TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DEPARTMENT: PUBLIC WORKS

DATE: NOVEMBER 6, 2006

SUBJECT: ADOPTION OF A RESOLUTION AUTHORIZING THE CITY MANAGER TO FILE AN APPLICATION FOR A STATE REVOLVING FUND LOAN IN AN AMOUNT NOT TO EXCEED $19 MILLION FROM THE STATE WATER RESOURCES CONTROL BOARD FOR THE CONSTRUCTION OF THE MOUNTAIN VIEW/MOFFETT AREA RECLAIMED WATER PIPELINE PROJECT

RECOMMENDATION

Staff recommends that Council adopt the attached resolution authorizing the City Manager or designee to apply for a State Revolving Fund (SRF) loan in an amount not to exceed $19 million from the State Water Resources Control Board (SWRCB) on behalf of the Palo Alto Regional Water Quality Control Plant (PARWQCP) for the construction of the Mountain View/Moffett Area Reclaimed Water Pipeline project (Attachment A), and to negotiate an agreement for that loan following Council decisions regarding funding strategy sources and approval of a construction contract.

BACKGROUND

The Mountain View/Moffett Area Reclaimed Water Pipeline Project (Project) is a joint project between the Cities of Palo Alto and Mountain View. In July 2005, the SWRCB awarded a $3.8 million grant for the project design and construction. The City of Palo Alto, City of Mountain View, and the PARWQCP agreed to jointly fund the balance of the Project. The terms and funding arrangements were documented in an agreement entitled “Institutional and Operational Agreement between the Cities of Palo Alto and Mountain View - Mountain View/Moffett Area Recycled Water Facility.” Council of both Cities approved the agreement in January 2005. The project was issued for bid on June 6, 2006. On September 11, 2006, staff provided a progress report on the project, CMR:350:06 (Attachment B), describing the rejection of bids because of insufficient funds. The progress report also discussed potential outside funding sources including the SRF loan program. Since the progress report, the SWRCB has granted a one-year extension for the sunset date of the grant and increased the grant amount to $4 million for the project. In addition to the grant, the SWRCB also agreed to process a SRF loan for the project if the Cities desire it. The City of Mountain View has asked that staff requests that the PARWQCP apply for the SFR loan.
DISCUSSION
The PARWQCP is listed on the SRF priority list as the sponsor of the project and is qualified to apply for a zero interest SRF loan for the project. The SRF program has a fixed amount of funds for each fiscal year and provides loans to agencies on a first-come-first-serve basis. Based on the number of applicants and the current loan amounts, the SWRCB advised that the available funds would be exhausted before the end of the year. There is sufficient funding available in the SRF program at the present time to fund the project if the City expedites the application. Council authorization is a required part of the loan application and must be submitted to the SWRCB before the application can be processed. Once the application is submitted, there are several steps in the loan process that need to be completed, and Council will be making final decisions in these subsequent steps on the loan including the actual amount of the loan, before final loan approval by the SWRCB. Staff will return to Council as the loan process progresses.

Staff plans to prepare the necessary documents to pursue the zero interest SRF loan. Upon submittal of the loan application, both cities will need to proceed with the following steps. The loan application is simply the first step in this process. Both Councils will need to make final decisions on each of these subsequent steps before a loan is secured:

- Decision on project funding strategy, including each city’s share of cash contribution and loan amount;
- Amendment of the existing agreement with the City of Mountain View to include each city’s obligations and repayments of the loan;
- Decision on the project and the bids;
- Decision on funding source(s)

The SWRCB will not execute any loan contract until the above steps are completed, and until Council awards and executes a construction contract with a contractor for the project. Staff is currently working with Mountain View staff on the funding strategy, revisions to the operations and institutional agreement, and the re-structuring of the project for a re-bid in January 2007. Staff will return to Council with the details and recommendations in the subsequent steps for the loan within the next couple months.

RESOURCE IMPACT
Under the existing agreement, Palo Alto Water Utilities will contribute $1 million, and the RWQCP will contribute $3 million to the project. Palo Alto and the RWQCP contributions under the existing agreement have been appropriated in the Wastewater Treatment Enterprise fund. Staff is working with Mountain View staff on the funding strategy and an amendment to the existing agreement to include each city’s obligations and repayments of the loan, and will return to Council with further recommendations.

POLICY IMPLICATIONS
The recommendation of this staff report is consistent with City policies.

ENVIRONMENTAL REVIEW
Council adopted the mitigated negative declaration for the project in January 2004.

ATTACHMENTS
Attachment A: Resolution of Council for the State Water Resources Control Board