

**ENGINEER'S REPORT
FOR THE TRI-COUNTY WATER AUTHORITY
GROUNDWATER SUSTAINABILITY AGENCY**

**PROPOSITION 218 PROCEDURES FOR
BENEFIT ASSESSMENTS**

DECEMBER 2017

Prepared for:

Tri-County Water Authority GSA

Prepared by:



DATE SIGNED 12/5/2017



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Appendix A Assessment Roll for TCWA GSA

ACRONYMS

AF..... acre-feet
Agency Tri-County Water Authority Groundwater Sustainability Agency
Basin(s) Tulare Lake/Tule Subbasins of the San Joaquin Valley Groundwater Basin
CASGEM..... California Statewide Groundwater Elevation Monitoring
Counties Kings and Tulare Counties
AWD..... Angiola Water District
DWR..... California Department of Water Resources
GSA..... Groundwater Sustainability Agency
GSP..... Groundwater Sustainability Plan
DCSWD..... Deer Creek Storm Water District
WILBUR Wilbur Reclamation District No. 825
SGMA..... Sustainable Groundwater Management Act
SWRCB..... State Water Resources Control Board

REPORT SUMMARY

The Tri-County Water Authority (“Agency”) is a Joint Powers Authority serving as a Groundwater Sustainability Agency under the Sustainable Groundwater Management Act of 2014. The Agency recently formed with the primary purpose of compliance with the Sustainable Groundwater Management Act (“SGMA”). As a Groundwater Sustainability Agency (“GSA”), the Agency may develop, adopt, and implement a Groundwater Sustainability Plan (“GSP”) for sustainable management of groundwater for that portion of each of the Tulare Lake and Tule Subbasins (“Subbasins”) underlying the Agency. The Agency needs to implement an assessment rate structure that is sufficient to fund Agency operations and required activities pursuant to SGMA. This GSA will develop, or cooperate with other GSAs in the Subbasins to develop a GSP that provides for achieving groundwater sustainability in the Tulare Lake and Tule Subbasins of the San Joaquin Valley Groundwater Basin underlying the Agency within a period of 20 years. To assure compliance, SGMA requires that a GSP be submitted to the California Department of Water Resources (“DWR”) by no later than January 31, 2020 for all GSAs in both Subbasins.

Based on the Agency’s needs, the Agency’s Board of Directors is requesting landowner approval to levy assessments to generate sufficient revenue to fund both annual Agency operation costs and expenses associated with the development and implementation of a GSP in each Subbasin. The annual operational costs will begin in 2018 and will fund Agency operations and activities required by SGMA, including retaining a consulting firms and legal counsel to provide Agency oversight and assistance in leading the Agency through the steps for SGMA compliance. Expenses consist of GSA administrative support, GSP technical support, GSP development, and GSP implementation, and are anticipated to occur over several years with the highest annual costs anticipated during the five-year period of 2018 through 2022. The annual expenses include an annual 3% inflation factor. All budget items have a 20% contingency as well as a 10% collectability adjustment to account for late payment of the assessment. The assessments are planned to attach to all lands within the Agency’s boundaries (defined as 5 acres or greater regardless of current land use). The County Assessor’s roll developed from both Kings and Tulare Counties’ records, and provided in Attachment “A”, identifies the acreage for each of these parcels. The following **Table RS-1** provides an example schedule of the proposed assessments during the initial five years. The actual assessment rate will be set annually by the Board, based on the budget needs, but not to exceed the proposed maximum rate. Landowners should recognize that the assessment determined in each subbasin may be more or less than the other subbasin, but will never exceed the amount authorized in this Engineer’s Report. Assessments will continue beyond 2022, but at this time the assessment rate after 2022 is projected to be less than the maximum rate proposed in this Engineer’s Report. If projects are proposed to attain the threshold levels established in the GSP that would require supplement funding and assessments greater than the maximum assessments recommended in this report, approval by the voters in a future Proposition 218 election would be required.

Table RS- 1. Proposed 5-Year Assessment Schedule

Assessment (\$/acre)	2018	2019	2020	2021	2022
Start-Up and Proposition 218 Election	\$1.88	\$0.00	\$0.00	\$0.00	\$0.00
On-Going Management	1.58	1.62	1.67	1.72	1.78
Groundwater Sustainability Plan	4.28	5.23	2.34	2.34	2.34
Contingencies	1.49	1.37	0.81	0.81	0.82
Collectability Adjustment	0.77	0.68	0.40	0.41	0.41
Total Proposed Assessment (\$/acre)	\$10.00¹	\$8.90	\$5.22	\$5.28	\$5.35

¹Indicates maximum assessment rate proposed.

The Agency is requesting landowner approval to levy annual assessments up to the maximum amount shown in the table above, specifically the not to exceed value of \$10.00 per acre for parcels five (5) acres or greater. The components that make up the total are shown in the table and explained further in this report. Note that the assessment amount levied by the Agency may vary from year to year, but will not exceed the maximum amount unless an increase is approved through a subsequent Proposition 218 proceeding. **The necessary funding for the Agency will be reviewed annually by the Board and, depending on the funds projected to be needed for the year, may be approved up to the maximum (\$10.00 per acre) assessment rate.** The proposed maximum annual rate allows the Agency to levy the assessments to pay increases in operating costs and special activities without having to incur the expense of routinely repeating the Proposition 218 process.

The assessment process is being conducted in accordance with provisions of Proposition 218, as reflected in Article XIII D of the California Constitution and Sections 53750 through 53756 of the State's Government Code. These constitutional and statutory provisions implement Proposition 218, which established a number of mandatory procedures that local agencies must follow to levy certain assessments on lands. The Agency has made the decision to follow the provisions of Proposition 218 in part because its procedures act to fully inform the Agency's landowners while simultaneously giving them a direct say in the matter.

Under the Proposition 218 process, once the Board determines the need to increase assessments, it is necessary to evaluate whether or not the maximum increases are in line with the benefits provided by the Agency and to allocate the assessments to affected Agency lands. These are lands that derive a direct benefit from being within the Agency. This Engineer's Report discusses benefits of the Agency's organization, proposed actions, and services provided by the Agency.

Following the acceptance of this Engineer's Report by the Board of Directors of the Agency, the Board of Directors will hold a public hearing in which all landowners affected by levy of the special benefit assessment may participate and are entitled to vote upon the proposed maximum assessment rate. At the public hearing, the Agency will consider and address comments and questions from Agency landowners. Landowner ballots received prior to and by the close of the public hearing will then be counted.

1. PURPOSE OF THE REPORT

1.1. General

This Engineer's Report is prepared in accordance with State law to describe the equitable distribution of the benefits to be derived by each parcel upon which assessments will be levied. The proposal is for the Agency to collect revenue in the form of assessments that will be used (i) to fund the Agency's annual operations, including retaining the assistance of consulting firms and legal counsel, (ii) to fund the administrative activities of a GSA and to otherwise comply with the requirements contained within the SGMA legislation, and (iii) to fund the preparation and implementation of the GSPs for each subbasin.

1.2. Agency's Authority to Levy Assessments

The Agency is a joint powers authority created pursuant to the provisions of the Government Code of the State of California relating to the joint exercise of powers common to public agencies. (Government Code section 6500 et seq.). On January 1, 2017, Angiola Water District ("AWD"), Deer Creek Storm Water District ("DCSWD"), and the County of Kings ("County") (collectively, the "Members") entered into that certain Joint Exercise of Powers Agreement Creating the Tri-County Water Authority (the "Joint Powers Agreement"). The Agency is a public entity separate from its Members. Pursuant to Government Code section 6509, the County of Kings is the designated agency with respect to the Agency's exercise of power. The Agency has the powers provided to a GSA pursuant to SGMA. Allensworth Community Services District ("ACSD") entered into a by Memorandum of Understanding with the Agency.

The Agency's bylaws provide that upon voter approval, the Agency has the authority to assess land to fund its operations based on the proportional benefits bestowed upon the assessed property. Under this authority, the Agency may classify land into categories, such as farmable or non-farmable lands, and levy separate amounts on those categories to better reflect the benefits attributable to those assessed parcels. The Agency may also request the Counties to collect its assessments in the same way and at the same time as each County collects its general taxes pursuant to Water Code section 36550 et seq, or as otherwise determined in the Board's discretion.

1.3. Proposition 218 Requirements

In November 1996, the California voters approved Proposition 218, the Right to Vote on Taxes Act, which added Article XIII D to the California Constitution. Proposition 218 imposes certain requirements relative to the imposition of certain assessments, fees and charges by local agencies. The Agency has also made the decision to follow the provisions of Proposition 218 in part because its procedures act to fully inform the Agency's landowners while simultaneously giving them a direct say in the matter.

In general, before a local agency can levy new or increased assessments subject to Section 4 of Proposition 218, the following procedures are required:

- (1) Preparation of a detailed engineer's report, prepared by a registered engineer certified by the State of California, that supports each assessment.

- (2) The record owner of each parcel identified for assessment shall be given a written notice of each assessment, including the reason for the assessment and the total amount of the charges to the owner's particular parcel.
- (3) Notice to the record owner must specify the time, date, and location of the public hearing on the assessment; the notice shall also include a ballot and describe the voting procedures and statements in support and opposition to the assessment.
- (4) A public hearing shall be conducted, which will be held not less than 45 days after mailing the notice, to consider protests and tabulate the ballots.
- (5) Ballots in favor of the assessment must represent a majority of the financial obligation (weighted based on financial obligation per unit acre) of the affected property to approve the assessments.

1.4. Limitations of the Engineers Report & Revenue Objectives

This report is limited to the proposed assessments to fund the Agency's annual operations and to comply with the requirements of the SGMA legislation.

2. AGENCY BACKGROUND INFORMATION

2.1. SGMA Legislation

The Sustainable Groundwater Management Act was passed by California Legislature in 2014. The Act requires that subbasins defined by DWR Bulletin 118, that are deemed High and Medium Priority by CASGEM, be sustainable by 2042. Further, if the subbasin is deemed Critically Overdrafted, the deadline is accelerated to 2040. Sustainability is defined as not creating undesirable results in the following categories:

1. Lowering Groundwater Levels
2. Reducing Groundwater Storage
3. Seawater Intrusion
4. Degrading Water Quality
5. Land Subsidence
6. Depleting Interconnected Surface Water

To comply with SGMA, local agencies formed GSAs by June 30, 2017. These GSAs will prepare GSPs by January 31, 2020 (in Critically Overdrafted subbasin). The GSPs will develop a course of action to become sustainable by 2040. The GSAs will have the ongoing responsibility to monitor the subbasin for compliance and develop Annual Reports and 5-Year Interim Updates. The SWRCB will intervene if the GSAs do not comply with SGMA, to ensure the subbasins are sustainable.

2.2. Location

The Agency is located in the southern San Joaquin Valley and encompasses an area of approximately 108,000 acres within Kings and Tulare Counties. The location of the Agency is shown in **Figure 2-1**. The Agency is located within both the Tulare Lake Subbasin and the Tule Subbasin of San Joaquin Valley Groundwater Basin of the Tulare Lake Hydrologic Region (5-22.12 and 5-22.13 respectively) as defined in the DWR Bulletin No. 118.

2.3. History

As the Agency has been recently formed, there is little Agency history. A primary purpose for forming the Agency was to fulfill the role of a GSA for compliance with SGMA on behalf of the landowners in the area to allow direct local representation for implementation of the 2014 SGMA legislation. As a public entity, the Agency will provide a voice for local landowners during GSP development and implementation for its respective portion of the Tulare Lake and Tule Subbasins.

2.4. Water Supply

2.4.1. Surface Water

Agency members have surface water supplies from the State Water Project, the Central Valley Project, the Kings River, the Tule River, the Deer Creek and the White River.

2.4.2. Groundwater

The Agency overlies portions of both the Tule and Tulare Lake Subbasins of the San Joaquin Valley Groundwater Basin as defined by DWR Bulletin No. 118. Groundwater conditions within the subbasin, per the California State Groundwater Elevation Monitoring ("CASGEM") and DWR Bulletin No. 118 (2003 update), indicate the following:

7. The Subbasin is currently deemed critically overdrafted.
8. Average Subbasin depth to groundwater in Fall 2016 is approximately 300 feet.
9. The Subbasins, according to SGMA mapping, are high priority Subbasins in California.

During normal to wet years, excess amounts of surface water are used to recharge groundwater reservoirs. Districts within the subbasins manage their surface water and groundwater resources to mitigate the effects of drought. However multi-year drought consequently leads to a dependence on groundwater supply. As a result, the underlying subbasin groundwater storage undergoes overdraft. Groundwater recharge occurs from four major sources which include channel seepage, deep percolation from applied irrigation, deep percolation from precipitation and intentional recharge.

2.4.3. SGMA Compliance

The Agency is acting on behalf of their member agencies to comply with SGMA. The GSA overlies two separate groundwater subbasins, and each subbasin will likely have a unique approach to reach sustainability. Per SGMA, the Agency is required to coordinate their GSP development efforts with other GSAs in each basin. Due to this, the Agency's efforts for GSP development in each subbasin will differ. As a result, assessments may be different for landowners in one subbasin when compared to a landowner in the other subbasin.

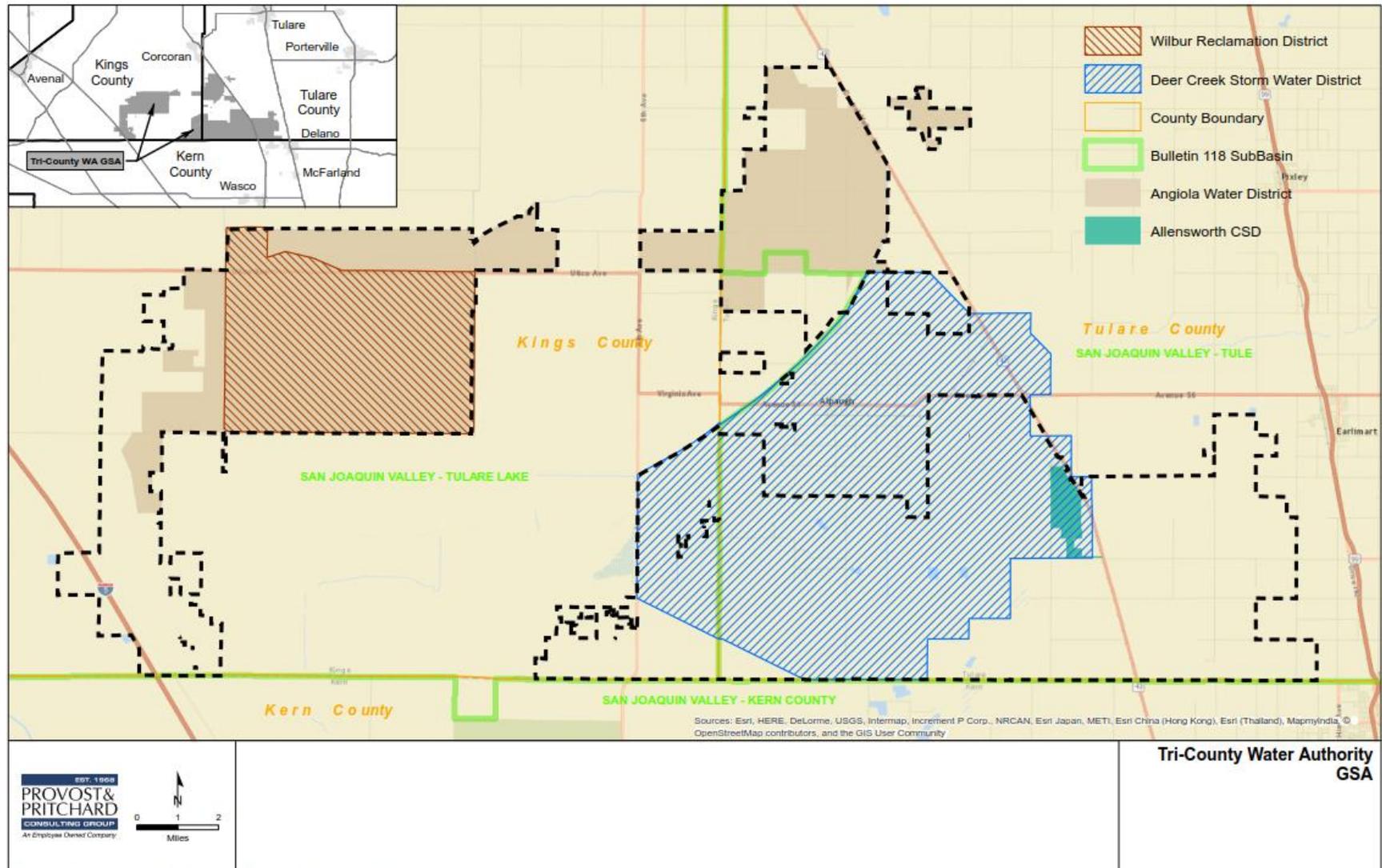


Figure 2-1. Agency Location Map

3. AGENCY FINANCIAL INFORMATION

The Agency was recently formed, and this report includes its initial budget. As discussed above, one of the primary purposes of the Agency is to organize and represent the landowners for the purposes of SGMA. With the establishment of the Agency, there are certain administrative activities that have occurred and are envisioned to occur only at the outset, and several more which are expected to continue annually. It is also planned that in the first several years various technical evaluations will be undertaken to identify the characteristics of the groundwater basin, evaluate technical reports by others, and ultimately, in concert with others, develop and implement Coordination Agreements and/or GSPs for the Tulare Lake and Tule Subbasins. The Agency also plans to coordinate with surrounding individual GSPs internal and external the their subbasins to insure continuing consistency among the plans. The technical report evaluations and GSP development are discrete activities and primarily occur over the next two years, with implementation in the following years. The remainder of this section provides further detail on the estimated costs for each component of the proposed budget for this Proposition 218 funding proposal.

3.1. Future Programs/Projects

Under this proposal, the Agency is seeking approval of an assessment structure to fund its formation costs and annual operating costs, and to develop and implement a GSP to comply with the SGMA. The funding of these programs is dependent upon the annual assessment amount the Agency's Board of Directors approves. It should be noted, that although the GSP development is anticipated to be funded through assessments, these tasks could receive outside funding through grants, which could reduce the level of assessments in one or more years. Also note that the assessment rates are proposed as a maximum amount. It would be up to the Board of Directors to set the assessments for any particular year. If the projected budget is less than the maximum rate, the Board could set a rate lower than the approved maximum assessment rate.

Sections 3.1.1 through 3.1.4 show the estimated costs, organized by major categories and sub-categories. Actual costs for particular sub-categories may be more or less than projected and as identified in this Engineer's Report, the Board has the authority to move funding to sub-categories needing additional funding or to offset additional costs within the major categories with grants or other funding that may become available to the Agency, as long as the total costs do not exceed the maximum assessment proposed in this report. Additionally, if funds are available from the levied assessment that are beyond the immediate needs of the Agency, the Board may choose to establish prudent reserves for anticipated costs within these major cost categories. **It will be within the sole discretion of the Board of Directors to set the annual assessment rate and the Board may choose to set the rate lower than the maximum rate justified in this report and approved by the landowners.**

The major categories and sub-categories of estimated costs are listed below.

3.1.1. Formation and Proposition 218 Election Expenses

Table 3-1 lists the Agency's pre-formation and formation costs and includes an estimate of the costs associated with conducting a Proposition 218 election.

Table 3-1. Start Up and Proposition 218 Election Costs.

Description	2018
START UP	
Reimbursement of costs through 11/30/2017	
Mapping, meetings, correspondence with landowners	\$5,740
Agreements, meetings, correspondence	59,009
	\$64,749
Initial Organization Set-up	
Bylaws, procedures, filing system	\$71,547
Website set-up	6,490
Public hearing	4,800
	\$82,837
Subtotal Startup	\$147,586
PROPOSITION 218	
Prop 218 election	
Engineers report, mailings, noticing, hearing, record voting	\$20,000
Review engineers report, prep notices, hearing, resolutions	4,000
	\$28,000
Subtotal Proposition 218	\$28,000
Total Start Up and Proposition 218 Election Costs	\$175,586

3.1.2. Annual Agency Operations

The Agency's directors and/or officers do not have the time, nor should they have the responsibility, to supervise, administer, and coordinate the tasks associated with an active GSA. A part-time manager/consultant has been retained to be responsible for tasks assigned by the Board of Directors including the following tasks:

1. Attend Agency Board meetings and brief the Board on all relevant issues;
2. Create, supervise and coordinate accounting, general engineering, hydrogeological, and similar technical work necessary to accomplish the Board of Directors' directives; and
3. Annually collect and maintain general Agency information necessary to comply with SGMA, including land ownership, land use types and acreage, surface water deliveries, groundwater usage, assessment tracking, and similar.

Table 3-2 lists the estimated annual budget for the on-going management of the Agency. This estimate is based in part on Provost & Pritchard Consulting Group's prior experience in managing similar agencies and input from member agencies. This budget item is escalated 3% for each succeeding year to account for inflation.

Table 3-2. On-Going Management Costs.

Description	2018	2019	2020	2021	2022
ON-GOING MANAGEMENT					
On-Going Management					
Insurance	\$2,500	\$2,575	\$2,652	\$2,732	\$2,814
Website maintenance, database mgmt.	36,000	37,080	38,192	39,338	40,518
Financial management	12,000	12,360	12,731	13,113	13,506
Administrative support	12,000	12,360	12,731	13,113	13,506
Assessments, collections	6,000	6,180	6,365	6,556	6,753
Printing, supplies, travel	15,000	15,450	15,914	16,391	16,883
Audit	7,500	7,725	7,957	8,195	8,441
	\$91,000	\$93,730	\$96,542	\$99,438	\$102,421
Agency board meetings (4)					
Board packages, attend, minutes	\$9,000	\$9,270	\$9,548	\$9,835	\$10,130
Legal: attend, resolutions, agreements	24,000	24,720	25,462	26,225	27,012
	\$33,000	\$33,990	\$35,010	\$36,060	\$37,142
Subbasin meetings (Monthly)					
Management: attend (12)	\$18,000	\$18,540	\$19,096	\$19,669	\$20,259
Legal: attend (2)	5,000	\$5,150	\$5,305	\$5,464	\$5,628
	\$23,000	\$23,690	\$24,401	\$25,133	\$25,887
Total On-Going Management	\$147,000	\$151,410	\$155,952	\$160,631	\$165,450

3.1.3. GSP Development and Implementation

The SGMA legislation requires groundwater basins deemed to be in critical overdraft and designated as a medium to high priority to have a GSP submitted by January 31, 2020. It is anticipated the Agency will comply with SGMA and participate in the development and implementation of a GSP or GSPs in each Subbasin. The GSP is anticipated to be a single GSP for the Tulare Lake Subbasin; however, the Tule Subbasin is likely to require the development and implementation of individual GSPs for each GSA, and, likewise, there is the possibility that multiple GSPs will need to be developed in the Tulare Lake Subbasin as well and separately coordinated for the Subbasin to evaluate the sustainable yield for the Subbasin and set a strategy for bringing the Subbasin to a sustainable condition by 2040. The Agency's estimated portion of the GSP preparation and implementation costs is shown in **Table 3-3**.

Table 3-3. GSP Development and Implementation Costs.

Description	2018	2019	2020	2021	2022
GROUNDWATER SUSTAINABILITY PLAN					
Initial considerations of GSP issues, approach, and draft					
Technical Consultant to evaluate background data and identify options	\$220,000	\$280,000	\$24,000	\$24,000	\$24,000
Coordination and Outreach (Internal to Subbasins)	75,000	75,000	12,000	12,000	12,000
Coordination and Outreach (External to Subbasins)	24,000	12,000	14,000	14,000	14,000
GSA Modeling	80,000	120,000	120,000	120,000	120,000
GSP implementation and monitoring	0	0	48,000	48,000	48,000
	\$399,000	\$487,000	\$218,000	\$218,000	\$218,000
Total Groundwater Sustainability Plan	\$399,000	\$487,000	\$218,000	\$218,000	\$218,000

For the GSP development, some of the Agency's costs shown in **Table 3-3** may be reduced due to enhanced coordination efforts or grant funding. However, at this time, the

total is shown to develop the estimated assessments. If the actual costs are less, the Board of Directors has the authority to reduce the annual assessments accordingly.

In addition to the initial GSP preparation costs, funding is provided for future years for implementation, required reporting to the DWR, and revisions to the GSP. Also, DWR has been allotted up to two years to review the GSP after it is submitted and may seek revisions to the GSP(s) requiring additional work and analysis. As noted previously, in any given year the Agency Board may elect not to levy the full amount of the maximum authorized assessment

3.1.4. Proposed Budget

Since the Agency is newly formed and has not collected assessments, historical financial information is not available to evaluate the current and future benefits that landowners receive from Agency operations. However, the Agency was formed, in part, to provide the landowners a vehicle within which to participate in SGMA and, under this proposal, the Agency is seeking approval from landowners to incur future annual operational and SGMA-related implementation expenses. The costs shown in Table 3-4 assume that the Agency will establish a calendar-year fiscal budget and that the assessments shown will be collected and used in the years shown and continuing until the Agency has met all obligations of SGMA. If a higher assessment rate is necessary to meet the Agency's SGMA obligations, the Board will again have to comply with the Proposition 218 process to increase assessments. It is assumed that the budget shown for 2018 will not be prorated for a shortened calendar year, but rather serve to reimburse the expenses incurred from formation through 2018. These revenues, if approved, are anticipated to be levied in early 2018 and payable either with County taxes in April 2018 and December 2018 (if the Agency Board requests the County to collect the assessments) or otherwise payable directly to the Agency in early 2018 (if the Agency levies and collects the assessments). **Table 3-4** summarizes the estimated costs per year.

Table 3-4. Proposed Budgets.

Description	2018	2019	2020	2021	2022
START UP AND PROPOSITION 218 ELECTION	\$174,586	\$0	\$0	\$0	\$0
ON-GOING MANAGEMENT	147,000	151,410	155,952	160,631	165,450
GROUNDWATER SUSTAINABILITY PLAN	399,000	487,000	218,000	218,000	218,000
Subtotal	\$721,586	\$638,410	\$373,952	\$378,631	\$383,450
Contingency (~20%)	138,260	127,682	74,790	75,726	76,690
Collectability Adjustment (~10%)	72,159	63,841	37,395	37,863	38,345
Total Budget	\$932,005	\$892,933	\$486,138	\$492,220	\$498,485

4. BENEFITS DETERMINATION

4.1. General

Proposition 218 makes a distinction between general and special benefits provided by a project or service. A general benefit is defined as something that benefits the general public, such as libraries or ambulance service. A special benefit is defined as a particular benefit to land and buildings that is different than the general benefits received by those not charged with the assessment. The proposed Agency's activities are considered special benefits to the farmable parcels within the Agency (defined as those parcels five acre or greater regardless of current land use). These services would not accrue to the public at large and are not considered general benefits. The new rate structure proposed by the Board of Directors is designed to achieve and maintain equity to landowners.

This Engineer's Report proposes an implementation of special benefit assessments. Therefore, this report must identify all parcels that will have a special benefit conferred upon them and upon which the recommended assessment will be imposed, if adopted.

4.2. Determination of Benefits

The purpose of this section is to identify the benefits each parcel is to receive within the Agency in relation to each other. Section 4(a) of Proposition 218 specifies that assessments may not "exceed the reasonable cost of the proportional special benefit conferred on that parcel". The primary condition that impacts the Agency is the differences between farmable and non-farmable land. The Agency is entitled to levy assessments of different values on different classes of land to better reflect the proportional benefits those classes of land receive from the assessments pursuant to Water Code section 36578. The Agency intends to levy assessments for the farmable parcels only. The rationale is that the existence of the Agency offers benefit to all potential farmland within its boundaries. Although some properties might not presently utilize groundwater, all parcels have overlying groundwater rights and the information generated by the development of a GSP will inform the landowners about the water supply available to their land on a current and future basis, the potential for additional groundwater recharge, and allow them to be directly represented through the Agency as the GSA proceeds to meet the requirements of SGMA.

This section provides the breakdown of the benefits that are to be attributed to landowners within the Agency's boundaries, if the proposed assessments are approved. **Table 4-1** summarizes the acreages used in the analyses.

Table 4-1. Assessable Acres.

Description	Acres
Total Agency acres	107,880.64
Exempt State and Federal Parcels	(12,392.42)
Exempt Allensworth CSD Parcels	(771.98)
Parcels Less than 5 Acres	(1,515.76)
Net Assessable Acres	93,200.48

The lands that have been identified as being assessable are shown in **Figure 4-1** and are reflected in the proposed assessment roll in **Attachment A**.

4.2.1. Benefit of the Agency's Formation and Annual Operations

There is a special benefit that is conferred upon all farmable parcels within the Agency's boundary. Although the Agency has not incurred operating expenses in the past, the Agency has retained a consultant and legal counsel to address SGMA related issues and to carry out the efforts identified in Sections 3.1.1 and 3.1.2 of this report. All lands within the Agency's boundaries have the benefit of being represented by a GSA, in compliance with SGMA, as opposed to being managed by the State Water Resources Control Board, which is likely the more expensive default alternative. However, the GSA is required to take appropriate actions related to addressing groundwater changes and groundwater pumping, and the Agency's consultants will spend time and effort to assure continuing conformance with State regulations and laws, for the benefit of the Agency's landowners.

This benefit component is determined based upon the formation and initial operating costs and the anticipated continued annual expenses of the Agency. This benefit is estimated to be \$3.46 per acre in 2018 and prior (\$322,586/93,200.48 assessable acres) and the Agency expects to reduce this cost benefit to \$1.62 per acre in 2018 (\$151,410/93,200.48 assessable acres). The annual operations costs are proposed to be subject to a 3% inflation escalation factor each year.

4.2.2. Benefits of the Groundwater Sustainability Plan Development and Implementation

A large effort under SGMA is the development of the GSPs. The GSPs are anticipated to have the potential to impact current operations for properties within the Agency's boundaries and within the Tulare Lake and Tule Subbasins, respectively. As outlined in Section 4.1, the special benefit derived from this effort must be evaluated to ensure that the benefits received are proportional and appropriate to the properties in relation to each other. As the SGMA legislation is currently interpreted, those farmable parcels within the Agency's boundaries are more likely to be impacted than smaller, non-farmable parcels. As nearly all of the burden of SGMA falls on these lands, the benefits of GSP development primarily accrue to those farmable lands. Any benefits accruing to non-farmable lands within the Agency or lands outside of the Agency are considered unquantifiable at this time, given the uncertainties surrounding SGMA implementation. With this understanding, the Board has determined that parcels five acres or greater receive the special benefits arising out of the development of a GSP and the cost to develop the GSP should be placed on these parcels.

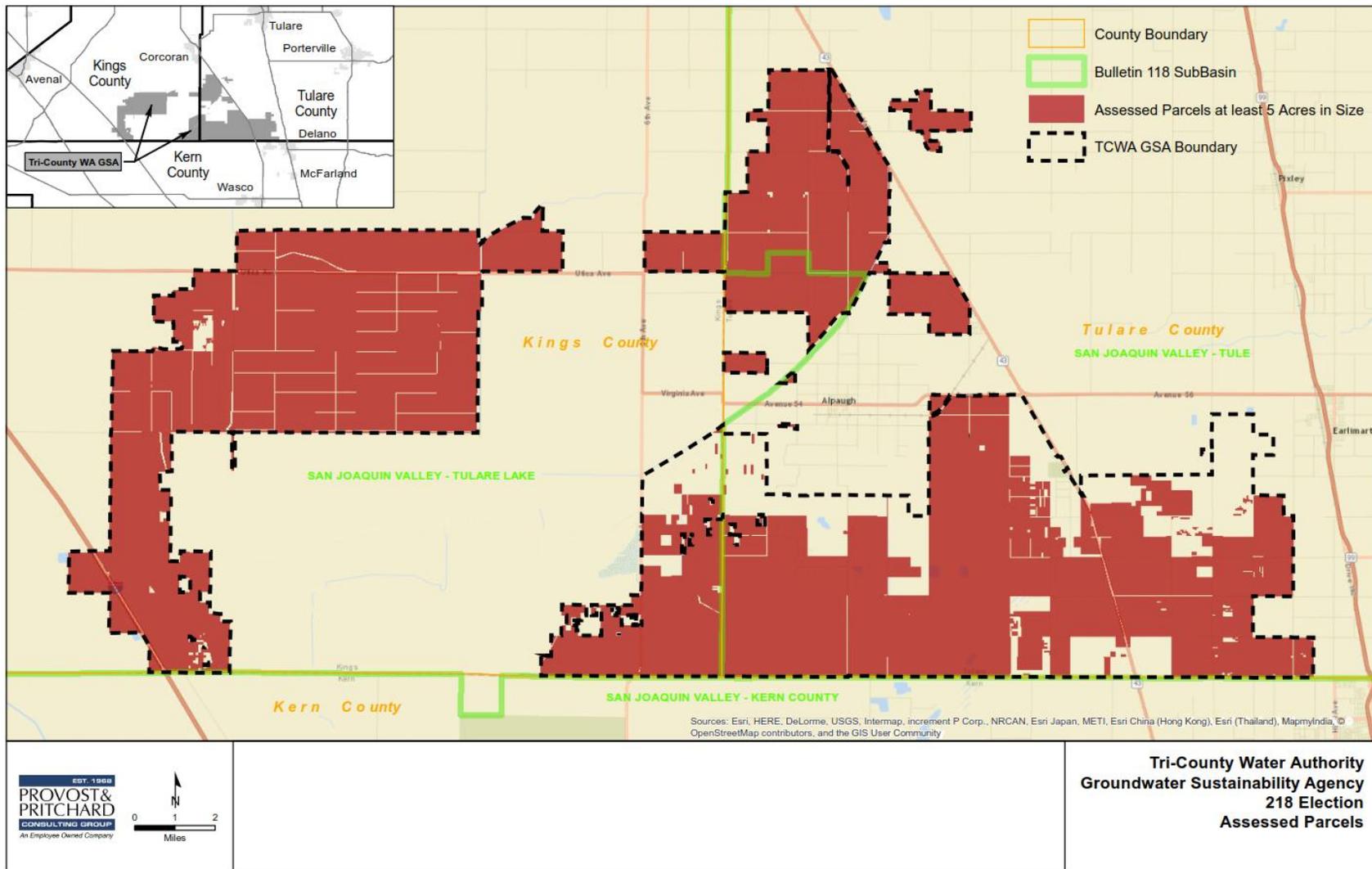


Figure 4-1. Assessable District Parcels.

While a particular parcel may not be farmed in a given year, and particular parcels may use more or less groundwater, groundwater is potentially available to the farmable acres as defined above. For purposes of levying this assessment, the Agency's Board of Directors currently has no way to know conclusively which parcels that have been farmed in the past and which will be farmed in any given future year, or how much groundwater each parcel will utilize. The difference in water usage is anticipated to be addressed, at least in part, with a groundwater pumping charge that may be derived during the development of the GSP. It is anticipated that, if levied, a pumping charge would be based upon the quantity of water pumped. However, such a charge is beyond the scope of this Engineer's Report for the current Proposition 218 process, as sufficient information on groundwater pumping is yet to be collected and evaluated.

Section 3.1.3 identifies the costs associated with the GSP development, which is estimated to be approximately \$886,000 spread over two budget years. The benefit of the GSP effort averages \$4.75 per acre (ranges from \$4.28 to \$5.23 per acre) per year.

4.2.3. GSP Implementation

After submitting the GSPs, the GSPs will be subject to possible revisions from the DWR. As all of the burden of SGMA would fall on the farmable parcels, the benefits of GSP Implementation accrue primarily to those lands. Any benefits accruing to non-farmable lands within the Agency or lands outside the Agency are considered unquantifiable at this time, given the uncertainties surrounding SGMA implementation. With the understanding that the farmable lands would receive the special benefits arising out of the development of a GSP, the cost to develop the GSP is proposed to be placed on those parcels. The costs of GSP implementation are not projected to commence until 2020.

This on-going benefit is estimated to be \$2.34 per acre.

4.2.4. No Agency/GSA Alternative

It is important to note that the State Water Resources Control Board ("SWRCB") can, and will, intervene and implement the requirements of the SGMA legislation in the Tulare Lake Subbasin and the Tule Subbasin (as well as other areas of the State) if the GSA is unable to comply with the law. In such case, the Subbasin would be considered a "Probationary Basin" and subject to a SWRCB controlled "Interim Plan". The SWRCB has developed a draft fee schedule for intervening, which would be applied directly to each groundwater extractor (landowner). The fees would be as follows:

- Base Filing Fee: \$100 per well, plus \$40 per AF per year (Probationary Basin) or \$55 per AF per year (Interim Plan), plus costs for needed studies.

For illustration of these costs, suppose the SWRCB determines the Basin to be a Probationary Basin and a landowner has 40 acres with one well and the demand is 3.0 AF per acre. The associated annual SWRCB fees would be \$100 (filing fee) plus \$4,800 (3.0 AF/acre x 40 acres x \$40/AF) for a total of \$4,900 per year. If the SWRCB determined the Basin needed an Interim Plan, the annual cost would go to \$6,700. Over the next five years, the landowner would pay \$24,500 to \$33,500, plus additional costs for studies,

based on the SWRCB designation, all in their sole discretion. By comparison, under the rates and schedule proposed for the Agency through this Engineer's Report, this same landowner would pay a maximum of \$400.00 per year (\$2,000.00 over a five-year period), plus the yet to be determined groundwater pumping charge.

5. PROPOSAL TO LEVY ASSESSMENTS

This section describes the Agency's proposed plans for funding the operations costs and developing and implementing the GSP.

5.1. General

Based on the services provided by the Agency, the Agency proposes to charge land-based assessments to those parcels five acres or greater.

5.2. Proposed Programs/Projects

In conformance with this Engineer's Report, the Agency would seek assessment revenues to fund its operating costs and development and implementation of the GSPs for compliance with SGMA legislation. This section outlines the necessary assessments needed to fund the Agency efforts and the potential methodology for setting the assessments.

5.2.1. Agency Start Up and Proposition 218 Election

The Agency is proposing to assess landowners within the Agency a one-time charge of \$175,586 for start-up and Proposition 218 election costs. This cost will be spread equally across the farmable acreage, resulting in an annual assessment of \$1.88 per acre as shown in **Table 5-1**.

Table 5-1. Proposed Assessment Schedule-Start Up and Proposition 218 Election.

Assessment (\$/acre)	2018	2019	2020	2021	2022
Start Up and Proposition 218 Election	\$1.88	\$0.00	\$0.00	\$0.00	\$0.00

5.2.2. Agency On-Going Management

The Agency is proposing to assess landowners within the Agency an annual amount of \$147,000 per year for Agency operations related to SGMA. This cost includes a 3% inflation escalation factor for each successive year. This cost is also proposed to be spread across the farmable acreage and would lead to an annual assessment of \$1.58 to \$1.78 per acre as shown in **Table 5-2**.

Table 5-2. Proposed Assessment Schedule-On-Going Management.

Assessment (\$/acre)	2018	2019	2020	2021	2022
On-Going Management	\$1.58	\$1.62	\$1.67	\$1.72	\$1.78

5.2.3. GSP Development and Implementation

The Agency is proposing to assess landowners within the Agency a one-time GSP development amount of \$886,000 split over two years for an average of \$443,000 per year. This cost is being proposed to be spread over only the farmable acreage in the Agency, resulting in an assessment of \$4.28 - \$5.23 per acre. In addition, GSP implementation is estimated to cost \$218,000 per year in 2020, 2021 and 2022, resulting in an assessment of \$2.34 per acre. Both of these costs are summarized in **Table 5-3**.

Table 5-3. Proposed Assessment Schedule-GSP Development and Implementation.

Assessment (\$/acre)	2018	2019	2020	2021	2022
Groundwater Sustainability Plan	\$4.28	\$5.23	\$2.34	\$2.34	\$2.34

Table 5-4 summarizes the maximum assessment amounts that would be possible over the next five years under this proposed rate structure. Assessments would continue during the GSP implementation period until the State determines that the Agency is in full compliance with SGMA. Note that these rates also include a 20% contingency factor, as well as a 10% collectability adjustment. **While the costs may vary from year to year, the maximum assessment rate in any given year cannot exceed \$10.00 per acre.**

Table 5-4. Proposed 5-Year Assessment Schedule.

Assessment (\$/acre)	2018	2019	2020	2021	2022
Start Up and Proposition 218 Election	\$1.88	\$0.00	\$0.00	\$0.00	\$0.00
On-Going Management	1.58	1.62	1.67	1.72	1.78
Groundwater Sustainability Plan	4.28	5.23	2.34	2.34	2.34
Contingencies	1.49	1.37	0.81	0.81	0.82
Collectability Adjustment	0.77	0.68	0.40	0.41	0.41
Total Proposed Assessment	\$10.00	\$8.90	\$5.22	\$5.28	\$5.35

5.2.4. Assessment Roll

Attachment A is the assessment roll, which serves as the basis for providing notice to each landowner in the Agency, identifying each landowner, the parcels they own as reflected in County records, and the proposed maximum assessment for each parcel.

The roll also documents the weighted voting for the proposed assessment. The voting is directly related to the maximum assessment per acre multiplied by the acreage of each parcel; the votes have been aggregated for each entity as shown. Thus, the voting is based on the proposed assessment for each landowner or entity as a proportionate share of the total. For passage of the proposed Proposition 218 assessments, 50% plus one vote of the total amount of the returned ballots is required.

5.3. Conclusion

The primary objective of the Board of Directors regarding revenues is to ensure that the Agency's expenditures are truly necessary and that those costs are allocated in a fair and equitable manner. Based on the revenue objectives, the Agency's proposal to fund its

annual operations and future activities is for the benefit of all farmable parcels within the Agency.

Absent the creation of the Agency (or a similar entity) and funding by the proposed assessment, Agency landowners would have no direct representation for complying with the SGMA. Without such representation, the SWRCB would take corrective action as provided by SGMA. However, with this proposed rate structure, properties will receive a special financial benefit from the Agency in excess of their total assessment, because the value of the Agency's existence to comply with SGMA on behalf of its landowners results in substantially lower costs to the landowners than if no GSA were formed. If no GSA were formed, the landowners would pay much higher fees and be left subject to regulation and oversight of the SWRCB.

6. IMPLEMENTATION PROCEDURES

Based on an examination of procedural options available to the Agency's Board of Directors, it is the Engineer's opinion that the proposed assessment structure offers an equitable procedure to the Agency to generate revenues for its operations and proposed efforts for SGMA implementation compliance. The Agency intends to proceed with an election process complying with the provisions of Article XIII D of the California Constitution to allow for the collection of a land based assessment.

The Agency Board of Directors will be asked to: (a) approve and accept the Engineer's Report; (b) set a public hearing on the proposed assessments; and (c) authorize a Proposition 218 election to mail (i) notices to these landowners informing them of the proposed assessment and (ii) ballots for them to cast in the election. At the public hearing, the Agency will state its intentions and justifications for pursuing a Proposition 218 election, take into consideration any objections to the proposed assessment rate, and count the ballots received as of the close of the hearing. A majority vote approval of the ballots received is necessary for the Agency to implement the assessments in accordance with the Maximum Assessment Rate Schedule of \$10.00 per acre for assessable parcels five acres or greater. **If a majority vote supports the Proposition 218 election, the Agency Board will have the authority to implement the assessments annually at its discretion, not to exceed \$10.00 per acre.**

7. REFERENCES

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Appendix A
Assessment Roll for TCWA GSA