



# City of Palo Alto

## City Council Staff Report

(ID # 9814)

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**Report Type: Consent Calendar**

**Meeting Date: 12/10/2018**

**Summary Title: SRF Reimbursement Resolutions for RWQCP Discharge Infrastructure and Primary Sedimentation Projects**

**Title: Adoption of Reimbursement Resolutions to Designate the Amount of Project Expenditures to be Reimbursed by Clean Water State Revolving Fund Proceeds for the Funding of the Discharge Infrastructure Improvement (Outfall Pipeline) and the Primary Sedimentation Tanks and Electrical Upgrade Projects at the Palo Alto Regional Water Quality Control Plant**

**From: City Manager**

**Lead Department: Public Works**

### **Recommendation**

Staff recommends that Council:

1. Adopt a Resolution (Attachment A) designating the expenditure amount, \$11,760,000 for construction of the Discharge Infrastructure Improvement Project (CIP WQ-19000), to be reimbursed by proceeds from the Clean Water State Revolving Fund (SRF); and,
2. Adopt a Resolution (Attachment B) designating the expenditure amount, \$16,368,000 for design and construction of the Primary Sedimentation Tanks and Electrical Upgrade Project (CIP WQ-14003), to be reimbursed by proceeds from the SRF.

### **Background**

The Regional Water Quality Control Plant (RWQCP), originally constructed in 1934, has undergone several expansions and upgrades. A [Long Range Facilities Plan \(LRFP\)](#) was completed in 2012 to provide a plan for future capital projects at the RWQCP. In October 2016, Council adopted a resolution authorizing the City Manager or his designee to execute State Revolving Fund Financial Assistance Applications from the State Water Resources Control Board (SWRCB) for the planning, design, and construction of projects identified in the LRFP. The projects

identified in the LRFIP include the Discharge Infrastructure Improvement (Outfall Pipeline) Project and the Primary Sedimentation Tanks and Electrical Upgrade Project. Previously, the City obtained SRF loans for the Ultraviolet Disinfection Facility (\$8.5 million, 20-year term), Palo Alto/Mountain View Recycled Water Pipeline Project (\$9.0 million, 20-year term), and Sludge Dewatering and Truck Loadout Facility (\$25.7 million, 30-year term).

## **Discussion**

Staff intends to apply for two low-interest rate SRF loans issued by the SWRCB to finance the construction of the Discharge Infrastructure Improvement Project, which is also known as the Outfall Line Construction (CIP project WQ-19000); and design and construction of the Primary Sedimentation Tanks and Electrical Upgrade Project (CIP project WQ-14003). Design costs for the Discharge Infrastructure Improvement Project are not included in the SRF loan application, as these costs have been funded on a pay-as-you-go basis using minor capital funding. Very recent process changes from the State indicate that the City has only one opportunity per year to apply for SRF financial assistance. Application packages are to be submitted by December 31, 2018. The 2019 SRF eligibility will be granted to applicants during the first quarter of 2019, according to their new process description. In the event the SRF loan eligibility is granted, staff will return to Council for approval of the loan agreements and construction contracts. The RWQCP partner agencies previously approved, via amendments to partner agreements, the design of the Primary Sedimentation Tanks and Electrical Upgrade Project ([Staff Report #7144](#)). Staff will return to Council in 2019 with additional amendments to the partner agreements that approve the construction projects and repayment of the SRF loans.

The SRF application includes four packages – General Information, Technical, Environmental, and Financial Security. To complete the Financial Security Packages, Council adoption of the following reimbursement resolutions is required.

1. Adoption of Reimbursement Resolution for the Discharge Infrastructure Improvement Project (Attachment A)

The SRF program requires the City to pay in advance for certain tasks (project administration, construction management and facility construction) to be reimbursed by the SRF loan. Through the

Reimbursement Resolution, Council will designate a maximum of \$11,760,000 in expenditures for the construction of the Discharge Infrastructure Improvement Project.

2. Adoption of Reimbursement Resolution for the Primary Sedimentation Tanks and Electrical Upgrade Project (Attachment B)

The SRF program requires the City to pay in advance for certain tasks (facility design, project administration, construction management and facility construction) to be reimbursed by the SRF loan. Through the Reimbursement Resolution, Council will designate a maximum of \$16,368,000 in expenditures for the design and construction of the Primary Sedimentation Tanks and Electrical Upgrade Project.

Staff is also considering revenue bonds as a backup financing mechanism for the SRF loans, in case the State does not approve the SRF loans. At its December 4, 2018, meeting, the Finance Committee discussed a proposed resolution relating to revenue bonds for the RWQCP. Staff will take the proposed resolution to Council for approval as the first step to initiate the process to cover certain capital projects including the two subject projects in this report. The SRF loans have a lower interest rate than bonds, and are more desirable, but the State has more applications than available funds. Therefore, the City should take the preliminary steps for the SRF loans and revenue bonds simultaneously.

### **Timeline**

The SRF application packages will be submitted before December 31, 2018. Project eligibility will be determined by the SWRCB during the first quarter of 2019. Subsequent SRF loan processes will require additional Council actions including approval of the final loan amounts (Final Budget Approval Package) following the approval of construction contracts and amendments to the RWQCP partner agreements. Staff will return to Council accordingly.

### **Resource Impact**

No financial impacts are associated with the adoption of the resolutions. Applying for SRF loans does not obligate the City to proceed with the construction of the Discharge Infrastructure Improvement Project and the Primary Sedimentation Tanks and Electrical Upgrade Project. The resource impact of proceeding with the

construction of these projects will be evaluated when Council approval for each construction project is requested.

Funding for the design of the Discharge Infrastructure Improvement Project (Contract C17164199, [Staff Report #7245](#)) is in the Wastewater Treatment Enterprise Fund Capital Improvement Program (CIP) Project WQ-19000.

Funding for the design of the Primary Sedimentation Tanks and Electrical Upgrade Project (C18168129, [Staff Report #8729](#)) is in the Wastewater Treatment Enterprise Fund CIP Project WQ-14003, and the funds reserved will be reimbursed with the SRF loan principal (or revenue bond).

Repayment of the 30-year SRF loans for the Discharge Infrastructure Improvements Project and the Primary Sedimentation Tanks and Electrical Upgrade Project would begin a year after construction completion, and is expected to begin in winter 2023. The repayment would be included as an expense in the Fiscal Year 2023 Wastewater Treatment and Wastewater Collection Fund's operating budgets. Approximately 62% of the fund's operating expenses are offset by revenue from the RWQCP partner agencies. Staff will obtain partner agreement amendments in 2019.

### **Policy Implications**

Adoption of the resolutions does not represent a change in existing policies.

### **Environmental Review**

On May 21, 2018, Council approved the design and adopted a resolution for Mitigated Negative Declaration and related mitigation monitoring and reporting program for the construction of a new outfall pipeline to discharge treated effluent from the RWQCP to San Francisco Bay ([Staff Report #9096](#)).

On October 15, 2018, Council determined the construction of the Primary Sedimentation Tanks Rehabilitation and Electrical Upgrade Project to be exempt from the California Environmental Quality Act and approved the preliminary design ([Staff Report #9581](#)).

Adoption of the SRF reimbursement resolutions is not an action that requires CEQA review. This action does not meet the definition of a project for the purposes of CEQA, under Public Resources Code Section 21065 and CEQA

Guidelines Section 15378(b)(5), because they are administrative governmental activities which will not cause a direct or indirect physical change in the environment.

**Attachments:**

- Attachment A: Reimbursement Resolution for RWQCP Discharge Infrastructure Improvements Project
- Attachment B: Reimbursement Resolution for Primary Sedimentation Tanks and Electrical Upgrade Project

NOT YET APPROVED

Resolution No. \_\_\_\_\_

Resolution of the Council of the City of Palo Alto Authorizing the Reimbursement of Funding for the Regional Water Quality Control Plant Discharge Infrastructure Improvement Project from the State Water Resource Control Board

R E C I T A L S

A. The City of Palo Alto (the "City") desires to finance the costs of constructing and/or reconstructing certain public facilities and improvements relating to its water and wastewater system, including certain treatment facilities, pipelines and other infrastructure (the "Project").

B. The City intends to finance the construction and/or reconstruction of the Project or portions of the Project with moneys ("Project Funds") provided by the State of California, acting by and through the State Water Resources Control Board ("State Water Board").

C. The State Water Board may fund the Project Funds with proceeds from the sale of obligations, the interest upon which is excluded from gross income for federal income tax purposes (the "Obligations").

D. Prior to either the issuance of the Obligations or the approval by the State Water Board of the Project Funds the City desires to incur certain capital expenditures (the "Expenditures") with respect to the Project from available moneys of the City.

E. The City has determined that those moneys to be advanced on and after the date hereof to pay the Expenditures are available only for a temporary period and it is necessary for the State Water Board to reimburse the City for the Expenditures from the proceeds of the Obligations.

NOW, THEREFORE, the Council of the City of Palo Alto RESOLVES as follows:

**SECTION 1.** The City hereby states its intention and reasonably expects to reimburse Expenditures paid prior to the issuance of the Obligations or the approval by the State Water Board of the Project Funds.

**SECTION 2.** The reasonably expected maximum principal amount of the Project Funds is \$11,760,000.

**SECTION 3.** This resolution is being adopted no later than 60 days after the date on which the City will expend moneys for the construction portion of the Project costs to be reimbursed with Project Funds.

**SECTION 4.** Each City expenditure will be of a type properly chargeable to a capital account under general federal income tax principles.

**SECTION 5.** To the best of our knowledge, the City is not aware of the previous adoption of official intents by the City that have been made as a matter of course for the purpose of reimbursing expenditures and for which tax-exempt obligations have not been issued.

**SECTION 6.** This resolution is adopted as official intent of the City in order to comply with Treasury Regulation §1.150-2 and any other regulations of the Internal Revenue Service relating to the qualification for reimbursement of Project costs.

**SECTION 7.** All the recitals in this resolution are true and correct and this City so finds, determines and represents.

**SECTION 8.** The Council finds that its authorization of funding reimbursement does not constitute a project requiring review under the California Environmental Quality Act (CEQA) or CEQA Guidelines. This action does not meet the definition of a project under Public Resources Code Section 21065 and CEQA Guidelines Section 15378(b)(5) because it is an administrative governmental activity which will not cause a direct or indirect physical change in the environment.

INTRODUCED AND PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

\_\_\_\_\_  
City Clerk

\_\_\_\_\_  
Mayor

APPROVED AS TO FORM:

APPROVED:

\_\_\_\_\_  
Assistant City Attorney

\_\_\_\_\_  
City Manager

\_\_\_\_\_  
Director of Public Works

NOT YET APPROVED

Resolution No. \_\_\_\_\_

Resolution of the Council of the City of Palo Alto Authorizing the Reimbursement of Funding for the Regional Water Quality Control Plant Primary Sedimentation Tank and Electrical Upgrade Project from the State Water Resource Control Board

R E C I T A L S

A. The City of Palo Alto (the "City") desires to finance the costs of design and constructing and/or reconstructing certain public facilities and improvements relating to its water and wastewater system, including certain treatment facilities, pipelines and other infrastructure (the "Project").

B. The City intends to finance the construction and/or reconstruction of the Project or portions of the Project with moneys ("Project Funds") provided by the State of California, acting by and through the State Water Resources Control Board (State Water Board).

C. The State Water Board may fund the Project Funds with proceeds from the sale of obligations the interest upon which is excluded from gross income for federal income tax purposes (the "Obligations").

D. Prior to either the issuance of the Obligations or the approval by the State Water Board of the Project Funds the City desires to incur certain capital expenditures (the "Expenditures") with respect to the Project from available moneys of the City.

E. The City has determined that those moneys to be advanced on and after the date hereof to pay the Expenditures are available only for a temporary period and it is necessary for the State Water Board to reimburse the City for the Expenditures from the proceeds of the Obligations.

NOW, THEREFORE, the Council of the City of Palo Alto RESOLVES as follows:

**SECTION 1.** The City hereby states its intention and reasonably expects to reimburse Expenditures paid prior to the issuance of the Obligations or the approval by the State Water Board of the Project Funds.

**SECTION 2.** The reasonably expected maximum principal amount of the Project Funds is \$16,368,000.

**SECTION 3.** This resolution is being adopted no later than 60 days after the date on which the City will expend moneys for the construction portion of the Project costs to be reimbursed with Project Funds.

**SECTION 4.** Each City expenditure will be of a type properly chargeable to a capital account under general federal income tax principles.

**SECTION 5.** To the best of our knowledge, the City is not aware of the previous adoption of official intents by the City that have been made as a matter of course for the purpose of reimbursing expenditures and for which tax-exempt obligations have not been issued.

**SECTION 6.** This resolution is adopted as official intent of the City in order to comply with Treasury Regulation §1.150-2 and any other regulations of the Internal Revenue Service relating to the qualification for reimbursement of Project costs.

**SECTION 7.** All the recitals in this resolution are true and correct and this City so finds, determines and represents.

**SECTION 8.** The Council finds that its authorization of funding reimbursement does not constitute a project requiring review under the California Environmental Quality Act (CEQA) or CEQA Guidelines. This action does not meet the definition of a project under Public Resources Code Section 21065 and CEQA Guidelines Section 15378(b)(5), because it is an administrative governmental activity which will not cause a direct or indirect physical change in the environment.

INTRODUCED AND PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

\_\_\_\_\_  
City Clerk

\_\_\_\_\_  
Mayor

APPROVED AS TO FORM:

APPROVED:

\_\_\_\_\_  
Assistant City Attorney

\_\_\_\_\_  
City Manager

\_\_\_\_\_  
Director of Public Works