



Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Kerrie Romanow

SUBJECT: SEE BELOW

DATE: January 3, 2012

Approved  Date 1/4/12

SUBJECT: APPLICATION TO THE UNITED STATES BUREAU OF RECLAMATION FOR A FEDERAL WATERSMART GRANT FOR THE CONSTRUCTION OF A NORTHERN REGIONAL INTERTIE TO THE SOUTH BAY WATER RECYCLING SYSTEM

REASON FOR ADDENDUM

In order to receive Council authorization in time to apply for the United States Bureau of Reclamation (Reclamation) WaterSMART grant by the application deadline of January 17, 2012, it is necessary to add this item to the January 10, 2012 City Council Agenda.

RECOMMENDATION

Adopt a resolution authorizing the City Manager, subject to the concurrence of the Treatment Plant Advisory Committee, to submit an application to Reclamation for a WaterSMART grant through the Title XVI Water Reclamation and Reuse Program (Funding Opportunity Announcement No. R12SF80050), in an amount of up to \$5,000,000 for the construction of a regional recycled water intertie from north San José through the City of Santa Clara to the City of Sunnyvale's recycled water system and the construction of a new pipeline connecting the Sunnyvale recycled water system to the new Apple II campus via Wolfe Road.

OUTCOME

Approval of this recommendation will allow staff to submit a grant application to Reclamation by the January 2012 deadline. If awarded by Reclamation and accepted by the City, the grant would fund up to 25% of construction costs to build a Northern Regional Intertie to the South Bay Water Recycling (SBWR) System to bring high quality recycled water to the City of Sunnyvale and the new Apple II Campus by September 2014. It is anticipated that the local match funding for this project would be shared with public and private partners, including Apple, Inc., the City of Sunnyvale, California Water Service Company and the Santa Clara Valley

January 3, 2012

Subject: Application for Federal WaterSMART Grant

Page 2

Water District. This capital project would be the first inter-regional recycled water intertie in California and would reduce regional demand on limited potable water supplies; increase recycled water revenues to SBWR; and provide pipeline infrastructure in Cupertino and Sunnyvale to facilitate expanding the recycled water system as such future opportunities become available.

BACKGROUND

In November 2011, Reclamation announced Funding Opportunity No. R12SF80050, the "WaterSMART: Title XVI Water Reclamation and Reuse Program Funding for Fiscal Year 2012." According to the program solicitation, "sponsors of authorized Title XVI projects are invited to request funding for planning, design, and/or construction of an authorized Title XVI project, including work that has already been completed without Federal funding, as well as work planned through September 30, 2014." The solicitation also states that, "Reclamation anticipates providing no more than \$4,000,000 per applicant, subject to funding capability and amount remaining under the appropriations ceiling for each authorized project." Furthermore, Reclamation states, "Depending on final appropriations and interest in this grant, Reclamation may consider awarding more than \$4,000,000 per applicant or may consider a smaller funding amount."

ANALYSIS

In fall 2011, SBWR stakeholders including San José/Santa Clara Water Pollution Control Plant tributary agency representatives, California Water Service Company, the Santa Clara Valley Water District, and the City of Sunnyvale identified a number of capital projects that met the primary criteria of increasing revenues from the sale of recycled water and enhancing SBWR system reliability. Among these improvements was a Northern Regional Intertie project that would provide recycled water to Sunnyvale and the new Apple II campus.

The total project cost is estimated at \$20,000,000, including all soft costs. Apple, Inc. has indicated that as part of a public-private partnership the company would consider funding up to \$4,800,000 for the regional intertie project. Sunnyvale City staff anticipates that the Sunnyvale City Council will consider budgeting funds for this project by the end of March 2012. In addition, staffs from the Santa Clara Valley Water District and California Water Service Company have also indicated interest in contributing to the construction costs. Each of the partnering agencies identified above are currently preparing letters of support for the January 2012 grant submittal.

If the 2012 WaterSmart grant is awarded and the other partner agencies provide all the additional funds necessary to complete this project, staff would propose contributing no more than \$2,400,000 from the SBWR program, subject to Council, City of Santa Clara, and California Department of Water Resources approval. Of this amount, \$1,300,000 would come from budgeted grant funds in the San José/Santa Clara Construction Services Agreement approved by

Council in 2010 to construct a SBWR pipeline in the City of Santa Clara. An additional \$1,100,000 could be available from State Proposition 84 Bay Area Integrated Regional Water Management Program grant funds that staff anticipates receiving in 2012. Staff has coordinated with City of Santa Clara staff on the above funding strategy. No revenue received from the San José/Santa Clara Treatment Plant Tributary Agencies or City Sanitary Sewer ratepayers will be used to pay for the costs of this project.

The recycled water system is expected to continue to expand over the next several decades to ensure the region has adequate water supply to support expected growth. Staff believes that this utility can and should operate at full cost recovery and contribute revenues to San José, Santa Clara, and Tributary partners. Taking advantage of opportunities like this Reclamation grant project to significantly increase the reach of the recycled water system in the county puts the City and tributary agencies in a better position to maximize potential future revenues.

Upon Council and TPAC approval, City staff would submit an application by January 17, 2012, applying to Reclamation for up to \$5,000,000 for hard and soft costs, including grant administration, for the construction of the northern regional intertie and the Wolfe Road pipeline. Depending on the competitiveness of this proposal and the number and cost of the other proposals submitted, there is a possibility that Reclamation could make an award of more or less than the \$5,000,000 to the City. Should the grant be awarded in April 2012, the total project cost will be applied towards the City's existing authorization provided by Reclamation with the remaining authorization available for future recycled water projects. Reclamation's support of the City's commitment to use reimbursed recycled water federal grant funds to fund new projects would increase the competitiveness of this grant application.

EVALUATION AND FOLLOW-UP

If Council approves this recommendation, staff will submit an application for the 2012 WaterSMART grant. If the grant is awarded in April 2012, staff and Reclamation will negotiate a grant agreement, and staff and the partner agencies will develop any additional agreements required to jointly implement this project for Council consideration. The partnership agreements would specify that any costs related to the City undertaking the lead agency role in administration of the grant will be included in the total project budget and that the City will be compensated for these costs. Per the requirements of Reclamation, the grant agreement and partnership agreements must be executed by the end of September 2012.

PUBLIC OUTREACH/INTEREST

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**

January 3, 2012

Subject: Application for Federal WaterSMART Grant

Page 4

- 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)**

This memorandum, while not meeting any of the criteria above, will be posted on the City's website for the January 10, 2012 Council agenda.

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 January 12, 2012 meeting.

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).

/s/
KERRIE ROMANOW,
Acting Director, Environmental Services

For questions please contact Jo Zientek, Acting Assistant Director, Environmental Services Department, at (408) 535-8557.