



Topic: Reservoir Committee Agenda Item 3-2 2019 November 21

Subject: Status of Funding Activities - State’s WSIP and Federal (WIIN Act and USDA)

Requested Action:

No action requested. Discussion and possible direction to staff regarding activities related to compliance with Water Commission’s administration of the Water Storage Investment program (WSIP) and access to federal funding.

U.S. Bureau of Reclamation activities and WIIN Act Funding.

Detailed Description/Background:

1. WSIP: Early Funding Agreement (EFA) Invoices.

1st Invoice: Based on Water Commission staff’s invoice processing timeline, the State is forecast to make the direct deposit for the first EFA invoice next week in the amount of \$2.77 million. This amount exceeds the \$1.88 million planned revenue as part of the approved Phase 2 (2019) Work Plan.

2nd Invoice: The Water Commission staff approved the second EFA invoice on November 7th in the amount of \$1.25 million. The direct deposit should occur before the end of December.

3rd Invoice: In mid-December, staff plans to submit the third invoice for work performed from July 1 through September 30, 2019.

2. WSIP: Quarterly Reporting.

Acceptance of the Water Commission’s conditional funding decision requires each applicant submit their quarterly report. The current status reporting period is from July 1 through September 1. The Sites Project provided this report (**Attachment 03-2A**) and a summarized comparison of the quarterly reports for all eight eligible projects is also provided (**Attachment 03-2B**).

3. WSIP: Converting the conditional funding amount into an Ecosystem Water Budget.

The Sites Project Authority’s August 2017 application proposed the state’s investment in environmental benefits be through their ownership of a proportionate share of the reservoir’s storage and in accordance with the beneficiary pays principle and that their management of this asset would determine the value of the benefits they achieve. In July 2018, the Water Commission made their “Maximum Conditional Funding Determination” (MCED) for the Sites Reservoir Project in the amount of \$816.3 million (dollars

in year 2015), which is approximately 30% of the total Proposition 1, WSIP total budget. This amount included funding for flood, recreation, and, most importantly, environmental benefits.

Since the Proposition 1 application, the Sites Reservoir Project continues to advance; primarily in the areas of operations (diversions from and releases to the Sacramento River), costs (on both an initial and lifecycle basis) and funding commitments by the local, state and federal agencies. In parallel, other, external, water policy and management issues are being resolved; some of which will positively or negatively affect how the Sites Reservoir Project should be developed today and ideally ahead of the next drought. This, in turn, will affect the value proposition for each of the local, state and federal partners.

The process to determine how the state's conditional funding of \$816.3 million can be converted into a proportionate share of reservoir storage is provided (**Attachment 03-2C**).

4. USDA Rural Development for the Maxwell Water intertie:

Work is progressing in parallel with the efforts to advance the Sites Reservoir project with an end-of-year status report to be prepared in early 2020.

5. WIIN Act (§4007(c)) as a non-federal water storage project:

Funding: There is no progress to report since the Department of Interior submitted their February 13, 2019 letter to the Subcommittee on Energy and Water Development Committee on Appropriations. This letter included \$6 million [FY 2018 appropriations] to the Sites Reservoir Project; specifically, to advance the project's feasibility and environmental compliance. Additional funding [FY 2019 appropriations] is being requested.

In accordance with federal processes and procedures, the Secretary of Interior needs to determine a water storage project, such as the Sites reservoir Project, is feasibility before any conditional funding commitment and role can be defined. In accordance with these requirements, Reclamation continues to advance their feasibility study, which was previously authorized under CalFed.

6. Reclamation Funding-related Agreements:

6.1 Amendment to the 2015 Cost-share MOU: The Authority Board, at their October 18 Meeting approved the amendment, which has been signed by Chairman Durst. The signed amendment was provided to Mid-Pacific on November 12 for their countersignature.

6.2 Financial Assistance Agreement: Meetings have started to define the scope and roles of the Authority and Reclamation to allow federal funds to be provided to the Authority to continue to advance the Sites Reservoir Project.

Prior Reservoir Committee Action:

None.

Fiscal Impact/Funding Source:

None.

Staff Contact:

Jim Watson/Joe Trapasso

Attachments:

Attachment A: Sites Project's Quarterly Status Report.

Attachment B: Comparison of all Quarterly Status Report.

Attachment C: Overview of the process to convert the State's funding determinations into a share of Reservoir storages.



Water Storage Investment Program Quarterly Report

The Quarterly Report is intended to document applicants' progress toward complying with regulation section 6013 and receiving final WSIP funding, including any changes in the magnitude of public benefits that could affect cost allocation. Applicants must provide a summary level update of the project status for the requirements and milestones listed below. The template may be modified as necessary to effectively communicate information. If minimal activities occurred during a reporting period, the report can be condensed.

- Note any issues or concerns that have, will, or could affect milestones or requirements.
- Identify key issues, including legal issues such as lawsuits or injunctions related to the project, that need to be resolved.
- Discuss how the actual schedule is progressing in comparison to the schedule provided in the Initial Report or the last reported schedule.
- Update the project schedule as needed.
- Note any milestones or accomplishments that occurred since submittal of the prior Quarterly Report.

Project Information

Project Name:

Sites Reservoir Project

Applicant Name:

Sites Project Authority (Authority)

Date:

October 30, 2019

Reporting Period:

July 1, 2019 through September 30, 2019

General Update and Key Issues

Please provide a general update and describe any key issues that occurred during this reporting period. You may attach additional documents or pages if more space is needed:

No significant issues occurred and there were no variances from the schedule. Work continues to progress in the key areas related to the project's operations and benefits to the local, state, and federal participants, environmental analyses and documentation, certifications and agreements, engineering, economics, financing, risk management, and landowner and community outreach. Refer to Attachment A for additional information.

Items Required Prior to Scheduling a Final Award Hearing

The following items must be provided prior to scheduling a hearing. As applicable, please describe the status, estimated completion date, and percent complete of:

1. Contracts for non-public cost share:

Status: Multiple agreements are planned. Refer to Attachment A
Estimated Completion Date: December 2021
Percent Complete: 20%

2. Contracts for administration of public benefits:

Status: Starting. Refer to Attachment A
Estimated Completion Date: December 2021
Percent Complete: 0%

3. Completed feasibility studies:

Status: In Progress. Refer to Attachment A
Estimated Completion Date: June 2021
Percent Complete: 50%

4. Final environmental documentation:

Status: In Progress. Refer to Attachment A
Estimated Completion Date: December 2020
Percent Complete: 20%

5. All required federal, state, and local approvals, certifications, and agreements:

Status: In Progress. Refer to Attachment A
Estimated Completion Date: December 2021
Percent Complete: 5%

Items Required to Execute a Funding Agreement

Please provide an update, as applicable, on the following documents, which are needed to execute a funding agreement for the project:

- Applicant’s audited financial statements
- Final project costs, schedule, and scope of work
- Evidence of bilateral communications
- Limited waiver of sovereign immunity (see regulations section 6013(f)(8))

Updates to information provided in the Initial Report or prior Quarterly Reports are only needed when a significant change has occurred. The Commission may request submittal of updated information prior to executing a funding agreement.

- Applicant’s Audited Financial Statements: An audit for Fiscal Year 2018 was completed in July 2019.
- Final Project Costs, Schedule, and Scope of Work: No change since last reporting period.
- Evidence of Bilateral Communications: The Authority, Bureau of Reclamation (Reclamation) and Department of Water Resources (DWR) continue to maintain effective communication and collaboration. DWR and Reclamation are active in the Authority’s Reservoir Operations Work Group. Additionally, the Authority and Reclamation participate in regular Project Integration meetings, Federal Feasibility Study meetings engineering/geotechnical coordination meetings, and environmental coordination meetings.
- Limited Waiver of Sovereign Immunity: Not applicable.

Status Update

Provide a status update for the following, as applicable:

- Labor Compliance
- Urban Water Management Plans
- Agricultural Water Management Plans
- Groundwater Management or Groundwater Sustainability Plans
- Potential effect of other conditionally eligible projects on the applicant’s public benefits

Updates to information provided in the Initial Report or prior Quarterly Reports are only needed when a significant change has occurred. The Commission may request submittal of updated information prior to executing a funding agreement.

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|--|---------------------------------------|
| ▪ Labor Compliance | No change since last reporting period |
| ▪ Urban Water Management Plans | Not applicable |
| ▪ Agricultural Water Management Plans | Not applicable |
| ▪ Groundwater Management or Groundwater Sustainability Plans | No change since last reporting period |
| ▪ Potential effect of other conditionally eligible projects on the applicant's public benefits | No change since last reporting period |

Attachment A: Supplement for Reporting Period Ending September 30, 2019



1.0 Items Required Prior to Scheduling a Final Award Hearing

1) Contracts for non-public cost share (ongoing)

Based on the following, the estimated completion date is December 2021 and the estimated percent complete is approximately 20%.

Local Project Participants (Participants): The original participation agreements were signed in 2016 and were replaced with a new agreement effective April 1, 2019. The Authority is working with the Participants to extend the current agreement through at least June 2020. For post-planning activities, a successor agreement is contemplated.

Signed Amendment:

- Estimated Completion Date: June 30, 2020
- Percent Complete: 70%

Successor Participation Agreement Signed:

- Estimated Completion Date: December 2021
- Percent Complete: 0%

Reclamation: The Authority and Reclamation are updating the existing cost share agreement (2015) for continued planning and pre-construction activities. This first amendment will extend the term for 5 additional years from the date it is signed. In addition, the Authority is working with Reclamation on a financial assistance agreement to support the completion of the planning phase. A new agreement may be needed for post-planning activities.

Signed Cost Share Amendment:

- Estimated Completion Date: November 2019
- Percent Complete: 90%

Financial Assistance Agreement:

- Estimated Award Date: August 2020
- Percent Complete: 5%

Funding Agreement:

- Estimated Completion Date: December 2021
- Percent Complete: 0%

2) Contracts for administration of public benefits (ongoing)

Based on the following, the estimated completion date is December 2021 and the estimated percent complete is approximately 0%.

State of California (WSIP): The Authority and the California Department of Fish and Wildlife (CDFW) are conducting focused discussions on the state permit application processes (refer to item #5).

- Estimated Completion Date: December 2021
- Percent Complete: 0%

Federal (Reclamation), Non-WSIP: The Authority continues to work with Reclamation through the development of a Reclamation compliant feasibility report, to identify additional public benefits (refer to item #3)

3) Completed Feasibility Studies (ongoing)

Based on the following, the estimated completion date is December 2021 and the estimated percent complete is approximately 50%.

The Authority and Reclamation continue to update and refine the draft Feasibility Report from the version that was included as an attachment to the Authority's WSIP application. Updated analysis includes the project's feasibility as a locally sponsored storage project in compliance with WSIP requirements and the level of federal participation, which requires compliance with Reclamation's requirements. Efforts continue to improve the project's cost-effectiveness and risk management. Also, analysis is underway to evaluate the potential for phased implementation. The Authority plans to further advance the engineering, environmental, economic and financial analysis before requesting the Water Commission consider the project's feasibility.

Reclamation Compliant Feasibility Studies:

- Estimated Completion Date: December 2020
- Percent Complete: 70%

WSIP Compliant Feasibility Studies:

- Estimated Completion Date: June 2021
- Percent Complete: 35%

The Authority and Reclamation plan to start focused geotechnical investigations to support additional design, initial permit applications and refinement of the cost estimate. Reclamation and the Authority have been preparing a work plan, are completing environmental documentation, preparing permit applications (refer to item #5), and developing both monitoring and health and safety protocols to support these focused geotechnical investigations.

Focused Geotechnical Investigations - Field Work:

- o Estimated Start Date: October 2019
- o Estimated Completion Date: December 2019
- o Percent Complete: 0%

Environmental, Permitting, and Monitoring Support: Refer to item #5

4) **Final Environmental Documentation (ongoing)**

Based on the following, the estimated completion date is December 2020 and the estimated percent complete is approximately 20%.

The Authority, as the state lead agency, and Reclamation, as the federal lead agency, continue to perform additional environmental analysis to support the development of a Final Environmental Impact Report / Environmental Impact Statement (EIR/EIS). Current work focuses on developing responses to comments received on the Draft EIR/EIS. Comments have been reviewed, categorized and initial responses to individual comments have been completed. Also, a number of master responses to comments have been developed. Preparation of the remaining sections of the Final EIR/EIS, including minor edits and updates to the Draft EIR/EIS, has also begun.

Draft EIR/EIS:

- o Estimated Completion Date: August 2017
- o Percent Complete: 100%

Final EIR/EIS:

- o Estimated Completion Date: December 2020
- o Final EIR/EIS, Percent Complete: 20%

5) **All required federal, state, and local approvals, certifications, and agreements (ongoing)**

Based on the following, the estimated completion date is December 2021 and the estimated percent complete is approximately 5%.

Federal: The Authority and Reclamation continue to prepare the draft Biological Assessment in compliance with the Federal Endangered Species Act and the draft Programmatic Agreement in compliance with the National Historic Preservation Act. Throughout this time period, the Authority and Reclamation met several times with the U.S. Fish and Wildlife Service (USFWS) to discuss approach to the Biological Assessment. The schedule for the Biological Assessment has been extended to allow for additional analysis and discussion with USFWS and the National Marine Fisheries Service (NMFS).

- o Estimated Completion Date: December 2021
- o Percent Complete: 14%

State of California: The Authority continues to have productive meetings with CDFW to discuss the project, the permit application process, and supporting information to include the permit applications. These meetings are expected to continue over the next few months.

- Estimated Completion Date: December 2021
- Percent Complete: 7%

Local: To allow Reclamation to perform focused geotechnical investigations, the Authority has been assisted Reclamation to obtain encroachment permits from Colusa County, Maxwell ID, and GCID and, where applicable, access agreement with landowners.

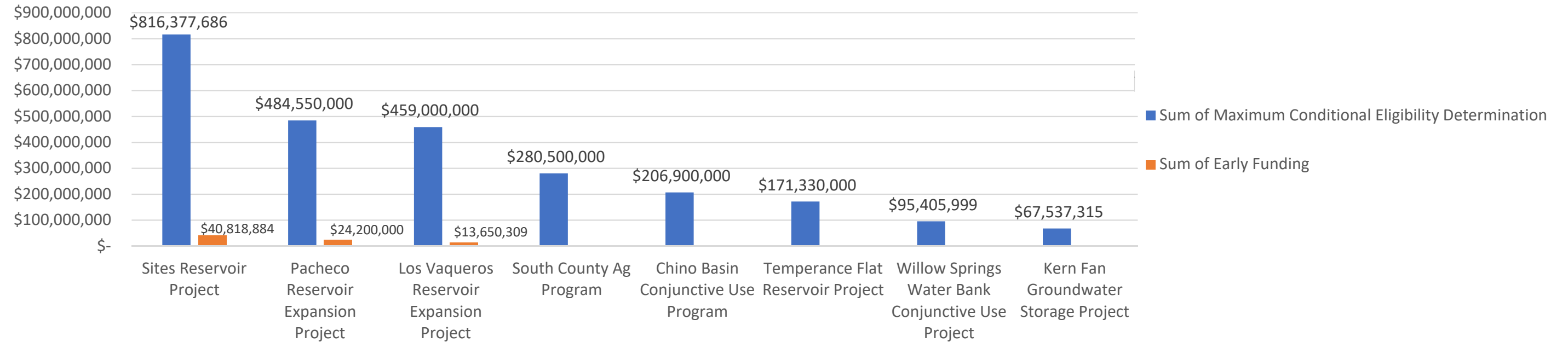
Focused Geotechnical Investigations (refer to item #3): The Authority and Reclamation continue to advance the environmental documentation for the focused geotechnical investigations. A Biological Opinion for the geotechnical investigations was received from the USFWS on September 30, 2019 and the National Historic Preservation Act, Section 106 consultation with the State Historic Preservation Office was completed on September 26, 2019. In addition, Reclamation signed a Categorical Exclusion on September 30, 2019. The focused geotechnical investigations are being undertaken and funded by Reclamation.

Environmental, Permitting, and Monitoring Support to Focused Geotechnical Investigations:

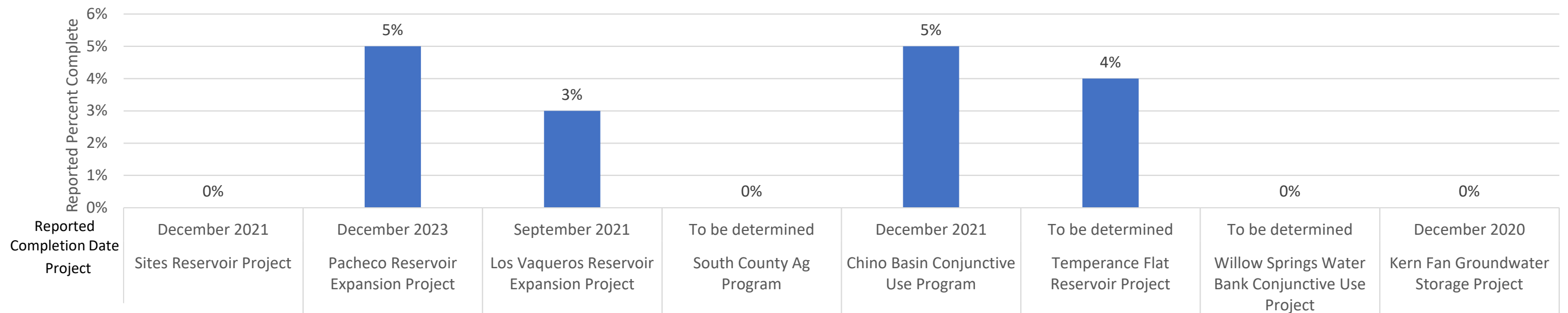
- Estimated Completion Date: December 2019
- Percent Complete: 50%

Reported Progress of Eligible Proposition 1 WSIP Projects as of September 30, 2019 (per the latest publicly available Quarterly Reports dated October 2019)

Maximum Conditional Eligibility Determination

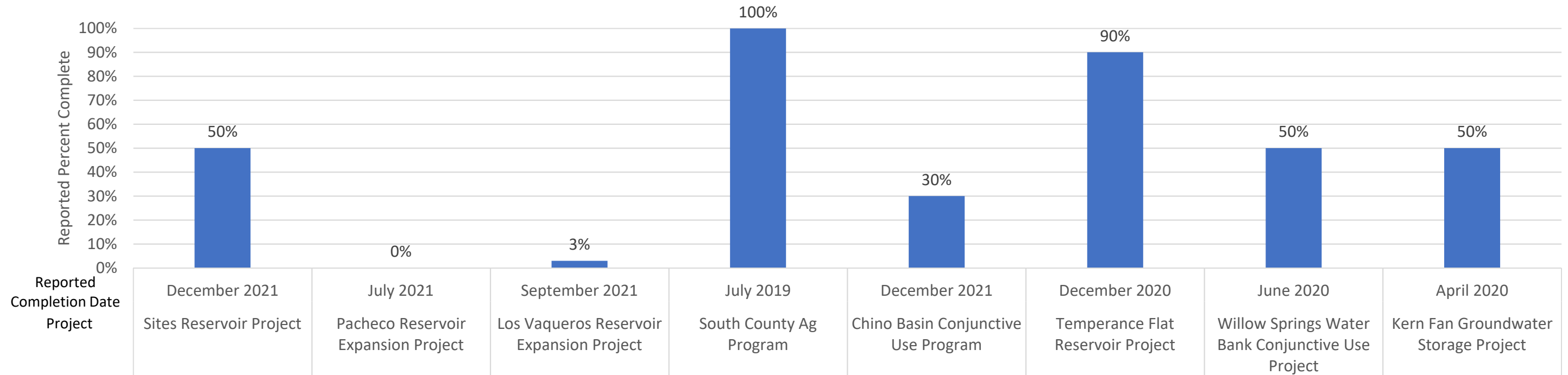


Contracts for Administration of Public Benefits

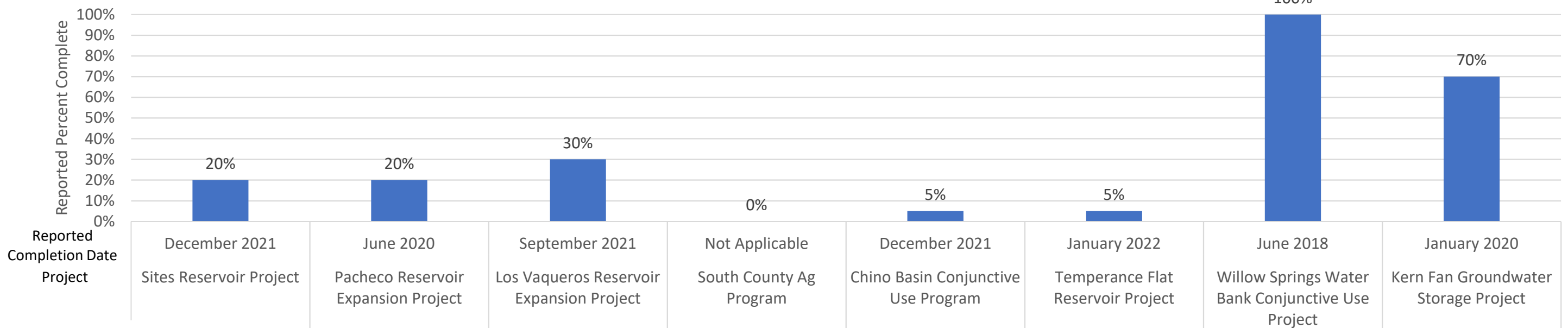


Reported Progress of Eligible Proposition 1 WSIP Projects as of September 30, 2019 (per the latest publicly available Quarterly Reports dated October 2019)

Completed Feasibility Studies

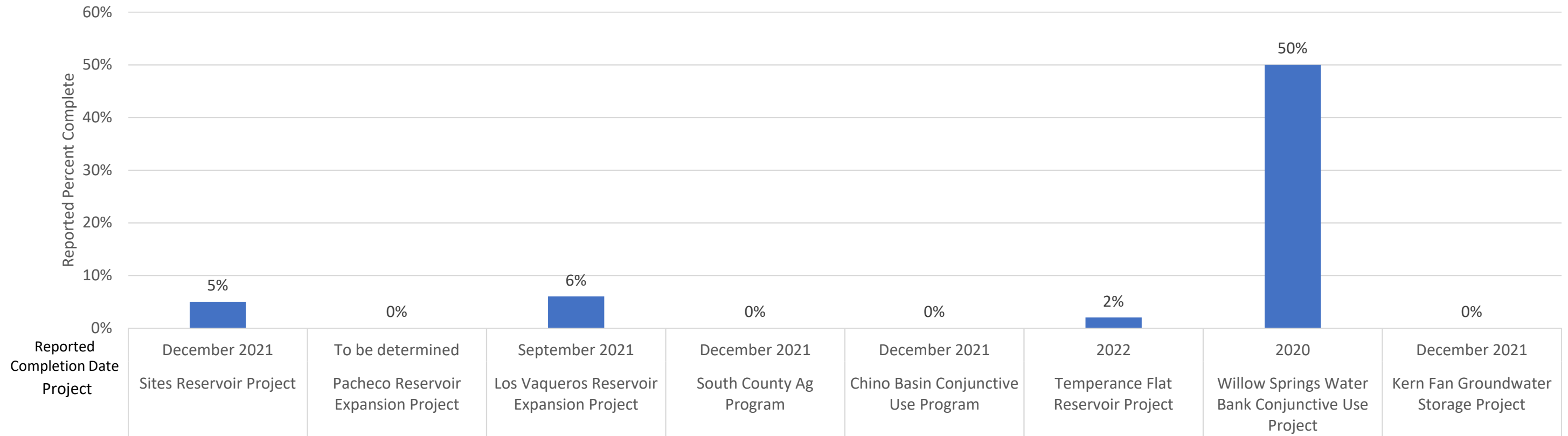


Contracts for Non-Public Cost Share



Reported Progress of Eligible Proposition 1 WSIP Projects as of September 30, 2019
(per the latest publicly available Quarterly Reports dated October 2019)

All required federal, state, local approvals, certifications, and agreements





Topic: **Sites Reservoir Project**

2019 Nov 14

Overview: **State’s Investment in the Sites Reservoir Project**

Purpose: Summarize the water-based benefits of the Sites Project based on the California Water Commission’s findings and determinations related to their conditional funding decision.

This document summarizes the process defined by the Water Storage Investment Program (WSIP) regulations and the response to those regulation by the Sites Project Authority, to then provide a status of the evaluation and award of conditional funding of the project by the California Water Commission as it relates to a conditional investment in reservoir storage.

Application Process: After Proposition 1 [2014] was approved by the voters, the Water Commission developed regulations to evaluate proposals as required under Chapter 8. These regulations were adopted on March 07, 2017. Applicable elements of the regulations included:

- The methodology to estimate water-based environmental and/or water quality benefits. Specifically, to evaluate the creation of “net improvement in ecosystem and water quality conditions”¹, the Water Commission released the September 9, 2016, climate change (VIC) model and December 16, 2016 version of CalSim and DSM2² to the applicants. These models included input from the administering agencies: CDWR, CDFW and SWRCB and required the results be provided for years 2030 and 2070.
- To monetize public benefits, three methodologies were allowed³. Additional requirements were provided in the Technical Reference Document, which included how to analyze benefits occurring between years 2030 and 2070.
- A 100-point scoring process was developed to rank all eligible proposals. In addition, proposals were ranked to allocate funding with proposals ranked 1 or 2 eligible to receive full funding and proposals ranked 3 required Water Commission to decide how to allocate any remaining Proposition 1 funds⁴.

NOTE: The state’s funding is in 2015 dollars. The amounts do not escalate over time, which results in less buying power should the project take longer to become operable.

Authority’s Proposal (WSIP Application):

¹ California Water Code §79750(b).
² Regulations are the California Code of Regulations, Title 23, Division 7, Chapter 1 (CCR). Both the CalSim and DSM2 models and climate change model were included by reference per CCR §6004(a)(1).
³ Economic methods were limited to the lesser value of “avoided cost”, “cost of an equivalent feasible project”, or “Willingness to Pay”, which are defined in CCR §6004(a)(4)(F)
⁴ Points were assigned based on four categories, that included: “Public Benefit Ratio” ≤ 33 points, “Relative Environmental Values ≤ 27 points, resiliency ≤ 25 points, and Implementation Risk ≤ 15 points. The ranking criteria is per CCR §6011(e).

- Benefits: The Authority provided an application that identified the full buildout of "Alternative D" (refer to the draft EIR/EIS, which was also included as part of the application⁵) as the basis of the estimation of benefits. Using the prescribed methodologies and the model results provided⁶, the long-term annualized total deliveries (both water supply and environmental) totaled 441,000 acre-ft/year. These operations resulted in over \$122,000,000 (total) in annualized WSIP public benefits and a WSIP Public Benefit Ratio of 2.1. The annual WSIP deliveries required an equivalent storage capacity of 710,000 acre-feet⁷ in Sites Reservoir. When combined with the other WSIP-eligible benefits (flood management, and recreational benefits), the total requested funding was \$1,662,000,000.

The identified environmental benefits required the allocation of 197,000 acre-ft/year. A breakdown of the specific environmental benefits were as follows:

1. Monetized: The monetized benefits were based on water deliveries to benefit:

Anadromous Fish: 190,000 acre-ft/year in drier years (125,000 annualized)

Delta Smelt: 29,000 acre-ft/year in drier years (39,000 annualized)

Incremental Level 4 Refuge Supplies: 19,000 acre-ft/year in drier years (33,000 annualized)

2. Non-Monetized: Release of exchanged water from Oroville and Folsom to benefit salmonids and/or steelhead and potentially sturgeon⁸ were not specifically monetized because of the lack of appropriate models.

The WSIP flood management, and recreational benefits were derived from the full development of the reservoir and do not require an allocation of water. These benefits were valued at totaled \$241.8 million.

- State's Management of An Environmental Water Budget:

"Should the state or federal government elect to invest in the project's construction, in exchange for acquiring water which they would manage for environmental benefits, the Authority intends that the appropriate state and/or federal resource agency would become a partner. This agency would then have the same or equivalent status as the

⁵ In addition to the Draft EIR/EIS, Reclamation's Draft Feasibility Report was also included as part of the Authority's application. At this time, their report did not include "operational flexibility" as a proposed public (non-WSIP) benefit.

⁶ The environmental benefits were based on the model results (defined by the Water Commission) that included key regulatory parameters such as: existing 2008/09 Biological Opinions and defined 'reasonable and prudent alternatives', and existing bypass flow criteria (e.g.; Wilkins Slough bypass criteria of 5,000 cfs). There were no assumptions related to either the SWRCB's unimpaired flows or proposed voluntary agreements. No modeling criteria was developed during the CA WaterFix project review (i.e.; North of Delta Outflow Index, minimum bypass flows at Freeport).

⁷ Refer to the Application's Executive Summary, page 4.

⁸ Refer to the Application's Executive Summary, page 13, upper left.

water agencies who participate and fund their share of the project's costs to improve their water supplies." ⁹

Further, as a non-monetized benefit to the state, "[t]he Authority proposes that the agencies with delegated authority to manage the state's investment would also have management control. This would be in the planning and also in the day-to-day releases needed to adapt to current and forecast conditions." ¹⁰

- Beneficiary Pays Principle Applied to the State's Investment¹¹: Ensuring this principle applies to all investors ensures that as the project's capital costs change all investments in water-based benefits will pay the same unit cost to produce an acre-foot of storage. Similarly, for annual costs, each investor is responsible for paying their proportionate share of the operations, maintenance, and replacement costs over the project's life.

Capital costs: "The participating water agencies will finance their proportionate shares of capacity and Proposition 1 funds will cover the state's share of the initial capital."

Annual Costs: "The participating water agencies will pay their proportionate share based on releases either at Holthouse or Delevan as appropriate. The state's share of these costs can be provided from revenues generated from at least two sources: (1) after water has been released from a reservoir to provide at least one Proposition 1-eligible benefit, a small portion of this water could be recaptured and then sold under a long-term contract and/or (2) the state's share of water stored in the reservoir could be used to generate electricity for third annual party sales through the pumped-storage operations. Should the state's revenue exceed the applicable annual costs, the surplus could be used to provide additional public benefits within the Sacramento Valley and/or Delta."

In the operations modeling that is an input to the financial model being used to evaluate ranges of estimate annual costs during the repayment period, a "sub-account" has been created to estimate the amount of storage that would need to be operated in a manner to generate revenue to pay for these annual costs. This sub-account reduces the amount of "active" storage that can be operated to produce environmental benefits.

Water Commission's Process: After the evaluation and appeal process, the Commission determined the Authority was eligible for \$1,008,280,000¹². However, since the scoring process resulted in a Rank 3, the Water Commission elected to reduce this amount to \$816,377,686¹³ in order to fund all eight eligible applications; specifically, two applications that each had a total point score less than the Authority's. Once the Commission reduced the eligible amount, it uncoupled the Water Commission staff's calculation of benefits by category. However, prior to the reduction, the monetized benefits for Flood and Recreation totaled \$241.8 million¹⁴. Since no further re-allocation of benefits was included in the WSIP

⁹ Refer to the Application's Executive Summary, page 4, bottom right. In addition, the concept of providing the state with an environmental water budget, as proposed by Public Policy Institute of California, could not be explicitly included because the application was submitted in August 17, 2017 and the PPIC report was not released until November 2017.

¹⁰ Refer to the Application's Executive Summary, page 14, upper left

¹¹ Refer to the Application's Executive Summary, page 16.

¹² Water Commission Resolution 2019-02. Amount is in 2015 dollars. However, the Authority reduced its requested funding amount to \$916.62 m in order to increase the Water Commission's calculated Benefit Cost Ratio closer to 1.1

¹³ Water Commission Resolution 2018-14. Amount is in 2015 dollars.

¹⁴ Water Commission letter dated 2018 April 20, Table 3. Amount is in 2015 dollars.

process the subtraction of the non-water-based benefits from the total approved funding results in an allocation of \$574.6 million to acquire water-based environmental benefits that would be produced through their management of their share of the reservoir's storage.

1.