

**ENGINEER'S REPORT
FOR LOWER TULE RIVER IRRIGATION DISTRICT
PROPOSITION 218 PROCEDURES FOR
BENEFIT ASSESSMENTS**

July 2010

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Lower Tule River Irrigation District

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TABLE OF CONTENTS

REPORT SUMMARY 1

1. PURPOSE OF THE REPORT 2

 1.1. General 2

 1.2. Proposition 218 Requirements 2

 1.3. Revenue Objectives 3

2. DISTRICT BACKGROUND INFORMATION 4

 2.1. General 4

 2.2. Location 4

 2.3. History 4

 2.4. Water Supply 5

 2.4.1. Surface Water 5

 2.4.2. Groundwater 6

 2.4.3. Groundwater Recharge Activities 8

 2.5. City Water Use 10

 2.6. Existing Facilities 10

 2.6.1. District Water Rates 11

 2.7. Environmental Settings 11

 2.7.1. Climate 11

 2.7.2. Terrain and Soils 13

 2.7.3. Cropping Patterns 13

3. DISTRICT FINANCIAL INFORMATION 14

 3.1. Fiscal Year 2010 Budget 14

 3.1.1. District Revenues 14

 3.1.2. District Expenses 15

 3.2. District Rate Information 17

 3.2.1. Historical District Rates 17

 3.2.2. District Assessment Rates 18

 3.2.3. Water Rate (Five-Year Rolling Average) 19

 3.2.4. USBR Water Service Contract 21

 3.2.5. Restricted Funds Policy 21

4. PROPOSAL TO INCREASE CHARGES 22

 4.1. General 22

 4.2. Change in Assessments 22

 4.2.1. Special Benefit Assessment for Parcels over Minimum Assessment 22



LOWER TULE RIVER IRRIGATION DISTRICT
PROP. 218 ENGINEER'S REPORT

| | | | |
|--|-----------|------------------|-----------------|
| 2.7.3. Cropping Patterns | 13 | Formatted | ... [29] |
| 3. DISTRICT FINANCIAL INFORMATION | 14 | Formatted | ... [30] |
| 3.1. Fiscal Year 2010 Budget | 14 | Formatted | ... [31] |
| 3.1.1. District Revenues | 14 | Formatted | ... [32] |
| 3.1.2. District Expenses | 15 | Formatted | ... [33] |
| 3.2. District Rate Information | 17 | Formatted | ... [34] |
| 3.2.1. Historical District Rates | 17 | Formatted | ... [35] |
| 3.2.2. District Assessment Rates | 18 | Formatted | ... [36] |
| 3.2.3. Water Rate (Five-Year Rolling Average) | 19 | Formatted | ... [37] |
| 3.2.4. USBR Water Service Contract | 21 | Formatted | ... [38] |
| 3.2.5. Restricted Funds Policy | 21 | Formatted | ... [39] |
| 4. PROPOSAL TO INCREASE CHARGES | 22 | Formatted | ... [40] |
| 4.1. General | 22 | Formatted | ... [41] |
| 4.2. Change in Assessments | 22 | Formatted | ... [42] |
| 4.2.1. Special Benefit Assessment for Parcels over Minimum Assessment | 22 | Formatted | ... [43] |
| 4.2.2. Special Benefit Assessment for Parcels under Minimum Assessment | 23 | Formatted | ... [44] |
| 4.2.3. Non Assessed Parcels | 23 | Formatted | ... [45] |
| 5. BENEFIT DETERMINATION | 23 | Formatted | ... [46] |
| 5.1. General | 23 | Formatted | ... [47] |
| 5.2. Determination of Benefits | 24 | Formatted | ... [48] |
| 5.2.1. District Administration Benefit | 24 | Formatted | ... [49] |
| 5.2.2. Groundwater Recharge Benefit | 24 | Formatted | ... [50] |
| 5.2.3. District Operations and Maintenance Benefit | 25 | Formatted | ... [51] |
| 5.2.4. USBR 9d Contract and Prepayment | 25 | Formatted | ... [52] |
| 5.2.5. Calculation of Charges | 25 | Formatted | ... [53] |
| 5.2.6. Rate Proportionality | 26 | Formatted | ... [54] |
| 5.3. Conclusion | 26 | Formatted | ... [55] |
| 6. IMPLEMENTATION PROCEDURES | 27 | Formatted | ... [56] |
| 6.1. Implementation | 27 | Formatted | ... [57] |
| 7. ATTACHMENTS | 28 | Formatted | ... [58] |

LIST OF FIGURES

| | |
|---|---|
| Figure 1. District Location Map | 7 |
| Figure 2. Average Depth to Groundwater in LTRID (Spring Readings) | 9 |



Figure 3. District Facilities Map..... 12
Figure 4. USBR Land Classification Map 20

LIST OF TABLES

Table 2.1 – Parcels and Acreage by Land Use 4
Table 2.2 – District Diversion Locations..... 6
Table 2.3 – District Recharge Basins..... 8
Table 2.4 – District Annual Recharge Amounts..... 10
Table 3.1 – Summary of District's General Budget (2010) 14
Table 3.2 – Statement of Income (Loss) 2006-2008 14
Table 3.3 – District Expenses (2009)..... 17
Table 3.4 – 2009 Rate Classification and Value of Service..... 17
Table 3.5 – USBR Land Classification..... 19

ABBREVIATIONS Use these abbreviations throughout the document (e.g. AF)

| | |
|---------------|--------------------------------------|
| AF | Acre-feet |
| ACOE | Army Core of Engineers |
| cfs | Cubic-feet-per-second |
| CVC | Cross-Valley Canal |
| CVP | Central Valley Project |
| District..... | Lower Tule River Irrigation District |
| FKC | Friant-Kern Canal |
| ID | Irrigation District |
| LTRID | Lower Tule River Irrigation District |
| G&A | General and Administrative |
| USBR..... | United States Bureau of Reclamation |

REPORT SUMMARY

As part of the recent San Joaquin River Restoration Settlement, districts with Friant Division Central Valley Project (CVP) water service contracts agreed to accelerate the repayment of their financial obligation for the capital cost of the system in exchange for a discount from the United States Bureau of Reclamation (USBR) to account for the future value of the repaid funds. The collection of these early capital repayment funds is connected to the USBR's efforts to construct modifications to the improved San Joaquin River channel downstream of Friant Dam. In the past, the Lower Tule River Irrigation District (LTRID or District) has collected funds to pay Friant Division CVP capital repayment costs on a schedule through portions of their water charges. The District Board of Directors has recently reviewed several methods of collection and decided to pursue collection of these funds through land based assessments rather than the previous method due to the need to bond for the total sum of the capital repayment costs. Therefore the District now intends to shift this collection of funds from water charges to land based assessments and thereby increase their current general property assessment.

The general assessment 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 state's Government Code. These constitutional and statutory provisions implement Proposition 218, which established a number of mandatory procedures that local agencies must follow for the levy of certain assessments and charges to lands. However, 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.

Based on the District's needs, LTRID's Board of Directors is requesting that landowners approve an increase to the special benefit assessment to lands within the District. This would be an increase to their current ad valorem property assessment of 0.85% per land valuation based on the USBR land classification system. **The reason for the increase in this rate is to shift the collection of a portion of the Friant Division CVP capital repayment funds from District water tolls to land based assessments as part of a 9d contract.** This proposal will add an additional \$1,500,000 assessment to the present ad valorem assessment. It should be noted that the increase is a ceiling on the amount chargeable by the District, absent further proceedings, and in any given year the Board may elect to charge less than the proposed increase.

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Under the Proposition 218 process, once the Board determines the need to increase assessments, it is necessary to evaluate whether the costs are in line with the benefits provided and to allocate the costs to affected LTRID acreages. These are lands that derive a direct benefit from being within the District and the District's operations. The Engineer's Report discusses benefits of the District organization and its water entitlements and contracts, as well as services provided by LTRID. It has been determined that these benefits apply to lands located within the District.

A public hearing will be held by the District in order to consider and address comments and questions from District landowners. Following the acceptance of this Engineer's Report by the Board of Directors procedures whereby landowners may participate in the hearing, as well as the mandatory procedures by which all landowners affected by the special benefit assessment are entitled to vote upon its imposition will be put into place.

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 assessment will be levied. LTRID has charged the same assessments since before November of 1996, when Proposition 218 was approved by California voters. The District collects revenue in water toll charges and assessments which are allocated towards the District's expenses which consist of: Source of Supply, Transmission and Distribution, General and Administrative (G&A), and Interest expenses. The current water toll charge covers the majority of the District's revenue. Built into the water charge is a debt obligation repayment for the Friant Division CVP capital repayment. The District now intends to shift its collection of Friant Division CVP capital repayment funds from water charges to land based assessments and thereby increase their current assessments by \$1,500,000 per year or approximately \$15 per acre.

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.

Accordingly, the District must identify all parcels in the District that will have a "special benefit" conferred upon them for which the proposed supplemental benefit assessments will be levied. Under Proposition 218, a "special benefit" is defined as "a particular and distinct benefit over and above general benefits conferred on real property located in the district or to the public at large". Within LTRID, the primary benefits provided include, but are not limited to, protecting and maintaining water rights, the conveyance and delivery of water supplies, the management of groundwater resources, the reduction of groundwater overdraft and thus the associated reduced groundwater pumping costs and the ability to receive CVP water when available.

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, 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. Revenue Objectives

The District is pursuing the conversion of its existing 9e water service contract with the USBR to a 9d repayment contract as authorized by the San Joaquin River Settlement Act (Title X, Subtitle A of the Act of March 30, 2009, PL 111-11, in particular Section 10010 thereof). This is not expected to significantly change the District's capital obligations in the long term, but will entail selling bonds (or other form of indebtedness) to pre-pay those obligations. ~~Through~~ **As part of the new** 9d contract and prepayment, the Federal government will partially discount the total amount owed to the USBR and the District will provide necessary funds to the USBR for the construction of modifications to the San Joaquin River in accordance with the San Joaquin River Restoration Settlement. Further, as part of the 9d contract ~~and prepayment~~, the District will receive a permanent contract (rather than the current 25 year water service contract) and the District's landowners will be relieved of the ownership and acreage limitations (960 acre limitation rules) set forth in Reclamation Law. Additionally, **CVPIA** tiered pricing requirements, and the requirements for certain water transfers which are required under Reclamation Law, will be reduced. Furthermore, having a secure revenue stream, which has been authorized by the District's landowners (through a Proposition 218 election), should enhance the marketability of bonds or other indebtedness that the District would issue to ~~gain the benefits of a 9d repayment contract~~ **offset current debt obligations to the USBR.**

Currently, the District's water tolls are responsible for a portion of the funds collected by the District to repay the Friant Division CVP capital obligation. The District has been collecting sufficient capital repayment funds through the water tolls to meet its obligation without a balloon payment at the end of the planned term (2030). However, the main revenue objective for the District involves shifting its collection of Friant Division CVP capital repayment funds from water charges or tolls to land based assessments and thereby increase the District's current ad valorem assessment rate from 0.8% to 1.65%. The increased assessment rate will collect approximately \$1.5 million per year to pay the annual debt service of the new obligation. **Again, the reason for the increase in this rate is to shift the collection of a portion of the Friant Division CVP capital**

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repayment funds from District water tolls to land based assessments as part of a 9d contract.

2. DISTRICT BACKGROUND INFORMATION

2.1. General

LTRID was organized pursuant to the California Irrigation District Law (Division 11, California Water Code) in 1950 for the purpose of promoting flood control on the Tule River and to secure a supplemental irrigation supply from the CVP to sustain and enhance the irrigated agriculture that had developed in the area. The District is governed by a board of five directors. Each director represents one division within the District. ~~Each is at large~~ and is elected to a term of four years by qualified voters. Regular board meetings are held once a month, on the second Tuesday of the month.

2.2. Location

The District is situated in the south-western part of Tulare County on the east side of the San Joaquin Valley. State Highway 99 bisects the District in a north-south direction, and the Tule River flows westerly through the entire length of the District. The Friant-Kern Canal (FKC) is located five to six miles east of the District's boundary on the northeast between Tulare County Avenues 168 and 136, but passes through the southeast portion of the District between Avenue 136 and Avenue 128. The towns of Woodville, Popular and Tipton lie within the District's areas, but are for the most part excluded from the District. A breakdown of land use within the District is summarized in Table 2.1. The location of the District is shown in Figure 1.

Table 2.1 – Parcels and Acreage by Land Use

| Classification | # of Parcels | Percentage of Total Area |
|-------------------------------|--------------|--------------------------|
| Residential | 188 | 0.80 |
| Commercial & Industrial | 31 | 0.50 |
| Agricultural Land | 954 | 94.20 |
| Tax Exempt Land | 76 | 3.50 |
| Other Misc. Uses (e.g. roads) | 20 | 1.00 |
| Total | 1,269 | 100 |

2.3. History

The development of irrigated agriculture in LTRID was started in about 1870. The irrigated area was mainly along the Tule River, Porter Slough and small areas served by the Stockton and Popular ditches. The central portion of the District was the scene of a large wheat farming development during the 1880's. Two attempts were made during this period to form irrigation districts. One attempt was made in what is now the northeastern portion of the present district. This district, known as the Tule River Irrigation District, failed because the farmers along the Tule River and the Porter Slough had adequate water, but those farmers away from the streams had to engage in dry farming.

The second attempt was in an area around the present community of Tipton. The attempt to form the Tipton Irrigation District failed because of the lack of a firm water supply from the Tule River. Remnants of the canal system for the Tipton Irrigation District are still evident in the area today. The earliest reliable crop survey record indicates a net irrigated area of 27,327 acres in 1924. The principal crops were cotton and alfalfa. The District was finally formed in 1950 to promote flood control on the Tule River and to secure a supplemental irrigation supply from the Friant Division CVP. Over time, the District gradually secured water supplies outside of the Tule River including water exchanges, flood water contracts, CVP water and Cross-Valley Contract (CVC) water.

2.4. Water Supply

2.4.1. Surface Water

Currently, the water supply for landowners within the District is derived from the use of groundwater, water rights on the Tule River, surface water diversions from the FKC under two separate long term surface water contracts for CVP water with the USBR, and surface water exchange through the Cross-Valley Canal (CVC) Exchange Program with the USBR and the State of California.

In May, 1951, the District entered into a long-term forty-year water service contract with the USBR to secure Class 1 and Class 2 water from the San Joaquin River via Friant Dam and the FKC. This contract has provided the District with a highly variable water supply. The District's original Friant Division CVP water service contract was renegotiated in 1991 and is currently extended to 2030.

The U.S. Army Corps of Engineers (ACOE) completed the Success Dam on the Tule River in 1962 which provided much needed flood control and water conservation for the flows of the Tule River. The District owns or controls through agreements, approximately 50% of the water rights on the Tule River which yields an average annual supply of approximately 70,000 acre-feet (AF) to the District. The District entered into a forty-year repayment contract for its share of the cost of the conservation storage space provided by Success Dam and reservoir. The ACOE has found this earthen dam to have significant seismic issues, and plans to rebuild this facility. Currently the existing reservoir is being held at a minimum storage volume to avoid risk to the existing dam. The District is a committed partner in the effort to rebuild and increase the usable storage behind Success Dam.

In 1975, the District sold bonds to purchase a share of the CVC in Kern County and entered into a three-party contract with the USBR and the State of California to provide an additional water supply from the Sacramento River. Although the CVC Exchange Program no longer yields water to the District, the revenue from this water sale funds efforts by the District to import other available water supplies.

In 2006, the District and other Friant Contractors, after an 18 year court battle, entered into the San Joaquin River settlement agreement. That agreement will result in a loss of approximately 15 to 20% of the water supply available to the District on average. The

legislation authorizing the implementation of the settlement agreement approved in 2009 also authorizes the District to enter into a permanent 9d contract.

The District's Friant water consists of Class 1 and Class 2 CVP water, where it is contracted to receive approximately 61,200 AF of Class 1, and 238,000 AF of Class 2 (Contract No. 175R-2771R). The District has a contract to divert an annual average of 70,000 AF of Tule River water, and it has a contract to receive 31,102 AF of CVC Water (Contract No. 14-06-200-8237A). The District has historically sold the water from the Cross-Valley Contracts to fund operations of the District and to purchase cheaper flood water to offset reductions in available water. In addition, LTRID may access Section 215 water from the Friant Division CVP when it is made available by the USBR.

The average annual yield from the Friant project is approximately 90% of the contracted Class 1, and 40% of the contracted Class 2. The District receives approximately 50% of the annual Tule River water supply. In 2009, the District received approximately 165,236 AF of surface water; including 61,200 AF of Class 1, 69,389 AF of Class 2, and 34,647 AF of Tule River water.

Table 2.2 lists the canals that divert water from the Tule River and the FKC. The canals flow water through the District from the east to the west.

Table 2.2 – District Diversion Locations

| | Diversion Point | Description |
|----|------------------------|-------------------------|
| 1 | Friant-Kern Canal | Casa Blanca / Canal #1 |
| 2 | Friant-Kern Canal | Poplar Ditch |
| 3 | Friant-Kern Canal | Tipton Canal / Canal #2 |
| 4 | Friant-Kern Canal | Wood-Central / Canal #3 |
| 5 | Friant-Kern Canal | North Canal / Canal #4 |
| 6 | Tule River | Porter Slough |
| 7 | Tule River | Poplar Ditch |
| 8 | Tule River | Wood-Central Ditch |
| 9 | Tule River | #4 Cross Ditch |
| 10 | Tule River | McCarthy Diversion |
| 11 | Tule River | Creighton Ranch |

2.4.2. Groundwater

The District does not deliver groundwater. However, groundwater is found in the unconfined aquifer which underlies the District. In general there are no perched zones or shallow groundwater tables in the District. Groundwater is pumped by many private irrigation deep well pumps. Surface water is used conjunctively with groundwater so that water users stabilize their water supply by maximizing the surface supply when it is available.

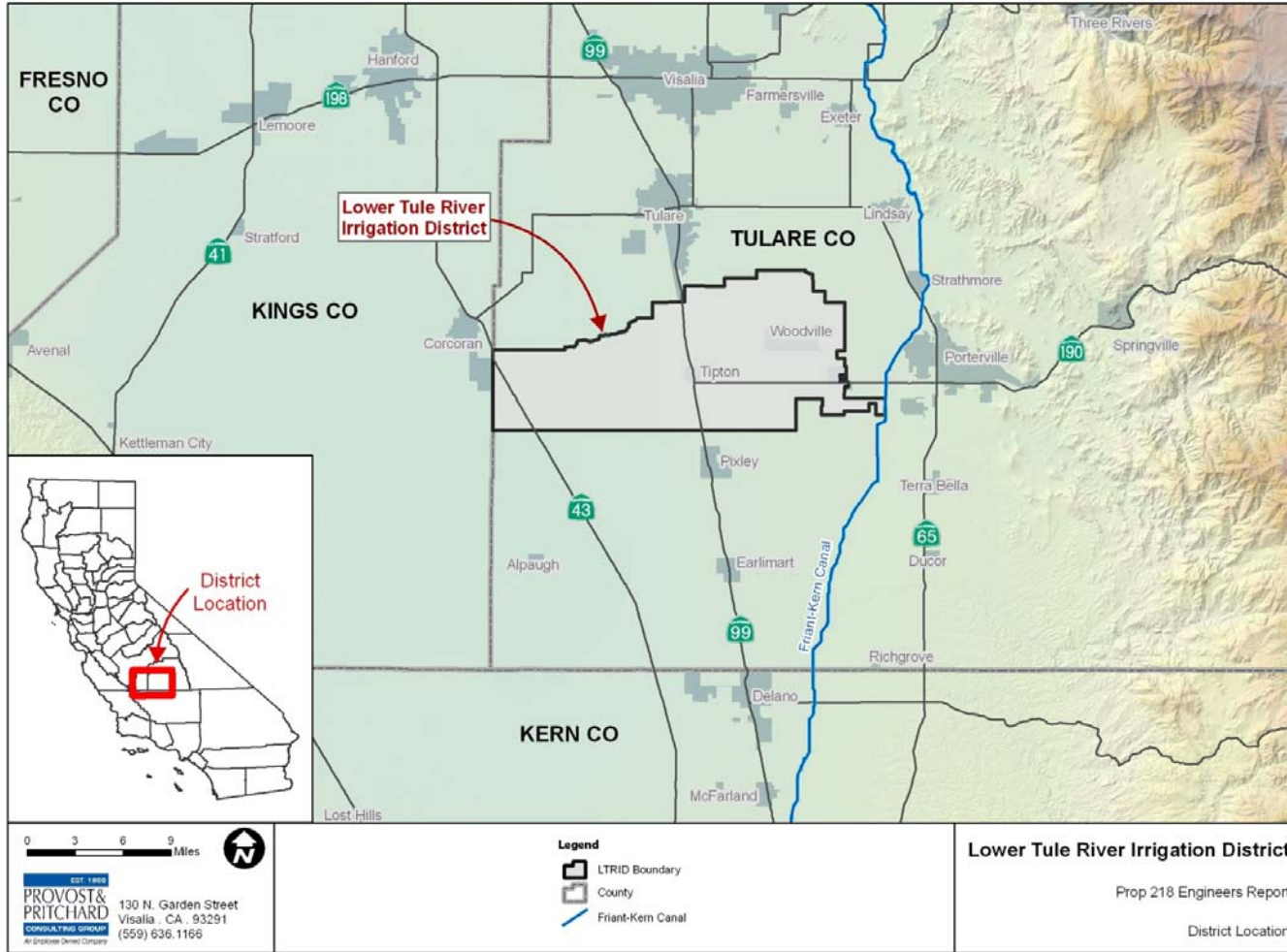


Figure 1. District Location Map

District staff measure groundwater levels for approximately 117 wells semiannually in February and October and the levels are used to generate groundwater contours. Groundwater levels have historically decreased in the District but have generally declined less rapidly since the District secured imported surface water supplies. Figure 2 depicts the depth to groundwater as of Spring of 2009 based on measurements made by the District staff.

2.4.3. Groundwater Recharge Activities

The District recharges groundwater through means of its unlined canals and recharge basins. The District owns 13 groundwater recharge basins, and has access to an additional 5 basins upon request. Table 2.3 summarizes the size and capacity of the recharge basins that the District employs. On average, the District recharges through its canals and its recharge basins approximately 77,000 AF of water per year. In 2005, the District recharged 188,000 AF of water and in 2007 the District recharged 21,000 AF of water. Table 2.4 summarizes the recharge amounts by the District from 1996 to 2009.

Table 2.3 – District Recharge Basins

| Recharge Basin Name | Size (acres) | Capacity (cfs) |
|------------------------------|--------------|----------------|
| Koslov Pit | 40 | 15.0 |
| Hare Pit | 12 | 2.0 |
| Lapdula Pit | 30 | 5.0 |
| County Pit | 20 | 3.5 |
| State Pit | 30 | 5.0 |
| Herchy Pit | 80 | 8.0 |
| Boswell Pit | 90 | 15.0 |
| Dennis Pit ¹ | 5 | 1.0 |
| Faure Pit ¹ | 10 | 2.0 |
| Baird Pit | 80 | 13.0 |
| Huddelston Pit | 40 | 6.0 |
| Gin Pit ¹ | 2 | 0.5 |
| School Pit | 10 | 2.0 |
| Creighton Ranch ¹ | 3,000 | 100.0 |
| Terry Pit | 30 | 5.0 |
| Hewett Pit | 80 | 13.0 |
| Keith Pit ¹ | 10 | 2.0 |
| Toledo Pit | 160 | 24.0 |
| Total | 3,729 | 222 |

Note 1 Basin use is by permission only

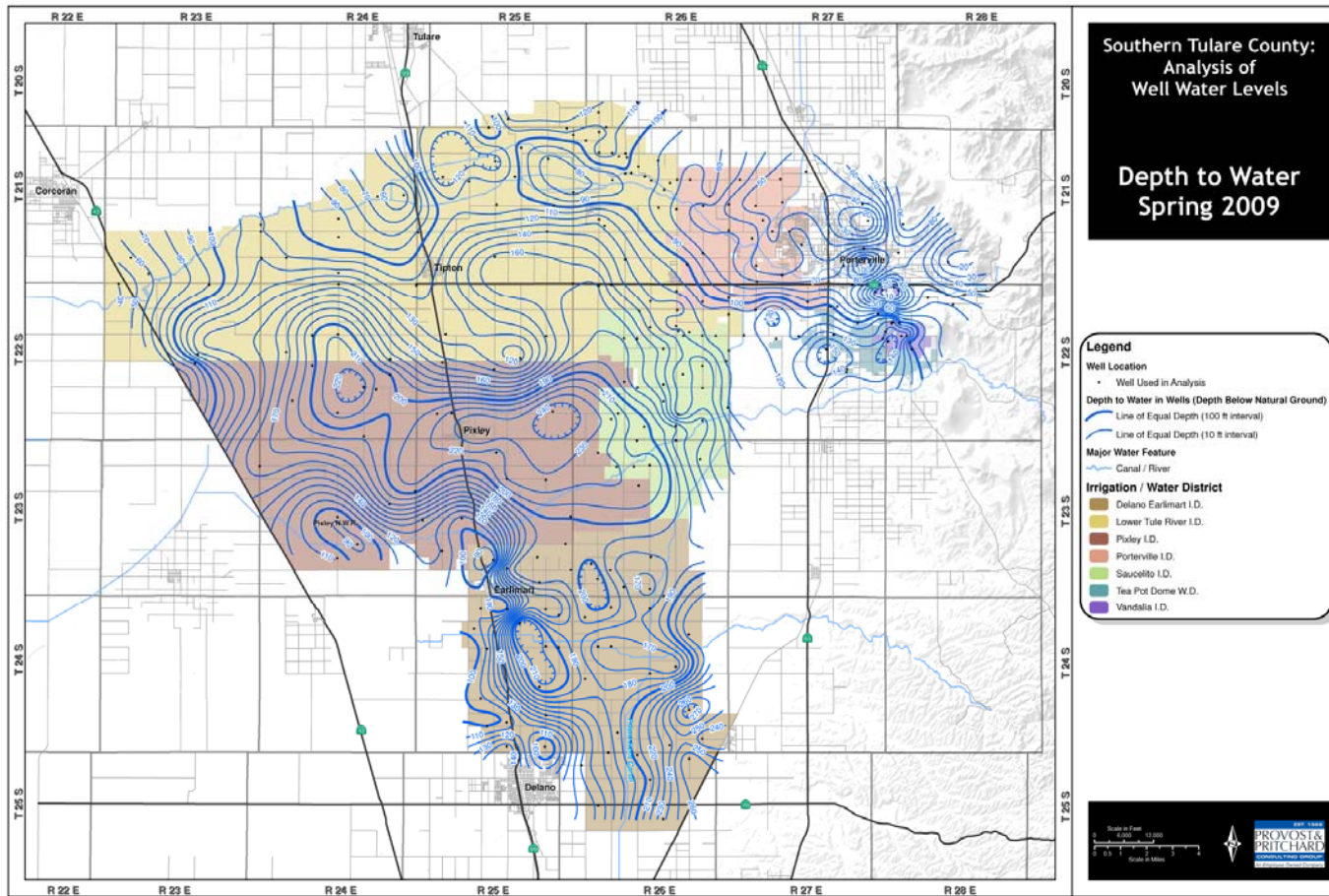


Figure 2. Average Depth to Groundwater in LTRID (Spring Readings)

Table 2.4 – District Annual Recharge Amounts

| Year | Recharge Amount (AF) |
|------------------|-------------------------|
| 1996 | 56,518 |
| 1997 | 101,299 |
| 1998 | 183,954 |
| 1999 | 43,179 |
| 2000 | 80,265 |
| 2001 | 29,945 |
| 2002 | 40,572 |
| 2003 | 68,932 |
| 2004 | 33,162 |
| 2005 | 187,898 |
| 2006 | 130,143 |
| 2007 | 20,703 |
| 2008 | 36,704 |
| 2009 | 66,759 |
| Average Recharge | 77,145 |

2.5. City Water Use

In addition to groundwater used for agriculture, there are communities within the District's boundaries that also use groundwater from the aquifer that the District recharges. Water for most uses within the communities of Tipton, Woodville, and Poplar is water pumped from the groundwater aquifer by the three municipalities for the benefit of their customers. Groundwater conditions have been improved and stabilized as a result of the District's imported surface water, which is used primarily by farmers using surface water when it is available in lieu of pumping groundwater, thus conserving groundwater for use by urban users and others, and during times of drought. This conjunctive use of surface water and groundwater has greatly enhanced and stabilized water supplies for urban users within the District.

2.6. Existing Facilities

The District's entire distribution system is either natural river channels or unlined earth canals with reinforced concrete control structures. Improvement districts were formed to provide local financing for the construction of the distribution systems. After completion, the facilities were turned over to the District for operation and maintenance. Collectively, the District owns or controls approximately 163 miles of canals and approximately 47 miles of river channel. The District has five main canals originating at the FKC with capacities ranging from 25 cubic feet per second (cfs) to 600 cfs. As was mentioned previously, the main canals run from east to west. The capacity of the sub-laterals branching out from the main canals range from 5 cfs to 100 cfs. The District's distribution system is shown on Figure 3.

The District has approximately 810 farm service outlets. Water delivery measurements are performed by means of calibrated slide gates.

The District does not have any groundwater extraction facilities; therefore each landowner must provide his own wells to sustain irrigation during periods when the District does not have surface water available.

In wetter years, the District operates its groundwater recharge/regulating reservoirs and distribution system to recharge the groundwater reservoir. The District maintains and operates 18 recharge and regulating basins, covering approximately 3,729 acres. The basins are graded and are compartmentalized into multiple cells for maximum efficiency and flexibility.

2.6.1. District Water Rates

The District's water rates partially cover the costs associated to the District's purchasing of water, District operations and maintenance, and the District capital repayment costs for the Friant Division CVP. The District's rates historically fluctuated greatly due to the source water costs and availability set out by the USBR each year for CVP contractors. Currently, the District has a five-year rolling average rate that takes into account the previous year's rates and creates an average rate that remains fairly stable from year to year.

2.7. Environmental Settings

2.7.1. Climate

The climate in the area served by LTRID is representative of that of the entire San Joaquin Valley. During the summer months the days are generally hot and dry with daytime temperatures typically exceeding 95 degrees Fahrenheit and during the winter months the days are generally mild and damp with daytime temperatures typically averaging 45 degrees Fahrenheit. The mean annual temperature at Visalia, located approximately 15 miles north of the District, is 62.9 degrees Fahrenheit. The average minimum and maximum temperatures are 50.3 and 75.5 degrees Fahrenheit, respectively.

The average seasonal rainfall for the District area is 7.17 inches, based on records published by the National Oceanic and Atmospheric Administration for the recording station in Delano. The rain falls principally during the November through April period. The average annual evaporation for the area is 70.0 inches with the greatest evaporation occurring during the months of May, June, July and August.

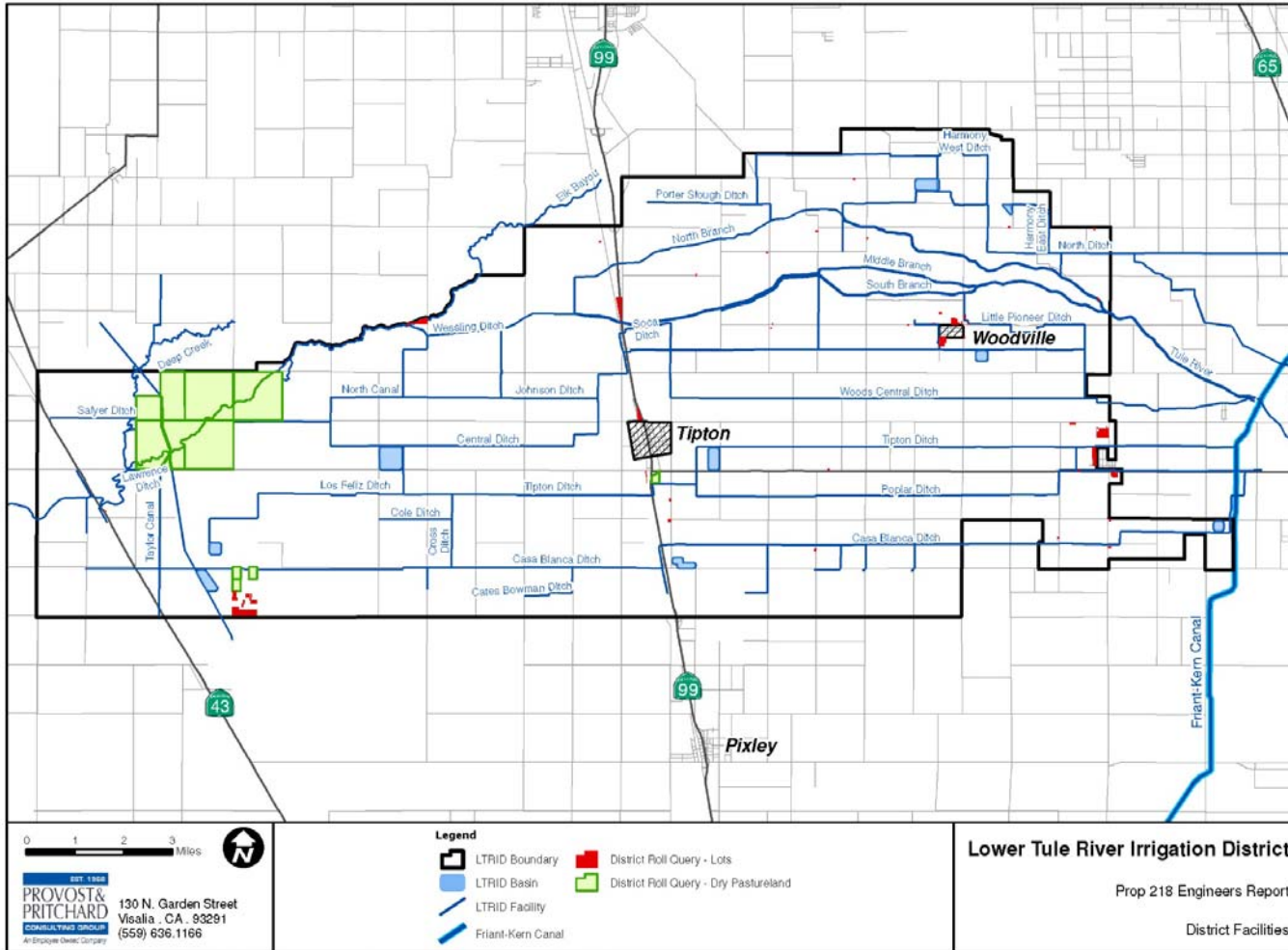


Figure 3. District Facilities Map

2.7.2. Terrain and Soils

LTRID occupies part of the eastern floor of the San Joaquin Valley, approximately 6 miles west of the Sierra Nevada foothills. The District includes: remnants of the original Pleistocene aggraded alluvial surface, floodplain and alluvial fan surfaces built by the present streams, and Tulare Lake basin. The surface slopes gently westward from 8 feet per mile on the east to 5 feet per mile near its western boundary. The maximum and minimum elevations within the District are 415 feet and 195 feet, respectively. Remnants of an old alluvial surface in the eastern portion of the District form isolated outcrops at a slightly higher elevation than the floodplains and alluvial fan surfaces of the present streams. Topographic features cause cold air to drain into the District from two sides. There is little thermal protection for citrus fruits or for truck crops that mature very early or very late.

The Tule River enters the valley floor near Springville and extends west through the central part of the District, a distance of 22 miles. Porter Slough follows a parallel course north of the Tule River.

The District soils located on gently sloping flood plains in the east central part and along the Tule River channels are deep and permeable and are predominately sandy loams and loams. Some District lands have slight to moderate alkali problems. These lands have been and continue to be improved through land reclamation activities such as leveling, leaching and the application of amendments.

2.7.3. Cropping Patterns

The climate and soils in the service area provide ideal conditions for the establishment of a vibrant agricultural industry with many varieties of annual and perennial crops. Currently, the major crops grown within the district consist of:

| | |
|-------------|------------|
| Corn Silage | (35%); |
| Alfalfa | (22%); |
| Almonds | (18%); and |
| Cotton | (11%) |

Much of the District's cropping is used to support the dairy industry in Tulare County.

3. DISTRICT FINANCIAL INFORMATION

The District currently operates on a budget of approximately \$8.8 million per year. This total is based on the average of the operating expenses from 2006 to 2009 and includes water supply costs, transmission and distribution, and administrative and general District functions. Revenue sources include water sales, assessments, and sales of assets, grants, and investment income.

3.1. Fiscal Year 2010 Budget

The District establishes an operating budget on an annual basis. The fiscal year 2010 budget, developed by the District was reviewed for this report. A summary of the budget by major categories is depicted in Table 3.1. The budget for fiscal year 2010 shows the costs necessary to maintain basic operations of the District or otherwise required by law.

Table 3.1 – Summary of District’s General Budget (2010)

| DESCRIPTION | 2010 BUDGET |
|----------------------------|---------------------|
| Operating Expenses | |
| General And Administrative | \$ 2,848,616 |
| Capital Expenditures | 1,719,500 |
| Special Projects | 174,500 |
| Sub-Total | \$ 4,742,616 |
| Water Purchasing | |
| Source of Supply | 4,930,850 |
| Total | \$ 9,673,466 |

3.1.1. District Revenues

The majority of District revenues are from the irrigation water toll, representing approximately 70% of the District’s total revenue. The remainder of the District’s revenue is comprised of assessments, the Success Power Project, grants, and other services and sales.

Table 3.2 – Statement of Income (Loss) 2006-2008

| DESCRIPTION | 2006 | 2007 | 2008 | 2009 | AVERAGE |
|--|-------------------|------------------|------------------|------------------|------------------|
| OPERATING REVENUE | | | | | (2006-2009) |
| Water Sales | 9,516,078 | 4,340,720 | 6,703,442 | 7,428,358 | 6,997,150 |
| Assessments and charges | 1,914,011 | 1,910,105 | 1,911,522 | 1,940,911 | 1,919,137 |
| Reimbursements, O&M | 273,453 | 114,016 | 158,122 | 41,103 | 146,674 |
| Success Power Project Revenue | 164,160 | - | 34,500 | 6,134 | 68,265 |
| Services, reimbursed costs and other revenue | 732,884 | 644,042 | 607,474 | 246,399 | 557,700 |
| Sub-Total | 12,600,586 | 7,008,883 | 9,415,060 | 9,662,905 | 9,688,925 |



LOWER TULE RIVER IRRIGATION DISTRICT
PROP. 218 ENGINEER'S REPORT

| | | | | | |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| NON-OPERATING REVENUE | | | | | |
| Taxes | 92,905 | 121,015 | 132,341 | 127,502 | 118,441 |
| Gain (loss) on sale of assets | 29,574 | 26,370 | (83,039) | (1,600) | (7,174) |
| Interest Income | 149,140 | 223,477 | 217,445 | 169,469 | 189,883 |
| Grant Revenue | 700,000 | 346,849 | 298,676 | - | 448,508 |
| Reimbursed Cost - Poplar Ditch - CDOT | 52,964 | 3,995,351 | 909,566 | - | 1,652,627 |
| Other | 14,213 | 4,160 | 9,599 | 7,504 | 8,869 |
| Sub-Total | 1,038,796 | 4,717,222 | 1,484,588 | 302,875 | 2,411,154 |
| Sub-Total of Revenue | 13,639,382 | 11,726,105 | 10,899,648 | 9,965,780 | 12,100,079 |
| OPERATING EXPENSE | | | | | |
| Source of Supply | 8,967,803 | 2,569,327 | 4,720,399 | 6,888,071 | 5,786,400 |
| Transmission and distribution | 1,060,620 | 1,008,951 | 1,077,384 | 1,198,862 | 1,086,454 |
| Admin/General | 1,728,502 | 1,900,031 | 1,973,009 | 2,226,012 | 1,956,889 |
| Sub-Total | 11,756,925 | 5,478,309 | 7,770,792 | 10,312,945 | 8,829,743 |
| NON-OPERATING EXPENSE | | | | | |
| Interest expense | 14,388 | 12,963 | 23,333 | 22,596 | 18,320 |
| Sub-Total | 14,388 | 12,963 | 23,333 | 22,596 | 18,320 |
| Total Expenses | 11,771,313 | 5,491,272 | 7,794,125 | 10,335,541 | 8,848,063 |
| Net Income (Loss) | 1,868,069 | 6,234,833 | 3,105,523 | (369,761) | 3,252,016 |

NOTE: The source for the amounts shown is the audited financial statements from years 2006-2009

The balance of the District's revenue is generated from water sales outside the District, assessments, and non-operating revenue. A summary of the revenues is included in the statement of income/loss from District financial reports summarized in Table 3.2. The audited financial reports show that the total District revenues have averaged \$9.7 million in operating revenue and \$2.4 million in non-operating revenue for total average revenues of \$12.1 million during the 2006 through 2009 fiscal years. The water sales revenue fluctuates greatly depending on hydrology and growers demand. Between 2000 and 2009 water sales revenue ranged from a maximum of nearly \$11.0 million in 2005 to a minimum of \$2.5 million in 2002.

3.1.2. District Expenses

Total District expenses in 2009 were approximately \$10.3 million, based on the audited 2009 Financial Statement. District expenses include both operational expenses and non-operational expenses. District operating expenses include Operations and Maintenance (O&M) and G&A expenses. Operational expenses vary widely from year to year, with much of the variation coming from the amount of Friant Division CVP water available to be purchased.

Besides water supply purchases, O&M expenses include water operations, salaries and wages, water system operation expenses, distribution system repairs, weed control, fuel and oil, etc. These expenses represent a majority of the District's O&M expenses. G&A expenses include the expenses not attributable directly to transmission and distribution but are necessary for the districts operations. The District also has non-operating

expenses, which change year to year that include the loss on sales of assets and interest expense.

In general, transmission and distribution costs to the District vary every year due to the varying water supply coming from the Friant Division CVP that is dependent upon hydrological conditions. In 2009, water purchases along with transmission and distribution expenses amounted to approximately \$8.1 million, where water purchases amounted to \$6.9 million, leaving approximately \$1.2 million towards transmission and distribution. The components of District water purchase expenses include payments to the USBR for Friant water for the capital repayments for the CVP, O&M of the CVP, and other incidentals involved with the transportation of water through CVP facilities to LTRID. ~~The District typically pays a small fee to the Tule River Association associated with taking water from the Tule River and the repayment costs for the District's portion of Success Dam. The District also pays administration, operation and maintenance costs to the Tule River Association for the use of the Tule River and operation and maintenance costs to the ACOE for the use of Success Dam.~~

As of December 31, 2009 LTRID's outstanding balance for the capital obligation for the Friant Division CVP was \$26,674,944. In 2009 the District was required to pay \$9.67 per acre-foot in capital repayment for the CVC water, \$11.12 per acre-foot in capital repayment for Class 1 Friant Division CVP, and \$4.98 in capital repayment for Class 2 Friant Division CVP. The repayment rates set out by the USBR are based on historic District diversions and a projected total delivery amount of water to 2030. The District understands that the minimum payments required by the USBR will not be enough to avoid a large balloon payment at the end of the term in 2030. Therefore the District ~~charges more to growers for water than is required by the USBR collects sufficient funds through water charges to account for the funds necessary~~ to avoid this balloon payment. In 2010, LTRID is to pay a minimum of \$10.47 per acre-foot for capital costs for the CVC water, \$11.85 per acre-foot for Class 1 Friant Division CVP water, and \$5.95 per acre-foot for Class 2 Friant Division CVP water. All of these costs are associated with the capital repayment costs of being a CVP contractor, each payment is to pay off the CVP as a whole not for an individual project. The breakdown of the capital costs is summarized in Table 3.3.

The District is seeking to shift the capital repayment costs associated with the debt obligations for being a CVP contractor from the water charges to benefit assessments. The Federal government has agreed to discount the original amount of repayment because the District will be pre-paying their obligation.

One of the primary expense categories is transmission and distribution, otherwise referred to as facilities O&M. O&M expenses include administrative, engineering, water operations and maintenance salaries, chemicals, O&M supplies, pump energy costs, system repairs, etc. These expenses represent a majority of the O&M expenses. Transmission and distribution is the cost to move the water from the source to the grower.

Table 3.3 – District Expenses (2009)

| DESCRIPTION | 2009 Capital Costs (per acre-foot) | Amount of Water Purchased (AF) | Costs | Cost (\$/acre) |
|-------------------------|---------------------------------------|-----------------------------------|-----------------------|----------------|
| CVP Contract Allocation | | | | |
| Friant Kern - Class 1 | \$11.12 | 61,200 | \$680,544.00 | \$6.95 |
| Friant Kern - Class 2 | \$4.98 | 238,000 | \$1,185,240.00 | \$12.11 |
| Cross-Valley Canal | \$9.67 | 31,102 | \$300,756.34 | \$3.07 |
| Total | | | \$2,166,540.34 | \$22.13 |
| 2009 Diverted | | | | |
| Friant Kern - Class 1 | \$11.12 | 61,200 | \$680,544.00 | \$6.95 |
| Friant Kern - Class 2 | \$4.98 | 67,389 | \$335,597.22 | \$3.43 |
| Cross-Valley Canal | \$9.67 | 3,110 | \$30,073.70 | \$0.31 |
| Total | | | \$1,046,214.92 | \$10.69 |

G&A expenses are typically categorized as expenses not attributable directly to transmission and distribution, but are necessary and related to the O&M work. G&A expenses include the salaries of supervisors and management, employee benefits, Board of Directors, consultants, safety, insurance, and general office expenses and supplies. Salaries and payroll related expenses represent a significant portion of the G&A expenses. G&A expenses averaged approximately \$2 million per year during the 2006 through 2009 period.

3.2. District Rate Information

3.2.1. Historical District Rates

The District first began charging landowners assessments in 1951, when the District was formed to fund the District's O&M outside of the water charges. District costs are currently collected from landowners and/or water users through assessments and/or volumetric water charges. From 2009 through current, the relative value of services has been determined to be as depicted in Table 3.4 below:

Table 3.4 – 2009 Rate Classification and Value of Service

| Rate Classification | Relative Value of Service |
|---------------------------------------|---------------------------|
| Surface Water Supply | |
| District Water Rates – (toll charges) | |
| Spring and Fall Irrigation | \$6545/AF |
| Summer Irrigation | \$7565/AF |
| Assessment | |
| Special Benefit Assessment | .8% of valuation |
| Standby Charge | \$5/ac |
| Minimum Assessment | \$12/parcel |

NOTE: The water rates are per ac-feet, and the assessment rates are per acre.

The rates utilized by the District reflect the value of service and assessment charges determined by the Board of Directors. Originally, the water charges fluctuate year by year, and vary depending on water supply. Prior to 2005, water rates gradually increased each year, but had large fluctuations due to the unpredictability of CVP supply water. These fluctuations have had a negative effect on budgeting efforts of District growers. So the five-year rolling average water rate was set in place to provide a more stable water rate from one year to the next.

In 1991, the Board of Directors established the current assessment rates for the District. The ad valorem general assessment was set at a rate of 0.8% per valuation of land. Water users are charged an additional assessment of \$5 per acre as a standby charge set out by Water Code Section 22280. A minimum \$12 assessment is charged to properties where the 0.8% assessment per valuation is at or below \$10.

3.2.2. District Assessment Rates

The current ad valorem assessment rate of 0.8% per property valuation has been in place since before Proposition 218 was enacted in November 1996. Each year the District's Board of Directors meets as the District's Board of Equalization as per the state water code to evaluate the value of the USBR classes of land within the District. At this meeting they adopt a resolution that modifies or perpetuates the assessments levied within the District. The District's current assessments generate supplemental funds that can be used to partially defray the District's monetary obligation associated with their Friant Division CVP water service contract and the CVC Contract, to partially fund the District's internal delivery system and groundwater recharge facilities, to partially fund the operations and maintenance of the District, to partially fund the purchase of surface water for groundwater recharge, and as a standby charge for water service from the District.

The District collects benefit assessments from approximately 97,881 acres of land within the District. Of the total 103,086 acres that the District encompasses, 85,000 acres of the land is irrigated. Table 3.5 summarizes the USBR land classifications including the percentage of the lands within the District that fall into the different classifications, their current valuation, and their description. Figure 4 shows the USBR District map showing the land classifications within the District by color.

Table 3.5 – USBR Land Classification

| Land Class | Classification | Valuation per Acre | Percent of Total Area (%) |
|--------------|---|--------------------|---------------------------|
| 1 | Land capable of producing high yields of any climatically adapted crop at minimum cost. | \$2,200.00 | 7.64 |
| 2 | Slight to moderate restriction in productivity or ease of management because of minor limitations in soil, topography, or drainage. | \$2,000.00 | 40.49 |
| 3 | Moderate to severe limitations in soil, topography, or drainage. | \$1,800.00 | 26.76 |
| 4 | Unsuitable for general cropping because of severe limitations, but has limited utility for special crops. | \$1,600.00 | 7.39 |
| 5 | Presently unsuited for irrigation but have a slight reclamation potential. | \$1,400.00 | 11.53 |
| 6 | Unsuitable for irrigation because of extreme limitations. | \$1,200.00 | 6.19 |
| Total | | | 100 |
| | Dry Native Pasture | \$100.00 | 3,035.2 Acres |
| | Small Lots | \$0.01 | 108.5 Acres |

Note: From 1995 U.S. Bureau of Reclamation Land Classification Study of LTRID

It should be noted, however, that there are lands that fall within the District's classification of "Dry Native Pasture" that lie adjacent to the Tule River. These lands do not receive scheduled water deliveries from the District, but can receive flood waters from the Tule River. These properties act as offstream storage for LTRID to diminish said flood flows during wet years.

3.2.3. Water Rate (Five-Year Rolling Average)

Beginning in 2005, the Board set the goals of having a water rate charged to water users to more accurately reflect the cost of the water to the District, while at the same time trying to keep the water rates somewhat stable from year to year. These goals are accomplished by using a five-year rolling average of the water costs as a model for setting the water rates. The average is a formula that considers what the District has to pay for the water, the percentage that will be sold after channel loss, and how much water has been available to the District over the last five-year period. This rate has the potential to ~~undercharge water users~~under-collect for the amount of water delivered during dry years and ~~over charge users~~recoup that under-collection during wet years. The average, however, provides stability to the grower for budgeting purposes.

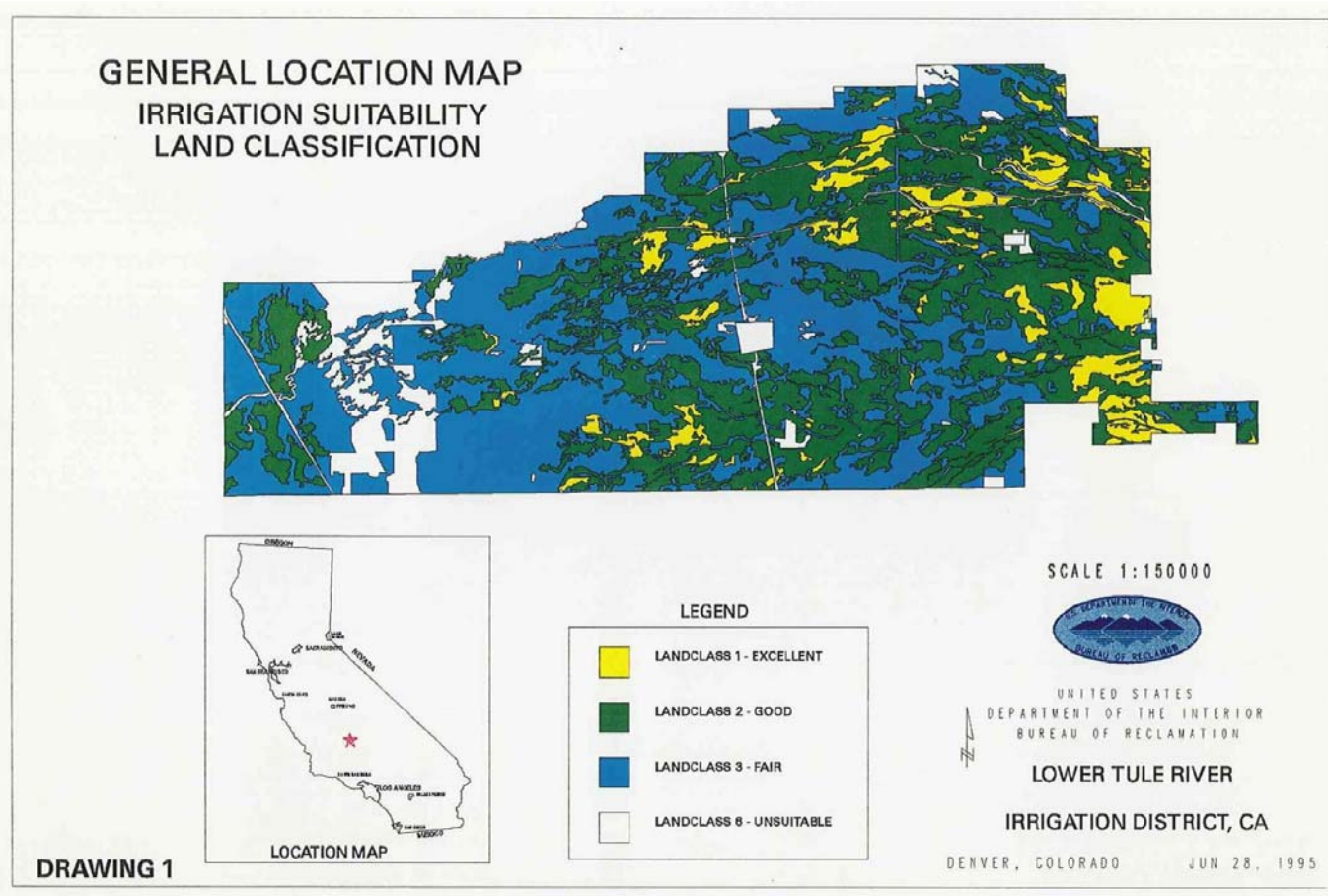


Figure 4. USBR Land Classification Map

3.2.4. USBR Water Service Contract

The District is under an existing 9e water service contract with the USBR. The District is currently pursuing the conversion of its existing 9e water service contract with the USBR to a 9d repayment contract as authorized by the San Joaquin River Settlement Act (Title X, Subtitle A of the Act of March 30, 2009, PL 111-11, in particular Section 10010 thereof). This is not expected to significantly change the District's capital obligations on the long term, but will entail selling bonds (or other form of indebtedness) to pre-pay those obligations.

As part of the 9d contract and prepayment, the District will receive a permanent contract (rather than the current 25 year water service contract) and the District's landowners will be relieved of the ownership and acreage limitations (960 acre limitation rules) set forth in Reclamation Law. Additionally, CVPIA tiered pricing, and the requirements for certain water transfers, which are required under Reclamation Law, will be reduced. Furthermore, having a secure revenue stream, which has been authorized by the District's landowners, should enhance the marketability of bonds or their indebtedness that District would issue ~~as part to gain the benefits~~ of a 9d repayment contract. To summarize, the change to a 9d contract will: i) provide a permanent water contract; ii) remove ownership and acreage limitations on lands within the District; iii) relieve the District from ~~the complicated~~CVPIA tiered pricing structure; and, iv) water transfer restrictions will be reduced.

3.2.5. Restricted Funds Policy

In 2005, the District adopted a 'Restricted Funds' policy to set aside District funds for water supply improvement projects and debt obligations like the Friant Division CVP capital repayment costs. The Restricted Funds Policy is reviewed on an annual basis in conjunction with the Reserve Policy and can be amended only by action of the Board of Directors. In 2009, the District had \$2,652,002 allocated for the debt service and \$303,513 for water supply improvement projects in its restricted funds.

The Water Supply Improvement Project restricted fund is established to account for funds accumulated to provide for the major renovation, construction or purchase of capital projects and new facilities such as canals, ditches, recharge basins, real estate and buildings. The Water Supply Improvement Projects restricted fund is funded exclusively through revenues received from long-term (5-year or longer) water agreements to which the District is a party. Any revenue received from these agreements is to be placed into the Water Supply Improvement Project restrict fund unless otherwise designated by action of the Board of Directors.

The Debt Obligation restricted fund is established to account for funds accumulated to provide for future debt obligations of the District. Establishing a debt obligation restricted fund will ensure that future debt obligations are met without placing a huge burden on the District or its landowners. The District currently has an outstanding debt obligation to the USBR for its allocated share of the capital cost of the CVP that is described in

Section 3.1.2. The District will amortize the remaining obligation in equal amounts over the remaining payment period and any of the annual amounts not remitted to the USBR in the future.

4. PROPOSAL TO INCREASE CHARGES

4.1. General

As part of the recent San Joaquin River Restoration Settlement, districts with Friant Division CVP water service contracts agreed to accelerate the repayment of their financial obligation for the capital cost of the system in exchange for a discount from the USBR to account for the future value of the repaid funds. The collection of these early capital repayment funds is connected to the USBR's efforts to construct modifications to the improved San Joaquin River channel downstream of Friant Dam. In the past, the District has collected funds to pay Friant Division CVP capital repayment costs on a schedule through portions of their water charges. The District Board of Directors has recently reviewed several methods of collection and decided to pursue collection of these funds through land based assessments rather than the previous method due to the need to bond for the total sum of the capital repayment costs. ***Therefore the District now intends to shift this collection of funds from water charges to land based assessments and thereby increase their current general property assessment.*** This section lays out the District's proposed plans for addressing the necessary assessment increase associated with this effort.

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4.2. Change in Assessments

4.2.1. Special Benefit Assessment for Parcels over Minimum Assessment

The existing property assessments for parcels over the minimum assessment include a 0.8% ad valorem general assessment fee for property owners. This assessment is based on the land classifications designated by the USBR through a land classification map that was last published in 1995. There are also lands within the District designated as dry pasture or native grounds that are estimated to be valued at \$100 per acre. The valuation per acre is associated with either the land class of a parcel or as dry pasture, and the assessment is based on the parcel acreage multiplied by the estimated value per acre multiplied by 0.8%. If the calculated assessment is over \$10, then this calculated assessment is used. Also, a \$5 per acre standby charge is levied on all parcels that are over the minimum assessment and are not identified as dry pasture.

~~In order to acquire~~As part of a 9d repayment contract ~~from with the~~ USBR and ~~to~~ shift the collection of Friant Division CVP funds from District water tolls to a land based assessment, the District requests that an additional special benefit assessment of approximately \$1,500,000 per year be collected through the increase of the ad valorem assessment rate from 0.8% to 1.65%. It is the intent of the District that once the capital obligations for the CVP are repaid, the assessment increase would ~~go away~~***no longer need to be collected.*** Water tolls are not included in the balloting and are not within the

jurisdiction of Proposition 218. The benefits of the assessments will be evaluated in Section 5.

4.2.2. Special Benefit Assessment for Parcels under Minimum Assessment

When the ad valorem general assessment is calculated using the method described in the previous section and the value of that assessment is less than \$10, a \$12 minimum assessment is levied for the purpose of partially funding water purchases, groundwater recharge efforts, and the operations and maintenance of the District. This method of determining the minimum assessment and the \$12 minimum assessment charge will not be modified through this proposal. However, the ad valorem assessment rate used to calculate assessments will be increased from 0.8% to 1.65%. It is the intent of the District that once the capital obligations for the CVP are repaid, the ad valorem assessment rate increase would ~~go away~~**no longer need to be collected**. Again, the reason for the increase in this rate is to ~~acquire a 9d repayment contract from USBR and shift the collection of a portion of the Friant Division CVP capital repayment funds from District water tolls to land based assessments as part of a 9d contract~~.

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4.2.3. Non-Assessed Parcels

Although the District encompasses 103,086 acres of land, it only assesses approximately 97,881 acres. Within the District's boundary, there are some non-assessed parcels that have been identified as having no potential groundwater or surface water use based on a review by the District. These parcels that receive no special benefit from the District's operations and importation of water supplies are parcels such as water conveyance facilities not owned by the District, access lanes or roadways, storm water ponds, excavated pits or other ponds, some wildlife preserve areas, railroads, etc. Also all property owned by the District is not assessed.

5. BENEFIT DETERMINATION

5.1. 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. LTRID provides special benefits to the parcels within the District by delivering surface water supplies and recharging the groundwater supplies to lands in the District. The groundwater is recharged directly through intentional recharge basins and seepage through conveyance facilities and indirectly through on-farm deliveries. The services do not accrue to the public at large and are not considered general benefits.

This report's proposed assessment is an increase to the existing special benefit assessment and as such this report shall identify all parcels which will have a special benefit conferred upon them and upon which the recommended assessment will be

imposed if adopted. Additionally, this report identifies the proportionate special benefit derived by each parcel in relationship to the entirety of the capital cost of the public improvement, the maintenance and operation expense of the public improvement and the cost of providing the service to the property assessed.

The rate structure sought by the Board of Directors is designed to achieve and maintain equity between landowners who rely on District surface water deliveries and those who enjoy, in whole or in part, the benefits and availability of groundwater made possible by District surface water service to other growers. The District's objective, which is paramount in providing available water supplies to the 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.

5.2. Determination of Benefits

There are multiple benefits provided by the District to the lands located within the service area. These benefits include entitlement to Tule River and Friant Division CVP water supplies, benefits of being within a district, the benefits from the District's operation and maintenance activities, and the benefits of recharge and storage of groundwater within the service area and its accessibility at relatively shallow depths.

5.2.1. District Administration Benefit

This component represents the benefit derived from the basic functioning of the District (i.e., being within a water district versus being outside a water district, even without a water allocation). This component is required by the District to perform the minimum responsibilities necessary to maintain a functioning district without water use. Basic functions include items such as conducting a limited number of board meetings each year, preparing the annual audit and financial statements, and performing a minimal level of accounting, management, and legal services to maintain a functioning district, assuming no water deliveries were made.

5.2.2. Groundwater Recharge Benefit

On average, the District recharges approximately 77,000 AF (0.77 AF per acre of land) per year through percolation from groundwater basins and earthen channel percolation throughout its boundaries. In the event where the District becomes defunct, in conjunction with the growers in adjacent water district's also using and relying on groundwater, groundwater levels would decline at an accelerated rate and groundwater pumping would become much more expensive and less reliable within LTRID. Groundwater users would be impacted by higher energy costs for pumping groundwater, degradation of groundwater quality, cost of drilling new deeper wells, and potentially the higher cost of importing water from other sources.

The groundwater recharge benefit involves the District's ability to recharge surface water back into the groundwater aquifer so that groundwater supplies are more reliable in times of drought and groundwater level declines are minimized. The reliability of

groundwater supplies and reduced groundwater pumping depths benefit all landowners and irrigators within the District because all District growers use groundwater. Also since groundwater is connected throughout the District, the recharge efforts in one area impact conditions and available supplies throughout the aquifer.

5.2.3. District Operations and Maintenance Benefit

There is a special benefit that is conferred upon those parcels in the District that use, or have the potential to use water. This benefit includes the value of the District's distribution system and infrastructure, the benefit derived from the annual operation of the District, ability to acquire grants, and the benefit of on-going maintenance of the delivery system. The benefit is determined by comparing the difference in benefits to landowners if the District were not operated to current levels or at all.

5.2.4. USBR 9d Contract and Prepayment

As previously mentioned in Section 3.2.4, the District is under an existing 9e water service contract with the USBR. The District is currently pursuing the conversion of its existing 9e water service contract with the USBR to a 9d repayment contract as authorized by the San Joaquin River Settlement Act (Title X, Subtitle A of the Act of March 30, 2009, PL 111-11, in particular Section 10010 thereof). This is not expected to significantly change the District's capital obligations on the long term, but will entail selling bonds (or other form of indebtedness) to pre-pay those obligations.

As part of the 9d contract and prepayment, the District will receive a permanent contract (rather than the current 25 year water service contract) and the District's landowners will be relieved of the ownership and acreage limitations (960 acre limitation rules) set forth in Reclamation Law. Additionally, CVPIA tiered pricing, and the requirements for certain water transfers, which are required under Reclamation Law, will be reduced. To summarize, the change to a 9d contract will: i) provide a permanent water contract; ii) remove ownership and acreage limitations on lands within the District; iii) relieve the District from CVPIA tiered pricing structure; and, iv) water transfer restrictions will be reduced.

The District desires to accelerate the repayment of their current financial obligation for the capital cost of the Friant Division CVP in exchange for a discount from the USBR to account for the future value of the repaid funds. To accomplish this the District desires to shift the collection of a portion of the Friant Division CVP capital repayment funds from District water tolls to land based assessments as part of a new 9d contract.

Furthermore, having a secure revenue stream, which has been authorized by the District's landowners, should enhance the marketability of bonds or their indebtedness that District would issue to gain the benefits as part of a 9d repayment contract. To summarize, the change to a 9d contract will: i) provide a permanent water contract; ii) remove ownership and acreage limitations on lands within the District; iii) relieve the District from the complicated tiered pricing structure; and, iv) water transfer restrictions will be reduced.

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5.2.5. Calculation of Charges

The increased annual assessment is intended to collect approximately \$1.5 million per year to pay down the new debt service on funds associated with the ~~acquisition of~~ aprepayment of existing indebtedness to the USBR and a new 9d repayment contract ~~with the USBR~~. There are approximately 97,881 acres of assessed lands within the District. The District's current ad valorem assessment rate of 0.8% of value based on the USBR's most recent land class map generates approximately \$1.42 million per year. It is estimated that increasing the ad valorem assessment rate to 1.65% will generate the additional \$1.5 million per year necessary to pay down the new debt service.

As an example, a 40 acre parcel that is Class 2 land according to the USBR's land class map would currently be assessed (40 acres x \$2,000 per acre x 0.8%=) \$640 per year or \$16 per acre. This parcel would also be assessed a \$5 per acre standby charge for potential water delivery. Under the new assessment this same 40 acre parcel would be assessed (40 acres x \$2,000 per acre x 1.65%=) \$1,320 per year or \$33 per acre, and the \$5 per acre standby charge would remain the same.

This rate appears comparable to assessment rates charged by other districts in the area:

- North Kern WSD \$35 per acre;
- Delano-Earlimart ID \$43.25 per acre;
- Shafter-Wasco ID \$43.50 per acre;
- Southern San Joaquin MUD \$44.70 per acre.

5.2.6. Rate Proportionality

Section 4(a) of Proposition 218 specifies that assessments may not "exceed the reasonable cost of the proportional special benefit conferred on that parcel." Benefits for water delivery are considered to have varying benefits to parcels based on how the water is delivered to the user and whether or not the parcels have the ability to accept the District water that is allocated to them or use groundwater.

There are lands within the District that have specific water rights associated with them (i.e. riparian lands). These lands can choose to receive Tule River surface waters that are not available to other lands when they are available and use these supplies within defined areas. Because of their proximity to the Tule River, these lands generally benefit from relatively shallow groundwater depths. These groundwater depths are in part maintained by surface water supplies to adjacent lands that offset groundwater pumping that would otherwise occur and increase depths to groundwater. These landowners have access to Friant Division CVP supplies that can be released through the FKC at the Tule River waste way. These lands as well as other lands along the Tule River receive flood protection from the maintenance of the Tule River channel and the District's coordination of surface water deliveries from Success Dam. Also, these and other lands along the Tule River have access to flood protection through the potential

diversion of Tule River flood waters into the FKC through temporary contracts when there is available capacity.

There are lands in the southeast of the District that can only receive Friant Division CVP supplies and whose depths to groundwater are much deeper than lands near the Tule River due to groundwater pumping by landowners in Pixley ID. Also, there are many lands in the District that can receive both Tule River water and Friant Division CVP supplies. Because of their Distance from the Tule River, many of these lands do not receive much flood control benefit. However, these lands have access to available surface waters from the District's distribution system and both of the District's surface water supplies. These lands also benefit from the groundwater recharge efforts in the area and from the surface water delivered to the area as it offsets groundwater pumping.

The District believes that water can be delivered-made available to all landowners within the District through the existing distribution system and Tule River channels if-when the sufficient water is-supplies are available. Since it is the landowners' responsibility to distribute water to cropped areas from the existing distribution system, the benefit of how water is delivered to all lands within the District is equivalent. Also, the District only delivers agricultural water to landowners, so there is no varying benefit associated with the type of water delivered. Further, the District views that since all groundwater within the District is connected, recharge efforts in specific areas (like basins, creeks or sloughs with high recharge rates) benefit the reliability and groundwater levels for all groundwater users in the District (also being all landowners since the District does not provide year-round irrigation supplies). Also, the benefits associated with the conversion to a 9d contract (provide a permanent water contract; remove ownership and acreage limitations on lands within the District; relieve the District from the complicated-CVPIA tiered pricing structure; and, water transfer restrictions will be reduced) will equally apply to and benefit all landowners within the District. ***Therefore, the differences in benefits are already accounted for within the existing assessment rate structure.***

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5.3. Conclusion

The primary objectives of the Board of Directors relative to the revenues are to insure that the needs being considered for adoption are truly necessary and that the costs are allocated in a fair and equitable manner. Based on these objectives, the District proposes to increase the ad valorem special benefit assessment rate from 0.8% to 1.65% in order to increase assessments by approximately \$1.5 million per year.

The District believes that conversion of the District's current renewable water service contract (9e) to a permanent water contract (9d) is a vital priority for the District. This action will help fulfill the District's obligation to the United States of America that was originally approved by voters in May 1952. In fulfilling the obligation this way the District will receive a significant reduction in the currently obligated debt and will also be released from many of the constraints of Reclamation Law. Further the District values the contract conversion because it further solidifies the surface water supply that has

supplemented Tule River surface water supplies and groundwater supplies for many years. The benefits of this supply on the District's water supply reliability can be easily understood through a comparison to Pixley ID (neighboring district to the south) and the very deep groundwater levels that are being experienced there in comparison to the more stable levels within the District.

Although the debt service associated with CVP involvement has historically been borne through water tolls, it appears more equitable to assess District landowners through an ad valorem method that accounts for the relative financial benefits that can be realized from the benefits that are provided by the District. All assessed landowners benefit from the surface waters delivered to growers by the District, the surface waters delivered to recharge by the District and the maintenance of the District's ability to access Friant Division CVP supplies. This view is reasonable since groundwater is the only stable supply of water available to landowners within the District and all surface water importation and use increases the reliability of limited groundwater resources. Further, since all groundwater within the District is connected, efforts through District facilities benefit conditions and increase available supplies throughout the District's service area. However, more productive or higher classed lands within the District hold the potential for greater financial benefits from the special benefits provided by the District. Therefore the ad valorem assessment method appears to be more equitable than levying water tolls only on growers that contractor for water and regardless of the land class the water is delivered to.

The Engineer's Report concludes that even with this increased assessment the affected properties still receive a financial benefit from the District's special benefits over and above the total assessment because the cost of supplying the properties with water (for irrigation or for groundwater recharge) would be substantially higher than the required cost per acre without 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 ad valorem assessment offers an equitable procedure to the District to have revenues directed towards the debt repayment of the Friant Division of the CVP. 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 Engineers Report, the District will hold a public hearing upon the proposed assessment increase in which the District will disclose its intentions and justifications as to why it is pursuing a Proposition 218 election. During the public hearing the District will take into consideration the protests against the proposed increase. In September the District will assemble the roll of the landowners affected by the new assessment, and mail out ballots to these landowners informing them of their assessment increase along with their voting documents. The votes will be tallied in

October upon which a passing vote for the assessment increase will set in motion the new assessment implementation procedures.

Upon the passing of the 218 election, the District will create a bond council for the conversion of the 9e contract into a 9d contract and formation of bonds. These bonds will be sold, and their repayment will be through the collection of the approved land based assessments that were approved by the landowners through the process set forth by Article XIII D of the California Constitution.

7. ATTACHMENTS

Attachment A
Assessment Roll for LTRID



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