

Overview of the State Water Project and Proposed Contract Amendment

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Joint Legislative Budget Committee
Hon. Holly J. Mitchell, Chair





Purpose of Hearing

- The Joint Legislative Budget Committee (JLBC) Has Oversight Role in Reviewing Major Changes to State Water Project (SWP) Contracts**
 - State law requires the Department of Water Resources (DWR) to present to the JLBC and relevant policy and fiscal committees in an informational hearing on the *renewal or extension of a long-term water supply contract* between DWR and a SWP contractor.
 - Hearing must precede final approval of the contract amendment by at least 60 days.
 - This is the first time this statutory requirement has been applicable since it was enacted in 2012.

- DWR Presentation Must Include Certain Elements**
 - Must describe (1) details of the terms and conditions of the contract and (2) how they serve as a template for the remaining long-term water supply contracts.

- Law Does Not Require That JLBC Approve Contract Amendments**
 - No statutory requirement for JLBC action beyond holding the informational hearing.

Overview of the SWP



SWP Is Owned and Operated by DWR

- Authorized by voters through the Burns-Porter Act in 1960. Largest state-built water project in the United States; includes the tallest dam in the nation (Oroville) and the highest water lift in the world (over the Tehachapi Mountains).



Brings Water From North to South

- Water storage and delivery system of reservoirs, aqueducts, power plants and pumping plants that extends more than 700 miles. Provides water to 29 long-term SWP contractors, who then distribute it to homes, farms, and industry.
- About 70 percent of SWP water is for urban use, with remainder for agricultural use. Supplies water to more than 26 million people in the Bay Area and Southern California and to irrigate about 750,000 acres of farmland, mainly in the San Joaquin Valley.



Amount of Water Delivered Depends on Various Factors

- Limiting factors include precipitation, salinity in the Delta, and water needed for migrating fish. State and federal regulatory agencies set conditions for Delta pumping operations.
- DWR states that SWP's maximum delivery capacity is 4.2 million acre-feet of water a year, but it has never come close to providing this amount. The ten-year annual average is 1.8 million acre-feet. (An acre-foot of water is the amount that would cover an acre of land at a depth of one foot.)



Brown Administration Has Proposed Major Modification to SWP in the Delta

- "California WaterFix" project would construct two tunnels to carry Sacramento River water beneath the Delta. Project is currently seeking final permit approvals and funding commitments.

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LEGISLATIVE ANALYST'S OFFICE **Map of the SWP**





Overview of SWP Contracts



SWP Costs Paid Through Contracts With Water Users

- Contractors pay for original construction costs, modifications and repairs, and ongoing operations and maintenance. In general, state funding is not used for SWP water supply costs.
- SWP funding does not go through the legislative budget process. Rather, DWR develops annual payment amounts and expenditures with SWP contractors.



SWP Long-Term Water Supply Contracts Have Been in Place Since 1960s

- The 29 contracts have 75-year terms, and expiration dates range from 2035 and 2042.
- DWR and the SWP contractors have amended the contracts in the past—most notably in 1995 with water allocation changes referred to as the “Monterey Agreement”—but the term dates have never been extended.



Major Components of Proposed Contract Amendment

- Intended for All 29 Contracts**
- Extends Contract Terms Until December 31, 2085**
- Changes Billing Terms for Capital Costs From Amortization to Pay-As-You-Go**
- Increases Cap for Reserves for General Operating Account From \$32 Million to at Least \$150 Million**
- Expands Conditions Under Which DWR Can Issue Water System Facility Revenue Bonds—and Charge Contractors for Financing Costs—for SWP Capital Projects**
- Establishes New Finance Committee for DWR and Contractors to Discuss SWP Financial Policies and Information With Each Other**
- Does Not Directly Address California WaterFix Project**



Legislative Oversight Questions

- What are the primary issues or problems that these amendments are intended to address and does the proposal address them effectively?
- Are there other issues or problems with SWP operations or financing that these amendments do not address? Are there plans for addressing those issues or problems through other avenues?
- What was the process for developing these contract amendments and did it include adequate public involvement and input?
- What are the anticipated fiscal effects of these contract amendments for the residents, businesses, and farmers around the state who ultimately pay for SWP costs through their water rates?
- Will these amendments have any direct or indirect effects on the amount of water provided to or the distribution of water amongst the 29 contractors?
- What is the status of other contract amendments between DWR and the SWP contractors—such as those related to the California WaterFix project—and why were those not incorporated into this amendment?
- Are there adequate opportunities for legislative oversight over subsequent SWP contract amendments and fiscal decisions?