

DEPARTMENT OF WATER RESOURCES

1416 NINTH STREET, P.O. BOX 942836
SACRAMENTO, CA 94236-0001
(916) 653-5791

**MAY 10 2010**

Honorable Holly J. Mitchell, Chair
Joint Legislative Budget Committee
State Capitol, Room 5019
Sacramento, California 95814

Dear Senator Mitchell:

The attached packet of information is required for submittal to the Joint Legislative Budget Committee pursuant to Water Code Section 147.5, and relates to the extension of the long-term water supply contracts between the California Department of Water Resources and 29 public water agencies that receive water supplies from the California State Water Project (SWP).

As you are aware, more than 26 million Californians and approximately 750,000 acres of farmland receive water through the facilities of the SWP. Since the early 1960s California has entered into contracts with 29 public water agencies that pay for the operation, maintenance, and construction of the SWP facilities that supply them with water. Those original water contracts will begin to expire as early as 2035, shortening the period over which project costs can be financed through long term bonds— with the impact falling on local water ratepayers.

As a result, beginning in 2013 the Department of Water Resources began public negotiations concerning extension of these SWP long-term water contracts. This process involved 23 public negotiation sessions. The attached packet is the product of that effort - a contract amendment that would extend the water supply contracts until 2085. In addition to the extension of the long-term water supply contracts, this amendment modernized financial provisions of the contract to address existing conditions rather than those that needed to be addressed by the 1960s-era contracts.

Water Code 147.5, very simply, requires the Department to present the details of new or extended long-term water supply contracts to the Joint Legislative Budget Committee at least 60 days prior to executing the contract. Specifically, the Water Code reads:

147.5. At least 60 days prior to the final approval of the renewal or extension of a long-term water supply contract between the department and a state water project contractor, the department shall present at an informational hearing before the Legislature the details of the terms and conditions of the contract and how they serve as a template for the remaining long-term water supply contracts. This presentation shall be made to the Joint Legislative Budget Committee and relevant policy and fiscal committees of both houses, as determined by the Speaker of the Assembly and the Senate Committee on Rules. The department shall submit a copy of one long-term contract to the Joint Legislative Budget Committee no less than 30 days prior to the scheduled hearing.

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The package accompanying this letter includes (1) an executive summary highlighting the primary components of the Contract Extension Amendment, (2) the Agreement in Principle negotiated between DWR and the Contractors, dated June 18, 2014, (3) the proposed Contract Extension Amendment, (4) a model contract, showing how a consolidated original contract and amendments to date would appear if further amended by the Contract Extension Amendment, and (5) the text of Water Code Section 147.5.

The Department of Water Resources also stands ready to provide you and your staff with additional information as you may require and I look forward to the opportunity to share this important contract extension with the California Legislature. The certainty it will provide Californians regarding the continuing supply of clean, affordable water is of interest and importance to us all. As such, I look forward to working with you to ensure a timely review of the contract details. If you have any questions, please do not hesitate to contact me at (916) 653-7007.

Sincerely,



Karla Nemeth
Director
(916) 653-7007

Attachment(s):

cc: (See Attached List)

CC: Honorable John Laird
Secretary for Natural Resources
California Natural Resources Agency
1416 Ninth Street, Room 1311
Sacramento, California 95814

Kim Craig
Deputy Cabinet Secretary
Governor Edmund G. Brown
State Capitol Building
Sacramento, California 95814

Camille Wagner
Secretary, Legislative Affairs
Governor Edmund G. Brown
State Capitol Building
Sacramento, California 95814

Tom Dyer
Deputy Legislative Affairs Secretary
Governor Edmund G. Brown
State Capitol Building
Sacramento, California 95814

Karen Finn
Program Budget Manager
California Department of Finance
915 L Street, 9th Floor
Sacramento, CA 95814

Karla Nemeth
Director
Department of Water Resources
1416 Ninth Street, Room 1115
Sacramento, California 95814

Cindy Messer
Chief Deputy Director
Department of Water Resources
1416 Ninth Street, Room 1115
Sacramento, California 95814

Gary Lippner
Deputy Director, Delta Conveyance
Department of Water Resources
1416 Ninth Street, Room 1115
Sacramento, California 95814

Spencer Kenner
Chief Counsel
Office of the Chief Counsel
Department of Water Resources
1416 Ninth Street, Room 1118
Sacramento, California 95814

Kasey Schimke
Assistant Director
Legislative Affairs Office
Department of Water Resources
1416 Ninth Street, Room 1115
Sacramento, California 95814