

# Water Planning and Stewardship

## Item 6b

**Subject:** Update on State Water Contract extension negotiations

**Purpose:** To inform the committee and board members of the status of negotiations with the California Department of Water Resources to extend the water supply service period.

# Water Planning and Stewardship Committee

Item 6b

Summary: Status report on the State Water Contract extension discussions



# State Water Contract Extension Negotiations

Water Planning and Stewardship Committee  
Item 6b  
October 7, 2013

# Reason For Discussions Now?

- Contract ends in 2035
- DWR will not issue debt beyond 2035 without a contract to recover the costs
  - Creates financial compression due to shortened financing period
- Ability to finance facilities beyond 2035
  - Includes new facilities, upgrades and replacements
  - Reduce financial compression

# Methods of Extension

- Article 2 Extension
  - DWR floats debt beyond 2035 and contract is automatically extended on same terms for affected contractors
- Article 4 Extension
  - Contractor requests extension on same terms
  - Requests have been made, but DWR doesn't have to respond until expiration is imminent
- Negotiated extension (Current Approach)

# Background: SWP Repayment Terms

# State Water Resources Development SYSTEM

State  
Pr

Water code s  
not pay

Recreation

Including:

- Repair of Big Bear Valley Dam (Big Bear Lake)
- Miramar Dam and Reservoir (Lake Miramar)
- Dixon Dam and Reservoir (Dixon Lake)

Authorized  
under  
Burns-Porter  
Act

San Joaquin  
Drainage  
Implementation  
Program

# How Are The SWP Bills Created?

- Some costs are amortized over many years
  - Capital for transportation facilities
  - Capital for conservation facilities
  - O&M for conservation facilities
- Other costs are billed in the year they occur
  - O&M for transportation facilities
  - Power costs
  - Other



# Amortized Costs Created A Challenge

- Capital
  - Repayment terms were 50/75 years, but...
  - DWR floated 30 year G.O. Bond debt
  - Created a funding gap between revenues and costs in a given year
- Conservation O&M (labor, travel, etc.)
  - Financed over 75 years or remaining term
  - Also created a funding gap

# The State Financed The Gap

- Grants, appropriations, and interest-free loans
- Contractors must repay these funds by 2035 with interest
  - State interest free loans already repaid
- Creates funds for additional SYSTEM facilities and needs

# Goals In These Negotiations

# Contractors Want Extension With Adoption of Standard Practices

- New contract expiration date
  - Time to cover financing of facilities
- Make the billing process clear and understandable
  - Process would look like a revenue requirement
- Improve financial management of SWP
  - Create organizational and reporting changes to separate SWP financial management from the rest of DWR
  - SWP finances treated like a utility within DWR

# Contractors Want Extension With Adoption of Standard Practices

- Contractor approval required on certain financial matters
  - Heightens the level of contractor input required in DWR decision-making
  - More than just providing a recommendation to DWR's Director

# DWR Wants Increased Flexibility

- New contract expiration date
- Greater operating reserves
- Ability to issue revised bills to contractors if projected costs change
- Guaranteed revenue from contractors to pay for non-water related costs (recreation, flood control, fish and wildlife enhancement)
  - These items cannot be included in contractor bills under the current terms

# Status of Negotiations

- Negotiations conducted in public sessions
  - Public comment is frequently provided
- 9 negotiation sessions thus far
  - Numerous technical workgroup meetings
- DWR and contractors exchanging proposals
- Meetings scheduled through October
  - Focus is to reach agreements in principle and conduct EIR
- Article 2 and Article 4 approaches remain

# Next Steps

- Continued negotiation sessions
- Board updates on proposed renewal terms
- Board authorization and CEQA determination
  - Target completion December 2014



