

Memorandum: Rationale and Methodology for FY 2027 Tier 2 Fee

1. Background and Regulatory Context

Under the Sustainable Groundwater Management Act (SGMA), the Salinas Valley Basin Groundwater Sustainability Agency (SVBGSA) is required, among other things, to implement Groundwater Sustainability Plans (GSPs) across six subbasins. To fund its activities, SGMA authorizes SVBGSA to impose regulatory fees. Water Code Section 10730 (a) provides:

A groundwater sustainability agency may impose fees, including, but not limited to, permit fees and fees on groundwater extraction or other regulated activity, to fund the costs of a groundwater sustainability program, including, but not limited to, preparation, adoption, and amendment of a groundwater sustainability plan, and investigations, inspections, compliance assistance, enforcement, and program administration, including a prudent reserve. A groundwater sustainability agency shall not impose a fee pursuant to this subdivision on a de minimis extractor unless the agency has regulated the users pursuant to this part.

Accordingly, SVBGSA has adopted a regulatory fee (Fee) that supports SVBGSA's governance, administration, operations, SGMA implementation activities, and is structured into two tiers:

- Tier 1: Basin-wide regulatory activities
- Tier 2: Subbasin-specific or targeted regulatory activities

Tier 1 Fee is designed to recover the cost of activities that are equally attributed to all SVBGSA constituents. This includes, but is not limited to, the Agency administration costs comprising supporting board and various public committees, financial administration (includes audit), legal services, communications, professional travel and conferences, supplies, regulatory fee support, lobbying, groundwater model updates, implementation actions that are applicable to all subbasins, compliance reporting and data expansion, data management system and web map hosting.

Tier 2 Fee is more targeted and are designed to recover the costs of particular activities that benefit, are required by, or are driven by, specific subbasins, user groups or areas.

2. Requirements of and Consistency with Proposition 26/Regulatory Fees

Under Proposition 26 and relevant law, regulatory fees must meet two criteria:

- 1) the aggregate amount of the fee must be no more than necessary to cover the reasonable costs of the activities (in other words, not levied for general revenue raising purposes), and

- 2) the manner in which the costs are allocated to a payor must bear a fair or reasonable relationship to the payor's burden on, or benefits received from, the funded activity, when measured on a collective basis and not individually.

As described below, the SVBGSA's FY 2027 Tier 2 Fee methodology is consistent with these legal requirements, because the costs are allocated in a manner that bears a fair or reasonable relationship to the burden or benefits on the payor, when measuring them on a collective basis.

As a threshold matter, the fees are directly tied to the cost of services provided. Fees are based on the actual cost – there is no excess revenue, and the total fees do not exceed the cost of the program. Moreover, the costs are fairly and reasonably allocated among the payors, when measuring the collective benefits and burdens. In short, the necessary costs are allocated using objective methodologies that reflect direct benefits, proportional uses or impacts, and/or relative reliance on implementation pathways.

3. Overview of Tier 2 Costs in FY 2027

Tier 2 costs are derived directly from the FY 2027 Work Plan and Budget and represent implementation-focused activities, including:

- Project development and feasibility advancement
- Demand management program development
- Seawater intrusion response
- Integrated Implementation Strategy (IIS) development and transition

As the Agency transitions from planning to implementation, Tier 2 costs represent a growing share of total expenditures, reflecting increased focus on subbasin-specific actions.

4. Allocation Principles

All Tier 2 costs are allocated using consistent, policy-based methodologies designed to meet Proposition 26 standards. These include:

- a) Direct Allocation (100%) - applied when an activity is clearly attributable to a single subbasin.
- b) Equal Allocation - used where multiple subbasins receive comparable benefit or jointly initiate an activity.
- c) Proportional Allocation - based on measurable drivers such as cropped acreage or groundwater use.
- d) Weighted Allocation - applied where subbasins differ in reliance on capital projects versus demand management, reflecting different cost drivers and implementation pathways.

These methodologies ensure that costs are tied to the beneficiaries and/or drivers of the activity.

5. Tier 2 Components and Methodology

The following summarizes the major FY 2027 Tier 2 components and their allocation rationale:

- a) Seawater Intrusion and Deep Aquifer Response (FY 2027 Work Plan Tasks 2.6, 52.6, 60.4)

Allocation: 100% to 180/400 Subbasin

Rationale: These activities directly address seawater intrusion in the critically overdrafted 180/400 Subbasin and do not provide basin-wide benefit.

- b) Stream Channel Improvements Planning (FY 2027 Work Plan Task 51.2)

Allocation: Equal among 180/400, Monterey, Forebay, and Upper Valley

Rationale: These subbasins interact with the Salinas River system and benefit comparably from the planning efforts for channel improvements.

- c) Agricultural Water Use Efficiency (FY 2027 Work Plan Task 52.7)

Allocation: Proportional to cropped acreage

Rationale: Benefits scale with agricultural groundwater use, which is closely tied to cropped acreage.

- d) Rural Residential Water Use Efficiency (FY 2027 Work Plan Task 52.8)

Allocation: Target spending in Langley, Monterey, and portions of 180/400 subbasins.

Rationale: Activities are focused on rural residential users located within these subbasins.

- e) Drought Planning (FY 2027 Work Plan Task 52.9)

Allocation: Equal between Forebay and Upper Valley

Rationale: These subbasins initiated and directly benefit from drought planning efforts.

- f) SMC TAC Support (FY 2027 Work Plan Tasks 58.1–58.3)

Allocation: Equal between Forebay and Upper Valley

Rationale: These subbasins formed and participate in technical advisory effort.

- g) BGRP Research and Pilot Projects (FY 2027 Work Plan Task 62.1)

Allocation: Primarily 180/400 with partial allocation (25%) to Eastside

Rationale: Driven by seawater intrusion mitigation needs, with emerging regional benefit to adjacent subbasins.

h) Integrated Implementation Strategy (FY 2027 Work Plan Tasks 64.5–64.10)

Allocation: Equal among 180/400, Eastside, Langley, and Monterey

Rationale: These subbasins are not currently meeting sustainability criteria and require coordinated evaluation of projects and management actions.

i) IIS Post-Process Implementation Transition (FY 2027 Work Plan Task 64.11)

Allocation: Nominal amount allocated equally between Langley and Monterey with the remaining \$400,000 allocated equally between 180/400 and Eastside.

Rationale: Reflects differences in implementation approach:

- 180/400 and Eastside: Greater reliance on capital-intensive projects
- Langley and Monterey: Greater reliance on demand management measures

6. Allocation of Executive Staff Costs to Tier 2

a) Background

Historically, all staff costs were allocated to Tier 1. At the April 2026 Board meeting, the Board directed staff to evaluate allocating a portion of staff costs to Tier 2.

b) Total Contract Staff Costs

FY 2027 total contract staff costs are \$1,639,929, including \$945,605 for Executive staff and \$694,324 for Administrative, Finance and Support staff.

c) Allocation Methodology

- Administrative, Finance, and Overhead remain in Tier 1
 - These functions provide general agency support and are not attributable to specific subbasin activities.
- Executive Staff Costs are allocated between Tier 1 and Tier 2 based on the distribution of FY 2027 programmatic expenditures.
 - A portion of Executive staff costs is retained in Tier 1 for basin-wide oversight.
 - The Tier 2 share (approximately one-third of Executive costs) is allocated among the subbasins in proportion to their share of Tier 2 activities.

d) Rationale

This approach reflects that Executive staff time is increasingly devoted to project and program development, integrated implementation strategy and stakeholder engagement tied to specific subbasins.

Allocating these costs to Tier 2 ensures that costs follow the work performed, and Subbasins driving or benefiting from implementation activities bear a proportional share of associated program management costs.

7. Summary

The FY 2027 Tier 2 Fee reflects a transition to implementation-focused groundwater management. The cost allocation methodologies:

- Align costs with subbasin-specific activities and beneficiaries
- Incorporate Board direction regarding staff cost allocation
- Apply consistent, defensible allocation methods
- Meet the substantive requirements of Proposition 26

This framework ensures that the Regulatory Fee remains equitable, transparent, and legally defensible as SVBGSA advances toward groundwater sustainability.

**Salinas Valley Basin GSA
FY 2027 Proposed Fees**

Rev 2026-05-14

	Fund 100 Valley	Fund 111 Eastside	Fund 112 Langley	Fund 113 Forebay	Fund 114 Monterey	Fund 115 180/400	Fund 116 Upper Valley	Total					
Balance 7/1/25	\$ 868,502	\$ 60,397	\$ 34,000	\$ 105,113	\$ 30,381	\$ 69,335	\$ 99,469	\$ 1,267,197					
FY 2026													
Revenue - Estimated	\$ 3,150,010	\$ 188	\$ 214	\$ 52	\$ 170	\$ 1,509	\$ 824	\$ 3,152,967					
Expenses - Estimated	\$ (2,674,687)	\$ -	\$ -	\$ (40,000)	\$ (500)	\$ (20,000)	\$ (45,000)	\$ (2,780,187)					
Transfers to Reserve/Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -					
Balance 7/1/26 - Projected	\$ 1,343,825	\$ 60,584	\$ 34,215	\$ 65,166	\$ 30,050	\$ 50,845	\$ 55,293	\$ 1,639,978					
FY 2027													
Revenue	TBD	TBD	TBD	TBD	TBD	TBD	TBD	\$ -					
Expenses: Tier 1	\$ (3,309,429)							\$ (3,309,429)					
Contract Staff Executive (CSE)	\$ 945,605							\$ 945,605					
Tier 1 Less Contract Staff Executive	\$ (2,363,824)							\$ (2,363,824)					
% Share CSE	66.9%	7.0%	1.6%	1.9%	1.7%	18.9%	1.9%	100.0%					
Tier1/Tier 2 Share CSE	\$ (632,528)	\$ (66,659)	\$ (14,815)	\$ (18,055)	\$ (16,425)	\$ (179,069)	\$ (18,054)	\$ (945,605)					
Expenses: Tier 2		\$ (249,110)	\$ (55,364)	\$ (67,473)	\$ (61,382)	\$ (669,199)	\$ (67,471)	\$ (1,170,000)					
<i>Task Description</i>	<i>Task #</i>												
Contract Staff Executive (share)		\$ (313,077)	\$ (66,659)	\$ (14,815)	\$ (18,055)	\$ (16,425)	\$ (179,069)	\$ (313,077)					
Shallow Mon Wells Inst	2.6	\$ (15,000)				\$ (15,000)		\$ (15,000)					
Stream Channel Imprv	51.2	\$ (25,000)			\$ (6,250)	\$ (6,250)	\$ (6,250)	\$ (25,000)					
DM Allocations	52.6	\$ (215,000)				\$ (215,000)		\$ (215,000)					
DM WUE Ag	52.7	\$ (40,000)	\$ (6,610)	\$ (364)	\$ (11,223)	\$ (132)	\$ (10,449)	\$ (40,000)					
DM WUE Residential	52.8	\$ (35,000)		\$ (15,000)	\$ (15,000)	\$ (5,000)		\$ (35,000)					
DM Drought Planning	52.9	\$ (75,000)			\$ (37,500)		\$ (37,500)	\$ (75,000)					
SMC TAC	58.1-3	\$ (25,000)			\$ (12,500)		\$ (12,500)	\$ (25,000)					
DA SW Intrusion RP	60.4	\$ (150,000)				\$ (150,000)		\$ (150,000)					
BGRP Research, Pilot etc	62.1	\$ (50,000)				\$ (37,500)		\$ (50,000)					
IIS Process	64.5-10	\$ (120,000)		\$ (30,000)	\$ (30,000)	\$ (30,000)		\$ (120,000)					
IIS Post Process	64.11	\$ (420,000)		\$ (10,000)	\$ (10,000)	\$ (200,000)		\$ (420,000)					
Transfers to/from Reserve/Balance	\$ 400,000	\$ (66,189)	\$ 45,000	\$ 20,000	\$ 45,000	\$ 15,000	\$ 35,000	\$ 133,811					
Balance 7/1/27 - Estimated	\$ 943,825	\$ 1,410,014	\$ 15,584	\$ 14,215	\$ 20,166	\$ 15,050	\$ 15,293	\$ 1,506,166					
Revenue Requirement	\$ (2,596,352)	\$ (3,062,541)	\$ (270,769)	\$ (50,179)	\$ (40,528)	\$ (62,807)	\$ (813,268)	\$ (4,345,618)					
Tier 1													
Agriculture Fee Basis	90%	\$ 2,838,975											
Domestic Fee Basis	10%	\$ 324,629											
Cropped Acres		207,016											
Connections		55,011											
Tier 1 Fee Agriculture	\$11.63	\$13.71											
Tier 1 Fee Domestic	\$5.00	\$5.90											
Tier 2													
Agriculture Fee Basis		83%	\$ 231,480	5%	\$ 2,584	95%	\$ 39,657	27%	\$ 17,467	90%	\$ 753,899	98%	\$ 45,953
Domestic Fee Basis		17%	\$ 48,793	95%	\$ 50,530	5%	\$ 2,148	73%	\$ 48,600	10%	\$ 86,206	2%	\$ 965
Cropped Acres (FY 2026 appeals deducted)		207,016	34,210	1,886	58,086	684	54,077	58,073					
Connections		55,011	22,003	3,208	9,639	2,883	13,614	3,664					
Tier 2 Fee Agriculture	\$6.77	\$6.77	\$1.37	\$1.37	\$0.68	\$0.68	\$25.54	\$25.54	\$13.94	\$13.94	\$0.79	\$0.79	
Tier 2 Fee Domestic	\$2.22	\$2.22	\$15.75	\$15.75	\$0.22	\$0.22	\$16.86	\$16.86	\$6.33	\$6.33	\$0.26	\$0.26	
Total Fee FY 2027													
Agriculture (per acre)	\$18.39	\$20.48	\$13.00	\$15.08	\$12.31	\$14.40	\$37.16	\$39.25	\$25.57	\$27.66	\$12.42	\$14.51	
Domestic (per connection)	\$7.22	\$8.12	\$20.75	\$21.65	\$5.23	\$6.12	\$21.86	\$22.76	\$11.34	\$12.23	\$5.27	\$6.16	
Total Fee FY 2026													
Agriculture (per acre)		\$13.83	\$13.83	\$13.83	\$13.83	\$13.83	\$13.83	\$13.83					
Domestic (per connection)		\$5.32	\$5.32	\$5.32	\$5.32	\$5.32	\$5.32	\$5.32					

Do not use reserves to offset FY 2027 expenses

Use reserves (surplus from FY 2026) to offset FY 2027 expenses

* Includes an allowance of 3% for uncollectable revenue (bad debt) and land use changes
 ** Includes an allowance of 6% for uncollectable revenue (bad debt) and land use changes