate purpose. These moneys can only be used for the specific purpose approved by the voters or they violate the legal provisions of the voter approved tax assessment. Therefore, WRA must keep these moneys in their own separate fund and only use them as directed by the voters. In all cases, the assessments and benefit assessments that have been approved in WRA are zone specific.
- The orange highlighted funds as shown in Attachment No. 1: 119, 132, 134, and 303 will be combined into one special revenue and fee fund. These funds are due to benefit assessments that the voters passed to fund Zone 2B-CSIP Transfer Fund 119, CSIP O&M-Fund 131 and SVRP O&M-Fund 132. In addition, it will include the associated water delivery and service fees/charges paid by the 22 growers in Zones 2B that support Fund 131 CSIP O&M and Fund 134 SRDF O&M. This fund will also include the Bureau of Reclamation, and State Revolving loan payments paid from CSIP revenues received in Fund 119 and then transferred to Fund 303 for payment of the State Revolving and Bureau of Reclamation loans. Fund 303 also contains the Rate Stabilization Reserve of approximately \$2 million that was once the construction fund for CSIP.
- The blue highlighted funds as shown in Attachment No. 1 (funds 133 and 313) will be collapsed into one debt service fund. Fund 313 appears to be the primary debt service fund where current year transactions for the SVWP principal and interest debt payments are made. Fund 133 appears to exist solely for the purpose of holding next year's bond payment. The Bond documents must be read to determine if a separate fund is required for next year's bond payment. It has been determined that fund 133 can be closed and a restricted cash account and restricted fund balance account be established for next year's bond payment within fund 313.
- The purple highlighted funds as shown in Attachment No. 1 (funds 422, 423, 425) are capital projects funds and transferred to the SVWP Debt Service Fund. Moneys for the Salinas Valley Water Project (SVWP) construction of capital assets were transferred into capital projects funds from other sources such as debt proceeds. These are remaining debt proceeds after construction of the capital assets and will be transferred to fund 313 for repayment of the debt.
- Fund 426 will remain separated to track the Interlake Tunnel and Spillway Modification Grant funding of \$10 million dollars.

OTHER AGENCY INVOLVEMENT:

This report was prepared in collaboration with the County Auditor-Controller's Office.

FINANCING:

There is no financial impact in providing this report.

Prepared by: Cathy Paladini, Finance Manager, (831) 755-4860

Approved by: _____
David E. Chardavoyne, General Manager, (831) 755-4860

Attachments:

1. WRA and County Final Recommendation
2. Rodney Goodman CPA Recommendation and Chart
3. Board Order