



DATE: March 20, 2018

CATEGORY: Consent

DEPT.: Public Works

TITLE: **Approve Amendment to the Regional Water Quality Control Plant Basic Agreement**

RECOMMENDATION

Authorize the City Manager to execute Addendum No. 9 to the Basic Agreement between the cities of Palo Alto, Mountain View, and Los Altos to allow an alternate strategy for funding the planning/design costs for the primary sedimentation tank rehabilitation, fixed film reactor rehabilitation, and the laboratory/environmental services building.

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 per 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 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.

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.

Council approved Amendment No. 8 in 2015 to 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 amendment included an authorization for Palo Alto to apply for a State Revolving Fund (SRF) loan (maximum of \$6.75 million) for the planning/design costs, and extended the term of the Partners Agreement from July 1, 2035 to December 31, 2060.

ANALYSIS

SRF loans have historically been a very low-cost option for funding construction projects and the demand for the loans is rapidly increasing. Because requests for SRF funding exceeded the program resources, Palo Alto was unable to obtain a loan for the planning/design costs. Amendment No. 8 specified use of an SRF to pay these costs and a revision of the Partners Agreement is needed to allow use of an alternative mechanism such as using funds from the treatment plant budget or issuing revenue bonds. The estimated cost of the planning/design work has decreased to \$5.8 million from \$6.75 million, although the City approved the higher amount in Amendment No. 8. If Amendment No. 9 is approved by the partner agencies, the planning/design costs will be funded as follows:

1. The initial \$3.4 million of costs will be paid from the RWQCP's existing small capital project budget.

2. The remaining estimated \$2.4 million of costs (to a maximum of \$3.35 million as authorized in Amendment No. 8) will be billed (as incurred) to the partners on a quarterly basis.
3. When construction funding is secured, any remaining planning/design expenses will be included in the new funding source. The funding may be an SRF, revenue bonds, or a similar vehicle, but will be determined at a later date. Staff will return to Council with an amendment to the Partners Agreement approving the construction financing strategy.

FISCAL IMPACT

The \$6.75 million planning/design loan approved in Amendment No. 8 was anticipated to necessitate 10 annual payments of \$282,000 (City of Mountain View's share) beginning in Fiscal Year 2018-19, but this cost will not be incurred due to Palo Alto's use of the small capital project budget. Staff anticipates the existing \$3.4 million budgeted for small capital projects will fund planning/design costs through at least Fiscal Year 2018-19, and does not anticipate receiving bills for additional expenses until Fiscal Year 2019-20. The City's estimated share of the remaining work to be charged is approximately \$936,000, with a maximum of \$1,307,000, which staff anticipates will be spread over two to three years. Because this strategy uses a combination of existing funds and future payments, the City's net cost will be reduced as no loan payments will be necessary. These costs were included in the future capital expenditures forecasted for the Treatment Plant for which City Council approved a gradual phase-in of a 20.0 percent rate increase (2.0 percent per year over 10 years) needed to fund these long-term capital costs.

CONCLUSION

The 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 allow an alternate strategy for funding the planning/design costs for the primary sedimentation tank rehabilitation, fixed film reactor rehabilitation, and the laboratory/environmental services building.

ALTERNATIVE

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

PUBLIC NOTICING – Agenda posting.

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GAH/TS/2/CAM
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