



CITY OF  
**PALO  
ALTO**

**CITY OF PALO ALTO  
CITY COUNCIL  
Special Meeting  
Monday, April 07, 2025  
Council Chambers & Hybrid  
5:30 PM**

<b>Agenda Item</b>
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6. Approval of Effluent Transfer Agreement Between the City of Palo Alto and the Town of Los Altos Hills; CEQA Status - Not a Project



## 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).<sup>1</sup> 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.<sup>2</sup> 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.<sup>3</sup> Palo Alto agreed to make good faith efforts with its partner agencies

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<sup>1</sup> 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>

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

<sup>3</sup> 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 agreement<sup>4</sup> and the Town of Los Altos Hills would be the second.<sup>5</sup>

## **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.

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<sup>4</sup> 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>

<sup>5</sup> 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.<sup>6</sup>

### **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 Gjeston, Director Public Works/City Engineer

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<sup>6</sup> 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>

**EFFLUENT TRANSFER AGREEMENT  
BETWEEN CITY OF PALO ALTO  
AND TOWN OF LOS ALTOS HILLS**

This Effluent Transfer Agreement (Agreement) effective December 19, 2025 (“Effective Date”), is entered into by and between the City of Palo Alto, a California chartered municipal corporation (“Palo Alto”), and the Town of Los Altos Hills, a California municipal corporation (“Los Altos Hills”). Palo Alto and Los Altos Hills are referred to together as the “Parties” and individually as a “Party”.

**RECITALS**

A. Effluent generated in and from Los Altos Hills has long been treated at the Regional Water Quality Control Plant (“RWQCP”) owned and operated by the City of Palo Alto pursuant to the terms and conditions of that certain Agreement for Sewage Transportation, Treatment and Disposal made and entered on March 18, 1968 by and between the City of Palo Alto and the Town of Los Altos Hills, as amended (the “RWQCP Partner Agreement”).

B. The RWQCP treats effluent from several cities and other entities – the cities of Los Altos, Palo Alto, and Mountain View, the Town of Los Altos Hills, East Palo Alto, and Stanford University. These entities are collectively referred to as the “RWQCP Partner Agencies”.

C. Currently, most of the Effluent is discharged to the San Francisco Bay after treatment. Only five percent is further treated to be used as Recycled Water to meet the limited present demand for Recycled Water in the RWQCP Service Area. While Palo Alto anticipates greater utilization of Recycled Water will occur with an advanced water purification facility project underway at the RWQCP, most of the Effluent would continue to be released into the Bay.

D. In late 2019, Palo Alto, the City of Mountain View (“Mountain View”), and the Santa Clara Valley Water District (“Valley Water”) entered into a long-term agreement that would annually transfer 9 MGD of Effluent to Valley Water for regional recycled water projects as part of an effort to develop locally reliable water supply sources to offset supplies of water that would otherwise be imported via the Sacramento-San Joaquin River Delta and its tributaries, including the Tuolumne River and other mountain streams. This agreement, known as the Partnership Agreement, to Advance Resilient Water Reuse Programs in Santa Clara County between Palo Alto, Mountain View, and Valley Water (referred to herein as the “Valley Water Agreement”), became effective on December 10, 2019, and is incorporated herein by reference.

E. Under the Valley Water Agreement, Valley Water will pay an annual option payment to Palo Alto to be divided proportionally among RWQCP Partner Agencies that commit to a long-term transfer of Effluent to Valley Water. Valley Water’s option expires after 13 years. If, and when, Valley Water exercises its option to receive the Effluent, it

will pay to Palo Alto \$1 million per year for up to 9 MGD of Effluent. The \$1 million would also be divided proportionally among the RWQCP Partner Agencies based on the percentage share of the Effluent provided.

F. Los Altos Hills desires to make the commitment to provide its Effluent to Valley Water for purposes of the Valley Water Agreement.

G. This Agreement will benefit Los Altos Hills, Palo Alto, and a County-wide effort to achieve cost effective, environmentally beneficial utilization of treated wastewater and to establish a more resilient water supply, especially during drought conditions.

NOW, THEREFORE, in consideration of the mutual promises set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows.

## **AGREEMENT**

### **ARTICLE A. Definitions**

As used in this Agreement, the following terms have the following meanings.

- (a) Effluent: Tertiary treated wastewater from the RWQCP that meets National Pollutant Discharge Elimination System permit requirements.
- (b) MGD: Million gallons per day, expressed as an annual average, unless otherwise noted.
- (c) Minimum Flow Delivery: An annual average of 9 MGD of Effluent to be supplied by the RWQCP to Valley Water, consistent with Appendix 1 in Valley Water Agreement.
- (d) Recycled Water: Effluent that is treated to meet California Code of Regulations Title 22 requirements for non-potable water.
- (e) RWQCP: The Palo Alto Regional Water Quality Control Plant.
- (f) RWQCP Partner Agencies: The cities of Palo Alto, Mountain View, and Los Altos, the Town of Los Altos Hills, East Palo Alto, and Stanford University.
- (g) RWQCP Service Area: RWQCP Service Area includes the service areas of the RWQCP Partner Agencies.
- (h) Startup: The point in time when Valley Water begins to receive Effluent, following initial testing and commissioning, or the point in time when Valley Water begins to pay for the Effluent as part of its Regional Program, pursuant to the Valley Water Agreement, whichever is earlier.

- (i) Valley Water Agreement: The Partnership Agreement to Advance Resilient Water Reuse Programs in Santa Clara County between Palo Alto, Mountain View, and Valley Water which became effective on December 10, 2019.

## **ARTICLE B – Terms**

### **1. Term.**

This Agreement shall be in effect on December 19, 2025. The Term of the Agreement shall be dependent upon the actions of Valley Water under the Partnership Agreement to Advance Resilient Water Reuse Programs in Santa Clara County between Palo Alto, Mountain View, and Valley Water (the “Valley Water Agreement”) as follows:

- a. If Valley Water does not exercise its option to receive Effluent, this Agreement shall terminate when the time for Valley Water to exercise the option expires. If Valley Water does exercise the option, this Agreement shall remain in effect so long as Valley Water continues to receive and pay for treated effluent under the Valley Water Agreement, up to 76 years from the effective date of the Valley Water Agreement.
- b. If for any reason the Valley Water Agreement is terminated or the Effluent Transfer provision in Article D (Effluent Delivery to Valley Water) of the Valley Water Agreement is terminated by the parties to that agreement, then this Agreement will also terminate.

### **2. Commitment of Effluent.**

- a. Los Altos Hills commits and agrees to transfer, and allows Palo Alto to affect the transfer, of 60 percent to 100 percent of Los Altos Hills effluent flow into the RWQCP to Valley Water each year for the Term of this Agreement.
- b. When Palo Alto provides notice to Los Altos Hills of the date for Startup, Los Altos Hills will provide to Palo Alto a firm commitment of the amount of Los Altos Hills effluent flow into the RWQCP that Palo Alto may transfer to Valley Water upon Startup and for the remainder of that fiscal year. The amount shall be no less than 60 percent, and up to 100 percent, of Los Altos Hills effluent flow for the covered period.
- c. Every January 31<sup>st</sup> after Startup, Los Altos Hills will provide to Palo Alto a firm commitment of the amount of Los Altos Hills effluent flow into the RWQCP that Palo Alto may transfer to Valley Water in the next fiscal year (July 1 of the same year to June 30 of the following year). The amount shall be no less than 60 percent, and up to 100 percent, of Los Altos Hills effluent flow for the fiscal year period.

### 3. Option Payments Prior to Startup

- a. Amount of Payment. Under the Valley Water Agreement, Palo Alto will receive from Valley Water \$100,000 per year (in 2019 dollars, subject to annual adjustment based on CPI) ("Annual Commitment Payment") until (a) June 1, 2033, or (b) at Startup, whichever occurs first.

Each year, Palo Alto will distribute to Los Altos Hills and other RWQCP Partner Agencies (other than Palo Alto and Mountain View) that have committed their Effluent for the term of this Agreement by January 31<sup>st</sup> of the same calendar year, the Annual Commitment Payment divided proportionally among the agencies, by the percentage of the effluent received at the RWQCP attributable to each agency.

- b. Timing of Payment. Each year beginning in 2021, Palo Alto shall provide to Los Altos Hills its share of the Annual Commitment Payment by applying the amount of its share as a credit on future partner billing under the RWQCP Partner Agreement.
- c. Responsibility for Payment. Palo Alto's obligations in this Section 3 are contingent on Valley Water transferring the funds to Palo Alto. Palo Alto's responsibility to distribute the payment to Los Altos Hills only accrues upon receipt of the Annual Commitment Payment from Valley Water.

### 4. Payments for Effluent

- a. Amount of Payment. Under the Valley Water Agreement, upon Startup, Palo Alto will receive from Valley Water \$1,000,000 per year (in 2019 dollars, subject to annual adjustment based on CPI) ("Effluent Purchase Payment") for the Minimum Flow Delivery during the term of the Valley Water Agreement, subject to proration in the first year and payments provided by August 31 for the preceding fiscal year. If the amount of Effluent provided to Valley Water falls below 9 MGD in any year, the amount of the Effluent Purchase Payment will be reduced in proportion.

Palo Alto will distribute to Los Altos Hills and other RWQCP Partner Agencies (including Palo Alto and Mountain View) that have committed their Effluent for transfer to Valley Water by January 31<sup>st</sup> of the same calendar year, the Effluent Purchase Payment received from Valley Water divided proportionally among the agencies based on the actual amount of Effluent provided to Valley Water attributable to each agency that year.

- b. Timing of Payments. Palo Alto shall provide to Los Altos Hills its share of the Effluent Purchase Payment by applying the amount of its share as a credit on future partner billing under the RWQCP Partner Agreement.



- c. Responsibility for Payment. Palo Alto's obligations under this Section 4 are contingent on Valley Water transferring the funds to Palo Alto. Palo Alto's responsibility to distribute the payment to Los Altos Hills only accrues upon receipt of the annual Effluent Purchase Payment from Valley Water.

## **5. Future Sale of Additional Effluent.**

If Effluent in excess of 9 MGD is available and Valley Water desires to purchase additional Effluent, any future sale will be shared proportionally among the participating RWQCP Partner Agencies that desire to participate in any future sale. Palo Alto will provide Los Altos Hills with notice of the proposed terms for a future sale and an opportunity to comment and discuss with Palo Alto prior to Palo Alto entering into an agreement or amendment governing such sale with Valley Water.

## **6. Local Water Conservation Programs Allowed; No Minimum Flow Required.**

Los Altos Hills will continue to encourage water conservation and future water conservation programs. Nothing in this Agreement requires Los Altos Hills to guarantee a minimum effluent flow into the RWQCP.

## **7. Choice of Law.**

This Agreement shall in all respects be interpreted, enforced, and governed by and under the laws of the State of California. The Parties agree that the venue of any action, proceeding or counterclaim shall be in the County of Santa Clara, California.

## **8. Amendments.**

This Agreement may not be modified or amended except by a writing signed by the Parties.

## **9. Captions.**

The captions in this Agreement are for reference only and shall in no way define or interpret any provision hereof.

## **10. Counterparts.**

This Agreement may be executed in identical counterpart copies, each of which shall be an original, but all of which taken together shall constitute one and the same agreement.

## **11. Attorneys' Fees.**

In the event of a dispute between the Parties with respect to the terms or conditions of this Agreement, the prevailing party is entitled to collect from the other its reasonable attorneys' fees as established by the judge presiding over such dispute.

## 12. Entire Agreement.

This Agreement constitutes the entire agreement between the Parties and supersedes all prior written or oral understandings.

## 13. Waiver.

No waiver of any breach, any failure of a condition, or any right or remedy under this Agreement (1) shall be effective unless it is in writing and signed by the Party making the waiver; (2) shall be deemed to be a waiver of, or consent, to any other breach, failure of a condition, or right or remedy, or (3) shall be deemed to constitute a continuing waiver unless the writing expressly so states.

**IN WITNESS WHEREOF**, the Parties have executed this Agreement which shall take effect on the Effective Date as stated above.

TOWN OF LOS ALTOS HILLS  
A California municipal corporation

By:

Peter Pirnejad  
Peter Pirnejad (Dec 23, 2024 16:18 PST)  
Peter Pirnejad, City Manager

12/23/2024

Date

APPROVED AS TO FORM:

By:

Steve Mattas  
Steve Mattas (Dec 21, 2024 11:15 PST)  
Steve Mattas, City Attorney

21/12/2024

Date

CITY OF PALO ALTO  
A California chartered municipal corporation

By:

\_\_\_\_\_  
Ed Shikada, City Manager

\_\_\_\_\_  
Date

APPROVED AS TO FORM:

By:

\_\_\_\_\_  
City Attorney or Designee

\_\_\_\_\_  
Date









# LAH RWQCP Effluent Transfer Agreement

Final Audit Report

2024-12-24

Created:	2024-12-21
By:	Keren Brunner (kbrunner@losaltoshills.ca.gov)
Status:	Signed
Transaction ID:	CBJCHBCAABAIVIMXQM2B9gZbhmdrTXuNuKIKMi7-DFka

## "LAH RWQCP Effluent Transfer Agreement" History

-  Document created by Keren Brunner (kbrunner@losaltoshills.ca.gov)  
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-  Document emailed to Peter Pirnejad (ppirnejad@losaltoshills.ca.gov) for signature  
2024-12-21 - 1:49:01 AM GMT
-  Document emailed to Steve Mattas (steve.mattas@redwoodpubliclaw.com) for signature  
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-  Email viewed by Peter Pirnejad (ppirnejad@losaltoshills.ca.gov)  
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-  Email viewed by Steve Mattas (steve.mattas@redwoodpubliclaw.com)  
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-  Document e-signed by Steve Mattas (steve.mattas@redwoodpubliclaw.com)  
Signature Date: 2024-12-21 - 7:15:22 PM GMT - Time Source: server
-  Document e-signed by Peter Pirnejad (ppirnejad@losaltoshills.ca.gov)  
Signature Date: 2024-12-24 - 0:18:00 AM GMT - Time Source: server
-  Agreement completed.  
2024-12-24 - 0:18:00 AM GMT