



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Kerrie Romanow  
Jennifer A. Maguire

**SUBJECT:** SOUTH BAY WATER RECYCLING  
STRATEGIC/MASTER PLAN

**DATE:** May 29, 2012

Approved

Date

6/5/12

## RECOMMENDATION

1. Adopt a resolution authorizing the City Manager to execute a cost sharing agreement between the City of San José and the Santa Clara Valley Water District to share the cost of developing a strategic master plan for the South Bay Water Recycling Program, estimated to cost up to \$2,400,000 with each party to contribute up to \$1,200,000; and to share in reimbursements from the United States Department of Interior Bureau of Reclamation Grant of up to \$1,200,000 for costs associated with developing the plan.
2. Adopt the following 2011-2012 Appropriation Ordinance and Funding Source Resolution amendments in the San José/Santa Clara Treatment Plant Capital Fund:
  - a. Increase the Estimate for Earned Revenue by \$1.2 million;
  - b. Increase the SBWR Master Plan appropriation by \$132,000; and
  - c. Increase the Ending Fund Balance by \$1,068,000.

## OUTCOME

An arrangement with the Santa Clara Valley Water District (District) is beneficial to the City by enabling the City to develop a comprehensive strategic master plan for the South Bay Water Recycling Program that addresses both wastewater and water supply needs by sharing in the planning costs and subsequent reimbursements from the Bureau of Reclamation Grant.

## BACKGROUND

The City's Environmental Services Department operates SBWR to divert wastewater from the San José/Santa Clara Water Pollution Control Plant (Plant), and deliver wholesale recycled water to retailers in Milpitas, San Jose and Santa Clara. SBWR began operations in 1995 as a wastewater diversion program to meet the Plant's National Pollutant Elimination Discharge System (NPDES) permit, and has supported maintaining plant flows below the 120 million gallons per day (mgd) flow trigger.

In April 2012, the Recycled Water Policy Advisory Committee, a joint committee composed of City Council and District Board members, supported City and District staff's recommendation to approve a cost sharing agreement to implement the SBWR strategic/master planning process.

City and District staffs recommend that the cost of SBWR's strategic and master planning efforts be shared equally, with the San José/Santa Clara Treatment Plant Capital Fund and the District each contributing up to \$1,200,000, for a total project cost of \$2,400,000, and share in the reimbursements from Bureau of Reclamation Feasibility Study Grant for costs associated with developing the plan.

### ANALYSIS

The Plant's flows are approximately 25 mgd below the flow trigger based on current use of the wastewater system. Given this buffer, City staff recognized an opportunity to conduct a comprehensive planning effort to identify and prioritize the short and long-term improvements necessary to maintain, improve, and potentially expand the SBWR system to meet regulatory and financial commitments into the future. The outcome of this planning effort will provide Council and the District an opportunity to consider the optimum approaches toward operating and maintaining current and future SBWR assets; and improving distribution system reliability and water quality, as well as fiscal considerations of the SBWR system.

The agreement for funding the Feasibility Study between the City and the District provides that the District will transfer a \$1,200,000 contribution to the San José/Santa Clara Treatment Plant Capital Fund to share in the cost of the study. These funds will be held separately in a special account until funds are expended for service orders related to the strategic and master planning tasks. The District will earn interest on the funds that are not expended during the course of this agreement. Furthermore, the funds that are not expended plus the interest earned on those funds will be returned to the District either due to termination or expiration of this agreement.

The City or the District has the right to terminate the agreement without cause at any time. If the District terminates their participation in this agreement, the City will complete a reduced scope of work focused on operating and maintaining the existing infrastructure and meeting the specific water recycling requirements of the Plant's NPDES permit with funds from the San José/Santa Clara Treatment Plant Capital Fund, which come from San José, Santa Clara and Plant Tributary Agencies.

The procurement process to select technical consultants to support SBWR's strategic planning effort is now underway and is expected to be completed in August 2012, with the consultant selection process being a collaborative effort with the Plant Tributary Agencies and the District. The overall strategic/master planning process will be concluded by late 2013.

In September 2011, the City of San José was awarded a grant from the United States Bureau of Reclamation to develop a Feasibility Study for the Improvement and Expansion of SBWR Facilities. The grant would provide for 50% reimbursement to the City for master planning activity costs up to \$2,400,000. As part of the agreement with the District, the City would pass a proportional share of the grant to the District, up to a maximum of \$600,000, to offset 50% of the District's contributions.

### **EVALUATION AND FOLLOW-UP**

Staff will present an update on the SBWR Master Planning process to the Transportation and Environment Committee in January 2013. Staff is expecting to bring a recommended Master Plan consultant selection to Council in August 2012.

### **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 recommendation meets Criteria 1 above. This item will be heard at the June 14, 2012 Treatment Plant Advisory Committee (TPAC) meeting, and will be posted on the City's website for the June 19, 2012 City Council meeting.

### **COORDINATION**

This memorandum has been coordinated with the City Attorney's Office. This item is scheduled to be heard at the June 14, 2012 TPAC meeting.

### **COST SUMMARY/IMPLICATIONS**

The cost for this strategic and master planning project is up to \$2,400,000. The City of San José and the Santa Clara Valley Water District will share the cost of the project, with the District contributing up to \$1,200,000, or half of the project cost. While it is expected that 50% of the total Master Planning costs will be reimbursed by the District under this agreement, the District and the City have the right to terminate the agreement without cause at any time. In the event that this agreement is terminated, the City will return any unspent funds as well as interest earned on those funds to the District.

Of the total \$2,400,000 needed for the strategic and master planning project, \$2,268,000 is available in 2011-2012 in the SBWR Master Plan appropriation in the San José/Santa Clara Treatment Plant Capital Fund. The appropriation action recommended in this memorandum augments this appropriation by \$132,000 using the funding provided by the District, bringing the total funding available to \$2.4 million. Additionally, the appropriation actions in this

HONORABLE MAYOR AND CITY COUNCIL

05-29-12

**Subject:** South Bay Water Recycling Strategic/ Master Plan

Page 4

memorandum reimburse the San José/Santa Clara Treatment Plant Capital Fund by the District for \$1,068,000 that was provided up front by the Fund toward the master planning project.

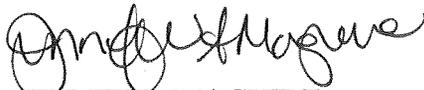
An action was included for City Council consideration to rebudget the funding in the SBWR Master Plan appropriation, and the related revenue recognized in this memorandum, as part of the Manager's Budget Addendum #46, Recommended Adjustments to the 2012-2013 Proposed Operating and Capital Budgets that will be considered by the City Council as part of the 2012-2013 Mayor's June Budget Message on June 12, 2012.

Grant funding through the US Bureau of Reclamation approved through Council Resolution No. 79587 will reimburse the City of San José up to \$1,200,000 or 50% of allowable project costs up to \$2,400,000. Through this cost sharing agreement, the City will transfer up to 50% of approved federal reimbursements of the District's share to the District. Of this U.S. Bureau of Reclamation grant funding, \$268,000 was recognized in 2011-2012, of which \$220,000 was recommended for rebudget as part of the Manager's Budget Addendum #46, Recommended Adjustments to the 2012-2013 Proposed Operating and Capital Budgets that will be considered by the City Council as part of the 2012-2013 Mayor's June Budget Message on June 12, 2012; \$446,000 is being recognized for 2012-2013 as part of the Proposed Capital Budget; and another \$446,000 is expected to be reimbursed in 2013-2014, and is included in the U.S. Bureau of Reclamation Grant total in the 2013-2017 Proposed CIP. The balance of \$40,000 is expected to be retained by the U.S. Bureau of Reclamation for administrative expenses.

In the event that the project costs less than the anticipated \$2.4 million including assumed reimbursements from the grant, the District's share of any unspent funding will be returned to the District.

**CEQA**

Not a Project, File No.PP 10-069(a), Staff Reports.

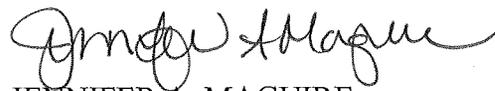


JENNIFER MAGUIRE  
Budget Director

/s/

KERRIE ROMANOW  
Acting Director, Environmental Services

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 monies in excess of those heretofore appropriated therefrom, said excess being at least \$1,200,000.



JENNIFER A. MAGUIRE  
Director, Budget Office

For questions please contact David Tucker, SBWR Program Manager at (408) 795-1865.