



STAFF REPORT

AGENDA NO: 9e

MEETING DATE: July 6, 2026

To: Honorable Mayor and City Council

Date: July 6, 2026

**From: Chris Lamm, Director of Public Works – (650) 558-7230
Kevin Okada, Assistant Public Works Director – (650) 558-7230**

Subject: Adoption of a Resolution to Authorize the Execution and Delivery of a Construction Installment Sale Agreement with the State Water Resources Control Board for the Wastewater Treatment Facility Digester Improvements Project, City Project No. 86580, and Authorizing the City Manager to Execute the Agreement

RECOMMENDATION

Staff recommends that the City Council authorize the execution and delivery of a Construction Installment Sale Agreement with the State Water Resources Control Board (SWRCB) for the design and construction of the Wastewater Treatment Facility Digester Improvements Project, City Project No. 86580, and authorize the City Manager to execute the agreement.

BACKGROUND

The City's Wastewater Treatment Facility (WWTF) relies on the Digester Equipment Building, Digester No. 1, Digester No. 2, and the Sludge Storage Tank as core components of its anaerobic digestion process, which breaks down organic matter during wastewater treatment. These facilities were identified for replacement and rehabilitation in the 2016 WWTF Master Plan due to aging infrastructure, seismic vulnerabilities, and deteriorated equipment.

The Digester Equipment Building, constructed in 1985, was identified for replacement because the reinforced masonry structure lacks adequate seismic bracing and does not provide sufficient clearance from adjacent structures. Digester No. 2, built in 1950, has reached the end of its useful life, and its existing foundation does not have adequate pile capacity to withstand anticipated seismic loads. In addition, the mechanical piping around the digester has deteriorated and is in poor condition. The Sludge Storage Tank, constructed in 1934, has also surpassed its useful life and requires full replacement. The City is in the final stages of design for the replacement of the Digester Equipment Building, Digester No. 2, and the Sludge Storage Tank, along with rehabilitation of Digester No. 1.

In July 2022, the City Council approved the design of the WWTF Digester Improvements Project (Resolution No. 085-2022). In November 2022, the Council authorized staff to submit a Clean Water State Revolving Fund (CWSRF) financing application to the State Water Resources Control Board to support the design and construction of these improvements (Resolution No. 134-2022).

To complete the financing process, the City must enter into a Construction Installment Sale Agreement with the State Water Board.

DISCUSSION

The Construction Installment Sale Agreement will provide low-interest CWSRF financing for the construction of the WWTF Improvements Project. The agreement outlines the terms of repayment, disbursement procedures, project responsibilities, and compliance requirements associated with the CWSRF Program. Entering into this agreement is necessary to secure state funding and ensure uninterrupted progress on the WWTF Improvements Project.

The proposed financing structure complies with the City's Debt Management Policy adopted in 2019, and required good-faith financing estimates have been prepared in accordance with state requirements. The current estimate to complete the design and construction of the project is approximately \$30 million. The estimate includes design, construction, construction management, engineering support during construction, and environmental support during design and construction.

To implement the construction of this project, staff has obtained a CWSRF loan in the amount of \$30 million. CWSRF loans are low-interest loans that are intended for public agencies to complete infrastructure projects. Interest rates are generally set at 50 percent of the rate obtained by the State Treasurer for California's most recent general obligation bond sale, rounded up. The 2026 installment sale interest rate is estimated at 2 percent in the good faith estimate.

FISCAL IMPACT

Execution of the Construction Installment Sale Agreement will secure \$30 million in CWSRF financing for the WWTF Digester Improvements Project. The financing will be payable from, and secured by, revenues of the Sewer Enterprise Fund. There is no General Fund impact. Loan repayment is expected to begin one year after completion of the entire construction project and will be incorporated as an accounts-payable obligation in the annual budget for the Sewer Enterprise Fund.

Exhibits:

- Resolution
- Construction Installment Sale Agreement