



Department: Utilities
Cost Center: 6102
For Agenda of: 4/21/2026
Placement: Business
Estimated Time: 45m

FROM: Aaron Floyd, Public Works & Utilities Director
Prepared By: Chris Lehman, Deputy Director - Wastewater

SUBJECT: INTRODUCE AN ORDINANCE AMENDING TITLE 13 OF THE MUNICIPAL CODE REGARDING PRIVATE SEWER LATERAL INSPECTIONS, REPLACEMENTS, AND DISSOLUTION OF THE MANDATORY WASTEWATER FLOW OFFSET PROGRAM (CODE-0169-2026) AND APPROVE A RESOLUTION GRANTING DIRECTOR DISCRETIO

RECOMMENDATION

1. Introduce a Draft Ordinance entitled "An Ordinance of the City Council of the City of San Luis Obispo, California, Amending Section 13.08.395 (Private Sewer Laterals/Systems) and Section 13.08.396 (Wastewater Flow Offset) of the City of San Luis Obispo Municipal Code."
2. Adopt a Draft Resolution entitled "A Resolution of the City Council of the City of San Luis Obispo, California, Authorizing the Discretion of the Public Works and Utilities Director to Waive Wastewater Flow Offset Program Requirements and Resolution and Determination of Satisfaction of Conditions of Approval Related to Wastewater Flow Offsets."
3. Find the actions exempt from the California Environmental Quality Act (CEQA).

REPORT IN BRIEF

This report carries forward analysis and updated staff recommendations from the [August 19, 2025](#), City Council Study Session discussion (Item 8a). That study session included an update on the City's Private Sewer Lateral and Wastewater Offset Programs and potential recommended changes. The Study Session Discussion Item #1, "*Should the Wastewater Flow (Private Sewer Lateral) Offset Program Continue?*," has been carried forward to this public hearing with staff's recommendation to 1) dissolve the currently mandated wastewater flow offset program and 2) modify existing citywide Sewer Lateral Program "Inspection Upon Sale" regulations to require replacement or repair of failed and poor-rated private sewer laterals within six months of time of sale of the property. As described in this report, staff's recommendation represents a change from the existing approach and is result of many factors including: adoption and implementation of the [2025 Wastewater Collection System Infrastructure Renewal Strategy](#), advancements in wastewater flow data collection, modeling, and analysis, further evaluation of the effectiveness of the private sewer lateral and wastewater flow offset programs, potential

opportunities to address and remedy the sources of wet weather infiltration and inflow by focusing on the replacement of failed and poor private sewer laterals identified by the Inspection Upon Sale Program, and continued public outreach. Staff also continue to implement capital projects to improve capacity within the public sewer system and conduct outreach regarding available private sewer lateral rebate programs. As described further in this report, the proposed changes will provide a greater beneficial impact on municipal sewer system capacity and public health and safety than the current Programs, while reducing logistical and monetary burdens on the community and housing development, and City staff administrative workload.

Summary of Staff Recommendations:

1. Modification of the Citywide Sewer Lateral Inspection Program to include repair or replacement of poor or failed condition laterals as determined through the Inspection Upon Sale process.
2. Dissolution of mandatory Wastewater Flow (Private Sewer Lateral) Offset Program requirements.
3. Continued discretionary review and determination of conditional wastewater flow offsets for specified entitlements based on modeling and analysis.
4. Public Works and Utilities Director discretion to waive pending offset improvements for entitled projects and building permits in process.

POLICY CONTEXT

The primary goals of the Wastewater Flow Offset (Private Sewer Lateral) and Inspection Upon Sale Programs continue to be the reduction of inflow and infiltration from private sewer laterals and the associated potential for sewer spills and impacts to public health, safety, and general welfare, while accommodating housing development and furthering the [Major City Goal](#) of Housing and Neighborhood Livability-Healthy, Safe, and Affordable.

California River Watch Settlement Agreement

On July 7, 2016, the City entered into a settlement agreement with California River Watch regarding alleged Clean Water Act violations. The settlement agreement included a “sunset” date of July 7, 2023, which meant, in part, that California River Watch agreed not to sue the City for the period between July 7, 2016, and July 7, 2023 (refer to further discussion in the Background section of this Council Agenda Report). The settlement agreement required the City to consider two Supplemental Environmental Programs intended to secure significant benefits to the local environment. The following programs are excerpted from that agreement:

Lateral Inspection and Repair Program: Within one (1) year from the Effective Date of this Agreement, the City staff shall recommend to the City Council an ordinance establishing program for the inspection, repair, and/or replacement of private

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sewer laterals. The program proposed will use the following events as a basis or trigger” for inspection, repair, and/or replacement:

1. Transfer of ownership of the property if no inspection or replacement of the sewer lateral occurred within twenty (20) years prior to the transfer;
2. If two (2) or more sanitary sewer overflows are caused by the same private sewer lateral within the immediate past two (2) years; or
3. Where the application for a building permit indicated the expected addition of flow through the private lateral (e.g. addition of bathrooms, bedrooms, addition living space).

Voluntary Private Lateral Replacement Rebate Program: The City staff shall recommend a Voluntary Private Lateral Replacement Rebate Program. For three (3) years from establishment, the Program will provide, on a first come, first served basis, one thousand (\$ 1,000) dollars toward the total replacement costs of a residential private lateral, not to exceed a total of fifty thousand (\$ 50,000) dollars annually.

The settlement agreement with California River Watch did not mandate that the City adopt either of these programs, but it did mandate that the City Council consider an ordinance to establish such programs. Council provided direction to staff at study sessions on October 4, 2016, and April 4, 2017. This lawsuit settlement has subsequently sunset (expired).

Current Policy Regarding Private Sewer Lateral Inspection Upon Sale Regulations.

The City Council received presentations and provided direction to staff regarding wastewater system capacity constraints at study sessions on [October 4, 2016](#), and [April 4, 2017](#). On [May 16, 2017](#), Council considered and did not approve a proposed private sewer lateral ordinance that would have required mandatory repair or replacement of defective laterals prior to a change of ownership in real property. Following the 2017 study sessions, and after deliberation and further study, the City adopted Sewer Lateral Inspection and Offset Program requirements ([August 20, 2019](#)), and the Private Sewer Lateral Rebate program ([August 20, 2019](#)), which are currently in place today as part of the City’s Municipal Code.^{1, 2, 3} Minor amendments to the Code were subsequently adopted by the City Council on [May 7, 2024](#). The current inspection upon sale requirements do not require the repair or replacement of defective laterals.

DISCUSSION

Background

Private sewer laterals are the portion of the sewer lines that connect from a residence or commercial structure up to and including the point of connection with the publicly owned sewer main. The City estimates that there are **13,421** private sewer laterals citywide,

¹ [Municipal Code Subsection 13.08.395\(C\)\(1\)\(h\)](#) Inspection of Existing Private Sewer Laterals

² [Municipal Code Subsection 13.08.395\(I\)](#) Rebate Programs

³ [Municipal Code Section 13.08.396](#) Wastewater flow offset

including **3,052** within the updated capacity-constrained areas (Figure 1).⁴ An interactive map showing the boundaries of the capacity-constrained areas and the known and unknown condition of private sewer laterals within the City is available to the public at www.slocity.org/laterals. Notably, *this is a significant reduction from the 7,000 private sewer laterals located in the prior capacity-constrained areas.* Capacity-constrained areas are portions of the City’s municipal wastewater collection (sewer) system that lack or have limited capacity to serve existing and future development during wet weather conditions.

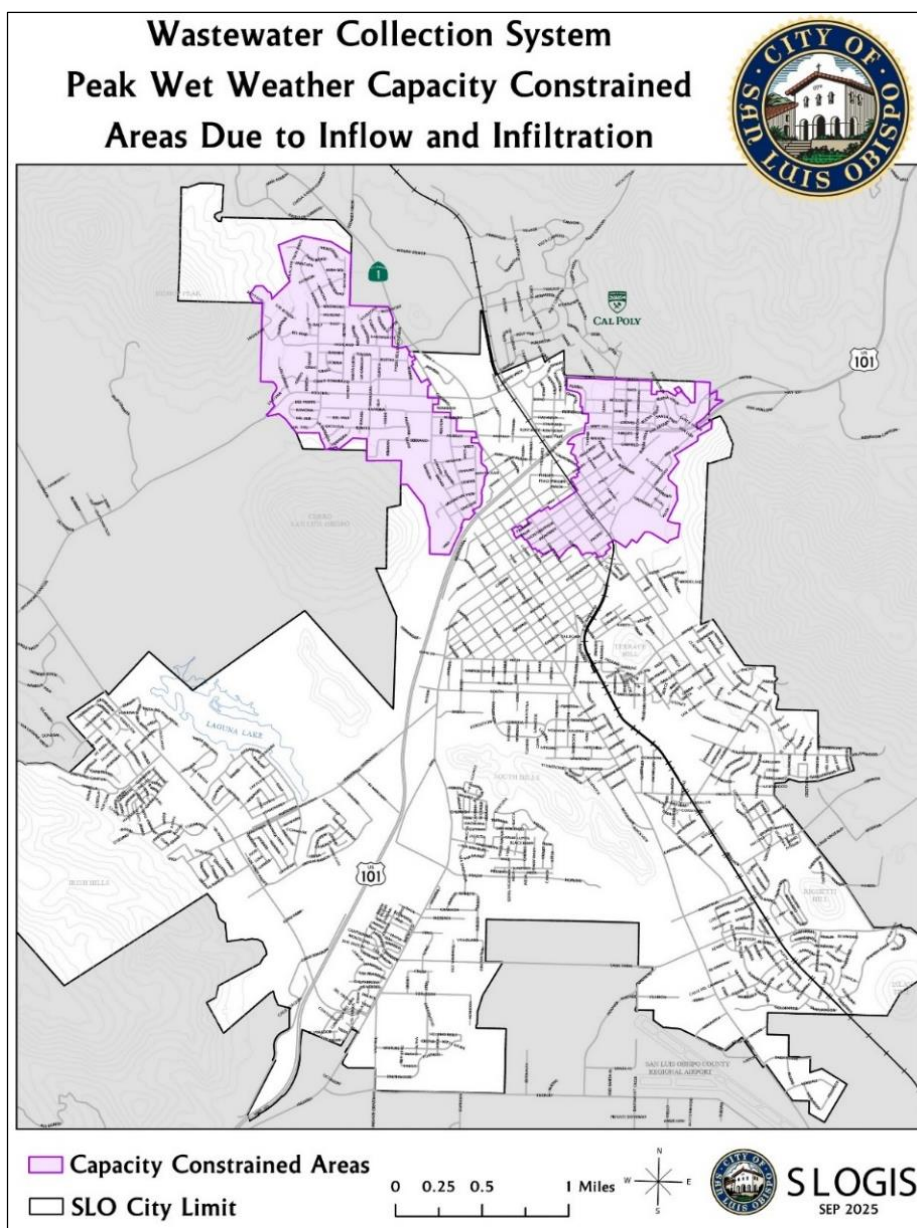


Figure 1: Sewer Capacity-Constrained Area Map

⁴ The City Council adopted a General Plan Amendment to the Water and Wastewater Element on [December 2, 2025](#), which included an updated Wastewater Flow Capacity-Constrained Area Map.

Where private sewer laterals in poor or failed condition connect to the City sewer, groundwater flows into the sewer, and these areas of the collection system experience “surcharging,” a condition where the sewer pipe is so full that the wastewater flow starts backing up in the pipe and sometimes exits through toilets or access locations in the public streets. This is especially prevalent in capacity-constrained areas, which can lead to sewer spills.

Figure 2, below, represents the annual number of sewer spills since 2021, and shows that there has been a reduction in sewage spills originating from City infrastructure. The data also show that there are still spills originating from private infrastructure, indicating that a private sewer lateral replacement program is still important.

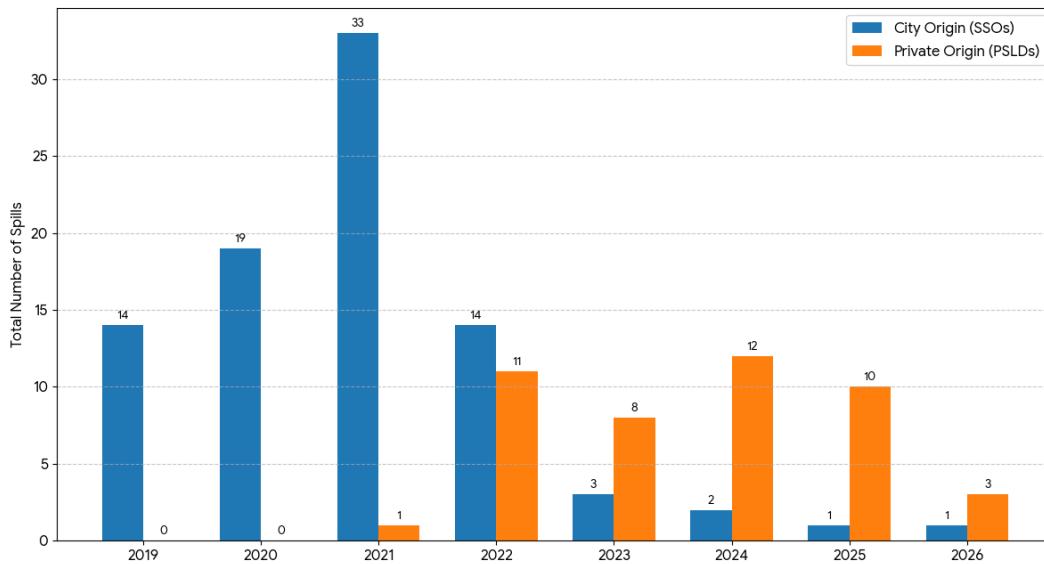


Figure 2: Sewer Spills as of March 2026 (Private Sewer Spill Reporting Requirements Began in 2021)

Private Sewer Lateral and Wastewater Offset Programs

There are two Municipal Code Sections and associated Programs that are proposed for amendment. While the requirements, process, and regulations for implementation of these Programs are identified in different sections of the Municipal Code, they share a similar purpose: to reduce inflow and infiltration from private sewer laterals, reduce the potential for sewer spills and associated impacts to public health, safety, and general welfare, and improve and maintain capacity with the municipal sewer system while accommodating development. A general and simplified summary of these programs and associated Code sections is provided in Table 1, below.

Table 1. Current Program, Municipal Code Section, and General Applicability

Program	Municipal Code Section	Where Required	General Summary
Sewer Lateral Inspection, Repair, and Replacement Program	13.08.395 Private Sewer Laterals/Systems	Citywide	<p>As further specified in the Code, and applicable Citywide, requires a property owner to submit an inspection video of their private sewer lateral for review by the City. The existing Code identifies the actions triggering an inspection, including but not limited to a property sale within the City.</p> <p>An inspection is not required if:</p> <ul style="list-style-type: none"> a. The private sewer lateral has been replaced within the past 20 years. b. An inspection has been submitted to the City within the past 5 years. c. The private sewer lateral is located in a common interest development and is privately maintained. <p>As further specified in the Code, if the sewer lateral is in poor or failed condition, the lateral must be repaired or replaced under all circumstances triggering an inspection except a property sale.</p>
Wastewater Flow Offset Program	13.08.396 Wastewater Flow Offset	Within Wastewater Collection System Capacity-Constrained Areas	<p>As further specified in the Code, currently requires property owner or developer proposing new development or intensification of the existing use or development within capacity-constrained areas to offset the project's wastewater flow by replacing a poor or failed-condition sewer lateral(s) or completing an in-lieu capital improvement within the capacity-constrained area. Current regulations mandate an offset requirement for new development and intensification of an existing use.</p>

Inspection of and Replacement of Existing Private Sewer Laterals

The City Council adopted a Municipal Code amendment on [August 20, 2019](#), that requires, with some exceptions⁵, the inspection of private sewer laterals connected to the City's sewer system, at the property owner's sole expense, when certain events occur, such as sewer spills, transfer of property ownership, and certain building permit conditions⁶ (refer to Table 1 on the following page). Following an inspection required by the transfer of property ownership, the inspection results must be provided to the City and disclosed to the purchaser of the property, but repair/replacement of poor or failed laterals is currently not triggered by sale alone.

These inspections have produced a dataset critical to the success of the overarching private sewer lateral programs, which aim to correct private infrastructure deficiencies with a data-driven approach that is focused on the highest areas of risk. From 2019 to present, there have been **1,146** inspections completed through the Inspection Upon Sale Program. As outlined in Table 1 above, given that laterals newer than 20 years are not subject to mandatory inspection requirements, this dataset is focused on the oldest lateral inventory in the community. Of those **1,146** laterals inspected through the program, **341** (30%) were determined to be in poor or failed condition but were not required to be repaired or replaced because the current Municipal Code regulations do not require replacement of a poor or failed condition lateral based on property sale alone.



Figure 3: Private Sewer Lateral Root Intrusion

The current repair or replacement regulations, which are not presently applied to the Inspection Upon Sale Program, require repair or replacement of private sewer laterals, that do not comply with the condition requirements identified in the Municipal Code⁷ (refer to Table 2, below). As described in the existing regulations, conditions warranting full replacement rather than a point repair include a private sewage spill, findings of infiltration and intrusion, or a lateral with defects having not met the required pipe material requirements as identified in the City's Standard Specifications and Engineering Standards. The current regulations require the improvements to be implemented within 180 days.

⁵ [Municipal Code Subsection 13.08.395\(C\)\(2\)](#) Exceptions for inspection requirements of existing private sewer laterals.

⁶ [Municipal Code Subsection 13.08.395\(C\)\(1\)](#) Inspection of Private Sewer Laterals.

⁷ [Municipal Code Subsection 13.08.395\(B\)](#) Ownership, Maintenance, and Repair

Table 2. Current Sewer Lateral Inspection, Repair, and Replacement Program

Citywide Program and Code Section	When an Inspection is Required	Events Triggering Repair or Replacement Requirement	Conditions Warranting Repair or Replacement	Conditions Warranting Full Replacement
<p>Sewer Lateral Inspection, Repair, and Replacement Program</p> <p>13.08.395 Private Sewer Laterals/Systems</p>	<ul style="list-style-type: none"> a. Issuance of a Notice of Violation due to a private sewage spill b. Building permit c. Change of use d. New water meter or increase in the size of the existing water meter e. Subdivision of the property f. Evident inflow and infiltration affecting the sewer system g. Property sale 	<p>Inspection shows poor or failed condition lateral <u>and the following:</u></p> <ul style="list-style-type: none"> a. Issuance of a Notice of Violation due to a private sewage spill b. Building permit c. Change of use d. New water meter or increase in the size of the existing water meter e. Subdivision of the property f. Evident inflow and infiltration affecting the sewer system 	<p>Based on the inspection, repair or replacement is required if the private sewer lateral is not in compliance with the following:</p> <ul style="list-style-type: none"> a. Private sewer laterals shall be free of displaced joints, breaks, offsets, structural defects, damage, open joints, missing portions of pipe, root intrusion, cracks, leaks, sediment deposits, bellies in the pipe or any other similar conditions, defects or obstructions likely to cause or contribute to blockage of the private sewer lateral or the public sewer. 	<ul style="list-style-type: none"> a. Sanitary sewer overflow b. Findings of infiltration and intrusion c. Defects that do not meet the required pipe material requirements as defined in the City's Standard Specifications and Engineering Standards.

Citywide Program and Code Section	When an Inspection is Required	Events Triggering Repair or Replacement Requirement	Conditions Warranting Repair or Replacement	Conditions Warranting Full Replacement
			<ul style="list-style-type: none"> b. Private sewer laterals shall be equipped with cleanouts. c. Private sewer laterals shall not be constructed, either in whole or in part, of "Orangeburg pipe." d. It is unlawful to connect a private sewer lateral to storm drains, roof drains, yard drains, surface or subsurface drainage, groundwater, or other non-sewage pipes or drains. 	

Proposed Amendment to the Municipal Code Inspection Upon Sale Requirements

Staff recommend a Municipal Code amendment that would require repair or replacement of poor or failed condition laterals as determined through the Inspection Upon Sale Program (refer to Table 3 below). This amendment will result in a greater number of lateral replacements compared to the current Program and is anticipated to result in a reduction of inflow and infiltration affecting the Citywide municipal sewer system, a reduction of sewer spills Citywide, an increase in Citywide sewer system capacity during wet weather, and a reduction in the capacity-constrained area boundaries.

The recommended effective date for this requirement is **January 1, 2027**, to allow for additional outreach and education to key stakeholders and the broader community. Staff are *not* proposing retroactive replacement requirements for laterals that have already been inspected and condition-rated through this program.⁸

Table 3. Existing and Proposed Triggers for Sewer Lateral Inspections and Repair/Replacement

Trigger	Current Ordinance (Citywide)		Proposed Ordinance (Citywide)	
	Inspection Required	Replace/Repair (failed/poor condition)	Inspection Required	Replace/Repair (failed/poor condition)
Property Sale	X		X	X
Sewer Spill (Notice of Violation)	X	X	X	X
Building Permit (specified scope)	X	X	X	X
Change of Use (specified scope)	X	X	X	X
New Water Meter or Increase in the Water Meter Size	X	X	X	X
Subdivision	X	X	X	X
Evident inflow/infiltration	X	X	X	X

⁸ From 2019-present, 341 laterals have been conditioned as poor or failed and have not been replaced.

Replacement requirements, administered through a staff-issued Notice to Correct, would allow 180 days for replacement (from the time of notification from the City), which is consistent with existing requirements. The replacement duration may be extended at the discretion of the Public Works and Utilities Director, given that good faith efforts have been made to complete the work and there are extenuating circumstances that result in replacement not being feasible by the assigned deadline (see Figure 4).

Existing rebates would remain available to help offset the cost of the work for community members, including the following:

- **Private Sewer Lateral Inspection Rebate (up to \$350):**
 - Applies to all property types within capacity-constrained areas
 - Inspection completed on or after December 2, 2025
- **Private Sewer Lateral Replacement Rebate (up to \$4,000):**
 - Citywide: single-family residences
 - Capacity-constrained area only: multi-family and commercial properties
 - Full replacements, only, completed on or after December 2, 2025

Staff continue to monitor and evaluate these existing rebate programs to ensure availability of sufficient funding. In the event application and funding trends demonstrate that the rebate programs could be expanded, staff may return to City Council for Rebate Program modifications. Staff continue to provide additional outreach to the community regarding these rebate opportunities.

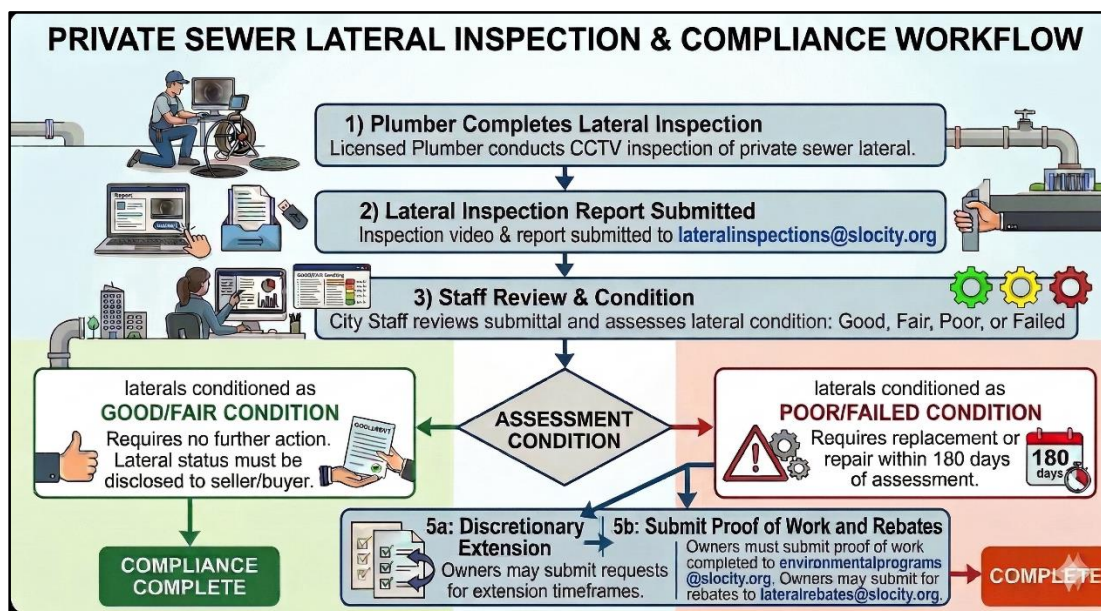


Figure 4: Inspection Upon Sale Workflow

Private sewer laterals not replaced within 180 days (or within the timeframe authorized by a Director extension) will result in an Administrative Citation and Notice of Violation,⁹

⁹ [Municipal Code Section 13.08.470](#) Authority of director, Notice of Violation.

and the City may withhold a building permit for repair, construction, or alternation associated with the property or require a financial surety.¹⁰

It is important to note that the prior staff recommendations brought forward to Council between 2017 and 2019 would have required that this work be completed prior to close of escrow. This previously recommended requirement was determined through outreach with realtors to be infeasible given the condensed timeframe associated with many real estate transactions. Ultimately, Council at that time elected to proceed with the current Wastewater Flow (Sewer Lateral) Offset and Inspection Programs to achieve desired community outcomes rather than imposing a replacement upon sale requirement.

Staff's current proposed recommendation addresses concerns expressed in 2017-2019 regarding the timing of any necessary replacements by allowing the lateral replacement to occur after the close of escrow, with opportunities for a discretionary extension. Additionally, delaying the implementation date for the proposed changes to January 1, 2027, and continuing educational support and outreach by staff will help to minimize impacts to the property sale process.

Wastewater Flow Offset Program

The existing Wastewater Flow Offset Program requires proposed intensified or new development projects located in capacity-constrained areas to "offset" the additional new flow in these areas by repairing existing failing private infrastructure before the new infrastructure is occupied. Municipal Code Section 13.08.396(A) states that:

"The city experiences surcharging in the wastewater collection system and sanitary sewer overflows during wet weather events due to inflow and infiltration. The purpose of these regulations is to establish a methodology whereby new or intensified development in capacity constrained areas as established by the city council could offset new wastewater flow to mitigate capacity constraints in the existing wastewater collection system to accommodate the project's additional demand."

From 2019 to present, **114** private sewer laterals have been replaced as a requirement of the current Wastewater Flow Offset Program.

Proposed Amendment to the Municipal Code Wastewater Flow Offset Requirements

Following the [August 19, 2025](#) City Council Study Session and adoption and implementation of the 2025 Wastewater Collection System Infrastructure Renewal Strategy, staff have conducted additional evaluations of the Wastewater Flow Offset Program. Based on the improved City wastewater flow model, advancements in wastewater flow data collection and analysis, and the proposed Municipal Code amendment summarized above related to the Inspection Upon Sale Program, staff's

¹⁰ [Municipal Code Section 1.24.200](#) Prohibition against issuance of permits.

Lateral Replacement Strategies: 2019-Present

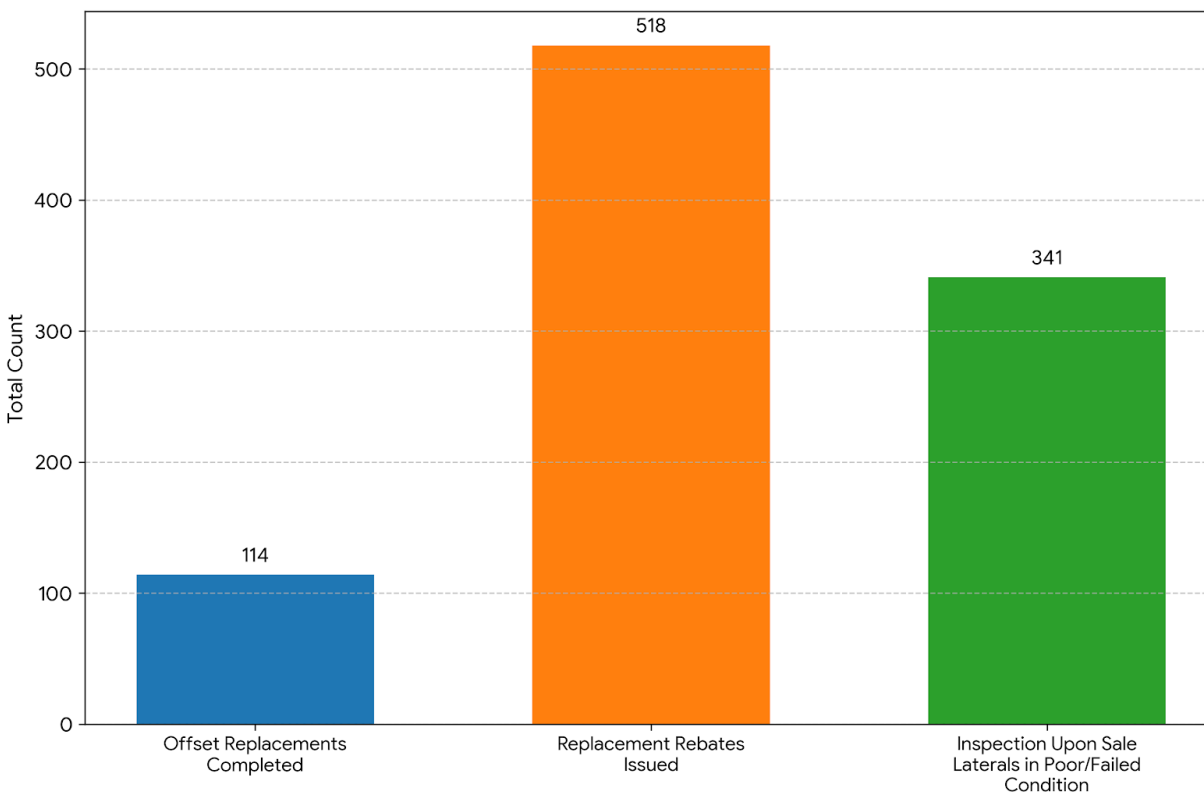


Figure 5: Private Sewer Lateral Replacement Strategy Comparison

Since 2019, 1,146 property sales required a private sewer lateral inspection, and 30% of these laterals were determined to be in poor or failed condition. Looking at this data, it is anticipated that this trend will continue, and staff anticipates the proposed combined changes to the Municipal Code and Sewer Lateral Inspection and Wastewater Flow Offset Programs, and continuance of the existing rebate programs, will result in a greater number of lateral replacements, a reduction of inflow and infiltration, and a reduction of sewer spills. Replacement of these laterals will ultimately contribute to the reduction of capacity-constrained areas of the sewer system.

These changes would result in other benefits related to City resources and challenges experienced by the community. Implementation of the Wastewater Flow Offset Program requires a significant amount of staff resources to administer compared to the gain of the 114 lateral replacements since 2019. In addition, based on continued outreach and community feedback, staff are aware of the burden on the community, property owners, and developers to locate a poor or failed condition lateral and conduct private negotiations with another property owner to satisfy the offset requirement. The Offset Program has been particularly challenging for property owners who are developing a detached Accessory Dwelling Unit or expanding an existing single-family residence to increase housing availability within the City.

From 2019 to 2025, the Wastewater Flow Offset Program, implementation of development agreements and conditioned improvements, and citywide initiatives aimed

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to reduce inflow and infiltration contributed to the reduction of capacity-constrained areas from approximately 2,100 acres to 1,100 acres, which is reflected in the revised map adopted on December 2, 2025. The updated 2025 capacity-constrained area map will continue to inform development projects in areas that have limited wastewater capacity, allow for analysis of a development's impact, and require mitigation of impacts through the discretionary and environmental review of an entitlement application. The proposed amendments to the Wastewater Offset and Private Sewer Lateral Programs will continue the pace of or accelerate the replacement of private sewer laterals and will provide additional condition assessments for the 33% of the privately owned laterals in capacity constrained areas that are currently unknown; see Figure 6.

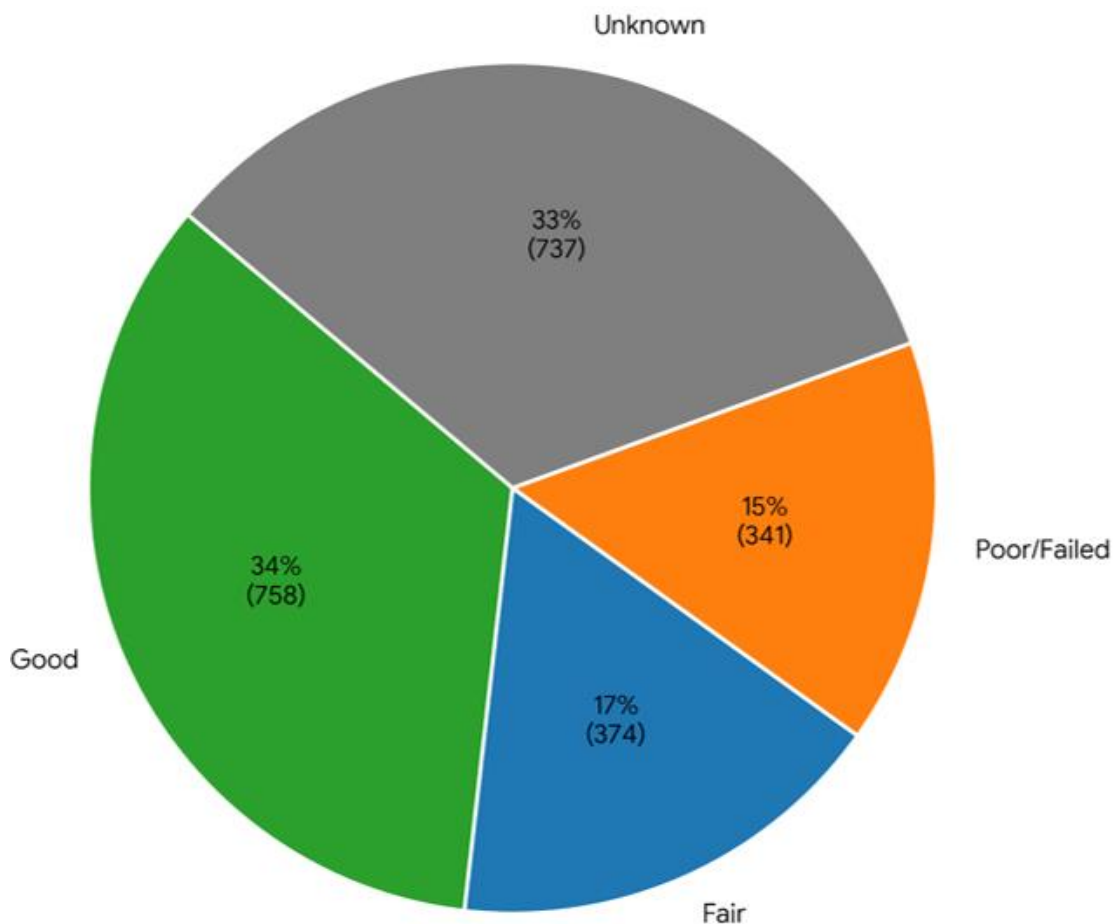


Figure 6: Current Private Sewer Lateral Conditions in Capacity-Constrained Areas

Continued Discretionary Review of Development and Use Entitlements

Staff will continue to conduct review of discretionary development projects, subdivisions, and use permits to determine the project's impact to the City's sewer system. In addition to a project's compliance with the City's Engineering Standards, flow offset requirements and on and offsite sewer improvements for discretionary projects and associated entitlements would be determined by an engineer's utility design narrative, assessment of existing affected infrastructure, and wastewater flow modeling and impact analysis conducted during the discretionary review process for specified entitlements. If these reviews indicate that a project would negatively impact the City's wastewater infrastructure, private sewer lateral offsets and other improvements to the wastewater system may be required as a means to mitigate those negative impacts.

The resulting offset requirement and/or infrastructure improvement would be adopted via conditions of approval and/or mitigation measures. This process would also allow for consideration of existing approved "wastewater offset credits" obtained by a developer under the existing ordinance and program. The process would follow the regular review, evaluation, and approvals for discretionary entitlement applications. Conditions of approval would be required *when reasonable and necessary to protect the public health, safety, and general welfare and ensure compliance with all applicable City regulations and policies*. The City's authority for conditioned approvals is established in existing City Municipal Code regulations, including [Title 17 \(Zoning Regulations\), Article 6 \(Permit Procedures\)](#). The conditions of approval would be implemented and verified during the building permit phase.

The overwhelming majority of development projects would not be subject to any future offset requirements under the recommended changes. Ministerial and Minor Development Review Projects (as defined in the City's Zoning Ordinance, Municipal Code Section 17.106.030) would not be subject to a wastewater flow offset requirement. For example, a single-family residence, the addition of an accessory dwelling unit (ADU), the remodel of an existing single-family residence, a 10-unit multi-family residential or mixed-use project, and commercial tenant improvement projects would not require capacity offsets based on the wastewater flow from these small projects. Projects that only require a building permit and do not require a discretionary entitlement would also not be subject to future offset requirements.

Based on the range of wastewater flow generated by future projects subject to discretionary review, the following entitlement categories would be subject to engineering analysis and flow modeling, and depending upon project and location-specific analysis, may be subject to a conditioned discretionary offset requirement based on the analysis:

1. **Citywide:** Major¹¹ Development Review Projects, such as a 50-unit housing project, subdivisions that would result in a 50-unit housing development (as one example), and amendments to the City's General Plan and/or a property's zoning designation.
2. **Within a Capacity-Constrained Area:** Moderate¹² Development Review Projects such as an 11-unit multi-family housing development or a subdivision that would result in an 11-unit residential project (as one example).

The results of the engineering analysis and flow modeling will determine the conditioned proportional offset, which may include but not be limited to public or private sewer improvements, such as upsizing a sewer main, and/or replacing private sewer laterals offsite. The City will continue to maintain the database and map showing the location of poor and failed-condition laterals, such that this information could be used by a developer to help satisfy the offset condition of approval.

Previous Council or Advisory Body Action

On [August 19, 2025](#), staff presented 1) the results of the 2025 Wastewater Collection System Infrastructure Renewal Strategy, including an updated capacity-constrained areas map, 2) recommendation for expanded rebate eligibility for private sewer lateral replacements and a new private sewer lateral inspection rebate, and 3) options to modify or dissolve the existing Wastewater Flow Offset Program. Council directed staff to 1) proceed to the Planning Commission and return to Council in December 2025 with an updated capacity-constrained sewer map for inclusion in an amendment to the Water and Wastewater Element of the General Plan, 2) return to Council with final recommendations for updates to private sewer lateral rebates, and 3) return to Council in 2026, following additional outreach and analysis, with updated recommendations regarding modifications to the Wastewater Flow Offset Program.

On [December 2, 2025](#), Council 1) adopted the new sewer capacity-constrained area map as part of a General Plan amendment to the Water and Wastewater Element, and 2) adopted updates to private sewer lateral rebates including extending eligibility for private sewer lateral replacement rebates to multi-family and commercial properties located in capacity-constrained areas (retaining existing eligibility for single-family homes citywide) and creation of a new private sewer lateral inspection rebate.

¹¹ Major Review Projects include multi and single-unit developments 50 units or more, and non-residential/mixed-use development more than 10,000 square feet in size, significant additions in the Downtown Commercial zone, and any project where an environmental impact report is required.

¹² Moderate Review Projects include multi and single-unit developments between 11-49 units and non-residential/mixed-use development 2,500 to 10,000 square feet in size, or a significant enlargement or modification.

Public Engagement

Since the December 2, 2025 Council Study Session, staff have met with various community stakeholders and key partners to generate discussion and feedback, which has been evaluated to determine alignment and to produce the recommendations in this report. In summary:

- January 8, 2026: staff met with several stakeholders in the development community.
- January 15, 2026: staff gave a presentation on proposed changes to approximately 20 San Luis Obispo Coastal Association of Realtors members at the San Luis Obispo Compass office.
- February 5, 2026: staff presented at the Developer’s Roundtable.
- March 12, 2026: staff gave a presentation to the San Luis Obispo Chamber Legislative Action Committee.
- March 23, 2026: Following the March 12 Chamber meeting, staff met again with several interested developers.
- March 27, 2027: staff met again with representatives from the San Luis Obispo Coastal Association of Realtors at the Compass office.

Both the realtor and developer communities have provided meaningful feedback and participated in collaborative discussions to refine the City’s approach. Stakeholder comments and concerns are summarized in Table 4 below, along with staff’s corresponding responses and approaches, as incorporated into the action recommendations (as applicable).

Table 4. Stakeholder Outreach Summary

Stakeholder Group	Comments and Concerns	Staff Response
Realtor	Hardship funding source beyond \$4,000 rebate for those who qualify.	Staff have not yet identified a Proposition 218-compliant funding source and administrative structure to implement this.
Realtor	Limited contractor availability to perform work.	Staff believe there are sufficient qualified contractors to complete work, and will conduct additional outreach to other qualified firms not currently performing replacements.
Realtor	Owner confusion between plumber and City assessment of lateral.	Staff are in the final stages of evaluating an online portal that would allow direct access to videos and comments. This would result in standardized review and serve as an additional tool for private bid procurement for replacement work.
Realtor	May not be able to complete work in 180 days.	Director discretion to extend deadline with demonstration of good faith effort.

Stakeholder Group	Comments and Concerns	Staff Response
Realtor	Education is needed.	Staff will coordinate an expanded roadshow to brokerage offices. Ordinance change proposed to be effective January 1, 2027 to allow for additional outreach and education.
Realtor	Consider mandated replacement of all existing poor/failed laterals rather than requiring replacement through Inspection Upon Sale Program.	Staff do not recommend this as replacement through property transfer allows for easier access to funding source for the replacement (i.e. included in home purchase financing).
Realtor	Potential delay to escrow closing.	Buyer and seller may negotiate replacement through terms of sale, similar to other contingency items.
Realtor	Can staff limit mandatory repair or replacement of poor/failed condition laterals conditioned through the Inspection Upon Sale process to only laterals located in capacity-constrained areas?	Staff's current recommendation to require mandatory repair or replacement applies to all laterals conditioned as poor/failed <i>City-wide</i> , which is consistent with all other replacement triggers (e.g. development and enforcement following sewer spills). These faulty laterals introduce groundwater and stormwater into the system during wet-weather flows and become obstructed during dry-weather flows (root intrusion), both of which lead to sewer spills.
Developer	What happens to current project requirements?	Project requirements may be waived upon Council's approval of staff's recommendations.
Developer	What happens with existing "credits" for offsets already completed?	Credits are available to use to offset future mitigation requirements and are subject to existing rebate eligibility.
Developer	If the Wastewater Flow Offset Program is dissolved, what is the project threshold for future mitigation or condition of approval requirements?	<ol style="list-style-type: none"> 1) All Major Development Review projects, subdivisions that would result in a major development-sized project, and amendments to the City's General Plan and/or a property's zoning designation. 2) Moderate Development Review projects and subdivisions that would result in a moderate development-sized project within a capacity-constrained area.

CONCURRENCE

The Community Development Department concurs with the proposed Municipal Code amendment. Developers have noted that the current sewer lateral program is a barrier to the development of housing, and the proposed changes could help facilitate housing development and achievement of Major City and General Plan Housing Element goals and policies. The proposed amendments also allow the continuing discretionary review and conditioned approvals for specified entitlements in order to ensure public health, safety and wellness. The City Attorney's Office has reviewed the draft Municipal Code amendment and has approved to form.

ENVIRONMENTAL REVIEW

The proposed Municipal Code amendment and associated Council-authorized discretion to the Public Works and Utilities Director is exempt from the California Environmental Quality Act (CEQA) pursuant to State CEQA Guidelines Sections 15307 (Actions by Regulatory Agencies for Protection of Natural Resources) and 15308 (Actions by Regulatory Agencies for the Protection of the Environment) because the proposed modifications are anticipated to result in a significantly greater number of replacements of private sewer laterals in failed or poor condition (both within capacity-constrained areas and citywide), which will result in a reduction in inflow and infiltration from groundwater and stormwater affecting the City's wastewater collection system, a reduction in wet weather sewer spills within capacity-constrained areas, and a reduction in private sewer lateral spills citywide.

In addition, currently, property sales require inspection of the private sewer lateral, only. If that lateral is in poor or failed condition, there is no current requirement to replace the lateral (unless other actions trigger the requirement, such as intensification through a permitting process). These failed or poor-conditioned laterals contribute to inflow and infiltration and have the potential to result in a sewage spill. Requiring replacement of private sewer laterals in failed or poor condition as a requirement of a property sale would avoid the potential for resulting private lateral sewage spills, which would have a beneficial effect on the environment. As evident in the data,¹³ these modifications to the program, including elimination of the mandatory offset requirements for projects currently meeting the definition of "intensification", would have an overall beneficial impact on the environment. Furthermore, the Municipal Code amendment does not eliminate the requirement for discretionary review for specified entitlements, review for consistency with General Plan policies regarding wastewater collection system capacity, and CEQA compliance, which requires consideration of a project's impact on water quality and a determination that the project can be adequately served by all required utilities and public services.

¹³ From August 2019 to March 2026, **114** private sewer laterals have been replaced as a requirement of the Wastewater Flow Offset Program. This is significantly less than the **341** private sewer laterals that were conditioned as poor/failed (but not replaced) through the Inspection Upon Sale Program during the same time period (Source: City of San Luis Obispo, 2026).

Item 7b

The physical construction of private sewer lateral replacements resulting from the Municipal Code amendment would be exempt from CEQA pursuant to State CEQA Guidelines Sections 15301 (Existing Facilities), and 15303 (New Construction or Conversion of Small Structures) as the new lateral would have substantially the same purpose as the lateral to be replaced, and would involve negligible or no expansion of the existing use.

FISCAL IMPACT

Budgeted: NA
Funding Identified: NA

Budget Year: 2025-26

Fiscal Analysis:

While there are no fiscal impacts directly associated with this item, the Utilities Branch will continue to administer private sewer lateral rebates through the currently adopted programs or until appropriated funds are exhausted each fiscal year.

Funding Sources	Total Budget Available	Current Funding Request	Remaining Balance	Annual Ongoing Cost
General Fund	\$0	\$0	\$0	\$0
State				
Federal				
Fees				
Other:				
Total	\$0	\$0	\$0	\$0

Summary of Staff Recommendations:

1. Modification of the Citywide Sewer Lateral Inspection Program to include repair or replacement of poor or failed condition laterals as determined through the Inspection Upon Sale process.
2. Dissolution of mandatory Wastewater Flow (Private Sewer Lateral) Offset Program requirements.
3. Continued discretionary review and determination of conditional wastewater flow offsets for specified entitlements based on modeling and analysis.
4. Public Works and Utilities Director discretion to waive pending offset improvements for entitled projects and building permits in process.

ALTERNATIVES

1. ***Council may direct staff not to amend Title 13 of the City's Municipal Code.*** This alternative would retain existing wastewater flow offset requirements for intensification projects and would not require mandatory repair or replacement of private sewer laterals determined to be in poor or failed condition through the inspection upon sale process. Impacts of this alternative include 1) retaining existing requirements for new development and intensification projects in the city, which increase costs associated with new development and housing, and 2) existing poor or failed laterals would not be replaced after ownership transfer, resulting in increased risk to the property owner, environment, and the city's sewer conveyance system.
2. ***Council may direct staff to proceed with partial amendments to Title 13 of the City's municipal code, retaining the wastewater flow offset program and only amending 13.08.395 to require mandatory replacement or repair of poor or failed condition laterals following inspection upon sale reports.*** Under this scenario, the number of private sewer lateral replacements would increase, and development projects would continue to be subjected to the offset program mandates.
3. ***Council may direct staff to proceed with partial amendments to Title 13 of the City's municipal code and only amend 13.08.396 to dissolve the mandatory wastewater flow offset program requirements for intensification projects.*** This action would not achieve the overall beneficial effect resulting from the replacement of poor or failed private sewer laterals following a condition assessment under the Inspection Upon Sale program, without a specified timeframe for lateral replacement. Since 2019, 341 sewer laterals have been determined to be in poor or failed condition during property sales, but these inspection reports did not require sewer lateral replacement after ownership transfer. Results include increased burden on ratepayers from inflow and infiltration (increased costs to convey and treat rainwater), emergency response following sewer spills, and risks to property owners, the public, and the environment associated with sewer spills.

ATTACHMENTS

- A - Draft Ordinance entitled "An Ordinance of the City Council of the City of San Luis Obispo, California, Amending Section 13.08.395 (Private Sewer Laterals/Systems) and Section 13.08.396 (Wastewater Flow Offset) of the City of San Luis Obispo Municipal Code."
- B - Draft Resolution entitled "A Resolution of the City Council of the City of San Luis Obispo, California, Authorizing the Discretion of the Public Works and Utilities Director to Waive Wastewater Flow Offset Program Requirements and Resolution and Determination of Satisfaction of Conditions of Approval Related to Wastewater Flow Offsets."