NAPA COUNTY
GROUNDWATER SUSTAINABILITY AGENCY

FUNDING OPTIONS SUMMARY PRESENTATION

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SCIConsultingGroup
Public Finance Consulting Services

LWA

AGENDA

I. Introduction
II. Key Considerations
III. Funding Mechanism Frameworks
IV. Funding Mechanism Methodologies
V. Recommended Funding Approach
VI. Questions and Discussion

INTRODUCTION

SCI Consulting Group

- Specializes in public agency funding needs.
- Propositions 26 and 218 expertise.
- Rate and fee development.
- Community engagement.

- Ryan Aston, Senior Consultant, Project Manager
- John Bliss, P.E., President
- Jerry Bradshaw, P.E., Senior Advisor
- Susan Barnes, Vice President

Larry Walker Associates

- Olin Applegate, Senior Scientist
- Laura Foglia, PhD, Vice President
- Ryan Fulton, Project Engineer
- Camille Wojciechowski, Project Staff

- Specializes in environmental engineering.
- Hydrology and agricultural expertise.
- Database development and management.

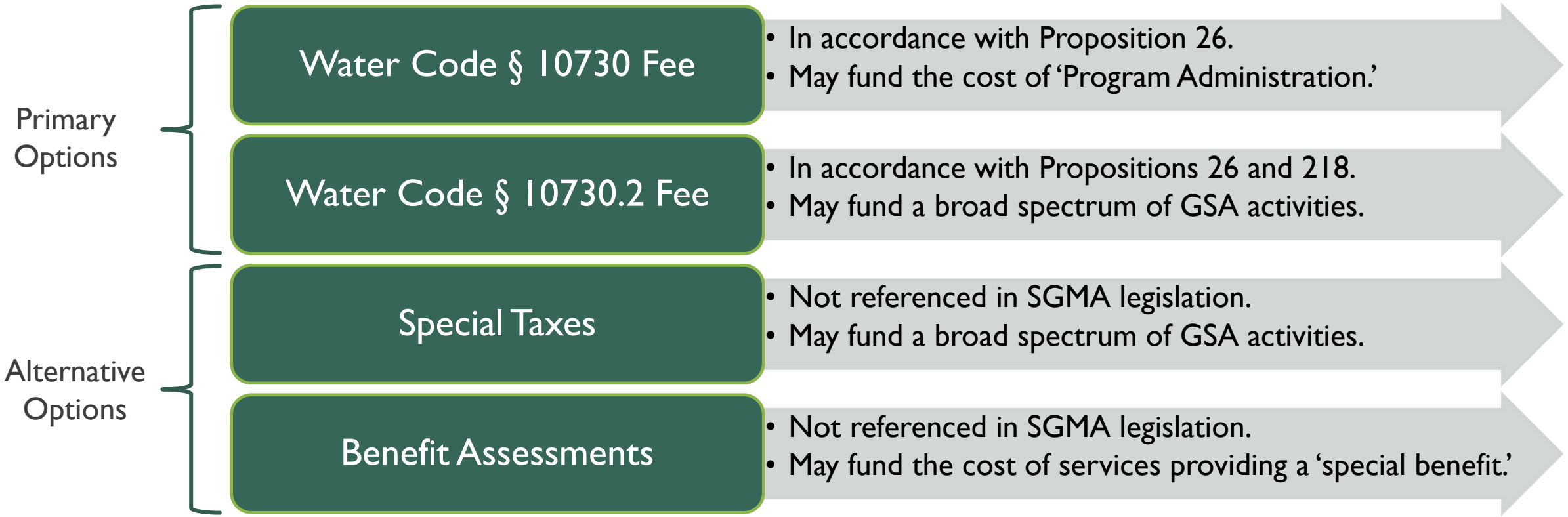
KEY CONSIDERATIONS

- Revenue Generation Potential / Use of Revenue
- Payer Pool
- Allocation of Costs
- Political Viability and Community Acceptance
- Legal Defensibility
- Cost of Funding Mechanism Implementation and Administration
- Flexibility and Precision of Methodology

FUNDING MECHANISM FRAMEWORKS IN SUPPORT OF GROUNDWATER MANAGEMENT

A REVIEW OF FOUR OPTIONS

FUNDING MECHANISM LEGAL FRAMEWORKS



WATER CODE § 10730 FEES (1)

Legal Framework and Implementation Procedures

- Generally interpreted as regulatory fees subject to Proposition 26.
- Payer pool: all direct groundwater-using parcels.
- Streamlined implementation: fees imposed by Board action – public meeting required.
- Rigorous community input not required (but strongly recommended).
- In order to include de minimis users per SGMA, these users must be regulated pursuant to the GSP.

Use of Funds

- May fund the cost of a groundwater sustainability program, including but not limited to:
  - Preparation, adoption, and amendment of a GSP;
  - Investigations, inspections, compliance assistance, enforcement;
  - Program Administration; and,
  - A prudent reserve.
- Cannot fund major capital expenses.

WATER CODE § 10730.2 FEES (1)

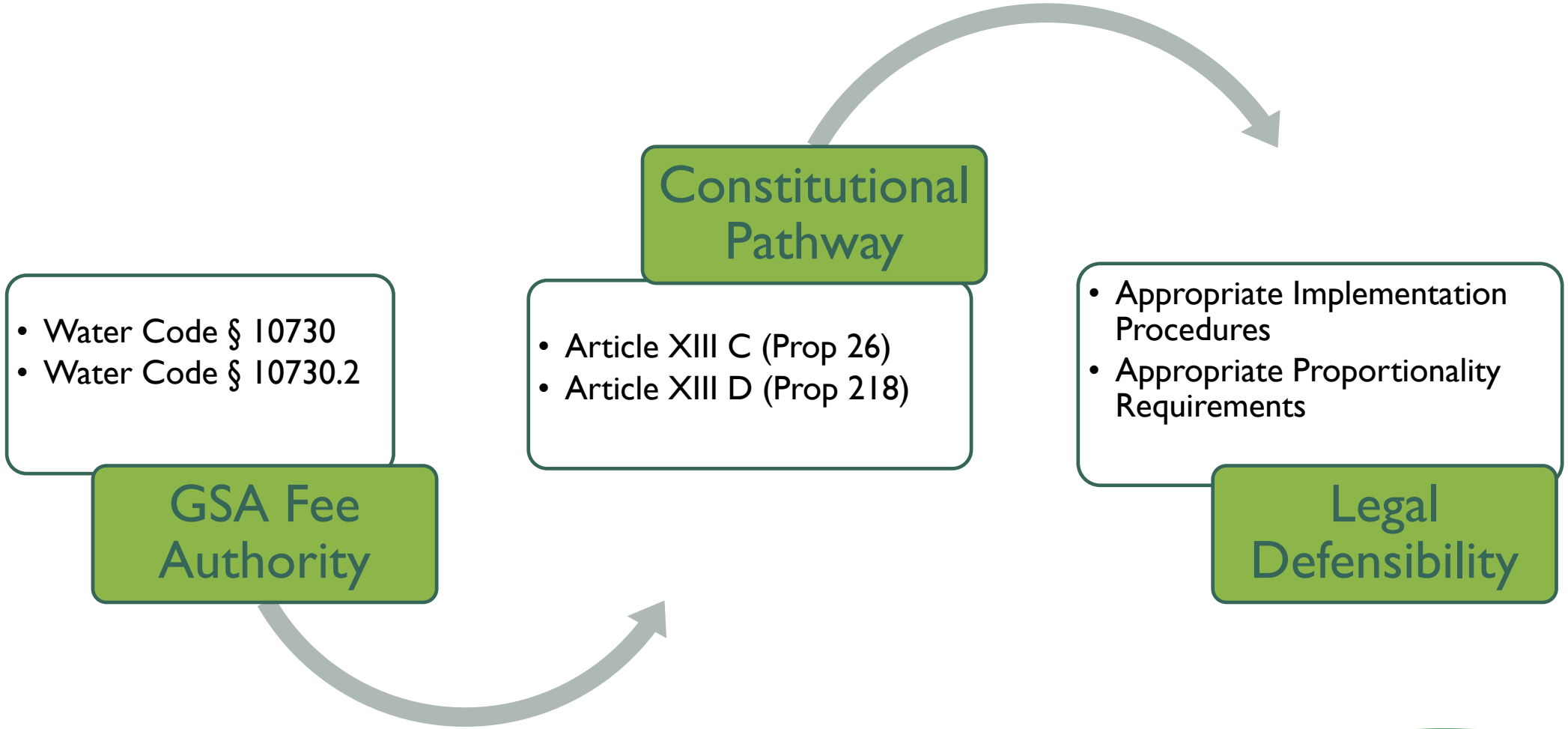
Legal Framework and Implementation Procedures

- Caselaw requires consideration of both Props 26 and 218 (more stringent proportionality requirements).
- Payer pool: all direct groundwater-using parcels.
- Fee implementation subject to majority protest process:
  - Notice mailed to all affected property owners at least 45 days prior to protest hearing.
  - Protest hearing held; if less than 50% of affected property owners submit written protest, fee can be imposed.

Use of Funds

- May fund the cost of a groundwater sustainability program, including but not limited to:
  - Administration, operation, and maintenance, including a prudent reserve;
  - Acquisition of lands or other property, facilities, and services;
  - Supply, production, treatment, or distribution of water; and,
  - Other activities necessary or convenient to implement the plan.

SGMA FEE LEGAL DEFENSIBILITY



SPECIAL TAXES

Legal Framework and Implementation Procedures

- Proposition 218 establishes guidelines surrounding the use of a tax to support a specific (or special) purpose.
- Payer pool: flexible; all properties or a subset of properties could be included.
- Balloted at the polls; subject to two-thirds approval.
- Cost, timing, and risk of placing a tax measure on the ballot are key considerations.

Use of Funds

- Flexible: funds derived from a successful special tax in support of groundwater management could be used for a wide range of GSA activities.
- Funds could not be used for purposes other than what is stated on the ballot measure.

BENEFIT ASSESSMENTS

Legal Framework and Implementation Procedures

- Prop 218 requires determination of special benefit received by all included properties, and strict proportionality requirements.
- Payer pool: Likely all groundwater-using parcels.
- All-mail balloting; subject to >50% approval.
- Cost, timing, and risk of balloting are key considerations.

Use of Funds

- Flexible: funds derived from a successful benefit assessment in support of groundwater management could be used for a wide range of GSA activities.
- Funds must be used to provide 'special benefit' to those being assessed.

FUNDING MECHANISM METHODOLOGY

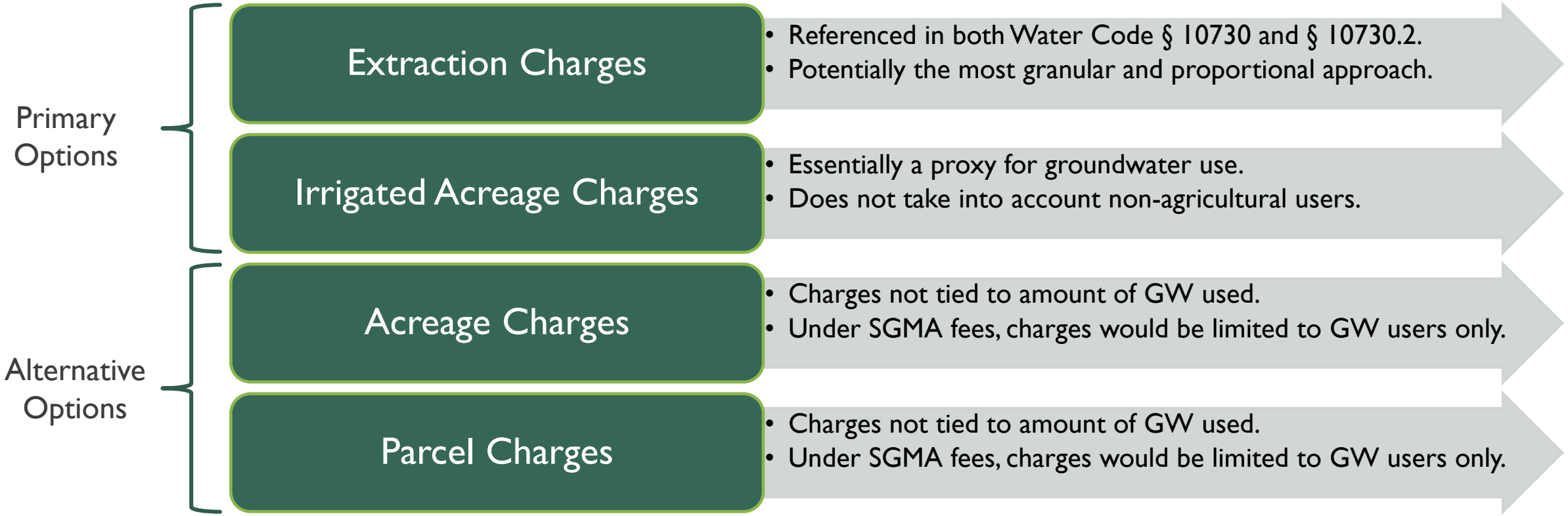
CONSIDERING THE BASIS FOR CHARGES

GROUNDWATER FEE METHODOLOGY

Methodology is the basis by which groundwater users would be charged.

$$\frac{\textit{Revenue Requirement (\$\$)}}{\textit{Methodology Unit (Parcels, AF, Acreage, etc.)}} = \textit{Rate}$$

METHODOLOGY OPTIONS



EXTRACTION-BASED CHARGES (1)

- Produces a charge per acre foot of groundwater.
- Extraction must be estimated for most users.
- Key characteristics:
  - Accounts for all groundwater users.
  - Variable charges proportional to groundwater use – those who use more groundwater pay more.
  - Requires multiple datasets; availability of updated data varies with each type.
  - Annual administration requires comprehensive updates.
  - More likelihood of requested corrections to groundwater use estimates.
  - More complex; more difficult to convey to public.
  - Greater fluctuation in annual revenue (corrections allowance can be used to offset some changes).

EXTRACTION-BASED CHARGES (2)

- Estimation is often based on factors adjacent to actual groundwater use.
  - **Agricultural parcels:**
    - Estimated using applied or consumptive water use estimates based on crop type and other factors.
    - DWR crop mapping tools used to identify crop type and area.
    - Crop acreage multiplied by annual water use estimates by crop type.
    - Other water sources must be considered (e.g., surface water, recycled water).
  - **Residential and commercial parcels:**
    - Estimated based on local water use patterns.
    - County use codes used to identify parcel land use.
  - **Public water systems using groundwater:**
    - Extraction data used – no estimation necessary.

IRRIGATED ACREAGE-BASED CHARGES

- Produces a charge per irrigated acre.
- Only considers agricultural groundwater users (other methodologies may be used in tandem).
- DWR crop mapping tools used to identify crop type and area.
- Key characteristics:
  - Simpler; easier to convey to the public.
  - Relatively efficient administration.
  - Can be used in tandem with other approaches.
  - Charging non-agricultural parcels would require additional methodology – approach is less inclusive of all groundwater users.

PARCEL AND ACREAGE CHARGES

- Produces a charge per parcel or per parcel acre.
- Under a fee, charges placed on groundwater-using parcels only.
- Can be used in tandem with other approaches (e.g., a parcel or acreage charge in tandem with an extraction charge).
- Key characteristics:
  - Simpler; easier to convey to the public.
  - Efficient administration; easier to update.
  - Likely produces less need for corrections.
  - Less fluctuation in annual revenue.
  - Parcel fees must adhere to proportionality requirements of Prop 26 and/or 218.
  - Flat fees or fees based on overall acreage would not be variable based on groundwater use.

RECOMMENDED APPROACH

RECOMMENDED FUNDING APPROACH (1)

- Staff recommends pursuing a Water Code § 10730 (Prop 26) fee based on extraction.

➔ Water Code § 10730 implementation provides the clearest path forward in funding GSA program administration.

- All costs related to 'program administration' can be recovered.
- Fees can be implemented by Board action.
- Rigorous community outreach can be conducted to incorporate community perspective.

➔ An extraction-based fee can apportion costs in as proportional a way as possible.

- Meticulous extraction estimates can be developed for agricultural, residential, and commercial parcels.
- An interactive database can assist with estimate corrections and other considerations.

➔ Other considerations

- De minimis users can be 'regulated' by ordinance and by inclusion in an interactive database.
- Given the relatively recent implementation of SGMA, GSA funding mechanisms are largely untested. However, three GSAs in Sonoma County implemented § 10730 fees based on estimated extraction in 2022 and continue to use them today to fund program administration. Other GSAs have also used similar approaches.

RECOMMENDED FUNDING APPROACH
PRELIMINARY RATE CALCULATIONS

- Extraction
  - 2024-25 Napa GSA revenue need: $2.5 million.
  - 2023 extraction: 15,280 AF.

$$\frac{\text{Revenue Need (\$)}}{\text{Acre Feet Extracted}} = \text{Rate per AF}$$

$$\frac{\$2{,}500{,}000}{15{,}280} = \$163.61 \text{ Per AF Per Year}$$

Example Only

- Irrigated Acreage (for reference)
  - 2024-25 Napa GSA revenue need: $2.5 million.
  - Irrigated Acreage Estimate: 18,833.

$$\frac{\text{Revenue Need (\$)}}{\text{Irrigated Acres}} = \text{Rate per Irrigated Acre}$$

$$\frac{\$2{,}500{,}000}{18{,}833} = \$132.75 \text{ Per Irrigated Acre per Year}$$

Example Only

- Rate Considerations
  - The County General Fund could be used to some degree in tandem with a fee program. This would alleviate the burden on rate payers, while acknowledging the County's interest in a successful groundwater sustainability program.
  - Costs do not have to be equally allocated across all groundwater users (as shown above).
  - Allocating some degree of 'base costs' could be optimal – either through an extraction charge or some other means.

EXTRACTION FEE ESTIMATION PROCESS

1. Groundwater Use Estimation.
    a) Develop estimations of groundwater use for various property types.
    b) Refine estimations through discussion with technical consultants / staff, growers, public water systems, and other stakeholders.
2. Database Development.
    a) Develop a database in support of the fee program; include both property characteristics and water use characteristics.
    b) Develop a public-facing dashboard, to be used for engagement and refinement of groundwater use estimation.
3. Outreach.
    a) Further engage Subbasin stakeholders; begin broad community outreach efforts.
4. Develop Revenue Need.
    a) Refine budget applied to the fee program; clearly categorize costs and expected service / benefit provided.
5. Develop Rate and Fee Study.
    a) Clearly define nexus between the service / benefit provided and the associated extraction charge.

RECOMMENDED NEXT STEPS

1. Begin preliminary groundwater use estimations. Vet estimations via discussions with Napa GSA technical consultants, comparison with Napa GSA groundwater model, and stakeholder outreach.

2. Begin building a comprehensive interactive database in support of the fee program. This database will provide the basis for fee charges and will also serve as a means through which groundwater users can view information related to their property and submit correction requests as needed.

3. Continue stakeholder outreach efforts. Discussions with agricultural groundwater users, public water systems within the Subbasin, and other stakeholders will help to inform a well-rounded fee structure.

THANK YOU!

QUESTIONS / DISCUSSION