State Water Resources Control Board

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Arnold Schwarzenegger
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TO: Celeste Cantú, Executive Director
Tom Howard, Chief Deputy Director
Beth Jines, Acting Deputy Director
EXECUTIVE OFFICE

FROM: Esteban Almanza, Chief
DIVISON OF ADMINISTRATIVE SERVICES

DATE: August 26, 2005

SUBJECT: AGRICULTURAL WAIVER FEES

Per my request, the Fee Unit prepared a financial analysis of the Agricultural Waiver Program. The following is the analysis and my recommendation. Let me know when you want to meet and discuss a course of action.

Issue
The Agricultural Waiver Program is under-funded.

Background
On June 16, 2005, the Water Board adopted a three-tier agricultural waiver fee designed to raise $1.9 million to cover the costs of funding 22 positions to administer the agricultural waiver program. Rates for the three tiers are as follows:
Tier 1: Coalitions that collect fees pay $100 per coalition plus $.12 per acre
Tier 2: Coalitions that do not collect fees pay $100 per farm plus $.20 per acre
Tier 3: Individual growers pay $100 per farm plus $.30 per acre

The following is a summary of budgeted Agricultural Waiver Program expenditures for FY 05-06:

Organization	PYs	Salaries	Travel	Indirect	Total
Region 3	1.9	109,774	3,904	78,247	191,925
Region 4	1.9	109,619	3,904	78,109	191,632
Region 5	18.5	1,134,837	29,384	876,810	2,041,031
DWQ	3.8	219,172	7,808	156,160	383,140
DAS	1.2	72,277	0	63,997	136,274
TOTAL	27.3	1,645,679	45,000	1,253,323	2,944,002

These allotments include both Direct (128) and Indirect (591) Tasks for the Agricultural Waiver Program, which includes SB 390 resources in Region 5.

On June 17, 2005, the Water Board sent a letter to participating coalitions and groups in Regions 3 and 5 asking them to enroll in one of the above tiers.[1] These coalitions represent a combined total 10.5 million acres of irrigated agricultural land in their service areas. To date, the Water Board has received enrollment forms from six coalitions—all of whom have enrolled under Tier 1—and is working closely with the other five coalitions to get their enrollment forms. Table 1 projects revenue for FY 2005-06 based upon actual and estimated enrollment data.

Table 1. Fiscal Year 2005-06 Revenue Forecast

Coalition	Service Area (Acres)	Enrolled Acres	Percent Enrolled	Revenue
REGION 5 Southern SJ Valley WQC*	4,000,000	1,000,000	25%	$120,100
East San Joaquin WQC**	1,200,000	517,661	43%	$62,219
Westside San Joaquin River Watershed Coalition**	550,000	460,482	84%	$55,358
SJ County and Delta WQC**	998,000	348,800	35%	$41,956
Sacramento Valley WCQ*	2,000,000	1,000,000	50%	$120,100
California Rice Commission**	500,000	516,000	103%	$62,020
Goose Lake RCD*	7,314	5,120	70%	$714
Westlands Water District**	431,435	438,889	102%	$52,767
Root Creek Watershed Coalition**	40,000	15,000	38%	$1,900
San Luis Water District*	66,500	33,250	50%	$4,090
REGION 3 Central Coast Water Quality Preservation, Inc.*	435,000	326,250	75%	$39,250
REGION 4*	263,000	176,210	67%	$21,245
TOTAL	10,491,249	4,837,662	46%	$581,719

*Revenue projection based on estimated enrollment.
**Revenue projection based on actual enrollment.

[1] Region 4 has not adopted its waiver yet.

Discussion

There are two concerns evident on Table 1. First, the five coalitions that have not enrolled comprise 6.5 million or about 64 percent of the total acreage (excluding Region 4). Second, of the six coalitions that did enroll, three will collect fees for less than 50 percent of their service areas, a percentage much lower than initially anticipated. Assuming the remaining coalitions collect fees for a similar percentage of their service areas, the agricultural waiver fee will raise about $600 thousand in FY 05-06, which is about 20 percent of the revenue needed to fully fund budgeted expenditures (see Table 2 below). Revenue is projected to increase to $900 thousand in FY 06-07 as the regions find non-filers and require them to enroll in a coalition or pay the individual grower fee.

Table 2. Three Years Revenue vs. Budget

Fiscal Year	**Projected Revenue**	**Budget**	**Over/(Under) Collection**
04-05	$0	$3,934,008[1]	($3,934,008)
05-06	$600,000	$2,944,002[2]	($2,344,002)
06-07	$900,000	$2,944,002[2]	($2,044,002)
TOTAL	$1,500,000	$9,822,012	($8,322,012)

[1]Includes one-time contract funds, SB 390 costs, and allocated indirect charges from WDPF.
[2]Includes SB 390 costs and allocated indirect charges from WDPF.

As Table 2 indicates, the agricultural waiver program is projected to accumulate an $8.3 million deficit over a three-year period under current revenue and expenditure assumptions. This raises several concerns. First, other WDPF fee payers will have to absorb any deficit in the agricultural waiver program since no other funding source exists for this program. Given the projected size of the deficit, this will likely be a major concern to other fee payers. In addition, using funds from one fee-based program to subsidize another fee-based program arguably violates the intent of Water Code section 13260(f), which requires the Water Board to set and annually adjust its program fees to conform to the revenue levels set forth in the Budget Act. Such a large and ongoing subsidization could expose the Water Board to accusations of fiscal mismanagement from the Legislature and fee payers. It may also stiffen the resistance of fee payers to future fee increases.

Second, under current revenue and expenditure assumptions, the agricultural waiver fee will never generate sufficient revenue to cover total program costs because the fee was only designed to cover the cost of funding 22 positions ($1.9 million) rather than for funding the total budget that gets apportioned to the agricultural waiver program, which for FY 05-06 is $2.9 million. In addition to the $1.9 million, the agricultural waiver budget includes SB 390 costs, indirect cost allocations (general Water Board overhead), and direct cost allocations from the WDPF.

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Third, if the Water Board is successful at getting most growers to join a Tier 1 coalition, the agricultural fee will most likely raise closer to $1.3 million in revenue rather than $1.9 million. The $1.9 million estimate assumed that some of the coalitions would enroll under Tier 2 and large numbers of individual growers would enroll under Tier 3. So far, no coalition has chosen to enroll under Tier 2 and it is unlikely that any will choose to do so. As for individual growers, because the three-tier fee structure provides significant financial incentives for them to join Tier 1 coalitions, once they have been identified by the regions and are required to enroll in the program, most will likely they will join a Tier 1 coalition unless the regions require them to pay the individual grower fee.

Incorporating the assumptions described above, Chart 1 compares revenue and expenditures over five years (FY 04-05 – FY 08-09) while Chart 2 graphs the accumulating gap between revenue and expenditures over the same five years.

Chart 1. Revenue vs. Budget

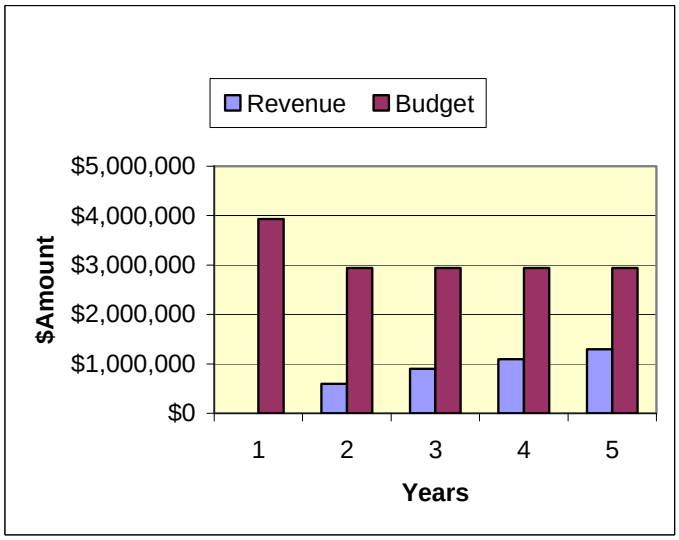
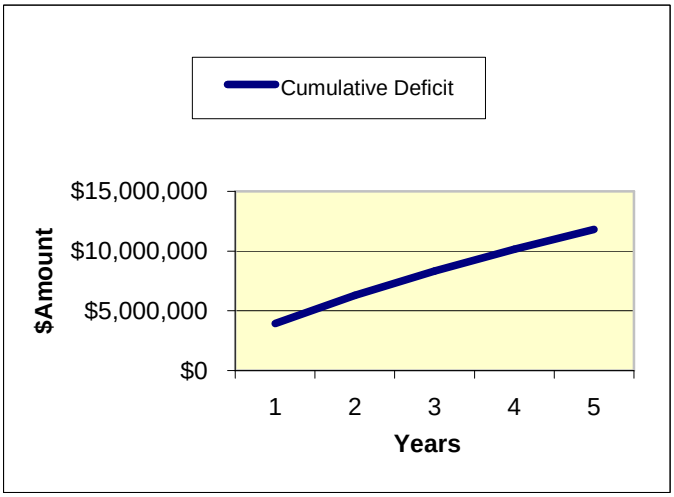


Chart 2. Five-year Cumulative Deficit



Assuming revenue increases to $1.1 million in FY 07-08 and to $1.3 million in FY 08-09 while the budget remains constant at $2.9 million through FY 08-09, the agricultural waiver program will have an ongoing structural deficit of about $1.6 million per year with a cumulative deficit over the five-year period of $11.8 million. These projections are optimistic given costs will continue to increase and compliance on waiver fees are likely to be lower.

Conclusion

The Agricultural Waiver Program must either reduce costs by $1.9 million; increase revenue by at least $1.9 million (a 300% increase to fees), or a combination of the two.

Recommendation

Reduce the cost of the program to $1 million and increase the budget of a WDPF program that has available funds. As fees are gradually increased the program can be allowed to grow.

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Fiscal Impact
The following tables illustrate how a $1 million Agricultural Waiver Program might be allocated and what the impact (reduction) to the existing program budget would be.

Potential Allotments that could be covered with anticipated fee revenues:

Organization	PYs	Salaries	Travel	Indirect	Total
Region 3	0.7	38,421	1,366	27,386	67,174
Region 4	0.7	38,367	1,366	27,338	67,071
Region 5	6.3	385,845	9,991	292,213	688,049
DWQ	1.3	76,710	2,733	54,656	134,099
DAS	0.4	23,129	0	20,479	43,608
TOTAL	**9.3**	**562,471**	**15,456**	**422,073**	**1,000,000**

Difference (Potential Reductions)

Organization	PYs	Salaries	Travel	Indirect	Total
Region 3	(1.2)	(71,353)	(2,538)	(50,861)	(124,751)
Region 4	(1.2)	(71,252)	(2,538)	(50,771)	(124,561)
Region 5	(12.2)	(748,992)	(19,393)	(584,597)	(1,352,982)
DWQ	(2.5)	(142,462)	(5,075)	(101,504)	(249,041)
DAS	(0.8)	(49,148)	0	(43,518)	(92,666)
TOTAL	(18.0)	**(1,083,208)**	**(29,544)**	**(831,250)**	**(1,944,002)**

Attachment

cc: Miles Burnett