

The Economics of Land Use



Final Report

LeGrand-Athlone Water District Municipal Service Review

Prepared for:

Merced County Local Agency Formation Commission

Prepared by:

Economic & Planning Systems, Inc.
in association with
Berkson Associates

EPS #171107

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This MSR is incorporated by reference in the Agricultural Irrigation Service Providers Municipal Service Review dated October 23, 2008.

*Economic & Planning Systems, Inc.
One Kaiser Plaza, Suite 1410
Oakland, CA 94612-3604
510.841.9190 tel
510.740.2080 fax*

*Oakland
Sacramento
Denver
Los Angeles*

www.epsys.com

Table of Contents

1.	INTRODUCTION	1
	Background and Purpose.....	1
	Approach and Methodology	2
2.	DISTRICT BACKGROUND	3
	Governance and Operations.....	5
	Projected Growth and Development.....	7
3.	WATER SERVICE REVIEW	9
	Existing Supply, Usage, and Delivery	9
	Future Growth and Related Demand	10
	Infrastructure and Facilities	10
	Other Potential Actions to Meet Demand.....	11
4.	FINANCIAL REVIEW	12
	Fiscal Conditions.....	12
5.	DETERMINATIONS	15

List of Figures and Tables

Figure 1	Sphere of Influence Boundaries of LGAWD	4
Figure 2	Potential Annexation and District Service Area (Improvement District) Map	8
Table 1	LGAWD Board and Other Contact Information.....	6
Table 2	Historic Rates, Charges, and Acre Feet/Year Delivered	13

1. INTRODUCTION

In 2008, Economic & Planning Systems (EPS) provided Merced LAFCO with an Agricultural Irrigation Service Providers Municipal Service Review (MSR).¹ The study contained limited historic information and budget data for the LeGrand-Athlone Water District (LGAWD/District). LGAWD's current application for an expansion of its sphere of influence and annexation of approximately 5,800 acres requires an update of the last Municipal Service Review (MSR) prepared in 2008.²

This Draft Report presents new and revised findings and conclusions along with information about LGAWD's proposed expansion. This MSR specifically addresses the LGAWD and includes data, analysis and findings required by State law.

Background and Purpose

In 1997, the State Legislature convened a special commission to study and make recommendations about how to accommodate California's rapidly accelerating growth. The Commission on Local Governance for the 21st Century focused on empowering the already existing County LAFCOs governed by the Cortese-Knox Local Government Reorganization Act of 1985. The Commission's final report, *Growth within Bounds*, recommended various changes to local land use laws and LAFCO statutes to allow LAFCOs more influence in shaping California's growth. Assembly Speaker Robert Hertzberg encompassed the recommendations of the Commission in Assembly Bill 2838, which passed into the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000. The law endows LAFCO with both more responsibilities and more influence to direct growth in California.

One of LAFCO's responsibilities requires preparation of municipal service reviews (MSRs) as required by Government Code Section 56430 before or in conjunction with reviews of city and district spheres of influence (SOIs). The Local Government Reorganization Act requires that this MSR address the following factors:

1. Growth and population projections for the affected area
2. The location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence
3. Present and planned capacity of public facilities, adequacy of public services, and infrastructure needs or deficiencies including needs or deficiencies related to sewers, municipal and industrial water, and structural fire protection in any disadvantaged, unincorporated communities within or contiguous to the sphere of influence
4. Financial ability of agencies to provide services

¹ County of Merced Agricultural Irrigation Service Providers Municipal Service Review, Final Report as Approved by LAFCO on October 23, 2008.

² Engineer's Report Proposition 218 Procedures for Benefit Assessments, LeGrand-Athlone Water District, October 2017.

5. Status of, and opportunities for, shared facilities
6. Accountability for community service needs, including governmental structure and operational efficiencies
7. Any other matter related to effective service delivery, as required by commission policy

Approach and Methodology

LAFCO retained Economic & Planning Systems, Inc. (EPS), in association with Berkson Associates to update the MSR for the LGAWD in Merced County. EPS reviewed various plan documents provided by LAFCO and District staff, LGAWD's current budget, the prior MSR document, and other readily available information to prepare this Report. The Report presents a summary of service issues and trends and provides details of each service in subsequent sections of the report. **Chapter 5** includes the State-mandated determinations.

2. DISTRICT BACKGROUND

LGAWD, formed in 1964, provides surface water for farmland irrigation in a portion of the County of Merced. In addition, according to the legislation enabling the District's formation, the District also has the unauthorized latent powers to provide drainage service, generate and distribute electric power, reclaim wastewater, provide sewage disposal, and construct and operate incidental recreational facilities. The District is located near the southeastern corner of Merced County, and most of the District is located between Santa Fe Avenue and Highway 99. The community of LeGrand is located to the north of the District's northern boundary.³ The Sphere of Influence boundaries of LGAWD are identified in **Figure 1**.

The District is a member of the Merced Subbasin Groundwater Sustainability Agency (GSA) Joint Powers Authority (JPA), which is one of three Groundwater Sustainability Agencies for the Merced Groundwater Subbasin. One of the primary reasons for District expansion is to assure that local farmers have the opportunity to be represented and engaged in decisions and actions of the Merced Subbasin GSA/JPA. The District's expansion also improves the financial base to support participation and service improvements.⁴

³ Engineer's Report Proposition 218 Procedures for Benefit Assessments, LeGrand-Athlone Water District, October 2017.

⁴ David Orth, Data Request Follow-Up, January 31, 2018.

Governance and Operations⁵

A Board of Directors consisting of five members governs the LGAWD (see **Table 1**), each of whom are long-time landowners within the District. While all board seats are presently filled, future vacancies will be filled either by an election of landowner votes under the California Uniform District Election Law or appointed by the remaining board members in accordance with Government Code §1780, as applicable. In addition to the board members, the board appointed a District secretary who also handles the District's bookkeeping.⁶ The Board meets on the third Thursday of each month and an agenda is prepared before the meeting. All agendas are reviewed by the District's legal counsel for Brown Act compliance.⁷ In addition, legal counsel typically attends board meetings to ensure Brown Act compliance. Many requirements of the Brown Act are included in the District's amended and restated bylaws, which have been approved by the Merced County Board of Supervisors⁸ and recorded in Merced County. Currently, the District has no plans to build a website, but may consider it in the future. The District is a member of the Merced Subbasin GSA JPA.⁹

Contact Information

Consultant to District

David Orth, Principal, New Current Water and Land, LLC
(559) 289-2181
625 West Cromwell, Suite 101
Fresno, CA 93711
dorth@newcurrentwater.com

District Contact

Brad Robson, President, LGAWD Board of Directors
2958 Trovare Court
Merced, CA 95340
bradrobson@yahoo.com

⁵ Ibid.

⁶ The position is currently held by Lori Ringeisen, CPA.

⁷ The Ralph M. Brown Act, located at California Government Code 54950 et seq., is an act of the California State Legislature, authored by Assembly member Ralph M. Brown and passed in 1953, that guarantees the public's right to attend and participate in meetings of local legislative bodies.

⁸ Pursuant to Government Code section 87306, LeGrand-Athlone Water District has submitted their amended Conflict of Interest Code to the Board of Supervisors for approval. The Board of Supervisors Office is responsible for review of the Conflict of Interest Code(s) of all Special Districts and the filing of documents with Fair Political Practices Commission (FPPC).

⁹ www.mercedsgma.org

Table 1 LGAWD Board and Other Contact Information

Contacts	Position	Email	Address	Term
Board Members				
Brad Robson	LGAWD Board Member	bradrobson@yahoo.com	2958 Trovare Court, Merced	2015-2018
Bill Bright	LGAWD Board Member	bb06262000@gmail.com	5246 S. Plainsburg Road, Le Grand	2014-2018
Kole Upton	LGAWD Board Member	kupton@inreach.com	P.O. Box 506, Chowchilla	2016-2020
David Serrano	LGAWD Board Member	dave@serranofarms.com	9901 E. Buchanan Hollow Road, Le Grand	2016-2020
Dario Giampaoli	LGAWD Board Member	n/a	4530 S. Minturn Road, Le Grand	2016-2020
Lori Ringeisen, CPA	LGAWD Board Secretary	lorir@loriringeisencpa.com	216 Robertson Blvd., Suite B, Chowchilla	n/a
Other District Contacts				
Brian Ehlers	District Engineer	behlers@ppeng.com	3341 M Street, Merced	n/a
David Orth	Principal, New Current Water and Land, LLC	DOrth@newcurrentwater.com	652 West Cromwell Avenue, Suite 101, Fresno	n/a

Source: LGAWD

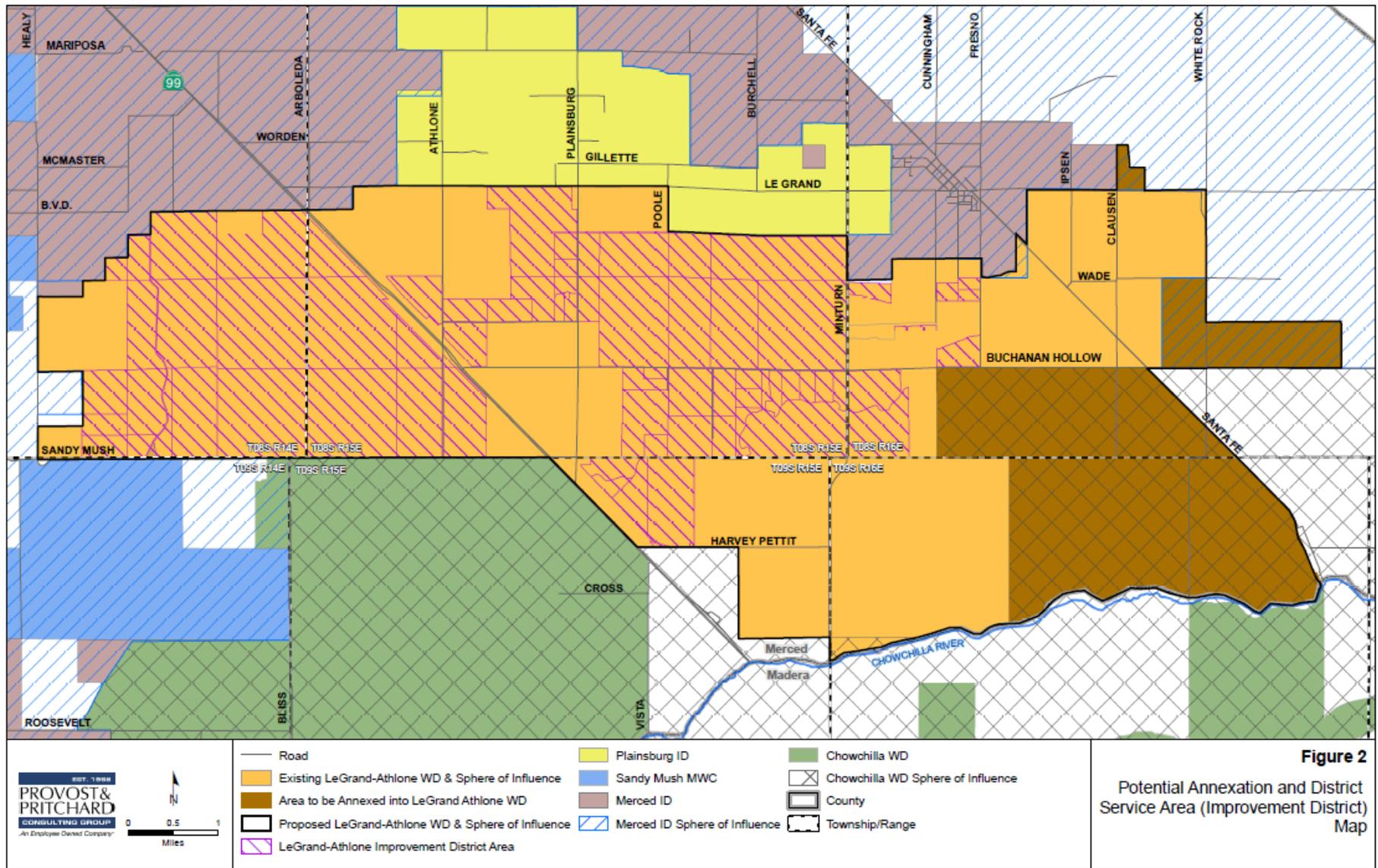
Projected Growth and Development

Currently, the District contains 118 property owners and approximately 23,700 acres. As previously mentioned, the LeGrand-Athlone Water District anticipates expanding the District's boundaries in connection with a pending annexation application of approximately 5,800 acres. The annexation is projected to add 14 properties to the existing 118 property owners within the District.¹⁰ **Figure 2** shows the potential expansion through annexation to the LGAWD and the current 11,000-acre "Improvement District" territory in relation to the overall District boundary. This Figure also identifies the present boundaries of the Merced Irrigation District and Chowchilla Water District spheres of influence where the proposed annexation properties are located.

The district is located in a rural area of Merced County designated for "Agricultural" uses in the General Plan. There is no urban development planned, and no planned increase in population except for housing for landowners and farmworkers on rural parcels. The District does not propose to provide potable water.

¹⁰ David Orth, Data Request Follow-Up, January 31, 2018.

Figure 2 Potential Annexation and District Service Area (Improvement District) Map



3. WATER SERVICE REVIEW

Existing Supply, Usage, and Delivery

Water Supply

The LeGrand-Athlone Water District currently purchases surplus irrigation water from the Merced Irrigation District (MID) when available. The MID provides irrigation water to Eastern Merced County's agricultural community using water from the Merced River, which flows through Yosemite National Park. Currently, there is one canal-to-canal connection between the District and the MID through the Fancher system.¹¹ At the end of the canal, the District installed a 42" pipeline which directs water into Deadman Creek, Dutchman Creek, and other canals. This water is then accessed by a portion of the District's landowners and customers within an "improvement district" area serving approximately 11,000 acres and 20 customers. In 2011, the District provided its peak delivery with approximately 7,700 acre feet of surface water from 2009 to 2017. However, this is largely dependent on MID's supply in any given year as the supply is considered excess water when MID has more than adequate supplies for serving farmland within their district boundary. The District hopes to add additional customers to the system as surface water becomes available from the MID. While the District does not deliver its own groundwater, it estimates that total groundwater extractions by landowners within the District's boundaries are approximately 50,000 to 60,000 acre feet per year.¹²

Water Usage and Demand

In 2016, the California Department of Water Resources designated the Merced Subbasin as "critically overdrafted."¹³ Based on the jurisdictional boundaries of the Merced Subbasin, there is reason to believe that the District's groundwater sources are also overdrafted. As a result, the District believes it would benefit from more imported surface water to address overdraft conditions. Currently, daily surface water usage peaks at 60 acre feet and averages approximately 40 acre feet. However, not all landowners in the District currently have access to the District's facilities and thus do not have access to a supply of surface water.¹⁴ At the same time, other landowners obtain MID surface water from other conveyance facilities and the District does not receive any revenue from this usage (See **Table 2** in **Section 4** of this MSR).

As of 2018, the Merced Subbasin Groundwater Sustainability Agency (GSA) is studying the specific amount of current and projected overdraft in the basin as part of its Groundwater Sustainability Plan (GSP). Presently, the District estimates there is a demand for 50,000 to 60,000 acre feet per year of ground water, and the Merced Subbasin has an annual supply of

¹¹ The Fancher lateral also receives storm water discharge.

¹² David Orth, Data Request Follow-Up, January 31, 2018.

¹³ Groundwater Basins Subject to Critical Conditions of Overdraft Prepared by California Department of Water Resources for *Bulletin 118, Interim Update 2016*.

¹⁴ David Orth, Data Request Follow-Up, January 31, 2018.

28,000 acre feet per year. The resulting overdraft within the Merced Subbasin based on these estimates approximate 22,000 to 32,000 acre feet per year.²¹⁵

Water Delivery

Water deliveries completely depend on when excess surface water is made available by MID. When excess surface water is made available, the District contracts for the allotment on a year-to-year basis to purchase available water. While water deliveries have been sporadic, the water is typically attainable during the months of May through October.¹⁶

Future Growth and Related Demand

The District does not anticipate any additional growth or demand for commercial or agricultural uses of water. The District's activities are geared to preserving the existing amount of water used by District landowners as a result of the restrictions anticipated to be put in place when the Merced Subbasin GSA/JPA adopts a GSP in coordination with the two other GSAs within the Subbasin. As mentioned above, due to declining groundwater levels, it is believed that groundwater resources are not adequate to meet future groundwater demand from existing landowners. There are plans to accommodate this demand through the investigation of purchasing additional volumes of surface water in abundant water years, and through conservation and other actions to be identified in the future GSP.¹⁷ The current land uses in the 5,800 acre proposed District expansion area involve cultivated agriculture, orchards and grazing lands which are non-irrigated or irrigated by groundwater wells. These properties are within the Merced Irrigation District and the Chowchilla Water District spheres of influence, but are not within the respective district boundaries and receive no district water supplies.

Infrastructure and Facilities

Existing Facilities and Infrastructure

Currently, the District has 4,300 feet of water main pipelines with no wells, tanks, or pump stations. As mentioned above, this water main is connected through the 42" pipeline directing water from the MID Fancher system to the District. The pipeline has an existing capacity of 30 cubic feet per second (CFS). The District's immediate efforts are directed to improving this connection to allow for the importation of greater amounts of surface water from MID than has historically occurred. In addition, the District has an easement for its pipeline and owns a parcel consisting of 8 acres for recharge purposes.¹⁸

Infrastructure Planning

The District does not currently have an approved infrastructure master plan. However, as a member of the Merced Subbasin GSA/JPA, the District is participating in the development of a

¹⁵ Ibid.

¹⁶ Engineer's Report Proposition 218 Procedures for Benefit Assessments, LeGrand-Athlone Water District, October 2017.

¹⁷ David Orth, Data Request Follow-Up, January 31, 2018.

¹⁸ Ibid.

Groundwater Sustainability Plan (GSP) for the subbasin. The Subbasin wide Plan will evaluate the ground and surface water supplies for the entire Subbasin, including those of MID and the LGAWD's infrastructure needs in connection with its goals to increase the amount of surface water delivered from MID. It should be mentioned that the LGAWD, after the addition of 5,800 acres through a future annexation, only covers 29,500 acres of the 513,000 acre Merced Groundwater Subbasin. The GSP is to be completed by January 2020.^{19,20}

Other Potential Actions to Meet Demand

Infrastructure Expansion

Expanding District infrastructure depends on the District obtaining a more reliable (rather than year-to-year intermittent) water supply from MID during wet years. The District is working with MID to develop a long-term agreement for water purchases. Until that agreement is in place or another source of water is identified, a major infrastructure analysis is premature.²¹

Proposed Annexation

The annexation of additional land in the vicinity of the District means more landowners will be able to contribute to the implementation of the Groundwater Sustainability Plan (GSP).²² Additional District membership, assessment revenue, and surface water purchases will create a larger financial base for the District to construct or expand the District's existing system. The District potentially could buy more water from MID if the capacity of its system were sufficient and MID makes more surface water available to this area. As part of the numerous groundwater planning efforts underway in the Merced Groundwater Subbasin, other districts are also seeking increased surface water supplies from MID. In addition, the District believes the annexed lands will provide the District with additional potential sources of surface water (such as the Chowchilla River and the Friant Unit of the Central Valley Project²³) and provide a source of surface water to supplement MID sources.²⁴

¹⁹ The GSP will be prepared by the firm Woodard & Curran.

²⁰ David Orth, Data Request Follow-Up, January 31, 2018.

²¹ David Orth, Data Request Follow-Up, January 31, 2018.

²² The Sustainable Groundwater Management Act (SGMA) is a three-bill package that passed the California state legislature and was signed into California state law by Governor Jerry Brown in September 2014. Its purpose is to ensure better local and regional management of groundwater use and it seeks to have a sustainable groundwater management in California by 2042.

²³ The Friant Unit of the Central Valley Project delivers water to over one million acres of irrigable farm land on the east side of the southern San Joaquin Valley from approximately Chowchilla on the north to the Tehachapi Mountains on the south.

²⁴ David Orth, Data Request Follow-Up, January 31, 2018.

4. FINANCIAL REVIEW

Fiscal Conditions

In recent years, the District has experienced financial shortfalls and revenues are not currently sufficient to fund its current and planned activities. In Fiscal Year 2016/17, the District Budget indicated an income of \$26,900, with most revenue attributed to water sales and property tax revenue. In the same year, the District expended \$52,900 with nearly two-thirds of total spending attributable to GSA Participation.²⁵ Although the District covered the shortfall using cash reserves, future participation in the Merced Subbasin GSA/JPA requires more revenue and/or reserves than the District currently has available.²⁶ The District shares a seat on the six-seat JPA board with the neighboring Plainsburg Irrigation District so their respective costs have been reduced.

The District adopted its FY 2017/18 budget on September 21, 2017. The budget indicates total income of \$414,300 and total expenditures of \$261,500 for a net income of \$152,800. In addition, the District will be reimbursed \$200,000 for an improvement related to increasing the capacity of a long-crested weir.²⁷ The improvement is funded through a short-term bank loan with repayment from funds recovered from a water surcharge imposed on landowners and customers receiving water from the weir.

The District commissions a biennial audit which is approved by the Merced County Board of Supervisors. By using excess cash reserves, the District has not incurred any short-term debt. Historically, the District has not maintained adequate annual reserves, however the passing of the LeGrand-Athlone Water District Ballot (see below) will enable the District to establish and maintain adequate reserves.²⁸

Water Rates and Charges

In 2017, surface water users in the District were charged \$3 per acre foot for surface water purchased from deliveries through the Fancher lateral into the District. The farmers who purchased MID water also had to pay MID \$82.00 per acre foot. Over the past eight years, the charge has ranged between \$0 and \$19.00 per acre foot, although no water was available during three years of the last drought. Direct deliveries of surplus water from non-District operated MID conveyances are not metered or billed by the District.²⁹ **Table 2** below shows the historical

²⁵ LeGrand Athlone Water District, Income & Expenses Fiscal Year 2017/18

²⁶ Ibid.

²⁷ Long crested weirs are used in open-channel irrigation distribution systems to minimize fluctuations in the canal water surface above canal turnouts.

²⁸ David Orth, Data Request Follow-Up, January 31, 2018.

²⁹ Water rates will be updated as the LGAWD Board is anticipated to increase these rates on April 19th 2018.

surface water rates by MID, the LGAWD surface water delivery charges, and acre feet of surface water delivered per year since 2009.³⁰

Table 2 Historic Rates, Charges, and Acre Feet/Year Delivered

Year	Rate	Ac.Ft. Delivered	District Charge
2009	\$60.00	2,317	n.a.
2010	\$35.00	4,686	\$19.00
2011	\$42.50	7,655	\$15.00
2012	\$135.00	1,995	\$9.00
2013	n.a.	n.a.	n.a.
2014	n.a.	n.a.	n.a.
2015	n.a.	n.a.	n.a.
2016	\$191.00	1,537	\$5.00
2017	\$82.00	6,295	\$3.00

Source: LGAWD

LeGrand-Athlone Water District Ballot³¹

Because landowners in the District rely on groundwater, and because the implications of SGMA could be significant to the landowners, the District Board determined the District should become actively engaged in the implementation of SGMA and join the Merced Subbasin GSA/JPA. The District shares a seat, on a rotating basis, with the neighboring Plainsburg Irrigation District. Implementing SGMA requires increased activity by the District as well as increased associated costs, although the District has reduced their JPA membership share by splitting their seat with the Plainsburg Irrigation District. The District has historically funded its activities with periodic water sales revenue and property taxes paid by property owners in the District. However, as mentioned in **Chapter 3**, the District does not have a dependable water supply, resulting in limited funding. To raise the funds necessary to engage in SGMA and the GSA, and to develop and implement projects and programs to help stabilize and improve groundwater district conditions within the District, the District proposed to raise maximum annual assessments up to \$10 per acre. Under Proposition 218, a landowner ballot measure passed in January 2018.³² The assessment provides an annual maximum of \$236,500 in new funding for the District.

³⁰ Ibid.

³¹ LeGrand-Athlone Water District Assessment Ballot, MK Election Services LLC, January 18, 2018.

³² The intent of Proposition 218 is to ensure that all taxes and most charges on property owners are subject to voter approval. In addition, Proposition 218 seeks to curb perceived abuses in the use of

assessments and property-related fees, specifically the use of these revenue-raising tools to pay for general governmental services rather than property-related services.

5. DETERMINATIONS

1. Growth and population projections for the affected area

The LeGrand-Athlone Water District anticipates expanding the District's boundaries in connection with a pending annexation application of approximately 5,800 acres. The District believes that groundwater resources are inadequate to meet future groundwater demand from existing landowners and for the proposed annexation area. There are plans to supplement the groundwater supply by investigating the purchase of additional surface water from MID in abundant water years and exploring additional sources of surface water from other water districts.

2. The location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence

The District's 23,700 acre boundary contains rural agricultural area in eastern Merced County, and does not include the community of Le Grand, recognized as a "Legacy" disadvantaged unincorporated community. Therefore, there are no identified disadvantaged unincorporated communities in the District's existing or proposed sphere of influence.

3. Present and planned capacity of public facilities, adequacy of public services, and infrastructure needs or deficiencies including needs or deficiencies related to sewers, municipal and industrial water, and structural fire protection in any disadvantaged, unincorporated communities within or contiguous to the sphere of influence.

Currently, the LGAWD relies on available surface water supply from the MID, which fluctuates year-to-year. This water supply is routed through a canal to canal pipeline. However, not all landowners in the District currently have access to the District's facilities and thus do not have access to a supply of surface water. As a result, the existing canal to canal pipeline requires the District to improve the connection to allow for the importation of greater amounts of surface water from MID than has historically occurred.

In addition, the California Department of Water Resources designated the Merced Groundwater Basin as "critically overdrafted." The District believes it would benefit from more imported surface water to address overdraft conditions. As of 2018, the specific amount of current and projected overdraft is being studied by the Merced Subbasin Groundwater Sustainability Agency (GSA) Joint Powers Authority as part of the Groundwater Sustainability Plan (GSP). The overdraft based on these estimates for the Subbasin is approximately 22,000 to 32,000 acre feet per year. After completion of the GSP, the District will have a better understanding of what facilities and infrastructure are needed in order to serve the District and its growth.

The focus of this disadvantaged unincorporated communities determination is for those cities and districts providing sewers, municipal and industrial water, or structural fire protection services, none of which are provided by the LeGrand-Athlone Water District.

4. Financial ability of agencies to provide services.

In recent years, the District has experienced financial shortfalls and revenues are not currently sufficient for existing and planned services. This shortfall occurs because the District relies on two limited sources of income, property tax and water sales. Because the District's water supply is inconsistent and based on MID's supply, its financial income is also variable. The adoption of the SGMA and the District's participation in the Merced Subbasin GSA/JPA will amplify the need for more income. The recent approval of the Proposition 218 ballot measure allows the District to raise annual assessments up to a maximum \$10 per acre, if needed. The proposed assessment totals an annual maximum of \$236,500 in new funding for the District which will alleviate financial stresses associated with the SGMA and the GSA.

5. Status of, and opportunities for, shared facilities

MID and the District have a weir in place via the Fancher canal to canal/pipeline connection discussed above. The weir is a long-crested weir with the capability for increased surface water delivery. If the capacity was increased, then the District would be able to buy, and MID would be able to supply more surface water to the District for in-lieu recharge to the Merced Subbasin resulting in greater groundwater supply reliability.³³ The District is working with MID on a contract for surface water for 2018 as well as a longer-term agreement. With a longer-term agreement in place, the District would have a more reliable surface water supply and could explore expanding facilities to increase the amount of surface water deliveries when excess surface water is available from MID.

6. Accountability for community service needs, including governmental structure and operational efficiencies

As a result of the efforts to participate in the Merced Groundwater Subbasin GSA/JPA, the District has taken positive steps to strengthen the budget and develop a long-term plan to improve services to District customers. The District holds monthly Board meetings and works with District Counsel to ensure complies with the Brown Act, such as in posting agendas.

Currently, the District does not have an existing website, but stated that it may consider creating a website in the future. The District participates in the Merced Groundwater Subbasin GSA/JPA which maintains a website at www.countyofmerced.com/mercedsubbasinGSA to which landowners and interested parties are directed. If the District continues to use the Merced Subbasin GSA/JPA website, the website should be updated with a Staff contact from the District. Additional transparency measures should include public access via the website to documents such as budgets, Board Meeting dates, agendas, and minutes.

³³ California Water Code Section 78670, " 'In-lieu recharge' means accomplishing increased storage of groundwater by providing interruptible surface water to a user who relies on groundwater as a primary supply, to accomplish groundwater storage through the direct use of that surface water in lieu of pumping groundwater."

7. Any other matter related to effective service delivery, as required by commission policy

The future expansion of the Le Grand-Athlone Water District sphere of influence and district boundary will require amendment to the spheres of influence of both the Merced Irrigation District and the Chowchilla Water District. The LAFCO of Merced County anticipates processing a sphere of influence amendment and related annexation of approximately 5,800 acres in the near future to improve District participation in SGMA related activities, increase surface water deliveries, and enhance District funding, which includes approximately 5,000 acres to be removed from the Chowchilla Water District's sphere of influence if the Commission of Madera LAFCO grants authority for processing to the LAFCO of Merced County. Alternatively, Madera LAFCO would process the sphere amendment for the Chowchilla Water District.