



WATER RESOURCES AGENCY

MEMORANDUM

Monterey County

DATE: April 3, 2026

TO: Finance & Administration Committee

FROM: Ara Azhderian, General Manager

SUBJECT: 2026-27 Fiscal-Year (FY27) DRAFT Budget Alteration – Castroville Seawater Intrusion Project (CSIP) Replacement Well 11B02

BACKGROUND:

For the current 2025-26 fiscal-year, the Agency budgeted \$900,000 for the drilling of 11B02. The funding comes from a federal award through the U.S. Environmental Protection Agency. Based upon the cost incurred to drill the previous CSIP replacement well, the Agency believed the federal funding would be sufficient for the drilling of 11B02; however, after a formal bid process, the lowest, qualified bid received by the Agency was approximately \$1.5 million. Through formal and informal conversations, the Agency presented two alternatives to complete the well replacement: 1) set aside an increment of funding over the course of years until sufficient funding was in hand to execute the drilling contract; or 2) amend the current fiscal-year budget to increase the CSIP water delivery charge to fund the difference. Under either scenario, funding remained insufficient to outfit and connect the replacement well; therefore, completion was expected to take multiple fiscal-years.

Feedback received by the Agency indicated broad support within the CSIP community to complete the well sooner rather than later and some reluctance to put the cost of replacement upon the water users as some view the obligation to fund capital replacement projects as a landowner obligation. With this perspective, the Agency set out to develop an alternative funding mechanism. At the October 2025 CSIP landowners' workshop, the Agency presented five funding alternatives to meet future needs, including a contractual approach whereby landowners would agree to provide funding for specific purposes. The support expressed for the contractual approach prompted the Agency to develop a draft funding agreement to complete 11B02, which was presented to CSIP landowners at a March 2026 workshop. The majority of feedback received from those in attendance, though importantly not a consensus, was sufficiently positive for the Agency to include \$900,000 in the FY27 DRAFT budget that was presented at the Board of Directors workshop on March 16th.

Subsequent the workshop, the Agency received feedback that an insufficient number of landowners were likely to participate in the voluntary, well replacement funding agreements, making the unit cost for participation infeasible for those wishing to proceed. Reasons cited

generally fell into two categories: 1) those that believe participation should be 100%; and 2) those that believe the replacement well should be funded with the forthcoming refund of \$1,000,000 from Monterey One Water (M1W) for prior year overcharges for indirect costs associated with the administration of CSIP, the Salinas Valley Reclamation Project (SRVP), and the Salinas River Diversion Facility (SRDF).

DISCUSSION:

The inability to secure an alternative funding mechanism for the well replacement project requires alteration of the DRAFT FY27 budget that was presented at the March 16th workshop.

Options include:

- Remove the \$900,000 of projected revenue and expenses from the CSIP budget. This approach is the most straightforward as it would not affect the currently proposed assessments nor water delivery charge and would maintain the currently forecasted, FY27 ending fund balance. However, it leaves the question of funding for a future day thus would delay the 11B02 project by at least another year, which would likely lead to higher replacement costs. It would also perpetuate the current CSIP supply reliability risk.
- Utilize Fund Balance to replace the proposed landowner funding. This approach would allow the Agency to move forward with the current well drilling bid and complete design, procurement, and installation of the well outfitting equipment but at the risk of further jeopardizing CSIP’s fiscal wellbeing and creditworthiness, which could inhibit future, major maintenance and/or capital improvement projects. The table below illustrates potential changes in the estimated FY27 ending fund balance, with and without the M1W refund:

	CSIP Budget Scenarios - Fund Balance Draw		
	Mar. FY'26	Apr. FY'26	Jul. FY'27
Estimated FY'27 Beginning Fund Balance	\$ 1,468,745	\$ 1,468,745	\$ 1,468,745
Mar. '26 Workshop Estimated Fund Draw	\$ (151,550)	\$ (151,550)	\$ (151,550)
Loss of Voluntary Agreements Revenue		\$ (900,000)	\$ (900,000)
Estimated FY'27 Ending Fund Balance	\$ 1,317,195	\$ 417,195	\$ 417,195
Estimated CSIP Portion of M1W Refund			\$ 388,042
Potential FY'27 Ending Fund Balance			\$ 805,237
Change in Estimated Fund Balance		-216%	-64%

- Utilize the Water Delivery Charge to replace the proposed landowner funding. This approach would allow the Agency to move forward with the current well drilling bid and complete design, procurement, and installation of the well outfitting equipment and would maintain the currently forecasted ending fund balance. The table below illustrates potential changes in the FY27 proposed Water Delivery Charge, with and without the M1W refund:

				CSIP Budget Scenarios - Water Delivery Charge		
				Mar. FY'26	Apr. FY'26	Jul. FY'27
Estimated FY'27 Non-WDC Revenue				\$ 6,673,840	\$ 6,673,840	\$ 6,673,840
Estimated FY'27 WDC Revenue				\$ 879,891	\$ 879,891	\$ 879,891
Voluntary Agreements Revenue				\$ 900,000		
Estimated FY'27 Total Revenue				\$ 7,553,731	\$ 6,653,731	\$ 6,653,731
Change in Estimated Revenue					\$ (900,000)	\$ (900,000)
Estimated CSIP Portion of M1W Refund						\$ 388,042
Potential FY'27 WDC				\$ 100.24	\$ 147.61	\$ 120.66
Change in WDC					\$ 47.37	\$ 20.42

RECOMMENDATION:

An important consideration is the potential impact of any recommendation upon the CSIP program fund balance. Prudent reserves are an essential component to providing consistent, resilient, and sustainable services. Extensive guidance as to the purposes and structure of special district reserves has been published and many examples of working policies exist. As an example, a typical fund balance target for California water agencies for operations and maintenance is 50% of annual expenses. If the Agency were to follow these examples of financial management practices, fund balance targets for FY27 based upon an average of the prior three years actual expenses would be ~\$2.85M for CSIP, ~\$2.75M for SVRP, and ~\$1.6M for SRDF, excluding major maintenance and capital improvement funds. With major maintenance projects on the horizon, and a request from CSIP landowners for the Agency to explore debt options as a potential funding mechanism, preserving existing fund balances should be a priority until a funding strategy is developed to address impending financial needs.

In consideration of many competing interests, to balance the needs of near and long-term priorities, and to preserve the current well construction bid, federal funding award, and estimated ending FY27 CSIP fund balance, staff recommends the Finance & Administration Committee consider a hybrid funding approach whereby a portion of the \$900,000 funding shortfall is met by the anticipated M1W refund of \$388,042, and the balance is funded by an additional increase in the Water Delivery Charge of \$20.42 per acre-foot.