

SAN JOSÉ/SANTA CLARA TREATMENT PLANT ADVISORY COMMITTEE

JAMIE MATTHEWS, CHAIR
SAM LICCARDO, VICE CHAIR
PIERLUIGI OLIVERIO, MEMBER
DAVID SYKES, MEMBER
MANH NGUYEN, MEMBER

PAT KOLSTAD, MEMBER
JOSE ESTEVES, MEMBER
STEVEN LEONARDIS, MEMBER
JOHN GATTO, MEMBER

AGENDA/TPAC

4:30 p.m.

September 10, 2015

Room 1734

1. **ROLL CALL**

2. **APPROVAL OF MINUTES**

A. August 13, 2015

3. **UNFINISHED BUSINESS/REQUEST FOR DEFERRALS**

4. **DIRECTOR'S REPORT**

A. Directors Report (verbal)
• Monthly Progress Report

5. **AGREEMENTS/ACTION ITEMS**

A. **Burrowing Owl Habitat Improvements at the Regional Wastewater Facility**

Staff Recommendation:

Accept this progress report highlighting ongoing habitat management activities for the Western Burrowing Owl on San José-Santa Clara Regional Wastewater Facility bufferlands.

The proposed progress report is scheduled for Council consideration on October 6, 2015.

B. **Approval of Citywide Insurance Renewals**

Staff Recommendation:

Adopt a resolution authorizing the City Manager or Director of Finance, to:

- a. Select and purchase certain City property and liability insurance policies for the period October 1, 2015 to October 1, 2016 at a total cost not to exceed \$1,700,000, with the following insurance carriers:

- i. American Home Assurance Company for Property & Casualty Insurance, including Boiler & Machinery.
 - ii. Old Republic Aerospace, Phoenix Aviation Managers, for Airport Owners and Operators Liability including War Risks & Extended Perils Coverage (Primary and Excess) and Police Aircraft Hull & Liability including War Risks & Extended Perils.
 - iii. The Travelers Indemnity Company of CT for Automobile Liability, or other insurance carriers that the City is currently in negotiations with, (Airport fleet vehicles including Shuttle Buses, Regional Wastewater Facility fleet vehicles, and Airport Shuttle Bus physical damage).
 - iv. Indian Harbor Insurance Company for Secondary Employment Law Enforcement Professional Liability.
- b. Select and purchase Government Fidelity/Crime Coverage for the period December 18, 2015 to December 18, 2016, at a cost not to exceed \$26,000.

The proposed resolution is scheduled for Council consideration on September 22, 2015.

6. OTHER BUSINESS/CORRESPONDENCE

- A. Election of the Chair
- B. Information Memorandum: 7/29/15 Status of the San Jose-Santa Clara Regional Wastewater Facility Capital Improvement Program
- C. RWF CIP Ten-Year Funding Strategy Agency Participation in External Financing
- D. Letter from Tributary Agencies to City of San Jose dated 8-14-2015
- E. Letter from City of San Jose to Tributary Agencies dated 8-28-2015

7. STATUS OF ITEMS PREVIOUSLY RECOMMENDED FOR APPROVAL BY TPAC

- A. Master Consultant Agreement with Black & Veatch Corporation for Technical Support Services for the 7418 – Cogeneration Facility Project at the San José – Santa Clara Regional Wastewater Facility

Staff Recommendation:

- a. Approve a master consultant agreement with Black & Veatch Corporation for technical support services for the 7418 – Cogeneration Facility Project at the San José – Santa Clara Regional Wastewater Facility for a period beginning on the date of execution through June 30, 2019 with an optional one-year extension, in a total amount not to exceed \$2,000,000, subject to the appropriation of funds.

- b. Adopt a resolution authorizing the City Manager to exercise an option to extend the term of the master consultant agreement with Black & Veatch Corporation by one year.

The proposed agreement was approved by Council on August 18, 2015.

8. REPORTS

A. Open Purchase Orders Greater Than \$100,000 (including Service Orders)

The attached monthly Procurement and Contract Activity Report summarizes the purchase and contracting of goods with an estimated value between \$100,000 and \$1.08 million and of services between \$100,000 and \$270,000.

9. MISCELLANEOUS

- A. The next TPAC meeting is October 8, 2015, at 4:30 p.m. City Hall, Room 1734.

10. OPEN FORUM

11. ADJOURNMENT

NOTE: If you have any changes or questions, please contact April Kellett, Environmental Services (408) 975-2541.

To request an accommodation or alternative format for City-sponsored meetings, events or printed materials, please contact April Kellett (408) 975-2541 or (408) 294-9337 (TTY) as soon as possible, but at least three business days before the meeting/event.

Availability of Public Records. All public records relating to an open session item on this agenda, which are not exempt from disclosure pursuant to the California Public Records Act, that are distributed to a majority of the legislative body will be available for public inspection at San Jose City Hall, 200 East Santa Clara Street, 10th Floor, Environmental Services at the same time that the public records are distributed or made available to the legislative body.

**MINUTES OF THE
SAN JOSE/SANTA CLARA
TREATMENT PLANT ADVISORY COMMITTEE**
City Hall, Council Chambers
Thursday, August 13, 2015 at 4:30 p.m.

1. ROLL CALL

Minutes of the Treatment Plant Advisory Committee convened this date at 4:31p.m. Roll call was taken, with the following members in attendance:

Committee members: Jose Esteves, John Gatto, Pat Kolstad, Steven Leonardis, Sam Liccardo, Manh Nguyen , Pierluigi Oliverio, Dave Sykes

Absent: Jamie Matthews

2. APPROVAL OF MINUTES

A. June 11, 2015

Item 2.A was approved to note and file.

Ayes – 8 (Esteves, Gatto, Kolstad, Leonardis, Liccardo, Nguyen, Oliverio, Sykes,)

Nays – 0

Absent – 1 (Matthews)

3. UNFINISHED BUSINESS/REQUEST FOR DEFERRALS

4. DIRECTORS REPORT

A. Directors Report (verbal)

- Monthly Progress Report

5. AGREEMENTS/ACTION ITEMS

A. **Master Consultant Agreement with Black & Veatch Corporation for Technical Support Services for the 7418 – Cogeneration Facility Project at the San José – Santa Clara Regional Wastewater Facility**

Staff Recommendation:

- a. Approve a master consultant agreement with Black & Veatch Corporation for technical support services for the 7418 – Cogeneration Facility Project at the San José – Santa Clara Regional Wastewater Facility for a period beginning on the date of execution through June 30, 2019 with an optional one-year extension, in a total amount not to exceed \$2,000,000, subject to the appropriation of funds.
- b. Adopt a resolution authorizing the City Manager to exercise an option to extend the term of the master consultant agreement with Black & Veatch Corporation by one year.

The proposed agreement is scheduled for Council consideration on August 18, 2015.

On a motion by Committee Member Gatto and a second by Committee Member Sykes, TPAC unanimously approved to adopt the staff recommendation for item 5.A.

Ayes – 8 (Esteves, Gatto, Kolstad, Leonardis, Liccardo, Nguyen, Oliverio, Sykes,)

Nays – 0

Absent – 1 (Matthews)

David Wall spoke on this item.

6. OTHER BUSINESS/CORRESPONDENCE

7. STATUS OF ITEMS PREVIOUSLY RECOMMENDED FOR APPROVAL BY TPAC

A. Execute a Purchase Order with Carbon Activated Corp.

Staff Recommendation:

1. Report on bids for Filter Media Replacement and Under-Drain Tile Repair Services and authorize the City Manager to execute a Purchase Order with Carbon Activated Corp. (Compton, CA) for filter media replacement and under-drain repair tile services at the San Jose/Santa Clara Regional Wastewater Facility (RWF) for the initial term of July 15, 2015 through September 15, 2015, in an amount not to exceed \$311,775.
2. Approve a contingency of \$31,178 to execute change orders to cover any unforeseen changes or requirement that may arise during completion of services.

The proposed Purchase Order was approved by Council on June 23, 2015.

B. Agreement with San Francisco Bay Wildlife Society, Fiscal Agent for Don Edwards San Francisco Bay National Wildlife Refuge

Staff Recommendation:

- a. Authorize the City Manager to negotiate and execute an agreement with the San Francisco Bay Wildlife Society, which is the fiscal agent for the Don Edwards San Francisco Bay National Wildlife Refuge, for the purpose of providing public education about water quality, pollution prevention, and protection of water dependent ecosystems.
- b. Approve funding of up to \$130,000 for year one from July 1, 2015 through June 30, 2016, with two one-year options for renewal ending June 30, 2018, for a maximum not to exceed amount of \$390,000 over three years.

The proposed Contract Change Order was approved by Council on June 23, 2015.

C. Contract Change Order No. 2 for 6835 – Handrail Replacement – Phase V Project

Staff Recommendation: Approve a contract change order for a credit to the project of \$109,124, and extend the project completion date from August 12, 2014 to August 31, 2015 (257 additional working days)

The proposed Contract Change Order was approved by Council on June 16, 2015.

D. Contract Change Order Authorization and Construction Contingency Increase for the “7100-Digester Gas Compressor Upgrade Design-Build Project” at the San Jose-Santa Clara Regional Wastewater Facility

Staff Recommendation:

1. Approve a \$565,800 increase to the construction contingency amount of \$1,131,600 for a revised total contingency amount of \$1,697,400 and increasing the contract not-to-exceed amount from \$12,447,600 to a total revised contract amount not-to-exceed \$13,013,400.
2. Adopt a resolution authorizing the Director of Public Works to:
 - (a) Negotiate and execute Contract Change Order No. 8 (CCO8) with Anderson Pacific Engineering Construction, Inc. for the 7100-Digester Gas Compressor Upgrade Design-Build Project (“Project”) in the amount of \$358,616; and
 - (b) Negotiate and execute one or more change orders in excess of \$100,000 for the remaining duration of the Project, not to exceed the revised total contingency amount approved for the Project ; and
 - (c) Negotiate and execute one or more change orders extending the project completion date from June 22, 2016 to March 19, 2017 for a total of 270 days beyond the original contract completion date of June 22, 2016.

The proposed Contract Change Order was approved by Council on June 23, 2015.

Item 7.A,B,C,D was approved to note and file.

Ayes – 8 (Esteves, Gatto, Kolstad, Leonardis, Liccardo, Nguyen, Oliverio, Sykes,)

Nays – 0

Absent – 1 (Matthews)

David Wall spoke against item 7.D.

8. REPORTS

A. Open Purchase Orders Greater Than \$100,000 (including Service Orders)

The attached monthly Procurement and Contract Activity Report summarizes the purchase and contracting of goods with an estimated value between \$100,000 and \$1.08 million and of services between \$100,000 and \$270,000.

Item 8.A was approved to note and file.

Ayes – 8 (Esteves, Gatto, Kolstad, Leonardis, Liccardo, Nguyen, Oliverio, Sykes,)

Nays – 0

Absent – 1 (Matthews)

9. MISCELLANEOUS

The next TPAC meeting is September 10, 2015, at 4:30 p.m. City Hall, Room 1734.

10. PUBLIC COMMENT

David Wall spoke on various items.

11. ADJOURNMENT

A. The Treatment Plant Advisory Committee adjourned at 4:38 p.m.



San José-Santa Clara
Regional Wastewater Facility

Capital Improvement Program Monthly Status Report for July 2015

September 3, 2015

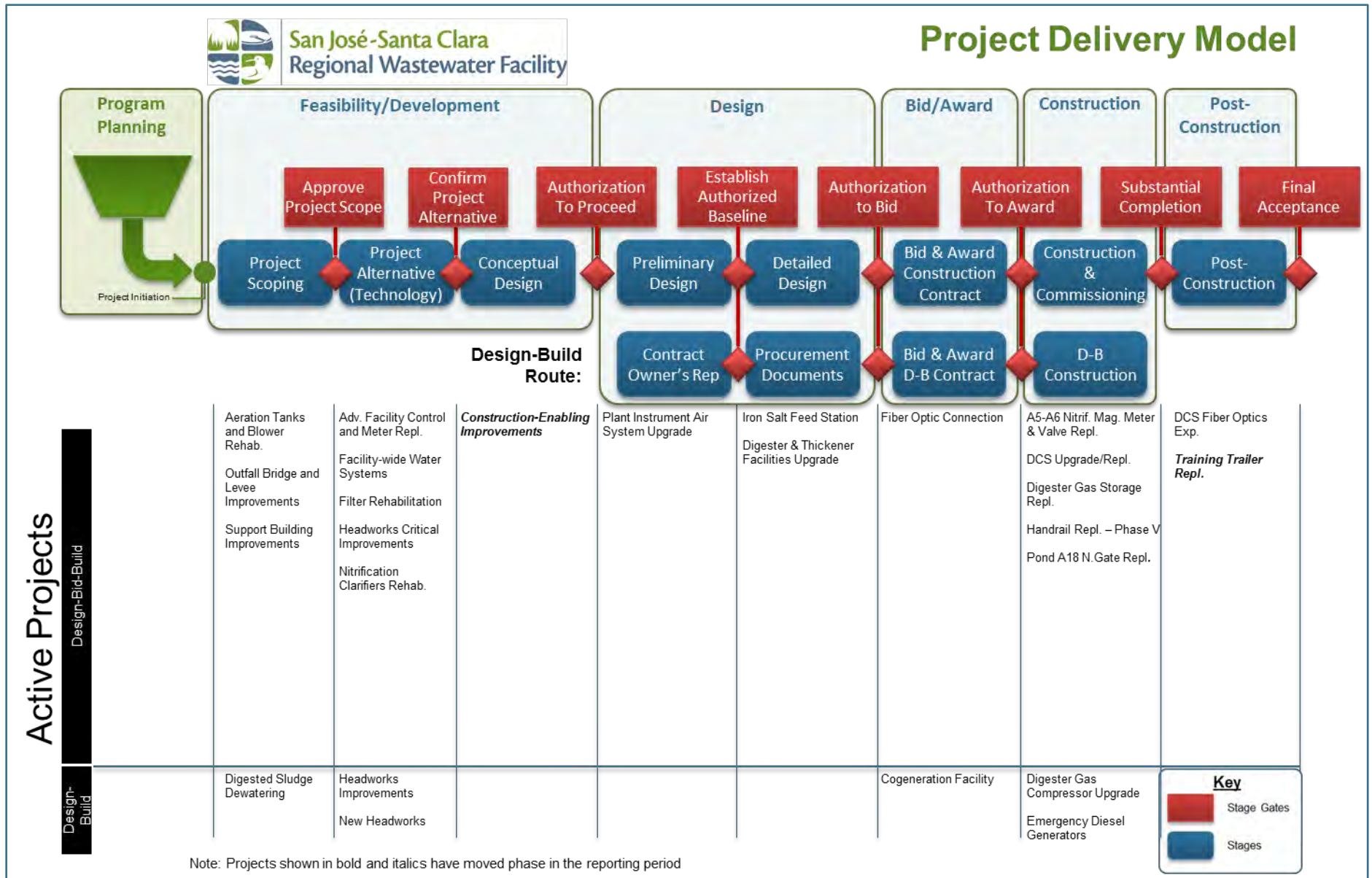
This report provides a summary of the progress and accomplishments of the Capital Improvement Program (CIP) for the San José-Santa Clara Regional Wastewater Facility (Wastewater Facility or RWF) for the period of July 2015.

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Project Delivery Model



Program Summary

July 2015

In July, the CIP progressed on multiple fronts, including the successful advancement of programmatic studies and projects through stage gates of the Project Delivery Model (PDM) process. In particular, two programmatic studies passed through the “Final Acceptance” stage gate this month. These two studies were the Odor and Corrosion Control Study and the Yard Piping Condition Assessment Study.

CIP staff issued a Request for Qualifications (RFQ) proposal for Design and Construction Management Software (DCMS). This procurement will select a document management tool and submittals control software that will be used on all CIP construction projects. The Fiber Optic Connection Project was advertised for bidding. Technical evaluations for the Headworks and Filter Rehabilitation procurements were completed this month and Staff will be putting forward recommendations for consultant selection for each project. Request for Proposals (RFP) were issued to three shortlisted design-build firms for the Cogeneration Facility with proposals due in early September.

The Iron Salt Feed Station Project passed through the 90 percent design milestone, with all internal CIP design reviews completed on time. The 100 percent design submittal for this project is due in August. Value Engineering and Hazard and Operability (HAZOP) workshops were completed on the Digester and Thickener Facilities Upgrade Project. The 90 percent design submission, which will adopt recommendations from these workshops, is due in August. Emergency repair work continued to progress on the Pond A-18 northern gate structure and the surrounding timber structure installation began this month. The mechanical installation has been slightly delayed, awaiting replacement parts for some damaged components that were identified during construction inspections, but the overall project is still scheduled to be completed by late August. Other construction work continued at the RWF for a number of CIP projects including the Emergency Diesel Generators, Digester Gas Compressor Upgrade and Digester Gas Storage Replacement.

The Training Trailer Replacement Project reached Beneficial Use and the Fire Main Replacement – Phase III Project was accepted this month.

Look Ahead

In August, we will continue to move forward on numerous efforts related to consultant and design-build procurements for CIP projects including the Cogeneration Facility, Headworks Improvements, New Headworks, Facility Wide Water Systems Improvement, Filter Rehabilitation and the Nitrification Clarifiers Rehabilitation. Procurements for a number of programmatic services will also be developed including General Engineering Services, Value Engineering and Peer Review Services, System Integration Services, Construction Management Services, and Audit Services.

The RFQ for General Engineering Services will be advertised in August. An award recommendation for the Technical Support Services consultant for the Cogeneration Facility Project is also scheduled to be presented to City Council in August.



Program Highlight – Procurement

The Plant Master Plan, adopted by Council in November 2013, recommended over 100 capital projects with an estimated total of \$2.1 billion procured to rebuild and modernize the Facility over the next 30 years. In early 2014, validation of these projects resulted in 33 projects grouped by four packages: Liquids, Biosolids, Facilities, and Power and Energy. Twenty-one of the 33 project packages are planned for initiation in the first five years. In order to meet the staffing needs for the various RWF Capital Improvement Program projects, it is necessary to have a staffing strategy that includes a combination of City staff, CIP management consultant staff, and third-party consultants to ensure the needed resources and expertise are provided for each project.

Several projects will require the procurement of third-party consultant services. Most procurements will include the advertisement of an RFQ and will result in a project-specific master consultant agreement (MCA) requiring subsequent service orders (SOs) to be issued further specifying the tasks and authorizing the selected consultant to proceed with work.

The tasks included in the project-specific consultant agreements will vary based on the project's delivery method. For design-bid-build projects, consultants will be tasked with final design and engineering services during construction. For design-build projects, consultants will be tasked with the preparation of procurement documents (e.g., "bridging" documents) to hire a design-builder and possibly to provide construction management services.

Given the volume of procurements and large number of CIP staff involved, a Procurement "Stage Page" has been developed to provide guidance in the form of a process flowchart, roles and responsibilities and links to standard templates and examples. The Stage Page is accessible on the CIP Portal and provides staff with a convenient single location to access all the information and resources required to ensure a consistent approach to procurement across the Program.

Currently, there are 17 procurements planned to be advertised this fiscal year. These procurements consist of five construction contracts and 12 consultant procurements.

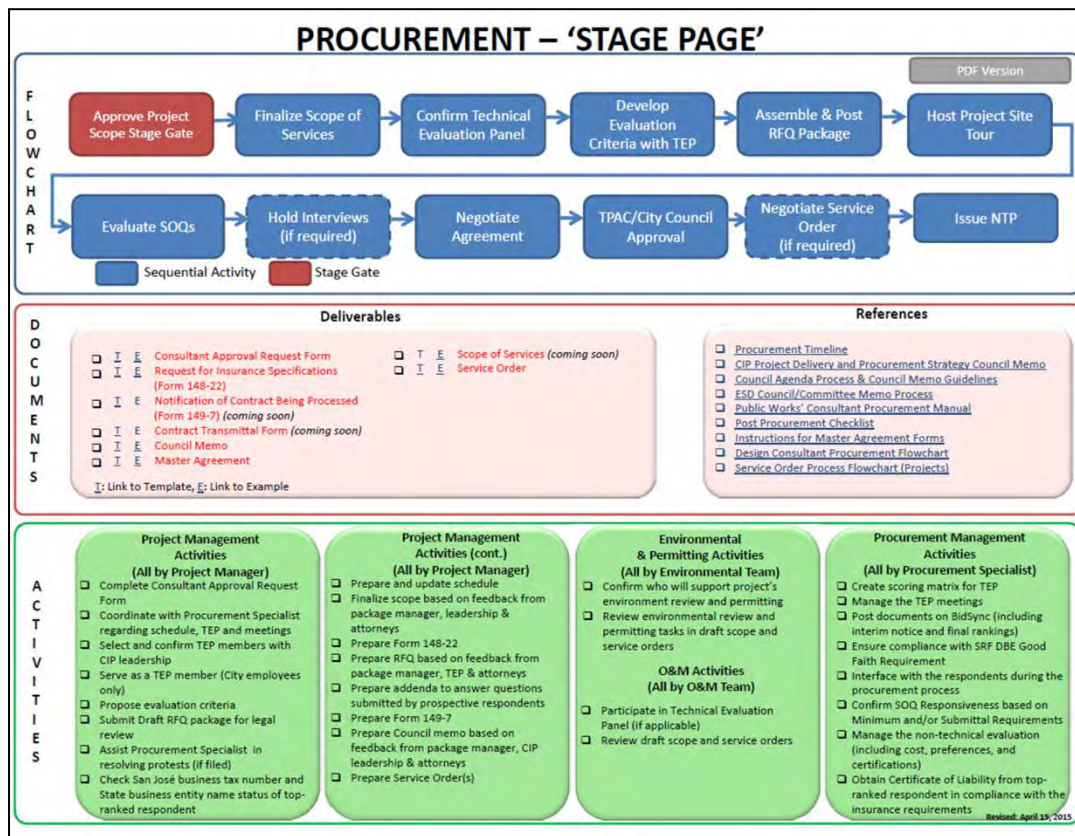






























Figure 1 — The Procurement Stage Page is a guidance document summarizing the process, roles and responsibilities of staff involved with procurements.



Program Performance Summary

Eight key performance indicators (KPIs) have been established to measure the overall success of the CIP. Each KPI represents a metric which will be monitored on a regular frequency. Through the life of the CIP, KPIs will be selected and measured which best reflect the current maturity of the program. An additional KPI has been added for FY15-16 to measure project stage gate compliance.

Program Key Performance Indicators – Fiscal Year 2015-2016

KPI	Target	Year to Date			Fiscal Year End		
		Actual	Status	Trend	Forecast	Status	Trend
Stage Gates¹	80%	100% (2/2)			100% (28/28)		
Measurement: Percentage of initiated projects and studies that successfully pass each stage gate. Criteria: Red: < 70%; Amber: 70% to 80%; Green: >=80%							
Schedule^{1/2}	85%	100% (1/1)			100% (6/6)		
Measurement: Percentage of CIP projects delivered within 2 months of approved baseline Beneficial Use Milestone. Criteria: Red: < 75%; Amber: 75% to 85%; Green: >=85%							
Budget^{1/3}	90%	100% (1/1)			100% (7/7)		
Measurement: Percentage of CIP projects that are completed within the approved baseline budget. Criteria: Red: < 80%; Amber: 80% to 89%; Green: >=90%							
Expenditure^{1/4}	\$154M	NA			\$154M		
Measurement: CIP Fiscal Year 15/16 committed costs. Committed cost meets or exceeds 70% of planned Budget (70% of \$220M = \$154M) Criteria: Red: < \$123M; Amber > \$123M and <\$154M; Green: >=\$154M							
Procurement¹	80%	100% (2/2)			100% (17/17)		
Measurement: Number of consultant and contractor procurements for initiated projects and program-wide services advertised compared to planned for the fiscal year. Criteria: Red: < 70%; Amber: 70% to 79%; Green: >=80%							
Safety¹	0	0			0		
Measurement: Number of OSHA reportable incidents associated with CIP construction for the fiscal year. Criteria: Red: > 2; Amber: 1 to 2; Green: zero incidents							
Environmental¹	0	0			0		
Measurement: Number of permit violations caused by CIP construction for the fiscal year. Criteria: Red: > 2; Amber: 1 to 2; Green: zero incidents							
Staffing⁵	TBD	TBD	TBD	TBD	TBD	TBD	TBD
Measurement: Number of planned positions filled for the fiscal year. Criteria: Red: < 70%; Amber: 70% to 79%; Green: >=80%							

Notes

1. KPIs have been reset for the new FY15-16.
2. For the Schedule KPI, the Training Trailer Replacement project achieved Beneficial Use in July 2015.
3. For the Budget KPI, one out of one project, Fire Main replacement – Phase III, was completed within the approved baseline budget.
4. FY15-16 budget excludes reserves, ending fund balance, South Bay Water Recycling, Public Art and Urgent and Unscheduled Rehabilitation items.
5. Staffing level KPI measured quarterly; all other KPIs measured monthly.

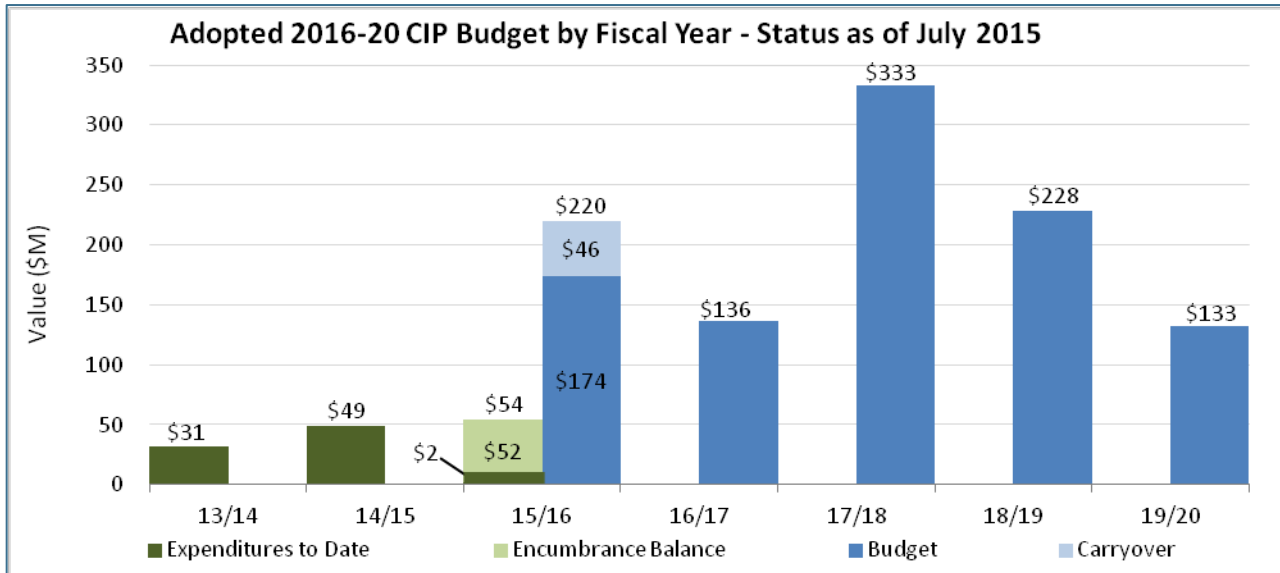


Program Cost Performance

This section provides a summary of CIP cost performance for all construction projects and non-construction activities for FY15-16 and the 2016-2020 CIP.

Adopted 2016-2020 CIP Expenditure and Encumbrances

To accommodate the proposed increase in expenditures and encumbrances over the next five years, the City is implementing a long-term financial strategy to fund the needed, major capital improvements while minimizing the impact to ratepayers.



Notes

Expenditure: Actual cost expended, either by check to a vendor or through the City's Financial System for expense such as Payroll or non-personal expenses that do not require a contract.

Encumbrance: Financial commitments, such as purchase orders or contracts, which are committed to a vendor, consultant, or contractor. The encumbrance reserves the funding within the appropriation and project.

Encumbrance Balance: The amount of the remaining encumbrance committed after payments.

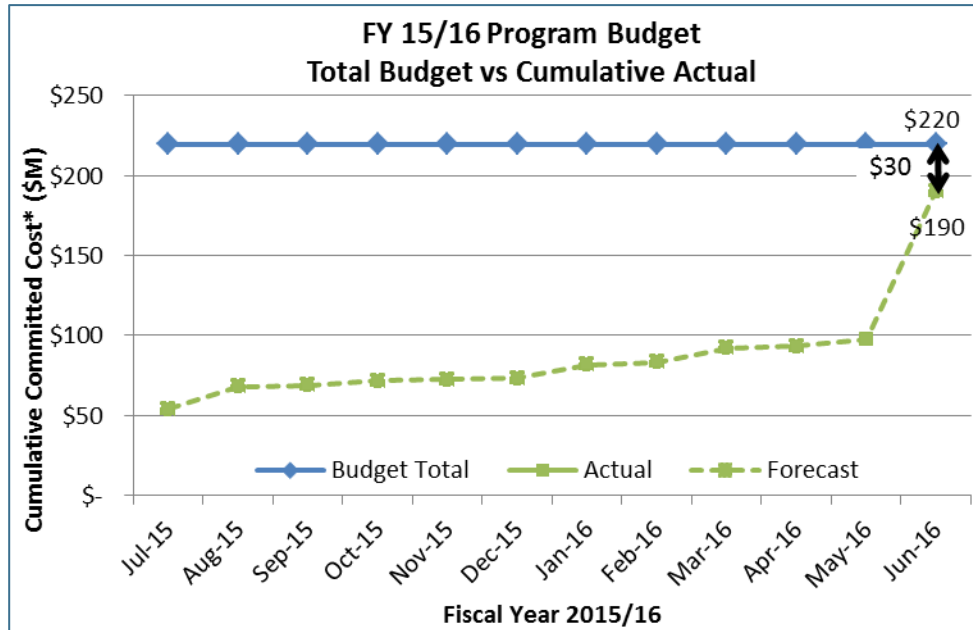
Budget: Adopted FY 2016-2020 Budget. This is new funding plus rebudgeted funds.

Carryover: Encumbrance Balances at the end of a FY become Carryover Funding. This is different from rebudgets, in that this is done automatically in order to utilize the funding previously committed, but not yet paid.



Fiscal Year 2015-2016 Program Budget Performance

The fiscal year program budget is \$220 million. The budget amount of \$220 million represents the 2015-2016 budget of \$174 million plus carryover of \$46 million. The budget amount excludes reserves, ending fund balance, South Bay Water Recycling, Public Art, and Urgent and Unscheduled Rehabilitation items.





















*Committed costs are expenditures and encumbrance balances, including carryover (encumbrance balances from the previous fiscal year).







Project Performance

There are currently nine active projects in the construction or post-construction phase with a further 17 projects in feasibility/development, design or bid and award phases (see PDM graphic at the front of this report). All active projects are listed in the tables below. Projects in the construction phase have cost and schedule baselines established and are monitored using the City's Capital Project Management System (CPMS). These projects have green/red icons included in the table below to indicate whether they are on budget and schedule using the CPMS data as a source.

Project Performance – Baselined Projects

Project Name	Phase	Estimated Beneficial Use Date ¹	Cost Performance ²	Schedule Performance ²
Distributed Control System (DCS) Fiber Optics Network Expansion	Post-Construction	May 2014 ³		
Training Trailer Replacement	Post-Construction	Jul 2015 ³		
Handrail Replacement - Phase V	Construction	Aug 2015		
Pond A18 Northern Gate Structure	Construction	Aug 2015		
Digester Gas Storage Replacement	Construction	Sep 2015		
A5-A6 Nitrification Mag. Meter & Valve Replacement	Construction	Mar 2016		
DCS Upgrade/Replacement	Construction	Jun 2016		
Emergency Diesel Generators	Construction	Aug 2016		
Digester Gas Compressor Upgrade	Construction	Sep 2016		

KEY:

Cost:		On Budget		>1% Over Budget
Schedule:		On Schedule		>2 months delay

Notes

1. Beneficial Use is defined as when the work is sufficiently complete, in accordance with the contract documents, so that the City can occupy or use the work. Beneficial use dates are being reviewed as part of project schedule reviews.
2. An explanation of cost and schedule variances on specific projects identified in this table is provided on page 12.
3. Actual Beneficial Use Date



Project Performance – Pre-Baselined Projects

Project Name	Phase	Estimated Beneficial Use Date ¹
Fiber Optic Connection	Bid & Award	Apr 2016
Cogeneration Facility	Procurement	Feb 2019
Iron Salt Feed Station	Design	Mar 2017
Plant Instrument Air System Upgrade	Design	Jan 2018
Digester & Thickener Facilities Upgrade	Design	Oct 2018
Construction-Enabling Improvements	Feasibility/Development	Oct 2016
Headworks Critical Improvements	Feasibility/Development	Apr 2017
Headworks Improvements	Feasibility/Development	Mar 2021
Adv. Facility Control & Meter Replacement	Feasibility/Development	May 2021
Outfall Bridge and Levee Improvements	Feasibility/Development	May 2021
Facility-wide Water Systems Improvements	Feasibility/Development	Sep 2021
Digested Sludge Dewatering Facility	Feasibility/Development	Dec 2021
Filter Rehabilitation	Feasibility/Development	Jan 2022
New Headworks	Feasibility/Development	Jun 2022
Nitrification Clarifiers Rehabilitation	Feasibility/Development	Aug 2022
Aeration Tanks and Blower Rehabilitation	Feasibility/Development	Nov 2023
Support Building Improvements	Feasibility/Development	Jan 2027

Notes

1. Beneficial Use is defined as when the work is sufficiently complete, in accordance with the contract documents, so that the City can occupy or use the work. Beneficial use dates are being reviewed as part of project schedule reviews.



Significant Accomplishments

Biosolids Package

Digester and Thickener Facilities Upgrade

The detailed design of the digesters and dissolved air flotation tanks (DAFT) continued this month. Brown and Caldwell (BC) received review comments on the 60 percent completion level design documents and are currently working on the 90 percent completion level design documents. Design highlights include:

- CIP staff provided review comments on the Draft Value Management Memorandum to BC. Follow-up meetings will be held with Operations & Maintenance (O&M) staff once the Value Management Technical Memorandum has been prepared by BC summarizing these cost savings options along with a discussion listing the potential impacts to overall process design.
- The project team is currently preparing a pre-qualification document for pre-selection of qualified construction contractors for the Digester/DAFT Project. BC has been requested (per their negotiated scope of work) to assist in this effort. It is anticipated this document will be issued in mid-August and will require a qualifications selection period of approximately two to three months.
- The State Revolving Fund (SRF) documents are currently being prepared by BC, including CEQA permitting documents and a SRF application. The draft documents will be available for review in August 2015.

Digested Sludge Dewatering Facility

In the first week of July, the project team conducted a formal kickoff meeting to review past scoping and project initiation documents that were prepared prior to last December. A 'scoping' stage gate meeting has been scheduled to confirm the remaining dewatering facility scope requirements. The early work activities will include discussions regarding the delivery method for the project (i.e. design-bid-build, design-build, etc.), review of the facility siting requirements, and preparation of a draft scope of work and project work planning documents.

Facilities Package

Cogeneration Facility

The RFPs and draft contract were issued to the three shortlisted design-build firms. Proposals are due in early September.

Facility-wide Water System Improvements

An RFQ for design consultants was issued on June 30th. A pre-submittal meeting was held on July 15th and was well attended with more than a dozen interested consultants in attendance. Statements of Qualifications (SOQs) will be due in early August.

Pond A18 Northern Gate Structure

Emergency repair work continued to progress on the Pond A-18 northern gate structure and the surrounding timber structure installation began this month.

Liquids Package

Filter Rehabilitation

CIP staff received, reviewed and scored SOQs, and the consultant Kennedy/Jenks was selected, pending results of any protest. Once the protest period is complete, the City will negotiate a master consultant agreement (MCA) with the selected consultant. Staff anticipates that the agreement will be recommended to TPAC and City Council for award in November.

Headworks Improvements and New Headworks

CIP staff held interviews with qualified consultants on July 14th. They scored and ranked consultants based on interview performance and qualifications and notified selected consultant, CDM Smith, pending results of any protest. Once the protest period is complete, the City will negotiate an MCA with the selected consultant. Staff anticipates that the agreement will be recommended to TPAC and City Council for award in November.

Iron Salt Feed Station

The project team completed review of the 90 percent design submittal and began engineering services during construction (ESDC) contract negotiations. The 100 percent design submittal will be received in August.

Aeration Tanks and Blower Rehabilitation



The Blower Evaluation Technical Memorandum Workshop was held on July 22nd and the final draft of the technical memorandum was issued. A preliminary scoping meeting with O&M staff was held on July 30th. A draft of the Project Delivery Memorandum was completed and the Project Delivery Workshop is scheduled for August.

Programmatic Studies

Automation Master Plan and Process Control Approach

The draft technical memorandum identifying future requirements for the Automation Master Plan was delivered for review on July 12th. Additionally, the draft technical memorandum for control systems standards was delivered for review on July 31st.

Architectural Guidelines

The review meeting was held on July 9th. Draft Programming and Design Guidelines review comments were sent to the City Facility Architectural Services (CFAS). Staff will have an ongoing discussion about the color palette for buildings and digester tanks.

Flood Protection study

Staff transferred stormwater and flood-related data to the consultant. A data workshop was held to review the existing stormwater data. The consultant conducted field visits to review infrastructure for stormwater and flood protection features. The outline and draft data summary report was received in mid-July.

Odor and Corrosion Control study

The final stage gate was conducted and the Study was accepted. Follow-up actions for subsequent projects were identified and responsibilities for action items were assigned. Related tasks still to be completed consist of the printing of the final report, preparation for presenting the final report to TPAC and Council, and completing the final round of odor sampling.

Yard Piping Condition Assessment Plan

Black & Veatch (B&V) submitted the final risk protocol and the final Yard Piping Condition Assessment Plan. The Study was completed in July. The recommendations from the study will be implemented in the Yard Piping and Road Improvements Project.

Traffic Circulation and Impacts

An amendment to extend the schedule to allow the consultant to complete the Study was approved in July. The new completion date is October 30th, 2015.

Power and Energy

Plant Instrument Air System Upgrade

CH2M Hill has started detailed design. Additionally, CH2M Hill has completed several site surveys, including locating the bore holes for the geotechnical investigation. The City executed a service order with the consultant ESA to provide environmental review services for the project.



Explanation of Project Performance Issues

A5-A6 Nitrification Magnetic Meter & Valve Replacement

In September 2014, during startup, the project team discovered that the actuators that had been specified and installed were incompatible with the available power supply. Engineering staff determined it would be more costly to modify the system than to order and install compatible actuators. In addition, O&M staff requested that the actuators match those used in the other clarifiers. The City continues to work with the contractor and is considering other options to resolve the actuator issue and complete the project. Existing funding will not be sufficient and the project will need Council approval for additional funds. If TPAC and Council approve the Construction Change Order (CCO), there will be a 14-16 weeks lead time for ordering custom-built actuators. Contractor mobilization, actuator installation, wiring, troubleshooting and punch list-sign off will take a minimal of three weeks. Beneficial use is expected by March 2016.

Handrail Replacement - Phase V

The Aeration Basin 1 handrail replacement material submittal and review process extended into the wet weather season, when several of the secondary aeration tanks are required for process capacity. Typically, aeration basin repairs cannot occur prior to April 15th because the rainy season requires that basins remain available in the event of heavy rains. Work had originally been planned to commence in May after the rainy season ended and the basin could be drained for safety reasons, but was further delayed until June due to additional work occurring in the basin at that time. With the handrail replacement, which requires a side-mounted installation from inside of the tanks, the contractor had to not only wait for the tank to be drained but was further delayed because of maintenance repairs to diffusers that also needed to take place in May and which subsequently made the project site unavailable to the contractor. Furthermore, RWF Maintenance is currently making much-needed mechanical repairs to three of the aeration tanks (B1, B2, and B3). Handrail replacement work is expected to resume in early August. Operational schedule constraints added an additional 257 days to the construction duration, which has extended the expected beneficial use date to late August. The project is currently 90 percent complete and no additional costs related to the time extension are expected.

Digester Gas Compressor Upgrade

During the course of the design portion of this design build project, it was determined that some of the equipment for this project would need to meet the explosion-proof classification of Class 1, Division 1 of the National Electric Code. This classification was more stringent than what was originally called for in the bid documents. Cost and schedule impacts were received from contractor, Anderson Pacific. A provisional three-month delay has been estimated based on the delivery schedule for the new motors. Council approval for additional project funding due to motor upgrade was awarded during its June 16, 2015 session. Beneficial Use is expected by September 2016.

Digester Gas Storage Replacement

During a comprehensive review of the gas storage tank design submittal by the design consultant, Brown and Caldwell, it was identified that the removable piston legs used in the proposed design by the sub-contractor did not meet the design standards and would have caused problems in the intended use of the tank. As a result, the sub-contractor re-designed the tank with permanent piston legs with a subsequent delay in mobilization until the re-design of the tank was reviewed and approved. The re-design was subsequently completed and has been approved. There were several leak tests performed on the gas holder to ensure gas tightness of the tank. Leakage test results have been submitted and have successful results. O&M prepared and submitted a list of desired modifications that is under evaluation. Some of these items on this list will require welding and/or drilling. Therefore, all welding must be completed prior to the critical path activity of testing and commissioning. The contractor is in the process of submitting a revised schedule along with submittals including costs associated with modifications that require welding. Additionally, the contractor is working with the subcontractor on a recovery plan. Despite the project schedule delay, the construction cost has not been impacted. Beneficial Use is expected by September 2015.



Project Profile

Fiber Optic Connection

The San José-Santa Clara Regional Wastewater Facility (RWF) uses a microwave dish as the primary access to the City network. The dish was installed June 2012 and is capable of connection speeds up to one (1) gigabit per second. The connection is subject to environmental interference, such as weather, resulting in frequent interruptions to network access.

The project scope includes (1) proving and cleaning two existing conduits, (2) installing two new conduits, (3) pulling approximately 3,500 feet of fiber optic cable through the conduits, and (4) connecting the City fiber optic network to the RWF fiber optic network. Existing conduits will be utilized to install most of the fiber optic cable, resulting in significant cost savings (see Figure 3). Installation of the new fiber optic cable will result in a faster, more reliable, and direct connection to the City network. Additionally, it will increase capacity for future needs. After completion of the project, the microwave dish will serve as the Facility's backup/failover network connection.

This project was advertised on BidSync on July 8, 2015 and two bids were received. All Phase Excavating and Construction Incorporated, of Redding, CA, submitted the low bid in the amount of \$240,000. The project is anticipated to be awarded by City Council on October 20, 2015.

Project Budget: \$568,000



Figure 2 — Fiber Optic Patch Panel at TPS Operations Building



Figure 3 — Project Site Overview

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Regional Wastewater Facility Treatment – Current Treatment Process Flow Diagram

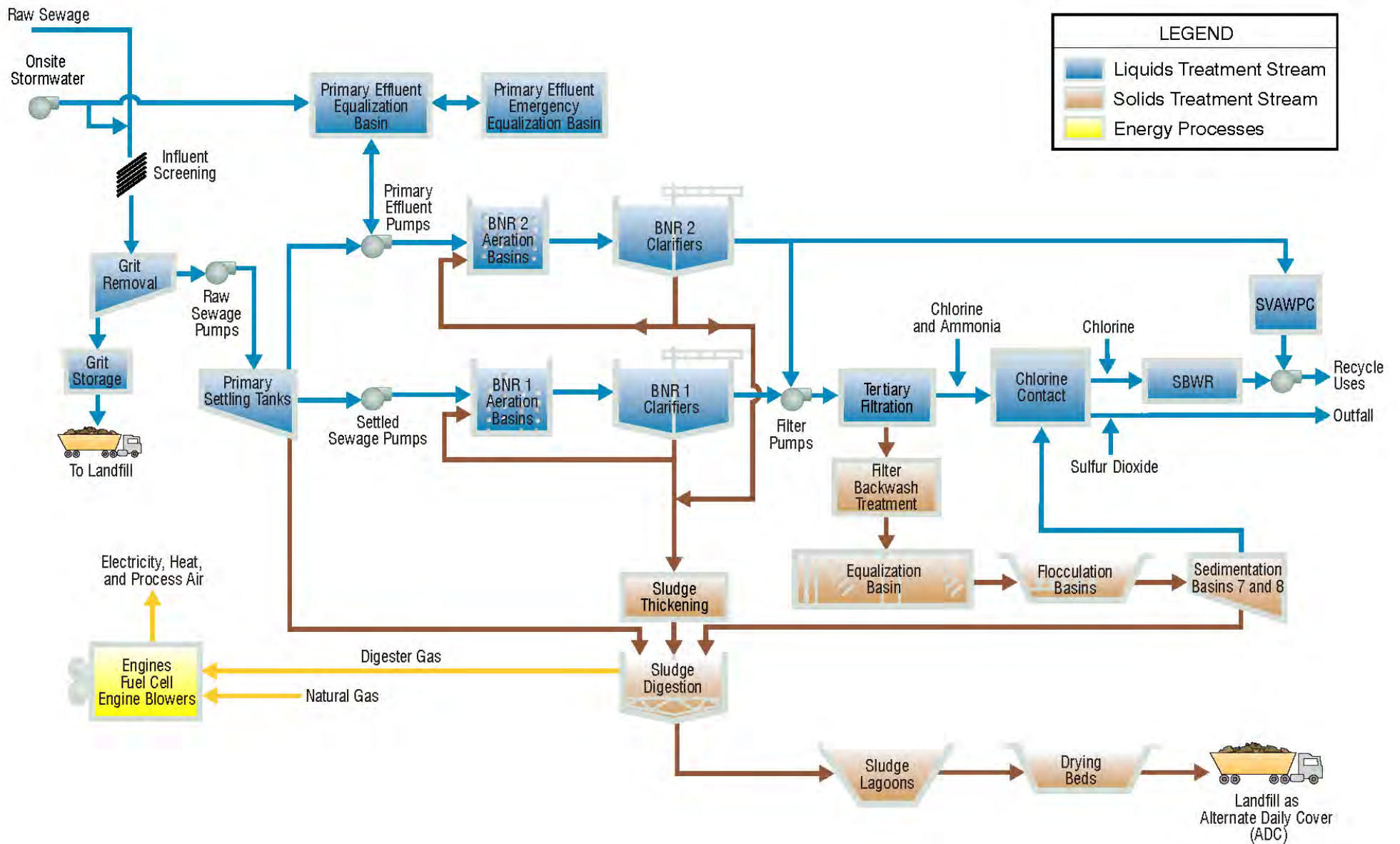


Figure 4 — Current Treatment Process Flow Diagram



Regional Wastewater Facility Treatment – Proposed Treatment Process Flow Diagram

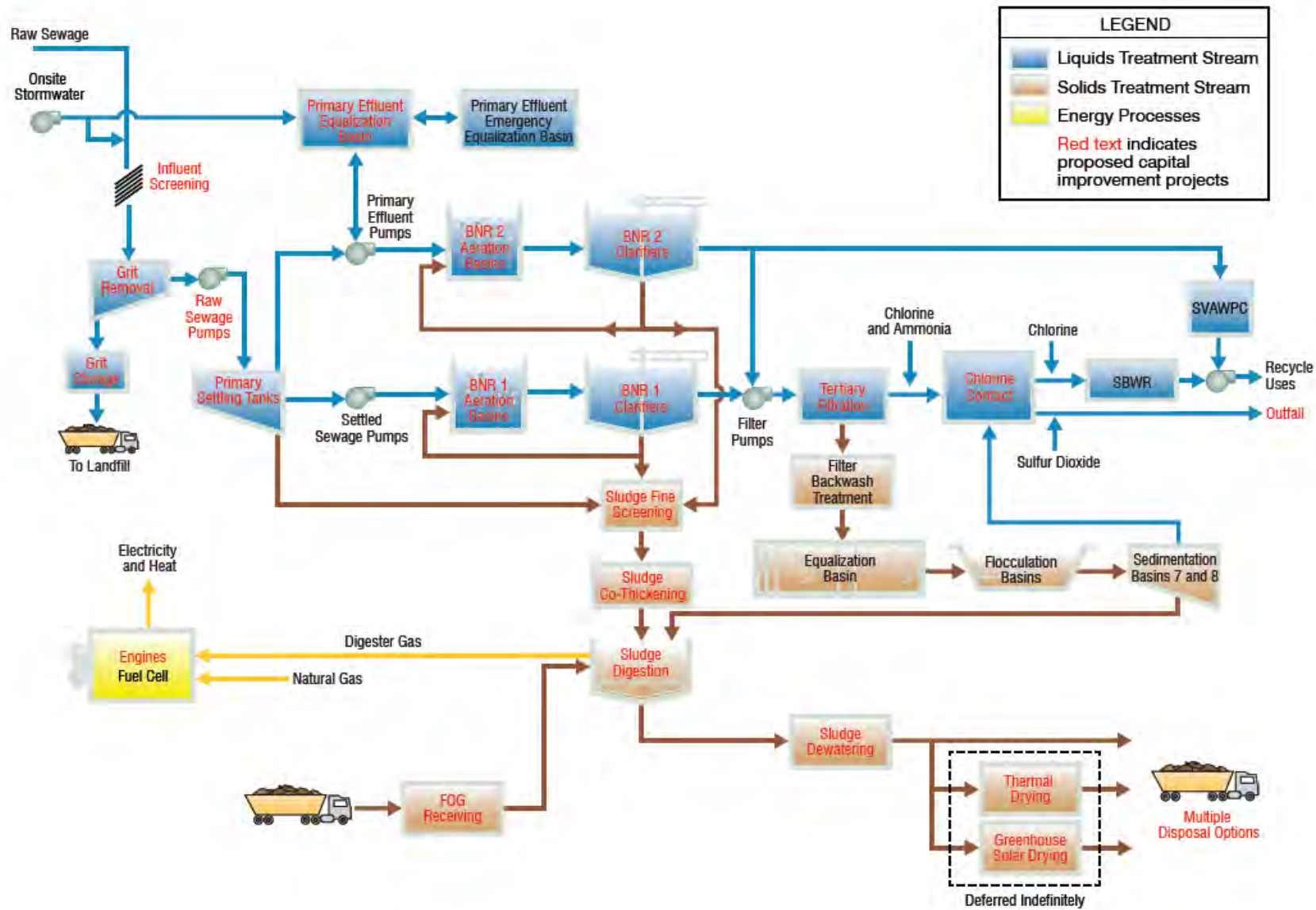


Figure 5 — Proposed Treatment Process Flow Diagram



Active Construction Projects – Aerial Plan

1. A5 A6 Nitrification Mag. Meter & Valve Replacement
2. Digester Gas Storage Replacement
3. Handrail Replacement Phase V
4. Digester Gas Compressor Upgrade
5. Emergency Diesel Generators

Projects (Not Shown)

- DCS Upgrade/Replacement (Facility-wide)
- Pond A18 Northern Gate Structure Repl. (Outside of map extent)



Figure 6—Active Construction Projects



T&E AGENDA: 09/14/15

ITEM: d.2

Memorandum

TO: TRANSPORTATION &
ENVIRONMENT COMMITTEE

FROM: Kerrie Romanow

SUBJECT: SEE BELOW

DATE: August 19, 2015

Approved

D. D. S. Y. L.

Date

8/27/15

SUBJECT: BURROWING OWL HABITAT IMPROVEMENTS AT THE SAN JOSÉ-SANTA CLARA REGIONAL WASTEWATER FACILITY

RECOMMENDATION

Accept this progress report highlighting ongoing habitat management activities for the Western Burrowing Owl on San José-Santa Clara Regional Wastewater Facility bufferlands.

OUTCOME

Provide an update to the Transportation and Environment (T&E) Committee on the progress of habitat management for the Western Burrowing Owl on San José-Santa Clara Regional Wastewater Facility bufferlands and increasing the owl population at the site.

BACKGROUND

The Western Burrowing Owl is listed as a Federal and State Species of Special Concern, with significant population decreases over the past several decades. The Western Burrowing Owl is a small owl, about 9" tall, and is typically migratory throughout much of its range, although many birds reside year round in California. Western Burrowing Owls are both diurnal and nocturnal and are most active at dawn and dusk. They do not hoot as do most other owl species and are the only species of owl worldwide that live and nest underground. Western Burrowing Owls will use other "burrows" such as pipes, crevices in rocks, or burrows dug by other animals.

Western Burrowing Owls have been documented to nest at the San José-Santa Clara Regional Wastewater Facility¹ (RWF) bufferlands for the past decade; however numbers had declined until the City initiated habitat improvements in 2012. City staff implemented activities based on the City's Bufferlands Interim Burrowing Owl Management Plan (Interim Plan) as temporary measures until certification of the Plant Master Plan (PMP) Environmental Impact Report (EIR). City Council certified the PMP EIR on November 19, 2013. As part of the PMP's goal to improve habitat and minimize impacts to the local and global environment, it designated 180 acres as burrowing owl habitat. Protection and maintenance of the owl habitat is provided under the terms of required mitigation measures in the Mitigation Monitoring and Reporting Program (MMRP). Council Policy 6-31 also supports the use of RWF bufferlands to provide direct benefit to habitats supporting United States Department of Fish and Wildlife and California Department of Fish and Wildlife Species of Special Concern. Improving the habitat quality at the bufferlands is expected to increase the number of nesting owls and promote reproductive success, two goals the City of San José would like to achieve on the bufferlands.

The City entered into a Grant Agreement with Santa Clara Valley Audubon Society (SCVAS) in March 2014 to provide services related to the upkeep, improvement, and promotion of the burrowing owl habitat. The Grant Agreement designates performance measures to be completed in support of the Western Burrowing Owl habitat. Currently, the Grant Agreement is under the second option to extend until June 30, 2016. Under the Grant Agreement, habitat improvement and maintenance activities consistent with the PMP and EIR follow the guidelines set forth in the Interim Plan and MMRP.

ANALYSIS

Current habitat improvement and management activities by Environmental Services Department staff, SCVAS and volunteers are based on the Interim Plan, developed by Western Burrowing Owl specialists Dr. Lynn Trulio and Phil Higgins, as well as the scope set forth in the Grant Agreement and measures outlined in the MMRP.

The Interim Plan's recommendations are designed to improve both foraging and nesting habitat for the owls as well as for California ground squirrels, a species the owls depend upon for quality habitat. Key factors for improving conditions for the owls have included, but are not limited to, the following:

1. Short grass habitat (less than 5 inches) directly around burrows used by birds for nesting and non-nesting purposes. This provides adequate visual range for the owls to spot predators and seek cover or escape. RWF staff actively manage the grass height.

¹ The legal, official name of the facility remains San Jose/Santa Clara Water Pollution Control Plant, but beginning in early 2013, the facility was approved to use a new common name, the San José-Santa Clara Regional Wastewater Facility.

August 19, 2015

Subject: Burrowing Owl Habitat Update

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2. Longer grass habitat in large open fields to provide a habitat for Western Burrowing Owl prey, especially large insects and small rodents. Woody debris piles have been placed at intervals through the habitat improvement area to foster the establishment of owl prey.
3. Conditions that support a healthy, large ground squirrel population. Primarily, soil conditions need to allow burrowing mammals to burrow. The sheep and goats no longer graze on the bufferlands because they caused too much soil compaction. This allowed the ground squirrel population to rebound and dig more burrows. Over the past two years, thousands of cubic yards of clean soil were imported onto the site in a 3-4 foot layer suitable for ground squirrels to burrow. The soil mounds throughout the site, approximately 3 feet high are also attractive burrowing sites because of the vantage point provided. Additionally, "move-in ready" artificial burrows were installed in many of these soil mounds.
4. Conditions that discourage predators, including little to no vegetative cover near burrows, the absence of trees or other tall perches for large birds of prey, and the absence of cat colonies.
5. Low levels of human activity near burrows. The RWF bufferlands are ideal in this sense, since they are gated with no public access.

In fulfillment of the Grant Agreement, SCVAS has continued vegetation maintenance around burrows, installed and maintained perches, installed motion sensing cameras, conducted three site surveys and submitted corresponding survey reports. SCVAS has provided the City with completed survey forms, photographs, and forms requested by the Santa Clara Habitat Agency.

Surveys conducted in July 2015 during the breeding season identified 20 adults and 46 chicks. Subsequent surveys in June identified 29 owls with 31 chicks observed since breeding season began this spring. Breeding season surveys in 2014 and 2013 identified 13 adults owls with 27 (2014) and 12 (2013) chicks respectively. In 2012, 8 adults and 3 chicks were observed in limited observations. The 2015 population numbers are a significant improvement due to habitat enhancement efforts. Previous owl sightings over the last 10 years were rare and sporadic with no more than four owls generally seen during unofficial surveys.

The increase in the burrowing owl population observed this year and over the past several years is significantly higher than any other site in Santa Clara County. The burrowing owl population at this site is experiencing significant growth while all other County sites are declining. The overall trend for all sites in Santa Clara County show a continued decline in species abundance which could lead to the owl becoming locally extinct. This project is proving that a coordinated effort and good science can reverse the trends if some of our actions are applied to other sites.

The MMRP requires that Western Burrowing Owl habitat maintenance and improvement activities reduce impacts to Congdon's tarplant. In adherence to this mitigation measure, surveys for tarplant are conducted prior to any activity and areas containing tarplant are avoided.

A Congdon's tarplant survey conducted in July 2015 indicated there was a significant increase in the number of tarplants this year due to the ongoing management of the bufferlands. Data indicates the population of tarplants have increased and expanded its range significantly across

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the site. In 2014 approximately 6,159 plants were counted. This year the numbers have increased to more than 15,698,

EVALUATION AND FOLLOW UP

During the current fiscal year, staff will be exploring the long-term enrollment of the burrowing owl habitat lands with the Santa Clara Valley Habitat Agency (SCVHA). The SCVHA would then be responsible for the ongoing management of the habitat.

Staff will return to the T&E Committee in September 2016 to present information on the 2016 Western Burrowing Owl breeding season in the RWF bufferlands and the effect of the habitat improvements.

PUBLIC OUTREACH/INTEREST

This memorandum will be posted on the City's website for the September 14, 2015 T&E Agenda.

COORDINATION

This report has been coordinated with the City Attorney's Office and the Department of Planning, Building and Code Enforcement (PBCE). PBCE prepares quarterly memos to T&E to report on Mitigation Monitoring and Reporting Requirements for individual projects, including for burrowing owl mitigation parcels that are required as a condition of approval of development permits. This item will be heard at the September 10, 2015 Treatment Plan Advisory Committee (TPAC) meeting.

CEQA

File No.PP11-043, Environmental Impact Report for the San José/Santa Clara Water Pollution Control Plant Master Plan.

/s/

KERRIE ROMANOW

Director, Environmental Services

For questions, please contact René Eyerly, Sustainability and Compliance Manager, at (408) 975-2594.



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Julia H. Cooper

SUBJECT: SEE BELOW

DATE: August 31, 2015

Approved

D. D. S. L.

Date

9/2/15

SUBJECT: APPROVAL OF CITYWIDE INSURANCE RENEWALS

RECOMMENDATION

Adopt a resolution authorizing the City Manager or Director of Finance to:

- (a) Select and purchase certain City property and liability insurance policies for the period October 1, 2015 to October 1, 2016 at a total cost not to exceed \$1,700,000, with the following insurance carriers:
 - (1) American Home Assurance Company for Property & Casualty Insurance, including Boiler & Machinery.
 - (2) Old Republic Aerospace, Phoenix Aviation Managers, for Airport Owners and Operators Liability including War Risks & Extended Perils Coverage (Primary and Excess) and Police Aircraft Hull & Liability including War Risks & Extended Perils.
 - (3) The Travelers Indemnity Company of CT for Automobile Liability, or other insurance carriers that the City are currently in negotiations with, (Airport fleet vehicles including Shuttle Buses, Regional Wastewater Facility fleet vehicles, and Airport Shuttle Bus physical damage).
 - (4) Indian Harbor Insurance Company for Secondary Employment Law Enforcement Professional Liability.
- (b) Select and purchase Government Fidelity/Crime Coverage for the period December 18, 2015 to December 18, 2016, at a cost not to exceed \$26,000.

OUTCOME

Approval of these insurance policies will ensure the City maintains appropriate insurance coverage to provide financial protection from certain types of catastrophic loss.

EXECUTIVE SUMMARY

The recommended insurance policies will provide coverage to protect the City from loss or claims due to specified catastrophic events. Annually, the Finance Department, on behalf of the City, analyzes the City's insurance coverage with the City's Insurance Broker, Arthur J. Gallagher Insurance Services ("Gallagher"). In addition, this year the City purchased Government Fidelity/Crime Coverage for the period of December 18, 2014 to December 18, 2015:

Gallagher receives competitive quotes from the insurance market and presents the results to the City Administration for consideration. After reviewing the City's financial standing, the scope and cost of coverage, as well as the insurer's financial strength to pay claims and provide additional resources, the Finance Department determines the appropriate insurance coverage and recommends the most advantageous insurance policies. All policies are for a one-year term, although some have a guaranteed rate renewal term for up to three years.

BACKGROUND

Every year, the City of San José ("City") purchases insurance to protect the City against a catastrophic event or specified loss perils, when the frequency of events cannot be predicted, the severity of potential loss could seriously hamper operations, and the cost of the insurance policy is not prohibitive.

To secure policies through "best practices," the City utilizes its insurance broker to review and analyze the insurance market, regional claims' history and exposures, the City's insurance needs, and the City's historical approach to insuring for potential losses.

Unless otherwise noted, the insurance policies addressed in this Memorandum have a renewal date of October 1, 2015. The annual premiums are subject to change during the term due to changes to the City's insured property or assets.

This year, the City is recommending two additional insurance products: (1) a Government Crime Policy to meet the requirement of bonded employees as set forth in City Charter Section 905 and with policy term dates from December 18, 2015 to December 18, 2016 and (2) Terrorism Risk Insurance Act coverage on the All Risks Property & Casualty coverage as it is no longer a cost prohibitive product.

In addition, staff reviewed and considered Excess Liability Insurance, Earthquake Insurance, and Excess Workers' Compensation Insurance including a workers' compensation cash flow only policy for catastrophic loss. The City does not recommend any of these additional coverages due to the products being cost prohibitive.

ANALYSIS

Annually, the Finance Department reviews the City's risk exposures with the City's insurance broker, Gallagher, and measures those exposures, recent City claims, insurance market trends, product availability, and the City's historical approach to insuring for losses. In May 2013, Gallagher was awarded a two year contract, with three one year renewals, through a competitive Request for Proposal process. Gallagher's responsibilities include working with staff to analyze the City's exposures and presenting the City's risk portfolio to insurance carriers to obtain best value for insurance coverage.

Gallagher solicits major insurance companies to provide quotes for the insurance policies described below. The quotes were compared and evaluated with respect to scope of coverage, cost, the insurer's financial strength and reputation on paying claims, and the insurer's availability of resources to provide industry-related services such as property evaluations, safety training, risk related engineering services, and loss control.

Appendix A reflects the best value coverage, renewal premiums and insurance carriers presented for fiscal year 2015-2016 for all renewal policies. The quoted renewal premiums may change with the addition or deletion of insurable property prior to binding coverage or during the policy term.

Appendix B provides a comparison of insurance premiums by fund and type of insurance. This comparison shows that the aggregate cost of insurance is 8.04% less than last year.

A. Insurance Coverage Recommended

1. All Risk Property & Casualty including Boiler & Machinery Property Insurance

Provides coverage for City owned and leased real and personal property (including buildings, contents, business interruption, boiler and machinery, electronic data processing equipment and media, fine arts, loss of rents, expediting expenses, off premises services interruption, unnamed locations, transit, tunnels/bridges/roadways, animals, accounts receivable, valuable papers, data, rebuild with green upgrades, and other coverage as detailed in the policy forms subject to sub-limits as defined in the policy). This includes property previously owned by the Redevelopment Agency of the City of San José, which as a result of the dissolution of the Redevelopment Agency on February 1, 2012, is now owned by the Successor Agency to the Redevelopment Agency.

The property insurance limit is \$1 billion each occurrence with a \$100,000 deductible per occurrence. The City inquired whether there would be cost savings with a higher deductible of \$250,000 per occurrence and did not receive a reduced rate on the cost per dollar of total replacement value. The City successfully negotiated inclusion of risk engineering services. This provides insurer services to review plans and physical property sites to make non-mandatory recommendations for improvements to mitigate against property loss or damage in the future, at no additional cost during this fiscal year.

at an estimated value of \$50,000 based off of last year's quotes. The annual rate for the October 1, 2015 renewal is .032 per \$100 of insured value.

The property insurance premium and total program costs decrease by 6.32%,¹ even though the property schedule's total replacement value increase by 1%. This decrease is the result of a competitive industry wide market and the further negotiation of favorable rates. The property schedule was evaluated and updated as to the estimated total replacement value of contents, business interruption and real property value.

Insurance Carrier: American Home Assurance Company

Total Annual Premium: \$1,111,812²

2. Airport Owners and Operators Liability including War Risks & Extended Perils Coverage

Provides coverage for those amounts that the City becomes legally obligated to pay as damages because of bodily injury, property damage and personal injury resulting from airport operations. Additionally, the program provides coverage for bodily injury or property damage caused by war and other perils.

The airport liability insurance premium decreased by 46.82% as the result of aggressive product marketing, competitive industry market, and a favorable loss history. The City received a guaranteed rate for 3 years.

Insurance Carrier: Old Republic Aerospace, Phoenix Aviation Managers

Total Annual Premium: \$41,800

3. Secondary Employment Law Enforcement Professional Liability

Provides coverage for an actual or alleged error or omission, negligent act, neglect or breach of duty, which results in bodily injury, property damage, or personal injury by City police officers who have been approved to participate in the Secondary Employment program by the City's Secondary Employment Unit (SEU) while conducting law enforcement activities on behalf of an approved third party secondary employer.

The rate per officer enrolled remained the same rate of \$155 per officer. Participating officers all contribute \$110 per year to obtain coverage. The total cost increased because of additional participants in the Program.

Insurance Carrier: Indian Harbor Insurance Company

Total Annual Premium: \$118,211 (Gross)

¹ The 6.32% decrease in value includes all recommended coverage for the policy, including adding Terrorism Risk Insurance Act coverage for an additional premium of \$19,625, as described later in this memorandum.

² This includes an estimated premium of \$8,647 that will be directly invoiced to the City as Successor Agency.

4. Automobile Liability for Airport Fleet & Shuttle Bus Fleet Physical Damage

Automobile Liability provides coverage for bodily injury, property damage, and personal injury for claims arising out of the operation at the Airport. Airport Shuttle Bus Physical Damage coverage provides comprehensive physical damage (i.e. fire, theft, vandalism, malicious mischief) and collision damage subject to a \$25,000 deductible.

Total costs increased by 1% for total replacement value due to the carrier's increase in its rates.

Insurance Carrier: The Travelers Indemnity Company of CT
Total Annual Premium: \$58,617

5. Automobile Liability for Water Pollution Control Plant Fleet

Automobile Liability provides coverage for bodily injury, property damage and personal injury for claims arising out of the operation at the Treatment Plant.

Total costs decreased by 1.87% because of the lower total replacement value of scheduled autos.

Insurance Carrier: The Travelers Indemnity Company of CT
Total Annual Premium: \$27,686

6. Police Aircraft Hull and Liability including War Risks & Extended Perils Coverage

Provides coverage for those amounts that the City becomes legally obligated to pay as damages because of bodily injury (including passengers), property damage and hull coverage for the Cessna 182 and American Eurocopter EC 120B. Additionally, this program provides coverage for bodily injury or property damage caused by war and other perils resulting from aviation operations. Two aircraft are on the schedule, N408DC and N2705 with current hull values of \$1,750,000 and \$275,000 respectively and limit of liability of \$50,000,000.

The police aircraft hull and liability insurance premium decreased by 44.40% as the result of aggressive product marketing and favorable loss history. The City received a guaranteed rate for three years.

Unmanned aerial vehicle (UAV or "drone") insurance is not included in this recommendation because the aircraft shall not be used prior to FAA approval which is not anticipated until Fiscal Year 2016/2017. Annual estimated cost for this additional coverage is \$4000 with a \$50,000,000 per occurrence limit.

Insurance Carrier: Old Republic Aerospace, Phoenix Aviation Managers
Total Annual Premium: \$17,998

7. Government Crime Policy

Provides coverage for City losses arising from employee theft, forgery or alteration, robbery or safe burglary, computer fraud, funds transfer fraud, or money orders and counterfeit money fraud. A Government Crime policy was procured in December of 2014 with the Hanover Insurance Group consistent with Section 905 of the City Charter which requires a bond for all officers and employees having custody or control of public funds. A Government Crime policy affords equal or greater scope of coverage than a bond. It also does not require continuous removal and addition of employees as would be required by a bond. As this policy is on a different renewal cycle, the City will enter into the market to renew coverage in October 2015 with the selected carrier to be bound on or before December 18, 2015 for an amount not to exceed \$26,000.

Insurance Carrier: TBD (current policy term with Hanover Insurance Company 12/18/14-12/18/15).

Annual Estimated Premium: Not to exceed \$26,000

8. Terrorism Risk Insurance Act of 2002 (TRIA)

Provides an insurance mechanism (shared by private carrier and federal government) for losses arising from acts of terrorism as certified by the Secretary of Treasury and defined by the Terrorism Risk Insurance Act (TRIA). Coverage is currently provided through a temporary Federal program for 85% of total aggregate loss up to \$100 billion in aggregate losses. Total damages suffered by all insureds from an "Act of Terrorism" as defined by TRIA must be at least \$5,000,000. If the \$5,000,000 threshold is met and the loss is certified by the Department of Treasury as an Act of Terrorism, coverage applies subject to specific policy terms and conditions.

The cost of purchasing TRIA coverage is summarized below:

<u>Insurance Policy Type</u>	<u>Additional Premium</u>
All Risk and Boiler & Machinery Property Insurance	\$19,625
Airport Owners and Operators Liability	\$3,800
Police Aircraft Hull & Liability (included)	<u>0</u>
Total estimated TRIA Premium	\$23,425

In previous years, the City has not purchased TRIA coverage because premiums were in excess of \$70,000. However, due to potential loss exposures and minimal cost of coverage for the Property and Casualty Policy as well as the Airport Liability Policy, the Finance Department and Gallagher recommend that TRIA coverage be added to this year's schedule.

B. Insurance Coverage Not Recommended

The insurance coverages described below were reviewed and analyzed by staff and were determined to be cost prohibitive. Staff, in consultation with Gallagher, will continue to review the market on a periodic basis and make the appropriate recommendations to Council should circumstances change.

I. Excess Workers' Compensation

Provides workers' compensation claims coverage for work related injuries that are above a defined dollar threshold. In 2012, Risk Management Staff worked with the insurance broker (Alliant) of the California State Association of Counties Excess Insurance Authority (CSAC-EIA), a large statewide joint powers authority of California public entities, including cities, to evaluate the cost of excess workers' compensation insurance.

For a limit of \$5,000,000 in employer's liability and statutory for workers' compensation, the evaluation resulted in the following insurance premium estimates based on four different self-insurance retention levels as shown in the table below.

<u>Self-Insured Retention/Deductible per Occurrence</u>	<u>Annual Premium</u>
\$5 million	\$416,906
\$3 million	\$768,000
\$2 million	\$1,002,000

Estimated costs of coverage for Fiscal Year 2015-2016 have increased and the City was notified in its 2015-2016 renewal process that coverage would no longer be quoted with a self-insured retention or deductible below \$2,000,000 dollars and that premium for a policy with a self-insured retention/deductible of \$5,000,000 would likely exceed \$500,000. In lieu of a traditional excess workers' compensation policy, this year the City also explored a Cash Flow product to fund losses arising from workers' compensation claims in the event of mass casualty. The coverage is not recommended because the policy terms were limited in scope compared to the cost of the product.

The City has not experienced a single workers' compensation claim costing over \$2,000,000 in the last 20 years. In light of the City's claim cost history, high frequency of claims, and the high self-insured retentions and annual premiums, purchase of excess workers' compensation insurance is not cost effective.

2. Excess Liability

Provides excess liability insurance for third-party claims alleging bodily injury, property damage, and personal injury arising from City premises, operations and vehicles above a defined dollar threshold.

The City has historically been self-insured for its exposures to third-party liability claims, with the exception of the Airport Owners and Operators Liability Insurance program. In 2014, the City sought competitive quotes for excess insurance for varying Self-Insured Retentions and Limits. The following is a brief summary of available coverage for best option at each level that were available then:

<u>Self-Insured Retention/ Deductible per Occurrence</u>	<u>Annual Premium</u>	<u>Limit Per Occurrence/ Aggregate</u>	<u>10 Year Total Premiums Paid by City</u>
\$5,000,000	\$1,289,690	\$50,000,000	\$12,896,690
\$3,000,000	\$1,692,537	\$50,000,000	\$16,925,370
\$5,000,000	\$1,114,690	\$25,000,000	\$11,146,900
\$3,000,000	\$1,442,537	\$25,000,000	\$14,425,370
\$2,000,000	NA	NA	NA

For the ten past ten fiscal years, as was the case at the time of the policy application, the City has paid approximately \$2,500,000 per year for costs associated with liability claims. Please note that the data does not include claims the City has filed against third parties, grievances, appeals to City filed cases, regulatory matters, environmental liability claims, employment matters, professional liability matters, or contract disputes as those matters would not have coverage through an excess policy.

The largest compensable claim that an excess insurance policy would have covered was for \$4,960,000. With a self-insured retention of \$3,000,000, the lowest retention offered by any carrier, this would have been the only claim compensable under an excess liability policy and coverage would have been for \$1,600,000 of the total loss. Of claims filed, only 11 were in excess of \$250,000. Overall, the City has been successful in mitigating costs associated with claims in comparison with other public entities in California.

Statewide areas of loss for public entities appear to mirror the City's exposures, i.e. roadway defects, police services, recreational services geared towards youth populations, and automobile accidents. The largest reported loss against a public entity (City of Dana Point) was a settlement for \$50,000,000 and was the direct result of a settlement for a roadway defect resulting in catastrophic injury to two people.

Considering the City’s history, geographic location, current trending as well as the breakdown of the City’s cost per claim, Risk Management recommends that the City continue to be self-insured and not purchase excess liability coverage. The Self Insured Retention would eliminate coverage for the most likely events and coverage would be capped for catastrophic events. In evaluating whether to include the program, the City has looked at the long term costs of maintaining the insurance and City reserves for claims. Regional trending has not suggested that the exposure in this geographic area is outweighed by the ten years of paid premiums which, at the most economical option, would have been a minimum \$11,146,900 with a \$5,000,000 deductible and \$25,000,000 limit.

In the event the City experiences a catastrophic loss, options exist for payment of claim(s) which include the issuance of judgment bonds (no greater than 40-year term), as well as court-ordered installment payments (no greater than 10-year period). It should be noted that these options require either a successful validation action (for the first option) or court approval (for the second option).

3. Earthquake

Provides coverage for damage caused by earthquake or volcanic action. The coverage is limited to direct damage caused by an earthquake. Coverage for sprinkler damage resulting from an earthquake is provided by the All Risk Property & Casualty.

In previous years, the City has inquired into the total cost of earthquake insurance for the entire property schedule and the City found coverage to be cost prohibitive. During last year’s marketing efforts, the City verified that the cost for \$5,000,000 in coverage was in excess of \$500,000 annually. The City reviewed and revised its approach and requested quotes for a sampling of properties with a total replacement value of \$321,771,756.

The following is the best value cost proposal for those properties:

<u>Self-Insured Retention/ Deductible per Occurrence</u>	<u>Annual Premium</u>	<u>Limit Per Occurrence/ Aggregate</u>	<u>10 Year Total Premiums Paid by City</u>
\$100,000 or 5% of total loss	\$366,750	\$25,000,000	\$3,667,500
\$100,000 or 5% of total loss	\$178,891	\$10,000,000	\$1,788,910

The insurance markets that underwrite catastrophic coverage (flood, wind, and earthquake) have reduced available capacity along with increasing insurance rates. This pricing level, the

minimum deductible of 5% of the values at risk, and the relatively low limits of coverage available, make it uneconomical to purchase coverage citywide.

EVALUATION AND FOLLOW-UP

The City Council will be informed as to the status of these policies as part of the annual renewal process each September.

PUBLIC OUTREACH

This item will be posted to the City's website for the September 22, 2015 Council Agenda.

COORDINATION

This memo has been coordinated with the Airport, Transportation, Police, Housing, and Environmental Services Departments, as well as the City Manager's Budget Office and the City Attorney's Office. This memo has also been reviewed by Successor Agency to the Redevelopment Agency (SARA).

This item will be scheduled for approval by the Treatment Plant Advisory Committee (TPAC) on September 10, 2015.

COST SUMMARY/IMPLICATIONS

The funding associated with the recommendations in this memo was appropriated as part of the 2015-2016 Operating Budget, approved by the City Council on June 23, 2015.

BUDGET REFERENCE

The insurance policies are funded by appropriations in the 2015-2016 Operating Budget, approved by the City Council on June 23, 2015.

In addition to the appropriations listed on page 11, costs associated with insuring the remaining Successor Agency assets are estimated to be \$8,647 in 2015-2016. The anticipated payment of these costs associated with asset management for the Successor Agency is reflected on line 85 of the Recognized Obligation Payment Schedule (ROPS) as an enforceable obligation to maintain and protect the assets of the Successor Agency allowed under the dissolution law. As a result of the known insufficiency in redevelopment property tax increment to meet all obligations in Fiscal Year 2015-2016, the Successor Agency anticipates relying on the City's General Fund support to provide funding for this obligation as part of the Reimbursement Agreement which

provide a mechanism for reimbursement to the City of all financial support (beginning July 1, 2012) once sufficient funds are available to pay for the Successor Agency's enforceable obligations.

The table below identifies the fund and appropriations recommended to fund the insurance premiums identified.

Fund #	Appn #	Appn. Name	Total Appn.	Recommended Budget Action	Amount for Premium*	2015-2016 Proposed Budget Page**	Last Budget Action (Date, Ord. No.)
001	2001	Insurance Premiums	\$600,000	N/A	\$532,650	IX-23	6/23/2015, Ord. No. 29589
001	2864	Police Officers' Professional Liability Insurance	\$130,000	N/A	\$118,211	IX-19	6/23/2015, Ord. No. 29589
001	0502	Non-Personal (Police Department)	\$27,340,972	N/A	\$17,998	VIII-251	6/23/2015, Ord. No. 29589
523	0802	Non-Personal (Airport Department)	\$32,629,794	N/A	\$425,910	XI-3	6/23/2015, Ord. No. 29589
536	3405	Insurance Expenses	\$245,000	N/A	\$218,841	XI-25	6/23/2015 No. 29589
533	0512	Non-Personal (Department of Transportation)	\$5,835,922	N/A	\$51,248	XI-40	6/23/2015, Ord. No. 29589
513	0762	Non-Personal (Environmental Services Department)	\$31,662,570	N/A	\$123,181	XI-79	6/23/2015, Ord. No. 29589
515	0762	Non-Personal (Environmental Services Department)	\$31,284,745	N/A	\$5,608	XI-92	6/23/2015, Ord. No. 29589
423	0762	Non-Personal (Environmental Services Department)	\$2,437,975	N/A	\$4,780	XI-49	6/23/2015, Ord. No. 29589
346	0562	Non-Personal (Housing Department)	\$1,246,734	N/A	\$1,975	XI-52	6/23/2015, Ord. No. 29589
Totals			\$133,413,712		\$ 1,500,402		

* The amount for premium is subject to change up until the beginning date of the new insurance policy. Therefore, current estimates are lower than the recommended contract amount not to exceed \$1.7 million. SARA is billed separately for its share of broker fees and premium costs.

** The 2015-2016 Operating Budget was approved by City Council on June 23, 2015.

HONORABLE MAYOR AND CITY COUNCIL
August 31, 2015
Subject: Approval of Citywide Insurance Renewals
Page 12

CEQA

Not a Project, File No. PP 10-066 (a) Agreements and Contracts for purchase of insurance.

/s/
JULIA H. COOPER
Director of Finance

If you have questions, please contact Stephanie Williams, Risk Manager, at (408) 975-1438.

Appendix A
Appendix B

APPENDIX A

1. ALL RISK AND BOILER & MACHINERY PROPERTY INSURANCE

	CURRENT PROGRAM 10/01/2014-10/1/2015	RENEWAL PROGRAM 10/01/2015-10/01/2016
Carrier	Lexington Insurance Company Boston, MA	American Home Assurance Company New York, New York
Total Insurable Values	\$3,654,371,469	\$3,692,182,567
Limit of Liability	\$1,000,000,000 subject to a \$100,000 Deductible Per Occurrence	\$1,000,000,000 subject to a \$100,000 Deductible Per Occurrence
Boiler & Machinery	Included	Included
Earthquake	Excluded. Relatively low limits available, 5% deductible, high premium-not recommended.	Excluded. Relatively low limits available (25,000,000 per occurrence), 5% deductible, high premium-not recommended.
Flood	\$100,000,000 but not to exceed \$25,000,000 in Zone B and \$15,000,000 in Zone A. Locations Specified in the insurance policy on file in Risk Management	\$100,000,000 but not to exceed \$25,000,000 in Zone B and \$15,000,000 in Zone A. Locations Specified in the insurance policy on file in Risk Management
Other Sub-limits	Other sub-limits as outlined in the insurance policy on file in Risk Management	Other sub-limits as outlined in the insurance policy on file in Risk Management
Terrorism and Non Certified Act of Terrorism	Excluded	\$19,625
Average Rate per \$100 of Values	.0323 per \$100.00 of Insured Value	.032 per \$100.00 of Insured Value
Annual Premium for City	\$1,180,262 Annual Premium \$ TRIA \$ 37,769 Surplus lines Tax and Fees (3.20%) \$ 79,000 AJG Broker Fee ³ \$1,297,031 Total Annual	\$ 1,111,812 Annual Premium ⁴ \$ 19,625 Optional TRIA \$ 0 Surplus lines Tax and Fees (3.20%) ⁵ \$ 83,500 AJG Broker Fee ⁶ \$1,214,937 Total Annual
Engineering Services	\$50,000 (in addition to premium costs)	Included in coverage
Multiyear	Available-quoted 2 year rate	Available-quoted 3 year rate

³ The broker's fee is listed as a separate line item, and not included with the premium as requested by the broker. In years prior to 2012/2013, premium included commission.

⁴ This includes an estimated premium of \$8,647 that will be directly invoiced to the City as Successor Agency.

⁵ The City account moved from AIG subsidiary Lexington Insurance Company to AIG subsidiary American Home Assurance Company due to the account size and because State Management American Home Assurance Company is an admitted carrier in the State of California.

⁶ The broker's fee is listed as a separate line item, and not included with the premium as requested by the broker. In years prior to 2012/2013, premium included commission.

2. AIRPORT OWNERS AND OPERATORS LIABILITY

	CURRENT PROGRAM 10/01/2014-10/01/2015	RENEWAL PROGRAM 10/01/2015-10/01/2016
Carrier	QBE Insurance Corporation New York, New York	Old Republic Aerospace (Phoenix Aviation Managers) Kenesaw, Georgia
Coverage and Deductible	Airport Liability - \$200,000,000 each occurrence combined single limit for bodily injury and property damage with a \$50,000,000 each occurrence limit for personal injury, war risk liability at \$150,000,000 each occurrence and in the annual aggregate and \$50,000,000 Excess Automobile and Excess Employers Liability. Deductible: \$0 each occurrence 2-Year Price Guarantee (see endorsement)	Airport Liability - \$200,000,000 each occurrence combined single limit for bodily injury and property damage with a \$50,000,000 each occurrence limit for personal injury, war risk liability at \$150,000,000 each occurrence and in the annual aggregate and \$50,000,000 Excess Automobile and Excess Employers Liability. Deductible: \$0 each occurrence 2-Year Price Guarantee (see endorsement)
Annual Premium	\$85,749	\$38,000
Current War Risk & Extended-Perils, Terrorism (recommended for purchase)	\$0	\$3,800
Total (Including Taxes/Fees)	\$85,749 (Net)	\$45,600 (Net) ⁷
Optional TRIA premium (recommended for purchase)	Included at No Cost	\$3,800

⁷ Net cost does not include commission; whereas, gross cost includes commission. City is obligated for amounts designated as "net," where indicated, as Gallagher waives its proportionate share of fees per the terms and conditions of the City's brokerage agreement with Gallagher.

3. SECONDARY EMPLOYMENT LAW ENFORCEMENT PROFESSIONAL LIABILITY

	CURRENT PROGRAM 10/01/2014-10/01/2015	RENEWAL PROGRAM 10/01/2015-10/01/2016
Carrier	Indian Harbor Insurance Company Stamford, CT	Indian Harbor Insurance Company Stamford, CT
Limits of Insurance and Deductibles	\$2,000,000 Each Occurrence \$2,000,000 Annual Aggregate Subject to a \$100,000 Deductible including Loss Adjustment Expense (LAE) ⁸	\$2,000,000 Each Occurrence \$2,000,000 Annual Aggregate Subject to a \$100,000 Deductible including Loss Adjustment Expense (LAE) ⁹
Average Rate per Officer	\$155 (733 officers at policy inception)	\$155 (739 officers at policy inception)
Annual Premium	\$113,615 (Net)	\$114,545 (Net)
Surplus Lines Taxes and Fees	\$3,636	\$3,666
Fees (if any)	None	None
Total (Including Taxes/Fees)	\$117,251	\$118,211

4. AUTOMOBILE LIABILITY FOR THE AIRPORT FLEET & AIRPORT SHUTTLE BUS FLEET PHYSICAL DAMAGE

	CURRENT PROGRAM 10/01/2014-10/01/2015	RENEWAL PROGRAM 10/01/2015-10/01/2016
Carrier	St. Paul/Travelers Hartford, CT	St. Paul/Travelers Hartford, CT
Coverage and Deductibles	Auto Liability-Fleet Only \$1,000,000 Combined Single Limit (Any Auto) \$1,000,000 UM/UIM (Owned Autos) Physical Damage-Buses Only Per Schedule Subject to \$10,000 Comp/\$25,000 Coll. Deductible \$500 Comp/Coll. Deductible for Hired Physical Damage	Auto Liability-Fleet Only \$1,000,000 Combined Single Limit (Any Auto) \$1,000,000 UM/UIM (Owned Autos) Physical Damage-Buses Only Per Schedule Subject to \$10,000 Comp/\$25,000 Coll. Deductible \$500 Comp/Coll. Deductible for Hired Physical Damage
Exposure	Number of Vehicles 88	Number of Vehicles 88
Average Rate Per Unit	\$649.73	\$666.10
Annual Premium	\$57,176 (Net)	\$58,617 (Net)

⁸ LAE includes staffing and legal costs for processing claims.

⁹ LAE includes staffing and legal costs for processing claims.

5. AUTOMOBILE LIABILITY-WATER POLLUTION CONTROL PLANT FLEET

	CURRENT PROGRAM 10/01/2014-10/01/2015	RENEWAL PROGRAM 10/01/2015-10/01/2016
Carrier	St. Paul Travelers Hartford, CT	St. Paul/Travelers Hartford, CT
Coverage	\$1,000,000 Combined Single Limit (Any Auto) \$1,000,000 UM/UIM (Owned Autos) \$5,000 Medical Payments (Any Auto) \$3,500 Property Damage UM	\$1,000,000 Combined Single Limit (Any Auto) \$1,000,000 UM/UIM (Owned Autos) \$5,000 Medical Payments (Any Auto) \$3,500 Property Damage UM
Exposure	Number of Units 45	Number of Units 42
Average Rate Per Unit	\$694.71	\$640.78
Total (Including Taxes/Fees)	\$31,262 (Net)	\$27,686 (Net)

6. POLICE AIRCRAFT HULL AND LIABILITY

	CURRENT PROGRAM 10/01/2014-10/01/2015	RENEWAL PROGRAM 10/01/2015-10/01/2016
Carrier	QBE Insurance Corporation 88 Pine Street, New York, New York	Old Republic Aerospace, Phoenix Aviation Managers
Coverage	Aircraft Hull and Liability- \$50,000,000 each occurrence for liability. Hull coverage: Cessna \$275,000 Eurocopter \$1,750,000 Deductible: Liability - NIL <ul style="list-style-type: none"> • Hull/Cessna-\$500 per occurrence (in-motion) • Hull/Cessa-\$100 per occurrence (not in-motion) • Hull/Eurocopter-\$25,000 per occurrence (rotors in-motion) • Hull/Eurocopter-\$500 per occurrence (rotors not in- motion) 	Aircraft Hull and Liability- \$50,000,000 each occurrence for liability. Hull coverage: Cessna \$275,000 Eurocopter \$1,750,000 Deductible: Liability - NIL <ul style="list-style-type: none"> • Hull/Cessna-\$500 per occurrence (in-motion) • Hull/Cessa-\$100 per occurrence (not in-motion) • Hull/Eurocopter-\$25,000 per occurrence (rotors in-motion) Hull/Eurocopter-\$500 per occurrence (rotors not in-motion)
Annual Premium	\$31,307	\$17,998
Surplus Lines Taxes and Fees	NA	NA
War Liability & Hull--both aircraft	\$1,064	Included
Total (Including Taxes/Fees)	\$32,371	\$17,998
TRIA (if purchased with War)	Included Both Hull & Liability with War Premium	Included Both Hull & Liability with War Premium

7. GOVERNMENT CRIME POLICY

	CURRENT PROGRAM 12/18/2014-12/18/2015	RENEWAL PROGRAM 12/18/2015-12/18/2016
Carrier	Hanover Insurance Group	TBD
Limits of Insurance and Deductibles	Employee Theft, Forgery or Alteration and Inside the Premises- Theft of Money and Securities-\$5,000,000 per occurrence subject to a \$100,000 deductible per occurrence.	Employee Theft, Forgery or Alteration and Inside the Premises- Theft of Money and Securities-\$5,000,000 per occurrence subject to a \$100,000 deductible per occurrence.
Sublimits of Insurance	Computer Fraud, Funds Transfer Fraud, and Money Orders and Counterfeit Money- \$1,000,000 per occurrence subject to a \$100,000 deductible per occurrence.	Computer Fraud, Funds Transfer Fraud, and Money Orders and Counterfeit Money- \$1,000,000 per occurrence subject to a \$100,000 deductible per occurrence.
Annual Premium	\$ 22,373	Not to exceed \$ 26,000
Surplus Lines Taxes and Fees	NA	NA
Total (Including Taxes/Fees)	\$22,373	Not to exceed \$26,000

APPENDIX B

Allocation of Insurance Premiums by Fund & Type of Insurance

	<u>FY 2014-15</u> <u>Premiums</u> <u>12 Month</u>	<u>FY2015-16</u> <u>Premiums</u> <u>12 Month</u>	<u>Percentage</u> <u>Increase/</u> <u>Decrease</u>
General Fund-Fund 001			
Property Insurance ¹⁰	\$ 535,950	\$ 506,650	(5.47)%
Government Crime Policy ¹¹	22,373	26,000 ¹²	16.21%
Police Secondary ¹⁰	117,251	118,211	0.81%
Police Air Support (Hull & Liability)	<u>32,371</u>	<u>17,998</u>	<u>(44.40)%</u>
Subtotal	\$ 707,945	\$ 668,859	(5.52)%
Airport- Fund 523			
Property Insurance	\$ 346,979	\$ 321,693	(7.29)%
Liability Insurance	85,749	45,600	(46.82)%
Auto Liability/Property Insurance	<u>57,177</u>	<u>58,617</u>	<u>2.52%</u>
Subtotal	\$ 489,905	\$ 425,910	(13.06)%
ESD – Fund 513¹³			
Property Insurance	\$ 103,000	\$ 95,495	(7.29)%
Auto Liability Insurance	<u>\$ 28,215</u>	<u>27,686</u>	<u>(1.87)%</u>
Subtotal	\$ 131,215	\$ 123,181	(6.12)%
ESD – Fund 515			
Property Insurance	\$ 6,048	\$ 5,608	(7.28)%
Subtotal	\$ 6,048	\$ 5,608	(7.28)%
ESD – Fund 423¹³			
Property Insurance	\$ 5,125	\$ 4,780	(6.73)%
Subtotal	\$ 5,125	\$ 4,780	(6.73)%
Convention and Cultural Affairs			
- Fund 536			
Property Insurance	\$ 236,043	\$ 218,841	(7.28)%
Subtotal	\$ 236,043	\$ 218,841	(7.28)%

¹⁰ Brokers' fees and TRIA costs are included in the property insurance provisions.

¹¹ Costs are not yet available for Fiscal Year 2015/2016 as the Government Crime Policy will not renew until December 2015. The premium is estimated at \$26,000.

¹² Each Police Officer participating in the secondary employment program pays \$110 toward the premium cost. Renewal premium is based on 739 officers enrolled at policy inception.

¹³ For Fiscal Year 2015-2016, ESD property insurance costs have been allocated among three funds and the value of the 2014 costs all charged to Fund 513 have estimated apportionments for the Fiscal Year 2014-2015 costs to reflect percentage changes, not funding sources.

**General Purpose Parking
-Fund 533**

Property Insurance	\$ 52,512	\$ 51,248	(2.40)%
Subtotal	\$ 52,512	\$ 51,248	(2.40)%

Successor Agency¹⁴

Property Insurance	\$ 10,125	\$ 8,647	(14.59)%
Subtotal	\$ 10,125	\$ 8,647	(14.59)%

Housing

Property Insurance	\$ 2,130	\$ 1,975	(7.28)%
Subtotal	\$ 2,130	\$ 1,975	(7.28)%

TOTAL	<u>\$ 1,641,048</u>	<u>\$ 1,509,049</u>	<u>(8.04)%</u>
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¹⁴ The City as Successor Agency to the Redevelopment Agency has assumed operations previously performed by the Redevelopment Agency. Allocated premium will be directly invoiced to the City as Successor Agency.



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kerrie Romanow

SUBJECT: SEE BELOW

DATE: July 29, 2015

Approved

D. DSYL

Date

7/30/15

INFORMATION

**SUBJECT: STATUS OF THE SAN JOSE-SANTA CLARA REGIONAL
WASTEWATER FACILITY CAPITAL IMPROVEMENT PROGRAM**

The attached information memorandum will be provided to the Treatment Plant Advisory Committee providing a status update on discussions with representatives from Santa Clara and the tributary agencies on financing discussions related to the ten year funding strategy for the San José-Santa Clara Regional Wastewater Facility Capital Improvement Program.

/s/Ashwini Katak for
KERRIE ROMANOW
Director, Environmental Services

Attachment

TO: TREATMENT PLANT
ADVISORY COMMITTEE

FROM: Kerrie Romanow

SUBJECT: SEE BELOW

DATE: July 29, 2015

INFORMATION

**SUBJECT: STATUS OF THE SAN JOSE-SANTA CLARA REGIONAL
WASTEWATER FACILITY CAPITAL IMPROVEMENT PROGRAM**

This information memorandum provides an update on status of the ten year funding strategy for the San José-Santa Clara Regional Wastewater Facility ¹(RWF) Capital Improvement Program (CIP).

BACKGROUND

Since early 2014 staff has been working with representatives from Santa Clara and the tributary agencies on a funding strategy for the \$1.4 billion CIP at the RWF. On May 14, 2015 and June 2, 2015, respectively, the Treatment Plant Advisory Committee (TPAC) and San José City Council approved the RWF CIP Ten-Year Funding Strategy. This approved strategy includes the following recommendations:

- All agencies will contribute to a 60 day operating reserve beginning in fiscal year 2016-2017.
- Staff will pursue State Revolving Fund (SRF) loans for RWF capital improvement projects to the maximum extent possible.
- Staff will continue working with City of Santa Clara and all tributary agencies to confirm participation in a commercial paper program and/or long term revenue bonds through the Clean Water Financing Authority (CWFA), by August 2015.
- Staff will work with City of Santa Clara and all tributary agencies to amend the 1983 Master Agreement to incorporate terms related to operating reserve contributions, as well as terms related to financing of the RWF improvements through the CWFA.

¹ The legal, official name of the facility remains San Jose/Santa Clara Water Pollution Control Plant, but beginning in early 2013, the facility was approved to use a new common name, the San José-Santa Clara Regional Wastewater Facility.

ANALYSIS

Staff is working closely with representatives from the City of Santa Clara and the tributary agencies so as to enable each agency to evaluate and finalize a funding plan for its portion of the RWF CIP. Subsequent to TPAC approval of the San José-Santa Clara Regional Wastewater Facility Ten-Year Funding Strategy on May 14, 2015, staff met individually with representatives from each agency. Meeting dates are included below.

Agency Name	Meeting Date
City of Milpitas (Milpitas)	May 18, 2015
Burbank Sanitary District (Burbank), County Sanitation Districts 2-3 (CSD 2-3), Cupertino Sanitary District (Cupertino) (Represented by Mark Thomas & Associates)	May 20, 2015
West Valley Sanitation District (WVSD)	May 22, 2015
City of Santa Clara (Santa Clara)	May 22, 2015

Certain common themes as well as issues and concerns unique to particular agencies emerged through these discussions. Although all agencies are expected to provide final confirmation about their participation in external financing through the Clean Water Financing Authority (CWFA) by August 31, the table below indicates preliminary preferences for each agency, including San José.

Agency Name	Considering CWFA Short Term Financing	Considering SRF loans	Considering CWFA Long Term Financing
San José	Likely	Likely	Maybe ¹
Santa Clara	Unlikely ²	Likely	Unlikely
WVSD	Unlikely ²	Likely	Unlikely
Milpitas	Likely	Likely	Likely
Cupertino	Likely	Likely	Likely
CSD 2-3	Likely	Likely	Likely
Burbank	Likely	Likely	Likely

Footnotes

1. Due to RWF dedicated reserve requirements, San José will likely participate only if all agencies participate in long term CWFA financing.
2. Participation in short term financing may be considered by Santa Clara and WVSD, based on information provided by staff in a sample term sheet for a commercial paper or similar short term program.

Additional Considerations

- Representatives for Burbank, CSD 2-3, and Cupertino expressed concern about the ability of these three agencies to secure financing for their proportionate share of CIP costs if they are unable to participate in long-term financing through CWFA.

Since it is very possible that long term bonds will not be issued through CWFA, staff recommends these agencies begin working with their financial advisors to develop alternate long term funding plans.

- Since San José and Santa Clara share liability for any shortfall in payments from the tributary agencies for the cost to operate the RWF, Master Agreement Amendments may need to address remedies if a tributary agency fails to maintain adequate funding from their ratepayer revenue to cover their portion of the RWF CIP costs.

Information Provided to Date

In addition to the Proposed FY 15-16 Operating Budget ([link](#)), FY16-20 CIP ([link](#)), and the ten year funding strategy report ([link](#)), San José has provided the following information to Santa Clara and the tributary agencies to enable their evaluation of funding options:

1. Ten year forecast of CIP and O&M allocations for all agencies based on two scenarios: cash contributions only and participation by all agencies in a commercial paper program – distributed by email on May 19, 2015. The assumption for both scenarios was that each agency would independently address their respective long-term financing requirements.
2. Estimated cash flow for CIP expenditures and encumbrances, by quarter for the next three fiscal years – distributed by email on May 20, 2015
3. Estimated first quarter CIP billing for each agency – distributed on June 25, 2015.
4. Commercial Paper or other short-term financing term sheet – distributed by email on July 6, 2015 (copy attached)
5. An FAQ sheet on short-term financing – distributed by email on July 6, 2015 (copy attached)

It is important to note that the May 2015 ten-year forecast scenario for a commercial paper program was built on a set of assumptions. As such, these numbers may change based on the final number of agencies participating in the program, the amount borrowed and term for each agency's usage of the program, and the actual financial terms at the time of establishment of a commercial paper or other short-term financing program. In addition, staff is also working on updating capital cost parameters based on the proposed capital projects in the five-year CIP. This will likely result in some adjustments to the capital cost contributions for each agency, based on their capacity for each flow parameter. Thus, at this time, staff will not be running any additional funding forecast scenarios but instead would ask each agency to use the proposed budget, the ten-year forecast, and the commercial paper term sheet and FAQs to evaluate options and develop their funding plans.

While developing these funding plans, agencies will need to take into consideration that SRF funding, if approved, is provided on a reimbursable basis. Thus agencies will have to arrange for funding their contributions upfront. In the event that an agency cash funds its contribution for a project that subsequently receives SRF funding, the agency's contribution related to that project will be reconciled with the SRF debt service repayment schedule and the remaining funds will either be returned or credited to the agency as is already part of the third quarter adjustment period after Year End close.

July 29, 2015

Subject: Status of RWF CIP Financing

Page 4

Establishment of a Commercial Paper (CP) program provides a highly flexible financial tool for funding the capital needs and mitigating the upfront impacts of large capital project encumbrances. The CP Program also improves the mechanics of initial funding and reimbursement for projects funded from SRF loans.

Next Steps

Per the approved recommendations of the RWF Ten-Year Funding Strategy, all agencies will confirm participation in the three external financing tools (SRF loans, commercial paper or other short-term financing program, and long-term financing) by August 31, 2015. To enable this, staff will be providing a form for all agencies to fill in and return by the due date.

Once documentation from all agencies about participation in external financing has been received, staff will begin drafting amendments to the 1983 Master Agreements and work with agencies to obtain approval through their respective Councils and Boards by November 2015. This will enable staff to move forward with SRF loans as well as initiate the process to establish a short-term financing program in the first quarter of calendar year 2016.

It is important to note that timely approvals of the amendments to Master Agreement by the respective Councils and Boards are required for agencies to be able to participate in any external financing, including SRF loans.

Please contact ESD Assistant Director Ashwini Kankat at 408-975-2553 with any questions or concerns.

/s/

KERRIE ROMANOW
Director, Environmental Services

Attachments

CC:

San Jose City Council
Santa Clara City Council
West Valley Sanitation District Board
Milpitas City Council
Cupertino Sanitary District Board
County Sanitation District Nos. 2-3 Board
Burbank Sanitary District Board
Technical Advisory Committee

**CITY OF SAN JOSE, AS ADMINISTERING AGENT OF THE
SAN JOSE-SANTA CLARA CLEAN WATER FINANCING AUTHORITY (CWFA)**

Regarding the Capital Improvement Plan (CIP) and Ten-Year Funding Strategy for the
San José-Santa Clara Regional Wastewater Facility (RWF)

**Proposal to Establish Commercial Paper Program
for the Benefit of the Cities of San José and Santa Clara (Owners of the RWF) and the
Other Users of the RWF (the Tributary Agencies)**

Indicative Terms and Conditions

July 6, 2015

FACILITY INFORMATION

Issuer/Borrower:	San José-Santa Clean Water Financing Authority (CWFA).
Debt Issue:	CWFA Sewer Revenue Commercial Paper (CP) Notes (the “Notes”).
Security:	Pledge of revenues derived by the CWFA under amendments to the Improvement Agreement. Amendments to the Master Agreements between San José/Santa Clara and the Tributary Agencies will be required to incorporate repayment obligations of each agency.
LOC Provider:	San José will procure the provision of a letter of credit (“LOC”) from one or more banks through a competitive process.
Commitment Amount:	Estimated \$200-\$300 million of issuance capacity (plus 270 days’ interest coverage at agreed-upon maximum rate, as typically required by banks).
Credit Risks:	Rating downgrades resulting in increased interest rates (bank downgrade) or increased LOC fee (CWFA downgrade).
Alternative Interim Financing Products:	Other interim financing alternatives exist and will be considered in comparison with the benefits of a commercial paper program. One example is a revolving credit agreement that functions like CP notes but where draws are funded/loaned directly by the bank.

ESTIMATED COSTS¹

LOC Commitment Fee:	0.70% fixed rate (inclusive of \$250 draw fees) payable to bank quarterly in arrears. Term of LOC = 3 years.
Program Establishment:	\$300,000 (e.g., note counsel, bank counsel, financial advisor fees, rating agency reviews).
Interest Rates:	1%-3%. Variable interest rate as determined by market. Notes mature in 270 days or less. (Current indicative rates for highly rated notes are (a) 0.05%, based on SIFMA weekly tax-exempt rate index and (b) 0.44%, based on 6-month (taxable) LIBOR rate.)
Cost Allocation:	CIP costs, including debt-related costs, allocated based on pro-rata contractual flow capacity of those participating in CP program, unless otherwise amended.

¹ As assumed in Ten-Year Funding Strategy/Financing Plan for San José 2015-2016 Proposed Budget and Forecasted Allocations by Agency presented to Treatment Plant Advisory Committee on March 12, 2015 and, as supplemented, approved by San José City Council on May 19, 2015.

Regional Wastewater Facility

Use of Commercial Paper Program as an Interim Financing Tool

Frequently Asked Questions

Q. What is a Commercial Paper Program?

A. A Commercial Paper (CP) Program is a variable interest rate debt program that would allow for funding of the capital needs associated with the CIP at the RWF on an as-needed basis. A traditional CP program utilizes a bank credit facility to provide credit support to commercial paper obligations that are sold in the credit markets and are remarketed (i.e., resold with new interest rates) on a regular basis. There are alternatives to the traditional CP program which staff are continuing to analyze.

Q. When is the Commercial Paper Program going to start and when will it end? Does an agency have to participate in the CP Program through its ultimate expiration?

A. We currently anticipate that we would put the CP program in the first quarter of calendar year 2016. We don't currently have an estimate end date for the CP program – this will be a function of the evolution of the RWF CIP and the interest of the agencies in utilizing debt rather than cash to fund the CIP. Agencies that choose to participate in the CP Program can cease their participation upon payment of all of the CP associated with their agency, at times consistent with the underlying program documents (to be determined).

Q. What are the advantages of a Commercial Paper program for the RWF CIP?

A. Establishment of a CP program provides a highly flexible financial tool for funding the capital needs, keeping interest costs low during the construction period, minimizing the impact of negative arbitrage (the negative carry associated with selling long-term debt and investing it short-term while waiting for construction to occur), mitigating the impacts of capital budget encumbrance, and allowing for the buildup of financial liquidity that will be essential in effectively marketing the long-term credit. The CP Program also improves the mechanics of initial funding and reimbursement for projects funded from SRF loans.

Q. How are the costs of the Commercial Paper Program going to be allocated?

A. We anticipate that the costs for establishment of the CP Program would be allocated to those agencies that anticipate using the program on a volume weighted basis. Costs for utilizing the program would be allocated to those agencies using the program to fund their draws on the basis of program utilization.

Q. Does an agency have to participate in the planned long-term borrowing for the RWF in order to utilize the CP Program? Will the reserves required for participating in the long-term borrowing also be required for participation in the CP Program?

A. No. Any agency can participate in the CP Program. There are no additional reserve requirements associated with participation in the CP Program.

Q. Does an agency have to commit to participate in the CP Program at the very beginning?

A. While it may be possible for an agency to join in participation after the CP Program has been established, it will add significant complications and expense. As such, staff recommends that any agency that believes that it might wish to participate do so from the beginning.

Q. How will the Commercial Paper be repaid?

A. The principal amount of the Commercial Paper shall be repaid from capital payments from the member agencies, from funds provided through the State Revolving Fund or from the proceeds of bonds issued by the Clean Water Financing Authority or by the individual member agencies.



RWF CIP Ten-Year Funding Strategy Agency Participation in External Financing

Introduction/Background

On May 14, 2015, the Treatment Plant Advisory Committee (TPAC) approved the San José-Santa Clara Regional Wastewater Facility (RWF) Capital Improvement Program (CIP) Ten-Year Funding Strategy. A copy of the approved funding strategy is available at the following link: <http://www.sanjoseca.gov/DocumentCenter/View/43377>

This approved strategy includes several recommendations, including:

- All agencies contribute to a 60-day operating reserve beginning in fiscal year 2016-2017;
- Pursue State Revolving Fund (SRF) loans for RWF capital improvement projects to the maximum extent possible;
- Confirm agency participation in a commercial paper program and/or long-term revenue bonds through the Clean Water Financing Authority (CWFA) by August 2015;
- Amend the 1983 Master Agreement to incorporate terms related to operating reserve contributions, as well as terms related to financing of RWF improvements through the CWFA.

This form will allow each agency to confirm their participation in each of the three external financing options:

- 1) SRF loans;
- 2) Short-term financing instruments (such as commercial paper);
- 3) Long-term revenue bond financing through the CWFA.

It is important that this information be provided by the end of August in order for staff to begin drafting appropriate amendments to the 1983 Master Agreements, develop and submit the SRF loan application package to the State Water Resources Control Board by the end of 2015, initiate the process to establish a short-term financing program by early 2016, and ensure sufficient funding to award CIP projects during the fourth quarter of fiscal year 2015-2016. To further assist each agency in its evaluation, the table on page 3 provides the estimated capital cost allocations for each agency over the next five years.

Please complete the Agency External Financing Participation Form beginning on page 2 and email your completed form to Ashwini Kantak at ashwini.kantak@sanjoseca.gov by no later than August 31, 2015.



Agency External Financing Participation Form

Agency Name: _____

Agency Representative: _____

1. Does the agency wish to participate in SRF Loans to the maximum extent possible?

Yes _____ No _____

2. Does the agency wish to have a proportionate share of its RWF CIP costs covered by a commercial paper or other short-term financing program?

Yes _____ No _____

3. Does the agency wish to have a proportionate share of its RWF CIP costs covered by long-term revenue bond financing through CWFA?

Yes _____ No _____

4. The estimated CIP Cost Allocations for each agency are shown in the table on the following page. The amounts shown in the rows highlighted in yellow reflect the estimated CIP construction costs that may be financed and/or cash-funded. The amounts highlighted in green reflect the CIP costs that are ineligible for financing and MUST be cash-funded by each agency.

Please determine the estimated cash funding your agency will provide over the next five years for RWF CIP costs and enter these amounts in the *Agency Cash Funding line*. This information will allow staff to further refine financing options based on the specific funding needs of each agency.



2017-2021 CIP AGENCY COST ALLOCATIONS/CASH FUNDING

	16-17	17-18	18-19	19-20	20-21
Santa Clara					
CIP Construction Costs Eligible for Financing	13,905,185	29,882,471	23,019,688	10,690,785	11,695,645
CIP Costs Ineligible for Financing/Minimum Agency Cash Funding	4,595,415	1,462,902	1,019,031	751,957	396,019
Total CIP Cost Allocations	18,500,600	31,345,372	24,038,719	11,442,743	12,091,664
Agency Cash Funding					
West Valley					
CIP Construction Costs Eligible for Financing	6,094,783	13,074,627	10,146,624	4,713,126	5,210,222
CIP Costs Ineligible for Financing/Minimum Agency Cash Funding	2,687,267	760,170	522,240	374,685	218,534
Total CIP Cost Allocations	8,782,050	13,834,797	10,668,863	5,087,811	5,428,757
Agency Cash Funding					
Cupertino					
CIP Construction Costs Eligible for Financing	3,933,941	8,426,940	6,572,208	3,046,581	3,383,806
CIP Costs Ineligible for Financing/Minimum Agency Cash Funding	1,704,441	465,789	322,837	234,012	133,302
Total CIP Cost Allocations	5,638,381	8,892,729	6,895,045	3,280,594	3,517,108
Agency Cash Funding					
Milpitas					
CIP Construction Costs Eligible for Financing	6,768,950	14,503,880	11,311,176	5,254,640	5,850,291
CIP Costs Ineligible for Financing/Minimum Agency Cash Funding	1,956,552	430,884	401,751	398,442	224,932
Total CIP Cost Allocations	8,725,502	14,934,764	11,712,926	5,653,083	6,075,223
Agency Cash Funding					
CSD 2/3					
CIP Construction Costs Eligible for Financing	486,141	1,042,120	812,441	376,510	418,759
CIP Costs Ineligible for Financing/Minimum Agency Cash Funding	295,456	185,866	149,649	130,354	117,900
Total CIP Cost Allocations	781,596	1,227,986	962,089	506,864	536,660
Agency Cash Funding					
Burbank					
CIP Construction Costs Eligible for Financing	218,228	466,652	368,263	168,004	187,578
CIP Costs Ineligible for Financing/Minimum Agency Cash Funding	90,768	41,574	33,324	28,689	23,146
Total CIP Cost Allocations	308,996	508,226	401,587	196,693	210,724
Agency Cash Funding					

Notes:

- 1) Agency cost allocations above are based on updated capital cost parameters and may be adjusted in the future based on further changes to capital cost parameters and agency capacity for each flow parameter.
- 2) Minimum Agency Cash Funding amounts include: non-construction costs, equipment replacement reserve contributions, SRF loan annual repayments, and CWFA debt service payments.



August 14, 2015

Kerrie Romanow
City of San Jose
200 E. Santa Clara Street
10th Floor Tower
San Jose, CA 95113

Re: City of San Jose Memorandum to TPAC dated July 29, 2015

Dear Ms. Romanow

The West Valley Sanitation District, Burbank Sanitary District, Cupertino Sanitary District, County Sanitation District 2-3, and the City of Milpitas (collectively, the “Tributary Agencies”) jointly submit this response to the above-referenced memorandum (“Memo”) in connection with the funding of capital improvements to the San Jose-Santa Clara Regional Wastewater Facility (RWF). Although the Memo was addressed to the Treatment Plant Advisory Committee, the Tributary Agencies’ staff are compelled to send this response because the Memo raises a number of immediate concerns. The comments below are intended to, in good faith, foster a more transparent discussion between the Tributary Agencies and the City of San Jose including City of Santa Clara, co-owner of the RWF.

First, the Memo presupposes that each of the Tributary Agencies, and the City of Santa Clara, will confirm their participation in a commercial paper program or other short-term financing program and/or long-term revenue bonds through the Clean Water Financing Authority (“CWFA”) by August 31, 2015. The Memo suggests that the Tributary Agencies base their respective decisions on financial planning documents adopted by the San Jose City Council, a sample commercial paper term sheet, an FAQ sheet on short-term financing, and the general statement that “these numbers may change” based on various factors. The Tributary Agencies appreciate that the City of San Jose has provided us with this information. However, the available information is not sufficient for the Tributary Agencies to make an informed, reasoned decision by August 31. The available information lacks specific terms and conditions for financing beyond the City of San Jose’s unilateral demand that each Tributary Agency contribute a 60-day operating reserve beginning in FY 2016-2017.¹ The Tributary Agencies need to know

¹ Even though TPAC recommended, and the San Jose City Council approved, this 60-day reserve requirement, there is no guarantee that each Tributary Agency’s Board or Council will likewise agree to such requirement. A reserve requirement requires an amendment to the 1983 Master Agreement and any amendment will require mutual concurrence between the parties.

if the City of San Jose is planning to impose other conditions for participation in financing through the CWFA. In addition, more detailed information is needed regarding the short and long-term financing programs, such as what is the Not-To-Exceed amount for each Tributary Agency, the schedule of payments, and if only a three-year commercial paper program is expected or if the term is likely to be extended.

The City of San Jose can certainly appreciate that funding the RWF capital improvements involves a significant, long-term financial investment that has corresponding long-term impacts to our respective ratepayers. The Tributary Agencies support many of the planned upgrades and are prepared to make such investment, however we risk breaching our fiduciary duties to our ratepayers if we do not have the information necessary to carefully consider the costs and the terms and conditions of all of our options. Therefore, the Tributary Agencies need additional information and additional time to evaluate this information prior to making any committed decision.

Second, the Memo suggests that any amendments to the Tributary Agencies' 1983 Master Agreement will be approved by November 2015. This deadline is unrealistic because the amendments will require some amount of negotiation, which will likely take longer than 2.5 months to reach any mutual agreement and then processing the final agreement through our respective board/council for approval. The Tributary Agencies are also developing our own lists of provisions that should be included in this amended Master Agreement. Consequently, formal meetings with City of San Jose and City of Santa Clara staff and their legal counsel are needed to discuss and negotiate these amendments to the Master Agreements. The Tributary Agencies and their counsel are interested in meeting the week of September 28th.

Finally, the last page of the Memo suggests that if amendments to the Master Agreements are not approved by November 2015, then the City of San Jose will preclude the Tributary Agencies from participating in SRF loans and external financing. This statement reads as unnecessarily aggressive and unproductive; the Tributary Agencies wish to work cooperatively with the Cities of San Jose and Santa Clara and expect the Cities would want the same cooperative relationship.

Thank you for considering the above comments. We look forward to discussing these issues with you further. For any questions related to any of the Tributary Agencies regarding these issues, please contact Sarah Quiter at Squiter@meyersnave.com and 510-808-2000.

Sincerely,


West Valley Sanitation District


Jon Newby, District Manager and Engineer

County Sanitation District 2-3


Richard Tanaka, District Manager

Burbank Sanitary District


Richard Tanaka, District Manager

City of Milpitas


Nina Hawk, Public Works Director

Cupertino Sanitary District



Richard Tanaka, District Manager

CC:

San Jose City Council

Santa Clara City Council

West Valley Sanitation District

Milpitas City Council

Cupertino Sanitary District Board

County Sanitation District Nos. 2-3

Burbank Sanitary District Board

Technical Advisory Committee

August 28, 2015

To:

Nina Hawk, Public Works Director - City of Milpitas
Jon Newby, District Manager and Engineer - West Valley Sanitation District
Richard Tanaka, District Manager - Cupertino Sanitary District; Burbank Sanitary
District, County Sanitation District 2-3

**Re: San José-Santa Clara Regional Wastewater Facility Capital Improvement
Program Financing Assistance**

Dear Ms. Hawk, Mr. Newby, and Mr. Tanaka,

On August 20, 2015, the City of San José received your letter dated August 14, indicating that your respective agencies are not prepared to confirm whether they require assistance with financing for their proportionate obligation to the San José-Santa Clara Regional Wastewater Facility (RWF) Capital Improvement Program (CIP) costs. Specifically, the letter claims that the information provided to the Tributary Agencies is not adequate to determine whether they will require assistance in securing financing.

Contrary to the representations made in the letter from the Tributary Agencies, the process for adopting the financing strategy has been transparent, in good faith, and developed in coordination with Santa Clara and the Tributary Agencies over two years and through numerous meetings, to advance our collective interest in preserving the RWF's ability to continue providing wastewater treatment services to all of our communities. We developed guiding principles in early 2014 in collaboration with all agencies and discussed a funding strategy with TPAC in April 2014 which would include external financing to smooth out rate spikes and provide intergenerational equity for all agencies. Since most agencies indicated that they would not be able to fund the CIP without financing assistance, we invested a significant amount of time and resources developing options to assist all agencies. As you are well aware, no agency is required to participate in future financing for the Capital Program if it can otherwise pay for the continued use of the Regional Wastewater Treatment Facility.

As noted in the July 29, 2015 memo, on May 14, 2015, TPAC unanimously approved staff recommendations and forwarded the item to San José City Council with a recommendation to approve. With that direction, San José staff authored a memo on July 29 to all agency boards and city councils with the details of needed financing decisions and the current status of agency input on financing. Therefore, the July 29 memorandum and the subsequent participation form sent on August 19, 2015 could not have come as a surprise to any of you as it simply provides the mechanism for agencies to share with staff their final decision.

Beginning in early 2014, the City of San José, as the administering agency, has worked closely with representatives from the City of Santa Clara and the Tributary Agencies to develop a funding strategy and discuss potential external financing options. There have been several TAC and TPAC meetings focused on the funding strategy, including, but not limited to the most recent action at the May 14, 2015 TPAC meeting. At this meeting, TPAC members unanimously approved staff recommendations and directed all agencies to 1) contribute to a 60 day operating reserve beginning in FY 2016-2017 and continue to work on optimal reserve levels for operational purposes; 2) to pursue State Revolving Fund loans for RWF capital improvement projects to the maximum extent possible; 3) to continue to work with the City of Santa Clara and all Tributary Agencies to confirm participation in a commercial paper program and/or long term revenue bonds through the Clean Water Financing Authority (CWFA), by August 2015; and 4) to amend the 1983 Master Agreements to incorporate terms related to operating reserve contributions, as well as terms related to financing of the RWF improvements through the CWFA.

The potential types of external financing include State Revolving Fund (SRF) loans, short term financing such as a commercial paper program, and long term tax-exempt revenue bonds. Further, we have provided the Tributary Agencies the following information:

1. Agency specific capital cost allocation estimates for the next ten years
2. Cash flow expenditure and encumbrance profiles for the next three years by each quarter
3. Multiple examples of financing scenarios
4. A term sheet and a FAQ document for short-term financing (answering many of the questions raised in your letter)
5. Information about reserve requirements for long-term financing.

This information should be adequate for each agency to evaluate, as part of their other program needs, whether and when they can cash fund based on projected revenues, independently finance, or would require financing through CWFA.

As is typical in this type of complex financing model, It is not possible to determine final repayment terms for any of the financing options until we know the specific borrowing terms which will be determined by market conditions, both for short term and long term financing. The exact duration of the commercial paper program or similar short term financing program will also be dependent on the amount of SRF funding received, if any. Moreover, the number of agencies that request assistance with financing would influence cost such as required contribution to reserves, and each agencies' proportionate share.

As discussed at TAC meetings over the past two years and as directed by TPAC and San José City Council in May and June 2015 respectively, the Master Agreements need to be amended to document the payment terms of joint financing, as applicable, as well as to include the unanimous TPAC and San José City Council direction for each agency to contribute funding to maintain reserve levels at a financially responsible level. With the exception of agency transfers of capacity, the amendments to the Master Agreements are limited to memorializing repayment for financing of the South Bay Water Recycling projects in 1995. Based on our past experience, we are confident these focused amendments can be completed by November 2015. It was never contemplated that we would amend provisions of the Master Agreement not critical to financing the CIP. Requests for other changes to the Master Agreement would delay implementation of the CIP, and if appropriate, should be considered independent of the financing timeline.

Confirmation from your agency regarding assistance with external financing by August 31, 2015 is required to maintain the current schedule for implementation of the CIP, and associated financing. If we do not receive confirmation about your participation by that date, we will plan accordingly on the assumption that your agency will pursue independent financing or cash fund its proportionate share.

We will provide drafts of the Master Agreement Amendments by mid September to each agency to reflect the 60-Day operating reserve requirement per direction from your elected representatives, and/or revisions to reflect general terms for participation in financing. We can schedule a meeting with each agency as to their agreement thereafter.

In the interest of conserving our time and resources towards implementation of the CIP, I would encourage your constructive participation in our monthly TAC meetings, and look forward to answering any questions your agency may have through your TPAC representative or by phone and email. Please call Ashwini Kantak, Assistant Director of Environmental Services, at (408) 975 2553 if you have any questions. Thank you.

Sincerely,



Kerrie Romanow
Director, Environmental Services

Cc:
Treatment Plant Advisory Committee Members
San José City Council
Santa Clara City Council
West Valley Sanitation District
City of Milpitas
Cupertino Sanitary District Board
County Sanitation Districts 2-3
Burbank Sanitary District Board
Chris deGroot, City of Santa Clara
Sarah Quiter, Meyers Nave

City Manager's Contract Approval Summary
For Procurement and Contract Activity between \$100,000 and \$1.08 Million for Goods and \$100,000 and \$270,000 for Services

AUGUST 1, 2015 - AUGUST 31, 2015

Description of Contract Activity ¹	Fiscal Year	Req#/RFP#	PO#	Vendor/Consultant	Original \$ Amount	Start Date	End Date	Additional \$ Amount	Total \$ Amount	Comments
FERRIC CHLORIDE & DOSING STATION	15-16		51837	KEMIRA WATER SOLUTIONS, INC	\$700,000	8/17/2015	8/16/2016			
PROGRAM MANAGEMENT SERVICES	15-16		AC 25704	MWH AMERICAS, INC.	\$7,716,084	7/1/2015	6/30/2016			SERVICE ORDER #12 (MASTER AGREEMENT TERM 9/24/13-9/30/18)
PROGRAM MANAGEMENT SERVICES	15-16		AC 25704	MWH AMERICAS, INC.	\$893,014	7/1/2015	6/30/2016			SERVICE ORDER #13 (MASTER AGREEMENT TERM 9/24/13-9/30/18)
PROGRAM ENG SUPPORT SERV FOR DIGESTER AND THICKENER FACILITIES UPGRADE	15-16		AC 25704	MWH AMERICAS, INC.	\$329,483	7/1/2015	6/30/2016			SERVICE ORDER #14 (MASTER AGREEMENT TERM 9/24/13-9/30/18)
PROJ MGMT AND ENG SUPPORT SERV FOR HEADWORKS	15-16		AC 25704	MWH AMERICAS, INC.	\$789,570	7/1/2015	6/30/2016			SERVICE ORDER #15 (MASTER AGREEMENT TERM 9/24/13-9/30/18)
PROJ MGMT SERV FOR FACILITY-WIDE WATER SYSTEMS IMPROVEMENTS	15-16		AC 25704	MWH AMERICAS, INC.	\$272,409	7/1/2015	6/30/2016			SERVICE ORDER #16 (MASTER AGREEMENT TERM 9/24/13-9/30/18)
SUBJECT MATTER EXPERT SERVICES	15-16		AC 25704	MWH AMERICAS, INC.	\$1,097,851	7/1/2015	6/30/2016			SERVICE ORDER #17 (MASTER AGREEMENT TERM 9/24/13-9/30/18)
PROJ MGMT SERV FOR AERATION TANKS AND BLOWER REHABILITATION	15-16		AC 25704	MWH AMERICAS, INC.	\$611,374	7/1/2015	6/30/2016			SERVICE ORDER #18 (MASTER AGREEMENT TERM 9/24/13-9/30/18)
PROJ MGMT SERV FOR ADVANCED FACILITY CONTROL AND METER REPLACEMENT	15-16		AC 25704	MWH AMERICAS, INC.	\$415,238	7/1/2015	6/30/2016			SERVICE ORDER #19 (MASTER AGREEMENT TERM 9/24/13-9/30/18)
PROJ MGMT AND ENG SUPPORT SERV FOR DIGESTED SLUDGE DEWATERING FACILITY	15-16		AC 25704	MWH AMERICAS, INC.	\$691,683	7/1/2015	6/30/2016			SERVICE ORDER #20 (MASTER AGREEMENT TERM 9/24/13-9/30/18)

¹ This report captures completed contract activity (Purchase Order Number, Contract Term, and Contract Amount)