



ENGINEER'S REPORT FOR TRANQUILLITY IRRIGATION DISTRICT

PROPOSITION 218 PROCEDURES FOR BENEFIT ASSESSMENTS

October 2019

Prepared for:

Tranquillity Irrigation District

Prepared by:



Date Signed: October 15, 2019



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ACRONYMS and ABBREVIATIONS

AF.....	acre-feet
Board.....	TID Board of Directors
CVP.....	Central Valley Project
District	Tranquillity Irrigation District
DMC	Delta-Mendota Canal
SGMA.....	Sustainable Groundwater Management Act
TID	Tranquillity Irrigation District
USBR	United States Bureau of Reclamation

REPORT SUMMARY

Historically, the Tranquillity Irrigation District (TID or District) has levied volumetric water charges, monthly connection charges, and land-based assessments to recover the District's expenses. If needed, non-operating revenues and outside water sales have been used to make up the shortfall. These charges were levied to recover the District's ongoing costs as follows:

- **Irrigation Water Charge:** Levied on a volumetric basis to recover the costs of acquiring, pumping and delivering over 23,000 AF per year of water for agricultural irrigation. While this charge is currently \$58.00 per AF, a maximum proposed charge of \$65.00 per AF is needed to recover the \$1.50 million projected cost of providing irrigation water in the future.
- **Municipal Water Charge:** Levied on a per-connection basis to recover the costs of pumping, treating and delivering municipal water to about 330± connections. While this charge is currently \$45.00 per month, a maximum proposed charge of \$50.00 per month is needed to recover the \$242,000 projected cost of providing municipal water in the future.
- **Benefit Assessment:** Levied on a per-acre basis to recover the fixed costs of operating the District. These are the costs that occur regardless of irrigation or municipal water deliveries. This charge is currently \$7.50 per acre, generating \$78,000 annually, **which does not adequately recover the remaining \$1.31 million estimated 2020 fixed cost for operating the District.**
- **Other Revenue Sources:** These revenues include contract water sale income of \$800,000, lease and rental income of \$206,000, miscellaneous income of \$24,000, and outside water sales of \$280,000.

The proposed Irrigation Water Charges and the Municipal Water Charges are expected to recover the cost of those services. Additionally, the Benefit Assessments, which have remained the same since 1969, are not sufficient to recover the District's remaining fixed costs without being subsidized by outside water sales, which is why the District is proposing increased assessments.

With the passage of the Sustainable Groundwater Management Act (SGMA), the District must maximize the use of its surface water supplies to offset groundwater pumping, and can no longer rely on outside water sales to fund the revenue shortfall. Therefore, the District is seeking to increase the Benefit Assessment rate to replace the revenue that was formerly provided from outside water sales. The following table identifies the existing rates and charges, the proposed 2020 rates, and the proposed maximum rates (to recover 2024 costs) to be adopted in 2019.

Current District Assessments and Charges vs Proposed

Classification	Current Rate	Proposed 2020 Rate	Proposed Maximum Rate
Assessment	\$7.50/acre	\$35.00/acre	\$40.00/acre
Irrigation Water	\$58.00/acre-foot	\$58.00/acre-foot	\$65.00/acre-foot
City Water	\$45.00/month	\$45.00/month	\$50.00/month

The maximum rates identified above are based on the 2020 budget projected 4 years into the future (2024) with a 3% inflation factor through 2024, and is the maximum rate that can be assessed. The amount charged by the District in any year can be lower than the maximum, but will not exceed that amount unless another Proposition 218 election is passed approving another increase. The rates charged will be implemented at the discretion of the TID Board of Directors up to the maximum rate. The proposed 2020 and maximum rates allow the District to pay the actual operating costs without relying on revenue from outside water sales.

The assessment rate increase proposal 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 53753.5 of the California Government Code. These constitutional and statutory provisions implement Proposition 218, which established mandatory procedures that local agencies must follow in order to levy certain assessments on lands. The District has made the decision to follow the provisions of Proposition 218, in part, because its procedures act to fully inform the District's landowners while simultaneously giving them a direct say in the matter.

Under the Proposition 218 process, once the Board determines the need to increase assessments, the District must evaluate whether or not the increases are in line with the benefits provided by the District and to allocate the assessments to affected TID acreages. This Engineer's Report discusses benefits of the District's organization and its water entitlements and contracts, as well as services provided by TID.

Following the acceptance of this Engineer's Report by the Board of Directors, a public hearing will be held in which all landowners affected by the special benefit assessment may participate and are entitled to vote upon the proposed maximum increases. At this public hearing, the District will consider and address comments and questions from District landowners.

During the public hearing, the District will take into consideration any objections to the proposed assessment and rate increases. In October 2019, the District will assemble the roll of the landowners affected by the new assessment rates, and mail (i) notices to these landowners informing them of the proposed assessment increase, and (ii) ballots for them to cast in the election. The votes will be tallied in December. Votes will be based upon acreage. A majority vote approval is necessary for the District to implement and levy a new assessment in accordance with the Maximum Assessment Rate Schedule.

If a majority vote approves that Schedule in the 218 election, the District Board, at its next Board of Equalization meeting may authorize the increase in assessment rates.

The District will also mail a notice to water users of the proposed rate increase on municipal and agricultural water rates, respectively. The District's Board of Directors will hold a public hearing on December 18, 2019, to determine whether or not there is a majority protest against these rate increases. If there is not a majority protest, then the Board of Directors may increase the municipal and agricultural water rates up to the maximum amount identified on the notice.

1. PURPOSE OF THE REPORT

1.1. General

This report is prepared in accordance with State law to describe an equitable distribution of the benefit assessments to be derived by each parcel upon which such assessments will be levied. The Tranquillity Irrigation District (TID or District) collects revenue in the form of volumetric water charges, monthly connection charges, and land-based assessments to recover the District's expenses. The District now intends to increase assessments to a maximum of \$418,000 in comparison with the existing maximum of \$78,000.

1.2. 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 District has also made the decision to follow the provisions of Proposition 218, in part, because its procedures act to fully inform the District's landowners while simultaneously giving them a direct say in the matter.

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.

1.3. Standby Charge Procedures

Specific requirements for the engineer's report were not described in Proposition 218. In the absence of such specific requirements, this report is structured in accordance with the Uniform Standby Charge Procedures Act, enacted by the California State Legislature in 1988. The 1988 Act requires the engineer's report to include the following information:

- (1) A description of the proposed charges and the method in which it will be imposed.
- (2) A compilation of the amount of the charge proposed for each parcel.
- (3) A statement of the methodology and rationale used in determining the degree of benefit conferred for which the charge is imposed.
- (4) A discussion of land use, benefits derived and degree of availability or quantity of use of the proposed service.

1.4. Limitations of the Engineer's Report

This report is limited to the proposed increase to assessments to fully fund the District's fixed costs. Although the District is seeking to increase its assessments, the increase is necessary only to replace the amount currently subsidized by outside water sales, and does not reflect an increase in the budgeted expenses of the District (excluding inflationary increases).

1.5. Revenue Objectives

In 2019, the District's operating expenses are anticipated to be \$2.97 million, and the District collected \$1.70 million in volumetric water charges, monthly connection charges, and land-based assessments. The balance of the expenses was recovered through revenues generated from outside water sales and other non-operating revenue of over \$1.27 million.

The main revenue objective for the District is to collect funds to fully fund the fixed costs of the District through assessments, without utilizing outside water sales. Ultimately, the increase to the current land-based assessment is planned to generate a maximum of \$418,000.

2. DISTRICT BACKGROUND INFORMATION

2.1. General

The District is an irrigation district organized under the California Irrigation District Law, Section 20500 *et seq.* of the California Water Code. The District was formed in 1918 as a public agency designed to serve the local community with water. It is the second oldest such agency in Fresno County. A three-member Board of Directors elected from the community at-large governs the District.

2.2. Location

The District encompasses approximately 10,750 acres (10,439 assessable) in the west central portion of Fresno County, in California's Central San Joaquin Valley. District farmland has historically produced a variety of commodities including cotton (pima and acala), canning tomatoes, alfalfa (seed and hay), sugar beets, small grains, and almonds. The principal community is the unincorporated town of Tranquillity, which is within the District's boundary and is served drinking water by TID. The location of the District is shown in Figure 1.

2.3. History

The District is geographically adjacent to the Fresno Slough, a historic northern flood outlet of the Kings River. Fresno Slough was also a flooded backwater (swamp) of the San Joaquin River. As a result, the District has historic riparian water right claims to water from both the Kings and San Joaquin Rivers. However, almost from the very beginning, those claims were constantly disputed by other water users. Finally, in the 1950's the United States Bureau of Reclamation (USBR) constructed the Central Valley Project (CVP), which includes the Delta-Mendota Canal (DMC) that terminates at the Mendota Pool. The Mendota Pool provided a storage reservoir at the confluence of the Fresno Slough and San Joaquin River, which allowed the United States to settle the water rights related disputes of various diverters around the Mendota Pool. Ultimately, TID signed a contract with the United States in 1963 that memorialized the solution. TID received a quantity of "water rights settlement" water and the opportunity to purchase supplemental or "contract" water in order to meet the total needs of the District's agricultural water users.

Today, the DMC discharges water into the Mendota Pool, and some of this supply flows south into the Fresno Slough. The District then lifts its allocation of CVP water from the Fresno Slough into its own distribution system. The TID distribution system includes approximately 42 miles of unlined canals, 5 miles of pipeline, two major lift-pump stations, and a series of secondary lifts and automated control structures. The entire system is metered, which includes water diverted by the District and deliveries to farm turnouts. The system is also automated, which facilitates efficient operation.

In addition to surface water, the District owns nine agricultural groundwater wells, which are operated to provide for peaking during periods of high demand, and water supply

reliability to supplement decreased CVP surface water allocations, which decreases have been frequent since 1992. In 1992, the CVP was required to provide water for new demands, such as environmental requirements from endangered fish species in the Sacramento-San Joaquin River Delta. Providing CVP water for these new demands has reduced water allocation for south of Delta CVP water users and has placed pressure on other water sources.

The District also owns and maintains the domestic/drinking water system for the local community and throughout the rural areas of the District, as well as the community park. The demand for these urban water uses is met by groundwater pumping. Due to the small number of drinking water connections (about 330±), the District is not deemed an urban water supplier. The District's surface water sources are used solely for agricultural irrigation, and ultimately recharge to the groundwater aquifer.

2.4. Surface Water Supply

Normal surface water supplies of the District include Schedule 2 CVP water, South of Delta CVP water, and Kings River water.

Schedule 2 CVP Water (Riparian Water or Rights Water) is delivered without charge as a settlement of the District's water rights claims in Fresno Slough; the settlement amount is 20,200 acre-feet (AF) of water. The contract (Contract 14-06-200-701-A) requires that the District take delivery of this water according to the schedule shown in Table 1.

Table 1. USBR Scheduled Water Deliveries to TID (AF)

Hydrologic Year Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Normal	0	400	1300	2900	4700	6900	3400	400	200	0	0	0
Dry	0	400	1300	2100	3800	5200	2500	300	100	0	0	0

In addition, the District is a South of Delta CVP Water Contractor (Contract 14-06-200-701-A-LTR1) and is under contract with the USBR for CVP water up to 13,800 AF of water each year. Finally, the District uses the Kings River supply, but the volume diverted is highly variable.

2.5. Groundwater Supply

The District operates many wells to supplement irrigation demand and to supply the community with drinking water. The use of these wells will be limited in the future due to impending pumping restrictions caused by SGMA implementation.

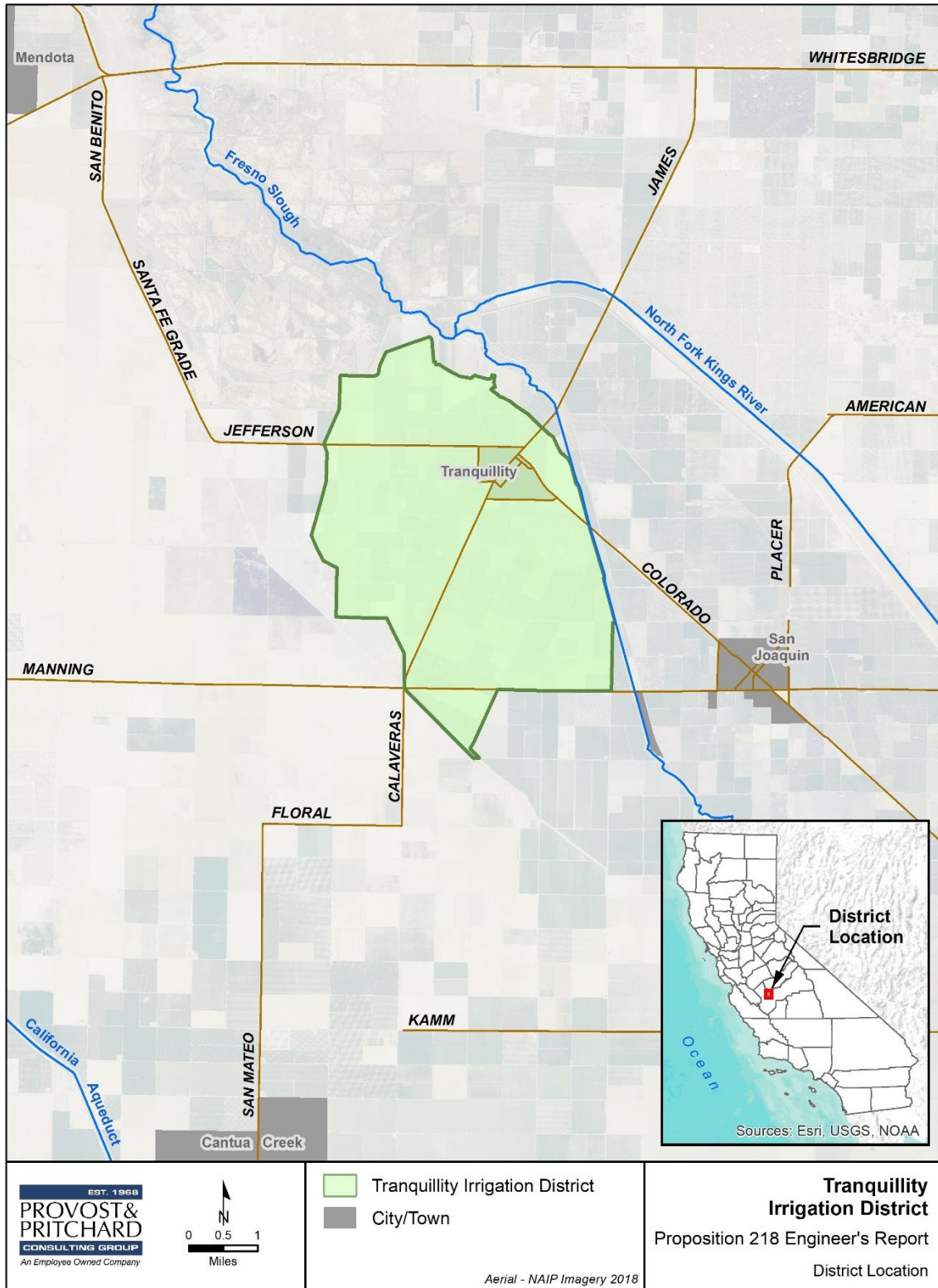


Figure 1. Location Map

3. DISTRICT FINANCIAL INFORMATION

In 2019, the District's operating costs were \$2.97 million. This total is based on the costs for water supply, transmission and distribution, administrative and general District functions. Revenue sources include volumetric water charges, monthly connection charges, and land-based assessments, supplemented by funds obtained from outside water sales and other non-operating revenues.

3.1. District Expenses

3.1.1. Current District Expenses

Total projected District expenses in 2019 are itemized Table 2.

Table 2. Projected 2019 Expenses

<u>Expense Category</u>	<u>2019 Projection</u>
Wages	\$737,807
Payroll Taxes & UI	20,000
Medical, Dental, Vision Insurance	340,000
Pension Expense (TID cont)	115,000
R/M Irrigation System (inc. meter repair)	50,000
Weed Control	40,000
R/M Pumps & Wells	50,000
R/M Vehicles	10,000
R/M Equipment	25,000
R/M City Water System	50,000
R/M Office Equipment	3,000
R/M Building	2,000
R/M Park	1,000
Equipment Rental (excavator/heavy equip)	5,000
Contract Water Costs/SLDMWA pu fees	25,000
Solar Pow er	350,000
Irrigation Pow er - Electrical	50,000
Telephone & Broadband	20,000
Office Supplies	15,000
Outside Supplies (shop parts & misc items)	65,000
Misc Operating/Office Expenses	6,000
Copier Lease	3,500
SGMA - Central Delta Mendota GSA	60,000
Legal	60,000
Audit Fees	25,000
Gen, Liab, Property Insurance	40,000
Workers Comp Insurance	30,000
Employee Training	2,000
Employee Conferences/Meetings	20,000
Fuel & Oil	50,000
City Water Treatment & Misc Expense	16,000
Water Sampling	3,000
Outside Engineering <i>(doesn't include work on big projects)</i>	100,000
KRWA Expenses (incl. dues)	30,000
SLDMWA	60,000
Dues (all other dues)	95,000
Taxes & Permits (prop., Rights Water)	45,000
Vehicle/Grant Reserve	350,000
Totals	<u>\$2,969,307</u>

3.1.2. Future District Expenses

Staff analyzed the 2019 expenses and then projected expenses for 2020, as shown in Table 3. In the 2020 projection, the expenses were split into three categories: fixed, ag variable, and municipal variable. The fixed costs are those costs that would occur regardless of the volume of irrigation water delivered or number of municipal connections served. Except for office-specific, irrigation-specific and municipal-specific categories (which were weighted separately), the fixed costs were weighted as 45% of the remaining general and administrative costs. Likewise, the ag variable costs were weighted at 50% of the remaining general and administrative costs, and the municipal variable costs were weighted at 5% of the remaining general and administrative costs.

Table 3. Projected 2020 Expenses

<i>Expense Category</i>	2020		Fixed		Ag Variable		Municipal Variable	
	Projection	%	Cost	%	Cost	%	Cost	
Wages	\$760,000	45	\$342,000	50	\$380,000	5	\$38,000	
Payroll Taxes & UI	21,000	45	9,450	50	10,500	5	1,050	
Medical, Dental, Vision Insurance	350,000	45	157,500	50	175,000	5	17,500	
Pension Expense (TID cont)	118,000	45	53,100	50	59,000	5	5,900	
R/M Irrigation System (inc. meter repair)	60,000	0	0	100	60,000	0	0	
Weed Control	48,000	0	0	100	48,000	0	0	
R/M Pumps & Wells	60,000	0	0	100	60,000	0	0	
R/M Vehicles	12,000	45	5,400	50	6,000	5	600	
R/M Equipment	30,000	45	13,500	50	15,000	5	1,500	
R/M City Water System	60,000	0	0	0	0	100	60,000	
R/M Office Equipment	4,000	45	1,800	50	2,000	5	200	
R/M Building	2,000	45	900	50	1,000	5	100	
R/M Park	1,000	0	0	0	0	100	1,000	
Equipment Rental (excavator/heavy equip)	6,000	0	0	100	6,000	0	0	
Contract Water Costs/SLDMWA pu fees	30,000	0	0	100	30,000	0	0	
Solar Power	357,000	5	17,850	80	285,600	15	53,550	
Irrigation Power - Electrical	60,000	0	0	100	60,000	0	0	
Telephone & Broadband	24,000	100	24,000	0	0	0	0	
Office Supplies	18,000	100	18,000	0	0	0	0	
Outside Supplies (shop parts & misc items)	77,000	45	34,650	50	38,500	5	3,850	
Misc Operating/Office Expenses	7,000	100	7,000	0	0	0	0	
Copier Lease	4,000	100	4,000	0	0	0	0	
SGMA - Central Delta Mendota GSA	72,000	100	72,000	0	0	0	0	
Legal	72,000	100	72,000	0	0	0	0	
Audit Fees	30,000	100	30,000	0	0	0	0	
Gen, Liab, Property Insurance	48,000	100	48,000	0	0	0	0	
Workers Comp Insurance	36,000	45	16,200	50	18,000	5	1,800	
Employee Training	2,000	45	900	50	1,000	5	100	
Employee Conferences/Meetings	24,000	45	10,800	50	12,000	5	1,200	
Fuel & Oil	60,000	45	27,000	50	30,000	5	3,000	
City Water Treatment & Misc Expense	19,000	0	0	0	0	100	19,000	
Water Sampling	4,000	0	0	0	0	100	4,000	
Outside Engineering <i>(doesn't include work on big projects)</i>	119,000	100	119,000	0	0	0	0	
KRWA Expenses (incl. dues)	36,000	100	36,000	0	0	0	0	
SLDMWA	72,000	100	72,000	0	0	0	0	
Dues (all other dues)	113,000	100	113,000	0	0	0	0	
Taxes & Permits (prop., Rights Water)	54,000	100	54,000	0	0	0	0	
Capital Improvement Reserve	86,000	45	38,700	50	43,000	5	4,300	
Totals	\$2,956,000		\$1,398,750		\$1,340,600		\$216,650	

TRANQUILLITY IRRIGATION DISTRICT
PROPOSITION 218 ENGINEER'S REPORT

For 2021 through 2024, the 2020 expenses were escalated at a 3% inflation factor (excluding Solar Power charges, which have a 2% per year contractual increase). The 2024 projected expenses are itemized in Table 4.

Table 4. Projected 2024 Expenses

<i>Expense Category</i>	2024		Fixed		Ag Variable		Municipal Variable	
	Projection	%	Cost	%	Cost	%	Cost	
Wages	\$855,000	45	\$384,750	50	\$427,500	5	\$42,750	
Payroll Taxes & UI	24,000	45	10,800	50	12,000	5	1,200	
Medical, Dental, Vision Insurance	394,000	45	177,300	50	197,000	5	19,700	
Pension Expense (TID cont)	133,000	45	59,850	50	66,500	5	6,650	
R/M Irrigation System (inc. meter repair)	68,000	0	0	100	68,000	0	0	
Weed Control	54,000	0	0	100	54,000	0	0	
R/M Pumps & Wells	68,000	0	0	100	68,000	0	0	
R/M Vehicles	14,000	45	6,300	50	7,000	5	700	
R/M Equipment	34,000	45	15,300	50	17,000	5	1,700	
R/M City Water System	68,000	0	0	0	0	100	68,000	
R/M Office Equipment	5,000	45	2,250	50	2,500	5	250	
R/M Building	2,000	45	900	50	1,000	5	100	
R/M Park	1,000	0	0	0	0	100	1,000	
Equipment Rental (excavator/heavy equip)	7,000	0	0	100	7,000	0	0	
Contract Water Costs/SLDMWA pu fees	34,000	0	0	100	34,000	0	0	
Solar Power	386,000	5	19,300	80	308,800	15	57,900	
Irrigation Power - Electrical	68,000	0	0	100	68,000	0	0	
Telephone & Broadband	27,000	100	27,000	0	0	0	0	
Office Supplies	20,000	100	20,000	0	0	0	0	
Outside Supplies (shop parts & misc items)	87,000	45	39,150	50	43,500	5	4,350	
Misc Operating/Office Expenses	8,000	100	8,000	0	0	0	0	
Copier Lease	5,000	100	5,000	0	0	0	0	
SGMA - Central Delta Mendota GSA	81,000	100	81,000	0	0	0	0	
Legal	81,000	100	81,000	0	0	0	0	
Audit Fees	34,000	100	34,000	0	0	0	0	
Gen, Liab, Property Insurance	54,000	100	54,000	0	0	0	0	
Workers Comp Insurance	41,000	45	18,450	50	20,500	5	2,050	
Employee Training	2,000	45	900	50	1,000	5	100	
Employee Conferences/Meetings	27,000	45	12,150	50	13,500	5	1,350	
Fuel & Oil	68,000	45	30,600	50	34,000	5	3,400	
City Water Treatment & Misc Expense	21,000	0	0	0	0	100	21,000	
Water Sampling	5,000	0	0	0	0	100	5,000	
Outside Engineering <i>(doesn't include work on big projects)</i>	134,000	100	134,000	0	0	0	0	
KRWA Expenses (incl. dues)	41,000	100	41,000	0	0	0	0	
SLDMWA	81,000	100	81,000	0	0	0	0	
Dues (all other dues)	127,000	100	127,000	0	0	0	0	
Taxes & Permits (prop., Rights Water)	61,000	100	61,000	0	0	0	0	
Capital Improvement Reserve	97,000	45	43,650	50	48,500	5	4,850	
Totals	\$3,317,000		\$1,575,650		\$1,499,300		\$242,050	

3.2. District Revenues

3.2.1. Current District Revenues

Historically, the District has levied volumetric water charges, monthly connection charges, and land-based assessments to recover the District's expenses. If needed, non-operating revenues and outside water sales have been used to make up the shortfall. The following charges were levied to recover the District's ongoing costs:

- **Irrigation Water Charge:** Levied on a volumetric basis to recover the costs of acquiring, pumping and delivering over 23,000 AF per year of water for agricultural irrigation. While this charge is currently \$58.00 per AF, a maximum proposed charge of \$65.00 per AF is needed to recover the \$1.50 million projected cost of providing irrigation water in the future.
- **Municipal Water Charge:** Levied on a per-connection basis to recover the costs of pumping, treating and delivering municipal water to about 330± connections. While this charge is currently \$45.00 per month, a maximum proposed charge of \$50.00 per month is needed to recover the \$242,000 projected cost of providing municipal water in the future.
- **Benefit Assessment:** Levied on a per-acre basis to recover the fixed costs of operating the District. These are the costs that occur regardless of irrigation or municipal water deliveries. This charge is currently \$7.50 per acre, generating \$78,000 annually, **which does not adequately recover the remaining \$1.31 million estimated 2020 fixed cost for operating the District.**
- **Other Revenue Sources:** These revenues include contract water sale income of \$800,000, lease and rental income of \$206,000, miscellaneous income of \$24,000, and outside water sales of \$280,000.

The proposed Irrigation Water Charges and the Municipal Water Charges are expected to recover the cost of those services. Additionally, the Benefit Assessments, which have remained the same since 1969, are not sufficient to recover the District's remaining fixed costs without being subsidized by outside water sales, which is why the District is proposing increased assessments.

With the passage of the SGMA, the District must maximize the use of its surface water supplies to offset groundwater pumping, and can no longer rely on outside water sales to fund the revenue shortfall. Therefore, the District is seeking to increase the Benefit Assessment rate to replace the revenue that was formerly provided from outside water sales. Table 5 identifies the existing rates and charges, the proposed 2020 rates, and the proposed maximum rates (to recover 2024 costs) to be adopted in 2019.

Table 5. Current District Assessments and Charges vs Proposed

Classification	Current Rate	Proposed 2020 Rate	Proposed Maximum Rate
Assessment	\$7.50/acre	\$35.00/acre	\$40.00/acre
Irrigation Water	\$58.00/acre-foot	\$58.00/acre-foot	\$65.00/acre-foot
City Water	\$45.00/month	\$45.00/month	\$50.00/month

The maximum rates identified above are based on the 2020 budget projected 4 years into the future (2024) with a 3% inflation factor, and is the maximum rate that can be assessed. After 2024, these maximum rates can be increased at the Board's discretion at the Consumer Price Index rate in that year. The amount charged by the District in any year can be lower, but will not exceed that amount unless another Proposition 218 election is passed approving another increase. The rates charged will be implemented at the discretion of the Board up to the maximum rate. The proposed 2020 and maximum rates allow the District to pay the actual operating costs without relying on revenue from outside water sales.

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. TID provides special benefits to the parcels within the District by delivering surface water, groundwater, and municipal water supplies. These services do not accrue to the public at large and are not considered general benefits.

This report proposes an increase in the existing 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.

The new rate structure proposed by the Board of Directors is designed to achieve and maintain equity to landowners who rely on District surface water, groundwater, and municipal water deliveries, and the benefit of the District to secure and maintain the surface water, groundwater, and municipal water supplies. The District's objective, which is paramount in providing available water supplies to its service area, is to provide the necessary services to maintain and operate the water conveyance systems and entitlements in an equitable manner and at a reasonable cost to its landowners, without having to rely on revenue from outside water sales.

4.2. Determination of Benefits

The purpose of this section is to identify the current benefits each parcel receives within the District. This is a breakdown of how current costs are attributed to each parcel and

justifying the assessment structure. The costs attributed in this section only evaluate current expenses and the level of service that properties currently receive.

4.2.1. Benefit of the District's Existence

There is a special benefit that is conferred upon all of the parcels that fall within the District's boundary. This benefit includes the value of the District's operations and the benefit of the ability of the District to secure and deliver water supplies. The benefit of providing a water supply to properties within the District ties to the original water rights secured along the Kings River and San Joaquin River when the District was formed. If the District had not been organized, these rights would no longer be enjoyed by landowners located within the District boundaries. Furthermore, historic agreements along the Kings River could have limited even the amount and availability of Kings River water to the landowners adjacent to the Kings River. If the District did not exist, landowners who now receive surface water supplies may not be farming in this area.

4.2.2. Benefit of the District's Surface Water Supplies

Prior to the passage of SGMA, the District's surface water supplies were utilized to not only provide District landowners with an agricultural water supply, but were also sold with the proceeds used to make up budget shortfalls. Implementation of SGMA requires that the District utilize these supplies to offset groundwater pumping going forward. Without these surface supplies, there would be a higher reliance on groundwater; of which the State could mandate a reduction in groundwater pumping.

5. PROPOSAL TO INCREASE ASSESSMENTS

The District must raise assessments, sell assets, or implement programs to reduce water demand to comply with SGMA. Due to the budget shortfalls and a new mandate for groundwater sustainability, the District's Board of Directors has determined the best course of action is to raise the assessment rate to replace the revenues formerly generated from outside water sales. By seeking authority to increase a maximum assessment rate, the rates will provide the District the ability to recover District expenses without relying on outside water sales to subsidize District operations.

5.1. General

Based on the services and entitlements provided by the District, the District proposes to increase assessments. In prior years, the District collected \$78,000 in revenue from assessments and the District's fixed expenses were \$1.39 million. The balance of the District's revenues outside of assessments consisted of revenues from:

- Contract Water Sales
- Lease and Rental Income
- Miscellaneous Income
- Outside Water Sales

Of the District's revenues in 2019 totaling \$2.97 million, \$390,000 consisted of water sales. In light of SGMA, if the District were to continue this practice there would be a negative impact on the sustainability program and a like amount of demand reduction in the District would need to be realized. Also, because of the unreliability of that supplemental income, the District could potentially be short on revenue in years where water prices are low and supply is also limited.

5.2. Assessment Structure

To fund operations, the District imposes land-based assessments on owners of land within the District. The assessment amounts reflect the value to that land in the District and the value of service the District provides to that land. The proposed maximum assessment rate increases are dedicated to paying actual operational costs. In 2020, if approved, the assessment would collect an additional \$287,000 to be used to recover fixed expenses.

5.3. Conclusion

The Board of Directors seeks to ensure that the District's expenditures are truly necessary and that costs are allocated in a fair and equitable manner amongst the landowners in the District. Based on those objectives, the District needs to raise assessments to cover projected expenses in 2020 and future years. Additionally, it is the goal of the Board of Directors to allocate the fixed costs of operating the District without using revenues generated by outside water sales. Approval of these rates will allow the Board of Directors flexibility to utilize surface supplies in-District.

This Engineer's Report finds that even with these increased assessment rates, the assessed properties will still receive a special financial benefit from the District in excess

of their total assessment, because the cost of supplying the properties with water (for irrigation or for groundwater recharge) would be substantially higher to the landowners in the absence of the District's operations.

6. IMPLEMENTATION PROCEDURES

6.1. Implementation

Based on an examination of procedural options available to the District's Board of Directors, it is the Engineer's opinion that the increased assessment structure offers an equitable procedure to the District to generate revenues for its operations without relying on outside water sales revenue. The District 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 supplemental land-based assessment.

Upon acceptance of the Engineer's Report, the District will hold a public hearing upon the proposed assessment increase in which the District will disclose its intentions and justifications for pursuing a Proposition 218 election. During the public hearing, the District will take into consideration any objections to the proposed rate increases. In October 2019, the District will assemble the roll of the landowners affected by the new assessment rates, and mail (i) notices to these landowners informing them of the proposed assessment increase, and (ii) ballots for them to cast in the election. The votes will be tallied in December. Votes will be based upon acreage. A majority vote approval is necessary for the District to implement a new assessment rate levy in accordance with the Maximum Assessment Rate Schedule.

If a majority vote approves that Schedule in the 218 election, the District Board, at its next Board of Equalization meeting may authorize the increase in assessment rates.

7. BIBLIOGRAPHY

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

Tranquillity Irrigation District Water Management Plan 2005-2009, (Tranquillity Irrigation District, et. al) April, 2011

8. ATTACHMENTS

Attachment A
Assessment Roll for TID