



— BUREAU OF —  
RECLAMATION

## Friant-Kern Canal Negotiations, USBR Exhibit 3, 30-year Term

July 22, 2021

Reclamation appreciates Friant Water Author (FWA) analysis on the repayment term (FWA Exhibit #2-07.15.2021). Reclamation offers a maximum term of 30 years per phase of the Extraordinary Operation and Maintenance (XM) Project (USBR Exhibit #3-07.22.2021). The Rationale follows:

1. On May 25, 2021, Stantec and West Water Research submitted a payment capacity analysis to Reclamation on behalf of FWA. The results of the payment capacity analysis indicates that FWA has the ability to repay the XM Project costs in terms as low as 7 years.
2. Reclamation implements the provisions of the Omnibus Public Land Management Act of 2009, Title IX, Subtitle G (PL 111-11) through *Reclamation Manual Directives and Standards, Extended Repayment of Extraordinary Maintenance Costs*, [PEC 05-03](#).
3. As per paragraph 6.B.(1) of PEC 05-03, the repayment period will be the minimum period necessary for the contractor to complete repayment, as indicated by an appropriate financial analysis but will not either exceed the service life of the repair or 50 years from the date on which the work is declared substantially complete.
4. Reclamation has determined that, for this XM Project, the appropriate financial analysis is the ability to pay (ATP) analysis.
5. Reclamation acknowledges and considered FWA's arguments in FWA Middle Reach Exhibit #2 in making a determination regarding the maximum repayment term for each phase, including but not limited to:
  - a. FWA's cost share for the project is 50%.
  - b. The estimated cost of the XM Project is significantly higher than the average annual operation, maintenance, and replacement of the Friant-Kern Canal (FKC), representing a significant increase in financial resources required from all FKC contractors.

- c. The San Luis and Delta Mendota Water Authority XM precedent where Reclamation agreed to repayment terms as high as 23 years per repayment block.
- 6. Reclamation has determined that the maximum repayment term for each phase of this XM Project will be the longest one possible that would not result in a risk of impact to recovery amounts that will be reimbursed under the XM Project (the net present value of the obligation).
- 7. As per paragraph 6.B.(2) of PEC 05-03 and in accordance with PL 111-11, the interest rate will be the [Constant Maturity U.S. Treasury Yields](#) determined by the United States Secretary of Treasury (U.S. Treasury) that is in effect for the fiscal year in which the XM work for each phase commences.
- 8. The U.S. Treasury computes interest rates for periods as long as 30 years. The appropriate rate for a longer repayment period is currently unknown, would need to be derived through some non-standard process, and may need to be approved by both the U.S. Treasury and the Office of Management and Budget.
- 9. Reclamation will avoid the risk of impacting the amount of recovery on the reimbursable obligation by setting 30 years as the maximum repayment term for each phase of the XM Project.
- 10. In addition, the Transfer Agreement referenced throughout the XM repayment contract is set to expire on October 5, 2055, and the XM repayment should be concluded well ahead of the Transfer Agreement's expiration. Reclamation will avoid the risk of having repayment terms that exceed the expiration of the Transfer Agreement and the time associated with negotiating renewals of said Transfer Agreement by setting 30 years as the maximum repayment term for each phase of the XM Project.