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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

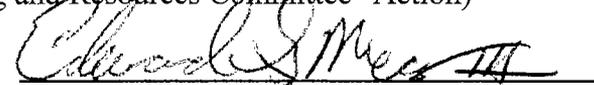
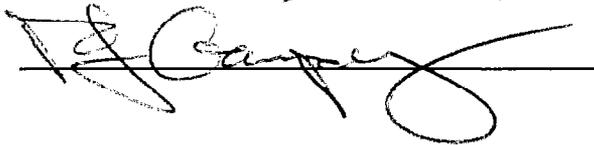
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September 25, 1997

To: Board of Directors (Budget and Finance Committee--Action)
(Water Planning and Resources Committee--Action)

From: *for* General Manager

Submitted by: Robert J. Gomperz, Acting Director
of Public Affairs and Conservation

Subject: Advances to Member Agencies to Operate Conservation Programs

RECOMMENDATION(S)

It is recommended that:

- Your Board approve a policy which allows funds to be advanced to Metropolitan's member agencies to assist in establishing and running Conservation programs.
- The General Manager be authorized to provide up to 25 percent of the proposed total value of Metropolitan funding upon execution of an agreement with a member agency, with on-going recovery of the advanced funds through the term of the agreement.

EXECUTIVE SUMMARY

Metropolitan's staff has been participating with its member agencies Conservation staffs to produce a wide variety of Conservation programs since your board initially authorized the Conservation Credits Program in 1988 (Board Letter 8-1 dated August 8, 1988). Occasionally, a participating member agency may ask for advance funding for a portion of the expected Metropolitan share of total cost of a Conservation project in order to have the funds available to start up the project and/or to meet the increased cash flow requirements of larger programs.

The purpose of this letter is to clarify your board's intention regarding the practice of advancing funds to member agencies to assist them in the performance of Conservation programs.

DETAILED REPORT

When your Board approved the Conservation Credits Program (CCP) in 1988 (Board letter 8-1 dated August 8, 1988), Metropolitan's staff began working with its member agencies' Conservation coordinators to develop water efficiency programs that would provide a broad range of Conservation opportunities. Programs have been developed to appeal to residential customers, large turf irrigators, and business and industrial customers. Many of the programs have involved replacement of inefficient equipment, fixtures and sanitary facilities at low or no cost to the customer. By offering financial incentives to customers, the installation of water efficient devices has resulted where there would have not otherwise been a retrofit.

In the early 90s, when Southern California was in the middle of a severe drought, Metropolitan used "up front" financing (by means of a Conservation Credit on the member agencies' water bills) of as much as 100 percent of the project costs in order to assist the fledgling Conservation movement in Southern California. This was done on an as-needed basis, as some member agencies did not have operating revenue necessary for their Conservation programs and would have been unable to participate in the CCP. As of last year, staff believed that Conservation programs had reached a level of maturity where it was no longer necessary to issue advance funding and all new CCP agreements allowed for payment of Conservation Credits only upon verification of completed retrofits. At the Conservation Summit held in August, some member agencies requested that Metropolitan again provide advance funding, because these agencies still require advance funds to fuel startup and continuing operating needs of their programs. Providing advances will allow member agencies to participate in water conservation projects that will help them achieve their Integrated Resources Plan (IRP) goals. In fiscal 1995-96, the amount of water saved through active water conservation programs was estimated to be 37,000 acre-feet per year, and by the year 2010 IRP targets for conservation are 343,000 acre-feet per year. Metropolitan's CCP is designed to help the member agencies achieve these very important regional goals. Through advances, member agencies will be better able to undertake large projects that they otherwise may not have implemented due to local fiscal constraints.

Providing advances to the member agencies will cost Metropolitan lost interest on the amount advanced. However, the potential cost of lost interest earnings is small. If Metropolitan provides \$500,000 in advances in any one fiscal year, and the participating member agencies pay back the advanced amount throughout the fiscal year, it is estimated that the interest earnings losses will be less than \$20,000 per year.

Typically, Metropolitan is being asked to advance a Conservation credit of up to 25 percent of Metropolitan's expected contribution to the member agencies Conservation program upon the execution of an agreement between the member agency and Metropolitan. The advance is provided by means of a Conservation Credit on the member agencies water service billing. After the member agency commences the program operations, it will submit quarterly invoices to Metropolitan for Conservation work completed up to that point. Metropolitan will then pay the member agency through a Conservation Credit in the agencies next water bill, based on the terms of the agreement. Metropolitan will recover the amount of its advance by paying \$.75 on every \$1.00 that it is invoiced until the amount of the advance is returned. At the conclusion of the program there will be a reconciliation of all costs and invoices according to the terms of the agreement. All money paid by Metropolitan as advances, ongoing payments for Conservation retrofits, or money to be returned to Metropolitan is accomplished through credits or debits on the participating agencies water service billing.

In reviewing the several Conservation-related letters that have been submitted to your Board since the inception of the CCP, there has never been a specific discussion about the policy of advances. It is the General Counsel's opinion and the staff's desire that this practice used to implement the CCP be specifically authorized by your Board.

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