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City Manager's Office

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Leanna Bieganski

SUBJECT: **Early Council Packet**

DATE: January 31, 2012

Approved

Date 1/31/12

EARLY DISTRIBUTION COUNCIL PACKET FOR FEBRUARY 14, 2012

Please find attached the Early Distribution Council Packet for the February 14, 2012 Council Meeting.

3.x Approval of the 2011-2012 Mid-Year Budget Actions.

Recommendation:
(a) Approve the 2011-2012 Mid-Year Budget Review Report.
(b) Adopt related Appropriation Ordinance and Funding Sources Resolution amendments in various funds as detailed in Section III (Recommended Budget Adjustments and Clean-Up Actions) in the 2011-2012 Mid-Year Budget Review.

CEQA: Not a Project, File No. PP10-067 (b), Appropriation Ordinance. (City Manager's Office)

TO BE DISTRIBUTED SEPARATELY

5.x Deferred Payment of Parkland Fees for High-rise Multi-Family Residential Projects Located in the Downtown Core Area.

Recommendation: Adopt a resolution to amend the Schedule of Parkland Fees and Credits (Council Resolution No. 73587, as amended) authorizing the City Manager to negotiate and execute an amendment to agreements with developers of high-rise multi-family residential projects located in the Downtown Core Area who previously executed a deferment agreement with City to provide up to an additional 12 months for payment of parkland in-lieu fees and accrued interest owed to City. CEQA: Mitigated Negative Declaration, File No. PP 07-130. Council District 3. (Parks, Recreation and Neighborhood Services)

7.x Agreement with FOG Energy Corporation for Fats, Oils and Grease Demonstration Partnership.

Recommendation:

(a) Adopt a resolution pursuant to San José Municipal Code Section 4.12.235 and City Council Policy 0-40 finding that a contract should be awarded to FOG Energy Corporation based on the Request for Interest process conducted by staff in February, 2010, on the grounds that the process was the maximum competitive process practicable under the circumstances, and a further competitive process for procurement of energy produced from fats, oil and grease material would be contrary to the public interest; and

(b) Approve a contract with FOG Energy Corporation for a term of not to exceed 10 years at an estimated benefit to the City of $491,000 for the purpose of demonstrating the technical feasibility and cost effectiveness of accepting fats, oil and grease material at the San José/Santa Clara Water Pollution Control Plant.

CEQA: Exempt, File No. PP11-603. (Environmental Services/Economic Development)

7.x Master Agreement with Cameron International for Electrical Generator Engine Parts and Related Services.

Recommendation: Adopt a resolution authorizing the City Manager to:

(a) Execute a Master Service Agreement with Cameron International Corporation, dba Process & Compression Systems (Cameron) located in Houston, Texas for the sole source purchase of Electrical Generator Engines (EGE or "Generator") catalogue parts, repair, refurbishment of engine components and related services as may be required, for a not-to-exceed amount of $3,000,000 over a three year period from January 2012 to January 2015.

(b) Execute one-year options to extend the agreement to provide ongoing maintenance and support after the initial three year term, subject to the annual appropriation of funds.

(c) Execute open purchase orders as required under the terms and conditions of the Master Agreement, subject to the appropriation of funds.

CEQA: Not a Project, File No. PP10-066(a), Agreements and Contracts. (Finance)

These items will also be included in the Council Agenda Packet with item numbers.

LEANNA BIEGANSKI
Council Liaison

COUNCIL AGENDA: 02-14-12
ITEM:

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Julie Edmonds-Mares

SUBJECT: SEE BELOW

DATE: January 23, 2012

Approved

Date 1/31/12

COUNCIL DISTRICT: 3

SUBJECT: DEFERRED PAYMENT OF PARKLAND FEES FOR HIGHRISE MULTI-FAMILY RESIDENTIAL PROJECTS LOCATED IN THE DOWNTOWN CORE AREA

RECOMMENDATION

Adopt a resolution to amend the Schedule of Parkland Fees and Credits (Council Resolution No. 73587, as amended) authorizing the City Manager to negotiate and execute an amendment to agreements with developers of highrise multi-family residential projects located in the Downtown Core Area who previously executed a deferment agreement with City to provide up to an additional twelve (12) months for payment of parkland in-lieu fees and accrued interest owed to City.

OUTCOME

Approval of the recommendations of this memorandum will ensure that the City can continue to encourage and facilitate highrise construction in the Downtown Core Area while, at the same time, ensuring the obligations are met for the payment of parkland fees.

BACKGROUND

Parkland fees are generally required to be paid to City prior to the issuance of a building permit for the residential project or no later than one year from the date of the approval of the final or parcel map, whichever occurs first. On January 9, 2007, Council adopted Resolution No. 73587 allowing developers of highrise multi-family residential projects located in the Downtown Core Area to defer payment of parkland fees to no later than the scheduling of the final inspection for the first certificate of occupancy. Instead of having to pay City parkland fees prior to the

issuance of a building permit, developers of highrise multi-family residential projects in the Downtown Core Area were eligible under Resolution No. 73587 to enter into written agreements with the City to defer the payment until the scheduling of the final inspection for the first certificate of occupancy.

On May 20, 2008, Council adopted Resolution No. 74382 amending Resolution No. 73587 authorizing the City Manager to enter into written agreements with highrise housing developers to provide an additional deferment of up to 18 months for payments of parkland fees for certain highrise housing developments in the Downtown Core Area under the following conditions:

1. City Manager finds that deferred payment of the parkland fees for the duration contemplated in the agreement will not substantially interfere with the construction schedule of any park or recreational facilities to be funded by the in-lieu fees to be deferred; and
2. Developer to pay interest that the deferred parkland fees would have earned had the payment occurred; and
3. The period in which such agreements can be made would terminate on July 1, 2009; and
4. Written agreement to be fully executed and recorded; and
5. Developer provide collateral to City for the deferred fees and interests; and
6. Certificate of Occupancy withheld on at least ten percent (10%) of residential units located within the project until deferred fees and interests are paid in full; and
7. Maximum length of the deferment for each eligible project is 18 months from the date of the scheduling of the final inspection for the first certificate of occupancy.

On August 1, 2008, the City and Almaden Tower Venture, LLC ("Developer") entered into a Second Amended Parkland Agreement pursuant to the terms outlined above to defer parkland fees in the amount of $3,297,000 (plus interest) for up to six months (from August 1, 2008 to February 1, 2009). Developer constructed a 22 story condominium highrise project on the southwest corner of Carlysle Street and Notre Dame Avenue. The reason the City only agreed to a six month extension was because City anticipated commencing construction on Watson Park in early 2009 and needed the outstanding payment of parkland fees of $3,297,000 (plus interest) for that project. Developer previously requested an additional extension of up to 12 months (from February 1, 2009 to January 31, 2010) prior to the expiration of the Second Amended Parkland Agreement. However, City was unable to grant such extension unless there was an alternative source of funding for Watson Park and the City Manager was able to make a finding under Resolution No. 74382 that additional deferment of 12 months would not substantially interfere with the construction schedule of Watson Park. On January 27, 2009, the Council and Redevelopment Agency Board approved a cooperation agreement between the City and Redevelopment Agency to provide a payment of $3,297,000 from the Agency to the City. This funding matched the payment owed to the City by Developer and allowed City to proceed with the re-construction of Watson Park and enter into a Third Amendment with the Developer.

A Third Amended Parkland Agreement was entered into between City and Developer on or about February 23, 2009. This Third Amendment deferred Developer's payment to January 15,

2010, within the maximum time (18 months) allowed under Council Resolution 73587, as amended.

On January 12, 2010, Council adopted Resolution No. 75249, the Fourth Amendment to Resolution No. 73587, providing an additional extension of up to 13 months for deferral of parkland fees. This Fourth Amendment deferred Developer's payment to February 15, 2011 within the maximum time (31 months) allowed under Council Resolution No. 73587, as amended.

Concurrently on January 12, 2010, Council adopted Resolution No. 75250 authorizing the City Manager to negotiate and execute an amended and restated Cooperation Agreement with the Agency providing City reimbursement to Agency the total principal amount of $3,297,000 previously provided for Watson Park to the Agency. Reimbursement was made prior to February 15, 2010, by utilizing Park Trust Funds allocated to Martin Park totaling $2,750,000 and Watson Park Site Clean-up and Restoration appropriation within the General Fund totaling $547,000.

With the continuing economic downturn, Developer requested an additional deferral of up to 12 months (from February 15, 2011 to February 15, 2012) to pay the deferred parkland fees. On January 11, 2011, Council adopted Resolution No. 75691, the Fifth Amendment to Resolution No. 73587, providing an additional extension of up to 12 months for deferral of parkland in-lieu fees. This Fifth Amendment deferred Developer's payment to February 15, 2012, within the maximum time (43 months) allowed under Council Resolution No. 73587, as amended.

ANALYSIS

The Developer has requested an additional extension of 12 months to pay its parkland fees to the City in the amount of $2,829,471 (plus interest). The City has provided five previous deferments to the Developer.

1. The first deferment under Resolution No. 73587 authorized Developer to pay the parkland fees on or before the scheduling of the final inspection for the first certificate of occupancy and no later than August 1, 2008.
2. The second deferment under Resolution No. 73587, as amended, provided an additional six months deferment and required Developer to pay the parkland fees on or before February 1, 2009.
3. The third deferment under Resolution No. 73587, as amended, was for an additional 12 months and expired on January 15, 2010.
4. The fourth deferment was for an additional 13 months and expired on February 15, 2011.
5. The fifth deferment was for an additional 12 months and will expire on February 15, 2012. Developer has received deferments totaling 43 months.
6. Developer is now requesting an additional deferment of 12 months, from February 15, 2012 to February 15, 2013.

During the deferment period ending February 15, 2012, the Developer was required to make three quarterly installment payments toward outstanding parkland fees and interest based upon the units sold within each quarter. The Developer was delinquent in making payments at each quarterly date established under Resolution No. 75691. Although the installment payments were received late by the City, staff proactively worked with the Developer to assure the Developer met its commitments under Resolution No 75691 and written agreement with the City. To date, the Developer has paid $685,083 toward parkland fees and interest accrued on the parkland fees.

Staff recommends an additional deferment from February 15, 2012 to February 15, 2013 under the similar conditions outlined in Resolution No. 75691 with additional requirements that Developer:

a. Extend the performance bond with its surety company to March 15, 2013, establish the performance bond amount to be equal to the calculated deferred parkland fee balance and increase the bond amount by $150,000 to cover the anticipated interest through the extension period ending February 15, 2013; and

b. Make three quarterly installment payments to the City on May 15, 2012, August 15, 2012 and November 15, 2012 based upon units sold within each quarter on the outstanding parkland fees and interest, and one final balloon payment due on or before February 15, 2013; and

c. Owe late payment fees to the City in the amount of Ten Dollars ($10.00) per unit per month plus interest at the rate of one half of one percent per month on the deferred parkland fee balance, pro rata as established under Resolution No. 73587 for late payment of parkland fees for any quarterly payments; and

d. Increase the withhold certificate of occupancy from ten percent (10%) to fifteen percent (15%) on the remaining residential units in the project until the parkland fees and interest are paid in full to City.

Staff recommends the above additional conditions as part of any additional deferment for the Developer in order to help facilitate highrise construction in the Downtown Core.

The allocated Park Trust Funds to construct Martin Park are currently impacted. Construction of Martin Park was previously deferred from spring 2011 to spring 2012 and requires further deferral. Once the Martin Park funds have been restored, staff will identify funding options for operations and maintenance in order to proceed with the development of the park.

Council Resolution No. 73587, as amended, must be amended in order to extend the maximum deferment period of 43 months from the date of the scheduling of the final inspection for the first certificate of occupancy for certain highrise multi-family downtown residential development. The proposed resolution would authorize the City Manager to grant an additional deferment of

up to 12 months if it is determined by the City Manager that the deferred fees would not substantially interfere with the construction schedule of any park or recreational facilities that would be funded by the deferred fees. Because the Park Trust Funds to construct Martin Park have not been restored and funding options for operations and maintenance have not been identified, the City Manager may conclude that there is no substantial interference with the construction schedule of any park or recreational facility, particularly Martin Park, within the next year.

This proposed additional 12 month deferment would only be eligible to those developers that have previously executed a deferment agreement with the City by July 1, 2009, as outlined in Resolution No. 74382. Almaden Towers Venture, LLC is the only developer that has executed such agreement with the City and therefore, the proposed resolution would only apply to them. No other developer would be eligible for the additional deferral under the proposed resolution.

If the proposed resolution is adopted by Council, the City will enter into an amended Parkland Agreement with Developer that would require Developer to (1) pay all outstanding parkland fees and interest on or before February 15, 2013; (2) record the written agreement against the project; (3) provide collateral for the payment of the deferred parkland fees and estimated interests; (4) apply late payment fees and interest to delinquent quarterly payments; and (5) withhold certificate of occupancy on the remaining fifteen percent (15%) of the residential units in the project until the deferred fees and interest are paid in full to City. Should the amended Parkland Agreement not be signed and notarized by the Developer by noon on or before February 15, 2012, City may need to protect its right and send a letter to the Developer and its surety company requiring payment of parkland fees and interest in full.

EVALUATION AND FOLLOW-UP

Action taken by Council on this item will allow staff to continue to work with Almaden Tower Venture, LLC to assist them in deferring their park fees and facilitate future highrise construction in the Downtown Core Area.

PUBLIC OUTREACH/INTEREST

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

☐ **Criterion 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)**

☐ **Criterion 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 item meets Criteria 1: Requires Council action on the use of public funds equal to $1 million or greater. This memorandum will also be posted on the City's website for the February 14, 2012 City Council agenda.

COORDINATION

This item has been coordinated with the City Attorney's Office and the City Manager's Budget Office.

FISCAL POLICY/ALIGNMENT

This Project is consistent with the Council-approved Budget Strategy Economic Recovery section in that it will spur construction spending in our local economy.

COST SUMMARY/IMPLICATIONS

This recommendation has no impact to the operational budget.

CEQA

CEQA: PP 07-130, Mitigated Negative Declaration.

/s/
JULIE EDMONDS-MARES
Acting Director of Parks, Recreation and Neighborhood Services

For questions please contact Matt Cano, PRNS Deputy Director, at 408-535-3580.

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Kerrie Romanow
Kim Walesh

SUBJECT: SEE BELOW

DATE: January 17, 2012

Approved [signature] Date 1/20/12

SUBJECT: FATS, OILS, & GREASE RECEIVING STATION DEMONSTRATION PARTNERSHIP AGREEMENT BETWEEN THE CITY OF SAN JOSE AND FOG ENERGY CORPORATION AT THE SAN JOSE/SANTA CLARA WATER POLLUTION CONTROL PLANT

RECOMMENDATION

1. Adopt a resolution pursuant to San José Municipal Code Section 4.12.235 and City Council Policy 0-40 finding that a contract should be awarded to FOG Energy Corporation based on the Request for Interest process conducted by staff in February, 2010, on the grounds that the process was the maximum competitive process practicable under the circumstances, and a further competitive process for procurement of energy produced from fats, oil and grease material would be contrary to the public interest; and

2. Approve a contract with FOG Energy Corporation for a term of not to exceed 10 years at an estimated benefit to the City of $491,000 for the purpose of demonstrating the technical feasibility and cost effectiveness of accepting fats, oil and grease material at the San José/Santa Clara Water Pollution Control Plant.

OUTCOME

Approval of this contract will allow for the implementation of a demonstration project for accepting fats, oils and grease at the San José/Santa Clara Water Pollution Control Plant (Plant), thus providing a local disposal option for restaurants and grease producing businesses, while providing City staff hands-on experience in operating a grease receiving station.

EXECUTIVE SUMMARY

Over the past several years, the City, like many other public agencies that operate wastewater treatment plants, has considered implementing a program for receiving and processing fats, oil

and grease (FOG) material. FOG material has significant potential to generate energy as it is digested. However, given the current condition of the digesters at the Plant, limited staff (engineers, operators, and mechanics) and costs associated with other pressing infrastructure needs requiring attention, has caused for the postponement of implementation of a FOG receiving program.

The proposed public-private partnership with FOG Energy Corporation (FEC) will help overcome the challenge of inadequate City resources to design and implement a FOG receiving station and will provide a mechanism for financing the costs of the needed facilities over time. Under the recommended contract, the City will provide an approximately 1200 square foot site at the Plant for a receiving station and will also provide up to three active digesters and one control digester for the demonstration project.

Under the recommended contract, FEC will provide for the design and construction of a FOG receiving station at the Plant, implementation of needed improvements for up to four Plant digesters and the connections between the receiving station and up to three digesters; and will secure and manage the contract(s) with grease hauler(s) who will bring FOG Material to the Plant. Up to $1,500,000 in capital costs needed to implement the demonstration project, plus financing costs of 8% per annum (capped at $400,000 over the term of the contract), will be recovered by FEC through payments made by the Plant for any methane gas that is produced by the demonstration project and from tipping fees paid by haulers who bring FOG material to the Plant. The City's only obligation to pay FEC under contract will be to pay for the methane that is produced by the FOG material.

The contract would also provide for FEC to construct the electrical improvements and the distributed control system (DCS) connections required to prepare the site and monitor the receiving station remotely, at an estimated cost to the City of $500,000 to be paid from the Water Pollution Control Plant 2011-2012 Adopted Capital Budget on a reimbursement basis, as costs are incurred by FEC. The City operating costs for 2011-2012 would be covered by currently appropriated funds; future years operating costs would be subject to appropriation by Council. City operating costs include all staff costs associated with the support of this project as well as the energy costs.

For the purposes of analyzing costs and benefits of this project, staff has evaluated three scenarios over a 10 year period and compared each of these scenarios with a "no project" alternative of not building a station and continuing to purchase the methane gas from the landfill and PG&E. The three scenarios, detailed in Attachment A, result in cost or benefit to the City, compared to the no project alternative, as follows:

- An unsuccessful project (seven months) - in case of failure of the demonstration project while the first digester is being tested (Scenario C), the project would be terminated early with an estimated cost to the City that exceeds the no project scenario by $683,600;
- An unsuccessful project (not to exceed 10 years) – under a low or no methane production scenario (Scenario B), the project would terminate as soon as FEC has recovered its

capital and financing costs (estimated to be 8.4 years), but no later than 10 years, with an estimated cost to the City that exceeds the no project scenario by $2,090,000 over a 10 year period;

- A successful (most likely) project (6.0 year term) which assumes good methane production and net projected benefit to the City of $491,000 over a 10 year period (Scenario A).

City staff also evaluated independently designing, building and operating a FOG material receiving station. City staff concluded that only FEC technology could be implemented at this time, given the current condition of the digester mixing system. Staff estimates that independent implementation of a receiving station through City design and construction would cost approximately $420,000 more than the FEC likely scenario over a 10 year period. Due to inadequate staffing capacity, an independent project would also take longer to implement and this alternative will not be implemented until the Plant's digester mixing system upgrade can be completed, which would not occur until 2016.

BACKGROUND

FOG is typically generated in restaurants and residential kitchens. When discharged to the sewer system, FOG can lead to blockages and sanitary sewer overflows. However, when collected at the source, the same FOG material can be reused to become a significant source of energy when added to the digesters to produce methane gas. Many wastewater plants (South Bayside Authority, Millbrae, East Bay Municipal Utility District, Watsonville, Riverside, and Oxnard) already accept FOG into their digesters and produce additional methane generating renewable electric power, along with collecting tipping fees as an additional source of revenue.

The Plant's co- owner and the Tributary Agencies have long expressed an interest in establishing a FOG receiving station at the Plant to provide a local disposal location for grease trap waste from food service establishments.

In 2009, the Plant conducted an evaluation of its digesters and the potential to add FOG. This study showed a significant potential for energy generation through FOG reuse; however the digesters infrastructure would need to be upgraded before accepting a significant quantity of FOG using conventional grease receiving/processing technologies. These upgrades would include improvements of the mixing, covers, and digester gas systems and are currently in the design phase. Also, initiating the project using the Plant's resources would require additional engineering capacity to build the unit and additional staff time to enter into contracts and manage the hauler(s). Four of these digesters are currently under design and construction is estimated to be complete in 2016. Following this construction period Plant staff will be conducting testing of the mixers installed to verify their effectiveness before proceeding with upgrade of the additional digesters. If the recommended demonstration project is approved and not terminated early (before 2018), the Plant will not be able to proceed with upgrading the digesters that are devoted to the project, unless the City is willing to pay for all costs of connecting the receiving station to

alternative digesters that have already been upgraded. For this reason, it is not anticipated that the projects digesters will be upgraded during the term of the recommended agreement.
In February 2010, the City released a Request for Information for the City's Green Vision Demonstration Partnerships. FEC, a Silicon-Valley based company specializing in the reuse of FOG, submitted a proposal. The proposal promised to overcome the limitations of traditional FOG receiving technologies, such as clogging, odors, methane spikes and digester foaming issues. It also presented a potential to be successful with the existing digester infrastructure with minor modifications. FEC also proposed to manage the hauler(s), including selection, training, monitoring and billing.

The unique aspect of FEC's proposal was its innovative handling/conditioning technology that converts this waste product into a form that can be handled by existing digesters. Such technology, already implemented at Millbrae, potentially avoids the historical problems experienced from feeding raw grease trap waste into the digesters. FEC invented and holds the patent for this completely automated, turnkey FOG processing technology. Although the original FEC proposal was for a much shorter project entailing a much lower level of investment by the City, in further discussions between FEC and staff, the current recommended contract was developed to maximize potential revenue for both the City and FEC.

ANALYSIS

This project offers the Plant an opportunity to evaluate an emerging technology that:

- Can be implemented relatively quickly,
- Provides a needed service locally; and
- Furthers the Plant's energy self sufficiency goals.

FOG Receiving Demonstration Project Summary

FEC proposes to deploy the company's proprietary technology on the abandoned chemical feeding station adjacent to Digester #14 at the Plant. The demonstration unit would receive FOG waste from hauler(s) that then would feed up to three digesters. In the digesters, FOG would be converted into biogas for energy production. Ideally, the demonstration project will gradually increase the amount of FOG to the digesters from 5,000 gallons per day (gpd) to 9,000 gpd for each digester. The expected biogas production of 0.2 million cubic feet per day at the maximum anticipated capacity; represents an increase of 13% compared to the Plant's current biogas production. FEC will be responsible for securing and administering the hauler contract including routine monitoring of the quality of FOG delivered to the Plant, while Plant staff will be responsible for operating the receiving station and testing both incoming FOG material and digester performance.

As the demonstration project progresses, three different scenarios are possible, with Scenario A being the most likely:

- Scenario A: The demonstration project succeeds as intended and produces the anticipated quantities of methane.

- Scenario B: The demonstration project does not succeed at producing methane.
- Scenario C: The demonstration project causes harm to the digesters and results in early termination of the project.

Attachment A details the cost and benefits of each alternative, along with the key assumptions of each alternative.

Key Terms of Contract

The following outlines the main terms of the contract between FEC and the City:

1. The Plant will provide an appropriate site (approximately 1200 sf. of presently unused space at the abandoned ammonia feeding station) and access to up to four operating digesters during the demonstration project (three could be fed with FOG, one will act as a control).
2. The term of the demonstration project will range from less than one year to up to 10 years, depending on the success of the project.
3. FEC will fully fund all costs for design, engineering, permitting, and construction of the project, including the FOG receiving station and the required digesters' upgrades for this project, such as flow meters and biogas composition meters.
4. FEC will fund the design, engineering and installation of the DCS and power connection, subject to reimbursement by the City. The Plant will pay for the power and DCS connections on a reimbursement basis. The DCS connection will allow Plant staff to monitor and control the receiving station remotely. This capability is required by Plant staff. The cost is estimated at $500,000.
5. FEC will manage the FOG hauler relationship and obligations associated with FOG quality, quantity, and delivery.
6. FEC will pay for the analysis cost of the received FOG and for digester performances following the program detailed in the contract.
7. FEC will reimburse the City for part of its operations and maintenance (O&M) costs under all scenarios. These reimbursable costs are estimated at $207,000 (Scenario A); $286,000 (Scenario B): and $41,000 (Scenario C.)
8. Under Scenarios A and B, FEC will recover up to $1,500,000 in capital costs plus 8% interest rate (capped at $400,000) through the sale of the biogas produced by the demonstration project to the Plant at $0.65/therm and 100% of the tipping fee collected from the haulers delivering FOG.
9. Under Scenarios A and B, once the capital investment plus interest (total amount not to exceed $1,900,000), is recovered by FEC, the Plant will receive 25% of the tipping fee revenue that is in excess of FEC's hard O&M cost, and the purchase price for the methane will decrease to $0.37/therm. The contract will allow FEC to establish the tipping fee; however, for the purpose of calculating payment/credit to the City for hard O&M costs it will be assumed that FEC will be receiving revenue of at least $0.06/gallon. The period when fees are being shared and price is reduced is called "value-share", and will last up to three years.
10. In case the digester performance deteriorates after the FOG fed digester has begun operation, Plant staff and FEC will work together to identify the cause of the problem and its resolution. If any of the FOG fed digesters fails to meet the performance criteria as

defined in the contract, the digester will be taken out of service and will not be placed back into service until the City and FEC have agreed on a course of action to cure the non-performance. The contract also includes causes and terms for termination in the event of a failure to agree on a course of action to cure non-performance or failure of the action to achieve performance. In the event of termination for non-performance, FEC will be required to remove improvements installed on site at its sole cost and expense.

11. FEC will provide training to Plant staff on best practices in FOG receiving.
12. Plant staff and FEC personnel will jointly monitor the project.
13. Failure to produce additional biogas will be treated as evidence that FEC has failed to demonstrate tangible benefits of the demonstration project. In such an instance, the contract will be ended once FEC has recovered up to $1,500,000 for its capital investment plus the interest up to $400,000 through the tipping fees and will remove the receiving station at no cost to the City or at the City's option, leave the station in place for the Plant's use at no cost to the City.
14. If the project is producing methane, the Plant will have two options at the end of the end of year six:
    i. Purchase the station at a cost of $850,000; or
    ii. Request removal of the FOG receiving station at a cost to the City of $250,000.
15. If Plant staff decides to purchase the unit and produce energy, responsibility to manage the haulers will be transferred from FEC to the Plant.
16. FEC will pay prevailing wage for the construction and comply with City's bidding requirements.
17. FEC will be responsible for any harm to the digesters caused by the introduction of FOG material.
18. The City's obligation to pay operating and maintenance costs under the agreement will either (1) not be a general fund obligation of the City and is subject to the availability of revenue in excess of debt service and other senior obligations in the San Jose/Santa Clara Treatment Plant Operating Fund; or (2) shall be at the sole discretion of the City and shall not commit or bind the City to pay operating and maintenance costs under this agreement on or after July 1, 2012, except as funds therefore may be appropriated by the Council.

Alternatives Analysis

To evaluate the cost/benefit of this proposal, staff considered two other alternatives for implementation:

No Project – Continue Purchasing from Newby Island and PG&E: Under this scenario the Plant will continue to purchase landfill gas from Newby Island Landfill to be used in on-site power generation. While no upfront capital investment will be needed, the landfill gas contract with Newby Island is set to expire in 2016. Beyond that date, the Plant will either have to re-negotiate the contract with Newby Island or purchase natural gas or additional electricity from PG&E. The Plant currently pays $0.43/therm for methane gas it procures from Newby Island Landfill and $0.53/therm from natural gas it procures from PG&E. Staff's cost/benefit analyses estimate

the PG&E prices will rise at the rate of 2.2% per annum, to $0.57/therm in 2017. Given the critical nature of Plant operations, energy self-generation and self-reliance is key to reliable Plant operations. This option, which would increase the Plant's dependence on one third party for a portion of its energy supply, is not desirable. With projections of increases in natural gas and electricity this option would also introduce an uncertainty over the energy costs for the Plant. Further, this option does not provide for a FOG disposal option for the Plant service area and also loses the opportunity of revenue generation through tipping fees.

City Implemented FOG station: City staff considered designing, building and operating a FOG receiving station without a third party. This would require higher initial capital investment and additional staff dedicated to this project. Under current staffing and infrastructure conditions at the Plant, the Plant would not be able to implement such a program until 2017, when the upgrade of the digesters will be complete. Under this scenario, the Plant would also benefit from the additional revenue of a tipping fee, however, management of the hauler(s) and operations and maintenance of the FOG station would be the Plant's responsibility. FEC has experience in handling the FOG material, and managing the receiving station and haulers.

Attachment A compares the cost of the above two options with the three scenarios of the demonstration project (A, B and C). As seen from this table, when all the costs and benefits are taken into consideration, under Scenario A, the FEC station will save the Plant $491,000. Under the low/no methane generation scenario (Scenario B), the net cost to the Plant would be $2,000,000 over a 10 year period. In the unlikely event that the project is a failure (Scenario C), the Plant would lose an investment of $683,600. However, Staff believes the likelihood of Scenario B and C to be very small, and that this project is therefore a worthwhile investment for the Plant.

Alignment with City and Plant Environmental Goals

FEC is expected to provide additional methane equivalent to generating up to 1.25 MW of electricity at the maximum anticipated capacity of the demonstration project. Energy self-sufficiency is one of the long term objectives of the Plant. Currently one-third of the Plant's energy is generated from the methane gas produced in the digesters. Further, because of the small foot print of FEC facility, the project can integrate into existing operations in the near term. This demonstration project will also promote the City's sustainable energy and zero waste goals:

- Goal #3: Receive 100% of electrical power from clean renewable sources,
- Goal #5: Zero Waste to landfills and converting waste to energy.

Benefits to the Restaurants

Implementing a FOG receiving program and providing a local FOG disposal site has an immediate benefit for the restaurant owners by potentially reducing the grease removal device maintenance costs. The closest disposal sites for the Plant service area is at Millbrae (31 miles from the Plant) and Redwood City (25 miles from the Plant). Providing a FOG receiving station at the Plant will reduce the hauler transportation costs as this location will be within the Plant

tributary area. It is estimated that there are about 5,000 food service establishments with grease removal devices within a 20 mile radius of the Plant that would benefit from this station.

EVALUATION AND FOLLOW-UP

The design of the FOG receiving station is expected to start in February 2012 and last four to six months. It is anticipated that staff will bring forth the construction contract for approval sometime in summer 2012. After a four to six month period of construction, the start-up is anticipated towards the end of 2012.

POLICY ALTERNATIVES

Alternative 1: No implementation of a FOG receiving/processing program at the Plant.

Pros:

- No short term capital cost for the Plant

Cons:

- No service for the community - No local disposal alternative for haulers
- No additional renewable energy produced at the Plant
- No support to a local company with new technology
- Loss of potential revenue
- No long term reduced energy cost

Reasons for not recommending:

Not implementing a FOG program at the Plant would not be in-line with the long term environmental and energy self-sufficiency goals of the Plant. Accepting FOG at the Plant will divert grease from landfill, reduce mileage for haulers to drive and generate renewable energy. Plant will have to continue to rely on the landfill and PG&E for its energy needs.

Alternative 2: Plant builds and operates a FOG receiving station - No public/private partnership with FOG Energy.

Pros:

- 100% of the tipping fee received from the start of the station

Cons:

- Potential for failure as Plant staff has no or limited experience with this waste material
- No engineering capacity to take this due to current CIP workload, staff hiring will be required
- Higher initial capital investment
- Implementation time will be longer (~four years) as digesters will be upgraded first
- Overall cost higher by $420,000

Reasons for not recommending:
The issues associated with start-up of such a facility designed, built and operated by the Plant are high, as is typically seen at other wastewater treatment plants. The limited in-house technical staff and the aging infrastructure is the main reason of increased risks. The project will also take longer to implement as upgrade of the digesters will be implemented first. The overall cost is higher than the FEC Scenario A. The partnership with FEC offers immediate implementation with an innovative technology.

PUBLIC OUTREACH/INTEREST

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

☐ **Criterion 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)**

☐ **Criterion 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 will be posted on the City's website for the February 14, 2012 City Council Meeting.

COORDINATION

The project and memorandum have been coordinated with the City Attorney's Office and the City Manager's Budget Office. This item is scheduled to be heard at the February 9, 2012, Treatment Plant Advisory Committee meeting.

FISCAL/POLICY ALIGNMENT

This project is consistent with the adopted Plant Master Plan goal of energy self-sufficiency and the City Green Visions.

COST SUMMARY/IMPLICATIONS

As described above, there are three scenarios that may result from entering into this contract. Each scenario would result in different costs to the City, as summarized in Attachment A. Since

the terms of the agreements are different under each scenario, the cost analysis in Attachment A is normalized over a 10 year period to compare the different scenarios on the same timeline.

The cost components of the three scenarios are capital cost, City operating and maintenance costs, payment for gas to FEC, payments to PG&E or the landfill for methane and payment to FEC for the Station. These costs would be offset by tipping fee revenue.

The capital cost to the City under all three scenarios is estimated at $500,000, and pays for FEC to construct the electrical improvements and DCS connections required to prepare the site and monitor the receiving station remotely. Funding for this capital expenditure is available in the 2011-2012 Adopted Budget in the San José/Santa Clara Treatment Plant Capital Fund, Plant Infrastructure Improvements appropriation.

The City will also need to pay for operating, maintenance of the stations, and the laboratory analysis of the FOG and digester parameters. The costs will cover staff time, maintenance parts and material, and laboratory analysis costs. These operating costs will vary under each of the three scenarios presented in this memorandum primarily due to the varying lengths of time that the station would be operated under each scenario. Scenario A, in which the demonstration project succeeds and produces the anticipated quantities of methane, is expected to last six years, the first three years being the ramp-up and cost recovery phase and the next three the "value share" period as described under the "Key Terms of the FEC Contract" section of this memorandum. The estimated operating and maintenance cost to the City under Scenario A would be $1,828,000 spread over the six year term. Scenario B, in which the demonstration project does not succeed at producing methane, but does not harm the digesters either, is expected to last 8.4 years, because of a longer cost recovery period of 5.4 years and an additional three years of value share. Under Scenario B, the operating and maintenance cost would be $2,565,000 spread over the 8.4 year term. Scenario C, in which the demonstration project causes harm to the digesters the project terminates ahead of schedule, is assumed to last seven months, wherein at the 5000 gallons of FOG feed, the digester exhibits degraded performance and in spite of a trouble shooting protocol being implemented, the problem is not rectified and the station needs to be shut down with no additional FOG being fed. The City's operating and maintenance cost for Scenario C would be $264,000. The operating and maintenance costs for each year will be paid out of the San José/Santa Clara Treatment Plant Operating Fund (Environmental Services Department Personal Services appropriation and Environmental Services Department Non-Personal Services/Equipment appropriation), subject to City Council appropriation of funds. No augmentation of the budget from 2011-2012 adopted levels will be needed to cover the operating and maintenance costs.

The City will be paying FEC for the biogas produced at $0.65/therm. The biogas purchased from FEC will cost $0.65/therm until FEC has recovered their capital investment plus 8% interest (not to exceed $1,900,000), and will decrease to $0.37 per therm once FEC has recovered their investment. This discounted price is based on a value share calculation where the first 25 million cubic feet of methane generated is priced at a 25% discounted rate, with the next 25 million cubic feet discounted at 40%, the next 25 million cubic feet discounted at 60% and

anything produced over 75 million cubic feet is discounted at 75%. The net payments to FOG energy over the term of the agreement is shown in Attachment A under each scenario and is based on the discounted schedule calculation as described above.

As shown in Attachment A, because the Plant will be purchasing biogas from FEC over the term of the agreement and will be able to produce this gas on its own based on the assumption of purchase of the station at the end of the term, the Plant will be able to purchase less gas from its current providers, the Newby Island Landfill and PG&E. Based on the current costs of $0.53/therm for natural gas from PG&E and $0.43/therm on landfill gas, assumed to increase at a 2.2% CPI, the Plant is estimated to pay approximately $4,070,000 over 10 years. For Scenario A this represents a total savings of $491,000 over the same time period and for Scenario B represents an additional cost of $2,090,000 over the same time period. For Scenario C which terminates the contract at seven months this represents an additional cost of $683,600.

If the project is producing methane (Scenario A), the Plant will have thee options at the end of the end of year six:

i. Purchase the station at a cost of $850,000; or
ii. Request removal of the FOG receiving station at a cost to the City of $250,000.

The cost analysis in Attachment A assumes that it would be desirable for the City to purchase the station because it will continue to provide an avenue for local grease disposal, generation of additional methane gas and Plant staff would be familiar with the operations of the system.

The FOG haulers are charged a tipping fee and FEC will be managing the hauler contracts. This tipping fee revenue during the cost recovery period as described under the "Key Terms of the FEC Contract" will be used to offset FOG energy capital and hard O&M expenses. Once these costs are recovered, the tipping fee revenue is split with the City based on a cost share of 25% to the City and 75% to FEC under Scenario A and 45% to the City and 55% to FEC under scenario B. Under Scenario A, in which the demonstration project succeeds and produces the anticipated quantities of methane which are then sold to the City over a period of six years, tipping fee revenue to the city is estimated at $428,000 over six years. Under Scenario B, in which the demonstration project does not succeed at producing methane, but does not harm the digesters either, which is expected to last 8.4 years tipping fee revenue to the City is estimated at $770,000 based on the 45%/55% split as explained above. Under Scenario C, in which the demonstration project causes harm to the digesters and causes for early termination of the project, it is assumed that no tipping fee revenue will be generated.

BUDGET REFERENCE

The table below identifies the funds required to support the project during the current fiscal year. All future funding for this project will be appropriated through the CIP and O&M processes with no additional augmentation required.

Fund #	Appn #	Appn. Name	RC #	Total Appn.	Amt. for Project	Adopted Budget Page	Last Budget Action (Date, Ord. No.)
513	0761	Personal Services	926800,430700	25,548,275	**388,000***	XI-78	6/21/2011, 28928
513	0762	Non-Personal/ Equipment	926800,430700	42,815,181	**134,000***	XI-78	10/18/2011, 28979
512	5690	Plant Infrastructure Improvements	164345	13,102,000	**500,000**	V-183	6/21/2011, 28928
Total Current Funding Available				**81,465,456**			

* The personal services and non-personal/equipment costs associated with this project are for the staff and material costs associated with the operation, maintenance and laboratory testing costs for this project in 2011- 2012, above and beyond those costs that are recovered through the FEC contract.

CEQA

Exempt, File No. PP11-603

/s/
KIM WALESH
Director of Economic Development

/s/
KERRIE ROMANOW
Acting Director, Environmental Services

Attachment A

For questions please contact Bhavani Yerrapotu, Deputy Director, Environmental Services Department at 408-945-5321 or Nanci Klein, Deputy Director, Office of Economic Development at 408-535-8184

ATTACHMENT A

Cost Element	Scenario A 27,000 gpd With Methane	Scenario B 27,000 gpd No Methane	Scenario C "Harm scenario"	City Implementation	No FOG Receiving Station
Capital Cost	$500,000	$500,000	$500,000	$1,920,000	-
City O&M over the term	$1,828,000	$2,565,000	$246,000	$3,424,000	-
Net Payment for Gas to FEC over the term*	$1,523,000	($286,000)	($2400)	-	
Payment to FOG Energy for the Station	$850,000	-		-	-
Tipping Fee Revenue (over the term)**	($428,000)	($770,000)	-	($2,900,000)	-
Cost of Purchased Gas from Landfill/PG&E over the term***	-	$2,752,000	-	$1,553,000	$4,067,000
Duration of the term *(with FOG Energy)*	6 years	8.4 years	0.6 year (7 months)	10 years	10 years
Net Cost over the term	**$4,273,000**	**$4,761,000**	**$743,600**	**$3,997,000**	
Net Cost over 10 years	**$3,576,000**	**$6,076,000**	**$4,750,600**	**$3,997,000**	**$4,067,000**
Cost /(Benefit) Compared to No FOG Receiving Station	**($491,000)**	**$2,009,000**	**$683,600**	**($70,000)**	-

** the value of the biogas produced is less the City hard O&M to be reimbursed by FOG Energy out of tipping fee revenue or offset against payment for methane if produced.*

*** the contract will allow FEC to establish the tipping fee; however, for the purpose of calculating payment/credit to the City for hard O & M costs and when the value sharing period begins, it will be assumed that FEC will be receiving revenue of at least $0.06/gallon; and that at least the same revenue could be generated by City implementation.*

****the cost is based on current price for landfill gas through 2016 and current PG&E price of natural gas, with a 2.2% per annum CPI adjustment.*

Attachment A – Assumptions

There are three scenarios that may result from entering into this contract. Each scenario would result in different costs to the City, as summarized in table above. Since the terms of the agreements are different under each scenario, the cost analysis in the table is projected over a 10 year period to compare the different scenarios on the same timeline.

Scenario A – FEC Station at 27,000 gpd with gas production and tipping fee share 25% City and 75% FEC

- Payback period = 3 years
- Value share period = 3 years
- After the term of the contract with FEC, Plant buys the unit @ $850,000 and continue to run it without FEC

Scenario B – FEC Station at 27,000 gpd with no methane production and a tipping fee share of 45% City and 55% FEC

- Payback period = 5.4 years
- Value share period = 3 years
- Interest capped at $400,000
- Plant does not buy the unit
- Plant will buy extra gas from PG&E from year 8.4 to 10 years

Scenario C – FEC demonstration causes harm to the digesters

- Feed one digester up to 5000 gpd for 3 months → failure
- Stop the project at month #7
- After failure:
  - No FOG station is built
  - Plant buys extra gas from landfill/PG&E

City Implementation

- Project will not start in 2013
- Project will start in 2016
- Between 2013 & 2016: Plant will buy extra gas/landfill and PG&E

No FOG Receiving Station

- Plant will continue to buy gas from landfill/PG&E

COUNCIL AGENDA: 2/14/12
ITEM:

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Julia H. Cooper

SUBJECT: SEE BELOW

DATE: January 23, 2012

Approved [signature] Date 1/26/12

SUBJECT: PURCHASE OF ELECTRICAL GENERATOR ENGINE PARTS AND RELATED SERVICES FROM CAMERON INTERNATIONAL CORPORATION.

RECOMMENDATIONS

Adopt a resolution authorizing the City Manager to:

1. Execute a Master Service Agreement with Cameron International Corporation, dba Process & Compression Systems (Cameron) located in Houston, Texas for the sole source purchase of Electrical Generator Engines (EGE or "Generator") catalogue parts, repair, refurbishment of engine components and related services as may be required, for a not-to-exceed amount of $3,000,000 over a three year period from January 2012 to January 2015.

2. Execute one-year options to extend the agreement to provide ongoing maintenance and support after the initial three year term, subject to the annual appropriation of funds.

3. Execute open purchase orders as required under the terms and conditions of the Master Agreement, subject to the appropriation of funds.

OUTCOME

Approval of a Master Agreement for Services with Cameron will allow the San José/Santa Clara Water Pollution Control Plant (WPCP) to continue to receive parts and services to maintain and operate the Electrical Generator Engines (Generator) which are critical for WPCP operations.

BACKGROUND

The electrical generation and distribution system at the WPCP is the lifeline of Plant operation that ensures pumping and treatment of water. Failure of the system will result in a complete disruption of the wastewater treatment processes, resulting in equipment damage and potential

releases of wastewater. As with much of the infrastructure at the WPCP, the engine generators are more than 30 years old and are at a high risk of failure. The eight Generators at the WPCP are designed to generate 13 mega-watts (MW) of electricity. Several of these engines need to be replaced due to lack of reliability, high maintenance cost, and difficulty in obtaining spare parts. Currently one Generator is out of service due to lack of replacement parts.

Despite the fact that the WPCP can purchase all of the electricity it needs directly from PG&E, the ability to generate electricity in-house is critical for operations reliability in the event of a PG&E power failure. The WPCP cannot sustain itself longer than 20 minutes without power before untreated sewage floods the WPCP grounds and flows into the Bay. Lack of reliable in-house electrical generation during PG&E power failures can have disastrous consequences with significant damage to critical equipment and facilities, and potential discharge of raw sewage into the Bay. In addition, the Generator's burn about 1.5 million cubic feet of digester gas per day to generate electricity. This provides 35% of the electricity consumed by the WPCP processes using renewable energy. If the Generator's go off-line the generated digester gas needs to be burned at the WPCP "Flare Stack." This would result in significant amounts of wasted renewable energy and violation of the Title V Operating Permit issued by the Bay Area Air Quality Management District. There are major fines associated with Title V Permit violations and in some cases they exceed $10,000 a day.

Proper maintenance of the aging Generators at the WPCP is of paramount importance for properly sustaining a minimum fleet so that PG&E power failures are dealt with in a safe, reliable, and regulatory compliant manner.

All of the aforementioned concerns have prompted the WPCP Staff to evaluate options for replacement of the electrical power generation system which would meet the City's environmental goals and WPCP's electrical reliability criteria. The WPCP Master Plan recognizes these concerns and developed a plan for the long term capital projects related to energy generation. However, the immediate need is to ensure that a plan of service is in place for the Generators which are the backbone of the electrical generation system at the WPCP.

For the last several years, the Generators have been maintained properly using many parts that were in inventory. When parts reach the end of their life expectancy and are at their breaking point, replacement parts and services are provided. With a reduced inventory, it is at a critical point to order sufficient parts and related services to avoid a significant system failure.

ANALYSIS

The City requires catalogue parts; repair and refurbishment of engine component parts and/or engine rebuild and associated assemblies for the proper operation of the Generators at the WPCP. Many of the engine parts are near the end of their useful service life and need to be replaced. In order to keep the Generators running in top performance, it is essential to maintain them with Original Equipment Manufacturer (OEM) parts. These parts are only available from Cameron, the manufacturer. Cameron does not stock parts and only starts manufacturing them upon receipt of order, with lead times ranging from 15 to 26 weeks.

Since the WPCP is heavily invested in the Cameron EGE infrastructure, it is not prudent to introduce significant risk and cost that may be associated with non-OEM parts. The sole source purchase is required to minimize increased risk from non-OEM parts, to match existing Cameron engine parts for proper operation, and optimum compatibility and interoperability. Therefore, Staff has determined that the continued sole source acquisition of Cameron parts is justified to ensure critical support services and OEM parts. As required by the Municipal Code 4.12.240 (C), the Director of Finance has reviewed and approved the Sole Source and Brand Name Proprietary Procurement Form.

To ensure competitive pricing, staff benchmarked pricing with a similarly situated government agency, the New York City Department of Environmental Protection (DEP). Staff validated that the pricing for parts and services is fair and reasonable and is consistent with the pricing offered to New York City at a 32.5% discount from list price.

Summary of Cameron Agreement: The Agreement provides for milestone payments as parts and assemblies are repaired or refurbished, upon inspection and acceptance by the City.

Cameron has requested changes to the City's standard indemnification provision involving a complete limitation on collecting any indirect and consequential damages. In addition, the Agreement contains a limitation on direct damages that would limit the City's recovery to the amount of the insurance coverage of $4,000,000 required under the Agreement. This limitation would not apply to claims for personal injury, death, or claims made by third parties against the City. The principal effect of agreeing to this limitation would be to limit the City's ability to recover for property damage that might be sustained by the City due to some fault of Cameron. In such cases, the City's recovery would be limited to $4,000,000. If an incident were to occur, any property damage beyond the insurance coverage in the Agreement would be covered under the City's property insurance policy.

Subject to the appropriation of funds, staff is requesting the authority to:

- Execute open purchases orders subject to the terms and conditions of the Master Agreement.
- Execute one-year options to extend the agreement to provide ongoing maintenance and support after initial three year period.

Green Vision: The purchase of parts, components and assemblies assist the City in meeting Goal 3 of the Green Vision by ensuring that digester gas from the WPCP can be used as renewable power for the wastewater treatment process. The WPCP currently uses two-thirds renewable power from digester gas and landfill gas and aims to increase the use of renewable power through implementation of the WPCP Master Plan.

EVALUATION AND FOLLOW-UP

This memorandum will not require any further follow-up.

POLICY ALTERNATIVES

Alternative #1: Conduct competitive solicitation for non-OEM parts and services.

Pros: Potential for better prices due to competition.

Cons: Risk of failure.

Reason for not recommending: Significant risk is introduced that the EGE's will not work according to specifications incurring greater risk of down time and resulting wastewater treatment disruptions.

Alternative #2: Conduct competitive solicitation for new Generators.

Pros: A competitive process would provide an opportunity to purchase new generators.

Cons: The purchase of new generators would result in substantially higher costs, as well as the resource commitment needed to test, deploy, and learn a new system in a relatively short time period. In addition, replacement is being addressed in the WPCP's Master Plan.

Reason for not recommending: The purchase of a parts and rebuilding engines is currently a more cost effective solution than purchasing a new replacement generator system.

PUBLIC OUTREACH/INTEREST

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

☐ **Criterion 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)**

☐ **Criterion 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 item meets Criterion 1: Requires Council action on the use of public funds equal to $1 million or greater. This memorandum will be posted on the City's website for the February 14, 2012 City Council agenda.

COORDINATION

This memorandum has been coordinated with the Environmental Services Department, the City Manager's Budget Office, and the City Attorney's Office. This item is scheduled to be heard at the February 9, 2012 Treatment WPCP Advisory Committee meeting.

FISCAL/POLICY ALIGNMENT

This project is consistent with the following General Budget Principles "We must focus on protecting our vital core city services for both the short- and long-term" and, "We must continue to streamline, innovate, and simplify our operations so that we can deliver services at a higher quality level, with better flexibility, at a lower cost."

COST SUMMARY/IMPLICATIONS

The maximum amount of compensation that the City will pay to the Contractor under this agreement, including payment for parts, services, repairs, upgrades, labor, technical support, delivery and taxes , shall not exceed $3,000,000 for a three year period, with an annual limit of $1,000,000. Any payments beyond 2011-2012 will be subject to Council appropriation of funds. The expenditure to procure immediate parts and services is estimated at $900,000 for the first year.

BUDGET REFERENCE

Fund #	Appn #	Appn. Name	RC #	Total Appn.	Amt. for Contract	2011-2012 Adopted Capital Budget Page	Last Budget Action (Date, Ord. No.)
512	5690	WPCP Infrastructure Improvements	042853	$13,102,000	$1,000,000	V-183	6/21/2011, 28928

CEQA

Not a Project, File No. PP10-066(a) Agreements and Contracts.

/s/
ARN ANDREWS FOR JULIA COOPER
Acting Assistant Director of Finance
FOR Acting Director of Finance

For questions please contact Mark Giovannetti, Purchasing Division Manager at (408) 535-7052.