



City Council Staff Report

From: City Manager

Report Type: CONSENT CALENDAR

Lead Department: Public Works

Meeting Date: April 10, 2023

Report #:2302-1026

TITLE

Approval of a Funding Agreement with the Santa Clara Valley Water District for Reimbursement Costs Incurred in Support of the Purified Water Project, and a Budget Amendment in the Wastewater Treatment Fund Advanced Water Purification Facility capital project (WQ-19003)

RECOMMENDATION

Staff recommends that Council:

1. Approve and authorize the City Manager or their designee to execute an agreement between the Santa Clara Valley Water District and the City for reimbursement of City costs incurred in support of Valley Water's Purified Water Project; and
2. Amend the Fiscal Year 2023 Budget Appropriation for the Wastewater Treatment Fund by (requires a 2/3 vote):
 - a. Increasing the revenue estimate from other agencies by \$500,000 in the Advanced Water Purification Facility capital project (WQ-19003); and
 - b. Increasing the ending fund balance by \$500,000.

EXECUTIVE SUMMARY

The Regional Water Quality Control Plant (RWQCP) treats wastewater from the City of Palo Alto (Palo Alto), City of Mountain View (Mountain View), City of Los Altos, East Palo Alto Sanitary District, Stanford University and Los Altos Hills. A small fraction of the effluent from the RWQCP is further treated and then used for irrigation and toilet flushing.

In November 2019, Council approved the Agreement between the City of Palo Alto, City of Mountain View and Santa Clara Valley Water District to Advance Resilient Water Reuse Programs in Santa Clara County¹ (Partnership Agreement). The Partnership Agreement includes an option for the Santa Clara Valley Water District (Valley Water) to receive approximately half

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

of the treated wastewater produced by the RWQCP for use in the county south of Mountain View.

Palo Alto is assisting Valley Water staff with the design criteria for the potential Purified Water Project. The proposed funding agreement (“Agreement By and Between the Santa Clara Valley Water District and the City of Palo Alto relating to Valley Water’s Payment for City’s Support Services to Valley Water’s Purified Water Project”, Attachment A) would allow the City to be reimbursed for staff time.

Staff will return to Council at a future meeting to discuss the cost of the local salt removal facility, a lease agreement, and an operations and maintenance agreement with the Regional Purification Facility managed by Valley Water.

BACKGROUND

Water is a scarce resource in California. Availability is affected by droughts and climate change, and may be subject to changes to the state water system. The RWQCP is a local source of drought-proof, sustainable water, only a small fraction of which is currently being used for irrigation and toilet flushing. Investments in pipeline expansions and additional treatment facilities are needed to increase the amount of water reused from the facility.

In 2019, Palo Alto and Mountain View entered into an agreement with Valley Water (Partnership Agreement) which grants Valley Water an option to take approximately half of the effluent from the RWQCP. Valley Water intends to purify the effluent at the old Los Altos Treatment Plant location and use it to recharge the groundwater basin south of Mountain View. Palo Alto and Valley Water are assessing construction feasibility for a Purified Water Project in Palo Alto at the former Los Altos Treatment Plant (LATP) site at the end of San Antonio Road. RWQCP effluent would receive additional treatment at the proposed Purified Water Facility for groundwater recharge south of Mountain View. The Purified Water Project is part of Valley Water's response strategy to the multi-year drought and is consistent with Board direction to expand the County's recycled water supply.

In September 2020, Valley Water’s Board approved a Design-Build-Finance-Operate-Maintain procurement process under a Public/Private Partnership (P3) to expand potable water reuse and delivery to the Los Gatos Recharge System (Purified Water Project). The Board directed Valley Water staff to launch a P3 procurement process once all the necessary elements for the project were secured. Valley Water plans to implement the Board’s potable reuse directive through a North County production facility to begin operation in 2028.

In September 2022, staff and Valley Water provided a Council study session regarding the partnership with Valley Water to build a Regional Purification Facility at the old Los Altos Treatment Plant (Purified Water Project). Then, in October 2022, Council accepted the updated

S/CAP Goals and Key Actions². The S/CAP Goals and Key Actions include a goal to "Develop a water supply portfolio which is resilient to droughts, changes in climate, and water demand and regulations, that supports our urban canopy" and a key action to "Develop and implement projects that result from a "One Water" Portfolio for Palo Alto, including but not limited to: stormwater, recycled water, on-site reuse, conservation, groundwater." The partnership with Valley Water supports this objective by providing \$16 million of funding towards Palo Alto's Local Salt Removal Facility. Additionally, the Council's 2023 Objective of "Climate Change and the Natural Environment" includes a Priority Objective to "Approve agreements with Valley Water for the purified water facility at LAMP Area B".

Valley Water requires support services from various City departments, including Public Works – Environmental Services Division, Engineering, Real Estate, Utilities, and City Attorney to accomplish the various tasks in support of the Purified Water Project. Palo Alto staff currently assist Valley Water with this effort and will continue to do so to ensure successful implementation of the Purified Water Project. Assistance will include developing needed agreements, such as a ground lease for the former LAMP site; resolving technical and operational issues such as tie-ins at the RWQCP for source water, pump station location, pipeline alignments, and power; and resolving legal issues, including regulatory permitting requirements. The foregoing will require the dedication of considerable amount of time from Palo Alto staff and consultants.

ANALYSIS

Valley Water and the City must resolve several key issues before a Purified Water Project can be constructed in Palo Alto, including but not limited to:

- A facilities and land lease on former Los Altos Treatment Plant (LAMP) lands.
- Identification of diversion point of source water (tertiary-treated wastewater) to be conveyed to the new Purified Water Project facility.
- Siting of pump stations, pipeline, and appurtenances on RWQCP property.
- Siting of pipeline for source water and RO concentrate within the City's jurisdiction.
- Identification of return point of RO Concentrate to the RWQCP.
- Management and disposal of reverse osmosis (RO) concentrate including an Operations and Maintenance agreement and an RO concentrate agreement.
- Other requisite legal agreements (i.e., power, signage) associated with purified water production on City-owned land.
- Potential connection of the Local Salt Removal Facility with the Project. CEQA documentation preparation and review

² City Council, September 27, 2022; Agenda Item #10; SR#14606
<https://portal.laserfiche.com/Portal/DocView.aspx?id=59252&repo=r-704298fc&searchid=7ffbcd4d-1198-43da-a959-4ea68f4c50>

- Parameters and expectations for communications and responsiveness of P3 entity to City and the public during construction and ongoing operations.

The attached Funding Agreement (Attachment A) will enable Valley Water to provide reimbursement for City of Palo Alto's staff and consultant time on the Purified Water Project for:

- 1) Meeting Attendance
- 2) Regulatory Coordination and Resolution of RO Concentrate Management and Disposal
- 3) Land Lease to Site Purification Facilities
- 4) Development of Agreements: O&M, lease, and RO Concentrate disposal
- 5) Technical Support and Coordination

The term of the Funding Agreement commences on its Effective Date and expires two years after the Effective Date. The term of the Funding Agreement will be automatically extended for additional annual periods up to four additional years unless Palo Alto or Valley Water provide a notice of termination.

As part of the development of this Funding Agreement, Palo Alto staff identified a list of expected positions and hourly rates (mainly from Public Works Department and Utilities) that will support the Purified Water Project. The hourly rates were calculated using the maximum hourly rate per the current Salary Schedule and a percentage for benefits based on the labor group. These rates will be updated as new Salary Schedules are adopted by City Council.

In addition to City staff, Palo Alto requires consultant services to support specific technical issues related to the Purified Water Project. In December 2022, Council approved a Professional Services Contract³ with Woodard & Curran which includes a task to assist with the coordination of technical issues related to the Purified Water Project. Woodard & Curran services covered under this Contract related to the Purified Water Project, will be also reimbursed by Valley Water.

City staff anticipates returning to Council for approvals and status updates on the project deliverables and milestones listed above in due course.

Separately, Valley Water will submit a planning application with the City's Planning and Development Services Department for any land use approvals, planning entitlements, site and design reviews and other environmental review under the California Environmental Quality Act/National Environmental Policy Act. City's staff time related to these items work is not

^{3,4} City Council, December 19, 2022; Agenda Item #15, SR#14685
<https://portal.laserfiche.com/Portal/DocView.aspx?id=59041&repo=r-704298fc&searchid=1bc9fc14-b715-4880-8750-4d78098829ab>

covered by this Funding Agreement. Valley Water has set up a deposit account with the Planning and Development Services Department.

FISCAL/RESOURCE IMPACT

Work covered in the Scope of Services (Exhibit A) of the Funding Agreement and performed by City staff will first be paid for by the City through regular payroll. Work performed by Woodard & Curran will first be paid by the City through the existing contract. An increase of \$500,000 in revenue from Valley Water is recommended in the Advanced Water Purification Facility capital project (WQ-19003) to offset costs in this project via the attached Funding Agreement. Quarterly invoices will be submitted to Valley Water for reimbursement.

STAKEHOLDER ENGAGEMENT

Palo Alto hosted a community meeting on October 23, 2019 to inform the community and answer questions about the components of the Partnership Agreement. Approximately 20 members of the public attended. Overall, the attendees were supportive of the Partnership Agreement. Since 2019, public outreach and engagement has been led by Valley Water with assistance from the City. Valley Water has presented the project to the Conservation Council (an active group of non-governmental organizations focused on environmental causes within Palo Alto) and other key stakeholders. Public outreach will continue to be an important component of the Purified Water Project as it progresses.

ENVIRONMENTAL REVIEW

The proposed funding agreement is not a project subject to CEQA review under section 15378(b)(4) because the funding agreement is government funding mechanisms or fiscal activity which does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment.

Valley Water is the lead agency for the Purified Water Project and will be preparing the Environmental Impact Report (State Clearinghouse #2021030519).

ATTACHMENTS

Attachment A: Valley Water Funding Agreement for Purified Water Project

APPROVED BY:

Brad Eggleston, Director Public Works/City Engineer