NOTICE OF PREPARATION

Environmental Impact Report

For the

Water Supply Contract Extension Project

September 12, 2014

INTRODUCTION

Pursuant to the California Environmental Quality Act (CEQA), the Department of Water Resources (DWR) will be the Lead Agency and will prepare an Environmental Impact Report (EIR) for the Water Supply Contract Extension Project (proposed project). As more fully discussed below, this 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 the largest state-owned, multi-purpose, user-financed water storage and delivery system in the United States. The Contractors receive water service from the SWP in exchange for paying all costs associated with constructing, operating and maintaining the SWP facilities that are attributable to water supply. These Contractors include local water agencies and districts legislatively enabled to serve irrigation, municipal and industrial water supply customers or retail water supply agencies throughout Northern California, San Joaquin Valley, San Francisco Bay Area, Central Coast Area, and Southern California (SWP Service Area). DWR and each of the Contractors entered into Contracts in the 1960's with 75 year terms. The Contracts are substantially uniform. The first Contract, executed by DWR and The Metropolitan Water District of Southern California (MWD), terminates in 2035. All Contracts will terminate by 2042.

The majority of the capital costs associated with the development and maintenance of the SWP is financed by DWR using revenue bonds. These bonds have typically been sold with terms up to 30 years. It has become more challenging in recent years to

affordably finance capital expenditures for the SWP since revenue bonds used to finance these expenditures are not sold with maturity dates that extend beyond the year 2035, the year the contracts begin to expire. Today, DWR only sells bonds that extend for up to 21 years due to the year 2035 limitation. For DWR to sell bonds with up to 30 year terms, it is necessary to extend the termination dates of the Contracts by amendment. As a result, 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 is the proposed project described in this Notice of Preparation (NOP).

BACKGROUND

The SWP is a multi-purpose water storage and delivery system consisting of reservoirs, canals, aqueducts, power plants, and pumping plants, maintained and operated by DWR. One of its main purposes is to store and convey water to the Contractors. Over 25 million Californians and 750,000 acres of agricultural land utilize water from the SWP. On average, approximately 70 percent of SWP water is allocated to urban users and 30 percent to agricultural users in accordance with the Contracts. The SWP is also operated to improve water quality in the Sacramento-San Joaquin Delta, control flood waters, generate electricity, provide recreation, and enhance fish and wildlife.

The initial capital costs to build the SWP were financed by DWR using $1.75 billion of general obligation bonds approved by the voters in 1960 through the Burns-Porter Act. Capital costs in excess of these initial expenditures have been financed, for the most part, with revenue bonds backed by the SWP. DWR typically sells about $200 million in revenue bonds each year to finance the construction and maintenance of the SWP.

As previously mentioned, in order for DWR to sell revenue bonds with maturity dates extending up to 30 years into the future, a common maturity length for public financing, the termination dates of the Contracts need to be extended. This will ensure DWR can continue to affordably finance SWP expenditures well into the future. As a result, DWR and the Contractors participated in 23 negotiating sessions between May 2013 and June 2014. The negotiations, open to and attended by members of the public, resulted in an Agreement in Principle (AIP) on the proposed changes and additions to the Contracts. The AIP (http://www.water.ca.gov/swpao/watercontractextension/docs/00202-AIP_Concerning_Extension_of_SWP_Water_Supply_Contracts_Execution_Version_6-18-2014.pdf) describes, in general terms, amendments to the existing Contracts that will allow DWR to extend the term of the Contracts and improve the billing process. The AIP defines the proposed project description for the Draft EIR.

The AIP does not represent a commitment by DWR or the Contractors to approve a proposed project or to extend the Contracts but merely a recommendation to pursue

and study the proposed project. Once the EIR is completed and a Notice of Determination filed, DWR and the Contractors will then consider whether to execute the amendments to the Contracts or take other action.

PROJECT OBJECTIVES

DWR and the Contractors have a common interest to maintain the financial integrity of the SWP. In order to address financial challenges and make needed improvements to the current Contract provisions, DWR and the Contractors agreed to the following objectives as they entered into negotiations:

- Ensure DWR can finance SWP expenditures beyond 2035.
- Maintain an appropriate level of reserves and funds to meet SWP purposes.
- Simplify the SWP billing process.

PROJECT AREA

The location of the proposed project includes the SWP facilities and SWP Service Areas See Figure 1 and Figure 2, respectively at the end of this document.

PROJECT DESCRIPTION

The proposed project would add, delete and modify provisions of the Contracts based on the AIP. The proposed project would not create new water management measures, build new or modify existing facilities, or change water allocation provisions of the current Contracts. The proposed project would:

- Extend the term of the 29 Water Supply Contracts to December 31, 2085.
- Provide for increased SWP financial operating reserves during the extended term of the Contracts.
- Provide additional funding mechanisms and accounts to address SWP needs and purposes.
- Develop a new "pay-as-you-go" methodology with a corresponding billing system that better matches the timing of future SWP revenues to future expenditures. "Pay-as-you-go" methodology generally means to recover costs within the year incurred and/or expended. The current billing methodology will be concurrently maintained through 2035 to ensure the full recovery of all past expenditures.

ENVIRONMENTAL BASELINE

CEQA Guidelines Section 15125 states that an EIR must include a description of the physical environmental conditions in the vicinity of the project, as they exist at the time the NOP is published from local, regional, and, in this case, state perspectives (existing

conditions). The environmental setting will constitute the baseline physical conditions that DWR, the Lead Agency, will use to determine whether an impact is significant. In general, the environmental baseline is the same as existing conditions.

PROJECT ALTERNATIVES

Project alternatives, in addition to the no project alternative, will be developed following the scoping process and will consider the views of agencies and the public.

POTENTIAL ENVIRONMENTAL EFFECTS

The EIR will analyze resources that may be affected by the proposed project. Resource topics to be considered in the EIR include, but may not be limited to:

- aesthetics
- agriculture and forestry resources
- air quality
- biological resources
- cultural resources
- geology and soils
- greenhouse gas emissions
- hazards and hazardous materials
- hydrology and water quality
- land use and planning
- mineral resources
- noise
- population and housing
- public services
- recreation
- transportation/traffic
- utilities and service systems.

SCOPING MEETINGS

Two scoping meetings will be held on September 23, 2014 in the Resources Building Auditorium, 1416 Ninth Street, Sacramento, CA 95814 at the following times:

- 2:00 to 4:00 pm
- 5:00 to 7:00 pm

The scoping meetings will include a brief presentation about the proposed project at the beginning of the meeting with time for public comments on the content and scope of the EIR to follow.

WRITTEN COMMENTS

This NOP is being circulated to obtain suggestions and information from interested parties, including responsible and/or trustee agencies and members of the public on the content and scope of issues that may be addressed in the EIR. Written comments from interested parties are invited to ensure that the full range of issues related to implementation of the proposed project is identified early in the CEQA process. Agencies and organizations should provide a contact name and information in their letters. All comments received, including names and addresses, will become part of the official administrative record and may be made available to the public. DWR will post NOP comment letters in their entirety on the DWR web page for the proposed project at http://www.water.ca.gov/swpao/watercontractextension/.

In accordance with CEQA Guidelines section 15082(b)(1)(B), within 30 days of receiving the NOP, responsible and trustee agencies shall provide DWR with specific detail about the scope and content of the environmental information to be included in the Draft EIR related to their area of statutory responsibility. Comments from individual respondents, including names and home addresses of respondents, will be made available for public review. You may request DWR withhold your contact information from public disclosure, which will be honored to the extent allowable under California law. If you wish DWR to consider withholding this information, you must state this prominently at the beginning of your comments.

Written comments on the scope of the EIR are due no later than 5:00 pm on October 13, 2014. All comments or questions about the environmental review process should be mailed to Ted Alvarez, State Water Project Analysis Office, Department of Water Resources, 1416 Ninth Street, Room 1620, Sacramento, CA 95814 or e-mailed to ted.alvarez@water.ca.gov. Additional information on the proposed project can be found on the DWR web page at the link for the proposed project provided above.

Date: 9/5/2014 Signature: _____

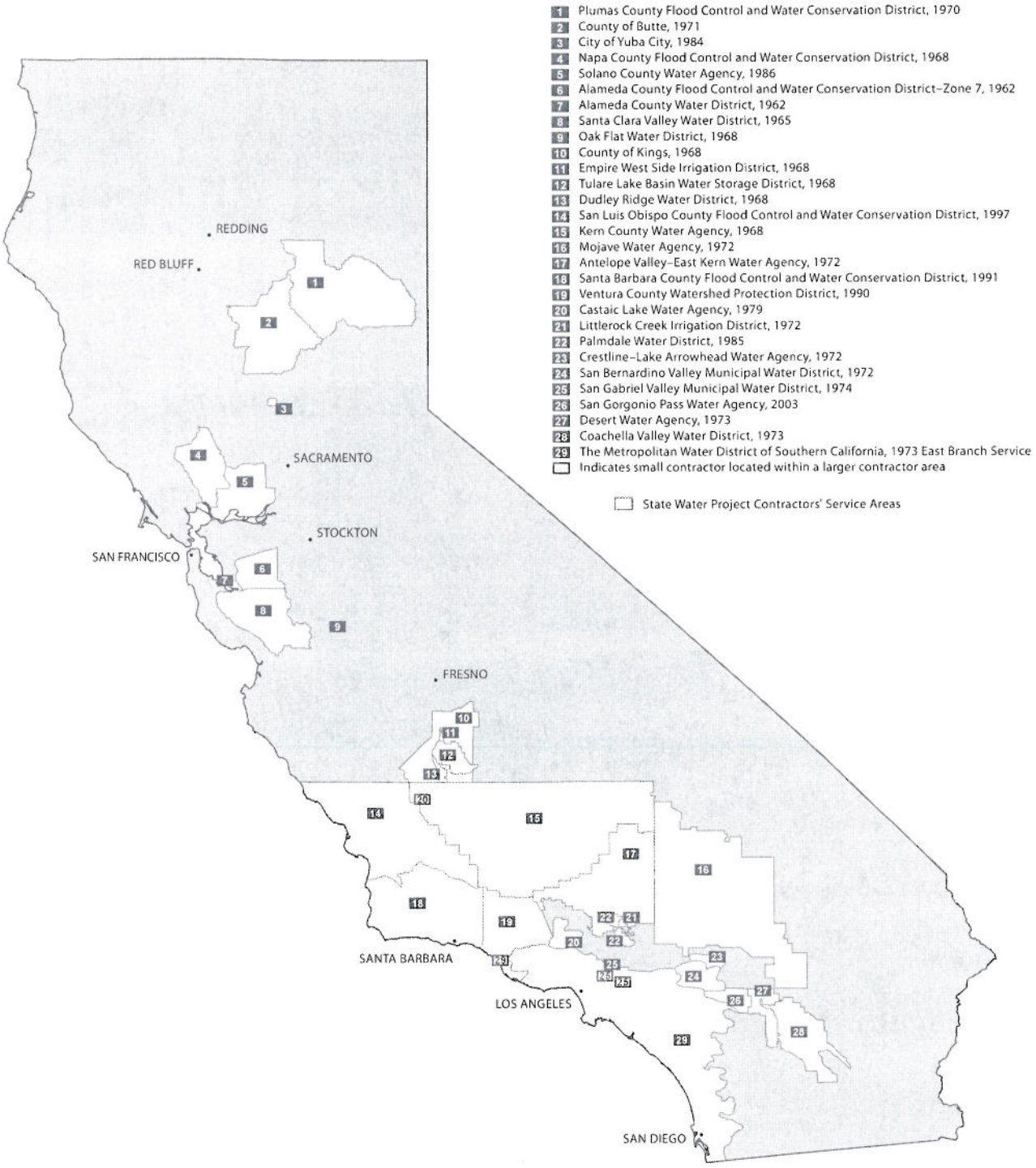
Title: Director

Water Supply Contract Extension Project

SOURCE: California Department of Water Resources, Bulletin 132-11, 2013

Figure 1

Primary State Water Project Water Delivery Facilities



SOURCE: California Department of Water Resources, Bulletin 132-11, 2013

Water Supply Contract Extension Project

Figure 2

State Water Project Contractor's Service Areas