



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kerrie Romanow
Jennifer A. Maguire

SUBJECT: SEE BELOW

DATE: 08-22-11

Approved

Date

8/26/11

SUBJECT: FUNDING AGREEMENTS WITH THE UNITED STATES BUREAU OF RECLAMATION FOR DESIGN AND CONSTRUCTION OF SOUTH BAY WATER RECYCLING FACILITIES AND SOUTH BAY WATER RECYCLING MASTER PLANNING

RECOMMENDATION

- (a) Adopt a resolution authorizing the City Manager to negotiate and execute a WaterSMART Funding Agreement with the U.S. Bureau of Reclamation (Reclamation) to allow the City to accept federal grant funding of \$2,000,000 for design and construction of South Bay Water Recycling (SBWR) Facilities.
- (b) Adopt a resolution authorizing the City Manager to negotiate and execute Feasibility Study Funding Agreement #R11AF20020 with Reclamation to allow the City to accept federal grant funding, ranging from \$268,000 to \$1,200,000, to perform a Feasibility Study to revise the South Bay Water Recycling Master Plan.
- (c) Adopt the following amendments to the Appropriation Ordinance and Funding Sources Resolution for 2011-2012 in the San José/Santa Clara Treatment Plant Capital Fund:
 - (1) Increase the estimate for Earned Revenue by \$1,268,000;
 - (2) Increase the appropriation to the Environmental Services Department for the Revised South Bay Action Plan - SBWR Extension by \$1,000,000; and
 - (3) Increase the appropriation to the Environmental Services Department for SBWR Master Plan by \$268,000.

OUTCOME

The two funding agreements will provide up to \$3,200,000 in federal funds for the design and construction of South Bay Water Recycling Facilities.

BACKGROUND

The Sixth and Eighth Amendments to the Santa Clara Agreement provided \$1,300,000 in funding and authorized the design and construction for the initial phase of the Santa Clara Industrial 3B pipeline project (approved pursuant Council Resolution No. 75176, dated November 17, 2009, and Resolution No. 75668, dated December 14, 2010, respectively). In February 2011, the Council approved the submittal of a WaterSMART grant application under Resolution #75721 that would award South Bay Water Recycling an additional \$2,000,000 towards \$3,300,000 in construction for the full Santa Clara Industrial 3B pipeline. The application proposed water recycling construction that would deliver up to 500 AFY of recycled water for irrigation and industrial purposes. In the grant application, the \$1,300,000 in funding committed by the Sixth and Eighth amendments to the Santa Clara Agreement were proposed as the local share match (39%) for the \$2,000,000 in additional federal funding. In May 2011, Reclamation announced that the City was one of eight award recipients under the WaterSMART's Title XVI Water Reclamation and Reuse Program. The award was for \$2,000,000.

The other grant opportunity, Funding Opportunity Announcement #R11AF20020, provides up to \$1,200,000 in federal funding to the City for a Feasibility Study of the SBWR Master Plan, which will evaluate Process Improvements and System Control Modifications, SBWR Institutional Framework and Financial Performance, and Regional Coordination. In August 2011, Reclamation announced that the City was one of thirteen sponsors awarded funding for feasibility studies to assess the opportunity for water reclamation and reuse of wastewater. Reclamation approved initial funding at \$268,000 and Reclamation staff has informed the City that it is Reclamation's intent to fully fund the federal cost share of \$1,200,000 as federal funds become available.

ANALYSIS

Funding Agreements with US Bureau of Reclamation

The WaterSMART Funding Agreement will provide up to \$2,000,000 in federal funding towards the design and construction of \$3,300,000 of SBWR facilities to deliver a total of 500 AFY of recycled water. Of the \$2,000,000 provided, the USBR may retain up to \$150,000 to cover administrative costs. Funds encumbered as part of the sixth and eighth amendments to the Santa Clara construction services agreement, which provide funding for the design and construction of pipeline facilities to deliver 250 AFY of recycled water in the City of Santa Clara, fulfill the local share requirement of \$1,300,000 for the WaterSMART Funding Agreement. Should the City of Santa Clara's costs for the construction of these pipeline facilities be less than \$1,300,000, the grant amount will be reduced accordingly, such that the City's contribution will

equal 39% of the total project costs, and the federal share will provide for 61%, as described in the Cost Summary section below. The federal grant will be used to design and construct pump improvements at the Transmission Pump Station (TPS) to supplement delivery of 2,000 AFY of recycled water. The project will include engineering and design for additional pumping facilities at the TPS, and the installation of pumps and ancillary equipment to remotely operate and control the new facilities. The additional 2,000 AFY is based on demands requested from Calpine for the expansion of the Los Esteros Critical Energy Facility.

The Feasibility Study for Improvements and Expansions for SBWR Facilities Agreement will provide \$268,000 in federal reimbursement this fiscal year and is expected to be fully funded up to \$1,200,000 (50%) by the end of the grant term, September 30, 2013. Of the \$1,200,000, the USBR may retain up to \$150,000 for administrative costs. The master planning process will include a Feasibility Study to investigate Process Improvements and System Control Modifications, SBWR Institutional Framework and Financial Performance, and Regional Coordination. The study will provide civil designs, seismic analyses, and environmental documentation to meet CEQA and NEPA requirements for any proposed capital projects. The process will review institutional frameworks to address financial, operational and planning issues as a result of SBWR growth and development, and will include an analysis of regional coordination with the Santa Clara Valley Water District. The local cost share of \$1,200,000 to meet the grant term through September 30, 2013, will come from the SBWR Master Plan project in the San José/Santa Clara Treatment Plant Capital Fund. The grant funds will be used to supplement Master Plan work that is scheduled to occur in future years, subject to appropriation of funds, as shown in the 2012-2016 Adopted CIP.

EVALUATION AND FOLLOW-UP

As construction projects are completed in Santa Clara and San José, City staff will certify compliance of all customer connections with local, state, and federal regulations. The increased demand for recycled water will be noted in SBWR performance reports, in updates to the City's Green Vision Plan and reflected in annual revenues.

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)**

During the summer and fall of 2000, the cities of San José, Santa Clara, and Milpitas held public meetings on the local use of recycled water. Representatives of various stakeholder groups (e.g. Sierra Club, League of Women Voters, and Silicon Valley Chamber of Commerce) also met regularly in 1998 and 1999 to create the present plans for extension of the recycled water systems. In addition, staff members from the cities of San José (San José Municipal Water), Santa Clara and Milpitas, and San José Water Company have attended monthly meetings to review South Bay Water Recycling planning and operations.

COORDINATION

This memo has been coordinated with the City's Attorney's Office, Risk Management, and the City of Santa Clara. This memo is scheduled to be heard at the September 8, 2011 Treatment Plant Advisory Committee (TPAC) meeting.

FISCAL POLICY ALIGNMENT

In accordance with the Mayor's prescribed budget strategy, the tasks under this agreement will focus on the protection of a vital core service, emphasizing expenditures that improve reliability of the South Bay Water Recycling system and increasing the "recycling and beneficial reuse of wastewater."

COST SUMMARY/IMPLICATIONS

The WaterSMART grant provides funding to the City up to \$2,000,000 for construction projects to deliver recycled water with a local match requirement. The City is able to meet the local match of \$1,300,000 through encumbered funds as part of Amendments Six and Eight of the contract with the City of Santa Clara, awarded in 2010 and 2011 from funds in the San José/Santa Clara Treatment Plant Capital Fund. Under the terms of the contract with the City of Santa Clara, San José will only reimburse the City of Santa Clara for actual costs incurred. If the proposed projects in Santa Clara come in under budget (less than \$1,300,000), the amount of federal reimbursement would be reduced, such that the City's local match will be 39% of the total (reduced) project costs, and the federal share will provide for 61%. As indicated in the recommendation, it is expected that \$1,000,000 of the federal grant will be spent and reimbursed during 2011-2012, with the remainder to be received in later fiscal years.

The Feasibility Study for Improvements and Expansions for SBWR Facilities Agreement (Funding Agreement #R11AF20020) would require the City to fund \$2,400,000 in a Feasibility Study. As part of the 2011-2012 Adopted Capital Budget, \$2,000,000 was approved for this project in the SBWR Master Plan appropriation in the San José/Santa Clara Treatment Plant Capital Fund. Additionally, this project is scheduled for future appropriations of \$3,000,000 annually as part of the 2012-2016 Adopted Capital Improvement Program. The federal contribution to this project under this grant agreement would be up to \$1,200,000, with \$268,000 in funds already committed. It is the Bureau of Reclamation's intent to award the balance during the grant term, which ends September 30, 2013, as additional funds become available to the

Bureau. It is expected that the full \$268,000 will be received in 2011-2012. Additional funding will be recognized as it becomes available.

Reclamation may retain up to \$150,000 from each grant for administrative costs.

BUDGET REFERENCE

The total \$3,200,000 in funding from both grants will increase the revenue estimated in the San José/Santa Clara Water Pollution Control Plant Fund by \$1,268,000 in 2011-2012. The remaining reimbursement of up to \$1,932,000 will be received in future fiscal years and no later than September 30, 2013, as projects are completed and become eligible for reimbursement.

The chart below indicates the source of the matching funds for both grants.

Fund	Appn. #	Appn. Name	Total Appn.	Amount for Match	2011-2012 Proposed Capital Budget (Page) **	Last Budget Action (Date, Ord. No.)
512	6589	Revised South Bay Action Plan – SBWR Extension*	\$556,000	\$1,300,000	V-165	6/21/2011, Ord No. 28928
512	7364	SBWR Master Plan***	\$2,000,000	\$1,200,000	V-161	6/21/2011, Ord No. 28928

* The recommendations in this memorandum increase the Revised South Bay Action Plan – SBWR Extension appropriation by \$1,000,000 to \$1,556,000. The \$1,300,000 indicated has already been encumbered with prior year funding as part of the sixth and eighth amendment of the contract with the City of Santa Clara.

** The 2011-2012 Operating Budget was adopted by Council on June 21, 2011, and will be published in fall 2011.

*** This grant requires the City to expend \$2,400,000 on this project by Sept. 30, 2013. Additional funds are set aside in future years of the Adopted 2012-2016 Capital Improvement Program. Of this \$2,400,000, the federal grant will reimburse from \$268,000 to \$1,200,000 depending on the funding available to the U.S. Bureau of Reclamation during the grant term. Thus, the final value of the local match will vary.

CEQA

Resolution No. 64667, EIR for the San Jose Nonpotable Reclamation Project, now known as the South Bay Water Recycling Program dated June 15, 1993.

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South Bay Water Recycling Nonpotable Water System Environmental Impact Report, San Jose City Council Resolution 64667.

CEQA done by City of Santa Clara for City of Santa Clara Actions:

Santa Clara Industrial 3B: CEQ2010-01113

NEPA

In addition to CEQA, all projects have been reviewed by the US Bureau of Reclamation for compliance with the National Environmental Policy Act (NEPA). As the lead agency, Reclamation has issued a Finding of No Significant Impact (FONSI) for each of the proposed projects.

/s/

KERRIE ROMANOW

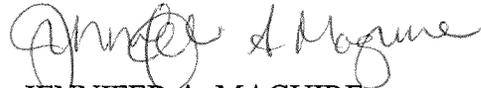
Acting Director, Environmental Services



JENNIFER A. MAGUIRE

Budget Director

I hereby certify that there will be available for appropriation in the San José/Santa Clara Treatment Plant Capital Fund in the Fiscal Year 2011-2012 moneys in excess of those heretofore appropriated there from, said excess being at least \$1,268,000.



JENNIFER A. MAGUIRE

Budget Director

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