



City of Palo Alto

City Council Staff Report

(ID # 11295)

Report Type: Consent Calendar

Meeting Date: 6/22/2020

Summary Title: Amendment No. 3 for Water Conservation Programs with Santa Clara Valley Water District

Title: Approval and Authorization for the City Manager or Designee to Execute Amendment Number 3 to the Memorandum of Understanding (Contract Number S17167654) With the Santa Clara Valley Water District (dba Valley Water) to Increase Funding by \$50,000 and Extend the Contract Term for an Additional two Years, for a Revised Total Not-to-Exceed Amount of \$305,000 Over the Five and One-half Year Term to Provide Continued Funding and Support Making Water Conservation a way of Life Through Water Use Efficiency Services, Rebates, and Incentive Programs

From: City Manager

Lead Department: Utilities

Recommendation

Staff recommends that Council approve and authorize the City Manager or designee to execute the [Amendment No. 3](#) to the Memorandum of Understanding (MOU) (Contract S17167654) with Santa Clara Valley Water District (dba Valley Water) to increase funding by \$50,000 and extend the contract term for an additional two years, for a revised total not-to-exceed amount of \$305,000 over the five- and one-half year contract term ending June 30, 2022.

Staff recommends Council authorize the City Manager or designee to approve administrative changes to the targets, budget allocations, and Palo Alto's cost per measure set forth in Revised Appendix A, that do not increase the overall contract maximum.

Executive Summary

To achieve the water conservation and efficiency objectives of state and local mandates, the City of Palo Alto Utilities (CPAU) partners with agencies, such as Valley Water and Bay Area Water Supply and Conservation Agency (BAWSCA), to offer many conservation programs and services to Palo Alto residential and commercial water customers.

Although not a wholesale water customer of Valley Water, the City, through its Utilities Department (CPAU), partners with Valley Water to achieve mandated state and local water efficiency and drought conservation targets. This partnership is formalized in a Memorandum of Understanding (MOU) and offers water conservation programs and services to residential and commercial customers within the City.

City Council (Council) has adopted several policies that support increased goals for energy and water efficiency efforts as well as sustainability goals for the City. In order to achieve these aggressive water management goals, the City has contracted with Valley Water through several cost sharing agreements since 2002 to provide a suite of water use efficiency services, rebates, and incentive programs for residential and commercial customers. The MOU currently in effect expires June 30, 2020.

Staff recommends approval of proposed [Amendment No. 3](#) extending the term two years to allow Valley Water to continue administration of and funding for cost sharing rebates for the Landscape Rebate Program (“LRP”) which provides funds for Palo Alto residents and businesses to convert approved high water use landscape, such as lawns and pools, to low water use landscape, as well as to retrofit existing irrigation equipment with approved high efficiency irrigation equipment.

This amendment would implement seven proposed new cost-sharing programs for a total of eight. Three programs (Landscape Conversion Rebate, Graywater Laundry to Landscape Rebate, and Submeter Rebate) will be funded by CPAU within the approved budget. Three programs (Rain Barrel Rebate, Cisterns Rebate, and Rain Garden Rebate) will be funded by Public Works from the Stormwater Management Fund in the amount of \$50,000 (\$40,000 for basic services and \$10,000 for additional services). Two programs (Water Use Reports and Water Efficient Technologies Program) will be funded by Valley Water in the amount of \$750,000 (\$625,000 for basic services and \$125,000 for additional services). Marketing for all water conservation programs is shared between Valley Water and the City. Implementation and administrative functions for these programs (e.g. provide scheduling, budget tracking and invoicing, contractor oversight, customer service, and project reporting associated with program implementation) is managed by City and/or Valley Water staff, depending on the program.

Historically, these water efficiency programs administered through Valley Water have been cost effective, meaning the cost of implementation is lower than the water supply cost, and this trend is expected to continue. The funding provided by Valley Water through this partnership enables Palo Alto to receive more benefits and cost savings than would be achieved through self-administered water efficiency programs. By helping customers save water, customer bills will be reduced over time. Funds for these water efficiency measures are included in the FY21 water budget; approval of [Amendment No. 3](#) will not result in a rate increase.

The additional \$50,000 for the increased rainwater capture (includes rain barrels, cisterns, and rain gardens) cost sharing rebate amounts will be allocated as follows: \$25,000 in FY 2021-2022 and \$25,000 in 2022-2023. The added amount includes \$40,000 for basic services and \$10,000 for additional services. The revised total contract amount is not to exceed \$305,000 including \$244,000 for basic services and \$61,000 for additional services.

Background

State requirements and Council policies have resulted in aggressive water reduction goals which are achieved through the conservation and efficiency programs included in this MOU. The most innovative technologies and cost-effective programs are implemented to best utilize the annual water conservation operating budget.

The guiding document for water utility efficiency goals is the Urban Water Management Plan (UWMP) ([Staff Report #6851](#)). The UWMP is updated every five years and outlines the long-term supply and demand-side issues and policies impacting the water utility. The UWMP also details the measures CPAU will take to reach its water reduction goals, through a series of Demand Management Measures, most of which are included in the proposed [Amendment No. 3](#).

For over a decade, CPAU has partnered with Valley Water to administer water efficiency programs to meet the City's water reduction goals. This partnership between Valley Water and the City is currently formalized through the MOU, under which Valley Water and the City co-fund various programs and partner to promote residential and commercial sanitary fixtures, free conservation devices, indoor and outdoor water efficiency surveys, irrigation hardware upgrades, and residential educational workshops. The first MOU was adopted by Council in 2002 ([CMR 359:02](#)). Over time, the water efficiency programs provided under the MOU have evolved or expanded concurrent with advancements in water-saving technologies and best practices for water efficient program delivery.

The current MOU covers the period between January 1, 2017 and June 30, 2020 and provides for one program, the LRP, administered by Valley Water. No programs are currently administered by CPAU. Under this MOU, the City has an obligation to pay Valley Water a maximum of \$255,000 in co-funding. As of May 12, 2020, the City has paid Valley Water \$66,415 from this agreement for various water conservation programs. Similarly, Valley Water has an obligation to pay the City a maximum of \$0 as part of this agreement for programs administered by CPAU. For rebate programs, including the Landscape Conversion Rebate under the LRP, the co-funding from CPAU pays for \$1 match per square foot up to \$1,000 per qualified Palo Alto residential site and up to \$10,000 per qualified Palo Alto commercial site. Valley Water administers this program including pre and post inspections, customers' eligibility verification, and rebate processing.

The City has managed its own [Stormwater Rebate Program](#) (Stormwater Program) since 2008 to offer rebates to residential, commercial property owners and renters for installation of rain

barrels and cisterns. The City plans to expand its Stormwater Program in Summer 2020 with the addition of rain garden rebates.

Discussion

For over a decade Valley Water has delivered water conservation programs to residents and businesses throughout Santa Clara County. Through earlier MOUs adopted in September 2002 ([CMR 359:02](#)), September 2007 ([CMR 344:07](#)), April 2009 ([CMR 200:09](#)), July 2010 ([CMR 295:10](#)) and June 2013 ([Staff Report #3744](#)) the City Council had approved the delivery of water conservation and efficiency programs co-marketed by CPAU and Valley Water to the homes and businesses of Palo Alto.

CPAU staff also administers several water conservation programs in-house. Later this year, CPAU will begin delivering Home Water Reports to residents in conjunction with Home Energy Reports. This additional water data will include information on water uses and tips and programs to improve water efficiency. Through [Amendment No. 3](#), Valley Water will reimburse CPAU for the Water Use Reports (both Residential and Commercial) for up to 50% of the cost of water use reports and up to \$4.50 per connection per year.

Under the proposed [Amendment No. 3](#), most rebates will continue to be funded by Valley Water, with the City matching payments to customers who reduce water usage. Palo Alto residents and businesses will be eligible to receive a slightly higher incentive than those from other water retailers in Santa Clara County for retrofits such as high-water use landscape conversion and custom facility process improvements for water efficiency. A new, innovative program Water Efficient Technology (WET) Rebate included in this MOU will encourage commercial, industrial and institutional water customers through implementing equipment changes that reduces commercial or facility water usage. Another new offering in the MOU is a submeter rebate program for mobile home parks and condominium complexes for adding residential submeters. Rebates for laundry-to-landscape gray water systems will provide a financial incentive to residents to reduce potable water landscape irrigation. The LRP provides rebates for residential and commercial customers to replace high water using landscape with low water use landscape. These programs will all be cost shared under this MOU.

[Amendment No. 3](#) adds cost sharing for seven (7) proposed new programs: Rain Barrel Rebate, Cisterns Rebate, Rain Garden Rebate, Graywater Laundry to Landscape Rebate, Submeter Rebate, Water Efficient Technologies Program and Water Use Reports. The Stormwater Program's current FY budget is \$25,000 for rebate disbursements. Though there has not yet been a reason to increase this amount, the City may choose to do so if there is enough Stormwater Program interest. This amendment 3 also adds cost sharing obligation for Valley Water, which is going from \$0 to \$750,000 for programs administered by CPAU.

Table 1 is a summary of the proposed [Amendment No. 3](#) contract costs reflecting funding for the cost sharing rebate amounts for rain barrels, cisterns, and rain gardens.

Table 1 A Summary of the MOU and Proposed Amendment No. 3

Contract	Increase to Contract Limit	City's Total Cost Obligation	End of Term (Total Term)
Valley Water MOU S17167654	N/A	\$255,000	2 ½ Years (1/1/17 - 6/30/19)
Amendment No.1	N/A	\$255,000	3 Years (1/1/17 - 12/31/19)
Amendment No.2	N/A	\$255,000	3 ½ Years (1/1/17 - 6/30/20)
Amendment No.3 (Proposed)	\$50,000	\$305,000	5 ½ Years (1/1/17 - 6/30/22)

The programs and their budgets in the proposed Amendment No. 3 are detailed in Revised Appendix A to the Agreement ([Attachment A](#)). These program targets are goals only; funding is interchangeable and useable by any of these programs as needed and agreed upon by Valley Water and City. The implementation and administrative functions for these programs (e.g. scheduling, budget tracking and invoicing, contractor oversight, customer service, and project reporting associated with program implementation) are done by Valley Water and City staff. Customer support, marketing and water savings reports are performed by City staff.

To ensure continued and aggressive water conservation efforts, staff recommends Council approve [Amendment No. 3](#) to the existing MOU with Valley Water to add an additional \$50,000 to City's funding obligation for a revised maximum City funding obligation total of \$305,000. The additional funding will ensure continued momentum of the eight effective water efficiency programs administered by Valley Water and City through June 30, 2022.

In addition to the proposed change to the maximum funding level in [Amendment No. 3](#), staff further recommends that Council authorize the City Manager or designee to make administrative changes to the targets, budget allocations and Palo Alto's cost per measure set forth in Revised Appendix A of the MOU, which will not increase the contract maximum. This will allow budget flexibility across the various water conservation programs covered under the MOU.

Resource Impact

The funds to support this [Amendment No. 3](#) are available within the Stormwater Management Fee Enterprise funds, subject to the approval of the FY2021 budget. Subsequent annual funding requests for programs will be included in the budget requests for FY2022. Staff will monitor the levels of MOU customer participation, rebate expenditures by program, and financial reports from Valley Water to ensure adequate budgetary oversight for the remainder of the MOU term.

Implementation of the proposed conservation programs will slightly reduce the City's water consumption and thus reduce water revenues to the Utility but will reduce water supply costs by a greater amount, reducing overall costs to the community. These water efficiency

programs are expected to be cost effective, meaning the cost of implementation will be lower than the water supply cost. Customer bills will be reduced over time as a result of the water savings achieved. Funds for these water efficiency measures are included in the FY21 water budget; approval of Amendment No. 3 will not result in a rate increase.

Policy Implications

The proposed [Amendment No. 3](#) to the MOU continues funding for water efficiency programs consistent with the 2015 Urban Water Management Plan ([Staff Report #6851](#)), the Utilities Strategic Plan, and the City's policy to reduce water usage by 20% by 2020 ([CMR:212:10](#)).

Council adopted the Sustainability and Climate Action Plan (S/CAP) ([Staff Report #7304](#)) in November 2016. This framework serves as a roadmap for achieving Palo Alto's water goals (4.1 Goal: Reduce consumption of water) and for developing the Sustainability Implementation Plan (SIP) ([Staff Report #8487](#)), and the programs enabled by [Amendment No. 3](#) directly support the City's goals and key actions set forth in the SIP.

The addition of stormwater-related programs supports implementation of the Green Stormwater Infrastructure (GSI) Plan accepted by Council in May 2019 ([Staff Report #9883](#)), helps meet requirements of San Francisco Bay Municipal Regional Stormwater Permit, and is consistent with Comprehensive Plan Policy N-4.13 ([Staff Report #9256](#)) and the S/CAP (GSI is a key action in Water section).

Community Engagement

Community engagement occurred through the process of adopting the policies above.

Environmental Review

Approval of the [Amendment No. 3](#) does not meet the definition of a project pursuant to Section 21065 of the California Public Resources Code, thus no environmental review under the California Environmental Quality Act (CEQA) is required, and the work performed by consultants and staff in connection with these programs is categorically exempt from CEQA pursuant to section 15301 of Title 14 of the California Code of Regulations.