



San Diego County Water Authority

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July 31, 2018

Honorable Toni Atkins
President pro Tempore
California State Senate
State Capitol, Room 205
Sacramento, CA 95814

Honorable Anthony Rendon
Assembly Speaker
California State Assembly
State Capitol, Room 219
Sacramento, CA 95814

MEMBER AGENCIES

- Carlsbad Municipal Water District
- City of Del Mar
- City of Escondido
- City of National City
- City of Oceanside
- City of Poway
- City of San Diego
- Fallbrook Public Utility District
- Helix Water District
- Olivenhain Municipal Water District
- Otay Water District
- Padre Dam Municipal Water District
- Camp Pendleton Marine Corps Base
- Rainbow Municipal Water District
- Ramona Municipal Water District
- Rincon del Diablo Municipal Water District
- San Dieguito Water District
- Santa Fe Irrigation District
- South Bay Irrigation District
- Vallecitos Water District
- Valley Center Municipal Water District
- Vista Irrigation District
- Yuima Municipal Water District

SUBJECT: California WaterFix – Deferral of Joint Legislative Budget Committee Hearing

Dear President pro Tempore Atkins and Speaker Rendon:

On behalf of the San Diego County Water Authority, I urge you to defer any hearing by the Joint Legislative Budget Committee regarding the State Water Project (SWP) contract amendments prior to the end of the 2017-18 legislative session. Given that there remains substantial information that must be publicly disclosed and shared with interested parties relative to financing, financial arrangements, and cost allocation associated with the WaterFix project that must be built-in to the SWP contract amendments, a hearing of the Joint Legislative Budget Committee required by Water Code Section 147.5 is premature at this time and should be deferred until at least early in 2019 to allow adequate time for the full scope of SWP contract amendments to be vetted by the Legislature.

The Water Authority Board of Directors has directed staff to develop a policy statement and policy principles that clearly communicate the Water Authority’s support for the WaterFix project, as currently proposed, conditioned upon the Department of Water Resources (DWR) and Metropolitan Water District (MWD) allocating the costs of the WaterFix project as conservation or supply charges, as similar facilities historically have been defined in MWD’s SWP contract with DWR. The Water Authority Board will be considering adoption of a policy statement and policy principles on this matter at its August 9, 2018 special Board meeting.

The manner in which DWR and MWD allocate WaterFix project costs matters to San Diegans. DWR’s Bulletin 132 – *Management of the California State Water Project* – was first issued in 1963. These annual series of reports describe, among other things, SWP project costs and financing. The Peripheral Canal (which is the predecessor of the WaterFix project) was first referenced in Bulletin 132 in 1964, and it was incorporated in the cost estimates for the SWP beginning in 1965. For the purposes of cost allocation, DWR defined the Peripheral Canal as part of the “project conservation facilities” because it would belong to a group of facilities that “serve the purposes of water conservation in the Delta, water supply in the Delta, and transfer of water across the Delta.” DWR charges “conservation facilities” as a water supply cost and it allocates the costs to individual SWP contractors according to their proportional share of “Table A” supply allocation. In contrast, DWR defines the California Aqueduct as a transportation cost and it allocates costs associated with the California Aqueduct to SWP contractors by the actual “reaches” of the Aqueduct that they use.

OTHER REPRESENTATIVE

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While WaterFix is being implemented to restore and stabilize export water supplies – similar to the objectives of the Peripheral Canal – the Water Authority has recently learned that DWR and the SWP contractors have reached agreement to redefine WaterFix cost allocation as a stand-alone cost category – leaving each individual SWP contractor to characterize the purpose of the facility in its rates and charges. While it is unclear how this recharacterization of the project purpose may impact every SWP contractor, it could have substantially different impacts on San Diego ratepayers. Because of the Water Authority’s reliance on MWD to transport a significant amount of its independently-obtained Colorado River water supply, the manner in which MWD allocates WaterFix costs could have a significant and unique impact to San Diego ratepayers. These impacts range from fairly modest impacts on monthly household water rates, to a water rate impact as much as \$21/month per household.

Even though DWR and SWP contractors are finalizing the Agreement in Principle on WaterFix cost allocation (including the identification of WaterFix as a stand-alone category), these important contract amendments on WaterFix financing and cost allocation are not part of the current SWP contract extension package and therefore will not be presented to the Legislature for its review – unless the Joint Legislative Budget Committee postpones the hearing until *all* contract amendments can be presented together.

The Water Authority’s objectives in seeking deferral of the Joint Legislative Budget Committee hearing regarding the SWP contract amendments is solely to ensure adequate time and opportunity is provided for a full public disclosure and dialogue related to the entire scope of SWP contract amendments that will be necessary to understand the financing, operations, and cost allocation considerations related to the WaterFix project. This request is consistent with the Water Authority’s proposed conditional support for the WaterFix project.

Existing law – Water Code Section 147.5 – requires, “*prior to the final approval of the renewal or extension of a long-term water supply contract*” between the Department of Water Resources (DWR) and the SWP contractors, that DWR shall present “*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 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.*” DWR and the state water contractors have been in negotiations over a number of substantive and material changes to the SWP long-term water supply contracts, including:

- Extension of the term of the contracts to 2085
- Financial compression that has affected ability of contractors to incur debt
- WaterFix-related amendments addressing facilities, operations, and cost-allocation

While only the extension of contract term (length) and amendments to address the financial compression issue have been presented as being within the purview of the Legislature at this time, the state water contractors and DWR have reached an Agreement in Principle relative to **additional contract amendments** that will be necessary to address WaterFix issues. Those amendments are not presently before the Legislature, and yet they will address the allocation to California taxpayers and water ratepayers of nearly \$17 billion in capital costs for the twin tunnels project. While there are 29 state water contractors throughout the state, there are actually

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hundreds of water agencies and millions of California water ratepayers and taxpayers receiving water from those state water contractors – none of whom have a direct seat at the table to negotiate contract amendments nor have an understanding of the financing and cost allocation features of the contract amendments.

With respect to the manner in which the state water contracts address WaterFix, there is concern regarding the lack of clarity associated with the financial arrangements, fiscal impacts on ratepayers and taxpayers, and cost allocation issues. Additionally, there should be a comprehensive evaluation related to the effect on local water resources development as a result of any costs that will be obligated on state water contractors, and their member agencies, through the term of the state water contracts (2085). There has not been a thorough or rigorous analysis undertaken under the purview of the Legislature regarding the effect on local water supply investment as a result of the financial obligations and commitments that will soon be passed through by the state water contract amendments.

At this time, there is no urgency for the Legislature to proceed with the examination of the contract extension without considering the full scope of contract amendments. We encourage the Legislature to postpone the SWP contract amendment review to allow DWR more time to present a complete package of proposed contract amendments for the Legislature to comprehensively assess and review. Once the Joint Legislative Budget Committee holds the Water Code Section 147.5 hearing, the Legislature will lose oversight of additional amendments to the state water contracts. If adopted, the proposed state water contract amendments relating to WaterFix will impose far-reaching financial impacts on water ratepayers and property taxpayers. Those policy implications should be appropriately reviewed by the Legislature.

Please don't hesitate to contact me at (858) 522-6781, or Glenn Farrel, the Water Authority's Government Relations Manager, at (916) 216-1747, if you have any questions regarding this request.

Sincerely,



Mark Muir, Chair
Water Authority Board of Directors

cc: Senator Holly Mitchell, Chair – Joint Legislative Budget Committee
Assemblymember Phil Ting, Vice Chair – Joint Legislative Budget Committee
Members, Joint Legislative Budget Committee
San Diego Legislative Delegation
Water Authority Board of Directors