



**CITY OF LOS ALTOS
CITY COUNCIL MEETING
February 23, 2016**

CONSENT CALENDAR

Agenda Item # 5

SUBJECT: Approve and authorize the City Manager to execute Addendum No. 8 to the Basic Agreement between the City of Palo Alto, City of Mountain View and City of Los Altos

BACKGROUND

The Basic Agreement between the Cities of Los Altos, Mountain View and Palo Alto for the acquisition, construction and maintenance of a joint sewer system was signed in 1968, establishing the partnership for the Regional Water Quality Control Plant (RWQCP). The agreement authorized the joint exercise of power to address the need for wastewater conveyance, treatment and disposal facilities to meet the requirements of the California Regional Water Quality Control Board. Palo Alto operates the RWQCP facilities, and is responsible for making capital additions. Under the Basic Agreement, any major capital additions require consent by the three partner cities. The Basic Agreement has been amended seven times.

- Addendum No. 1, executed in 1977, authorized the construction of an advanced treatment facility.
- Addendum No. 2, executed in 1980, amended the sharing of costs of maintenance and operations to include volume of sewage and treatment levels.
- Addendum No. 3 amended the agreement to incorporate overhead costs, revised dispute resolution procedures, authorized the expansion of the plant and associated costs and adjusted capacity rights of the participating agencies.
- Addendum No. 4, executed in 1990, established an agreement on payment of Utility Revenue Refunding Bonds and associated fees, interest, debt service, and billing.
- Addendum No. 5, executed in 1992, revised the basic agreement to provide for payment of interest on any excess payment and underpayment by participating agencies.
- Addendum No. 6, executed in 1998, approved a two-phase project to rehabilitate the incinerators in accordance with the Solids Facility Plan prepared in 1995.
- Addendum No. 7, executed in 2009, approved the construction of an Ultra-Violet (UV) Treatment Project and authorized the City of Palo Alto to pursue a State Revolving Fund (SRF) loan to fund the costs of the project.

EXISTING POLICY

Basic Agreement between the Cities of Palo Alto, Los Altos, and Mountain View for the acquisition, construction, and maintenance of a joint sewer system and Addendums No. 1-7

Los Altos Municipal Code Section 10.08 Sewer System Protection Regulations

PREVIOUS COUNCIL CONSIDERATION

January 27, 2009; June 26, 2012 (Study Session)

DISCUSSION

The RWQCP was originally constructed in 1934 for treatment of local waste and has since undergone several rehabilitations. Most of the major facilities are over 43 years old and have operated under industrial service conditions. In 2012, the RWQCP conducted the Long Range Facilities Plan (LRFP) to identify projects needed to upgrade the facilities and treatment processes. The LRFP is the first comprehensive long-range plan for the plant since 1966. The LRFP utilized a process that engaged the public, plant partners and Stanford professors to update the RWQCP long-term goals, review emerging technologies, review solid and liquid treatment options, and review financial impacts. The LRFP provides the road map for the RWQCP to deal with future regulations and plan its facilities.

The RWQCP is one of two agencies still running sludge incinerators in California. The incinerators are at the end of their useful life and are becoming less reliable. They are of an older generation design and cannot be easily converted to a renewable solid treatment facility that would recover energy from the sludge. Operation of the incinerators produces a hazardous waste ash with high levels of soluble copper and generates the largest source of greenhouse gas emissions from the RWQCP. Following the LRFP recommendation to decommission the sludge incinerators, the RWQCP prepared the BioSolids Facility Plan (BFP) to evaluate short and long-term replacement options for sludge treatment and disposal. All short-term and long-term options include the construction of a sludge dewatering and truck load-out facility.

The proposed Addendum No. 8 authorizes the cost-sharing and implementation of the sludge dewatering and truck load-out facility, and the planning/design of the primary sedimentation tanks, fixed film reactor rehabilitation, and the laboratory/environmental services building at the RWQCP.

Projects

The BFP evaluated several sludge treatment options. A long-term option of treating sludge with anaerobic digesters was preferred in the BFP, but their high cost has necessitated a re-evaluation of this plan. Anaerobic digestion is a series of biological processes in which microorganisms break down biodegradable material in the absence of oxygen. However, a sludge dewatering and truck load-out facility is a component in every long-term sludge treatment option, so it remains a key priority and outcome of the BFP. Design of the sludge dewatering and truck load-out facility has been substantially completed and the facility is ready to be constructed. Upon successful start up of the sludge dewatering and truck load-out facility, the incinerator will be decommissioned. During evaluation of longer-term sludge treatment options, the dewatered sludge will be loaded onto trucks for disposal.

Additionally, the LRFP identified three high priority projects: the rehabilitation of the primary sedimentation tank rehabilitation, the fixed film reactor rehabilitation, and a new laboratory/environmental services building. As recommended by the LRFP, planning and design of these three projects should proceed as soon as possible to allow the RWQCP to maintain water quality, continue to meet effluent discharge permit limits, and manage compliance with regulatory requirements.

Approve and authorize the City Manager to execute Addendum No. 8 to the Basic Agreement between the City of Palo Alto, City of Mountain View and City of Los Altos

Costs

The City of Los Altos is responsible for a share of project costs under the agreement per Exhibit H of Addendum No. 6 to the Basic Agreement. The City's share is 9.47% of the total cost which is equivalent to the capacity rights owned by the City.

The City of Palo Alto will apply for a construction loan for the design/construction of the sludge dewatering and truck load-out facility. The maximum loan amount is estimated to be \$28 million. The City of Los Altos share of repayment for the construction loan will be approximately \$114,400 per year starting from the year 2019 through 2048.

The City of Palo Alto will apply for a planning loan for the planning/design of the primary sedimentation tank rehabilitation, fixed film reactor rehabilitation, and the laboratory/environmental services building. The total maximum planning loan amount is estimated to be \$6.75 million. The City of Los Altos' share of repayment for the planning loan will be approximately \$70,400 per year starting from the year 2019 through 2028.

PUBLIC CONTACT

Posting of the meeting agenda serves as notice to the general public.

FISCAL/RESOURCE IMPACT

It is estimated the City's obligation will be \$114,000 per year starting from 2019 through 2048 for the sludge dewatering and truck-load out facility, and \$70,400 per year from 2019 through 2028 for the planning/design of the primary sedimentation tank rehabilitation, fixed film reactor rehabilitation and laboratory/environmental services building.

Payments for project costs will begin in 2019 from the Sewer Fund. Costs for all projects will be incorporated into the City's next rate study for sewer service charges to be performed in FY 2017/18.

ENVIRONMENTAL REVIEW

Categorically Exempt pursuant to CEQA Section 15302

RECOMMENDATION

Approve and authorize the City Manager to execute Addendum No. 8 to the Basic Agreement between the City of Palo Alto, City of Mountain View and City of Los Altos

ALTERNATIVES

1. Recommend changes to the projects selected
2. Revised the proposed amendment in conjunction with the other plan partners

Prepared by: Christopher Lamm, Engineering Services Manager

Reviewed by: Susanna Chan, Public Works Director

Approved by: Marcia Somers, City Manager

ATTACHMENT:

1. Addendum No. 8 to the Basic Agreement

Approve and authorize the City Manager to execute Addendum No. 8 to the Basic Agreement between the City of Palo Alto, City of Mountain View and City of Los Altos

**ADDENDUM NO. EIGHT TO THE BASIC AGREEMENT
BETWEEN THE CITY OF PALO ALTO, THE CITY OF MOUNTAIN VIEW AND THE
CITY OF LOS ALTOS FOR THE ACQUISITION, CONSTRUCTION AND
MAINTENANCE OF A JOINT SEWER SYSTEM**

This Addendum No. Eight (8) to the Basic Agreement for the Acquisition, Construction and Maintenance of a Joint Sewer System is made and entered into on _____, by and among the CITY OF PALO ALTO (“Palo Alto”), the CITY OF MOUNTAIN VIEW (“Mountain View”), and the CITY OF LOS ALTOS (“Los Altos”) (individually, a “Party”, collectively, the “Parties”), all municipal corporations under the laws of the State of California.

RECITALS:

A. The Parties have entered into that certain Basic Agreement Between the City of Palo Alto, the City of Mountain View and the City of Los Altos for the Acquisition, Construction, and Maintenance of a Joint Sewer System, executed on October 10, 1968, as amended by the Addenda described below (collectively, the “Basic Agreement”). The Basic Agreement has been amended seven times by addenda, as follows: Addendum No. One (1) to Basic Agreement Between the Cities of Palo Alto, Mountain View, and Los Altos for Acquisition, Construction and Maintenance of a Joint Sewer System, dated as of December 5, 1977; Addendum No. Two (2) to Basic Agreement Between the Cities of Palo Alto, Mountain View, and Los Altos for Acquisition, Construction and Maintenance of a Joint Sewer System dated as of January 14, 1980; Addendum No. Three (3) to an Agreement By and Between the Cities of Palo Alto, Mountain View, and Los Altos for Acquisition, Construction and Maintenance of a Joint Sewer System, dated as of April 9, 1985; Addendum No. Four (4) to the Agreement By and Between the Cities of Mountain View, Los Altos, and Palo Alto as further amended and dated May 30, 1991; Addendum No. Five (5) to Basic Agreement Between the Cities of Palo Alto, Mountain View, and Los Altos for Acquisition, Construction and Maintenance of a Joint Sewer System, dated as of July 31, 1992; Addendum No. Six (6) to Basic Agreement Between the City of Palo Alto, the City of Mountain View, and the City of Los Altos for Acquisition, Construction and Maintenance of a Joint Sewer System dated as of March 16, 1998; and Addendum No. Seven (7) to Basic Agreement Between the City of Palo Alto, the City of Mountain View, and the City of Los Altos for Acquisition, Construction and Maintenance of a Joint Sewer System dated as of April 15, 2009 (collectively, the “Addenda”).

B. Palo Alto owns and operates the sanitary sewerage treatment and disposal works and system (the “Joint System”) pursuant to the Basic Agreement, and is responsible for making capital additions to the Joint System. Under the Basic Agreement, any major capital additions for the replacement of obsolete or worn-out units require an agreement by the Parties amending the Basic Agreement. The Parties now desire to agree upon and implement projects to improve the Joint System by planning and designing the rehabilitation of the primary sedimentation tanks, the fixed film reactors, a new laboratory/Environmental Service building, and constructing and implementing a sludge dewatering and load-out facility (individually, “Project”, collectively, the “Projects”). The Parties also agree to provide for the sharing of costs associated with the Projects. The Projects will become part of the regional water quality control plant (the “Plant”), which is owned and operated by Palo Alto as part of the Joint System.

NOW, THEREFORE, in consideration of the terms, conditions and covenants set forth in this Addendum No. Eight (8), the Basic Agreement is hereby amended, as follows:

Section 2. Paragraph 38 is hereby added to the Basic Agreement to read, as follows:

“38. IMPLEMENTATION OF THE PROJECTS. Palo Alto, Mountain View, and Los Altos hereby approve the Projects for planning/design of the primary sedimentation tanks, the fixed film reactors, a new laboratory/Environmental Service building, and the design/construction of a sludge dewatering and load-out facility (the “Projects”). Each Party shall pay its share of the Projects Costs, in proportion to the capacity it owns in the Joint System or portion thereof as shown in Exhibit “H” to Addendum No. Six (6) to the Basic Agreement. “Project Costs” means all costs incurred in connection with the planning, design, construction and implementation of the Projects. Without limiting the generality of the foregoing, Project Costs shall include, but not be limited to: design, engineering, and other consultants’ fees and costs, including fees incurred pursuant to agreements with engineers, contractors and other consulting, design and construction professionals; environmental analysis and approval costs, including cost of compliance with the California Environmental Quality Act; deposits, applicable permit fees; all costs to apply for and secure necessary permits from all required regional, state, and federal agencies; plan check fees, and inspection fees; construction costs; initial maintenance; attorneys’ fees and costs; insurance; interest from the date of payment on any contracts.

The Parties authorize Palo Alto to pursue State Revolving Fund (“SRF”) loans from the State Water Resources Control Board (“SWRCB”) to fund the costs of the Projects. The maximum amount of the SRF planning/design loan sought for the planning/design of the primary sedimentation tanks, the fixed film reactors, and a new laboratory/Environmental Service building will be \$6.75 million. The maximum amount of the SRF construction loan sought for the design/construction of a sludge dewatering and load-out facility will be \$28 million. The loan will have a thirty-year repayment term. The repayments of the SRF loan shall be treated in the same manner as debt services under the Basic Agreement and its Addenda, and repaid by the Parties in the same proportionate shares as shown on Exhibit “H” to Addendum No. Six (6) to the Basic Agreement. The Parties further agree that, if necessary, each Party shall propose to raise their sewer use rates for the repayment of the SRF loan, operations, and/or maintenance of the Projects, following any appropriate process executed under California Constitution article XIII C and D (Proposition 218).

If the SWRCB terminates its loan commitment unexpectedly following execution of the planning and/or construction contract(s) for the Projects or the Project, Palo Alto shall notify the Parties promptly. Following notification of the termination of the SRF, the Parties shall meet in a timely manner to discuss alternative funding sources and strategies for completion of the Projects. If the Parties are unable to agree on new funding sources in a timely manner, then Palo Alto shall have the right to terminate the Project or the Projects.

The Parties shall remain responsible for Project costs and loans incurred, whether before or after termination of the Project/Projects, in connection with the termination

of the Project planning/design/construction contract, in the same proportion to each organization's share of plant capacity, as stated in Exhibit "H" to Addendum No. Six (6) of the Basic Agreement. Total project costs shall not exceed the authorized maximum SRF loan approved by Parties without prior approval of each party's governing body. Unless earlier terminated, the obligations and responsibilities of the Parties shall commence with the execution of this addendum No. Eight and be in force for the term of the SRF loan.

Mountain View and Los Altos shall pay their respective shares of any Project Costs within thirty (30) business days of receipt of the quarterly billing statement sent by Palo Alto. Palo Alto shall not send more than one invoice in any thirty-day period. If a Party disputes the correctness of an invoice, it shall pay the invoice in full and the dispute shall be resolved after payment in accordance with Section 19 of the Basic Agreement, and shall not offset against any payment due.

Section 1. Paragraph 27. TERM. is amended to read as follows:

The Basic Agreement shall commence upon execution and will terminate on December 31, 2060, provided that any party hereto who wishes to withdraw from the Basic Agreement shall tender written notice of withdrawal at least ten (10) years preceding the date of withdrawal.

Section 3. Except as modified herein, the Basic Agreement shall remain unchanged, and is hereby ratified and confirmed.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have by their duly authorized representatives executed this Addendum as of the date first written above.

ATTEST:

CITY OF PALO ALTO

City Clerk

By: _____
Mayor

APPROVED AS TO FORM:

Deputy City Attorney

APPROVED AS TO CONTENT:

City Manager

ATTEST:

CITY OF MOUNTAIN VIEW

City Clerk

By: _____
City Manager

APPROVED AS TO FORM:

City Attorney

APPROVED AS TO CONTENT:

FINANCIAL APPROVAL:

Finance and Administrative Services Director

ATTEST:

CITY OF LOS ALTOS

City Clerk

By: _____
Mayor

APPROVED AS TO FORM:

City Attorney

APPROVED AS TO CONTENT:

City Manager