



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kerrie Romanow

SUBJECT: SEE BELOW

DATE: January 3, 2023

Approved

Date

1-9-23

COUNCIL DISTRICT: 2, 4, 7, 8

SUBJECT: 2022 URBAN COMMUNITY DROUGHT RELIEF GRANT PROGRAM

RECOMMENDATION

- (a) Accept the staff report regarding the 2022 Urban Community Drought Relief Grant Program (“Program”).
- (b) Adopt a resolution:
 - (1) Ratifying the City of San José application for the Program, and authorizing the City Manager, Director of Finance, or their designees, to negotiate and execute the necessary agreements, including any amendments or revisions, and other actions, to apply for and secure the grant and fulfill the Program requirements;
 - (2) Accepting up to \$14.3 million, or the amount awarded, in Program funding; and
 - (3) Authorizing the City Manager, Director of Finance, or their designees, to apply for, negotiate, and execute any documents, and take other actions necessary to receive funds for other State or Federal grant opportunities to fund projects related to drinking water, recycled water, or other associated water supply projects.

OUTCOME

The proposed action allows the Environmental Services Department’s Water Resources Division to apply for and receive drought relief grants to fund or partially fund water infrastructure projects, thereby reducing project funding that would otherwise be funded by water rates. This action further authorizes the City Manager, Director of Finance, or their designees to pursue other grant opportunities if any become available.

BACKGROUND

The City of San José owns and operates the San José Municipal Water System, a rate-funded utility intended to operate at full cost recovery. San José Municipal Water provides retail drinking and recycled water to approximately 26,000 customer accounts serving a population of over 140,000 in the North San José, Alviso, Evergreen, Edenvale, and Coyote Valley areas. The California governor declared a drought emergency in April 2021, and the state has continued to experience drought conditions since then. City Council declared a 15% water supply shortage in November 2021 and in November 2022, City Council extended that declaration through May 2024 to address continued drought conditions.

The City of San José also operates South Bay Water Recycling which is the regional permit holder for recycled water and distributes wholesale recycled water generated by the San José/Santa Clara Regional Wastewater Facility to over 900 customers throughout San José, Santa Clara, and Milpitas. The South Bay Water Recycling program delivers disinfected tertiary treated wastewater through an extensive recycled water distribution system consisting of over 150 miles of pipeline. The recycled water is used for non-potable purposes such as agriculture; industrial cooling and processing; and irrigation of golf courses, parks, and schools.

The State Budget Act of 2021 as amended allocated funding to the California Department of Water Resources (DWR) to award approximately \$350 million in grants and administrative funding for drought relief projects, including \$300 million through the Program. These grants are intended to provide water to communities that face the loss or contamination of their water supplies, to address immediate impacts on human health and safety, to secure the future of California's water supply, and to protect fish and wildlife resources.

ANALYSIS

In October, DWR released the final Program guidelines, and is accepting applications on a rolling basis between October 10, 2022 and January 31, 2023. Program grants can cover all planning, design, engineering, acquisition of real property interests, construction, and related activities undertaken to implement discrete water supply and/or drought-related projects, such as drought resilience planning, water conservation activities, turf replacement, and/or new wells or rehabilitation of existing wells.

Grant recipients will need to initially fund and implement the projects for which grant funding is awarded; upon completion of the project, grant funds will be issued as a repayment to the receiving agency. The Program requires a minimum non-state cost share of 25% of the total application costs; therefore a grant award may fund up to 75% of a project's total cost. Project costs incurred on or after July 1, 2022, are eligible for reimbursement, and all projects must be completed by December 31, 2026.

DWR has indicated that announcements of grant awards will take place between December 2022 and March 2023. DWR could award grant funds in amounts to either fully or partially meet the applicants' requested grant amounts. Upon notification of award, DWR will engage with recipient agencies to execute the necessary agreements.

To participate in the competitive grant process and ensure a timely application, on December 16, 2022, staff applied for the Program, requesting grant funding for three specific projects:

1. Implementation of Advanced Metering Infrastructure (AMI) throughout the entire San José Municipal Water System service area
2. Replacement of existing groundwater well in Coyote Valley
3. Construction of new groundwater well in North San José/Alviso

The three projects will expand the water utility's water supply portfolio while providing tools and resources to both the utility and customer to promote sustainable and efficient use of water, especially during times of drought. Providing additional infrastructure to utilize groundwater supplies will help the City collaborate with Santa Clara Valley Water District, the County's wholesale water supplier and groundwater basin manager, during times of drought to minimize the use of reduced water supply sources by shifting operations to utilize sources that are more readily available. Utilizing AMI, or "smart meters," will allow for both the utility and customer to identify current and ongoing water use patterns, receive immediate notifications of water leaks, and adjust water usage to save water during drought and reduce water bills.

All projects will be competitively bid to award a contract as necessary to complete the project by December 2026. It is anticipated that the AMI project would be funded in the Water Utility Capital Fund, with supplemental funding through the use of Commercial Paper (CP). Grant funds received will be directly applied toward repayment of the outstanding CP balance upon receipt and to replenish the Water Utility Capital Fund. The groundwater well projects would be funded in the Water Utility Capital Fund.

PROJECTS	Total Project Cost (100%)	Requested Grant Award (75%)	Project Funding by City (25%)
Advanced Metering Infrastructure Implementation	\$12,870,000	\$9,652,500	\$3,217,500
Coyote Groundwater Well Construction	\$3,395,000	\$2,546,250	\$848,750
North San José /Alviso Groundwater Well Construction	\$2,780,000	\$2,085,000	\$695,000
GRAND TOTAL	\$19,045,000	\$14,283,750	\$4,761,250

Additional future grant opportunities may provide further benefit to the City by allowing implementation of other projects to increase water supplies, reduce water demands, and/or implement projects to promote sustainable and efficient water use. Staff recommends City

Council approval to apply for and accept grant awards, with any related agreements to be negotiated and executed by the City Manager, Director of Finance, or designees, under programs offered by the following agencies:

- U.S. Bureau of Reclamation – WaterSMART program or other similar programs for water supply and/or efficiency projects
- California Department of Water Resources – additional opportunities similar to the current Program opportunity and/or Proposition 1 grants to implement water supply projects, including turf replacement projects

There are no new grant opportunities at this time for recycled water, but staff will monitor for opportunities as they may become available.

CONCLUSION

Staff has submitted an application to receive Program grant funds and, if notified of grant award, will coordinate with DWR to execute the necessary agreements to receive those funds. Staff will competitively procure the required contracts to implement grant-funded projects.

EVALUATION AND FOLLOW-UP

Staff will bring back further actions related to this recommendation as necessary, including the award of contracts to complete the projects.

CLIMATE SMART SAN JOSE

The recommendation in this memorandum aligns with one or more Climate Smart San José energy, water, or mobility goals.

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the January 24, 2023 Council meeting.

COORDINATION

This item has been coordinated with the Office of the City Attorney, the City Manager's Budget Office, and the Finance Department.

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

FISCAL/POLICY ALIGNMENT

The projects within the City's Program grant application support climate and seismic resilience, specifically drought resilience, as identified within the Mayor's March 2022 Budget Message. In November 2021, City Council directed staff to pursue the implementation of AMI throughout the San José Municipal Water System service area.

COST SUMMARY/IMPLICATIONS

It is anticipated that the AMI project would be funded by the Water Utility Capital Fund, as well as through the use of CP as needed. The two groundwater well projects would be funded in the Water Utility Capital Fund. Assuming the City receives all requested grant funds, the total cost to the City for the AMI project would be the 25% City match of \$3,217,500 and CP interest and associated fees. This cost will be partially offset by operating cost reductions as a result of the use of the smart meters. The City cost share for the two groundwater well projects totals \$1,543,750, which is offset by approximately \$1.5 million in savings in the Water Utility Capital Fund since the total cost of the North San Jose/Alviso Groundwater Well Construction project is already reflected in the 2023-2027 Adopted Capital Improvement Program. If full grant funding is awarded, along with the use of CP, there is a utility rate increase expected of approximately 2 percent. If only partial grant funding is awarded, capital projects currently funded in the Water Utility Fund may need to be re-prioritized to ensure funding is available to front the three projects to avoid more substantial rate impacts.

Should grant funding be awarded, the Environmental Services Department will coordinate with the Finance Department to develop the issuance of CP, and the City Manager's Budget Office to identify and appropriate adequate funding sources to front the project costs as necessary to complete their installation/construction and will identify project-specific funding recommendations for City Council consideration at the time of contract award. Funding strategies may include additional transfers into the Water Utility Capital Fund from the Water Utility Operating Fund and increased utility rates to front the project costs and repay CP interest and fees.

It is expected the Advanced Metering Infrastructure Implementation project will be awarded in early FY 2023-2024, the Coyote Groundwater Well Construction project awarded in late FY 2023-2024, and the North San Jose/Alviso Groundwater Well Construction project awarded in early 2023. All of these projects are a high priority for the department and, if the City is notified that it will not receive full or partial DWR grant funding as proposed, staff will re-evaluate and

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adjust the implementation schedule and prioritization of the projects as may be necessary to prevent significant rate increases.

CEQA

Not a Project, File No. PP17-006, Grant Application with no commitment or obligation to enter into an agreement at the time of application.

/s/

KERRIE ROMANOW

Director of Environmental Services

For questions, please contact Jeff Provenzano, Deputy Director, at jeffrey.provenzano@sanjoseca.gov or (408) 277-3671.