



Requested Action:

Review and comment on the development of the Partnership Agreement with the Bureau of Reclamation.

Detailed Description/Background:

The draft Partnership Agreement establishes the framework governing Federal participation in the Sites Reservoir Project pursuant to Section 4007 of the Water Infrastructure Improvements for the Nation Act (WIIN Act). The Agreement will define Reclamation's capacity interest, funding participation, operational role and coordination responsibilities for the long-term implementation of the Project. The Partnership Agreement between the Sites Project Authority (SPA) and Reclamation will be the equivalent of the Benefits & Obligations Agreement between the SPA and each Participant. Completion of negotiations and achieving sign-off of the Partnership Agreement is a condition precedent (see this quarter's update in this agenda item 03-03) to initiating the Investor Commitment escrow period. Staff is seeking any final input from board members before Staff comes back to the board for authorization to sign the Partnership Agreement, which is expected to occur within the next couple of months.

The Partnership Agreement reflects the Local-led structure of the Sites Project while recognizing Reclamation's role as a Storage Partner contributing Federal investment, participating as the lead Federal agency for the Project's environmental compliance, and grants Reclamation a Capacity Interest and Share benefit of [16%] (adjusted to reflect the amount of actual project cost paid for) subject to Reclamation committing existing funding to SPA and diligently pursuing additional funding to meet this Capacity Interest and Share.

Development of the Partnership Agreement has occurred in parallel with the completion of the Federal environmental review and issuance of Reclamation's Record of Decision. The Partnership Agreement incorporates key Federal requirements associated with funding, accounting, environmental compliance, and oversight, while maintaining the Authority's responsibility for Project development, construction, ownership, and operation.

Consistent with WIIN Act authorities, Reclamation wishes to participate as a Storage Partner with a Capacity Interest and Share of 16% in Sites Project facilities (base and downstream) and Sites water. The previously appropriated sum of \$798m would be committed with the balance required subject to future appropriations. The final Reclamation Capacity Interest and Share would be determined following completion of construction, securing of available Federal funds, and reconciliation of allowable costs. If during the construction there is delinquency in payment, steps would be taken seek necessary funding with ultimate resolution being loss of access to a portion of the Capacity Interest and Share.

The Partnership Agreement is being negotiated through a public process and the current of the Agreement can be found here on the internet: <https://www.usbr.gov/mp/nodos/index.html>.

Prior Action:

July 2025 - Approved a Resolution authorizing lead negotiator to act on behalf of Authority in Partnership Agreement negotiations with Reclamation.

July 2024 - Received an update on the to be developed Partnership Agreement representing federal participation in the Sites Project with the Bureau of Reclamation (Reclamation) and the Operations Agreement being developed to ensure coordination of Sites Project operations with DWR State Water Project (SWP) and Reclamation Central Valley Project (CVP) operations.

Fiscal Impact/Funding Source:

The Partnership Agreement does not create any new capital commitments on the Sites Project beyond those already contemplated in the project plans and cost estimates. Key financial elements in the Partnership Agreement include:

- A portion of the Federal funding is contingent upon Congressional appropriations and approval by Reclamation.
- Reclamation's internal cost must qualify as "allowable cost" as determined by the Authority to be considered as contributing toward Reclamation's cost share of the Project cost.
- Reclamation's share of O&M cost will be proportional to its Capacity Interest and Share.

Staff Contact:

Ali Forsythe/Jerry Brown

Attachments:

Attachment A: Key Areas of Interest Comparison

Attachment A - Key Areas of Interest to Participants in Comparing the Reclamation Partnership Agreement vs. Benefits & Obligations (B&O) Contract¹

Governance Implications

- Reclamation participates as a Storage Partner but does not govern day-to-day Authority operations and is not a voting member of either the Authority Board or Reservoir Management Board.

Funding Structure and Risk Allocation

- Reclamation commitment of previously appropriated funds and remaining Federal funding contingent on Congressional appropriations.
- Reclamation internal staff and consultant costs structured around Allowable Costs as determined by the Authority and spend plan establishes anticipated timing of construction payments and is subject to regular updates.
- Federal delinquent payments – for construction costs, Capacity Interest and Share not funded is foregone and gets treated as a default under the B&O. For O&M costs, unpaid sums result in inability to use Sites facilities until payments are current, Participants temporary use is allowed.

Capacity Interest and Ownership

- Reclamation establishes Federal Capacity Interest tied to proportional actual investment to actual cost.
- Leasing, sale, and transfer of Reclamation Capacity Interest and Share would be consistent with B&O terms.
- Reclamation would have similar right to Participants in terms refusal rights to other leases and sales.

Operations and Water Management

- Reclamation has similar decision-making and priorities regarding their use of their Capacity Interest and Share as the Participants

Environmental Compliance and Regulatory Role

- Reclamation serves as Federal lead for ESA Section 7 consultation and Federal environmental responsibilities unless otherwise determined by the Authority and Reclamation.

¹ These provisions are written from the perspective of the Sites Authority's current position and are subject to negotiation which may result in the final Agreement being different than shown.