



## City Council Staff Report

**From: City Manager**

**Report Type: CONSENT CALENDAR**

**Lead Department: Public Works**

**Meeting Date: June 3, 2024**

Report #:2404-2877

### **TITLE**

Approval of Cost-Sharing Agreement with Santa Clara Valley Water District for Guiding Principle 5 Program funding for Future Projects at the Palo Alto Regional Water Quality Control Plant; CEQA Status – Not a project

### **RECOMMENDATION**

Staff recommends that Council:

1. Approve the Cost-Sharing Agreement with Santa Clara Valley Water District for Guiding Principle 5 Program funding for future projects at the Palo Alto Regional Water Quality Control Plant; and
2. Authorize the City Manager or their designee to execute the Cost-Sharing Agreement with Valley Water

### **EXECUTIVE SUMMARY**

Palo Alto has applied for funding through Santa Clara Valley Water District's (Valley Water) Guiding Principle 5 (GP5) Program for four upcoming projects at the Regional Water Quality Control Plant (RWQCP). Valley Water developed the GP5 program to provide a tangible credit to communities, like Palo Alto, where State Water Project (SWP) property taxes have been collected without receiving a direct benefit from the SWP. The GP5 Program provides funding equivalent to the amount of SWP property tax collected by Valley Water between FY 2019-2024 plus interest earned. The funding available for Palo Alto is estimated to be \$11.8 million.

The GP5 program is a limited-time program. Applications are due by June 30, 2024, and projects must be completed by June 30, 2033.

## **BACKGROUND**

### State Water Project

The Burns-Porter Act (Water Code §§12930 et seq.), approved by California voters in 1960, authorized the construction and operation of specified state water facilities, including dams, reservoirs, levees, and an aqueduct system to convey water from the Sacramento-San Joaquin Delta to other parts of the state and a \$1.75 billion bond for initial construction of these facilities. The Act directed the State Department of Water Resources (DWR) to enter into contracts to sell water and power, so that revenue from those sales would pay to operate the facilities and repay the bond.

### State Water Project Property Tax

Valley Water is one of 29 contractors that purchase SWP water from the State. The SWP is one source of potable water that Valley Water receives and sells to water retailers in many areas of Santa Clara County. Valley Water has a long-term contract with DWR for deliveries from the SWP system. As part of that long-term obligation, Valley Water can collect SWP costs through water rates, though Valley Water has authority to collect funding shortfalls through property taxation where necessary. Valley Water's policy is to utilize property taxes for their SWP contract obligations rather than water rates.

Some parts of the County, including Palo Alto, do not receive SWP water though property owners in those jurisdictions pay property taxes collected by Valley Water to meet SWP contract obligations.

### Guiding Principle 5 Program

On October 17, 2017, the Valley Water Board voted to participate financially in the California Water Fix project, the State's proposed plan to improve the infrastructure that carries water through the Sacramento-San Joaquin Delta. On September 24, 2019, the Valley Water Board rescinded its conditional support of California Water Fix, adopted a resolution to support Governor Newsom's proposed Delta Conveyance Project, and adopted Guiding Principles to shape Valley Water's participation.

As stated in Guiding Principle #5 of Valley Water's Guiding Principles for Participation in Governor Newsom's Proposed Delta Conveyance Project:

"Guiding Principle #5 – Equity and costs are important

Those communities and/or organizations that pay SWP property taxes (funds) and receive on average 85% of their water supply from sources other than Valley Water managed supplies will receive, directly or indirectly and not exceeding the amount of SWP property tax paid as estimated by Valley Water, those funds back in the form of additional, incremental, dedicated, segregated funds exclusively for water conservation programs, potable recycled water, non-potable recycled water (including salinity

reductions), options to purchase wastewater, purified water, wastewater treatment plant environmental upgrades, Automatic Meter Infrastructure (AMI) updates, or dedicated environmental focused grants starting in FY 2019 until FY 2024. Upon Valley Water approval of award for a program within the FY 2019-2024 timeframe, the funds shall be reserved for the recipient, including interest earned, to reimburse eligible expenditures through FY 2033. To unlock these additional, incremental, dedicated funds, the communities and organizations will be required to make at least a 20% match of Valley Water's contribution (with no match required for facilities where Valley Water would have a long-term water supply contract or option for such). If an eligible agency has not gained Valley Water approval for a program by 6/30/2024, the dedicated, segregated funds go back to Valley Water by FY 2026."

Valley Water developed the GP5 Program as a limited-time program to provide Water Utility Enterprise funding to the Project Partners (which includes Palo Alto, Mountain View, Purissima Hills Water District, and Stanford University) for water resources development at a dollar amount up to the SWP property taxes paid by property owners in their respective service areas.

The available funding for Palo Alto is estimated to be \$11.6 million through fiscal year 2024. Valley Water has not indicated if this program will be extended to provide funding for SWP property tax collected by Valley Water beyond fiscal year 2024.

## **ANALYSIS**

In consultation with Valley Water staff, Palo Alto staff identified the following four upcoming projects at the RWQCP that are eligible for GP5 program funding and are scheduled to be completed by FY 2033.

1. Outfall Line Construction (WQ-19000)
2. Headworks Facility Replacement (WQ-16002)
3. 12kV Electrical Power Distribution Loop Improvements (part of WQ-19002: the Plant Repair, Retrofit, and Equipment Replacement project)
4. Joint Intercepting Sewer Rehabilitation (WQ-24000)

Each of these projects aligns with the goals of the GP5 Program as they ensure reliable operation of the RWQCP, which is responsible for treatment and recycling of water in Northwest Santa Clara County. Applications for each were submitted to Valley Water in 2023.

In conjunction with the City Attorney's Office, Valley Water prepared the Cost-Sharing Agreement (Attachment A).

### **Outfall Line Construction**

The RWQCP's existing outfall pipeline was installed in 1964. It conveys treated effluent from the RWQCP to the Bay, traversing the Palo Alto Airport property which is adjacent to the RWQCP.

As indicated in the RWQCP's Long Range Facility Plan, the existing outfall should be replaced due to leakage concerns and insufficient capacity to convey peak wet weather hydraulic flows given sea level rise and king tides. To mitigate the issues rising from an aging outfall pipe and climate change, the RWQCP is preparing to install a new outfall pipe to operate in parallel with the existing outfall pipe. After the new outfall pipeline is complete and is in service, the RWQCP plans to divert the flow from the existing outfall to the new one, and then rehabilitate the existing outfall to extend its service life.

#### Headworks Facility Replacement

The RWQCP existing headworks facility consists of an influent box, two pumping plants, three bar screens, a "channel monster" that is a powerful high-flow solids grinder, and a grit handling facility. The existing facilities are nearing the end of their useful life and perform less effectively than modern systems. This project will modernize the headworks facility. A reliable headworks facility is critical for protection of the RWQCP's downstream equipment and processes.

#### 12kV Electrical Power Distribution Loop Improvements

The RWQCP obtains electrical power from the Utilities (CPAU) Department. Onsite distribution of the medium voltage power is through a radial 12,470-volt (12kV) underground distribution system "loop", which was mostly installed around 1980. A condition assessment indicated several pieces of equipment in need of replacement, as they reach the end of their expected useful life. The 12kV Electrical Power Distribution Loop Improvements Project will replace equipment at the end of its expected useful life as well as facilitate future capital improvements by upgrading and relocating electrical infrastructure.

#### Joint Intercepting Sewer Rehabilitation

Palo Alto owns, operates, and maintains a trunk sewer, which serves as a transmission system backbone for some flows into the RWQCP. The trunk sewer, known as the Joint Intercepting Sewer (JIS), conveys raw wastewater from the City of Mountain View, Los Altos, Los Altos Hills, and a portion of Palo Alto. The JIS is the only sewer the RWQCP maintains outside of the Plant's fence line. The JIS conveys more than half of the RWQCP's influent. It is approximately 9,000-feet long and was constructed in 1972. It was identified in the RWQCP's Long Range Facilities Plan as needing rehabilitation or replacement. Based on field investigations performed in 2020, the 2,400-foot length of the trunk sewer nearest the Plant was identified for near-term structural rehabilitation due to severe corrosion. The rehabilitation will include inspection, cleaning, cured in place pipe (CIPP) lining, and bypass pumping.

#### **FISCAL/RESOURCE IMPACT**

Because the costs of the projects are shared between Palo Alto and the partner agencies, the GP5 funding will be applied to Palo Alto's share of approved RWQCP projects which will directly benefit Palo Alto customers. Reimbursements from Valley Water to Palo Alto through this GP5

program will reduce treatment costs billed to Palo Alto's Wastewater Collection utility dollar-for-dollar. By lowering Wastewater Collection costs, Palo Alto's sewer bills for residents and businesses will be lower than they otherwise would have been.

Each project is part of the RWQCP's capital improvement program, which is funded by Palo Alto and the five partner agencies who use the RWQCP for wastewater treatment: Palo Alto, Los Altos, Los Altos Hills, Mountain View, Stanford University, and the East Palo Alto Sanitary District. Palo Alto's share of projects is based on agreements with the partner agencies.

GP5 funding will be provided on a reimbursement basis. Table 1 presents the projected reimbursements, assuming \$11.6 million is available to Palo Alto and based on the projects' current estimated costs and schedules.

<b>Table 1: Projected GP5 Reimbursement</b>	
<b><i>Fiscal Year</i></b>	<b><i>Anticipated GP5 Reimbursement</i></b>
FY 2025	\$4,489,250
FY 2026	\$3,488,750
FY 2027	\$3,089,000
FY 2028	\$530,000

## **STAKEHOLDER ENGAGEMENT**

The RWQCP partner agencies are regularly updated on both the need for and the progress of wastewater treatment capital work. Updates are provided each year at an annual meeting and at other periodic meetings established to inform partner agency staff about the major capital improvement program. Palo Alto has informed Mountain View and Stanford University, as Project Partners eligible for GP5 Program funding, of its plans to obtain GP5 funding for Palo Alto's share of the Outfall Line Construction, Headworks Facility, 12kV Electrical Power Distribution Loop Improvements, and Joint Intercepting Sewer Rehabilitation.

With respect to Palo Alto itself, CPAU and RWQCP staff collaborated on the set of projects to put forward for the GP5 Program. Open meetings on the budget process serve as the main vehicle for engaging the community on new projects such as these and associated rate impacts.

## **ENVIRONMENTAL REVIEW**

Approval of the cost-sharing agreement does not meet the definition of a project for the purposes of CEQA, under Public Resources Code Section 21065 and CEQA Guidelines Section 15378(b)(4), because it 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 review for each project is being determined individually.

**ATTACHMENTS**

Attachment A: Final Palo Alto GP5 Partner Cost Share Agreement

**APPROVED BY:**

Brad Eggleston, Director Public Works/City Engineer