TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER DEPARTMENT: UTILITIES
DATE: NOVEMBER 20, 2006 CMR:415:06

SUBJECT: RESOLUTION OF THE COUNCIL OF THE CITY OF PALO ALTO AUTHORIZING THE CITY OF PALO ALTO TO FILE A WATER RECYCLING FACILITIES PLANNING GRANT APPLICATION IN THE AMOUNT OF $75,000 WITH THE STATE WATER RESOURCES CONTROL BOARD

RECOMMENDATION
Staff and the Utilities Advisory Commission (UAC) recommend that the Council approve a resolution directing staff to file a Water Recycling Facilities Planning Grant application for a grant from the State Water Resources Control Board in the amount of $75,000 to allow the preparation of a facility plan and the preparation of environmental documents for expanding the recycled water distribution system in Palo Alto.

BACKGROUND
The City of Palo Alto Utilities and the partners/owners of the Palo Alto Regional Water Quality Control Plant (PARWQCP) examined the feasibility of expanding the use of recycled water in the PARWQCP service area in 1991 and 1992. This examination was concluded with the publication of the April 1992 report, “Water Reclamation Master Plan for the Regional Water Quality Control Plant” (Master Plan).

In April 1995, the Council certified the Program Environmental Impact Report (EIR) for the projects identified in the Master Plan [CMR:217:95]. At that time, the Council decided not to go forward with the new projects as they were not cost-effective. Council directed staff to re-evaluate the projects in case of changed conditions such as: 1) changes in the PARWQCP discharge permit requirements; 2) increased mass loading to the PARWQCP; 3) requests by partner agencies of other local agencies; 4) availability of federal or other funds; and 5) supply-side issues, which may lead to increases in the value of recycled water from a water supply perspective, such as water supply cost, water supply availability, regulatory and legislative initiatives and advanced treatment for potable reuse.
Because enough had changed since the Master Plan was completed in April 1992 to prompt staff to re-evaluate the recycled water program in Palo Alto, the 2006 Recycled Water Market Survey (RWMS) was completed. The attached report to the Utilities Advisory Commission (UAC) discusses the findings of the RWMS.

The primary conclusion from the RWMS is that the total potential recycled water demand in the City of Palo Alto is about 1,693 acre-feet per year (AFY). Of this total, the project identified would provide about 840 AFY of recycled water, of which the majority of the end use (720 AFY) is in the Stanford Research Park (SRP) area. For comparison, the amount of water Palo Alto purchased from its supplier, the San Francisco Public Utilities Commission (SFPUC), was about 13,300 AFY in FY 05-06. Therefore, the project would save about 6.3% of the potable water used in the city.

The estimated cost of the project is $16.9 million. This results in a unit cost for the recycled water of $1,959/AF. The future cost of water from the SFPUC is projected to be about $1,600/AF. Although the project does not appear to be cost-effective from the City of Palo Alto Water Utility perspective, there are other beneficiaries for the project. These beneficiaries may be able to help pay for the project so that the cost to Palo Alto could be justified.

One potential funding source is from state and federal grant and loan funds. However, before the project can be considered for such funding, additional planning and design work must be completed. Since these state and federal construction grant funds may not be available in the future, it is important to get in line for these funds as early as practical. Therefore, staff recommends proceeding with preparation of a facility plan and environmental documents for the project. Planning grant funds of up to one-half of the cost to prepare a facility plan for the project are available from the State Water Resources Control Board. This work will further develop the project so that decision makers can have more information for a decision and to enable the project to compete for construction grant funds.

**BOARD/COMMISSION REVIEW AND RECOMMENDATION**

The UAC discussed the project at its meeting of October 4, 2006. By a 3-1 vote, the Commission supported staff’s recommendation to proceed with preparation of a facilities plan and environmental documents for expanding the recycled water distribution system as described in the RWMS for a cost not to exceed $150,000.

Some of the comments made by commissioners in support of the staff recommendation included that the City will have to expand the use of recycled water eventually as new sources are needed in the region and existing sources need to be conserved. Commissioner Rosenbaum argued that the City should wait until the project is cost-effective before proceeding; there is no closing window on this project – its potential will remain until the City decides to develop it in the future.
RESOURCES IMPACT
Preparing a facilities plan and environmental documents is estimated to cost $150,000. Staff expects to receive a planning grant from the State Water Resources Control Board for half of that amount, or $75,000. The remainder of the funding is included in the FY06-07 budget.

POLICY IMPLICATIONS
Continuing the exploration of expanding the use of recycled water in Palo Alto is consistent with Council policy. The Council has supported this goal by its approval of the Water Integrated Resources Plan (WIRP) Guidelines in December 2003 [CMR:547:03], specifically, WIRP Guideline #3: Actively participate in development of cost-effective regional recycled water plans.

Council’s Sustainability Policy supports the development of recycled water, specifically in the Policy’s statement to “reduce resource use and pollution in a cost-effective manner while striving to protect and enhance the quality of the air, water, land, and other natural resources.”

The city’s Comprehensive Plan contains Natural Environment Goal N-4: Water resources that are prudently managed to sustain plant and animal life, support urban activities and protect public health and safety. Specifically, Program N-26 addresses the use of recycled water: Implement incentives for the use of drought-tolerant landscaping and recycled water for landscape irrigation.

ENVIRONMENTAL REVIEW
Further examination of expanding the use of recycled water in Palo Alto by preparing a facility plan does not require environmental review. This examination will help to identify the environmental impacts of constructing the facilities needed to expand the use of recycled water and it will be used for the environmental review phase of the project if and when Council decides to move to a construction phase of the project.

NEXT STEPS
If directed to proceed as recommended, staff will apply for a Water Recycling Facilities Planning Grant from the State Water Resources Control Board. Work on the facilities plan may not begin until the State Water Resources Control Board makes a funding commitment. If the grant application is submitted in November or December, the state’s funding commitment may be made in February or March of 2007.

Staff will use the Request for Proposal process to solicit a consultant to prepare a facilities plan and environmental documents to further develop the project. After receipt of the state’s funding commitment and negotiation with the selected consultant, staff will return to Council with a consultant contract for the work. Staff expects to have a consultant under contract for this work during FY 06-07. The work is expected to be complete in FY 07-08.

After the facility plan and environmental documents are complete, staff will develop a recommendation on whether to proceed towards construction of the required facilities. The recommendation will then go to the Council for action.
ATTACHMENTS
1. Resolution of the Council of the City of Palo Alto Authorizing the City of Palo Alto to file a Water Recycling Facilities Planning Grant Application in the Amount of $75,000 with the State Water Resources Control Board.
2. Draft Plan of Study to be submitted in the application for a Water Recycling Facilities Planning Grant from the State Water Resources Control Board.
3. Report to the UAC for its October 4, 2006 meeting: Recycled Water Market Survey Results.
4. Excerpted minutes from the UAC meeting of October 4, 2006.

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