

**To: Salinas Valley Basin GSA**

**From:** Catherine Hansford

**Date:** April 20, 2021

**Subject: Groundwater Sustainability Fee Increase Fiscal Year 2021/22**

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## **Background**

The Salinas Valley Basin Groundwater Sustainability Agency (SVBGSA or Agency) Groundwater Sustainability Fee (Fee) was adopted by Resolution 2019-03 March 14, 2019. The regulatory fee structure and amount set for fiscal year 2019/2020 was based on work conducted between April and December 2018, involving numerous stakeholder meetings and public workshops, as well as a joint meeting of the SVBGSA Board of Directors and Advisory Committee. The final Fee Study report, dated March 5, 2019, contains detail of the considerations and steps taken to determine the most appropriate fee structure for the Agency's funding needs.

The Groundwater Sustainability Fee is paid by all beneficiaries of sustainable groundwater management in the SVBGSA management area, where beneficiary is defined as the owner of irrigated agricultural land or the recipient of water service by a publicly or privately-owned water system. De minimis extractors<sup>1</sup>, tribal lands, and federally-owned properties are exempt from the Fee. The Fee funds the day-to-day operations of the Agency, special studies, and generally any activities that are regulatory in nature, and do not provide specific benefit to any particular person or group of persons in the Fee management area.

Examples of regulatory activities that may be funded include:

- Groundwater Sustainability Plans (GSP) development and updates
- Investigations and inspections
- Data networks and monitoring
- Compliance assistance and enforcement
- Program administration (includes agency staffing, legal counsel, consultants, and associated costs)
- Prudent operating reserves

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<sup>1</sup> Pursuant to Water Code section 10721(e), de minimis extractors pump less than two acre-feet per year for domestic purposes; domestic purposes exclude any commercial activities.

## Methodology

The Fee is calculated each year by following these three steps:

- Step 1:** Determine the amount of revenue needed to be raised in the next fiscal year through the Fee – the “cost basis”. Allocate the cost basis between Agricultural and All Other beneficiaries of sustainable groundwater management. Agricultural beneficiaries are allocated 90% of the cost basis. All Other beneficiaries are allocated 10% of the cost basis.
- Step 2:** Determine the number of Irrigated Acres and Service Connections in the SVBGSA management area to be charged the Fee in the next fiscal year.
- Step 3:** Divide the Agricultural beneficiaries’ Fee basis by the number of Irrigated Acres to calculate the Annual Fee per acre. Divide the All Other beneficiaries’ Fee basis by the number of Service Connections to calculate the annual fee per connection. The Fee basis may include a margin of error for potential changes in land uses between the years and/or other factors such as allowance for uncollectable fees (“bad debt”).

Important in the methodology for determining the Fee for the next fiscal year is adhering to the definitions of Irrigated Acres and Service Connections.

### Definitions

**Irrigated Acres** - “All real property classified as Monterey County Assessor land use codes 4C, 4D, 4F, 4G, 4K, and 4N, whether the acre belonging to the Assessor Parcel Number upon which the regulatory fee is imposed is or is not currently irrigated.”

***County GIS data is used to determine the number of Irrigated Acres per APN, not County Assessor records.***

**Connection** – “A connection between the customer’s piping or constructed conveyance and the water system’s meter, service pipe, or constructed conveyance.”

***A property can have more than one service connection. Connections are counted for Public Water Systems and Small Water Systems.***

## Fiscal Year 2021/22 Fee

Per Resolution 2019-03, the Board of Directors shall review the Fee annually<sup>2</sup> to determine if the Fee is sufficient to cover expenses, consistent with the California Constitution and state law.

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<sup>2</sup> In addition to the annual reviews, every five years, the Board of Directors shall perform a comprehensive review of the Fee and its methodology to determine if the methodology for calculating and charging the Fee continues to be appropriate or should be changed. At least one public meeting shall be held to receive testimony from the public regarding the Fee.

The Board of Directors may increase or decrease the Fee as necessary or appropriate in compliance with the California Constitution and state law. The cost basis of the Fee is determined during the budget-setting process (February through April). Agency staff consider several factors when determining the cost basis for the Fee. Factors include:

- Current cash reserves,
- Timing and amounts of grant funding reimbursements for costs already expended,
- Anticipated cash flow needs for the next one-to-three-year period, and
- The change in the San Francisco Consumer Price Index since the last Fee update.

Last year, during the budget-setting process, the Agency determined that the Fee was sufficient to cover anticipated regulatory costs for the 2020/21 fiscal year. The Fee was not expected to pay for all regulatory costs; it was expected that the Agency would use approximately \$140,000 of accumulated reserves. In part, the reserves were larger than projected the prior year because the Fee collection was greater than anticipated in fiscal year 2019/20 (the first year of fee implementation). When the Fee was determined in 2019, a 10% margin of error was built in because the Fee database had not yet been refined. The budget for fiscal year 2019/20 included projected Fee revenue of \$1.20 million; however, actual collection was \$1.32 million.

**Fiscal Year 2021/22 Fee Step 1:** The fiscal year 2021/22 budget has taken into consideration cash flow needs including inflow and outflow of funds for projects that are funded by State grants, as well as use of accumulated reserves, to determine the amount of funding needed from the Fee. The approved budget includes total operating expenses of \$1.60 million, of which \$233,000 would be funded with accumulated reserves, \$4,000 with interest income, and \$1.36 million with charges for services (the Fee). The budget for fiscal year 2020/21 included \$1.30 million in Fee revenue; therefore, a \$64,800 increase in Fee revenue between the 2020/21 and 2021/22 budgets represents a 5.0% increase in needed Fee revenue<sup>3</sup>. The cost basis is allocated to beneficiaries as follows:

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		<b>FY 2021/22</b>
<b>Cost Basis</b>		<b>\$1,364,800</b>
Agriculture	90%	\$1,228,320
All Other	10%	\$136,480

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**Fiscal Year 2021/22 Fee Step 2:** The number of Irrigated Acres and Service Connections to be included in the calculation are based on the Fiscal Year 2020/21 database.

Agriculture = 250,205 Irrigated Acres  
All Other = 60,382 Service Connections

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<sup>3</sup> In comparison, the San Francisco All Urban Consumer Price Index, which is a factor to be considered in determining the Fee for the following fiscal year, increased 4.5% between 2019 and 2021.

**Fiscal Year 2021/22 Fee Step 3:** The calculation of the Fee is shown in the table below. The total Fee basis includes an allowance for uncollectable revenues (“bad debt”), which, based on actual Fee revenue collected in the first fee year, is estimated at 2.4% for Agriculture, and 5.0% for All Other beneficiaries.

<b>Beneficiary</b>	<b>Allocated Cost Basis</b>	<b>Allowance for Bad Debt</b>	<b>Total Fee Basis</b>	<b>FY 2020/21 Irrigated Acres and Connections</b>	<b>FY 2021/22 Fee</b>
Agriculture	\$1,228,320	2.4%	\$1,258,221	250,205	<b>\$5.03 per Irrigated Acre</b>
All Other	\$136,480	5.0%	\$143,265	60,382	<b>\$2.37 per Connection</b>

### Recommended Fee for Fiscal Year 2021/22

The following table summarizes the historical Fee schedule and the proposed Fee schedule for fiscal year 2021/22.

<b>Fee Application</b>	<b>FY 2019/20</b>	<b>FY 2020/21 no change</b>	<b>FY 2021/22 5% increase</b>
Irrigated Acre	\$4.79	\$4.79	\$5.03
Connection	\$2.26	\$2.26	\$2.37