



DATE: September 19, 2017

TO: Mayor and City Council

FROM: Director of Utilities & Environmental Services

SUBJECT Recycled Water Project: Authorization for the City Manager to Submit a Financial Assistance Application and Execute Agreements for Funding for the Recycled Water Project through the United States Bureau of Reclamation Title XVI Water Recycling and Reuse Program

RECOMMENDATION

That Council adopts the attached resolution authorizing the City Manager to submit a financial assistance application and execute agreements with the United States Bureau of Reclamation (USBR) for funding for the Recycled Water Project through the USBR Title XVI Water Recycling and Reuse Program, in an amount not to exceed \$3,300,000.

SUMMARY

On July 17, the USBR announced a funding opportunity (BOR-DO-17-F028) for water recycling projects that have been determined to be feasible by the USBR. The City's Recycled Water Project is eligible to compete for this funding, and staff prepared and submitted an application for financial assistance by the deadline of August 17. Unfortunately, the short deadline coincided with Council's break and staff was not able to include in the application package a resolution authorizing the City Manager to submit the application and execute agreements with the USBR, if the City's application is successful. The USBR recognized that the short application period posed a problem for many agencies and provided an extension on the deadline for submitting the authorizing resolution. This report provides information about the funding opportunity and requests that Council adopt the attached resolution authorizing the City Manager to submit the financial assistance application and execute related agreements, if the City is awarded funding from the USBR.

BACKGROUND

The City's current Capital Improvement Program, adopted in June 2017, includes the Recycled Water Project that would deliver approximately 290 acre-feet per year of drought-proof water supplies to about twenty-four customers for irrigation. Customers would include parks, schools and industrial parks within a three-mile radius of the City's Water Pollution Control Facility (WPCF). Once the initial distribution and storage system is constructed, there may be opportunities to expand the system and include more customers in future phases. The project as currently envisioned does not include a recycled water *treatment* facility. Rather than the City producing its own tertiary treated recycled water, staff is currently negotiating a recycled water supply agreement with the Russell City Energy Center (RCEC) to utilize surplus tertiary treated recycled water produced at RCEC's Recycled Water Facility, located adjacent to the City's WPCF, as the source of supply for the City's project.

The total capital cost of the Hayward Recycled Water Project is estimated at \$20 million. Staff has been aggressively pursuing outside funding to help pay for the cost of the project. In May 2017, the City executed an agreement for up to \$5.8 million in grant funding from California Proposition 1 (Water Bond) and \$13.5 million in low interest loans from the State's Clean Water State Revolving Fund to help finance the project. Staff has also been working to position the Recycled Water Project for grant funds administered through the USBR's Title XVI Water Recycling and Reuse Program (Title XVI). In June 2017, the USBR determined that the City's Recycled Water Project met the feasibility requirements of Title XVI.

On July 17, 2017, the USBR released a new funding opportunity (BOR-DO-17-FO28) for Title XVI water recycling projects under the Water Infrastructure Improvements for the Nation (WIIN) Act. The WIIN Act was enacted in December 2016 to address water resources infrastructure that is critical to the nation's economic growth, health, and competitiveness. The WIIN Act includes \$50 million for water recycling projects to be administered through Title XVI in multiple funding cycles. A total of \$10 million is available under the funding opportunity released on July 17. Only water recycling projects that were determined to be feasible by the USBR and were transmitted in a report to Congress on July 12, 2017 are eligible to compete for funding under the WIIN Act. The City's Recycled Water Project meets the USBR's eligibility requirements for applying for Title XVI funding under the WIIN Act.

DISCUSSION

Based on the USBR funding opportunity guidelines, applicants may apply for up to 25% of total project costs that are estimated to occur between July 12, 2017 and September 30, 2019. Recipients are responsible for 75% of project costs. The grant funding application was due on August 17, 2017, which allowed only thirty days between the announcement and submittal deadline. While this constrained time frame presented challenges, staff, with consultant assistance, prepared and submitted a complete application for \$3,263,000 (25% of the estimated construction contract amount) that meets the requirements of the USBR funding announcement.

Unfortunately, the short deadline coincided with Council's break and staff was not able to obtain a resolution from Council that would authorize the City Manager to commit the City to the

financial and legal obligations associated with receipt of a financial assistance award under this funding opportunity. The USBR recognized that this would be an issue for many agencies, and granted an extension for submitting the required resolution until mid-September. Submitting the grant application by the August 17 deadline in no way obligated the City to enter into an agreement with USBR. Staff is requesting that Council approves the attached resolution, which, if approved, will be submitted to the USBR to complete the application process.

There are over forty recycled water projects throughout the western United States that are eligible to apply for the \$10 million available under the Title XVI funding opportunity that was released on July 17. Given the extremely limited amount of total grant funds available and the highly competitive nature of this grant cycle, it is unlikely that the City will receive the full eligible amount, and, in fact, the City may not be successful at all during this round. However, even if the City is not successful in this funding cycle, a key benefit of submitting an application is that the USBR provides feedback to unsuccessful applicants on how to strengthen applications for future funding opportunities.

Project proponents may continue to apply for Title XVI financial assistance until the total grant amount awarded reaches the maximum eligible amount. Thus, staff anticipates continuing to apply for Title XVI funding as additional opportunities are announced. The USBR currently anticipates releasing a second funding opportunity for Title XVI funding under the WIIN Act in late 2017/early 2018.

ECONOMIC IMPACT

The economic impact of the Recycled Water Project will depend, in large measure, on the costs to implement the project, including planning, design, construction, acquisition of recycled water, and ongoing operation and maintenance costs. To the extent that the project is funded by grants, the overall cost impact to customers will be reduced. Once the costs are finalized and funding sources are in place, staff will recommend a rate structure that would provide a balance between recovering costs over the life of the project and offering an incentive to customers who are able to receive recycled water. The community as a whole will benefit from this project through greater diversity and reliability of water supplies, especially during periods of drought.

STRATEGIC PRIORITIES

This agenda item supports the Tennyson Corridor Strategic Initiative. The purpose of this initiative is to develop an attractive, cohesive, thriving Tennyson Corridor through thoughtful engagement with residents, businesses and community partnerships. There are two sites located in the Tennyson Corridor that are proposed to be connected to the recycled water system, and would therefore support the following goal and objectives:

Goal 3: Improve Community Appearance.

Objective 1: Enhance landscaping.

Objective 3: Decrease blight.

The use of recycled water will help create attractive outdoor spaces in the Tennyson Corridor. Since recycled water is a sustainable and drought-proof source of supply, customers will be able to maintain their landscaping during water supply shortages when drinking water supplies are limited.

FISCAL IMPACT

The Recycled Water Project is included in the current Ten-Year Capital Improvement Program with total funding of \$19.3 million. As noted in the Background, the City has secured \$5.8 million in State Proposition 1 grant funding and \$13.5 million in a low interest Clean Water State Revolving Fund loan. Any grant funds obtained from the USBR Title XVI Program would reduce the loan amount from the State. This project will not utilize any General Fund monies.

SUSTAINABILITY FEATURES

The use of recycled water will reduce the demand for drinking water and improve the reliability and availability of drinking water, while providing a sustainable and drought-proof water supply for some irrigation uses. It will also reduce the volume of wastewater and associated residual pollutants discharged to San Francisco Bay, which is required to meet increasingly stringent discharge regulations.

PUBLIC CONTACT

Public contact related specifically to the financial assistance application included outreach to interested partners to request letters of support. A total of eight letters, including those from the Hayward Area Park and Recreation District (HARD), the East Bay Dischargers Authority (EBDA), the Bay Area Water Supply and Conservation Agency (BAWSCA), and the Hayward Chamber of Commerce, were received and included with the application.

The City continues to work closely with potential recycled water customers, including HARD and the Hayward Unified School District, to initiate site surveys and prepare retrofit designs to connect customers to the recycled water system. Staff will also be implementing educational efforts to train site supervisors on the use of recycled water to ensure a smooth transition.

NEXT STEPS

If Council concurs with staff's recommendation, the adopted resolution will be submitted to the USBR to complete the financial assistance application process. Staff will monitor the application review process and inform Council of developments, as well as continue to pursue additional funding opportunities related to the Recycled Water Project.

Prepared by: Jan Lee, Water Resources Manager

Recommended by: Alex Ameri, Director of Utilities & Environmental Services

Approved by:

A handwritten signature in black ink, appearing to read 'K. McAdoo', written in a cursive style.

Kelly McAdoo, City Manager