



## JOINT REPORT

**DATE:** May 13, 2025

**CATEGORY:** Consent

**DEPT.:** Public Works

**TITLE:** **Recycled Water Service Agreement  
Amendment No. 2 with Palo Alto**

### **RECOMMENDATION**

1. Authorize the City Manager or designee to execute Amendment No. 2 to the First Amended and Restated Contract No. C059999 between the City of Palo Alto and the City of Mountain View to allocate cost-sharing for the design, construction, and operations of Phase 1 of the Advanced Water Purification System at the Regional Water Quality Control Plant.
2. Adopt a Resolution of the City Council of the City of Mountain View to Authorize Payment of \$22.0 Million (\$22,000,000) to the City of Palo Alto as a Pay-As-You-Go Contribution Toward the Capital Cost of the Phase 1 Advanced Water Purification System Project (Project) and Assume Responsibility for the Payment of Principal and Interest on a \$10.5 Million (\$10,500,000) Loan to be Obtained by the City of Palo Alto for the Project, to be read in title only, further reading waived (Attachment 1 to the Council report).
3. Acting in its capacity as Board of Directors of the Shoreline Regional Park Community, approve reserving \$22.0 million in the Shoreline Regional Park Community Fund as a cash contribution for the capital cost of the project. Appropriate the \$22.0 million as follows:
  - Appropriate \$17.0 million from the Shoreline Regional Park Community Fund reserve to the project in Fiscal Year 2025-26.
  - Appropriate \$5.0 million from the Shoreline Regional Park Community Fund reserve to the project in Fiscal Year 2026-27.
4. Acting in its capacity as Board of Directors of the Shoreline Regional Park Community, adopt a Resolution of the Shoreline Regional Park Community Board of Directors Authorizing the Community Manager to Enter into an Agreement for \$22.0 Million (\$22,000,000) with the City of Mountain View for the Capital Cost of the Phase 1 Advanced Water Purification System Project, to be read in title only, further reading waived (Attachment 2 to the Council report).

## **BACKGROUND**

### **Regional Water Quality Control Plant Facilities and Customers**

The City of Mountain View (City or Mountain View) is a partner agency of the Regional Water Quality Control Plant (RWQCP), which treats wastewater from the cities of Palo Alto, Mountain View, Los Altos, East Palo Alto, the Town of Los Altos Hills, and Stanford University (collectively referred to as the Partner Agencies). The RWQCP is owned and operated by the City of Palo Alto (Palo Alto). The current recycled water distribution system was completed in 2009.

Mountain View and Palo Alto have been beneficially reusing recycled water from the RWQCP for nonpotable uses for many years (such as for irrigation, toilet flushing, and environmental flows). Recycled water use alleviates demands on the City's imported water supplies and increases overall availability of water to the City, especially during dry years. Mountain View currently requires use of recycled water for irrigation in the Shoreline Regional Park Community and recycled water dual-plumbing for nonresidential buildings larger than 25,000 square feet Citywide. Figure 1 shows Mountain View's existing and future planned recycled water customers (from the City's updated Recycled Water Feasibility Study, approved [March 22, 2022](#)), as well as the existing and future recycled water facilities. The City currently serves 60 recycled water sites, with plans to expand to reach more users within the City and the adjacent federal NASA Ames Center at Moffett Field. Palo Alto currently serves eight (8) recycled water sites and has no current plans for expansion.



To improve the quality of recycled water following completion of the distribution system, the cities of Palo Alto and Mountain View adopted a Salinity Reduction Policy in 2010 with the stated goal of reducing recycled water salinity to 600 parts per million (ppm) (expressed as total dissolved solids—or TDS). In the years following adoption of the Salinity Reduction Policy, the Partner Agencies implemented multiple projects that successfully reduced the recycled water TDS from approximately 1,200 ppm to 800 ppm. Despite this progress, the projects were unsuccessful in meeting the Salinity Reduction Policy goal, and ultimately it was decided that an Advanced Water Purification System (AWPS) would be necessary to reach 600 ppm TDS.

Design for the AWPS is now complete, and Palo Alto has received bids for construction of Phase 1. Prior to Palo Alto awarding the construction contract, Palo Alto and Mountain View must finalize the cost-share terms. Council authorized the City Manager to negotiate a cost-sharing agreement on [June 27, 2023](#), according to the following key terms:

1. Mountain View would contribute up to 100% of the Mountain View/Palo Alto capital cost-share (then estimated at approximately \$27.4 million).
2. Mountain View would contribute operations and maintenance costs proportional to the volume of enhanced recycled water received.

Staff has completed negotiations with Palo Alto and recommends that Council approve the cost-sharing terms through a second amendment to the “First Amended and Restated Contract No. C059999 between the City of Palo Alto and the City of Mountain View,” as amended August 28, 2017 (referred to herein as the “Recycled Water Service Agreement”). The new cost-sharing terms must be finalized before Palo Alto can accept a bid for construction of the Phase 1 AWPS. The Palo Alto City Council is expected to consider the bid acceptance and this Amendment No. 2 on May 19, 2025.

## **ANALYSIS**

### **Palo Alto Bid Solicitation Results and Final Capital Cost**

In response to its solicitation, Palo Alto received six bids for construction of the AWPS ranging from \$47.3 million to \$72.8 million. Table 1 lists the final project cost based on the lowest responsible bid received including add alternates and contingencies.

**Table 1: Summary of AWPS Capital Costs**

<b>Item</b>	<b>Project Capital Costs</b>
Program Management	\$ 319,000
Design	3,183,000
Construction, including Construction Contingency	52,010,000
Construction Management	4,151,000
Other	284,000
<b>TOTAL AWPS CAPITAL COST</b>	<b>\$59,947,000</b>

To support construction of the AWPS, Palo Alto and Mountain View have secured funding from the Santa Clara Valley Water District (Valley Water) through the Partnership to Advance Resilient Water Reuse Programs in Santa Clara County (2019 Valley Water Agreement) and from the United States Bureau of Reclamation (USBR) WaterSMART Title XVI WIIN Act grant program

(awarded in 2022). Palo Alto (through its role as RWQCP owner/operator) has also applied for a Clean Water State Revolving Fund (SRF) loan and can receive up to \$56,279,960 to cover the cost of the project (Table 2).

**Table 2: Summary of Proposed Funding**

<b>Funding Sources</b>	<b>Funding Amount</b>
USBR Grant <sup>1</sup>	\$10,447,730 <sup>1</sup>
Valley Water Funding <sup>2</sup>	17,000,000
Remaining Capital Cost (to be funded through the proposed Amendment No. 2 to the cost-share agreement)	32,499,270
<b>TOTAL FUNDING</b>	<b>\$59,947,000</b>

Based on the final bid results and expected funding sources, the anticipated Mountain View/Palo Alto capital cost-share is estimated at \$32.5 million. When staff presented to Council in June 2023, costs were estimated based on the 90% design with a total project cost of \$56.3 million. With completion of 100% design documents, the estimated project cost increased to \$66.8 million. As a result of the bid, the total capital cost of \$59.9 million is lower than the 100% estimate, resulting in some savings.

Over this same period, the USBR implemented a new policy that has reduced the initial construction reimbursement by \$2.4 million (from \$12.8 million to \$10.4 million). Although this additional grant funding could still be recovered, Mountain View is uncertain of the conditions needed for allocation of this additional amount. The combination of these factors results in a Remaining Capital Cost that is \$5.1 million higher than was previously estimated (\$32.5 million versus \$27.4 million).

### **Negotiated Mountain View/Palo Alto AWPS Cost-Share Terms**

The AWPS cost-share terms negotiated by staff pertain to capital costs as well as operation and maintenance costs, as described in the following sections.

#### *AWPS Capital Cost Allocation*

Mountain View and Palo Alto will both contribute to the Phase 1 AWPS capital costs through their respective shares of external funding secured for the project. Additionally, consistent with the

<sup>1</sup> Palo Alto applied for and obtained the USBR Grant for the project. Staff's current understanding of the USBR Grant includes an initial award of \$10,447,730, with an additional \$2,420,145 reserved for contingency to be potentially allocated upon completion of the project.

<sup>2</sup> The original amount of Valley Water funding was \$16,000,000; with annual interest accrued, the amount is estimated at \$17,000,000.

June 2023 Council approval, the City will pay 100% of the Remaining Capital Cost of \$32.5 million shown in Table 1. This share would be paid through a combination of a cash contribution and the SRF loan which has been secured by Palo Alto. Mountain View will pay the principal and interest for this loan.

Staff proposes that Mountain View's \$32.5 million cost-share be funded by the sources identified in Table 3.

**Table 3: Mountain View's Total Capital Cost Contribution**

<b>Mountain View Funding Sources</b>	<b>Amount</b>
Cash contribution from Shoreline Regional Park Community Fund	\$22,000,000
State Revolving Fund (SRF) loan issued by City of Palo Alto and repaid by Mountain View (with interest)	10,500,000
<b>MOUNTAIN VIEW TOTAL PROJECT CONTRIBUTION</b>	<b>\$32,500,000</b>

Mountain View's \$22.0 million cash contribution is recommended to be funded by the Shoreline Regional Park Community (SRPC) Fund through an agreement between SRPC and the City so that there is a proper method for SRPC to compensate the City for SRPC's share of the service received through this agreement. Mountain View City Code requires use of recycled water for irrigation in the SRPC and recycled water currently serves only the Shoreline Community.

The cash contribution payments would be made at various intervals depending on the construction progress, according to the schedule shown in Table 4.

**Table 4: Schedule of Mountain View's Capital Cost Cash Contribution**

<b>Time</b>	<b>Amount</b>
Within 30 days of issuing the construction Notice-to-Proceed	\$ 7,000,000
When 50% of total project costs have been incurred (\$10 million spent)	10,000,000
When 80% of total project costs have been incurred (\$48 million spent)	5,000,000
<b>Total</b>	<b>\$22,000,000</b>

The cash contribution assists Palo Alto with cash flow for expenditure payments as the USBR and SRF funds are reimbursements that Palo Alto would receive months after making payments.

The City's remaining capital cost share would be funded through the low-interest SRF loan secured by Palo Alto—to be paid through debt service allocated to the Water Fund. Financing terms for the SRF loan are a 30-year repayment term with a locked interest rate of 1.7%. Under these terms, an annual debt service payment of up to \$450,000 is expected, which could be reduced if the USBR releases all or some of the additional \$2.4 million it has reserved for the project. The exact amount USBR may release is uncertain, but if the full \$2.4 million is released,



the City's SRF debt-service payment would be reduced to approximately \$350,000 annually on a reduced loan amount of \$8.1 million. Repayment of the SRF loan will begin once construction is complete, which is anticipated in Fiscal Year 2028-29. This new debt service would overlap with and eventually replace the City's existing \$300,000 annual recycled water debt service which was used to construct recycled water pipelines from Palo Alto to North Bayshore, for which final payment is due on June 30, 2029.

Staff has also prepared for a possibility that all USBR grant funding could be in jeopardy under the current Federal administration, despite the grant already having been awarded. State Department of Finance staff recommended that Palo Alto retain the entire SRF amount of \$56.3 million and to confirm the final amount with the state at the end of construction. The SRF program will reimburse Palo Alto throughout the course of the project when Palo Alto applies for reimbursements. Loan payments to the State are slated to begin in Fiscal Year 2028-29 after project completion. If the USBR were to rescind its previously awarded grant and use of the SRF loan amount increases, it would effectively double the City's debt service repayment amount to approximately \$900,000. Any action to replace previously awarded federal grants would require Council consideration to increase the City's cost share to the Project.

#### *AWPS Operation and Maintenance Cost-Allocation*

Costs related to operations and maintenance of the AWPS will be apportioned between the agencies using recycled water according to their proportional use. Mountain View currently uses 66% of the recycled water produced at the RWQCP, which is estimated to increase to 69% upon completion of the AWPS and to 76% after 10 years of operation.<sup>3</sup> Under this scenario, the estimated AWPS operating and maintenance cost estimates for Mountain View range from \$575,600 to \$872,800 (Year 1 and Year 10, respectively), and Palo Alto's costs are estimated between \$264,600 and \$277,100 (Year 1 and Year 10, respectively). However, the final costs will depend on actual proportional use at that time and actual costs incurred.

#### **Additional Changes Included in Amendment No. 2**

Several other key terms are included in the proposed Amendment No. 2 for clarity, consistency with other existing agreements, to protect Mountain View's AWPS capital contribution, and to ensure appropriate allocation of flow-based costs:

- **Consistency with 2019 Valley Water Agreement:** Language has been added to reflect terms included in Palo Alto and Mountain View's 2019 agreement with Valley Water that dictates how water would be split in the event insufficient flows are available to meet contractual obligations (approved on [November 18, 2019](#)).

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<sup>3</sup> Table 7: AWPS Phase 1 Total Cost Allocations by Year (Scenario B). Preliminary Finance Plan for the Advanced Water Purification System Phase 1, Woodard & Curran and Bartle Wells Associates, April 10, 2023.

- Statewide General Order: Individual recycled water permit holders, such as Palo Alto, are being transitioned over to a new Statewide General Order. Language has been added to Amendment No. 2 referencing this transition and the expected roles Mountain View, Palo Alto, and NASA Ames will play under the new General Order.
- Master Meter: Requires installation of a City-line master meter to measure recycled water flow into Mountain View.
- Protecting Mountain View's Capital Investment: Several sections are amended to protect the City's capital cost contributions for the AWPS. The amendment requires meet-and-confer if Palo Alto significantly increases (or plans to increase) its recycled water use, if another Partner Agency plans to begin using recycled water, or if the enhanced recycled water fails to meet specific thresholds related to flow and TDS levels. Language has been added to the early termination clause to ensure Mountain View is involved in any discussions related to potential early termination due to unforeseen issues (e.g., construction or grant funding).

### **FISCAL IMPACT**

Mountain View's updated estimated costs for Phase 1 of the AWPS for design, construction, and construction management include up to \$32.5 million in capital costs (plus loan interest, where applicable), and annual operating costs estimated between \$580,000 and \$880,000 starting in Fiscal Year 2028-29.

Staff recommends creation of a \$22.0 million reserve in the SRPC Fund and appropriations from this reserve in the amounts of \$17.0 million in Fiscal Year 2025-26 and \$5.0 million in Fiscal Year 2026-27 as a cash contribution for the majority of the City's capital cost-share for the AWPS project. The remaining \$10.5 million capital cost-share would be funded through a 30-year SRF loan secured by Palo Alto and repaid by Mountain View. The estimated \$450,000 annual debt service payment would be funded by the Water Fund, with payments started once construction is complete (estimated in Fiscal Year 2028-29).

Annual operations and maintenance costs for the AWPS would be primarily paid out of the Water Fund and funded by rates. The recently completed rate study, which was the basis for last year's utility rate hearing, included an estimated \$1.24 million annual payment for AWPS debt-service and operations and maintenance starting in Fiscal Year 2028-29 (and increasing over time, based on the 2023 Preliminary Finance Plan). Palo Alto, as the RWQCP Administrator, may determine that some portion of the AWPS operations and maintenance benefits the wastewater treatment process, and these charges would be paid by the Wastewater Fund through rates.



**LEVINE ACT**

California Government Code Section 84308 (also known as the Levine Act) prohibits city officials from participating in any proceeding involving a “license, permit, or other entitlement for use” if the official has received a campaign contribution exceeding \$500 from a party, participant, or agent of a party or participant within the last 12 months. The Levine Act is intended to prevent financial influence on decisions that affect specific, identifiable persons or participants. For more information see the Fair Political Practices Commission website: [www.fppc.ca.gov/learn/pay-to-play-limits-and-prohibitions.html](http://www.fppc.ca.gov/learn/pay-to-play-limits-and-prohibitions.html)

Please see below for information about whether the recommended action for this agenda item is subject to or exempt from the Levine Act.

**EXEMPT FROM THE LEVINE ACT**

☒ Contract between two or more state or local government agencies

**CONCLUSION**

The City of Palo Alto is ready to accept the lowest responsible bid for construction of the Advanced Water Purification System, which will improve the City’s recycled water quality and help to meet the adopted Salinity Reduction Policy goals. Mountain View and Palo Alto have negotiated Amendment No. 2 to the Recycled Water Service Agreement to allocate cost-sharing for the Project. The negotiated cost-share includes a \$22.0 million payment to Palo Alto as a pay-as-you-go contribution toward the capital cost of the Project provided by the SRPC, assumption of responsibility for principal and interest on a \$10.5 million loan to be obtained by Palo Alto for the Project, and an estimated \$580,000 annual operations and maintenance costs, depending on Mountain View’s percentage of recycled water usage, starting in Fiscal Year 2028-29 (and increasing over time as recycled water use within the City increases).

**ALTERNATIVES**

1. Do not authorize the City Manager or designee to execute Amendment No. 2 to the Recycled Water Service Agreement.
2. Do not adopt a resolution authorizing payment of \$22.0 million to the City of Palo Alto and assumption of responsibility for repayment of principal and interest on a \$10.5 million loan obtained by Palo Alto as the City’s cost-share for the capital cost of the Project.
3. Do not adopt a resolution authorizing an agreement for \$22.0 million from the SRPC Fund to the City for the capital cost of the Project and direct staff to identify an alternative funding source.
4. Provide other direction.

**PUBLIC NOTICING**—Agenda posting.

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EF/LL/4/CAM  
703-05-13-25CR  
205061

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Attachment:   1.    Resolution of the City of Mountain View City Council  
                  2.    Resolution of the Shoreline Regional Park Community Board of Directors

cc:   FASD, AFASD, SMA—Goedicke