



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: John Stufflebean

SUBJECT: APPLICATION FOR FEDERAL
WATERSMART GRANT

DATE: January 18, 2011

Approved

Date

1/26/11

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

Adopt a resolution authorizing the City Manager to submit an application to the US Bureau of Reclamation for a federal WaterSMART grant through the Title XVI Water Reclamation and Reuse Program (Funding Opportunity Announcement No. R11SF80311), in the amount of \$2,000,000 for the construction of recycled water infrastructure, subject to the concurrence of the Treatment Plant Advisory Committee.

OUTCOME

Approval of this recommendation, if concurred in by the Treatment Plant Advisory Committee (TPAC), will authorize the City Manager to submit a grant application by the February 11, 2011 deadline, to the US Bureau of Reclamation (Reclamation), requesting funding of up to \$2,000,000 for construction of approximately \$3,000,000 in recycled water pipeline extensions and related infrastructure by the City of San José as administering agency of the San José/Santa Clara Water Pollution Control Plant (Plant).

BACKGROUND

In September 1993, the City of San José as administering agency of the Plant, authorized design and construction of South Bay Water Recycling (SBWR). The project was designed to divert up to 15 million gallons per day (mgd) of treated effluent from the south Bay during the summer by providing nonpotable recycled water to customers in Milpitas, Santa Clara and San José. Between 1993 and 2009 the City built SBWR Phase 1A and Phase 1B facilities at a cost of approximately \$223,000,000 including four pump stations, three reservoirs, and over 110 miles of pipeline. The City is also in the process of completing SBWR Phase 1C, a \$15,000,000 project to add nine miles of pipeline to the SBWR system and increase recycled water demand by up to 2,000 acre feet per year. Additional projects have been identified for construction by the tributary agencies of the Plant pending availability of funding.

In 1992, Congress passed the "Reclamation Projects Authorization and Adjustment Act of 1992" (PL102-575) which included Section 1607, "San José Area Reclamation and Reuse Program" which authorized the US Bureau of Reclamation to reimburse the City for up to 25% of all eligible costs related to "design and construction of demonstration and permanent facilities to reclaim and reuse water in the San José metropolitan service area." Subsequently, the City has executed three agreements with Reclamation to provide up to \$58,900,000 in reimbursement for construction of SBWR Phases 1A through 1C. Of this amount, the City has received appropriations of about \$39,000,000, leaving a balance of about \$20,000,000 in appropriated federal obligations. Additional federal funds are requested from Congress annually.

ANALYSIS

On December 17, 2010 Reclamation announced Funding Opportunity No. R11SF80311, the "WaterSMART Title XVI Water Reclamation and Reuse Program Construction Activities for Fiscal Year 2011." According to the program solicitation, the purpose of the grant program is "to invite sponsors of authorized Title XVI projects to propose (1) construction activities that can be commenced in FY 2011 and completed within 24 months or (2) construction activities that have been completed previously without Federal funding and that comply with all program requirements." The solicitation also states that "no more than \$2,000,000 in Federal funding will be awarded to any one applicant under the Title XVI Program in FY 2011."

During a project review process conducted last year, SBWR stakeholders including tributary agency representatives and the Santa Clara Valley Water District identified a number of projects that met the primary criteria of increasing revenues from the sale of recycled water and enhancing system reliability. Among these projects was the Santa Clara Industrial 3B project, which provided for construction of recycled water pipe to provide cooling water to industrial customers (including data centers) in north Santa Clara. In November 2009 Council awarded \$250,000 to the City of Santa Clara for design of the Industrial 3B extension, and in December 2010 Council increased the Santa Clara agreement by \$1,011,000 to fund construction of the first part of this project (Santa Clara Industrial 3B-1).

If the proposed application for grant funding is approved, Reclamation will allocate to the City an additional \$2,000,000 out of appropriated funds as reimbursement for construction of the Santa Clara Industrial 3B project. Of the \$2,000,000 in federal grant funding, the City will receive \$750,000 in new grant funds and will receive approximately \$1,250,000 in lieu of an equal amount of the \$20,700,000 in federal funds the City is authorized to receive as reimbursement for the \$83,000,000 SBWR Phase 1B program. Since the estimated cost of the entire Industrial 3B project is approximately \$3,000,000 (towards which the City has already allocated \$1,000,000 out of previous grant funds), the additional grant funds available through this program could allow the City to fund the remainder of the 3B project with little or no increase in local funding. Currently identified customers along the proposed pipeline will use up to 500,000 gallons per day of recycled water and provide up to \$100,000 in increased revenues at current water rates.

Grant applications are due to Reclamation by February 11, 2011 at 2 pm Pacific Standard Time.

EVALUATION AND FOLLOW-UP

If Council authorizes the City manager to submit the recommended grant application and TPAC concurs in the submittal of the application the proposed grant, the results of the competition will be provided in a subsequent memo with an explanation of all relevant terms and conditions and an appropriate recommendation regarding acceptance of grant funds.

POLICY ALTERNATIVES

Alternative #1: Do not apply for the federal grant.

Pros: City staff will not have to dedicate time to the preparation of a grant proposal.

Cons: Federal funds may not be available to provide reimbursement for future construction projects.

Reason for not recommending:

Federal funds are currently available to the City through the present Reclamation grant program which will allow the City to increase revenues at a minimal cost to local ratepayers. There is no guarantee that additional funds may be made available in the future.

PUBLIC OUTREACH/INTEREST

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

No public funds will be allocated at this time to the project identified in the proposed grant. If the City is selected to receive the grant, a memo requesting Council authorization of a contract to proceed with construction of the proposed project would be posted according to Criteria 1, Requires Council action on the use of public funds equal to \$1,000,000 or greater.

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COORDINATION

This memo was coordinated with the City Attorney's Office and the City Manager's Budget Office. This recommendation is scheduled to be considered by the Treatment Plant Advisory Committee (TPAC) at its February 10, 2011 meeting.

FISCAL/POLICY ALIGNMENT

Authorization of the recommended action followed by successful application for grant funds and approval of construction funds will increase revenues to the City and the tributary agencies.

COST SUMMARY/IMPLICATIONS

There are no significant cost implications for applying for the present grant. Cost implications for participation in the grant program will be provided if the grant is awarded.

CEQA

Not a Project, File No. PP10-068 (a) Grant Application (where Council is not obligated to enter into an agreement at the time of application). If the grant application is successful, environmental documentation for the proposed project will be provided.

/s/

JOHN STUFFLEBEAN

Director, Environmental Services

For questions please contact Mansour Nasser, Deputy Director, at (408) 277-2558.