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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Doreen E. Hoff
 EXECUTIVE SECRETARY

August 5, 1994

To: (Executive Committee--Information)
 Board of Directors (Committee on Legislation--Information)

From: General Manager

Subject: State Senate Hearing on State Water Project Financing
 Options

Report

On August 1, 1994, the California Senate Agriculture and Water Resources Committee, chaired by Senator Dan McCorquodale, held a hearing in Fresno on options for changing the financing of the State Water Project (SWP). This was a follow-up to a hearing on SWP financing held on January 31, 1994 in Sacramento. The purpose of this hearing was to explore different financing options that might provide relief for those SWP contractors, primarily agricultural, that may currently be having financial difficulties. In attendance at the hearing were Senators Dan McCorquodale, Robert Presley, David Kelley, and Phil Wyman and Assemblyman Jim Costa.

The California Research Bureau (CRB), at the request of Senator McCorquodale, prepared a report for the hearing describing 20 different options for changing SWP financing. This report, entitled "Financing the State Water Project: Options for Change", is the third in a series of reports on SWP financing produced by the CRB at Senator McCorquodale's request. The first report, entitled "Financing The State Water Project", describes in some detail how the State finances the SWP, and provided the framework for the CRB's presentation to the committee in January. In a second much shorter report, entitled "Is It Time To Talk About Changing The State Water Project's Financing System?", the CRB explored the need to change the SWP's financing.

At the hearing, Dennis O'Connor, of the CRB and author of the above mentioned reports, opened the testimony by presenting an overview of the 20 options described in the paper. David Kennedy, Director, Department of Water

Resources (DWR), testified that: (1) DWR's primary objectives are to provide water supply reliability and maintain the financial integrity of the SWP; (2) progress is being made on SWP reliability, as evidenced by the recent State/federal Framework Agreement; and (3) financing options involving the SWP contracts or bonds would best be negotiated among the affected parties.

Several agricultural SWP contractors described their current financial difficulties in their testimony, and while stressing that they need some kind of relief to survive, indicated that financing options that involve contract provisions would best be negotiated among DWR and the contractors.

Five urban contractors, appearing on behalf of the urban SWP contractors, testified as a panel. A briefing book outlining their views, jointly prepared by 16 supporting urban SWP contractors, was provided to the committee. The following points were made by the urban contractors in their testimony: (1) since the underlying cause of current financial problems is limited supplies, efforts should be directed towards increasing SWP supplies; (2) while the SWP currently faces significant challenges, these challenges are solvable; (3) any financial solution must comply with the SWP contracts and should be negotiated; (4) use of subsidies, either by taxpayers or among contractors, is not supported by the urban contractors; (5) the approaches that have the best chance of success are already under serious consideration by the urban and agricultural contractors and DWR in ongoing Article 18 negotiations.

Copies of the urban SWP contractors briefing book and the three documents prepared by the CRB are each available through the Executive Secretary's office.

Board Committee Assignment

This letter is referred for information to:

The Executive Committee because of its authority to study, advise, and make recommendations with regard to policies and procedures to be considered by the Board, pursuant to Administrative Code Section 2917(e); and

The Committee on Legislation because it involves legislation which may affect the District, pursuant to Administrative Code Section 2491(a).

Recommendation

For information only.

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Concur:



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WFM/NEC:cl