

**DEPARTMENT OF WATER RESOURCES**

1416 NINTH STREET, P.O. BOX 942836  
SACRAMENTO, CA 94236-0001  
(916) 653-5791



00035  
July 10, 2013

Page 1 of 2

**Counter-Proposal****State Water Project – Contract Extension  
Proposed Agreement in Principle for Objective 2a – Reserves**

Concept – Develop and implement a General Operating Account (GOA) level that meets DWR's financial cash flow needs with the flexibility to adjust reserve level amounts as DWR's financial needs change. Currently, DWR is proposing a GOA cash funded level of 90 days of operating and power costs. The 90 days is roughly equivalent to \$150 million in cash.

**1. Funding the GOA**

The balance in the GOA is \$27.4 million as of January 2013. In order to bring the GOA to the 90 days or \$150 million level, DWR proposes to use available Systems Revenue cash flow. After 2035, any increases to the 90 days level would come from billings to the water contractors under the Conservation Minimum component of their bills based on Table A. DWR would change the priorities set forth in Article 51(e) making the increase to the GOA first priority after rate management credits and eliminate the GOA rate of funding per year (\$2 million) to any amount of Systems Revenue cash flow until the proposed level is achieved.

**2. Uses of the GOA**

- a. The State Water Project (SWP) experiences peaks and valleys in its cash flow cycle similar to any other business. Some months, "cash in" will exceed "cash out" and other months the reverse may occur. The GOA will help to ensure there is sufficient cash available during the low points in the cash cycle to meet all the SWP obligations.
- b. The GOA will provide cash flow to cover shortages due to the two-year billing cycle of the Statements of Charges. Under the current SWP contracts, the contractors are billed based on actual costs and projections. The projections are "trued-up" in the next full billing cycle which occurs two years later. This can cause a cash flow shortage for the SWP.
- c. The GOA will provide immediate cash for costs that are not anticipated or cannot be billed in accordance with need, due to contract language.
- d. Emergencies for any State Water Resources Development System (SWRDS) purpose.

**3. Replenishment of the GOA**

Replenishment of the GOA reserve account, depending on the amount of the draw, will occur through the normal, two year billing process to the State Water Contractors (SWCs) or in an expedited manner as mutually agreed upon between DWR and the SWCs. Emergency draws will be billed to the SWCs and other project beneficiaries.

**4. Elimination of Grace Period**

All billing components to the annual Statements of Charges shall be due on the invoice due date with no 30 day grace period; effectively eliminating the 30 day grace period.

**5. Supplemental Billings**

DWR shall have the ability to issue “revised” SWC billings in the event of a significant cash flow shortage caused by an emergency or crisis.

**6. Periodic Review and Adjustment**

Every five years, DWR will prepare an analysis, in consultation with the SWCs, to determine the appropriate level of the GOA. After 2035, increases to the GOA will come from direct billings to the SWCs as described above in Item No. 1. Decreases to the account will result in direct refunds to the SWCs.

**7. Elimination of the Replacement Accounting System (RAS)**

The GOA will eliminate the RAS for Transportation and Conservation Facilities with the intent to have replacement costs treated as a current minimum or capital cost. A portion of the current RAS cash balance (\$20 million) will be transferred to the GOA to increase the account to \$170 million. The \$20 million is in addition to the 90 day level to be maintained per item 1 above. The balance in the RAS account will be returned to the SWCs.

**8. Interest Earnings on GOA**

Interest Earnings on the GOA shall be retained in the account or used to meet other lawful SWRDS purposes, including transfer to the SWRDS Support Account per objective 2b, as determined by the Director of DWR.

**9. Financial Management**

To be discussed outside of the Contract Extension process.