

**DEPARTMENT OF WATER RESOURCES**

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

**MAY 10 2018**

Honorable Holly J. Mitchell, Chair  
Joint Legislative Budget Committee  
State Capitol, Room 5019  
Sacramento, California 95814

Dear Senator Mitchell:

The attached packet of information is required for submittal to the Joint Legislative Budget Committee pursuant to Water Code Section 147.5, and relates to the extension of the long-term water supply contracts between the California Department of Water Resources and 29 public water agencies that receive water supplies from the California State Water Project (SWP).

As you are aware, more than 26 million Californians and approximately 750,000 acres of farmland receive water through the facilities of the SWP. Since the early 1960s California has entered into contracts with 29 public water agencies that pay for the operation, maintenance, and construction of the SWP facilities that supply them with water. Those original water contracts will begin to expire as early as 2035, shortening the period over which project costs can be financed through long term bonds– with the impact falling on local water ratepayers.

As a result, beginning in 2013 the Department of Water Resources began public negotiations concerning extension of these SWP long-term water contracts. This process involved 23 public negotiation sessions. The attached packet is the product of that effort - a contract amendment that would extend the water supply contracts until 2085. In addition to the extension of the long-term water supply contracts, this amendment modernized financial provisions of the contract to address existing conditions rather than those that needed to be addressed by the 1960s-era contracts.

Water Code 147.5, very simply, requires the Department to present the details of new or extended long-term water supply contracts to the Joint Legislative Budget Committee at least 60 days prior to executing the contract. Specifically, the Water Code reads:

147.5. At least 60 days prior to the final approval of the renewal or extension of a long-term water supply contract between the department and a state water project contractor, the department shall present at an informational hearing before the Legislature the details of the terms and conditions of the contract and how they serve as a template for the remaining long-term water supply contracts. This presentation shall be made to the Joint Legislative Budget Committee and relevant policy and fiscal committees of both houses, as determined by the Speaker of the Assembly and the Senate Committee on Rules. The department shall submit a copy of one long-term contract to the Joint Legislative Budget Committee no less than 30 days prior to the scheduled hearing.

Honorable Holly J. Mitchell, Chair

Page 2

The package accompanying this letter includes (1) an executive summary highlighting the primary components of the Contract Extension Amendment, (2) the Agreement in Principle negotiated between DWR and the Contractors, dated June 18, 2014, (3) the proposed Contract Extension Amendment, (4) a model contract, showing how a consolidated original contract and amendments to date would appear if further amended by the Contract Extension Amendment, and (5) the text of Water Code Section 147.5.

The Department of Water Resources also stands ready to provide you and your staff with additional information as you may require and I look forward to the opportunity to share this important contract extension with the California Legislature. The certainty it will provide Californians regarding the continuing supply of clean, affordable water is of interest and importance to us all. As such, I look forward to working with you to ensure a timely review of the contract details. If you have any questions, please do not hesitate to contact me at (916) 653-7007.

Sincerely,

A handwritten signature in black ink, appearing to read "Karla Nemeth". The signature is fluid and cursive, with a large initial "K" and a long, sweeping underline.

Karla Nemeth  
Director  
(916) 653-7007

Attachment(s):

cc: (See Attached List)

CC: Honorable John Laird  
Secretary for Natural Resources  
California Natural Resources Agency  
1416 Ninth Street, Room 1311  
Sacramento, California 95814

Kim Craig  
Deputy Cabinet Secretary  
Governor Edmund G. Brown  
State Capitol Building  
Sacramento, California 95814

Camille Wagner  
Secretary, Legislative Affairs  
Governor Edmund G. Brown  
State Capitol Building  
Sacramento, California 95814

Tom Dyer  
Deputy Legislative Affairs Secretary  
Governor Edmund G. Brown  
State Capitol Building  
Sacramento, California 95814

Karen Finn  
Program Budget Manager  
California Department of Finance  
915 L Street, 9<sup>th</sup> Floor  
Sacramento, CA 95814

Karla Nemeth  
Director  
Department of Water Resources  
1416 Ninth Street, Room 1115  
Sacramento, California 95814

Cindy Messer  
Chief Deputy Director  
Department of Water Resources  
1416 Ninth Street, Room 1115  
Sacramento, California 95814

Gary Lippner  
Deputy Director, Delta Conveyance  
Department of Water Resources  
1416 Ninth Street, Room 1115  
Sacramento, California 95814

Spencer Kenner  
Chief Counsel  
Office of the Chief Counsel  
Department of Water Resources  
1416 Ninth Street, Room 1118  
Sacramento, California 95814

Kasey Schimke  
Assistant Director  
Legislative Affairs Office  
Department of Water Resources  
1416 Ninth Street, Room 1115  
Sacramento, California 95814