

September 12, 2013



## **Contract Extension Questions, With Answers**

### **1. What is the State Water Project?**

Planned, constructed, and operated by the California Department of Water Resources (DWR), the California State Water Project (SWP) is a water storage and delivery system of reservoirs, aqueducts, power plants and pumping plants. One of its primary purposes is to store water and distribute it to 29 urban and agricultural public water agencies in Northern California, the San Francisco Bay Area, the San Joaquin Valley, the Central Coast, and Southern California. Of the contracted water supply, 70 percent goes to urban users and 30 percent goes to agricultural users. The SWP makes deliveries to 25 million Californians and 750,000 acres of agricultural land. The SWP is also operated to improve water quality in the Delta, control Feather River flood waters, provide recreation, and enhance fish and wildlife.

### **2. What is the State Water Project Contract Extension?**

In the 1960's, DWR entered into water supply contracts with public water agencies located in Northern California, Southern California, Central Coast, the Bay Area and the San Joaquin Valley (Contractors). The purpose of these contracts is to provide water service to the Contractors in exchange for payments that recover all water supply costs associated with providing this service and allocating a share of available water supplies developed by the SWP to each Contractor. All of the contracts have the same general provisions. Contract extension involves extending the water supply contracts held between DWR and the 29 Contractors beyond 2035. In 1960 DWR signed the first contract with Metropolitan Water District of Southern California and that contract extends to 2035. The other contracts have terms that extend to 2035 or just beyond..

### **3. Why Extend the Contracts More Than 20 Years Before They Expire?**

A significant part of the original capital costs to build the SWP were financed by DWR using \$1.75 billion of general obligation bonds approved by the voters in 1960 through the Burns-Porter Act. Capital costs in excess of these initial expenditures have been financed, for the most part, with revenue bonds backed by SWP water and power revenues. DWR currently sells about \$200 million in revenue bonds each year to finance the building and repairs of the SWP. Ideally, DWR would sell revenue bonds with maturity dates extending 30 years into the future, which is the common maturity length for public financing, to finance these expenditures. The long maturity period helps keep bills to the Contractors affordable. But today, with only 22 years left until the 2035 termination date of most of the Contracts, DWR is limited to selling bonds with maturity dates that extend out only 22 years rather than the desired 30 years. This shorter repayment period increases annual repayment costs to Contractors, with important financial consequences. DWR and the Contractors must now begin negotiations to, among other things, determine a new Contract termination date to permit selling bonds with a longer maturity date.

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#### **4. What Projects Would Be Carried Out Using Bond Funds Benefiting from an Extended Contract?**

Some SWP facilities are over 50 years old, and there are many needed upgrades and capital repairs. Anticipated capital projects include reinforcing Sisk and Perris dams against seismic failure, implementation of the Oroville hydroelectric license projects, anticipating a new license for the South SWP Hydroelectric Project, and many other repairs costing an estimated \$2 billion in the next two decades. All these projects would be best financed using 30 year bonds or longer.

#### **5. What is the Contract Extension Process and How Can the Public Be Involved?**

The Contract Extension process has multiple elements. One is negotiation of “Agreements in Principle” leading to amendments to the water supply contracts that affect all 29 SWP Contractors. These negotiations will be held in public and the public will have the opportunity to observe and provide oral and written comments. A second element is a separate process to address possible environmental impacts associated with the contract amendments that will be carried out in accordance with the California Environmental Quality Act (CEQA). This environmental process will include, among other things, public scoping and the opportunity for public input.

#### **6. Where to Get Additional Information on Contract Extension?**

Additional information on Contract Extension can be found on the DWR website at <http://www.water.ca.gov/swpao/watercontractextension>.