EXECUTIVE SUMMARY

INTRODUCTION

The Department of Water Resources (DWR) is proposing to implement the Water Supply Contract Extension Project (proposed project). The proposed project includes amending certain provisions of the State Water Resources Development System (SWRDS) Water Supply Contracts (Contracts). SWRDS (defined in Water Code Section 12931), or more commonly referred to as the State Water Project (SWP), was enacted into law in the Burns-Porter Act, passed by the Legislature in 1959 and approved by the voters in 1960. DWR constructed and currently operates and maintains the SWP, a system of storage and conveyance facilities that provide water to 29 State Water Contractors (Contractors).

The SWP is a complex system of reservoirs, dams, power plants, pumping plants, pipelines, and aqueducts. Precipitation and watershed runoff are stored in Lake Oroville, a reservoir behind Oroville Dam in Butte County, and delivered via natural stream channels to the Delta and pumped into the California Aqueduct system to water agencies and districts in Southern California, the Central Coast, the San Joaquin Valley, and portions of the San Francisco Bay Area.

The Contractors receive water service from the SWP in exchange for paying all costs that are associated with constructing, operating, and maintaining the SWP facilities and are attributable to water supply. DWR and each of the Contractors entered into Contracts in the 1960s with 75-year terms. The Contracts are substantially uniform. The Contracts begin to expire in 2035, unless the expiration dates are otherwise extended pursuant to the option for continued service in Article 4 of the Contracts.[1] All Contracts will expire by 2042 if not extended.

The major sources of capital financing for construction of the SWP have been and are: the Burns-Porter Act, which authorized General Obligation Bond sales; the Central Valley Project Act, which authorizes the issuance of revenue bonds; and other capital resources revenues. Of the three types of capital financing, revenue bonds are currently the predominate form of capital financing. In the past, DWR has typically sold revenue

[1] Article 4 states that, by written notice to DWR at least 6 months prior to the expiration date of a Contract, the Contractor can elect to receive continued service after the expiration of the term under the following conditions unless otherwise agreed to: (1) service of water in annual amounts up to and including the Contractor's maximum annual Table A amount; (2) service of water at no greater cost to the Contractor than would have been the case had the Contract continued in effect; (3) service of water under the same physical conditions of service, including time, place, amount, and rate of delivery; (4) retention of the same chemical quality objective provision; and (5) retention of the same options to use the SWP transportation facilities as provided for in Articles 18(c) and 55, as applicable.

bonds with terms up to 30 years or more. However, it has become more challenging in recent years to affordably finance capital expenditures for the SWP because as a practical matter, it would be difficult to sell revenue bonds used to finance these expenditures with maturity dates that extend beyond the year 2035, the year the first of the Contracts would expire. Although DWR has the contractual authority to issue bonds with maturities after 2035 (and in so doing, extend the Contract expiration date under Article 2 of the Contracts[2]), such bonds likely could not be issued without a Contract amendment or other arrangement with the Contractors to provide for the orderly financial management of the SWP for the entire period over which such bonds would be outstanding, including after 2035. Today, DWR sells only bonds that extend for fewer than 30 years because of the 2035 limitation; for example, in 2017, DWR will sell bonds with a maturity date no longer than 18 years (i.e., up to 2035). In order for DWR to sell bonds for 30 years or more, which would provide more affordable financing to the Contractors for the SWP costs associated with constructing and repairing the SWP facilities that are allocated to water supply, it is necessary to extend the expiration dates of the Contracts.

In May 2013, DWR and the Contractors entered into public negotiations to extend the term and make other financial improvements to the Contracts. The outcome of these negotiations resulted in the “Agreement in Principle Concerning Extension of the State Water Project Water Supply Contracts” (AIP). The AIP is included as Appendix A of this Draft Environmental Impact Report (DEIR). The proposed project, which is evaluated in this DEIR, would amend certain financial provisions of the Contracts and extend the term of the Contracts to 2085 based on the AIP. The proposed project would not create new water management measures, alter the existing authority to build new or modify existing facilities, or change water allocation provisions of the Contracts. DWR determined that an EIR was the appropriate California Environmental Quality Act (CEQA) document due to the statewide importance of any proposed amendments to the Contracts, such as the proposed project. Further, as an informational document, this DEIR discloses for public and lead agency consideration potential environmental effects attributed to the outcome of the public negotiations to extend the term and make other financial improvements to the Contracts. It also is intended to provide sufficient information to foster informed decision-making by DWR.

[2] Article 2 provides separately for each Contract that the specific Contract shall remain in effect for the longest of (1) the “project repayment period” (i.e., December 31, 2035); (2) “75 years”; or (3) “the period ending with the latest maturity date of any bond issue used to finance the construction costs of project facilities.” No bonds have been sold with a maturity date later than December 1, 2035. The project repayment period and the 75-year term provisions result in the individual Contracts having varying expiration dates that range between December 31, 2035 and 2042.

POTENTIAL AREAS OF CONTROVERSY AND CONCERN

DWR issued a Notice of Preparation (NOP) for this EIR September 12, 2014 (see Appendix B of this DEIR). DWR provided the NOP to: (1) local, State, and federal agencies; (2) local libraries; (3) city and county clerk offices; and (4) other interested parties. The NOP was circulated for comment for 30 days, ending on October 13, 2014. Responses to the NOP identified potential areas of controversy and concern to a range of local, state, and non-governmental interests.

During two scoping meetings held on September 23, 2014, no participants commented on the proposed project. Six written comment letters were submitted during the NOP comment period. Letters were received from the Central Delta Water Agency (CDWA), County of Santa Barbara, Delta Stewardship Council (DSC), Natural Resources Defense Council (NRDC), Stanislaus County Environmental Review Committee, and a coalition of non-government organizations (NGOs). DWR reviewed all scoping comments received and the letters are included in Appendix B of this DEIR. General topics raised included: requirements of a NOP; description of the project background; description of the project evaluated in the DEIR; range of alternatives to be evaluated in the DEIR; definition of environmental and regulatory setting and baseline for the DEIR analysis; technical resource areas that should be considered; context for the cumulative impact analysis; need to conduct a growth inducement analysis; National Environmental Policy Act (NEPA) nexus; and potential project segmentation issues. Issues raised in response to the NOP are addressed in this EIR, as appropriate, for compliance with CEQA.

PROPOSED PROJECT

DWR and the Contractors agreed to the following proposed project objectives:

1. Ensure DWR can finance SWP expenditures beyond 2035 for a sufficiently extended period to provide for a reliable stream of revenue from the Contractors and to facilitate ongoing financial planning for the SWP.
2. Maintain an appropriate level of reserves and funds to meet ongoing financial SWP needs and purposes.
3. Simplify the SWP billing process.
4. Increase coordination between DWR and the Contractors regarding SWP financial matters.

The proposed project would amend and add financial provisions to the Contracts based on the negotiated AIP between DWR and the Contractors. The proposed project would not create new water management measures, alter the existing authority to build new or modify existing facilities, require or otherwise change SWP operations, or change water allocation provisions of the Contracts. The changes to the SWP contracts by the proposed project are composed of the following five project elements that meet the proposed project objectives identified above. The proposed project is described in more detail in Chapter 4, Project Description, of the DEIR.

1. **Extended Contract Term**. Revise Article 2 to extend the term of the 29 Contracts to December 31, 2085 (subject to the provisions of Article 4).[3]
2. **Increased Operating Reserves**. Provide for increased SWP financial operating reserves.
3. **New Billing Provisions**. Implement a comprehensive pay-as-you-go repayment methodology with a corresponding billing system that more closely matches the timing of future SWP revenues to future expenditures. The pay-as-you-go repayment methodology generally means to recover capital, operation, and maintenance costs within the year incurred and/or expended.
4. **Enhanced Funding Mechanisms and New Accounts**. Provide enhanced funding mechanisms and create additional accounts to address SWP financial needs and purposes.
5. **Enhanced Coordination Regarding SWP Finances**. Provide for a finance committee and provide other means to increase coordination between DWR and the Contractors regarding SWP financial matters.

ENVIRONMENTAL IMPACTS

The impact of the proposed project on the following resource topics was analyzed in Chapter 5, Environmental Analysis, of the DEIR: aesthetics; agricultural and forest resources; air quality; biological resources; cultural resources; energy; geology, soils, and mineral resources; greenhouse gas emissions; groundwater hydrology and water quality; hazards and hazardous materials; land use and planning; noise; population and housing; public services and recreation; surface water hydrology and water quality; transportation; utilities and service systems; and water supply.

The results of the analyses in Chapter 5 found that the proposed project would result in no impact on any of these resource topics because it would amend and add financial provisions to the Contracts and would not create new water management measures, alter the existing authority to build new or modify existing SWP facilities, or change water allocation provisions of the Contracts. Further, the cumulative impact analyses (see Chapter 6, Other CEQA Considerations) found that implementation of the proposed project would not result in physical environmental impacts; therefore, it would

[3] Article 4 provides each Contractor an option for continued service after the date determined in accordance with Article 2. Article 2 is described in footnote 2 on page ES-2 and Article 4 is described in footnote 1 on page ES-1.

not contribute to any cumulative effect. As a result, the proposed project would have no cumulative impacts.

Growth Inducement

As described in Chapter 6, because the proposed project would not construct new or modified SWP facilities or change water supply allocations in Contractors' service areas there would be no new housing and no substantial new permanent employment opportunities. Furthermore, it would not directly or indirectly remove obstacles to growth because the proposed project would not provide for additional and/or more reliable water supplies. There would be no change in land uses associated with SWP deliveries including, conversion of agricultural land uses to urban uses or increased developed uses in urban areas because water deliveries would continue consistent with the current contract. Therefore, the proposed project would not result in direct or indirect growth inducement.

ALTERNATIVES TO THE PROPOSED PROJECT

As described in Chapter 7, Alternatives, the focus and definition of the alternatives evaluated in the DEIR were governed by the "rule of reason" in accordance with Section 15126.6(f) of the CEQA Guidelines requiring evaluation of only those alternatives "necessary to permit a reasoned choice." As described in Chapter 5, there are no impacts associated with the proposed project. Therefore, there are no alternatives that would reduce or eliminate significant project impacts as compared to the proposed project and development of specific alternatives to reduce or eliminate significant environmental impacts is not required by CEQA. However, as an informational document, this DEIR discloses for public and agency consideration a reasonable range of alternatives to the proposed project in order to provide DWR with sufficient information to foster informed decision-making. Alternatives to the proposed project were developed and analyzed for their ability to meet the project objectives. Where alternatives were found to attain most of the basic objectives, they were included as part of the detailed analysis presented in Chapter 7. Where alternatives were not found to attain most of the basic project objectives or not to be feasible means to achieve basic project objectives, they were eliminated from further detailed consideration. The alternatives that were considered but rejected include:

1. Reduce Table A deliveries (see discussion of current Table A Contract provisions in Chapter 2, State Water Project)
2. Implement new water conservation management provisions in the extended Contracts
3. Implement California WaterFix

The following provides a summary of the alternatives evaluated in the DEIR along with an analysis of impacts, as compared to the proposed project, and the alternative's ability to achieve the proposed project's objectives. See Chapter 7 for the detailed evaluation.

Alternative 1 - No Project

Under the No Project Alternative, DWR takes no action, and DWR and the Contractors would continue to operate and finance the SWP under the Contracts to December 31, 2035. Upon receipt of Article 4 letters from the Contractors (at least 6 months prior to the existing expiration date for each Contract) the term of the Contracts would be extended beyond their current expiration dates. Under this alternative, the Contracts would not expire beginning in 2035. Water service would continue beyond 2035 to all the Contractors, consistent with the Contracts including the existing financial provisions. Annual revenue and water supply cost recovery would continue consistent with the current Contracts. Until the Contractors submit their Article 4 letters to extend their Contract expiration dates and the extended Contract expiration date is determined, DWR would not sell bonds with maturity dates past 2035 to finance SWP capital expenditures and therefore the current compression in the recovery of capital costs and bond financing costs would be exacerbated.

Alternative 2 - Different Contract Term (2065) with Financial Provisions of the Proposed Project

Under Alternative 2, DWR and the Contractors would agree to implement the proposed financial provision changes and extend the term of the Contract beyond December 31, 2035, to 2065 compared to the proposed project (2085). Repayment of existing bonds covering past expenditures would continue to 2035 consistent with the current Contracts as modified by the proposed financial provision changes. Bond sales to fund future expenditures would continue past 2035, but no bonds would be sold with a maturity date beyond 2065. Water service would continue beyond 2035 consistent with the current Contracts. The proposed project's revised financial provisions would begin to be implemented upon Contract amendment execution. All other Contract provisions would remain unchanged.

Alternative 3: Different Contract Term (2110) with Financial Provisions of the Proposed Project

Under Alternative 3, DWR and the Contractors would agree to implement the proposed financial provision changes and extend the term of the Contract beyond December 31, 2035, to 2110 compared to the proposed project (2085). Repayment of existing bonds covering past expenditures would continue to 2035 consistent with the current Contract as modified by the proposed financial provision changes. Bond sales to fund future expenditures would continue past 2035, but no bonds would be sold with a maturity date beyond 2110. Water service would continue beyond 2035 consistent with the current Contract. Annual revenue and water supply cost recovery would continue consistent with the current Contract except for the revised financial provision changes.

Alternative 4: Extend Contract Term to 2085 without Financial Provisions of the Proposed Project

Under this alternative DWR and the Contractors would agree to extend the Contract term to 2085 and would not implement proposed financial provision changes. Repayment of existing bonds covering past expenditures would continue to 2035 consistent with the current Contracts. Bond sales could start after Contract extension amendment approval and the bonds would have maturity dates beyond 2035, but no bonds would be sold with a maturity date beyond 2085. Water service to all Contractors would continue beyond 2035 consistent with the current Contract. Annual revenue and water supply cost recovery would continue consistent with the current Contract.

Alternative 5: Extend Contract Term to 2085 and do not Implement Financial Provisions of the Proposed Project until 2035

Under this alternative, DWR and the Contractors would agree to extend the term of the Contract to 2085 but would not implement financial provision changes until 2035. Water service to all Contractors would continue beyond 2035 consistent with the current Contract. Annual revenue and water supply cost recovery would continue consistent with the current Contract through 2035, with the exception that the method for charging the Contractors for debt service on bonds sold prior to 2035, but with maturities extending beyond 2035, would need to be addressed. After 2035 the proposed financial provision changes would be implemented.

Alternative 6: Extend Contract Term Through the Sale of Bonds

Under this alternative DWR would sell bonds with maturity dates extending beyond the current Contract expiration dates which, pursuant to Article 2 of the Contract, would have the effect of extending the Contract term to the latest maturity date of the bonds sold. The proposed financial provision changes would not be implemented. Repayment of existing bonds covering past expenditures would continue to 2035 consistent with the current Contract. Bond sales to fund future expenditures would continue past 2035 with the Contract term extended to the latest maturity date of any bond sold. Water service to all Contractors would continue beyond 2035 consistent with the current Contract. Annual revenue and water supply cost recovery would continue consistent with the current Contract through to the extended Contract expiration date, although some cost recovery and billing issues would need to be addressed.

Also, without a Contract amendment, there would be uncertainty, among other things, about DWR's ability to continue to market long-term revenue bonds in a cost effective manner, DWR's ability to engage in reliable long-term financial planning and the effect this would have on the financial integrity of the SWP.

Alternative 7: Not All Contractors Sign

Under this alternative, DWR and most Contractors would choose to sign the Contract amendment. Some Contractors, however, could choose not to sign the Contract amendment and have their water service cease on their Contract expiration dates. For those Contractors who choose not to sign the Contract amendment, annual revenue and water supply cost recovery would continue consistent with the current Contract through to their Contract expiration dates, without the implementation of the financial provision changes. For those Contractors who sign the Contract amendment, their Contracts would be extended to 2085 and their water service would continue under the existing Contract provisions through to 2085. Annual revenue and water supply cost recovery would continue consistent with current Contract except for the proposed financial provision changes. Repayment of existing bonds covering past expenditures would continue to 2035 consistent with the current Contract provisions. Bond sales to fund future expenditures would continue past 2035 using the new modified financial provisions, but no bonds would be sold with a maturity date beyond 2085.

Environmentally Superior Alternative

Table ES-1 presents a summary of how each alternative compares to the proposed project with respect to the impacts and the ability to meet project objectives. As presented in Chapter 5, implementation of the proposed project would not result in any physical environmental impacts. As discussed in Chapter 7 section 7.4, identical to the proposed project, Alternatives 2 through 6 would also not result in any impacts. Alternatives 1 and 7 could result in indirect impacts not identified for the proposed project. Under Alternative 1 there would likely be delays in the ability of DWR to sell revenue bonds beyond 2035 to fund needed repairs and improvements to existing facilities or the construction and acquisition of new facilities. Furthermore, Contractors could also delay expenditures on their own operations and/or local capital projects. This could indirectly affect the reliability of SWP water service and/or the reliability of some Contractors' water service. Alternative 7 could result in indirect impacts due to changes in project operations as some Contractors no longer receive SWP water service.

TABLE ES-1.
COMPARISON OF ALTERNATIVES TO PROPOSED PROJECT

	Proposed Project	**Alternative 1** No Project	**Alternative 2** Different Contract Term (2065) with Financial Provisions of the Proposed Project	**Alternative 3** Different Contract Term (2110) with Financial Provisions of the Proposed Project	**Alternative 4** Extend Contract Term to 2085 at the Time of Project Approval without Financial Provisions of the Proposed Project	**Alternative 5** Extend Contract Term to 2085 and Do Not Implement Financial Provisions of the Proposed Project until 2035	**Alternative 6** Extend Contract Term through Sale of Bonds	**Alternative 7** Not All Contractors Sign
Environmental Impacts	No Impacts	Greater	Same	Same	Same	Same	Same	Greater
Meets Project Objectives								
Objective 1	Yes	Yes	Yes/Less	Yes	Yes	Yes	No	Yes/No
Objective 2	Yes	No	Yes	Yes	No	Yes/Less	No	Yes/No
Objective 3	Yes	No	Yes	Yes	No	Yes/Less	No	Yes/No
Objective 4	Yes	No	Yes	Yes	No	Yes/Less	No	Yes

Contractors that do not sign the Contracts, and thus relinquish their SWP water supply, could face future water shortages leading to permanent cuts in water supply to their customers, fallowing of agricultural land, and change in cropping patterns or development of alternative water supplies. This could result in mandatory water conservation measures, a change in agricultural economics, new fugitive dust air quality emissions (PM_{10}, a criteria air pollutant), increased groundwater extraction and overdraft, or environmental impacts from development of new surface supplies, or all of the above. The exact location or extent of these potential effects is too speculative to predict or evaluate since the location and number of Contractors that will not sign is currently unknown.

With respect to achieving project objectives, only Alternative 3 would achieve all of the proposed project objectives; however, this alternative represents a longer Contract term than is desired by DWR. Alternatives 2 and 5 would achieve the project objectives, but to a lesser extent when compared to the proposed project. Under Alternative 2, Objective 1 would be achieved to a lesser degree because the new Contract term would be shorter, resulting in the sale of revenue bonds with maturity dates that do not extent beyond 2065. This would shorten the time period before DWR and the Contractors would face a revenue bond debt service compression problem. Under Alternative 5, Objectives 2 through 4 would not be achieved until after 2035 when the financial provision modifications would take effect. Alternative 7 would also achieve the proposed project objectives; however, all of the objectives would be achieved only for DWR and the Contractors that sign the amendment.

Therefore, because the proposed project and Alternatives 2 through 6 would result in no impact, they would be the environmentally superior alternatives. However, only the proposed project and Alternative 3 would achieve the project objectives.