

County of Monterey

Government Center - Board Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901



Meeting Agenda - Final

Tuesday, July 8, 2025

1:30 PM

**Join via Zoom at <https://montereycty.zoom.us/j/224397747> or in person at the
address listed above**

Board of Supervisors of the Monterey County Water Resources Agency

Chair Supervisor Chris Lopez - District 3

Vice Chair Supervisor Wendy Root Askew - District 4

Supervisor Kate Daniels- District 5

Supervisor Luis A. Alejo - District 1

Supervisor Glenn Church - District 2

Participation in meetings

While the Board chambers remain open, members of the public may participate in Board meetings in 2 ways:

1. You may attend the meeting in person; or,
2. You may observe the live stream of the Board of Supervisors meetings at <https://monterey.legistar.com/Calendar.aspx>, <http://www.mgtvonline.com/>, www.youtube.com/c/MontereyCountyTV or <https://www.facebook.com/MontereyCoInfo/>

If you choose not to attend the Board of Supervisors meeting but desire to make general public comment, or comment on a specific item on the agenda, you may do so in 2 ways:

a. submit your comment via email by 5:00 p.m. on the Monday prior to the Board meeting. Please submit your comment to the Clerk of the Board at cob@co.monterey.ca.us. In an effort to assist the Clerk in identifying the agenda item relating to your public comment please indicate in the Subject Line, the meeting body (i.e. Board of Supervisors Agenda) and item number (i.e. Item No. 10). Your comment will be placed into the record at the Board meeting.

b. you may participate through ZOOM. For ZOOM participation please join by computer audio at: <https://montereycty.zoom.us/j/224397747>

OR to participate by phone call any of these numbers below:

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Enter this Meeting ID number: 224397747 when prompted. Please note there is no Participant Code, you will just hit # again after the recording prompts you.

You will be placed in the meeting as an attendee; when you are ready to make a public comment if joined by computer audio please Raise your Hand; and by phone please push *9 on your keypad.

PLEASE NOTE: IF ALL BOARD MEMBERS ARE PRESENT IN PERSON, PUBLIC PARTICIPATION BY ZOOM IS FOR CONVENIENCE ONLY AND IS NOT REQUIRED BY LAW. IF THE ZOOM FEED IS LOST FOR ANY REASON, THE MEETING MAY BE PAUSED WHILE A FIX IS ATTEMPTED BUT THE MEETING MAY CONTINUE AT THE DISCRETION OF THE CHAIRPERSON.

Participación en reuniones

Mientras las cámaras de la Junta permanezcan abiertas, los miembros del público pueden participar en las reuniones de la Junta de 2 maneras:

- 1. Podrá asistir personalmente a la reunión; o,**
- 2. Puede observar la transmisión en vivo de las reuniones de la Junta de Supervisores en <https://monterey.legistar.com/Calendar.aspx>, <http://www.mgtvonline.com/>, www.youtube.com/c/MontereyCountyTV o <https://www.facebook.com/MontereyCoInfo/>**

Si elige no asistir a la reunión de la Junta de Supervisores pero desea hacer comentarios del público en general o comentar un tema específico de la agenda, puede hacerlo de 2 maneras:

a. envíe su comentario por correo electrónico antes de las 5:00 p.m. el lunes anterior a la reunión de la Junta. Envíe su comentario al Secretario de la Junta a cob@co.monterey.ca.us. En un esfuerzo por ayudar al secretario a identificar el tema de la agenda relacionado con su comentario público, indique en la línea de asunto el cuerpo de la reunión (es decir, la agenda de la Junta de Supervisores) y el número de artículo (es decir, el artículo n.º 10). Su comentario se colocará en el registro en la reunión de la Junta.

b. puedes participar a través de ZOOM. Para participar en ZOOM, únase por audio de computadora en: <https://montereycty.zoom.us/j/224397747>

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Ingrese este número de ID de reunión: 224397747 cuando se le solicite. Tenga en cuenta que no hay un código de participante, simplemente presione # nuevamente después de que la grabación lo solicite.

Se le colocará en la reunión como asistente; cuando esté listo para hacer un comentario público si se une al audio de la computadora, levante la mano; y por teléfono, presione *9 en su teclado.

TENGA EN CUENTA: SI TODOS LOS MIEMBROS DE LA JUNTA ESTÁN PRESENTES EN PERSONA, LA PARTICIPACIÓN DEL PÚBLICO POR ZOOM ES ÚNICAMENTE POR CONVENIENCIA Y NO ES REQUERIDA POR LA LEY. SI LA ALIMENTACIÓN DE ZOOM SE PIERDE POR CUALQUIER MOTIVO, LA REUNIÓN PUEDE PAUSARSE MIENTRAS SE INTENTA UNA SOLUCIÓN, PERO LA REUNIÓN PUEDE CONTINUAR A DISCRECIÓN DEL PRESIDENTE.

NOTE: All agenda titles related to numbered agenda items are live web links. Click on the title to be directed to the corresponding Board Report.

PUBLIC COMMENTS: Members of the public may address comments to the Board concerning each agenda item. The timing of public comment shall be at the discretion of the Chair.

1:30 P.M. - Call to Order

Roll Call

Additions and Corrections by Clerk

The Clerk of the Board will announce agenda corrections and proposed additions, which may be acted on by the Board as provided in Sections 54954.2 of the California Government Code.

General Public Comments

This portion of the meeting is reserved for persons to address the Board on any matter not on this agenda but under the jurisdiction of the Board of Supervisors. Board members may respond briefly to the statement made or questions posed. They may ask a question for clarification; make a referral to staff for factual information or request staff to report back to the Board at a future meeting.

Scheduled Matters

1. 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.

Attachments: [Board Report](#)
[Amended & Restated Water Recycling Agreement](#)
[Water Recycling Agreement Expenses Audit 7.22.2024](#)
[ARWRA Amendment 4](#)

2. Consider adopting a resolution to:
 - a. Approve and adopt the Fiscal Year 2025-26 (FY26) Groundwater Monitoring Program Regulatory Fees of \$160.16 per well for Initial Well Registration, \$21.86 per well for Annual Well Registration Renewal, \$64.82 per well for Groundwater Extraction Reporting, \$117.68 per well for Groundwater Level Monitoring, and \$73.92 per well for Groundwater Quality Monitoring, contingent upon execution of a sub-grant agreement between MCWRA and the Salinas Valley Basin Groundwater Sustainability

- Agency to provide grant funding as an offset credit for all well owners within the Basin for FY26;
- b. Authorize the Auditor-Controller to amend the FY26 Adopted Budget for MCWRA Fund 111 (111-9300-WRA001-8267), to increase its appropriations by \$280,000 and to increase revenue by \$800,000, financed by the Groundwater Monitoring Program fees; (4/5th vote required); and
- c. Authorize the Auditor-Controller's Office to incorporate approved budget modifications to the FY26 Budget.

Attachments: [Board Report](#)
 [Supplemental Memorandum on the GMP](#)
 [Map of FY25-26 GMP Regulatory Fee Area](#)
 [Groundwater Monitoring Program Manual](#)
 [Draft GMP Fee Study](#)
 [Summary Table of FY25-26 GMP Regulatory Fees](#)
 [MCWRA Executed Board Order 25-25](#)
 [Draft Resolution](#)

3. Receive a presentation concerning the Monterey County Water Resources Agency's work on the draft Interlake Tunnel and San Antonio Spillway Modification Assessment Engineer's Report, an update to the 1998 Salinas Valley Historical Benefits Analysis, and publication of the Salinas Valley Hydrologic Models.

Attachments: [Board Report](#)
 [Save The Date Memo](#)
 [HBA ILT SVHM PPT](#)

Adjournment



County of Monterey

Item No.1

Board Report

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Legistar File Number: WRAG 25-105

July 08, 2025

Introduced: 6/23/2025

Current Status: Agenda Ready

Version: 1

Matter Type: WR General Agenda

- 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.

RECOMMENDATION:

It is 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.

SUMMARY/DISCUSSION:

The Monterey County Water Resources Agency ("Agency") and Monterey One Water ("M1W"), formerly known as Monterey Regional Water Pollution Control Agency, entered into an Amended and Restated Water Recycling Agreement ("Agreement") on November 3, 2015, to incorporate and restate agreements that had been developed over the years since the establishment of the Castroville Seawater Intrusion Project ("CSIP"), the Salinas Valley Reclamation Project ("SVRP"), and the Salinas River Diversion Facility ("SRDF"). Subsequently, there have been three minor amendments to the Agreement related to the New Source Water Facilities. The Agreement is included as attachment 1.

In 2023, at the Agency's request, the County of Monterey Auditor-Controller's Office engaged GPP Analytics ("GPP") to conduct a financial audit ("Audit") to assess the accuracy and compliance of expenses reported by M1W reported over four fiscal years (FY 2018-19 to FY 2021-22) in accordance with the Agreement.

The Audit's objectives were to evaluate M1W's expenses for compliance with the provisions of the Agreement. This work was completed through verifying if expenses for the SVRP, CSIP, and the SRDF were reasonably incurred, verifying direct and indirect costs were accurately documented, and assessing financial systems and internal controls. The Audit aimed to verify proper record keeping,

accurate reporting, accurate reconciliations, and compliance with the Agreement overall. The Audit resulted in seven findings and recommendations by GPP to address them. The Audit is included as attachment 2.

In September 2024, Agency and M1W formed a workgroup and a leadership committee to address the findings and implement recommendations from the Audit, which includes amending items related to payments, accounting systems and reports which are included within Sections 7 and 8 of the Agreement.

Amendment No. 4 revises Sections 7 and 8, which address budgets, payments, reports and annual reconciliation process. The proposed changes include requirements of distinct individual funds for CSIP, SVRP and SRDF; performing a separate annual financial audit; separating budgets of operations & maintenance (“O&M”), capital outlay (“CapO”) and capital improvement projects (“CapI”); requiring progress reports of O&M, CapO and CapI projects; and changing payment methods for capital projects. The amendment clarifies due dates, roles and responsibilities of both parties so that appropriate financial system and internal controls are in place to effectively record, monitor, and allocate expense in accordance with the Agreement. The Amendment is included as attachment 3.

The Agency’s Finance Committee and Board of Directors recommended approval of the Amendment No. 4. Monterey One Water’s Board of Directors will be considering the Amendment at its June 30th, 2025, meeting.

OTHER AGENCY INVOLVEMENT:

Monterey One Water participated in the preparation of Amendment No. 4.

FINANCING:

This proposed Amendment No. 4 does not have a financial impact to the FY2024-25 Adopted and FY2025-26 Adopted Budget.

The Amendment No. 4 will change payment methods from two-installment for CapO and CapI activities. Instead of previous two-installment methods, payments for capital activities will be issued based on project status and cash flow projections. There are minimal changes to O&M payment schedules.

Prepared by: Shaunna Murray, Deputy General Manager

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

Attachments:

1. Amended and Restated Water Recycling Agreement & Amendments

2. Water Recycling Agreement Expenses Audit Report
3. Amendment No. 4 to the Agreement



County of Monterey

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Prepared by: Shaunna Murray, Deputy General Manager

DocuSigned by:

Approved by:

Ara Azhderian

Ara Azhderian, General Manager, (831) 755-4860
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Attachments:

1. Amended and Restated Water Recycling Agreement & Amendments
2. Water Recycling Agreement Expenses Audit Report
3. Amendment No. 4 to the Agreement

**Amended and Restated Water Recycling Agreement Between
Monterey Regional Water Pollution Control Agency and
Monterey County Water Resources Agency**



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THIS AMENDED AND RESTATED AGREEMENT [hereinafter referred to as “**Water Recycling Agreement**”] is made and entered into this 3rd day of November 2015, “Effective Date,” by and between Monterey Regional Water Pollution Control Agency (“PCA”) and Monterey County Water Resources Agency (“WRA”), hereinafter collectively the “Parties” or individually a “Party.”

The PCA was formed as a California Joint Powers Agency by a Joint Exercise of Powers Agreement for the Monterey Regional Water Pollution Control Agency, effective June 29, 1979. The Monterey County Water Resources Agency (“WRA”) is a flood control and water agency established by the legislature in 1990 (Monterey County Water Resources Agency Act, Water Code Appendix Chapter 52), and is the successor to the Monterey County Flood Control and Water Conservation District.

RECITALS

WHEREAS, PCA and WRA entered into the Memorandum of Understanding Regarding Source Waters and Water Recycling, as amended, dated October 8, 2014, with the City of Salinas (“Salinas”), Marina Coast Water District (“MCWD”), and Monterey Peninsula Water Management District (“WMD”), hereinafter referred to as “Five Party MOU,” to provide a framework for provision of additional source waters that could be dedicated to the Pure Water Monterey Project and provide additional water supply to the Castroville Seawater Intrusion Project; and,

WHEREAS, PCA and WRA had previously entered into an agreement, dated June 16, 1992, for construction and operation of a tertiary treatment system (the “1992 Agreement”), with subsequent amendments thereto, as follows: Amendment No. 1 on May 30, 1994; Amendment No. 2 on February 16, 1998; and Amendment No. 3 on May 28, 2002; and,

WHEREAS, PCA and WRA entered into an agreement between the Monterey County Water Resources Agency and The Monterey Regional Water Pollution Control Agency for the Operation and Maintenance of the Salinas River Diversion Facility, dated February 3, 2011 (“SRDF Agreement”); and,

WHEREAS, in order to facilitate coordination of and accounting for operation and maintenance of the Salinas Valley Reclamation Project (“SVRP”), the Castroville Seawater Intrusion Project (“CSIP”) and the Salinas River Diversion Facility (“SRDF”), it is desired by the Parties to have one comprehensive agreement; and,

WHEREAS, the Parties desire to facilitate acquisition of new source waters required for the Pure Water Monterey Project and additional waters for CSIP, WRA applied to the California State Water Quality Control Board on May 19, 2014 for water rights to 25,000 acre-ft/year of Drainage Flows from the Blanco Drain, the Reclamation Ditch, and the Tembladero Slough, as referenced in Section 1.0 D herein; and,

WHEREAS, on July 29, 2015 WRA requested that its water rights application be divided into five separate applications with the first 6,500 acre-ft/year allocated to Application Nos. 32263A, 32263B, and 32263C as part of New Incremental and Interruptible Allocations – Phase I, associated with the Pure Water Monterey Project; and,

WHEREAS, PCA and Salinas will enter into an agreement for primary and secondary treatment by PCA of the City’s industrial pond water; and,

WHEREAS, the 1992 Agreement, as amended, needs to be replaced in order to fulfill the terms and conditions of the Five-Party MOU, and to update specific terms and conditions of agreement between the Parties, for current needs and realities, while preserving the original intentions of the Parties to the maximum extent possible; and,

WHEREAS, this Agreement relates to and implements certain portions of the Pure Water Monterey Groundwater Replenishment Project (“GWR”) that the MRWPCA Board approved on

October 8, 2015. The MRWPCA Board certified the Environmental Impact Report ("EIR") for the GWR Project as complete and in compliance with the California Environmental Quality Act ("CEQA"), and adopted the findings required by CEQA on October 8, 2015. This Agreement does not change the GWR Project and no change of circumstances or new information herein shows that the GWR Project would result in new or substantially more severe environmental impacts such that major revisions to the certified EIR would be required. This Agreement is approved based on the EIR as certified.

NOW, THEREFORE, for and in reliance of the foregoing, the parties hereby agree as follows:

1.0 Definitions

For the purposes of this Water Recycling Agreement, the following definitions are provided:

A. The term "Annexation Agreements" refers to the Annexation Agreement between MCWD and PCA dated April 25, 1989, and the Annexation Agreement between MCWD and WRA dated March 26, 1996. The individual Annexation Agreements are referenced herein by their respective dates.

B. The term "Bureau Loan Contract" refers to the Contract Between the United States and the Monterey Regional Water Pollution Control Agency (MRWPCA) for "A Loan for Construction of a Small Reclamation Plant," dated June 2, 1995,

C. The terms "Castroville Irrigation System," "Castroville Seawater Intrusion Project," and "CSIP," as used in this Water Recycling Agreement, refer to the tertiary treated water distribution system and are hereinafter collectively referred to simply as the "CSIP", which is owned by WRA. Reclaimed water produced by the SVRP for CSIP will be delivered to a distribution system, known as the Castroville Irrigation System, at the points indicated on Exhibit A, attached hereto and made a part hereof, as may be amended by agreement of the parties, and through that system it will be delivered to growers in the Castroville area, for use in the irrigation of crops.

D. The term "Drainage Flows" refers to WRA's portion of New Source Waters originating from Blanco Drain, Reclamation Ditch, and Tembladero Slough.

E. The term "Drought Reserve" shall refer to storage of up to 1,000 acre-ft of water for potential use during a drought.

F. The term "Interruptible Rate" applies to PCA charges for primary and secondary treatment of New Source Waters.

G. The term "New Source Water Facilities" applies to facilities required to be constructed to convey Blanco Drain, Reclamation Ditch and Tembladero Slough waters to the PCA Regional Treatment Plant, and those to be constructed to allow wintertime operation of the SVRP.

H. "New Source Waters" are defined as waters originating at the following:

1. Agricultural Wash Water
2. Blanco Drain Water
3. Reclamation Ditch/Tembladero Slough water
4. Monterey Storm Water
5. Salinas Storm Water

I. The term "Pure Water Monterey Facilities" refers to those advanced treatment facilities necessary to transform secondary treated wastewater from the Regional Treatment Facility into drinking water quality water, the agreement terms for which are not included in this Water Recycling Agreement.

J. The terms "reclaimed water", "reclaimed wastewater", "recycled water", and "tertiary treated water" all refer to the water produced by the 29.6 MGD (33,154 acre-ft per year) tertiary treatment system and are hereinafter collectively referred to as "tertiary treated water".

K. The term "Regional Treatment Plant" refers to the facilities constructed and sized to

provide primary and secondary treatment for 29.6 mgd of wastewater flow and which is owned, operated and maintained by PCA.

L. The terms "SVRP" and "Salinas Valley Reclamation Plant" and "recycled water plant" refer to that part of the Monterey County Water Recycling Project containing the 29.6 mgd (33,154 acre-feet per year) tertiary treatment system that produces recycled water pursuant to Title 22 of the California Code of Regulations (CCR) suitable for irrigation of crops eaten raw, hereinafter collectively referred to simply as the "SVRP," which is owned, operated and maintained by PCA.

M. The terms "SRDF" and "the Salinas River Diversion Facility" both refer to the Salinas River Diversion Facility, which includes the chlorination system as a component, and are hereinafter referred to simply as the "SRDF", which is owned by WRA.

N. The term "SWRCB Loan Contract" is used to refer to "Contract between the State Water Resources Control Board (SWRCB) and MRWPCA for a State Revolving Fund Loan for Construction of a Tertiary Treatment Facility Project" dated December 15, 1995.

O. Member entities of PCA are the following:

1. City of Salinas
2. City of Monterey
3. Castroville Community Services District
4. City of Seaside
5. City of Pacific Grove
6. Marina Coast Water District
7. County of Monterey
8. City of Del Rey Oaks
9. Sand City
10. Boronda County Sanitation District

I. CONSTRUCTION OF THE NEW SOURCE WATER FACILITIES

1.01. PCA to construct New Source Water Facilities.

Upon the receipt of final commitments for the financing described below by all applicable governmental agencies and when conditions precedent of Section 16.15 are met, PCA will finance, design, construct, and install the New Source Water Facilities, in substantial conformity with designs and plans approved by the parties in writing.

1.02. Change orders.

Change orders must be approved in writing. Any change order or related set of change orders that increases the New Source Water Facilities cost by \$100,000 or more shall require the written consent of both Parties within 30 days of presentation. Any change order or related set of change orders that increases the New Source Water Facilities cost by less than \$100,000 or that lowers the New Source Water Facilities cost may be approved by PCA alone, without the consent of the WRA, except that a copy of any proposed or executed change order shall promptly be provided to WRA as soon as it is available to PCA. Each Party's contract administrator shall be authorized to give consent to change orders for that Party. Neither Party's consent to a change order will be unreasonably withheld or delayed.

1.03. Location of the New Source Water Facilities.

The New Source Water Facilities shall be located as shown in Exhibit G, attached hereto and made a part hereof. PCA will acquire any rights-of-way necessary for the construction and maintenance of pipelines from the sources points of delivery to the Regional Treatment Plant.

1.04. Projected Future New Source Water Facilities.

New Source Water Facilities consist of, but are not limited to the following:

1. Blanco Drain Water
 - (a) 2,738 gpm (6.1 cfs) pump station
 - (b) 7,700 feet of 18 inch diameter HDPE, PVC, or Ductile Iron pipe
 - (c) Intake Screen/Wet Well with appropriate appurtenances
2. Reclamation Ditch Water
 - (a) 2,693 gpm (6.0 cfs) pump station
 - (b) 43 feet of 6 and 12 inch diameter DIP or PVC discharge pipe
3. Tembladero Slough Water
 - (a) 1,346 gpm (3 cfs) pump station
 - (b) 120 feet of 16 inch diameter DIP and PVC discharge pipe
 - (c) Intake screen/Wet Well with appropriate appurtenances
4. Monterey Storm Water (Lake El Estero)
 - (a) 2,500+/- gpm pump station
 - (b) 45 feet if 12+/- inch PVC pipe
5. Salinas Storm Water
 - (a) Diversion Point No. 1
 - i. 54" x 54" concrete diversion structure
 - ii. 24" x 24" concrete diversion structure plus weir
 - iii. Parshall Flume
 - iv. Intake Screen/Sluice Gate with appropriate appurtenances
 - (b) Diversion Point No. 2
 - i. 66"x 66" concrete diversion structure

- ii. 24"x 24" concrete diversion structure plus weir
 - iii. Rehabilitate or new 150 feet of -inch pipe
 - iv. Parshall Flume
 - v. Appropriate access points of appurtenances
- (c) Diversion Point No. 3
 - i. 30" x 30" concrete diversion structure
 - ii. Parshall Flume with 12"x 6"x 40 feet diversion structure
 - iii. Appropriate access points and appurtenances
- (d) Diversion Point No. 4
 - i. Cast in place diversion structure
 - ii. 80 feet of 30 inch pipe
 - iii. Parshall Flume and appropriate access points and appurtenances
- (e) Salinas Pond Water Return Facilities
 - i. Intake Structure
 - ii. 2 45 hp pumps
 - iii. Valve and Meter boxes
 - iv. 20-inch HDPE – 6200 ft
 - v. Appropriate access points and appurtenances
- (f) Salinas Pond Return Facilities
 - i. 10'x16' wet well
 - ii. 2 45 hp pumps
 - iii. 7,500 feet of HDPE pipe
 - iv. Appropriate access points and appurtenances
- 6. Modifications to Regional Treatment Plant
 - (a) Two 30-inch sluice gates in Chlorine Contact Basins
 - (b) One 72-inch motorized sluice gate at Storage Pond with access structure and stairs
 - (c) 860-feet of 30+/- inch HDPE, DIP, PVC, or concrete pipe

1.05. Cooperation between agencies.

PCA and WRA shall work cooperatively and with diligence to obtain all permits, approvals, and financing to construct the New Source Water Facilities. PCA and WRA shall work cooperatively and with diligence to obtain water rights for the new water sources.

1.06. Regular meetings.

After development of an implementation schedule, representatives of the Parties will meet on a monthly basis, or more often if necessary, in order to ensure that the construction of the New Source Water Facilities is proceeding according to the schedule and in conformity with this agreement and the approved plans and designs.

II. ESTIMATED COSTS AND FINANCING FOR NEW SOURCE WATER FACILITIES.

2.01. New Source Water Facilities.

PCA shall bear all the costs of design and construction of the New Source Water Facilities. PCA intends to finance these costs utilizing grants and low interest loans. WRA will repay its share of these costs as provided in Section VII.

2.02. Estimated design and construction costs of New Source Water Facilities.

Table 1.

Component	WRA	PCA	Monterey/Salinas	TOTAL
Blanco Drain Water	\$2.3 Million	\$2.7 Million	0	\$5.0 Million
Reclamation Ditch	\$0.5 Million	\$0.6 Million	0	\$1.1 Million
Tembladero Slough	\$0.5 Million	\$0.6 Million	0	\$1.1 Million
Monterey Storm Water	0	0	Not Estimated	
Salinas Storm Water	0	0	Not Estimated	
Salinas Pond Water Return Facilities	\$1.3 Million	\$1.5 Million		\$2.8 Million
Modifications to Regional Treatment Facility	\$0.6 Million	\$0.7 Million		\$1.3 Million
TOTAL	\$5.2 Million	\$6.1 Million		\$11.3 Million

WRA's share of capital costs is 45.1% and PCA's share of capital costs is 54.9%. This same allocation of capital costs will be applied to Replacement and Renewal costs associated with the New Source Water Facilities, as identified in Section 9.02.

2.03. Source Water.

1. WRA shall obtain water rights to Drainage Flows from the California State Water Resources Control Board. Costs of obtaining and maintaining said water rights shall be reimbursed to WRA on the same proportional basis for water used as a component of the New Source Facilities.
2. Water rights for New Source Water within the City of Salinas and City of Monterey, and any future new source waters not identified herein, including without limitation, dry and wet weather storm drainage system flows and/or volumes, are not subject to this Agreement and may be the subject of future agreements.

III. OWNERSHIP, OPERATION AND MAINTENANCE OF CSIP, SVRP, SRDF AND NEW SOURCE WATER FACILITIES.

3.01. Ownership, operation, and maintenance, in general.

1. PCA will own, operate, and maintain the SVRP as described in Exhibit B, "Operation and Maintenance of SVRP, CSIP, SRDF, and New Source Water Facilities", attached hereto and made a part hereof, and will keep the SVRP in good condition and repair for the term of this Water Recycling Agreement. WRA shall be required to reimburse PCA for such costs and expenses of ownership, operation, and maintenance of the SVRP as described in Article VII of this Water Recycling Agreement. After expiration of this Water Recycling Agreement and any extension thereof, the SVRP will remain the property of PCA, except that WRA will own the discharge pipeline from the PCA property line near the discharge side of the storage pond to the connection with the CSIP.
2. WRA will own the CSIP facilities and PCA will operate and maintain the CSIP facilities as described in Exhibit B, "Operation and Maintenance of SVRP, CSIP, SRDF, and New Source Water Facilities", and will keep the CSIP in good condition and repair for the term of this Water Recycling Agreement. WRA shall be required to reimburse PCA for such costs

and expenses of operation and maintenance of the CSIP as described in Article VII of this Water Recycling Agreement. After expiration of this Water Recycling Agreement, and any extension thereof, the CSIP will remain the property of WRA.

3. WRA will own, and PCA will operate and maintain the SRDF as described in Exhibit B, "Operation and Maintenance of SVRP, CSIP, SRDF, and New Source Water Facilities", and will keep the SRDF in good condition and repair for the term of this Water Recycling Agreement. WRA shall be required to reimburse PCA for such costs and expenses of operation and maintenance of the SRDF as described in Article VII of this Water Recycling Agreement. After expiration of this Water Recycling Agreement and any extension thereof, the SRDF will remain the property of WRA.
4. PCA will own, operate, and maintain the New Source Water Facilities as described in Exhibit B, "Operation and Maintenance of SVRP, CSIP, SRDF, and New Source Water Facilities", and will keep the New Source Water Facilities in good condition and repair for the term of this Water Recycling Agreement. WRA shall be required to reimburse PCA proportionately for such costs and expenses of ownership, operation, and maintenance of the New Source Water Diversion Facilities as described in Article VII of this Water Recycling Agreement. After expiration of this Water Recycling Agreement and any extension thereof, the New Source Water Diversion Facilities will remain the property of PCA.
5. No changes in ownership, operation or maintenance of SVRP, CSIP, SRDF or the New Source Water Facilities shall occur except with the mutual consent of both parties.

3.02. Safety and loss prevention program.

PCA will develop, maintain, and implement a safety and loss prevention program for the SVRP, CSIP, SRDF and New Source Water Facilities, and will provide appropriate training for its employees working on the SVRP. This program will conform with all requirements set forth in CAL OSHA's Process Safety Management Program and US EPA's Risk Management Program, and will be revised and updated as new regulations are promulgated. All costs associated with the program will be included in the annual budget process to be reimbursed by WRA.

3.03. Warranties.

PCA warrants that all water committed to WRA pursuant to this Water Recycling Agreement shall be transferred to WRA free and clear of all claims by any person or entity, and that all water produced by the SVRP, up to the SVRP's capacity of 29.6 MGD, shall be distributed in conformity with Section IV.

3.04. Right to inspect.

WRA shall have the right to inspect the SVRP and New Source Water Facilities, while under construction and at any time thereafter during the term of this contract, upon the giving of reasonable advance notice to PCA. Such inspections may take place at any time during the day or night; however, night time inspections will not take place without at least one week's notice, except in case of emergency or by agreement between the Parties. However, PCA shall have the sole right to direct the construction work and the work of PCA's own employees. WRA's right to inspect is for any lawful purpose, but not for the purpose of supervision of the work observed.

3.05. Daily operation.

The SVRP, the CSIP, SRDF and New Source Water Diversion Facilities will be in operation and will

supply water to WRA on a daily basis when source water is available as described in Exhibit B "Operation and Maintenance of SVRP, CSIP, SRDF, and New Source Water Facilities", except for temporary periods of shut-down authorized by this Water Recycling Agreement or made necessary by circumstances beyond the control of PCA.

3.06. Incidental uses.

PCA may use such amounts of tertiary treated water from the SVRP as may be needed for the normal operation and maintenance of PCA's facilities, including, but not limited to, the SVRP and the primary and secondary treatment facilities.

3.07. Notice of temporary cessation of water deliveries.

PCA will give immediate notice to WRA, by telephone to WRA's General Manager, or to the person designated by the General Manager to receive such notices, with a prompt follow-up notice in writing, as soon as PCA becomes aware of the need to cease deliveries to the CSIP, whatever may be the reason for such interruption in service. Whenever an unforeseen cessation of deliveries occurs without prior notice to WRA, PCA shall immediately give notice to WRA as provided above. In addition, whenever a cessation of deliveries occurs, PCA shall use every reasonable effort to restore service as soon as possible.

3.08. Outside Contracts.

When PCA deems it more appropriate for someone other than PCA to make a repair directly, PCA will obtain contracts to perform this work through bidding or other appropriate competitive procurement process.

3.09. Access to CSIP, SRDF, and New Source Water Facilities on WRA Land or Easements.

WRA shall provide the necessary access arrangements for PCA personnel to carry out their required work on the CSIP, SRDF, and New Source Water Facilities on WRA land or Easements. WRA shall notify landowners, growers, and others who may be affected by this work in advance that PCA personnel will be entering onto and performing work on their property. Any disputes arising between PCA personnel and these affected parties will cause PCA to discontinue work on the affected facilities until WRA has established necessary access arrangements for the work to continue.

IV. PROVISION OF RECYCLED WATER TO WRA FROM PCA

4.01. Existing Allocations

1. WRA shall be entitled to tertiary treated recycled water for its CSIP Project during the agricultural growing season in a volume not less than total wastewater flows to the Regional Treatment Plant from all PCA members existing at the Effective Date of this Water Recycling Agreement, plus all other areas within PCA's 2001 boundaries less the following amounts (may be taken before tertiary treatment):
 - (a) Amount claimed and utilized by MCWD pursuant to Section 15.04 as provided pursuant to the Annexation Agreements.
 - (b) Such flows as are lost or as must be diverted in the ordinary course of operating and maintaining the treatment plant and ocean outfall.
 - (c) Such flows as are not needed to meet WRA's authorized demand pursuant to this Water Recycling Agreement.
 - (d) 650 AF of water allocated by WRA to PCA per Table 2:

Table 2.

Month	Typical Monthly Seasonal Spread (AF)
May	138 AF
June	172 AF
July	185 AF
August	155 AF
TOTAL:	650 AF

2. WRA shall be entitled to one-half of the volume of wastewater flows from areas outside of PCA's 2001 Boundary provided; however, at the request of WRA, PCA passes the wastewater flows through the tertiary treatment facility or Pure Water Monterey Facilities.
 - (a) PCA shall be responsible for incremental tertiary treatment operations, maintenance, repair and replacement costs for any and up to one-half of the flows from areas outside PCA's 2001 Boundary that pass through the tertiary treatment facility and that are utilized by PCA.
 - (b) WRA shall be responsible for incremental tertiary treatment operations, maintenance, repair and replacement costs for any and up to one-half of the flows from areas outside PCA's 2001 Boundary that pass through the tertiary treatment facility and that are utilized by WRA.
 - (c) PCA, for its flows pursuant to Section 4.02 (2)(a) above, will comply with all applicable requirements set forth in Contract No. 5-07-20-W1284, between the Bureau of Reclamation and WRA including, but not limited to, those contained in the Bureau Loan Agreement, all at PCA's sole cost and expense.

4.02. New Incremental and Interruptible Allocations (New Source Water) – Phase I

1. WRA and PCA agree that Phase I consists of PCA constructing and operating New Source Water Facilities intended to provide New Source Water of approximately 4,320 acre-ft/year for PCA and 4,381 acre-ft/year for WRA. Of the total volume of approximately 8,701 acre-ft/year, PCA's operation and maintenance cost share is 49.7% and WRA's operation and maintenance cost share is 50.3%. Said percentages shall be adjusted to reflect actual flows, with such adjustments mutually agreed upon in writing following one year of operation of the Pure Water Monterey Project, and for each year thereafter.
2. PCA's 4,320 acre-ft/year share, prorated monthly (360 acre-ft/month), shall have first priority should any curtailments of the 8,701 acre-ft/year of New Source Water takes place. Said priority shall commence upon completion and operation of any one of the New Source Water Facilities.
3. Primary and secondary treatment of Agricultural Wash Water is managed by a separate agreement between Salinas and PCA, with Salinas making payments for aforesaid treatment. WRA will be responsible for only operations, maintenance, repair and replacement costs related to tertiary treatment of the volume of Agricultural Wash Water that is delivered to CSIP. Prior to completion and operation of the Pure Water Monterey Project, PCA agrees that 100% of the Agricultural Wash Water delivered to it by Salinas will be dedicated to CSIP.
4. All New Source Waters shall be provided to CSIP, if desired by WRA, in a volume up to 50.3% of the total annual flow entering the Regional Treatment Plant from those sources, subject to the PCA first priority described in Section 4.02 (2) above. Flows not desired by

WRA may be utilized by PCA for the Pure Water Monterey Project, other purposes, or be discharged.

- (a) With the exception of any other New Source Waters the primary and secondary treatment costs of which are paid by others, WRA will be proportionately assessed for the incremental operation and maintenance costs of the influent pump station, primary treatment and secondary treatment of its portion of New Source Water flows actually delivered to tertiary treatment.
- (b) WRA will be responsible for incremental tertiary treatment operations, maintenance, repair and replacement costs related to the volume of New Source Waters that are delivered to CSIP.

4.03. Operations and Maintenance Treatment Cost Allocation.

Table 3.

O&M Treatment Cost Allocation			
Source	Primary and Secondary	Tertiary	Pure Water Monterey Facilities
Domestic W/W	Member Entities	WRA ¹	PCA-Winter
Ag Wash Water \$198 ²	Salinas (I.R)	WRA ¹	PCA
Blanco Drain \$74 ²	WRA/PCA (IR)	WRA ¹	PCA
Rec/Tembladero Ditch \$77/\$91 ²	WRA/PCA (IR)	WRA ¹	PCA
Storm Water – Monterey \$69 ²	Monterey (IR)	WRA ¹	PCA
Salinas Pond Water Return Facilities \$83 ²	Intended User (IR)	WRA ¹	PCA
Storm Water – Salinas \$69 ²	Salinas (IR)	WRA ¹	PCA
Future WW in 2001 PCA Bound.	Member Entities	WRA ¹	PCA – Winter
Future WW outside 2001 PCA Bound.	Member Entities	WRA (50% of Flow if through SVRP) ¹	PCA – Winter (50% of Flow if through SVRP; all flows otherwise
MCWD – Delivery	Member Entities	MCWD	MCWD
Interruptible Rate (IR)			

¹PCA – if through tertiary treatment; operations and maintenance and increased interest rate

²Interruptible rates are subject to change by PCA Board as described in Exhibit F, attached hereto and made a part hereof.

All treatment costs associated with the New Source Waters will be incorporated into the annual WRA budget process, as identified in Section VII. Annual Source Water costs will be based on the demand schedule provided by WRA to PCA; and PCA's Interruptible Rate Schedule for New Source Waters.

1. If any party utilizes tertiary treated water, other than water provided to PCA pursuant to Section 3.06, Incidental Uses, it shall be proportionately assessed by PCA for operation, maintenance, repair and replacement costs and increased interest costs, for the amount of water claimed and utilized from tertiary treatment facilities.
2. PCA agrees that it will cause MCWD, or itself, in use of its recycled water entitlements, to comply with all applicable requirements set forth in Contract No. 5-07-20-W1284, between the Bureau of Reclamation and WRA including, but not limited to, those contained in the Bureau Loan Agreement, all at PCA's or MCWD's sole cost and expense.

4.04. New Incremental and Interruptible Allocations – Phase II.

PCA and WRA plan to acquire and treat additional flows up to the Regional Treatment Facility's

capacity of 33,154 acre-ft/year, (hereinafter described as “Additional Flows”). Terms and conditions for accommodating Phase II flows will be subject to a separate future agreement.

4.05. Provisions for Drought Reserve.

PCA commits to produce no greater than 200 acre-ft/year, up to a total quantity of 1000 acre-ft of Pure Water Monterey product water for delivery to WMD for storage as a Drought Reserve.

1. PCA may, from time to time, request that WMD establish a Drought Reserve in excess of 1000 acre-ft.
2. During any fiscal year, PCA will first provide 3,500 acre-ft of Pure Water Monterey product water for delivery to WMD for urban water supply requirements before water is produced and delivered to the Drought Reserve.
3. In addition to water supplies provided for this Section IV, WRA may request additional irrigation water from PCA sources. When such a request is made, WMD may make available water from the Drought Reserve to meet urban water supply needs, allowing PCA to deliver additional source waters of an equal amount to WRA. In no instance shall PCA be required to reduce deliveries to WMD to make available additional irrigation water to WRA from its sources in an amount exceeding the balance available in the Drought Reserve.

4.06. Water Quality Enhancement Options.

1. In order to protect against possible future recycled water quality deterioration, WRA desires that PCA evaluate and consider an expansion of the Pure Water Monterey 3,700 acre-ft/year advanced water treatment facility and construction of a pipeline. This potential expansion with a pipeline is to provide advanced treated recycled water to blend with the existing tertiary recycled water. This blending of water qualities will provide better water for growers in the CSIP project area.
 - (a) PCA shall complete an evaluation under California Environmental Quality Act (CEQA) within 180 days of the Effective Date of this Water Recycling Agreement, to determine whether the Expansion Project would result in a new significant adverse environmental effect or a substantial increase in an adverse environmental effect identified in the final EIR for the Pure Water Monterey Groundwater Replenishment Project.
 - (b) If after completion of the foresaid CEQA evaluation, PCA decides to approve the Expansion Project, PCA diligently pursue any available financial grant opportunities to design and construct the aforesaid advanced water treatment facility expansion and pipeline.
 - (c) WRA shall provide written notice to PCA when it desires the aforesaid advanced water treatment facility and pipeline to be operational and the amount of additional treatment capacity desired.
 - (d) If after completion of the foresaid CEQA evaluation, PCA decides to approve the Expansion Project, WRA and PCA shall negotiate a funding arrangement for the non-grant funded portion of the advanced water treatment facility expansion and pipeline. Related operation and maintenance costs to WRA shall be only incremental costs.
2. If upon completion of CPUC CEQA review of the California-American Water Company proposed desalination facility, if the foresaid desalination facility is determined to be the selected alternative, PCA will allow California-American Water Company to finance, design, construct, own, and operate pipeline facilities connecting its proposed desalination facility to the tertiary treatment facility ponds in order to supply desalination facility basin return water to CSIP.

V. DELIVERY OF WATER TO WRA.

5.01. Quantity of water to be delivered to WRA SVRP.

Each year during the term of this contract, PCA shall deliver tertiary treated water from the SVRP to the Castroville Irrigation System. Subject to PCA's and MCWD's rights to the water as set forth in Article IV, the quantity so delivered shall include water provided in response to WRA's demand, determined as set forth in this Water Recycling Agreement.

5.02. WRA's demand schedule.

For water which will be delivered during the term of this Water Recycling Agreement, WRA shall, not later than November 1 each year, submit to PCA a schedule (see Exhibit C, attached hereto and made a part hereof) of requested water deliveries for the next calendar year. The schedule may request water deliveries of amounts up to amounts provided for WRA pursuant to Section 4.01 and 4.02 as WRA's demand. This demand schedule shall show the amount requested for each calendar month in the year.

5.03. WRA's demand.

It is understood and agreed that the wastewater committed by PCA, to which WRA is entitled pursuant to this Water Recycling Agreement, is dedicated for use by WRA for purposes of the CSIP as that seawater intrusion project as it may exist from time to time, and thereafter for direct application for such other non-urban agricultural irrigation projects in the Salinas Valley as WRA may develop for the purpose of curing seawater intrusion and other severe impacts of the groundwater imbalance in the Salinas Valley which threaten the viability of the groundwater basin as a water supply for agricultural and municipal uses, and for no other purpose. Where otherwise consistent with WRA's entitlement pursuant to this Water Recycling Agreement, WRA may use tertiary treated water produced by the SVRP for non-agricultural irrigation applications in the Salinas Valley only if PCA declines in writing to undertake such applications in the Salinas Valley; provided, however, PCA consents in writing to WRA's doing so, which consent shall not be unreasonably withheld. In no event shall PCA's obligation to provide secondary treated wastewater exceed the amount needed to produce the tertiary treated water to which WRA is entitled pursuant to this Water Recycling Agreement.

5.04. PCA'S duty to comply with WRA demand.

PCA shall supply the amount of water demanded in accordance with this Water Recycling Agreement and the demand schedule submitted by WRA, except when the SVRP and SRDF cannot produce enough water to satisfy the WRA's demand, PCA's demand, and MCWD's demand, all as limited by their respective entitlements, either because there is not enough wastewater flowing into the PCA Regional Treatment Plant, or because, for reasons beyond the reasonable control of PCA, the SVRP is unable to operate for a sufficient period of time or the SVRP fails to produce enough water of the quality described in Section 6.01, "Water Quality," for use in the CSIP.

VI. MAINTENANCE OF WATER QUALITY.

6.01. Water Quality.

1. **General Water Quality:** PCA will produce tertiary treated water of a quality suitable for the irrigation of edible crops, such as artichokes, Brussels sprouts, and row crops (e.g., lettuce, cauliflower, broccoli, and celery) that do not require cooking prior to human consumption. All water produced and delivered to WRA shall meet all applicable standards of quality

prescribed by the State of California (including, but not limited to, the regulations promulgated by the State Health Department and set forth in the California Code of Regulations, Title 22), or by separate agreement of the parties, so that the water may be used for the purposes specified herein. The parties clarify in this section 6.01 their intent with regard to the required water quality and further agree that the SVRP has been designed to produce tertiary treated water for the irrigation of food crops where the recycled water comes in contact with the edible portions of the crop. The water quality which the SVRP was designed to produce is defined by the Recycled Water Criteria contained in Chapter 3 of Title 22 of the State of California's Administrative Code. In order to use this water for its intended purpose of irrigating food crops, the specifications contained in Water Reclamation Requirements Order No. 94-82, issued by the State of California Regional Water Quality Control Board, Central Coastal Region, on September 9, 1994, or as said water reclamation requirements may from time to time be revised and reissued by said Regional Water Quality Control Board, must be met. PCA will conduct a source control program to help provide reclaimed water of the best quality for food crop irrigation. However, the water quality specifications described in this Section 6.01 Water Quality constitute the sole and complete definition of the water quality that the SVRP will be expected to produce under this Water Recycling Agreement. PCA makes no representations as to the water quality the SVRP will produce with respect to other quality parameters not specifically set forth in the documents referred to in this Section 6.01.

6.02. Duty to monitor water quality: cessation in deliveries.

PCA will monitor the quality of water produced by the SVRP and SRDF, in accordance with the Reclaimed Water Monitoring Requirements contained in the Water Reclamation Requirements Order No. 94-82, referred to in Section 6.01, to ensure that the water delivered to the CSIP meets the quality standards set forth in Section 6.01. PCA may perform additional monitoring which it deems appropriate. The parties understand that it may not be possible for the water produced by the SVRP and SRDF to meet these standards 100% of the time, and that water quality will vary from time to time. During periods when the PCA determines that water quality does not meet the standards, set forth in Section 6.01, flows will not be sent to the CSIP. For those occasions, the CSIP's backup water source will be the SRDF water if available or the CSIP's supplemental wells. PCA will provide special attention to minimize any such events to the extent that it has control over them. PCA will notify WRA promptly, whenever it appears that there is or will soon be a change in the quality of water produced by the SVRP that may adversely affect the agricultural users of the water.

6.03. Regulations to protect water quality.

PCA will, to the extent feasible, enact reasonable and appropriate regulations governing the kinds of wastes and other materials that may be discharged into the sewerage system and/or agricultural wash water system, in order to protect the quality of water ultimately produced.

6.04. Water Quality and Operations Committee.

The Parties shall maintain a Water Quality and Operations Committee (Committee) whose membership shall consist of representatives of the parties and the areas receiving CSIP water. The Committee is not subject to the provisions of the Open Meeting Law (Cal. Gov't Code section 6250, et seq.) The Committee shall have access to and shall share all pertinent information concerning the operation of the SVRP, SRDF, and CSIP, the quality of water produced, and the needs of the growers receiving water, in order to discuss and make recommendations for maintaining or improving the SVRP, SRDF, and CSIP so that it will continue to meet the needs of the agricultural operations

served. No private sector member of the Committee and no grower or private sector user of water shall be required to disclose proprietary information in connection with the Committee's work, except as may be required by governing law or regulation. The SRDF Water Quality Monitoring Plan shall be presented to the Water Quality and Operations Committee at least once per year or prior to any significant changes, for committee review and input. Any financial changes approved by the Water Quality and Operations Committee at this meeting will be submitted to the WRA Board of Director's for approval and the approved Board Resolution will be forwarded to PCA for any budget modifications.

VII. PAYMENTS BY WRA TO PCA

7.01. Consideration paid by WRA.

As consideration for the water provided and the other obligations performed by PCA under this Water Recycling Agreement, WRA shall make payments to PCA pursuant to this Water Recycling Agreement.

7.02. Amounts to be paid.

The consideration paid by WRA shall be the dollar amount that equals 100% of the annual costs reasonably and necessarily incurred in connection with the SVRP, CSIP, and SRDF (including both direct and indirect expenses), and no more. PCA will make all reasonable efforts to stay within, or below, the amounts budgeted for the SVRP, CSIP and SRDF. All budgetary savings will be applied to the following year's budgets. The annual costs include the following:

1. Amortization of any loans (USBR, SWRCB, etc.), bonds, certificates of participation, and any interim or other financing;
2. The SVRP, CSIP, and SRDF operation, maintenance, repair, replacement, power, capitalized equipment, capital improvements, contingency, and reserve costs as are contained in the budgets for the SVRP, CSIP and the SRDF. PCA will make all reasonable efforts to stay within the total budget amounts for these budgets, but will have the latitude to incur variances between individual budget accounts, so long as the total budget amounts are not exceeded.
3. Unused funds received from WRA will be placed by PCA in an interest bearing account. All interest earned on WRA accounts will be applied for WRA's benefit on a monthly basis. PCA will adjust the second semi-annual billing and year-end reconciliation statement by any interest earned on WRA accounts. PCA shall be reimbursed by WRA for the reasonable loss of interest earnings on PCA's monies used to cover any SVRP or CSIP operations and maintenance costs until such costs are reimbursed by WRA.

7.03. Payment schedule.

PCA will establish separate accounts for the SVRP, SRDF, and the CSIP. Each year, WRA will fund each account by June 30 with a payment that adjusts seed monies to 50% of the projected operations, maintenance, capital outlay, and reserve expenses for the next fiscal year. Thereafter, PCA will record into this account the payments noted in Section 7.04 based on cost share estimates determined pursuant to Section 4.02 (1) herein.

1. WRA will make six payments to PCA each year as follows:
 - (a) Thirty (30) days before the date that PCA's annual payment on the USBR loan for the SVRP is due, WRA will pay an amount equal to the then current payment on the USBR loan;

- (b) Thirty (30) days before the date that PCA's annual payment on the SWRCB loan for the SVRP is due, WRA will pay an amount equal to the current payment on the SWRCB loan;
- (c) Thirty (30) days before the date the PCA's annual payment on the SWRCB loan for the New Source Water Facilities/Pure Water Monterey Project is due, WRA will pay an amount equal to WRA's proportional share of capital costs for the New Source Water Facilities, as provided in Exhibit H attached hereto and made a part hereof.
- (d) On March 1, WRA will pay the SVRP, CSIP, and SRDF operation, maintenance, reserve, and all other SVRP and CSIP costs for the immediately preceding July-December that are allocable to WRA and payable hereunder;
- (e) On September 1, WRA will pay the SVRP, CSIP, and SRDF operation, maintenance, reserve, and all other costs budgeted for the immediately preceding January-June that are in excess of the payments received allocable to WRA and payable hereunder. All surplus costs related to SVRP, CSIP, and SRDF operations will be processed in accordance with Section 7.02.
- (f) On March 1, WRA pay PCA the proportional share of the amortized replacement/renewal costs of the New Source Water Facilities as identified in Exhibit I, attached hereto and made a part hereof.
- (g) Debt Service and Amortization schedules are shown in Exhibit H.

7.04. Payment procedures.

- 1. At least thirty (30) days before the specified due dates for the payments under Section 7.03, PCA will send to WRA a request for payment, indicating the amount due, the date payment from WRA is due, and the nature of the payment.
- 2. Payment requests for operation, maintenance, reserve and other costs shall contain the following information: Expenditure reports for SVRP, CSIP, and SRDF that describe year-to-date (YTD) expenditure, YTD encumbrance, and YTD total, for each account along with the YTD total for all accounts, including indirect costs and contingency, and the percentage used YTD of the budgeted amount. Back-up information (original paid invoices, payroll records, time sheets, and vehicle costs) will be maintained by PCA to support each direct charge.
- 3. WRA shall promptly review all requests for payments and shall approve for payment such requests or portion thereof that are in conformity with this Water Recycling Agreement and shall promptly submit such approved requests to the County Auditor for payment. WRA shall promptly notify PCA of any disputed payment request. Disputes over payments shall be resolved as provided in Article XIII of this Water Recycling Agreement.

7.05. Reduction or termination of water delivery for lack of payment; judicial remedies.

- 1. Notwithstanding anything to the contrary in this Water Recycling Agreement (except for the provisions of paragraph (b), below), if WRA should fail to make any payment to PCA required under this Water Recycling Agreement for a period of ninety (90) days or more after the due date, then PCA, upon fifteen (15) days' written notice to WRA, may act to reduce or terminate the delivery and/or distribution of tertiary treated water from the SVRP and/or discontinue operation of the CSIP. Such reduction or termination in the delivery of water or discontinuance of operations of CSIP may continue only for such period of time as payments from WRA to PCA remain delinquent, and may continue even though dispute resolution procedures pursuant to Article XIII are pending between the parties, unless WRA makes full payment of the amount in question, under protest, as provided in Section 13.01.

2. For as long as any notes or bonds issued to finance the SVRP or CSIP are outstanding, PCA will not exercise its right to terminate or reduce the water supply of the tertiary treated water to the CSIP, except that PCA may reduce the water supply to the extent that the failure of WRA leaves PCA without all necessary and sufficient funds to operate the SVRP.
3. In addition, if WRA should fail to make any payment to PCA required under this Water Recycling Agreement for a period of ninety (90) days or more after the due date, the PCA shall have the right to seek any appropriate judicial relief, at law or in equity, for such default. Such relief may include, but need not be limited to, damages, injunctive relief, and the appointment of a receiver.

7.06. Prior approval of budget by WRA.

1. Each year, in accordance with its normal budgeting schedule, PCA will adopt budgets for the operation of the SVRP, CSIP, and SRDF, in advance of the operating year for which the budgets are proposed, including therein all costs to be paid by WRA. In preparing these budgets, the demand schedule approved by WRA's General Manager will be provided to PCA by November 1 of each year. Within six (6) weeks of receipt of the demand schedule, PCA will provide WRA with a preliminary budget estimate. Any additional costs associated with the New Source Waters will be calculated based on the demand schedule and PCA's Interruptible Rate; and will be included as a separate line item in the SVRP, CSIP, or SRDF budget. Upon receipt of the preliminary budget, both agencies will agree to meet in a timely manner sufficient to enable review and approval by both agencies' respective governing boards.
2. Once the budgets are approved by WRA's Board of Directors, WRA's Board of Supervisors, and PCA's Board of Directors, PCA will not modify the budgets so as to exceed the amount of expenditures approved by WRA without first submitting the proposed changes to WRA's Board of Directors and WRA's Board of Supervisors for review and approval, except as provided for in Section 7.11. In addition, both agencies will provide advance notification of any proposed budgetary modifications that will be considered by each agency's respective board.
3. In the event WRA's revenues to fund the CSIP, SVRP, and SRDF budgets fall below projected amounts, WRA may request that PCA revise the operations to incur lower operating costs to stay within the revised revenue projections.

7.07. SWRCB as third party beneficiary.

The State Water Resources Control Board (SWRCB) shall be a third party beneficiary of the WRA's payment obligations under this Article VII, to the extent that the WRA's payment obligations are intended to provide funds to PCA to repay the loan to the PCA from the SWRCB. In the event of default by the PCA in the repayment of said loan, the SWRCB may enforce the loan repayment obligations against the WRA, and to the extent that the WRA makes payment to the SWRCB, the WRA shall be relieved of its corresponding obligation to the PCA. If, through no fault of the WRA, the PCA defaults in its repayment obligation to the SWRCB, and the WRA thereby becomes obligated to pay any penalties, extra charges, or amounts in excess of the basic principal and interest on the loan, then PCA shall reimburse WRA for any such amounts paid by WRA.

7.08. Priorities of payment.

Notwithstanding anything to the contrary contained herein, WRA's obligations to make payments with respect to the SVRP, CSIP, and SRDF shall be prioritized as follows, and the obligations in each category shall be subordinate to the obligations in each prior category, shall be on a parity

with all other obligations in its category, and shall be senior to the obligations in each subsequent category:

1. Operation and maintenance costs for the SVRP, CSIP, and SRDF;
2. Debt service on obligations (other than USBR or SWRCB loans for the SVRP, CSIP, and the New Source Water Facilities) incurred to finance the SVRP, CSIP, and New Source Water Facilities, payments to replenish any reserve fund for such obligations, and payments to any provider of credit enhancement for such obligations;
3. Debt service on the USBR and SWRCB loans for the SVRP;
4. Debt service on the New Source Water Facilities;
5. Repair, replacement, capital improvements, capitalized equipment, contingency and reserve costs of the SVRP, CSIP, and SRDF (to the extent the same do not constitute operation and maintenance costs);
6. WRA's share of the amortized replacement/renewal costs of the New Source Water Facilities as identified in Exhibit I.

7.09. Application of loan payments by PCA.

All payments made by WRA to PCA for the repayment of the USBR or SWRCB SVRP loans shall be used for such repayment. Upon termination of any loan agreement, any unused funds returned to PCA and retained by PCA shall be returned to WRA within 60 days from the date of the approved PCA audit for the fiscal year in which the agreement was terminated all in accordance with Section 9.01 and 9.02 herein.

7.10. Unanticipated events/Emergency situations

1. **Unanticipated events.** Circumstances or events may arise which were not anticipated in either the scopes of services or the budgets for SVRP, CSIP, and SRDF. In this case, PCA will submit its plans for addressing such circumstances or events, including justification and estimated amount of expenditures, to the Water Quality and Operations Committee, formed in accordance with Section 6.04, for its review and recommendations. Before proceeding with those plans, WRA must first give its written approval to incur any additional costs associated therewith.
2. **Emergency situations.** If the event or circumstance constitutes an emergency situation which threatens health and safety, damage to property, or injury to persons, PCA will act as promptly and as efficiently as possible to mitigate the situation without waiting for approval by the Water Quality and Operations Committee or WRA. PCA will advise the Water Quality and Operations Committee and WRA as soon thereafter as possible of the mitigating actions taken and of any further action that may be necessary.

7.11. Decision-making authority.

In order to provide for the smooth and efficient operation of SVRP, CSIP, and SRDF, PCA will have the full authority to make and implement decisions with regard to activities and expenditures for these purposes without prior approval of WRA. All such activities shall be within the scope of services described in Exhibit B "Operation and Maintenance of SVRP, CSIP, SRDF, and New Source Water Facilities", respectively. All such expenditures shall be within the overall budget amounts for the SVRP, CSIP and SRDF.

VIII. ACCOUNTING SYSTEM, REPORTS

8.01. Accounting system.

PCA will maintain an accounting system that is in conformity with generally accepted accounting principles (GAAP) and will allow for the segregation and tracking of all revenues and direct costs related to the SVRP, CSIP, and SRDF. The accounting system shall properly allocate costs to the SVRP, CSIP, and SRDF and to PCA's other activities that are not subject to reimbursement by WRA under this Water Recycling Agreement. The accounting system shall provide the ability to adequately identify indirect cost centers and establish allocation factors to assign indirect costs proportionally to the CSIP, SVRP, SRDF, and the Interruptible Rate for New Source Waters. Cost accounting, including any overhead distributions, shall be in accordance with GAAP. PCA shall make the details of such system available to or known to WRA and/or to WRA's auditor, at WRA's request.

8.02. Financial reports.

By the last day of each month PCA will provide to WRA a report on expenditures made during the previous month and year-to-date, for each line item in the SVRP, CSIP, and SRDF budgets. These reports will identify any line items which vary appreciably from anticipated budget to date. PCA will provide WRA an annual report of WRA's proportional share of Reserves retained in the Pure Water Monterey Fund for New Source Water Facilities. This report will be provided by PCA to WRA by September 30 of each year; and include WRA's deposits made to the Repair/Renewal Reserve, proportional interest earned, and the proportional share of any replacement/renewal costs.

8.03. Direct and indirect costs.

1. Direct costs of the SVRP, CSIP and SRDF are costs which can be tracked as costs of these particular activities through invoices, time cards, record keeping systems, and other records that specifically allocate a cost to these activities. Indirect costs are all other costs incurred by PCA in order to manage, maintain, support, and operate the SVRP or the CSIP.
2. PCA shall implement the accounting system described in Section 8.01 to uniformly identify and allocate all direct and indirect costs for the SVRP and the CSIP and for all the PCA's other activities. PCA shall identify the specific functions that are typically considered administrative or support in nature. These functions or departments shall include Human Resources, Finance, Administration, Information Technology, and Safety. The annual budgeted costs of these functions will be allocated proportionally to all operational activities based on a percentage relational to the services provided to SVRP, CSIP, SRDF and all other PCA activities. A sample overview is provided in Exhibit J, attached hereto and made a part hereof. The budgets associated with the administrative or support functions will not be directly charged to the SVRP, SRDF, or CSIP. PCA will make reasonable efforts to maximize the extent to which costs to be paid by WRA can be identified as direct costs rather than as indirect costs.
3. For purposes of allocating indirect costs, PCA will not include as a direct cost the debt service (principal and interest) on the loans obtained for the project.
4. PCA and WRA retain the right to transition from the cost allocation plan identified in 8.02 (b) to a cost allocation model that is compliant with the Office of Management and Budget (OMB) Circular A-87 – Cost Principles for State, Local, and Indian Tribe Governments or a subsequent revision. Any cost allocation subject to this provision shall be accompanied by a Certificate of Cost Allocation Plan and be in compliance with Title 2 CFR, Part 200. All indirect costs charged to functional activities will be applied consistently with the results of

this plan to ensure equity between costs centers and conformance with OMB standards; provided, however, no allocation of any indirect cost unrelated to SVRP, CSIP or SRDF shall be made.

5. If PCA elects to engage a consultant to comply with OMB Circular A-87, PCA shall be primarily responsible for the costs associated with the Plan, and WRA shall pay for a portion of the plan consistent with the current year indirect cost allocation factor. If WRA requests that PCA engage a consultant to comply with OMB Circular A-87, the costs associated with the plan shall be divided equally.
6. Implementation of an OMB Circular A-87 Cost Allocation Plan will become effective in the new fiscal year immediately following the cost allocation study.
7. All OMB Circular A-87 Cost Plans will be subject to updates as consistent with industry standards. All costs associated with a consultant retained to update the cost allocation plan shall be paid in accordance with Section 7.02 (e).

8.04. Annual audit.

The accounting for WRA's funds will be subject to PCA's Annual Audit. Information relating to WRA's activities will be classified as Restricted in PCA's Comprehensive Annual Financial Report (CAFR). This Restricted classification will remain in effect through the term of this agreement, unless there are any new Governmental Accounting Standards Board (GASB) pronouncements or auditor comments that require a change in classification. A copy of PCA's CAFR will be provided to WRA by January following the close of the subsequent fiscal year.

8.05. Right to inspect and audit records.

WRA shall have the right to inspect PCA's records pertaining to the SVRP, CSIP, and SRDF, upon reasonable advance notice. WRA shall also have the right to audit PCA's records pertaining to the SVRP, CSIP, and SRDF, or to have them audited by an auditor selected by WRA, at WRA's sole cost and expense. Such audit may be performed at any time during regular business hours, upon the giving of reasonable advance notice. If the audit shows that PCA has overcharged annual costs to WRA by more than five percent, PCA shall promptly on demand by WRA reimburse WRA for the cost of the audit.

8.06. Reimbursement for overcharge or undercharge.

If any audit shows that an undercharge or an overcharge has occurred, each agency will have 90 days to comply with the audit findings.

IX. REPAIR AND MODIFICATION OF SVRP, CSIP, SRDF, AND NEW SOURCE WATER FACILITIES AND RELATED FACILITIES.

9.01. SVRP, CSIP, and SRDF Reserve Funds.

PCA shall at all times during the term of this Water Recycling Agreement accumulate and maintain a reclamation reserve fund for SVRP, CSIP, and SRDF. The loan reserve fund will be at a minimum in accordance with each loan agreement listed in Exhibit G. The exact amount for each operating reserve shall be determined in the annual budget process. If insurance or self-insurance monies are available for any projects that are intended to be funded by reserves, the insurance monies will be used prior to accessing reserve funds. Upon termination of any agreement, any unused funds retained by PCA shall be returned to WRA within 60 days from the date of the approved PCA audit for the Fiscal Year in which the agreement was terminated.

9.02. Replacement and Renewal Costs Associated with New Source Water Facilities.

WRA shall pay PCA the proportional share of amortized capital renewal costs associated with the New Source Water Facilities. WRA's annual contribution is provided in Exhibit I. All funds received from WRA will be placed in the Pure Water Monterey Fund's Renewal and Replacement Reserve in accordance with Section VI. All funds will be held in the Reserve for the purpose of funding capital outlay projects for the New Source Water Facilities; assisting in meeting any fiscal sustainability plan requirements for the Clean Water State Revolving Loans; and maintaining a proportional share of the Loan's debt covenant ratio. At the completion of the thirty-year loan cycle, WRA and PCA will develop a long-term Capital Improvement Plan, which includes establishing an appropriate level of Renewal and Replacement reserves. Any WRA funds that are held in Reserves in excess of the Capital Improvement Plan will be refunded within ninety (90) days of the Plan's establishment.

9.03. Expansion of treatment plant capacity.

PCA may expand the Regional Treatment Facility above the current capacity of 29.6 MGD and may construct additional reclamation facilities, at its sole cost and expense and without receiving the consent of WRA. Any increases in capacity and any additional reclamation facilities so constructed shall be used at PCA's discretion, provided, however, that PCA is precluded from providing water to customers within WRA's water supply jurisdiction.

9.04. Interruptions of service.

1. No work of construction, remodeling, renovation, replacement, repairs, addition, or expansion authorized under this Water Recycling Agreement and performed on the SVRP, CSIP and SRDF shall, either before, during, or after such work, interfere with, interrupt, or reduce the delivery of tertiary treated water and river water to WRA under this Water Recycling Agreement, except that minor interferences, interruptions, or reductions shall be allowed when necessary, unavoidable, or beyond the control of PCA.
2. PCA shall schedule its planned maintenance activities on the SVRP, CSIP and SRDF to minimize interruption of distribution of tertiary, river and/or well water by the CSIP. Unscheduled work to perform repairs or maintenance will be performed in the manner deemed by PCA to have the least impact on the distribution of tertiary, river and/or well water by the CSIP. In case of any interruption of service, PCA shall give notice in the same manner as required by Section 3.07.

9.05. Duty to apply insurance proceeds.

If either party recovers any insurance proceeds on account of loss or damage to the SVRP, CSIP, or SRDF, such proceeds shall be applied to repair or replace the damaged portion of the SVRP, CSIP, or SRDF, and not otherwise. If either party is self-insured and any loss or damage occurs that would have been covered by insurance otherwise required to be maintained by such party under this Water Recycling Agreement, then such party shall provide the funds that would have been recovered had the party been insured and shall apply the funds to repair or replace the damaged portion of the SVRP, CSIP, or SRDF.

9.06. Payment of uninsured losses.

If the SVRP, CSIP, or SRDF is damaged or destroyed during the term of this Water Recycling Agreement, by other than an intentional or willful misconduct of a PCA employee, and the amount of available insurance and self-insurance monies plus replacement reserves is insufficient to repair or replace the damage, then WRA shall pay the balance necessary to restore these facilities to their condition prior to the damage.

9.07. New Water Recycling Agreement on replacement of SVRP.

Should all, or part of, the SVRP, CSIP, or SRDF require replacement, whether from insurance or self-insurance monies or from the reserve for replacement, the Parties will in a good faith attempt to negotiate and reach agreement on a new Water Recycling Agreement on terms substantially in accord with the present Water Recycling Agreement.

X. INDEMNIFICATION.

10.01. Indemnification of WRA.

PCA shall immediately indemnify, defend, and hold harmless WRA and the County of Monterey (the "County"), their officers, agents, and employees, from and against any and all suits, claims, liabilities, and losses whatsoever against WRA or the County (including damages to property and injuries to or death of persons, court costs, and reasonable attorneys' fees) occurring or resulting to any and all persons, firms or corporations furnishing or supplying work, services, materials, or supplies in connection with the performance of this Water Recycling Agreement, and from any and all suits, claims, liabilities, and losses occurring or resulting to any person, firm, or corporation for damage, injury, or death arising out of or connected with the PCA's performance of its obligations pursuant to this Water Recycling Agreement caused in whole or in part by any negligent act or omission of PCA, any subcontractor, anyone directly or indirectly employed by any of them or anyone for whose acts any of them may be liable, except where caused by the active negligence, sole negligence or willful misconduct of WRA.

10.02. Indemnification of PCA.

WRA shall immediately indemnify, defend, and hold harmless PCA, its officers, agents, and employees, from and against any and all suits, claims, liabilities, and losses whatsoever against PCA (including damages to property and injuries to or death of persons, court costs, and reasonable attorneys' fees) occurring or resulting to any and all persons, firms or corporations furnishing or supplying work, services, materials, or supplies in connection with the performance of this Water Recycling Agreement, and from any and all suits claims, liabilities, and losses occurring or resulting to any person, firm, or corporation for damage, injury, or death arising out of or connected with the WRA's performance of its obligations pursuant to this Water Recycling Agreement caused in whole or in part by any negligent act or omission of WRA, any subcontractor, anyone directly or indirectly employed by any of them or anyone for whose acts any of them may be liable, except where caused by the active negligence, sole negligence or willful misconduct of PCA.

10.03. Procedure for Indemnification.

1. If any legal or administrative proceedings are instituted, or any claim or demand is asserted, by any third party which may give rise to any damage, liability loss or cost or expense with respect to which either party has agreed to indemnify the other party in this agreement, then the indemnified party shall give the indemnifying party written notice of the institution of such proceedings, or the assertion of such claim or demand, promptly after the indemnified party first becomes aware thereof. However, any failure by the indemnified party to give such notice on such prompt basis shall not affect any of its rights to indemnification hereunder unless such failure materially and adversely affects the ability of the indemnifying party to defend such proceeding.
2. The indemnifying party shall have the right, at its option and at its own expense, to utilize counsel of its choice in connection with such proceeding, claim or demand, subject to the

approval of the indemnified party. The indemnifying party shall also have the right to defend against, negotiate with respect to, settle or otherwise deal with such proceeding, claim or demand. However, no settlement of such proceeding, claim or demand shall be made without the prior written consent of the indemnified party, which consent shall not be unreasonably withheld or delayed. The indemnified party may participate in any such proceeding with counsel of its choice at its own expense.

3. In the event, or to the extent, the indemnifying party elects not to, or fails to, defend such proceeding, claim or demand and the indemnified party defends against, settles or otherwise deals with any such proceeding, claim or demand, any settlement thereof may be made without the consent of the indemnifying party if it is given written notice of the material terms and conditions of such settlement at least ten days before a binding agreement with respect to such settlement is executed.
4. Each of the Parties agrees to cooperate fully with each other in connection with the defense, negotiation or settlement or any such proceeding, claim or demand.

10.04. Payment of indemnified claims.

The indemnifying party shall forthwith pay all of the sums owing to or on behalf of the indemnified party, upon the happening of any of the following events:

1. Upon the rendition of a final judgment or award with respect to any proceeding described in Section 10.03, above, by a court, arbitration board or administrative agency of competent jurisdiction and upon the expiration of the time in which an appeal therefrom may be made; or
2. Upon the making of a settlement of such proceeding, claim or demand; or
3. Upon the parties' making of a mutually binding agreement with respect to each separate matter indemnified thereunder.

10.05. Contribution in the event of shared liability.

In the event any proceeding, claim or demand described in Section 10.03 is brought, in which allegations of fault are made against both the parties, the extent of indemnification shall be determined in accordance with the agreement of the parties, or, if there is no agreement, then in accordance with the findings of the court as to the relative contribution by each of the parties to the damage suffered by the party seeking indemnity with respect to such proceedings.

10.06. Exclusion from O&M costs.

Amounts payable by either party as indemnification shall not be included in the operations and maintenance costs of the SVRP, CSIP, SRDF, and New Source Water Facilities.

1. The indemnifying party shall have the right, at its option and at its own expense, to utilize counsel of its choice in connection with such proceeding, claim or demand, subject to the approval of the indemnified party, which approval shall not be unreasonably withheld or delayed. The indemnifying party shall also have the right to defend against, negotiate with respect to, settle or otherwise deal with such proceeding, claim or demand. However, no settlement of such proceeding, claim or demand shall be made without the prior written consent of the indemnified party, which consent shall not be unreasonably withheld or delayed, unless, pursuant to the terms and conditions of such settlement, the indemnified party is released from any liability or other exposure with respect to such proceeding, claim or demand. The indemnified party may participate in any such proceeding with counsel of its choice at its own expense.
2. In the event, or to the extent, the indemnifying party elects not to, or fails to, defend such proceeding, claim or demand and the indemnified party defends against, settles or otherwise

deals with any such proceeding, claim or demand, any settlement thereof may be made without the consent of the indemnifying party if it is given written notice of the material terms and conditions of such settlement at least ten days before a binding agreement with respect to such settlement is reached.

3. Each of the Parties agrees to cooperate fully with each other in connection with the defense, negotiation or settlement of any such proceeding, claim or demand.

XI. INSURANCE.

11.01. General insurance requirements.

Without limiting PCA's duty to indemnify, PCA shall maintain in effect throughout the term of this Water Recycling Agreement a policy or policies of insurance meeting the requirements hereinafter set forth. All such insurance required by this article shall meet the following requirements:

1. Each policy shall be with a company authorized by law to transact insurance business in the State of California, and shall be written on an occurrence form.
2. Each policy shall provide that both Parties shall be given notice in writing at least thirty days in advance of any change, cancellation or non-renewal thereof.
3. Except with respect to workers compensation insurance, each policy shall provide an endorsement naming both Parties and its officers, agents and employees as additional insureds, or additional insureds, as applicable, and shall further provide that such insurance is primary to any other insurance maintained by the WRA.
4. PCA shall require each general contractor and sub-contractor performing construction work under this agreement, or shall be accompanied by a certificate of insurance showing that the contractor or sub-contractor has identical insurance coverage or an appropriate substitute for such coverage approved by the parties hereto.

11.02. Commercial general liability insurance.

WRA and PCA shall maintain (and be named insured under) commercial general liability insurance covering all operations under this Water Recycling Agreement, with such coverages as the parties may agree upon from time to time. The County of Monterey shall be named as an additional insured. PCA will pay up to 40% of the annual cost, for the term of this Water Recycling Agreement. In addition, should this Water Recycling Agreement be terminated by the parties under Section XII with regard to the operation of the CSIP, the obligation of the PCA to pay for such insurance regarding the CSIP shall be accordingly reduced.

11.03. Motor vehicle insurance.

PCA shall maintain insurance covering all motor vehicles (including owned and non-owned) used in providing services under this Water Recycling Agreement, with a combined single limit of not less than \$2,000,000.

11.04. Property insurance.

1. PCA shall maintain insurance covering the SVRP against loss or damage due to fire and other perils to the extent that such insurance is readily and practically available and within available funds for the SVRP. The amount of the insurance shall not be less than the then-current replacement cost of the SVRP, without depreciation. Insurance coverage for the SVRP under this section shall be reviewed and approved by WRA, which shall not unreasonably withhold or delay its approval. PCA shall provide WRA with a copy of the

insurance policy and shall give WRA thirty (30) days' advance notice of any cancellation or proposed change in the insurance required by this section, and any such change shall be subject to review and approval by WRA.

2. WRA shall maintain insurance covering the CSIP and SRDF against loss or damage due to fire and other perils to the extent that such insurance is readily and practically available and within available funds for the SRDF. The amount of the insurance shall be not less than the then-current replacement cost of the CSIP and SRDF, without depreciation. Insurance coverage for the CSIP and SRDF shall be reviewed and approved by PCA, which shall not unreasonably withhold or delay its approval. WRA shall provide PCA with a copy of the insurance policy and shall give PCA thirty (30) days' advance notice of any cancellation or proposed change in the insurance required by this section, and any such change shall be subject to review and approval by PCA.

11.05. Workers' compensation insurance.

PCA shall maintain a workers' compensation plan covering all of its employees as required by Labor Code Sec 3700, either (a) through workers' compensation insurance issued by an insurance company, with coverage meeting the statutory limits and with a minimum of \$100,000 per accident for employer's liability, or (b) through a plan of self-insurance certified by the State Director of Industrial Relations, with equivalent coverage. If PCA elects to be self-insured, the certificate of insurance otherwise required by this Water Recycling Agreement shall be replaced with a consent to self-insure issued by the State Director of Industrial Relations.

11.06. Certificate of insurance.

PCA shall file certificates of insurance with the WRA and with the Monterey County Risk Management Division, showing that PCA has in effect the insurance required by this agreement. PCA shall file a new or amended certificate promptly after any change is made in any insurance policy which would alter the information on the certificate then on file.

11.07. Self-insurance.

Each Party may, instead of obtaining the insurance required of it by this Water Recycling Agreement, elect to be self-insured or to participate in a self-insurance pool, provided the other Party first gives its written consent, which will not be unreasonably withheld or delayed. The Parties shall enter into a separate written memorandum of understanding specifying the proportionate amount or share of such self-insurance allocated to SVRP, CSIP, and SRDF.

11.08. Insurance costs.

Insurance expenses and equivalent self-insurance expenses are CSIP/SVRP costs, except for: costs excludable under indemnification, PCA's share of the liability insurance premium costs under Section 11.02; and costs of PCA's workers' compensation insurance covering work outside the scope of this Water Recycling Agreement. All deductibles under Section 11.02 liability insurance and Section 11.04 property insurance, as well as any self-insured retention under excess insurance held by WRA, PCA, or Monterey County will be borne by WRA. All damages, liabilities, losses and costs, including fines and penalties, that are not covered under a policy of insurance, a self-insurance pool, or other self-insurance program shall be borne by the Parties according to this Water Recycling Agreement.

11.09. Periodic increases in coverage requirements.

The coverage limits stated herein in dollar values shall be adjusted upwards by 15% for every 15% increase in the consumer price index for all urban consumers in the San Francisco Bay area over the

level in effect on the date of this agreement or the previous level, or, if such index is not available, for any substitute or replacement index. Either party shall notify the other when such increase is requested or made.

XII. TERM OF AGREEMENT.

12.01. Term of Agreement.

This Water Recycling Agreement shall become effective on the date hereinabove first made and entered into and shall terminate on the latter of (i) December 31 of year 2045 or (ii) December 31 of the year in which full repayment of debt instruments utilized for financing of New Source Water Facilities is made; subject to any extensions provided for in Section 12.02.

12.02. Automatic extension.

This Water Recycling Agreement shall be automatically extended and renewed for additional 10-year periods unless one Party provides the other Party written notice by December 31st of the year preceding the year of expiration that an extension is not to occur.

12.03. Conditions of agreement during term.

All the terms of this Water Recycling Agreement shall remain in effect during any extended term, except as otherwise provided in this agreement.

12.04. Rights on Termination.

1. Upon any termination of this Water Recycling Agreement, WRA shall have the continuing right to receive from PCA the same quantity of incoming wastewater flow as originating in the Salinas Valley. WRA shall provide all facilities for treating the water beyond secondary treatment level at its sole cost and expense or through a subsequent cooperative agreement with PCA or any other entity. Upon any termination of this Water Recycling Agreement, PCA shall have the continuing right to receive the same quantity of tertiary treated water as PCA was or would have been entitled to receive during any term of this Water Recycling Agreement.
2. Upon written notice to PCA within 90 days of termination of this Water Recycling Agreement, WRA shall, at its sole discretion and to the extent permitted by law, have the option to lease or purchase (as determined by PCA) the SVRP and the land upon which it sits, and thereafter to operate, maintain and otherwise be responsible for the SVRP at WRA's sole cost and liability. Upon notice from WRA of its intent to exercise this option, PCA shall, within 90 days, inform WRA whether the land and the SVRP must be acquired, leased, or a combination thereof. WRA thereafter shall indemnify and defend PCA with respect to such facilities and lands, as set forth in a sale or lease agreement.
3. If the parties are unable to agree on the fair market value for the sale or lease of the SVRP and of the underlying land, that dispute shall be decided in accordance with the alternative dispute resolution provisions set forth in Article XIII.
4. PCA's rights to tertiary treated water in accordance with this Water Recycling Agreement shall also survive cancellation, regardless of whether WRA exercises the option pursuant to Section 12.04(2).

XIII. DISPUTE RESOLUTION.

13.01. Dispute resolution procedure.

If any dispute arises between the Parties as to the proper interpretation or application of this Agreement, and/or the proper operation of the facilities, the Parties shall first seek to resolve the dispute in accordance with this Article, and the Parties must proceed through arbitration under this Article before filing any court action as set out below.

13.02. Duty to meet and confer.

If any dispute under this Agreement arises, the Parties shall first meet and confer, in an attempt to resolve the matter between themselves. Each Party shall make all reasonable efforts to provide to the other Party all the information that the Party has in its possession that is relevant to the dispute, so that both Parties will have ample information with which to reach a decision.

13.03. Mediation and Arbitration.

1. If the dispute is not resolved by meeting and conferring within 30 days of commencing that process, the matter may be submitted to mediation. The terms of and process for the mediation shall be set by the Parties and the mediator. The Parties agree that they may, by or through consensus, elect to convert the mediation into arbitration.
2. If the dispute is not resolved by meeting and conferring, and mediation is not chosen or not implemented by the parties, or is unsuccessful, the Parties shall submit the matter to arbitration. In that event the Parties will jointly select a single arbitrator, or, if the Parties are unable to agree, they shall each select an arbitrator, and the matter shall be handled by two arbitrators. The two arbitrators may, if they deem it appropriate and warranted by the nature and significance of the dispute, themselves select a third arbitrator. Any person selected as an arbitrator shall be a qualified professional with expertise in the area that is the subject of the dispute, unless the Parties otherwise agree. The arbitration shall be conducted in accordance with the rules of the American Arbitration Association. The decision of the arbitrator or arbitrators shall be binding, unless within 30 days after issuance of the arbitrator's written decision, either party files an action in court.

XIV. ADDITIONAL RESPONSIBILITIES.

14.01. Compliance with water reclamation requirements for the CSIP.

PCA shall be responsible for compliance with all of the requirements contained in the "Recycled Water User Requirements for Monterey County Water Resources Agency (User), Castroville Seawater Intrusion Project, Monterey County," Order No. 97-52, issued by the State of California Regional Water Quality Control Board, Central Coast Region, on September 5, 1997, or as said Order may from time to time be revised and re-issued by the Regional Water Quality Control Board. PCA's responsibilities shall be limited to complying with the Water Reclamation Requirements for the SVRP, as described in Section 6.01, and for notifying WRA of any obvious violation of the CSIP requirements.

14.02. Grower and landowner requirements.

WRA shall require the growers and landowners to operate their irrigation systems and to use reclaimed water in accordance with the requirements of Water Reclamation Requirements Order No. 97-52, or as subsequently revised.

14.03. Reports to U.S. Department of the Interior, Bureau of Reclamation.

WRA shall prepare and submit all reports required by the Bureau of Reclamation for CSIP, and SRDF and PCA shall submit all such reports for SVRP, as a condition of any loans made by the Bureau of Reclamation. These reports shall include, but not be limited to, the annual excess lands report and any reports associated with use of reclaimed water for municipal or industrial purposes.

14.04. Permits and approvals.

WRA shall be responsible for obtaining and complying with all permits and approvals for the CSIP and SRDF that are necessary for PCA to perform its work under this Water Recycling Agreement.

14.05. Third-party damages.

WRA shall resolve and pay for all costs resulting from damages to CSIP and SRDF facilities caused by third parties and not covered by insurance maintained by either WRA or PCA. If such damages are caused by a grower who is being served by the CSIP, WRA shall determine whether the associated costs are to be recovered from the grower, or are to be absorbed by WRA, but in no case shall PCA have any cost or other liability with regard to repairing said damages, except that WRA may request PCA to make necessary repairs and reimburse PCA for all costs associated therewith. The budget for the CSIP does not include any amounts for making such repairs, and WRA shall fund the cost of such repairs outside of this Water Recycling Agreement.

14.06. Assessments.

WRA will prepare and submit, and resolve all questions and issues associated with billings for assessments levied in conjunction with SVRP, CSIP and SRDF.

14.07. Physical damage to crops.

Crop damage payments, except those attributed to PCA's failure to produce water which meets the water quality standards specified in Section 6.01 shall be reimbursable costs from the annual CSIP operating budget.

XV. DELIVERY OF WATER TO PCA.

15.01. PCA Demand.

PCA shall have the right to use, on an "as available" basis, amounts of secondary effluent or tertiary treated water to which WRA and/or MCWD are entitled, but do not use. WRA shall similarly have the right to use, on an "as available" basis, amounts which PCA and/or MCWD are entitled, but do not use.

15.02. PCA Monthly Demand Schedule.

PCA shall, no later than December 15 of each year, provide to WRA a schedule of tertiary treated water deliveries for the next calendar year. This schedule shall show the amount requested for each calendar month of the year. The demand may vary from month to month, provided the demand neither exceeds PCA's entitlement nor the seasonal limitations, except as otherwise specifically provided by this Water Recycling Agreement. PCA shall promptly inform WRA of any changes in the foregoing schedule.

15.03. PCA Payment.

1. PCA shall pay the Actual Costs of tertiary treated water it takes delivery of for its use, including portions of payments required pursuant to the Bureau Loan Contract and the

SWRCB Loan Contract. The "Actual Costs" consist of the sum of: 1) the proportional SVRP operation and maintenance, plus 2) Supplemental Well Pumping Costs, if any plus 3) the proportional cost of SVRP debt service for the SWRCB Loan Contract, plus 4) the proportional cost of principal and interest payments for the SVRP due pursuant to Article 9 (b) of the Bureau Loan Contract, including any proportional interest due pursuant to Article 9 (b) (2) of the Bureau Loan Contract as a result of deliveries of tertiary treated water to the PCA for its M&I use.

2. PCA payments will be determined and made consistent with Exhibit H and, to the extent applicable, Articles VI and VII of this Water Recycling Agreement.

15.04. No Modification of MCWD Contract Entitlement.

Nothing in this Water Recycling Agreement is intended to, nor shall it be interpreted to, expand, limit or otherwise modify MCWD's existing contractual rights, entitlements, and obligations pursuant to either of the Annexation Agreements.

XVI. GENERAL PROVISIONS.

16.01. Compliance with laws.

PCA will comply with all permit and licensing requirements applicable to the SVRP, CSIP and SRDF, and will operate the SVRP in accordance with all requirements of law and governmental regulations. Compliance with water quality requirements will be limited strictly to those set forth in Section 6.01, "Water quality."

16.02. Attorney's fees.

In the event it shall become necessary to commence or defend litigation for purposes of enforcing this Agreement or rights hereunder, the prevailing party shall be entitled to recover reasonable attorney's fees and costs.

16.03. Amendments.

No amendment or modification shall be made to this Water Recycling Agreement, except in writing, approved by the respective Boards and duly signed by both Parties.

16.04. Contract administrators.

1. WRA hereby designates its General Manager as its contract administrator for this Agreement. All matters concerning this Agreement which are within the responsibility of WRA shall be under the direction of or shall be submitted to the General Manager or such other WRA employee in the WRA as the General Manager may appoint. WRA may, in its sole discretion, change its designation of the contract administrator and shall promptly give written notice to PCA of any such change.
2. PCA hereby designates its General Manager as its contract administrator for this Agreement. All matters concerning this Agreement which are within the responsibility of PCA shall be under the direction of or shall be submitted to the General Manager or such other PCA employee in the PCA as the General Manager may appoint. PCA may, in its sole discretion, change its designation of the contract administrator and shall promptly give written notice to WRA of any such change.

16.05. Assignment.

Any assignment of this Water Recycling Agreement shall be void without the written consent of the

non-assigning party.

16.06. Negotiated Water Recycling Agreement.

This Water Recycling Agreement has been arrived at through negotiation between the parties. Neither Party is to be deemed the party which prepared this Water Recycling Agreement within the meaning of Civil Code Sec. 1654.

16.07. Time is of essence.

Time is of the essence of this Water Recycling Agreement.

16.08. Headings.

The article and paragraph headings are for convenience only and shall not be used to limit or interpret the terms of this Water Recycling Agreement.

16.09. Entire Water Recycling Agreement.

This written Water Recycling Agreement, together with all exhibits attached hereto and incorporated by reference, is the complete and exclusive statement of the mutual understanding of the parties, except to the extent that this Water Recycling Agreement expressly refers to or requires the preparation of additional agreements. Any such additional agreement shall be in writing. This Water Recycling Agreement supersedes and cancels all previous written and oral agreements and communications relating to the subject matter of the contract. The 1992 Agreement, Amendments 1, 2, and 3 dated May 30, 1994, February 16, 1998, and May 28, 2002, respectively, and the SRDF Agreement are hereby rescinded.

16.10. Notices.

All notices and demands required under this Water Recycling Agreement shall be deemed given by one party when delivered personally to the principal office of the other party; when faxed to the other party, to the fax number provided by the receiving party; or five days after the document is placed in the US mail, certified mail and return receipt requested, addressed to the other party as follows:

To PCA:

General Manager
MRWPCA
5 Harris Court, Building D
Monterey, CA 93940
Fax: (831) 372-6178

To WRA:

General Manager
MCWRA
P.O. Box 930
Salinas, CA 93902-0930
Fax: (831) 424-7935

16.11. Execution of documents.

The parties will execute all documents necessary to complete their performance under this Water Recycling Agreement.

16.12. Exhibits.

The following exhibits are attached to this Water Recycling Agreement:

- EXHIBIT A: DIAGRAM OF PROJECT LOCATION AND RIGHTS OF WAY, ALSO
SHOWING POINTS OF DELIVERY TO THE CSIP
- EXHIBIT B: OPERATION AND MAINTENANCE OF SVRP, CSIP, SRDF, AND NEW
SOURCE WATER FACILITIES

- EXHIBIT C: SAMPLE WRA BASIC DEMAND SCHEDULE
- EXHIBIT D: WASTEWATER RECLAMATION SYSTEM PROJECT DESCRIPTION AND MITIGATION MEASURES
- EXHIBIT E: CALCULATION OF PAYMENTS PURSUANT TO SECTION 17.08 OF THIS WATER RECYCLING AGREEMENT
- EXHIBIT F: OPERATION AND MAINTENANCE ESTIMATED TREATMENT COSTS
- EXHIBIT G: PROPOSED GWR PROJECT FACILITIES OVERVIEW FIGURE S-1
- EXHIBIT H: DEBT SERVICE OVERVIEW AND AMORTIZATION SCHEDULE
- EXHIBIT I: SCHEDULE OF AMORTIZED REPLACEMENT AND RENEWAL COSTS FOR NEW SOURCE WATER FACILITIES
- EXHIBIT J: SAMPLE COST ALLOCATION PLAN FOR INDIRECT COSTS

16.13. Severability.

If any provision of this Water Recycling Agreement is declared invalid or unenforceable by any court of competent jurisdiction, then such portion or provision shall be deemed to be severable, to the extent invalid or unenforceable, from this Water Recycling Agreement. Such declaration shall not affect the remainder of this Water Recycling Agreement, which shall remain in full force and effect, as though the invalid portion had never been included.

16.14. Waiver.

No waiver of any right or obligation of any of the parties shall be effective unless in a writing, specifying such waiver, executed by the party against whom such waiver is sought to be enforced. A waiver by any of the parties of any of its rights under this Water Recycling Agreement on any occasion shall not be a bar to the exercise of the same right on any subsequent occasion or of any other right at any time.

16.15. Conditions Precedent for New Source Water Facilities.

The portions of this Water Recycling Agreement applicable to the New Source Water Facilities (see Section I) shall not become effective until the following conditions are met:

1. Water Rights for the Blanco Drain and Reclamation Ditch are obtained from the California State Water Resources Control Board; and
2. A fully executed, and California Public Utilities Commission approved, Water Purchase Agreement, between PCA, Monterey Peninsula Water Management District, and California-American Water is approved by the California Public Utilities Commission and executed by the parties thereto; and
3. Written findings are made by the Regional Water Quality Control Board that utilization of the Blanco Drain dry weather flows as New Source Water meets all treatment requirements for the aforesaid dry weather flows; and
4. An independent third-party review of proposed capital and operating costs and preparation of an Engineer's Report is approved by the WRA Board of Directors and Board of Supervisors. The costs of the aforesaid third party review shall be shared equally between WRA and PCA; and
5. A successful assessment or Proposition 218 process for rates and charges related to the operation and maintenance of the New Source Water Facilities and proportional primary and secondary treatment charges; and
6. Inclusion of Salinas Pond Water Return Facilities as New Source Water Facilities requires execution of a separate agreement between the Parties.

16.16. Use of New Source Water.

If Conditions Precedent in Section 16.15 (1) and 16.15 (2) are met, but Conditions Precedent in Section 16.15 (3) and/or Section 16.15 (4) and/or Section 16.15 (5) are not met:

1. WRA will allow use by PCA of its water rights of 6,500 acre-ft entitlement from Application Nos. 32263A, 32263B, and 32263C. PCA will pay WRA the cost of obtaining and maintaining those water rights.
2. WRA will retain the right to utilize the Agricultural Wash Water component from the City of Salinas.
3. WRA and PCA will incorporate the provisions of this Section 16.16 in a separate agreement should Section 16.16 become operable.

16.17. Written Authorization.

For any action by PCA which requires written authorization from WRA, the written authorization shall be signed by WRA's General Manager, or the General Manager's written designee.

XVII. EXECUTION

In witness whereof, the parties execute this Water Recycling Agreement as follows:

**Monterey Regional Water
Pollution Control Agency**

Dated: November 30, 2015


Board Chair, Board of Directors

**Monterey County Water
Resources Agency**

Dated: 1/12/16


Chair, Board of Supervisors

Approved as to form:

Dated: Nov. 30, 2015


Counsel, Monterey Regional Water
Pollution Control Agency

Dated: 1/11/16


Deputy County Counsel, Monterey
County Water Resources Agency

EXHIBIT A

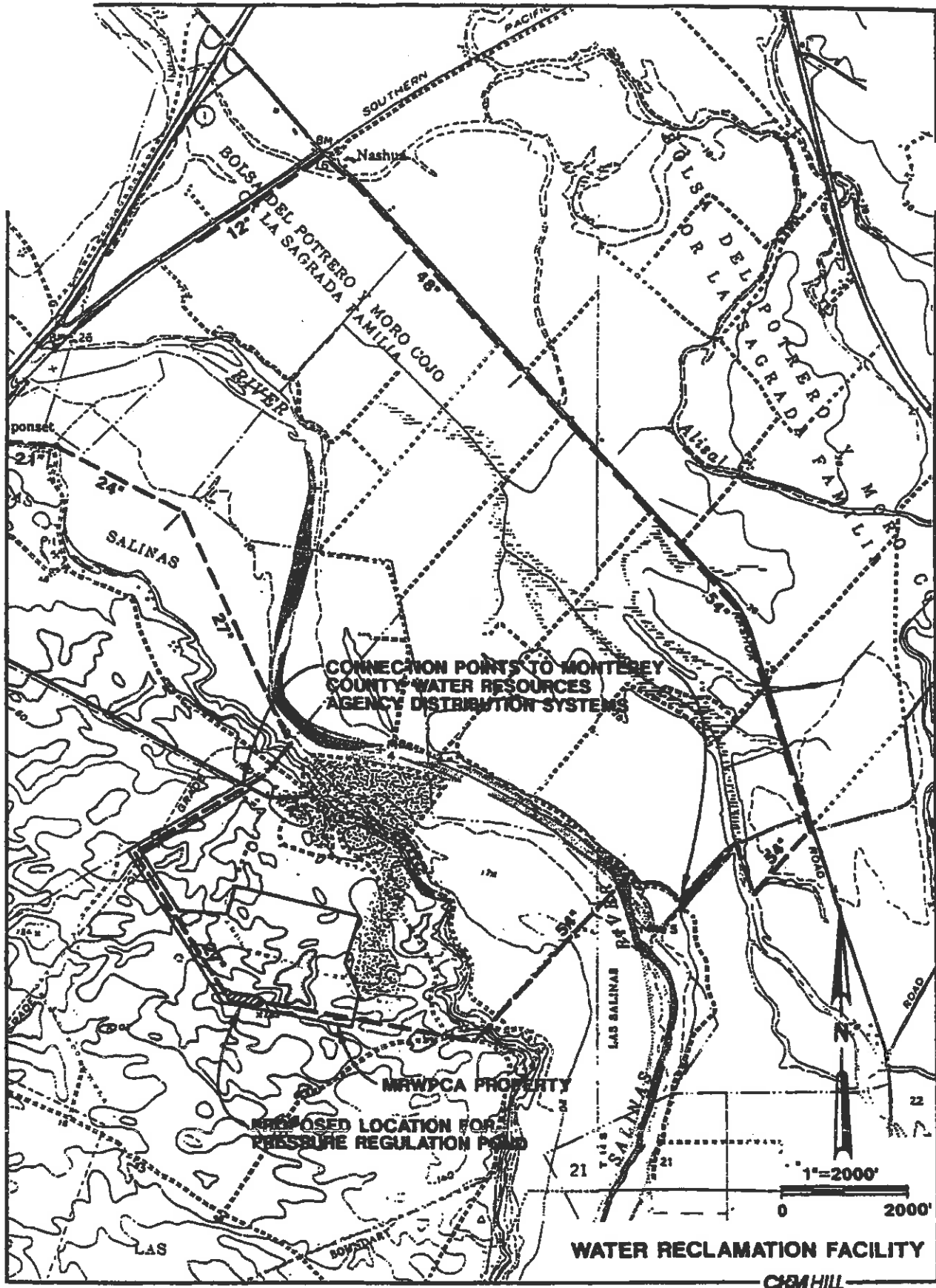


EXHIBIT B

Operation and Maintenance of SVRP, CSIP, SRDF, and New Source Water Facilities

Operation and Maintenance of the SVRP

PCA agrees to perform the following minimum services to ensure the proper operation of the SVRP. Said services are subject to change by mutual written agreement.

- Operate mechanical equipment such as meters, pumps, filters and chemical feeders.
- Operate electrical and electronic equipment such as motors, controllers, automatic monitors, automatic samplers, chlorine residual analyzers, and standby power systems.
- Calibrate, maintain, service, repair, and replace various mechanical electrical, and electronic equipment such as chemical metering pumps and supporting chemical feed systems, automatic samplers, electrically and pneumatically operated valves, motors, flow meters, chemical mixers, and chlorine and sulfur dioxide equipment including evaporators, chlorine and sulfur dioxide feeders.
- Change one ton chlorine and sulfur dioxide tanks and abide by the PCA's safety and loss prevention program.
- Perform jar testing to determine and optimize chemical dosages and control chemical applications for various treatment processes.
- Inventory, order and store chemicals for the SVRP.
- Inventory, order and store spare parts and equipment for the SVRP.
- Maintain accurate and complete operational records and prepare monthly and any other reports as required by the Water Reclamation Requirements referred to in Section 5.01, paragraph (b) for the SVRP. Copies of Water Reclamation Requirements reports will be provided to WRA.
- Read meters, gauges, charts.
- Utilize computers and SCADA system to assist with the operation of the SVRP.
- Read and interpret SVRP construction schematics and plans.
- Maintain and monitor reclaimed water storage reservoir.
- Collect samples from throughout the various SVRP processes to ensure and optimize reclaimed water production.
- Perform laboratory analyses and studies as necessary to ensure compliance with Title 22 and water safety concerns.
- Abide by PCA's safety and loss prevention program policies and maintain a safe working environment.
- Perform regular preventive maintenance on the SVRP equipment.
- Perform general maintenance, housekeeping and grounds maintenance.
- Assist with, and provide support for, tours of the SVRP for members of the public.

Operation and maintenance of the CSIP

PCA agrees to perform the following minimum services to ensure the proper operation of the CSIP. Said services are subject to change by mutual written agreement.

Perform normal operation and maintenance on the distribution well pumps, booster stations, pipelines, instrumentation, SCADA system and cathodic protection system. Perform repairs and major maintenance services as required due to wear and tear or failure of equipment. These will be performed as prescribed in the System Operations & Maintenance Manual prepared for the CSIP by WRA's design engineer, as well as the CSIP equipment manufacturers' manuals furnished in accordance with the CSIP construction contract documents, including:

- Inspect the pipelines, supplemental wells and booster stations.
- Inspect the pipelines for leaks.
- Inspect supplemental wells for general condition, log entries, fill pump bearing oilers, and perform general housekeeping.
- Inspect of booster stations for general condition, log entries, and perform general housekeeping.
- Inspect the turn-outs for serviceability.
- Inspect and calibrate conductivity meters.
- Read power and water meters at turnouts and supplemental wells once a month for records, and once a quarter at turnouts for billing purposes.
- Respond to after-hours problems on an on-call basis.
- Perform housekeeping of all assigned areas.
- Receive water orders and schedule water deliveries.
- Assess capability of the SVRP and the CSIP to supply water orders at the times and in the quantities requested.
- Notify growers as to whether each water order can or cannot be filled.
- Monitor turn-out flow rates to insure they conform with designed flow rate.
- Read water meters monthly.
- Monitor water quality within the distribution system and perform laboratory analyses and special studies as necessary to confirm the safety and public acceptance of the water.
- Maintain proper operation of air release and vacuum relief valves, and periodically exercise isolation valves.
- Maintain accurate and complete operational records and prepare reports as required by the recycled water user requirements referred to in Section 15.01 for the CSIP Copies of these reports will be provided to WRA.
- As necessary, replace motors, bearings and gaskets; repair valves and electrical or instrumentation equipment; and remove equipment from installed locations and transport to repair facilities.

Operation and maintenance of the SRDF

The SRDF is a seasonally operated facility. WRA shall notify PCA when SRDF seasonal operations are to begin and cease. As governed by project permits, raising the inflatable dam and pumping and chlorinating of river water may occur no sooner than April 1 of each year. Cessation of pumping and chlorinating river water shall occur no later than October 31 of each year. At the end of each operational season, the river water impoundment shall be filled to capacity and allowed to drain at 2 cfs through November 29 of each year unless directed otherwise by WRA. Depending on service area water demand, river water availability, quality, or other circumstances, raising of

the inflatable dam and pumping of river water may begin after April 1, and cessation of pumping river water may occur before October 31.

The PCA agrees to perform the following services to ensure the proper operation of the SRDF (including the chlorination system): Perform repairs and maintenance services as required due to wear and tear or failure of equipment. These will be performed as prescribed in the Operations & Maintenance Manual prepared for the SRDF by WRA's design engineer, as well as equipment manufacturers' manuals furnished in accordance with Project construction contract documents, including chlorination system equipment manufacturer's manuals, and as described, but not limited to, below:

- Operate mechanical equipment such as inflatable dam gate and regulating weir, air compressors and compressed air system components; river intake screens, fish ladder regulating gates and associated hydraulic system; vertical turbine water pumps; hydraulic surge control system components; river water pipeline; pipeline standpipe and control valves; filter screen station, valves, backwash pumps and system components.
- Operate electrical and electronic equipment such as motors, controllers, automatic monitors, automatic samplers, chlorine residual analyzers, and standby power systems.
- Operate fish bypass system to conform to fishery agency bypass flow requirements. PCA shall periodically monitor the fish bypass system for flow verification. PCA shall not be responsible for determining fish bypass flow requirements, but shall be notified by WRA as to fish bypass flow requirements.
- Calibrate, maintain, service, repair, and replace various mechanical, electrical, and electronic equipment such as chemical metering pumps and supporting chemical feed systems, automatic samplers, electrically and pneumatically operated valves, motors, flow meters, chemical mixers, and chlorine equipment including evaporators and feeders.
- Prepare project components for operation prior to seasonal start up. This includes, but is not limited to, removing sediment from the river intake head wall area, fish ladder, and regulating weir, installing river intake screens, installing fish ladder grating, installing hand rails and safety equipment at the river head walls, initial operation of inflatable dam and hydraulic regulating gates, preparing hydraulic surge system for operation, opening and monitoring standpipe valve operation, preparing filter station components, preparing chlorination system components for operation, start up of air conditioning/ventilation systems, and installing debris boom.
- Close down project components after the operational season ends. This includes, but is not limited to, removing river intake screens, installing fish ladder cover plates, removing hand rails at the river head walls, lowering inflatable dam, closing hydraulic regulating gates, draining the river water pipeline, draining and decompressing hydraulic surge system, draining standpipe and closing valves, draining filter station components, draining chlorination system components, shut down of air conditioning/ventilation units, and removal of debris boom.
- Remove debris and sediment from any project component as needed to maintain adequate operation of project and prevent undue damage to project facilities.
- Regularly communicate forecast river water irrigation demand with WRA personnel. Such information will be used by WRA to assist determination of water releases from Nacimiento and/or San Antonio Reservoirs.
- Inspect and maintain painting and coatings to prevent atmospheric corrosion, and monitor and maintain buried facility corrosion protection equipment.
- Inspect or obtain proper inspection of pressure vessels.

- Perform testing as needed to determine and optimize chemical dosages and control chemical applications for river water treatment process.
- Inventory, order and store chemicals for the SRDF.
- Inventory, order and store spare parts and equipment for the SRDF.
- Maintain accurate and complete operational records and prepare monthly and any other reports as required by the WRA, or regulatory bodies.
- Read meters, gauges, and charts.
- Utilize computers and SCADA system to assist with the operation of the SRDF.
- Maintain and monitor reclaimed water storage reservoir.
- Collect samples from throughout the various SRDF processes to ensure and optimize river water production.
- Perform laboratory analyses and studies as necessary to ensure compliance with water safety concerns.
- Abide by PCA's safety and loss prevention program policies and maintain a safe working environment.
- Perform regular preventive maintenance on the SRDF equipment. Such maintenance may be performed in the off-season if determined to be more cost effective.
- Perform general maintenance, housekeeping and grounds maintenance of all assigned areas.
- Assist with, and provide support for, tours of the SRDF for members of the public.
- Inspect the pipelines for leaks.
- Assist WRA's grower liaison with the operation of the SRDF.
- Respond to after-hours problems on an on-call basis.
- Receive water orders and schedule water deliveries.
- Assess capability of the SRDF to supply water orders at the times and in the quantities requested.
- Notify growers as to whether water orders cannot be filled, and coordinate filling of the water orders as necessary.
- Monitor water quality within the delivery system and perform laboratory analyses and special studies as necessary to confirm the safety and public acceptance of the water.
- As necessary, replace motors, bearings and gaskets; repair valves and electrical or instrumentation equipment; and remove equipment from installed locations, transport to repair facilities and back to the project.
- PCA will be responsible for the care, maintenance, and use of additional equipment to be furnished by WRA for PCA's use in providing service under this agreement.
- Maintain and repair signage at SRDF site as needed. Signage will be supplied and installed by WRA.
- Implement the River Water Contaminant Response Plan as required by Plan criteria.

In addition to those services listed above, WPCA shall operate and maintain the SRDF river water chlorination system to conform to the following parameters:

- The chlorination system shall be capable of operation whenever the SRDF is operational, 24 hours per day, 7 days per week.
- The chlorination system shall be maintained to operate under normal flow capacity ranges from approximately 12 cubic feet per second (cfs) to 36 cfs. Maximum flow capacity is up to 48 cfs. Maximum flow capacity is intended only for short durations of significant water supply loss, such as when the SVRP is out of operation.
- A two-phase river water disinfection process including contact with free chlorine and

- contact with combined chlorine via mixing with recycled water.
- River water contact with free chlorine for a minimum often (10) minutes prior to mixing with recycled water at 36 cfs flow.
- A free chlorine dosage capability up to 15 ppm.
- Promote river water and recycled water mixing prior to distribution.
- Prevent backflow of chlorinated water into the SRDF pipeline.
- Minimize effects of hydraulic surge pressures on the SRDF pipeline and pump station.
- Provide and maintain outlet for SRDF screen filter station backflush discharge water.
- Oversee modifications to the system by registered professional engineers according to accepted engineering standards and applicable building codes and regulations.
- Incorporate all appropriate safety features.
- River water sampling and testing features and locations.
- Maintain integrated river water disinfection system instrumentation and control features with the SRDF such that the SRDF operates in conjunction with the SVRP and CSIP under normal operating conditions.

Operation and maintenance of the New Source Water Facilities

PCA agrees to perform the following minimum services to ensure the proper operation of the new diversion structures. Said services are subject to change by mutual written agreement.

Perform normal operation and maintenance on the distribution well pumps, booster stations, pipelines, instrumentation, SCADA system and cathodic protection system. Perform repairs and major maintenance services as required due to wear and tear or failure of equipment. The service and repairs will be performed as prescribed in the System Operations & Maintenance Manual prepared for the facilities. These manuals will be similar to the equipment manufacturers' manuals furnished in accordance with the CSIP and SVRP construction contract documents. Some of the operation and maintenance items for the New Source Water Diversion Facilities include but not limited to:

- Calibrate, maintain, service, repair, and replace various mechanical, electrical, and electronic equipment
- As necessary, replace motors, bearings and gaskets; repair valves and electrical or instrumentation equipment; and remove equipment from installed locations, transport to repair facilities and back to the project.
- Read meters, gauges, charts.
- Utilize computers and SCADA system to assist with the operation of the diversion structures
- Abide by PCA's safety and loss prevention program policies and maintain a safe working environment.
- Perform regular preventive maintenance on the diversion equipment.
- Perform general maintenance, housekeeping and grounds maintenance
- Respond to after-hours problems on an on-call basis.

EXHIBIT C
SAMPLE WRA BASIC DEMAND SCHEDULE
FY 2015-2016 CSIP/SVRP/SRDF

DEMAND SCHEDULE

MONTH	PROJECTED RTP INFLUENT ACRE-FEET ¹	CSIP SUPPLEMENTAL WELLS PRODUCTION ACRE-FEET	SRDF RIVER PRODUCTION ACRE-FEET	SVRP + NEW SOURCE WATERS PRODUCTION ACRE-FEET	NEW SOURCE WATERS PRODUCTION ACRE-FEET	TOTAL DEMAND ACRE-FEET
July	1,976	1,355	-	2,045	245	3,400
August	1,959	802	-	2,198	348	3,000
September	1,864	197	-	2,003	303	2,200
October	1,930	20	-	1,268	300	1,288
November	1,767	70	-	786	200	856
December	1,783	100	-	-	-	100
January	1,601	250	-	-	-	250
February	1,491	150	-	806	150	956
March	1,620	130	-	1,670	170	1,800
April	1,858	450	-	1,950	250	2,400
May	1,946	1,210	-	2,040	240	3,250
June	1,894	1,324	-	1,926	226	3,250
TOTALS	21,689	6,058	-	16,692	2,432	22,750

NOTES:

(1) Based on actuals November previous calendar year through October of current calendar year

EXHIBIT D
WASTEWATER RECLAMATION SYSTEM
PROJECT DESCRIPTION

General description of the system

The following facilities constitute the Wastewater Reclamation System, under the contract with the MRWPCA:

1. A structure to divert the flow of secondary treated wastewater from the effluent pipeline of the existing regional treatment plant;
2. A pump station and pipeline to pump treated effluent to the tertiary treatment plant;
3. The 29.6 mgd tertiary treatment plant, consisting of coagulation, flocculation, filtration, and disinfection facilities;
4. Storage pond for tertiary treated water, with approximately 80 acre-feet of storage capacity;
5. Two pipelines connecting the reclamation facilities to the Castroville Seawater Intrusion Project (CSIP):
 - a. A 54-inch diameter-main line from the Storage Pond, under the river, and connected to CSIP.
 - b. A 27-inch diameter pipeline lateral under the Salinas River between portions of CSIP

EXHIBIT E

CALCULATION OF PCA PAYMENTS PURSUANT TO SECTION 15.03 OF THIS WATER RECYCLING AGREEMENT

As required by Section 17.08 of this Water Recycling Agreement, PCA shall pay the Actual Costs of tertiary treated water to which it takes delivery for its use. The Actual Costs will be calculated from the cost components which comprise PCA's existing budget and actual spreadsheet model(s) for the annual SVRP and CSIP costs.

The four cost elements that compromise the Actual Costs will be computed as follows:

- (1) **SVRP O&M Costs:** The SVRP O&M budget will be calculated based on the Total Tertiary Treated Water Production needed to serve both the CSIP and M&I uses of tertiary treated water. The amount to be paid by PCA will be computed using the formula below, in which:
- A = Total Tertiary Treated Water Production, AFY
B = Tertiary Treated Water Production delivered to PCA for PCA use, AFY
C = Total O&M Expenditures from the SVRP O&M budget, excluding debt service
D = Amount to be paid by PCA

$$D = \frac{B}{A} \times C$$

- (2) **Supplemental Well Pumping Cost:** The amount to be paid by PCA will be computed as indicated in Section 2.G. of Amendment No. 3.

S = Amount to be paid by PCA

- (3) **SWRCB Loan Contract Debt Service:** The amount to be paid by PCA will be computed using the formula below, in which:

A = Total Tertiary Treated Water Production, AFY
B = Tertiary Treated Water Production delivered to PCA for its use, AFY
E = SVRP SWRCB Loan Debt Service
F = Amount to be paid by PCA

$$F = \frac{B}{A} \times E$$

- (4) **Bureau Loan Contract Debt Service:** The amount to be paid by PCA will be computed using the formula below, in which:

A = Total Tertiary Treated Water Production, AFY
B = Tertiary Treated Water Production delivered to PCA for its use, AFY
G = SVRP Bureau Loan Debt Service, computed pursuant to Article 9 (b) (1) and 9 (c) of Bureau Loan Contract
H = Additional interest charged by the Bureau for the Bureau loan on the SVRP pursuant to Article 9 (b) (2) of Bureau Loan Contract
I = Amount to be paid by PCA

$$I = \frac{B}{A} \times G + H$$

$$\text{TOTAL PCA PAYMENTS} = D + S + F + I$$

EXHIBIT F

OPERATION AND MAINTENANCE ESTIMATED TREATMENT COSTS

These are the fees for primary and secondary treatment using the interruptible rate

The Equation for Special Users (using Ag Wash Water as example):

Where

- K = Annual user charge for each user
- V = Average daily flow in mgd (current estimate 3.332 mgd)
- B = Average BOD concentration in mg/L (current 735 mg/L)
- S = Average SS concentration in mg/L (current 282 mg/L)
- C = Annual customer charge (currently \$2.75)
- M = Annual maintenance charge (currently \$1,034.30)
- I = Annual insurance (currently \$0)
- L = Annual lab testing (currently \$0)
- T = Annual testing (currently \$0)
- R = Annual replacement funds (currently \$0 as covered by Article 3.01 5)

$$K = (71,757.72 * V) + (145.11 * V * B) + (149.99 * V * S) + C + M + I + L + T + R =$$

\$736,388.58/year or \$197.32/AF

Table 1: Approved Rate Equation Factors for FY15/16 and FY16/17:

Equation Factors	Sewage Rate FY15/16	Interruptible Rate FY15/16	Interruptible Rate FY16/17
Flow (\$/mgd)	\$666,000.00	\$71,757.72	\$74,125.73
BOD (\$/mgd*mg/L)	\$789.00	\$145.11	\$149.90
SS (\$/mgd*mg/L)	\$326.00	\$149.99	\$154.94

Approved by PCA Board October 8, 2015

Table 2: Those rate equation factors result in the following interruptible rates:

Water Type	FY15/16 Rate (\$/AF)	FY16/17 Rate (\$/AF)
Ag Wash Water	\$197.32	\$203.83
Blanco Drain	\$73.90	\$76.34
Reclamation Ditch	\$76.92	\$79.46
Pond Water (Ag Wash and Storm)	\$83.20	\$85.95
Tembladero Slough	\$91.02	\$94.02
Salinas Storm Water	\$68.52	\$70.78
Lake El Estero	\$68.32	\$70.57

The above rates are based on flow (V), biochemical oxygen demand (B), and total suspended solids (S) of the New Source Waters. Changes in the water characteristics will change the fee. The Board will consider revising the fees as part of the FY17/18 budget process.

EXHIBIT H

Debt Service & Amortization Schedule

Salinas Valley Reclamation Plant (SVRP) United States Bureau of Reclamation Loan

Loan Number:

Contract Number: 5-07-20-W1284

Original Principal	\$ 20,444,141.34
Current Principal (as of 6/30/14)	\$ 14,694,226.56
Term	35 years (2003 – 2037)
Rate	Variable 2.27%
Principal Payment	\$ 638,879.42
Interest	\$ 344,901.42 (variable)
IDC	\$ 183,000.00 (variable)
Ending Principal (as of 6/30/15)	\$ 14,045,923.94

Total Payment for 2015:	\$ 1,180,169.88 (actual)
--------------------------------	---------------------------------

Notes:

Annual payment on this loan is due on or around April, 11th. Invoice received by PCA from USDOI Bureau of reclamation. PCA invoices WRA for loan payment. Loan paid out of fund 132. Full amount is paid out of object 7201. Emergency Reserve Fund under Section 20 of the USBR Contract stipulates that annual deposits of \$13,000 will be made until the account reaches \$130,000 which is where it currently resides. Interest is still payable annually to the USBR. **The current Emergency Reserve amount is \$134,456.24.**

Salinas Valley Reclamation Plant (SVRP) State Water Resources Control Board

Loan Number: C-06-4017-210

Contract Number: 5-804-550-0

Original Principal	\$ 9,319,708.22
Current Principal (as of 6/30/14)	\$ 2,342,999.55
Term	20 years (1999 – 2018)
Rate	3.10%
Principal Payment	\$ 559,446.56
Interest	\$ 72,643.61
IDC	None
Ending Principal (6/30/15)	\$ 1,783,552.99

Total Payment for 2015:	\$ 632,090.19 (actual)
--------------------------------	-------------------------------

Notes:

Annual payment on this loan is due on or around March, 6th. Invoice received by PCA from SWRCB. PCA invoices WRA for loan payment. Loan paid out of fund 132. Full amount is paid out of object 7201. Article 8 of this contract requires a Wastewater Reserve Fund. **The current amount in this reserve is \$120,000 held by MRWPCA and \$129,160.31 held by MCWRA.**

New Source Water Facilities

State Water Resources Control Board

Original Principal	\$3.9 Million (estimated)
Term	30 Years
Rate	1% (estimated)
Estimated Principal Payment	\$112,117 (variable)
Estimated Interest Payment	\$39,000 (variable)
Estimated Total Annual Debt Service	\$151,117

Notes: Invoice projected to be received by PCA from the SWRCB. PCA will invoice WRA for the loan payment.

**Salinas Valley Reclamation Plant
US Bureau of Reclamation Loan**

	Year	Principal Payment	Interest on Loan	Total IDC Pmt	Total Payment	Loan Balance	Interest Rate
2003	1	0	375,218.99	141,384.78	516,603.77	20,444,141.34	1.835%
2004	2	0	375,218.99	141,384.77	516,603.76	20,444,141.34	1.835%
2005	3	0	353,238.99	133,124.46	486,363.45	20,444,141.34	1.728%
2006	4	638,879.42	403,746.24	152,159.02	1,194,784.68	19,805,261.92	1.975%
2007	5	638,879.42	419,520.01	163,203.77	1,221,603.20	19,166,382.50	2.118%
2008	6	638,879.42	410,371.42	164,966.23	1,214,217.07	18,527,503.08	2.141%
2009	7	638,879.42	417,883.20	173,778.52	1,230,541.14	17,888,623.66	2.255%
2010	8	638,879.42	403,473.43	173,778.52	1,216,131.37	17,249,744.24	2.255%
2010 Interest Correction			2,455.22	1,057.48			
2011	9	638,879.42	401,295.89	179,242.15	1,222,930.16	16,610,864.82	2.326%
2012	10	638,879.42	389,888.83	180,828.36	1,209,596.61	15,971,985.40	2.347%
2013	11	638,879.42	374,893.10	180,828.36	1,194,600.88	15,333,105.98	2.347%
2014	12	638,879.42	359,897.13	180,828.36	1,179,604.91	14,694,226.56	2.347% Est
2015	13	638,879.42	344,901.42	183,000.00	1,166,780.84	14,055,347.14	2.347% Est
2016	14	638,879.42	329,905.70	183,000.00	1,151,785.12	13,416,467.72	2.347% Est
2017	15	638,879.42	314,909.99	183,000.00	1,136,789.41	12,777,588.30	2.347% Est
2018	16	638,879.42	299,914.27	183,000.00	1,121,793.69	12,138,708.88	2.347% Est
2019	17	638,879.42	284,918.56	183,000.00	1,106,797.98	11,499,829.46	2.347% Est
2020	18	638,879.42	269,922.85	183,000.00	1,091,802.27	10,860,950.04	2.347% Est
2021	19	638,879.42	254,927.13	183,000.00	1,076,806.55	10,222,070.62	2.347% Est
2022	20	638,879.42	239,931.42	183,000.00	1,061,810.84	9,583,191.20	2.347% Est
2023	21	638,879.42	224,935.71	183,000.00	1,046,815.13	8,944,311.78	2.347% Est
2024	22	638,879.42	209,939.99	183,000.00	1,031,819.41	8,305,432.36	2.347% Est
2025	23	638,879.42	194,944.28	183,000.00	1,016,823.70	7,666,552.94	2.347% Est
2026	24	638,879.42	179,948.56	183,000.00	1,001,827.98	7,027,673.52	2.347% Est
2027	25	638,879.42	164,952.85	183,000.00	986,832.27	6,388,794.10	2.347% Est
2028	26	638,879.42	149,957.14	183,000.00	971,836.56	5,749,914.68	2.347% Est
2029	27	638,879.42	134,961.42	183,000.00	956,840.84	5,111,035.26	2.347% Est
2030	28	638,879.42	119,965.71	183,000.00	941,845.13	4,472,155.84	2.347% Est
2031	29	638,879.42	104,969.99	183,000.00	926,849.41	3,833,276.42	2.347% Est
2032	30	638,879.42	89,974.28	183,000.00	911,853.70	3,194,397.00	2.347% Est
2033	31	638,879.42	74,978.57	183,000.00	896,857.99	2,555,517.58	2.347% Est
2034	32	638,879.42	59,982.85	183,000.00	881,862.27	1,916,638.16	2.347% Est
2035	33	638,879.42	44,987.14	183,000.00	866,866.56	1,277,758.74	2.347% Est
2036	34	638,879.42	29,991.43	183,000.00	851,870.85	638,879.32	2.347% Est
2037	35	638,879.32	14,995.71	183,000.00	836,875.03	0	2.347% Est

**Salinas Valley Reclamation Plant
SWRCB - State Revolving Fund Loan**

Year		Principal Payment	Interest on Loan	Total Payment	Loan Balance
3/31/1998 Balance					9,319,708.22
3/31/1999	1	0	632,672.76	632,672.76	9,319,708.22
3/31/2000	2	626,019.10	6,653.66	632,672.76	8,693,689.12
3/31/2001	3	365,193.60	267,479.16	632,672.76	8,328,495.52
3/31/2002	4	376,514.61	256,158.15	632,672.76	7,951,980.91
6/30/2002 Adj		72,591.27	-72,591.27	0	7,879,389.64
3/31/2003	5	387,829.11	244,261.08	632,090.19	7,491,560.53
3/31/2004	6	399,851.81	232,238.38	632,090.19	7,091,708.72
3/31/2005	7	412,247.22	219,842.97	632,090.19	6,679,461.50
3/31/2006	8	425,026.88	207,063.31	632,090.19	6,254,434.62
3/31/2007	9	438,202.72	193,887.47	632,090.19	5,816,231.90
3/31/2008	10	452,279.63	170,810.56	623,090.19	5,363,952.27
3/31/2009	11	465,807.67	166,282.52	632,090.19	4,898,144.60
3/31/2010	12	480,247.71	151,842.48	632,090.19	4,417,896.89
3/31/2011	13	495,135.39	136,954.80	632,090.19	3,922,761.50
3/31/2012	14	510,816.84	121,273.35	632,090.19	3,411,944.66
3/31/2013	15	526,319.91	105,770.28	632,090.19	2,885,624.75
3/31/2014	16	542,635.82	89,454.37	632,090.19	2,342,988.93
3/31/2015	17	559,457.53	72,632.66	632,090.19	1,783,531.40
3/31/2016	18	576,951.78	55,138.41	632,090.19	1,206,579.62
3/31/2017	19	594,686.22	37,403.97	632,090.19	611,893.40
3/31/2018	20	611,893.40	18,968.70	630,862.10	0

New Source Water Facilities - Amortization Schedule

Loan amount	\$ 3,900,000.00
Annual interest rate	1.00 %
Loan period in years	30
Number of payments per year	1
Start date of loan	
Optional extra payments	

Loan summary	
Scheduled payment	\$ 151,117.64
Scheduled number of payments	30
Actual number of payments	30

Beginning Balance	Scheduled Payment	Total Payment	Principal	Interest	Ending Balance
\$ 3,900,000.00	\$ 151,117.64	\$ 151,117.64	\$ 112,117.64	\$ 39,000.00	\$ 3,787,882.36
\$ 3,787,882.36	\$ 151,117.64	\$ 151,117.64	\$ 113,238.82	\$ 37,878.82	\$ 3,674,643.54
\$ 3,674,643.54	\$ 151,117.64	\$ 151,117.64	\$ 114,371.21	\$ 36,746.44	\$ 3,560,272.33
\$ 3,560,272.33	\$ 151,117.64	\$ 151,117.64	\$ 115,514.92	\$ 35,602.72	\$ 3,444,757.42
\$ 3,444,757.42	\$ 151,117.64	\$ 151,117.64	\$ 116,670.07	\$ 34,447.57	\$ 3,328,087.35
\$ 3,328,087.35	\$ 151,117.64	\$ 151,117.64	\$ 117,836.77	\$ 33,280.87	\$ 3,210,250.58
\$ 3,210,250.58	\$ 151,117.64	\$ 151,117.64	\$ 119,015.14	\$ 32,102.51	\$ 3,091,235.44
\$ 3,091,235.44	\$ 151,117.64	\$ 151,117.64	\$ 120,205.29	\$ 30,912.35	\$ 2,971,030.16
\$ 2,971,030.16	\$ 151,117.64	\$ 151,117.64	\$ 121,407.34	\$ 29,710.30	\$ 2,849,622.82
\$ 2,849,622.82	\$ 151,117.64	\$ 151,117.64	\$ 122,621.41	\$ 28,496.23	\$ 2,727,001.40
\$ 2,727,001.40	\$ 151,117.64	\$ 151,117.64	\$ 123,847.63	\$ 27,270.01	\$ 2,603,153.78
\$ 2,603,153.78	\$ 151,117.64	\$ 151,117.64	\$ 125,086.10	\$ 26,031.54	\$ 2,478,067.67
\$ 2,478,067.67	\$ 151,117.64	\$ 151,117.64	\$ 126,336.96	\$ 24,780.68	\$ 2,351,730.71
\$ 2,351,730.71	\$ 151,117.64	\$ 151,117.64	\$ 127,600.33	\$ 23,517.31	\$ 2,224,130.37
\$ 2,224,130.37	\$ 151,117.64	\$ 151,117.64	\$ 128,876.34	\$ 22,241.30	\$ 2,095,254.04
\$ 2,095,254.04	\$ 151,117.64	\$ 151,117.64	\$ 130,165.10	\$ 20,952.54	\$ 1,965,088.94
\$ 1,965,088.94	\$ 151,117.64	\$ 151,117.64	\$ 131,466.75	\$ 19,650.89	\$ 1,833,622.18
\$ 1,833,622.18	\$ 151,117.64	\$ 151,117.64	\$ 132,781.42	\$ 18,336.22	\$ 1,700,840.76
\$ 1,700,840.76	\$ 151,117.64	\$ 151,117.64	\$ 134,109.23	\$ 17,008.41	\$ 1,566,731.53
\$ 1,566,731.53	\$ 151,117.64	\$ 151,117.64	\$ 135,450.33	\$ 15,667.32	\$ 1,431,281.20
\$ 1,431,281.20	\$ 151,117.64	\$ 151,117.64	\$ 136,804.83	\$ 14,312.81	\$ 1,294,476.37
\$ 1,294,476.37	\$ 151,117.64	\$ 151,117.64	\$ 138,172.88	\$ 12,944.76	\$ 1,156,303.50
\$ 1,156,303.50	\$ 151,117.64	\$ 151,117.64	\$ 139,554.61	\$ 11,563.03	\$ 1,016,748.89
\$ 1,016,748.89	\$ 151,117.64	\$ 151,117.64	\$ 140,950.15	\$ 10,167.49	\$ 875,798.74
\$ 875,798.74	\$ 151,117.64	\$ 151,117.64	\$ 142,359.65	\$ 8,757.99	\$ 733,439.08
\$ 733,439.08	\$ 151,117.64	\$ 151,117.64	\$ 143,783.25	\$ 7,334.39	\$ 589,655.83
\$ 589,655.83	\$ 151,117.64	\$ 151,117.64	\$ 145,221.08	\$ 5,896.56	\$ 444,434.75
\$ 444,434.75	\$ 151,117.64	\$ 151,117.64	\$ 146,673.29	\$ 4,444.35	\$ 297,761.45
\$ 297,761.45	\$ 151,117.64	\$ 151,117.64	\$ 148,140.03	\$ 2,977.61	\$ 149,621.43
\$ 149,621.43	\$ 151,117.64	\$ 149,621.43	\$ 148,125.21	\$ 1,496.21	\$ -

EXHIBIT I

Schedule of Amortized Replacement and Renewal Costs New Source Water Facilities DRAFT

	PCA Proportional Share 54.9%	WRA Proportional Share 45.1%	Total Costs
Estimated Original Cost - Equipment Requiring Replacement			
Electrical Equipment & Sluice Gates (part of Construction Cost, above)	\$ 124,455	\$ 102,239	\$ 226,695
Instrumentation Equipment (part of Construction Cost, above)	\$ 16,177	\$ 13,289	\$ 29,466
Pumps & Motors	\$ 252,063	\$ 207,068	\$ 459,130
	\$ 392,695	# \$ 322,596	\$ 715,291
	Estimated Life	Replacement Frequency Thirty Year Term	Estimated Annual Proportional Amount (1)
Estimated Annual Proportional Contribution			
Electrical Equipment & Sluice Gates (part of Construction Cost, above)	30	1	38,747
Instrumentation Equipment (part of Construction Cost, above)	15	2	4,448
Pumps & Motors	20	1.5	68,263
Estimated Annual Proportional Contribution			\$ 111,458
		PCA Share	\$ 61,191
		WRA Share	\$ 50,268
(1) Annual inflation factor for replacement cost of equipment	5.60%		
(Based on Cal-American Water Company factor)			

EXHIBIT J

DRAFT



**COST ALLOCATION PLAN
OVERVIEW**

MRWPCA COST ALLOCATION PLAN

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Exhibits

A. Cost Allocation Plan Detail Exhibit A

PURPOSE

A Cost Allocation Plan is an analytical tool through which administrative or indirect services costs are apportioned to individual departments or cost centers within an organization. Allocated costs are typically termed "agency-wide overhead." Most overhead/indirect service costs are those expenditures that provide support services or oversight to each department, and typically include legislative, managerial, financial, administrative, legal, personnel, technology, building and equipment use, and risk management activities. Allocated costs may also include services within non-administrative/support services departments that provide targeted benefits to specific departments. A general example of this would be specific skill sets from one department that actually exist to provide support to a department outside its own.

A brief analysis of Monterey Regional Water Pollution Control's Agency's (MRWPCA) process for allocation costs are provided below:

1. Each department within MRWPCA's budget represents a unique function. Each department can be classified as either an administrative or operational unit. Administrative departments include Administration, Finance, Human Resources, Information Technology, Regional Treatment Plant Administration, and Safety. These departments provide support for the operational units. Costs associated with administrative departments are allocated to departments as either overhead or indirect services.
2. A review of line-item expenditures are conducted within each department to determine whether there are any significant costs which should be excluded or included as overhead. Examples of exclusions include one-time expenditures for capital outlay, transfers between funds, and debt service. The remaining "allocable" expenditures are considered costs for distribution to the operational departments.
3. MRWPCA assigns an allocation factor as the basis for distributing overhead/indirect service costs to departments or cost centers receiving support. Allocation factors include employee count, percentage of operating budget, and number of invoices. The factors represent approximately how much time each administrative position/department spends time supporting operational departments or programs. Ultimately, the allocation factor represents the actual or estimated workload of the allocated function and a reasonable method of apportioning benefit for the services received.
4. MRWPCA estimates the cost allocations at the beginning of the budget year based on the number of employees, percentage of budget, and the three year average number of invoices associated with each operational unit. Each administrative cost center is distributed across departments using the selected allocation factor for each cost center. This results in a total share of overhead/indirect service costs for each operational department / cost center. All costs applied throughout the year are based on actual operational department expenses incurred.
5. MRWPCA has established the Cost Allocation Plan included in this exhibit for the purpose of allocating overhead to shared and contracted services; and partner agencies. This cost

allocation plan was not established to be consistent with *Title 2, Code of Federal Regulations, Part 225, Cost Principles for State, Local, and Indian Tribal Governments (formerly known as OMB A-87)*. The primary goal of the Title 2 Plan is typically to obtain reimbursement of overhead costs associated with State and Federal grants.

The MRWPCA Cost Allocation Plan has been reviewed by an independent consultant, NBS, and has been determined to be reasonable for this specified use. The MRWPCA Cost Allocation Plan may be replaced at any time with a Plan that is compliant with Title 2, CFR, Part 225 for the purpose of obtaining reimbursement of overhead costs associated with State and Federal Grants.

Data Sources

MRWPCA referenced the following data to support the development of the initial Cost Allocation Plan:

- Budgeted expenditures for Fiscal Year 2015/16
- Listing of all Agency positions by Department
- Number of invoices and purchase orders processed by each fund and department for Fiscal Years: 2012/13, 2013/14, and 2014/15

SUPPORT SERVICE DEPARTMENT NARRATIVES

The full cost allocation plan allocates six administrative support departments to various operational department cost centers, based on a variety of factors. The plan identifies total allocable costs at approximately \$3.37 million from the following administrative units for distribution to the operating functions:

Budget Account	Allocable Department Budget	Total Allocable Expense
01-010	Administration	\$1,106,677
01-013	Finance	916,737
01-011	Human Resources	383,624
01-015	Information Technology	242,449
01-030	RTP Administration	415,631
01-016	Safety	305,165
	Total Administrative Allocations	\$3,370,283

The following paragraphs provide a brief description of each Administrative service department, along with a general explanation of how administrative costs are allocated to each functional department within the Plan.

Administration (01-010)

The Administration Department is responsible for all aspects of administration, operation, and planning activities of the Agency staff. The General Manager and the Executive Assistant/Clerk to the Board's salaries are included in this budget. The Administration Department is responsible for assisting the Board with policy development, implementation of strategic goals, and providing Agency leadership and management. Costs include legal counsel, insurance, contract services, and utility costs for the Harris Court administrative offices. While the Stormwater Program Manager's salaries are included in the FY 15/16 personnel expenses, they are directly charged to

contracting entities and removed from the cost allocation. Insurance costs paid directly to the Monterey County Water Resources Agency for liability coverage associated with the Salinas Valley Reclamation Project, Castroville Seaside Intrusion Project, and the Salinas River Diversion Facility operations have also been excluded from the allocation.

The Administration Department budget, net of excludable line items, is charged to operational departments based on their percentage of the operational budgets.

Finance (01-013)

The Finance Department provides Agency-wide fiscal support including preparation of the Comprehensive Annual Financial Report, monthly financial reports; and the development and monitoring of the Agency's budget. The professional level Finance staff provide fiscal analyses and guidance to the General Manager, Board of Directors, partner agencies, and departments. Finance support staff provide accounts payable, payroll processing, procurement, project accounting, general ledger maintenance, and banking services.

Costs associated with Finance staff are allocated based on the following factors:

- Chief Financial Officer and Accountant's salaries; along with a proportional share of the Finance Department expenses are allocated based on the operational units percentage of the budget
- Accounting Technician, Procurement Specialist, and Administrative Support Specialist salaries; along with a proportional share of Finance Department expenses are allocated based on a three-year average of invoices processed by the operational units
- Accounting Specialist – Payroll, along with a proportional share of Finance Department expenses are allocated based on the percentage of full-time equivalent positions in each operating department

Human Resources (01-011)

The Human Resources Department supports the Agency by providing a wide range of personnel services such as benefits administration (health, dental, vision, employee assistance program), workers compensation, coordinating recruitment and selection; classification and compensation programs, as well as the administration of the Agency's personnel files, training records, medical files, and employee evaluations. The Department also provides employer/employee relations administrative services and contract negotiations, which includes employee and supervisory counseling on personnel policies, procedures, and practices; and providing assistance in handling of employee grievances.

- Costs associated with the Human Resources Department are allocated based on the percentage of full-time equivalent positions in each operating department

Information Systems (001-015)

The Information Systems Department is responsible for developing, maintaining, and facilitating the implementation of a sound and integrated IT architecture. This includes the installation, integration, evaluation, and maintenance of the Agency's local and wide area networks,

telephone, and audio video systems; while serving as a technical resource to staff on technology needs. The Information Systems Department defines, delivers, and supports strategic plans for implementing information technologies.

- The costs of the Information Systems budget are allocated based on the percentage of full-time equivalent positions in each operating department

RTP Administration (01-030)

The RTP Administration Department is a centralized support service team located at the Regional Treatment Plant Facility. The Assistant General Manager provides leadership to all departments located at the Regional Treatment Plant and works closely with the General Manager to accompany Agency goals. Costs included within this budget unit primarily consist of salary and benefits associated with the Assistant General Manager, Administrative Support Specialist, and office expenses.

All costs associated with the RTP Administration are allocated based on the following:

- General Manager salary and proportional share of expenses based on the operational department's percentage of the budget
- Administrative Support Specialist salary and proportional share of expenses based on the average percentage of budget and full-time equivalency positions within each operational department.

Safety (01-016)

The Safety Department provides service to all Agency employees through training and assistance in implementing safe work practices. The Safety Officer works to implement programs which meet and exceed Federal, State, and Regional requirements for work safety, contractor safety; and materials safety at all Agency facilities. The Safety Budget includes costs associated with Agency-wide safety training, protective equipment, and the safety shoe reimbursement program.

- Costs associated with the Safety Department are allocated based on the percentage of full-time equivalent positions in each operating department

Additional Notes

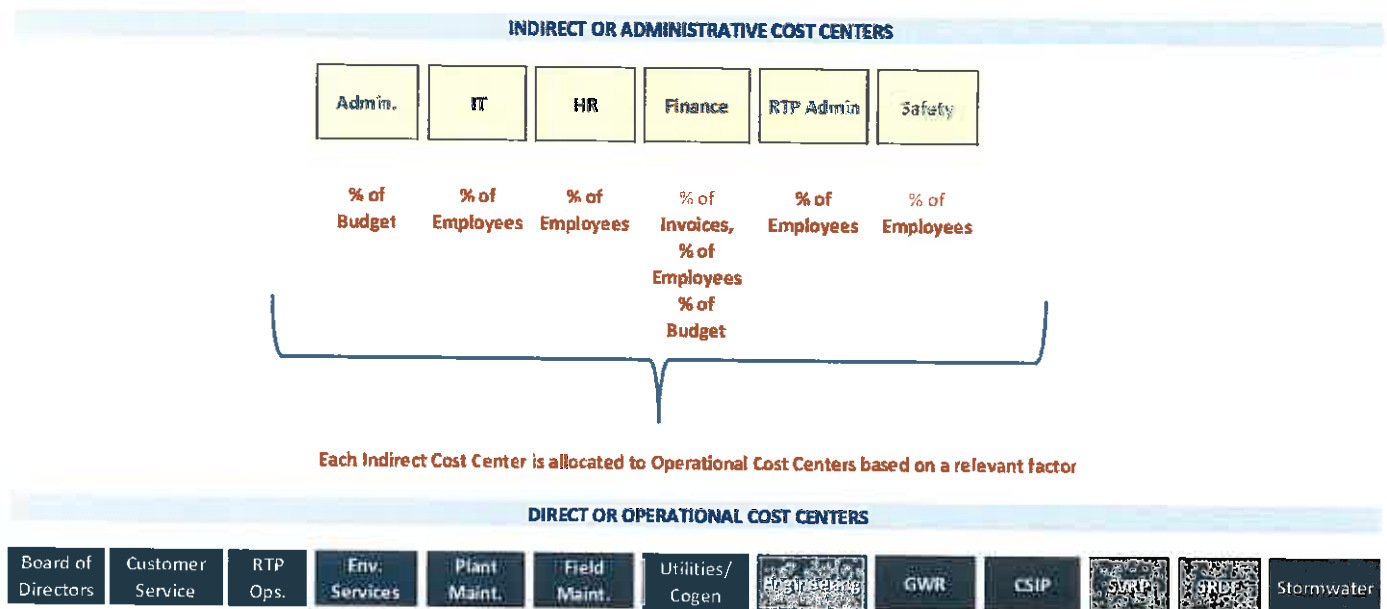
Administrative costs that are charged directly to specific functional areas or capital projects are not allocated as part of this cost allocation plan.

NAVIGATING THE COST ALLOCATION PLAN

An overview of the MRWPCA Cost Allocation Plan is listed below and attached to this report.

- Agency-Wide Chart – Illustrates the departments identified as administrative cost centers and departments identified as operational cost centers. The allocation percentage of each administrative cost center is listed below each administrative cost function.

MRWPCA Cost Allocation Plan Overview



**AMENDMENT NO. 1 TO
AMENDED AND RESTATED WATER RECYCLING AGREEMENT
BETWEEN MONTEREY COUNTY WATER RESOURCES AGENCY AND
MONTEREY ONE WATER**

THIS AMENDMENT NO. 1 to the Amended and Restated Water Recycling Agreement , dated November 3, 2015, (hereinafter, “Agreement”) between the Monterey County Water Resources Agency, a political subdivision of the State of California (hereinafter, “WRA”) and Monterey One Water (hereinafter, “M1W,” referred to in the Agreement as “PCA”) is hereby entered into between WRA and M1W (collectively, WRA and M1W are referred to as the “Parties”).

WHEREAS, the portions of Agreement applicable to the New Source Water Facilities will not become effective until the following conditions in Section 16.15 are met:

1. Water Rights for the Blanco Drain and Reclamation Ditch are obtained from the California State Water Resources Control Board; and,
2. A fully executed, and California Public Utilities Commission approved, Water Purchase Agreement, between MRWPCA, MPWMD, and California-American Water, is approved by the California Public Utilities Commission and executed by the parties thereto; and,
3. Written findings are made by the Regional Water Quality Control Board that utilization of the Blanco Drain dry weather flows as New Source Water meets all treatment requirements for the aforesaid dry weather flows; and,
4. An independent third-party review of proposed capital and operating costs and preparation of an Engineer’s Report is approved by the WRA Board of Directors and Board of Supervisors. The costs of the aforesaid third-party review shall be shared equally between WRA and M1W; and,
5. A successful assessment or Proposition 218 process for rates and charges related to the operation and maintenance of the New Source Water Facilities and proportional primary and secondary treatment charges; and,
6. Inclusion of Salinas Pond Water Return Facilities as New Source Water Facilities requires execution of a separate agreement between the Parties; and,

WHEREAS, the status of the conditions in Section 16.15 are as follows; conditions 1 and 2 are satisfied; conditions 3,4, and 5 are pending; and condition 6 has not yet commenced; and,

WHEREAS, the capital cost of the New Source Water Facilities are funded by M1W through grants and a low-interest loan from the State of California, Water Resources Control Board, State Revolving Funds with the first payment due on December 31, 2019; and,

WHEREAS, if all conditions in Section 16.15 are satisfied, the WRA’s share of the capital costs and the repair and replacement costs associated with the New Source Water Facilities are 45.1%; and,

WHEREAS, if all conditions in Section 16.15 are satisfied, the WRA shall pay M1W the proportional share of the capital cost loan payment annually 30 days prior to the due date and the proportional share of the amortized replacement/renewal costs annually by March 1st; and,

WHEREAS, the construction of the New Source Water Facilities will be substantially complete on August 23, 2019; and,

WHEREAS, the Parties now wish to amend the Agreement to extend the term of satisfying conditions described in Section 16.15 to June 30, 2020 with no associated dollar amount increase to continue to provide services identified in the Agreement.

NOW, THEREFORE, the Parties agree to amend the Agreement as follows:

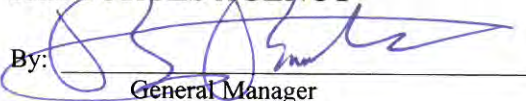
1. Amend Section 7.03, "Payment Schedule", to read as follows:

Modify section 1(c) to have the first payment due in 2020, and modify section 1(f) to have first payment due in 2021.

2. M1W has the right to utilize the New Source Water in full until such time the conditions set forth in Section 16.15 have been satisfied, and in connection therewith, and until such time, the provisions of Section 16.16 shall not be in operation or effect.
3. All other terms and conditions of the Agreement remain unchanged and in full force.
4. This Amendment No. 1 shall be attached to the Agreement and incorporated therein as if fully set forth in the Agreement.

IN WITNESS WHEREOF, the duly authorized representatives of the Parties hereto have executed this Amendment No. 1 to the Agreement as of the day and year first written below:

**MONTEREY COUNTY WATER
RESOURCES AGENCY**

By: 
General Manager

Date: 8/26/19

MONTEREY ONE WATER

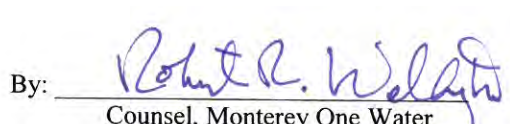
By: 
General Manager

Date: 7/22/19

Approved as to Form

By: 
Deputy County Counsel

Date: 8/21/19

By: 
Counsel, Monterey One Water

Date: 7/12/19

Approved as to Fiscal Provisions

By: 
Auditor-Controller

Date: 8-21-19

Approved as to Indemnity, Insurance Provisions

By: n/q KLD
Risk Management

Date: _____

**AMENDMENT NO. 2 TO
AMENDED AND RESTATED WATER RECYCLING AGREEMENT
BETWEEN MONTEREY COUNTY WATER RESOURCES AGENCY AND
MONTEREY ONE WATER**

THIS AMENDMENT NO. 2 to the Amended and Restated Water Recycling Agreement, dated November 3, 2015 (hereinafter, “Agreement”) between the Monterey County Water Resources Agency, a political subdivision of the State of California (hereinafter, “WRA”) and Monterey One Water (hereinafter, “M1W”, referred to in the Agreement as “PCA”) is hereby entered into between WRA and M1W (collectively, WRA and M1W are referred to as the “Parties”).

WHEREAS, the portions of Agreement applicable to the New Source Water Facilities will not become effective until the following conditions in Section 16.15 are met:

1. Water Rights for the Blanco Drain and Reclamation Ditch are obtained from the California State Water Resources Control Board; and,
2. A fully executed, and California Public Utilities Commission approved, Water Purchase Agreement, between MRWPCA, MPWMD, and California-American Water, is approved by the California Public Utilities Commission and executed by the parties thereto; and,
3. Written finding by the Regional Water Quality Control Board that utilization of the Blanco Drain dry weather flows as New Source Water meets all treatment requirements for the aforesaid dry weather flows; and,
4. An independent third-party review of proposed capital and operating costs and preparation of an Engineer’s Report is approved by the MCWRA Board of Directors and Board of Supervisors. The costs of the aforesaid third-party review shall be shared equally between MCWRA and MRWPCA; and,
5. A successful assessment or Proposition 218 process for rates and charges related to the operation and maintenance of the New Source Water Facilities and proportional primary and secondary treatment charges; and,
6. Inclusion of Salinas Pond Water Return Facilities as New Source Water Facilities requires execution of a separate agreement between the Parties; and

WHEREAS, the status of the conditions in Section 16.15 are as follows; conditions 1 and 2 are satisfied; conditions 3,4, and 5 are pending; and condition 6 has not yet commenced; and

WHEREAS, the capital cost of the New Source Water Facilities are funded by M1W through grants and a low-interest loan from the State of California, Water Resources Control Board, State Revolving Funds with the first payment due in December 2020 and

WHEREAS, if all conditions in Section 16.15 are satisfied, the WRA’s share of the capital costs and the repair and replacement costs associated with the New Source Water Facilities are 45.1%; and

WHEREAS, if all conditions in Section 16.15 are satisfied, the WRA shall pay M1W the proportional share of the capital cost loan payment 30 days prior to the due date and the proportional share of the amortized replacement/renewal costs by March 1st, annually; and

WHEREAS, the construction of the New Source Water Facilities on the Blanco Drain and Reclamation Ditch are complete; and

WHEREAS, the Parties amended the Agreement on July 18, 2019 to extend the term of satisfying conditions described in Section 16.15 to June 30, 2020 with no associated dollar amount increase to continue to provide services identified in the Agreement; and

WHEREAS, the Parties now wish to amend the Agreement to extend the term of satisfying conditions described in Section 16.15 to June 30, 2021 with no associated dollar amount increase to continue to provide services identified in the Agreement.

NOW, THEREFORE, the Parties agree to amend the Agreement as follows:

1. Amend Section 7.03, "Payment Schedule", to read as follows:

Modify sections 1(c) to have first payment due in 2021, and modify section 1(f) to have first payment due in 2022.

2. M1W has the right to utilize the New Source Waters from the Blanco Drain (Water Right Application No. 32263A) and Reclamation Ditch (Water Right Application No. 32263B) Diversion Facilities in full until such time the conditions set forth in Section 16.15 have been satisfied, and in connection therewith, and until such a time the provisions of Section 16.16 shall not be in operation or effect.
3. All other terms and conditions of the Agreement remain unchanged and in full force.
4. This Amendment No. 2 shall be attached to the Agreement as amended and incorporated therein as if fully set forth in the Agreement.

IN WITNESS WHEREOF, the duly authorized representatives of the Parties hereto have executed this Amendment No. 2 to the Agreement as of the day and year first written below:

**MONTEREY COUNTY WATER
RESOURCES AGENCY**

By: 
General Manager

Date: 7/14/2020

Approved as to Form

By: Kelly L. Donlon
Deputy County Counsel

Date: 7/14/20

MONTEREY ONE WATER

By: 
General Manager

Date: 6/23/2020

By: 
Counsel, Monterey One Water

Date: 7/8/2020

Approved as to Fiscal Provisions

By: *Gary K Giboney*
Auditor-Controller

Date: 7/14/2020

Approved as to Indemnity, Insurance Provisions

By: _____
Risk Management

Date: _____

**AMENDMENT NO. 3 TO
AMENDED AND RESTATED WATER RECYCLING AGREEMENT
BETWEEN MONTEREY COUNTY WATER RESOURCES AGENCY AND
MONTEREY ONE WATER**

THIS AMENDMENT NO. 3 to the Amended and Restated Water Recycling Agreement, dated November 3, 2015 (hereinafter, “Agreement”) between the Monterey County Water Resources Agency, a political subdivision of the State of California (hereinafter, “WRA”) and Monterey One Water (hereinafter, “M1W”, referred to in the Agreement as “PCA”) is hereby entered into between WRA and M1W (collectively, WRA and M1W are referred to as the “Parties”).

WHEREAS, the portions of Agreement applicable to the New Source Water Facilities will not become effective until the following conditions in Section 16.15 are met:

1. Water Rights for the Blanco Drain and Reclamation Ditch are obtained from the California State Water Resources Control Board; and
2. A fully executed, and California Public Utilities Commission approved, Water Purchase Agreement, between MRWPCA, MPWMD, and California-American Water, is approved by the California Public Utilities Commission and executed by the parties thereto; and
3. Written finding by the Regional Water Quality Control Board that utilization of the Blanco Drain dry weather flows as New Source Water meets all treatment requirements for the aforesaid dry weather flows; and
4. An independent third-party review of proposed capital and operating costs and preparation of an Engineer’s Report is approved by the MCWRA Board of Directors and Board of Supervisors. The costs of the aforesaid third-party review shall be shared equally between MCWRA and MRWPCA; and
5. A successful assessment or Proposition 218 process for rates and charges related to the operation and maintenance of the New Source Water Facilities and proportional primary and secondary treatment charges; and
6. Inclusion of Salinas Pond Water Return Facilities as New Source Water Facilities requires execution of a separate agreement between the Parties.

WHEREAS, the status of the conditions in Section 16.15 are as follows; conditions 1 and 2 are satisfied; conditions 3,4, and 5 are pending; and condition 6 has not yet commenced.

WHEREAS, the capital cost of the New Source Water Facilities are funded by M1W through grants and a low-interest loan from the State of California, Water Resources Control Board, State Revolving Funds with the first payment made in December 2020.

WHEREAS, if all conditions in Section 16.15 are satisfied, the WRA’s share of the capital costs and the repair and replacement costs associated with the New Source Water Facilities are 45.1%.

WHEREAS, if all conditions in Section 16.15 are satisfied, the WRA shall pay M1W the proportional share of the capital cost loan payment 30 days prior to the due date and the proportional share of the amortized replacement/renewal costs by March 1st, annually.

WHEREAS, the construction of the New Source Water Facilities on the Blanco Drain and Reclamation Ditch are complete.

WHEREAS, the Parties entered into Amendment No. 1 to the Agreement on July 18, 2019 to extend the term of satisfying conditions described in Section 16.15 to June 30, 2020 with no associated dollar amount increase to continue to provide services identified in the Agreement.

WHEREAS, the Parties entered into Amendment No. 2 to the Agreement on July 14, 2020 to extend the term of satisfying conditions described in Section 16.15 to June 30, 2021 with no associated dollar amount increase to continue to provide services identified in the Agreement.

WHEREAS, the Parties now wish to amend the Agreement to extend the term of satisfying conditions described in Section 16.15 to June 30, 2022 with no associated dollar amount increase to continue to provide services identified in the Agreement.

NOW, THEREFORE, the Parties agree to amend the Agreement as follows:

1. Amend Section 7.03, "Payment Schedule", to read as follows:

Modify section 1(c) to have first payment due in 2022, and modify section 1(f) to have first payment due in 2023.

2. M1W has the right to utilize the New Source Waters from the Blanco Drain (Water Right Application No. 32263A) and Reclamation Ditch (Water Right Application No. 32263B) Diversion Facilities in full until such time the conditions set forth in Section 16.15 have been satisfied, and in connection therewith, and until such a time the provisions of Section 16.16 shall not be in operation or effect.
3. All other terms and conditions of the Agreement remain unchanged and in full force.
4. This Amendment No. 3 shall be attached to the Agreement as amended and incorporated therein as if fully set forth in the Agreement.

IN WITNESS WHEREOF, the duly authorized representatives of the Parties hereto have executed this Amendment No. 3 to the Agreement as of the day and year first written below:

**MONTEREY COUNTY WATER
RESOURCES AGENCY**

By: 
General Manager

Date: July 16, 2021

MONTEREY ONE WATER

By: 
General Manager

Date: July 14, 2021

Approved as to Form

By: Kelly Z Donlon
Deputy County Counsel

Date: July 15, 2021

By: Robert A. Williams
Counsel, Monterey One Water

Date: July 14, 2021

Approved as to Fiscal Provisions

By: Gary K Giboney
Auditor-Controller

Date: 7-15-2021

Approved as to Indemnity, Insurance Provisions

By: _____
Risk Management

Date: _____

Water Recycling Agreement Expenses Audit

July 22, 2024



Government Performance & Policy

2478 Tierra Dr, Los Osos, CA 93402

(805) 242-2071

info@gppanalytics.com

www.GPPAnalytics.com

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Transmittal Letter

July 22, 2024

Board of Supervisors
Monterey County Water Resources Agency (MCWRA)
168 West Alisal St., 1st Floor
Salinas CA 93901

Board of Directors
Monterey County Water Resources Agency
1441 Schilling Pl.
North Bldg.
Salinas, CA 93901

Rupa Shah, CPA
Auditor-Controller
County of Monterey
168 West Alisal Street, 3rd floor
Salinas, CA 93901

Dear MCWRA Board of Supervisors and Board of Directors, and Auditor-Controller Shah,

At the request of the Water Resources Agency (WRA), the Auditor-Controller's Office engaged GPP Analytics to conduct this audit to assess the accuracy and compliance of M1W's reported expenses. The Auditor-Controller's Office also helped administer the contract during the course of the audit.

I am pleased to present the audit report for the "Water Recycling Agreement Expenses Audit" conducted by GPP Analytics Inc. for the Monterey County Water Resources Agency and the Monterey County Auditor-Controller's Office. This report covers a detailed review of Monterey One Water (M1W) expenses from Fiscal Year 2018–19 to Fiscal Year 2021–22, focusing primarily on adherence to the terms of the Amended and Restated Water Recycling Agreement Between Monterey Regional Water Pollution Control Agency and Monterey County Water Resources Agency (the Agreement).

Our audit was conducted in compliance with the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors and the Generally Accepted Government Auditing Standards (GAGAS) of the U.S. Government Accountability Office.

The primary objectives of our audit were to assess the accuracy and compliance of M1W's reported expenses. We employed a comprehensive methodology, including detailed data analysis, interviews, and reviews of relevant documentation.

Finding 1: Noncompliant Indirect Cost Methodology. We identified a difference in M1W's calculation of indirect costs compared to the methods outlined in the Agreement. This resulted in an estimated \$1,110,117.41 overcharge to the WRA in total for the four audit years. We recommend that M1W and the WRA revise and finalize its indirect cost plan to align with the requirements of the Agreement and return the overcharged amount to the WRA.

Finding 2: Inconsistent Time Records. M1W did not use a consistent method for recording and tracking time billed to the WRA. Moreover, we identified discrepancies between time recorded in the payroll system with independent entries into the work order system. While the work order system is not intended to replicate the payroll system in all instances, some of the discrepancies identified indicate that the payroll system cannot be assumed accurate. Because the information in the two systems was so discrepant, we could not determine if M1W over or under-billed the WRA for employee time. We recommend that M1W enforce internal controls for verifying time records for each payroll period and that it furnish detailed records to the WRA monthly.

Finding 3: Noncompliance With Required Monthly Reporting. Our analysis of monthly reports from M1W to the WRA, as required in the Agreement, ceased for a ten-month period. This was a breach of the Agreement and undermines the ability of WRA to monitor M1W's spending and use of the WRA's program resources. We recommend that M1W adopt a formal procedure for monthly reporting, assign it to a staff member, and develop a backup/succession plan for key deliverables due to the WRA to ensure long-term adherence to the Agreement.

Finding 4: Accounting Practices and Limited Transparency. We observed accounting practices that do not comply with the Agreement, and lack of transparency in M1W's handling of WRA's finances, leading to inconsistent financial reporting and questionable account balances reported by M1W. Disparities in cash balances indicate that M1W's accounting does not meet the requirements for segregating and tracking funds. The misalignment between reported financial data provided to the WRA and M1W's annual audits exacerbates this lack of clarity. Our recommendations include amending the Agreement for clear procedures, segregating WRA funds into distinct enterprise funds, and performing a separate annual financial audit of the WRA funds managed by M1W.

Finding 5: Percent Overcharged. Based on Finding 1, indirect cost methodology, we believe M1W overcharged the WRA by a total of \$1,110,117.41 for the four-year audit period. During each of the four years this was \$64,226.76 or 1.5% of FY 2018–19 expenses, \$175,362.29 or 3.7% in FY 2019–20, \$343,192.18 or 6.3% in FY 2020–21, and \$527,336.19 or 8.6% in FY 2021–22. We recommend that, per the Agreement, M1W reimburse the WRA for the total amount overcharged.

Finding 6: Weak Control Environment. Based on Findings 1-4, we do not believe M1W possesses an appropriate financial system and internal controls to effectively record, monitor, and allocate operational and maintenance costs in accordance with the Agreement. We recommend that M1W implement the recommendations detailed in those findings.

Finding 7: Breaches of the Agreement. Based on Findings 1-4, we believe M1W specifically breached several areas of the Agreement. We recommend both parties seek an update to the Agreement that will hold both parties more accountable and bring awareness of any problems managing the Agreement to both party's board of directors promptly.

We appreciate the cooperation and assistance provided by the staff of Monterey One Water, the Water Resources Agency, and the Auditor-Controller's Office throughout this audit. Their support was instrumental in the successful completion of this project.

We believe this report will provide valuable insights and recommendations to enhance the effectiveness of the Water Recycling Agreement's financial management. Should you require any further information or wish to discuss the findings in more detail, please feel free to contact us.

Thank you for entrusting GPP Analytics Inc. with this important assignment. We look forward to any future opportunities to assist the MCWRA Board of Supervisors and Board of Directors, and Auditor-Controller's Office.

Sincerely,

A handwritten signature in black ink, appearing to read "Julian Metcalf". The signature is fluid and cursive, with the first name "Julian" and last name "Metcalf" clearly distinguishable.

Julian Metcalf
Partner and CEO
GPP Analytics Inc.

Introduction

This audit report presents the findings of the "Water Recycling Agreement Expenses Audit" conducted for the Monterey County Auditor-Controller by GPP Analytics Inc. The audit focused on reviewing Monterey One Water (M1W) expenses over four fiscal years (FY 2018–19 to FY 2021–22) and assessing compliance with the provisions of the Amended and Restated Water Recycling Agreement Between Monterey Regional Water Pollution Control Agency and Monterey County Water Resources Agency (the Agreement).

Standards of Audit

This audit was conducted in accordance with the Institute of Internal Auditors (IIA) Professional Practices Framework (IPPF) and the U.S. Government Accountability Office's (GAO) Generally Accepted Government Auditing Standards (GAGAS);^{1, 2} these standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives and Methodology

The audit's objectives were to evaluate M1W's expenses during four fiscal years for compliance with the provisions of the Agreement. Key aspects included verifying if expenses for the Salinas Valley Reclamation Project (SVRP), Castroville Seawater Intrusion Project (CSIP), and Salinas River Diversion Facility (SRDF) were reasonably incurred, verifying direct and indirect costs were accurately documented, and assessing financial systems and internal controls. The audit aimed to verify proper record keeping, accurate reporting, accurate reconciliations, and compliance with the Agreement overall.

Audit Timeline

The audit process was structured as follows:

Entrance Conference: August 24, 2023

Submission of Planning Memo: September 27, 2023, and revised on October 9, 2023

Commencement of Testing Phase: October 18, 2023

Draft Report Submission to WRA staff: January 31, 2024

Draft Review Meeting with WRA staff: February 9, 2024

Draft Submission to M1W staff: March 5, 2024

Draft Review Meeting with M1W staff: April 9, 2024

Review of Additional Information From M1W staff concluded: May 3, 2024

Revised Draft Submission to WRA staff: May 14, 2024

Revised Draft Submission to M1W staff: June 7, 2024

Written response from M1W received: June 26, 2024

Final Report Submission to WRA: July 22, 2024

1 Institute of Internal Auditors, International Professional Practices Framework 2017.

2 United States Government Accountability Office's Government Auditing Standards 2018 Revision.

In Phase 1, our team focused on initial planning and data gathering. This involved comprehensive reviews of relevant documentation, such as the Water Recycling Agreement, financial reports, and internal policies. We conducted interviews with key M1W personnel to understand operational processes and the allocation of expenses. Additionally, we performed a preliminary analysis of M1W's financial systems and controls, laying the groundwork for in-depth testing in the subsequent phase.

In Phase 2, we conducted detailed fieldwork. This included a thorough examination of financial transactions, verification of compliance with the Water Recycling Agreement, and an in-depth assessment of internal controls and accounting practices. We assessed the accuracy of reported costs, scrutinized indirect cost allocation methods, and reviewed the documentation and timeliness of financial reporting. We performed two onsite visits to M1W facilities to gather and inspect records stored onsite. Near the conclusion of this phase, we met with M1W financial leadership where we shared our preliminary observations and provided copies of workpapers to allow M1W the opportunity to provide any preliminary feedback about their accuracy.

In Phase 3, the team focused on drafting the audit report, reflecting our comprehensive findings, analyses, and recommendations. This stage involved stringent quality control checks to ensure the report's accuracy and thoroughness. The draft underwent multiple reviews by the audit team, ensuring that all findings and recommendations were thoroughly substantiated and aligned with our audit standards.

After the exit conference held on April 8, 2024, M1W indicated that they had information to provide that was previously not provided to our audit team. Over the course of April 2024, we met with representatives of M1W to receive, review, and discuss new information, and listen to their additional feedback. Even though we had frequently met with M1W's financial leadership prior to providing them a draft copy of the audit report, and discussed our testing methodologies and hypothesis throughout the audit phases, M1W provided different feedback and some new material information. Despite the additional time this added to the audit process, we felt it was critical to hear their feedback and review the information. We concluded this additional review period following a meeting with M1W held on May 3, 2024. Thereafter we revised the draft report to reflect the new information provided.

Results From Randomized and Judgmental Sample Analysis

There were several topics in the audit scope, related mostly to direct costs, which we determined could be analyzed together in the initial audit phase using a series of random and judgmental samples. These topics included segregated direct and indirect costs, the timing and categorization of expenditures, and the proper recording of financial transactions. The random and judgmental sample testing and analysis sought to verify the exclusion of non-reimbursable activities, ensure proper support for financial documentation, and assess the accuracy and appropriateness of reported costs in line with the requirements and agreements governing the projects.

At the end of the initial audit phase, we included the following sample plan to test these areas as detailed in Figure i.1 below.

Figure i.1: Samples Calculated at a Confidence Level of 95% and a Confidence Interval of +/- 10%

	FY 2018–19	FY 2019–20	FY 2020–21	FY 2021–22
Sum of Invoices	\$2,415,771.45	\$3,675,689.40	\$4,368,585.42	\$4,857,270.45
Count of Invoices	878	673	740	700
Recommended Samples Size (95% Confidence Level; 10% Margin of Error)	87	85	86	85
Judgmental Sample Size of Journal Entries (related to expenses not otherwise included in invoices or employee time)	10	10	10	10

Source: Information drawn from reports in M1W's financial system run by the audit team.

Our analysis found only minor problems with the invoices and journal entries. Our review of journal entries corroborated other areas of inquiry. For example, journal entries related to indirect cost charges lacked sufficient backup documentation, but that problem is discussed in Finding 1: Noncompliant Indirect Cost Methodology. Other journal entries corroborated our analysis of areas such as the amortization of debt, and application of interest earning, which did not result in an audit finding.

Figure i.2 shows the results from our random testing of invoices. The limited problems we did identify for M1W's accounts payable practices fall into two categories: method of cost allocation and a data entry error. First, we identified 11 invoices where the method for allocating the cost between M1W and WRA was not well-documented and appeared arbitrary. However, this problem mainly occurred for minor expenses, such as printer toner, where costs were evenly split between M1W and one of the WRA programs. The 11 invoices only accounted for a total of \$4,279.52 across the four audit years. If we extrapolate this out to the entire cost of all invoices in this period, it only represents 0.26% of costs. Given the small dollar amount, we do not believe it would be worth the time for M1W to develop, document, and implement a more sophisticated allocation method for these minor expenses.

Second, we found one invoice where the delivery date of the goods was mis-entered into M1W's financial system by three months. Due to the timing, this error did not change the fiscal year of the transaction and had only a minor impact. However, this one error was for an invoice valued at \$18,264.69, so it represents 1.09% of the costs across the four-year audit period. While that percentage on a dollar-basis could impact costs if the error occurred across a fiscal year, it was the only instance of the error out of 343 invoices reviewed, and we do not expect it to occur frequently.

Figure i.2: Summary of Randomized Testing Results for All Four Audited Years

Results	Number of Samples	Amount Sampled	Percentage of Sampled Amount	Extrapolated Amount if Applied to All
Passed	331	\$1,654,453.00	98.66%	\$15,131,868.95
Had limited or no allocation justification	11	\$4,279.52	0.26%	\$36,358.42
Delivery date entered in system incorrect	1	\$18,264.69	1.09%	\$149,089.35
<i>All invoices sampled</i>	<i>343</i>	<i>\$1,676,997.21</i>	<i>100.00%</i>	<i>\$15,317,316.72</i>
<i>Total population of all invoices for four years</i>	<i>2,264</i>	<i>\$15,317,316.72</i>	<i>n/a</i>	<i>n/a</i>

Source: Audit team analysis of M1W's financial records.

Findings

Finding 1: Noncompliant Indirect Cost Methodology

Indirect Cost Methodology Established in the Agreement

The Monterey County Water Resources Agency (WRA) and Monterey One Water (M1W), which at the time was referred to as the Regional Water Pollution Control Agency (PCA), entered into a formalized agreement titled “Amended and Restated Water Recycling Agreement Between Monterey Regional Water Pollution Control Agency and Monterey Resources Agency” (“The Agreement”). The Agreement established the method to be used by M1W in charging the WRA for indirect costs incurred in the operations of the Castroville Seawater Intrusion Project (CSIP), the Salinas River Diversion Facility (SRDF), and the Salinas Valley Reclamation Project (SVRP).

“The consideration paid by WRA shall be the dollar amount that equals 100% of the annual costs reasonably and necessarily incurred in connection with the SVRP, CSIP, and SRDF (including both direct and indirect expenses) and no more.”³

The Agreement also identified the functions to be considered as indirect costs. The Agreement states:

“PCA [M1W] shall identify the specific functions that are typically considered administrative or supportive in nature. These functions or departments shall include Human Resources, Finance, Administration, Information Technology, and Safety. The annual budgeted costs of these functions will be allocated proportionally to all operational activities based on a percentage relational to the services provided to SVRP, CSIP, SRDF, and all other PCA activities. A sample overview is provided in Exhibit J, attached hereto made a part hereof.”⁴

Exhibit J, referred to above, is a seven-page appendix to the Agreement. Exhibit J is titled Cost Allocation Plan (“the Plan”). The word “Draft” appears on the Plan’s title page. The Plan includes brief descriptions of each administrative service department categorized as an indirect cost, as well as the prescribed allocation methodologies. The department and their allocation methodologies as established in Exhibit J are described in Figure 1.1.

³ Amended and Restated Water Recycling Agreement Between Monterey Regional Water Pollution Control Agency and Monterey Resources Agency, Section 7.02 Amounts to be paid. Page 19.

⁴ Ibid.

Figure 1.1: Indirect Charge Allocation Methodology Defined in Exhibit J of the Agreement

Indirect Charge Department	Method in Agreement's Exhibit J
Administration	1. "The Administration Department budget, net of excludable line items, is charged to operational departments based on their percentage of the operational budgets."
Finance	1. "Chief Financial Officer and Accountant's salaries; along with a proportional share of the Finance Department expenses are allocated based on the operational units percentage of the budget. 2. Accounting Technician, Procurement Specialist, and Administrative Support Specialist salaries; along with a proportional share of Finance Department expenses are allocated based on a three-year average of invoices processed by the operational units. 3. Accounting Specialist – Payroll, along with a proportional share of Finance Department expenses are allocated based on the percentage of full-time equivalent positions in each operating department."
Regional Treatment Plant (RTP) Administration	1. "[Assistant] General Manager salary and proportional share of expenses based on the operational department's percentage of the budget." 2. "Administrative Support Specialist salary and proportional share of expenses based on the average percentage of budget and full-time equivalency positions with each operational department."
Human Resources (HR), Information Systems (IS), and Safety Departments	1. "Costs associated with the Human Resources are allocated based on the percentage of full-time equivalent positions in each operation departments."

Source: Amended and Restated Water Recycling Agreement Between Monterey Regional Water Pollution Control Agency and Monterey Resources Agency.

M1W Applied a Singular Non-Compliant Methodology

Instead of performing each separate calculation for each department, M1W applied the methodology prescribed for the Administration Department to all six indirect cost departments. This meant that M1W only calculated the percentage of total agency operational costs attributable to each of the three WRA programs.⁵ That percentage was then applied to the total costs of the six indirect departments and WRA was charged the resulting amount. As discussed further below and seen in figure 1.2, the simplified calculation used by M1W resulted in a significantly higher amount charged to the WRA than would have been calculated had M1W used Exhibit J as described in the Agreement.

Cause and Start of Non-Compliance Unclear

Because of prior staff turnover at M1W, we could not determine the reason M1W did not use the methodology described in Exhibit J, nor could M1W provide any records of when they may have previously complied with and used the methods defined in Exhibit J. The M1W Chief Financial Officer (CFO) explained that upon being given the task, he was shown the non-compliant methodology currently in use and he continued to use that method.

⁵ Operational costs exclude debt service and overhead.

The complexity of the Appendix J model may have led to the decision to use the simpler method. The Agreement does allow the parties to agree to use a different methodology, but the non-compliant method that M1W used during the audit period did not meet these alternative requirements. The Agreement states:

“PCA [M1W] and WRA retain the right to transition from the cost allocation plan identified in 8.02 (b) to a cost allocation model that is compliant with the Office of Management and Budget (OMB) Circular A-87 – Cost Principles for State, Local, and Indian Tribe Governments or a subsequent revision. Any cost allocation subject to this provision shall be accompanied by a Certificate of Cost Allocation Plan and in compliance with Title 2 CFR, Part 200. All indirect costs charged to functional activities will be applied consistently with the results of this plan to ensure equity between costs centers and conformance with OMB standards; provided, however, no allocation of any indirect cost unrelated cost to SVRP, CSIP or SRDF shall be made.”^{6; 7}

Neither M1W nor the WRA have any records or staff recollection of either party agreeing to the method that M1W used during the audit period, and there is no record of the methods M1W used during the audit period having a certificate stating compliance with Title 2 CFR, Part 200.

Sample and Draft Language

Moreover, inclusion of the phrase “sample” in the table of contents and Section 8.03, and use of the word “Draft” on the Exhibit J title page do create a question whether the cost allocation methodology described in Exhibit J represents the finalized agreement as to the method to be used to determine the amount of indirect costs. However, there is no evidence that indicates M1W and WRA agreed to use an alternative methodology over the methodology described in Exhibit J. Further, the Agreement was approved by the boards representing M1W and the WRA and was signed by their respective Board Chairs and legal counsel. This suggests that despite being labeled a “draft” or “sample” Exhibit J represents the type of plan which both party’s boards sought to implement in the Agreement absent the alternative options outlined in the Agreement.

Non-Compliant Method Resulted in Overpayment

Based on our analysis, the methodology used by M1W resulted in WRA being charged an estimated \$1,110,117.41 more than it would have been charged had the Exhibit J methodology been used.⁸ Figure 1.2 below provides the amounts charged, the amounts that would have been charged if the Exhibit J methodology had been used, and the resulting overpayments.

6 Amended and Restated Water Recycling Agreement Between Monterey Regional Water Pollution Control Agency and Monterey Resources Agency, Section 8.03 (4) Direct and indirect costs. Page 23.

7 The reference to Section 8.02 appears to be a typo as Section 8.03 is the section in which direct and indirect costs are addressed. Section 8.02 addresses financial reporting.

8 The audit team used data from M1W’s financial system, its annual financial audit reports, payroll records, and its proposed budget reports to reconstruct what the indirect costs would have been according to the method outlined in Exhibit J of the Agreement.

Figure 1.2: Comparison of Calculated Indirect Cost Allocations

	FY 2018–19	FY 2019–20	FY 2020–21	FY 2021–22	Four-Year Total
Total Actual Charged by M1W	\$761,034.26	\$853,193.00	\$1,019,609.88	\$1,129,332.29	\$3,763,169.43
Total Due Per Exhibit J as calculated by the audit team with supporting documentation	\$696,807.50	\$677,830.71	\$676,417.70	\$601,996.10	\$2,653,052.02
Difference/Amount of Overpayment	\$64,226.76	\$175,362.29	\$343,192.18	\$527,336.19	\$1,110,117.41

Source GPP Analysis, M1W Detailed Budgets, and internal financial reports.

The indirect cost amount of the WRA programs, as shown in Figure 1.3, revealed that in certain years, like FY 2021–22, these charges accounted for over 18% of the project's operating costs. In this one example, the amount charged was nearly double what was suggested by the methodology in Exhibit J.

Figure 1.3: Comparison as a Percentage of WRA Project Operating Expenses

	FY 2018–19	FY 2019–20	FY 2020–21	FY 2021–22	Four Year Average
Total Actual Charged by M1W	17.5%	17.9%	18.6%	18.4%	18.1%
Total Due Per Exhibit J Methodology	16.0%	14.2%	12.3%	9.8%	13.1%

Source GPP Analysis and M1W Detailed Budgets.

Differing Perspective on the Application of the Exhibit J Methodology

As noted in the introduction of the audit report, we shared with M1W both our initial conclusion that M1W did not adhere to the cost allocation plan established in Exhibit J of the Agreement and our subsequent calculation as to the dollar amount that should have been charged based on the methodology prescribed in Exhibit J.

M1W performed its own calculation using the Exhibit J methodology with results that differed from ours. These differences resulted from a combination of differing interpretations of the Agreement and Exhibit J, differing opinions as to whether a portion of some specific M1W costs should be allocated to WRA, and our exclusion of certain costs that could not be evidenced by supporting documentation.

Figure 1.4 below presents the results of both our calculations and M1W's calculations when the Appendix J methodology is used to determine indirect costs allocations retroactively. For comparison purposes, the amounts M1W charged WRA are also included in Figure 1.4.

Figure 1.4: Comparison of Calculated Indirect Cost Allocations

	FY 2018–19	FY 2019–20	FY 2020–21	FY 2021–22	Four-Year Total
Total Actual Charged by M1W	\$761,034.26	\$853,193.00	\$1,019,609.88	\$1,129,332.29	\$3,763,169.43
Total Due Per Exhibit J as calculated by the audit team with supporting documentation	\$696,807.50	\$677,830.71	\$676,417.70	\$601,996.10	\$2,653,052.02
Total Due Per Exhibit J as calculated by M1W without complete supporting documentation	\$792,915.11	\$799,325.15	\$910,605.46	\$1,025,219.75	\$3,528,065.46

Source GPP Analysis, M1W Detailed Budgets, internal financial reports, and M1W calculations.

In general, we interpreted the Appendix J Cost Allocation Plan as narrowly defining the costs to be considered indirect costs. For example, we noted that the Cost Allocation Plan Overview lists the Board of Directors as being a direct or operational cost center and not an indirect or administrative cost center, though it is common to consider the Board of Directors to be an indirect cost. This exclusion suggested to us the Agreement intends to limit what is to be included as an indirect cost. Moreover, we also noted that Exhibit J establishes the requirement that M1W conduct “A review of the line-item expenditures as conducted within each department to determine whether there are any significant costs which should be excluded or included as overhead.” This also suggested to us that the Agreement intended there to be a close review by M1W of expenses to be included. Our interpretation suggests to us that M1W is responsible for annually reviewing the expenses to include as indirect costs and that this review should adhere closely to the definitions outlined in the Exhibit.

In contrast to our approach, M1W indicated to us that it interprets Section 8.03 of the Agreement, which states “PCA [M1W] shall identify the specific functions that are typically considered administrative or support in nature,” as superseding any details included in Exhibit J and allowing M1W a higher degree in latitude in determining what costs to include.

The factors which contributed to the differences between our and M1W’s calculations using the Appendix J methodology are discussed below.

Use of Full-Time Equivalents (FTE) Versus Use of Staff Persons in the Denominator

Exhibit J involves multiple calculations that rely on the concept of Full-Time Equivalents or FTE to determine the allocation of indirect costs to WRA. For example, Exhibit J states that “Costs allocated with the Human Resources department are allocated based on the percentage of full-time equivalent positions in each operating department.” Similarly, FTE allocations are used to determine the portion of Information Systems and Safety Departments costs to be charged to WRA.

To perform calculations based on FTE, we used all the hours in the M1W payroll system divided by full time hours in a year to calculate FTE. In contrast, M1W used a pay period average of total staff persons per year. We disagree with M1W’s approach, which uses persons instead of FTE, and the averaging on a pay period basis instead of using the total annual hours entered into the system. Their calculation methods result in a material difference that changes the cost output from the plan and does not align with Exhibit J’s requirement to use FTEs in staff-related calculations of the Indirect Cost Plan.

Use of Operating Versus Operating and Capital Personnel in Denominator

M1W excluded all staff time related to capital projects from the denominator used in several indirect cost calculations. On the surface, this makes logical sense, but it conflicts with their inclusion of staff who usually work in capital functions that directly bill to the WRA programs when calculating the numerator of the ratio. The audit team believes it is more mathematically accurate to include the same basis of FTE staff hours in the denominator of calculations.

Finding 2 of this report discusses the problems of M1W’s timekeeping records and the limitations of what we can assess based on their inconsistent records. If the current Indirect Cost Plan is maintained or a more effective plan is adopted later, any improved timekeeping records, as we recommend in Finding 2, would provide a more accurate input for determining indirect costs.

Amount of Distribution Mechanics’ Time to be Included

M1W asserts that two Distribution Mechanics are dedicated to WRA-related work and therefore 2.0 FTE should be included when determining the ratio of M1W employees allocated to WRA. M1W further asserts that because these two employees are dedicated to WRA-related work, M1W practice does not require the employees to record whether their time was spent on WRA projects or non-WRA projects.

However, work order records do not support the assertion that these employees only worked on WRA projects. Moreover, M1W acknowledged that for much of the audit period these employees were furloughed from 40 hour to 36 hours per week as a result of COVID-19 safety measures.

Section 7.04 of the Agreement requires that “Back-up information (original paid invoices, payroll records, time sheets, and vehicle costs) will be maintained by PCA [M1W] to support each direct charge.” Assuming the requirement that back-up information be maintained applies to indirect as well as direct charges, then it is only appropriate to include the Distribution Mechanics’ time that is supported by work orders. Figure 1.5 compares the amount of time supported by documentation to M1W’s assertion regarding the Distribution Mechanics’ time.

Figure 1.5: Distribution Mechanic Time in Work Order System

	FY 2018–19	FY 2019–20	FY 2020–21	FY 2021–22
Total Hours in System Related to the WRA Programs	160.75	520.15	2,020.50	1,466.65
Hours Calculated as Full-Time Equivalents for Indirect Cost Model by Auditors ⁹	0.10	0.31	1.22	0.89
<i>FTE that M1W Asserts Should be Included</i>	2.0	2.0	2.0	2.0

Source GPP Analysis of M1W work order records.

Exclusion Versus Inclusion of Outreach Department

M1W asserts that if they had complied with Exhibit J, they would have included their Outreach Department as a cost allocated using the same methodology as their Administration Department. M1W states that the Outreach Department serves the WRA by providing legislative advocacy, grant funding advocacy, tours of program facilities, and classroom presentations about the programs. However, as discussed further below, M1W was not able to provide any documentation to validate or estimate the level of services the Outreach Department provides to the WRA.

Per M1W, the Outreach Department was a function within the Administration Department when Exhibit J was added to the Agreement in 2015 and that Outreach became its own department subsequent to Fiscal Year 2018–19.

We disagree with M1W’s approach that Outreach should be included as an indirect cost because of its original placement within the Administrative Department. We disagree because the narrative contained within Exhibit J specifies the administrative costs to be included. It states:

“...Costs include legal counsel, insurance, contract services, and utility costs for the Harris Court administrative offices.”

Moreover, Exhibit J specifically excludes certain general administrative and legislative expenses, such as those related to the Board of Directors. Instead, we believe the costs associated with the Outreach Department and its functions should be direct costs per our interpretation of the Agreement and Exhibit J.

According to M1W, they assumed that the Outreach Department was covered under indirect costs and did not document or track their time as direct charges. Such documentation and tracking, even if an indirect charge, would have been important in our opinion. This is because the department experienced considerable growth after becoming independent from the Administrative Department, as illustrated in Figure 1.6 below. During the audit period, the costs escalated from \$27,852 in FY 2018–19 to \$790,443 in FY 2021–22. Given the ambiguities surrounding the Outreach Department and its potential benefits to the WRA, it would have been prudent for M1W to disclose these escalating costs to the WRA. Such

⁹ Based on our understanding of M1W’s maximum annual vacation, holiday, sick, and admin leave time we used 1,656 hours to calculate each FTE. A full year of full-time work with no leave considered is 2,080 hours for comparison.

transparency could have facilitated a consensus on whether to amend the Agreement to explicitly include these costs, ensuring proper financial oversight and alignment with agreed protocols in the Agreement. With this in mind, we do not believe it is appropriate to include the Outreach Department as a cost when retroactively estimating Exhibit J.

Figure 1.6: Reported Costs of M1W’s Outreach Department

	Integrated with Administration Department	Independent Outreach Department Formed		
	FY 2018–19	FY 2019–20	FY 2020–21	FY 2021–22
Reported Outreach Costs	\$27,852 ¹⁰	\$502,645	\$614,982	\$790,443

Source: Reported M1W Analysis.

Amount of Regional Treatment Plant Admin Support Personnel to be Included

Exhibit J explicitly defines some calculations for the RTP (Regional Treatment Plant) Administration Costs to be based on proportional costs related to the staff roles of the Assistant General Manager and the Administrative Support Specialist. M1W asserts that this calculation should also include the salary of a staff member with the title of RTP Administrative Analyst because they were substituting for the Administrative Support Specialist for a period of time.

We disagree with including this cost for three reasons:

1. Despite M1W’s assertion that this was a substitution, the Administrative Support Specialist, as named in Exhibit J, did have a part-time salary that we included in our calculations. Adding another salary from a position not named in Exhibit J did not seem appropriate without more supporting evidence.
2. The RTP Administrative Analyst also directly billed time to the WRA programs. There is no documentation related to their time or assigned duties to determine if their directly charged activities were appropriately billed or if they should also be billed indirectly without the risk of double counting their time. Further, we have seen no documentation showing that they were temporarily assigned to substitute the Administrative Support Specialist role during the audit period.
3. Had M1W followed the Agreement and used Exhibit J, it is possible that M1W would have communicated this substitution to the WRA during their operations. If that had occurred, then the WRA may have had an opportunity to evaluate the appropriateness of including the different position as a substitution. Since there are no records of this occurring and M1W has stated that they did not follow Exhibit J, it does not seem appropriate to retroactively consider costs not named in Agreement.

10 The audit team excluded the reported Outreach costs from the Fiscal Year 2018–19 costs used in our analysis of the Administration Department to be consistent with our interpretation of Exhibit J and our exclusion of the Outreach Department costs in the other three years.

Future Costs

Besides some technical differences we noted in how calculations are performed, the other key differences relate to M1W documentation of costs. If the current Agreement remains unchanged, M1W may improve its documentation of some of these costs in question. If this occurs, one would expect the costs to increase. For example, if the two Distribution Mechanics are truly performing exclusive full-time work on the WRA programs these costs should be better documented and accounted for as they relate to both direct and in-direct charges. As mentioned above, we believe the costs of the Outreach Department should currently be considered direct costs based on the Agreement and Exhibit J. If those costs are tracked, documented, and included in the annual budget, it may be appropriate for the WRA to pay for those costs too.

Ambiguous Definitions

Our interpretation of Exhibit J is grounded in an adherence to the available evidence regarding the intentions of both boards of directors. The application of this document has highlighted structural and methodological deficiencies that introduce ambiguities. Ideally, M1W would have engaged with the WRA annually to clarify these ambiguities as they arose and seek possible updates to the Agreement, but such interactions did not occur. We now recommend that both M1W and the WRA jointly review Exhibit J to develop and adopt a more effective indirect cost allocation plan and present it in a proposed amendment to the Agreement and clearly label it as a final and conclusive version of the plan if adopted. This updated plan should accurately reflect the current scope of programs and services and their associated costs, comply with Title 2 CFR, Part 200 as required in the Agreement, and facilitate clearer and more effective financial governance.

Recommendations

The Water Resources Agency should:

- 1.1 Seek a refund in the amount of \$1,110,117.41.

The Water Resources Agency and Monterey One Water should:

- 1.2 Agree to and document the method to calculate indirect costs to be used in future years and amend the Agreement to reflect this decision. The selected method should be compliant with the requirements set Section 8.03 of the Agreement, and the Agreement should include a final version of the methodology and exclude words such as “sample” and “draft”.
- 1.3 Amend the Agreement to require that M1W must submit working papers that support and document the calculation of the indirect cost allocation amount charged to the WRA. The working papers should include sufficient detail for the WRA to verify how all calculations were made and any assumptions that were used in the calculations.

Finding 2: Inconsistent Time Records

The Agreement Established That Backup Information Will Be Maintained by M1W

The Agreement between Monterey County Water Resources Agency (WRA) and Monterey One Water (M1W) states in section 7.04, Payment procedures Part 3, that “...Back-up information (original paid invoices, payroll records, timesheets, and vehicle costs) will be maintained by PCA [M1W] to support each direct charge.”

Salary and Benefits Represent a Quarter of All Operating Expenses

During the four years of the audit scope, M1W spent on average 25.2% of the three WRA program’s operating expenses on salary and benefit costs for M1W staff, see Figure 2.1 below. This illustrates that salary and benefit costs are a significant portion of the operating costs and warrant backup documentation as required by the Agreement for these direct charges.

Figure 2.1: Salary and Benefits Were a Quarter of WRA Project Operating Costs

	FY 2018–19	FY 2019–20	FY 2020–21	FY 2021–22
Salary and Benefit Expenditures WRA Projects	\$1,055,000.00 ¹¹	\$1,179,004.25	\$1,425,827.74	\$1,4666,10.62
Total Operating Expenses for WRA Projects	\$4,351,925.00	\$4,767,198.00	\$5,488,494.00	\$6,125,172.00
% of Operating Expenses From Salary and Benefits	24.2%	24.7%	26.0%	23.9%

Source: Salary and benefits calculated from M1W’s financial system records. Total Operating Expenses calculated from M1W’s Combining Schedule of Revenues, Expenses, and Change in Net Position presented in the unaudited Other Supplementary Information section of their Annual Comprehensive Financial Reports.

M1W Uses Two Systems That Record Time

M1W employs two separate systems that record staff time: the asset-focused work order system called Lucity (a computerized maintenance management system or CMMS) and a timesheet system within the payroll module of Eden (M1W’s financial system). The two systems are not integrated at this time, but M1W staff said they could be integrated in the future.

Among other functions, Lucity tracks hours on asset and infrastructure work orders. M1W does not require a supervisor or managerial review of hours entered in the CMMS for work orders.

Conversely, Eden, M1W’s financial system, allows employees to record hours worked by billable function in timesheets for the agency’s biweekly payroll. Time entered by employees requires their manager’s biweekly review and approval. The time entered in the payroll module is the time used to charge labor costs to the WRA projects.

¹¹ As discussed in Finding 4 on page 25 of this report, M1W managed the WRA program funds within its General Fund in FY 2018-19 and in years prior. Since Figure 2.1 is provided for contextual purposes, we displayed that year’s salary and benefit costs based on what M1W reported as actual expenditures to the M1W Board. The other three years, beginning in FY 2019-20, we displayed expenditures we calculated from M1W’s financial system for the years when the WRA programs were held in the separate Reclamation Fund.

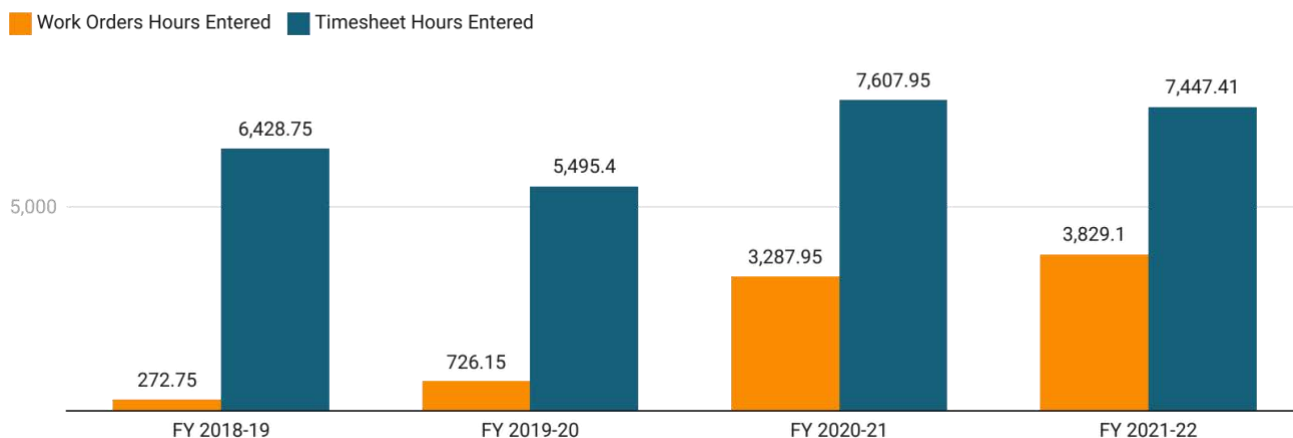
Though Lucy is intended for asset management and not payroll purposes, hours recorded in both systems should be roughly similar to each other since most work performed on the projects should otherwise be tracked and managed with work orders according to M1W's practices. In total, we would expect work order hours to be somewhat smaller since supervisors and managers may have administrative time related to managing staff and those hours would not be recorded in the Lucy work order system. However, in no instances would we expect a payroll record and a Lucy record to show contradictory entries for a specific block of time.

The Two Systems Show Significant Disparities

We compared the time entered in both systems and found significant discrepancies. The patterns of their differences suggest that both systems are inaccurate since both systems are missing records from one-another. For example, in Fiscal Year 2021–22 the CMMS recorded 3,829.10 hours versus 7,447.41 in Eden, a 51.4% difference. In the same year, there are 13 personnel with hours in CMMS but not in Eden's timesheet, and 21 names in Eden but absent in CMMS for the same period.¹² These differences are much larger than expected. Given the number of staff who do not enter time in one or the other system, we think the difference is due to a larger systemic problem with M1W's time recording practices and controls.

Figure 2.2 below shows a comparison of the hours entered in each of the systems for each of the four years included in the audit scope. Figure 2.3 compares the number of staff entering hours into each system. Figure 2.4 shows the difference in reported time between the two systems and WRA's program by their estimated full-time equivalents (FTE).

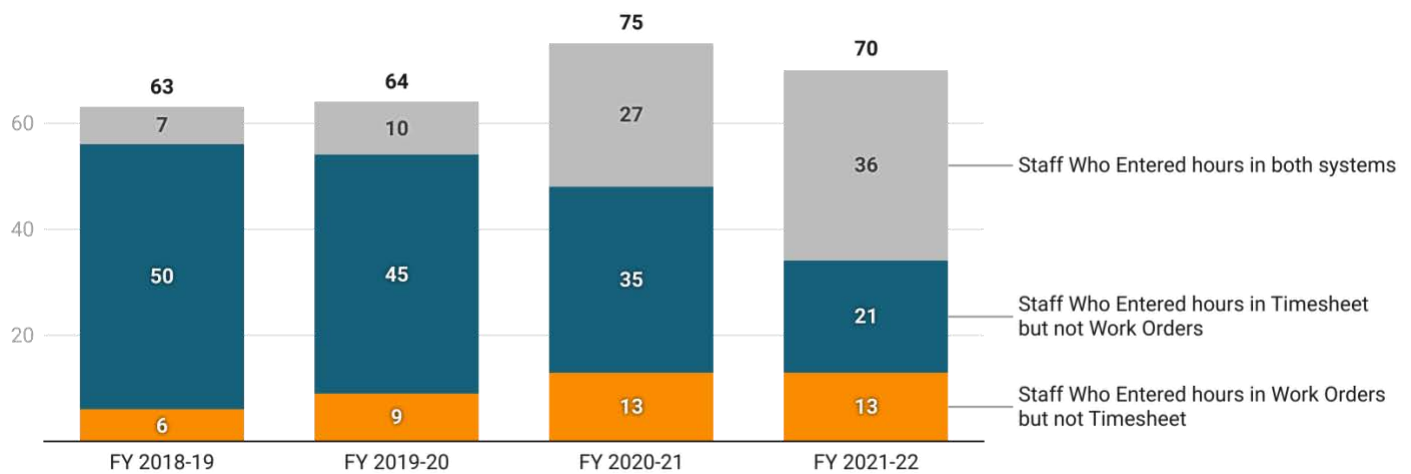
Figure 2.2: Most Staff Enter Time in Timesheet Systems for WRA Projects but Not Work Order System



Source: Audit team analysis of M1W's Lucy (CMMS) work orders and payroll (Eden) timesheet records.

¹² Both the CMMS work order data and the payroll timesheet data discussed here include only hours entered by M1W staff and excludes any work that may have otherwise been performed by outside vendors and contractors.

Figure 2.3: Some Staff Only Enter Time in One System and Not the Other for WRA Projects



Source: Audit team analysis of M1W's Lucity (CMMS) work orders and payroll (Eden) timesheet records.

Figure 2.4: Difference in Reported Time Between System and Program Shown as Full-Time Equivalents (FTE)¹³

	FY 2018–19	FY 2019–20	FY 2020–21	FY 2021–22
Work Order (CMMS)	0.16	0.44	1.99	2.31
CSIP	0.00	0.14	1.16	1.27
SRDF	0.16	0.29	0.40	0.12
SVRP	0.01	0.00	0.43	0.93
Timesheet (Payroll)	3.88	3.32	4.59	4.50
CSIP	0.48	0.46	1.11	1.09
SRDF	0.55	0.24	0.19	0.02
SVRP	2.85	2.62	3.29	3.38

Source: Audit team analysis of M1W's Lucity (CMMS) work orders and payroll (Eden) timesheet records.

¹³ FTE estimated based on 1,656 possible working hours per full-time equivalent staff.

Discrepant Records Caused by Several Factors

There are several factors that may have caused M1W to maintain inconsistent time records. First, M1W has no written policies or procedures for time entry in either system.¹⁴ Without such a policy, M1W has no formal mechanism to hold employees accountable for regular and accurate time entry in either system.

Second, there is no effective process or control in place by which time billed to WRA is reviewed or compared to time recorded in the work order system. Certain reviews occur, but these reviews are limited in nature and do not serve to ensure accuracy or consistency between the time keeping and work order systems. The reviews are:

- Work order system information is reviewed but not compared to other information such as employee timesheets, according to the work order system manager.
- Supervisors approve individual timesheets of their direct reports on a biweekly basis, but there is no comprehensive or summary review of time billed to specific projects or programs.
- The Payroll Manager reviews timesheet entries but does not compare the entries to entries in the work order system.

Poor Record-keeping Undermines Validity and Suggests the Time Billed to WRA Is Inaccurate

The discrepancy between the work order system and timekeeping system suggests that the time billed to the WRA programs is inaccurate, and it undermines the validity of either system, meaning neither serves as effective backup information as required in the Agreement. Between the two, we expect the payroll's timesheet information to be the most accurate since staff have a stronger incentive to report time worked in that system. Even with that consideration, the timesheet information may not be accurate given how many staff report time in only one system and not the other. Without more reliable backup information, the WRA has no way of evaluating if the time M1W billed to the WRA is accurate or should be higher or lower.

If the issues identified are not addressed, several significant risks and consequences could arise. Firstly, continued discrepancies in timekeeping records may lead to financial losses for either the WRA or M1W, due to inaccurate billing. Secondly, the lack of transparent and accurate timekeeping undermines trust and credibility, which are crucial for maintaining a positive working relationship between the WRA and M1W.

¹⁴ The only record we could identify of M1W directing staff to enter time regularly was from August 2022, when the manager of the work order system presented a training to operational staff that asked employees to "Add your time and materials daily for all work performed, if the Documentation of the time spent performing Maintenance and Operations tasks shall be recorded daily to ensure accuracy and accountability...".

Recommendations

Monterey One Water should:

- 2.1 Write and implement an organization-wide policy where supervisors of staff who directly bill time to the WRA's projects review all work order time entered and timesheet time prior to approving timesheets for payroll. If the supervisor sees a possible discrepancy, the policy should direct them to reconcile the information in both systems before approving the timesheet. This will help improve the accuracy of data in both systems.
- 2.2 Once any necessary corrections have been made to work order or timesheet information, M1W should provide the WRA with detailed monthly reports of time from both systems. This will allow the WRA to monitor M1W's progress and better assess the accuracy of time billed.
- 2.3 Seek to integrate its work order time entry with its timesheet entry for payroll. Such an integration will improve staff compliance while also saving staff time by entering their billable hours in a single place.

Finding 3: Noncompliance With Required Monthly Reporting

The Agreement Requires M1W to Provide WRA With Monthly Expenditure Reports

The Monterey County Water Resources Agency (WRA) and Monterey One Water (M1W) entered into the Amended and Restated Water Recycling Agreement Between Monterey Regional Water Pollution Control Agency and Monterey County Water Resources Agency (the Agreement). Section 8.02 of the Agreement states that "by the last day of each month PCA [M1W] will provide to WRA a report on expenditures made during the previous month and year-to-date, for each line item in the SVRP, CSIP, and SRDF budgets [...]".

Ten Month Gap in Reporting to WRA

Our audit documented that M1W failed to submit the required monthly expenditure reports to WRA for ten consecutive months, spanning from June 2022 to March 2023. This noncompliance was discovered through an examination of emails and reports provide to us from both M1W and WRA. While the condition occurred outside of the audit's four-year period, we determined that it was important to include it because of the recency of the occurrence, only months before the start of the audit, and it is illustrative of other reporting and transparency problems discussed throughout the audit report.

Lack of Written Procedures and No Succession Planning

During our discussions with M1W personnel, it became apparent that the lapse in compliance was likely a result of the vacant Controller position at M1W. This lapse reveals a broader problem in M1W's Finance Department, which is that M1W lacks written procedures for critical duties related to the Agreement and lacks succession planning for key roles such as the Controller position. These circumstances are common among small departments, but the negative effects of them can still be mitigated through improved documentation and planning.

Undermines Oversight and Is a Breach of the Agreement

This failure undermined the WRA's ability to conduct effective financial oversight of M1W's management of its funds and is a breach of the terms of the Agreement.

Recommendations

Monterey One Water should:

- 3.1 Implement a formal procedure for monthly reporting, assigning this responsibility explicitly to designated staff.
- 3.2 Develop a backup plan or succession strategy for critical roles and responsibilities in the Finance Department, ensuring continuity in fulfilling key requirements of the Agreement, including the monthly expenditure reports.

Finding 4: Accounting Practices and Limited Transparency

Our review of the processes by which Monterey One Water (M1W) accounts for and reports the financial activities of the Water Resources Agency (WRA) programs identified several shortcomings that resulted in multiple interconnected issues. These issues prevent transparency and impede oversight from occurring. As a result, and because processes have changed over time, the accuracy of the current WRA program account balance, as reported by M1W, is questionable.

A brief overview of the process by which M1W budgets and tracks WRA program expenditures and payments provides the context necessary to explain these issues.

Contextual Background of Budget and Payment Process

The Agreement establishes that WRA shall pay “...the dollar amount that equals 100% of the annual costs reasonably and necessarily incurred in connection with the SVRP, CSIP, and SRDF (including both direct and indirect expenses) and no more”.¹⁵ M1W is required to make reasonable efforts to stay within or below the amounts budgeted, and any budgeted savings are to apply to the following year’s budgets.

The budget for each WRA program consists of: amortization of any loans and any other financing; anticipated costs for operations, maintenance, repair, replacement, power, capitalized equipment, and capital improvements; contingencies; and reserves.¹⁶ M1W submits a preliminary budget estimate to the WRA in December, in accordance with the Agreement.

The Agreement establishes that two annual payments are to be made for operation, maintenance, reserve, and all other budgeted costs. Payment is due on March 1 for costs incurred in the preceding July–December and payment is due September 1 for the preceding January–June period.

After fiscal year end, M1W submits an annual true-up report, referred to as a reconciliation statement.¹⁷ The reconciliation statement serves to determine the extent to which WRA payments exceeded the amount expended during the year (referred to as ‘budget savings’). Budget savings are applied as payments to the following year’s budget.

15 Amended and Restated Water Recycling Agreement Between Monterey Regional Water Pollution Control Agency and Monterey Resources Agency, Section 7.02.

16 Section 9.01 of the Agreement requires PCA [M1W] to establish a reclamation reserve fund for the repair and modification of SVRP, CSIP, SRDF and New Source Water Facilities and related facilities.

17 In this context, use of the term ‘reconciliation’ does not refer to a traditional bank reconciliation. The M1W reconciliation provides a reporting of the prior year’s expenditures and financial position.

Reconciliation Statement Not Defined in Agreement

The Agreement does not establish the methodology by which the reconciliation statement is to be produced nor does the Agreement establish the reporting format. The Agreement just states:

“Unused funds received from WRA will be placed by PCA [M1W] in an interest-bearing account. All interest earned from WRA accounts will be applied for WRA’s benefit on a monthly basis. PCA [M1W] will adjust the second semi-annual billing and year-end reconciliation statement by any interest earned on WRA accounts. [...]”¹⁸

In theory, the reconciliation statement should be a reconciliation between the budgetary (cash) basis of accounting used to charge and receive funds from the WRA and the accrual basis used for accounting and reporting in an audited financial statement for each program. This reconciliation is equivalent to the Cash Flow Statement for each program, that would be included in a separately audited financial statement. However, as discussed further below in this report, the programs are not presented by M1W in a separately audited financial statement. Instead, the reconciliation statements have been provided by M1W using calculations that have varied between iterations. This limits the WRA’s ability to effectively monitor M1W’s use of WRA funds and their compliance with the Agreement.

Further, we identified several inter-related conditions and their resulting effects, which will be discussed below. They combine to reinforce the need to modify the Agreement to require M1W to produce a separate audited statement of the WRA programs to ensure full transparency and accountability.

Inter-Related Problems We Identified

Conflicting Versions of Reconciliation Statements Sent by M1W

In 2022, M1W sent several iterative versions of the reconciliation statements based on feedback from the WRA about how the available balance should be calculated. Each version had significantly different cash balances and calculated available funds. While the calculation of available funds could be interpreted differently because it is not specified in the Agreement, the cash balances should not have changed between versions. However, each version calculated the cash balance based on different cash accounts held by M1W. We think this occurred because cash and investments are an input into the calculation of available funds, and the differing versions of cash and investments appear to be drawn from different funds held by M1W. These reporting variances are only compounded by M1W’s accounting and reporting problems discussed further below in this finding. The combined problems limit the WRA’s ability to monitor M1W’s use of the WRA’s funds.

18 Amended and Restated Water Recycling Agreement Between Monterey Regional Water Pollution Control Agency and Monterey Resources Agency, Section 7.02 part 3.

Figure 4.1 shows how the cash balances, which should not be a subjective calculation, changed between the initial and the final versions.

Figure 4.1: Three Different Versions of Reconciliation Statements Submitted By M1W

	Version 1 Revised Reconciliation – Sent by M1W 2/4/2022	Version 2 Revised Reconciliation – Sent by M1W 2/9/2022	Final Version Revised Reconciliation – Sent by M1W 5/22/2022
Fiscal Year 2018–19 Cash Balance	\$555,988.84	\$555,988.84	\$332,519.84
<i>Difference from previous</i>		0.00%	-67.20%
Fiscal Year 2019–20 Cash Balance	\$1,690,903.65	\$1,690,903.66	\$1,464,229.00
<i>Difference from previous</i>		0.00%	-15.48%
Fiscal Year 2020–21 Cash Balance	\$2,662,228.69	\$2,662,228.69	\$2,642,448.69
<i>Difference from previous</i>		0.00%	-0.75%

Source: Analysis of emails and documents from M1W to WRA.

WRA Program Funds Never Properly Segregated

Section 8.01 of the Agreement requires that the following occur:

“PCA [M1W] will maintain an accounting system that in conformity with generally accepted accounting principles (GAAP) and will allow for the segregation and tracking of all revenues and direct costs relate to the SVRP, CSIP, and SRDF.”

Full segregation of the SVRP, CSIP, and SRDF programs has not occurred, though improvements have been made. For the years prior to and including Fiscal Year (FY) 2018–19, M1W accounted for the three WRA programs within M1W’s General Fund. In FY 2019–20, M1W segregated WRA-related financial transactions from other M1W financial transactions by moving WRA programs into a separate fund known as the Reclamation Fund. The Reclamation Fund only includes the three WRA programs.

Although M1W has established several program-specific accounts within the Reclamation Fund, the cash balances of the three programs are maintained in a pooled cash account titled “02-000-1010 RECLAMATION ACCOUNT.” This practice is not compliant with the requirement that accounting practices “allow for the segregation and tracking of all revenues and direct costs related to the SVRP, CSIP, and SRDF,” as stated in Section 8.01 of the Agreement, if the statement is interpreted as meaning that the finances of each program should be segregated from the finances of the other two programs.

Moreover, when M1W has provided annual reconciliation statements to WRA, it has not routinely shown this pooled account, and instead performed a redistribution of the funds associated with each program. This practice lacks transparency and inhibits outside verification of the accuracy of the reported number, as illustrated in Figure 4.2.

Figure 4.2: Pooled Cash Account Not Reported in Reconciliation Statements to the WRA, June 30, 2022, Balance

	GPP Calculated	Reconciliation Statement
02-000-1010 RECLAMATION ACCOUNT	-\$719,970	<i>Not listed</i>
02-000-1192 INVEST. RECLAMATION O & M -LAIF	\$819,387	<i>Not listed</i>
02-000-1193 INVEST-RECLAM O&M-CSIP-LAIF	\$337,863	<i>Not listed</i>
02-000-1199 INVEST. SRDF O & M -LAIF	\$401,594	<i>Not listed</i>
SVRP	<i>n/a</i>	\$39,519
CSIP	<i>n/a</i>	-\$406,389
SRDF	<i>n/a</i>	\$1,211,622
Cash Balance TOTAL (excluding Capital and Debt Reserves)	\$838,874	\$844,752

Source: GPP Analytics ran trial balance reports on M1W's financial system and compared them to a copy of revised reconciliation statement provided by WRA and M1W on July 21, 2022.

M1W acknowledges the issues related to this practice and reports that it plans to move each program into its own fund at the start of Fiscal Year 2024–25. We agree with this approach and believe it will improve M1W's management of the funds and better enable WRA to fulfill its oversight responsibilities. However, given that errors occurred during the previous transition to the Reclamation Fund, we recommend that the WRA play an active role in first approving and reviewing how all WRA monies are redistributed into these separate funds.

The Reclamation Fund Misstatement

The FY 2021–22 Annual Consolidated Financial Report (ACFR) reported an error of \$600,428 reported by M1W to its financial auditors. The restatement occurred in the unaudited section of the ACFR that reports the WRA programs. The basis of the restatement comes from M1W reporting that in the FY 2019–20 transfer of WRA-related funds to the newly formed Reclamation Fund was “pulled incorrectly from liability instead of cash accounts.”

M1W's financial audit firm provided us with the following explanation regarding the error:

“[...] it looks like our documentation references a discussion with [M1W] in FY 2022 regarding a multi-year reconciliation performed by the District. We noted that the District identified assets that should be recorded more appropriately in the General Fund rather than the Reclamation Fund. We did not detail out those assets because it did not impact the overall beginning net position of the main financial schedule.”

During the course of our audit, M1W was not immediately able to provide any documentation regarding the alleged error, how they calculated it, or why they believe the amount that they restated is correct. However, during M1W's review of the draft audit report in April 2024, they were able to provide some additional documentation related to the cause of the misstatement. While the funds in question may have been appropriately returned to the M1W's general fund, the new information is further evidence of M1W's weak controls and oversight during the audit period.

According to emails sent from M1W's financial auditor:

"[...] Looks like it was to correct M1W not posting an entry in FY 2019/2020."

After speaking with M1W further, they recalled that the financial auditor had suggested the transfer should occur in Fiscal Year 2019–20 to offset a possible negative balance of cash and investments in the Reclamation Fund. However, M1W allegedly determined such a transfer was not needed, but stated that their financial auditor erroneously still posted the transfer in the ACFR for the Fiscal Year 2019–20. Thus, the ACFR in Fiscal Year 2020–21 needed to restate their erroneous posting.

The narratives from M1W and their financial auditor seem to put each other at fault, respectively. Reportedly, staff from the financial auditor who worked on the years in question are no longer with the firm to comment. In our opinion, this series of errors are unusual regardless of who is at fault. Had the WRA programs been managed in separate funds, and annually audited and reported as separate funds in the ACFR or other annual audit report, we believe this problem would have been avoided. This is because managing them and reporting them as separate funds would have resulted in the financial auditors considering all of M1W funds as distinct categories of money. In contrast, the financial audits that occurred during our four-year audit period were reported only on an agency-wide basis. This meant that the financial auditor did not have a reason to provide an opinion at the fund-level related to the WRA programs because the total overall financial schedules were in balance. Separately auditing these as distinct funds annually, as we recommend below, will help prevent similar problems and add greater financial transparency.

As a result of the limited and conflicting evidence, we are unable to make a recommendation about the final ownership of these funds. This is similar to Finding 2 related to the staff time records, where the poor quality of records and other conflicting records make us unable to make a determination at this time. Looking forward, to help M1W prevent similar errors in the future, it is critical that the WRA money M1W manages is audited and reported separately from its agencywide annual financial audits, and that M1W adopt the various other control recommendations in this report.

Encumbrances Are Included When the Reconciliation Statements Are Prepared

M1W's practice has been to account for encumbrances (amounts the organization reasonably plans to expend in the coming year based on existing contracts) when calculating the year-end balance, which was used to then calculate the available balance for the upcoming fiscal year. However, including encumbrances may lead to double-counting certain planned expenditures and incorrectly inflate the amounts subject to be paid by the WRA.

Instead, if our recommendation that M1W produce a separately audited statement of the WRA's programs is adopted, reporting encumbrances would no longer be necessary. By using the audited statements as the basis for comparison, both parties would be able to compare the budgeted amounts (prepared on a cash basis) against the actual expenses incurred by M1W as reported in the audited financial statements. The difference between the two would form the basis of the reconciliation and any resulting refund.

As such, we recommend that the Agreement be amended to require that the separately audited financial statement be used as the basis for the annual reconciliation and calculating any resulting refund due to the WRA. This eliminates the inclusion of encumbrances in the reconciliation statement and avoids the risk of incorrectly reporting the amounts subject to be paid by the WRA.

Reclamation Fund Information Is Not Subjected to Full Audit Procedures

M1W reports the financial activities of the Reclamation Fund as part of a schedule known as a “Combining Statement” in the “Other Supplemental Information” section of its ACFR. The information is compiled by M1W’s financial auditors, but the auditors do not audit these numbers, nor do they provide an audit opinion whether the reported numbers are materially correct.

We recommend that the Agreement be modified to require that the WRA program funds be reported as individual enterprise funds and audited separately. This recommendation would enable the creation of Cash Flow Statements for each fund (created to track each WRA program) capturing the reconciling items in the audited Cash Flow Statements. It would also relieve both parties of separately performing the complex reconciliation steps between the cash basis and accrual basis of accounting, reducing the risk of error, and keeping the accounts, records, and reports clean and transparent. In doing so it would alleviate the need for interactive requests/explanations, monitoring, and disagreements between the parties.

We note that had this recommended practice been in place, the aforementioned issue of the \$600,428 misstatement may have been resolved in a timely manner or never occurred. In conjunction with this recommendation, we also recommend that the Agreement be modified to specify that the associated audit costs be included in the program’s annual budget.

Use Audited Financial Statements for Reconciliation Statement

With an audited financial statement available for each of the WRA programs, a reconciliation statement is produced in the form of Cash Flow Statement, by comparing the budgeted program costs, which in turn represent the amount paid by the WRA to M1W, against the actual amount incurred in the audited statements. As stated previously, this alleviates both parties of complex calculations in the reconciliation process, reduces error risk, and adds assurance that the information used in the calculation is accurate and consistently calculated. We recommend that both the audited financial statements and the resulting reconciliation statement be due to the WRA by December 31 of each year. This provides M1W with six months after the end of the fiscal year to close its books, have the audit performed, and provide the information to the WRA. We recommend that the cost of the audits be included in the annual program budgets and thus paid for by the WRA. Even though the need for the audits is due to M1W’s prior control weaknesses, we believe that as an ongoing cost it is appropriate for this to be paid by the WRA to prevent even a small subsidy from M1W’s other programs and rate payers. We believe the additional cost of the audit to the WRA is worthwhile since it will improve accuracy during the annual reconciliation, and overall effectiveness to WRA’s oversight of the programs run by M1W.

Application of Reconciliation Statements and Refund

The Agreement establishes that “all budgetary savings will be applied to the following year’s budgets,” meaning that each year’s savings rolls into the next year. However, given the demonstrated problems with M1W’s management and reporting of the WRA’s funds, we recommend that the Agreement be modified to require that following the issuance of the reconciliation statement that M1W issue the WRA a refund of any savings each year. This will help both parties better delineate the finances of each year and avoid the reporting challenges M1W faces when managing the WRA’s cash year-to-year. Since we also recommend that the reconciliation statements be provided to the WRA by December 31st, that means any refund that M1W issues would be halfway through the new fiscal year and alleviate the risk of any cash flow problems for M1W related to issuing a refund any earlier.

Reserves

If our recommendation to perform an annual refund instead of rolling forward budget savings into the coming year is adopted, M1W may still require some level of reserves for cashflow purposes. The current agreement does not specify exact reserve amounts.

Instead of M1W holding reserves, as implied by the current Agreement, we recommend that the Agreement be updated so that the WRA instead holds reserve amounts for all operational, maintenance, and capital costs. The level of reserves should be calculated as 45 days working capital and the money held in Restricted Cash accounts. The 45 days working capital is based on the Government Finance Officers Association recommended best practice for “heavily subsidized” enterprise funds, such as those that are supported by an outside organization.¹⁹ The operational reserve held by the WRA will allow the WRA to better monitor M1W’s spending and adherence to annual budgets. Section 7.02 of the Agreement says that the “PCA [M1W] will make all reasonable efforts to stay within, or below, the amounts budgeted [...]”. It is reiterated again in paragraph two of the section “[...] so long as the total budget amounts are not exceeded.” In our opinion, this implies that if M1W expects to exceed the budgeted amount, it should be communicated with the WRA. Given M1W’s history of financial reporting and documentation challenges, we believe that moving the operational reserve to the WRA will help ensure compliance with Agreement and work as an additional spending control. This would modify various portions in chapter seven of the Agreement.

In addition, we recommend that the Agreement be updated to specify that M1W hold reserve amounts based on all legally required debt service reserves. These reserves should be held in Restricted Cash accounts and be funded by the WRA at a level that will satisfy requirements related to the US Bureau of Reclamation loan and other future debt if issued.

Recommendations

As discussed above, several changes are needed to achieve transparency, allow for oversight, and ensure the accuracy of the SVRP, CSIP, and SRDF financial records. A full list of our recommendations follows.

Monterey One Water and the Water Resources Agency should:

4.1 Amend the Agreement to reflect the following:

- Require that any funds related to the WRA's programs should be audited annually and reported in a separate annual audit report on these funds due to the WRA no later than December 31st of each year. The WRA's programs should be charged for these additional auditing costs.
- Require that the reconciliation statement be provided by M1W to the WRA annually by December 31st of each year.
- Require the reconciliation statement be produced by comparing the budgeted program costs against the actual amount incurred in the audited statements. This reconciliation statement shall be produced in the form of Cash Flow Statements in separate audited Financial Statement of WRA programs and will form the basis of any resulting refund.

¹⁹ Government Finance Officers Association, “Working Capital Targets for Enterprise Funds”, February 28, 2011. <https://www.gfoa.org/materials/working-capital-targets-for-enterprise-funds>. Accessed on February 29, 2024.

- Require that if budget savings are identified in the reconciliation statement, that such savings are applied by issuing a refund to the WRA no later than January 31st.
- Require M1W to maintain each WRA program, including any future programs or facilities, in separate enterprise funds for each program.
- Prohibit M1W from including encumbered funds in the annual reconciliation statements submitted to the WRA.
- Require that M1W cannot move monies between each individual enterprise fund established for each Water Resources Agency program.
- Require that the WRA hold reserve amounts in separate “Restricted Cash” accounts for each program to provide for an operational, maintenance, capital, and all other non-debt service costs based on 45 days working capital.
- Require that M1W hold reserve amounts in separate “Restricted Cash” accounts for each program funded by the WRA and based on all legally required debt service reserves.

Monterey One Water should:

- 4.2 Continue its required monthly reporting as discussed in Finding 3 of this audit report.
- 4.3 Move each program of the WRA into individual enterprise funds starting in Fiscal Year 2024–25. Prior to moving these funds, M1W should first get approval from the WRA on the specific redistribution of any pooled cash to be redistributed to the individual funds.

Finding 5: Percent Overcharged

The audit scope included a review and quantification of annual expenses for the purposes of determining “whether M1W [Monterey One Water] overcharged annual costs to MCWRA [Monterey County Water Resources Agency (WRA)] by more than 5%” determining whether “M1W has been charging direct and indirect costs accurately to the three programs/facilities.”

Indirect Cost Finding

As discussed in Finding 1 regarding the indirect cost methodology, we determined that the methodology used by M1W resulted in WRA being charged a cumulative \$1,110,117.41 more than it would have been charged had M1W used the methodology described in the Wastewater Recycling Agreement (the Agreement).

Accounting and Reporting Practices Finding

A draft version of this audit report recommended that without documentation related to a misstatement of \$600,428 as discussed in Finding 4 that M1W should restate the amounts and reimburse it to the WRA. During the April 2024 review of the audit report, M1W provided additional information. While the information they provided was not conclusive, it was enough to suggest that the rightful ownership of the money and the reasons for its transfer into and then out of the WRA programs’ fund is not clear. As such, in our final audit report we do not recommend at this time that M1W reimburse the monies and we have not calculated it as an overcharge in this report.

Other Findings and Testing

As discussed in Finding 2 regarding the problems with M1W’s time tracking systems, we found problems with direct charges of salary and benefits. However, in the case of Finding 2, we were unable to determine a fiscal impact because the problem could indicate that M1W was either over or under-charging direct salary and benefit costs to the WRA.

As discussed in the Introduction section of this audit report, we performed testing of M1W’s accounts payable processes, focused on M1W’s invoice processing and allocation. Directly charged goods and services accounted for the majority of expenditures charged to the WRA. Our analysis identified only a few minor discrepancies with the invoices and journal entries for the accounts payable processes. The discrepancies were not material and were an uncommon occurrence. It suggests that the expenditures related to goods and services were not overcharged to WRA and our analysis suggests that most of these costs are carefully allocated between the three programs based on their documentation.

Overcharged Amount

Based on Finding 1, we calculated that during two of the four years we audited M1W overcharged WRA by more than five percent of the total dollar amount of expenses actually incurred. During those two years specifically, we estimate this amount was \$870,529.36, and for all four years, it totaled \$1,110,117.41. See Figure 5.1.

Figure 5.1: Annual Operating Expenditures Compared to Amount Overcharged

	FY 2018–19	FY 2019–20	FY 2020–21	FY 2021–22
Total Operating Expenses for WRA Programs	\$4,351,925.00	\$4,767,198.00	\$5,488,494.00	\$6,125,172.00
Overpayment of Indirect Costs as Calculated in Finding 1	\$64,226.76	\$175,362.29	\$343,192.18	\$527,336.19
Percent Difference From Expenses Charged	1.5%	3.7%	6.3%	8.6%

Source: Operating Expenses from Annual Comprehensive Financial Report's Supplementary Information's Combining Statement and audit team calculations.

Section 8.06 of the Agreement states that “if any audit shows that an undercharge or an overcharge has occurred, each agency will have 90 days to comply with the audit findings.” We interpret this to mean that for the entire four-year audit period, each year’s overcharges are due to the WRA from M1W.

Recommendations

Monterey One Water should:

- 5.1 Reimburse the WRA for the \$1,110,117.41 it overcharged for indirect costs during the four audit years, as stated in Finding 1.

Finding 6: Weak Control Environment

The audit scope included a review of the control environment for the purposes of determining if Monterey One Water (M1W) possesses appropriate financial systems and internal controls to effectively record, monitor, and allocate operational and maintenance costs and determining whether contract clauses or other modifications to the Amended and Restated Water Recycling Agreement Between Monterey Regional Water Pollution Control Agency and Monterey County Water Resources Agency (the Agreement) are necessary to provide clarification for contract compliance.

Findings Suggest Overall Control Weaknesses

Based on the previous findings, which are listed below, we do not believe M1W possesses appropriate controls.

- **Finding 1**, regarding the indirect cost methodology, found that M1W was allocating indirect costs using a methodology that was out of compliance with the Agreement. As such, no controls were in place by M1W to ensure these costs were allocated according to the Agreement.
- **Finding 2**, regarding M1W's time tracking, found that the time tracking systems had inconsistent and inaccurate information, the systems were not regularly reviewed, and there was no internal check of comprehensive time reporting to ensure accuracy and completeness. We did observe that controls, such as supervisory approval of staff time, exist. However, the significance of the disparities we identified suggests that, overall, the existing controls are insufficient.
- **Finding 3**, regarding M1W's required monthly reporting to the Water Resources Agency (WRA), found that compliance has been inconsistent and includes a documented ten-month gap in reporting spanning from June 2022 to March 2023. This failure undermined the WRA's ability to conduct effective financial oversight of M1W's management of its funds and is a breach of the terms of the Agreement. Further, it highlights an internal control weakness within M1W as the lack of external reporting suggests there is no or limited internal monitoring by M1W of the WRA's program activities.
- **Finding 4**, regarding M1W's annual reporting of reconciliation statements to WRA, shows several internal control problems. These include the use of pooled cash accounts shared between the WRA programs, misstatements during prior fund transitions, transparency concerns, and M1W's use of shared accounting funds that limit its internal and external reporting ability. All of these factors serve to undermine the integrity and reliability of financial oversight and decision-making between M1W and the WRA.

Taken cumulatively, these findings suggest that M1W has not established sufficient internal controls and monitoring practices to ensure compliance with the Agreement. M1W's control environment related to the three WRA programs increases the risks of misallocation of funds, over or under spending by M1W, and does not allow for the WRA to monitor M1W's compliance with the Agreement.

Recommendations

Monterey One Water and the Water Resources Agency should:

- 6.1 Implement the recommendations made in Findings 1-4.

Finding 7: Breaches of the Agreement

The findings in this audit report suggest that Monterey One Water (M1W) has not established sufficient internal controls and monitoring practices to ensure compliance with the Wastewater Recycling Agreement. These findings indicate several breaches of the Agreement have occurred. The specific sections of the Agreement that have been breached are discussed in the following findings:

- **Finding 1**, Section 7.02 Amounts to be paid, Section 8.01 Accounting system, and Section 8.03 Direct and indirect costs.
- **Finding 2**, Section 7.04 Payment procedures.
- **Finding 3**, Section 8.02 Financial reports.
- **Finding 4**, Section 7.02 Amounts to be paid and Section 8.01 Accounting system.

Enforcement Tools in Agreement

The Agreement between M1W and the Water Resources Agency (WRA) includes Article XIII Dispute Resolution, which includes an initial duty to meet and confer, followed by an option for mediation and arbitration. Other sections of the Agreement, as highlighted in previous findings, require regular reporting by M1W to the WRA, which would help the WRA better enforce the Agreement.

Agreement Has Not Ensured Compliance

Despite the tools in the Agreement that were presumably intended to encourage compliance, our audit findings suggest this has not always occurred. This may be because the WRA had previously not enforced the Agreement fully or because M1W did not respond to its enforcement efforts.

We believe that the Agreement could be modified to have clauses that require reporting to both entities' Boards of Directors. This would have the added benefit of encouraging compliance by M1W and, if future problems arise, the governing bodies would be notified and involved as early as possible to direct staff to resolve problems.

Recommendations

Monterey One Water and the Water Resources Agency should:

- 7.1 Revise the Agreement to include provisions that if problems arise between the parties and are unresolved for longer than 30 days, they be escalated and reported to both entities' Boards of Directors by email and added to the agendas for discussion at the next scheduled meetings. This might include, but not be limited to, any missed reporting deadlines by any party or ongoing disagreement between staff regarding the accuracy of financial reporting. This will encourage M1W to better adhere to their reporting requirements of the Agreement and more quickly escalate any disagreements about information accuracy to each board. Once reported, the boards will be more informed to enact a solution to resolve any dispute.

Recommendation List

The following is a table showing all recommendation made in the audit and who they are addressed to.

	Recommendation Addressed To	Recommendation
1.1	Water Resources Agency	Seek a refund in the amount of \$1,110,117.41.
1.2	Water Resources Agency and Monterey One Water	Agree to and document the method to calculate indirect costs to be used in future years and amend the Agreement to reflect this decision. The selected method should be compliant with the requirements set for the in Section 8.03 of the Agreement, and the Agreement should include a final version of the methodology and exclude words such as “sample” and “draft”.
1.3	Water Resources Agency and Monterey One Water	Amend the Agreement to require that Monterey One Water must submit working papers that support and document the calculation of the indirect cost allocation amount charged to the Water Resources Agency. The working papers should include sufficient detail for the Water Resources Agency to verify how all calculations were made and any assumptions that were used in the calculations.
2.1	Monterey One Water	Write and implement an organization-wide policy where supervisors of staff who directly bill time to the Water Resources Agency’s projects review all work order time entered and timesheet time prior to approving timesheets for payroll. If the supervisor sees a possible discrepancy, the policy should direct them to reconcile the information in both systems before approving the timesheet. This will help improve the accuracy of data in both systems.
2.2	Monterey One Water	Once any necessary corrections have been made to work order or timesheet information, Monterey One Water should provide the Water Resources Agency with detailed monthly reports of time from both systems. This will allow the Water Resources Agency to monitor Monterey One’s progress and better assess the accuracy of time billed.
2.3	Monterey One Water	Seek to integrate its work order time entry with its timesheet entry for payroll. Such an integration will improve staff compliance while also saving staff time by entering their billable hours in a single place.
3.1	Monterey One Water	Implement a formal procedure for monthly reporting, assigning this responsibility explicitly to designated staff.
3.2	Monterey One Water	Develop a backup plan or succession strategy for critical roles and responsibilities in the Finance Department, ensuring continuity in fulfilling key requirements of the Agreement, including the monthly expenditure reports.
4.1	Monterey One Water and Water Resources Agency	<p>Amend the Agreement to reflect the following:</p> <ul style="list-style-type: none"> Require that any funds related to the Water Resources Agency's programs should be audited annually and reported in a separate annual audit report on these funds due to the Water Resources Agency no later than December 31st of each year. The Water Resources Agency’s programs should be charged for these additional auditing costs. Require that the reconciliation statement be provided by Monterey One Water to the Water Resources Agency annually by December 31st of each year.

	Recommendation Addressed To	Recommendation
		<ul style="list-style-type: none"> • Require the reconciliation statement be produced by comparing the budgeted program costs against the actual amount incurred in the audited statements. This reconciliation statement shall be produced in the form of Cash Flow Statements in separate audited Financial Statement of WRA programs and will form the basis of any resulting refund. • Require that if budget savings are identified in the reconciliation statement, that such savings are applied by issuing a refund to the Water Resources Agency no later than January 31st. • Require Monterey One Water to maintain each Water Resources Agency program, including any future programs or facilities, in separate enterprise funds for each program. • Prohibit Monterey One Water from including encumbered funds in the annual reconciliation statements submitted to the Water Resources Agency. • Require that Monterey One Water cannot move monies between each individual enterprise fund established for each Water Resources Agency program. • Require that the Water Resources Agency hold reserve amounts in separate “Restricted Cash” accounts for each program to provide for an operational, maintenance, capital, and all other non-debt service costs based on 45 days working capital. • Require that Monterey One Water hold reserve amounts in separate “Restricted Cash” accounts for each program funded by the Water Resources Agency and based on all legally required debt service reserves.
4.2	Monterey One Water	Continue its required monthly reporting as discussed in Finding 3 of this audit report.
4.3	Monterey One Water	Move each program of the Water Resources Agency into individual enterprise funds starting in Fiscal Year 2024–25. Prior to moving these funds, Monterey One Water should first get approval from the Water Resources Agency on the specific redistribution of any pooled cash to be redistributed to the individual funds.
5.1	Monterey One Water	Reimburse the Water Resources Agency for the \$1,110,117.41 it overcharged for indirect costs during the four audit years, as stated in Finding 1.
6.1	Monterey One Water and Water Resources Agency	Implement the recommendations made in Findings 1-4.
7.1	Monterey One Water and Water Resources Agency	Revise the Agreement to include provisions that if problems arise between the parties and are unresolved for longer than 30 days, they be escalated and reported to both entities’ Boards of Directors by email and added to the agendas for discussion at the next scheduled meetings. This might include, but not be limited to, any missed reporting deadlines by any party or ongoing disagreement between staff regarding the accuracy of financial reporting. This will encourage M1W to better adhere to their reporting requirements of the Agreement and more quickly escalate any disagreements about information accuracy to each board. Once reported, the boards will be more informed to enact a solution to resolve any dispute.

Attachments – Response from Monterey One Water



Monterey One Water

Providing Cooperative Water Solutions

ADMINISTRATIVE OFFICE: 5 Harris Court, Bldg D, Monterey, CA 93940-5756

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June 26, 2024

GPP Analytics Inc.
Julian Metcalf
2478 Tierra Dr
Los Osos, CA 93402

RE: Water Recycling Agreement Expenses Audit Revised Draft

Dear Mr. Metcalf:

The following is a formal response from Monterey One Water (M1W) regarding the Water Recycling Agreement Expenses Audit Revised Draft dated June 7, 2024 (Audit Report) prepared by GPP Analytics (GPP) for the County of Monterey (County), the Monterey County Water Resources Agency (WRA), and the Auditor-Controller for the County of Monterey (County Auditor-Controller).

M1W takes pride in the services it provides the community, including the production and delivery of recycled water for agricultural irrigation. We value our long-term relationship with WRA in addressing water needs in the County and do not find the audit representative of our 30-year history.

The Report's conclusions are almost exclusively based on a narrow interpretation of an ambiguous agreement. While M1W confidently maintains the audit uncovered no contractual breaches, that does not mean there may be better, more transparent approaches to implement the agreement. Resources would be better spent clarifying the agreement and redefining best practices, with the understanding that M1W is a unique utility service with material differences in its operation when compared to municipalities or counties.

M1W is committed to working with WRA to ensure transparent accounting that represents 100% of the annual costs, direct and indirect, reasonably and necessarily incurred in connection with the Salinas Valley Reclamation Project (SVRP), Castroville Seawater Intrusion Project (CSIP), and Salinas River Diversion Facility (SRDF). Where appropriate, modifications will be made. Where we disagree, we are committed to working with WRA staff to find an amicable path forward.

Regards,

Paul A. Sciuto
General Manager

Water Recycling Agreement Expenses Audit

Response from Monterey One Water on Revised Draft

M1W appreciates the opportunities the Audit provides to refine or improve its business and accounting practices. We believe in continuous improvement and provide the following update on M1W's takeaways from this process:

- Time Keeping Policy – M1W's Employee Handbook details the importance of time keeping and accurate reporting of work completed. Management has developed additional time keeping procedures to better define when and how to record project-based hours, like work on SVRP, CSIP, or SRDF. Implementation of the new procedures were developed to ensure accurate inputs, invoicing, and backup related to time spent operating and maintaining the WRA systems.
- Agreement Management – M1W has initiated meetings with WRA staff to build trust and transparency. Within these working sessions, the goal will be to develop clear expectations and templates for monitoring expenditures, direct and indirect, as they relate to work performed throughout the WRA systems. These efforts will also be complementary to the succession planning M1W management has engaged in over the last two years and future staff responsibilities around agreement compliance.
- Terms of the Agreement – Once the Audit Report has been finalized and shared with County, WRA, and M1W leadership, M1W staff will await Board direction on amending the Water Recycling Agreement.
- Exemplary Service – Earlier this year, M1W added a new strategic objective focused on quality service for our community. We define community as more than just residences and businesses but also partners – local, state, federal, industry, and project partners. This objective must be and will be rooted throughout all our interactions with all stakeholders. Further staff workshops on embedding exemplary service in all we do are planned for this year.

The following narrative will focus on areas where we diverge in opinion. While we may differ in our interpretation of the Water Recycling Agreement, we are ready and willing to work with WRA staff through each Finding and Recommendation for a positive and successful future.

Finding 1: Noncompliant Indirect Cost Methodology

The Water Recycling Agreement is agreeably unclear with “structural and methodological deficiencies that introduce ambiguities.” Yet conclusions were drawn based the Auditor's interpretation of the Agreement without legal opinion or history of how the agreement was developed.

M1W maintains there is nothing in the express language of the Water Recycling Agreement that required M1W to use the methodology set forth in Exhibit J. The current methodology, modeled after Exhibit J, has been used since at least 2018 without objection from WRA.

The basis of the Audit Report is indirect costs and the methodology set forth in Exhibit J. However, the Report focuses on whether M1W legally adhered to Exhibit J rather than whether M1W charged WRA more than 100% of the annual costs, direct and indirect, incurred to operate and maintain the SVRP, CSIP, and SRDF. Legal clarity on Section 8 of the Water Recycling Agreement, especially as it relates to Exhibit J and the missing section 8.02 (b), should be obtained before Recommendations for this Finding are executed.

Finding 2: Inconsistent Time Records

Lucity is not a time recording system. It is an asset management system designed to track assets through their full lifecycles. It is a powerful tool and M1W is working to integrate it into daily workflow to track its capital assets. Until that process is complete, it should not be used to track time, and it should not be described as a time keeping system.

Also, M1W has started the process to update our ERP, Enterprise Resource Planning System. This is the software system that assists all our departments in the management and integration of core operations such as accounting,

billing, asset management, etc. As part of the new ERP system, we will pair Lucity, or another asset management system, with a new time-keeping system. Eden, our current time-keeping system, is being phased out. This new system will bring more transparency in how we track what projects our employees are working on and how much time they are spending on them. This multi-year capital project was initiated prior to the audit with estimated completion in Fiscal Year 2026-2027.

Finding 3: Noncompliance With Required Monthly Reporting.

M1W requested this entire Finding be removed as the ten missed reports occurred outside of the Audit period of Fiscal Years 2019 – 2022. The missed reports were the result of an extenuating circumstance, as explained to the Auditor, and the issue was remedied prior to the start of GPP’s work.

Finding 4: Accounting Practices and Limited Transparency

The random sampling of direct costs showed M1W’s current accounting processes are accurate and appropriate with no audit findings. Additional journal entries showed other areas such as the amortization of debt and application of interest earning, also did not result in an audit finding.

Pursuant to the Agreement, M1W maintains an accounting system that is in conformity with generally accepted accounting principles (GAAP) and allows for the segregation and tracking of all revenues and direct costs related to the SVRP, CSIP, and SRDF. WRA funds are segregated in their own enterprise account; they are not co-mingled with wastewater or other funds managed by M1W. Within the WRA enterprise fund, expenditures are further tracked by activity (SVRP, CSIP, SRDF). These are interrelated operations that impact the cost of water, not independent services like public works vs fire services.

M1W takes no issue in WRA providing new direction related to the segregation and tracking of revenues, but M1W views this Finding as misleading given WRA funds are held in an independent, restricted account and the Agreement references best practices, not specific terms.

Finding 5: Percent Overcharged

GPP’s Findings ultimately stem from one topic – indirect costs. But the analysis of indirect costs hinges on one assumption – the Auditor’s legal conclusions related to Exhibit J.

M1W requested in the draft review to remove this Finding as it was presented in Finding 1. It is a restatement of previous analysis, and the only recommendation is to implement a previous recommendation.

We appreciate the additional data provided in The Reclamation Fund Misstatement within Finding 4 and referenced in Finding 5. To further clarify, M1W will meet with WRA staff to explain and review the source files. This will show the error originated from a proposed change made by M1W’s auditors to address an anticipated negative cash balance for the Reclamation Fund. While this proposal got included in the 2021 ACFR, the transfer was not made in the General Ledger because there was a positive end cash balance. The 2022 ACFR corrected the mistake in the 2021 ACFR while the General Ledger remained accurate.

Finding 6: Weak Control Environment

This Finding is a summation of Findings 1, 2, 3, and 4 and not a stand-alone Finding. The duplication of Findings concerns M1W that this Report was commissioned with a preconceived bias. Again, it is a restatement of previous analysis, and the only recommendation is to implement a previous recommendation.

Finding 7: Breaches of the Agreement

M1W believes the legal conclusions reached in this Report exceed the scope of the audit. It is widely noted the Agreement is vague. To definitively interpret the ambiguous terms without proper legal analysis is unjustifiable.

The Report also raises the lack of enforcement by WRA but doesn't conclude whether WRA waived the issues, noting:

"Despite the tools in the Agreement that were presumably intended to encourage compliance, our audit findings suggest this has not always occurred. This may be because the WRA had previously not enforced the Agreement fully or because M1W did not respond to its enforcement efforts."

M1W was not required to use the methodology in Exhibit J, and WRA through its inaction accepted the methodology used by M1W.

While we diverge on the assumptions and generalizations in the Report, M1W remains a committed partner in providing cooperative water solutions and will continue a close working relationship with WRA staff to ensure transparent operations.

AMENDMENT NO. 4 TO THE AMENDED AND RESTATED WATER RECYCLING AGREEMENT

**AMENDMENT NO. 4
TO THE AMENDED AND RESTATED WATER RECYCLING AGREEMENT
BETWEEN MONTEREY COUNTY WATER RESOURCES AGENCY AND
MONTEREY ONE WATER**

THIS AMENDMENT NO. 4 to the Amended and Restated Water Recycling Agreement, dated November 3, 2015 between the Monterey County Water Resources Agency (hereinafter, “WRA”) and Monterey One Water, previously referred to Monterey Regional Water Pollution Control Agency (hereinafter, “M1W”) is hereby entered into between WRA and M1W (collectively, WRA and M1W are referred to as the “Parties”) as of July 1, 2025 (“Effective Date”).

RECITALS

WHEREAS, WRA and M1W entered into the Amended and Restated Water Recycling Agreement, dated November 3, 2015 (hereinafter, “Agreement”), related to the ongoing coordination of and accounting for the operations and maintenance of the Salinas Valley Reclamation Project (“SVRP”), the Castroville Seawater Intrusion Project (“CSIP”), the Salinas River Diversion Facility (“SRDF”), and implementing certain portions of the Pure Water Monterey project.

WHEREAS, the Parties entered into Amendment No. 1 to the Agreement on August 26, 2019, Amendment No. 2 to the Agreement on July 14, 2020, and Amendment No. 3 to the Agreement on July 16, 2021.

WHEREAS, the Parties now wish to amend Article VII, Sections 7.01 - 7.11, and Article VIII, Sections 8.01-8.06, of the Agreement to reflect updated budget and accounting procedures mutually negotiated and agreed to by the Parties.

NOW, THEREFORE, the Parties agree to amend Article VII, Sections 7.01 - 7.11, and Article VIII, Sections 8.01 - 8.06, of the Agreement as follows:

1. AMENDMENTS TO ARTICLE VII. The following provisions shall amend and replace in their entirety the existing terms set forth in Article VII, Sections 7.01 - 7.11, of the Agreement:

VII. PAYMENTS BY WRA TO M1W

7.01. Considerations.

AMENDMENT NO. 4 TO THE AMENDED AND RESTATED WATER RECYCLING AGREEMENT

1. ACCOUNTING

As consideration for the services performed by M1W under this Agreement, the WRA shall make payments to M1W pursuant to this Agreement.

WRA's CSIP, SVRP, and SRDF programs ("WRA Program(s)"), which have services provided by M1W pursuant to this Agreement, are funded by distinct WRA benefit assessments, fees, and other revenue sources. Therefore, M1W shall establish a separate fund for each WRA Program among which monies cannot be transferred without written authorization from WRA. Each WRA Program's financials, including WRA approved annual budgets for M1W services, pre-paid revenues, and actual expenses, shall be maintained separately. If WRA initiates a new program that is operated by M1W, WRA shall then inform M1W as to how funds for the new WRA Program shall be maintained.

A separate fund is defined as a self-balancing group of accounts that records a pool of money and its related financial resources, liabilities, and balances. It is used to classify revenue, track expenses, and segregate resources for specific activities and can be specific to one department of M1W or shared by many departments. Each fund established for the WRA Programs shall have its own liability account and interest-bearing account.

2. PAYMENTS

WRA shall be responsible for paying M1W for costs incurred in connection with the WRA Programs. The total annual amount paid by WRA to M1W shall not exceed the WRA approved annual budgets of each WRA Program. WRA shall not reimburse M1W for expenses exceeding the WRA approved annual budget of for each WRA Program, unless approved through the formal WRA budget amendment process.

7.02. Annual M1W Budgets for WRA Programs.

WRA and M1W shall collaborate to establish annual budgets for M1W services provided to each WRA Program in advance of the operating year for which the budgets are proposed. The annual budgets must align with the fiscal year of July 1st to June 30th. WRA retains discretion to plan, implement, and manage additional activities, outside of the M1W budgeted activities, in coordination with M1W. The annual budget shall be comprised of three components prepared for each WRA Program: one for operations and maintenance ("O&M"); one for capital outlay ("CapO"); and one for capital improvement projects ("CapI"). The annual budget components will be included in the final annual budget, which must be adopted by the M1W Board of Directors and the WRA Board of Supervisors. The final annual budget must adhere to the terms of this Agreement. The scheduling requirements for annual budgets is described in Section 7.02(4) below.

AMENDMENT NO. 4 TO THE AMENDED AND RESTATED WATER RECYCLING AGREEMENT

1. OPERATIONS AND MAINTENANCE ACTIVITIES

The O&M budget for each WRA Program is to include operations and maintenance expenses. For purposes of this Agreement, examples of operations include the cost of labor and consumables, such as electricity and chemicals, and other materials necessary to regularly operate the WRA Programs. Maintenance examples include the labor, including contract and materials to perform activities that are routine, involve functional checks and servicing, and are necessary to ensure smooth, reliable operation, and the longevity of WRA Programs. See Exhibit B for detailed descriptions of O&M activities related to the WRA Programs.

- a. In preparing the O&M budgets, WRA's General Manager will provide to M1W's General Manager and the Director of Finance, an estimated demand schedule for the following fiscal year, for each water source available to WRA, by December 1st of each year.
- b. M1W shall provide detailed supporting documents for the proposed O&M budgets, including all the items below:
 - i. Salaries and benefits.
 - ii. Budgeted full time equivalent and employee labor details, such as position and billing rate.
 - iii. Estimates for services and supplies, including descriptions.
 - iv. Indirect charges. The indirect charge amount shall be calculated in accordance with the following cost structure:
 - The indirect charges for Fiscal Year 2024–2025 shall be 14.5% of the O&M budget and Capital Outlay. Preparation and approvals of this budget predates the effective date of this Amendment. The actual indirect charges shall be 14.5% of actual O&M and Capital Outlay expenditures, reconciled at the fiscal year end.
 - The indirect charges for Fiscal Year 2025–2026 shall be 14.5% of the O&M budget and Capital Outlay. Preparation and approvals of this budget predates the effective date of this Amendment. The actual indirect charges shall be 14.5% of actual O&M and Capital Outlay expenditures, reconciled at the fiscal year end.
 - For Fiscal Year 2026–2027, WRA and M1W shall meet by December 15, 2025, to determine a future indirect cost allocation method, unless extended by mutual agreement. If extended by mutual agreement, indirect charges for Fiscal Year 2026–2027 shall be 14.5% of the O&M budget.

AMENDMENT NO. 4 TO THE AMENDED AND RESTATED WATER RECYCLING AGREEMENT

- Prior to finalization of the Fiscal Year 2026-2027 budget, M1W shall develop and implement accounting procedures to allow for the independent tracking of all costs associated with Capital Outlay projects to improve administration and fiscal transparency.
 - M1W may develop a cost allocation plan to determine a new, potential indirect cost allocation method, specific to serving outside agencies, that could be applied uniformly across all M1W programs serving: Marina Coast Water District, Monterey Peninsula Water Management District and WRA. The cost allocation plan may consider including the finance department as a direct charge and other approaches to direct versus indirect charges. Payment for the development of the cost allocation plan shall be split between all participating parties. The costs associated with the development of a cost allocation plan shall be shared equally by all parties involved.
 - Prior to December 15, 2026, WRA and M1W shall meet to determine a future indirect cost allocation method for Fiscal Year 2027-2028 and beyond.
- v. Any additional costs associated with the use of New Source Waters, will be calculated based on the demand schedule and M1W's Interruptible Rate; and will be included as a separate line item in the WRA Program's O&M budgets.
- c. The proposed O&M budgets shall include one (1) year forecasts for each WRA Program with an understanding the second year is for projection only.

2. CAPITAL OUTLAY (CAPO) ACTIVITIES

For purposes of this Agreement, CapO for each WRA Program shall refer to the labor, including contract and materials to perform extraordinary maintenance, including equipment purchases, necessary to perform planned repairs and/or replacements, and which, under M1W's Purchasing Policy, requires a competitive bid process, including informal bids and proposals. CapO projects are performed under the direction of the M1W Assistant General Manager, or delegate.

- a. M1W and WRA shall collectively create the list of CapO projects to be performed by M1W in each fiscal year.
- b. Budgets shall be prepared by M1W for CapO projects and shall include the proposed project scope, estimated cost, and work schedule broken down by quarter, including:
 - i. Estimated contract labor costs; and
 - ii. Material and equipment cost estimates.
- c. Budgets shall be prepared and presented in a sharable, spreadsheet format.

AMENDMENT NO. 4 TO THE AMENDED AND RESTATED WATER RECYCLING AGREEMENT

- d. The proposed CapO budgets shall include two (2) year forecasts of each WRA Program with an understanding the second year is for projection only.

3. CAPITAL IMPROVEMENT (CAPI) ACTIVITIES

For purposes of this Agreement, CapI projects for each WRA Program shall refer to the labor, including contract, and materials necessary to modify and improve existing infrastructure, create new infrastructure, or make some other change to public land, property, or equipment, and which, under M1W's Purchasing Policy, requires a formal, competitive bid process. CapI projects are performed at the direction of the M1W Director of Engineering, or delegate.

- a. M1W and WRA shall collectively create the list of CapI projects to be performed by M1W in each fiscal year.
- b. Budgets shall be prepared by M1W for CapI projects and shall include the proposed project scope, estimated cost, and work schedule broken down by quarter, including:
 - i. Proposed M1W salaries and benefits;
 - ii. Estimated contract labor costs; and
 - iii. Material and equipment cost estimates.
- c. Budgets shall be prepared and presented in a sharable, spreadsheet format.
- d. The proposed CapI budgets shall include two (2) year forecasts of each WRA Program with an understanding the second year is for projection only.

4. SCHEDULE FOR BUDGET DEVELOPMENT

- a. By January 15th of each year, M1W will provide WRA with written, preliminary, proposed O&M, CapO and CapI budgets for each WRA Program.
- b. Following receipt of the proposed budgets, the Parties will meet to review the proposed O&M CapO, and CapI budgets.
- c. By January 31 of each year, M1W will provide WRA with final proposed O&M budgets for each WRA Program.
- d. WRA shall notify M1W of the preliminary budget proposal, no later than April 10th of each year.
- e. WRA shall notify M1W of the budget recommended by the WRA Board of Directors, no later than May 5th of each year.
- f. WRA shall notify M1W of the final budget adopted by the WRA Board of Supervisors, no later than June 30th of each year.

7.03. Payment Procedures and Schedule.

AMENDMENT NO. 4 TO THE AMENDED AND RESTATED WATER RECYCLING AGREEMENT

M1W shall invoice WRA for all requested payments. WRA shall approve invoices for compliance with this Agreement and within seven (7) business days submit such claim to the County of Monterey Auditor-Controller, who shall pay the approved amount within thirty (30) days after receiving the approved invoice from WRA. Any invoices that are not in compliance with this Agreement will need to be corrected by M1W in a timely manner and may extend the review period for WRA.

M1W shall submit invoices via email to WRAAccountsPayable@countyofmonterey.gov and to WRA's Finance Manager.

M1W must place unused funds received from WRA in an interest-bearing account. All interest earned on WRA accounts will be applied for WRA's benefit, on a quarterly basis. Year-end reconciliation statements will accurately reflect any interest earned on WRA accounts.

1. PAYMENTS FOR O&M ACTIVITIES

WRA shall issue payments to M1W in advance, for the adopted annual O&M budgets for each WRA Program, in accordance with the following bi-annual payment process and schedule.

- a. M1W shall submit an invoice to WRA for the first installment payment for 50% of the adopted O&M budgets no later than July 5th of each fiscal year, with a due date at least thirty (30) days from issuance. The invoice shall specify the amount due and the payment due date.
- b. M1W shall submit an invoice for the second installment payment for the remaining 50% of the adopted O&M budgets no later than January 5th of each fiscal year, with a due date at least thirty (30) days from issuance.
- c. WRA shall promptly review all requests for payments and shall approve for payment from the County Auditor such requests or portion thereof that are in conformity with this Agreement.
- d. WRA shall promptly notify M1W of any disputed payment request. Disputes over payments shall be resolved as provided in Article XIII of this Agreement.

2. PAYMENTS FOR CAPO AND CAPI ACTIVITIES

- a. Under M1W's Purchasing Policy, specifications shall be developed and used for the purpose of soliciting quotations from prospective vendors for goods and/or services necessary to perform the planned CapO and CapI project(s).
- b. CapO and CapI project solicitations will be developed in quarterly timeframes.
- c. Prior to issuance of a solicitation for quotes, M1W must meet with WRA to review and agree upon the solicitation package(s).
- d. When the nature of an acquisition of goods and/or services is impractical to the preparation of a solicitation package, M1W shall meet with WRA to discuss and agree upon the proposed acquisition, develop a scope of work and schedule, and establish a cost estimate for the CapO project.

AMENDMENT NO. 4 TO THE AMENDED AND RESTATED WATER RECYCLING AGREEMENT

- e. On a quarterly basis, based on the fiscal year quarters, beginning July 1st, M1W shall invoice WRA for the projected costs to be expended for the agreed upon CapO and CapI projects planned for the forthcoming quarter, based on actual expenditures and up to the total budgeted amount, per the invoicing and payment procedures described in this Agreement.
 - i. By the 15th day following the end of each quarter (July 15th, October 15th, January 15th, April 15th) M1W shall submit an invoice for the estimated CapO and CapI expenses, by project, for the current quarter and include total YTD expenditures, including all necessary back-up information, for each project. The invoice shall be due no later than 45 days from issuance.
 - ii. Quarterly invoices shall indicate an amount requested, total payment received and total expenses through the invoice date, for each project number.
 - iii. CapO and CapI Quarterly Progress Reports for the invoice period shall be submitted together with a quarterly invoice.
- f. On an annual basis, WRA advance payments for projected CapO and CapI projects costs will be reconciled with actual expenses, per the annual reconciliation process described in this Agreement.

3. DEBT SERVICE AND AMORTIZATION

- a. By May 15th of each year, M1W will submit an invoice to WRA for the annual USBR loan payment for the SVRP. WRA will reimburse M1W for the amount offset by charges related to annual excess land percentage. M1W will provide a confirmation of annual payment made by June 30th of each year. WRA shall not be responsible for any penalties or late fees.
- b. Amortization of any loans (USBR, etc.), bonds, certificates of participation, and any interim or other financing options shall be adhered to as agreed upon between WRA and M1W, consistent with any debt issuance covenants or other legal requirements.
- c. Debt service and amortization schedules are shown in Exhibit H.
- d. All payments made by WRA to M1W for the repayment of the USBR SVRP loan shall be used for such repayment. Upon termination of any loan agreement, any unused funds returned to M1W and retained by M1W shall be returned to WRA within 60 days from the date of the approved M1W audit for the fiscal year in which the agreement was terminated all in accordance with Section 9.01.

4. PAYMENTS AS NEEDED

WRA shall make additional payments listed below, outside of annual budgets:

- a. M1W shall submit additional invoices for each approved budget amendment.

AMENDMENT NO. 4 TO THE AMENDED AND RESTATED WATER RECYCLING AGREEMENT

- b. Loss of interest earnings on M1W's monies used to cover any WRA Program costs until such costs are reimbursed by WRA. Interest will be calculated from the time of expense occurred by the M1W wastewater fund through receipt of payment from WRA. Interest rate will be based on Local Agency Investment Fund ("LAIF").

7.04. Budget Adjustments.

If M1W's O&M, CapO, or CapI expenditures within WRA Programs are anticipated to exceed the adopted budget and additional program funding is needed from WRA, a budget adjustment shall be pursued. In the event WRA's revenues to fund the WRA Program's budgets fall below projected amounts, WRA may request, with a minimum thirty (30) days' notice, that M1W revise the operations to incur lower operating costs to stay within the revised revenue projections. This may result in decreased water production and/or delivery.

1. EXPENSE ALLOCATION CHANGES WITHIN EACH WRA PROGRAM

If O&M, CapO, or CapI needs require an allocation change for expense categories to the adopted budget, M1W should first seek to support the new expenditures through a net-zero, inner fund transfer. Transfers cannot occur between WRA Program funds; only between expense categories within a fund.

- a. For expenses that require an inner fund transfer of \$10,000 or less, M1W will have the latitude to execute the transfer without WRA approval, but WRA must be notified within seven (7) days of posting.
- b. For expenses that require an inner fund transfer in excess of \$10,000, approval from WRA is required prior to posting and to incurring the related expenses.
- c. Any inner fund transfer between O&M, CapO, or CapI budgets must be approved by WRA staff.

2. BUDGET AMENDMENT

If a WRA Program is projected to go over budget, none of the expenses, related to the projected exceedance, should be incurred by M1W until a budget amendment for the associated WRA Program is approved by WRA. A mutually agreed upon form shall be utilized for the requests described below.

Budget amendments must comply with the following terms:

- a. M1W shall evaluate all completed and proposed expenditures in order to reduce any budget amendments requested.
- b. M1W expenses that exceed the annual budget allocations for each WRA Program are not eligible for reimbursement by WRA unless a budget amendment has been approved by the required decision making bodies.
- c. M1W must submit a written request for a budget amendment to WRA for any anticipated expenditures that exceed the limits of the adopted budget. All

AMENDMENT NO. 4 TO THE AMENDED AND RESTATED WATER RECYCLING AGREEMENT

budget amendment requests must include description of the proposed change, reason for the change, amount of change, and estimated timeframe for expense to be incurred.

- d. No budget amendment shall be considered final or acted upon until it has received the necessary recommendation and approval by the appropriate WRA Board(s). M1W must obtain approval through its Board process concurrently or after approval by WRA Board(s).
- e. WRA shall notify M1W, in writing, of WRA Boards' decision within five (5) days from when the WRA Board of Supervisors take action on a budget amendment request.
- f. Each party representative is responsible for presenting the item to their respective governing boards and attaining approval prior to finalizing any decisions or commitments.
- g. For any approved budget amendment, M1W shall invoice WRA separately for the budget amendment, no later than June 30th of each fiscal year. All changes in funding or expenditures must be adequately documented and invoiced in alignment with the amended budget.

3. UNANTICIPATED EVENTS

Circumstances or events may arise which were not anticipated in either the scopes of services or the budgets for WRA Programs. In this case, M1W will prepare written plans for addressing such circumstances or events, including justification and estimated costs, and provide to WRA for approval. If plans cannot be executed through an inner fund transfer as described in Section 7.04(1), then a budget amendment process should be followed as described in Section 7.04(2).

4. EMERGENCY SITUATIONS

If the unanticipated event or circumstance constitutes an emergency situation which threatens health and safety, damage to property, or injury to persons, M1W will act as promptly and as efficiently as possible to mitigate the situation without waiting for WRA approval. M1W will notify WRA immediately of the emergency, mitigating actions, and of any further action that may be necessary. WRA will coordinate emergency response with M1W, the County of Monterey, and WRA Board of Supervisors, as appropriate, including potential budget adjustment requests.

7.05 Reduction or Termination of Water Delivery for Lack of Payment; Judicial Remedies.

1. Notwithstanding anything to the contrary in this Agreement (except for the provisions of paragraph (2), below), if WRA should fail to make any payment to M1W required under this Agreement for a period of ninety (90) days or more after the due date, then M1W, upon fifteen (15) days' written notice to WRA, may act to reduce or terminate the

AMENDMENT NO. 4 TO THE AMENDED AND RESTATED WATER RECYCLING AGREEMENT

production and/or delivery and/or distribution of tertiary treated water from the SVRP and/or discontinue operation of the CSIP. Such reduction or termination in the delivery of water or discontinuance of operations of CSIP may continue only for such period of time as payments from WRA to M1W remain delinquent, and may continue even though dispute resolution procedures pursuant to Article XIII are pending between the parties, unless WRA makes full payment of the amount in question, under protest, as provided in Section 13.01.

2. For as long as any notes or bonds issued to finance the SVRP or CSIP are outstanding, M1W shall not exercise its right to terminate or reduce the water supply of the tertiary treated water to the CSIP, except that M1W may reduce the water supply to the extent that the failure of WRA leaves M1W without all necessary and sufficient funds to operate the SVRP.
3. In addition, if WRA should fail to make any payment to M1W required under this Agreement for a period of ninety (90) days or more after the due date, M1W shall have the right to seek any appropriate judicial relief, at law or in equity, for such default after following the dispute resolution provisions of Article XIII of this Agreement. Such relief may include, but need not be limited to, damages, injunctive relief, and the appointment of a receiver.

7.07. Priorities of Payment.

WRA's obligations to make payments for the WRA Programs shall be prioritized as follows, and the obligations in each category shall be subordinate to the obligations in each prior category, shall be on a parity with all other obligations in its category, and shall be senior to the obligations in each subsequent category:

1. Debt service obligations of the USBR SVRP loan;
2. Operation and maintenance costs for the WRA Programs; and
3. Repair, replacement, capital improvements, capitalized equipment, of the WRA Programs (to the extent the same do not constitute operation and maintenance costs).

7.08. Decision-Making Authority.

In order to provide for the smooth and efficient operation of all WRA Programs, M1W will implement decisions with regard to activities and expenditures for these purposes based on collaboration and Program oversight by WRA and in accordance with established plans and priorities. All such activities shall be within the scope of services described in Exhibit B

AMENDMENT NO. 4 TO THE AMENDED AND RESTATED WATER RECYCLING AGREEMENT

"Operation and Maintenance of WRA Programs," respectively. All such expenditures shall be within the budget amounts of O&M, CapO, and CapI for the WRA Programs, respectively.

To help ensure effective collaboration and oversight, WRA and M1W agree to convene a group, including the chairs and vice chairs of the M1W and WRA board of directors and the respective General Managers ("Leadership Group") to meet on a quarterly basis to review WRA Programs to discuss status and provide direction as needed.

2. **AMENDMENTS TO ARTICLE VIII.** The following provisions shall amend and replace in their entirety the existing terms set forth in Article VIII, Sections 8.01 - 8.06, of the Agreement:

VIII. ACCOUNTING SYSTEM, REPORTS

8.01. Accounting System.

M1W shall maintain an accounting system that is in conformity with generally accepted accounting principles ("GAAP") and will allow for the segregation and tracking of all revenues and direct costs related to the WRA Programs. Each of the WRA Program's financials including budgets, expenses, and revenues shall be separated and monies cannot be moved between the individual funds established for each WRA Program.

The accounting system shall properly record costs, revenues, and available cash to the SVRP, CSIP, and SRDF and to M1W's other activities that are not subject to reimbursement by WRA under this Agreement.

The accounting system shall provide the ability to adequately identify indirect cost centers and establish allocation factors to assign indirect costs proportionally to the CSIP, SVRP, SRDF, and the Interruptible Rate for New Source Waters.

Cost accounting shall be in accordance with GAAP. M1W shall make the details of such system available to or known to WRA and/or to WRA's auditor, at WRA's request.

8.02. Direct and Indirect Costs.

1. Direct costs of the WRA Programs are costs of activities, which are directly tied to the WRA Programs and can be tracked through invoices, time cards, record keeping systems, and other records that specifically allocate a cost to these activities.
2. Indirect costs are all other costs incurred by M1W in order to manage, maintain, support, and operate the WRA Programs. The cost allocation plan shall identify the specific functions that are typically considered administrative or support in nature.

AMENDMENT NO. 4 TO THE AMENDED AND RESTATED WATER RECYCLING AGREEMENT

3. M1W shall implement the accounting system described in Section 8.01 to uniformly identify and allocate all direct and indirect costs for the WRA Programs and for all the M1W's other activities.
4. For purposes of allocating indirect costs, M1W will not include as a direct cost the debt service (principal and interest) on the loans obtained for the WRA Programs.
5. The indirect rate for Fiscal Year 2024-25 and 2025-26 is 14.5% as indicated in Section 7.02(1)(b)(iv). The actual indirect charges shall be 14.5% of actual O&M and CapO expenditures, reconciled at the fiscal year end. For Fiscal Year 2026–2027, the indirect costs will be determined using the allocation method per Section 7.02(1)(b)(iv).
6. M1W and WRA retain the right to transition from the cost allocation plan identified in 7.02 (1)(b)(iv) to a cost allocation model that is compliant with the Office of Management and Budget (OMB) Circular A-87 - Cost Principles for State, Local, and Indian Tribe Governments or a subsequent revision. Any cost allocation plan subject to this provision shall be accompanied by a Certificate of Cost Allocation Plan and be in compliance with Title 2 CFR, Part 200. All indirect costs charged to functional activities will be applied consistently with the results of this plan to ensure equity between costs centers and conformance with OMB standards; provided, however, no allocation of any indirect cost unrelated to the WRA Programs shall be made.
7. Implementation of an OMB Circular A-87 Cost Allocation Plan will become effective in the new fiscal year immediately following the cost allocation study.
8. All OMB Circular A-87 Cost Plans will be subject to updates as consistent with industry standards. All costs associated with a consultant retained to update the cost allocation plan shall be paid in accordance with Section 7.02(1)(b)(iv) above.

8.03. Audit and Reconciliation Processes.

1. ANNUAL AUDIT AND RECONCILIATION

M1W shall annually audit the accounting of each WRA Program fund. A copy of the annual audit report for the WRA funds will be provided to WRA no later than January 31st following the close of the prior fiscal year. WRA Programs will be charged for these additional auditing costs and included in the annual O&M budget requests.

M1W shall also submit annual reconciliation statements for each WRA fund to WRA by January 31st of each year. The reconciliation statement will compare the budgeted program costs against the actual expenses incurred in the audited statements and it shall exclude encumbered funds. The statement shall be produced in the form of Cash Flow Statements in a separate audited Financial Statement of WRA Programs and will

AMENDMENT NO. 4 TO THE AMENDED AND RESTATED WATER RECYCLING AGREEMENT

form the basis of any resulting refund. M1W shall not include encumbered funds in the annual reconciliation statements submitted to the WRA.

M1W shall issue a refund to WRA no later than February 15th if budget savings are identified in the reconciliation statement. The savings shall not be rolled over to a following fiscal year.

If an extension is required to complete the audit and reconciliation process, M1W must notify WRA by December 15th. If the extension impacts the reconciliation process, a preliminary reconciliation statement is to be submitted by January 31st and the final reconciliation report along with any refund is to be issued by May 31st.

2. RIGHT TO INSPECT AND AUDIT RECORDS

WRA shall have the right to inspect M1W's records pertaining to the WRA Programs. For records related to the current fiscal year, inspection shall be permitted upon reasonable advance notice. For records pertaining to prior fiscal years, WRA shall provide no less than sixty (60) days advance notice. WRA shall also have the right to audit M1W's records pertaining to the WRA Programs or to have them audited by an auditor selected by WRA, at WRA's sole cost and expense. However, if the audit shows that M1W has overcharged annual costs to WRA by more than five (5) percent, M1W shall, within ninety (90) days, after demand by WRA, reimburse WRA for the cost of the audit. Such audit may be performed at any time during regular business hours, upon the giving of reasonable advance notice. If any audit shows that an undercharge or an overcharge within the approved fiscal budgets has occurred, each agency will have 90 days to comply with the audit findings.

8.04. Reports.

1. MONTHLY REPORTS

Within 45 days after the end of each month, the M1W Finance Department will provide to the WRA Finance Section, a report on expenditures made during the previous month and contain the following information:

- a. Expenditure reports for WRA Programs that describe year-to-date ("YTD") expenditure, YTD encumbrance, and YTD total, for each account along with the YTD total for all accounts, including indirect costs and contingency, and the percentage used YTD of the budgeted amount.
- b. Expenditure reports for WRA Programs that describe previous month expenditures, previous month encumbrance, and previous month totals, for each account along with the previous month total for all accounts, including indirect costs and contingency.
- c. Payroll records and activity logs for the previous month.

AMENDMENT NO. 4 TO THE AMENDED AND RESTATED WATER RECYCLING AGREEMENT

- d. All operations and maintenance reports, including work order reports when available, for the WRA Programs, as defined in Exhibit B.
- e. The parties shall convene meetings on a monthly basis, with dates mutually agreed upon in advance, to review the current budget, expenditures, and any emerging operational needs or challenges related to the WRA Programs.
- f. WRA shall prepare and submit proposed discussion items and questions in writing to M1W no later than one week after the reports are received.

Backup information for each direct charge will be maintained by M1W and provide to WRA as requested.

2. CAPO AND CAPI PROJECTS QUARTERLY REPORTS

M1W shall provide WRA quarterly progress reports by CapO and CapI projects containing the following information:

- a. Listing of each CapO and CapI for WRA Programs and their year-to-date (YTD) expenditure, YTD encumbrance, and YTD total, for each account along with the YTD total for all accounts, and the percentage used YTD of the budgeted amount;
- b. Status of CapO and CapI projects – activities and projects planned & completed during the period that the payments are requested;
- c. Payroll records and activity logs associated with CapO and CapI projects;
- d. Shall indicate invoiced amounts and total payment received from WRA;
- e. Updated projected cash flow forecast and project schedules; and
- f. Updated CapO and CapI project accounting will be performed in a sharable, spreadsheet format.

M1W and WRA will meet quarterly to review CapO & CapI project(s) status, budget-to-actual reports, and proposed solicitations for forthcoming CapO & CapI projects, during the first week of January, April, July, and October.

Backup information will be maintained by M1W to support each direct charge and provide to WRA as requested.

3. ANNUAL REPORTS

M1W will submit the following reports annually:

- a. M1W shall submit the annual reconciliation statements for O&M, CapO, and CapI for each WRA Programs to WRA by January 31st following the close of the prior fiscal year.
- b. A copy of M1W's Annual Audit Report for each WRA fund will be provided to WRA no later than by January 31st following the close of the prior fiscal year.
- c. In the event M1W's audit process is delayed, M1W will notify WRA by December 15th.

AMENDMENT NO. 4 TO THE AMENDED AND RESTATED WATER RECYCLING AGREEMENT

4. GRANTS AND SPECIAL FUNDING

For any activities that M1W performs that are funded through grants or other outside sources received by WRA, M1W must comply with all grant or funding terms and conditions. In addition, the below must be followed to support compliance with funding obligations.

- a. WRA must inform M1W when a project or activity is grant-funded and provide a copy of the grant or funding agreement.
- b. M1W shall establish project-specific accounting for the grant and follow the grant guidelines to ensure full compliance with all funding requirements.
- c. M1W must complete all grant projects within the specified grant term, or sooner as requested by WRA if feasible for M1W and must inform WRA as soon as possible if any work cannot be completed within the grant required timeframe.
- d. Throughout the term of the grant agreement, M1W will submit detailed invoice backup and payroll report to WRA on a monthly basis. This documentation will include all necessary records to support the invoiced amounts, as required by the grant guidelines.
- e. M1W shall maintain thorough records of all grant-related activities and expenses for the duration of the grant, ensuring that all documentation is readily available for audit or review.
- f. Expenditures supported by grants or specialized funding are not subject to inner fund transfers as described in Section 7.04(1) and must comply with Section 7.04(2) independent of cost thresholds.

3. **OTHER TERMS UNCHANGED.** This Amendment No. 4 shall be attached to the Agreement as amended and incorporated therein as if fully set forth in the Agreement. All other terms and conditions of the Agreement shall remain unchanged and in full force.

4. **AUTHORITY TO EXECUTE.** The persons executing this Amendment No. 4 on behalf of the Parties hereto warrant that: (i) such Party is duly organized and existing; (ii) they are duly authorized to execute and deliver this Agreement on behalf of said Party; and (iii) by so executing this Agreement such Party is formally bound to the provisions of this Agreement.

5. **COUNTERPARTS.** Amendment No. 4 may be executed in counterparts with facsimile or electronic signatures, each of which shall be deemed an original and all of which, together shall constitute the Agreement.

AMENDMENT NO. 4 TO THE AMENDED AND RESTATED WATER RECYCLING AGREEMENT

[SIGNATURES BEGIN ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the duly authorized representatives of the Parties hereto have executed this Amendment No. 4 to the Agreement and agree it will become effective on July 1, 2025:

Date: _____	Date: _____
MONTEREY COUNTY WATER RESOURCES AGENCY	MONTEREY ONE WATER
By: _____ Name: Ara Azhderian Title: General Manager	By: _____ Name: Paul Sciuto Title: Executive Officer/General Manager
APPROVED AS TO FORM	
Date: _____	Date: _____
By: _____ Chief Assistant County Counsel	By: _____ M1W General Counsel



County of Monterey

Item No.2

Board Report

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Legistar File Number: WRAG 25-106

July 08, 2025

Introduced: 6/23/2025

Current Status: Agenda Ready

Version: 1

Matter Type: WR General Agenda

Consider adopting a resolution to:

- a. Approve and adopt the Fiscal Year 2025-26 (FY26) Groundwater Monitoring Program Regulatory Fees of \$160.16 per well for Initial Well Registration, \$21.86 per well for Annual Well Registration Renewal, \$64.82 per well for Groundwater Extraction Reporting, \$117.68 per well for Groundwater Level Monitoring, and \$73.92 per well for Groundwater Quality Monitoring, contingent upon execution of a sub-grant agreement between MCWRA and the Salinas Valley Basin Groundwater Sustainability Agency to provide grant funding as an offset credit for all well owners within the Basin for FY26;
- b. Authorize the Auditor-Controller to amend the FY26 Adopted Budget for MCWRA Fund 111 (111-9300-WRA001-8267), to increase its appropriations by \$280,000 and to increase revenue by \$800,000, financed by the Groundwater Monitoring Program fees; (4/5th vote required); and
- c. Authorize the Auditor-Controller's Office to incorporate approved budget modifications to the FY26 Budget.

RECOMMENDATION:

It is recommended that the Monterey County Water Resources Agency Board of Supervisors adopt a resolution to:

- a. Approve and adopt the Fiscal Year 2025-26 (FY26) Groundwater Monitoring Program Regulatory Fees of \$160.16 per well for Initial Well Registration, \$21.86 per well for Annual Well Registration Renewal, \$64.82 per well for Groundwater Extraction Reporting, \$117.68 per well for Groundwater Level Monitoring, and \$73.92 per well for Groundwater Quality Monitoring contingent upon execution of a sub-grant agreement between MCWRA and the Salinas Valley Basin Groundwater Sustainability Agency to provide grant funding as an offset credit for all well owners within the Basin for FY26;
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- c. Authorize the Auditor-Controller's Office to incorporate approved budget modifications to the FY26 Budget.

SUMMARY/DISCUSSION:

Historically, the Monterey County Water Resources Agency ("Agency") conducted groundwater

monitoring across portions of the Salinas Valley in a discretionary manner as funding allowed. However, with passage of the Sustainable Groundwater Management Act (“SGMA”) in 2014 came the establishment of local Groundwater Sustainability Agencies (“GSAs”) and a need for consistent, reliable collection of groundwater and well data to develop, implement, and monitor progress of Groundwater Sustainability Plans (“GSPs”). In the interest of improving operational efficiency and reducing costs, some local GSAs have chosen to leverage the data collection, analysis, management, and reporting expertise of the Agency rather than creating a separate, parallel, monitoring program. This approach was solidified through approval and adoption of Agency Ordinance No. 5426 and the Groundwater Monitoring Program Manual by the Board of Supervisors in October 2024. The Agency’s Groundwater Monitoring Program (“GMP”) comprises four data collection and monitoring programs that, collectively, produce the data necessary to meet the rigorous reporting requirements mandated by SGMA to maintain local governance and oversight of groundwater resources. Additional detail on the background, purpose, and implementation of the GMP is provided in Attachment 1.

The geographic extent of the reconceived GMP is expanding to cover areas within the Salinas Valley Groundwater Basin that are within the jurisdiction of the Salinas Valley Basin Groundwater Sustainability Agency (“SVBGSA”) (Attachment 2). Well registration and groundwater extraction reporting requirements for most well owners within the historically monitored area will remain largely the same. New well registration and reporting requirements will apply to small system well owners in the historically monitored area and all well owners in the new geographic areas (Attachment 3). The most widespread difference for all well owners will be the proposed new annual GMP Regulatory Fee to ensure program reliability, which will be billed directly by the Agency on an annual basis. Unlike other unrelated Agency assessments, this new fee will not be included on property tax bills.

The Agency Act (California Water Code, Appendix §52) and Ordinance No. 5426 authorize the Agency to “...recover costs associated with the development, implementation, enforcement, and perpetuation of a regulatory groundwater monitoring program on a per-well basis, not based on extraction data, within Monterey County.” The Agency worked with Lechowicz & Tseng Municipal Consultants to establish a schedule of cost-based fees for the GMP (Attachment 4).

The Groundwater Monitoring Program Fee Study (“Study”) describes the regulatory functions covered by the GMP and associated costs for staff time to implement the monitoring programs, including data collection, analysis, and reporting; equipment, vehicles, and supplies; technological support for data collection and management applications; and indirect costs. The indirect cost rate is 21% which consists of Agency overhead (approximately 12%) and County of Monterey overhead (approximately 9%). The indirect cost rate covers salary and benefits of Agency Administrative staff, insurance, office furnishings and supplies, computer hardware and software, internet service, communications devices, and County services such as Facilities, Auditor Controller, Human Resources, Records Retention, and County Counsel.

The proposed GMP Regulatory Fees are Proposition 26 regulatory fees and are imposed for regulatory costs that do not exceed the reasonable cost of providing the monitoring service. Proposition 26 fees can be adopted at any time through the approval of the respective legislative body.

The proposed GMP Regulatory Fees will be charged on per-well basis, regardless of how much

water a well extracts from the groundwater basin, because the cost of the program is dependent upon the number of wells in a basin, not how much water is extracted. For FY 2025-2026, the fees will apply to water production wells in the six subbasins within the jurisdiction of the SVBGSA, namely the 180/400-Foot Aquifer, Eastside, Forebay, Langley, Monterey, and Upper Valley Subbasins (Attachment 5). Data collected and reported under programs funded by the GMP Regulatory Fees will be provided to the SVBGSA for use in implementing the GSPs for the aforementioned subbasins.

For FY 2025-2026, the recommended GMP Regulatory Fees are: a one-time Initial Well Registration Fee of \$160.16 per well that is not already registered with the Agency; an Annual Well Registration Renewal Fee of \$21.86 per well; Groundwater Extraction Reporting Fee of \$64.82 per well; Groundwater Level Monitoring Fee of \$117.68 per well; and Groundwater Quality Monitoring Fee of \$73.92 per well. Additional information about each fee is available in the Study (Attachment 4) and on the summary table (Attachment 5).

A presentation on the FY 2025-2026 GMP Regulatory Fee was made to the Agency's Board of Supervisors on April 22, 2025. Following this presentation, staff coordinated with the County Communications Director and SVBGSA to prepare and disseminate additional public outreach materials including an informational flyer describing the proposed GMP Regulatory Fees and social media graphic promoting the Board of Supervisor's June 3, 2025 consideration of the GMP Regulatory Fees, both of which were distributed through traditional media, social media, on multiple websites, and in newspapers with circulation throughout the County.

The Agency's Finance Committee received presentations on the Study in March and April 2025, and the Agency hosted a stakeholder workshop about the GMP Regulatory Fee on April 3, 2025. The Agency's Board of Directors considered recommendation of this item to the Agency Board of Supervisors on April 21, 2025, at which time the Board of Directors approved staff's recommendation by a 7-2 vote (Attachment 6). The Agency's Board of Supervisors considered this item on June 3, 2025, at which time it was continued to July 8, 2025.

OTHER AGENCY INVOLVEMENT:

The County Public Information Office assisted with development of public outreach materials. The Salinas Valley Basin Groundwater Sustainability Agency coordinated with Agency staff to identify the scope of data under the GMP that is required to satisfy their regulatory obligations for monitoring and reporting under SGMA.

FINANCING:

Financial impacts of the proposed GMP Fees were reviewed during the Agency's FY 2025-26 Budget Workshop, held on March 17, 2025. Total FY 2025-26 cost recovery for GMP is estimated at \$800,000.

Prepared by: Amy Woodrow, Senior Water Resources Hydrologist, (831) 755-4860

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

Attachments:

1. Supplemental Memorandum on the GMP
2. Map of FY 2025-2026 GMP Regulatory Fee Area
3. Groundwater Monitoring Program Manual
4. Draft GMP Fee Study
5. Summary Table of FY 2025-2026 GMP Regulatory Fees
6. Board Order 25-28
7. Draft Resolution



County of Monterey

Item No.

Board Report

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Legistar File Number: WRAG 25-106

July 08, 2025

Introduced: 6/23/2025

Current Status: Agenda Ready

Version: 1

Matter Type: WR General Agenda

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- b. Authorize the Auditor-Controller to amend the FY26 Adopted Budget for MCWRA Fund 111 (111-9300-WRA001-8267), to increase its appropriations by \$280,000 and to increase revenue by \$800,000, financed by the Groundwater Monitoring Program fees; (4/5th vote required); and
- c. Authorize the Auditor-Controller's Office to incorporate approved budget modifications to the FY26 Budget.

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the number of wells in a basin, not how much water is extracted. For FY 2025-2026, the fees will apply to water production wells in the six subbasins within the jurisdiction of the SVBGSA, namely the 180/400-Foot Aquifer, Eastside, Forebay, Langley, Monterey, and Upper Valley Subbasins (Attachment 5). Data collected and reported under programs funded by the GMP Regulatory Fees will be provided to the SVBGSA for use in implementing the GSPs for the aforementioned subbasins.

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FINANCING:

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Prepared by: Amy Woodrow, Senior Water Resources Hydrologist, (831) 755-4860

DocuSigned by:

Approved by:

Ara Azhdarian

Ara Azhdarian, General Manager, (831) 755-4860

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Attachments:

Legistar File Number: WRAG 25-106

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3. Groundwater Monitoring Program Manual
4. Draft GMP Fee Study
5. Summary Table of FY 2025-2026 GMP Regulatory Fees
6. Board Order 25-28
7. Draft Resolution



WATER RESOURCES AGENCY

MEMORANDUM

Monterey County

DATE: June 26, 2025

TO: Monterey County Water Resources Agency Board of Supervisors

FROM: Ara Azhderian, General Manager

SUBJECT: Salinas Valley Groundwater Basin Monitoring Program & Regulatory Fee

BACKGROUND:

In 2014, the California legislature enacted the Sustainable Groundwater Management Act (SGMA) for the purpose of achieving and maintaining sustainability in the State's groundwater basins. The California Department of Water Resources (DWR) was delegated authority to identify groundwater basins and prioritize management actions. Today's SGMA efforts are focused on high and medium priority basins, as designated by DWR, to achieve sustainability by 2040 or 2042, respectively. In the Monterey County portion of the Salinas Valley Basin (Basin), DWR designated seven groundwater [subbasins](#)¹. Generally, from south to north, beginning at the San Luis Obispo County line, they are:

- Upper Valley Aquifer
- Forebay Aquifer
- 180/400 Foot Aquifer
- Eastside Aquifer
- Seaside Aquifer²
- Monterey Aquifer
- Langley Area Aquifer

Key tenets of SGMA are the preservation of **local control**, the **use of best available data and science**, and active engagement with and **consideration of all beneficial uses and users** of groundwater. SGMA allows localities to form Groundwater Sustainability Agencies (GSAs) to develop, achieve, and manage groundwater basins sustainably. Locally, the Salinas Valley Basin Groundwater Sustainability Agency (SVB) was formed in 2017 to manage the preponderance of the Basin, in cooperation with other local entities³, including the Monterey County Water Resources Agency (Agency). The SVB has prepared six Groundwater Sustainability Plans (GSPs) to address the

¹ <https://gis.water.ca.gov/app/bp-dashboard/final/>

² The Seaside Aquifer was adjudicated and falls under the management of a court appointed Watermaster.

³ These include the Arroyo Seco GSA, the County of Monterey GSA, the Marina Coast Water District GSA, the Monterey Peninsula Water Management District, and the Seaside Watermaster.

specific, and differing, characteristics of each subbasin. The important elements of each GSP include:

- Sustainability goals;
- Description of the subbasin geographic boundaries, i.e. “Plan Area”;
- Description of the subbasin, including groundwater conditions and a water “budget”;
- Locally defined “Sustainable Management Criteria”;
- Monitoring protocols for each sustainability indicator;
- Description of project and/or management actions to achieve sustainability.

Development of these GSPs was guided by subbasin specific committees comprised of [interested parties](#)⁴, in cooperation with local entities, and with active public outreach.

For each GSP, SGMA requires the SVB develop a monitoring network and describe the conventions necessary to establish and monitor Sustainable Management Criteria, which define the conditions that constitute groundwater sustainability, including characterizing undesirable results and establishing minimum thresholds and measurable objectives for each sustainability indicator. The monitoring networks were developed pursuant to the California Code of Regulations (CCR), Title 23 ([23 CCR](#)), [Division 2, Chapter 1.5, Subchapter 2, Article 5, Sections 354.32 et seq.](#)⁵ More specifically, § 354.34 establishes the minimum requirements for a monitoring network, including:

§ 354.34 (a) Each Agency shall develop a monitoring network capable of collecting sufficient data to demonstrate short-term, seasonal, and long-term trends in groundwater and related surface conditions, and yield representative information about groundwater conditions as necessary to evaluate Plan implementation.

§ 354.34 (b) Each Plan shall include a description of the monitoring network objectives for the basin, including an explanation of how the network will be developed and implemented to monitor groundwater and related surface conditions, and the interconnection of surface water and groundwater, with sufficient temporal frequency and spatial density to evaluate the affects and effectiveness of Plan implementation. The monitoring network objectives shall be implemented to accomplish the following:

- (1) Demonstrate progress toward achieving measurable objectives described in the Plan.
- (2) Monitor impacts to the beneficial uses or users of groundwater.
- (3) Monitor changes in groundwater conditions relative to measurable objectives and minimum thresholds.
- (4) Quantify annual changes in water budget components.

⁴ <https://svbgsa.org/about-us/board-and-committees/subbasin-committees/>

⁵ https://www.waterboards.ca.gov/laws_regulations/docs/ccr_ch16_202010.pdf

In order to reliably implement its monitoring networks, the SVB partnered with the Agency to develop a new groundwater monitoring [ordinance](#)⁶, adopted in October 2024, along with a [Groundwater Monitoring Program Manual](#)⁷. The decision for the SVB to partner with the Agency was driven by stakeholder support for leveraging the Agency's groundwater monitoring expertise and historical, long-term trend data to avoid creating a duplicative program, with additional costs. The partnership establishes one cohesive [Groundwater Monitoring Program](#) (GMP)⁸ to comply with the SGMA driven monitoring requirements, while ensuring efficiency and transparency. The key goal is to improve the availability of accurate, timely, and reliable groundwater information, which aids in effectively managing all water resources.

To meet the rigorous requirements of 23 CCR § 354.32 et seq., the Agency must establish a reliable funding mechanism to recover the reasonable costs⁹ necessary to ensure regulatory compliance. To meet this need, the Agency initiated a nexus study in July 2024, the initial draft of which was presented to the public in March 2025. Subsequently, through numerous public meetings and stakeholder engagement, the draft was refined and presented in its [final form](#)¹⁰ for consideration at the Agency's Board of Supervisors (Board) June 3, 2025, meeting. During development of the new ordinance, GMP Manual, and the nexus study, stakeholders and governance bodies have raised many questions that have been addressed directly and through development of a list of Frequently Asked Questions maintained on the Agency's GMP web page referenced above, which is also linked to a reciprocal SVB web page. At the June 3, 2025, meeting, the Board raised additional questions that are the subject of this memorandum.

QUESTIONS FROM JUNE 3, 2025, BOARD OF SUPERVISORS MEETING:

Q: Can we exclude de minimis¹¹ groundwater users from the monitoring network?

A: No, 23 CCR § 354.32 requires monitoring networks to be developed to collect data of sufficient quality, frequency, and distribution to accurately and reliably characterize the groundwater subbasin, and related surface water conditions, to allow for evaluation of changing conditions through GSP implementation to ensure compliance with SGMA, including § 354.34 (b)(2) to "Monitor impacts to the beneficial uses or users of groundwater".

Q: How do de minimis well owners benefit from the GMP?

A: Quality of Life: While all well owners benefit from the decision to access a groundwater basin, de minimis well owners are the most vulnerable as they are often wholly dependent upon that single source of water for their domestic needs, including health and safety. Being both at greatest

⁶ <https://www.countyofmonterey.gov/home/showpublisheddocument/135947/638651013205370000>

⁷ <https://www.countyofmonterey.gov/home/showpublisheddocument/135929/638648527079730000>

⁸ <https://www.countyofmonterey.gov/government/government-links/water-resources-agency/programs/groundwater-monitoring-program>

⁹ Gov. Code § 53758(c): "...that the amount is no more than necessary to cover the reasonable costs to the local government in providing the specific benefit or specific government service..."

¹⁰ <https://www.countyofmonterey.gov/home/showpublisheddocument/140514/638841376022900000>

¹¹ De minimis groundwater users are defined by the State as: "a person who extracts, for domestic purposes, two acre-feet or less (of groundwater) per year."

risk to the potential disruption of groundwater and, often, most challenged to respond when disruptions occur, the need for a monitoring network becomes essential. Indeed, SGMA recognizes this reality thus mandating monitoring networks for the protection of de minimis well owners. In addition to quality of life and legal compliance reasons, there are financial benefits that accrue from monitoring and managing groundwater at scale.

Economy of Scale: While industrial and large service providers can afford individual well monitoring equipment, de minimis well owners often cannot; therefore, dependence upon an external entity to provide the monitoring service becomes necessary and is cost effective due to the economy of scale achieved by not monitoring each, individual well but, rather, monitoring an appropriately sized, representative network of wells to inform management decisions on a subbasin scale. Absent high quality, comprehensive, reliable data, management decision may be too much, wasting resources and incurring avoidable costs, or too little, risking disruption of the groundwater subbasin and/or State intervention, both of which come at an additional cost. Good monitoring data supports right-sized, cost effective, management decisions.

Avoided Costs and Preserved Property Value: While extraction data is not collected from de minimis groundwater users, de minimis wells are frequently the shallower wells within a basin. To ensure that groundwater level goals to achieve and maintain sustainability for all users are set to a target that is protective of de minimis users, knowing where and how deep their wells are screened aids in assessing how wells could be affected by changing groundwater conditions. DWR's approvals of the SVB's 2022 GSPs¹² include "recommended corrective actions"¹³ to obtain additional well information and consider potential impacts to supply wells, including domestic wells, at the selected minimum threshold for chronic lowering of groundwater levels. This requirement includes consideration of the degree/extent of potential impacts including the percentage, number, and location of potentially impacted wells at the proposed minimum thresholds for chronic lowering of groundwater levels. Implementation of the GMP is needed to obtain additional well information through the registration component and to conduct this analysis of potential impacts.

The GMP monitoring data and analysis of groundwater conditions relative to sustainability criteria sets the basis for effective management actions, which reduces the risk of de minimis well owners having to pay for well repairs, replacement, or water treatment to maintain viable use of the groundwater, thus reducing well ownership cost and preserving private property value.

Compliance with the Law: SGMA was enacted in 2014 and mandates monitoring networks be established for each GSP to meet the requirements of 23 CCR § 354.32 et seq., including for the protection of de minimis well owners. Therefore, the question is not whether groundwater monitoring will occur but by whom and at what cost. As the SVB considered the question of how to meet its new legal requirements, it was widely agreed that the Agency stood as the best and most cost effective

¹² The Eastside, Forebay, Langley, Monterey, and Upper Valley Subbasins. The 180/400 Amendment 1 review by DWR is still pending but the same Recommended Corrective Actions are expected.

¹³ DWR Recommended Corrective Actions apply to GSPs that have been **approved** but need additional information, detail, and/or clarification. DWR expects Recommended Corrective Actions to be addressed in the GSP 5-Year Update, in this case by 2027 – see: <https://water.ca.gov/-/media/DWR-Website/Web-Pages/Programs/Groundwater-Management/Sustainable-Groundwater-Management/Groundwater-Sustainability-Plans/Files/GSP/SGMA-Evaluation-Pathways-Factsheet.pdf>

solution, culminating in the adoption of Ordinance 5426 in October 2024. Absent a reliable revenue stream, the Agency cannot meet the SVB's 21st century monitoring needs. In the alternative, the SVB would establish and recover its own fee from the very same well owners rather than risk intervention by the State. Costs for the SVB to establish its own program would be greater, as it would have to acquire the specialized staff, systems, and equipment the Agency already has to perform the necessary work.

Q: What if a GSA fails to implement a GSP's monitoring network?

A: SGMA describes GSA powers and authorities, which include the authority to charge fees, conduct investigations, register wells, require reporting, and take other actions to sustainably manage the basin. To ensure groundwater resources are sustainably managed, SGMA gives the State Water Resources Control Board (SWRCB) authority to protect groundwater resources through a process called "intervention", which is triggered if DWR determines that a GSA is unable or unwilling to sustainably manage their basin(s). Lack of compliance by well owners, or suitable funding, could lead to a determination that the GSA is unable to implement the GSP, thus triggering the State intervention process.

Intervention¹⁴ is **additional** to local management and is intended to be temporary, lasting only until local agencies demonstrate that they are ready to adequately manage their respective basin(s). Under intervention, any well owner who extracts or pumps groundwater must file an annual groundwater extraction report with the SWRCB, unless it decides to exclude certain types of groundwater extractions, which is considered on a basin-by-basin basis through a public hearing process. De minimis users in probationary basins can be required to report if collectively they make up a significant amount of the groundwater pumping, as would be the case for the Langley and Monterey Subbasin Corral de Tierra Management Area. When intervention occurs, the SWRCB imposes fees and other requirements on all well owners required to report, including an annual fee of \$300 per well (\$100 per well for de minimis users) plus a volumetric charge of \$20 per acre-foot of groundwater extracted during the preceding water year. Fees can increase due to lack of remedy and fines may be imposed due to lack of compliance [23 CCR § 1040(b) & (c)].

Q: Why are the proposed GMP costs allocated on a per-well basis?

A: During the 2024 development of Ordinance 5426, different GMP cost allocation methods were considered. Ultimately, a per-well fee was decided upon because the cost of the GMP program relates most directly to the number of wells in the program, not the number of acres in a subbasin or the volume of water extracted. Each owner of a well benefits specifically and equally from the information gathered to determine groundwater conditions and whether minimum thresholds are being met to ensure sustainability for all beneficial uses, including de minimis.

Well ownership subjects the well owner to the provisions of SGMA. SGMA requires groundwater monitoring to protect and preserve the resource on a regional basis for all well owners

¹⁴ https://www.waterboards.ca.gov/water_issues/programs/gmp/intervention.html

through annual reporting and ongoing GSP implementation. In order to achieve the SGMA mandates, GPSs have been prepared with extensive input from local interests engaged with the SVB. The GPSs contain the mandated monitoring requirements and implementation of these subbasin specific monitoring networks results in the estimated costs for specific services being provided by the Agency, as described in the regulatory fee study referenced above.

The cost to implement the monitoring plan depends upon the staff time, equipment, software, supplies, and lab costs necessary to perform the work. The amount of staff time to register a well or process an extraction report does not vary by the volume of extraction from each well, but it does vary by the number of wells that must be registered and report. The cost to perform groundwater level and water quality sampling does not vary by the number of wells because the respective, representative monitoring networks are fixed annually; however, the information developed by the monitoring effort benefits every well owner in the subbasin specifically and equally. In the end, monitoring actions are not management actions, but monitoring is required to assess the effects of management actions. The level of monitoring is equal throughout a subbasin whereas the level of management may vary, depending upon the issue being managed and the type of action. The costs of management actions will require separate and specific funding mechanisms and are unrelated to the cost of monitoring. Each well owner in a subbasin has equal access to its groundwater and equal access to the monitoring information developed to inform sustainable management of the resource.

The GMP per-well cost allocation was proposed for both practical and legal reasons. First, not all landowners are well owners. While there are over 500,000 acres in the Salinas Valley groundwater basin but there are only an estimated 3,500 wells, almost all of which are privately owned. The Agency knows not every parcel of land has a well, in fact, many do not. Allocating costs on a per-acre basis, as one might under a Prop 218 special benefit assessment, would have meant all landowners pay for a program that only confers a specific benefit to well owners. Also, hypothetically, two landowners that own the same amount of land, but have a different number of wells, would have paid the same amount though the one with more wells requires more service. In addition to this equity issue, there are legal restrictions that affect the Agency's allocation of cost for the GMP.

Under Government Code § 53758, the GMP is considered a "specific government service", which means a service that is provided by a local government directly to the payor, the well owner in this case, and is not provided to those not charged, and that the costs allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity. Landowners without wells have no need for a groundwater monitoring program. Under SGMA, individual well ownership comes with the responsibility to safeguard the resource that all well owners are so dependent upon, today and in the future. This is especially true for domestic well owners, who have limited ability to independently manage their groundwater, therefore are dependent upon local government to achieve sustainability, and limited means to respond if it is not done adequately.

Q: Under Proposition 26, can we charge some well owners more, e.g. ag/industrial wells, to subsidize others, e.g. low-income/single family residences?

A: No, voter approved Prop 26 does not allow the Agency to charge one group of well-owners more in order to subsidize others.

This has been tested in a number of different contexts, but as a general rule: Prop 26 regulatory fees can't exceed the reasonable cost of providing the service and/or regulatory activity and can't be levied for an unrelated revenue purpose.

If that end result (reduced costs to a certain group) is one the Board wants to pursue, it would need to levy the charge as a special tax subject to standard balloting requirements or implement some other offset not funded by Prop 26 (general fund or grant revenue) in order to achieve the same functional result.

Q: What are the water quality services being provided by the Agency and how are they different?

A: There are three entities performing groundwater quality sampling in the Basin: 1) the County's Health Department, Environmental Health Bureau; 2) Central Coast Water Quality Preservation, Inc., and 3) the Agency. Each entity performs a specific service.

The Environmental Health Bureau, in addition to being the entity responsible for the issuance of permits to construct, repair, or destroy a well, is responsible for the Drinking Water Protection Services (DWPS) program that regulates domestic water systems serving 2-199 connections or systems that serve at least 25 people at least 60 days a year. The DWPS is responsible for permitting, inspection and enforcement of over 1,250 water systems throughout the County. The DWPS provides assistance to non-State regulated public and private potable water distribution systems to comply with local, State and Federal regulations, and to resolve water quality and quantity issues; operates a cross-connection control program and a water reuse program; and permits and inspects desalination treatment facilities. This water quality monitoring program focuses on the possible contamination of a well used for potable water by constituents that may affect human health, such as arsenic, and is fiscally supported by an independent, per-well, annual fee. DWPS performs its monitoring at each domestic connection (e.g., at a faucet or tap), not at the well. If a problem is detected, it may ultimately be traced back to the well, but otherwise the wells themselves are not monitored directly.

The Central Coast Water Quality Preservation, Inc., is responsible for compliance with a 1999 State law that relates to the California Porter-Cologne Water Quality Control Act and federal Clean Water Act. The law required the State Water Resources Control Board (SWRCB) to review waivers of water quality monitoring for irrigated agriculture and either renew them or adopt Waste Discharge Requirements (WDRs). In 2004, the Central Coast Regional Water Quality Control Board adopted a conditional waiver of waste discharge requirements for discharges from irrigated lands within the Central Coast Region. Given the large geographical range of the region, growers formed a non-profit organization to implement a Cooperative Monitoring Program (CMP) that would perform the surface water monitoring and reporting requirements for enrolled growers. The original waiver and the CMP have undergone two program updates, one in 2012 (Ag Order 2.0) and one in 2017 (Ag Order 3.0), with an Ag Order 4.0 currently in development. Preservation Inc. manages the CMP and reports to the Water Board on behalf of the Central Coast grower community. This water quality monitoring

program focuses on the possible contamination of irrigation drainage water, including shallow groundwater, by constituents that may affect human health, such as nitrogen, and is fiscally supported by an independent, per-acre, annual fee.

The Agency is responsible for monitoring the intrusion of seawater, which occurs in four of the SVB subbasins where the individual GSPs describe the presence or potential for seawater intrusion and establish a seawater intrusion monitoring network: the 180/400-Foot Aquifer, Eastside Aquifer, Langley Area, and Monterey Subbasins. Seawater intrusion monitoring involves the collection of groundwater samples from wells at specified depths, using protocols and equipment consistent with an approved Quality Assurance Project Plan approved by the U.S. Environmental Protection Agency to ensure that a representative sample of water from a specific aquifer is properly procured for analysis. Per Agency Ordinance 3790, the concentration of chloride ion is used to define the threshold for seawater intrusion; however, the Agency monitors a suite of constituents¹⁵ which allows for use of multiple geochemical tools in determining the phase of seawater intrusion, or lack thereof, that is occurring. Data from samples collected at a representative network of wells are used to map the regional extent of seawater intrusion, though site-specific data are also reported to capture localized variations in conditions that do occur.

ALTERNATIVE FUNDING SOURCES FOR CONSIDERATION:

While State law prohibits the Agency from cross-subsidizing one group using Proposition 26 regulatory fee revenue from another group, there are alternative approaches that could be exercised to support participation in the State mandated SGMA monitoring network by certain user groups. Agencies *may* lawfully use non-fee revenue sources, such as taxes, grants, or general fund revenues, to reduce costs for particular groups without violating Prop 26, so long as those subsidies are not funded by other users' fees. Most commonly, this offset comes in the form of alternative revenue from grants or general tax revenue.

Several examples may be useful when considering whether and how to alleviate the financial burden of the proposed Groundwater Monitoring Program fees on certain user groups:

- In its 2020 Proposition 218 proceeding, the Kings River East GSA established groundwater pumping fees but also allocated state grant funds from DWR to reduce those fees for disadvantaged communities. Because the subsidy came from grants, not from other ratepayers, the structure complied with Proposition 26.
- Through another grant program (DWR's LandFlex Program), GSAs in the Central Valley paid growers directly to fallow land and reduce pumping, thereby limiting the impact that groundwater extraction fees would otherwise have on this group. Payments from outside sources like this one can be used to offset the overall costs borne by a group of users (even if they do not alter the fee structure itself).

¹⁵ Samples collected for evaluating seawater intrusion are analyzed for calcium, cation-anion balance, chloride conductivity, magnesium, nitrate, pH, potassium, sodium, sulfate, total alkalinity, and total dissolved solids. This data enables the Agency to monitor the progression of seawater intrusion.

- In the related context of water service, Santa Clara Valley Water District uses property tax revenues collected under separate statutory authority to fund flood protection and safe drinking water projects. This allows it to lower water rates for some customer classes without violating cost-of-service principles, as those funds are not derived from other ratepayers.
- The City of Sacramento uses a combination of general fund contributions and external grants to support water affordability programs. These programs reduce water bills for qualifying low-income customers. The general fund revenue is not considered a user fee, so it does not implicate Proposition 26. Similar programs in other municipalities provide rebates to target groups separate and apart from their regulatory fee levy.

DISCUSSION:

The Agency and SVB recognize that, notwithstanding SGMA was enacted over 10 years ago, to many, SGMA requirements, the GMP, and the associated regulatory fee will be unfamiliar. To help facilitate GMP implementation, the SVB has proposed that the first year be grant funded. Subject to DWR approval, the SVB would make minor amendments to its current grant agreements with the State and modify its sub-grant agreement with the Agency to fund the full cost of GMP implementation for the 2025-2026 fiscal-year. The Agency would produce a GMP regulatory fee invoice for each well owner currently of record so that well owners could see the specific services that apply to each well, and then concurrently apply a credit from the SVB grant funds to entirely offset the initial cost for all well owners within the Basin.

Utilizing grant funding for the 2025-2026 fiscal-year provides many advantages:

- First, it would ease entry into the GMP, particularly for those well owners unfamiliar with the SGMA mandates, the planning and management work of the SVB, and the specific monitoring services provided by the Agency.
- Second, it would provide an opportunity for well-owners currently unidentified in existing databases to register cost-free. By incentivizing entry into the mandatory monitoring program, the quality of well data – presence, location, characteristics, etc. – would be improved. This improved data would enhance understanding of each subbasin, resulting in better future management decisions, while reducing future monitoring costs, as all well owners benefit from the GMP’s economy of scale.
- Third, initiating the first year of the GMP cost-free to well owners would alleviate the year-one impact to low-income, rural residents and provide the Agency time to consider development of non-fee revenue sources, such as taxes, grants, or general fund revenues, to reduce costs for particular groups.
- Fourth, adopting and invoicing the proposed 2025-2026 GMP Regulatory Fees, with the grant funded offset credit, would transparently introduce to well owners the

specific services and costs that apply to each of their wells. Establishment of the fee, and going through the administrative process, will improve the Agency's administrative practice and refine future fee calculations. Too, adopting the fee will avoid the need for the SVB to establish and recover its own fee, which would ultimately be applied to the very same well owners.

- Fifth, providing year-one funding for the GMP will maintain the quality and reliability of the data reported to DWR annually; will help inform the GSP updates required in 2027; and alleviate the risk State intervention.

NEXT STEPS:

The Agency will work with the SVB to roll out the recommended GMP implementation approach. This would entail preparation of a letter from the SVB to all parcels of record within the six affected subbasins to explain the requirements of SGMA, the role of the SVB in governance, planning, and implementation of management actions to achieve the State mandated, locally developed, sustainability objectives, and the role of the Agency in performing the specific monitoring services. The letter would summarize the GMP requirements and direct well owners to contact the Agency for further information and well registration. This outreach effort would be attended by traditional and social media outreach efforts. In order to achieve the DWR reporting requirements, the letter and outreach would need to occur in late August or early September.

CONCLUSION:

With all the technical and legal complexities relating to development and implementation of the GMP, it is easy to lose sight of its objectives. Paramount is protecting today's groundwater resources for tomorrow because it is the lifeblood of the County's economy, communities, and culture. By implementing a robust, yet cost effective, monitoring network, the SVB and Agency strive to maintain local control of governance and planning, improve operational efficiency while maintaining regulatory compliance, and, with the benefit of high quality, reliable data, develop and implement right-sized projects that minimize the risk of over managing – avoidably wasting resources and increasing costs – or under managing, which could result in further degradation of groundwater levels and quality, and risk State intervention. Does SGMA require groundwater monitoring networks? Yes. But, moreover, we should be striving to implement the GMP, and resultant regulatory fee, because it is the best practice, one that ensures better management decisions for all well owners. As State Water Resource Control Board member, Sean Maguire, said at the recent Association of California Water Agencies conference, "You can't manage what you can't measure."

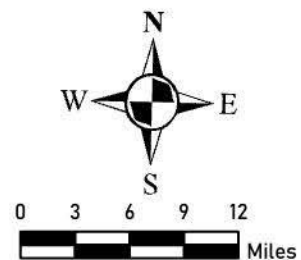


Esri, CGIAR, USGS, California State Parks, Esri, TomTom, Garmin, SafeGraph, PAO, METI/NASA, USGS, Bureau of Land Management, EPA, NPS, USFWS

Groundwater Monitoring Program Regulatory Fee Area FY 2025-2026

Legend

- Groundwater Monitoring Program Area
- Monterey County Boundary



Monterey County Water Resources Agency's Groundwater Monitoring Program Manual

October 1, 2024

Section 1 Introduction

This Groundwater Monitoring Program Manual (“Manual”) is a supplement to Monterey County Water Resources Agency (“Agency”) Ordinance No. 5426. The purpose of the Manual is to establish guidelines for the types of data collected, the schedule and time frames for data submittals, the applicability of certain programs based on geography or water user type, and methods and equipment for data collection.

The Manual also establishes the guidelines for data that is requested from the Agency by external entities, in accordance with Ordinance No. 5426 and outlines requirements associated with those requests. The Manual is reviewed regularly and may be updated as the Agency’s or external entity’s needs evolve.

Four Agency groundwater monitoring programs are covered by the Manual: Well Registration, Groundwater Extraction Monitoring, Groundwater Level Monitoring, and Groundwater Quality Monitoring.

Section 2 Definitions

1. Abandoned well – means any well whose original purpose and use has been permanently discontinued or which is in such a state of disrepair that it cannot be used for its original purpose. A well is considered abandoned when it has not been used for a period of one year, unless the owner demonstrates his or her intent to use the well again for supplying water or other associated purposes.
2. Accuracy – means the measured value relative to the actual value, expressed as a percentage and calculated as: $\text{Accuracy} = 100\% * (\text{Measured Value} - \text{Actual Value}) / \text{Actual Value}$.
3. Actual Value – means the value as determined through laboratory, design, or field-testing protocols.
4. Agency – means the Monterey County Water Resources Agency.
5. Agency Act – means the Monterey County Water Resources Agency Act, California Water Code, Appendix Chapter 52 (Stats. 1990, Chap. 1159).
6. Board – means the Board of Supervisors of the Monterey County Water Resources Agency.

7. County – means the County of Monterey.
8. De minimis extractor – means a person who extracts, for domestic purposes, two acre-feet or less per year (California Water Code section 10721(e)).
9. Human consumption – means the use of water for drinking, bathing or showering, hand washing, food preparation, cooking, or oral hygiene.
10. Inactive or standby well – means a well not routinely operating but capable of being made operable with a minimum effort.
11. Local Small Water System – means a system for the provision of piped water for human consumption that serves at least two, but not more than four, service connections. It includes any collection, treatment, storage, and distribution facilities under control of the operator of such system which are used primarily in connection with such system. “Local small water system” does not include two or more service connections on a single lot of record where none of the dwellings are leased, rented, or offered for remuneration.
12. Measured Value – means the value indicated by a Measuring Device or determined through calculations using other measured values.
13. Measuring Device – means any device capable of recording the date, time, and a numeric value of either water flow rate, water velocity, water elevation, or volume of water diverted.
14. Monterey County – means the geographical area of Monterey County.
15. Qualified Individual – means any person meeting the criteria specified in the Manual who can perform the required tasks for using and installing a Measuring Device.
16. Reference Point – means the fixed location from which a groundwater level measurement is collected at a well and the elevation of that fixed location.
17. Requesting Entity – means an entity engaged in the management of groundwater resources within Monterey County, either through the monitoring and reporting of groundwater level, usage, and/or quality data; scientific investigations; or in the administration and compliance of a regulatory program(s).
18. Service connection – means a connection to any habitable structure, except a guesthouse, or parcel which uses potable water from a water system for domestic and not agricultural purposes.

19. **Small Public Water System** – means a system for the provision of piped water to the public for human consumption that has at least fifteen but not more than one hundred ninety-nine service connections or regularly serves at least twenty-five individuals at least sixty days out of the year. A small public water system includes “community water system” and “noncommunity water system” as defined in Section 116275(i) and (j), respectively, of the California Health and Safety Code, and “non-transient noncommunity water system” as defined in Section 116275(k) of the California Health and Safety Code, and a “transient-noncommunity water system” as defined in California Health and Safety Code Section 116275(o), as these sections may be amended from time to time.
20. **State Small Water System** – means a system for the provision of piped water to the public for human consumption that serves at least five, but not more than fourteen (14), service connections and does not regularly serve drinking water to more than an average of twenty-five (25) individuals daily for more than sixty (60) days out of the year. It includes any collection, treatment, storage, and distribution facilities under control of the operator of such system which are used primarily in connection with such system, and any collection or pretreatment storage facilities not under the control of the operator which are used primarily in connection with such system.
21. **Water Year** – means the 12-month period between October 1, of any given year, through September 30, of the following year, as defined by the United States Geological Survey.
22. **Well** – means any artificial excavation constructed by any method for the purpose of extracting water from, or injecting water into, the underground. “Well” includes abandoned wells, inactive wells, monitoring wells, and observation wells. For the purposes of this Manual, “well” does not include: (1) oil and gas wells, or geothermal wells constructed under the jurisdiction of the Department of Conservation, except those wells converted to use as water wells; (2) wells used for the purpose of dewatering excavation during construction, or stabilizing hillsides or earth embankments; (3) cathodic protection wells; or (4) test wells or dry wells.
23. **Well Operator** – means a person or entity authorized by a Well Owner to operate a Well.
24. **Well Owner** – means a landowner or landowners that own a Well.

Section 3 Well Registration Program

3.1 Geographic Extent

The Well Registration Program applies to all wells located in Agency Zone 2C and/or the following subbasins of the Salinas Valley Groundwater Basin: 180/400 Foot Aquifer (3-004.01), East Side Aquifer (3-004.02), Forebay Aquifer (3-004.04), Langley Area (3-004.09), Monterey (3-004.10), and Upper Valley Aquifer (3-004.05). Such geographic locations are depicted in a map attached to this Manual as Attachment A.

3.2 General Requirements

Well registration must be completed by submitting the required data to the Agency using the well registration portal available at *[insert link when available]*. Information about and assistance with completing well registration are available at *[insert URL when available]* or by contacting the Agency at 831-755-4860. Wells that are currently registered with the Agency and which meet the data requirements in Section 3.3 will not have to re-register but the Well Owner may be asked to verify the well registration data on file with the Agency and provide updates as applicable.

3.3 Data Requirements

The following data must be submitted to the Agency when a well is initially registered and must be updated by contacting the Agency when any changes occur.

1. Well owner name, address, phone number, and email address.
2. Well operator name, address, phone number, and email address.
3. Name of Local Small Water System, Small Public Water System, or State Small Water System, if applicable.
4. Number of connections to Local Small Water System, Small Public Water System, or State Small Water System, if applicable.
5. Geographic coordinates of the well location collected via GPS, with accuracy within 20 feet. Note that GPS-enabled smartphones are typically accurate to within a 16-foot radius under open sky (www.gps.gov).
6. Scaled map showing the well location and the area served water from the well, with relevant geographic features and landmarks labeled (e.g., roads, intersections).
7. Well name (owner-given well identification).
8. Well construction details including all the following information:
 - a. Date of construction
 - b. Drilling method
 - c. Total well depth
 - d. Perforation/screen interval(s)
 - e. Annular seal depth
 - f. Casing diameter
 - g. Casing material
 - h. Depth of pump
 - i. Pump motor horsepower
 - j. Discharge pipe diameter
9. Use category(ies) for which water from the well will be used (e.g., domestic, municipal, agriculture).
10. Status of the well (active, inactive or standby, or abandoned).
 - a. A well owner may demonstrate the inactive or standby status of a well by actions including, but not limited to, keeping the well structure in good condition; preventing the accumulation of vegetative growth or debris at the well and in adjacent areas; and retaining equipment and infrastructure necessary for operation of the well, such as pumps, piping, or a power source for operating the well.
11. Number of existing and anticipated service connections.

12. Description of water quantity measuring device(s) on the well.
13. Description of each water quantity measuring device on all service connections receiving water from the facility.
14. Electrical meter service numbers and plant numbers for each well having such a number.
15. Copy of the Well Completion Report.
16. Copy of the County of Monterey well construction permit that was issued for the well, and any other related County well permits.
17. Copy of any borehole geophysical logs collected during the well drilling.
18. Copy of any pump testing data obtained during well drilling and development.

Section 4 Groundwater Extraction Monitoring Program

4.1 Geographic Extent

The Groundwater Extraction Monitoring Program applies to non-*de minimis* extractors located in Agency Zone 2C and/or the following subbasins of the Salinas Valley Groundwater Basin: 180/400 Foot Aquifer (3-004.01), East Side Aquifer (3-004.02), Forebay Aquifer (3-004.04), Langley Area (3-004.09), Monterey (3-004.10), and Upper Valley Aquifer (3-004.05). Such geographic locations are depicted in a map attached to this Manual as Attachment A.

4.2 General Requirements

1. Groundwater extraction data are required from all non-*de minimis* users i.e., wells pumping more than 2 acre-feet per year (AF/yr.) for domestic use.
2. Groundwater extraction data must be collected on a monthly basis for each Water Year (i.e., October 1 through September 30).
3. Monthly totals of groundwater extracted must be reported to the Agency no later than November 1 for the prior Water Year.
4. Data that are reported to the State Water Resources Control Board Electronic Water Rights Management System (eWRIMS) must also be reported to the Agency and be identified as being reported to both entities.
5. Any Measuring Device required by this Manual must be purchased, installed, and maintained by the well owner or operator.

4.3 Data Collecting and Reporting

1. Well owners or operators must collect and maintain monthly records of groundwater extraction volumes and cumulative totals including:
 - a. Quantity of water produced by each well.
 - b. Quantity of water produced for each use type.
2. Annual reporting submitted to the Agency must specify the type of approved Measuring Device that was used to collect data at each well. Currently approved Measuring Devices include all of the following: flow meter, electrical meter, or hour meter. Additional types of Measuring Devices or equipment may be considered and approved for use in the future. When new Measuring Devices are approved by the Agency as described in Ordinance

5426, Well Owners or Well Operators of Wells currently registered with and reporting extractions to the Agency using a currently approved Measuring Device as described in this Manual or “Alternative Compliance Plan” will not have to re-request approval from the Agency to continue using a currently approved Measuring Device or “Alternative Compliance Plan”.

a. Annual reporting occurs online through an application maintained by the Agency at https://apps.co.monterey.ca.us/wra_gems/.

b. Information about how to use the application is available at <https://www.countyofmonterey.gov/government/government-links/water-resources-agency/programs/groundwater-extractions-gems>.

3. Well owners or operators using the flow meter method must abide by the following:

a. Flow meters must be tested every five years by a Qualified Individual and calibrated to comply with applicable Agency specifications in (b) and (c) below. Upon completion of the test, a copy of the test report including the flowmeter reading must be submitted to the Agency.

i. A Qualified Individual may be any of the following:

I. Anyone trained and experienced in water measurements and reporting.

II. A California-registered Professional Engineer or a person under their supervision.

III. A California-licensed contractor for C-57 well drilling or C-61/D-21 Limited Specialty: Machinery and Pumps.

IV. Any individual who has completed a class on measurement devices and methods offered through the University of California Cooperative Extension.

V. Hydrologist or Professional Engineer experienced and trained in water measurement.

b. Flow meters must be installed per manufacturer instructions.

c. Flow meters must come from the manufacturer with a provable accuracy of +/- 2%. The Measured Value must read within +/- 10% at all times after installation.

d. Reported data must include monthly readings from the flow meter and associated meter number.

4. Well owners or operators using the electrical meter method must abide by all of the following:

a. Quantities of water must be reported based on calculations using accurate electrical bills, data from pump efficiency tests, and formulas that are approved by the Agency.

- b. Electrical bills must be based on electrical meters on the well. The well's use of electricity must be the only electrical use measured by the electrical meter.
 - c. Reported data must show the kilowatt hours used each month by each well.
 - d. A pump efficiency test must be completed annually. The test must be a three-point efficiency test which evaluates three discharge pressures and is obtained during the period from March through June. Upon completion of the test, the tester must submit to the Agency a report of the testing that includes the electrical meter reading on the date of the test. The pump efficiency test report must be submitted to the Agency no later than October 31 of the year in which it was conducted.
 - e. Reporting party must submit all computations necessary to show the quantity of water used, including the raw data, the computation itself, and the result as prescribed by the Agency.
5. Well owners or operators using the hour meter method must abide by all of the following:
- a. Quantities of water must be reported based on calculations using readings from hour meters, discharge rates from pump efficiency tests, and formulas approved by the Agency.
 - b. Hour meters must be accurate to within 2% of correct time.
 - c. Information showing the total number of hours each facility was operated in each month must be submitted to the Agency.
 - d. A pump efficiency test must be completed annually. The test must be a three-point efficiency test which evaluates three discharge pressures and is obtained during the period from March through June. Upon completion of the test, the tester must submit to the Agency a report of the testing that includes the hour meter reading on the date of the test and discharge rates determined pursuant to the test.
 - e. Reporting party must submit all computations necessary to show the quantity of water used, including the raw data, the computation itself, and the result as prescribed by the Agency.

Section 5 Groundwater Level Monitoring Program

5.1 Geographic Extent

The Agency monitors groundwater levels throughout Monterey County, primarily within the Salinas Valley Groundwater Basin, but also in areas of Lockwood Valley (Attachment B).

5.2 Record Keeping

Wells that are part of the Agency's groundwater level monitoring network are required to be registered, per the criteria described in Section 3 of this Manual. In addition to the data requirements therein, the Agency will collect data regarding the Reference Point elevation of the well.

The Agency may install a well data tag at the well site to indicate that the well is part of a monitoring program. The well data tag will be labeled with the site's State Well Identification Number.

5.3 Data Collection

The Agency measures groundwater levels on a monthly basis at some well sites and biannually or annually at other well sites. The Agency adheres to the following field methods and data management practices.

5.3.1 Field Methods

Groundwater level data collected from wells is intended to reflect static (i.e., non-pumping) groundwater conditions. Best efforts are made to ensure that wells are not pumping and have not recently been pumped prior to collecting a groundwater level data point. Depth to water measurements are made using one or more of the methods discussed in the following sections. The Agency's groundwater level data collection methodology is based on the standardized *Groundwater Technical Procedures of the U.S. Geological Survey* (2011) available at <https://pubs.usgs.gov/tm/1a1/> and the State of California Department of Water Resources *Groundwater Elevation Guidelines* (2010).

5.3.1.1 Graduated Steel Tape

The following steps must be completed prior to taking a measurement:

- Ensure that the reference point on the well can be clearly determined. Check notes in the field data collection notebook or application.
- Review the notes and comments associated with previous measurements to determine if there are any unique circumstances at the well.
- Take note of whether oil has previously been present at the well. This will be recorded in the comments section of the data collection form.
- Evaluate the well and surrounding area to determine if the well may have recently been operating.

To collect a measurement:

- Use the previous depth to water measurement to estimate a length of tape that will be needed.
- Lower the tape into the well, feeling for a change in the weight of the tape, which typically indicates that either (a) the tap has reached the water surface or (b) the tape is sticking to the side of the well.

- Continue lowering the tape into the well until the next whole foot mark is at the reference point. This value on the tape should be recorded in the field data collection notebook or application.
- Bring the tape to the surface and record the number of the wetted interval to the nearest foot.
- In an oil layer is present, read the tape at the top of the oil mark to the nearest foot. Note in the comments section of the data form that oil was present.
- Repeat this procedure a second time and note any differences in measurement in the field data collection notebook or application. If needed, repeat additional times until two consistent depth readings are obtained.
- After completing the measurement, disinfect and rinse the part of the tape that was submerged below the water surface.

5.3.1.2 Electric water level meter

This method of measurement employs a battery-powered water level meter and a small probe attached to a ruled length of cable. Depth to water measurements collected using this equipment are recorded to the nearest tenth of an inch. This instrument is sometimes referred to as a “sounder.”

The following steps must be completed prior to taking a measurement:

- Review the field data sheet for the well and note whether oil has been present at this well in the past. The electric water level meter should not be used in wells where oil is present.
- Ensure that the reference point on the well can be clearly determined. Check notes in the field data collection notebook.
- Confirm that the water level meter is functioning and is turned on so that the beeping indicator will operate properly.

To collect a measurement:

- Review previous depth to water measurements for the well to estimate the length of tape that will be needed.
- Lower the electrode into the well until the indicator sounds, showing the probe is in contact with the water surface.
- Place the tape against the reference point and read the depth to water to the nearest 0.1 foot. Record this value on the field data sheet.
- Make a second measurement and note any differences in measurement in the field data collection notebook or application. If needed, repeat additional times until two consistent depth readings are obtained.
- After completing the measurement, disinfect and rinse the part of the tape that was submerged below the water surface.

5.3.1.3 Sonic water level meter

This meter uses sound waves to measure the depth to water in a well. The meter must be adjusted to the air temperature outside the well. There is a card with reference temperatures in the case with the sonic meter.

Making a measurement:

- Insert the meter probe into the access port and push the power-on switch. Record the depth from the readout.
- Record the depth to water measurement in the field data collection notebook or application.
- No disinfection of the instrument is required because it does not come into contact with the water surface.

5.3.1.4 Pressure transducer

Automated water-level measurements are made with a pressure transducer attached to a data logger. Pressure transducers are lowered to a depth below the water level in the well and fastened to the well head at a reference point. Data points are logged on an hourly basis.

The Agency uses factory-calibrated, vented pressure transducers; the specific model and cable length is customized for each well. A desiccant is also used to avoid damage to the equipment from moisture.

Agency staff collects the pressure transducer data once per quarter. During the data collection process, data loggers are stopped, and the data is downloaded onto a laptop, and then the data logger is reactivated and scheduled to begin collecting data again on the next hour.

Section 6 Groundwater Quality Monitoring Program

6.1 Geographic Extent

The Agency monitors groundwater quality in the coastal region of the Salinas Valley Groundwater Basin and at selected monitoring wells in the Forebay Aquifer (3-004.04) and Upper Valley Aquifer (3-004.05) Subbasins (Attachment C).

6.2 Record Keeping

Wells that are part of the Agency's groundwater level monitoring network are required to be registered, per the criteria described in Section 3 of this Manual.

6.3 Data Collection

The Agency collects groundwater quality samples twice per year from wells in the groundwater quality monitoring program. Additional samples may be collected as needed for special projects or to meet the needs of a Requesting Entity.

Field blanks and field duplicates are collected as part of the groundwater quality monitoring program to evaluate the sample collection process for contamination from exposure to ambient conditions, sample containers, or improper sampling and handling techniques. Field blank

samples are obtained by pouring deionized (DI) water acquired from the Monterey County Consolidated Chemistry Laboratory into a sample container that has been triple-rinsed with DI water at the sampling location. If target analytes are identified in field blanks, sampling and handling procedures will be reevaluated and corrective actions, consisting of but not limited to re-training of field personnel, contact with the laboratory, invalidation, or qualifying of results, will be taken.

Field duplicates are collected and analyzed for the same analytical parameters as the native samples. The duplicate sample will be collected immediately after collection of the native sample, following the same sampling protocols.

The Agency adheres to the protocols set forth in the *Quality Assurance Project Plan for Water Quality Monitoring Associated with the Salinas Valley Integrated Water Management Plan* (EPA R9#03-238, X-97994701-0) approved by the U.S. Environmental Protection Agency in August 2007.

6.3.1 Groundwater Quality Sample Identification and Handling

Sample containers are high density polyethylene (HDPE), 0.25-gallon (approximately 1 liter) size for complete mineral analysis. Sample containers and caps are purchased in bulk and the caps for the containers are packaged separately. Sterility of the sample containers is not of importance because samples are not analyzed for microbiological testing. No chemical field preservation of the samples is required.

Sample containers are labeled with pre-printed labels. The collection date, collection time, and sampler name are recorded in the field with an indelible marker.

All samples are handled, prepared, transported, and stored in a manner so as to minimize contamination and spills. After collection, samples caps are checked for tightness, and the samples are immediately placed in an ice chest. During travel between sites, ice chest lids are kept tightly closed. Blue ice packs are used in sufficient quantity so that all samples are stored at $4\pm 2^{\circ}\text{C}$.

Chain-of-custody (COC) forms are provided by the Monterey County Consolidated Chemistry Laboratory and filled out by field personnel while in the field. The COC accompanies the samples at all times in order to ensure the custodial integrity of the samples. The COC form includes the sample site, which is identified by State Well Identification Number or Quality Control sample, if appropriate.

Upon relinquishing the sample(s) to the Monterey County Consolidated Chemistry Laboratory, the sampler signs and dates the COC form. Lab personnel will then receive the sample(s), check the temperature, mark the date and time received, assign unique lab identification numbers (lab IDs) to each sample, and sign the COC form. The signed COC form is copied; the lab keeps the

original and a copy is given to the sampler. Hard copies of COC forms are maintained by Agency for a period of ten years.

6.3.2 Analytical Methods

Groundwater samples, including field blanks and field duplicates, are analyzed for an “Ag Waiver Panel” consisting of the following analytes: calcium, cation-anion balance, chloride, conductivity, magnesium, nitrate, pH, potassium, sodium, sulfate, total alkalinity, and total dissolved solids.

Samples are analyzed at the Monterey County Consolidated Chemistry Laboratory, which is part of the Monterey County Health Department and holds Certification Number 1395 from the Environmental Laboratory Accreditation Program (ELAP). ELAP is part of the Division of Drinking Water at the State Water Resources Control Board.



Groundwater Monitoring Program Fee Study for the Monterey County Water Resources Agency

**Final Report
May 2025**



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SECTION 1: INTRODUCTION AND EXECUTIVE SUMMARY

The Monterey County Water Resources Agency (“Agency” or “MCWRA”) was formed under Chapter 699 of the Statutes of 1947 as the Monterey County Flood Control and Water Conservation District. In 1990, the State Legislature updated the Agency’s mandate through passage of the Monterey County Water Resources Agency Act to provide for the control of flood and storm waters, conservation of such waters through storage and percolation, control of groundwater extraction, protection of water quality, reclamation of water, exchange of water, and the construction and operation of hydroelectric power facilities (California Water Code Appendix, Chapter 52 {“Agency Act”}). The Agency has jurisdiction over matters pertaining to water within the entire area of Monterey County, including both incorporated and unincorporated areas (Agency Act, Section 4).

In addition to the Agency’s responsibility for stream monitoring, flood management, and emergency flood-related preparedness, the Agency is authorized to conserve water in any manner; to buy, sell, and purvey water; and to prevent the waste or diminution of the water extractions which are determined to be harmful to the groundwater basin. Relevant here, the Agency Act authorizes the MCWRA Board of Supervisors to impose fees. (Agency Act, Section 70(c)). More specifically, as it relates to the establishment of this Groundwater Monitoring Program regulatory fee, under the Agency Act and Agency Ordinance No. 5426, the Agency has authority to carry on technical and other necessary investigations, make measurements, collect data, make analyses, studies, and inspections pertaining to water supply. Section 10 of Ordinance No. 5426 states, “[f]or the purposes of implementing this Ordinance, the Agency may allocate and recover costs associated with the development, implementation, enforcement, and perpetuation of a regulatory groundwater monitoring program on a per-Well basis, not based on extraction data, within Monterey County. Such regulatory fees shall be established by a resolution of the Board.”

Since 1947, the Agency has performed groundwater monitoring in the Salinas Valley, initially of groundwater levels and later expanded to include groundwater quality. In the 1990s, the Agency voluntarily created the Groundwater Extraction Monitoring System (“GEMS”) to monitor the use of groundwater throughout Agency Zones 2, 2A, and 2B of the Salinas Valley Groundwater Basin, which necessitated well registration and reporting requirements. The purpose of GEMS and water quality/level monitoring was to investigate and produce the data necessary to perform a thorough review, or audit, of the hydrologic budget within the monitored area. Investigations conducted as part of the Agency’s previous programs furthered the purposes of the Agency, such as protection of water quality, and conservation of flood and storm waters. Data resulting from these programs facilitated implementation and enforcement of the Agency Act and supported management that allowed for continued well owner operations throughout the community.

In 2014, the State enacted a three-bill legislative package, composed of AB 1739 (Dickinson), SB 1168 (Pavley), and SB 1319 (Pavley), collectively known as the Sustainable Groundwater Management Act (“SGMA”), which established new regulatory requirements to achieve the sustainability of groundwater

basins throughout California by 2040 or 2042, depending on subbasin. Subsequently, Groundwater Sustainability Agencies (“GSAs”) including the Arroyo Seco GSA, County of Monterey GSA, Marina Coast Water District GSA, and Salinas Valley Basin Groundwater Sustainability Agency (“SVBGSA”) were formed to achieve the State’s SGMA mandates within the Salinas Valley Groundwater Basin, which substantially, but not entirely, overlaps with Agency Zones 2, 2A, and 2B.

To meet its SGMA regulatory obligations, each GSA needed to address the data gaps between its areas of responsibility and the Agency’s previous groundwater level, water quality, and groundwater extraction monitoring programs. In the interest of improving operational efficiency and reducing costs, rather than creating a separate, parallel monitoring program, the SVBGSA chose to leverage the data collection, analysis, management, and reporting expertise of the Agency. SVBGSA’s request to expand the Agency’s work resulted in the Agency’s Board of Supervisors repealing the three 1990s ordinances that established the original GEMS program and related well registration and reporting requirements, and the adoption of a new ordinance and Groundwater Monitoring Program Manual, on October 1, 2024, to support current regulatory mandates. The new ordinance, Ordinance No. 5426, also established a regulatory fee, which is the subject of this fee study, to sustain the new Groundwater Monitoring Program.

The Groundwater Monitoring Program (“GMP”) is comprised of four components with five associated proposed fees: Well Registration (Initial Registration and Annual Renewal), Groundwater Extraction Reporting, Groundwater Level Monitoring, and Groundwater Quality Monitoring. The purpose of the GMP is to continue the investigation and auditing of the hydrologic budget within the Salinas Valley Groundwater Basin. The GMP regulatory fees will cover the reasonable costs of identifying the location of wells and collecting data necessary to reliably perform hydrologic investigations on a scale and schedule compatible with the needs of GSAs operating in the Salinas Valley Groundwater Basin. The proposed GMP regulatory fees currently only cover the Salinas Valley Groundwater Basin. However, Ordinance No. 5426 and the GMP Manual authorize the Agency to collect data anywhere within Monterey County. As such, the GMP regulatory fees may be modified in the future if other groundwater sustainability agencies request the Agency collect data.

The Well Registration component is necessary for obtaining data on the location, construction, and operation of wells in the Salinas Valley Groundwater Basin, which, in turn, can be linked to data collected through other components of the Groundwater Monitoring Program. The Groundwater Extraction Reporting component provides data on the location and volume of water extracted on an annual basis, which is a critical element of monitoring the hydrologic budget. Data collected from the Groundwater Level Monitoring component are the basis for the Agency’s evaluation of regional, seasonal, and long-term trends in groundwater levels. Groundwater level data are also used to investigate the following: changes in groundwater storage for the hydrologic budget; the regional direction of groundwater movement; mechanisms for seawater intrusion; quantification of short- and long-term impacts to the groundwater basin from public and private well extraction; conservation releases from the reservoirs; and operation of water projects like the Salinas Valley Water Project or Monterey County Water Recycling Projects, which was constructed to reduce extraction of groundwater

in the 180-Foot and 400-Foot Aquifers. The Groundwater Quality Monitoring component is conducted biannually to investigate changes to the extent of seawater intrusion in the Salinas Valley Groundwater Basin. Samples collected through Groundwater Quality Monitoring provide laboratory-derived chemistry data for major cations and anions that is analyzed using a suite of geochemical tools and paired with groundwater level and extraction data to evaluate the movement of seawater intrusion and accompanying change in usable groundwater storage. Coupling this analysis with data obtained through the Well Registration component allows for the identification of wells that may be experiencing adverse water quality impacts. The Groundwater Quality Monitoring program does not analyze the same constituents that are evaluated by other programs focused on health and human safety.

The GMP, as contemplated for this fee study, consists of well registration and monitoring of public and private wells within the 180/400-Foot Aquifer, Eastside Aquifer, Forebay Aquifer, Langley Area, Monterey, and Upper Valley Aquifer Subbasins of the Salinas Valley Groundwater Basin (Figure 1). As described above, the Groundwater Monitoring Program is accomplished via four regulatory programs or services:

- 1) Well Registration - Initial wellhead registration (“Reg”)
- 2) Well Registration - Annual wellhead registration renewal (“Renew”)
- 3) Groundwater extraction reporting (“Extract”)
- 4) Monitoring groundwater levels (“GWL”)
- 5) Monitoring water quality (“WQ”)

The goal of this study is to establish a schedule of cost-based fees for these regulatory functions. This study was conducted consistent with the Agency’s 2020 Strategic Plan to identify more targeted funding sources for regulatory programs and more fairly recover costs from regulated entities.

The GMP fees are not taxes and are exempt from voter approval under section 1(e)(3) of Article XIII C of the California Constitution (Proposition 26). The fees are imposed for the reasonable regulatory costs to the Agency for conducting the Groundwater Monitoring Program, and do not exceed the reasonable costs to the Agency of providing these services. The fees were calculated based on staff time and materials. A summary of the proposed fees is provided below in Table 1.

Figure 1: Groundwater Monitoring Program Area

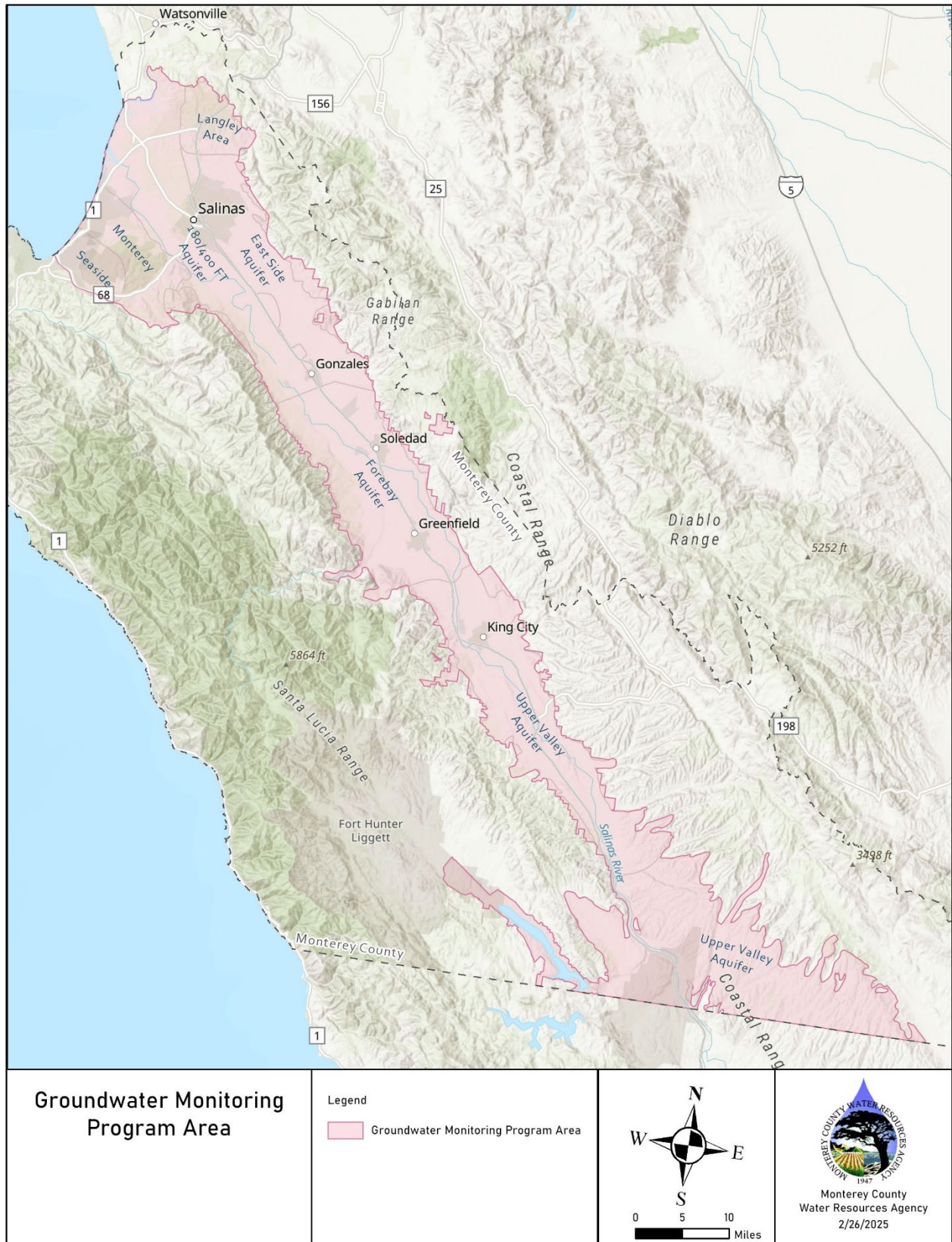


Table 1: Summary of Proposed Annual Fees for Fiscal Year 2025-2026 ("FY26")

Fee Category	Proposed FY26 Annual Fee per participating well
Initial wellhead registration	\$160.16
Annual wellhead registration renewal	\$21.86
Groundwater extraction reporting	\$64.82
Monitoring groundwater levels	\$117.68
Monitoring water quality	\$73.92

This fee study does not include delinquency or penalty fees for noncompliant well owners. Section 11 of Ordinance No. 5426 provides for the enforcement, penalties, and appeal process for the GMP.

Table 2 estimates the cost recovery for the Groundwater Monitoring Program resulting from the proposed fees for FY26. Cost recovery per fee type varies based on the amount of the fee and the number of annual services to which the fee applies. In total, the fees proposed in this report are estimated to cover about \$802,000 of Agency expenses. This revenue will be used to directly offset the cost of implementing the monitoring programs and will not be used for non-regulatory functions or programs.

Table 2: Estimated FY26 Cost Recovery from Fees

Fee Category	Abbreviation	Proposed FY26 Fee	Estimated Number of Annual Services	Total Annual Cost Recovery
Initial wellhead registration	Reg	\$160.16	50	\$8,010
Annual wellhead registration renewal	Renew	\$21.86	3,500	\$76,510
Groundwater extraction reporting	Extract	\$64.82	2,100	\$136,122
Monitoring groundwater levels	GWL	\$117.68	3,500	\$411,880
Monitoring water quality	WQ	\$73.92	2,300	<u>\$170,016</u>
				\$802,536

SECTION 2: Legal Requirements & Methodology

2.1 Legal Requirements

California voters enacted Proposition 26 in 2010 to define the term “tax” for purposes of Articles XIII A and XIII C of the California Constitution. Under Proposition 26, all levies, charges, and exactions “imposed” by local governments are considered taxes, unless they fit into one of the seven stated exceptions for local government:

- 1) A charge that is imposed for a special benefit or privilege provided to an individual, does not exceed the reasonable cost of service, and does not provide broad, general benefits to others in the community;
- 2) A charge imposed for a specific government service or product provided directly to the person paying the fee, that does not exceed the reasonable cost of providing service;
- 3) A charge imposed for reasonable regulatory costs (i.e. licenses, audits, inspections, permits) that does not exceed the reasonable cost of service;
- 4) A charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property;
- 5) Fines or penalties imposed for violations of the law;
- 6) A charge imposed as a condition of property development; and
- 7) Assessments and property-related fees imposed under the provisions of Proposition 218, such as water and sewer service charges.

The fees proposed in this study are exempt from voting requirements as they are regulatory fees (exemption #3 listed above) that do not exceed the cost of the Agency’s regulatory action.

2.2 Methodology

To calculate the cost of service for each fee, the Agency estimated the number of staff hours needed to complete each groundwater monitoring service, the hourly rate for each staff member, and the cost of applicable materials, vehicles, and supplies. Table 3 provides a list of staff and hourly rates. The hourly rates represent the fully burdened rate of each staff member, including the cost of salary and benefits.

Table 3: Staff Hourly Rates for FY26

Staff Member	Fully Burdened Hourly Rate
Accountant II	\$88.10
Accounting Technician	\$77.17
Deputy General Manager	\$206.09
Finance Manager III	\$175.53
General Manager	\$224.87
Office Assistant III	\$63.69
Senior Water Resources Hydrologist	\$156.11
Water Resources Hydrologist	\$80.27
Water Resources Technician	\$67.07

Table sorted alphabetically

For all fees except initial wellhead registration, staff time and materials costs were determined on a programmatic level. Total costs to provide each regulatory function over the course of the year were divided by the estimated number of services provided each year to determine a fee (i.e. cost per service). Table 4 provides the total staff hours estimated for each regulatory service as well as the number of full-time equivalents (FTEs) based on 1,700 hours of productive time. The Groundwater Monitoring Program functions described in this report reflect a staff time of about 3.47 FTEs over the course of each fiscal year.

Table 4: Total Staffing by Fee Category

Staff Member	Reg	Renew	Extract	GWL	WQ	Total	FTE
Accountant II		120				120	0.07
Accounting Technician		200				200	0.12
Deputy General Manager			8	8	8	24	0.01
Finance Manager III		40				40	0.02
General Manager			8	8	8	24	0.01
Office Assistant III			24			24	0.01
Senior Water Hydrologist	7.5	11	150	120	75	364	0.21
Water Resources Hydrologist	25	10	300	700	100	1,135	0.67
Water Resources Technician	<u>50</u>	<u>20</u>	<u>650</u>	<u>2,500</u>	<u>750</u>	3,970	2.34
Total Hours	82.5	401	1,140	3,336	941	5,901	3.47
Total Full Time Equivalents	0.05	0.24	0.67	1.96	0.55	3.47	

The proposed fees also include the Agency's cost of supplies, materials, and vehicles needed to provide each regulatory function. The cost of materials or supplies for each fee is calculated as the total annual cost of materials for each service divided by the estimated number of annual regulatory functions the Agency will provide. As an example, tablets for data collection are used for both groundwater level monitoring and groundwater quality. Thus, the cost of tablets is divided by 5,800 wells, which is the sum of the number of wells in the groundwater level monitoring program (3,500) and the number of wells in the groundwater quality monitoring program (2,300).

Some materials and supplies are longer-lived assets that the Agency will use over multiple years. The annual cost of multi-year supplies is calculated as the purchase price of the supplies divided by the expected useful life, see Table 5. The cost of vehicles is based on prevailing hourly rental rates multiplied by the number of hours to perform each regulatory function. The supplies and materials listed in Table 5 are used by one or more of the monitoring programs to collect groundwater level measurements, collect groundwater samples, label wells using information obtained through well registration, and electronically store data gathered while in the field.

Each fee also includes an indirect cost rate of approximately 21%, which is added to the cost of staff time, supplies, materials, and vehicles. The indirect cost rate was determined by the Agency and consists of approximately 12% of Administration/Agency overhead and 9% of County of Monterey overhead. The indirect cost rate for the Agency covers items such as computer hardware and software, internet service, communications devices, and rental costs of Agency buildings. The indirect cost rate for the County includes facilities, human resources, records, and county counsel. The calculations for each cost-based fee are provided in Section 3.

Table 5: Multi-year Supplies

Material or Supply	Cost Per Item	# Needed	Total Cost	Purchasing Frequency	Useful Life (years)	Annual Cost [1]	Applicable Program
Electronic sounder	\$760	3	\$2,280	1 every 3 years	9	\$253.33	GWL
Steel tape	\$1,000	3	\$3,000	1 every 2 years	6	\$500.00	GWL
Nylon-coated steel tape	\$200	2	\$400	1 every 2 years	4	\$100.00	GWL
Sonic water level meter	\$2,200	1	\$2,200	1 every 10 years	10	\$220.00	GWL
Well labeling equipment	\$400	1	\$400	1 every 5 years	5	\$80.00	GWL
Pump and Variable Frequency Drive	\$10,000	1	\$10,000	1 every 10 years	10	\$1,000.00	WQ
Generator for pump operation	\$1,500	1	\$1,500	1 every 10 years	10	\$150.00	WQ
Tablets for data collection	\$5,000	3	\$15,000	1 every 3 years	9	\$1,666.67	GWL and WQ

1 – total cost divided by useful life

SECTION 3: Proposed Cost-Based Fees

This section provides the calculation of each cost-based regulatory fee. The total cost of each fee includes the cost of estimated staff time required to complete each regulatory function, the cost of materials, vehicles, and supplies, and an indirect cost rate of 20.91%.

3.1 Initial Well Registration

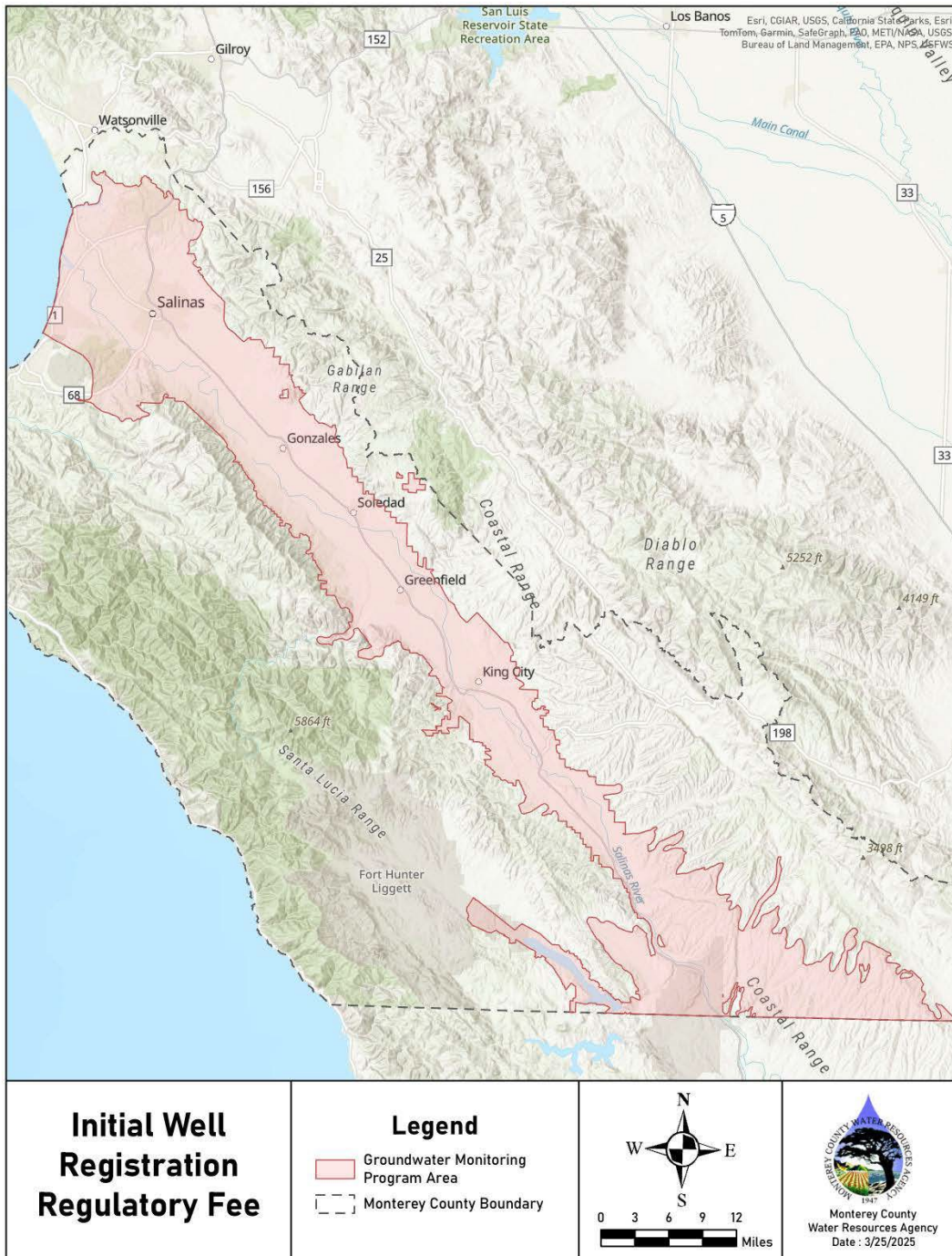
A well must be registered with the Agency if it is in one of the following six subbasins: 180/400-Foot Aquifer, Eastside Aquifer, Forebay Aquifer, Langley Area, Monterey, or Upper Valley Aquifer (see Figure 2). The initial registration of a well occurs once and is required within 30 days of completed construction or upon request from the Agency, per Ordinance No. 5426. Registration requires providing information about the well's location, owner, operator, status, and construction specifications.

The initial wellhead registration fee amount per well is calculated in Table 6. The initial registration fee is calculated as \$160.16 and is proposed to be the same for all types and sizes of wells because the level of effort is the same, regardless of well usage or size. In addition to the estimated staffing costs per well, the initial registration fee is proposed to recover portions of the Information Technology (IT) support required for the well registration software and supplies for printing notifications. IT support and printing charges are shared with the annual renewal fee and are divided by an estimated 3,500 renewals and registrations per year to calculate a fee per well.

Table 6: Initial Wellhead Registration or Registration Charge Proposed for FY26

Staffing	Hours	Hourly rate	Total Cost	Identifier	Calculation
Water Resources Technician	1	\$67.07	\$67.07		
Water Resources Hydrologist	0.5	\$80.27	\$40.14		
<u>Senior Water Resources Hydrologist</u>	0.15	\$156.11	<u>\$23.42</u>		
Subtotal Staffing			\$130.63	A	
Supplies, Materials, and Vehicles					
County IT support			\$5,000.00		
<u>Supplies for printing notifications</u>			<u>\$1,500.00</u>		
Subtotal Supplies, Materials and Vehicles			\$6,500.00		
# of annual renewals & new registrations			3,550		
Supplies, Materials and Vehicles			\$1.83	B	
Total Direct Costs (Staffing, Supplies, Materials, and Vehicles)			\$132.46	C	C = A + B
Indirect Cost Rate		20.91%	<u>\$27.70</u>	D	D = C x 20.91%
Total Fee			\$160.16		C + D

Figure 2: Initial Well Registration Regulatory Fee



3.2 Annual Renewal & Billing

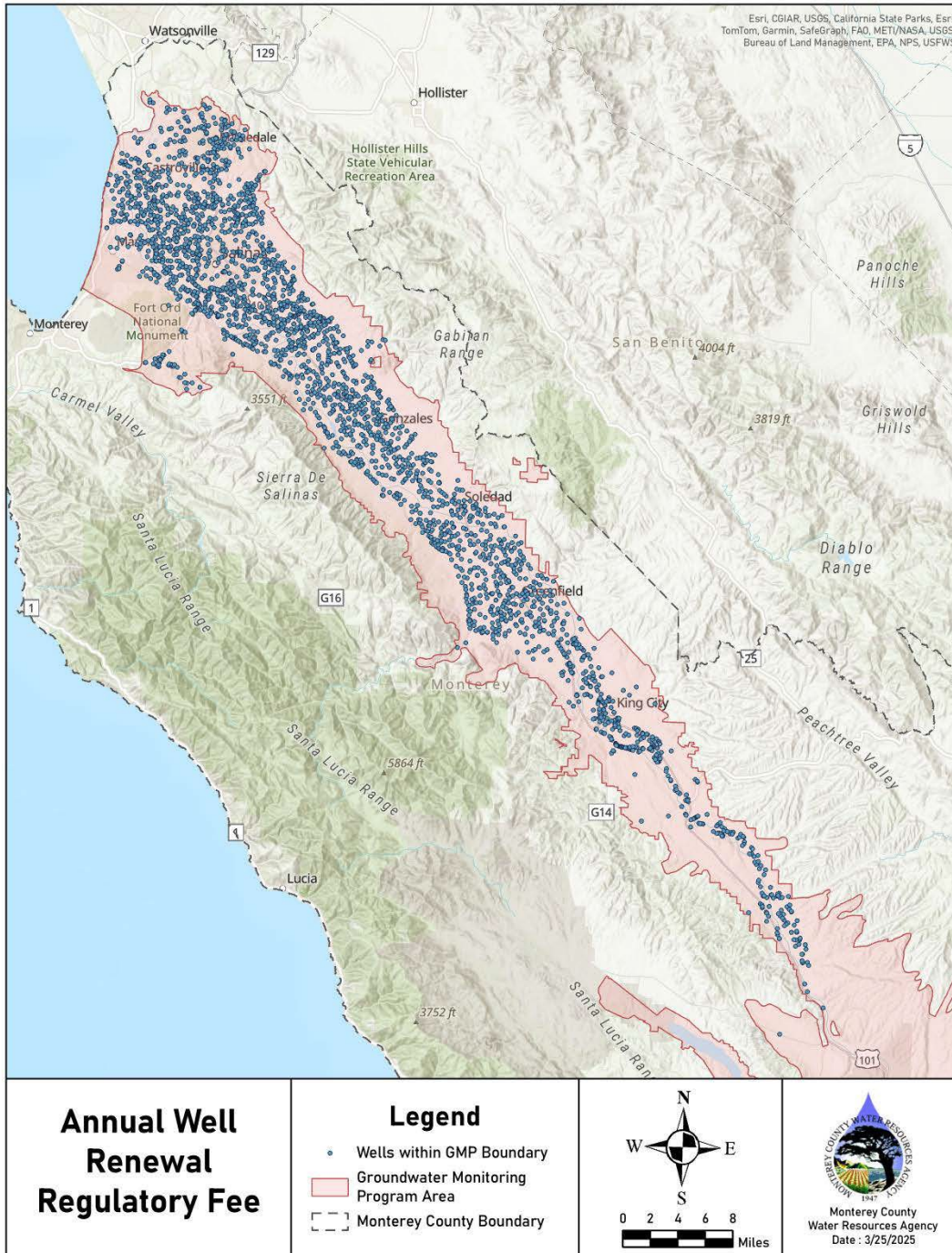
Following initial registration, all registered wells are required to annually renew their registration. Registered well owners will be asked to verify well registration data on file with the Agency and provide updates as applicable. Table 7 summarizes the proposed fee for annual wellhead registration renewal. The total fee amount per well is \$21.86 based on the estimated total annual costs for the program (staff time throughout the year and direct expenses) divided by an estimated 3,550 renewals and registrations per year. Costs for the registration renewal program include staffing costs and costs for software, IT support, and printing notifications.

Table 7: Annual Wellhead Registration Renewal Proposed for FY26

Staffing	Hours	Hourly rate	Total Cost	Identifier	Calculation
Accountant II	120	\$88.10	\$10,572.00		
Accounting Technician	200	\$77.17	\$15,434.00		
Finance Manager III	40	\$175.53	\$7,021.20		
Water Resources Technician	20	\$67.07	\$1,341.40		
Water Resources Hydrologist	10	\$80.27	\$802.70		
<u>Senior Water Resources Hydrologist</u>	11	\$156.11	<u>\$1,717.21</u>		
Subtotal Annual Staffing			\$36,888.51		
# of annual renewals			3,500		
Staffing cost per renewal			\$10.54	A	
Supplies, Materials, and Vehicles					
Well registration software subscription [1]			\$20,000.00		
# of annual renewals			3,500		
Software cost per renewal			\$5.71	B	
County IT support			\$5,000.00		
<u>Supplies for printing notifications</u>			<u>\$1,500.00</u>		
Subtotal Supplies, Materials and Vehicles			\$6,500.00		
# of annual renewals & new registrations			3,550		
County IT support & Supplies per new registration/renewal			\$1.83	C	
Total Direct Costs (Staffing, Supplies, Materials, and Vehicles)			\$18.08	D	D = A + B + C
Indirect Cost Rate		20.91%	<u>\$3.78</u>	E	E = D x 20.91%
Total Fee			\$21.86		D + E

1 – Initial software cost of \$50,000 amortized over five years plus \$10,000 annual subscription cost.

Figure 3: Annual Well Renewal Regulatory Fee



3.3 Groundwater Extraction Reporting

In addition to well registration, the Agency's Groundwater Monitoring Program includes Groundwater Extraction Reporting. The Groundwater Extraction Reporting program requires all wells located within the area shown in Figure 1 that are extracting more than two acre-feet per year (i.e. non-de minimis users) to report extraction data to the Agency through the online reporting portal in accordance with the criteria specified in the Agency's Groundwater Monitoring Program Manual. SGMA defines "de minimis extractor" as a person who extracts, for domestic purposes, two acre-feet or less per year (California Water Code Section 10721) so the same threshold is being used by the Agency for the Groundwater Monitoring Program to ensure consistency with meeting the regulatory needs of the Agency and/or Requesting Entities. The Agency will be contacting well owners required to report groundwater extraction data by mail with instructions on how to register for the program and will also send at least one annual reminder notice.

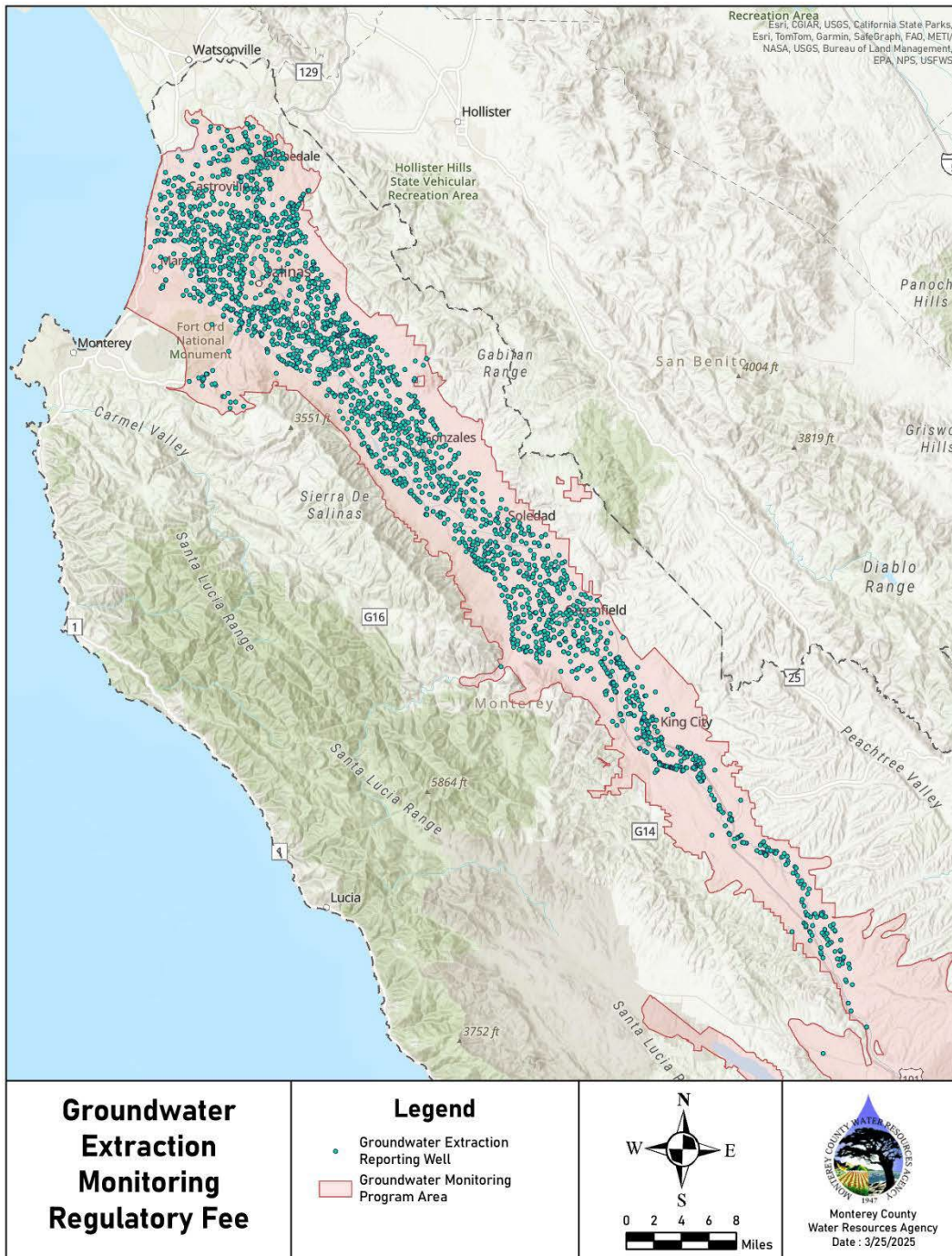
To comply with the GMP, extractors are required to purchase and install an approved measuring device at each well then use it to collect monthly data and report that data at least annually. Groundwater extraction data must be collected on a monthly basis for each Water Year, which is defined by the United States Geological Survey as October 1 through September 30, and monthly totals of groundwater extracted must be self-reported to the Agency no later than November 1 for the prior Water Year. Agency staff then audit all data collected and produce an annual summary report.

The groundwater extraction monitoring fee is intended to recover the cost of implementing this regulatory program and is proposed to be \$64.82 per well, as shown in Table 8. The Agency has an estimated 2,100 extractors who will share the annual staffing costs of about \$96,000 and materials costs of \$16,500 to run the program.

Table 8: Groundwater Extraction Reporting Fee Proposed for FY26

Staffing	Hours	Hourly rate	Total Cost	Identifier	Calculation
Water Resources Technician	650	\$67.07	\$43,595.50		
Water Resources Hydrologist	300	\$80.27	\$24,081.00		
Senior Water Resources Hydrologist	150	\$156.11	\$23,416.50		
Office Assistant III	24	\$63.69	\$1,528.56		
Deputy General Manager	8	\$206.09	\$1,648.72		
<u>General Manager</u>	8	\$224.87	<u>\$1,798.96</u>		
Subtotal Annual Staffing			\$96,069.24		
# of annual services			2,100		
Staffing cost per service			\$45.75	A	
Supplies, Materials, and Vehicles					
County IT support of GEMS application			\$5,000.00		
County IT app. development			\$10,000.00		
Supplies for printing mailouts			\$500.00		
<u>Postage for mailouts</u>			<u>\$1,000.00</u>		
Subtotal Supplies, Materials and Vehicles			\$16,500.00		
# of annual services			2,100		
Supplies, Materials and Vehicles			\$7.86	B	
Total Direct Costs (Staffing, Supplies, Materials, and Vehicles)			\$53.61	C	C = A + B
Indirect Cost Rate		20.91%	<u>\$11.21</u>	D	D = C x 20.91%
Total Fee			\$64.82		C + D

Figure 4: Groundwater Extraction Reporting Regulatory Fee



3.4 Monitoring Groundwater Levels

The Agency monitors groundwater levels throughout Monterey County, primarily within the 180/400 Foot Aquifer, Eastside Aquifer, Forebay Aquifer, Langley Area, Monterey, and Upper Valley Aquifer Subbasins of the Salinas Valley Groundwater Basin. Wells that are part of the Agency's groundwater level monitoring program are required to be registered. The Agency measures groundwater levels on a monthly basis at some well sites and biannually, annually, or continuously at other well sites. Data collected from the Groundwater Level Monitoring program are the basis for the Agency's evaluation of regional, seasonal, and long-term trends in groundwater levels. Groundwater level data are also used to investigate changes in groundwater storage for the hydrologic budget, understand the regional direction of groundwater movement, evaluate mechanisms for seawater intrusion, and quantify short- and long-term impacts to the groundwater basin from public and private well extraction, conservation releases from the reservoirs, and operation of water projects like the Salinas Valley Water Project or the Monterey County Water Recycling Projects.

Agency staff use one of several standardized data collection methods to take measurements at each site, using either graduated steel tape, electric water level meters, sonic water level meters, or pressure transducers. Best efforts are made to ensure that wells have not recently been pumped when collecting a groundwater level data point.

Table 9 provides the calculation for the proposed groundwater level monitoring fee. Most costs for the program are divided between all 3,500 wells within the groundwater level monitoring program, with the exception of the costs for tablets for data collection, which are shared between the program for monitoring groundwater levels and the program for testing groundwater quality. Total costs exclusive to monitoring groundwater levels include about \$246,000 for staff time and about \$94,000 for supplies, materials, and vehicles. The proposed fee per well for FY26 for the groundwater level monitoring program is \$117.68.

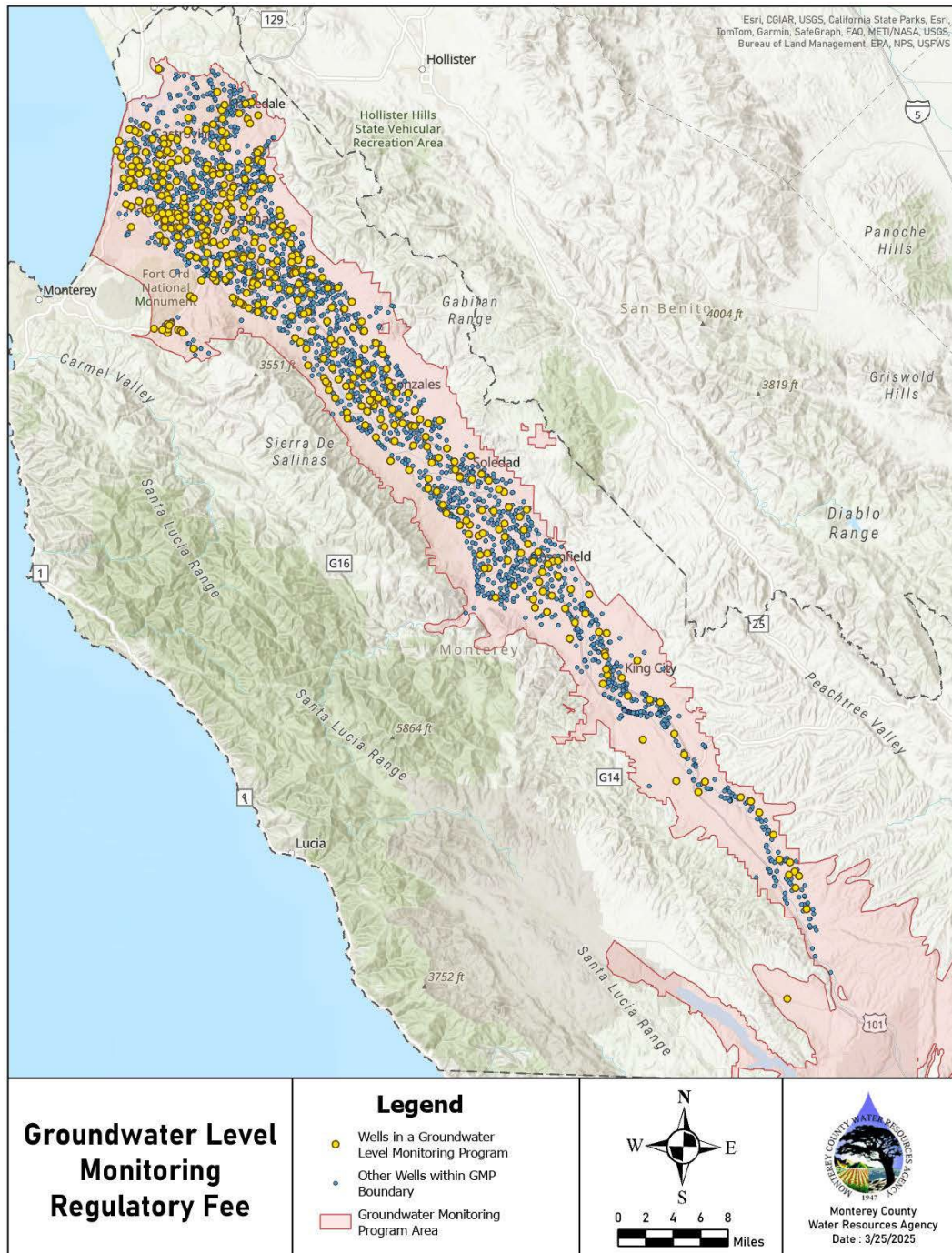
Table 9: Groundwater Level Monitoring Fee Proposed for FY26

Staff	Hours	Hourly rate	Total Cost	Identifier	Calculation
Water Resources Technician	2,500	\$67.07	\$167,675.00		
Water Resources Hydrologist	700	\$80.27	\$56,189.00		
Senior Water Resources Hydrologist	120	\$156.11	\$18,733.20		
Deputy General Manager	8	\$206.09	\$1,648.72		
<u>General Manager</u>	8	\$224.87	<u>\$1,798.96</u>		
Subtotal Annual Staffing			\$246,044.88		
# of annual services			3,500		
Staffing cost per service			\$70.30	A	
Supplies, Materials, and Vehicles					
Jeep or similar off-road capable truck (1 of 3)	600	\$37.19	\$22,314.00		
Jeep or similar off-road capable truck (2 of 3)	600	\$37.19	\$22,314.00		
Jeep or similar off-road capable truck (3 of 3)	600	\$37.19	\$22,314.00		
Monitoring well maintenance			\$20,000.00		
Equipment decontamination supplies and PPE			\$300.00		
Repair of sounders			\$2,000.00		
In-Situ Aqua Troll 200 Level Sensor [1]			\$1,995.00		
In-Situ Rugged Twist Lock cable (vented), 200 ft [1]			\$1,000.00		
In-Situ large desiccant [1]			\$85.00		
Toolbox with equipment and supplies			\$100.00		
Electronic sounder [2]			\$253.33		
Steel tape [2]			\$500.00		
Nylon-coated steel tape [2]			\$100.00		
Sonic water level meter [2]			\$220.00		
<u>Well labeling equipment [2]</u>			<u>\$80.00</u>		
Subtotal Supplies, Materials and Vehicles			\$93,575.33		
# of annual services			3,500		
Supplies, Materials and Vehicles			\$26.74	B	
Tablets for data collection [2]			\$1,666.67		
# of annual services (GW + WQ)			5,800		
Tablets divided by total annual services			\$0.29	C	
Total Direct Costs (Staffing, Supplies, Materials, and Vehicles)			\$97.33	D	D = A + B + C
Indirect Cost Rate		20.91%	<u>\$20.35</u>	E	E = D x 20.91%
Total			\$117.68		D + E

1 – One purchased per year

2 – See Table 5

Figure 5: Groundwater Level Monitoring Regulatory Fee



3.5 Groundwater Quality Monitoring

Groundwater quality is monitored in the coastal region of the Salinas Valley Groundwater Basin as required to meet the reporting necessary for each subbasin's respective Groundwater Sustainability Plan, and at selected monitoring wells in the Forebay Aquifer and Upper Valley Aquifer Subbasins to inform an understanding of the groundwater quality in the 180/400-Foot Aquifer, Eastside Aquifer, Langley Area, and Monterey Subbasins. The Agency collects groundwater quality samples twice per year from wells in the groundwater quality monitoring program. Additional samples are occasionally collected for special projects or to meet the needs of a requesting entity. Wells in the program are required to be registered. Once groundwater samples are collected from each well, the sample containers are brought to the Monterey County Consolidated Chemistry Laboratory where they are analyzed for major cations and anions, including chloride, by lab personnel. Data from the groundwater quality program are utilized for developing data products, such as seawater intrusion contour maps, and understanding regional changes in groundwater quality that are relevant to all well owners.

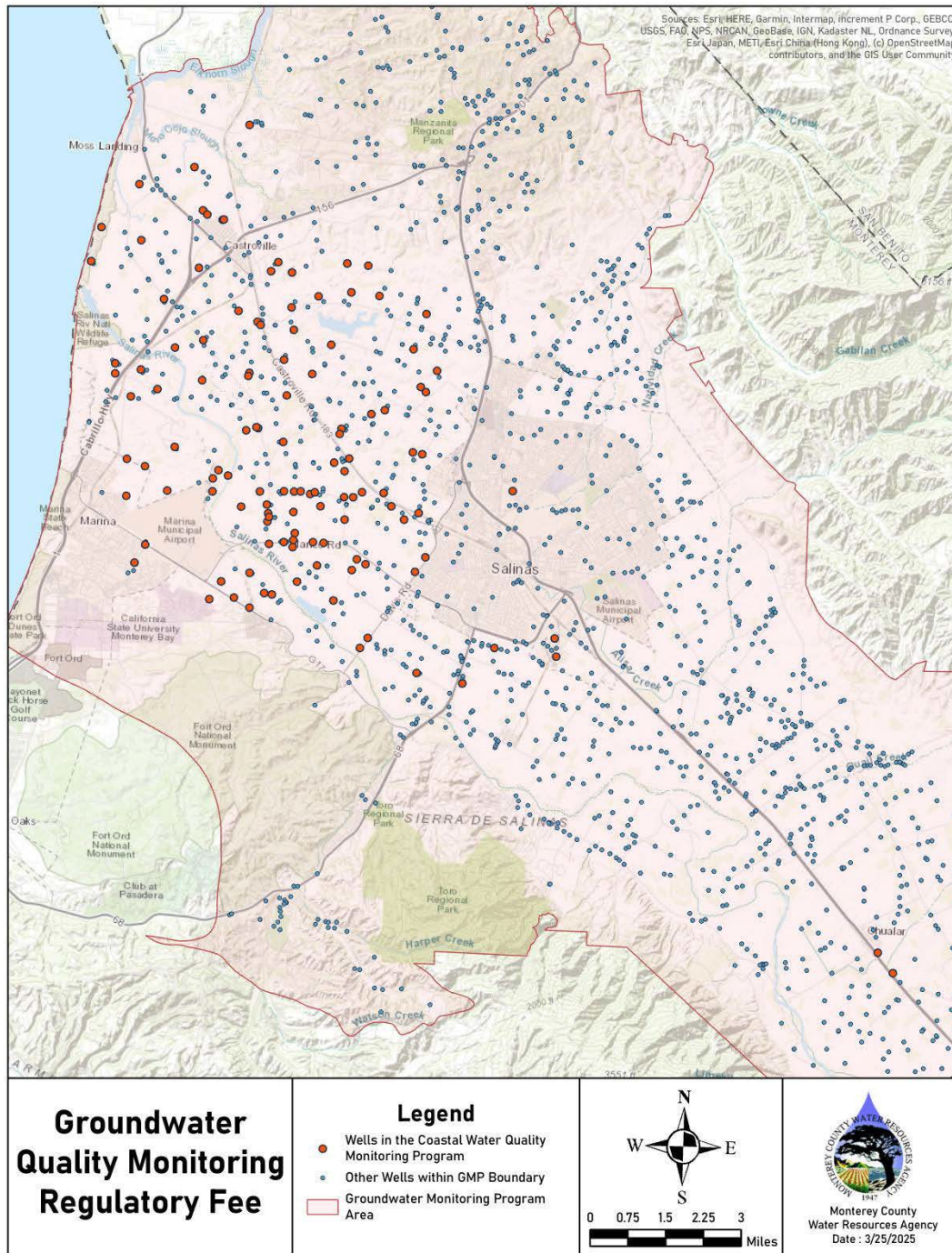
The annual cost of supplies for the groundwater quality monitoring program includes supplies, materials, and vehicles to collect, store, and transport samples as well as \$40,000 annually in laboratory costs. The total annual cost of supplies including laboratory costs is estimated at about \$66,000. The annual cost for staff time is about \$73,000. Both staffing and supplies costs are divided between 2,300 wells in the area where the water quality monitoring occurs to calculate the proposed fee as shown in Table 10. The cost of tablets for data collection is shared between 5,800 annual services since the tablets are used for both the groundwater level monitoring and groundwater quality monitoring programs. The proposed fee for testing groundwater quality is \$73.92 per well.

Table 10: Groundwater Quality Monitoring Fee Proposed for FY26

Staff	Hours	Hourly rate	Total Cost	Identifier	Calculation
Water Resources Technician	750	\$67.07	\$50,302.50		
Water Resources Hydrologist	100	\$80.27	\$8,027.00		
Senior Water Resources Hydrologist	75	\$156.11	\$11,708.25		
Deputy General Manager	8	\$206.09	\$1,648.72		
<u>General Manager</u>	8	\$224.87	<u>\$1,798.96</u>		
Subtotal Annual Staffing			\$73,485.43		
# of annual services			2,300		
Staffing cost per service			\$31.95	A	
Supplies, Materials, and Vehicles					
Bottles and lids			\$600.00		
Labels			\$100.00		
Ice			\$200.00		
Ice chests			\$100.00		
Jeep or similar off-road capable truck (1 of 3)	200	\$37.19	\$7,438.00		
Jeep or similar off-road capable truck (2 of 3)	200	\$37.19	\$7,438.00		
Jeep or similar off-road capable truck (3 of 3)	200	\$37.19	\$7,438.00		
Laboratory costs			\$40,000.00		
Pump supplies and generator fuel			\$2,000.00		
Pump and VFD for dedicated monitoring well sampling [1]			\$1,000.00		
<u>Generator for pump operation [1]</u>			<u>\$150.00</u>		
Subtotal Supplies, Materials and Vehicles			\$66,464.00		
# of annual services			2,300		
Supplies, Materials and Vehicles			\$28.90	B	
Tablets for data collection [1]			\$1,666.67		
# of annual services (GW + WQ)			5,800		
Tablets divided by total annual services			\$0.29	C	
Total Direct Costs (Staffing, Supplies, Materials, and Vehicles)			\$61.14	D	D = A + B + C
Indirect Cost Rate		20.91%	<u>\$12.78</u>	E	E = D x 20.91%
Total			\$73.92		D + E

1 – See Table 5

Figure 6: Groundwater Quality Monitoring Regulatory Fee



SECTION 4: Conclusions and Recommendations

The purpose of the Groundwater Monitoring Program is to gather data on wells, groundwater levels, groundwater quality, and groundwater extractions to complete the investigation of short- and long-term changes to the hydrologic budget and do analyses pertaining to water supply of the Salinas Valley Groundwater Basin. Fees for the Groundwater Monitoring Program are being proposed to cover the reasonable regulatory costs to the Agency for conducting the Groundwater Monitoring Program, and do not exceed the reasonable costs to the Agency of providing these services.

It is proposed that after initial adoption of the Groundwater Monitoring Program regulatory fees as part of the Agency's FY26 budget, the Agency will evaluate and adopt the Groundwater Monitoring Program fees annually to continue implementation of the Groundwater Monitoring Program. The level of effort necessary to implement the program may increase or decrease based upon changes in the regulatory environment or utilization of technology, as example variables. The annual fees may go up or down depending on changes in the Groundwater Monitoring Program's level of effort, costs, or the number of wells subject to a specific regulatory function.

The Agency's annual fees and assessment of charges, including the Groundwater Monitoring Program fees, are subject to public engagement through multiple meetings of the Agency's committees, Board of Directors, and Board of Supervisors, including noticed, public workshops generally held in March and May, respectively. Final adoption of fees is performed by the Agency's Board of Supervisors in May of each year and the Agency's budget is approved in June.

The Agency may set fines and penalties, as described in Ordinance No. 5426, for noncompliant well owners at its discretion, provided, however, that the penalties are not "grossly disproportional" to each offense. Additionally, the Agency should ensure that it documents how and why the amount of each delinquency or penalty fee is related to the seriousness of the offense.

Summary of FY 25-26 Groundwater Monitoring Program Regulatory Fees

GMP Regulatory Fee per Category*	FY 25-26 Fee
Initial Well Registration (one-time)	\$ 160.16
Annual Well Registration Renewal	\$ 21.86
Groundwater Extraction Reporting	\$ 64.82
Groundwater Level Monitoring	\$ 117.68
Groundwater Quality Monitoring	\$ 73.92

*Annual fees subject to change reflective of actual program costs.

Subbasin Total Annual Fee per Well*	FY 25-26 Fee	Notes on Fee Components
Initial Well Registration (one-time)	\$ 160.16	
Upper Valley / Forebay de minimis wells	\$ 139.54	Annual Registration Renewal + Groundwater Level Monitoring
Upper Valley / Forebay	\$ 204.36	Annual Registration Renewal + Groundwater Level Monitoring + Extraction Reporting
180/400 / Eastside / Langley / Monterey de minimis wells	\$ 213.46	Annual Registration Renewal + Groundwater Level Monitoring + Groundwater Quality Monitoring
180/400 / Eastside / Langley / Monterey	\$ 278.28	Annual Registration Renewal + Groundwater Level Monitoring + Extraction Reporting + Groundwater Quality Monitoring

*Annual fees subject to change reflective of actual program costs.



***Before the Board of Directors of the Monterey County Water Resources Agency
County of Monterey, State of California***

BOARD ORDER No. 25-28

**RECOMMEND THAT THE BOARD OF SUPERVISORS OF THE)
MONTEREY COUNTY WATER RESOURCES AGENCY)
APPROVE AND ADOPT THE FISCAL YEAR (FY) 2025-2026)
GROUNDWATER MONITORING PROGRAM REGULATORY)
FEES OF \$160.19 PER WELL FOR INITIAL WELL)
REGISTRATION, \$21.90 PER WELL FOR ANNUAL WELL)
REGISTRATION RENEWAL, \$64.82 PER WELL FOR)
GROUNDWATER EXTRACTION REPORTING, \$117.63 PER)
WELL FOR GROUNDWATER LEVEL MONITORING, AND \$73.90)
PER WELL FOR GROUNDWATER QUALITY MONITORING.)**

Upon motion of Director Ken Ekelund, seconded by Director Mike LeBarre, and carried by those members present, the Board of Directors hereby:

Recommends that the Board of Supervisors of the Monterey County Water Resources Agency Approve and adopt the Fiscal Year (FY) 2025-2026 Groundwater Monitoring Program Regulatory Fees of \$160.19 per well for Initial Well Registration, \$21.90 per well for Annual Well Registration Renewal, \$64.82 per well for Groundwater Extraction Reporting, \$117.63 per well for Groundwater Level Monitoring, and \$73.90 per well for Groundwater Quality Monitoring.


PASSED AND ADOPTED on this **21st** day of **April 2025**, by the following vote, to-wit:


AYES: Mike LeBarre, Matt Simis, Mark Gonzalez, Deidre Sullivan, Ken Ekelund, Jason Smith, Jon Conatser

NOES: Mike Scattini, John Baillie

ABSENT: None

ABSTAINED: None

Signed by:

3DE98F68D40E4DB...
BY: Mike LeBarre, Chair
Board of Directors

DocuSigned by:

1F182FFB49A2435...
ATTEST: Ara Azhderian
General Manager

**Before the Board of Supervisors of the Monterey County Water Resources Agency
County of Monterey, State of California**

Groundwater Monitoring Program Regulatory Fees

Resolution No. _____

A Resolution of the Board of Supervisors of the Monterey County)
Water Resources Agency (“MCWRA”) to:)

-)
- a. Approve and adopt the FY 2025-2026 (FY26) Groundwater)
Monitoring Program fees of \$160.16 per well for Initial Well)
Registration, \$21.86 per well for Annual Well Registration)
Renewal, \$64.82 per well for Groundwater Extraction Reporting,)
\$117.68 per well for Groundwater Level Monitoring, and \$73.92)
per well for Groundwater Quality Monitoring, contingent upon)
execution of a sub-grant agreement between MCWRA and)
Salinas Valley Basin Groundwater Sustainability Agency to)
provide grant funding as an offset credit for all well owners)
within the Basin for FY26;)
- b. Authorize the Auditor-Controller to amend the FY26 Adopted)
Budget for MCWRA Fund 111 (111-9300-WRA001-8267),)
to increase its appropriations by \$280,000 and to increase revenue)
by \$800,000, financed by the Groundwater Monitoring Program)
fees; (4/5th vote required); and)
- c. Authorize the Auditor-Controller’s Office to incorporate)
Approved budget modifications to the FY26 Budget.)

WHEREAS, on October 1, 2024, the Board of Supervisors of the Monterey County Water Resources Agency (“Board”) adopted Ordinance No. 5426, which authorizes MCWRA to allocate and recover costs associated with the development, implementation, enforcement, and perpetuation of a regulatory groundwater monitoring program through adoption of a resolution by the Board;

WHEREAS, in May 2025, MCWRA completed a Groundwater Monitoring Program Fee Study to determine Fiscal Year 2025-2026 (“FY26”) fees for the Groundwater Monitoring Program;

WHEREAS, the Groundwater Monitoring Program (“GMP”) consists of well registration, groundwater extraction reporting, groundwater level monitoring, and groundwater quality monitoring of public and private wells within the 180/400-Foot Aquifer, Eastside Aquifer, Forebay Aquifer, Langley Area, Monterey, and Upper Valley Subbasins of the Salinas Valley Groundwater Basin;

WHEREAS, the FY26 Initial Well Registration Fee will be \$160.16 per well to pay for staff time, supplies, and technological support for completing registration of wells;

WHEREAS, the FY26 Annual Well Registration Renewal Fee will be \$21.86 per well to pay for staff time, software, supplies, and technological support for completing annual renewals of well registration;

WHEREAS, the FY26 Groundwater Extraction Reporting Fee will be \$64.82 per

well for wells extracting more than 2 acre-feet per year for domestic purposes to pay for staff time, software, supplies, and technological support for facilitating data entry, quality assurance, data analysis, and reporting of groundwater extraction data;

WHEREAS, the FY26 Groundwater Level Monitoring Fee will be \$117.68 per well to pay for staff time, materials, and vehicles for data collection, analysis, and reporting;

WHEREAS, the FY26 Groundwater Quality Monitoring Fee will be \$73.92 per well for wells located in the 180/400-Foot Aquifer Subbasin, Eastside Aquifer Subbasin, Langley Area Subbasin, and Monterey Subbasin to pay for staff time, materials, vehicles, and laboratory costs for data collection, analysis, and reporting;

WHEREAS, the Groundwater Monitoring Program regulatory fees reflect no more than the actual and reasonable cost of the service received by the payor and burdened on MCWRA. Any discount applicable to these surcharges have a de minimis impact on the MCWRA budget and implementation of that discount does not result in increased fees or costs for other patrons; and

WHEREAS, by definition, these fees are not a “tax” and are exempt from voter approval pursuant to Article XIII C, section 1(e)(3) of the California Constitution (charges imposed for the reasonable regulatory costs to a local government for issuing licenses and permits); and

WHEREAS, this action to add fees for the GMP is not a project under the California Environmental Quality Act (“CEQA”) because it is a governmental funding mechanism which does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment. (CEQA Guidelines section 15273.)

NOW, THEREFORE, BE IT RESOLVED that the Monterey County Water Resources Agency Board of Supervisors hereby:

1. Finds the above recitals are true and correct and substantial evidence supports them.
2. Adopts the Fiscal Year 2025-26 (FY26) Groundwater Monitoring Program Regulatory Fees of \$160.16 per well for Initial Well Registration, \$21.86 per well for Annual Well Registration Renewal, \$64.82 per well for Groundwater Extraction Reporting, \$117.68 per well for Groundwater Level Monitoring, and \$73.92 per well for Groundwater Quality Monitoring, contingent upon execution of a sub-grant agreement between MCWRA and the Salinas Valley Basin Groundwater Sustainability Agency to provide grant funding as an offset credit for all well owners within the Basin for FY26.
3. Authorizes the Auditor-Controller to amend the FY26 Adopted Budget for MCWRA Fund 111 (111-9300-WRA001-8267), to increase its appropriations by \$280,000 and to increase revenue by \$800,000, financed by the Groundwater Monitoring Program fees; (4/5th vote required).
4. Authorizes the Auditor-Controller’s Office to incorporate approved budget modifications to the FY26 Budget.

5. Finds that the fees collected pursuant to this Resolution shall be used exclusively to pay the costs for the GMP including, but not limited to, the costs of developing, implementing, enforcing, and perpetuating a regulatory groundwater monitoring program.
6. Finds that the GMP fees shall take effect immediately after the MCWRA Board of Supervisors adopts this Resolution.
7. Finds that if any section, subsection, sentence, clause, or phrase of this Resolution is for any reason held to be invalid, such decision shall not affect the validity of the remaining portions of this Resolution. The Board hereby declares that it would have passed this Resolution and each section, subsection, sentence, clause, and phrase thereof, irrespective of the fact that any one or more sections, subsections, sentences, clauses, or phrases be declared invalid.

PASSED AND ADOPTED upon motion of Supervisor _____,
seconded by Supervisor _____, and carried this _____ day of _____, 2025, by
the following vote, to wit:

AYES:

NOES:

ABSENT:

I, Valerie Ralph Clerk of the Board of Supervisors of the County of Monterey, State of California, hereby certify that the foregoing is a true copy of an original order of said Board of Supervisors duly made and entered in the minutes thereof of Minute Book ____ for the meeting on _____.

Dated:

Valerie Ralph, Clerk of the Board of Supervisors
County of Monterey, State of California

By _____
Deputy



County of Monterey

Item No.3

Board Report

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Legistar File Number: WRAG 25-107

July 08, 2025

Introduced: 6/24/2025

Current Status: Agenda Ready

Version: 1

Matter Type: WR General Agenda

Receive a presentation concerning the Monterey County Water Resources Agency's work on the draft Interlake Tunnel and San Antonio Spillway Modification Assessment Engineer's Report, an update to the 1998 Salinas Valley Historical Benefits Analysis, and publication of the Salinas Valley Hydrologic Models.

In February 2017, the Monterey County Water Resources Agency ("Agency") entered into grant agreement number 4600011748 ("Agreement") with the Department of Water Resources of the State of California to assist in financing feasibility studies for the Interlake Tunnel and San Antonio Spillway Modification Project ("Interlake Tunnel Project"). Funding from the Agreement also supported an update to the Agency's 1998 Salinas Valley Historical Benefits Analysis, discussed below.

Draft Engineer's Report for the Interlake Tunnel Project

One of the deliverables in the Agreement is a Draft Engineer's Report for the Interlake Tunnel Project including a Project Description and Assessment Methodology. The Agency retained a consultant, Bartle Wells Associates, to prepare the *Draft Interlake Tunnel and San Antonio Spillway Modification Assessment Engineer's Report* ("Draft Engineer's Report").

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hydrologic, flood control, and economic benefits resulting from the existing suite of Agency projects and present-day operation of those projects, and the geographic distribution of those benefits, the Agency initiated work on an update to the 1998 Salinas Valley Historical Benefits Analysis (“HBA”) Final Report, referred to as the HBA Update.

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Salinas Valley Hydrologic Models

The HBA Update was informed by modeling conducted using the Salinas Valley Hydrologic Models, a suite of groundwater-surface water modeling tools developed by the U.S. Geological Survey (“USGS”) in partnership between the Agency, County of Monterey, and Salinas Valley Basin Groundwater Sustainability Agency. In April 2025, the USGS published the model files and associated reports for the Salinas Valley Hydrologic Models, meaning that these modeling tools are available for use by the public. The model documentation is available at <https://www.usgs.gov/centers/california-water-science-center/news/new-data-salinas-valley-hydrology> and <https://eartharxiv.org/repository/view/8900/>.

Prepared by: Amy Woodrow, Senior Water Resources Hydrologist, (831) 755-4860

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



County of Monterey

Item No.

Board Report

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Legistar File Number: WRAG 25-107

July 08, 2025

Introduced: 6/24/2025

Current Status: Agenda Ready

Version: 1

Matter Type: WR General Agenda

Receive a presentation concerning the Monterey County Water Resources Agency's work on the draft Interlake Tunnel and San Antonio Spillway Modification Assessment Engineer's Report, an update to the 1998 Salinas Valley Historical Benefits Analysis, and publication of the Salinas Valley Hydrologic Models.

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Prepared by: Amy Woodrow, Senior Water Resources Hydrologist, (831) 755-4860

Legistar File Number: WRAG 25-107

DocuSigned by:

Approved by:

Ara Azhderian

Ara Azhderian, General Manager, (831) 755-4860
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MONTEREY COUNTY

WATER RESOURCES AGENCY

PO BOX 930
SALINAS, CA 93902
P: (831) 755-4860
F: (831) 424-7935

ARA AZHDERIAN
GENERAL MANAGER



STREET ADDRESS
1441 SCHILLING PLACE, NORTH BUILDING
SALINAS, CA 93901

SAVE THE DATE

The Agency will be hosting a workshop to present information regarding Dam Safety & Operations financial needs, and to hear stakeholder input regarding the recently released update of the Historical Benefits Analysis and Interlake Tunnel Project DRAFT Engineer's Report. The workshop will be held at 10 a.m., July 9th in the Saffron Room at 1441 Schilling Place, Salinas.

AGENDA

- Review 2025-26 Fiscal-Year Dam Safety & Operations Budget (Fund 116)
- Review status of current California Grant Funded Dam Safety Projects
- Review update of future Dam Safety Projects
- Review of the Agency's Existing Debt Obligations and updated Long-Range Financial Plan Model
- Review future Dam Safety & Operations funding strategy alternatives
 - Near-Term Dam Safety & Operations Regulatory Fee
 - Long-Term Dam Safety Capital Projects
 - Current Examples of Cost Allocation Methods
 - 2021 Unadopted Zone 2D Engineer's Report
 - 2025 Historical Benefits Analysis Update – [Hydrologic](#) & [Economic](#)
 - [2025 Interlake Tunnel Project DRAFT Engineer's Report](#)
 - Potential Future Cost Allocation Methods
- Public comment: The Agency is soliciting feedback regarding planned and future Dam Safety projects, potential future funding strategies and cost allocation methods, and specific comments on the recently released update of the Historical Benefits Analysis and Interlake Tunnel Project DRAFT Engineer's Report.

For in-person attendance, RSVP with Janelle Ramirez @ RamirezJ19@countyofmonterey.gov

The workshop may also be accessed via Zoom at the following link:

<https://montereycty.zoom.us/j/91329464052?pwd=4uCLbT1XxkrvfUD17AOGxoA1WwluBY.1&from=addon>

Password: 019092

The Water Resources Agency manages water resources sustainably while minimizing impacts from flooding for present and future generations.



Historical Benefits Analysis Update



Purpose

- Develop an updated analysis that evaluated construction and operation of existing projects
 - Nacimiento and San Antonio Reservoirs/Dams
 - Monterey County Water Recycling Projects
 - Castroville Seawater Intrusion Project
 - Salinas Valley Reclamation Plant
 - Salinas Valley Water Project



Purpose

- Evaluate three categories of benefits associated with the Projects
 - **Hydrologic:** groundwater levels and pumping
 - **Flood control:** frequency and severity of flood events
 - **Economic:** monetary benefit to stakeholders stemming from infrastructure or hydrologic and flood control benefits



Some history...

- **April 1998** – Salinas Valley Historical Benefits Analysis (HBA) Final Report was prepared by Montgomery Watson
 - Purpose was to identify and quantify benefits to the Salinas Valley from construction and operation of Nacimiento and San Antonio Reservoirs



Some history...

- **2021** – Public comments received during Agency consideration of an Engineer's Report for Zone 2D included concerns about reliance on the 1998 HBA because it did not include all present-day projects.
- **April 2023** – Agency initiated an HBA Update, partnering with consultants West Yost and One Water Econ.



Study Background

- Hydrologic and flood control benefits modeling utilized the Salinas Valley Integrated Hydrologic Model (SVIHM)
- Economic benefits analysis relied, in part, on results from the SVIHM
- Study period of October 1967 - September 2018 (Water Year 1967-2018)
- Study area is Agency Zone 2C



Study Background

- Benefits of the Projects are assessed as a comparison between modeling scenarios with the Projects (Historical Scenario) and without the Projects (No Projects).
 - Differences between scenarios are the effect of the Projects.
- Technical approach followed that of the 1998 HBA wherever possible.



Hydrologic Benefits – Groundwater Levels

- Pressure, East Side, and Arroyo Seco Subareas
 - Groundwater levels declined over the study period
- Forebay and Upper Valley Subareas
 - Groundwater levels largely unchanged or have risen
- Without the Projects, the decline would have been more severe and widespread.



Other Hydrologic Benefits

- HBA Update evaluates groundwater and surface water budgets which include:
 - Groundwater recharge from the surface water system
 - Change in groundwater storage
 - Seawater intrusion
- Also looked at impacts to wells from changing groundwater levels.



Flood Control Benefits

- Reservoirs have reduced the:
 - magnitude of peak flows
 - extent of inundation
 - depth of flooding
 - velocity of flows within the inundated area
- Reservoirs have the largest impact during flood events that occur more frequently, such as 10-year or 25-year events

Economic Benefits – Key Findings

- Higher groundwater levels have reduced the need to replace groundwater wells.
 - Avoided \$107.4M in well replacement costs over the study period.
- Higher groundwater levels have reduced the energy required to pump groundwater in many areas.
 - Saved \$67.9M over the study period.



Economic Benefits – Key Findings

- Increase in groundwater storage has decreased seawater intrusion and the acreage of farmland that has been impacted.
 - Benefit has largely accrued since operation of the Castroville Seawater Intrusion Project (CSIP) began.
 - Avoided impacts to crops of \$21.7M - \$86.9M



Economic Benefits – Key Findings

- Reservoirs have reduced flooding along the Salinas River
 - Avoided damages to buildings of \$210.5M over the study period
 - Avoided damages to agricultural crops of \$211M over the study period



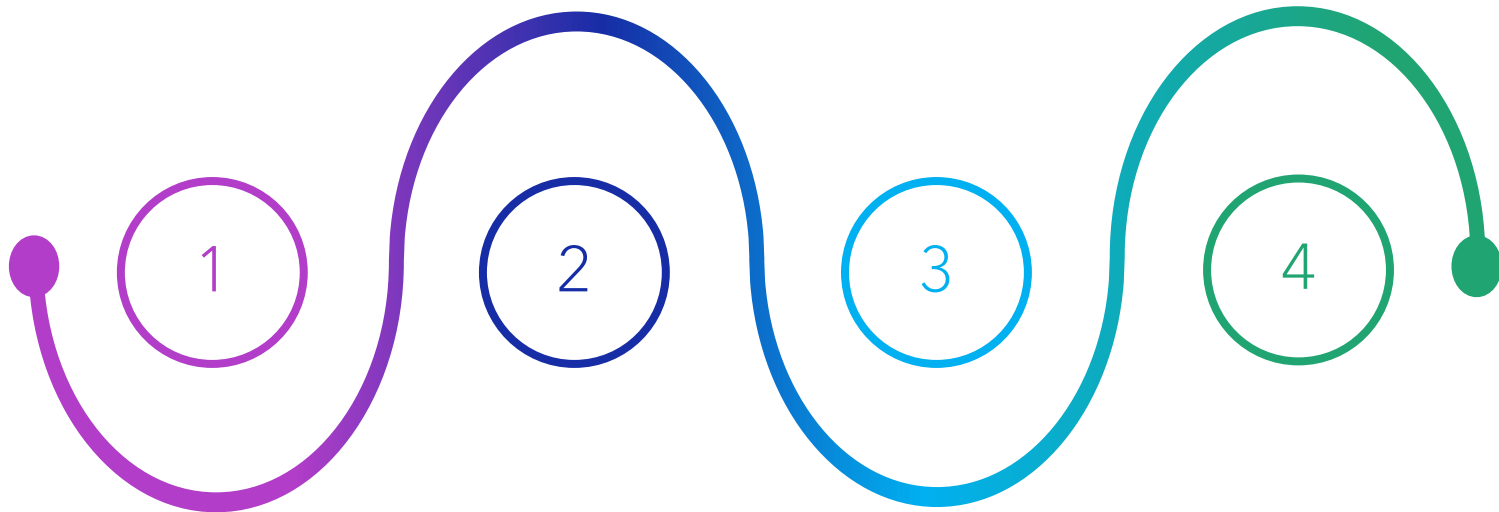
Economic Benefits – Key Findings

- Reservoirs have resulted in recreational benefits
 - Close to \$800M from 1985-2018
- Generation of hydropower at Nacimiento Dam from 1987-2018
 - Generated power valued at \$59.1M
 - Avoided health-related costs resulting from clean hydropower valued at \$16M



Draft Interlake Tunnel and San Antonio Spillway Modification Project Assessment Engineer's Report

Getting to the draft engineer's report



1998 HISTORICAL BENEFITS ANALYSIS

This analysis didn't include all currently constructed and operating Agency projects.

2025 HBA UPDATE

Partnering with two consultants, the Agency developed an updated analysis of historical hydrologic, flood control, and economic benefits of current projects.

MODELING

Modeling results from the Project and HBA Update provided data for the draft Project Assessment Engineer's Report

DRAFT REPORT

Draft Assessment Engineer's Report for the Project available for submittal to DWR



Cost Allocation Options

- The draft Assessment Engineer's Report for the Project presents three methodologies for reasonable ways to allocate Project benefits.
- There may be others to consider also in future discussions about this Project or other Agency projects.



Publication of the Salinas Valley Hydrologic Models



Hydrologic Modeling Tools

- The HBA Update utilized modeling tools developed by the U.S. Geological Survey (USGS) to provide data about groundwater and surface water conditions.
 - The Agency, County of Monterey, and Salinas Valley Basin GSA partnered on development of the models.
- Model data also informed the Draft Engineer's Report for the Interlake Tunnel Project.



Hydrologic Modeling Tools

- The full suite of modeling tools and documentation have been published by the USGS and are available to the public.
- Model data and files:
 - <https://www.usgs.gov/centers/california-water-science-center/news/new-data-salinas-valley-hydrology>
- Model report:
 - <https://eartharxiv.org/repository/view/8900/>



County of Monterey

Item No.

Board Report

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Legistar File Number: WRAG 25-107

July 08, 2025

Introduced: 6/24/2025

Current Status: Agenda Ready

Version: 1

Matter Type: WR General Agenda

Receive a presentation concerning the Monterey County Water Resources Agency's work on the draft Interlake Tunnel and San Antonio Spillway Modification Assessment Engineer's Report, an update to the 1998 Salinas Valley Historical Benefits Analysis, and publication of the Salinas Valley Hydrologic Models.

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Prepared by: Amy Woodrow, Senior Water Resources Hydrologist, (831) 755-4860

Legistar File Number: WRAG 25-107

DocuSigned by:

Approved by:

Ara Azhderian

Ara Azhderian, General Manager, (831) 755-4860
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***Before the Board of Directors of the Monterey County Water Resources Agency
County of Monterey, State of California***

BOARD ORDER No. 25-28

**RECOMMEND THAT THE BOARD OF SUPERVISORS OF THE)
MONTEREY COUNTY WATER RESOURCES AGENCY)
APPROVE AND ADOPT THE FISCAL YEAR (FY) 2025-2026)
GROUNDWATER MONITORING PROGRAM REGULATORY)
FEES OF \$160.19 PER WELL FOR INITIAL WELL)
REGISTRATION, \$21.90 PER WELL FOR ANNUAL WELL)
REGISTRATION RENEWAL, \$64.82 PER WELL FOR)
GROUNDWATER EXTRACTION REPORTING, \$117.63 PER)
WELL FOR GROUNDWATER LEVEL MONITORING, AND \$73.90)
PER WELL FOR GROUNDWATER QUALITY MONITORING.)**

Upon motion of Director Ken Ekelund, seconded by Director Mike LeBarre, and carried by those members present, the Board of Directors hereby:

Recommends that the Board of Supervisors of the Monterey County Water Resources Agency Approve and adopt the Fiscal Year (FY) 2025-2026 Groundwater Monitoring Program Regulatory Fees of \$160.19 per well for Initial Well Registration, \$21.90 per well for Annual Well Registration Renewal, \$64.82 per well for Groundwater Extraction Reporting, \$117.63 per well for Groundwater Level Monitoring, and \$73.90 per well for Groundwater Quality Monitoring.


PASSED AND ADOPTED on this **21st** day of **April 2025**, by the following vote, to-wit:


AYES: Mike LeBarre, Matt Simis, Mark Gonzalez, Deidre Sullivan, Ken Ekelund, Jason Smith, Jon Conatser

NOES: Mike Scattini, John Baillie

ABSENT: None

ABSTAINED: None

Signed by:

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BY: Mike LeBarre, Chair
Board of Directors

DocuSigned by:

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ATTEST: Ara Azhderian
General Manager



County of Monterey

Item No.

Board Report

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Legistar File Number: WRAG 25-106

July 08, 2025

Introduced: 6/23/2025

Current Status: Agenda Ready

Version: 1

Matter Type: WR General Agenda

Consider adopting a resolution to:

- a. Approve and adopt the Fiscal Year 2025-26 (FY26) Groundwater Monitoring Program Regulatory Fees of \$160.16 per well for Initial Well Registration, \$21.86 per well for Annual Well Registration Renewal, \$64.82 per well for Groundwater Extraction Reporting, \$117.68 per well for Groundwater Level Monitoring, and \$73.92 per well for Groundwater Quality Monitoring, contingent upon execution of a sub-grant agreement between MCWRA and the Salinas Valley Basin Groundwater Sustainability Agency to provide grant funding as an offset credit for all well owners within the Basin for FY26;
- b. Authorize the Auditor-Controller to amend the FY26 Adopted Budget for MCWRA Fund 111 (111-9300-WRA001-8267), to increase its appropriations by \$280,000 and to increase revenue by \$800,000, financed by the Groundwater Monitoring Program fees; (4/5th vote required); and
- c. Authorize the Auditor-Controller's Office to incorporate approved budget modifications to the FY26 Budget.

RECOMMENDATION:

It is recommended that the Monterey County Water Resources Agency Board of Supervisors adopt a resolution to:

- a. Approve and adopt the Fiscal Year 2025-26 (FY26) Groundwater Monitoring Program Regulatory Fees of \$160.16 per well for Initial Well Registration, \$21.86 per well for Annual Well Registration Renewal, \$64.82 per well for Groundwater Extraction Reporting, \$117.68 per well for Groundwater Level Monitoring, and \$73.92 per well for Groundwater Quality Monitoring contingent upon execution of a sub-grant agreement between MCWRA and the Salinas Valley Basin Groundwater Sustainability Agency to provide grant funding as an offset credit for all well owners within the Basin for FY26;
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- c. Authorize the Auditor-Controller's Office to incorporate approved budget modifications to the FY26 Budget.

SUMMARY/DISCUSSION:

Historically, the Monterey County Water Resources Agency ("Agency") conducted groundwater monitoring across portions of the Salinas Valley in a discretionary manner as funding allowed.

However, with passage of the Sustainable Groundwater Management Act (“SGMA”) in 2014 came the establishment of local Groundwater Sustainability Agencies (“GSAs”) and a need for consistent, reliable collection of groundwater and well data to develop, implement, and monitor progress of Groundwater Sustainability Plans (“GSPs”). In the interest of improving operational efficiency and reducing costs, some local GSAs have chosen to leverage the data collection, analysis, management, and reporting expertise of the Agency rather than creating a separate, parallel, monitoring program. This approach was solidified through approval and adoption of Agency Ordinance No. 5426 and the Groundwater Monitoring Program Manual by the Board of Supervisors in October 2024. The Agency’s Groundwater Monitoring Program (“GMP”) comprises four data collection and monitoring programs that, collectively, produce the data necessary to meet the rigorous reporting requirements mandated by SGMA to maintain local governance and oversight of groundwater resources. Additional detail on the background, purpose, and implementation of the GMP is provided in Attachment 1.

The geographic extent of the reconceived GMP is expanding to cover areas within the Salinas Valley Groundwater Basin that are within the jurisdiction of the Salinas Valley Basin Groundwater Sustainability Agency (“SVBGSA”) (Attachment 2). Well registration and groundwater extraction reporting requirements for most well owners within the historically monitored area will remain largely the same. New well registration and reporting requirements will apply to small system well owners in the historically monitored area and all well owners in the new geographic areas (Attachment 3). The most widespread difference for all well owners will be the proposed new annual GMP Regulatory Fee to ensure program reliability, which will be billed directly by the Agency on an annual basis. Unlike other unrelated Agency assessments, this new fee will not be included on property tax bills.

The Agency Act (California Water Code, Appendix §52) and Ordinance No. 5426 authorize the Agency to “...recover costs associated with the development, implementation, enforcement, and perpetuation of a regulatory groundwater monitoring program on a per-well basis, not based on extraction data, within Monterey County.” The Agency worked with Lechowicz & Tseng Municipal Consultants to establish a schedule of cost-based fees for the GMP (Attachment 4).

The Groundwater Monitoring Program Fee Study (“Study”) describes the regulatory functions covered by the GMP and associated costs for staff time to implement the monitoring programs, including data collection, analysis, and reporting; equipment, vehicles, and supplies; technological support for data collection and management applications; and indirect costs. The indirect cost rate is 21% which consists of Agency overhead (approximately 12%) and County of Monterey overhead (approximately 9%). The indirect cost rate covers salary and benefits of Agency Administrative staff, insurance, office furnishings and supplies, computer hardware and software, internet service, communications devices, and County services such as Facilities, Auditor Controller, Human Resources, Records Retention, and County Counsel.

The proposed GMP Regulatory Fees are Proposition 26 regulatory fees and are imposed for regulatory costs that do not exceed the reasonable cost of providing the monitoring service. Proposition 26 fees can be adopted at any time through the approval of the respective legislative body.

The proposed GMP Regulatory Fees will be charged on per-well basis, regardless of how much water a well extracts from the groundwater basin, because the cost of the program is dependent upon

the number of wells in a basin, not how much water is extracted. For FY 2025-2026, the fees will apply to water production wells in the six subbasins within the jurisdiction of the SVBGSA, namely the 180/400-Foot Aquifer, Eastside, Forebay, Langley, Monterey, and Upper Valley Subbasins (Attachment 5). Data collected and reported under programs funded by the GMP Regulatory Fees will be provided to the SVBGSA for use in implementing the GSPs for the aforementioned subbasins.

For FY 2025-2026, the recommended GMP Regulatory Fees are: a one-time Initial Well Registration Fee of \$160.16 per well that is not already registered with the Agency; an Annual Well Registration Renewal Fee of \$21.86 per well; Groundwater Extraction Reporting Fee of \$64.82 per well; Groundwater Level Monitoring Fee of \$117.68 per well; and Groundwater Quality Monitoring Fee of \$73.92 per well. Additional information about each fee is available in the Study (Attachment 4) and on the summary table (Attachment 5).

A presentation on the FY 2025-2026 GMP Regulatory Fee was made to the Agency's Board of Supervisors on April 22, 2025. Following this presentation, staff coordinated with the County Communications Director and SVBGSA to prepare and disseminate additional public outreach materials including an informational flyer describing the proposed GMP Regulatory Fees and social media graphic promoting the Board of Supervisor's June 3, 2025 consideration of the GMP Regulatory Fees, both of which were distributed through traditional media, social media, on multiple websites, and in newspapers with circulation throughout the County.

The Agency's Finance Committee received presentations on the Study in March and April 2025, and the Agency hosted a stakeholder workshop about the GMP Regulatory Fee on April 3, 2025. The Agency's Board of Directors considered recommendation of this item to the Agency Board of Supervisors on April 21, 2025, at which time the Board of Directors approved staff's recommendation by a 7-2 vote (Attachment 6). The Agency's Board of Supervisors considered this item on June 3, 2025, at which time it was continued to July 8, 2025.

OTHER AGENCY INVOLVEMENT:

The County Public Information Office assisted with development of public outreach materials. The Salinas Valley Basin Groundwater Sustainability Agency coordinated with Agency staff to identify the scope of data under the GMP that is required to satisfy their regulatory obligations for monitoring and reporting under SGMA.

FINANCING:

Financial impacts of the proposed GMP Fees were reviewed during the Agency's FY 2025-26 Budget Workshop, held on March 17, 2025. Total FY 2025-26 cost recovery for GMP is estimated at \$800,000.

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Ara Azhdarian

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Attachments:

Legistar File Number: WRAG 25-106

1. Supplemental Memorandum on the GMP
2. Map of FY 2025-2026 GMP Regulatory Fee Area
3. Groundwater Monitoring Program Manual
4. Draft GMP Fee Study
5. Summary Table of FY 2025-2026 GMP Regulatory Fees
6. Board Order 25-28
7. Draft Resolution



County of Monterey

Item No.

Board Report

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Legistar File Number: WRAG 25-105

July 08, 2025

Introduced: 6/23/2025

Current Status: Agenda Ready

Version: 1

Matter Type: WR General Agenda

- 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.

RECOMMENDATION:

It is 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.

SUMMARY/DISCUSSION:

The Monterey County Water Resources Agency ("Agency") and Monterey One Water ("M1W"), formerly known as Monterey Regional Water Pollution Control Agency, entered into an Amended and Restated Water Recycling Agreement ("Agreement") on November 3, 2015, to incorporate and restate agreements that had been developed over the years since the establishment of the Castroville Seawater Intrusion Project ("CSIP"), the Salinas Valley Reclamation Project ("SVRP"), and the Salinas River Diversion Facility ("SRDF"). Subsequently, there have been three minor amendments to the Agreement related to the New Source Water Facilities. The Agreement is included as attachment 1.

In 2023, at the Agency's request, the County of Monterey Auditor-Controller's Office engaged GPP Analytics ("GPP") to conduct a financial audit ("Audit") to assess the accuracy and compliance of expenses reported by M1W reported over four fiscal years (FY 2018-19 to FY 2021-22) in accordance with the Agreement.

The Audit's objectives were to evaluate M1W's expenses for compliance with the provisions of the Agreement. This work was completed through verifying if expenses for the SVRP, CSIP, and the SRDF were reasonably incurred, verifying direct and indirect costs were accurately documented, and assessing financial systems and internal controls. The Audit aimed to verify proper record keeping, accurate reporting, accurate reconciliations, and compliance with the Agreement overall. The Audit resulted in seven findings and recommendations by GPP to

address them. The Audit is included as attachment 2.

In September 2024, Agency and M1W formed a workgroup and a leadership committee to address the findings and implement recommendations from the Audit, which includes amending items related to payments, accounting systems and reports which are included within Sections 7 and 8 of the Agreement.

Amendment No. 4 revises Sections 7 and 8, which address budgets, payments, reports and annual reconciliation process. The proposed changes include requirements of distinct individual funds for CSIP, SVRP and SRDF; performing a separate annual financial audit; separating budgets of operations & maintenance (“O&M”), capital outlay (“CapO”) and capital improvement projects (“CapI”); requiring progress reports of O&M, CapO and CapI projects; and changing payment methods for capital projects. The amendment clarifies due dates, roles and responsibilities of both parties so that appropriate financial system and internal controls are in place to effectively record, monitor, and allocate expense in accordance with the Agreement. The Amendment is included as attachment 3.

The Agency’s Finance Committee and Board of Directors recommended approval of the Amendment No. 4. Monterey One Water’s Board of Directors will be considering the Amendment at its June 30th, 2025, meeting.

OTHER AGENCY INVOLVEMENT:

Monterey One Water participated in the preparation of Amendment No. 4.

FINANCING:

This proposed Amendment No. 4 does not have a financial impact to the FY2024-25 Adopted and FY2025-26 Adopted Budget.

The Amendment No. 4 will change payment methods from two-installment for CapO and CapI activities. Instead of previous two-installment methods, payments for capital activities will be issued based on project status and cash flow projections. There are minimal changes to O&M payment schedules.

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Ara Azhderian

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Attachments:

1. Amended and Restated Water Recycling Agreement & Amendments
2. Water Recycling Agreement Expenses Audit Report
3. Amendment No. 4 to the Agreement