TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DEPARTMENT: PUBLIC WORKS

DATE: SEPTEMBER 11, 2006 CMR: 350:06

SUBJECT: PROGRESS REPORT ON MILESTONE ACTIVITIES OF THE MOUNTAIN VIEW / MOFFETT AREA RECLAIMED WATER PIPELINE CONSTRUCTION PROJECT – CAPITAL IMPROVEMENT PROGRAM PROJECT WQ-04010

This is an informational report and no Council action is required. This report provides the progress report on the Mountain View/Moffett Area Reclaimed Water Project (Attachment A) to Council.

DISCUSSION

Staff has been working with the City of Mountain View on the design and implementation of the Mountain View / Moffett Area Reclaimed Water Pipeline project, which is partially funded by a State grant. The sunset date of the State grant is September 13, 2006. The project was issued for bid in June 2006 so a contract could be secured before the State grant expires on its sunset date. However, the rapidly escalating costs of goods and resources in recent years have created an extremely wild and inflationary bidding atmosphere, resulting in very high bids for the project ($26+ million, $6 million over the final estimate). The unexpected high bids illustrate the inflationary spiral of the construction market. Assuming the trend continues, the project will not be affordable in the future. It is therefore critical to pursue all avenues to construct the project as soon as possible so that future water supply options are maximized.

Staff has consulted the State Water Resources Control Board staff and requested an extension of the grant sunset date in order to strategize and seek additional funding. The State project manager clearly believes that the project is a very good project and has proceeded to recommend an extension, plus other accommodations, for the project. The State project manager’s recommendations to the State Board are noted in his letter (Attachment B). Staff from the cities of Mountain View and Palo Alto agreed to reject all bids. Palo Alto’s Purchasing Division rejected all of the bids on August 17, 2006 in accordance with Palo Alto Municipal Code 2.30.470 (b) - excessive cost over City budget. The attached project report provides a detailed discussion of the bidding process and the status of the State grant. The project report also examines the strategy to move forward with the project from two perspectives:

- Possibility of restructuring the project to reduce construction cost and to re-bid at a more favorable time of year.
- Potential grants and funding options, including the State Revolving Fund and funding from regional water retailers.
City of Mountain View staff will forward the attached project report to its Council on September 12, 2006. Staff will continue to work with City of Mountain View to pursue funding options and will return to Council with updates on the status of grants and funding opportunities.

**ATTACHMENT**
Attachment A: Mountain View-Moffett Area Reclaimed Water Pipeline Project Report
Attachment B: State Water Resources Control Board letter of recommendations

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