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June 1, 2005

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To: CVP Water Association Members and Friends  
From: Robert Stackhouse, Executive Director, CVP Water Association  
Subject: CVP Water Association Happenings – June 2005

**Dreams Do Come True** – After four years of commuting, classes, reading and constant studying, Sandy Willard Denn graduated from the Cal Northern School of Law on May 14, 2005. I was honored to attend her graduation. She was voted most dedicated by her classmates and plans to specialize in water law and work to help her fellow agricultural brethren – but first the bar exam. Sandy and two of her classmates have rented an apartment in Chico where they will be breathing, eating and sleeping the law until the bar exam in late July. She then hopes to resume a more normal life with her husband Wally at Snow Goose Farms near Willows. **Congratulations Sandy, best of luck in July and hurry back – we miss you.**

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**CVP Water Association has a New Finance Director –**

- After more than 5 years, George Senn has decided it is time to retire from full time employment and pursue those things that he has never had enough time to fully pursue – play the right hand side of a golf course, break 80 consistently, get his bowling average above 235 and accomplish (at least some of) those tasks that Barbara has been gently reminding him about for a number of years. George's last day with us is June 30.
- We are extremely fortunate in having recruited an outstanding replacement in Russell Harrington, who will start in our Sacramento office on June 6. Russ received a Bachelor's Degree in Finance, with Honors, from California State University, Fresno and has spent the last five years as an accounting analyst with the Westlands Water District. Accordingly, Russ comes to the CVP Water Association with extensive experience in Reclamation's ratesetting and cost allocation practices, as well as in CVP operational and financial issues. Congratulations Russ.

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**Support for California Family Farms** – In conjunction with the California Farm Water Coalition and the California Farm Bureau Federation, the CVP Water Association has formed a Coalition to support California Family Farms. Our latest efforts included a full page article in the Sacramento Bee on May 10. A copy of that article follows:



# IMAGINE

## A CALIFORNIA WITHOUT FAMILY FARMS

*Federal water is the lifeblood of more than 21,000 California farms*



Farming in California is a hard life but it's a good life. I know because my family has grown fresh vegetables in our state for many generations.

California's family farmers and the men and women we employ are responsible for the bounty of top quality "California grown" fresh fruits and vegetables that fill our supermarkets. We are the backbone of the rural communities that are the heart and heartland of our state. And we continue to lead the world in environmentally sensitive, sustainable farming practices and efficient water use.

I can't imagine what California would be like without farms and farmers. But that is what will happen if the flow of irrigation water stops.

One third of all the farms in California – more than 21,000 – are irrigated with water from the Central Valley Project, a vast system of reservoirs, hydroelectric power plants, aqueducts and pumping stations managed by the United States Department of the Interior.

The Central Valley Project is the reason California's

Central Valley is a bountiful, three-million-acre farming region that produces half the nation's fruits, nuts and fresh vegetables. Water is the lifeblood of a \$27 billion agricultural economy that employs more than one million people.



Firebaugh-area farmer, Chris Hurd and his son, Kevin

The United States is in the process of renewing contracts for our Central Valley Project water supplies. These contracts are essential to my family and the thousands of farm families like ours. The future of farming in our state depends on them. Without Central Valley Project water, farms

like mine and rural communities will suffer and the hopes and dreams of farm families, farm workers and small businesses will fade.

California's family farmers need your help. Please lend your support to the United States Department of the Interior's efforts to provide an adequate and stable water supply for family farmers through renewal of long-term water contracts.

Please visit [www.farmwater.org](http://www.farmwater.org) to learn the facts and how you can help save California's family farms and rural communities. All California farmers appreciate your support.



THE COALITION TO SUPPORT CALIFORNIA FAMILY FARMS

CALIFORNIA FARM WATER COALITION  
CENTRAL VALLEY PROJECT WATER ASSOCIATION  
CALIFORNIA FARM BUREAU FEDERATION

### **CVP Contracts - Quick Facts:**

- California farmers produce more than half the nation's fruits, nuts and vegetables, generate approximately \$28 billion in gross receipts annually, employ 1.1 million people and create \$60 billion in personal income each year.
- One third of California's farmland – roughly three million acres – relies on the CVP for critical water supplies. The CVP also furnishes municipal and industrial water for about one million households and generates clean hydroelectricity to meet the needs of about 2 million Californians.
- The CVP delivers more than 800,000 acre feet of water each year to fish and wildlife protection and habitat restoration and 410,00 acre feet to state and federal wildlife refuges and wetlands.
- As required by federal statute, Reclamation has executed or is renegotiating new long-term contracts for CVP water supply with water districts, cities and farmers throughout California. These contracts were negotiated in 190 publicly noticed sessions at which a broad array of interests, including environmental groups, participated and commented.
- Reclamation conducted a thorough environmental analysis of the proposed contracts, beginning in 1993 with a Programmatic Environmental Impact Statement and more recently with Endangered Species Act consultations with state and federal agencies. Reclamation also conducted detailed water needs assessments for every CVP contract before determining the amount of water deliveries incorporated into new agreements.
- Water rates in the new CVP contracts are set in accordance with federal statutes, including the Reclamation Reform Act of 1982 and the Central Valley Project Improvement Act of 1992 (CVPIA). The contracts require that rates be based on full repayment of project costs by 2030.
- Settlement Contracts were predicated on an exhaustive analysis of historic water use for each settlement contractor.
- State and federal policies create incentives that encourage voluntary water transfers. Farmer-to-farmer water transfers, or transfers between farmers and cities, provide important flexibility to address shortages through voluntary market mechanisms. The CVPIA, championed by Senator Bradley and Congressman Miller, encouraged the use of water transfers.

### **Upcoming Events**

June 2	BD-PAC Working Landscapes Subcommittee Meeting in Sacramento
7	CVP Water Association Board of Directors Conference Call
8	Joint CBDA and BD-PAC Meeting in Sacramento
9	Public Hearing on California Water Plan Update 2005 in Sacramento
10	ACWA State Legislative Committee Meeting in Sacramento
11	Water and Power Subcmte Oversight Field Hearing in Fresno
17	CVP Water Association Financial Affairs Committee Meeting in Sacramento
22	CALFED Operation Group Meeting in Sacramento
23	California Central Valley Flood Control Assn Annual Meeting in Sacramento
July 1	ACWA State Legislative Committee Meeting in Sacramento
5	CVP Water Association Board of Directors Conference Call

**Environmental Report – June 2005**  
**Serge Birk – Environmental Director**  
**CVP Water Association**

**Interagency Ecological Group, Mid Level Advisory Group (MLAG)**

On May 13, the MLAG, which consists of program managers responsible for administration and implementation of the Interagency Ecological Program (IEP), had its annual stakeholders meeting where they presented and discussed annual budgets, scopes of work and status of projects. Core elements of IEP are funded by Reclamation, the state water contractors, and the CALFED Science program. During the meeting, the stakeholders were informed that there is a funding shortfall of \$1.5 million this year. It is anticipated that the shortfall will be shared by the state and federal partners.

A summary of the 2005 IEP Monitoring Special Study and Fish Facilities Activities was presented. The review emphasized program elements mandated by biological opinions and other legal authorities.

IEP managers also presented a workplan to address the decline of pelagic fishes in the Upper San Francisco Bay Estuary. The workplan identified three potential factors for the decline -- toxins, invasive species and water operations. The workplan stressed the need for more funding for additional studies and for the analysis of existing data sets, ongoing studies, and new studies.

**CVPIA 2005 Annual Work Plan (AWP) Meeting**

On May 16, Reclamation and the Fish and Wildlife Service (FWS) hosted the public meeting on the fiscal year 2005 CVPIA AWP in Sacramento. Reclamation and the FWS provided an overview of the 2005 CVPIA budget and the 2006 President's Budget for the CVPIA, which reflects a funding reduction of approximately \$2 million from fiscal year 2005. Detailed presentations were made on Sections 3406(b) 21, 12, 3, 23, 1, 1 other and Sections 3406(h), (c)(1), (d) (1, 3, 5), and (d)(2). The detailed (Power Point) presentations can be reviewed at [www.usbr.gov/mp](http://www.usbr.gov/mp) by searching for "FY 2005 Annual Work Plans."

**CVP Water Association's Environmental Affairs Committee (EAC)**

Members of the EAC met on May 17, in Sacramento and participated in the following presentations:

- Delta Fish Decline - Frank Michny of Reclamation

The sharp decline in juvenile production or abundance indices of multiple Delta pelagic fishes (longfin smelt, threadfin shad, striped bass, and ESA- and CESA-listed delta smelt) is attributed to water operations, toxins, invasive species and a decline in zooplankton abundance. Zooplankton, is believed to be important component of these fishes diets. The delta smelt index for the fall of 2004 was the lowest on record and two other species were near all-time lows in 2003 and 2004. A coordinated multi-agency IEP investigation is underway and an agency task force will prepare a detailed analytical plan by 2006 to respond to this issue.

- Fisheries and Aquatic Habitat Collaboration Effort - Patricia Showalter, Santa Clara Valley Water District (District).

Patricia updated EAC members on the District's Fisheries and Aquatic Habitat Collaboration Effort (FAHCE). Patricia provided examples of how the District was implementing measures to restore watershed and stream corridors in order to provide habitat for fish. She described the public outreach and collaborative efforts required in the implementation of the project.

- Water Forum for the Lower American River – Leo Winternitz, Sacramento Water Forum.

The Sacramento Water Forum consists of a diverse group of community leaders (41 organizations, including water purveyors, public agencies/interest groups, environmental organizations, and business organizations) that are tasked to develop and implement a plan to ensure the Sacramento region's water needs are met to the year 2030. The objectives of the Sacramento Water Forum are to provide a reliable and safe water supply for the Region's economic health and planned development to the year 2030 and preserve the fishery, wildlife, recreational, and aesthetic values of the Lower American River. One of its primary objectives is to establish a new Lower American River Flow Standard that provides a flow regime which is biologically credible, is flexible enough to accommodate hydrologic uncertainties, and that incorporates monitoring elements that provides documentation of the effectiveness of the flow standard.

### **Ecosystem Restoration Program (ERP) Subcommittee**

On May 19, the ERP Subcommittee had a joint meeting with the Drinking Water Subcommittee (DWS). At that meeting, the ERP staff presented the CALFED Multi-Year Program (Years 6-9) and Year 6 Annotated Budget and discussed opportunities for farmers to participate in ecosystem restoration and funding that would assist the integration of agriculture into the ERP processes. The group reviewed and discussed the contents of a handout titled "ERP Priority needs for Projects and Activities through Stage 1". The handout outlined projects that address the Multi-Species Conservation Strategy, disclosed funding sources and amounts, and recommended funding year requirements for years 05, 06, and 07.

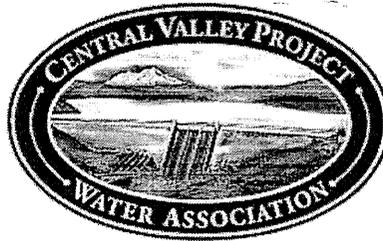
The DWS presented updates on the water quality program, including the water quality preliminary assessment, dissolved oxygen, and total maximum daily loads in the Stockton deep water ship channel.

### **Ecosystem Restoration Program (ERP) Science Board**

On May 25, members of the ERP Science Board met in Sacramento and expressed concerns relative to the termination of their contracts at the end of June. Numerous Science Board members disclosed that they are candidates as principal researchers on CALFED Science Monitoring Projects. Reports on progress were made on long term tasks such as development of indicators and measurement of success required to evaluate CALFED success.

### **Future Meetings**

- June 7      CVP Water Association Board of Directors Conference Call  
              Tehama-Colusa Canal Authority Technical Work Group Mtg in Willows
- 13-14     Trinity Adaptive Management Work Group Meeting in Weaverville
- 16        Ecosystem Restoration Subcommittee Meeting in Sacramento
- 22-23    CALFED Science Workshop in Tiburon
  
- July 5     CVP Water Association Board of Directors Conference Call



*May 20, 2005*  
*Meeting Summary of the*  
*Financial Affairs Committee*

### **1. Participants**

- |  |                                  |
|--|----------------------------------|
| --Russell Harrington, Westlands WD             | --George Senn, CVPWA             |
| --Lynn Hurley, Santa Clara Valley WD (call-in) | --Mike Hagman, FWA               |
| --Lee Emrick, Colusa County WD                 | --Anthea Hansen, Del Puerto WD   |
| --Eric Limas, Lower Tule River ID (call-in)    | --Mark Oosterman, SMUD (call-in) |
| --Henry McLaughlin, City of Fresno             | --Ed Roman, SMUD                 |
| --Robert Stackhouse, CVPWA                     | --Serge Birk, CVPWA (call-in)    |
| --Larry Bauman, BOR                            | --Jesus Reynoso, BOR             |
| --Katherine Thompson, BOR                      | --Donna Tegelman, BOR            |
| --Judy Tapia, BOR (call-in)                    |                                  |

### **2. Opening Business**

The May 20 meeting was held at the Reclamation Office Building in Sacramento. The meeting began at 9:30 a.m. and concluded around noon. The agenda was reviewed and approved, with one item being rescheduled for the next FAC meeting—Historical Advance Payment Account Reconciliation. The next meeting will be held on June 17 from 9:30-11:30 a.m. at the Reclamation Office Building, 2800 Cottage Way, Sacramento.

### **3. 2004 FAC Issues Matrix**

**A. Budget Workshops – Refining Customer Participation.** Larry Bauman said that the IT group within Reclamation is working on a customer participation document that will contain actual budget amounts as part of the 5-year Budget overview document that is provided each year to the FAC. The document will be reviewed within the Region and then will be sent to the Area Offices for comment sometime in early June. **Action Item:** – Russ to follow up with Craig Muehlberg, Regional Budget Officer, to schedule a pre-2006 budget review as part of the fall budget workshop.

**B. BOR-WORKS Water Accounting Program Development.** Larry Bauman reported that work on the water transfer module has been completed and is undergoing internal testing. It will soon be user-tested by Ratesetting. He estimated that it will be a least another year before work is completed on all of the BOR-WORKS modules.

**C. Water Rate Transfer Policy Development.** Donna Tegelman said that the Water Transfer Rate Policy document was recently completed and approved by Regional management. She said that the crediting issue has been resolved. Incremental revenues resulting from water transfers will be credited to those specific capital facilities whose costs were identified as incremental costs involved in the transfer. She said that Reclamation needs to explain to all CVP contractors how the incremental revenue crediting will work. She indicated that a workshop might be necessary. She also said that a "how to" manual needs to be developed that contains examples that will clearly show how the crediting will work. She mentioned that Ara Azhderian, SLDMWA had agreed to assist in developing such a manual, but she was not sure how much progress has been made.

**D. Historical Advance Payment Account Reconciliation.** Larry had nothing to add. He will provide an update at the June FAC meeting.

**E. Security Cost Reimbursability.** Katherine Thompson said that the Reclamation report on Reimbursement of Security Costs was submitted to the Appropriations Conference Committee by May 1, 2005, as directed by the Conference Report on 2005 Appropriations. Ed Roman said that he had a copy of the Security Cost Report that he would send out to the FAC members. The report concluded that all fortification costs would continue to be non-reimbursable as would the costs of the anti-terrorism program, however increased guard and patrol operations costs resulting from the 9/11 terrorist attack would be allocated across project purposes and much of the costs would become reimbursable. The report identifies \$20.9 million as the cost increase for guards and patrols in all Reclamation Regions for 2005, \$19.1 million of which would have been reimbursable had Reclamation elected to make them reimbursable in 2005. According to the report the 2006 increased costs for guards and patrols will be subject to reimbursability in 2006. Ed was dismayed by the fact that the CVP Power function was allocated \$3.9 million (45%) of the \$5.6 million of reimbursable costs that were allocated to the CVP. CVP Irrigation was allocated \$1.4 million and M&I \$0.24 million. The FAC will continue to monitor this issue.

**4. CVPIA/AFRP Status Update.** Serge Birk updated the FAC on the CVPIA Anadromous Fish Restoration Program (AFRP). He pointed out that the USFWS has not developed indicators or measures of success to evaluate program effectiveness and progress. He said that a group of interested and concerned CVP Water Association members are reviewing past CVPIA investments to determine what programs require future funding and prioritization in order to meet CVPIA mandates to AFRP "doubling goals. He pointed out the importance of the FAC collaborating on future budget decisions relevant to implementation of CVPIA requirements in the out years. The FAC requested that Serge update the group on a regular basis and provide recommendations of high priority projects to the CVP Water Association membership so that they would be noted in future out year budgets. **Action Item:** - Serge to update the FAC on a regular basis.

**5. Technical Service Center Costs.** Mike Hagman informed the group that the Family Farm Alliance is looking into cost containment and accountability for work done by Reclamation's Engineering and Research Center (E&R) in Denver, Colorado. The Alliance is concerned about

a number of instances where its members have reported that they have been charged more for engineering services provided by the E&R Center than they would have had they contracted with private consultants or done the work themselves. Mike passed out a copy of testimony the Family Farm Alliance provided to the U.S. Committee on Energy and Natural Resources that outlined its concerns regarding cost containment and accountability for work done by Reclamation. The testimony included five case outlining problems that districts have faced when dealing with the E&R Center. The Alliance is looking for additional examples outlining the experiences other districts have had with the Center, both good and bad. Mike will be soliciting comments from CVP contractors within the next few days.

**6. Capital/Deficit Rate Development.** Jesus Reynoso, BOR, passed out copies of spreadsheets comparing M&I and Irrigation delivery projections based on a 5-year average of past actual water deliveries, projections based on a 10-year average of past actual water deliveries, and projections based on the Programmatic Environmental Impact Statement (PEIS) prepared for the CVPIA, with the projected deliveries used to set the actual 2005 rates. The various spreadsheets compared the resulting rates and water deliveries for each of the M&I and Irrigation water contractors. George passed out similar spreadsheets that, in addition to comparing delivery projections, computed and compared the capital cost recovery that would result from using the various projections. After considerable discussion as to the merits of using the various delivery projections for setting annual capital/deficit rates, Larry Bauman said that his staff would consider our comments and would begin preparing a Capital/Deficit Ratesetting proposal for Regional Management within the next few weeks. He said that he intends to use the new Capital/Deficit Ratesetting methodology for setting the 2006 rates.