Meeting: **Reservoir Committee & Authority Board Agenda Item 2.1** **November 6, 2026**

Subject: **Project Alignment Ad Hoc Recommendations**

Requested Action:

Review and comment on the progress toward recommendations from the Project Alignment Ad Hoc Workgroup to add language to the Benefits & Obligations Contract that support continued Sacramento Valley participation, improve Project performance, and advance the shared interests of all Participants.

Detailed Description/Background:

The Project Alignment Ad Hoc Workgroup continues to engage in productive discussions regarding opportunities to improve the likelihood of the Project's long-term success while supporting continued participation and leadership by Sacramento Valley public water agencies (Sac Valley PWAs).

Since the October 16 Board Meeting the Ad Hoc has met three additional times and has formed a B&O language drafting sub-workgroup. During the prior review, Board members suggested keeping the B&O language at a higher level and leaving the details to be worked out in future agreements. This approach is being taken to the extent feasible.

Last month, the following three areas of focus were discussed. After further consideration, these three areas are addressed as follows:

Description	B&O Language (Yes/No)	Comments
Public Benefit Water Supply and Funding Arrangements	Yes	
Water Supply Augmentation	No	Future agreements
Water Management and Conveyance Services	No	Future agreements

In addition, there are other items that the Ad Hoc is considering for B&O language as follows:

1. Cooperative Capacity Management
    a. Prop 1 Funding Alignment (included above)

b. Other public funding

c. Recognition of Sacramento Watershed Participants Intrinsic Contributions

2. Reciprocal Storage Sharing
3. Phase 3 Value Planning Cost Reductions
4. Disposition of State 17.3% while or after CAPB terms are met
5. Cooperation Implementing Colusa Basin Drain Improvements
6. Disposition of Sacramento Watershed Participants Capacity Interest Upon Sale or Default Prior to Operational Completion

The Ad Hoc anticipates completing its evaluation and possibly presenting specific recommendations to the Board at the November 6 Special Board Meeting.

Prior Action:

October 2026: Receive an update on progress of the Project Alignment Ad Hoc Workgroup and provide comments on concepts being evaluated to support continued Sacramento Valley participation, improve Project performance, and advance the shared interests of all Participants.

Fiscal Impact/Funding Source:

No immediate fiscal impact is associated with receiving this report. The financial implications of the concepts under consideration will be evaluated as part of the workgroup's recommendations and any subsequent agreements presented for approval.

Staff Contact:

Jerry Brown

Attachments:

Attachment A – Project Alignment Ad Hoc Recommendation for New B&O Language

Project Alignment Ad Hoc Recommendation for New B&O Language (subject to Authority legal review)

November 6, 2026

The Project Alignment Ad Hoc was formed with the charge to develop recommendations to include in the B&O, Bylaws, and JPA contract document that accomplish North State Participation in the project and achieve outcomes desired by South of Delta Participants from their investment in the Project.

The Ad Hoc has met eleven times during the past five months and has considered numerous alternatives. There was support of the Ad Hoc on 11/5/26 for these recommendations to be presented to the full Board for review and comment. The Ad Hoc expects to meet one more time to finalize these recommendations prior to 11/20/26 Board meeting.

1. **Cooperative Capacity Management**
   a) Prop 1 Funding Alignment - Add new Section 4.12.2 as follows:

      4.12.2 Cooperative Management of Capacity for Public Benefits

      The Participants recognize that cooperative management of capacity dedicated to meeting the State's Proposition 1 public benefits and capacity held by Sacramento Watershed Participants and other Participants may provide opportunities to enhance and expedite the delivery of public benefits while supporting the water supply needs of all Participants. Such arrangements may include, but are not limited to, coordinated operations that advance ecosystem benefits, drought emergency water supplies, and sustainable agricultural water management in the Sacramento Valley and in the service areas of other Participants, including the relocation of Sites Water to local storage South of Delta as contemplated in Section 4.16.2 (d).

      In recognition of these potential mutual benefits, the Participants agree to an asymmetrical allocation of up to $232 million (the currently unallocated balance of Prop 1 funds) additional Proposition 1 funding to Sacramento Watershed Participants, subject to the development of mutually acceptable operational arrangements and applicable State approvals. The Reservoir Management Board shall evaluate and, where appropriate, determine such arrangements in cooperation with the Authority Board and the State, provided that the Authority's obligations under the CAPBs are maintained. The allocation of funding and obligations among

Commented [JB1]: Need to add a definition to Appendix 1 of the B&O along the lines:

Sacramento Watershed Participants shall mean those Participants whose service areas are located within the Sacramento Valley hydrologic region, as identified in the Project Specific Information.

Sacramento Watershed Participants that is associated with such funding is up to the discretion of the Sacramento Watershed Participants taking on the commitments. Said funding shall be go toward offsetting capital and/or operations and maintenance obligations associated with the Capacity Interest of the Participants receiving the funds. The allocation and commitments shall be recognized in a separate agreement between the Participants receiving the funds and the Reservoir Management Board.

b) Other Public Funding – Add a new Section 4.12.3 as follows:

4.12.3 Other Public Funding

The Participants recognize that additional State, Federal, and other public funding may become available to support the Project and reduce costs borne by Participants. The Participants agree to cooperatively pursue such funding opportunities and support consideration of asymmetrical allocation of up to $X to recognize the operational related commitments dedicated by Sacramento Watershed Participants to fulfill the requirements for the receipt of said public funding. The Reservoir Management Board shall evaluate and, where appropriate, determine such arrangements in cooperation with the Authority Board and the Granting Entity. If the Sacramento Watershed Participants are unable to make such commitments, the Participants agree that Other Participants shall be given the same opportunity to make such commitments.

c) Recognition of Sacramento Watershed Participants Intrinsic Contributions – Add a new Section 4.12.4 as follows:

(under consideration)

2. Reciprocal Storage Sharing

Add a provision to the end of Section 4.4.1 as follows:

Temporary Use of Available and Unused Storage Allocation for Creek Water. Consistent with and subject to the Colusa County/Sites Authority MOU incorporated pursuant to Section 1.4, and notwithstanding Section 4.3.2 or Section 8, each Participant consents to temporary use, without payment or other compensation, of any portion of its Storage Allocation that is available and is not to be used otherwise by such Participant for the storage of Sites Water originating from Funks Creek and its tributaries, Stone Corral Creek and its tributaries, and the watershed of Sites Reservoir ("Creek Water"), to the extent necessary to maximize the capture and storage of Creek Water available to the Project.

Commented [JB2]: Proposed amendments to the MOU, subject to Colusa County concurrence:

1. Section 4 and Section 7 of the MOU needs to be amended to account for the temporary use of storge proposed here.

2. Recognize the County's preference to work with GCID as the representative of Glenn County interests in the portion of the stored Creek Water being allotted to Glenn County.

3. Process for designating variable O&M costs of equivalent Sites water crediting.

Such temporary use shall not constitute a lease, transfer, assignment, or other disposition of the Participant's Capacity Interest or Storage Allocation.

Creek Water temporarily stored pursuant to this Section 4.4.1 in Participant Storage Allocation shall be subject at all times to displacement at the election of the Participant whose Storage Allocation is being temporarily used. Upon such election, and as specified by such Participant in its election, the Sites Authority shall immediately act to either (i) vacate or reaccount the Creek Water from the Participant's Storage Allocation, or (ii), when an equivalent quantity of Sites Water from the Sacramento River is legally and operationally available for diversion and allocation to such Participant, credit such Participant with an equivalent quantity of Sites Water without requiring the physical diversion and storage of such Sacramento River water in the Participant's Storage Allocation. If a Participant elects clause iii) and the Sites Authority has not credited such Participant with an equivalent quantity of Sites Water within 30 days after such election, the Participant may at any time thereafter elect clause (i) instead. With respect to the Storage Allocation associated with a SWP Participants share of the Acquirer's Base Facilities Capacity Interest, such SWP Participant may make the election provided in this paragraph without the approval of DWR.

The Sites Authority shall account for and manage Creek Water stored under this Section 4.4.1 so that its temporary storage does not reduce, restrict, delay, or otherwise impair any Participant's right to use, operate, or dispose of its Capacity Interest or Storage Allocation. Creek Water stored in a Participant's Storage Allocation shall bear its own losses and shall be the first Water in such Storage Allocation to be reduced, spilled, or released in the event of any spill, loss, or other reduction of Water in Sites Reservoir so that such Participant's Stored Water is not reduced by reason of the temporary storage of Creek Water.

A Participant making election under clause (ii) shall be responsible for fifty percent (50%) of the Variable O&M Costs that would otherwise have been incurred to divert and convey the equivalent quantity of Sacramento River Sites Water into storage and such collected funds shall be credited as directed under the Colusa County/Sites Authority MOU. The Sites Authority shall establish the accounting and administrative procedures necessary to implement this paragraph in the Sites Operations Plan.

Displacement or reaccounting of Creek Water under this provision need not require the physical release of Creek Water if the Sites Authority can accomplish such displacement or reaccounting through Project water accounting without adversely affecting the contractual rights of any Storage Partner.

The temporary use authorized by this provision is limited solely to Creek Water and shall not establish any right to use another Participant's Capacity Interest or Storage Allocation for any other purpose, create any precedent regarding the use of unused Capacity Interest

or Storage Allocation elsewhere under this Contract, or otherwise modify the rights of any Storage Partner under Section 4.3 or Section 8.

3. Phase 3 Value Planning Cost Reductions

Add new subsection 6.14.1 to the B&O Contract as follows:

6.14 Phase 3 Value Engineering

6.14.1 During Phase 3, the Sites Authority shall conduct, under the direction of the Reservoir Management Board, a structured, documented, and ongoing value engineering process to identify and evaluate opportunities to reduce Project capital, financing, operation, maintenance, and replacement costs while maintaining the Project's intended functionality, reliability, regulatory compliance, water supply benefits and other Project objectives. Any Participant may propose a value engineering alternative for consideration by the Reservoir Management Board. The Sites Authority shall report the results of each evaluation in writing to the Reservoir Management Board, and shall do so prior to the Reservoir Management Board approval a Construction or Mitigation Contract for the affected facilities or mitigation acquisitions, as applicable. For opportunities constituting Material Changes (as defined in the Sites Authority Bylaws), a Shared Decision (as defined in the Sites Authority Bylaws), is required prior to the implementation of any changes implemented by such value engineering process. Unless otherwise agreed to by the affected Participants in accordance with this Contract, any reduction in the Project Costs resulting from such changes implemented, shall be apportioned pro-rata based on the Participants and Reclamations applicable Capacity Interest in each of the Base Facilities and/or Downstream Facilities Capacity Interest.

4. Disposition of State 17.3% after CAPB terms are met

(under consideration)

5. Cooperation Implementing CBD Improvements

Add a new sentence (in red) to subsection 4.6.4 of the B&O Contract as follows:

4.6.4 If the Reservoir Management Board and Sites Authority Board, as applicable, determine that the Colusa Basin Drain is inadequate to reliably convey Water to the Sacramento River Delivery Point, the Sites Authority shall undertake reasonable efforts to secure improved conveyance through existing Downstream Facilities and/or will study, plan, design, and construct new downstream facilities, such as a Dunnigan Pipeline extension to the Sacramento River upon designating funding for these purposes. As provided in Section 4.6.5 below, any costs borne by the Sites Authority in connection with these efforts shall follow Beneficiary Pays Principles. The Parties understand and agree that Downstream Facilities improvements related to Partner Facilities may be subject to the requirements of Section 2.6 of the JPA Agreement. Subject to applicable law, policies and agreements regulating such facilities, Sacramento Watershed Participants agree to cooperate with and support improvements to the Colusa Basin Drain, facilities providing conveyance between the Colusa Basin Drain and the Sacramento River, and facilities operated by Glenn Colusa Irrigation District and the Tehama Colusa Canal Authority that are determined by a Shared Decision (as defined in the Sites Authority Bylaws) to be reasonably necessary to maintain, enhance or restore the reliable conveyance of Sites Water and Other Water from the Project. Subject to applicable law, policies and agreements regulating such facilities, Sacramento Watershed Participants likewise agree to cooperate with and support any new Downstream Facilities, including a Dunnigan Pipeline extension to the Sacramento River, that the Sites Authority studies, plans, designs, or constructs pursuant to this Section 4.6.4. Such cooperation and support shall include not opposing, and reasonably cooperating in obtaining, the real property interests, Governmental Approvals, and Partner Agreement amendments necessary for such improvements or facilities.

6. Disposition of Sacramento Watershed Participants Capacity Interest Upon Sale or Default Prior to Operational Completion

Add a new subsection 8.2.1 (f) to the B&O Contract as follows and renumber the existing subsection 8.2.1 (f) to be 8.2.1 (g) with no change to those provisions:

8.2.1 (f) Notwithstanding Section 8.2.1 (e), prior to Project Operational Completion, if Sacramento Watershed Participants proposes to sell all or any portion of their Capacity Interest, such Capacity Interest shall first be offered for sale to these agencies and any eligible entity located within the Sacramento Valley hydrologic region that is determined qualified to become a Participant under this Contract. If such Capacity Interest is not acquired pursuant to the foregoing, Reclamation shall next be provided an opportunity to acquire such Capacity Interest. The right of first refusal provided in Section 8.2.1 (e) shall not apply to a sale made pursuant to this subsection. Any Capacity Interest that remains unacquired following those opportunities shall be subject to the procedures otherwise provided in this Section 8.2, including the right of first refusal of the Storage Partners under Section 8.2.1(e).

Insert at the beginning of subsection 10.3.2 to the B&O Contract add the following sentences (in red) as follows:

10.3.2 Notwithstanding the foregoing, if the Defaulted Interests are held by Sacramento Watershed Participants and the default occurs prior to Completion, the Sites Authority shall first offer the Defaulted Interest to non-defaulting Sacramento Watershed Participants or any eligible entity located within the Sacramento Valley hydrologic region that is determined qualified to become a Participant under this Contract. If such Defaulted Interests are not acquired pursuant to the foregoing, the Sites Authority shall next offer such Defaulted Interests to Reclamation. If the Defaulted Interests remain unacquired following the offer process in this subsection, then the procedures otherwise provided in this Section 10.3 apply. The other non-defaulting Storage Partners holding a Capacity Interest in the same Project Facilities (the Base Facilities and/or the Downstream Facilities, as applicable) shall have a "right of first offer" to assume all or a portion of the defaulting Participant's Defaulted Interests and that Participant's related obligations under this Contract, at a price mutually agreed between the defaulting Participant and the Storage Partner purchasing all or a portion of the defaulting Participant's Defaulted Interests. In the event that more than one non-defaulting Storage Partner wish to acquire the Defaulted Interests on the same terms, the Defaulted Interests shall be apportioned pro-rata based on the non-defaulting Storage Partner's applicable Capacity Interest in each of the Base Facilities and/or Downstream Facilities as calculated in accordance with the Sites Operations Plan unless the non-defaulting Storage Partners agree otherwise.

Add a new subsection 10.3.9 to the B&O Contract as follows:

10.3.9 Notwithstanding any other provisions of this Contract, prior to Completion following a voluntary sale of all or any portion of the Defaulted Interests of Sacramento Watershed Participants pursuant to this Section 10.3, and after payment or provision for all amount due and owing by such defaulting Sacramento Watershed Participant to the Sites Authority and satisfaction of any applicable requirements under a Financing Agreement, of the remaining proceeds received from the purchaser of such Defaulted Interests shall first be applied to reimburse the defaulting Sacramento Watershed Participants for up to its documented actual cash contributions toward Project Costs made on or after January 1, 2027. Any proceeds remaining thereafter shall be applied in accordance with the otherwise applicable provisions of this Contract.