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foothill community built on California's rich gold rush history*



**City Manager's Report**  
**July 8, 2025, City Council Meeting**  
**Prepared by: Cleve Morris, City Manager**  
**Item #: 12.4**

**Subject:** Consider authorizing Johnson Controls, Inc. to move forward with construction of the Solar Project prior to execution of the final agreement with the State Water Resources Control Board and if necessary negotiate and execute a promissory note with Johnson Controls, Inc. and/or use of temporary deficit spending from the Sewer Enterprise Fund to help ensure the timely completion of the construction of the Water Reclamation Facility PV Solar project (CIP #42246) by December 31, 2025.

**Recommendation:** Adopt a resolution:

1. Authorizing Johnson Controls, Inc. to move forward with construction of the Photovoltaic Solar Project prior to execution of the final agreement with the State Water Resources Control Board for the Water Reclamation Facility PV Solar project (CIP #42246); and
2. Authorizing the City Manager to take certain actions including but not limited to negotiating and executing a promissory note with Johnson Controls, Inc. and/or temporary deficit spending from the Sewer Enterprise Fund to help ensure the timely completion of the construction of the PV Solar Project at the Water Reclamation Facility (CIP #42246) by December 31, 2025.

**Purpose:** To expedite the project to preserve maximum energy savings through the PG&E NEM process.

**Strategic Plan Strategy:** Infrastructure: Maintain and Improve our Infrastructure and Facilities to provide a safe community

**Background:** Since 2018, the City has been working with the State Water Resources Control Board to secure Clean Water Construction funding for our photovoltaic Solar Project at the Water Reclamation Facility (WRF). The project was the result of an energy savings analysis performed by Johnson Controls, Inc.. There have been many twists and turns in securing this funding. The City began with qualifying for a project loan, which changed to partial grant for the project. Awhile later, the City was awarded a 100% grant for the project. However, the funding was later reprioritized, and the State offered the City a low interest loan instead. About a year later, the State reversed course again, and the City was awarded a grant or 100% loan forgiveness. Since that time, the City has entered into a funding agreement with the State, and it is our understanding that the project funding has been secured. However, due to delays with Johnson Controls, Inc. and additional delays by the State in responding to our information requests, the funding agreement has expired, and the

City is required to sign an amendment to the agreement. We have been working hard for the past six months with the understanding that the amendment would be completed in June of this year. However, at the end of June, we were told that the City would now need to process a new amendment to the agreement, and it would not be ready until approximately October. In the meantime, the City will be unable to receive reimbursement from the State for project invoices from Johnson Controls, Inc. until the amendment is approved by the State

The City is currently under agreement with PG&E to install the service and receive benefits under the Net Energy Metering 2 (NEM2) program which provides maximum savings. The estimated annual savings at this time that are guaranteed by Johnson Controls, Inc., is approximately \$150,000 after operation and maintenance of the system. In order to guarantee these savings, the City has to have the system installed and operational by December 31, 2025. This means we need to start construction by August of this year. As noted above, the State is now telling us that the amendment will not be ready for signature until October. If we lose the NEM2 designation, the amount of savings will be reduced by 75% leaving annual savings at only \$37,500.

**Discussion:** In order to help ensure the City secures the NEM2 savings, there are a couple of options for the City Council's consideration:

1. Authorize Johnson Controls, Inc. to continue moving forward with construction and authorize the City Manager to negotiate a promissory note with Johnson Controls, Inc. if necessary, to carry the cost until such time when we receive approval of the amendment from the State. This option would not require any deficit spending by the City.
2. Authorize Johnson Controls, Inc. to continue moving forward with the project and the City temporarily deficit spending of project costs from the Sewer Enterprise Fund until such time when the amendment is approved, and the State reimburses the City. This could require the City to cash flow as much as \$3-4 million prior to getting reimbursed by the State.
3. Authorize Johnson Controls, Inc. to continue moving forward with the project and authorize the City Manager to negotiate and execute a promissory note for a partial amount of unreimbursed project costs prior to obtaining the approved amendment from the State. This would require a partial cash flow commitment from the Sewer Enterprise Fund, but the amount would be limited.

The risk with each of these options is that during the amendment review process, the State could, for whatever reason, determine that the project is somehow disqualified or that the funding is no longer available, and the City could be responsible for the total cost of the project, which is just over \$3.9 million. Staff is seeking Council direction on how to proceed.

**Environmental:** Environmental Assessment for this project was previously completed and filed as appropriate.

**Options:**

1. Approve Option 1 above if acceptable to Johnson Controls, Inc.
2. Approve Option 2 above as outlined and direct staff to temporarily deficit spend from the Sewer Enterprise Fund, if necessary.
3. Approve Option 3 above as outlined and authorize staff to negotiate a promissory note for a partial amount with Johnson Controls, Inc.

4. Approve a hybrid option allowing the City Manager the flexibility to choose either Options 1 or 2 whichever is in the best interests of the City both legally and financially.
4. Do not approve any of the above options, and direct Johnson Controls, Inc. to delay construction until the amendment is approved by the State.

**Cost:** Depending on the option chosen by the City Council, the cash flow impact to the Sewer Enterprise Fund could range from \$0 to \$3,970,420, which could result in lost liquidity and interest income to the Sewer Enterprise Fund.

**Budget Impact:** There is no known long-term direct budget impacts associated with tonight's action. However if the City Council decides to have the Sewer Enterprise Fund partially or entirely cash flow the project costs until the amendment is approved by the State, the City will most likely experience opportunity costs in the form of lost liquidity and interest income.



M. Cleve Morris, City Manager



Dave Warren, Assistant City Manager/  
Director of Finance

**Attachments:**

Att. A: Resolution