

**ENGINEER'S REPORT
FOR THE NORTH FORK KINGS
GROUNDWATER SUSTAINABILITY AGENCY**

**PROPOSITION 218 PROCEDURES FOR
BENEFIT ASSESSMENTS**

JANUARY 2018

Prepared for:

North Fork Kings GSA

Prepared by:

Provost & Pritchard Consulting Group
Fresno, California



DATE SIGNED: 1-15-2018

TABLE OF CONTENTS

REPORT SUMMARY	1
1. PURPOSE OF THE REPORT	1
1.1. General	1
1.2. Sustainable Groundwater Management Act.....	1
1.3. Agency's Authority to Levy Assessments.....	2
1.4. State Intervention Alternative	2
1.5. Proposition 218 Requirements	3
1.6. Limitations of the Engineers Report & Revenue Objectives	4
2. AGENCY BACKGROUND INFORMATION	4
2.1. Location.....	4
2.2. History.....	6
2.3. Water Supply.....	7
2.3.1. Surface Water.....	7
2.3.2. Groundwater.....	8
3. AGENCY FINANCIAL INFORMATION	8
3.1. Programs/Projects.....	8
3.1.1. Prior Expenditures and Current Budget.....	9
3.1.2. Annual Administration, GSP Development and Implementation.....	10
4. BENEFITS DETERMINATION	12
4.1. General	12
4.2. Determination of Benefits.....	13
4.2.1. Benefit of the Agency's Formation and Annual Operations	13
4.2.2. Benefits of the Groundwater Sustainability Plan Development.....	14
4.2.3. GSP Implementation.....	14
4.2.4. No Agency/GSA Alternative.....	15
5. PROPOSAL TO LEVY ASSESSMENTS	15
5.1. General	15
5.2. Proposed Budget Funding.....	15
5.2.1. Assessment Roll.....	16
5.3. Conclusion	17
6. IMPLEMENTATION PROCEDURES	17
7. REFERENCES.....	18

LIST OF FIGURES

Figure 1. Agency Location Map.....	5
Figure 2. Kings Subbasin Groundwater Sustainability Agencies.....	6

LIST OF TABLES

Table 3-1. Prior Expenditures and Current Budget.....	10
Table 3-2. Projected 5-Year Annual Budget.....	12
Table 4-1. Assessable Acres.....	13
Table 5-1. Proposed 5-Year Budget Summary	16
Table 5-2. Proposed 5-Year Assessment Schedule.....	16

APPENDICES

- Attachment A – Senate Bill No. 564 establishing the NFKGSA
- Attachment B – Senate Bill No. 205 cleanup legislation
- Attachment C – State Intervention Fee Structure
- Attachment D – North Fork Kings GSA 2017 Assessment Roll – Fresno County
- Attachment E – North Fork Kings GSA 2017 Assessment Roll – Kings County

ACRONYMS

- AF..... acre-feet
- Agency North Fork Kings Groundwater Sustainability Agency
- Basin Kings Subbasin of the San Joaquin Valley Groundwater Basin
- CASGEM..... California State Groundwater Elevation Monitoring
- County.....County of Fresno and County of Kings
- DWR California Department of Water Resources
- GSA.....Groundwater Sustainability Agency
- GSP..... Groundwater Sustainability Plan
- KRCD Kings River Conservation District
- KRWA Kings River Water Association
- NFKGSA North Fork Kings Groundwater Sustainability Agency
- SGMA..... Sustainable Groundwater Management Act
- SWRCB..... State Water Resources Control Board

REPORT SUMMARY

The North Fork Kings Groundwater Sustainability Agency (NFKGSA or 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 the Kings Subbasin (Subbasin) underlying the Agency. The newly formed Agency needs to implement an assessment rate structure that is sufficient to fund Agency operations and required activities pursuant to SGMA. The NFKGSA will develop, in coordination with other GSAs in the Kings Subbasin, a GSP that provides for achieving groundwater sustainability in the Kings Subbasin of the San Joaquin Valley Groundwater Basin underlying the Agency by January 2040. SGMA requires that a GSP be submitted to the California Department of Water Resources (DWR) by January 31, 2020 since the Kings Subbasin is considered a high priority, critically overdrafted subbasin.

Based on the Agency's needs, the NFKGSA 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. The annual operational costs have already begun and are used to fund Agency operations and activities required by SGMA, including retaining consulting firms and legal counsel to provide Agency oversight and lead the Agency through the steps for SGMA compliance. Expenses consist of administrative support, GSP development, and GSP implementation, with GSP development occurring over the next several years and GSA administration and GSP implementation anticipated to be on-going expenses. The administrative annual expenses include an assumed annual 3% inflation factor. The assessments are planned to apply equally to all assessable lands within the Agency's boundaries. The Assessment Roll provided in **Attachment D** identifies the acreage for each assessable parcel according to the 2017 tax rolls of Fresno County and **Attachment E** identifies the acreage for each assessable parcel according to the 2017 tax rolls of Kings County. The following table provides an example schedule of the proposed assessments during the next five years that are the subject of this Proposition 218 Engineer's Report. The actual assessment rate will be set annually by the Board, based on the budget needs, but will not exceed the proposed maximum rate. Assessments will continue beyond Fiscal Year 2022-23, but at this time the assessment rate after this initial five-year period is unknown because the GSP Implementation costs will not be fully determined until the GSP is developed. The projects that will be proposed as part of the GSP implementation to attain sustainability and maintain the threshold levels established in the GSP will likely require supplemental funding and assessments greater than the maximum assessments recommended in this report, and approval by the landowners in a future Proposition 218 election will be required.

Table RS-1. Proposed 5-Year Assessment Schedule

Category	FY ^a 2018-2019	FY ^a 2019-2020	FY ^a 2020-2021	FY ^a 2021-2022	FY ^a 2022-2023	TOTAL
GSA Administration	\$ 0.52	\$ 0.53	\$ 0.55	\$ 0.54	\$ 0.55	\$ 2.69
Professional Services	\$ 2.06	\$ 0.80	\$ 0.32	\$ 0.33	\$ 0.34	\$ 3.85
~10% Contingency/Reserve	\$ 0.26	\$ 0.13	\$ 0.09	\$ 0.09	\$ 0.09	\$ 0.65
Reimbursement to Member Agencies	\$ 1.62	\$ 1.62	\$ -	\$ -	\$ -	\$ 3.24
Enterprise Fund for GSP Implementation	\$ 5.54	\$ 6.91	\$ 9.04	\$ 9.05	\$ 9.02	\$ 39.56
Total Proposed Assessment (\$/acre^c)	\$ 10.00	\$ 50.00				

Notes: a Fiscal Year (FY) is July 1 - June 30

c NFKGSA Assessable Acres = 163,653.7

The Agency is requesting landowner approval to levy assessments up to the maximum amount shown in the table above, specifically \$10.00/acre for all parcels. 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 NFKGSA 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 anticipated increases in operating costs and fund 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 establish or increase assessments, it is necessary to evaluate whether or not the maximum assessments are in line with the benefits provided by the Agency and to allocate the assessments to affected NFKGSA lands. These are lands that derive a direct special benefit from being within the Agency. This Engineer's Report discusses benefits of the Agency's organization, proposed actions, and services provided by NFKGSA.

Following the acceptance of this Engineer's Report by the Board of Directors of the NFKGSA, the Board of Directors will hold a public hearing at which all landowners affected by 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 and the election results will be certified.

1. PURPOSE OF THE REPORT

1.1. General

This Engineer's Report is prepared in accordance with State law to describe an equitable distribution of the benefit assessments to be derived by each parcel within the Agency upon which such assessments will be levied. The proposal is for the Agency to collect revenue in the form of land-based 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 activities of a GSA and otherwise comply with the SGMA legislation, and (iii) to fund the preparation and implementation of a GSP.

1.2. Sustainable Groundwater Management Act

On September 16, 2014, the Governor of California signed into law a three-bill legislative package (Senate Bill 1168, Assembly Bill 1739 and Assembly Bill 1319) that provided a framework for statewide sustainable groundwater management. These laws are collectively known as the Sustainable Groundwater Management Act (SGMA). SGMA defines sustainable groundwater management as the "management and use of groundwater in a manner that can be maintained during the planning and implementation horizon without causing undesirable results." "Undesirable results" are defined in SGMA as any of six primary effects caused by groundwater conditions occurring throughout the basin:

-  Chronic lowering of groundwater levels indicating a significant and unreasonable depletion of supply
-  Significant and unreasonable reduction of groundwater storage
-  Significant and unreasonable seawater intrusion
-  Significant and unreasonable degraded water quality
-  Significant and unreasonable land subsidence
-  Depletions of interconnected surface water that have significant and unreasonable adverse impacts on beneficial uses of the surface water

These potential undesirable results are the focus of SGMA and must be addressed in Groundwater Sustainability Plans (GSP) prepared by Groundwater Sustainability Agencies (GSA). GSPs will need to focus on assessing, monitoring, and mitigating undesirable results from groundwater use. Some of these undesirable results, such as sea water intrusion, are not applicable to the NFKGSA area, while others, such as lowering of groundwater levels and reduction in groundwater storage are significant issues and will need to be addressed and corrected. Each of these undesirable results will need to be investigated and prioritized as part of the GSP development. The GSP will need to include measurable goals and objectives and implementation actions to

achieve and maintain groundwater basin sustainability. SGMA requires the development and implementation of GSPs that document the proposed plan and programs for achieving groundwater basin sustainability within a prescribed 20-year window. During the GSP implementation phase, GSAs are required to adopt programs to facilitate measures outlined in the GSP, update the GSP every 5 years, and provide DWR with annual updates on the progress of achieving sustainability.

1.3. Agency's Authority to Levy Assessments

The North Fork Kings Groundwater Sustainability Agency (NFKGSA) was created by Special Act Legislation via Senate Bill No. 564 and approved by Governor Brown on September 16, 2016. SB 564 established the agency to be a Groundwater Sustainability Agency (GSA) under the Sustainable Groundwater Management Act (SGMA) for that portion of the Kings Subbasin that lies within the boundaries of the Agency and requires the Agency to develop and implement a Groundwater Sustainability Plan (GSP) to achieve sustainable groundwater management within the territory of the Agency in compliance with SGMA. There are a number of scattered small public and private water entities in the territory of the Agency that do not have staff or resources to otherwise form a groundwater sustainability agency, and these entities agreed the territory is best served by a single dedicated agency to manage the groundwater resources. The NFKGSA has been deemed the exclusive local agency with powers to comply with SGMA. The NFKGSA enabling act provides in Water Code Appendix Section 143-801, that pursuant to Chapter 8 of Part 2.74 of Division 6 of the Water Code, commonly known as SGMA, the 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.

A copy of Senate Bill No. 564 establishing the NFKGSA is included as **Attachment A**. Subsequent clean-up legislation (Senate Bill No. 205) was signed on September 30, 2017 that corrected, among other things, a mistake in Senate Bill No. 564. The portion of Senate Bill No. 205 that is applicable to the NFKGSA is included as **Attachment B**.

Pursuant to Chapter 8 (commencing with Section 10730) of Part 2.74 of Division 6 of the Water Code, a GSA 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 GSP, and investigations, inspections, compliance assistance, enforcement, and program administration, including a prudent reserve.

1.4. State Intervention Alternative

If local GSAs are unable or unwilling to sustainably manage their groundwater basin, the State Water Resources Control Board (SWRCB) can step in to protect the groundwater resources using a process called state intervention. The SWRCB is responsible for setting and collecting fees to recover the costs associated with state intervention and has established a fee structure as shown in **Attachment C**. The

SWRCB fee schedule, if applied to the NFKGSA area, would cost overlying users of groundwater significantly more than current estimates under the local control option.

As explained in **Attachment C**, the SWRCB can and will intervene and implement the requirements of the SGMA legislation in the Kings Subbasin (as well as other areas of the State) if locals are unable or unwilling to comply with the law. In such a case, the Subbasin would be considered a “Probationary Basin” by the SWRCB and directly charge the intervention fees to each groundwater extractor (landowner). The SWRCB fees would be as follows:

- Base Filing Fee: \$300 per well, plus \$40 per acre-foot (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 \$300 (filing fee) plus \$4,800 (3.0 AF/acre x 40 acre x \$40/AF) for a total of \$5,100 per year. If the SWRCB determined the Basin needed an Interim Plan, the annual cost would go to \$6,900. Over the next five years, the 40-acre landowner would pay \$25,500 to \$34,500 based on SWRCB designation, without achieving the benefit of any project development to help comply with SGMA.

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 per year (40 acres x \$10/AF) and \$2,000 over a five-year period, plus an undetermined groundwater pumping charge, if any. From a cost standpoint, as well as a regulation standpoint, the desire is to prevent state intervention. As such, the purpose of the NFKGSA is to fully comply with SGMA on behalf of its landowners to avoid state intervention

1.5. 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 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. There are two processes for approval of revenue generation under Proposition 218 – Section 4 is for land-based assessments (per acre charge) and Section 6 is for fees or charges on a unit basis (volumetric charge or extraction fee). For this initial 5-year budget, the NFKGSA Board of Directors approved levying a special benefit assessment under Section 4 of Proposition 218 for preparation of a GSP and to initially fund administration of the GSA.

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.

1.6. 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 over the next five (5) years.

2. AGENCY BACKGROUND INFORMATION

2.1. Location

The Agency is located in the central San Joaquin Valley and encompasses a total area of approximately 168,366 acres within Fresno and Kings County. The location of the Agency is shown in **Figure 1**. The Agency is located within the Kings Subbasin of the San Joaquin Valley Groundwater Basin of the Tulare Lake Hydrologic Region (5-22.08) as defined in DWR Bulletin No. 118.

The territory of the Agency includes vast areas of some of the nation's top farm producing lands and places that have been designated by the State of California as disadvantaged communities disproportionately impacted by air quality and socioeconomic burdens. The boundaries of the NFKGSA, which is located in Fresno County and Kings County, includes the following members:

- Fresno County non-districted lands
- Clark's Fork Reclamation District
- Laguna Irrigation District
- Upper San Jose Water Company
- Laton Community Services District
- Riverdale Public Utility District
- Lanare Community Services District
- Crescent Canal Company

- Stinson Canal and Irrigation Company
- Riverdale Irrigation District
- Reed Ditch Company
- Liberty Mill Race Company
- Burrel Ditch Company
- Liberty Water District
- Liberty Canal Company

In addition to the NFKGSA, there are six other GSAs that collectively will manage groundwater within the Kings Subbasin as shown in **Figure 2**. At this time, each GSA has indicated they will prepare their own GSP and work cooperatively together to achieve SGMA compliance in the Kings Subbasin, which has been designated by DWR as a “high-priority” groundwater basin. SGMA requires high-priority subbasins such as the Kings Subbasin to submit GSPs by January 31, 2020. As required by SGMA, the NFKGSA will be responsible for coordinating with the other GSAs in the Kings Subbasin to achieve sustainability at the subbasin level. Collectively the GSAs, through implementation of the GSPs, must achieve the sustainability goal for the entire Kings Subbasin within 20 years of implementation (by 2040) without adversely affecting the ability of adjacent basins to implement their respective GSPs or achieve their respective sustainability goals.

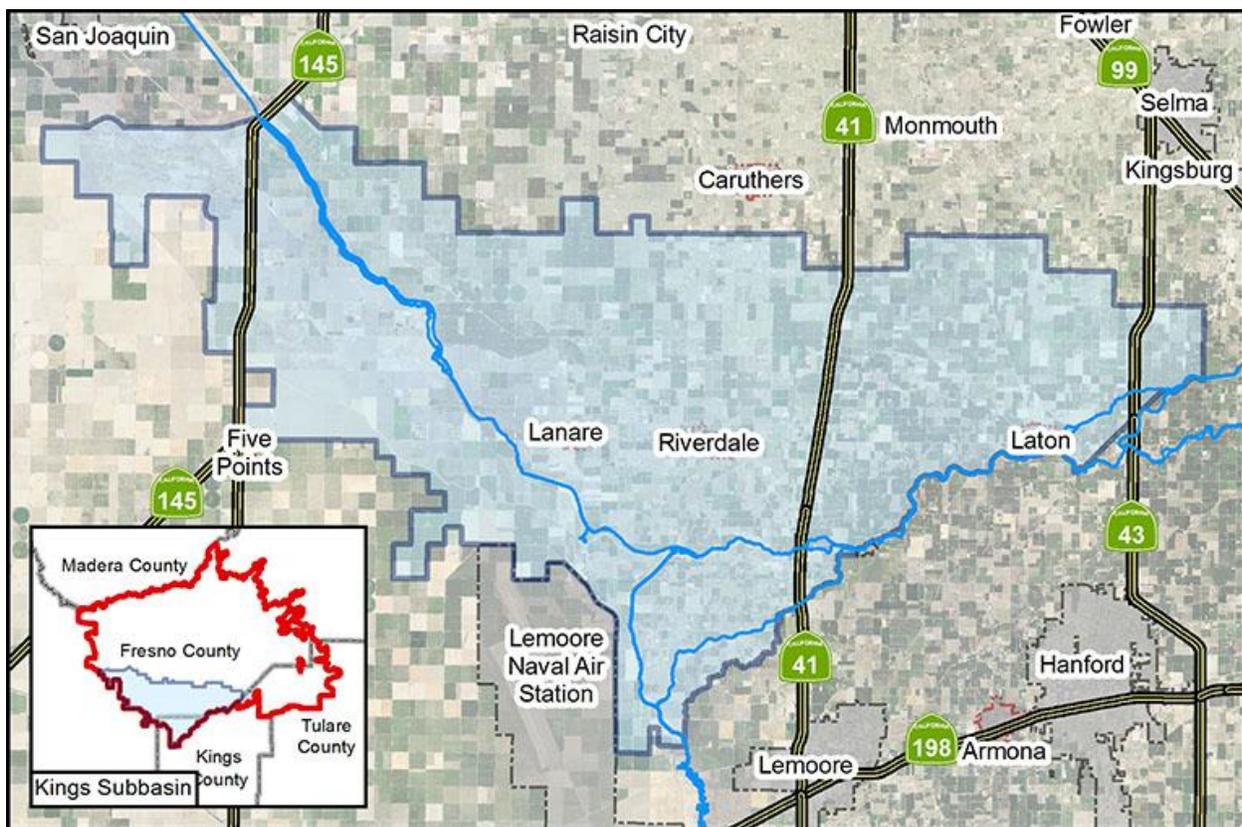


Figure 1. Agency Location Map

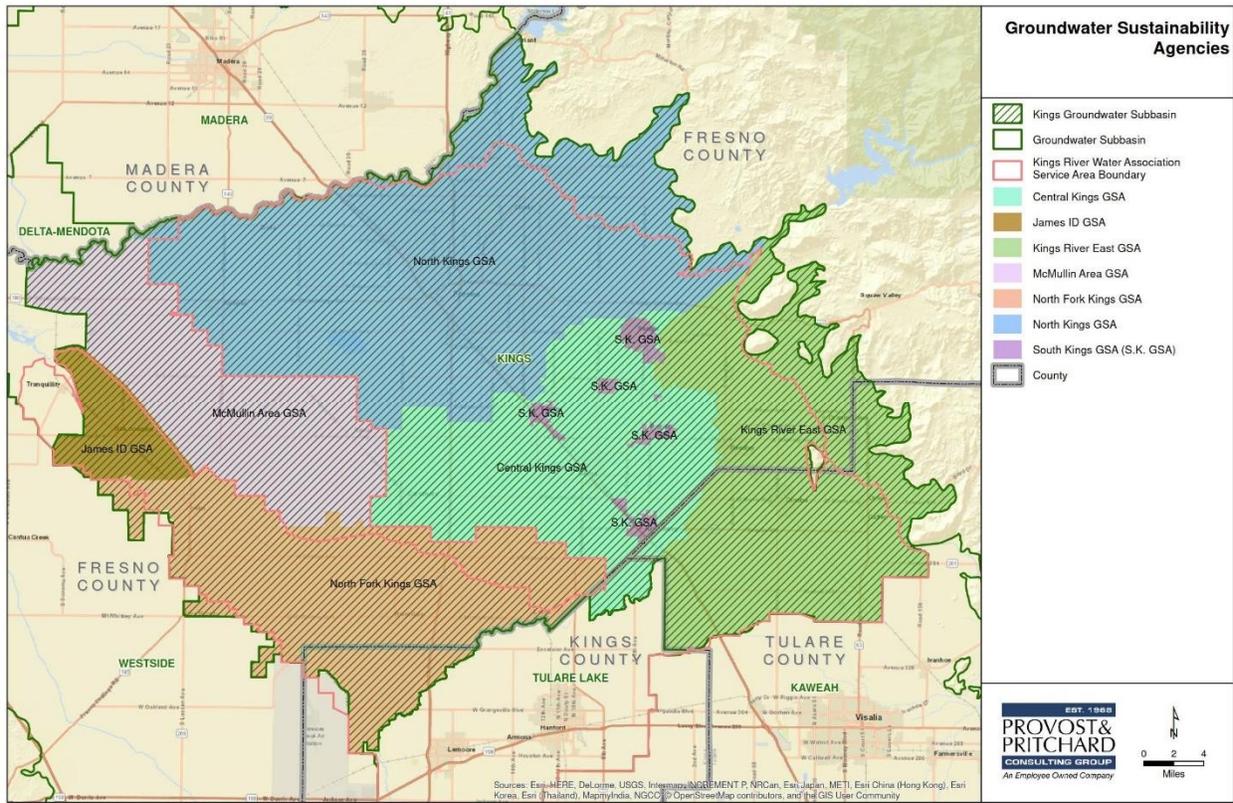


Figure 2. Kings Subbasin Groundwater Sustainability Agencies

2.2. 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 all or a portion of the Kings Subbasin.

While the NFKGSA is a relatively new organization, management of the groundwater resources within the territory of the Agency and surrounding lands has been occurring for many years by member agencies along with the stewardship of the Kings River Conservation District (KRCD). KRCD has been involved in a variety of cooperative efforts to preserve the area's water resources. For many years KRCD has participated in recharge groups and monitoring of three SB 1938 groundwater management areas. In 2005, KRCD developed the Lower Kings Basin Groundwater Management Plan (SB 1938) which has guided groundwater monitoring of these management areas, which includes the NFKGSA area. As part of one of the reporting elements within the Lower Kings Basin Plan, KRCD has published semi-annual groundwater reports detailing

groundwater conditions changes since 2003-04. Other groundwater reports for the area have been developed under AB 3030 groundwater management plans.

KRCD also serves as the designated Monitoring Entity for the Kings and Tulare Lake groundwater subbasins under the California Statewide Groundwater Monitoring Program (CASGEM) and concurrently participates in, and assists with the administration of, groundwater sustainability agencies newly formed under SGMA, including the NFKGSA.

KRCD has participated with local agencies from western Fresno and Kings counties in the North Fork Conjunctive Management Project Group to monitor potential projects and studies that can provide further benefits for the area's water supply. Members of this group include Murphy Slough Association, Crescent Canal Company, Stinson Canal and Irrigation Company, Burrel Ditch Company, Liberty Canal Company, Laguna Irrigation District, and California Department of Water Resources. Information developed from these programs will be utilized in development of the GSP.

Many of the NFKGSA members are either Members or Interested Parties of the Kings Basin Water Authority, which has prepared an Integrated Regional Water Management Plan (IRWMP) for the Kings Basin. The IRWMP defines problems and issues; regional goals and objectives; water management strategies; and projects to enhance the beneficial uses of water for the Kings Basin Region. Now in its second edition, the current IRWMP is the outcome of a more than two-year collaborative planning process that included a Disadvantaged Community (DAC) pilot study, extensive stakeholder involvement and numerous meetings among various work groups and participants. The plan document was originally adopted by the Kings Basin Water Authority Board of Directors in 2007 and is periodically updated, with the most recent updated plan document adopted on October 17, 2012. The plan is currently undergoing an update that will be presented in 2018. The IRWMP includes a combination of projects to improve the way water is managed for the future. These projects have been proposed as partnerships between member irrigation districts, cities, counties and environmental organizations, which is important because the agricultural users and urban entities need to work together to ensure compatibility and consistency between the prevailing land use and water supply plans for the area. The vision of the Authority is a sustainable supply of the Kings River Basin's finite surface and groundwater resources through regional planning that is balanced and beneficial for environmental stewardship, overall quality of life, a sustainable economy and adequate resources for future generations. The Kings Basin Water Authority's IRWMP Region consists of the geographic areas under the jurisdiction of the Water Authority members and includes the majority of the Kings Groundwater Subbasin, including the NFKGSA area.

2.3. Water Supply

2.3.1. Surface Water

The majority of the Agency members are member units of the Kings River Water Association (KRWA) and have surface water supplies from the Kings River, which vary

each year depending on hydrologic conditions. Approximately 22% of the NFKGSA area is outside of the KRWA service area and does not have access to surface water.

2.3.2. Groundwater

A significant amount of groundwater is pumped within the NFKGSA area on an annual basis to meet municipal, domestic, and agricultural water needs. Municipal and domestic water supply needs in the area are all met with groundwater, as surface water supplies are not reliable enough to meet municipal or domestic needs within the NFKGSA area. Surface water supplies for those agricultural entities within the NFKGSA area that have surface water are generally not sufficient to meet all agricultural needs in most years and landowners rely upon groundwater to supplement the limited surface water supplies. Agricultural water users within the NFKGSA area that do not have a surface water supply must rely upon groundwater to meet the entire agronomic water demand.

The Agency overlies a portion of the Kings Subbasin of the San Joaquin Valley Groundwater Basin as defined by DWR Bulletin No. 118. The Kings Subbasin is currently deemed critically overdrafted and according to SGMA mapping, is a high priority basin in California. Similarly, the NFKGSA area is in a state of groundwater overdraft, meaning that groundwater levels are declining, and obtaining a state of groundwater sustainability will be the emphasis of the GSP.

3. AGENCY FINANCIAL INFORMATION

The NFKGSA is a relatively new organization and has obtained funding for administrative activities from inception to date through voluntary contributions from member agencies administered by KRCD. As discussed above, the primary purpose of the Agency is to organize and represent the landowners for the purposes of SGMA. With the establishment of the Agency there are administrative activities that have occurred and 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 a GSP for the NFKGSA. The Agency also plans to coordinate with surrounding GSPs to insure consistency among the plans. The technical report evaluations and GSP development are discrete activities and primarily occur over the next two years, with implementation of the GSP 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. Programs/Projects

Under this proposal, the Agency is seeking approval of an assessment structure to fund its annual administrative operating costs, refund member agencies for prior voluntary contributions, and to develop and implement a GSP to comply with SGMA. GSP Implementation will include groundwater monitoring and development of programs and

projects to attain groundwater sustainability. 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 and initial implementation 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 is up to the Board of Directors to set the assessment rate for any particular year. If the projected annual fiscal year budget is less than the maximum rate, the Board could set a rate lower than the approved maximum assessment rate. The Agency's fiscal year is July 1 through June 30.

Sections 3.1.1 and 3.1.2 show the estimated costs for the next 5-year period, 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. The Board may also choose to establish an Enterprise Fund for implementation of the GSP, including costs associated with groundwater monitoring activities and initial project development. **It will be up to the Board of Directors to set the annual assessment rate and the Board may choose to set the annual 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. Prior Expenditures and Current Budget

Table 3-1 lists the Agency's pre-formation and formation costs (start-up), along with the current fiscal year budget which includes an estimate of the costs associated with conducting a Proposition 218 election. These prior expenditures and the current budget are being funded by voluntary contributions from member agencies that will be refunded as part of the Proposition 218 assessment to achieve equitable distribution of costs to all benefitting landowners.

Table 3-1. Prior Expenditures and Current Budget

Category	Prior to 6/30/17	FY ^a 2017-2018
GSA Administration		
KRCD Staffing / Public Outreach		\$ 69,000
Office Supplies / Postage / Outreach Materials		\$ 6,000
Insurance		\$ 2,000
Annual Audit		\$ -
Miscellaneous Overhead		\$ 1,500
Start-up Costs	\$ 188,628	
SUBTOTAL	\$ 188,628	\$ 78,500
Professional Services		
Project Management		\$ 20,000
Funding Mechanism Assessment		\$ 8,000
Prop 218 Engineer's Report/Elections		\$ 30,000
Groundwater Sustainability Plan Preparation ^b		\$ 150,000
Legal, Litigation Reserve		\$ 25,000
Lobbyist		\$ 3,000
Grant Writing		\$ 7,000
SUBTOTAL	\$ -	\$ 243,000
~10% Contingency/Reserve		\$ 19,296
Total Estimated GSA Administration & Professional Services Cost	\$ 188,628	\$ 340,796

Notes: a Fiscal Year (FY) is July 1 - June 30

b GSP Preparation includes Inter-Basin and Intra-Basin Coordination

3.1.2. Annual Administration, GSP Development and Implementation

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. KRCD has been retained as the administrative agent to be responsible for administrative 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;
3. Perform educational and outreach activities; and
4. Coordinate the annual collection and maintenance of 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.

The SGMA legislation requires groundwater basins deemed to be in critical overdraft and designated as high priority to have a GSP submitted by January 31, 2020. Implementation of the GSP will occur now and into the future to bring the Subbasin into a sustainable condition by 2040.

For the GSP development, some of the NFKGSA costs shown in Table 3-2 may be reduced due to the participation of other entities and/or grant funding. However, at this

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

In addition to the initial GSP preparation costs, funding is provided for future years for the establishment of an Enterprise Fund for GSP implementation and revisions to the GSP and required reporting to DWR. The Enterprise Fund will be used for activities such as groundwater management and project development to help achieve groundwater sustainability to the benefit of all landowners. Also, DWR has up to two years to review the GSP after it is submitted and may seek revisions of the GSP 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.

Since the Agency is newly formed and has not previously 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 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 3-2 assume that the assessments shown will be collected and used in the fiscal years shown, enabling the Agency to meet SGMA obligations during the period indicated. If a higher assessment rate is necessary to meet the Agency's SGMA obligations as a result of project development during implementation, the Board will again have to comply with the Proposition 218 process to increase assessments. These revenues, if approved, are anticipated to be levied in the fall of 2018 and payable with County taxes in December 2018 and April 2019 and each subsequent December and April.

Table 3-2 lists the estimated annual budget for the on-going administration of the Agency, GSP development and GSP implementation through the establishment of an Enterprise Fund. The administrative budget items are escalated 3% each year to account for inflation.

Table 3-2. Projected 5-Year Annual Budget

Category	Prior to 6/30/17	FY ^a 2017-2018	FY ^a 2018-2019	FY ^a 2019-2020	FY ^a 2020-2021	FY ^a 2021-2022	FY ^a 2022-2023	TOTAL
GSA Administration								
KRCD Staffing / Public Outreach		\$ 69,000	\$ 71,100	\$ 73,200	\$ 75,400	\$ 77,700	\$ 80,000	\$ 377,400
Office Supplies / Postage / Outreach Materials		\$ 6,000	\$ 6,200	\$ 6,400	\$ 6,600	\$ 2,000	\$ 2,100	\$ 23,300
Insurance		\$ 2,000	\$ 2,100	\$ 2,200	\$ 2,300	\$ 2,400	\$ 2,500	\$ 11,500
Annual Audit		\$ -	\$ 4,000	\$ 4,100	\$ 4,200	\$ 4,300	\$ 4,400	\$ 21,000
Miscellaneous Overhead		\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 7,500
Start-up Costs	\$ 188,628		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SUBTOTAL	\$ 188,628	\$ 78,500	\$ 84,900	\$ 87,400	\$ 90,000	\$ 87,900	\$ 90,500	\$ 440,700
Professional Services								
Project Management		\$ 20,000	\$ 20,600	\$ 21,200	\$ 21,800	\$ 22,500	\$ 23,200	\$ 109,300
Funding Mechanism Assessment		\$ 8,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Prop 218 Engineer's Report/Elections		\$ 30,000	\$ 2,000	\$ -	\$ -	\$ -	\$ -	\$ 2,000
Groundwater Sustainability Plan Preparation ^b		\$ 150,000	\$ 285,770	\$ 80,000	\$ -	\$ -	\$ -	\$ 365,770
Legal, Litigation Reserve		\$ 25,000	\$ 25,800	\$ 26,600	\$ 27,400	\$ 28,200	\$ 29,000	\$ 137,000
Lobbyist		\$ 3,000	\$ 3,100	\$ 3,200	\$ 3,300	\$ 3,400	\$ 3,500	\$ 16,500
Grant Writing		\$ 7,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SUBTOTAL	\$ -	\$ 243,000	\$ 337,270	\$ 131,000	\$ 52,500	\$ 54,100	\$ 55,700	\$ 630,570
~10% Contingency/Reserve		\$ 19,296	\$ 42,220	\$ 21,840	\$ 14,250	\$ 14,200	\$ 14,620	\$ 107,130
Reimbursement to Member Agencies			\$ 264,712	\$ 264,712	\$ -	\$ -	\$ -	\$ 529,424
Total Estimated GSA Administration & Professional Services Cost	\$ 188,628	\$ 340,796	\$ 729,102	\$ 504,952	\$ 156,750	\$ 156,200	\$ 160,820	\$ 1,707,824
Enterprise Fund for GSP Implementation - Project Development / Groundwater Monitoring			\$ 907,435	\$ 1,131,585	\$ 1,479,787	\$ 1,480,337	\$ 1,475,717	\$ 6,474,861
Total Estimated Cost			\$ 1,636,537	\$ 8,182,685				

Notes: a Fiscal Year (FY) is July 1 - June 30
b GSP Preparation includes Inter-Basin and Intra-Basin Coordination

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 assessable parcels within the Agency (defined as those parcels that are included on the County of Fresno or County of Kings tax rolls) established for a specific purpose, namely sustainable management of shared groundwater resources. These services would not accrue to the public at large outside the NFKGSA and are not considered general benefits. The new rate structure proposed by the Board of Directors is designed to achieve and maintain equity to all landowners who share a common groundwater aquifer.

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 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 the California Constitution Article 13D, Government Code Sections 53000, *et al*, Water Code Appendix Sections 143-101, *et al.*, and Water Code Sections 10730, *et al*. For the activities covered in this initial 5-year budget, however, the Board intends to levy assessments equally to all assessable acreage. The rationale is that the existence of the Agency offers benefit to all landowners 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 gross Agency acres	168,366.0
Less non-parceled land	2,293.4
Less tax-exempt parcels	1,940.6
Less utility parcels	478.3
Net Assessable Acres	163,653.7

The net assessable acres can be further broken down to 139,186.7 acres within Fresno County and 24,267.0 acres within Kings County. The lands that have been identified as being assessable within Fresno County are reflected in the proposed assessment roll in **Attachment D** and the lands that have been identified as being assessable within Kings County are reflected in the proposed assessment roll in **Attachment E**.

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

There is a special benefit that is conferred upon all assessable parcels within the Agency’s boundary. The Agency has incurred operating expenses since prior to formal inception, and the Agency has retained consultants and legal counsel to address SGMA related issues and to carry out the efforts identified in Section 3.1 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. However, the GSA has to take actions related to addressing

groundwater changes and groundwater pumping, and the Agency's consultants will spend time and effort to keep in conformance with State regulations and laws, for the benefit of all of the Agency's landowners.

This benefit component is determined based upon the formation costs and the anticipated annual expenses of the Agency. This benefit is estimated to be \$0.52 per acre in FY 2018-19 (\$84,900/163,653.7 assessable acres) and the Agency expects these costs to remain relatively stable with a proposed 3% inflation escalation factor each year.

4.2.2. Benefits of the Groundwater Sustainability Plan Development

A large effort under SGMA is the development of the GSP, and consultants have been retained for professional services. The GSP is anticipated to have the potential to impact current operations for properties within the Agency's boundaries and within the Kings Subbasin. 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. The benefits of GSP development accrues to all land within the Agency, and the Board has determined that all assessable parcels will 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.

While a particular parcel may not be farmed in a given year and may not directly pump groundwater, and particular parcels may use more or less groundwater, groundwater is potentially available to all land within the territory of the Agency and the groundwater resources are shared by all. All landowners are affected if the groundwater resources in the area is not sustainable. At the discretion of the Board of Directors, the difference in water usage may be addressed in the future 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 3.1.2 identifies the estimated costs associated with professional services for the GSP development and project management.

As previously mentioned, expenditures to date and funding for the current fiscal year (2017-18) has come from voluntary contributions from member agencies. The territory of these member agencies covers most, but not all, of the assessable land within the Agency. Therefore, to assure equitable distribution of costs for GSA administration and GSP preparation to date to all assessable land within the Agency, it is proposed to reimburse the member agencies for the amount of money they contributed over a 2-year period of NFKGSA assessments.

4.2.3. GSP Implementation

Implementation of the GSP will be an on-going effort, and it is anticipated that a significant number of programs and projects will be required to comply with the requirements of SGMA, likely involving groundwater recharge projects among other

things. In addition, after submitting the GSP, the GSP will be subject to possible revisions from DWR. As the burden of SGMA falls on all overlying users of groundwater, and hence all assessable parcels, the benefits of GSP Implementation and associated costs initially accrue to all those lands. As projects are identified and developed during GSP implementation, any projects that do not benefit the entire NFKGSA area would need to be funded by those lands that receive the benefit through a separate Proposition 218 election.

4.2.4. No Agency/GSA Alternative

As previously discussed in Section 1.4, 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 Kings Subbasin if the GSA does not adopt a GSP and the Kings Subbasin as a whole is unable to comply with the law. In such case, the Subbasin would be considered a “Probationary Basin” under a SWRCB “Interim Plan”. The SWRCB fee schedule for intervening (see Attachment C) would be applied directly to each groundwater extractor (landowner) and would result in significantly higher costs than the local NFKGSA option. Under State Intervention, the State would tell each landowner how much water they could pump each year, with all of the fees going to the State without achieving the benefit of any local project development to help comply with SGMA. From a cost standpoint, as well as a regulation standpoint, the desire is for the NFKGSA to be successful on the local level to prevent state intervention.

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 all assessable parcels within the territory of the NFKGSA that are identified on the tax rolls of Fresno and Kings Counties.

5.2. Proposed Budget Funding

In conformance with this Engineer’s Report, the Agency would seek assessment revenues to fund its operating costs and development and implementation of the GSP for compliance with SGMA legislation. Table 5-1 below summarizes the proposed budget and total assessments needed to fund the Agency efforts over the next 5-years and the potential methodology for setting the assessments to achieve the benefits described in Section 4.2.

Table 5-1. Proposed 5-Year Budget Summary

Category	Prior to 6/30/17	FY ^a 2017-2018	FY ^a 2018-2019	FY ^a 2019-2020	FY ^a 2020-2021	FY ^a 2021-2022	FY ^a 2022-2023	TOTAL
GSA Administration								
SUBTOTAL	\$ 188,628	\$ 78,500	\$ 84,900	\$ 87,400	\$ 90,000	\$ 87,900	\$ 90,500	\$ 440,700
Professional Services								
SUBTOTAL	\$ -	\$ 243,000	\$ 337,270	\$ 131,000	\$ 52,500	\$ 54,100	\$ 55,700	\$ 630,570
~10% Contingency/Reserve		\$ 19,296	\$ 42,220	\$ 21,840	\$ 14,250	\$ 14,200	\$ 14,620	\$ 107,130
Reimbursement to Member Agencies			\$ 264,712	\$ 264,712	\$ -	\$ -	\$ -	\$ 529,424
Total Estimated GSA Administration & Professional Services Cost	\$ 188,628	\$ 340,796	\$ 729,102	\$ 504,952	\$ 156,750	\$ 156,200	\$ 160,820	\$ 1,707,824
Enterprise Fund for GSP Implementation - Project Development / Groundwater Monitoring			\$ 907,435	\$ 1,131,585	\$ 1,479,787	\$ 1,480,337	\$ 1,475,717	\$ 6,474,861
Total Estimated Cost			\$ 1,636,537	\$ 1,636,537	\$ 1,636,537	\$ 1,636,537	\$ 1,636,537	\$ 8,182,685
Average Cost per Acre ^c			\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 50.00

Notes: a Fiscal Year (FY) is July 1 - June 30
c NFKGSA Assessable Acres = 163,653.7

Table 5-2 below indicates the proportionate amount of assessment for each category for the budget shown above.

Table 5-2. Proposed 5-Year Assessment Schedule

Category	FY ^a 2018-2019	FY ^a 2019-2020	FY ^a 2020-2021	FY ^a 2021-2022	FY ^a 2022-2023	TOTAL
GSA Administration	\$ 0.52	\$ 0.53	\$ 0.55	\$ 0.54	\$ 0.55	\$ 2.69
Professional Services	\$ 2.06	\$ 0.80	\$ 0.32	\$ 0.33	\$ 0.34	\$ 3.85
~10% Contingency/Reserve	\$ 0.26	\$ 0.13	\$ 0.09	\$ 0.09	\$ 0.09	\$ 0.65
Reimbursement to Member Agencies	\$ 1.62	\$ 1.62	\$ -	\$ -	\$ -	\$ 3.24
Enterprise Fund for GSP Implementation	\$ 5.54	\$ 6.91	\$ 9.04	\$ 9.05	\$ 9.02	\$ 39.56
Total Proposed Assessment (\$/acre^c)	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 50.00

Notes: a Fiscal Year (FY) is July 1 - June 30
c NFKGSA Assessable Acres = 163,653.7

5.2.1. Assessment Roll

Attachment D is the 2017 NFKGSA assessment roll for Fresno County and **Attachment E** is the 2017 NFKGSA assessment roll for Kings County. These assessment rolls serve 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 assessable acreage for each parcel.

The roll also documents the weighted voting for the proposed assessment. The voting is directly related to the maximum annual assessment rate per acre multiplied by the acreage of each parcel; the votes (maximum annual assessment) are shown for each parcel. Thus, the voting is based on the proposed assessment for each parcel as a proportionate share of the total. For passage of the 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 is to fund its annual operations and future activities identified in this 5-year budget for the benefit of all assessable 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 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 will result 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 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 all assessable parcels within the territory of the Agency. 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

Proposition 218, Local Agency Guidelines for Compliance, 2007 Update (May 2007) Association of California Water Agencies

Sustainable Groundwater Management Act, and related provisions, effective January 1, 2016, [http://groundwater.ca.gov/docs/2014 Sustainable Groundwater Management Legislation with 2015 amends 1-15-2016.pdf](http://groundwater.ca.gov/docs/2014_Sustainable_Groundwater_Management_Legislation_with_2015_amends_1-15-2016.pdf)

Bulletin No. 118, California's Groundwater, 2003 and 2016 Interim Update
California Department of Water Resources

Fresno County Assessor's Office, Ownership Records, September 2017

Kings County Assessor's Office, Ownership Records, March 2017

California Department of Water Resources, Groundwater Information Center Interactive Map Application,
https://gis.water.ca.gov/app/gicima/#bookmark_DepthBelowGroundSurface

Attachment A

Senate Bill No. 564 establishing the NFKGSA

Attachment B

Senate Bill No. 205 cleanup legislation (portion)

Attachment C

State Intervention Fee Structure

Attachment D

2017 NFKGSA Assessment Roll – Fresno County

Attachment E

2017 NFKGSA Assessment Roll – Kings County