



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

February 10, 2009 Board Meeting

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8-7

**Subject**

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Authorize increase of \$20 million to Conservation Credits Program for FY 2008/09

**Description**

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As a result of the success of Metropolitan's authorized conservation programs, available funds have been depleted faster than budgeted. Accordingly, staff has developed two alternative response plans to deal with the remainder of this fiscal year. Also, other modifications are proposed in response to the state's halt of funding for conservation grant programs and to address financial transactions for member agency run conservation programs that make use of Metropolitan's incentive payments.

**Background**

Over the past two decades, Metropolitan established a comprehensive approach to regional water conservation based on member agency input, the California Urban Water Conservation Council guidelines and the Integrated Water Resources Plan. Metropolitan is approaching conservation using an overarching framework built on three fundamental actions, which are further explained in [Attachment 1](#):

1. Research and development – identify new technologies and implementation methods.
2. Incentives – financial incentives to help jump-start cost-effective efforts by residential and commercial customers to retrofit equipment with more efficient models. To date, more than \$225 million of incentives are saving about 120,000 acre-feet annually.
3. Consumer behavior – pursue efforts where financial incentives are not needed, including education and outreach, advancing new building codes for compliance, market changes that make efficiency devices routine and revised efficiency practices by the general public.

Over the last two years, Metropolitan has successfully initiated two major incentive funding programs to increase water conservation savings -- the regional Residential Rebate Program and Public Sector Program (PSP). Metropolitan's regional residential program, which commenced in July 2008, replaced numerous water conservation programs implemented by member and retail agencies with a uniform regional approach administered by Metropolitan. The regional residential program shifted administrative costs from member agencies to Metropolitan with an expectation of overall gains in efficiency and effectiveness.

The PSP recently fulfilled its Phase I funding authority of \$15 million to help fund responsible water efficiency behavior by public agencies. In November 2008, the Board approved Phase II of the PSP, which totals an additional \$15 million to be spent over the next three years, with eligibility conditioned on adopting local conservation ordinances.

### **Conservation Credits Program Spending**

For fiscal year 2008/09, Metropolitan budgeted \$20.1 million to support incentives for its water conservation programs. In November 2008, the Board approved expanded funding for Metropolitan's extraordinary programs including the Phase II PSP and Turf Removal Pilot Program. Consequently, \$8.5 million were added to the Conservation Credits Program (CCP) spending plan for a fiscal year total of \$28.6 million.

As a result of these changes and increased emphasis on conservation in Southern California, Metropolitan experienced a significant increase in participation in the regional residential and commercial rebate programs and Phase I PSP during the past quarter. Through December 2008, Metropolitan spent about \$21.3 million in incentive funding. [Attachment 2](#) provides an accounting of expenditures compared to the fiscal year 2008/09 budget.

### **Options to Modify Conservation Credits Program Spending**

Staff has identified the following options for board consideration to address projected CCP expenditures this fiscal year.

#### Option 1 – Continue to Fund the CCP at Higher Levels

Metropolitan would continue to implement Metropolitan's conservation incentive programs at the same pace, with a projected fiscal year expenditure of about \$40 million. It is anticipated that these additional expenditures would result in about 6,000 acre-feet per year of new conservation savings, which would help accelerate progress in meeting Year 2025 IRP goals. As expenditures for water transfers are anticipated to be about \$40 million below budget due to deferred payments and lower purchases in the current fiscal year, the additional conservation expenditures would be more than offset by lower water transfer expenditures during the current fiscal year. While these funds are unspent due to a lack of transfer opportunities at this time, water transfers would remain a staff priority.

#### Option 2 – Minimize CCP spending above \$20.1 million

Metropolitan would immediately discontinue all water conservation incentives for the remainder of this fiscal year. This would entail a transition period of about three months to ensure that expectations of customers that already completed retrofits and submitted rebate applications would be met. It is anticipated that expenditures would total about \$8 million. All other programs, including the PSP approved by the Board in November 2008, would be postponed until fiscal year 2009/10. Over the past six months, Metropolitan has worked closely with retail outlets to support the regional residential program. If incentives were suspended for the remainder of the fiscal year, there is risk of losing new business relationships with retail outlets that have recently commenced and could impair future cooperation and success.

#### Additional new actions to control conservation expenditures common to each option

Staff is currently working with its two regional program vendors to better manage costs on a real time basis. In addition, staff requests board approval of the following management actions:

- Administrative authority to reduce or discontinue incentives for devices or programs as needed to stay within budget and maximize benefit on investment.
- Preapproval of member agency implemented program costs and timely invoicing requirements to match budget.
- Changing high efficiency clothes washer eligibility criteria from water factor 5.0 to 4.0 or lower; this will annually save about 1,100 gallons more per unit and reduce annual costs by about \$800,000. Staff recommends maintaining the current incentive of \$85 per unit; however, Metropolitan would discontinue the additional \$50 of incentive supported by a state grant that is no longer available.
- Adjustment of commercial and multi-family high efficiency toilet incentives from \$165 for replacing an old high-use toilet and \$30 for replacing an ultra low-flush toilet to a melded rate of \$100 per unit. This is

consistent with previous board authorization for Metropolitan's regional residential program and would reduce annual costs about \$3.5 million following a transition period of about three months.

### **Board Reporting**

Staff would provide an update of conservation credit program expenditures and proposed program improvements drafted under the annual program review process now ongoing with the member agencies, which will include a report on feasibility of establishing a revolving loan fund.

### **Recommendation**

Staff is recommending Option 1 for the following reasons. In light of significant water supply challenges, extraordinary conservation is key in effectively managing water demands. As a result, Metropolitan and its member agencies have aggressively implemented programs and have successfully achieved greater participation by retail water agencies, communities, and businesses in these programs. To continue to support this higher level of conservation and water use efficiencies, an increase of \$20 million in conservation credits program funding for fiscal year 2008/09 is necessary.

### **Policy**

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By Minute Item 45638, dated January 13, 2004 the Board authorized a long-term regional CII program.

By Minute Item 45916, dated September 14, 2004 the Board authorized the CEO to enter into a contract with Honeywell DMC Services, L.L.C., as the long-term regional CII program vendor for five years.

By Minute Item 47165, July 10, 2007, the Board authorized enhancements for Metropolitan's Water Conservation Programs including the new regional residential device incentive program.

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

By Minute Item 47705, November 18, 2008, the Board authorized additional funding for Metropolitan's extraordinary conservation programs.

By Minute Item 47328, January 13, 2009, the Board provided direction on administering the ordinance prerequisite for Metropolitan's extraordinary conservation programs.

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

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CEQA determination for Options #1 and #2

The proposed action is not defined as a project under CEQA because it involves continuing administrative activities (Section 15378(b)(2) of the State CEQA Guidelines). Also, the proposed action is not subject to CEQA because it involves 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 Residential Rebate Program (July 10, 2007) and the Public Sector Program (August 21, 2007) were previously determined by the Board to be exempt under the provisions of CEQA. Accordingly, no further CEQA documentation is necessary for the Board to act with regards to the proposed actions.

The CEQA determination is: Determine that the proposed action is not subject to the provisions of CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines. Additionally, determine that the proposed action has been previously addressed and no further environmental analysis or documentation is required.

### **Board Options**

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#### **Option #1**

Adopt the CEQA determination, approve additional new cost management actions, and authorize staff to sustain the conservation credits program to an amount equal to \$40 million.

**Fiscal Impact:** \$20 million increase to current CCP forecasted expenditures

**Business Analysis:** The proposed actions would provide near-term demand reductions of approximately 6,000 acre-feet per year, and would signal a commitment to water conservation in light of current water supply challenges.

**Option #2**

Adopt the CEQA determination, approve additional new actions, and authorize staff to suspend the conservation credits program following a transition period of about three months.


**Fiscal Impact:** \$8 million increase to current CCP budget of \$20.1 million during the transition period to full suspension.

**Business Analysis:** Metropolitan would delay advances to its water conservation efforts. Staff will try to minimize current fiscal year expenditures above \$20.1 million while ensuring that customers that have already completed retrofits would receive expected rebate payments. This may signal a reduced commitment to water conservation in light of current water supply challenges. There is also risk of losing new business relationships with retail outlets and could impair future cooperation and success when the programs resume next fiscal year.

**Staff Recommendation**


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Option #1

  
\_\_\_\_\_  
Andrew Sienkiewich  
for Stephen N. Arakawa  
Manager, Water Resource Management

1/29/2009

Date

  
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Jeffrey Lightlinger  
General Manager

1/29/2009

Date

**Attachment 1 – Summary of Metropolitan’s Existing Water Use Efficiency Approach**

**Attachment 2 – Fiscal Year 2008/09 Budget Estimate & Revised Expenditures Projection**

BLA #6615

**Summary of Metropolitan’s Existing Water Use Efficiency Approach**

Metropolitan and member agency water use efficiency efforts fall into three comprehensive categories: (1) research and development programs; (2) incentive programs; and (3) consumer behavior. The following table summarizes Metropolitan’s current water use efficiency programs within this framework.

| <b>Component</b>                                       | <b>Description &amp; Goal</b>  | <b>Ongoing Programs &amp; Activities</b>   |
|--|--|--|
| Research & Development                                 | Evaluate and pilot new water use efficiency technologies and updated practices for future implementation   | (1) Innovative Conservation Program<br>(2) Enhanced Conservation Program<br>(3) Studies & Database<br>(4) Annual Program Review<br>(5) California Urban Water Conservation Council Steering Member<br>(6) WateReuse Foundation Membership  |
| Incentives   | Encourage the installation and use of proven cost-effective water use efficiency technologies or practices with the ultimate goal of creating market transformation<br><br>Discontinue incentives as market transformation is achieved | (1) Residential Conservation<br>(a) Regional Administered Incentives<br>(b) Member Agency Administered (Phasing Out)<br>(2) Commercial, Industrial, & Institutional Conservation<br>(a) Regional Administered Incentives<br>(b) California Friendly Builder Program<br>(c) Water Savings Performance Program<br>(d) Accelerated Public Sector Program (includes recycling)<br><br>(3) Local Resources Program<br>(a) Recycled Water Incentives<br>(b) Groundwater Recovery Incentives<br><br>(4) Seawater Desalination Program |
| Consumer Behavior, Code Compliance, and Price Response | Multi-pronged approach to create ongoing water savings from new plumbing codes, behavioral changes, industry standards, local ordinances, and retail water pricing to encourage water conservation and use of recycled water           | (1) State & Federal Legislation / Regulation<br>(a) Plumbing Code<br>(b) Model Landscape and Drought Ordinances<br>(c) Appliance Standards<br>(2) Communication Plan<br>(a) Media and outreach campaign<br><br>(3) School Education Program<br>(4) Community Partnering Program<br>(5) California Friendly Landscape Training<br>(6) WateReuse Legislative & Regulatory Membership   |

**Fiscal Year 2008/09 Budget Estimate & Revised Expenditures Projection**

| Conservation Program              | 2008/09<br>Budget | 2008/09<br>Projected |
|-----------------------------------|-------------------|----------------------|
| Member Agency Implemented         | \$100,000         | \$6,250,000          |
| MWD Regional Residential          | \$5,385,000       | \$7,000,000          |
| MWD Regional Commercial           | \$6,250,000       | \$9,701,000          |
| Public Sector Program             | \$7,500,000       | \$15,758,000         |
| Turf Removal Program              | \$500,000         | \$0                  |
| Enhanced Conservation Program     | \$140,000         | \$433,000            |
| Water Savings Performance Program | \$250,000         | \$275,000            |
|                                   |                   |                      |
| Total                             | \$20,125,000      | \$39,417,000         |