



City Council Staff Report

From: City Manager
Report Type: CONSENT CALENDAR
Lead Department: Public Works

Meeting Date: April 7, 2025

Report #:2501-4068

TITLE

Approval of Effluent Transfer Agreement Between the City of Palo Alto and the Town of Los Altos Hills; CEQA Status - Not a Project

RECOMMENDATION

Staff recommends that City Council approve and authorize the City Manager or their designee to execute the Effluent Transfer Agreement between the City of Palo Alto and the Town of Los Altos Hills, authorizing Palo Alto to proportionally distribute a portion of Valley Water funding to the Town of Los Altos Hills, consistent with the Partnership Agreement to Advance Resilient Water Reuse Programs in Santa Clara County with Valley Water.

BACKGROUND

In December 2017, Council adopted the Sustainability and Climate Action Plan (S/CAP) Sustainability Implementation Plan (SIP).¹ The SIP included a key action to explore the most effective uses of recycled water, both inside and outside Palo Alto.

Valley Water is the major wholesaler of water in Santa Clara County. In December 2019, the cities of Palo Alto and Mountain View entered into the Partnership Agreement to Advance Resilient Water Reuse Programs in Santa Clara County (Partnership Agreement) with Valley Water.² The Partnership Agreement grants Valley Water an option to take approximately half of the effluent produced at the Regional Water Quality Control Plant (RWQCP). If Valley Water exercises the option, it would then purify the effluent and use it for groundwater recharge south of Mountain View.³ Palo Alto agreed to make good faith efforts with its partner agencies

¹ City Council, December 11, 2017; Agenda Item #15; SR #8487, <https://portal.laserfiche.com/Portal/DocView.aspx?id=50892&repo=r-704298fc&searchid=f18a7ce0-7303-4a46-8ce8-40f55227e9bf>

² City Council, November 18, 2019; Agenda Item #17; SR #10627, <https://portal.laserfiche.com/Portal/DocView.aspx?id=137909&repo=r-704298fc>

³ City Council, September 12, 2022; Agenda Item #3; SR #14650, <https://portal.laserfiche.com/Portal/DocView.aspx?id=59240&repo=r-704298fc&searchid=1fc7f635-8174-45b3-b0b1-cd496145aa8f>

(the Cities of Los Altos and East Palo Alto, the Town of Los Altos Hill, and Stanford University) to secure the right to their shares of effluent to meet the future effluent transfer agreement demands. In exchange, Valley Water makes an annual payment of \$200,000 (adjusted annually for inflation) split among Palo Alto, Mountain View, and any of the other partners that commit their effluent. Of this amount, \$100,000 is split evenly between Palo Alto and Mountain View and \$100,000 is split among partners who enter into an effluent transfer agreement. The City of Los Altos was the first partner to sign an effluent transfer agreement⁴ and the Town of Los Altos Hills would be the second.⁵

ANALYSIS

The Effluent Transfer Agreement with the Town of Los Altos Hills will commit a portion of the Town of Los Altos Hills' effluent to Valley Water under the Partnership Agreement. This commitment increases the scale of potential regional water reuse.

The Partnership Agreement specifies that a small partner must approve the Effluent Transfer Agreement prior to January 31 to be eligible for its share of the \$100,000 for the fiscal year during which the approval occurred and ongoing. The Town of Los Altos Hills is the second small partner to approve the Effluent Transfer Agreement. The \$100,000 payment for small partners will be split between the City of Los Altos and the Town of Los Altos Hills based on the share of effluent committed. Since the execution of the Partnership Agreement in 2019, the annual option payment has been increasing by the CPI and for FY 2025, the payment will be around \$115,000. Staff calculates that for FY 2025, the City of Los Altos will receive \$95,000 and the Town of Los Altos Hills will receive \$20,000.

These payments reflect consideration for Valley Water's option; if Valley Water ultimately constructs a project that takes the effluent from the RWQCP, then Valley Water will pay \$1 million per year to be allocated among the RWQCP Partners that commit their effluent to the transfer. At that time, staff would return to Council to discuss allocation of the increased revenue stream. The term of potential RWQCP effluent delivery to Valley Water is 63 years.

In 2022 and 2023, Palo Alto and Valley Water explored allowing Valley Water to construct a regional water purification facility on a City-owned parcel on North San Antonio Road. However, in 2024 Valley Water decided not to pursue the project due to financial constraints. Valley Water's future plans are unknown at this time.

⁴ City Council, June 7, 2021; Agenda Item #2; SR #11773, <https://portal.laserfiche.com/Portal/DocView.aspx?id=113&repo=r-704298fc&searchid=a7a111f4-ca05-4303-9d28-cd569937048e>

⁵ Town of Los Altos City Council, December 19, 2024; Agenda Item #6J, <https://losaltoshillsca.portal.civicclerk.com/event/3694/files/report/280>

FISCAL/RESOURCE IMPACT

This recommendation will have a net-zero financial impact for Fiscal Year 2025 and subsequent fiscal years. The approval of the Effluent Transfer Agreement does not generate new revenue. In accordance with the Partnership Agreement with Valley Water, the annual base payment is \$200,000, with an annual adjustment based on CPI. Approval of this second Effluent Transfer Agreement will authorize Palo Alto to proportionally distribute a portion of the annual option payment from Valley Water to the City of Los Altos and the Town of Los Altos Hills as described in Article 6 – Section “C” of the Partnership Agreement. The proportional distribution of this revenue will occur through a credit applied during the standard true-up process in the second quarter billing.

STAKEHOLDER ENGAGEMENT

The staff report for the September 12, 2022, Council meeting describes the full stakeholder engagement process.⁶

ENVIRONMENTAL REVIEW

Council action on this item is not a project as defined under the California Environmental Quality Act (CEQA) because the effluent transfer agreement is a fiscal activity which does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment. CEQA Guidelines section 15378(b)(4).

If Valley Water resumes activities related to the development of a Regional Purification Facility, then Valley Water will be responsible for compliance with environmental regulations including CEQA and NEPA Review, as applicable.

ATTACHMENTS

Attachment A: LAH RWQCP Effluent Transfer Agreement - LAH Signed

APPROVED BY:

Brad Eggleston, Director Public Works/City Engineer

⁶ City Council, September 12, 2022; Agenda Item #3; SR #14650,
<https://portal.laserfiche.com/Portal/DocView.aspx?id=59240&repo=r-704298fc&searchid=1fc7f635-8174-45b3-b0b1-cd496145aa8f>