



DATE: September 13, 2016

TO: Mayor and City Council

FROM: Director of Utilities & Environmental Services

SUBJECT

Recycled Water Storage and Distribution System Project: Adoption of Revised Authorizing Resolution and Revised Reimbursement Resolution Required for the State Revolving Fund Loan Application

RECOMMENDATION

That the City Council adopts the attached revised resolutions (Attachments I and II) required by the State Water Resources Control Board (SWRCB) for the City to apply for recycled water funding through the State Revolving Fund (SRF) Loan Program.

SUMMARY

On May 19, 2015, the City Council adopted Resolution 15-072, authorizing the City Manager to sign and file an SRF loan application in an amount not to exceed \$12 million for the recycled water storage and distribution system project. On October 13, 2015, the City Council adopted Resolution 15-194, Reimbursement Resolution, in support of the SRF Loan Application. The project is currently in the final design phase and the estimated project cost has increased from \$12 million to approximately \$20 million due to necessary changes and refinements in the project design. In view of the increase in project costs, staff has revised Resolutions 15-072 and 15-194, as required by SWRCB, to request additional project funding through SWRCB's SRF Loan program.

BACKGROUND

The proposed project consists of installing a one million gallon (1 MG) storage tank and pump station at the City's Water Pollution Control Facility (WPCF) and constructing distribution pipelines and customer connections to deliver an estimated 290 acre-feet per year of recycled water to twenty-four customers within the City of Hayward. The current project anticipates that the City would purchase tertiary treated recycled water from Calpine's Recycled Water Facility located adjacent to the WPCF. The City completed an application for a low interest SRF loan for the project and submitted it to SWRCB in December 2015.

DISCUSSION

The proposed project was originally designed to use an existing abandoned eight-inch diameter Shell Oil pipeline that would form the backbone of the distribution system. However, based on further evaluation, staff is recommending that the City install new water mains for recycled water distribution instead of rehabilitating and reusing the existing Shell Oil pipeline. The recommendation is based on numerous and complex issues that were raised during design, including concerns with the ability to successfully rehabilitate the pipeline potential liabilities associated with the transfer of ownership, and unlikely cost savings. In addition to the decision to install new pipelines in-lieu of re-purposing the Shell oil pipeline, City staff is also recommending installing a larger storage tank to increase supply reliability and provide storage for future recycled water demands. Accordingly, the tank size was increased from 0.4 MG in the original project to 1 MG. These design refinements would result in an increase in the estimated total project cost. The new pipelines and increase in tank size fall within the range of options that were considered in the Initial Study/Mitigated Negative Declaration (IS/MND) prepared for the project and therefore no additional environmental review is required.

ECONOMIC IMPACT

Staff will evaluate the cost of treating and delivering recycled water and recommend a rate structure that would provide an incentive for eligible customers to use recycled water. At this time, it is unknown if those rates would cover the entire costs of the project. The delivery of recycled water can provide cost savings to the customers, including businesses that would receive recycled water. The benefit of this project is that it will ensure a reduction in potable water use, allowing for greater diversity and reliability in the City's water supply especially during droughts.

FISCAL IMPACT

A Capital Improvement Project, titled "Recycled Water Treatment and Distribution Facility," is included in the current Capital Improvement Program's Sewer Improvement Fund. The City is anticipating \$19,365,000 in SRF loan funds to finance the entire project. The City also intends to pursue federal grant funding of about \$5 million from the US Bureau of Reclamation under Title XVI, as well as other grant opportunities for the final design and construction of the project. If grant money becomes available from other sources, the amount of SRF loan required will be reduced, thus providing more flexibility to move forward with the project.

This project will not utilize any General Fund monies and the debt service incurred will be obligated to the Wastewater Enterprise Fund.

SUSTAINABILITY FEATURES

The use of recycled water will reduce the demand for potable water and hence improve the reliability and availability of potable water. It will also reduce the volume of wastewater and

associated residual pollutants discharged to San Francisco Bay, which is required to meet with increasingly stringent discharge regulations.

The City will continue to evaluate expanding recycled water as a sustainable alternative to using potable water for additional applications in the future.

PUBLIC CONTACT

The City completed an environmental review of the project in October 2014 and a draft Initial Study/Mitigated Negative Declaration (IS/MND) was circulated for a 30-day public review from October 24, 2014 through November 24, 2014. The IS/MND was adopted on December 16, 2014, incorporating all the comments that were received. The Recycled Water Ordinance, that includes mandatory provisions for use of recycled water for appropriate irrigation and industrial uses, was introduced at a public hearing of the City Council on December 1, 2015 and adopted on December 15, 2015. Prior to the adoption of the Recycled Water Ordinance, a customer meeting was held on November 20, 2015 at City Hall to inform the customers about the project.

NEXT STEPS

If the Council approves the two revised resolutions, staff will proceed with the submittal of the updated SRF loan application that will include the updated project cost.

Staff will also proceed to complete the design of the recycled water storage and distribution system and continue discussions with Calpine to develop a mutually acceptable recycled water supply agreement.

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Approved by:



Kelly McAdoo, City Manager