

April 8, 2021

Honorable Chair and Members of the Board of the Salinas Valley Basin Groundwater Sustainability Agency (GSA) Executive Directors

We are pleased to present the Proposed Budget for Fiscal Year 2021-22. The operating appropriations of \$1,684,400 are funded by \$1,364,800 in GSA fees, \$4,000 in investment earnings and \$315,600 from the existing fund balance. The budget as presented requires a five percent (5%) or \$64,800 increase in the GSA fees beginning in the new fiscal year.

Major Priorities

The major priorities for fiscal year 2021-22 are:

- Complete the five Groundwater Sustainability Plans (GSPs) due January 2022.
- Work on key implementation actions in the 180/400-Aquifer GSP
- Work towards completing a valley-wide monitoring program with our partners MCWRA
- Complete the update of the 180/400-Aquifer GSP

This budget reflects key new work ahead for the Agency including funding development at the state and federal level, grant preparation for available funds, development of an Agency communications plan and scoping of necessary scientific work ahead for implementation actions and projects. In addition as the Agency matures there is a need to implement a new accounting system and a records management system.

Accomplishments

Fiscal year 2021-22 will mark five years of work in developing, directing, funding, and managing the Salinas Valley Basin Groundwater Sustainability Agency (Agency). This milestone is a notable accomplishment in that the Agency was explicitly formed to address the Sustainable Groundwater Management Act (SGMA). From its inception, the Agency has worked collaboratively with the broadest range of stakeholders ever assembled to plan for the future of groundwater in Monterey County. With solid values based on honesty, transparency, and inclusivity, the Agency has changed water planning in the Salinas Valley.

SGMA declared that groundwater basins identified at risk of overdraft by the California Department of Water Resources had until June of 2017 to establish Groundwater Sustainability Agencies. In response, local interests came together to design a collaborative process, known as the "Formation Committee," to determine how best to

address the many complex issues created with the passage of SGMA. Out of this work came the development of a nine-member Joint Powers Authority (JPA), which provided the GSA a platform for legal representation, funding, and stakeholder governance.

The first official board meeting of the SVBGSA occurred in April of 2017, meeting the California Department of Water Resources' formation deadline. One of the first actions of the SVBGSA was to establish a management structure to ensure the success of day-to-day operations and that production of the first GSP due for submittal in January of 2020 could begin immediately.

The Board of Directors issued a Request for Proposals for management services, selecting Regional Government Services (RGS) as the organization best suited to develop a management structure that could effectively meet the stringent planning deadlines while providing quality stakeholder interaction and Board support.

RGS is a Joint Powers Authority established in 2002 to serve the needs of cities, counties, special districts, joint powers authorities, and other governmental entities throughout California. RGS works exclusively with public agencies, providing a ready source of support and consulting services to meet its partner agencies' needs in a broad range of disciplines.

RGS contracts to provide services on an hourly basis. This model allowed the GSA to establish personnel and financial infrastructures that serve the Agency by paying for only those hours employees work. Additionally, all benefits to employees are paid by RGS, which frees the Agency from legacy costs associated with retirement, vacation, or health benefits.

The first iteration of staffing for the GSA included a part-time General Manager and a part-time clerk. RGS provides financial services through a structure that included managing grants, expenditures, and budgeting paid on a per-hour rate.

Following the agreement with RGS, the Agency set out to identify and recruit an organization well versed in SGMA and focused on hydrology to develop the first of six GSP's due in just over two years. The Agency contracted with Hydrometrics (later acquired by Montgomery and Associates M&A)) to provide GSP planning services. M&A immediately began work on the first GSP.

In the first two years of GSA development (FY 2017-18 and 2018-19), JPA members provided funding. However, the GSA Formation Committee had included a caveat in the JPA agreement that required the Agency to develop a separate funding stream within two years of the GSA formation. To accomplish this, staff selected Hansford and Associates to create and implement a fee to fund day-to-day operations and planning for the GSA. This fee was successfully implemented in FY 2019-20.

With the agency management structure in place and a team of highly competent support consultants, work began on developing the first GSP. This Agency successfully submitted the plan in January of 2021.

With the first GSP completion, the Agency reorganized to complete five more GSP's due in January of 2022. This reorganization included the addition of a Deputy General Manager and a Senior Advisor. With this structure now in place, the staff is completing the following five plans while implementing the first plan.

The Agency continues to work with its consultant team. It is now actively working on a communications plans to broadcast the importance of this planning work, encouraging even greater participation levels by stakeholders. The communications work includes a focus on disadvantaged communities and small water systems.

The Agency is now focusing on the implementation of the plans. The first plan submitted in 2021 is now beginning implementation. The GSA will use the lessons learned from these actions to consider a future that includes the full implementation of six GSPs. To better understand the needs of funding and staffing to implement the plans fully, the GSA is currently working on a strategic plan to identify critical areas of work that will leverage available resources.

Five years in the GSA has successfully met or will meet the challenges presented by SGMA. Given that this is a new law that still contains many uncertainties, this is a remarkable accomplishment. It is essential to recognize that through this intense planning period, the Agency has developed and created an innovative and effective stakeholder-driven organization that has kept costs as low as possible while producing high-quality outcomes.

Highlights of FY 2021-22 Budget Operating Budget

The proposed budget does not account for any grants. This budget is for the purpose of funding ongoing Agency operations from the GSA Groundwater Sustainability Regulatory Fee. The proposed budget utilizes \$315,600 from the June 30, 2020 fund balance of \$882,015 to keep the GSA Groundwater Sustainability Fee increase to only 5% for FY 2021-22. That equates to a 2.5% increase per year for the two years the fee has remained the same.

The major decisions to be made as a result of this budget are:

- How much of the existing fund balance to utilize to fund FY 2021-22 operations?
- How much to increase the GSA Groundwater Sustainability Regulatory Fee?
- How to fund a cash flow reserve set aside and at what level?

The Department of Water Resources (DWR) grants are not included in this presentation since the Board has already approved the grants budgets along with the contracts to

accomplish the work. Whatever amount is left of the grant budgets will be automatically carried over to fiscal year 21-22 until the work is completed.

A summary of the Proposed Budget is presented on the next page for Board review and discussion.

Salinas Valley Basin Groundwater Sustainability Agency					
Preliminary Administration Budget					
FY 2021-22					
	2020-21 Original	2020-21 Revised	2021-22 Proposed	Increase (Decrease)	Percent Change
Revenue					
440000 · Member Contributions					
440100 · GSA Fee	1,200,000	1,300,000	1,364,800	64,800	5.0%
444000 · Interest Income	4,000	4,000	4,000	0	0.0%
Total Revenue	1,204,000	1,304,000	1,368,800	64,800	5.0%
Expense					
520000 · Administrative Services	916,650	810,650	1,150,330	339,680	41.9%
530000 · Groundwater Sustainability Plan-Prop 1	41,500	41,500	0	-41,500	-100.0%
530500 · Legal Services	60,000	60,000	60,000	0	0.0%
540000 · Grant Management Services (RGS)		20,000	15,000	-5,000	-20.0%
540100 · Agency Financing Plan	25,000	25,000	25,000	0	0.0%
540200 · Facilitation Services	20,000	20,000	20,000	0	0.0%
540300 · Grant Writing / Lobbying	50,000	70,000	50,000	-20,000	-28.6%
540400 · Outside Specialty Legal Svcs	70,000	70,000	70,000	0	0.0%
540500 · Communications Consultant	10,000	10,000	50,000	40,000	400.0%
540600 · Strategic Planning	0	10,000	0	-10,000	-100.0%
540700 · Modeling	0	50,000	50,000	0	0.0%
550200 · Conferences / Training	7,100	7,100	7,100	0	0.0%
550300 · Dues and Subscriptions	3,000	3,000	3,000	0	0.0%
550400 · External Audit	6,000	6,000	6,000	0	0.0%
550500 · Auditor-Controller Collection	3,000	0	0	0	
550500 · GSA Fee Appeal Refunds	5,000	5,000	5,000	0	0.0%
550600 · Insurance Premium	4,000	4,000	5,000	1,000	25.0%
550700 · Legal Notices & Ads	5,000	5,000	5,000	0	0.0%
550800 · Office Supplies	45,000	4,500	4,500	0	0.0%
550900 · Postage and Delivery	3,000	3,000	3,000	0	0.0%
551000 · Printing and Reproduction	5,000	5,000	5,000	0	0.0%
551100 · Office Rent	3,000	3,000	3,000	0	0.0%
551200 · Technology	40,000	40,000	40,000	0	0.0%
551220 · Website Upgrade	2,000	11,000	11,000	0	0.0%
551250 · Agenda Management Software	3,700	3,700	3,700	0	0.0%
551260 · Document Management Software	0	0	26,000	26,000	
551270 · Financial Management Software	0	0	26,870	26,870	
551300 · Travel Expense	10,000	10,000	10,000	0	0.0%
551400 · Bank Service Charges	500	500		-500	-100.0%
551800 · Meals and Meeting Expenses	2,500	2,500	2,500	0	0.0%
551810 · Mileage Reimbursement	1,000	1,000	1,000	0	0.0%
Funding for Cash Flow Reserve				0	
551900 · Board Stipends	26,400	26,400	26,400	0	0.0%
Total Expense	1,488,350	1,327,850	1,684,400	356,550	26.9%
Operating Surplus (Deficit)	-284,350	-23,850	-315,600	-291,750	
Use of Fund Balance for Operations Funding			315,600		
Adjusted Operating Surplus (Deficit)			-		

ESTIMATED REVENUES

Historical Revenues

The first two fiscal years of the Agency were funded by member agency contributions of \$1,145,000 as shown below.

Agency	FY 2017-18	FY 2018-19	Total
County of Monterey	\$ 670,000	\$ 670,000	\$1,340,000
City of Salinas	330,000	330,000	660,000
City of Soledad	35,000	35,000	70,000
City of King	30,000	30,000	60,000
City of Gonzales	20,000	20,000	40,000
Water Resources Agency	20,000	20,000	40,000
Monterey One Water	20,000	20,000	40,000
Castroville CSD	20,000	20,000	40,000
	<u>\$ 1,145,000</u>	<u>\$ 1,145,000</u>	<u>\$2,290,000</u>

It is important to note that the agricultural industry provided \$250,000 of the Monterey County Contribution each year. Consideration of repayment of all funds will be considered by the GSA Board once all GSPs are completed in 2022 and following state approval of the GSPs.

Groundwater Sustainability Fee (SBVGSA Regulatory Fee) FY 2021-22

GSA operations are funded by a regulatory fee as authorized by SGMA and pursuant to the California Water Code. The regulatory fee must be no more than necessary to cover the reasonable costs of the governmental activity.

Below is a table of the estimated revenues from the Groundwater Sustainability Fee that the GSA Board approved on March 14, 2019. The GSA fee remained the same for FY 2019-20 and 2020-21.

Groundwater Sustainability Fee Calculations							
Customer	Fee	Basis	Basis Quantity		Allowance for errors (3)	Basis for Fee	Estimated Fee Revenue (4)
Agriculture	\$ 4.79	per irrigated acres	250,457	(1)	(25,046)	225,411	\$ 1,080,000.00
All Other	\$ 2.26	per service connection	58,955	(2)	(5,896)	53,059	\$ 120,000.00
							<u>\$ 1,200,000.00</u>
Notes:							
(1) per table 9 - Agricultural Properties, of the GSA Fee Study							
(2) per table 10 - Water Systems, of the GSA Fees study							
(3) per table 11 - Regulatory Fee Calculation, of GSA Fee Study							
(4) rounded to the nearest 1,000							

The complete Fee Study approved by the GSA Board can be found on the SVBGSA website at <https://svbgsa.org/wp-content/uploads/2019/02/SVBGSA-Fee-Study-Final-Feb-4-2019.pdf>

The GSA Groundwater Sustainability Fee resolution provides for an annual review of the GSA Groundwater Sustainability Fee. For FY 2020-21 it was decided not to request an increase while we developed a better understanding of the actual revenues collected. Instead, the FY 2020-21 budget was approved with the use of \$284,350 from the existing fund balance of \$574,284 as of June 30, 2019.

Staff has identified the following revenue from the GSA Groundwater Sustainability Fee:

1. For FY 19-20 the GSA fee brought in \$1,322,056
2. For FY 20-21 it is projected that the GSA fee will result in \$1,300,000 in revenue.

The \$1,300,000 estimated revenue will be used as the starting point for the GSA Groundwater Sustainability Fee if it was not increased.

FY 2021-22 Proposed GSA Regulatory Fee

During the two years ended December 31, 2020 the San Francisco Area All Urban Consumers Price Index increased 4.5%. Staff recommends a five percent (5%) increase which will have the following estimated impact on the fee:

	Estimated		
<u>Curren Fee</u>	<u>Increase</u>	<u>New Fee</u>	<u>Basis</u>
\$ 4.79	\$ 0.24	\$ 5.03	Per Irrigated Acre
\$ 2.26	\$ 0.11	\$ 2.37	Per Service Connection

The five percent increase is estimated to generate an additional \$64,800 in revenue.

The actual amount to be generated will be based on the report prepared by Catherine Hansford which considers irrigated acres and service connections in the basin area. The work for the fee increase analysis will be presented at the Advisory and Board levels and public noticing requirements will be followed for adoption. The approval of the GSA Fee will come to the Board as a separate item for approval. The approved appropriations amount is the basis for determining the GSA Fee.

EXPENDITURES BUDGET HIGHLIGHTS

The SVBGSA is a joint-powers agency governed by an 11-member board from various jurisdictions and stakeholders. Board members are paid a fixed fee for attending meetings. All operations take place by contract services. The following information provides background and the basis for the budget amounts.

Administrative Services - \$1,150,330

The biggest expense for most agencies is the cost of personnel. When the Agency was formed the Board decided to utilize contract management services provided by RGS after a rigorous selection process. Administration services account for 68% of the Agency budget. By utilizing RGS services, the Agency can increase personnel as needed and reduce them also when no longer needed.

The Agency staff positions account for \$1,100,330 in expenses. The estimated service hours and costs included in the budget for the staff positions are as follow:

Position	Scheduled Hours	Estimated Annual Hours		RGs Hourly Rate	Estimated Cost
		2020-21	2021-22		
General Manager	35 hours per week	1,750	1,750	\$ 172.00	\$ 301,000
Deputy General Mgr.	35 hours per week	1,500	1,750	\$ 157.00	\$ 274,750
Senior Advisor to GM	30 hours per week	1,500	1,750	\$ 172.00	\$ 301,000
Clerk of the Board	25 hours per week	360	1,250	\$ 96.00	\$ 120,000
Senior Finance Advisor	30 hours per month	360	360	\$ 143.00	\$ 51,480
Deputies Clerk of the Board	33 hours per month	240	400	\$ 75.00	\$ 30,000
Analyst	5 hours per week	-	260	\$ 85.00	\$ 22,100
Total of assigned staff					\$ 1,100,330
RGS Admin Staff Costs					\$ 50,000
Total RGS Costs					\$ 1,150,330

Administrative services are budgeted to increase \$339,680 (41.9%) in comparison to the Revised Budget, but only \$233,680 (25.5%) in comparison to the original budget for 2020-21. The increase in costs reflect the growth in the size of the Agency in the past year. While all staffing costs are budgeted to increase 2.3% per the RGS contract, the majority of the increase is due to additional hours for support staff used to help manage the numerous stakeholder meetings and reporting needs of the Agency. Once the GSPs

are completed the staffing costs will come down as there will not be as many stakeholder meetings. This is one of the advantages of using RGS services – staffing can increase or decrease without going through a hiring or layoff process.

It should be noted that the above RGS estimated costs pay not only for the full cost of the employees, but also pay for RGS overhead. Unlike a typical government agency, which has escalating unfunded retirement liabilities and post-retirement liabilities for health insurance costs, the RGS billing rate pays all employee costs. Therefore, should the Agency decide to terminate the RGS contract, there will be no unfunded liabilities for RGS Staff.

In addition to the assigned agency staffing costs, there is an additional \$50,000 in RGS Administrative Support for accounting services, IT support and senior management of Agency staff.

RGS also provides Grant Management Services which are budgeted for separately and paid for by the Grants. Therefore, those costs are not included in this budget except for the cost of closing out the Proposition 1 grant which has to be paid by the Agency.

It should be noted that while the budget covers all staff costs, wherever possible staff costs are charged to grants, leading to a surplus at the end of the year, to the degree that grants reimburse staff costs since grants do not pay for 100% of staff costs.

Legal Services - \$60,000

The legal services budget for Agency General Counsel will continue to be capped at \$60,000 per the agreement with the County of Monterey. Thus far legal services have fallen well below budget projections however costs could increase at any time given the transition from GSP preparation to GSP implementation.

Grant Management Services - \$15,000

The grant management services budget pays for grant administration of the existing \$1.5 million Proposition 1 grant used to develop the 180-400 aquifer GSP. While the grant work is finished, there is extensive work required to close out the grant and obtain the \$150,000 retention amount held by DWR.

Agency Financing Plan Consultant - \$25,000

This fee is to pay for the annual GSA Fee update that is required to submit the fee annually to the Auditor-Controller for placement on the tax roll and to assist with any appeals that are filed.

The cost includes GIS work to join Assessor Parcel Numbers with the County GIS data and County's Small Water Systems Database, as well as accessing data from the Public Water Systems database from State Water Resources Control Board. Once the

database is prepared, cross referencing with existing databases is required to determine any changes that may have occurred.

Facilitation Services - \$20,000

This line item will be used to pay the Consensus Building Institute (CBI) or other organizations for facilitation services. It is expected that some level of facilitation services will still be required as the GSA continues work on the GSPs.

Grant Writing - \$20,000

The GSA has been very successful in obtaining grants to pay for facilitation services and GSP preparation services. The GSA will continue to look for grants in order to minimize the GSA fees that need to be paid by constituents. Thus far the agency has obtained the following grants:

- \$1.5MM Prop 1 Grant to prepare the 180-400 Foot Aquifer Basin GSP
- \$2.5MM Prop 68 Grant to prepare the remaining 5 subbasin GSPs
- \$535,000 Prop 68 Grant to work with ASGSA on that management area
- \$163,888 Prop 1 Grant through MCWD for Monterey Subbasin to work on the Corral de Tierra Groundwater Sustainability Planning
- \$250,000 Prop 68 Grant through MCWD for Monterey Subbasin to work on the Corral de Tierra Groundwater Sustainability Planning

In total the Agency has thus far been awarded \$5.1 million in Grants.

The Agency has also filed for a \$4,829,800 Prop 68 Implementation Grant for implementing the 180-400 GSP.

Lobbying - \$30,000

This line item pays for a contract for lobbying efforts at the State and Federal level at a rate of \$2,500 per month. State and federal stimulus and infrastructure bills are aligning well with the GSAs focuses.

Outside Specialty Legal Services - \$70,000

This line item is used to pay for outside legal services.

Communications Consultant - \$50,000

Staff is requesting a \$40,000 increase in this item to hire a consultant that will be able to operationalize an Agency-wide Communications Plan for the roll out of the GSPs and implementation efforts including annual reporting.

Modeling - \$50,000

In FY 2020-21 this line item is being used to develop the Langley Water Budget. The FY 21-22 appropriation is to pay for the Agency share of a cooperative agreement for regional modeling updates and applications with partner agencies.

Technology (GIS Data Management System) - \$40,000

Montgomery's scope of work for developing the GSP includes developing a data management system (DMS) that is capable of storing and reporting information relevant to the development or implementation of the GSP. The DMS is also required for submittal of data to the State of California Department of Water Resources (DWR) once DWR develops a suitable platform.

Montgomery has developed a DMS that includes a custom database for hydrologic data, such as well information, groundwater levels, and groundwater extraction. This is referred to as the HydroSQL database. Additionally, the DMS includes an EnviroData database for water quality data. The DMS is hosted on Montgomery's secure web platform and is currently used by Montgomery staff and its project partners to assist with the development of the GSP.

In the interest of transparency, the Agency is providing this wealth of information to the public by means of a Public Web Portal on the Agency's website. The public portal will include all data not covered by confidentiality agreements.

The cost to make the data available to the public is \$9,000 for the portal setup and training and \$29,000 for data updates and hosting over the course of the budget year. Staff considers this an important expenditure as the ability to make this information available to the public will increase our success in the planning efforts.

Records Management System - \$26,000

The Agency is in need of a records management system to follow best practices for records storage and management. A records management policy will be forthcoming to the Board in FY 21-22.

Financial Management System - \$26,870

The Agency needs to move to a fund accounting system that can accommodate multiple grants across various years. Grants will be a major focus for the Agency for GSP implementation. QuickBooks has served the agency well for the first few years, but it cannot handle fund accounting. Fund accounting is required for State and Federal grants and for future audits for the Agency.

The Agency is working with RGS to reduce this cost by utilizing a system that RGS will purchase which will be utilized by other agencies also, thus reducing the cost to the Agency.

All Other Accounts

All other accounts have minimal changes.

CASH FLOW RESERVES

This section is added here for discussion purposes so the Board can see how the Agency budget could be impacted by a cash flow reserve policy. A formal policy will be brought to the Board after the budget is approved.

The Agency needs to develop a formal reserve policy and a method for funding it for the following reasons:

- Six (6) month dry-period July through December when no GSA Fee revenue is collected but bills have to be paid.
- Grants are on a reimbursement method, so expenses have to be paid upfront and then submitted for reimbursement on a quarterly basis, which then takes about a quarter to receive reimbursement.
- Grants require match requirements.

As a back stop measure the Agency will prepare all the necessary paperwork for a Dry-Period loan from the County. This would be utilized only if absolutely necessary.

Operating Budget Reserve

A reserve for the annual operating budget can be calculated as follows:

Annual Budget	\$ 1,600,000		
6 months funding - minimum	\$ 800,000	covers July - December	
8 months funding - ideal goal	\$ 1,066,667	covers May - December	

Property tax distributions which include the GSA fee are made in December and April. The six-month period covers the start of the fiscal year through December. The May through December period covers the longest dry-period of the Agency.

Grants Budget Reserve

Since grant expenses are reimbursed after the fact, the Agency must have a sufficient cash flow reserve to pay for grant expenses in addition to ongoing operational expenses.

A reserve for grants budget cash flow can be calculated as follows:

Monthly Grant Expenses - based on historical amounts:				
Monthly Average	\$	135,000	average monthly expenses Jul - Dec	
Quarterly estimate	\$	405,000		
85% Grant Reimbursement	\$	344,250		
30 days to submit claim				
30 days for DWR review				
30 days for SCO to pay				
Must carry expenses for 6 months before being reimbursed.				
6 months funding		688,500		

Cash Flow Reserve Funding

The table below shows one possible option for funding a cash flow reserve over 5 years beginning with \$400,000 from available fund balance in the current year.

	Target	Year 1	Year 2	Year 3	Year 4	Year 5
		FY 20-21	21-22	22-23	23-24	24-25
Cash Flow Reserves for Operations	800,000	400,000	100,000	100,000	100,000	100,000
Cash Flow Reserves for Grants	688,500	-	172,125	172,125	172,125	172,125
	<u>1,488,500</u>	<u>400,000</u>	<u>272,125</u>	<u>272,125</u>	<u>272,125</u>	<u>272,125</u>

In the above scenario \$400,000 is used from the existing fund balance to begin funding the cash flow reserve with annual increases over the remaining 5 years. If sufficient savings is accomplished in any given year, that savings can be used to fund the reserve which would reduce the need to raise rates for the purpose of funding the reserve.

Fund Balance

On June 30, 2020 the Agency had a fund balance of \$882,015. If the proposed budget is adopted, the fund balance would change as follows:

\$882,015 available fund balance
 (400,000) allocated to cash flow reserve
(315,600) used to fund FY 21-22 operations to minimize GSA Fee rate increase
 \$166,415 remaining fund balance

CONCLUSION

The budget as presented funds all required operating expenditures with a minimal 5% increase due to the use of \$315,600 from existing fund balance.

Approval of this budget will allow the GSA to complete the 2022 GSPs and continue implementation of the 180/400-Aquifer GSP and complete required annual reporting.

Respectfully submitted,

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Senior Advisor