



CITY OF  
**PALO  
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## City Council Staff Report

**From: City Manager**

**Report Type: CONSENT CALENDAR**

**Lead Department: Public Works**

**Meeting Date: December 16, 2024**

Report #:2411-3772

### **TITLE**

Adoption of Resolutions Authorizing an Installment Sale Agreement with the California State Water Resources Control Board for Financing of the Local Advanced Water Purification System Project (WQ-19003); CEQA Status - Addendum to the 2015 Environmental Impact Report for the Palo Alto Recycled Water Project (SCH 2011062037)

### **RECOMMENDATION**

Staff recommends that City Council:

1. Adopt the final closing resolution authorizing an Installment Sale Agreement with the California State Water Resources Control Board in connection with the financing of the design and construction of the Local Advanced Water Purification System Project (WQ-19003); and
2. Adopt a revised resolution amending the anticipated maximum amount of Local Advanced Water Purification System project expenditures to be reimbursed by proceeds from the Clean Water State Revolving Fund.

### **EXECUTIVE SUMMARY**

Staff recommends Council adopt the proposed resolutions to finalize financing from the Clean Water State Revolving Fund for the Local Advanced Water Purification System project.

The Local Advanced Water Purification System will improve the recycled water quality by reducing the total average concentration of salts from 800 ppm to  $450 \pm 50$  ppm by blending reverse osmosis product water with the existing recycled water. After approving a design contract, City Council approved a Financing Plan for the Project and directed staff to secure financing and to solicit bids for a construction contract and a construction management services contract.

## BACKGROUND

The Regional Water Quality Control Plant (RWQCP) treats wastewater from a total of six communities (Partner Agencies) and also produces approximately 230 million gallons per year of tertiary-treated recycled water for beneficial reuse.

On January 25, 2010, City Council approved the Recycled Water Salinity Reduction Policy, including a goal of reducing the recycled water salinity as measured by total dissolved solids (TDS) to under 600 parts per million (ppm).<sup>1</sup> In the following years, the City and the other Partner Agencies completed several projects to reduce the infiltration. The repairs reduced the salts entering the RWQCP, but not by enough to reach the target.

In 2017, City Council approved the Preliminary Conceptual Design Report for a phased Local Salt Removal Facility (Local Advanced Water Purification System or Local AWPS).<sup>2</sup> The Local AWPS will improve the recycled water quality by reducing its average concentration of TDS from 800 ppm to 450 ± 50 ppm by blending reverse osmosis product water with the existing recycled water. The highly treated water will enable the City as well as Mountain View to expand non-potable recycled water use and/or provide a first step toward small-scale direct or indirect potable reuse in the City.

In December 2019, the City, Mountain View, and the Santa Clara Valley Water District (Valley Water) signed an Agreement to Advance Resilient Water Reuse Programs in Santa Clara County.<sup>3</sup> The Agreement included funding of \$16 million from Valley Water that could be put towards finalizing the design and construction of the Local AWPS and in March 2021, the City hired Black & Veatch for the design.<sup>4</sup>

In October 2023, City Council approved a Financing Plan for the Project and directed staff to secure financing and to solicit bids for a construction contract and a construction management services contract.<sup>5</sup> Under the Financing Plan, the City of Mountain View will cover the remaining capital cost aside from federal and local funding.

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<sup>1</sup> City Council, January 25, 2010; Agenda Item #9, SR #111:10, <https://portal.laserfiche.com/Portal/DocView.aspx?id=55114&repo=r-704298fc>

<sup>2</sup> City Council, May 16, 2016; Agenda Item #6, SR #6458, <https://portal.laserfiche.com/Portal/DocView.aspx?id=51152&repo=r-704298fc&searchid=18484d70-0fd1-41af-8a88-b2488233be94>

<sup>3</sup> City Council, November 18, 2019; Agenda Item #17, SR #10627, <https://www.cityofpaloalto.org/files/assets/public/v/1/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2019/id-10627-mini-packet-11182019.pdf?t=60382.02>

<sup>4</sup> City Council, March 3, 2021; Agenda Item #3, SR #11782, <https://portal.laserfiche.com/Portal/DocView.aspx?id=95&repo=r-704298fc&searchid=c6020df0-5272-425f-a399-0d29b1a69b64>

<sup>5</sup> City Council, October 16, 2023; Agenda Item #10, SR#2308-1863, <https://portal.laserfiche.com/Portal/DocView.aspx?id=67870&repo=r-704298fc>

In May 2024, City Council approved an application for a Site and Design Review and Design Enhancement Exception to allow construction of this Project following the recommendations of the Planning and Transportation Commission (PTC) and the Architectural Review Board (ARB).<sup>6</sup>

An Invitations for Bids for the Local AWPS was published in November 2024.

The State Water Resources Control Board (SWRCB) Division of Financial Assistance administers the Clean Water State Revolving Fund (SRF) program. The SRF program provides low interest financing to agencies for water and wastewater projects. Under this program, eligible projects can apply for loans with interest rates that are approximately half of the State General Obligation rate, resulting in lower project costs and maximizing benefits to ratepayers and partner agencies.

The City has previously obtained SRF loans for the following projects:

- Palo Alto/Mountain View Recycled Water Pipeline project (\$9.0 million, 20-year term, Agreement 07-814-550);
- Ultraviolet Disinfection Facility (\$8.5 million, 20-year term, Agreement 09-814-550);
- Sludge Dewatering and Truck Loadout Facility (\$25.7 million, 30-year term, Agreement D16-01034);
- Primary Sedimentation Tanks Rehabilitation and Equipment Room Electrical Upgrade Project (\$19.4 million, 30-year term, Agreement D20-01009); and
- Secondary Treatment Upgrades Project (\$193 million, 30-year term, Agreement D2101050)

On November 18, 2019, Council approved the adoption of two resolutions to obtain SRF financing for the Local AWPS<sup>7</sup>:

- Resolution 9867 authorizing the City Manager or designee to execute and submit a SRF financial assistance application to the SWRCB on behalf of the RWQCP for the planning, design, and construction of the Local AWPS project, and execute SRF financial assistance agreements and any amendments with the SWRCB.<sup>8</sup>
- Resolution 9868 designating the amount of the Local AWPS project expenditures to be reimbursed by proceeds from SRF.<sup>9</sup>

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<sup>6</sup> City Council, May 13, 2024; Agenda Item #11, SR#2404-2760

<https://portal.laserfiche.com/Portal/PdfViewer.aspx?file=https%3A%2F%2Fportal.laserfiche.com%2FPortal%2FElectronicFile.aspx%3Fdocid%3D72055%26repo%3Dr-704298fc%26pdfView%3Dtrue#page=153>

<sup>7</sup> City Council, November 18, 2019; Agenda Item 9, SR#10734

<https://www.cityofpaloalto.org/files/assets/public/v/1/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2019/id-10734-resolutions-for-awps-1-mgd-funding.pdf?t=66756.55>

<sup>8</sup> City Council Resolution 9867, 2019; <https://portal.laserfiche.com/Portal/DocView.aspx?id=18335&repo=r-704298fc&searchid=6ac11711-9435-47be-ae6c-8b6ff1570fba>

<sup>9</sup> City Council Resolution 9868, 2019; <https://portal.laserfiche.com/Portal/DocView.aspx?id=18336&repo=r-704298fc&searchid=09c160dc-28d5-4df8-a270-7269f4b020b0>

## **ANALYSIS**

### Closing Resolution for Installment Sale Agreement

The SWRCB completed their review of the City's loan application for the Local AWPS, and in conjunction with the City Attorney's Office, prepared the loan document, or Installment Sale Agreement (ISA).<sup>10</sup> As authorized under Resolution 9867, the Manager of the RWQCP has signed the ISA on behalf of the City. For the ISA to be executed by the SWRCB, a closing resolution (Attachment A) is required.

Execution of the ISA does not obligate the City to borrow funds. The ISA currently provides funding in an amount not to exceed \$56,279,960, pending the City's approval of the construction contract, as well as both parties' approval and execution of the ISA. This amount is based on the Engineer's 90% construction estimate (October 2022). The estimated capital cost is \$66.8 million based on the project's revised 100% design (July 2024). The ISA project funding amount may be amended to reflect a higher funding amount following submission of a final budget approval package.

The SRF loan interest rate has been locked at 1.7% for a 30-year term. The SRF loan will cover construction, construction contingency, planning, design, capital program administration, and construction management costs. Staff will return to Council with an Amendment to the existing Recycled Water Agreement between Palo Alto and Mountain View with these payment terms.

### Resolution Amending the Anticipated Maximum Loan Amount

Existing Resolution No. 9868 authorized reimbursement of funding with a maximum principal amount of \$22 million based on the 2017 preliminary design cost estimate. As reviewed with Council on October 16, 2023, due to increases in construction prices as well as refinement of design elements, the cost estimate of the Local AWPS following the detailed design is significantly higher, and the 100% design project cost estimate is \$66.8 million.<sup>11</sup> A revised reimbursement resolution is required to align the intended principal amount with the updated 100% cost estimate (Attachment B).

### Statutory Disclosures

Government Code Section 5852.1 requires that certain cost information be disclosed prior to authorizing the issuance of a bond. That statute defines the term "bond" broadly enough so as to likely include the SRF loan financing agreements. The required disclosures are included as Attachment C.

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<sup>10</sup> California State Water Resources Control Board Construction Installment Sale Agreement for AWPS Project, 2024; <https://www.cityofpaloalto.org/files/assets/public/v/2/public-works/rwqcp/california-water-board-state-revolving-fund-agreement-awps.pdf>

<sup>11</sup> City Council, October 16, 2023; Agenda Item #10, SR#2308-1863, <https://portal.laserfiche.com/Portal/DocView.aspx?id=67870&repo=r-704298fc>

## FISCAL/RESOURCE IMPACT

Funding for the Local AWPS will be provided through contributions from the City of Mountain View, Valley Water, and U.S. Bureau of Reclamation (USBR) as well as the SRF loan.<sup>12,13</sup>

<b>Table #1: Summary of Available External Funding (based on 100% design contract documents)</b>	
<b>Item/Funding Source</b>	<b>Amount</b>
Valley Water Funding <sup>1</sup>	\$17,000,000
US Bureau of Reclamation Grant	\$12,867,875
Remaining Capital Cost to be Paid by Mountain View (partially covered by SRF Loan)	\$37,000,000
<b>TOTAL</b>	<b>\$66,867,875</b>

1. Valley Water Funding original amount was \$16,000,000; with annual interest accrued, the amount is estimated at \$17,000,000 as of January 2024.

An amendment to the Contract No. C059999 between the City of Palo Alto and the City of Mountain View (Recycled Water Agreement) is being prepared to address, among other things, the responsibility for the costs of implementing the Local AWPS. The current proposal is for repayment of the SRF loan to be allocated to Mountain View. Staff will return to Council at a future date for approval of the amendment to the Recycled Water Agreement. This amendment will include the project's capital cost contributions from Mountain View including cash contributions to minimize cashflow issues, adoption of recycled water production costs, and staffing costs to administer the program. If the amendment to the Recycled Water Agreement is not approved, the City will not execute a construction contract for the Local AWPS nor request disbursements from the SRF loan. Once bids are received and evaluated in February 2025, if the price is higher than anticipated, staff will discuss with the City of Mountain View staff and seek approval from the Mountain View City Council to receive the remaining funds prior to bringing a construction contract for City Council's approval.

## STAKEHOLDER ENGAGEMENT

In addition to the study sessions and regular meetings with City Council noted above, staff held pre-design and design workshops with project partners (Mountain View and Valley Water) to obtain stakeholder feedback throughout the process. In parallel, staff has provided updates on the project through Joint Recycled Water Meetings with Palo Alto Council Members, Mountain View Council Members, and Valley Water Board Members. The staff report for the May 13, 2024, Council meeting describes the full stakeholder engagement process.<sup>14</sup>

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<sup>12</sup> City Council, November 18, 2019; Agenda Item #17, SR #10627, <https://www.cityofpaloalto.org/files/assets/public/v/1/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2019/id-10627-mini-packet-11182019.pdf?t=60382.02>

<sup>13</sup> City Council, April 4, 2022; Agenda Item #11, SR#14090, <https://portal.laserfiche.com/Portal/DocView.aspx?id=59422&repo=r-704298fc&searchid=bd8cdc44-e6cb-493f-ae4e-bc012aab810a>

<sup>14</sup> City Council, May 13, 2024; Agenda Item #11, SR#2404-2760 <https://portal.laserfiche.com/Portal/PdfViewer.aspx?file=https%3A%2F%2Fportal.laserfiche.com%2FPortal%2FElectronicFile.aspx%3Fdocid%3D72055%26repo%3Dr-704298fc%26pdfView%3Dtrue#page=153>

## **ENVIRONMENTAL REVIEW**

The City Council previously certified the Palo Alto Recycled Water Project Environmental Impact Report (EIR) to include implementation of the City of Palo Alto Recycled Water Project.<sup>15, 16</sup> A Notice of Determination for the City of Palo Alto Recycled Water Project was filed on October 1, 2015. The Local AWPS was identified as a potential mitigation measure in the previously adopted EIR.

An addendum to the EIR was prepared to evaluate the Local AWPS impacts; the addendum determined that the Local AWPS would not result in new or more severe significant impacts than those identified in the EIR (SCH 2011062037). The Notice of Determination for the Local AWPS 1.125 MGD Project was filed on November 20, 2019.<sup>17</sup>

## **ATTACHMENTS**

Attachment A: Authorizing Resolution (Closing Resolution)

Attachment B: Amended Reimbursement Resolution

Attachment C: Disclosure SRF Loan

## **APPROVED BY:**

Brad Eggleston, Director Public Works/City Engineer

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<sup>15</sup> City Council Resolution 9548; 2015; <https://www.cityofpaloalto.org/files/assets/public/v/1/city-clerk/resolutions/reso-9548.pdf>

<sup>16</sup> City Council Resolution 9549; 2015; <https://www.cityofpaloalto.org/files/assets/public/v/1/city-clerk/resolutions/reso-9549.pdf>

<sup>17</sup> City Council, November 18, 2019; Agenda Item #17, SR #10627, <https://www.cityofpaloalto.org/files/assets/public/v/1/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2019/id-10627-mini-packet-11182019.pdf?t=60382.02>