





TODAY'S ACTION

Recommended that the Monterey County Water Resources Agency Board of Supervisors:

- a. Consider approving Amendment No. 4 to the 2015 Amended and Restated Water Recycling Agreement with Monterey One Water to revise Sections 7 and 8 of the Agreement related to financial provisions including budgets, payments, reports and annual reconciliation processes, retroactive to July 1, 2025; and
- b. Authorize the Chair of the Monterey County Water Resources Agency Board of Supervisors to execute the Amendment No. 4.

Prior Actions

- MCWRA Finance Committee, Board of Directors and Board of Supervisors approved the original agreement and all three amendments with the final approval date shown below:
 - Original Agreement approved on 11/3/2015
 - Amendment No. 1 approved on 7/16/2019
 - Amendment No. 2 to the Agreement on 6/16/2020
 - Amendment No. 3 to the Agreement 6/22/2021
- MCWRA Finance Committee and Board of Directors recommended Amendment 4 at their May 2025 meetings
- Monterey One Water's Board of Directors approved Amendment 4 at the June 30, 2025, meeting

Background

- The Agency and Monterey One Water (M1W) originally entered into an agreement related to recycled water use in the Castroville Seawater Intrusion Project area in 1992 with subsequent amendments and new agreements since then
- Currently the Amended and Restated Water Recycling Agreement (ARWRA), as amended, is in effect through 2045
 - 3 amendments were related to satisfying Section 16.15 *Conditions Precedent for New Source Water Facilities*

Background

- In 2023, the Agency requested a 3rd party financial audit to assess the accuracy and compliance of expenses reported by M1W for four fiscal years (FY 2018–19 to FY 2021–22) in accordance with the ARWRA
 - County's Auditor-Controller's Office engaged GPP Analytics to verify if expenses for the three Agency Programs (SVRP, CSIP, and SRDF) were reasonably incurred
 - Includes direct and indirect costs documentation, reporting, financial systems and internal controls
 - The financial audit resulted in seven findings and numerous recommendations to address them

Background

- In September 2024, the Agency and M1W formed a workgroup and a leadership committee to address the findings and implement recommendations from the Audit
 - includes amending items related to Payments, Accounting Systems and Reports, included within Sections 7 and 8 of the ARWRA
 - Amendment 4 is a result of those efforts and includes updated language, new terms and conditions

Discussion

Key changes in Amendment 4 are summarized below:

- Re-organizes the sections to provide clarity
 - For example, all required reports are grouped so that they can be easily referenced
- Requires that M1W has distinct funds for CSIP, SVRP and SRDF
 - Supports that each are funded by distinct benefit assessments, fees, and other revenue sources
 - Clarifies that funds and expenses cannot be comingled
- Aligns key milestone dates with both agencies internal and workflow processes
- Separates budgets for operations & maintenance (O&M), capital outlay (CapO) and capital improvements (CapI)
 - requiring regular activity progress reports
 - changing payment methods for CapO and CapI that balances cashflow and project timelines

Discussion, cont.

- Revisits the Indirect Cost Allocation
 - Currently negotiated rate of 14.5%
 - Develop a new cost allocation plan for future
- Defines types of budget adjustments and approval processes
 - Within a fund versus additional appropriations
- Includes a separate annual financial audit that informs the annual reconciliation process
 - Audit performed by January 31st
 - Payments made by February 15th
- Clarifies roles and responsibilities of both parties so that appropriate financial system and internal controls are in place for effective management of the ARWRA



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