

Project Blue Development Agreement (DA)

Draft for Mayor & Council Review

City Manager's Executive Summary

July 14, 2025



Purpose

This document provides an overview to assist in reviewing the attached *Draft for Mayor & Council Review* version of the proposed Development Agreement (DA) for Project Blue. As such, this is a plain language summary of some of the major features of the DA, with particular emphasis on providing information to address many of the critical questions that have been brought forward by members of the Mayor & Council, and the public, about the project. The DA is critical to ensure that the significant economic and infrastructure benefits that the Project would provide are delivered in a sustainable way that minimizes impacts to the city and its resources. By releasing this Executive Summary, the attached "Project Blue Fact Sheet" (Attachment A), and the *Draft for Mayor & Council Review* version of the proposed Development Agreement (Attachment B), the city is providing significant, factual information about Project Blue.

The enclosed information will, to a large extent, fill the communication void that resulted from this project's early-stage Non-Disclosure Agreement (NDA) requirements. While NDAs are a standard practice for economic development projects to protect confidential business information from competitors, they have also constrained fact-sharing to date. Mayor & Council and the public now have access to much of the desired information about the project, which will hopefully replace the misinformation and speculation that has been prevalent to date. And, this is the start of the official dialogue about the city's consideration of Project Blue, with additional public meetings and other avenues for input that will happen **before** Mayor & Council determine the future of Project Blue, likely in late Fall 2025.

Key Elements of this Development Agreement (DA)

Water Supply

- Project Blue will be "net water positive." ***That means the developers of Project Blue will directly invest in projects and/or fund Tucson Water efforts to conserve or secure new water resources to offset their consumptive use, gallon-for-gallon, and more.*** The DA establishes how this is to be achieved.
- Project Blue will use minor amounts of potable water ongoing for commercial use, just as any other office-type customer – ***and this water will be offset annually.***

- The Primary Project will use potable water for less than two years for the cooling needs of only the Initial Phase, until the site can be converted to using reclaimed water. ***This initial use of potable water will be replaced – drop for drop.***
- Project Blue will use reclaimed water for cooling and all industrial uses beyond this initial, short-term use of potable. ***And, all reclaimed water used will be offset annually.***
- Even though all reclaimed water used will be offset by the developer, some in the community have questions about how much reclaimed water the city has available for all uses. The City of Tucson’s Reclaimed Water System is sourced by treated effluent from local wastewater reclamation facilities and by remediated groundwater from the Tucson Airport Remediation Project (TARP). From 2026 onward, **the city’s total reclaimed water supply is about 32,000 acre-feet per year (AF/YR)**, including 22,000 AF/YR of treated effluent plus 10,000 AF/YR from TARP. Notably, the city also wheels effluent owned by other entities to their sites through the Reclaimed Water System, which is not derived from the city’s water portfolio.
- **Currently, the Reclaimed Water System delivers approximately 11,000 to 14,000 AF/YR to city customers, using about 40% of the available supply.** The remaining supply volume is either recharged at city facilities such as SHARP or discharged to the Santa Cruz River, where the city supports riparian habitat and generates additional groundwater recharge credits. However, the city also loses a significant volume of effluent annually, when it flows out of the region. The city is pursuing projects to capture more of its local effluent supply for beneficial use in the near future.
- The **build-out demand for the two Project Blue sites** that would be served by the Reclaimed Water System is about **1,910 AF/YR on average, which is about 6% of the city’s supply for the system.** As noted elsewhere, Project Blue would not only build the physical infrastructure necessary to deliver this water to their sites, they will also replace all water used – gallon for gallon. Further, use of reclaimed water for Project Blue will not impact the city’s ability to support current riparian habitat projects, such as the Santa Cruz River Heritage Project.
- In the simplest terms: ***Project Blue will not deplete Tucson’s water supplies for the community.*** No other project in Tucson to date can make such a claim.

Water Infrastructure and Accountability

- Project Blue is required to fund and build significant water infrastructure to service the project sites – ***saving Tucson Water rate-payers significant money.*** The details are outlined in the DA and the attached Fact Sheet.
- The city will have ongoing mechanisms to hold Project Blue accountable to meet these requirements as follows:
 - Project Blue will pay the standard rates and fees for all water used (reclaimed or potable, as applicable) and failure to pay their water bills will result in their service being canceled. Tucson Water controls the valves and meters that serve all customers, including Project Blue, and will be monitoring usage closely.

- In addition, Project Blue will be assessed a **“water positivity charge”** for every unit of water used. This charge (currently estimated at \$750 per acre-foot) will be indexed to the recent costs to conserve, acquire, or otherwise generate one acre-foot of new water to replace every acre-foot of water used by Project Blue. The charge will be indexed to inflation over the term of the agreement. Recent, real-world examples of such efforts include the many projects and programs funded under the Water Conservation Grant Fund (WCGF) administered by the Arizona Water Infrastructure Finance Authority (WIFA).
- Any “water positivity charge” proceeds received by Tucson Water will be used to meet the requirement for Project Blue to offset the water they will be using.
- Project Blue also has the option to directly invest in their own efforts to provide water savings or resources to Tucson Water, which can in turn, reduce their “water positivity charge.” For example, Project Blue could purchase water credits, fund water conservation programs, etc.
- As such, Project Blue can offset their water use by providing new water to the community, they can pay the “water positivity charge” to Tucson Water to generate the water, or a combination of both over time. Tucson Water will track compliance with these requirements and Project Blue will be held accountable through the monthly billing process – failure to comply would result in shutting off water service.
- Finally, the DA includes water allocations for each project site, which cap the amount of water that Project Blue can use (even though they will offset all usage). Under qualifying conditions, Project Blue would pay a premium cost for water used above their allocation, pay “Liquidated Damages” that would be assessed for continued high water use – **and still be required to offset any excess water use.**

Locations & Other Terms

- Project Blue is seeking to develop multiple data centers, over time, potentially on two sites that are – or will be – located in the City of Tucson. All of the data centers to be located within the city limits (including areas to be annexed) will be held to the conditions of this DA.
- The Primary Project (aka the “County Site”) is located north of the Pima County Fairgrounds and is the site for which the Pima County Board of Supervisors approved a purchase and sale agreement. This site would need to be annexed into the city.
- The Secondary Project has not yet been selected, but will be in the current City limits.

- The DA references Project Blue’s overall commitments to supporting Tucson Resilient Together, Tucson's Climate Action and Adaptation Plan, as well as the goals and policies in One Water 2100.
- ***The DA is not the governing document for all aspects of Project Blue.*** We know that the information being released today will not answer every question or concern. ***Before the project comes to Mayor and Council for consideration***, more data and information are needed – and the city is working with the developer and other partners (such as Tucson Electric Power, Pima County, and others) to provide the facts on those topics. The DA is just one part of the puzzle – and more ***factual information*** is forthcoming.

Timeline and Next Steps

- A public meeting has been scheduled at the request of Ward 4 Councilmember Nikki Lee on July 23, 2025 from 5:00 – 7:00 pm at Mica Mountain High School.
- A second public meeting is being scheduled at the request of Mayor Regina Romero, tentatively to be held on July 31, 2025 at a time and location to be finalized
- Mayor and Council are scheduled for a Study Session discussion about Project Blue at the August 6, 2025 meeting.
- Mayor and Council’s first actual decision point on Project Blue is to consider ***initiating*** the annexation process for the Primary Project at a Public Hearing at the August 19, 2025 meeting. This action, if approved, will kick off a series of additional opportunities for our community to provide feedback through various engagements ***before*** any final action on Project Blue is considered by Mayor and Council this Fall.
- The city has set up a website with up-to-date information on Project Blue at: tucsonaz.gov/ProjectBlue.
- Pima County has also established a useful website for Project Blue, which will be updated frequently, at: <https://www.pima.gov/3552/Project-Blue-FAQ>.

Finally, the city has set up a public comment portal for Project Blue. Comments and questions can be submitted to ProjectBlueInfo@tucsonaz.gov.

Attachment A – Project Blue Fact Sheet

Attachment B – Draft for Mayor and Council Review – Development Agreement