



# Santa Clara Valley Water District

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**File No.:** 19-1121

**Agenda Date:** 12/10/2019

**Item No.:** \*2.7.

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## BOARD AGENDA MEMORANDUM

### **SUBJECT:**

Approval of Partnership Agreement Between the Santa Clara Valley Water District, the City of Palo Alto and the City of Mountain View to Advance Resilient Water Reuse Programs in Santa Clara County.

### **RECOMMENDATION:**

- A. Adopt a Resolution Making Responsible Agency Findings Pursuant to the California Environmental Quality Act (CEQA) Based on the Environmental Impact Report for the City of Palo Alto Recycled Water Project and the addendum prepared by the City of Palo Alto; and
- B. Authorize the Chief Executive Officer to execute the Agreement Between the Santa Clara Valley Water District, the City of Palo Alto and the City of Mountain View to Advance Resilient Water Reuse Programs in Santa Clara County (Agreement).

### **SUMMARY:**

A reliable supply of clean water is necessary for the environmental, economic, and social well-being of Santa Clara County. The Santa Clara Valley Water District (Valley Water) in collaboration with its local partners, the cities of Palo Alto and Mountain View, have been working diligently to further develop water supplies and infrastructure to meet the county's water supply needs. To this end, a Term Sheet was developed over the past two years, culminating in a draft Agreement which is being presented to the Board of Directors (Board) for approval today. There are three main parts of the Agreement, including:

1. Funding a local salt removal facility (referred to as the "Local Plant"), owned and operated by Palo Alto, to provide a higher quality of recycled water for irrigation and cooling towers,
2. An effluent transfer option to Valley Water for a regional purification facility (referred to as the "Regional Plant"), owned and operated by Valley Water, to provide advanced purified water for potable reuse, and
3. A water supply option for the cities of Palo Alto and Mountain View to request an additional supply if needed.

The specific elements of the Agreement are described below and will be presented as part of the Board presentation.

- A. Valley Water will contribute \$16 million toward the local salt removal facility. Mountain View

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and Palo Alto will share the remaining costs (approximately \$4 million) at a level of 75% and 25%, respectively. In cooperation of Palo Alto, this facility could be used by Valley Water to conduct research studies.

- B. Palo Alto will have up to 13 years to design, construct and commence operation of the local salt removal facility. If Palo Alto decides not to proceed with the salt removal facility, the \$16 million could be used for other water reuse and related programs that benefit all Regional Water Quality Control Plant (RWQCP) partners that have committed their effluent to Valley Water (including the cities of Palo Alto, Mountain View, Los Altos, Stanford University, and the Town of Los Altos Hills).
- C. Valley Water will pay \$200,000 per year from the date of execution of the agreement, to culminate on June 1, 2033, or at startup of the regional purification facility, whichever occurs first. Fifty percent (50%) of the \$200,000 will be allocated to Palo Alto and Mountain View. Palo Alto will distribute the remaining 50% to the other RWQCP partners that have committed their effluent to Valley Water. Palo Alto shall ensure that the \$200,000 will be utilized for water supply or water reuse related projects in the RWQCP service area.
- D. Valley Water will receive approximately 10,000 acre-feet per year of effluent for its regional purification facility. Valley Water will compensate the RWQCP partners \$1.0 million per year for the effluent, to be divided proportionally among the RWQCP partners based on the amount of effluent committed. Alternatively, Valley Water may elect to pay \$1 million per year from startup of the regional purification facility, but postpone the receipt of the effluent for up to 10 years, to allow for flexibility in the development and construction of the regional purification facility.
- E. Valley Water will have up to 13 years to design, construct and commence operation of the regional purification facility. Once complete, Valley Water will receive the effluent for 63 years, long enough to economically justify the large capital investment and meet Valley Water's long-term water supply planning objectives. Total term of the partnership is up to 76 years.
- F. In the event a regional purification facility is built in Palo Alto, Palo Alto will make best efforts and cooperate with Valley Water to make any changes in its National Pollution Discharge Elimination System permit to accommodate reverse osmosis concentrate (a by-product of the purification process) discharge to receiving waters under jurisdiction of the federal and state regulators. In addition, Valley Water shall evaluate and implement alternative reverse osmosis concentrate management measures acceptable to Palo Alto, if within Palo Alto's jurisdiction.
- G. The draft term sheet also includes a unique water supply option for Palo Alto and Mountain View. Beginning one year after execution of the agreement, Palo Alto and/or Mountain View may notify Valley Water that additional water is needed in their respective service areas. Palo Alto may request up to 3.0 Million Gallons per Day (MGD) and Mountain View may request up to 1.3 MGD. Valley Water will provide Palo Alto and/or Mountain View a proposal of a potential water supply for their consideration. If accepted, Valley Water will have 10 years from date of acceptance to provide the water. All costs, including facility costs, commodity costs, wheeling fees, and the incremental costs incurred by Valley Water to develop the proposal, will be paid by Palo Alto and/or Mountain View.
- H. To protect its investment, Valley Water will have the first right to purchase the RWQCP should Palo Alto ever choose to sell it. If Valley Water determines it wishes to not purchase the

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RWQCP, the provisions of this partnership shall survive any sale of the RWQCP to a third-party during the term of the agreement.

### Environmental Benefits

Expanding water reuse in the county via this partnership could yield environmental benefits in relatively near term by keeping a significant amount of RWQCP effluent out of the Lower South San Francisco Bay (SF Bay). Currently the RWQCP treats approximately 20,000 acre-feet of which 96% is discharged to the SF Bay and approximately 4% is used for non-potable reuse in the RWQCP service area. A decrease in discharges to the SF Bay is also a goal of the 2016 City of Palo Alto's Sustainability and Climate Action Plan.

Water supply demands in other parts of the county could also benefit from a regional water purification facility by reducing the reliance on imported water with a sustainable water supply source. Specific benefits to the Palo Alto and Mountain View area include reducing the amount of water imported from the Tuolumne River and increasing the use of recycled water from the local salt removal facility, respectively. Mountain View has indicated interest from approximately 60 new commercial irrigation customers who are waiting for the current recycled water salinity to decrease before connecting to the distribution system.

### **BACKGROUND:**

Valley Water and Palo Alto executed a Memorandum of Understanding on August 28, 2017, for the purpose of developing plans and studies to expand the production and use of recycled and purified water within the County. In addition, Valley Water and the City of Mountain View executed an Agreement on October 11, 2017, to assess the feasibility of water reuse alternatives.

Valley Water is currently in the process of updating its Water Supply Master Plan (Master Plan), which recommends investment decisions to meet the county's 2040 water supply reliability goals in a cost-effective manner. One of the key strategies of the Master Plan is to expand water conservation and water reuse. These types of programs offer multiple benefits, including being locally controlled and drought-resilient, and are generally well-supported by the community. The Master Plan has identified a goal of developing 24,000 acre-feet per year (AFY) of potable reuse capacity by 2028, above and beyond the 33,000 AFY of non-potable reuse. In addition, Valley Water has established a goal that at least 10 percent (10%) of total countywide demands will be met from water reuse by 2025.

To identify and analyze the specific projects needed to meet the Master Plan water reuse goal, Valley Water continues to develop the Countywide Water Reuse Master Plan (CWRMP) in collaboration with recycle water producers, wholesalers, retailers, users, and other interested parties. As a result, several portfolios with different project components are being evaluated throughout the county. One of which includes an option to build a regional purification facility in Palo Alto that could receive treated effluent from the Palo Alto RWQCP and purify it for potable reuse in the county. This will fulfill more than one-third of Valley Water's goal of developing 24,000 AFY. Another component is the

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construction of a local salt removal facility for blending treated effluent from the RWQCP to produce and increase enhanced non-potable reuse in the cities of Palo Alto and Mountain View. Future expansion of the enhanced non-potable reuse could also benefit the other RWQCP tributaries, including Stanford University, Los Altos, Los Altos Hills, and the East Palo Alto Sanitary District.

#### Stakeholder Support:

As part of the outreach efforts to solicit support for the Agreement, staff from all three agencies reached out to the general public, non-profit organizations, and regulators obtaining overwhelming support. On October 23, 2019, Valley Water along with the cities of Palo Alto and Mountain View held a public meeting to inform the public about the proposed partnership. The meeting was well attended by residents who asked questions and discussed the details of the proposed partnership with staff from all three agencies. In addition, the U.S. Environmental Protection Agency and San Francisco Bay Regional Water Quality Control Board provided letters of support, along with the Mountain View Chamber of Commerce, Sustainable Silicon Valley, the Silicon Valley Leadership Group, the Santa Clara and San Benito Counties Building and Construction Trades Council, and the Mountain View Chamber of Commerce, all of which are included in this packet as Attachment No. 2.

#### Committee Discussions and Outcomes:

- August 14, 2019: staff provided Valley Water's Recycled Water Committee (Committee) an update on the development of a long-term partnership between Valley Water, the City of Palo Alto, and City of Mountain View to expand water reuse in the county. At this meeting, Committee members discussed key terms of the partnership and supported staff to continue working on this effort, with the goal of completing it by the end of calendar year 2019.
- September 4, 2019: staff from the City of Palo Alto presented the key terms of the partnership to the city's Utility Advisory Commission and solicited input in preparation of the subsequent City of Palo Alto Council study session on September 23, 2019. At the City Council study session, Palo Alto staff presented and discussed the draft term sheet, receiving overwhelming support from council members who expected to approve the final agreement in mid-November 2019.
- September 5, 2019: staff provided Valley Water's Joint Recycled Water Advisory Committee (Joint Committee), comprised of Valley Water, Mountain View, Palo Alto and East Palo Alto representatives, an update to the ongoing discussions related to the partnership. The Joint Committee had several clarifying questions, expressed support of the draft terms, and indicated their support for staff to continue working on the term sheet and provide an update to Valley Water's Board of Directors in October 2019.
- September 23, 2019: Palo Alto's City Council held a study session to review the draft term sheet and provided overwhelming support for staff to continue finalizing it.

- October 22, 2019: Valley Water staff presented to the Board an update on the development of a partnership to expand water reuse in Santa Clara County. The update included the draft term sheet and a timeline for review and approval. The Board provided favorable support of the term sheet and for staff to continue to finalize the agreement.
- November 18, 2019: Staff from the City of Palo Alto presented the Agreement to their City Council who had several clarifying questions but were supportive and unanimously approved the Agreement.
- November 18, 2019: Staff from the City of Mountain View also presented the Agreement to their City Council receiving overwhelming support, unanimously approving the Agreement.

**FINANCIAL IMPACT:**

The financial impact to Valley Water includes funding the local salt removal facility in the amount of \$16 million, which may be sourced by Guiding Principle No.5 funds or as a component of the Expedited Purified Water Program (Project No. 91304001). Valley Water will also pay \$200,000 per year, starting in year one to culminate in year thirteen, or at startup of the regional purification facility, whichever occurs first. Finally, Valley Water will pay \$1,000,000 per year for the effluent once startup of the regional purification facility has been initiated. All three payments will escalate annually based on the factors outlined in the partnership Agreement and would be paid for by water charge related revenues.

Costs related to the regional purification facility are still being developed as part of Valley Water's Countywide Water Reuse Master Plan and would be paid for by water charge related revenues as well as potential grant funding sources.

**CEQA:**

Pursuant to the Agreement, Palo Alto and Mountain View may utilize Valley Water's \$16 million contribution to construct the Local Plant or an alternative to the Local Plant. Palo Alto, as CEQA lead agency, certified an EIR for the city's long range facilities plan for the RWQCP which included the City of Palo Alto Recycled Water Project, and approved an addendum to the EIR in November 2019. Collectively, the 2015 EIR and the addendum analyzed environmental impacts of the Local Plant. A copy of the 2015 EIR and the addendum can be found at <https://www.cityofpaloalto.org/civicax/filebank/documents/49079> and <https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?t=60398.77&BlobID=73884> respectively. Staff reviewed the 2015 EIR along with the 2019 addendum, and determined that Valley Water may rely on Palo Alto's CEQA documents to approve the Agreement. Staff recommends that the Board adopt the resolution (Attachment 4) making CEQA responsible agency findings in regard to the Local Plant. Execution of the Agreement does not commit Valley Water to a definite course of action with respect to the Effluent Transfer Option or Regional Plant. Environmental review, if required, will be completed prior to Valley Water's exercising its Effluent Transfer Option or Valley Water's approval of the Regional Plant.

**ATTACHMENTS:**

- Attachment 1: Agreement
- Attachment 2: Support Letters
- Attachment 3: PowerPoint
- Attachment 4: Resolution

**UNCLASSIFIED MANAGER:**

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