TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DATE: NOVEMBER 10, 2008

DEPARTMENT: UTILITIES

CMR: 431:08

REPORT TYPE: CONSENT

SUBJECT: Adoption of a Water Fund Budget Amendment Ordinance in the Amount of $35,000 and Approval of Amendment No. 2 to Contract C07120333 with RMC Water & Environment, Inc. in the Amount of $35,000 for a Total Not to Exceed amount of $302,700 for Completion of a Recycled Water Facility Plan and Preparation of Environmental Documents for Capital Improvement Program Project WS-07001, (Recycled Water Distribution System Extension)

RECOMMENDATION

Staff recommends that Council:

1. Adopt a Budget Amendment Ordinance (BAO) in the amount of $35,000, transferring $35,000 from the Water Fund Rate Stabilization Reserve to existing Capital Improvement Project (CIP) WS-07001, (Recycled Water Distribution System Extension); and

2. Approve and authorize the City Manager or designee to execute a second amendment to the existing contract with RMC Water & Environment, Inc. (Attachment A) for a not-to-exceed amount of $35,000 for planning and engineering design services for the Recycled Water Expansion Capital Improvement Program Project (WS-07001), bringing the total not to exceed amount of the contract to $302,700.

BACKGROUND

On April 16, 2007, the City Council approved and authorized the City Manager to execute a contract with RMC Water & Environment, Inc. (RMC) for preparation of a Recycled Water Facility Plan and preparation of associated environmental documents for Capital Improvement Program Project WS-07001 (CMR:191:07). The original contract included $220,700 for professional services and reimbursable expenses, plus a contingency of $22,000, for a total not to exceed amount of $242,700.

The original scope of work focused primarily on preparation of a Recycled Water Facility Plan and associated environmental documents that would position the project to compete for State and Federal grant funding and low interest loans. This generally included analyses of all of the essential components of a potential expanded recycled water system to serve additional users in the City of Palo Alto.
On June 2, 2008, the City Council approved the first amendment to the existing contract. The Amendment added an additional $25,000 to the original contract to complete various unforeseen activities that were largely driven by external state requirements for both the Facility Plan and the Administrative Draft Mitigated Negative Declaration (CMR 255:08).

DISCUSSION
This additional project cost increase can be attributed to a variety of factors that were not contemplated in the original budget or in the first Contract Amendment. The primary drivers for this request include:

- Financial Planning: The State Water Resources Control Board (SWRCB) recently provided comments on the Draft Facility Plan requesting the City prepare an in-depth financial cash flow analysis for the recycled water project. While a cash flow analysis is common for grant funding applications to the SWRCB, the SWRCB request is unusual at this stage in the process. However, staff believes completion of this activity now could result in beneficial cost and time savings in the long term. This task is expected to cost an additional $3,200.

- Revisions to the Administrative Draft Initial Study/Mitigated Negative Declaration (IS/MND) document: The original scope of the project contemplated providing one administrative draft to the City, followed by a public draft and a final document. To date there have been two administrative draft documents provided to the City’s Planning Department. A third review of the administrative draft is now deemed necessary. In addition, two issues related to the potential impacts of recycled water use on existing landscape and greenhouse gas emissions have required additional time and resources that was not foreseen in the original Scope of Work. This task is expected to cost an additional $20,000.

- Preparation of Reports: The current scope of work contemplated a limited amount of document preparation for the Facility Plan and the MND. Based on previous reviews of the Administrative Draft MND and Draft Facility Plan, staff is anticipating the current budget is inadequate to meet the need for additional copies. This task is expected to cost an additional $1,480.

- Project Management: The original project schedule has been delayed to address the aforementioned issues. Further extensions of the schedule require additional project management time and effort by the consultant. This task is expected to cost an additional $2,400.

Completion of the additional work will require an expenditure of approximately $27,080. To ensure that there will be sufficient budget to complete all tasks, staff requests an additional $7,920 for a total not to exceed amount of $35,000.

NEXT STEPS
After the facility plan and environmental documents are complete, staff will pursue potential grant funding opportunities and develop a recommendation on whether to proceed towards construction of the required facilities. The recommendation will then be submitted to the Council for consideration.
RESOURCE IMPACT
A BAO is required in the amount of $35,000 to add funds to the existing recycled water CIP (WS-07001). With the addition of the $35,000, the amended budget for the project of $280,000 increases to $315,000, with $302,700 for the RMC contract and $12,300 for staff costs. To fund this amendment, $35,000 will be transferred from the Water Rate Stabilization Reserve (WRSR). The FY 08-09 WRSR Adopted Budget is $6,918,000, well within the minimum and maximum guidelines of $5,321,000 and $13,303,000. The requested contract amendment will have no material impact on budgeted reserve levels.

The FY 07-08 Budget contained an expected grant from the SWRCB for this project of $75,000. Due to the extensive project delay, the grant disbursement is not anticipated until the middle of the current fiscal year. The grant will result in a net project cost of $240,000. This project has no impact on the General Fund.

POLICY IMPLICATIONS
Amending the contract is consistent with Council policy. This project is consistent with the Council-adopted Water Integrated Resource Plan Guideline 3: “Actively participate in development of cost effective regional recycled water plans.” The project is also consistent with Council direction to seek to reduce imported water supplies and limit or reduce diversions from the Tuolumne River.

ENVIRONMENTAL REVIEW
As part of this project, RMC is preparing an Initial Study and Mitigated Negative Declaration for this project.

ATTACHMENTS
A: BAO
B: Amendment No. Two to Contract No. C07120333
C: RMC Cost estimate for Amendment No. Two

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DEPARTMENT APPROVAL: VALERIE O. CHONG Director of Utilities

CITY MANAGER APPROVAL: JAMES KEENE City Manager