



COUNCIL REPORT

DATE: November 15, 2022

CATEGORY: Consent

DEPT.: Public Works

TITLE: **Modification to Addendum No. 11 to Regional Water Quality Control Plant Basic Agreement**

RECOMMENDATION

Authorize the City Manager or designee to modify a term of Addendum No. 11 to the Basic Agreement between the cities of Palo Alto, Mountain View, and Los Altos by increasing the maximum financing authorization for the Secondary Treatment Upgrades Project to \$193 million at the Regional Water Quality Control Plant in Palo Alto.

BACKGROUND

On [September 13, 2022](#), the City Council approved the terms for Addendum No. 11 to the Basic Agreement between the cities of Palo Alto, Mountain View, and Los Altos for the following at the Regional Water Quality Control Plant in Palo Alto: (1) increase the maximum financing authorization for the Primary Sedimentation Tank Rehabilitation Project from \$17 million to \$19.4 million; and (2) construct the Secondary Treatment Upgrades Project with a maximum financing authorization of \$169 million.

ANALYSIS

On October 6, 2022, the City of Palo Alto received three bids for the Secondary Treatment Upgrades Project. The lowest responsible bid received is \$161,846,500, which is 36% higher than the Engineer's Estimate of \$119 million. As the three bids received are within 3.5% of each other, Palo Alto staff believes all the bidders had a good understanding of the scope of the project and the bids received are reflective of the current market value. Palo Alto staff also reported that nearby wastewater treatment plant projects in Sunnyvale and Union City received construction bids that were 40% to 100% higher than their Engineer's Estimates in the last year. The higher costs are likely attributed to inflation and the rising costs of materials and labor related to challenges in the ability to hire workers.

With the three bid prices close in range, the City of Palo Alto is not interested in rebidding the project, which may result in higher bids. In addition, the City of Palo Alto has already negotiated

a price for the Membrane Aerated Biofilm Reactor that they would have to renegotiate if they were to rebid the project as the bid price has a limited validation period.

Staff recommends that Council approve modifying the term in Addendum No. 11, approved by the City Council on September 13, 2022, to increase the financing authorization amount for the Secondary Treatment Upgrades Project from \$169 million to \$193 million.

FISCAL IMPACT

To fund the Secondary Treatment Upgrades Project cost increase, Palo Alto will request the State Water Resources Control Board to increase the amount of the State Revolving Fund (SRF) loan from \$169 million to \$193 million with the same terms as follows: 0.8% locked-in interest rate, a 30-year term, and debt payments that will start one year after the project’s substantial completion, estimated to be in 2028.

With the new loan amount, Palo Alto updated each partner agency’s share of the loan repayments, which are based on a percentage of the total wastewater flows. The estimated annual repayments to be contributed by each partner agency are summarized in the table below.

**CWSRF Loan Repayment Partner Agency Estimates
Secondary Treatment Upgrades (STU) Project**

Contributing Partner Agency	Percent Share	Annual Repayment¹
City of Palo Alto	38.16%	\$2,767,754
City of Mountain View	37.89%	\$2,748,171
City of Los Altos	9.47%	\$686,861
East Palo Alto Sanitary District	7.64%	\$554,131
Stanford University	5.26%	\$381,509
Town of Los Altos Hills	1.58%	\$114,598
Total:	100.00%	\$7,253,024

¹ Based on CWSRF loan amount of \$192,767,840 at 0.8% locked interest rate for 30-year term.

With the recommended increase in the financing from \$169 million to \$193 million, Mountain View’s estimated annual repayment will increase by \$343,705, from \$2,404,466 to \$2,748,171. Staff will review the Wastewater Fund in the upcoming budget cycle to determine if the planned annual 2% increases will need to continue beyond the original 10-year plan to handle the rising treatment plant capital costs.

ALTERNATIVES

1. Do not approve the modified term to the addendum to the Basic Agreement and direct staff to work with the City of Palo Alto staff to identify other alternatives.
2. Provide other direction.

PUBLIC NOTICING—Agenda posting.

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