

● **Board of Directors**  
**Water Planning and Stewardship Committee**

November 18, 2008 Board Meeting

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**Revised 8-2**

**Subject**

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Authorize (1) \$22 million for extraordinary conservation programs and (2) \$13 million of increased contracting authority with Honeywell International to process incentives; and adopt resolution accepting state grant

**Description**

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New conservation measures are proposed as part of the Five-Year Water Supply Plan effort. These measures were formulated to reduce near-term demands in response to expected supply limitations. The measures include:

- Expand the Public Sector Program with a \$15 million Phase II
- Establish a new \$7 million Turf Removal Pilot Program including use of a \$2 million state grant

In order to provide incentives to customers for the new measures and sustain Metropolitan's regional commercial program through 2009, contract authority with Honeywell International needs to be increased by \$13 million.

To help foster immediate and widespread efficiency practices by the public, local jurisdictions would be requested to enact conservation ordinances as prerequisites for participating in the proposed measures and certain other Metropolitan incentive programs.

**Expand Public Sector Program**

The Accelerated Public Sector Water Efficiency Partnership Demonstration Program (Public Sector Program) was approved in 2007 at \$15 million to demonstrate leadership in water use efficiency by public agencies. To date, 22 member agencies and over 130 public agencies have participated in the program. At \$15 million, Phase I of the program is fully subscribed, and the conservation objective is being realized. An additional \$2.9 million in applications have not been granted due to funding limits. A summary of the program is contained in [Attachment 1](#).

Recently, a group of member agencies requested that Metropolitan increase program funding and make other changes because of its initial success. Also, extending this program was a proposal discussed by the Five-Year Water Supply Plan Conservation Committee with the Member Agencies. In response, staff recommends a \$15 million Phase II Public Sector Program to achieve conservation and recycled water retrofits, which will increase program funding from \$15 million to \$30 million, removes the minimum 50-acre-foot water use requirement for participation, and eliminate a \$250 per acre-foot water savings performance track option for non-device-based savings.

Staff would manage the program over a three-year period, with about \$5 million spent each year. Upon conclusion of Phase II, public agencies will continue to be eligible for conservation incentives at our standard rates through the regional commercial program. Staff will also aggressively seek state and federal grants to supplement Metropolitan's conservation incentives for public agencies.

**Approve New Turf Removal Pilot Program**

Significant outdoor conservation savings can be achieved by switching turf to low-water using landscapes. Metropolitan currently provides public education and rebates for selected irrigation equipment retrofits. Several other public agencies have implemented such removal programs. Through Metropolitan's annual review process, the member agencies suggested that Metropolitan initiate a pilot program. The pilot was also a proposal discussed by the Five-Year Water Supply Plan Conservation Committee.

Staff proposes an incentive of \$1 per square foot of removed turf, about four times Metropolitan's standard conservation incentive rate, to motivate participation by residential and commercial customers. Gaining a better understanding of the regional savings potential and implementation processes of turf removal is the basis for providing the greater incentive for the limited duration pilot. The pilot would cost \$7 million, which would be funded by \$5 million from Metropolitan and \$2 million from a state grant.

The pilot would target an approximately 50 percent split between residential and commercial turf removal. Metropolitan would administer the program by using its existing vendor, Electric and Gas Industries Association, for residential transactions; staff for commercial transactions; and follow with adjustments, if needed, based on experience gained.

### **Adopt Resolution Accepting a State Grant of \$2 Million for Turf Removal Pilot Program**

With the \$2 million state grant, the Turf Removal Pilot Program would cost Metropolitan about \$526 per acre-foot conserved. Staff recommends adopting a resolution (**Attachment 2**) required to accept the \$2 million state grant for the program. The Turf Removal Pilot Program would start upon execution of the grant contract with the Department of Water Resources, projected to be in early 2009.

### **Increase Contracting Authority for Extraordinary Conservation Measures**

Staff recommends an additional \$13 million in vendor contracting authority with Honeywell International. Metropolitan selected Honeywell through a competitive process and uses its services primarily to process incentive payments to commercial customers including public agencies. The Honeywell contract would increase from \$45 million to \$58 million to address:

\$5 million for the Phase II Public Sector Program: Staff proposes using the services of Honeywell to implement the next \$5 million of Phase II Public Sector funds through the remainder of the fiscal year. Thereafter, staff expects to use the services of a newly selected vendor through a competitive process, for the remainder of Phase II.

\$8 million to provide commercial retrofit incentives to customers next year: The greater than expected response to the Phase I Public Sector Program consumed contracting authority slated for Metropolitan's regular commercial retrofit program. Staff recommends that the Honeywell contract be increased by \$8 million to allow continued service into mid-2009, when a new vendor contract will be proposed. These funds are budgeted and it is only the contracting authority that is needed to process incentive payments.

Of the \$13 million increase, about ten percent (\$1.3 million) would be for vendor services. The remainder would be incentive payments, either Metropolitan's or the member agencies, passed to customers for their efficiency retrofits.

### **Eligibility Requirements**

We previously reported that approximately 200,000 acre-feet per year could be saved through implementation of conservation ordinances by local agencies. Staff proposes conditioning participation in the proposed Phase II Public Sector and Turf Removal Pilot programs on the adoption of conservation ordinances by local jurisdictions. In addition, new Enhanced Conservation Program ~~and Local Resource Program~~ agreements would also require conservation ordinances as a prerequisite. The goal is to provide strong motivation through incentives to local cities, counties, and water agencies to respond to Metropolitan's previous call for ordinances and immediate demand reductions under its June 2008 Water Supply Alert resolution.

To qualify for the listed incentive payments, local jurisdictions must adopt ordinances that include the following provisions:

1. Prohibited water uses, including landscape irrigation restrictions;
2. Public reporting mechanisms; and
3. Enforcement and penalties.

Escalating retail rate structures similar to that of the Irvine Ranch Water District would qualify as enforcement and penalties. To help make these conservation ordinances a reality, Metropolitan is providing assistance in the form of a model water conservation ordinance, workshops on developing and enacting ordinances, and follow-up support.

### **Savings Potential & Costs**

Expanding the Public Sector Program and approving the Turf Removal Pilot Program would generate about 39,500 acre-feet of lifetime savings at a cost of about \$22 million (including the state grant) over three years of implementation. Approximately 200,000 acre-feet per year could be saved through enactment and enforcement of conservation ordinances required for program participation.

### **Policy**

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By Minute Item 47205, August 21 2007, the Board authorized the Public Sector Water Efficiency Partnership Demonstration Program.

By Minute Item 47328, December 10, 2007, the Board authorized \$25 million increase in Honeywell International's contract to accomplish the Commercial/Industrial/Institutional Conservation and Public Sector Programs.

By Minute Item 47526, June 10, 2008, the Board adopted the Water Supply Alert Resolution (Resolution 9075) as set forth in the revised letter.

### **California Environmental Quality Act (CEQA)**

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CEQA determination for Options #1 and #2:

The proposed actions associated with the Public Sector Program, CII Program and Turf Removal Pilot Program are not defined as a project under CEQA because they involve continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed actions are not subject to CEQA because they involve other 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). Additionally, the proposed action associated with the Turf Removal Pilot Program is categorically exempt under the provisions of CEQA and the State CEQA Guidelines. The overall activities involve providing financial incentives and turf removal with minor alterations of existing public or private topographical features, involving negligible or no expansion of use beyond that existing along with minor public or private alterations in the condition of land, water, and/or vegetation which do not involve removal of healthy, mature, scenic trees. These activities would result in negligible expansion of use and no possibility of significantly impacting the physical environment. Accordingly, the proposed action qualifies under Class 1 and Class 4 Categorical Exemptions (Sections 15301 and 15304 of the State CEQA Guidelines).

The CEQA determination is: Determine that pursuant to CEQA, the proposed actions associated with the Public Sector Program, CII Program and Turf Removal Pilot Program are not subject to CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines and determine that pursuant to CEQA, the proposed actions associated with the Turf Removal Pilot Program also qualify under two Categorical Exemptions (Class 1, Section 15301 and Class 4, Section 15304 of the State CEQA Guidelines).

CEQA determination for Option #3:

None required

## Board Options

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### Option #1

Adopt the CEQA determination and

- a. Authorize \$15 million for the Phase II Public Sector Program and revise the terms as described in this letter;
- b. Authorize a \$7 million new Turf Removal Pilot Program;
- c. Adopt resolution to accept a state grant of \$2 million for the Turf Removal Pilot Program;
- d. Authorize increasing contracting authority with Honeywell International by \$13 million; and
- e. Condition eligibility to receive incentives under the Phase II Public Sector Program, Turf Removal Pilot Program, ~~new Local Resource Program agreements~~, and new Enhanced Conservation Program agreements on adoption of conservation ordinances ~~as described in this letter~~ following a detailed report on criteria for the conservation ordinances and implementation measures in December.

**Fiscal Impact:** \$20 million of new Metropolitan costs over the next three years. Would also use a \$2 million state grant.

**Business Analysis:** The proposed actions would provide near-term demand reductions of approximately 3,950 acre-feet per year, after three years of implementation; would demonstrate stewardship of the region's water resources; and advance the prospects of achieving 200,000 acre-feet per year through implementation of drought ordinances.

### Option #2

Adopt the CEQA determination and

- a. Authorize \$15 million for the Phase II Public Sector Program and revise the terms as described in this letter;
- b. Authorize increasing contracting authority with Honeywell International by \$13 million; and
- c. Condition eligibility to receive incentives under the Phase II Public Sector Program, ~~new Local Resource Program agreements~~, and new Enhanced Conservation Program agreements on adoption of conservation ordinances ~~as described in this letter~~ following a detailed report on criteria for the conservation ordinances and implementation measures in December.

**Fiscal Impact:** \$15 million of new Metropolitan costs over the next three years. Not proceeding with the turf removal program avoids \$5 million of Metropolitan costs and forfeits \$2 million of state grant funds.

**Business Analysis:** The proposed actions would provide near-term demand reductions of approximately 3,000 acre-feet per year, after several years of implementation; would demonstrate stewardship of the region's water resources; and advance the prospects of achieving 200,000 acre-feet per year through implementation of drought ordinances.

### Option #3

Do not authorize the proposed actions identified in Option #1.

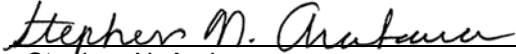
**Fiscal Impact:** Metropolitan would avoid \$20 million in costs over the next three years and forfeit \$2 million of state grant funds.

**Business Analysis:** Alternative actions would need to be formulated to respond to supply limitations.

**Staff Recommendation**

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Option #1

  
Stephen N. Arakawa  
Manager, Water Resource Management

11/17/2008  
Date

  
Jeffrey Kightlinger  
General Manager

11/18/2008  
Date

**Attachment 1 – Public Sector Program Funding Summary**

**Attachment 2 – Urban Drought Assistance Grant Resolution**

BLA #6208

## Public Sector Program Funding Summary

The Board approved the \$15 million Public Sector Program (Phase I) in August 2007, with the goal of motivating public agencies to demonstrate conservation. The program provides incentives of up to \$500 per acre-foot saved which is more than Metropolitan's standard incentive rate of \$195 per acre-foot saved. The program was successful in overcoming barriers to retrofit conservation and recycling measures by public agencies.

Regional participation in the program has been high, with over 130 public entities participating from 22 member agencies. As a result, the Phase I authorization of \$15 million has either been spent or committed. Metropolitan has also received \$2.9 million in applications exceeding the Board's Phase I authorization that are now in abeyance. The following table summarizes Phase I Public Sector Program status:

<b>Phase I Public Sector Program Spending</b>	<b>(\$ Millions)</b>
<b>Program Element</b>	
<i>Water efficiency audits</i>	<i>\$1.5</i>
<i>Recycled water hook-ups</i>	<i>\$2.0</i>
<i>Enhanced conservation incentives</i>	<i>\$11.0</i>
<i>Pay-for-performance</i>	<i>\$0</i>
<i>Administration services</i>	<i>\$0.5</i>
<b>Total spent or committed <sup>(1)</sup></b>	<b>\$15.0</b>
<i>Remaining funds</i>	<i>\$0</i>
<b>Unfunded applications</b>	<b>\$2.9</b>

1. Of the \$15 million, \$13 million has been spent through the regional commercial contract with Honeywell International. Funds for recycled water hook-ups are committed through agreements and addendums identifying sites.

A \$15-million Phase II Public Sector Program would extend the water-use efficiency incentives to additional public agency sites. Total cost for the Phase I and proposed Phase II would be \$30 million.

Phase II would discontinue the pay-for-performance option due to lack of interest. Eliminating the 50 AFY minimum water use requirement for public agencies would allow more public agencies to participate.

**RESOLUTION \_\_\_\_**

**RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA ACCEPTING FUNDING PURSUANT  
TO THE 2008 URBAN DROUGHT ASSISTANCE PROGRAM GRANTS OF THE  
WATER SECURITY, CLEAN DRINKING WATER, COASTAL AND BEACH  
PROTECTION ACT OF 2002 (CHAPTER 7, SECTION 79550 (g) OF PROPOSITION 50)**

**FOR**

**THE TURF REMOVAL PILOT PROGRAM**

WHEREAS, the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 (Chapter 7, Section 79550 (g) of Proposition 50) appropriated funds to the Department of Water Resources to be used in making water use efficiency grants to various water agencies, including The Metropolitan Water District of Southern California; and

WHEREAS, the Department of Water Resources is expediting Proposition 50 funding through the 2008 Urban Drought Assistance Grant Program in response to the Governor’s June 6, 2008 Executive Order declaring drought conditions and calling for immediate action; and

WHEREAS, the acceptance of the grant funds by Metropolitan has been determined to not be a project under the California Environmental Quality Act (CEQA) Section 15378(b)(4) of the State CEQA Guidelines.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of The Metropolitan Water District of Southern California that pursuant to and subject to all the terms and provisions of Proposition 50 funds, Metropolitan shall accept \$2 million in grant funds from the California Department of Water Resources for the Turf Removal Pilot Program.

BE IT FURTHER RESOLVED that the General Manager of the Metropolitan Water District of Southern California is hereby authorized and directed to execute the contracts, and to designate the Project Manager for the administration of the project authorized to approve and sign project invoices, and act as liaison to the Department of Water Resources. Stephen N. Arakawa shall be the initial Project Manager.

BE IT FURTHER RESOLVED that the Board Executive Secretary is hereby directed to file forthwith certified copies of this resolution with the Department of Water Resources.

I HEREBY CERTIFY that the foregoing is a full, true, and correct copy of a resolution adopted by the Board of Directors of The Metropolitan Water District of Southern California at its meeting held November 18, 2008.

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Board Executive Secretary  
The Metropolitan Water District  
of Southern California