



PALMDALE WATER DISTRICT

2029 East Avenue Q • Palmdale, California 93550 •

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Board of Directors

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Division 5

ALESHIRE & WYNDER LLP
Attorneys



August 21, 2014

***Agenda for a Meeting
of the Water Supply & Reliability Committee of the Palmdale Water District
Committee Members: Gloria Dizmang-Chair, Vincent Dino
to be held at the District's office at 2029 East Avenue Q, Palmdale***

Monday, August 25, 2014

2:00 p.m.

NOTE: To comply with the Americans with Disabilities Act, to participate in any Board meeting please contact Dawn Deans at 661-947-4111 x1003 at least 48 hours prior to a Board meeting to inform us of your needs and to determine if accommodation is feasible.

Agenda item materials, as well as materials related to agenda items submitted after distribution of the agenda packets, are available for public review at the District's office located at 2029 East Avenue Q, Palmdale. Please call Dawn Deans at 661-947-4111 x1003 for public review of materials.

PUBLIC COMMENT GUIDELINES: The prescribed time limit per speaker is three-minutes. Please refrain from public displays or outbursts such as unsolicited applause, comments, or cheering. Any disruptive activities that substantially interfere with the ability of the District to carry out its meeting will not be permitted and offenders will be requested to leave the meeting.

Each item on the agenda shall be deemed to include any appropriate motion, resolution, or ordinance to take action on any item.

- 1) Roll call.
- 2) Adoption of agenda.
- 3) Public comments.
- 4) Action Items: (The public shall have an opportunity to comment on any action item as each item is considered by the Committee prior to action being taken.)

- 4.1) Consideration and possible action on approval of minutes of meeting held June 30, 2014.
- 4.2) Presentation of monthly water demand and supply status. (Water & Energy Resources Director Pernula)
- 4.3) Status on the operations of the State Water Project. (Water & Energy Resources Director Pernula)
- 4.4) Consideration and possible action on approval of Agreement in Principle (AIP) affirming terms of contract extension between Palmdale Water District (PWD), State Water Contractors, and the Department of Water Resources (DWR) for a future amendment to extend the State Water Project contract to year 2085. (Water & Energy Resources Director Pernula)
- 5) Project updates.
 - 5.1) Palmdale Recycled Water Authority. (General Manager LaMoreaux)
 - 5.2) Littlerock Dam Sediment Removal Project. (Assistant General Manager Knudson)
 - 5.3) Littlerock Creek Recharge and Recovery Project. (Assistant General Manager Knudson)
 - 5.4) City of Palmdale's Upper Amargosa Recharge Project. (Assistant General Manager Knudson)
- 6) Information items.
 - 6.1) Water purchase opportunities. (Water & Energy Resources Director Pernula)
 - 6.2) Other.
- 7) Board members' requests for future agenda items.
- 8) Adjournment.


DENNIS D. LaMOREAUX,
General Manager

DDL/dd

AGENDA ITEM NO. 4.2

Month	Five-Year Aver. Consumption (ac.-ft.)	Budgeted 2014 Consumption (ac.-ft.)	Actual 2014 Consumption (ac.-ft.)	Difference (Act. - Pred.) (ac.-ft.)
Jan.	975.0	979	977.3	-1.8
Feb.	943.3	941	1,017.5	76.8
March	941.0	970	1,032.5	62.0
April	1,185.2	1,191.5	1,234.8	43.2
May	1,541.8	1,405.0	1,627.2	222.2
June	1,860.9	1,830.7	1,861.3	30.6
July	2,201.1	2,104.6	2,154.1	49.5
Aug.	2,226.6	2,165.7	0.0	0.0
Sept.	2,376.2	2,219.2	0.0	0.0
Oct.	1,990.7	2,002.1	0.0	0.0
Nov.	1,487.1	1,588.3	0.0	0.0
Dec.	1,172.4	1,402.5	0.0	0.0
	18,901.2	9,422.2	9,904.7	482.5
2009 thru 2013		20,000.0		

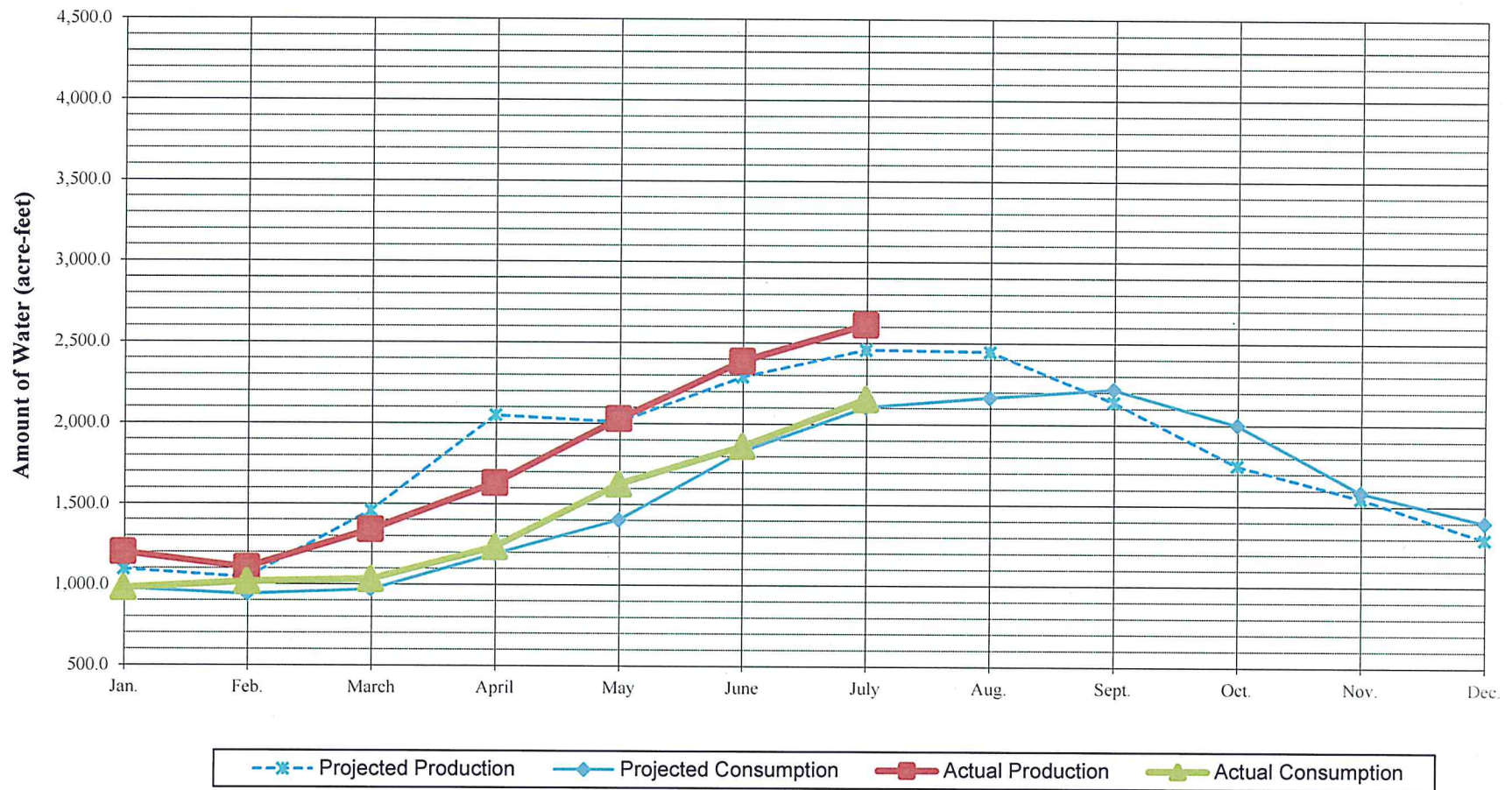
4.9%

18,800.0

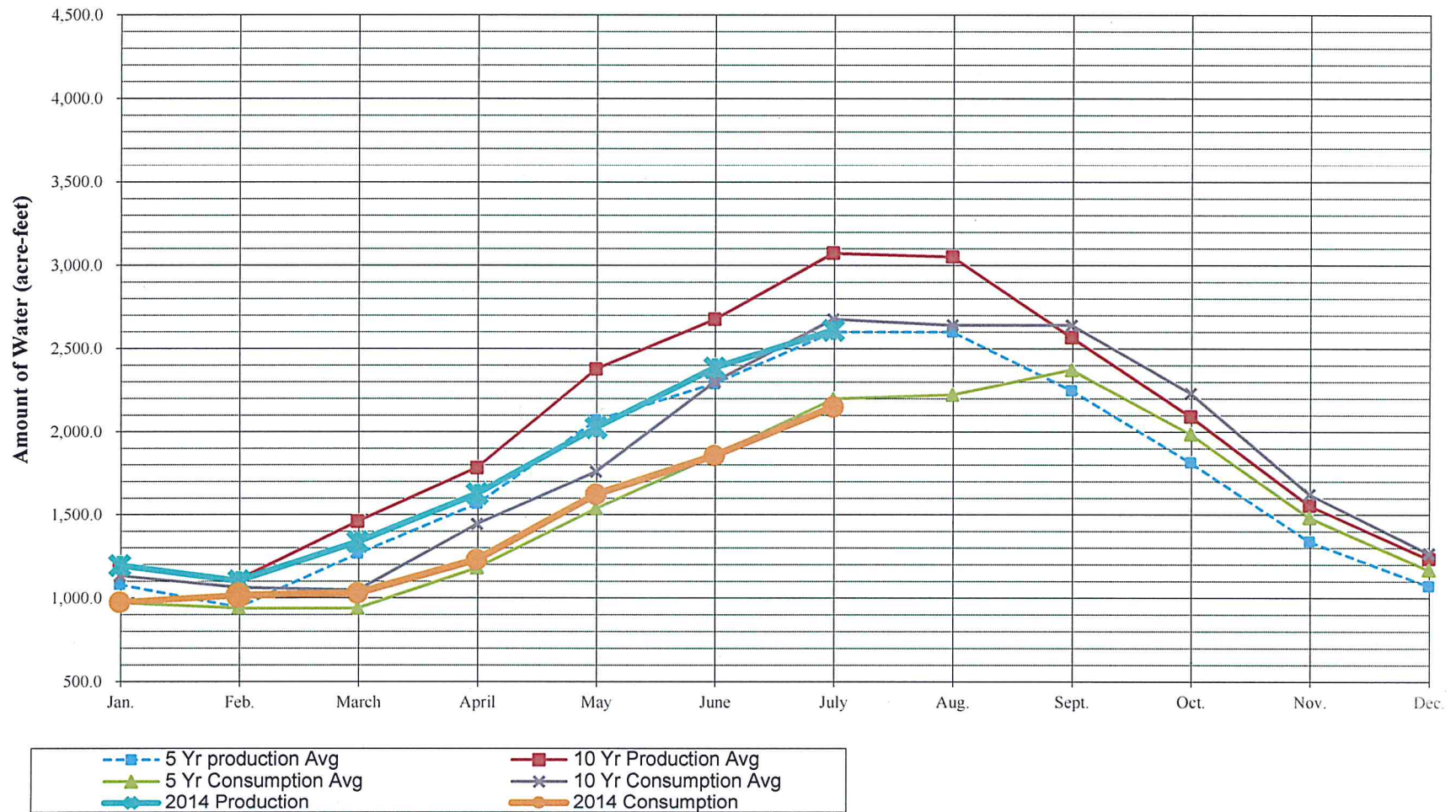
Month	Five-Year Aver. Production (ac.-ft.)	Projected 2014 Production (ac.-ft.)	Actual 2014 Production (ac.-ft.)	Difference (Act. - Pred.) (ac.-ft.)
Jan.	1,084.2	1,095.0	1,199.8	104.8
Feb.	947.7	1,045.0	1,106.8	61.8
March	1,270.4	1,460.0	1,341.4	-118.6
April	1,570.1	2,050.0	1,631.1	-419.0
May	2,073.7	2,010.0	2,029.5	19.5
June	2,293.6	2,290.0	2,388.1	98.1
July	2,603.1	2,460.0	2,613.9	153.9
Aug.	2,603.8	2,450.0	0.0	0.0
Sept.	2,252.4	2,140.0	0.0	0.0
Oct.	1,819.8	1,750.0	0.0	0.0
Nov.	1,343.1	1,550.0	0.0	0.0
Dec.	1,076.2	1,300.0	0.0	0.0
	20,938.1	12,410.0	12,310.6	-99.4
2009 thru 2013		21,600.0		

-0.8%

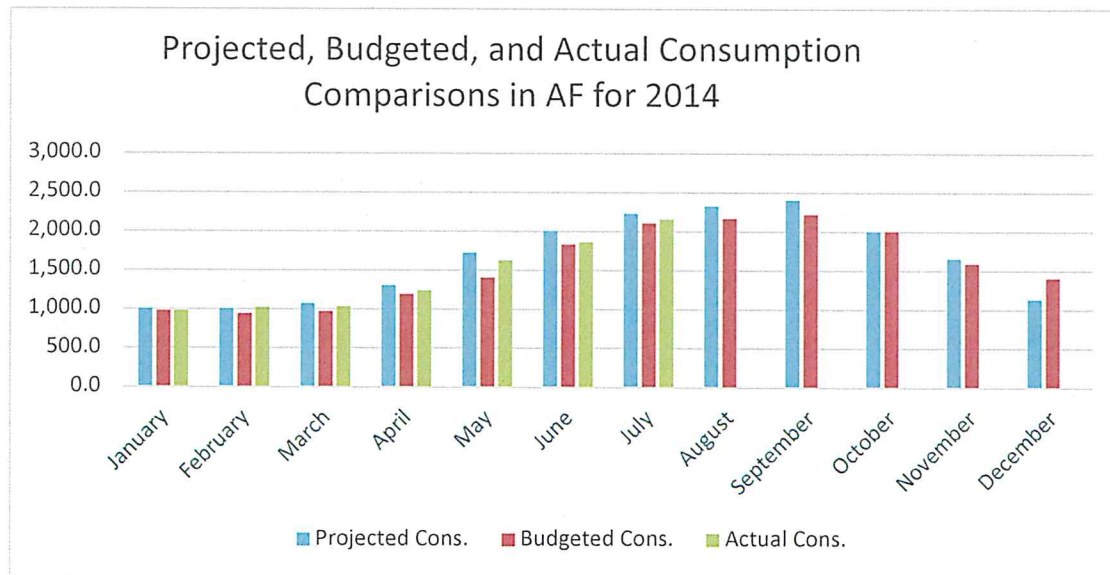
2014 PWD PRODUCTION & CUSTOMER WATER USE



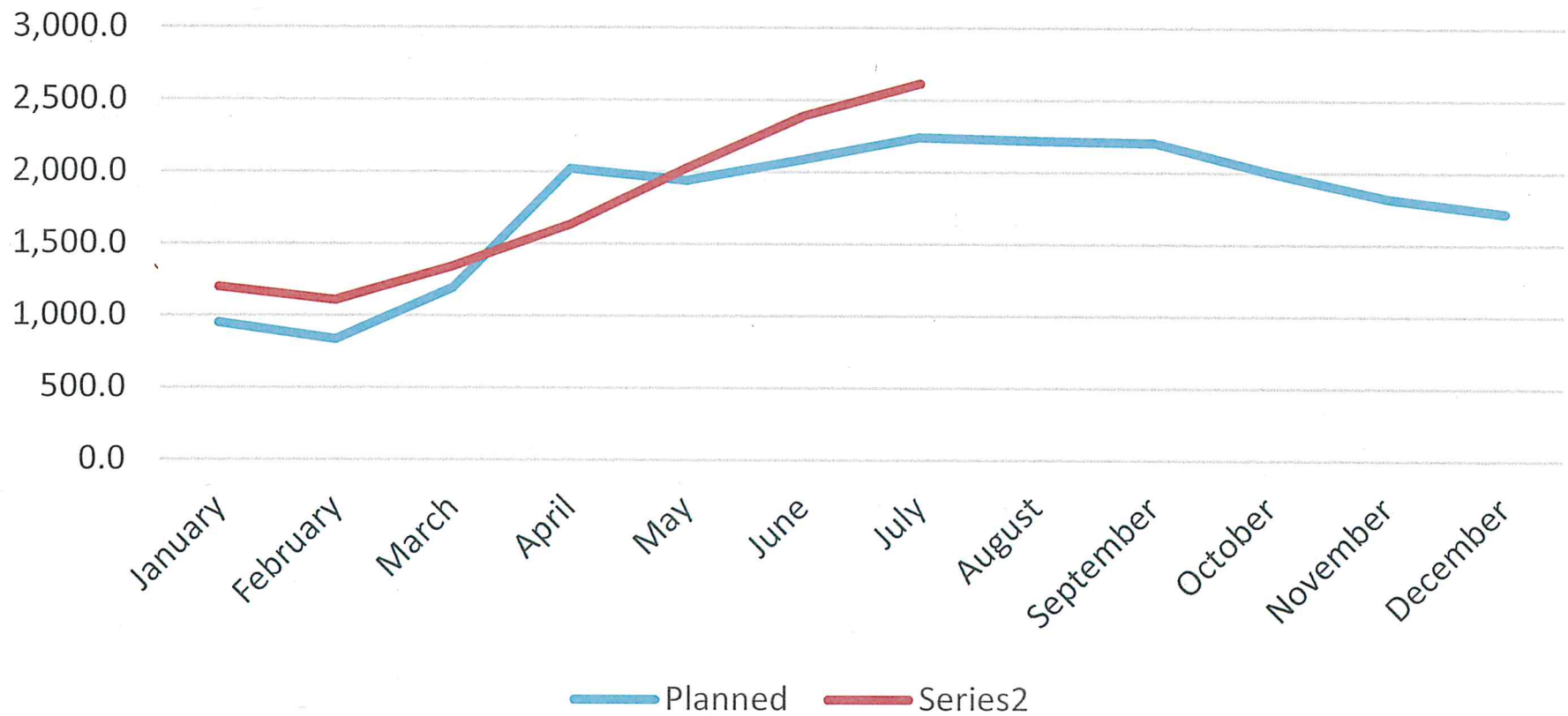
2014 PWD PRODUCTION & CUSTOMER WATER USE



2014 BILLED CONSUMPTION			
Month	Projected	Budgeted	Actual
January	1,000.0	979	977.3
February	1,000.0	941	1,017.5
March	1,070.0	970	1,032.5
April	1,300.0	1,191.5	1,234.8
May	1,720.0	1,405.0	1627.2
June	2,000.0	1,830.7	1861.3
July	2,225.0	2,104.6	2154.1
August	2,325.0	2,165.7	
September	2,400.0	2,219.2	
October	2,000.0	2,002.1	
November	1,650.0	1,588.3	
December	1,130.0	1,402.5	
Current AF	10,315.0	9,422	9,904.7
Total	19,820.0	18,800	9,904.7



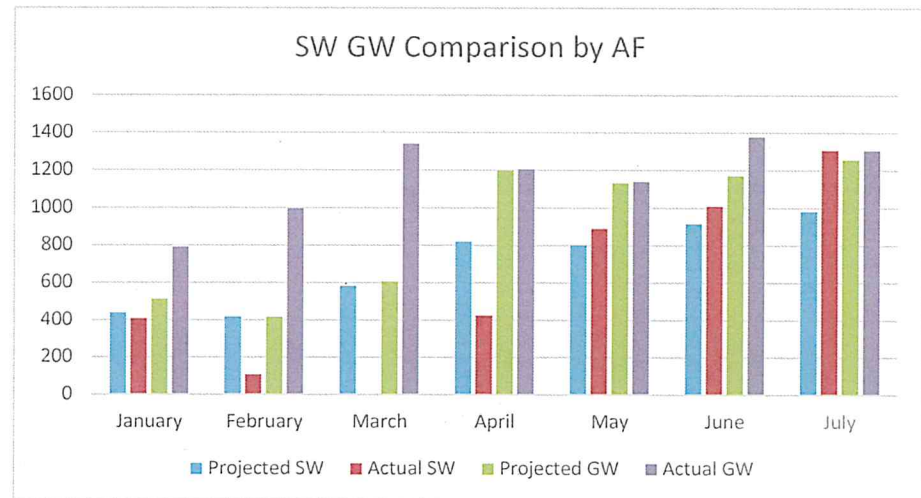
Plan Versus Actual Production

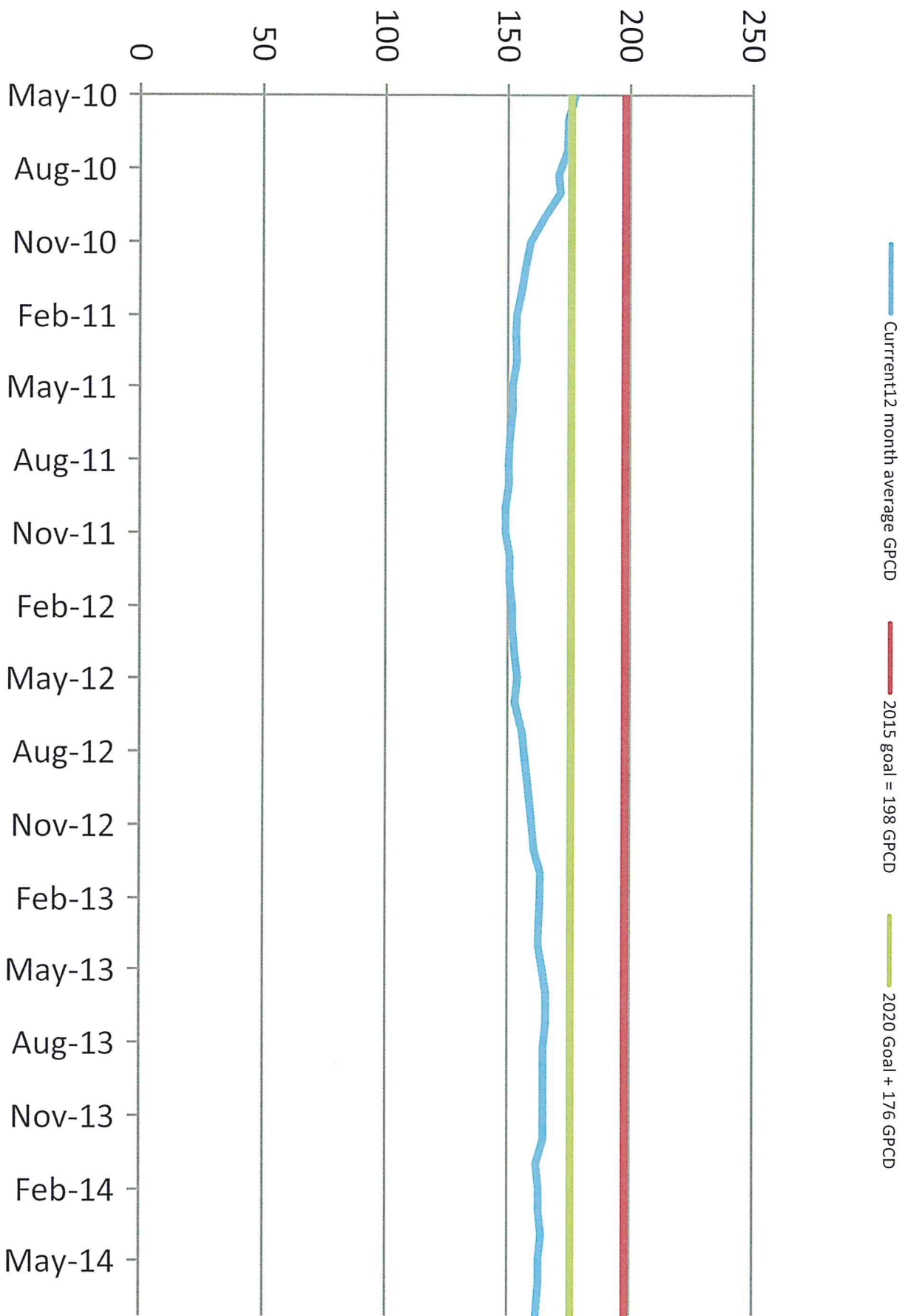


2014

MONTHLY TOTALS					
MONTH	TOTAL af	SW af	GW af	SW %	GW%
January	1,199.8	408.3	791.5	34.03%	65.97%
February	1,106.8	108.7	998.1	9.82%	90.18%
March	1,300.0	0.0	1300.0	0.00%	100.00%
April	1,631.1	424.9	1206.2	26.05%	73.95%
May	2,029.5	888.9	1140.6	43.80%	56.20%
June	2,388.1	1008.8	1379.3	42.24%	57.76%
July	2,613.9	1307.4	1306.5	50.02%	49.98%
August	0.0	0.0	0.0		
September	0.0	0.0	0.0		
October	0.0	0.0	0.0		
November	0.0	0.0	0.0		
December	0.0	0.0	0.0		

Running Averages	SW	GW
January	34.03%	65.97%
Jan. thru February	21.93%	78.07%
Jan. thru March	14.62%	85.38%
Jan. thru April	17.48%	82.52%
Jan. thru May	22.74%	77.26%
Jan. thru June	25.99%	74.01%
Jan. thru July	29.42%	70.58%
Jan. thru August		
Jan. thru September		
Jan. thru October		
Jan. thru November		
Jan. thru December		





2014 Water Production Plan @ 5% Allocation

Month	Raw Surface Water Sources								Water Production								Metered	
	Surface				Water		Evaporation		Total	WTP		Groundwater		Total		Water		
	YUBA ACCORD	Carry Over (ac-ft)	BUTTE (ac-ft) fromTA *	SBVWA MWA BCo (ac-ft)	PWD/SWP (ac-ft)	LrD (ac-ft)	Plan (ac-ft)	Plan (ac-ft)	Plan (ac-ft)	Actual (ac-ft)	Plan (ac-ft)	Actual (ac-ft)	Plan (ac-ft)	Actual (ac-ft)	Plan (ac-ft)	Actual (ac-ft)		
January	0	1326.0	0.0	0.0	0.0	0.0	0.00	1326.00	438	408.3	513.1	791.5	951.1	1,199.8	1,000.0	977.3		
February	0	153.0	0.0	0.0	0.0	0.0	0.00	153.00	418	108.7	416.3	998.1	834.3	1,106.8	1,000.0	1,017.5		
March	0	0	0.0	0.0	0.0	0.0	-80.00	-80.00	584	0.0	607.0	1341.4	1,191.0	1,341.4	1,070.0	1,032.5		
April	0	351.9	0.0	0.0	0.0	0.0	-100.00	251.90	820	424.9	1,200.0	1206.2	2,020.0	1,631.1	1,300.0	1,234.8		
May	0	1007.9	0.0	0.0	0.0	0.0	-176.00	831.90	804	888.9	1,135.0	1140.6	1,939.0	2,029.5	1,720.0	1,627.2		
June	0	800.0	0.0	0.0	295	67.0	-157.00	1005.00	916	1008.8	1,171.8	1379.3	2,087.8	2,388.1	2,000.0	1,861.3		
July	302.4	30.0	0.0	0.0	520.0	699.6	-80.00	1169.55	984	1307.4	1,258.0	1306.5	2,242.0	2,613.9	2,225.0	2,154.1		
August	230	0.0	0.0	580.0	250.0	0.0	-125.00	935.00	980	0.0	1,242.0	0.0	2,222.0	0.0	2,325.0	0.0		
September	0	0.0	0.0	900.0	0.0	0.0	-69.00	831.00	856	0.0	1,350.0	0.0	2,206.0	0.0	2,400.0	0.0		
October	0	0.0	0.0	750.0	0.0	0.0	-50.00	700.00	700	0.0	1,300.0	0.0	2,000.0	0.0	2,000.0	0.0		
November	0	0.0	250.0	380.0	0.0	0.0	0.00	630.00	620	0.0	1,200.0	0.0	1,820.0	0.0	1,650.0	0.0		
December	0	0.0	320.0	0.0	0.0	0.0	0.00	320.00	520	0.0	1,200.0	0.0	1,720.0	0.0	1,130.0	0.0		
	532.4	3,638.80	570.0	2610.0	815.0	766.6	(593.00)	4,657.35	4,964.0	4,147.0	6,301.2	8,163.62	11,265.2	12,310.6	10,315.0	9,905		
Allocated Total Use:	534	3,670.0	570.0	2,500.0	1,062.0	1,000.0	1,250.0	8,500.0	8,640.0	8,500.0	12,593.2	12,500.00	21,233.2	21,500.00	18,800.0	18,900.0		
Actual Planned Use		3,670.0	570.0	580.0	1,100.0	750.0		8,073.4										
Remaining Allotment:	1.6	31.2	0.0	-110.0	247.0	233.5	657.0	3,842.7	3,676.00	4,353.0	6,292.0	4,336.38	9,968.0	9,189.37	8,485.0	8,995.3		
recoverable AVWB			570.0		1,065.0		0.0		12,300.0		9,500.0		21,780.0	-	18,000.0	19,258		
Total:		3,100.0	0.0	2,500.0	0.0	0.0	-1,250.0											
UNUSED TO DATE		31.2	0.0	-110.0	247.0	0.0		168.2					2,976.4		4,370.0			
Planned Available for Carryover	168																	

**PALMDALE WATER DISTRICT
COMMITTEE MEMORANDUM**

DATE: August 20, 2014 **August 25, 2014**
TO: WATER SUPPLY & RELIABILITY COMMITTEE **Committee Meeting**
FROM: Jon M. Pernula, Water and Energy Resources Director
VIA: Mr. Dennis D. LaMoreaux, General Manager
RE: ***AGENDA ITEM NO. 4.4 - CONSIDERATION AND POSSIBLE ACTION
ON APPROVAL OF AGREEMENT IN PRINCIPLE (AIP) AFFIRMING
TERMS OF CONTRACT EXTENSION BETWEEN PALMDALE WATER
DISTRICT (PWD), STATE WATER CONTRACTORS, AND THE
DEPARTMENT OF WATER RESOURCES (DWR) FOR A FUTURE
AMENDMENT TO EXTEND THE STATE WATER PROJECT
CONTRACT TO YEAR 2085***

Recommendation:

Staff recommends Committee endorsement for future Board consideration of approval of the Agreement in Principle of negotiated terms for extension of our State Water Contract to year 2085.

Background:

In the 1960's, PWD, along with 28 other water agencies, entered into long-term water supply contracts (Contracts) with the Department of Water Resources (DWR). Under terms of the contracts, the Department of Water Resources provides water service to these agencies, known as State Water Project Contractors, from the State Water Project (SWP) in exchange for payments that recoup all costs associated with providing that water service over the life of the SWP. The majority of the capital costs associated with the development and maintenance of the SWP is financed using revenue bonds. These bonds have historically been sold with 30 year terms that extend to the year 2035, the year in which most of the Contracts expire.

It has become more challenging each passing year to affordably finance capital expenditures for the SWP since bonds used to finance the expenditures are limited to terms that only extend to the year 2035, less than 30 years from now. In order to ensure continued affordability of debt service to all SWP Contractors, it is necessary to extend the termination date of the Contracts. The extension of the Contracts will allow DWR to continue to sell bonds with 30 year terms thus ensuring the debt service on these bonds remains affordable to SWP Contractors and their water customers. Other benefits of contract extension include streamlining and improving the transparency of the billing process and easing financial compression at the end of the current contract. The extension of the State Water Contract will also ensure a commitment for continued SWP service beyond year 2035.

WATER SUPPLY & RELIABILITY COMMITTEE
PALMDALE WATER DISTRICT
VIA: Mr. Dennis D. LaMoreaux, General Manager

-2-

August 20, 2014

Strategic Plan Initiative:

Strategic Initiative No. 1, Strategic Water Management.

Budget:

N.A.

Supporting Documents:

- Agreement in Principle
- SWP contract extension PowerPoint presentation
- Forecasting Negotiated Charges (SWC Contract Extension Committee 5/22/2014) PowerPoint presentation

DATE: June 18, 2014

SUBJECT: Agreement in Principle Concerning Extension of the State Water Project¹ Water Supply Contracts

This document contains a statement of principles that could provide the foundation for an agreement between each State Water Project Contractor² (Contractor) and the Department of Water Resources (DWR or Department) that will extend and otherwise amend the Water Supply Contract between such Contractor and DWR.

Outline of Agreement in Principle

- | | | |
|-------|--------------|--------------------------------------|
| I. | Objective 1 | Term of Contract |
| II. | Objective 2A | Reserves |
| III. | Objective 2B | Accounts (SRA, SSA, FCA) |
| IV. | Objective 2C | Flow of Funds |
| V. | Objective 2D | Financial Management |
| VI. | Objective 2E | Supplemental Billing |
| VII. | Objective 2F | Cost Recovery |
| VIII. | Objective 2G | SWRDS Reporting Principles |
| IX. | Objective 2H | 51(e) Revenue Reporting Requirements |
| X. | Objective 3A | Simplification of Billing |
| XI. | Objective 3B | Replacement Accounting System |
| XII. | Objective 3C | Article 1(hh) |
| XIII. | Objective 3D | Billing Authorization |
| XIV. | Objective 4 | BDCP and DHCCP Participation |
| XV. | Provision 1 | Other Contract Provisions |
| XVI. | Provision 2 | Environmental Review Process |
| XVII. | Provision 3 | Authorized Representative Signatures |

¹ The State Water Project is the name commonly used to refer to the State Water Resources Development System (Water Code Section 12931)

² The State Water Project Contractors includes Alameda County Flood Control and Water Conservation District (Zone 7), Alameda County Water District, Antelope Valley-East Kern Water Agency, Castaic Lake Water Agency, City of Yuba City, Coachella Valley Water District, County of Butte, County of Kings, Crestline-Lake Arrowhead Water Agency, Desert Water Agency, Dudley Ridge Water District, Empire West Side Irrigation District, Kern County Water Agency, Littlerock Creek Irrigation District, The Metropolitan Water District of Southern California, Mojave Water Agency, Napa County Flood Control and Water Conservation District, Oak Flat Water District, Palmdale Water District, Plumas County Flood Control and Water Conservation District, San Bernardino Valley Municipal Water District, San Gabriel Valley Municipal Water District, San Geronimo Pass Water Agency, San Luis Obispo County Flood Control and Water Conservation District, Santa Barbara County Flood Control and Water Conservation District, Santa Clara Valley Water District, Solano County Water Agency, Tulare Lake Basin Water Storage District, and Ventura County Flood Control District.

STATEMENT OF PRINCIPLES

I. OBJECTIVE 1: TERM OF CONTRACT

A. Water Supply Contract Term Extension

1. Extend term of the SWP water supply contracts to December 31, 2085.

II. OBJECTIVE 2A: RESERVES

A. General Operating Account (GOA)

1. **Uses of GOA** - Cash flow deficiencies resulting from chargeable water supply purposes and/or during a SWRDS emergency for any SWRDS purpose.
2. **SWRDS Emergency** - An immediate, urgent, critical, unexpected, or impending situation that, in the judgment of the Director, Department of Water Resources (Director), may cause or pose a risk of causing injury, loss of life, damage to the property, impairment of the financial condition, and/or interference with the normal activities of the State Water Resources Development System which requires immediate attention and remedial action.
3. **Initial Cap** - Increase the authorized General Operating Account (GOA) initial cap to \$150 million in Article 51(a)(3).
4. **Cap Adjustment Determination** - Every five years subsequent to the year of the initial cap increase, there shall be a business case analysis on the GOA authorized cap including an evaluation of the cap and business risks associated with SWRDS cash flow provided to the SWRDS Finance Committee for recommendation to the Director regarding a GOA cap adjustment. If there is a decrease in the cap (but the cap shall not be lower than \$150 million), the excess funds would be transferred to the SWRDS Reinvestment Account (SRA).
5. **Cap Adjustment Funding Source (Pre-2035)** - Shall be the Director's discretion to use 51(e) revenues³, investment earnings retained in the GOA, and transfers of funds from the SRA and SWRDS Support Account (SSA).
6. **Cap Adjustment Funding Source (Post-2035)** - Shall be the Director's discretion to use the investment earnings retained in GOA and the funds within the SRA and SSA.
7. **Rate of Funding for Cap** - Limitation on the amount (\$2 million per year) and timing of additional contributions to the GOA contained in Article 51(e)(3)(v) will be deleted. DWR will be able to use any amount of available 51(e) revenues to increase funds in the GOA up to the authorized maximum GOA funding level and such funding shall be subordinate to the annual rate management reductions to the Contractors.

³ The definition and calculation of 51(e) revenues will be included in the contract amendment language.

8. **GOA Replenishment** - Replenishment of the use of GOA funds will come from charges to the Contractors to the extent the expended funds were spent on chargeable water supply purposes and from the SSA or other available revenues for costs not chargeable to the Contractors.
9. **GOA Reporting** - DWR will prepare monthly reports on the balance and use of the GOA for the Director, which will be provided to the SWRDS Finance Committee. The SWRDS Finance Committee will periodically review reporting frequency and make recommendations to the Director regarding reporting frequency.
10. **GOA Investment Earnings** - shall be used as follows:
 - a) Funding GOA to authorized GOA funding level;
 - b) Transferred, at the discretion of the Director, to the SSA and/or to the SRA.

III. **OBJECTIVE 2B: ACCOUNTS (SRA, SSA, FCA)**

A. **SWRDS Reinvestment Account (SRA)**

1. **Effective Date of SRA** - The SRA shall be established and take effect upon the effective date of the contract extension amendment.
2. **SRA Uses** - The primary purpose is to provide a post-2035 SWRDS revenue stream by investing SRA funds in chargeable SWRDS facilities and programs.
3. **Funding Source** - At the discretion of the Director, available Article 51(e)(1)(ii) revenues collected by the State pre-2035. The Director also has discretion to transfer funds from the SSA or the GOA.
4. **Cap on SRA** - There will be no Cap or Cap Adjustments to the SRA.
5. **SRA Investments** - At the discretion of the Director, authorized SRA investments shall be as follows:
 - a) Investment in SWRDS capital facilities, recovered at the prevailing municipal bond market rates corresponding to the SWRDS bond rating at the time of financing, in maturity ranges that may extend 10 to 50 years, provided that if the capital asset being financed has a useful life of less than 10 years, the investment may be recovered over a comparable period of less than 10 years;
 - b) Bridge financing of capital costs in lieu of the SWRDS commercial paper program;
and

- c) Allowable investments for SWRDS that generate a monetary return on investment.
- 6. **Use of SRA Funds** - At the discretion of the Director, the SRA funds, including but not limited to investment earnings, shall be used to:
 - a) Provide a source of replenishment funds to the SSA;
 - b) Provide a source of funds to be held in the SRA for investment purposes; and
 - c) Provide a funding source for funding level adjustments to the GOA.
- 7. **SRA Review** - The SWRDS Finance Committee is to be consulted about the investments and activities to be funded from the SRA.
- 8. **SRA Reporting** - DWR will prepare regular reports on the SRA for the Director, which reports will be provided to the SWRDS Finance Committee.

B. SWRDS Support Account (SSA)

- 1. **Effective Date of SSA** - The SSA shall be established and take effect upon the effective date of the contract extension amendment.
- 2. **SSA Uses** - The purpose of the SSA shall be to provide a source of funds to pay for non-chargeable expenditures where there are no funds or revenue sources available to pay for such costs. If reimbursement or a source of revenue is received after the expenditure is incurred this revenue shall be deposited in the SSA.
- 3. **SSA Review** - The SWRDS Finance Committee shall be consulted about the projects and activities to be funded from the SSA.
- 4. **SSA Reporting** - DWR will prepare regular reports on the SSA for the Director, which will be provided to the SWRDS Finance Committee.
- 5. **Initial Cap** - There would be no cap on the SSA.
- 6. **Funding Source for Initial Funding** - 51(e) revenues and/or the remaining balance of the State Water Facilities Capital Account (FCA) once the FCA is closed.
- 7. **SSA Replenishment** - Shall be accomplished through 1) reimbursements received for expenditures made from the SSA; 2) at the discretion of the Director, transfers from the SRA and/or from the GOA's available investment earnings, 3) deposits, in the discretion of the Director, from other available revenues, and 4) interest and other investment income retained in the SSA. DWR will not charge the Contractors to replenish the SSA for costs not chargeable to the Contractors under the Water Supply Contracts.

8. **SSA Interest Earnings** – At the Director’s discretion, retained in the SSA to reduce the annual SRA replenishment requirement.

C. State Water Facilities Capital Account (FCA)

1. The State Water Facilities Capital Account (FCA) pursuant to Article 51(c)(2)(v) shall be reviewed by the SWRDS Finance Committee after five years from the date of the contract amendment to recommend to the Director whether or not it should be closed and the balance of the account transferred to the SSA.

IV. OBJECTIVE 2C: FLOW OF FUNDS

A. Maintain the Monterey Amendment Article 51 Flow of Funds with the following edits/additions:

1. Increase Annual Rate Reductions to \$48 million. The Annual Rate Reductions shall no longer apply after December 31, 2035 and the applicable provisions in Article 51 shall be deleted as of that date.
2. After the \$48 million in annual rate reductions, the Director shall have the discretion to allocate and transfer up to 80% of available 51(e) revenues, as determined on a projected basis, and up to 100% on an actual basis into one or more of the following accounts:
 - a) General Operating Account (GOA)
 - b) SWRDS Support Account (SSA)
 - c) SWRDS Reinvestment Account (SRA)

After funds are deposited into a, b, and c above, any remaining available 51(e) revenues will remain in the Systems Revenue Account and will be tracked separately in DWR’s Enterprise Resource Planning (ERP) system. The Director will have full discretion over the use of these funds. DWR will prepare financial reports annually with supporting documentation of the determination and provide these reports to the Finance Committee.

3. Contractors shall agree to forego additional rate management reductions including additional rate management reductions to make up for deficiencies in past projected rate management reductions or to provide any additional rate management reductions above \$48 million annually pursuant to Article 51(e)(3). Effective with the contract amendment, Article 51(e)(3) shall be deleted.
4. The contract amendment shall specify those provisions in Article 51 that shall remain in effect after December 31, 2035 (such as the General Operating Account provision as it may be amended) and those provisions that will no longer apply after December 31, 2035 and shall be deleted as of that date.

5. Contractors shall agree to waive and release issues related to DWR's recent adjustment of the Contractors' responsibility for facilities south of Dos Amigos.

V. OBJECTIVE 2D: FINANCIAL MANAGEMENT

A. State Water Resources Development System Finance Committee

1. Immediately, the Department of Water Resources shall establish a joint Department of Water Resources and Contractor finance committee (Committee).
2. The membership of the Committee shall include both representatives from the Department of Water Resources and representatives from the Contractors.
3. The primary purpose of the Committee shall be to make recommendations to the Director of the Department of Water Resources concerning the financial policies of the State Water Resources Development System.
4. The Department of Water Resources and the Contractors shall describe the scope of the committee in a charter mutually agreeable to the Department of Water Resources and the Contractors.

VI. OBJECTIVE 2E: SUPPLEMENTAL BILLING

A. Supplemental Billing

1. The supplemental billing provisions authorized under Article 51(c)(4) shall remain in effect through December 31, 2035, unless the Director determines in his or her discretion to eliminate the use of supplemental billing prior to that date or upon Director's acceptance of a recommendation from the SWRDS Finance Committee. In full consultation with the SWRDS Finance Committee, DWR will review the System cash balances when the System's forecasted 120 days cash balance becomes critical. The Committee will make a recommendation for action to the Director. The supplemental billing provision may only be used when available System cash balances are projected to be less than an amount equal to 90 days operating expenditures⁴. The term "available System cash balances" shall mean the funds in the following California Water Resources Development Bond Fund accounts: System Revenue Account (to the extent the funds in the System Revenue Account are not projected to be needed for payment of Burns-Porter General Obligation Bond debt service for the next two years), GOA, SRA and SSA (to the extent the funds in the SSA are not projected to be needed for non-chargeable expenditures for the next two years).

⁴ A description of "operating expenditures" will be included in the contract amendment language.

VII. OBJECTIVE 2F: COST RECOVERY**A. Cost Recovery**

1. In general, DWR should seek reimbursement for all SWRDS costs from the appropriate customers and users of SWRDS facilities, including the State. With respect to those SWRDS costs that are reimbursable by the Contractors, DWR should allocate financial responsibility for such costs in a manner that is both lawful and equitable, and which endeavors to recover such costs from the appropriate Contractors. If the Department proposes to not charge any Contractor the full amount that the Department is entitled to charge the Contractor under the contract, DWR shall bring a written proposal to the Finance Committee for purposes of developing a recommendation to the Director regarding the proposal. DWR shall submit such proposal in writing to the Finance Committee 90 days in advance of the Director issuing any decision and within such 90 day period the Finance Committee shall provide the Director with a recommendation regarding such proposal. Such proposals will comply with the structure set out in II.D.2 of the SWRDS Finance Committee Charter.

VIII. OBJECTIVE 2G: SWRDS REPORTING PRINCIPLES [EXHIBIT TO THE CONTRACT]

- A. During the term of the water supply contracts, it is likely that financial reports and financial management reports will change in scope, nature, and frequency. Regardless of the exact reports used, such reports shall follow the below principles and guidelines to the extent applicable.
 1. Principle 1: Financial reporting will be generated from the general ledger or data warehouse of the financial information system (system of record), such as SAP.
 - The financial system of record is the authoritative source for financial reporting data values in a system. To ensure data integrity, there must be one, and only one, system of record for financial reporting values.
 2. Principle 2: Financial reporting is not limited to annual financial statements but will be developed for regular reporting periods.
 3. Principle 3: Financial management reporting generated from other financial systems, such as Utility Cost Accounting Billing System (UCABS), will identify and analyze significant variances from prior years or budgets.
 4. Principle 4: Financial reporting and financial management reporting will identify unusual items and exceptions, and these items will be documented, reviewed, and resolved by management.

5. Principle 5: DWR will use standardized System-wide business rules and utilize a centralized financial system, such as SAP, UCABS, or other system, to provide controls/validations to ensure data integrity and reliable reporting.
6. Principle 6: DWR will use standardized data integrity rules in the development and publication of reports, including but not limited to the following:
 - (1) Data integrity refers to the accuracy and consistency of data stored in a database, data warehouse, data mart or other construct.
 - (2) Data integrity processes verify that data has remained unaltered in transit from creation to reception or remains unaltered in transit from one system to the next.
 - a. Data used outside of the Enterprise Resource Planning (ERP) systems to meet the reporting needs of Program will undergo any number of operations in support of decision-making, such as capture, storage, retrieval, update and transfer. It is important to have confidence that during these operations, the data will be kept free from corruption, modification and remain unaltered.
 - (3) Data with “integrity” has a complete or whole structure. Data values are standardized according to a data model and/or data type. All characteristics of the data must be correct – including business rules, relations, dates, definitions and lineage – for data to be complete.
 - (4) Data integrity is imposed within an ERP database when it is created and is authenticated through the ongoing use of error checking and validation routines.
 - (5) Data integrity state or condition is to be measured by the validity and reliability of the data values.
 - (6) Data integrity service and security maintains information exactly as it was input, and is auditable to affirm its reliability.

The SWRDS Finance Committee is charged with providing financial policy recommendations to the Director, and the Director has final discretion on whether or not to accept the recommendations. While the SWRDS Finance Committee is not charged with reviewing the content of financial reports, timely and accurate financial reporting and financial management reporting provides technical committees access to useful information that can be used to formulate proposals on financial policy matters that may be brought to the SWRDS Finance Committee.

IX. OBJECTIVE 2H: 51(e) REVENUE REPORTING REQUIREMENTS

A. 51(e) Revenue Report

1. Create and distribute the Annual Rate Reduction Determination Report. In addition, display the distribution of Gross Annual Revenues before Recreation, Fish and Wildlife

Expenditures, Facilities Capital Account and Rate Management Credits and Net Annual Revenues after Rate Management Credits to the accounts listed in item 2 below.

2. Create and distribute quarterly an Activity Report by fund-account for all uses, including but not limited to the following accounts:
 - a) General Operating Account (GOA)
 - b) SWRDS Support Account (SSA)
 - c) SWRDS Reinvestment Account (SRA)
 - d) Systems Revenue Account, 51(e) Sub-Account
 - e) Davis-Dolwig Fund
 - f) Facilities Capital Account
 - g) Suspended Costs
3. The Activity Report shall display the annual and accumulated 51(e) revenue and expenditure activity, including the beginning balance, the annual activity and the ending balance for the year.
4. Reporting data shall be auditable which includes an audit trail from the costing ledgers to the general ledger or the Bulletin 132 estimates to the Activity Report.
5. Report should have sufficient detail to provide comprehensive accounting of annual 51(e) revenues and the uses of annual 51(e) revenues to enable the SWRDS Finance Committee to assess the utilization of these revenues.

X. OBJECTIVE 3A: SIMPLIFICATION OF BILLING

A. Implement the Freeze-Go Billing Methodology

1. The freeze-go date shall be January 1 of the first calendar year starting six (6) months after the contract extension takes effect, but not earlier than January 1, 2017, provided that if the Department determines it to be necessary, the Department may rely on estimates and later true-up for billing and reporting purposes in the initial implementation years after the freeze-go date.
2. Methodology will recover all costs incurred on and after the freeze-go date, by converting and authorizing repayment on a Pay-As-You-Go methodology.
3. Amend the definition of the Project Repayment Period to apply only to those costs incurred prior to the freeze-go date.
4. The term of the Project Repayment Period, January 1, 1961 through December 31, 2035, will remain the same.
5. The Water Systems Revenue Bond Surcharge will apply only to those costs incurred prior to the freeze-go date and will terminate at the completion of the Project Repayment Period.

6. Amend the definition of the Project Interest Rate to apply only to those costs incurred prior to the freeze-go date. No interest rate, including the Project Interest Rate, shall be applied to the over/under charges for costs incurred after the freeze-go date. The Project Interest Rate will remain 4.610%.
7. In identifying "costs incurred" for purposes of determining whether the cost is incurred before the freeze-go date or on or after the freeze-go date, the following shall apply:
 - a) Variable costs shall be deemed to occur when the goods or service is provided, regardless of when the expenditure for such goods or service is recorded in the financial information system;
 - b) Capital and minimum costs shall be deemed to occur when the expenditure for the goods or service is recorded in the financial information system, regardless of the date the goods or service is provided.

B. Defining the Pay-As-You-Go Repayment of Costs Incurred On and After the Freeze-Go Date

1. The annual cost recovery within a bill year for estimated annual operation, maintenance, power, and replacement costs for project conservation facilities.
2. The annual recovery of actual debt service, including repayment of the SRA, created by SWRDS financing activities, within a bill year for financed capital transportation and conservation facilities.
3. A capital asset which has a short useful life and/or will not have a substantial cost, may be charged to the Contractors in the year the cost is incurred. The SWRDS Finance Committee may review and make recommendations to the Director regarding the policy of charging the costs of such assets.

C. Defining the Pay-As-You-Go Repayment of Actual Debt Service from SWRDS Financing Capital Costs On and After the Freeze-Go Date

1. Authorize DWR to finance 100% of all capital costs.
2. Authorize DWR to use various methods of financing including Water System Revenue Bonds and SRA, with each method providing an annual repayment schedule which includes a principal and interest (debt service) component over the life of the financing.
3. Authorize DWR to bill an amount that is equal to the accumulated annual debt service payments due per the debt service schedules for SRA investments or matching dollar for dollar the SWRDS annual debt service payments including the bond cover requirements, providing 100% capital cost recovery at the financed interest rate over the term of the financing while meeting the additional bond debt cover requirements.

XI. OBJECTIVE 3B: REPLACEMENT ACCOUNTING SYSTEM (RAS)**A. Elimination of the Replacement Accounting System (RAS)**

1. Eliminate the Replacement Accounting System (RAS) for Transportation and Conservation Facilities with the intent to have replacement costs treated as a minimum or capital cost.
2. The unencumbered cash balance of the RAS funds are to be returned to the SWP Contractors using the RAS allocation methodology.

XII. OBJECTIVE 3C: ARTICLE 1 (hh)**A. Expanding Water System Facilities Authorized to be Financed by Water System Revenue Bonds Under Article 1(hh)**

1. Eliminate the January 1, 1987 date for existing facilities within Article 1(hh)(8); provision to now read as follows, " Finance all repairs, additions, and betterments to conservation or transportation facilities and to all other facilities described in this sub-article (hh) except for item (5) the land acquisition prior to December 31, 1995 for the Kern Fan Element of the Kern Water Bank."
2. Add provision to expand Article 1(hh) to include "Finance all other capital projects (i.e. projects and programs for which revenue bonds can be sold) mutually agreed upon in writing by DWR and 80% of the affected Contractors, provided that the approving Contractors' Table A amounts exceed 80% of the Table A amounts representing all affected Contractors". "Affected Contractors" means those Contractors which would be obligated to pay a share of the debt service for such project.

XIII. OBJECTIVE 3D: BILLING AUTHORIZATION**A. Billing Authorization**

The Department, in fixing and establishing prices, rates, and charges for water and power, shall include as a reimbursable cost of any state water project an amount sufficient to repay all costs incurred by the department, directly or by contract with other agencies, for the preservation of fish and wildlife and determined to be allocable to the costs of the project works constructed for the development of that water and power, or either. Costs incurred for the enhancement of fish and wildlife or for the development of public recreation shall not be included in the prices, rates, and charges for water and power, and shall be nonreimbursable costs.

Such recreational purposes include, but are not limited to, those recreational pursuits generally associated with the out-of-doors, such as camping, picnicking, fishing, hunting, water contact sports, boating, and sightseeing, and the associated facilities of campgrounds, picnic areas,

water and sanitary facilities, parking areas, viewpoints, boat launching ramps, and any others necessary to make project land and water areas available for use by the public.

In administering this Contract "development of public recreation" shall include recreation capital and operation and maintenance.

XIV. OBJECTIVE 4: BDCP AND DHCCP PARTICIPATION

This Objective will not be part of the SWP contract amendment based on this AIP. Instead, Contractor participation in the BDCP and DHCCP will be addressed through a separate public negotiation and environmental review process to develop appropriate SWP water supply contract amendments. DWR has begun the administrative process that will be used to facilitate the public negotiations of such amendments. The first public negotiation session is scheduled for December 2014.

XV. PROVISION 1 – OTHER CONTRACT PROVISIONS

Except as amended, all provisions of the Water Supply Contract shall be and remain in full force and effect.

XVI. PROVISION 2 – ENVIRONMENTAL REVIEW PROCESS

DWR and the Contractors agree that this AIP is intended to be used during the environmental review process for the California Environmental Quality Act (CEQA), to define the proposed project description for the purposes of CEQA, and to permit the next steps of the water supply contract extension process, including scoping and the preparation of the EIR.

The AIP principles are not final contract language and do not represent a contractual commitment by either DWR or the Contractors to approve any proposed project, to sign contract amendments, or to extend the contract. By concurring with the AIP, DWR and the Contractors express their intent to move forward with the CEQA process with DWR as lead agency and the Contractors as responsible agencies, and ultimately develop a proposed project consisting of contractual amendments consistent with the AIP principles and prepare the EIR for consideration by DWR and the Contractors.

At the end of the CEQA process and in compliance with CEQA, DWR and the Contractors will each individually evaluate the EIR and contract amendments, exercise their independent judgment, and determine whether or not to certify the EIR, approve the proposed project and sign the contract amendments or to approve an alternative project. Consequently, even though DWR and the Contractors have agreed to the AIP for the purposes described in the preceding paragraphs, DWR and each Contractor retain their full discretion under CEQA to consider and adopt mitigation measures and alternatives, including the alternative of not going forward with the proposed project.

XVII. PROVISION 3 – AUTHORIZED REPRESENTATIVE SIGNATURES

DWR and each Contractor may express concurrence with this AIP by having their authorized representatives sign below. DWR and each Contractor will use their best efforts to make a decision whether to sign the AIP by September 1, 2014. The AIP may be signed in counterparts.

**STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES**

By: _____
Name: _____
Title: _____
Date: _____

ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT, ZONE 7

By: _____
Name: _____
Title: _____
Date: _____

ALAMEDA COUNTY WATER DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

ANTELOPE VALLEY – EASTERN KERN WATER AGENCY

By: _____
Name: _____
Title: _____
Date: _____

CASTAIC LAKE WATER AGENCY

By: _____
Name: _____
Title: _____
Date: _____

CITY OF YUBA CITY

By: _____
Name: _____
Title: _____
Date: _____

COACHELLA VALLEY WATER DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

COUNTY OF BUTTE

By: _____
Name: _____
Title: _____
Date: _____

COUNTY OF KINGS

By: _____
Name: _____
Title: _____
Date: _____

CRESTLINE LAKE ARROWHEAD WATER AGENCY

By: _____
Name: _____
Title: _____
Date: _____

DESERT WATER AGENCY

By: _____
Name: _____
Title: _____
Date: _____

DUDLEY RIDGE WATER DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

EMPIRE WESTSIDE IRRIGATION DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

KERN COUNTY WATER AGENCY

By: _____
Name: _____
Title: _____
Date: _____

LITTLEROCK CREEK IRRIGATION DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

MOJAVE WATER AGENCY

By: _____
Name: _____
Title: _____
Date: _____

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

By: _____
Name: _____
Title: _____
Date: _____

NAPA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

OAK FLAT WATER DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

PALMDALE WATER DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

PLUMAS COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

SAN GABRIEL VALLEY MUNICIPAL WATER DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

SAN GORGONIO PASS WATER AGENCY

By: _____
Name: _____
Title: _____
Date: _____

SAN LUIS OBISPO COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

SANTA BARBARA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

SANTA CLARA VALLEY WATER DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

SOLANO COUNTY WATER AGENCY

By: _____
Name: _____
Title: _____
Date: _____

TULARE LAKE BASIN WATER STORAGE DISTRICT

By: _____
Name: _____
Title: _____
Date: _____

VENTURA COUNTY FLOOD CONTROL DISTRICT

By: _____

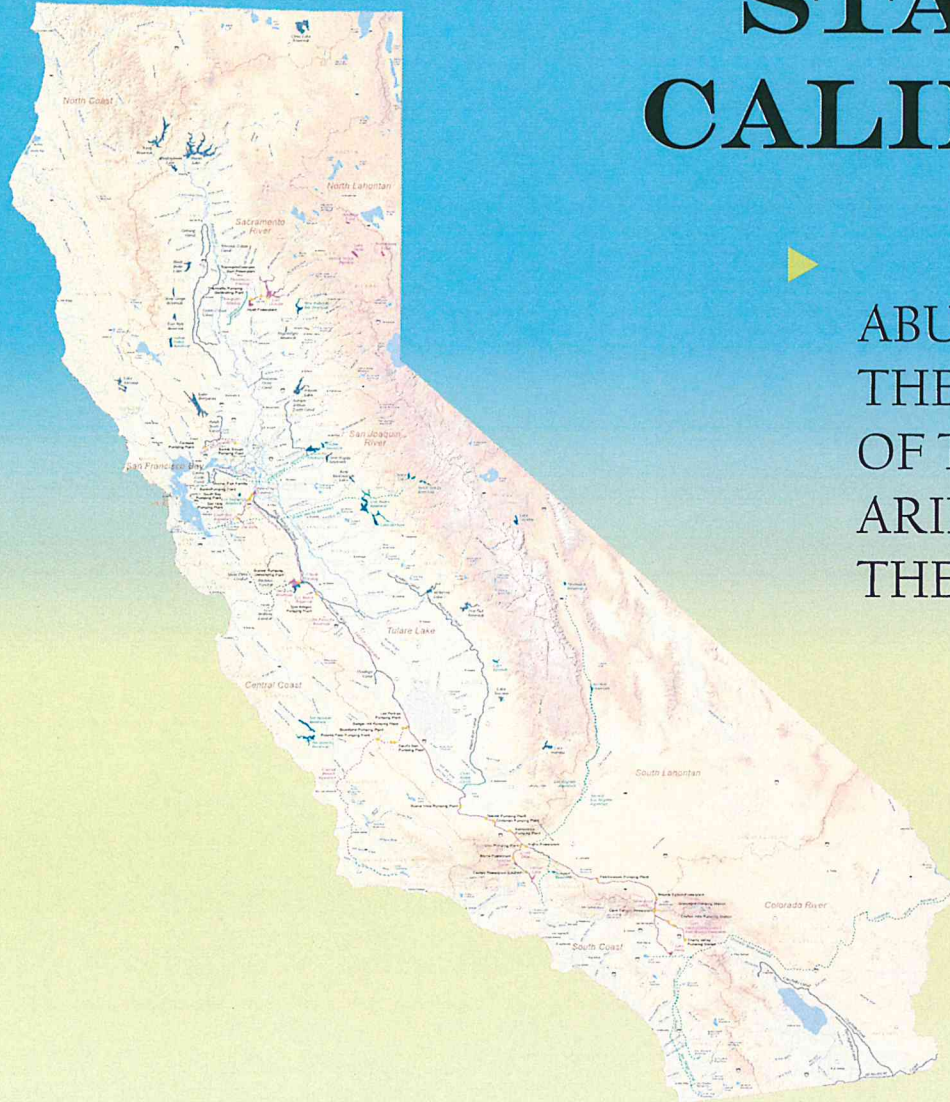
Name: _____

Title: _____

Date: _____

STATE OF CALIFORNIA

▶ ABUNDANT WATER IN
THE NORTHERN PART
OF THE STATE AND
ARID CONDITIONS IN
THE SOUTH



STATE WATER PROJECT (SWP)

- ▶ In 1951, after many years of discussion and study, the Ca. Legislature authorized construction of a water storage and supply system to capture and store rainfall and snowmelt runoff in Northern California and deliver it to areas of need throughout the State. Eight years later, the Legislature passed the **Burns-Porter Act**, which provided the mechanism for obtaining funds necessary to construct the initial State Water Project (SWP) facilities. In 1960, California voters approved an issue of \$1.75 billion in general obligation bonds, as authorized in the act, thereby securing funds to build the SWP.

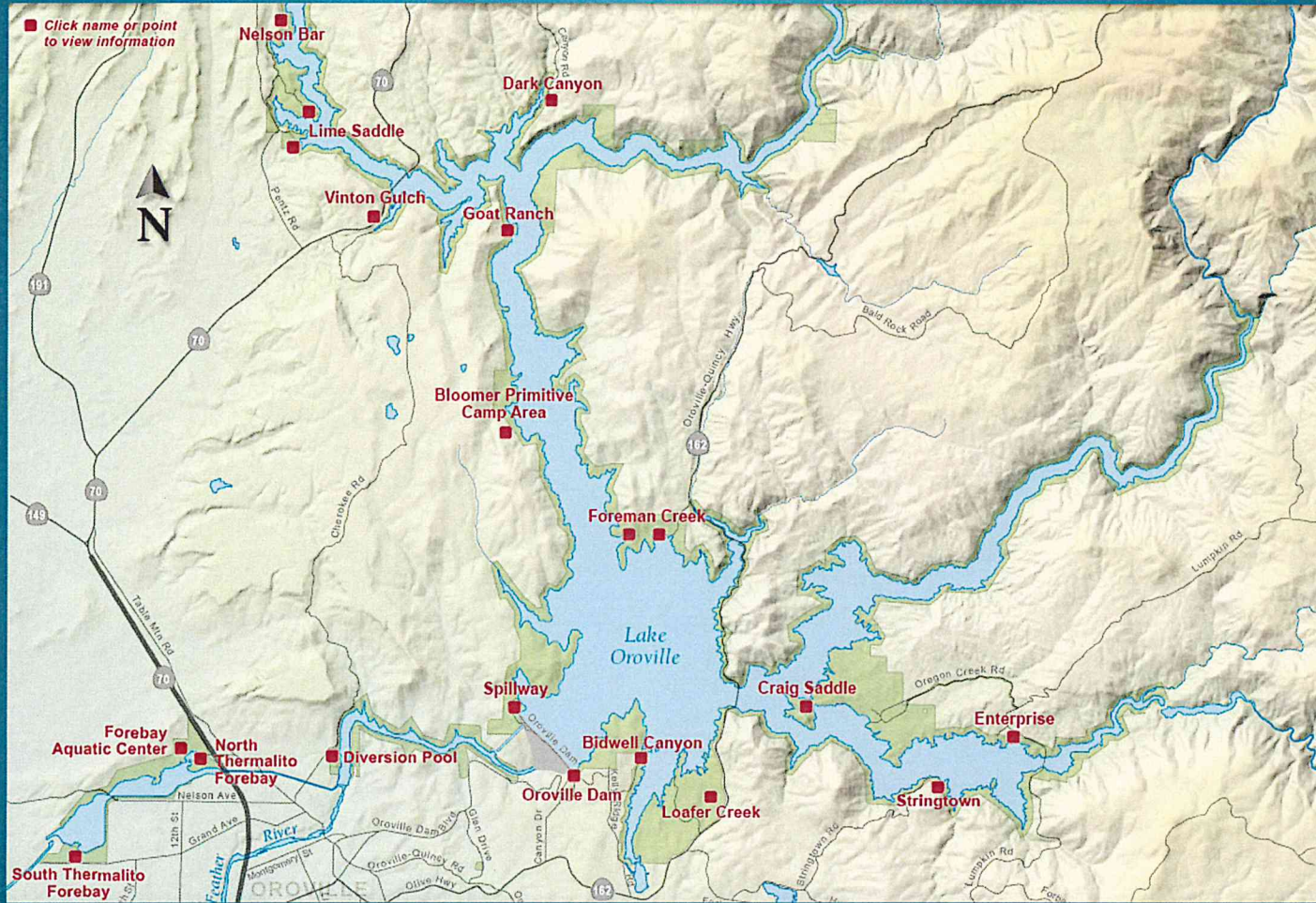
29 STATE WATER CONTRACTORS

- | | | |
|--|--|--|
| ▶ ALAMEDA COUNTY FC&WCD ZONE 7 | ▶ EMPIRE-WEST SIDE IRRIGATION DISTRICT | ▶ SAN GABRIEL VALLEY MUNICIPAL WATER DISTRICT |
| ▶ ALAMEDA COUNTY WATER DISTRICT | | |
| ▶ ANTELOPE VALLEY-EAST KERN WATER AGENCY | ▶ KERN COUNTY WATER AGENCY | ▶ SAN GORGONIO PASS WATER AGENCY |
| ▶ CASTAIC LAKE WATER AGENCY | ▶ LITTlerock CREEK IRRIGATION DISTRICT | ▶ SAN LUIS OBISPO COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT |
| ▶ CITY OF YUBA CITY | ▶ METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA | ▶ SANTA BARBARA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT |
| ▶ COACHELLA VALLEY WATER DISTRICT | ▶ MOJAVE WATER AGENCY | |
| ▶ COUNTY OF BUTTE
BUTTE COUNTY WATER AND
RESOURCE CONSERVATION | ▶ NAPA COUNTY FLOOD CONTROL
AND WATER CONSERVATION DISTRICT
DEPARTMENT OF PUBLIC WORKS | ▶ SANTA CLARA VALLEY WATER DISTRICT |
| ▶ COUNTY OF KINGS | ▶ OAK FLAT WATER DISTRICT
469 | ▶ SOLANO COUNTY WATER AGENCY |
| ▶ CRESTLINE-LAKE ARROWHEAD WATER AGENCY | ▶ PALMDALE WATER DISTRICT | ▶ TULARE LAKE BASIN WATER STORAGE DISTRICT |
| ▶ DESERT WATER AGENCY | ▶ PLUMAS COUNTY FLOOD CONTROL
AND WATER CONSERVATION DISTRICT | ▶ VENTURA COUNTY WATERSHED PROTECTION DISTRICT |
| ▶ DUDLEY RIDGE WATER DISTRICT | ▶ SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT | |

IN 1965 PALMDALE WATER DISTRICT ENTERED INTO ITS WATER SUPPLY CONTRACT WITH DWR FOR IMPORTED WATER FROM THE STATE WATER PROJECT (SWP)

- SWC DURATION IS FROM 3/23/65 TO THE TERMINATION OF THE CONTRACT. THE PROJECT REPAYMENT PERIOD ENDS IN 2035
- THE SWC WITH AMENDMENTS IS 217 PAGES LONG DETAILING BENEFITS, TERMS AND CONDITIONS AND CONTRACTOR OBLIGATIONS
- CONTRACT PROVIDES FOR WATER SERVICE TO THE DISTRICT IN EXCHANGE FOR PAYMENTS THAT PROVIDE FOR SWP FINANCING, CAPITAL CONSTRUCTION, IMPROVEMENTS, AND OPERATIONS AND MAINTENANCE OF SWP FACILITIES.
- THE ORIGINAL PWD-STATE WATER CONTRACT WAS FOR 15,000 AF WHICH WAS LATER AMENDED TO 17,300 AF
- IN DECEMBER OF 1999 PWD ACQUIRED AN ADDITIONAL 4,000 AF OF TABLE A BRINGING THE TOTAL TABLE A TO 21,300 AF

OROVILLE DAM AT THE HEADWATERS OF THE SWP



OROVILLE DAM CALIFORNIA STATE WATER PROJECT



- ▶ At 770 feet (230 m) high, it is the tallest dam in the U.S.¹
- ▶ Construction was initiated in 1961
- ▶ On May 4, 1968 Oroville Dam was completed and officially dedicated by the state of California
- ▶ Its the second largest man-made lake in the state of California, capable of storing more than 3.5 million acre-feet



MAP OF THE STATE WATER PROJECT

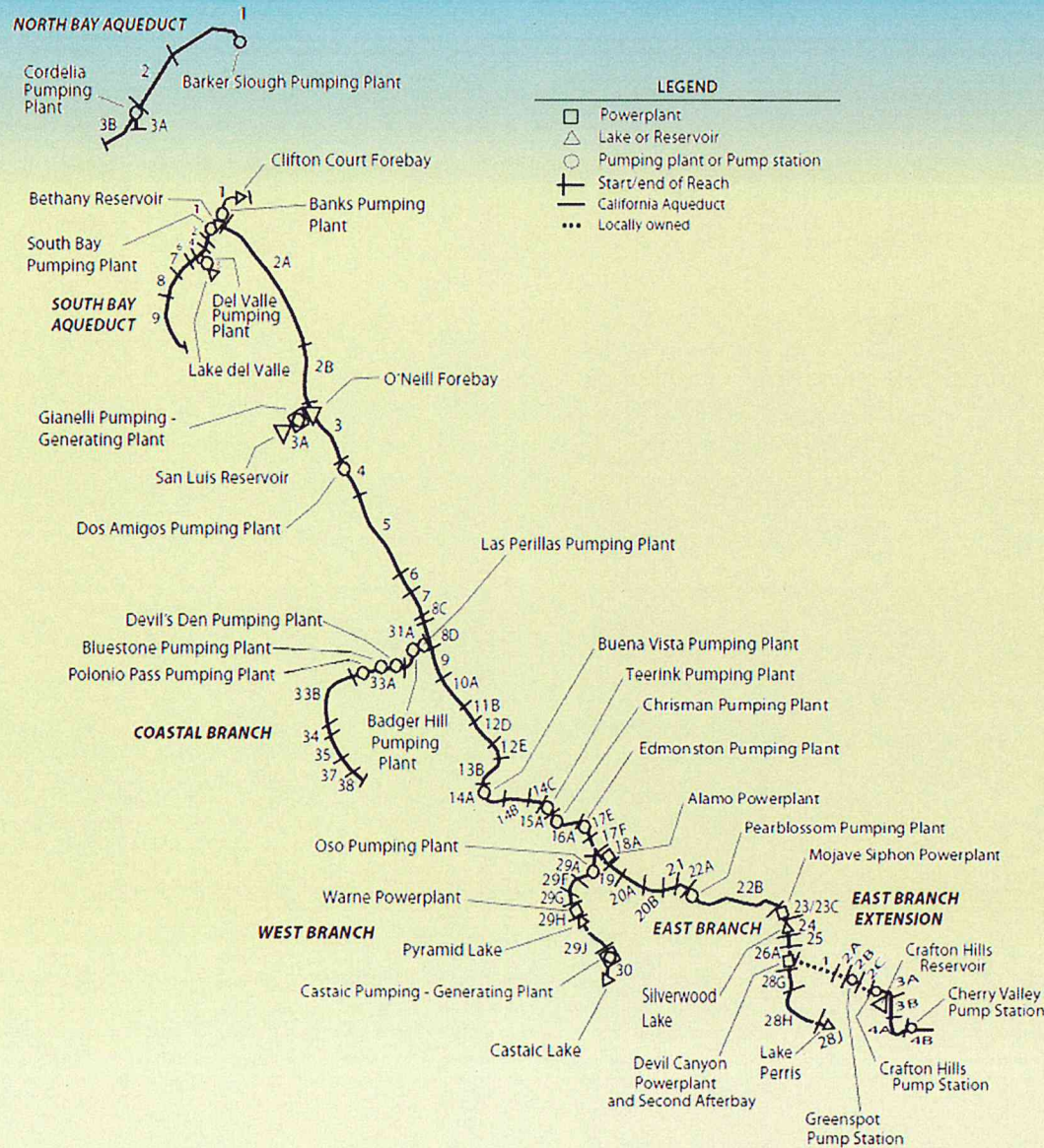
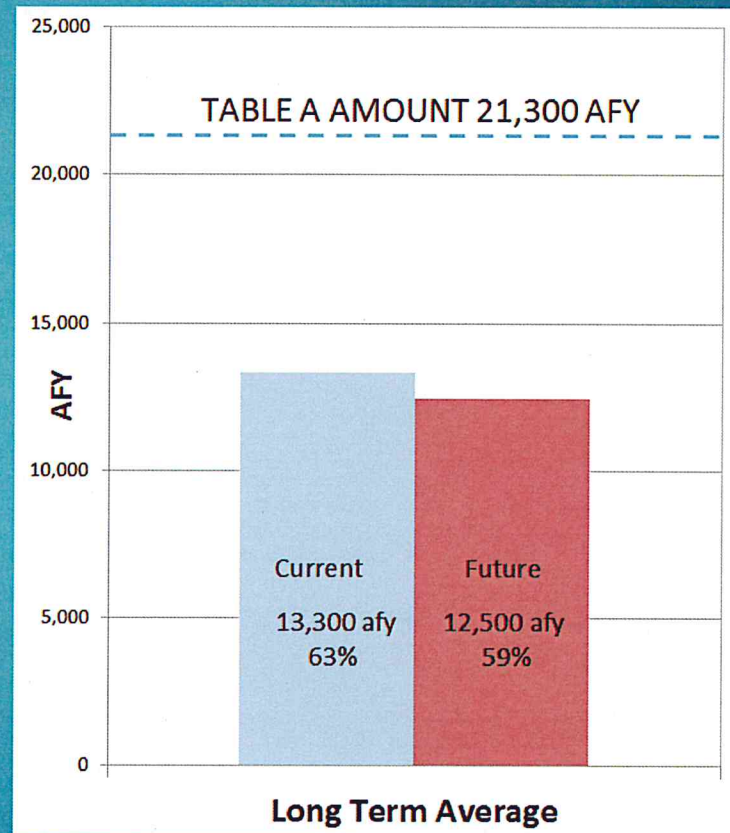


TABLE A WATER AND RELIABILITY

TABLE A WAS ORIGINALLY CALLED "ENTITLEMENT"

- ▶ Available SWP water is subject to annual allocation and delivery reliability
- ▶ DWR anticipates decline in deliveries over next 20 years
- ▶ DHCCP and BDCP proposals include a twin tunnel delta fix and are centered around providing for delta environmental concerns and halting the further degradation of long term reliability of SWP deliveries
- ▶ SWP Contract extension is necessary to provide an adequate time frame for repayment of DHCCP construction funding through bond issues
- ▶ The District's Strategic Water Resources Plan demonstrates the need to secure additional permanent Table A supplies and to maintain minimum current long term reliability for existing and future customers, especially as demands increase

REDUCTIONS IN LONG TERM RELIABILITY



NEED FOR CONTRACT EXTENSION

Contract Ends in 2035

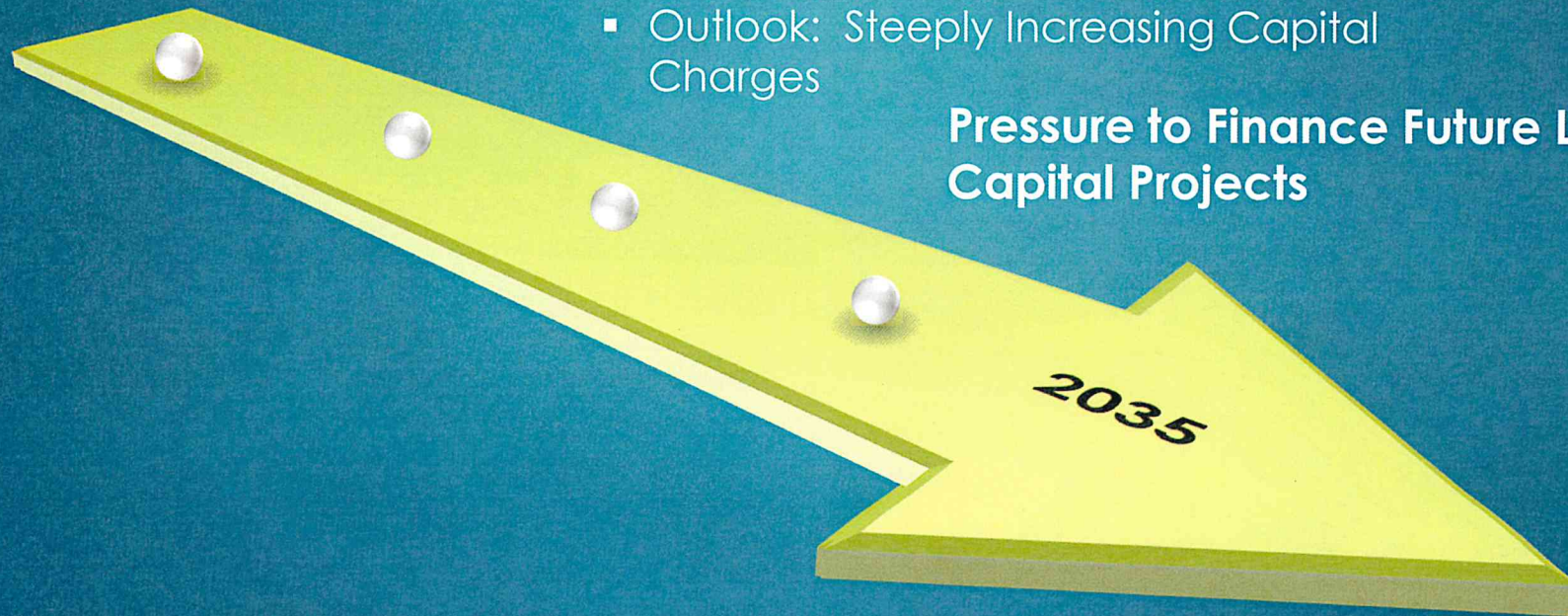
Narrowing Financing Window

- DWR Not Financing Capital Costs Beyond 2035
- Generally, Bond Financing Period 30-40 Years

Capital Facility Payments Compressed

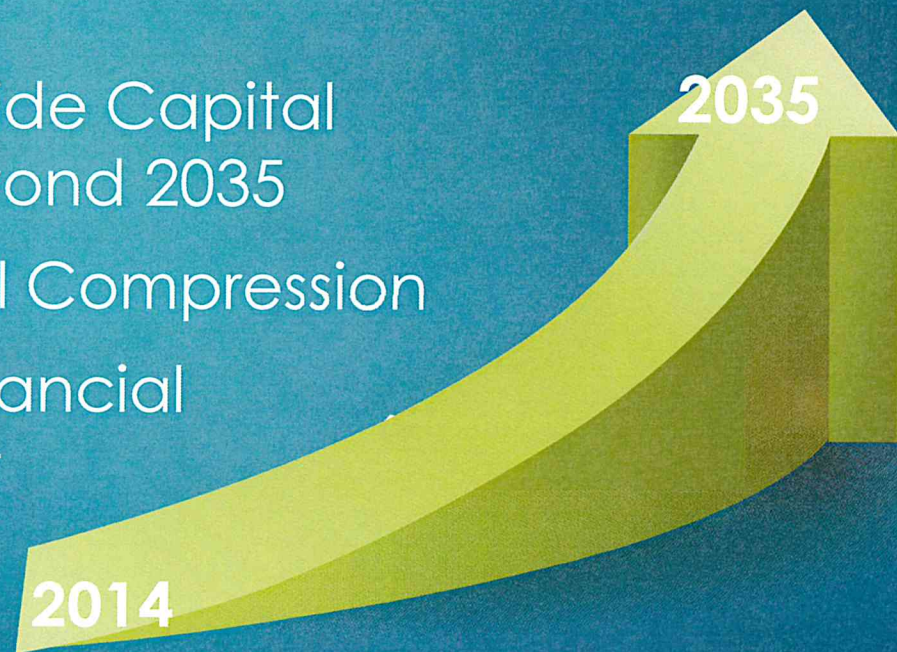
- Capital Billings do Not Extend Beyond 2035
- Outlook: Steeply Increasing Capital Charges

Pressure to Finance Future Large Capital Projects



CONTRACTORS - PURPOSE OF CONTRACT EXTENSION

1. Obtain Commitment for Continued SWP Service Beyond 2035
2. Ability to Provide Capital Financing Beyond 2035
3. Ease Financial Compression
4. Enhanced Financial Management



SUMMARY OF NEGOTIATIONS

Objective Key

Blue	Contractor
Blue	Joint
Black	DWR

Goals		Objectives	Negotiated Outcome
1	Create Ability to Finance Facilities & Continue Water Supply Services Beyond 2035	1. <u>Extend Contract Expiration Date</u>	1. Extension to 2085
	Create Ability to Finance Facilities Beyond 2035	2. <u>Preserve Evergreen Clause under Article 4 – Option to Continue Service</u>	2. Preservation of Evergreen Clause
3	Seek Assurances; Define Repayment Obligation	1. <u>Clarify Cost Recovery Provisions</u>	1. Fish and Wildlife, and Recreation Costs will not be included in the Prices, Rates, and Charges for Water and Power, and shall be a Non-reimbursable Cost
	Provide Guaranteed Funding Source for Non-Water Related or Non-Chargeable Costs	2. Seek Backstop Funding From Contractors 3. Resist Contractual Clarification of Recreation, and Fish and Wildlife Enhancement Costs	2. Backstop Objectives where Addressed in the SRA and SSA Investment Model
4	Streamline and Improve Transparency of Billing Process	1. <u>Reduce Compression of Capital Charges</u>	1. Implementation of “Pay-as-you-go” Capital
	Simplify Cost Recovery and Billing Process	2. <u>Stop Amortization of Capital Cost Recovery</u> 3. <u>Stop Amortization of Conservation Minimum Cost Recovery</u> 4. <u>Expand Facilities Authorized to Use Water System Revenue Bond Financing</u>	2. Implementation of “Pay-as-you-go” Conservation Minimum 3. Elimination of Replacement Accounting System (RAS) ▪ Refund of RAS Balance 4. Expansion of 1(hh) Authorized Bondable Facilities

NEXT STEPS

Sign Formal Agreements in Principle (AIP)

Draft Contract Amendment Language



Step 1

**Negotiate
Terms of
Contract
Extension**



2013 – Mar 2014

Step 2

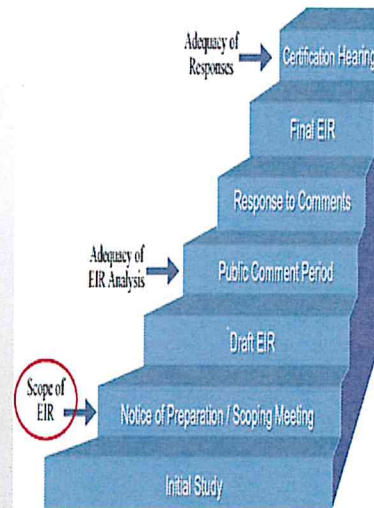
**Execute
Agreements
in Principle**



Mar – July 2014

Step 3

CEQA Process



2014 -2015

Step 4

**Contract
Amendment**



2016

NEGOTIATED AGREEMENTS IN PRINCIPLE (AIP)

SIGNING OFF ON THE AIP:

**Does Not Constitute Final Agreement to Execute
the Contract Extension Amendment**

**Does Signify Sufficient Level of Commitment to the
AIPs Intentions**

**Is the Foundation for Drafting the Contract Extension
Amendment**

**Does Justify the Investment in Developing an EIR to
Evaluate the Proposed Amendment**

The background of the slide is a close-up photograph of numerous small, clear water droplets resting on a light blue, textured surface. The droplets are of various sizes and are densely packed across the entire frame, creating a pattern of highlights and shadows.

QUESTIONS?

Forecasting Negotiated Charges

STATE WATER CONTRACTORS
CONTRACT EXTENSION COMMITTEE
MAY 20-22, 2014



Information Modules

1	Review Current SWP Contract	<ul style="list-style-type: none">• Background: Water Supply Contracts• Key Contract Provisions• Key Benefits• Current Challenges
2	Contract Extension Negotiations	<ul style="list-style-type: none">• Payment Provisions• Negotiating Renewal• Negotiating Process• Negotiation Objectives
3	Priority of Negotiations	<ul style="list-style-type: none">• Reasons for Negotiating Now• Methods of Extension• Creation of Charges• Goals of the Negotiation
4	Status of Negotiations	<ul style="list-style-type: none">• Overview of Objectives• Overview of Key Issues• Offers from DWR and Contractors• Negotiation Challenges
5	Forecasting Negotiated Charges	<ul style="list-style-type: none">• Overview of Statement of Charges• Overview of Costs• Overview of Negotiated Charges• Forecasting Model
6		

Reason For Contract Negotiations

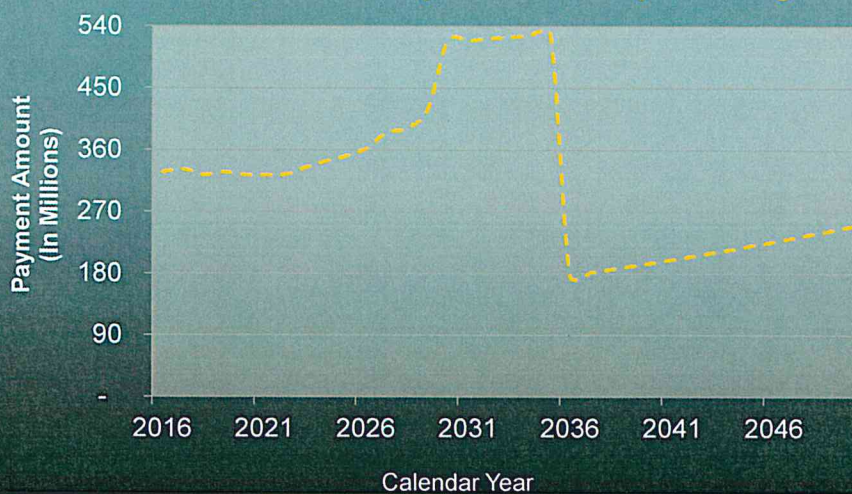
- Contract repayment ends in 2035
- DWR will not issue debt beyond 2035 without a contract
 - Financing compression created by a shortening repayment term

Negotiation Objectives:

- Extend contract to allow for debt financing beyond 2035
- Avoid unintended consequences

Financing Compression

Impact of Compression on Capital Charges



Conceptual Framework

- SWRDS is:
 - A Government Owned Business Enterprise
 - Operates on a Going Concern Basis
 - Has an Unlimited Lifespan
- Charges to be transparent and understandable
 - Clear simple direct relationship between contractor charge and associated cost



Negotiated Financial Changes

- Align Capital Charges and Debt Service Payments [Article 50(e)]
- Discontinue Financing of Conservation O&M [Article 22(c)]
- Clarify Recreation and Fish and Wildlife Enhancement Excluded from Charges
- Develop Reserve Funding Mechanism Using SWRDS Funds

Negotiated Financial Changes

- Increase RMC \$7.5M/year
 - When 51(e) Revenue Available
 - To Offset Adjustments to Recreation Project Purpose Allocation
- Give-up Unpaid Past RMC and Future Additional RMC
- Over/Under Calculated on Historical Cost Not Present Value
- Eliminate Replacement Accounting, transition to Capital or Minimum charge

1 Contract Extension Objectives

2 Statement of Charges

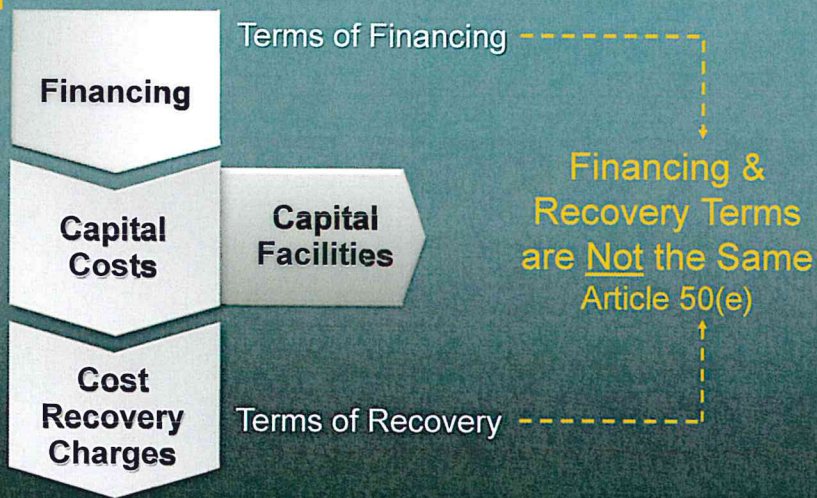
3 Forecasting Model Objective

4 Transportation Capital

5 Conservation Capital

6 Conservation Minimum

Simplifying Charges



Recommended Solution

**Historical
Costs**

Freeze

Go

**Future
Costs**

Continue Reimbursement
Under Current Contract
Terms

Convert to a Pay-As-You-Go
Methodology:

- Contractors Pay Annual
 - Actual & Estimated Costs
 - Actual Debt Service

1 Contract Extension Objectives

2 **Statement of Charges**

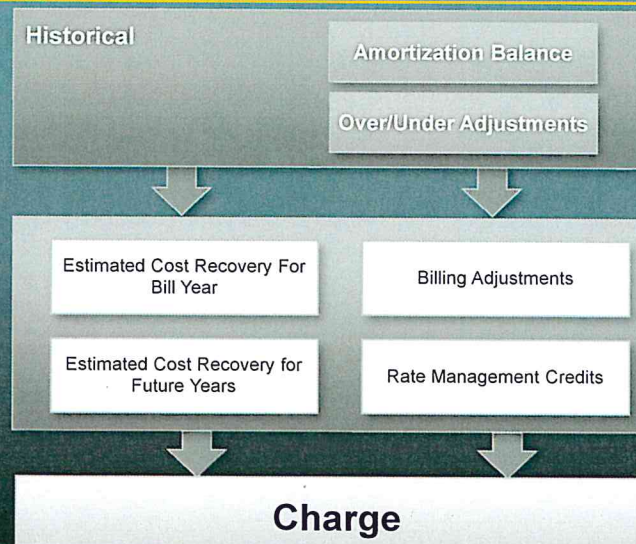
3 Forecasting Model Objective

4 Transportation Capital

5 Conservation Capital

6 Conservation Minimum

Layers within a Capital Charge



Calculating Charges

- Some Costs are Amortized Over Many Years
 1. Capital
 2. Conservation O&M
- Some Costs are Billed Annually
 1. Transportation O&M
 2. Power
 3. Other Facilities (EBE, EBX, SBA, Etc.)

Invoices within a Statement of Charges

	Capital Cost Recovery	Minimum Cost Recovery	Replacement Cost Recovery	Variable Cost Recovery	Surcharge on Cost Recovery
Transportation Facilities	1	2	3	4	
Conservation Facilities	5	6	7		
Devil Canyon-Castaic Facilities	8	9			
Off-Aqueduct Facilities	10	11			
East Branch Enlargement	12	13			
East Branch Extension	14				
Coastal Branch	15				
Tehachapi 2 nd Afterbay	16				
South Bay Enlargement	17				
Water System Revenue Bond Surcharge (WSRB)					18

* Excludes Adjustments for Rate Management Credits and BDCP/DHCCP Funding Agreement Invoices

Amortized Charges Included in Model

	Capital Cost Recovery	Minimum Cost Recovery	Replacement Cost Recovery	Variable Cost Recovery	Surcharge on Cost Recovery
Transportation Facilities	1	2	3	4	
Conservation Facilities	5	6	7		
Devil Canyon-Castaic Facilities	8	9			
Off-Aqueduct Facilities	10	11			
East Branch Enlargement	12	13			
East Branch Extension	14				
Coastal Branch	15				
Tehachapi 2 nd Afterbay	16				
South Bay Enlargement	17				
Water System Revenue Bond Surcharge (WSRB)					18

* Excludes Adjustments for Rate Management Credits and BDCP/DHCCP Funding Agreement Invoices

How to Forecast Other Charges

	Use to Forecast
Transportation Minimum	B-11 x 4.4%* = Cost by Reach, B-2 by Contractor
OAP Minimum	
OAP Capital	
Transportation Variable	Power Model
Conservation RAS	Calculation (SWPAO)
East Branch Enlargement Minimum	B-27 x 4.4%* = Cost by Reach, EBE Factors by Contractor
Coastal Branch Capital	D/S Schedules
East Br. Extension Capital	D/S Schedules
Tehachapi Second Afterbay Capital	D/S Schedules
South Bay Enlargement Capital	D/S Schedules
* Transportation Minimum Escalation Rate average for the last 10 years is 4.4%	

1 Contract Extension Objectives

2 Statement of Charges

3 **Forecasting Model Objective**

4 Transportation Capital

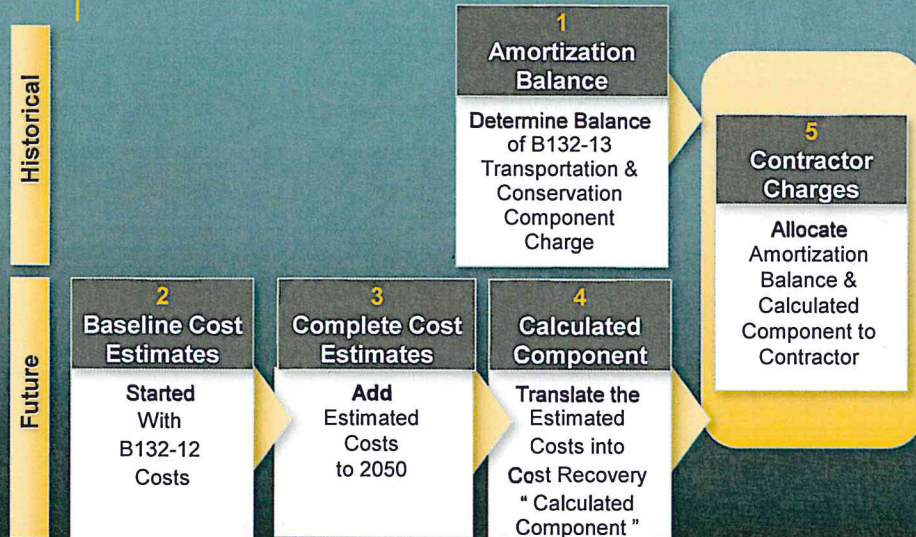
5 Conservation Capital

6 Conservation Minimum

Development of Financial Model

To assist with the understanding of the financial impacts for continuing the State Water Project Contract under Article 4 as compared to signing an amendment to the contract under the current terms being negotiated

How Model Was Developed



Assumptions

1.	Average Expected Interest Rate	4.0%
2.	Inflation Escalation Rate - Capital	2.5%
3.	Inflation and Cost Escalation Rate- Conservation Minimum	3.4%
4.	Average Percentage Share Factor	Varies by Contractor
5.	Pay-Go Amortization Period for Future Capital Costs	Year 2030
6.	Freeze-Go Amortization Period for Future Capital Costs	30 Years

1 Contract Extension Objectives

2 Statement of Charges

3 Forecasting Model Objective

4 **Transportation Capital**

5 Conservation Capital

6 Conservation Minimum

Transportation Capital

1 Determine Amortization Balance

Allocation

1986 – 2012 (in millions)

Transportation Capital Table B-15		Conservation Capital Table B-13	Total Capital Costs
MI	AG		
\$1,292	\$46	\$431	\$1,769
73%	2.62%	24.38%	100%

Determine Balance (2016 - 2035)

Table B-22 (WSRB Balance)

Transportation		Conservation
MI	AG	

73%	2.62%	24.38%
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Table B-15 (Transportation Capital)

Transportation

MI	AG
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Historical Amortized Balance

Transportation		Conservation
MI	AG	

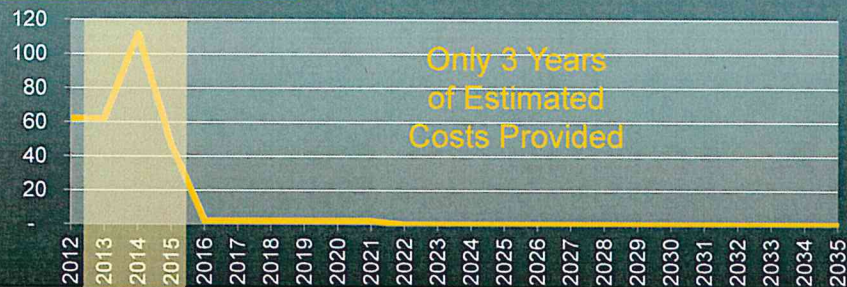
Sum of B-22 and B-15

Transportation Capital

2 Baseline Cost Estimates

- Table B-10: Capital Costs by Reach
- Table B-14: Capital Costs by Contractor
- Table B-15: Capital Cost Component

2013 Statement of Charges
Bulletin 132-12
Table B-10 (in millions)



State Water Contractors and Metropolitan
Water District of Southern California

May 20-22, 2014

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Transportation Capital

3 Completed Cost Estimates

- **Baseline Estimate:**
 - Table B-10 Average Costs
 - CY Period: 2012 – 2015
 - Average (\$): \$70,849,484
- **Escalation Rate (Annual):** 2.5 %



State Water Contractors and Metropolitan
Water District of Southern California

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Transportation Capital

4 Calculated Component

1. Calculate the Payment

	Current Method	Freeze-Go Method
Interest Rate:	4%	4%
Present Value of Costs	See Step 3	See Step 3
Number of Periods (Years)	20, 19, 18,	30

2. Add the Historical Amortized Balance (Step 1)

3. Total = Calculated Component

➤ Future Transportation Capital Payments from 2016 to 2050

Transportation Capital

5 Contractor Charges

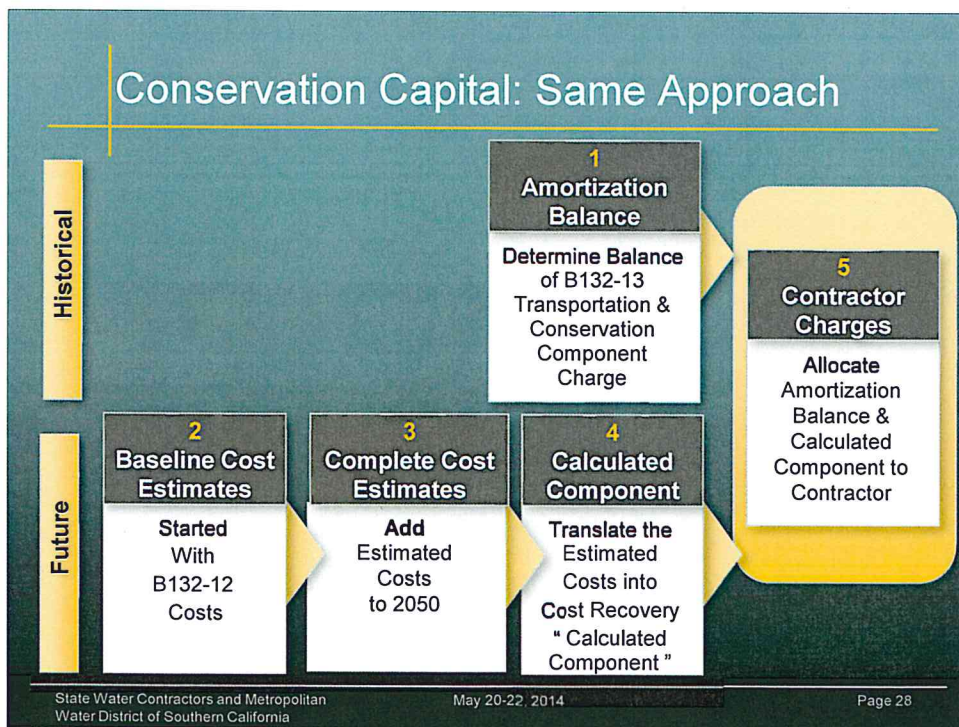
■ Contractors % of Charges is Fixed

- Each Contractors % of Table B-15 from 1961 to 2035

Napa County FC&WCD	1.819%	Castaic Lake Water Agency	1.592%
Solano County Water Agency	1.769%	Coachella Valley Water District	3.641%
Alameda County FC&WCD, Zone 7	1.484%	Crestline-Lake Arrowhead Water Agency	0.163%
Alameda County Water District	0.768%	Desert Water Agency	1.286%
Santa Clara Valley Water District	2.428%	Littlerock Creek Irrigation District	0.032%
San Luis Obispo County FC&WCD	1.142%	Mojave Water Agency	1.313%
Santa Barbara County FC&WCD	12.636%	Palmdale Water District	0.257%
Dudley Ridge Water District	0.222%	San Bernardino Valley Municipal Water District	5.614%
Empire-West Side Irrigation District	0.005%	San Gabriel Valley Municipal Water District	0.897%
Future Contractor San Joaquin Valley	0.069%	San Geronimo Pass Water Agency	3.109%
Kern County Water Agency-Municipal and Industrial	0.510%	The Metropolitan Water District of Southern California	50.251%
Kern County Water Agency-Agriculture	6.304%	Ventura County Watershed Protection District	0.377%
County of Kings	0.024%	City of Yuba City	0.000%
Oak Flat Water District	0.010%	County of Butte	0.000%
Tulare Lake Basin Water Storage District	0.417%	Plumas County FC&WCD	0.010%
Antelope Valley-East Kern Water Agency	1.853%	South Bay Area Future Contractor	0.000%

1	Contract Extension Objectives
2	Statement of Charges
3	Forecasting Model Objective
4	Transportation Capital
5	Conservation Capital
6	Conservation Minimum

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Conservation Capital

1 Determine Amortization Balance

Determine Balance (2016 - 2035)

Table B-22 (WSRB Balance)

Transportation		Conservation
MI	AG	
73%	2.62%	24.38%

Table B-20A (Delta Water Rate - Capital)

B132-13 \$14.76

Table B-4 (Maximum Table A Amounts)

Year: 2016 - 2035

Historical Amortized Balance

Sum of B-22 and B-20A (\$) x B-4 (AF)

Conservation Capital

2

Baseline
Cost
Estimates

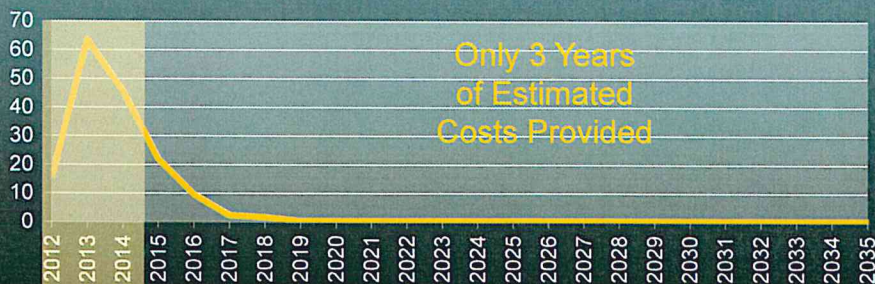
■ Table B-13: Capital Costs by Year

■ Table B-20: Delta Water Rate

2013 Statement of Charges

Bulletin 132-13

Table B-13 (in millions)



Conservation Capital

3 Completed Cost Estimates

■ Baseline Estimate:

- Table B-13 Average Costs
- CY Period: 2012 – 2013
- Average (\$): \$30,502,345

■ Escalation Rate (Annual):

2.5 %



Conservation Capital

4 Calculated Component

1. Calculate the Payment

	Current Method	Freeze-Go Method
Interest Rate:	4%	4%
Present Value of Costs	See Step 3	See Step 3
Number of Periods (Years)	20, 19, 18,	30

2. Add the Historical Amortized Balance (Step 1)

3. Total = Calculated Component

- Future Transportation Capital Payments from 2016 to 2050

Conservation Capital

5 Contractor Charges

- Contractors % of Charges is Fixed
 - Each Contractors % of Table B-4 from 2016 to 2035

Napa County FC&WCD	0.696%	Castaic Lake Water Agency	2.281%
Solano County Water Agency	1.144%	Coachella Valley Water District	3.316%
Alameda County FC&WCD, Zone 7	1.932%	Crestline-Lake Arrowhead Water Agency	0.139%
Alameda County Water District	1.007%	Desert Water Agency	1.336%
Santa Clara Valley Water District	2.396%	Littlerock Creek Irrigation District	0.055%
San Luis Obispo County FC&WCD	0.599%	Mojave Water Agency	2.133%
Santa Barbara County FC&WCD	1.090%	Palmdale Water District	0.510%
Dudley Ridge Water District	1.010%	San Bernardino Valley Municipal Water District	2.459%
Empire-West Side Irrigation District	0.072%	San Gabriel Valley Municipal Water District	0.690%
Future Contractor San Joaquin Valley	0.000%	San Geronio Pass Water Agency	0.415%
Kern County Water Agency-Municipal and Industrial	3.226%	The Metropolitan Water District of Southern California	45.809%
Kern County Water Agency-Agriculture	20.325%	Ventura County Watershed Protection District	0.479%
County of Kings	0.223%	City of Yuba City	0.230%
Oak Flat Water District	0.137%	County of Butte	0.659%
Tulare Lake Basin Water Storage District	2.096%	Plumas County FC&WCD	0.065%
Antelope Valley-East Kern Water Agency	3.471%	South Bay Area Future Contractor	0.000%

1 Contract Extension Objectives

2 Statement of Charges

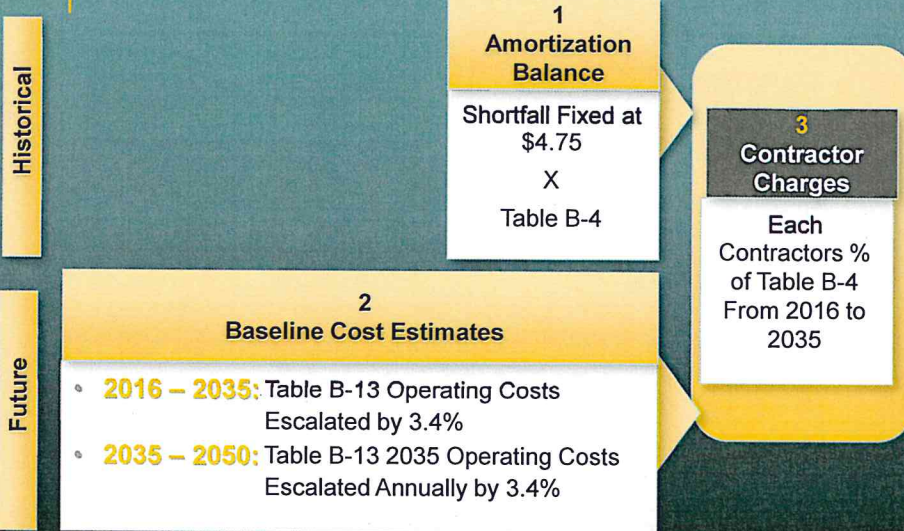
3 Forecasting Model Objective

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5 Conservation Capital

6 Conservation Minimum

Conservation Minimum



Conservation Minimum

- **Table B-13: Operating Costs by Year**
 - Cost Estimates are Projected to 2035
 - Completion of Cost Estimates Begins in 2036

2013 Statement of Charges

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Table B-13 (in millions)



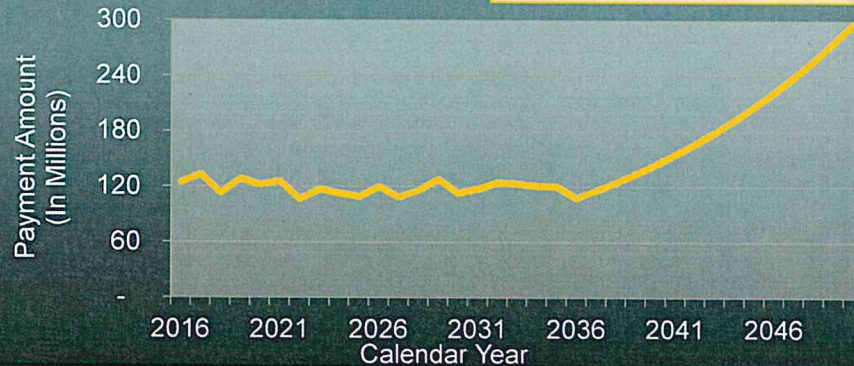
Conservation Minimum

■ Baseline Estimate:

- Table B-13 Costs
- CY Period: 2016 – 2035

■ Escalation Rate (Annual):

Beginning in 2016 - 3.4 %

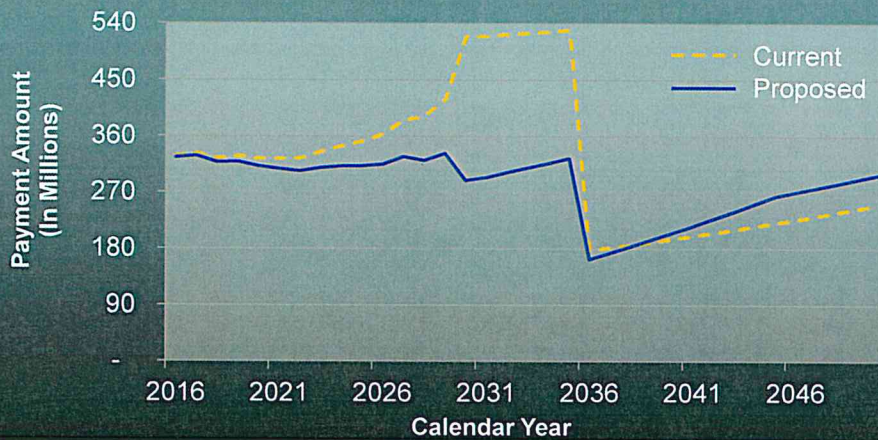


Summary

- Amendments adjust the methodology for paying SWP costs
- Result is clearer and simpler charges

Summary

Extending the Contract Can Eliminate the Compression of Capital Charges



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Questions

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