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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

[Signature]
 EXECUTIVE SECRETARY

December 27, 1994

(Finance and Insurance Committee -- Information)
 To: Board of Directors (Water Problems Committee -- Information)
 From: General Manager
 Subject: Proposed Conservation Budget Process for Fiscal Year 1995-96

Report

At the September 1994 Board meeting, your Board authorized an additional \$5.1 million to the Ultra-Low-Flush (ULF) Toilet Program budget, increasing the total conservation budget for fiscal year (FY) 1994-95 from \$19.4 million to \$24.5 million. This increase covered \$3.2 million of existing contract carryover and \$1.9 million in unfunded new requests. With this authorization, staff was directed to return to your Board with recommendations of an allocation method for dealing with all program sectors of the conservation budget, not just the ULF toilet program sector.

Because of the similarity in timing of the budgeting processes within Metropolitan and its member agencies, it has been difficult in the past to predict in Metropolitan's budgeting process what amounts of funding each member agency would request for conservation projects. Also, because it is typically May before agencies receive a relatively firm estimate of Metropolitan's conservation budget and June before the actual budget is approved, the timing of this notice relative to the timing of their budgeting processes often hinders their budgeting of conservation expenditures.

In the current fiscal year, the results of this budget timing issue became very apparent. Funding demands for conservation projects far exceeded Metropolitan's conservation budget, but the scale of those demands was not fully apparent until well after the Conservation budget was approved by your Board in June.

To avoid future requests for budget supplements that occur well into the budget year, and to accommodate anticipated changes in overall Metropolitan priorities and funding methodologies that are expected to arise from the Integrated Resources Planning (IRP) process, staff proposes an interim solution for the FY 1995-96 budget. Once the

outcomes of the IRP process are fully developed, staff will return to your Board with a longer-term solution to these budgeting issues.

To address the budgeting problem created by carryover, staff proposes to use the accrual provisions of Metropolitan's new chart of accounts, scheduled for implementation in February, 1995. Under these accounting provisions, any unexpended funds, contracted for in the current fiscal year for specific conservation projects that have not yet been completed by the end of that fiscal year, will be placed in an accrual account and reserved for those projects during the upcoming fiscal year. The funding for these carryover projects will not be taken from the conservation budget of the upcoming fiscal year. Carryover will be granted this funding extension for only one year.

The announcement of the Conservation Credits Program (CCP) portion of Metropolitan's conservation budget for FY 1995-96 will be moved up to February 1995, rather than being announced in June. This solution addresses the Metropolitan/agency budget timing issue in the steps listed below (see Attachment A for the proposed timeline):

1. In February, staff will present to your Board for its approval, a preliminary \$19.4 million budget and proposal application process that: a) defines how much funding would be available for each program sector (landscape, ULF toilets, commercial/industrial/institutional, residential audits, etc.) distinguished from budget estimates for program evaluation, and program administration; b) provides descriptions of the types of projects that would be considered for applications to each sector; c) allocates funds in the ULF toilet sector (based on the established, Board-approved allocation method), indicating the amount each of the 27 member agencies would receive if each subscribed for its full allotment; and d) requests member agencies to submit funding proposals by March 15, 1995. The \$19.4 million is the same funding level provided in FY 1993-94 and FY 1994-95.

2. In May, staff will present to your Board an overall list of approved requests for CCP funding for its consideration in determining the appropriate level of funding for conservation. Included will be the selection criteria that staff used for allocating funds among the non-ULF Toilet program sectors if the applications for these sectors should exceed the Board's budget appropriation.

3. In June, your Board approves the conservation budget. If the final budget appropriation matches the approved requests for funding, all proposals will be funded.

However, if the final budget appropriation is less than the requested funding, ULF toilet sector funds will be allocated based on the established allocation method, and other program sector funds will be allocated based on the selection criteria presented in Step Two.

Regarding the United States Bureau of Reclamation (USBR) co-funding that Metropolitan has provided for the last two years; there is considerable uncertainty about the availability of future funding that Metropolitan can count on. Also, future funding pools from USBR will be provided in a "challenge grant" program for USBR contractors to apply for as managed by another organization. This uncertainty and the process change that will facilitate each member agency applying directly to USBR makes it impossible for staff to anticipate on a co-participation level.

In member agency proposals to Metropolitan, if there is an anticipation that USBR funds may be available to them to reduce their shared portion of their CCP application, member agencies should apply to Metropolitan's CCP as a standard proposal since USBR funding does not affect Metropolitan's share. Those applications will be subject to the same consideration as any other proposal as outlined above.

Recommendation

For information only.

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General Manager

Submitted by:

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Concur:


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Attachment

Attachment A

**Proposed Conservation Budget Process
Timeline for Fiscal Year 1995-96**

1. February 1) Staff requests Board approval of preliminary conservation budget,
2) submits preliminary allocation of Conservation Credits Program funds, and
3) requests proposal submittals.
2. March 15 Close date for submission of conservation project proposals.
3. May Staff submits to the Board the list of approved proposals and the amount of funding requested by member agencies.
4. June Board announces final conservation budget.
5. June Staff informs member agencies of the budget allocations.
6. June If necessary, member agencies adjust their requests to match their budget allocations.