



City of Palo Alto

City Council Staff Report

(ID # 6691)

Report Type: Consent Calendar

Meeting Date: 4/4/2016

Summary Title: Approve Amendment to Recycled Water Supply Agreement Between Cities of Palo Alto and Mountain View

Title: Approval of an Amendment (Addendum No. 1) to the First Amended and Restated Contract Number C059999 Between the Cities of Palo Alto and Mountain View for Recycled Water Supplies

From: City Manager

Lead Department: Public Works

Recommendation

Staff recommends that Council approve an amendment, Addendum No. 1 (Attachment A), to the Recycled Water Supply Agreement between the Cities of Palo Alto and Mountain View.

Background

The Regional Water Quality Control Plant (Plant) produces and supplies recycled water through the terms of the First Amended and Restated Contract C059999 between the City of Palo Alto and the City of Mountain View (Recycled Water Supply Agreement or RWSA). RWSA provided Mountain View a maximum of 3 million gallons per day (MGD) at no cost and expires in 2035, concurrent with the expiration of the existing Basic Agreement. Mountain View unanimously approved Addendum 1 as a new business item on October 13, 2015 (Attachment B).

Discussion

Although the agreement will not expire for 19 years, Mountain View is interested in securing a long-term recycled water supply as a critical component of expanding their recycled water distribution system to other areas of their city. Recommended components of the Addendum include:

1. Extending the term of the RWSA to December 31, 2060, concurrent with Mountain View's commitment to a term extension for operating expenses and debt payments for capital improvements to the facilities covered by the Basic Agreement between the cities of Mountain View, Palo Alto, and Los Altos.
2. Authorizing payment of incremental costs of producing recycled water (e.g., additional treatment, chemical costs, costs of new regulatory requirements, etc.). Palo Alto and Mountain View will establish a cost per unit of recycled water through a separate action which will be brought before Council for approval; the rate would be effective July 1, 2020, and adjusted as necessary. Based on current costs, staff estimates charges for recycled water would be less than \$0.20 per hundred cubic feet (approximately 748 gallons, or "unit"). By comparison, Palo Alto pays approximately \$ 4.50 per unit of treated water from the San Francisco Public Utilities Commission (i.e., the Hetch-Hetchy system).
3. The existing supply agreement does not include language specifying financial responsibility for replacing recycled water production equipment. Effective July 1, 2035, Palo Alto and Mountain View (and any other customers using recycled water) will fund the cost of recycled water production capital equipment replacement in proportion to the supply available to each agency.
4. Palo Alto and Mountain View are reviewing opportunities to increase the reliability of the recycled water system, including water storage, back-up pumping facilities, and emergency power capabilities. The recommended amendment provides that Palo Alto and Mountain View (and any other customers using recycled water) will agree on and fund improvements in proportion to the supply available to each agency.
5. If additional recycled water is needed, the cost to increase recycled water production capacity will be absorbed by the requesting agency (who will own the rights to the additional water), or shared by agencies needing additional supply.
6. Palo Alto and Mountain View agree to continue salinity reduction efforts.

Environmental Review

The Addendum involves no expansion of existing facilities and is categorically exempt from environmental review under Section 15301 of the California Environmental Quality Act (CEQA).

Attachments:

- Attachment A: C059999 Addendum 1 (PDF)
- Attachment B: C059999 Addendum 1 CMV Staff Report (PDF)

AMENDMENT No. 1 TO
THE FIRST AMENDED AND RESTATED CONTRACT NO. C059999
BETWEEN THE CITY OF PALO ALTO AND THE CITY OF MOUNTAIN VIEW

This Amendment No. 1 to the FIRST AMENDED AND RESTATED CONTRACT NO. C059999 BETWEEN THE CITY OF PALO ALTO AND THE CITY OF MOUNTAIN VIEW, is entered into as of _____, 2015, by and between the CITY OF PALO ALTO, a chartered city and a municipal corporation of the State of California (“PALO ALTO”), and the CITY OF MOUNTAIN VIEW, a chartered city and a municipal corporation of the State of California (“MOUNTAIN VIEW”).

RECITALS:

Whereas, on January 11, 2005, PALO ALTO and MOUNTAIN VIEW entered into an agreement (AGREEMENT) defining the cost sharing of recycled water system design and construction expenses, the allocation of grant revenues, and the repayment of loans, and;

Whereas, on June 18, 2007, PALO ALTO and MOUNTAIN VIEW amended and restated the entire AGREEMENT, and;

Whereas, PALO ALTO and MOUNTAIN VIEW wish to extend the AGREEMENT and add language defining each party’s responsibility for the costs of maintaining and improving the system;

AGREEMENT:

NOW, THEREFORE, in consideration of the recitals and mutual promises of the parties contained herein, PALO ALTO and MOUNTAIN VIEW agree to the below-referenced amendments to AGREEMENT as follows:

SECTION 1: The following sections of AGREEMENT are replaced in their entirety:

1.4 Term and Renewal of Agreement

Unless earlier terminated as provided in section 9.3 or according to the terms set forth in section 1.41, the obligations and responsibilities of the parties commence on January 11, 2005 and shall expire on December 31, 2060.

4.1 Cost to PALO ALTO and MOUNTAIN VIEW

The RWQCP is required to, and does treat the wastewater to a standard suitable for reuse, and encourages the use of recycled water. In addition, the RWQCP discharge permit requires the operation of a recycled water program. PALO ALTO, as the operator of the RWQCP, has agreed to provide recycled water in the quantities set forth in Section 8.2 and in the quantities and uses set forth in Section 8.3 to MOUNTAIN VIEW and PALO ALTO with no charge for the commodity.

8.3 Usage

(b) For RWQCP operating and planning purposes, MOUNTAIN VIEW and PALO ALTO will cooperate to provide the RWQCP with customer estimated monthly delivery demand for recycled water for the ensuing year and such other information that MOUNTAIN VIEW and PALO ALTO may have available to assist the RWQCP in determining projected annual deliveries for the ensuing 5 years.

SECTION 2: The following sections are added to the AGREEMENT:

1.41 Dependency on Basic Agreement

On October 10, 1968, the parties executed the Basic Agreement Between the City of Palo Alto, the City of Mountain View and the City of Los Altos for Acquisition, Construction and Maintenance of a Joint Sewer System (Basic Agreement). The Basic Agreement initial term was 50 years. Addendum 8 (executed October 2015) to the Basic Agreement extended the term through December 31, 2060.

The Basic Agreement is the foundation for operation of the RWQCP. If the Basic Agreement expires at any time prior to the term stated in section 1.4 (December 31, 2060), this AGREEMENT shall automatically expire concurrent with the expiration of the Basic Agreement.

4.1.1 Incremental Recycled Water Costs

MOUNTAIN VIEW and PALO ALTO will continue to receive recycled water, with no water commodity charge, through the term of the AGREEMENT (December 31, 2060). MOUNTAIN VIEW and PALO ALTO acknowledge the RWQCP incurs incremental costs to produce recycled water, including chemicals, energy use, increased consumption, dedicated recycled water program staffing, new regulatory requirements

and unforeseen circumstances or events. MOUNTAIN VIEW and PALO ALTO shall work cooperatively and in good faith to enter into an agreement to establish a recycled water wholesale rate to cover these incremental costs, to be effective on July 1, 2020, that continues to encourage the use of recycled water and ensures the remaining RWQCP partners incur no incremental cost impact from the production of recycled water. Thereafter, MOUNTAIN VIEW and PALO ALTO will annually review the recycled water incremental wholesale rate components, and will by April 1 agree upon a rate adjustment that will be effective the following July 1.

4.1.2 Capital Replacement

MOUNTAIN VIEW and PALO ALTO acknowledge that portions of the RWQCP recycled water supply infrastructure may need to be replaced during the term of the AGREEMENT to maintain the system in working order. MOUNTAIN VIEW and PALO ALTO agree to review recommended replacements, and parties will not unreasonably withhold approval of necessary replacements. After 2035, the cost of the replacements will be funded based on the proportions of recycled water contractually available to each party at the time of replacement, including MOUNTAIN VIEW and PALO ALTO and other agencies purchasing water from the RWQCP. If the amount of recycled water available is increased by the capital replacement, all parties with contractual rights to recycled water will fund the cost of capital replacements in proportion to their supply.

4.1.3 Capital Replacement and Capacity Right Revision

Should either MOUNTAIN VIEW and PALO ALTO decide that capital repairs after 2035 are cost prohibitive, capacity rights may be modified until a mutually agreeable share is determined.

5.3 System Reliability

MOUNTAIN VIEW and PALO ALTO acknowledge it is necessary to develop and maintain a reliable system and the RWQCP may incur capital design and construction costs to enhance reliability needs based on the nature and types of use set forth in Exhibit L of the Agreement. MOUNTAIN VIEW and PALO ALTO will monitor the system, and as needs are identified, work cooperatively to incorporate improvements, including but not limited to water storage, backup pumping and emergency power supply equipment. If either party requests specific improvements to the recycled water system, the RWQCP will review and determine if the request is above and beyond the needs for the type of use set forth in the Facility Plan. The RWQCP will determine the cost share for improvements beyond the needs for the type of use set forth in the

Facility Plan. The RWQCP, MOUNTAIN VIEW and PALO ALTO will not unreasonably withhold approval of and contribute funding for improvements that will increase system reliability and expand long-term use of recycled water.

After 2035, the cost of the replacements will be funded based on the proportions of recycled water contractually available to each party at the time of replacement, including MOUNTAIN VIEW, PALO ALTO and other agencies purchasing water from the RWQCP. If the amount of recycled water available is increased by the improvements, all parties with contractual rights to recycled water will fund the cost of the improvements in proportion to their supply.

5.4 Recycled Water Capacity Expansion

If MOUNTAIN VIEW or PALO ALTO wish to increase their contractually available supply, the agency requesting the increase will contact the other to discuss the need. If no other purchaser of recycled water has available capacity from their allocation, PALO ALTO will review existing RWQCP capacity and determine any equipment installations or upgrades necessary to produce the additional water requested.

The cost of the improvements will be funded by the agency requesting the additional supply. If the improvements increase the RWQCP capacity beyond the additional supply requested, the excess supply can be allocated to another party, who will be responsible for a proportionate share of the improvement expense. If no other agency is interested in purchasing additional capacity, the total costs of the improvements will be paid by the agency requesting additional supply; the requesting agency will then own rights to the new supply being produced.

Either party may use the transmission line, without additional cost, to accept delivery of higher amounts of recycled water than stated in Sections 8.2 and 8.3 so long as the other party's ability to obtain their guaranteed recycled water supply is not impacted. If the second party cannot obtain their guaranteed supply, the first party must reduce incremental deliveries until the second party can secure their guaranteed supply.

8.3 Usage

(c) MOUNTAIN VIEW and PALO ALTO may request additional quantities and additional types of use of the reclaimed water, such as dual plumbing. The RWQCP will review its permit, operational capability, the conditions and capacities of its facilities, and determine if such request can be accommodated. The RWQCP has the right to deny such request in favor of the safe and proper operation of wastewater treatment priorities to meet regulatory requirements. If the RWQCP determines to accommodate such request, the RWQCP will review the operations and the type of

upgrades needed and assess the requesting party costs for the upgrades and related operational and maintenance costs.

(d) The RWQCP existing reclaimed water permit from the RWQCB permits the RWQCP to produce and deliver recycled water to reuse sites for irrigation. The landscape irrigation reuse sites were documented in the Facility Plan. Both the RWQCP reclaimed water permit and the Facility Plan acknowledge potential additional types of reuse, such as dual plumbing, in the future. MOUNTAIN VIEW requests addition of dual plumbing as part of their reuse. The total quantity, schedule, and rate of deliver of recycled water to MOUNTAIN VIEW shall remain unchanged. The RWQCP determines that it would include dual plumbing as the type of reuse of the recycled water from the plant as long as MOUNTAIN VIEW and PALO ALTO pay for any improvements needed for such purpose. MOUNTAIN VIEW and PALO ALTO agree to enforce any and all regulatory requirements for dual plumbing as well as landscape irrigation within each party's jurisdiction.

(e) When either MOUNTAIN VIEW or PALO ALTO use recycled water for dual plumbing systems, the respective agency's building development requirements will include a requirement for an onsite, automatically activated potable water backup that will activate should the recycled water service be disrupted, be shutdown, or be otherwise unavailable.

8.6 Level of Service

(d) MOUNTAIN VIEW and PALO ALTO acknowledge their mutual goal of continuing to reduce the salinity, or total dissolved solids (TDS), sodium, and chloride levels in the RWQCP's recycled water over time. To that end, in 2010, MOUNTAIN VIEW and PALO ALTO each adopted a Recycled Water Salinity Reduction Policy to identify and pursue all cost effective measures to reduce the salinity of the recycled water delivered from the RWQCP. These efforts resulted in declines in the salinity levels at the RWQCP.

To continue this progress, MOUNTAIN VIEW and PALO ALTO agree to maintain their ongoing salinity level monitoring and reduction efforts for the term of the Basic Agreement, or until both parties mutually determine that such efforts are no longer needed. In recognition of salinity reduction efforts already undertaken, each party reserves the right to prioritize its capital improvement projects as it sees fit, in its sole discretion. Salinity reduction efforts may include, but are not limited to:

- (a) targeted public and private sewer system rehabilitation and/or repair,
- (b) targeted investigation of saline water infiltration,

(c) targeted investigation and monitoring of saline water dischargers, outreach to dischargers with higher than permitted TDS, sodium, and chloride constituents, and enforcement of each agency's sewer use ordinance,

(d) consideration of total sodium, chloride, and TDS load as criteria for prioritizing sewer rehabilitation as contemplated in each agency's sewer master plan updates, and

(e) other necessary controls to reduce salinity to mutually acceptable and achievable levels.

SECTION 3: All other sections of the AGREEMENT remain in full force and effect.

This Amendment No. 1, made and entered into this _____ day of _____, 2015, by and between:

“PALO ALTO”

“MOUNTAIN VIEW”

CITY OF PALO ALTO

CITY OF MOUNTAIN VIEW

City Manager

City Manager

APPROVED AS TO FORM

APPROVED AS TO FORM

City Attorney

City Attorney

FINANCIAL APPROVAL

Finance and Administrative
Services Director



DATE: October 13, 2015

CATEGORY: New Business

DEPT.: Public Works

TITLE: **Approve Amendments to Regional Water Quality Control Plant Basic Agreement and Recycled Water Supply Agreement**

RECOMMENDATION

1. Authorize the City Manager to execute Addendum No. 8 to the Basic Agreement between the cities of Palo Alto, Mountain View, and Los Altos to approve the following projects at the Regional Water Quality Control Plant in Palo Alto:
 - a. Construction of the sludge dewatering and truck load-out facility.
 - b. Planning/design of the primary sedimentation tank rehabilitation, fixed film reactor rehabilitation, and the laboratory/environmental services building.
2. Authorize the City Manager to approve an amendment to the Recycled Water Supply Agreement between the cities of Palo Alto and Mountain View.

BACKGROUND

In 1968, the cities of Mountain View and Los Altos agreed to retire their wastewater treatment plants and approved a contract with the City of Palo Alto (Basic Agreement, also referred to as the Partners Agreement) for the acquisition, construction, and maintenance of a joint treatment plant; the plant began operating in 1972. The Basic Agreement expires in 2035.

The Palo Alto Regional Water Quality Control Plant (Treatment Plant) provides wastewater treatment services for the cities of Palo Alto, Mountain View, and Los Altos; the Town of Los Altos Hills; Stanford University; and the East Palo Alto Sanitary District. The Treatment Plant is an advanced treatment facility that uses a multi-stage process to remove organic materials and toxins from the approximately 19 million gallons a day of wastewater generated within the service area; at the conclusion of the treatment process, the dewatered solids are incinerated. The treated effluent is predominantly discharged to the San Francisco Bay and meets the stringent discharge

requirements of the California Regional Water Quality Control Board as well as the requirements for reuse in recycled water applications.

Per the Basic Agreement, Palo Alto owns and operates the Treatment Plant's wastewater treatment and disposal facilities and is responsible for managing capital improvements to the plant. Partner cities must amend the Basic Agreement to implement and fund major capital projects for the replacement of obsolete or worn-out equipment. The Basic Agreement has been amended seven times to date. Most revisions have been related to plant improvements, new wastewater treatment programs, and financing considerations. The most recent amendment was approved in 2009 to approve implementation and funding of an ultraviolet light effluent disinfection process.

In 2012, Treatment Plant staff conducted a Long Range Facilities Plan (LRFP) to review existing and future (50-year time frame) capacity needs, plant condition and deficiencies, the impacts of potential regulatory changes, alternatives to the existing solids incineration and liquid treatment processes, site layouts for plant improvements and potential expansion, and a tentative financial plan for implementation. The LRFP is the first comprehensive long-range plan since 1966 and incorporated feedback from the public, plant partners, and Stanford professors to update the Treatment Plant long-term goals, review emerging technologies, review solid and liquid treatment options, and review financial impacts. The major recommendation of the LRFP was to rehabilitate and replace existing facilities nearing the end of their useful life. The highest-priority projects will be implemented over a 10-year period to smooth the impact of rate increases; loans obtained for construction of large projects will be repaid over a period of 30 years.

The Basic Agreement includes an inflation-adjusted maximum amount Palo Alto may spend on capital replacement and improvement projects, which is approximately \$2.99 million for Fiscal Year 2015-16. Because the costs of the projects exceed the maximum, the City must approve the expenses through an amendment to the Basic Agreement.

Recycled Water Supply Agreement

The Treatment Plant also produces and supplies the City's recycled water through the terms of the First Amended and Restated Contract No. C059999 between the City of Palo Alto and the City of Mountain View (Recycled Water Supply Agreement or RWSA). The RWSA provides to the City a maximum of 3 million gallons per day (MGD) at no cost and expires in 2035, concurrent with the expiration of the existing Basic Agreement.

ANALYSIS

The City of Palo Alto is requesting the Treatment Plant partners amend the Basic Agreement to approve equipment rehabilitation, project planning, and associated financing mechanisms. The eighth amendment would authorize:

- Implementation and cost-sharing of a sludge dewatering and truck load-out facility;
- Funding for planning/design for the rehabilitation of the primary sedimentation tank;
- Funding for planning/design of the fixed film reactor rehabilitation; and
- Funding for planning/design for the Treatment Plant laboratory/environmental services building.

The addendum also extends the term of the agreement from July 1, 2035 to December 31, 2060 to cover the anticipated life of the loan for the projects in the LRFP. Details regarding these projects are provided below.

Sludge Dewatering and Truck Load-Out Facility

The wastewater treatment process produces sludge that must be dried and cleaned prior to disposal. The Treatment Plant is one of two agencies in California still using an incinerator to process sludge. The incinerators are at the end of their useful life and cannot be easily converted to a renewable solid treatment facility that would recover energy from the sludge. Operation of the incinerators produces a hazardous waste ash with high levels of soluble copper and is the largest source of greenhouse gas emissions from the Treatment Plant. The incinerators will also not always meet increasingly stringent air quality regulations. In 2012, the Palo Alto City Council directed staff to decommission the sewage sludge incinerators as soon as practicable.

The Treatment Plant staff prepared a Biosolids Facility Plan (BFP) to evaluate short- and long-term replacement options for sludge treatment and disposal. Numerous anaerobic digestion, thermal treatment, and off-site treatment options were evaluated by the Treatment Plant. An integral component of any disposal option is a dewatering and truck load-out facility. Design of the facility is substantially complete and the facility is ready to be constructed. Upon successful startup of the sludge dewatering and truck

load-out facility, the incinerator will be decommissioned. During evaluation of longer-term sludge treatment options, the dewatered sludge will be loaded onto trucks for off-site disposal. The new dewatering and load-out equipment will be used for any future sludge treatment options. Treatment Plant staff are reviewing the benefits and costs of a thermal treatment/anaerobic digester for sludge treatment as a long-term option. City staff will monitor analysis of long-term treatment options and provide updates as appropriate.

Primary Sedimentation Tanks Rehabilitation

Primary sedimentation is used to remove most of the settleable and floatable solids in the wastewater stream, reducing the organic load before later treatment processes. The Treatment Plant's four primary sedimentation tanks were constructed in 1972, and during LRFP inspections were found to have numerous deficiencies, including loss of the original protective coating, significant cracks in the concrete tanks, and exposed rebar. Because the tanks are a critical component of the treatment process, tank rehabilitation was recommended as a high priority.

Fixed Film Reactor Rehabilitation

The fixed film reactors are used in the secondary wastewater treatment process to improve the quality of the treatment plant effluent. The reactor media is made of plastic and has seen 35 years of service. It is at the end of its service life and needs replacement. The reactors were found to be leaking and showing signs of corrosion, and were recommended as a high-priority rehabilitation.

Laboratory and Environmental Services Building

The Operations Building was originally constructed in 1972 and houses laboratory testing stations and equipment, offices, a large lunchroom, and locker rooms. The LRFP included findings that the building's foundation is inadequate to resist seismic loading and a structural retrofit is required, and the current laboratory facility is inadequate given current testing space requirements and number of laboratory staff.

The Administration Building was originally constructed in 1975 as a recycled water process and pumping facility with two deep, open-top rectangular tanks and one open-top rectangular equipment pit. During the three remodeling projects (in 1992, 1995, and 1998), administrative offices were constructed over the open-top equipment pit. The recycled water pumps are still in the basement of the building, creating a noisy working environment. The LRFP found visible deterioration and potential structural deficiencies

in the building. Additionally, the administration building is inadequate for the number of people, and the facility lacks conference rooms, offices, and parking and meeting areas for public access/tour groups.

Palo Alto staff anticipates reviewing replacement of the Administration Building, Operations Building, and plant water quality laboratory, and combining the three operations into a new laboratory and environmental services facility.

Project Schedules

The preliminary schedule for the construction and planning projects is shown below:

Sludge Dewatering and Truck Load-Out Facility

SWRCB SRF Construction Loan Commitment	May 2016
SRF Approval to Award Construction Contract	June 2016
Palo Alto Council Approval and Award Construction Contract	July 2016
Construction Start	August 2016
Construction Completion	August 2018

Planning Projects

SWRCB SRF Planning Loan Commitment	December 2015
Palo Alto Council Award of Planning Contracts	January 2016
Planning Projects Start	February 2016
Planning Projects Completion	February 2018

Palo Alto completed a CEQA review for the dewatering and truck load-out facilities, and will complete reviews for all future projects. Mountain View staff will participate in the process to review design and construction proposals, review construction plans and cost estimates, and assist with the selection of consultants and contractors.

PROJECT FINANCING

As the lead agency, Palo Alto will budget and spend all funds, and will apply for a State Revolving Fund (SRF) construction loan for the sludge dewatering and truck load-out facility. The first SRF loan repayment will occur one year after completion of construction and the loan (principal and interest) will be repaid based on an amortization period of 30 years. SRF loans have historically been a very low-cost option

for funding construction projects. As of September 2015, the SRF interest rate is 1.6 percent.

The estimated maximum cost of the sludge dewatering and truck load-out facility is \$28 million, and based on the capacity rights of the treatment plant, Mountain View's share of the loan payments is 37.89 percent. Assuming an interest rate of 1.8 percent (to allow for possible rate increases) and a maximum loan amount of \$28 million, Mountain View's loan payments will be approximately \$458,000 per year beginning in 2019, with a final payment in 2048.

Palo Alto will also apply for a planning loan for the planning/design of the primary sedimentation tank rehabilitation, fixed film reactor rehabilitation, and the laboratory/environmental services building. The total maximum planning loan amount is estimated to be \$6.75 million as shown below. The loan will be repaid based on an amortization period of 10 years, with the first SRF payment occurring one year after completion of the planning/design (estimated 2018) and the final payment due in 2027. If Palo Alto opts to use an SRF loan for construction, the planning/design loan could be refinanced into a construction loan with a 30-year repayment term. Based on an assumed 1.8 percent interest rate on the maximum planning loan amount of \$6.75 million, Mountain View's loan payments will be approximately \$282,000 per year beginning in 2019. Staff will seek Council approval for loan repayments if Palo Alto chooses to use an SRF loan.

Estimated planning/design costs	
Primary Sedimentation Tank Rehab	\$0.731 million
Fixed Film Reactor Rehab	\$2.290 million
Laboratory and Environmental Services Building	\$3.580 million
Miscellaneous	\$0.149 million
Total Planning/Design Loan Amount	\$6.750 million

Recycled Water Supply Agreement

Staff is also recommending an amendment to the Recycled Water Supply Agreement. The agreement expires in January 2035 and provides the City a maximum of 3 million gallons per day (MGD) at no cost. Although the agreement will not expire for approximately 20 years, staff believes securing a long-term recycled water supply is a critical component of expanding the recycled water distribution to other areas of the City. Recommended components of an amendment include:

- Extending the term of the agreement to December 31, 2060, concurrent with the term extension of the Basic Agreement.
- Authorizing payment of incremental costs of producing recycled water (e.g., additional water treatment, chemical costs, costs of new regulatory requirements, etc.). Palo Alto and Mountain View will establish a cost per unit of recycled water through a separate action which will be brought to Council for approval; the rate would be effective July 1, 2020, and adjusted as necessary. Based on current costs, staff estimates charges for recycled water would be less than \$0.20 per hundred cubic feet (approximately 750 gallons). By comparison, the City currently pays \$3.75 per unit of treated water from the San Francisco Public Utilities Commission (Hetch Hetchy system).
- The existing supply agreement does not include language specifying financial responsibility for replacing recycled water production equipment. Effective July 1, 2035, Palo Alto and Mountain View (and any other customers using recycled water) will fund the cost of recycled water production capital equipment replacements in proportion to the supply available to each agency.
- Palo Alto and Mountain View are reviewing opportunities to increase the reliability of the recycled water system, including installing water storage, back-up pumping facilities, and emergency power capabilities. The recommended amendment provides that Palo Alto and Mountain View (and any other customers using recycled water) will agree on and fund improvements in proportion to the supply available to each agency.
- If additional recycled water is needed, the cost to increase recycled water production capacity will be absorbed by the requesting agency (who will own the rights to the additional water), or shared by agencies needing additional supply.
- Palo Alto and Mountain View agree to continue salinity reduction efforts.

FISCAL IMPACT

The costs to repay loans for Treatment Plant improvements covered in the recommended amendment will begin in Fiscal Year 2019-20, and are estimated at approximately \$740,000 annually. In addition to the projects included in the Basic Agreement amendment, the LRFP recommended numerous projects through the 50-year term of the plan to replace and rehabilitate equipment and meet future regulatory requirements. Estimated annual expenses for additional projects identified in the LRFP will increase to a maximum of \$3.8 million in Fiscal Year 2023-24 and decline to approximately \$3.5 million annually through Fiscal Year 2047-48 until funding is paid off in Fiscal Year 2051-52. Staff will seek Council approval of major projects through additional amendments to the Basic Agreement. Information regarding anticipated future projects is included as Attachment 1.

To account for the anticipated increases, Council approved a recommended 2.0 percent wastewater rate increase in Fiscal Year 2015-16, the second of 10 annual 2.0 percent increases. The cumulative rate increase of 20.0 percent will allow for a gradual phase-in of rate increases necessary to fund these long-term capital costs to the rate payers who will be receiving the benefits of the improvements.

CONCLUSION

The Palo Alto Treatment Plant provides wastewater treatment and supplies recycled water to Mountain View through separate agreements. Staff is recommending approval of an addendum to the wastewater treatment agreement that will fund construction of a sludge dewatering and truck load-out facility, planning/design of the primary sedimentation tank rehabilitation, fixed film reactor rehabilitation, and the laboratory/environmental services building and extend the agreement through 2060. Staff is also recommending approval of an amendment to the recycled water supply agreement that authorizes payment of incremental recycled water production costs, establishes terms for funding recycled water system capital replacements and system reliability improvements, and extends the term of the agreement to December 31, 2060, concurrent with the term extension of the wastewater treatment agreement.

ALTERNATIVES

1. Do not approve the amendment to the Basic Agreement. Staff will work with City of Palo Alto staff to identify alternative funding mechanisms.

2. Do not approve the amendment to the recycled water supply agreement. Staff will not extend the agreement or develop different financial terms per Council direction.

PUBLIC NOTICING – Agenda posting.

Prepared by:

Gregg A. Hosfeldt
Assistant Public Works Director

Approved by:

Michael A. Fuller
Public Works Director

Daniel H. Rich
City Manager

GAH/7/CAM
761-10-13-15CR-E

Attachment: 1. Anticipated Future Projects