TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DEPARTMENT: PUBLIC WORKS

DATE: JULY 23, 2007

CMR:318:07

SUBJECT: APPROVAL OF A MEMORANDUM OF UNDERSTANDING BETWEEN THE CITIES OF SUNNYVALE, MOUNTAIN VIEW AND PALO ALTO FOR THE SMART STATION MATERIALS RECOVERY FACILITY PROCESSING SYSTEM EQUIPMENT REPLACEMENT PROJECT

RECOMMENDATION

Staff recommends that Council authorize the City Manager to sign the attached memorandum of agreement between the cities of Palo Alto (Attachment A), Sunnyvale (Attachment B), and Mountain View (Attachment C) to proceed with the Sunnyvale Materials Recovery and Transfer (SMaRT) Station Materials Recovery Facility (MRF) equipment replacement project including the funding mechanism for the project.

BACKGROUND

On October 7, 1991, Council approved a Memorandum of Agreement creating a partnership between the cities of Sunnyvale, Mountain View and Palo Alto to construct and operate the SMaRT Station. In October 1993 the SMaRT Station began operation. After years of heavy usage, key components of the SMaRT Station materials recovery facility (MRF) equipment are showing excessive wear and are in need of replacement. In 2004/05 the partner cities approved a project to replace the SMaRT MRF equipment with a budget of $5,000,000, and a revised engineer’s estimate of $8,889,075 was prepared in January 2007. An analysis by the City of Sunnyvale staff of that estimate and the efficiencies gained from proceeding with the project showed sufficient value to justify the replacement of the MRF equipment. In January 2006, the City of Sunnyvale’s City Council awarded a contract to URS engineers to provide design, plans and specifications for this project.

DISCUSSION

Bid specifications were prepared by the City of Sunnyvale staff based on plans and specifications prepared by URS. A notice inviting bids was published on January 17, 2007. Two responsive bids were received on March 14, 2007:

<table>
<thead>
<tr>
<th>Bidder</th>
<th>Base Bid</th>
<th>Alternate</th>
<th>Total Bid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monterey Mechanical, Oakland</td>
<td>$12,397,800</td>
<td>$600,000</td>
<td>$12,997,800</td>
</tr>
<tr>
<td>D.W. Nicholson</td>
<td>$18,673,000</td>
<td>$549,000</td>
<td>$19,222,000</td>
</tr>
</tbody>
</table>
Both bids were significantly above the engineer’s estimate (see Attachment D for more detail on bids). The base bid includes all concrete and steel construction, mechanical, electrical, plumbing and equipment (trommels, screens, conveyors and baler) and equipment installation. The additive alternate includes the addition of “sorting rooms”, enclosing the platforms where manual sorting will be performed by the workers. These enclosed sorting rooms are equipped with HVAC units to provide conditioned air and ventilation to the sorting areas.

The cost of the project (including contingencies and design expenditures to date) will be $14,781,768 to the partner cities of which Palo Alto’s share is $2,017,836. When completed, the replacement equipment will produce financial benefits that include: 1) reduced SMaRT Station operating costs; 2) reduced landfill disposal cost; and 3) increased recycling revenues that will return an estimated net benefit of $18.5 million over the life of the project.

The SMaRT Station Capital Equipment fund includes $5,175,000 for the SMaRT Station MRF Equipment Replacement project. An additional $9,486,768 is needed to meet the total project cost. The City of Sunnyvale is asking each City to sign the attached memorandum of agreement to:

1) Use the existing reserves in the capital equipment fund in the amount of $5,175,000 (less design costs incurred and encumbered to date) for this project, and
2) Fund the remaining project costs, estimated to be $9,486,768, through the issuance of revenue bonds (or other cost-effective financing available) or through a combination of a cash contribution by Mountain View and a smaller bond issue, debt service, of which would be paid solely by Sunnyvale and Palo Alto.

As in the past, debt service will be apportioned as described in the MOU, with each city’s share as follows:

<table>
<thead>
<tr>
<th>City</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sunnyvale</td>
<td>55.28%</td>
</tr>
<tr>
<td>Mountain View</td>
<td>23.45%</td>
</tr>
<tr>
<td>Palo Alto</td>
<td>21.27%</td>
</tr>
</tbody>
</table>

The following is each cities share to fund the remaining project ($9,486,768) cost:

<table>
<thead>
<tr>
<th>City</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sunnyvale</td>
<td>$ 5,244,285</td>
</tr>
<tr>
<td>Mountain View</td>
<td>$ 2,224,647</td>
</tr>
<tr>
<td>Palo Alto</td>
<td>$ 2,017,836</td>
</tr>
</tbody>
</table>

ALTERNATIVES TO STAFF RECOMMENDATION

Alternatives to this recommendation are noted in Attachment D, City of Sunnyvale, CMR, Award of Bid FO612-58 SMaRT Station Materials Recovery Facility (MRF) Processing System Equipment Replacement project, dated: 07/10/2007.

RESOURCE IMPACT

With the City of Mountain View funding its share of project costs in cash, the cities of Sunnyvale and Palo Alto will fund the remaining costs by issuing debt. While it had been Palo Alto’s intention to use cash when the City’s cost was at the $5M project cost estimate level,
Refuse Fund reserves are not large enough to fund the new bid price and therefore debt financing is necessary for Palo Alto as well as Sunnyvale. The City of Sunnyvale is taking the lead on issuing bonds and intends to privately place bonds with a bank in order to minimize bond issuance costs.

The par amount of the bonds is expected to total $8.20 million. Palo Alto’s share of the principal is $2.28 million. Based on a 14 year amortization period and an estimated interest rate of 4.75 percent (subject to change based on market conditions at time of issuance), Palo Alto’s share of debt service is expected to total $223,000 annually. Funds have been appropriated in the 2008-09 Adopted Budget and funds will have to be appropriated in future budgets to cover this expense.

POLICY IMPLICATIONS
This is consistent with the City’s Comprehensive Plan that contains the following policy:

Natural Environment-Solid and Hazardous Waste
N-54: Continue to develop long-term solid waste management programs that include safe and environmentally sound disposal methods such as the SMaRT Station.

TIMELINE
If all three partner cities agree to these terms, the City of Sunnyvale is estimated to award the project on July 24, 2007. The project would then begin August 2007 and have 330 days to be completed (July 2008).

ENVIRONMENTAL REVIEW
This project is exempt under the California Environmental Quality Act.

ATTACHMENTS
Attachment A: Memorandum of agreement for the City of Palo Alto related to the SMaRT Station Materials Recovery Facility Processing System Equipment Replacement project.
Attachment B: Memorandum of agreement for the City of Sunnyvale related to the SMaRT Station Materials Recovery Facility Processing System Equipment Replacement project.
Attachment C: Memorandum of agreement for the City of Mountain View related to the SMaRT Station Materials Recovery Facility Processing System Equipment Replacement project.

PREPARED BY: ________________________________
RUSSELL REISERER
Solid Waste Manager