

- **Board of Directors**
Audit, Budget and Finance Committee

August 20, 2001 Board Meeting

9-5

Subject

Authorize an additional \$4 million to allow Metropolitan's Commercial, Industrial and Institutional Pilot Regional Conservation Program to continue until February 2004

Description

In March of 2000, the Board authorized a \$2.5 million, three-year, two-phase Pilot Program using the services of Honeywell DMC Services, Inc. (Honeywell) to process water-conserving device rebates for Commercial, Industrial and Institutional (CII) sectors. Originally, \$1.5 million would be used from Metropolitan's Conservation Credit Program to pay established rebate amounts and \$1.0 million would be sought from outside funding to increase the rebate amounts and pay for vendor services. Phase 1 of the Pilot Program was launched in February of 2001 with the following features:

- Consolidated administrative services through a single point of contact utilizing a toll free number
- Higher rebate payments
- Coordinated regional and local marketing

In Phase 1, Metropolitan is funding rebate levels up to the established \$154/acre-foot incentive level and the U. S. Bureau of Reclamation (Reclamation) and CALFED are funding rebate values beyond that ([Attachment 1](#)). The higher rebates were judged necessary for market penetration and were established with member agency input. Phase 1 of the Pilot Program is proving successful in increasing the business sector response to conservation incentives. The quantity of water efficient equipment installed per month has tripled since pre-program activity. However, under the current market response rate, available grant funding (\$228,000) will be depleted later this year and Phase 2 of the Pilot would have to be suspended.

Staff has projected that an additional \$4 million would sustain the Pilot Program through its original three-year term concluding in February 2004. Of the \$4 million, approximately \$1.4 million would be used for vendor fees, public outreach, marketing, inspection services and assessment of the factors driving business sectors' response. During implementation, staff will come back to the Board for any necessary authorizations regarding the terms of future contractor agreements.

The requested \$4 million would be added to the \$1.5 million from the Conservation Credits Program funds already earmarked for rebates for a total cost to Metropolitan of \$5.5 million over three years. The fiscal year 2001/02 Operations and Maintenance (O&M) budget would need to be increased by \$1.3 million. The remainder of the increases would be included in future O&M budget requests.

Consistent with the approach established in Phase 1, rebate amounts that are greater than those previously established by Metropolitan would be used in test situations to determine market response. Metropolitan's share of test-rebate amounts would not exceed the maximums listed in [Attachment 2](#) and may be lower as the market response supports. Member agencies, at their discretion may continue to add to the overall rebate amount offered in their local jurisdictions as they have done in Phase 1.

Metropolitan staff is aggressively pursuing outside funding and has secured \$228,000 from Reclamation and CALFED to date. Member agencies have contributed an additional \$74,000 to bring the total outside funding to \$302,000; however, the amount of future outside funding is uncertain. Any additional outside funding, including contributions from member agencies, will be used to increase rebates and/or participation beyond

Metropolitan's contributions. The following is a breakdown of the potential sources of funding for the Pilot Program:

Potential Sources of Funds

	Low Estimate	High Estimate
Metropolitan*	\$5.5 million	\$5.5 million
Member Agencies	\$0.9 million	\$0.9 million
Outside Grants	\$0.3 million	\$1.5 million
Total	\$6.7 million	\$7.9 million

*Includes the \$1.5 million previously approved by the Board.

As the Pilot Program continues, staff will investigate methods to accomplish a favorable business sector response while maximizing program efficiency. Adjustments to rebate levels, marketing strategies and other management control techniques may be utilized in this effort. With the experience gained from this three-year Pilot Program, staff will work with the member agencies to devise a sustainable long-term regional program for future Board consideration.

CEQA

The proposed action is not defined as a project under the California Environmental Quality Act (CEQA), because it involves continuing administrative and maintenance activities (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it involves government fiscal activities, which do not involve any commitment to any specific project, which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action is not subject to CEQA per Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

Policy

By Minute Item 43928, dated March 14, 2000, the Board authorized the current Pilot Program and accepted a grant of \$150,000 from the Reclamation for the first phase of the Pilot Program.

By Minute Item 42609, dated September 9, 1997, the Board approved the CII Conservation Program and authorized the General Manager to enter into agreements with member agencies to participate in the Program.

Board Options/Fiscal Impacts

Option #1

Adopt the CEQA determination and authorize:

- a. an additional \$4 million over three years to allow Metropolitan's Pilot Program to continue until February 2004.
- b. an increase in the O&M budget of \$1.3 million for FY 2001/02.
- c. the maximum incentive rates listed in [Attachment 2](#).

Fiscal Impact: Increase Metropolitan's expenditure by up to \$4 million over three years and \$1.3 million in the O&M budget for FY 2001/02.

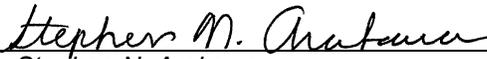
Option #2

Direct the Chief Executive Officer to continue the Pilot Program until outside funding is exhausted and then revert to previous Board approved financial incentives for member agencies to resume their own programs.

Fiscal Impact: No additional cost beyond budgeted Conservation Credits amounts.

Staff Recommendation

Option #1


Stephen N. Arakawa
Manager, Water Resource Management

8/3/2001

Date


Ronald R. Gastelum
Chief Executive Officer

8/3/2001

Date

Attachment 1 – Phase 1 Commercial, Industrial and Institutional Regional Pilot Program Costs

Attachment 2 – Metropolitan’s Maximum Rebate Levels

BLA #1225

**Phase 1 Commercial, Industrial and Institutional
Pilot Regional Program Costs**

Rebate Item	Metropolitan Authorized Incentives	Grants Contribution		Member Agency Incentives	Total Unit Cost
		Rebates	Vendor Services		
ULF Toilets					
Flushometer	\$60	\$0 - \$60	\$17 to \$20	\$0 to \$75	\$137 to \$215
Tank Type	\$60	\$0 - \$30	\$17 to \$20	\$0 to \$75	\$107 to \$185
Flush Valve Retrofit Kits	\$15		\$14	\$0 to \$10	\$29 to \$39
ULF Urinals	\$60		\$17 to \$20	\$0 to \$60	\$77 to \$140
Commercial Clothes Washers	\$100	\$150	\$70 to \$80	\$0 to \$200	\$320 to \$530
Cooling Tower Conductivity Controllers	\$500		\$103 to \$130	\$0 to \$200	\$803 to \$830
Pre-rinse Spray Heads for Dish Washing	\$50		\$17	\$0 to \$30	\$67 to \$97

Metropolitan's Maximum Rebate Levels

	Metropolitan Authorized Incentive	*Maximum Additional Incentive	**Maximum Total Incentive
ULF Toilets			
Flushometer	\$60	\$60	\$120
Tank Type	\$60	\$30	\$90
Flush Valve Kits	\$15	\$0	\$15
ULF Urinals	\$60	\$60	\$120
Commercial Clothes Washer	\$100	\$150	\$250
Cooling Tower Conductivity Controllers	\$500	\$400	\$900
Pre-Rinse Spray Heads for Dishwashing	\$50	\$0	\$50

*The values in this column of additional incentives may be used during the course of the Pilot Program as market penetration is evaluated and program adjustments made

** Higher incentives may be provided through additional funding contributed by member agencies for their service areas