

# Statement of Principles By the State Water Contractors

Water Supply Contract Extension  
Negotiation Meeting #4  
June 26, 2013  
10:00 AM – 3:00 PM  
Tsakopoulos Library Galleria  
828 I Street  
Sacramento, CA 95814



SWCCE-0017  
June 21, 2013  
Version 6

## Objectives

SWC		DWR	
1	To continue to receive a long-term water supply from the SWP as provided under Article 4 of the Water Supply Contract beyond 2035		
2	To ensure that DWR can finance SWP expenditures beyond 2035 no later than December 31, 2014	1	Ensure the Department of Water Resources can finance State Water Project expenditures beyond 2035
		2a 2b	Maintain an appropriate level of reserves and funds to meet State Water Project purposes
3	To ensure that DWR can extend cost recovery of SWP expenditures as defined in the Water Supply Contracts beyond 2035 no later than December 31, 2014	3	Simplify the State Water Project billing process

# Initial Offer

Objectives (Consolidated)		SWC	DWR
<b>1</b>	<ul style="list-style-type: none"> <li>To continue to receive a long-term water supply</li> <li>Ensure DWR can Finance SWP expenditures beyond 2035</li> </ul>	<ul style="list-style-type: none"> <li>Extend Contract 75 Years through 2110</li> <li>Expedite Negotiations</li> </ul>	<ul style="list-style-type: none"> <li>Extend Contract 40 Years through 2075</li> </ul>
<b>2a</b> <b>2b</b>	<ul style="list-style-type: none"> <li>Maintain an appropriate level of reserves and funds to meet State Water Project purposes                             <ul style="list-style-type: none"> <li>General Operating Account</li> <li>Other Project Purpose Account</li> </ul> </li> </ul>		<ul style="list-style-type: none"> <li>3 Months of Operating and Power Costs, Estimated \$200M</li> <li>New Account for Projects, Regardless of Project Purpose, with No Direct Revenue Stream</li> </ul>
<b>3</b>	<ul style="list-style-type: none"> <li>Ensure the DWR can extend Cost Recovery beyond 2035</li> <li>Simplify the billing process</li> </ul>	Freeze-Go Billing Methodology	Freeze-Go Billing Methodology

# Counter Offer to DWR

Package Statement of Principles Includes:



Term  
of  
Contract



Simplification  
of  
Billing



Operating  
Reserves

## Term of Contract

- Extend Contract Term by 75 Years to December 31, 2110
- Eliminate the Contract Term Ending with the Latest Maturity Date of Any Bond Issued

Repayment of "Such Facilities" – Latest Bond Maturity Date

## Simplification of Billing

*Converting to a Pay-As-You-Go Billing Method, the "Freeze-Go" Option*

Legacy  
Year Costs  
(1961- 2015)

F  
R  
E  
E  
Z  
E

- Continue Reimbursement Consistent With Current Contract Terms For All Costs Incurred Prior to the Implementation Date as Defined by an Amendment

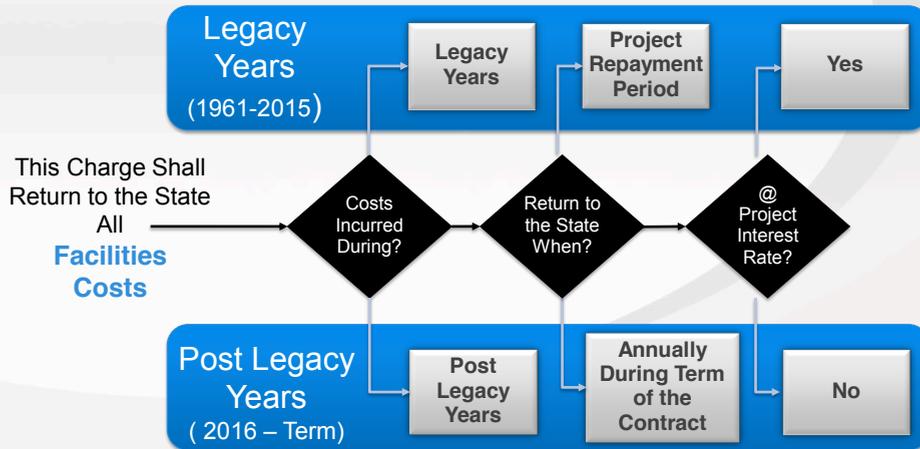
Post-  
Legacy  
Year Costs  
(2016-Term)

G  
O

- As of the Implementation Date Defined by an Amendment, Convert the Basis of Reimbursement for Future Costs to a Pay-As-You-Go Methodology
- Contractors Pay Annual
  - Actual & Estimated Costs
  - Debt Service; Principal, Interest, Bond Cover

## Simplification of Billing (cont.)

- Article 22, 23 and 24(c) Unchanged Except for Inclusion "Incurred During the Legacy Years"
- New Article for Post Legacy Years Charges
- New Definition of Capital Costs in Post Legacy Years



## Simplification of Billing (cont.)

- Eliminate Adjustments (True-up) at the Project Interest Rate on Post-Legacy Year Costs
  - Capital
  - Minimum
  - Variable
- Eliminate Replacement Accounting System (RAS)
  - Replacement Costs Recovered Under Minimum or Capital Billing Provisions
  - Refund RAS Reserves

## Conversion from Cost to Debt Service Recovery

### Equitable Investment of 51(e) Revenues in Capital Facilities Under Additional System Purposes

#### Return ALL CAPITAL COSTS



100%  
Capital  
Costs  
Recovery

#### Return ALL DEBT SERVICE

Investment Could Result in  
Disproportionate  
Contractor Benefit



100%  
Debt  
Service  
Recovery

Do ALL  
Contractors  
Benefit From  
this Capital  
Facility?

## Water System Revenue Bond Surcharge

- Transportation and Conservation Capital is Returned to the State per a Contracted Amortization Schedule:
  - At the Project Interest Rate
  - During the Project Repayment Period
- In Lieu of a Project Interest Rate Adjustment to the Bond Interest Rate, Contractors Pay the WSRB Surcharge
- Surcharge Terminates at the End of the Project Repayment Period
  - No Amendment to this Article is Required if Article 22 & 24 are Limited to Legacy Year Capital Costs.

## General Operating Reserves (GOA)

- Increase GOA to a Maximum of \$60M From Excess Revenues
  - Eliminate Adjustment Authorized After 2001
- Establish GOA Funding Priority:
  - Superior to Additional System Purposes
  - Subordinate to Annual Rate Reductions
- Subsequent to PMIA Loan Payoff:
  - Increase Annual Rate Reductions to \$48M
  - Eliminate Restricted GOA Annual Funding Rate of \$2M, Allowing Funding to \$60M Cap from Excess Revenues

## General Operating Reserves (GOA) (cont.)

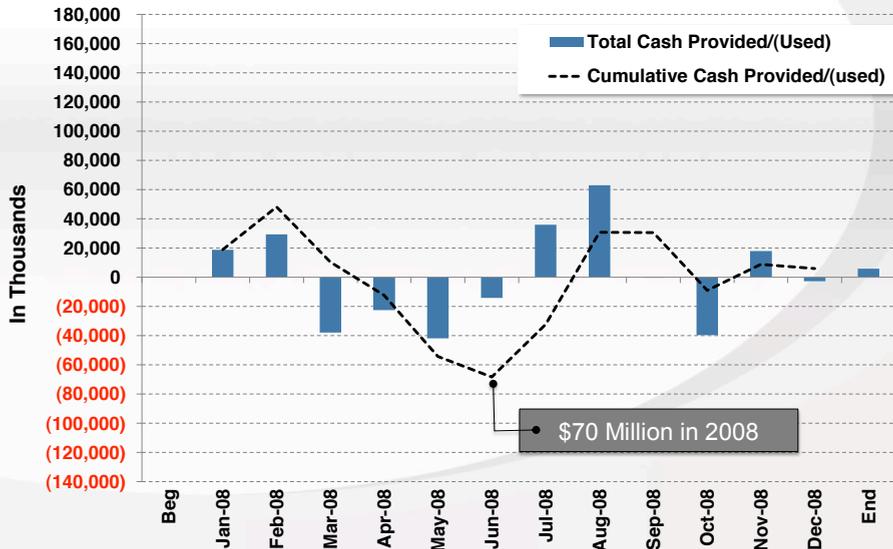
- Authorize GOA for Any Cash-flow Deficiencies Resulting from Chargeable Water Supply Purposes
- Eliminate Contractors' 30 Day Grace Period
- Authorize SWRDS to Refund GOA Investment Earnings

# Implementation of Financial Management

*Implement Stringent Fiscal Policies and Administrative Measures for Operation of the SWRDS*



# Largest Cash Provided Deficiency, Within Last 5 Years



# Summary of GOA Offer

Equivalent to 90 Days of Operating and Power Costs or \$148 Million (\$ in millions)

Cash-Flow Tools	Reduction in Deficiency Of Net Cash Provided	Cash	Cash Within 30 Days
Elimination of 30-Day Grace Period	40		
Reserve Amount		60	
Authorized Supplemental Billing			48
<b>Total Funds Available for Addressing Cash-Flow Deficiencies</b>	<b>40</b>	<b>60</b>	<b>48</b>

# Proposed Offer For June 26, 2013

Objectives (Consolidated)	SWC
<b>1</b> <ul style="list-style-type: none"> <li>To continue to receive a long-term water supply</li> <li>Ensure DWR can Finance SWP expenditures beyond 2035</li> </ul>	<ul style="list-style-type: none"> <li>Extend Contract 75 Years through 2110</li> </ul>
<b>2</b> <ul style="list-style-type: none"> <li>Ensure the DWR can extend Cost Recovery beyond 2035</li> <li>Simplify the billing process</li> </ul>	<ul style="list-style-type: none"> <li>Freeze-Go Billing Methodology</li> <li>Eliminate Interest on Post-Legacy Year Adjustments</li> </ul>
<b>3</b> <ul style="list-style-type: none"> <li>Maintain an appropriate level of reserves and funds to meet State Water Project purposes                             <ul style="list-style-type: none"> <li>General Operating Account</li> <li>Other Project Purpose Account</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Increase GOA to \$60 Million From Excess Revenues</li> <li>Increase Funding Priority of GOA</li> <li>Unrestricted GOA Annual Rate of Funding, up to \$60M Cap</li> <li>Increase Contractor's Rate Reduction to \$48M</li> <li>Eliminate the Replacement Account System (RAS)</li> <li>Refund Balance of RAS Fund</li> <li>Eliminate the 30-Day Grace Period</li> </ul>