MP-360
WTR-4.00

AUG 6 1992

To: Project Construction Engineer, Willows
Project Superintendent, Folsom, Fresno, Redding, Tracy

From: Regional Director

Subject: Voluntary Payment Policy for Payment of Operations and Maintenance Deficits by Municipal and Industrial Water Contractors -- Central Valley Project, California (M&I Water Contract, Repayment)

This letter supersedes my July 21, 1992, letter on this subject and provides a more definitive description of the municipal and industrial (M&I) voluntary payment policy provisions.

Recently, certain M&I contractors have expressed interest in making voluntary deficit payments. In response to this interest, a M&I voluntary payment policy, hereinafter called the Policy, has been developed which benefits both the contractors (allowing them to make payments toward their deficits and reduce the accumulation of interest on those deficits) and the United States (allowing the timely collection of operation and maintenance (O&M) and interest costs). The provisions of the Policy are provided below.

The Project has been using an interim M&I ratesetting policy to calculate M&I water rates and contractor financial positions for a number of years. A final M&I ratesetting policy is currently being formulated. As such, contractor deficit/surplus accountings are not final, and may vary substantially should the provisions of the final M&I ratesetting policy differ from that of the interim ratesetting policy. While adoption of the final M&I ratesetting policy may result in revisions in the historical M&I accountings by contractor, any voluntary payments received will be applied against the applicable contractor's existing deficit balance, and the accumulation of interest on the paid portion will cease immediately.

The contractors will be informed of any additional deficit amounts due as a result of the final M&I ratesetting policy. Conversely, if a contractor has made voluntary payments and the final M&I ratesetting policy results in the contractor having paid in excess of the O&M and deficit amounts due, the contractor will be so advised and given the option of applying any amounts paid in excess of the accumulated contract payments to other obligations or receiving a refund.

M&I Voluntary Payment Policy Provisions:

1. M&I deficit interest is computed on a composite interest basis. Voluntary payments will be credited against each contractor's unpaid deficit balance on a composite interest basis. Under the irrigation voluntary payment policy, contractors are allowed to direct the application of their payments to specific years. This opportunity is not provided under the Policy, because M&I deficits have historically been interest bearing and interest on accumulated deficit balance has been computed using a composite interest rate.

2. The effective date of the Policy is the date of this letter.

3. Contractors may pay historic deficit balances, in full or in part, at their option. Reclamation will record the payment and stop the accrual of interest on the amount paid upon receipt of the payment.

4. With the exception of current year voluntary payments (as described in item 5. below), contractors making voluntary deficit payments should transmit such payment(s) with an explanatory letter to the above address, attention MP-360. This will ensure that voluntary payments are correctly recorded.

5. Starting October 1, 1992, contractors are afforded the opportunity to avoid interest charges on current year deficits, provided certain conditions are met. These voluntary payments are classified as current year voluntary payments and must meet the following conditions:

-- All payments for M&I contract water must be at least equal to the calculated O&M plus interest rate. Payment of this rate will constitute the estimated payment of costs necessary for the contractor to avoid incurring a deficit. In order to assure the proper accounting and crediting of such payments, any payments beyond the contractually required rate must be clearly and specifically identified as voluntary payments.

-- Provided this condition is satisfied, no further payment will be required until the actual fiscal year accountings by contractor are completed. Once completed, contractors will have 30 days from the date of Reclamation's letter notifying them of their actual deficits to remit the deficit balance due in order to avoid interest charges on that deficit.

-- Payments in excess of the actual O&M plus interest expenses, or contract payments, whichever is greater, are subject to refund or application to other obligations, at the contractor's option.

6. The voluntary payment procedure described in item 5. above is available on a modified basis for fiscal year 1992. For fiscal year 1992 only, contractors wishing to utilize the current year voluntary payment policy must:

-- By September 30, 1992, pay Reclamation the additional monies needed to bring the amount paid for water up to the calculated O&M rate for all water paid for between October 1, 1991, and September 30, 1992 (the contractor will have to estimate September deliveries). For 1992 only, interest expense does not need to be advanced to be eligible for the voluntary payment program.

-- Provided this condition is satisfied, no further payment will be required until the actual fiscal year accountings by contractor are completed. Once completed, contractors will have 30 days from the date of Reclamation's letter notifying them of their actual deficits to remit the deficit balance due in order to avoid interest charges on that deficit.

-- Payments in excess of the actual O&M plus interest expenses, or contract payments, whichever is greater, are subject to refund or application to other obligations, at the contractor's option.

By separate letter, the Regional Financial Manager will inform each M&I contractor of this M&I voluntary payment policy and their O&M deficit balances as of September 30, 1990. Questions or comments concerning the foregoing should be addressed to Jim Bjornsen at (916) 978-5262 (TDD: 916-978-4417).