



Official Memorandum

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To: SLDMWA Finance & Administration Committee, Alternates
SLDMWA Board of Directors, Alternates

From: Federico Barajas, Executive Director
Pablo Arroyave, Chief Operating Officer

Date: November 3, 2025

RE: Cost Allocation Recommendations for Phase 1 of the DMC Subsidence Correction Project

Background

The Planning Committee began holding meetings in September 2024 to address the allocation of costs for the Delta-Mendota Canal (DMC) Subsidence Correction Project (Project). In May 2025, the Planning Committee recommended approval of a cost allocation methodology for the initial phase of the Upper DMC portion of the DMC Subsidence Correction Project that relies on non-reimbursable grant funding, with the commitment that the Planning Committee will develop a cost allocation methodology for Phase 1 prior to contract award. Also in May 2025, the Finance & Administration Committee recommended pursuit of a phased approach for the Upper DMC portion of the DMC Subsidence Correction Project. The Board of Directors adopted both committees' recommendations.

In September 2025, following Planning Committee and Finance & Administration Committee recommendation, the Board of Directors adopted refinements to the scope for Phase 1 of the Upper DMC portion of the Project, as well as refinements to the cost allocation methodology.

In October 2025, the Planning Committee met and unanimously voted to recommend the cost allocation recommendations summarized below. The Planning Committee noted that its recommendations for Tasks 1 and 2 were subject to change following additional detail from water supply analysis(es) being brought back to the Planning Committee for possible refinement.

Issue for Decision

Whether the Finance & Administration Committee should recommend, and the Board of Directors should adopt, cost allocation recommendations for each task included in Phase 1 of the DMC Subsidence Correction Project.

Options for Decision

The Planning Committee recommends adoption of cost allocation recommendations for each task included in Phase 1, selecting from the options presented below:

Task 1 – 2ft freeboard JPP-DCI (~ \$19.75M)	Option A	Allocate Friant Water Authority (FWA) at 0%, remainder of contractors based on standard EO&M / reserve allocation
Task 2 – Sag area repairs (~ \$18.23M)	Option A	Allocate FWA at 0%, remainder of contractors based on standard EO&M / reserve allocation

Task 3 – Upper DMC repairs (~ \$27.9M)	Option C	Allocate all contractors based on standard EO&M / reserve allocation
Task 4 – Lower DMC repairs (~ \$28.M)	Option C	Allocate all contractors based on standard EO&M / reserve allocation

The suite of the options above is presented in Attachment 2 to this Memorandum as “Scenario #1.”

Additional allocation options that were presented to the Planning Committee, but not selected, including the following:

- Option B: Allocate FWA percentage based on Variable DCI costs in 2024 SLDMWA OM&R Cost Recovery Plan (detailed below), remainder of contractors based on standard EO&M / reserve allocation
- Option D: Allocate all contractors based on 30-year repayment contract
- Option E: Allocate FWA at 0%, remainder of contractors based on 30- year repayment contract

Analysis

1. Cost Allocation Scenarios

Cost allocation scenarios for each of the options are provided as attachments to this memorandum. An explanation of each option follows.

NOTE: For all options involving the “standard EO&M / reserve allocation,” there is no distinction between the upper and lower DMC. The 2024 SLDMWA OM&R Cost Recovery Plan explains: “In any one Year, Reserve expenditures may benefit some Project Facilities or cost pools more than others. However, in the long-term, it is expected that Reserves will be spent generally in accordance with the overall apportionment of the OM&R Budget for each facility as that facility's OM&R Budget relates to the entire OM&R Budget ...” (Cost Recovery Plan, § VI.A.3.) Thus, while routine O&M cost recovery is based on a per acre-foot charge based on deliveries using specific facilities, the standard EO&M / reserve allocation has never been recovered that way. Instead, it is collected based on the whole system, without distinction between the upper and lower DMC.

Option A - Allocate FWA at 0%, remainder of contractors based on standard EO&M / reserve allocation

This cost allocation scenario would first remove FWA from the cost allocation exercise, and then allocate remaining costs among the remaining contractors utilizing the formula described under Option C below (the formula described in the Cost Recovery Plan, which allocates costs based on the past ten years of historic water deliveries).

Option B - Allocate FWA percentage based on Variable DCI costs in Cost Recovery Plan, remainder of contractors based on standard EO&M reserve allocation

This cost allocation scenario would first allocate costs to FWA based on the percentage of Intertie Variable Cost Pool costs that are assigned to FWA in years when the south-of-Delta agricultural water allocation is 0% and/or in water years where 0% agricultural service water is available for delivery during the contract year (regardless of the south-of-Delta agricultural service water allocation. In those years, 65% of variable Intertie OM&R Costs are allocated to Friant Division Contractors. Under this cost allocation scenario, the calculation would be depending on the number of 0% agricultural contract years.

For the same ten-year period used to calculate the ten-year rolling average referenced under Option C below, WY15 through WY24, there were three years with a 0% agricultural contract allocation. Thus, in 30% of the WY15 – WY24 ten-year period, FWA would have been allocated 65% of variable Intertie OM&R Costs. To apply that formula to calculate FWA's share of Task 1 (see attachment), staff calculated 65% of 30% of the estimated cost of the task. Then, consistent with the presented options, staff subtracted that dollar amount from the cost for the task, and then allocated the remaining costs among the remaining contractors utilizing the formula described under Option C below (the formula described in the Cost Recovery Plan, which allocates costs based on the past ten years of historic water deliveries).

Option C – Allocate all contractors based on standard EO&M / reserve allocation

This cost allocation scenario would utilize the formula described in the Cost Recovery Plan, which allocates costs based on the past ten years of historic water deliveries (ten-year rolling average of deliveries). Rather than using audited data, staff has used updated water delivery data, WY15 through WY24.

Each contractor's ten-year rolling average of deliveries includes all contract deliveries, water transferred out to other contractors that utilize Project Facilities for which costs are allocated under the SLDMWA OM&R Cost Recovery Plan, and other water deliveries to that contractor. (Cost Recovery Plan, § VI.A.1.) The ten-year average also includes annual Minimum Participation amounts, where appropriate. (*Id.*, § VI.A.2.i.)

The ten-year rolling average does not include water transferred in by the contractor, water transferred out by the contractor that does not use Project Facilities for which costs are allocated under the Cost Recovery Plan, or deliveries to Mendota Pool not conveyed through the Lower DMC.

Beginning in Water Year 2026, deliveries associated with the Exchange Contractors transfer program are excluded from FWA's Reserve/EO&M cost allocation, and are instead included in the Exchange Contractors' total deliveries for purposes of allocating Reserve cost and EO&M costs, including under this option/allocation formula. (*Id.*, § VI.A.2.iii.)

Option D - Allocate all contractors based on 30-year repayment contract

This cost allocation scenario would utilize the formula described above, based on the past ten years of historic water deliveries, but extending the repayment over a 30-year period, assuming the treasury rate of 4%.

Option E - Allocate FWA at 0%, remainder of contractors based on 30-year repayment contract

This cost allocation scenario would first remove FWA from the cost allocation exercise, and then allocate remaining costs among the remaining contractors utilizing the formula described under Option D above.

NOTE: The recommendations adopted for each task in Phase 1 will be for the tasks in Phase 1 only. New cost allocation recommendations will be required for any future task items or phases beyond what is identified here.

2. Application of Non-Reimbursable Funding to Phase 1 Tasks

Staff continues to recommend utilizing non-reimbursable grant funds to fund Phase 1 of the upper DMC portion of the DMC Subsidence Correction Project. If Phase 1 is wholly funded with non-reimbursable grant funding, there will be no rate impact associated with this action. Staff understands that even if Phase 1 is wholly funded with non-reimbursable grant funding, the direction from the Planning Committee is for non-reimbursable funding to be applied equitably across the entire project.

This means that if \$30M non-reimbursable funding is initially received, the \$30M could be applied to fund Task 1 and part of Task 2, or part of Task 1, 2, 3, and 4. At the end of a phase or phases, there would be a true up so that all contractors would benefit from the non-reimbursable funds equitably. See the tables below for an explanation.

Phase 1 Hypothetical

Step 1: Calculate contractor percentages for each task based on agreed-upon cost allocation recommendations:

Contractor	Task 1		Task 2		Task 3		Task 4		Step 1 Total	
A	50%	\$9,875,000	0%	\$0	40%	\$11,160,000	40%	\$11,200,000	34%	\$32,235,000
B	20%	\$3,950,000	40%	\$7,292,000	30%	\$8,370,000	30%	\$8,400,000	30%	\$28,012,000
C	30%	\$5,925,000	60%	\$10,938,000	30%	\$8,370,000	30%	\$8,400,000	36%	\$33,633,000
		\$19,750,000		\$18,230,000		\$27,900,000		\$28,000,000		\$93,880,000

Step 2: Deduct non-reimbursable funding amount from total cost after phase(s), then calculate contractor costs based on reduced total cost using previous percentages of total cost:

Original Project Cost:		\$93,880,000
		MINUS \$30,000,000
Revised Cost:		\$63,880,000
% Total		\$63,880,000
Contractor A	34%	\$21,719,200
Contractor B	30%	\$19,164,000
Contractor C	36%	\$22,996,800

As the “true up” occurs, the dollar amount that each contractor owes relative to the phase of the Project and the total Project will be adjusted consistent with the agreed upon percentages for each task.

3. Development of Additional Scenarios for Future Cost Allocations Recommendations

Since the October Planning Committee meeting, staff has worked to develop additional technical information associated with Tasks 1 and 2 to inform the creation of additional options for cost allocation recommendations, e.g. based on modeled calculations of benefits.

These additional options may be the basis for refinements to the adopted recommendations, and may come back to the Finance & Administration Committee and Board for consideration in the future.

Attachments

Referenced Illustrative Cost Scenarios for Tasks 1, 2, 3, and 4

Comparison of Various Scenarios, Effects of Cost Allocation Recommendations for Phase 1