

PASO BASIN COOPERATIVE COMMITTEE
September 25, 2024

Agenda Item #6d – Rate Study

Recommendation

None; information only.

Prepared By

Ryan Aston, SCI Consulting

Discussion

In 2022, the Paso Basin was awarded a \$7.6 million grant from the California Department of Water Resources for the implementation of its Groundwater Sustainability Plan (GSP).

The grant spending plan is composed of six (6) components, and Component 6, Water Supply Feasibility/Engineering Studies, is being amended to include a rate study project.

A request for proposals was issued and SCI Consulting was the selected consultant. SCI Consulting provided an overview of the rate study approach at the July 24, 2024, PBCC meeting, and an update on the project is provided as Attachment 1.

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PASO ROBLES GROUNDWATER BASIN

COST OF SERVICE STUDY PROGRESS UPDATE

SEPTEMBER 25, 2024

AGENDA

1. Preliminary Cost of Service Budget
2. Preliminary Rate Scenarios
3. Other Considerations

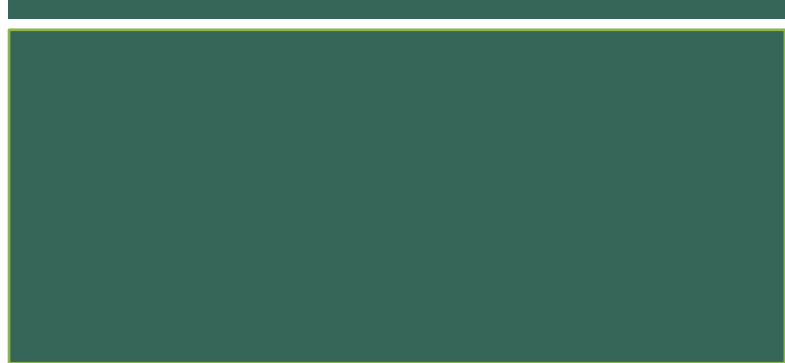


PRELIMINARY COST OF SERVICE BUDGET



- Budget items have been updated and assigned to categories.
- Within Program administration and Projects and Management Actions, there are subcategories that provide more detail on cost type.
- As a reminder:
 - 10730 fees (Prop 26) can fund only Program Administration.
 - 10730.2 fees (Prop 218) can fund all budget items.

PBCC / Successor Agency Funded Budget Components
Program Administration
SGMA-Required
Annual Report WY 2024
GSP Fifth Year Evaluation
GSP Amendment
Groundwater Model Use/Update
Ongoing Basin Monitoring Operations & Maintenance
Data Management System (DMS)
ET Ag Water Usage Program (LandIQ)
Administrative
Executive Director and Support Staff
Legal Counsel
IT Support
Office Space (including utilities, janitorial, etc)
Agency Administrative Costs (Insurance, Audit, Accounting, etc.)
Grant Development (2 grants)
Technical Consultant(s) as needed to support administrative services
Outreach Program
Website Creation and Management
GW Assessment Fee Billing & Collection
Projects and Management Actions
Regulatory Projects
Address Additional GSP Data Gaps (Monitoring Network, etc.)
Well Verification/Registration Program
Domestic Well Impact Mitigation Program
Demand Reduction Projects
MILR Program
Demand Management Program
Water Conservation and Irrigation Efficiency Program
Alternative Water Supply Projects
Blended Irrigation Water Supply Program
SWP Supply Program
Groundwater Recharge Program
Project Feasibility Reserve



- Costs updated based on the recommendation of member agency staff.
- Cost estimates for Blended Irrigation Water Supply Program and SWP Supply Program will be refined in the coming weeks.

PBCC / Successor Agency Funded Budget Components	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30	Average Costs
	Year 1	Year 2	Year 3	Year 4	Year 5	5 - Year Average
Program Administration	% Increase					
SGMA-Required		2.5%	2.5%	2.5%	2.5%	
Annual Report WY 2024	\$110,000	\$112,750	\$115,569	\$118,458	\$121,419	\$ 115,639
GSP Fifth Year Evaluation	\$0	\$0	\$0	\$0	\$350,000	\$ 70,000
GSP Amendment	\$0	\$0	\$0	\$100,000	\$100,000	\$ 40,000
Groundwater Model Use/Update	\$0	\$50,000	\$50,000	\$150,000	\$100,000	\$ 70,000
Ongoing Basin Monitoring Operations & Maintenance	\$300,000	\$307,500	\$315,188	\$323,067	\$331,144	\$ 315,380
Data Management System (DMS)	\$75,000	\$76,875	\$78,797	\$80,767	\$82,786	\$ 78,845
ET Ag Water Usage Program (LandIQ)	\$150,000	\$153,750	\$157,594	\$161,534	\$165,572	\$ 157,690
SGMA-Required Subtotal	\$635,000	\$700,875	\$717,147	\$933,826	\$1,250,921	\$ 847,554
Administrative						
Executive Director and Support Staff	\$234,000	\$257,400	\$263,835	\$270,431	\$277,192	\$ 260,572
Legal Counsel	\$82,500	\$84,563	\$86,677	\$88,843	\$91,065	\$ 86,729
IT Support	\$50,000	\$51,250	\$52,531	\$53,845	\$55,191	\$ 52,563
Office Space (including utilities, janitorial, etc)	\$60,000	\$61,500	\$63,038	\$64,613	\$66,229	\$ 63,076
Agency Administrative Costs (Insurance, Audit, Accounting, etc.)	\$82,500	\$84,563	\$86,677	\$88,843	\$91,065	\$ 86,729
Grant Development (2 grants)	\$60,000	\$61,500	\$63,038	\$64,613	\$66,229	\$ 63,076
Technical Consultant(s) to support administrative services	\$110,000	\$112,750	\$115,569	\$118,458	\$121,419	\$ 115,639
Outreach Program	\$82,500	\$84,563	\$86,677	\$88,843	\$91,065	\$ 86,729
Website Creation and Management	\$15,000	\$2,500	\$2,563	\$2,627	\$2,692	\$ 5,076
GW Assessment Fee Billing & Collection	\$50,000	\$51,250	\$52,531	\$53,845	\$55,191	\$ 52,563
Administrative Subtotal	\$826,500	\$851,838	\$873,133	\$894,962	\$917,336	\$ 872,754
Program Administration Subtotal	\$1,461,500	\$1,552,713	\$1,590,280	\$1,828,787	\$2,168,257	
Projects and Management Actions						
Regulatory Projects						
Address Additional GSP Data Gaps (Monitoring Network, etc.)	\$75,000	\$76,875	\$78,797	\$80,767	\$82,786	\$ 78,845
Well Verification/Registration Program	\$25,000	\$25,625	\$26,266	\$26,922	\$27,595	\$ 26,282
Domestic Well Impact Mitigation Program	\$50,000	\$51,250	\$52,531	\$53,845	\$55,191	\$ 52,563
Demand Reduction Projects						
MILR Program	\$500,000	\$750,000	\$1,000,000	\$1,500,000	\$2,000,000	\$ 1,150,000
Demand Management Program	\$100,000	\$150,000	\$150,000	\$100,000	\$100,000	\$ 120,000
Water Conservation and Irrigation Efficiency Program	\$50,000	\$50,000	\$75,000	\$75,000	\$75,000	\$ 65,000
Alternative Water Supply Projects						
Blended Irrigation Water Supply Program	\$50,000	\$2,000,000	\$2,500,000	\$3,000,000	\$5,000,000	\$ 2,510,000
SWP Supply Program	\$50,000	\$2,000,000	\$2,500,000	\$3,000,000	\$5,000,000	\$ 2,510,000
Groundwater Recharge Program	\$25,000	\$150,000	\$150,000	\$1,000,000	\$1,000,000	\$ 465,000
Project Feasibility Reserve	\$200,000	\$205,000	\$210,125	\$215,378	\$220,763	\$ 210,253
Subtotal	\$1,125,000	\$5,458,750	\$6,742,719	\$9,051,912	\$13,561,335	\$ 7,187,943
Total	\$2,586,500	\$7,011,463	\$8,332,999	\$10,880,699	\$15,729,592	\$ 8,908,250

PRELIMINARY RATE SCENARIOS

PRELIMINARY RATE STRUCTURE OPTIONS

- The following rate model accounts for three potential fee types:
 - 10730.2 (Prop 218) funding all costs.
 - 10730 (Prop 26) funding Program Administration only.
 - 10730.2 (Prop 218) funding PMAs only.
- Two rate approaches are shown for each fee type: a ‘stepped’ rate approach and an ‘averaged’ rate approach.
- Costs are apportioned according to service / benefit received by each extractor category (more detail forthcoming).
- In order to address potential changes in groundwater use, a projected reduction in groundwater demand is incorporated into the rate models. Starting with a five-year average of GW use, a 20% reduction in agricultural extraction is spread over five years, as shown below.

Projected Groundwater Use	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30
Based on Five-Year Average 2017-2023 (AF)	Year 1	Year 2	Year 3	Year 4	Year 5
Total Groundwater Use	76,541	72,917	69,293	65,669	62,046
Rural Domestic GW Use	2,700	2,700	2,700	2,700	2,700
Non-De Minimis GW Use	73,841	70,217	66,593	62,970	59,346
Municipal GW Use	1,366	1,366	1,366	1,366	1,366
Agricultural / Commercial GW Use	72,475	68,851	65,228	61,604	57,980

EXTRACTOR CATEGORIES

- Rural Domestic Extractors.
 - Property owners utilizing groundwater for residential purposes.
- Municipal / Urban Extractors.
 - Water systems utilizing groundwater to serve water customers.
- Commercial Extractors.
 - Property owners utilizing groundwater for commercial purposes (small subset of Basin parcels).
- Agricultural Extractors.
 - Property owners utilizing groundwater for agricultural irrigation.
- Cost apportionment used for today's preliminary rate scenarios attempts to account for the variable service / benefit received by each extractor category.

NOTE ON DE MINIMIS (DOMESTIC) EXTRACTORS:

- Per Propositions 26 and 218 requirements, cost apportionment must relate to the benefit or service being provided to those being charged (groundwater extractors).
- Today's preliminary cost apportionment attempts to account for the relatively minimal service / benefit provided to domestic extractors. However, some costs (such as Program Administration and Domestic Well Impact Mitigation) likely provide a service / benefit to these extractors.
- Consistent with the GSP which states that de minimis groundwater users “are not currently regulated under this GSP” and “are not anticipated to be subject to the fee” contingent on a self certification, GSA staff have expressed a desire that these users not be required to pay a fee(s) / the cost or benefit apportioned to them regardless of the fee type (note that they cannot be forced to pay a 10730 fee unless regulated).
- In order to accomplish this, the costs apportioned to these extractors by the fee study must be contributed by a funding source *other than the fee program's revenue*, i.e. other extractors cannot subsidize these extractors / be forced to pay for more than the costs and benefit apportioned to them under applicable case law.
- Potential solutions:
 - I. Member GSAs contribute funding according to the fee rate and the amount of domestic GW use within their jurisdictions. Despite the relatively minimal dollar amount, this could present challenges for GSAs without available additional revenue.
 - II. Funding from some other source is identified.



- Costs in tan are designated as 'base costs.' These are apportioned to *all extractor categories*.
- Costs in gold are designated as 'supplemental non-de minimis costs.' These are apportioned to *all non-de minimis users (municipal, agricultural, and commercial extractors)*.
- Costs in green are designated as 'supplemental agricultural / commercial costs.' These are apportioned to *all agricultural and commercial extractors*.

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Demand Reduction Projects						
MILR Program	\$500,000	\$750,000	\$1,000,000	\$1,500,000	\$2,000,000	\$ 1,150,000
Demand Management Program	\$100,000	\$150,000	\$150,000	\$100,000	\$100,000	\$ 120,000
Water Conservation and Irrigation Efficiency Program	\$50,000	\$50,000	\$75,000	\$75,000	\$75,000	\$ 65,000
Alternative Water Supply Projects						
Blended Irrigation Water Supply Program	\$50,000	\$2,000,000	\$2,500,000	\$3,000,000	\$5,000,000	\$ 2,510,000
SWP Supply Program	\$50,000	\$2,000,000	\$2,500,000	\$3,000,000	\$5,000,000	\$ 2,510,000
Groundwater Recharge Program	\$25,000	\$150,000	\$150,000	\$1,000,000	\$1,000,000	\$ 465,000
Project Feasibility Reserve	\$200,000	\$205,000	\$210,125	\$215,378	\$220,763	\$ 210,253
Subtotal	\$1,125,000	\$5,458,750	\$6,742,719	\$9,051,912	\$13,561,335	\$ 7,187,943
Total	\$2,586,500	\$7,011,463	\$8,332,999	\$10,880,699	\$15,729,592	\$ 8,908,250
Base Costs	\$ 1,511,500	\$ 1,603,963	\$ 1,642,812	\$ 1,882,632	\$ 2,223,448	\$ 1,772,871
Supplemental Non-De Minimis Costs	\$ 100,000	\$ 102,500	\$ 105,063	\$ 107,689	\$ 110,381	\$ 105,127
Supplemental Agricultural / Commercial Costs	\$ 975,000	\$ 5,305,000	\$ 6,585,125	\$ 8,890,378	\$ 13,395,763	\$ 7,030,253

RATE MODEL I

I0730.2 FUNDING ALL COSTS

1. I0730.2 Funding All Costs			FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30	Year 1 Revenue	
Stepped Rate		Charge Basis	Year 1	Year 2	Year 3	Year 4	Year 5	Revenue by Category	Total - All Revenue
Domestic Rate		<i>Per AF</i>	\$20	\$22	\$24	\$29	\$36	\$53,317	\$2,586,500
Municipal Rate		<i>Per AF</i>	\$21	\$23	\$25	\$30	\$38	\$28,818	
Agricultural / Commercial Rate		<i>Per AF</i>	\$35	\$101	\$126	\$175	\$269	\$2,504,365	
Averaged Rate		Charge Basis	Year 1	Year 2	Year 3	Year 4	Year 5	Revenue by Category	Total - All Revenue
Domestic Rate		<i>Per AF</i>	\$23	\$24	\$26	\$27	\$29	\$62,537	\$8,908,250
Municipal Rate		<i>Per AF</i>	\$25	\$26	\$27	\$29	\$30	\$33,576	
Agricultural / Commercial Rate		<i>Per AF</i>	\$122	\$128	\$135	\$143	\$152	\$8,812,137	

- Base costs to *all extractor categories*;
- Supplemental non-de minimis costs to *all non-de minimis extractors*; and
- Supplemental agricultural / commercial costs to rate to *agricultural and commercial extractors only*.

RATE MODEL 2

10730 FUNDING PROGRAM ADMINISTRATION

10730.2 FUNDING PROJECTS AND MANAGEMENT ACTIONS

2. 10730 Funding Program Admin		FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30	Year 1 Revenue	
Stepped Rate	Charge Basis	Year 1	Year 2	Year 3	Year 4	Year 5	Total - All Revenue	Domestic
Base Rate (All Extractors)	Per AF	\$19	\$21	\$23	\$28	\$35	\$1,461,500	\$51,553
Averaged Rate	Charge Basis	Year 1	Year 2	Year 3	Year 4	Year 5	Total - All Revenue	Domestic
Base Rate (All Extractors)	Per AF	\$22	\$24	\$25	\$26	\$28	\$1,720,307	\$60,683

3. 10730.2 Funding PMAs		FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30	Year 1 Revenue	
Stepped Rate	Charge Basis	Year 1	Year 2	Year 3	Year 4	Year 5	Revenue by Category	Total - All Revenue
Domestic Rate	Per AF	\$0.65	\$0.70	\$0.76	\$0.82	\$0.89	\$1,764	\$1,125,000
Municipal Rate	Per AF	\$2.01	\$2.16	\$2.34	\$2.53	\$2.75	\$2,742	
Agricultural / Commercial Rate	Per AF	\$15	\$79	\$103	\$147	\$234	\$1,120,495	
Averaged Rate	Charge Basis	Year 1	Year 2	Year 3	Year 4	Year 5	Revenue by Category	Total - All Revenue
Domestic Rate	Per AF	\$0.69	\$0.72	\$0.76	\$0.80	\$0.85	\$1,854	\$7,187,943
Municipal Rate	Per AF	\$2.11	\$2.22	\$2.34	\$2.47	\$2.62	\$2,882	
Agricultural / Commercial Rate	Per AF	\$99	\$104	\$110	\$117	\$124	\$7,183,207	

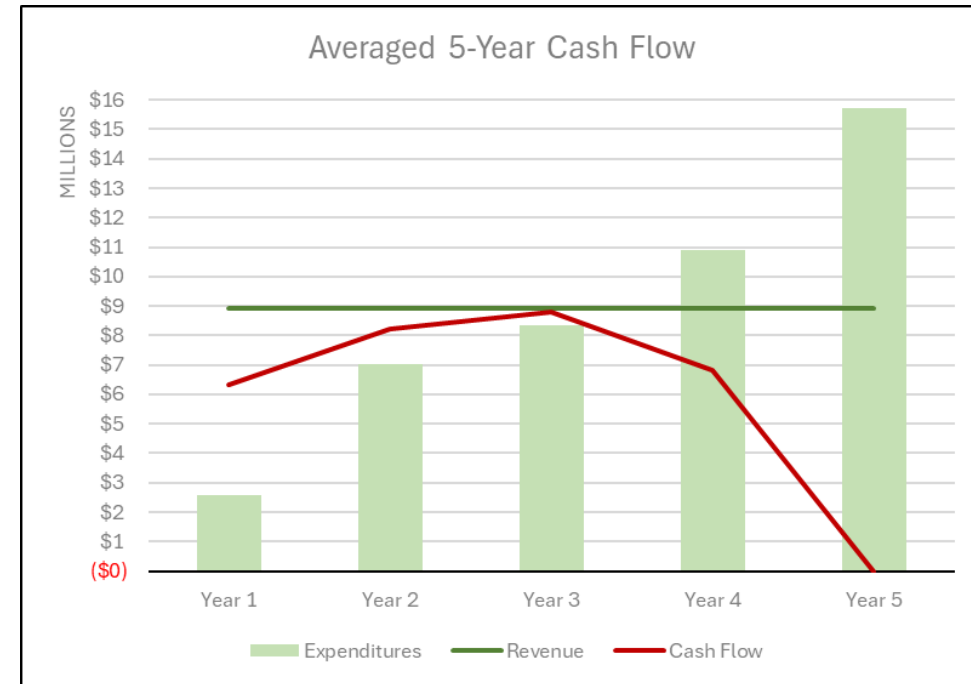
- Base costs to all extractor categories;
- Supplemental non-de minimis costs to all non-de minimis extractors; and
- Supplemental agricultural / commercial costs to rate to agricultural and commercial extractors only.



OTHER CONSIDERATIONS

AVERAGED RATES – CASH FLOW ANALYSIS

- An ‘averaged’ rate calculation would use a five-year average revenue need to calculate the rate.
- This would produce a more stable rate and generate a more consistent amount of revenue.
- Consideration of this approach requires a cash flow analysis to ensure annual revenue needs will be met.
- As shown in the table and graph, revenue would exceed expenditures in years 1-3. This additional revenue would shore up years 4 and 5, in which expenditures would exceed revenue. A zero balance would be expected after year 5.



Averaged 5-Year Revenue Need					
	Year 1	Year 2	Year 3	Year 4	Year 5
Expenditures	\$2,586,500	\$7,011,463	\$8,332,999	\$10,880,699	\$15,729,592
Revenue	\$8,908,250	\$8,908,250	\$8,908,250	\$8,908,250	\$8,908,250
Cash Flow	\$6,321,750	\$8,218,538	\$8,793,790	\$6,821,341	\$0

FEE IMPLEMENTATION CONSIDERATIONS (I)

Water Code § 10730 Fees (Prop 26)

- May only fund Administrative costs and basic SGMA-required costs (e.g., annual reports).
- Implementation procedure:
 - Fee study and notice of meeting posted to Agency website at least 20 days prior to a public meeting.
 - In order to charge de minimis extractors (domestic extractors), they must be regulated pursuant to the GSP.
 - Public meeting held; fees adopted by Board action (ordinance or resolution).

Water Code § 10730.2 Fees (Prop 218)

- May fund all costs related to GSP implementation.
- Implementation procedure:
 - Notice of proposed fees and protest hearing mailed to all affected property owners at least 45 days prior to hearing.
 - Protest hearing held; if less than 50% of affected property owners submit written protest, fees may be adopted by Board.

FEE IMPLEMENTATION CONSIDERATIONS (2)

Strategy 1 – Single Fee

- Implement one 10730.2 fee (Prop 218) funding all costs.
- Incorporating all costs produces a higher fee, but process is singular (one-time ask for 5 years).
- If majority protest is not achieved, PBCC / successor agency costs funded through 2029-30.

Strategy 2 – Dual Fees

- Implement two fee programs:
 - 10730 fee (Prop 26) funding Program Administration.
 - 10730.2 fee (Prop 218) funding Projects and Management Actions.
- Implementation of a 10730 (prop 26) fee funding Program Administration introduces less risk in terms of approval odds but might be more likely to be legally challenged.
- Extractors may exhibit 'rate fatigue' when 10730.2 fees are implemented.

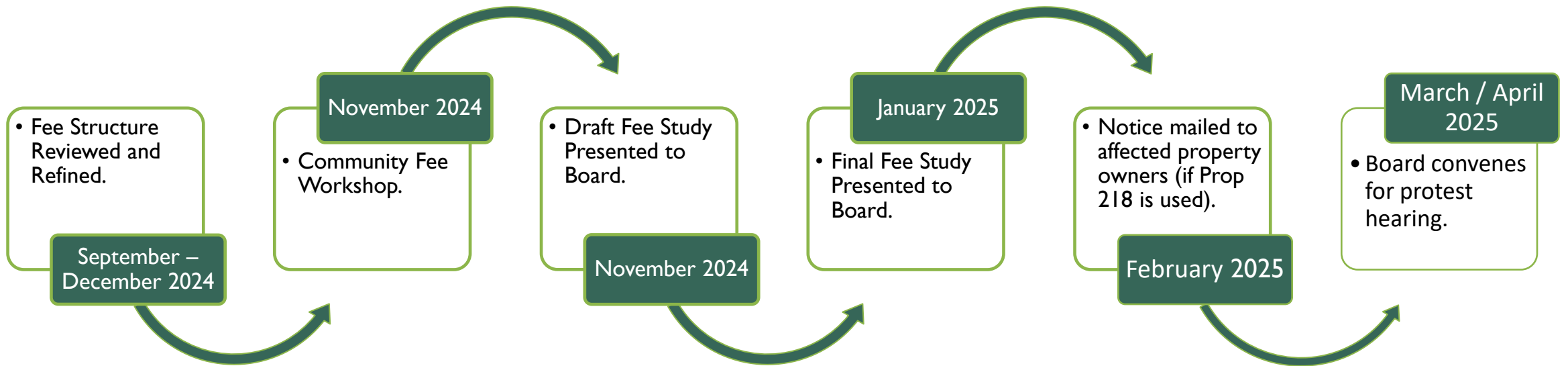
FEE IMPLEMENTATION TIMING & POTENTIAL FUNDING GAP

- Fee implementation will likely be completed in time for placement on the 2025-26 tax bills (August 2025).
- Should the PBCC / successor agency elect to utilize this method of collection (this is recommended), funds will not begin to be distributed by the County until around January 2026. *This would bring about a 6-month funding gap in FY 2025-26.*
- Tax roll revenue is typically distributed in two installments – around January and around May.
- Potential solution:
 - PBCC member agencies could contribute funding based on their apportioned costs determined by the fee study.
 - Funds could be a continued contribution to the PBCC or successor agency.
 - Funds could be repaid to member agencies once tax bill revenue is distributed by the County – although this could produce further cash flow issues in Q1 of 2025.

APPEALS ALLOWANCE

- Extraction-based fee methodologies related to groundwater use introduce the possibility of changes in extraction amount based on appeals.
- Although ET is a sound means of calculating GW use, this basis could still require a means of appealing fee calculations.
- In order to address this, some GSAs include an 'appeals allowance' in their rate calculations.
- There are two approaches to this issue that would provide a buffer in the event that property owners successfully appeal fee calculations:
 1. Inflate the projected extraction amount by a percentage (such as 5%).
 2. Incorporate a contingency fund into the budget (in the form of a dollar amount).
- If minimal appeals were filed or granted, and additional revenue was generated, the PBCC could elect to stop utilizing this allowance.

TENTATIVE TIMELINE





QUESTIONS / DISCUSSION

