THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

BOARD ACTION

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

July 14, 2009 Board Meeting

8-10

Subject

Authorize (1) increase of $14.2 million to Metropolitan's Conservation Credits Program fiscal year 2009/10 budget to fund additional needs; (2) amendment to contract with Honeywell International increasing maximum amount payable up to $85 million; and (3) other near-term program changes

Description

As a result of a three-fold increase in the demand for conservation rebates, staff requested a budget increase of $24 million from $40 million to $64 million in June 2009 to address the fiscal year 2008/09 backlog of Conservation Credits Program (CCP) funding needs. Also at the June meeting, the Board requested that the General Auditor validate staff's estimate of this amount prior to taking action on the recommendation.

Performance of Metropolitan's Conservation Program

Metropolitan's conservation program is critical to the region's water supply reliability and is a fundamental resource option in its Integrated Resources Plan (IRP). Metropolitan's IRP sets a conservation target to gain 1.1 million acre-feet per year of water savings by year 2025. This amount is equivalent to the total demands of the Cities of San Francisco, Los Angeles, and San Diego and would serve about 6.5 million people. Achieving this conservation target has become even more important in alleviating the recent cutbacks in State Water Project deliveries due to regulatory constraints and drought and in demonstrating that this region can meet the 20 percent reduction in water use throughout California requested by the Governor and pending legislation. Metropolitan's commitment to conservation is also instrumental in moving forward with the Bay-Delta improvements and the Colorado River programs.

To meet the conservation target of the IRP, Metropolitan and the member agencies must increase water savings by 10,000 acre-feet per year. Metropolitan's policy has been to achieve this target through incentives to residences and businesses who install conservation devices. Prior to FY 2008/09, the region could only achieve approximately 74 percent of the required annual conservation savings. With Metropolitan's regional program implementation for both the commercial and residential rebates, water savings nearly doubled in FY 2008/09 to 18,000 acre-feet, surpassing the annual water savings target and putting the region back on track to meet the IRP goal. This increased water savings has cost-effectively offset more expensive imported water supplies. On average, Metropolitan's conservation programs this fiscal year cost about $225 per acre-foot of water saved. This compares favorably to other water supply projects pursued by Metropolitan, such as the Yuma Desalting Plant ($400 per acre-foot), Palo Verde Irrigation District one-year land fallowing program ($340 per acre-foot), and the 2009 Governor's Drought Water Bank ($275 per acre-foot).

General Auditor Validation and Reconciliation of Pending Payments

Over the last four weeks, staff has worked closely with the General Auditor to reconcile costs and verify the additional funding requirements for fiscal year 2008/09. In addition, this review identified areas of concern regarding the effectiveness of the current administrative procedures and accounting system in handling the increased volume of rebates and the use of a regional vendor. The General Auditor's report is attached to this Board letter as **Attachment 1**. Based on this review, the General Manager has immediately ordered the following actions:

- The administration of the programs has been reassigned from Water Resources Management Group to the Corporate Resources Group (CRG) because of their greater administrative experience in handling complex construction projects with large capital expenditures. Staff within CRG has also begun a review of the administration procedures, cost accounting controls and vendor contracts. In addition, Information Technology staff within CRG has begun review of the existing software technology and will implement improvements to eliminate manual data entry and improve reporting. Staff will also instruct the regional and commercial vendors to implement an on-line reservation system that will require pre-approval of incentives and provide better awareness of remaining budgets.
- Revise the requested budget increase from $24 million to $14.2 million to pay the pending residential and commercial expenditures incurred in FY 2008/09 as validated by the General Auditor's review. This revised budget increase is $9.8 million less than the June estimate. This reduction was achieved by eliminating components of the Public Sector Program Phase II that do not reach individual customers and incorporates accounting adjustments after careful validation of the existing backlog of requests.

Regional Rebate Programs

Prior to implementing a reservation system on April 1, 2009, Metropolitan's residential and commercial rebate vendors, the Electric & Gas Industries Association (EGIA) and Honeywell International, received a significant number of rebate applications, partially completed applications, and notifications that retrofit work had been initiated or planned to start. Not all applications were paid due to the lack of funding in FY 2008/09. Although rebate application forms state that funding is subject to availability, the switch from the hardcopy forms to the on-line reservation system caught many customers off guard. Consequently, staff recommends paying the regional rebates that were completed, initiated, or reported to the vendors prior to April 1, 2009. Based on records obtained by the General Auditor from the vendors, these requests total about $9.6 million, including vendor administration costs. Only requests meeting this criteria and cataloged by the vendors as of the date of the audit would be considered for funding. This process allowed customers over two months to contact the vendor regarding potential rebates.

The vendor administrative costs, included in the $9.6 million, are estimated at 15 percent, or approximately $1.3 million. The General Auditor also reviewed staff's estimates for vendor administration and found that 15 percent is an acceptable basis for estimation and consistent with actual program expenditures over the five-year agreement term. Administrative services provided by both regional vendors include rebate processing, program tracking and database management, screening out ineligible devices, toll-free customer service call center, marketing and outreach including development of collateral materials, and program reporting.

Locally Implemented Conservation Programs

There are also pending requests for reimbursement for locally implemented water conservation projects by member and retail agencies during last fiscal year. These requests include direct toilet installation projects, clothes washer programs, residential water audits, and work completed under state or federal grant programs using Metropolitan incentives as the basis for meeting cost-share requirements. Member agencies were requested to submit invoices for all these types of activity by June 19, 2009. These additional requests total approximately $3.4 million for last fiscal year's activity.

Public Sector Programs

In August 2007, the Board approved Phase I of the Public Sector Program to demonstrate leadership in water use efficiency by public agencies. Approximately $1.2 million in additional funding is needed to satisfy remaining commitments for recycled water hookup projects that are still in the process of being completed.

Public agency response to Phase I of the program was so overwhelming that the Board approved an additional $15 million for Phase II of the program in November 2008. Since no expenditures were made on Phase II of the program last fiscal year, and subsequent discussions with the member agencies have questioned the continued need for this program in light of the budgetary constraints, staff recommends deferring this program until a comprehensive review of all the programs can be completed.

Summary

Given the reconciliation described above, approximately $14.2 million is needed to satisfy unfunded requests from fiscal year 2008/09. Metropolitan would use Water Rate Stabilization reserve funds that had been previously budgeted to pay for water transfers costs in fiscal year 2008/09.

Administrative Actions

Based on the critical reviews by the General Manager and the General Auditor, administrative improvements and additional financial and accounting controls are warranted to provide assurances that the program is properly implemented within the approved budget and to better manage the higher volume of rebate requests. The General Manager has instructed staff to immediately put these improvements and controls in place. Staff will continue to work cooperatively with the General Auditor to ensure that audit recommendations are fully implemented. **Attachment 1** is the General Auditor's report, which summarizes his findings and recommendations.

Budget Control and Cost Reporting System

An on-line reservation system, which requires customers to obtain pre-approval of planned expenditures, was implemented by Metropolitan on April 1, 2009 to help control costs and manage customer expectations. Similar systems have been successfully utilized by other agencies, such as Southern California Edison, for these purposes. The on-line reservation system and other web site improvements will help prevent future cost over-runs and provide advance notice of proposed expenditures. Based on consultation with the member agencies and the successful programs implemented by other agencies, staff intends to use a reservation system for its regional programs on a continuous first-come, first-served basis until funds for fiscal year 2009/10 are exhausted. The rate of expenditures would be closely monitored and the remaining budget would be communicated to the public via the Web site to mitigate and manage consumer false expectations.

Staff will implement new project accounting controls to more rigorously manage the programs and provide more frequent reporting of actual program costs, planned expenditures, estimates at completion, and remaining budgets. Staff will also reconcile costs more frequently between the vendors, the conservation system database, and the financial ledger.

A new system will be quickly developed by Information Technology staff to eliminate manual data entry and electronically load the vendor data into the conservation system, thereby increasing the accuracy and timeliness of the data while reducing labor costs. Although this system is a good first step, staff may need to return to the Board to request capital funding for an information technology project to develop a new conservation system to replace the existing 12-year-old system.

Member agency access to regional vendors

Currently, member agencies can provide their own funds and utilize Metropolitan's regional residential and commercial vendors, EGIA and Honeywell International, to provide incentives to their customers as long as the combined expenditures do not exceed the board-approved contract limits. When Metropolitan funding is exhausted, staff will make arrangements for member and retail agencies to continue using the services of these regional vendors if the agencies provide all of the funding for rebates and associated administrative costs. Although the existing EGIA contract authority is currently sufficient, the Honeywell International contract

authority needs to be increased by the Board to allow for payments of both Metropolitan and member agency-funded incentives. Over the long term, Metropolitan intends to revise contracts with the vendors and member agencies, so member agencies can contract directly with the vendors to obtain these services.

Moving Forward

FY 2009/10 expenditures

Achieving the Integrated Resources Plan (IRP) supply reliability goal of 1.1 million acre-feet of water conservation in 2025 requires that Metropolitan's incentive programs create about 10,000 acre-feet from new retrofit installations each year. Staff anticipates that the fiscal year 2009/10 conservation program budget of $19.1 million would result in about 9,600 acre-feet per year of new conservation savings, which would help achieve year 2025 IRP goals. To accomplish this goal, staff has worked with the member agency managers and conservation coordinators to revise the conservation program for the upcoming year. **Attachment 5** shows the conservation and local resources program incentive payments by member agency for fiscal year 2008/09. Staff would instruct its vendors to implement a reservation system, as soon as possible, after board approval of the staff recommendation and cease taking reservations when allocated program funding is exhausted. In addition, Metropolitan's vendors would provide extensive notice to the public when the program funding was nearing its end. Staff would also establish upfront funding limits for local programs implemented by member and retail agencies using Metropolitan incentives. **Attachment 2** summarizes the planned use of FY 2009/10.

Changed incentive amounts and terms

Staff has consulted with the member agency managers and conservation coordinators to formulate the following conservation program changes. In light of declining device costs and strong public sentiment to purchase water-saving devices, staff recommends scaling back incentive amounts to the lower of 50 percent of average retail device costs or $195 per acre-foot of water saved. The current guideline is 100 percent of average retail device cost or $195 per acre-foot of water saved. **Attachment 3** presents the business case for changing Metropolitan's incentive policy, summarizes proposed incentive rate changes, and phase out of certain device incentives. These changes should help stretch available program funding.

Water Savings Performance Program

Existing guidelines provide for the lesser of 100 percent of improvement costs or $195 per acre-foot for up to five years of water savings. Staff proposes increasing the water savings period from five to ten years for irrigation efficiency improvements for permanent crops and large landscapes to reflect the water savings over the life of capital investments and limiting incentives to 50 percent of capital improvement costs.

Regional Commercial Program

The contract with the current regional commercial vendor, Honeywell International, expires December 31, 2009. Staff will work with the member agencies to develop long-term programmatic changes to this program and return to the Board for approval. If the regional commercial program is approved, staff plans to complete a vendor selection process, obtain Board approval to enter into a vendor agreement and execute an agreement in sufficient time for the new vendor to mobilize resources before the existing Honeywell agreement expires to ensure program continuity.

Long-term programmatic changes

Staff will shortly begin the annual program review process with member agencies and return to the Board with recommendations for long-term programmatic changes later this fiscal year. New approaches would be emphasized, including legislative and regulatory strategies to achieve water use efficiency on proven technologies, while allowing incentives to be phased out. Staff would also continue to vigorously pursue state and federal grants to supplement Metropolitan's water conservation incentive programs, conduct market research and analyses, and test new approaches.

Attachment 4 summarizes the three options to reconcile the fiscal year 2008/09 pending payments and planned expenditure for fiscal year 2009/10 conservation programs.

Policy

By Minute Item 47799, dated February 10, 2009, the Board authorized $20 million increase to conservation credits program for FY 2008/09.

By Minute Item 47705, dated November 18, 2008, the Board authorized $15 million for the Phase II Public Sector Program and $7 million for turf removal, and authorized increase in Honeywell contract by $13 million.

By Minute Item 47165, dated July 10, 2007, the Board authorized refinements to Metropolitan's water use efficiency programs.

By Minute Item 46733, dated August 15, 2006, the Board authorized upgrades to the commercial and landscape water efficiency programs.

By Minute Item 46472, dated December 13, 2005, the Board set the incentive amount at $195 per acre-foot of water conserved not to exceed 100 percent of product cost or one-half of a program cost.

By Minute Item 45828, dated July 13, 2004, the Board adopted the Integrated Water Resources Plan Update.

By Minute Item 45208, dated February 11, 2003, the Board adopted policy principles regarding water conservation activities.

By Minute Item 37324, dated September 13, 1988, the Board adopted the Conservation Credits Program.

California Environmental Quality Act (CEQA)

CEQA determination for Options #1, #2, and #3

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

Option #1

Adopt the CEQA determination and authorize staff to:

a. Increase the fiscal year 2009/10 Conservation Credits Program budget by $14.2 million, including administrative costs, to pay additional fiscal year 2008/09 needs and utilize the planned $19.1 million budget to fund fiscal year 2009/10 conservation activities;
b. Amend Honeywell International agreement increasing the maximum amount payable by $27 million to $85 million; and
c. Implement administrative improvements and program changes, including modification of incentives as identified in **Attachment 3**.

Fiscal Impact: $14.2 million increase to fiscal year 2009/10 conservation credits program budget
Business Analysis: The proposed actions would enable incentive payments to individuals and businesses that submitted applications, initiated work or provided notice prior to April 1, 2009, after exhaustion of funds authorized for fiscal year 2008/09. Additionally, the fiscal year 2009/10 budget would be used to implement new activity in the upcoming fiscal year.

Option #2

Adopt the CEQA determination and authorize staff to:

a. Use fiscal year 2009/10 programs budget of $19.1 million to pay additional $14.2 million of fiscal year 2008/09 needs and remaining $4.9 million to fund future fiscal year 2009/10 activities;
b. Amend Honeywell International agreement to increase maximum amount payable by $22 million to $80 million since the remaining budget is insufficient to fund commercial incentive in fiscal year 2009/10; and
c. Implement administrative improvements and program changes, including modification of incentives as identified in **Attachment 3.**

Fiscal Impact: No change to fiscal year 2009/10 budget

Business Analysis: The proposed actions would enable incentive payments to most individuals and businesses that submitted requests after exhaustion of funds authorized for fiscal year 2008/09. However, the proposed action would limit the conservation program incentive payments for fiscal year 2009/10 to the remaining budget of $4.9 million, pending further action by the Board or award of grant funds.

Option #3

Adopt the CEQA determination and authorize staff to:

a. Reject fiscal year 2008/09 requests for Conservation Credits Program rebates due to the exhaustion of available funds and utilize the planned $19.1 million budget to fund fiscal year 2009/10 activities;
b. Amend Honeywell International agreement to increase maximum amount payable by $17 million to $75 million to allow payment of fiscal year 2009/10 incentives by Metropolitan and member agencies, but not payments for the rejected fiscal year 2008/09 requests; and
c. Implement administrative improvements and program changes, including modification of incentives as identified in **Attachment 3**.

Fiscal Impact: No change to fiscal year 2009/10 budget of $19.1 million

Business Analysis: The proposed actions would likely result in some customer dissatisfaction because of nonpayment to individuals and businesses that expected incentives.

Staff Recommendation

Option #1

Jeffrey Kightlinger
General Manager

7/9/2009
Date

Attachment 1 – General Auditor's Report on Conservation Credits Program

Attachment 2 – Projected fiscal year 2009/10 Conservation Credits Program budget

Attachment 3 – Proposed conservation program refinements

Attachment 4 – Options to address additional fiscal year 2008/09 funding needs

Attachment 5 – Conservation and Local Resources Program Incentive Payments

BLA #6801

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

OFFICE OF THE GENERAL AUDITOR

July 13, 2009

Timothy Brick
Chairman of the Board
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0153

Chairman Brick,

Based on the Board's request, the Audit Department has completed a review of the Water Resource Management Group – Conservation Credits Program as of June 30, 2009. While this review began as an effort to validate the accuracy of the Board Letter request for additional funding for the rebate programs, it grew into a review of the events and circumstances that led to the need for additional funding.

Accordingly, we reviewed the operational policies and business practices used by the Water Resource Management Group (WRM) to manage these programs. We began by analyzing the Board Letters that established or modified conservation rebates in order to create a list of existing programs and to document the chronology of actions that impacted these programs. We also examined the associated agreements for the terms and conditions of these programs and to understand the circumstances by which these agreements could be terminated.

Next, we interviewed WRM and Controller's Section staff to gain an understanding of the application and invoice processing procedures. These efforts included meetings with Honeywell International and the Electric & Gas Industries Association (outside vendors) to document the administrative services that they provide for these programs. A brief description of these services is included in Attachment II. We then evaluated the financial controls over these processes by reviewing balancing and reconciliation procedures. We also examined operational controls that should ensure that the business processes are economical, efficient, and effective. Finally, we reviewed the management reporting process to ensure that rebate expenditure data was reported accurately and on a timely basis.

We would like to thank the Water Resource Management Group and Controller's Section staff for their cooperation in this review. The timeliness of their responses was important to the completion of this review. In addition, assistance from the Office of the General Counsel was critical to our completing this review on a timely basis. They provided crucial insight into the Conservation program contracts, they prepared the attachment on the Board Actions Related to Water Conservation Programs, and they assisted in crafting comments to improve

the operations. The synergism created by these joint efforts was responsible for making the review successful.

Summary and Comments

Our review revealed that the June 9, 2009 Board Letter estimates were overstated. Table I presents details on the differences between the Board Letter totals and our results. These results reflect our efforts in verifying the totals with service provider documentation, WRM records, and activity that has been accrued by the Controller's Section. It is important to note that the totals included in the June Board Letter were affected by many management actions. To begin, the Controller's Section processed transactions up to June 30, 2009, accrued other invoices that were in processing at year end, and reconciled these against the Board authorization of $40 million. Secondly, Executive Management directed staff to limit the Member Agency programs to those applied for and received by June 19, 2009. In addition, Executive Management also directed staff to limit the Public Sector Program to payments for the Recycle Water Retrofit programs. These actions substantially decreased the funding shortfall. To wit, the $14.15 million shown in the "Review Results" column is $9.84 million less than the amount requested in the June 9, 2009 Board Letter. The $14.15 million represents the funding needed above the Board approved $40 million to cover oversubscribed activity.

Summary of Review Findings
Table I

Program Type	Board Letter 8-7 June 9, 2009*	Review Results	Difference
Regional Programs			
Applications received before April 1		**$3,198,469**	
Apps received after April 1 purchased before that date		**497,193**	
Apps received after April 1 purchased after that date		**221,109**	
Estimate for work prior to April 1 no/partial apps		**4,458,942**	
Sub total		**$8,375,713**	
Administrative fees (15%)		**1,256,357**	
Totals Regional Programs	**$14,500,000**	**9,632,070**	**$4,867,930**
Member Agency	**4,000,000**	**3,350,688**	**649,312**
Public Sector	**5,500,000**	**1,172,015**	**4,327,985**
Totals	**$24,000,000**	**$14,154,773**	**$9,845,227**

*Board Letter 8-7 identified program totals only, whereas the review utilized WRM categories.

Summary Comments

Our review also revealed opportunities to strengthen financial controls and improve operational efficiencies. We will continue to assist management in the evaluation of solutions to these concerns.

Specifically, we noted:

1) **Residential and Commercial Rebates -** Differences were noted between the requested funding per the Board Letter and the source documentation per outside vendors Honeywell International and Electric & Gas Industries Association. These differences are summarized in Table I.

2) **Member Agency Activity -** Policy decisions made by the General Manager limited the exposure on the Member Agency programs to that amount that was proposed by Water Resource Management in the June Board Letter. These totals are summarized in Table I.

3) **Public Sector Activity -** Policy decisions made by the General Manager limited funding on Public Sector programs resulting in greatly reduced exposure for these areas. These totals are summarized in Table I.

4) **Contract Language -** Contracts establishing member agency programs were general "master agreements" that were inconsistent as to the terms and conditions for each program. That is, these contracts differed in whether they established firm start and end dates, included termination clauses, provided for invoicing and payment processes, and in setting dollar limitations. In addition, the agreements expressly provided for changes, additions, deletions in the items and amounts to be subsidized to be handled by an "addendum" rather than by a contract amendment intended to facilitate routine changes, such as new devices or revised rebate levels.

5) **Service Provider Contract** – Although the Honeywell International and the Electric & Gas Industries Association contracts included management reporting services, the contract did not establish specific reporting standards nor did they stipulate the timing of these reports.

6) **Breakdowns in Financial Controls -** We noted that balancing and reconciliations of rebate applications received, in-process, and those that were paid were not completed. These reconciliations between the outside vendors, WRM, and the Controller's Section are necessary to ensure that rebates are processed on a timely basis and within budget.

7) **Breakdowns in Operational Controls -** Operational controls are designed to ensure that a process is economical, efficient, and effective. Our review, then, revealed that

operational procedures were not effective in producing rebate payment and rebate application "back log" estimates on a timely basis. Further, operating policies also failed to stop further rebate application processing once management was aware that the program was oversubscribed. This flaw repeated itself as the rebate applications passed the initial $20 million threshold and then again at the $40 million limit.

8) **Review of Board Letter Chronology -** Numerous Board Letters throughout the years established these programs as summarized in Attachment I. Review of these documents revealed that Board Letter language often increased the complexity of the conservation programs by modifying existing (and overlapping) programs rather than terminating, balancing, reconciling and closing one program prior to the commencement of another. Furthermore, Board Letters referred to conservation programs by different names which created difficulties in tracking the terms, conditions, and budgets for each program.

9) **Board Letter Preparation -** Board Letter communications could be improved by training staff to adopt succinct business prose practices that would make "every word tell".

10) **Executive Communications -** Breakdowns in communication between WRM and the General Manager's office. The inability to control (limit) the application acceptance process, the lateness in moving to the Reservation System, and the failure to communicate the depth and extent of the over subscription revealed serious flaws in executive communications. These conditions led to a general lack of confidence in the management reporting process. Effective management reporting controls would have evaluated the enterprise risks (financial, operational, reputation, legal risk, etc.) and alerted the General Manager and Chief Operations Officer of the need for immediate executive intervention.

11) **Program Management -** The review also points to a need to change the focus of program management from one of oversight to that of active control. That is, program management should control the financial components as if each dollar comes from their pocket, making "every nickel count". This would require that each program is separable; with distinct start dates, end dates, termination conditions and without overlapping schedules. This would also require that each program is measurable; timely and accurate financial reporting is the foundation of prudent business practices and should be a prerequisite for any program. Adherence to these objectives would allow management to effectively and efficiently manage programs to successful outcomes.

12) **Reputation Risk Management -** Reputation risk is the risk that negative publicity regarding the District's business practices will lead to a loss of trust, failure in achieving program goals, or could result in litigation. For conservation rebate programs, reputation risk is linked with member agency expectations regarding the payment of rebates against the delivery of measurable water savings. It is also tied to

whether the District is meeting its financial obligations relating to those agreements on a timely basis. The District's reputation, particularly the trust afforded it by member agencies, retail/commercial customers and counter-parties can be irrevocably tarnished due to perceived or real breaches in its ability to conduct business responsibly. In addition, Metropolitan is responsible for risks associated with the activities of third-party service providers with which they contract. For example, ineffective or inefficient application and payment processing practices by a service provider may result in reputation damage. Consideration of reputation risk should be conducted within an Enterprise Risk Management process. This strategic process should be designed to identify potential events that may affect the District, and manage risks to be within our risk appetite, in order to provide reasonable assurance regarding the achievement of District objectives.

Please note that our review was limited to the objectives set forth in the opening paragraph and was substantially less in scope than that of an audit engagement. We have not performed an audit and, accordingly, we do not express an audit opinion.

Please call me if you have any questions.

Gerald C. Riss
General Auditor

ATTACHMENT I

BOARD ACTIONS RELATED TO WATER CONSERVATION PROGRAMS

No.	M.I.	DATE	ACTION TAKEN	Board Letter	Target
1	36775	8-18-87	Adopted Section 4209, entitled "Water Conservation."	7-18 (6-26-87)	General Policy
2	37278	8-23-88	Authorized increase in appropriations to a total of $1.25 million for water conservation. Authorized GM to request proposals for water conservation from member agencies. Funding over $75,000 for qualifying projects to go to the Board.	8-1 (8-8-88)	Member Agencies
3	37324	9-13-88	Approved, in concept, the Water Conservation Credits Program. Authorized GM to request proposals from member agencies for water conservation projects. Projects over $75,000 requires Board approval.	8-1 (8-8-88)	Member Agencies
4	38290	6-12-90	Amended the Conservation Credits Program to provide a flat rate credit of $154/AF of imported water saved. Metropolitan's contribution totaled a maximum of 50% of project costs.	7-17 (5-29-90)	Member Agencies
5	42609	9-9-97	Approved the Commercial, Industrial, and Institutional Conservation Pilot Program. Authorized GM to enter into agreement with member agencies in excess of $250,000 to participate in the program beginning fiscal year 1997-98.	7-7 (8-22-97)	CII Commercial, Industrial, and Institutional
6	43021	6-9-98	Established the Local Resources Program (LRP). Discontinued the existing Local Projects Program provided for in Administrative Code Section 4516 and the existing Groundwater Recovery Program. Authorized to amend existing temporary LRP advance conversion agreements to terms consistent with the LRP principles and applicable administrative rules.	8-9 (5-26-98)	Local Resources Program
7	43747	10-12-99	Authorized participation in conservation programs with utilities and other agencies by expanding the Conservation Credits Program (CCP).	8-3 (10-12-99)	CCP

No.	M.I.	DATE	ACTION TAKEN	Board Letter	Target
8	43928	3-14-00	Authorized a three-year agreement for $2.5 million with Honeywell for regional conservation programs (80% of fund to customer rebates and 20% to marketing and program administration).	9-4 (2-24-00)	CII Enhanced commercial services Benefiting member agencies as well
9	44577	8-20-01	Authorized additional $4 million for three years for conservation programs to continue until February 2004. Increased O&M budget for FY 01/02 by $1.3 million. Adopted maximum incentive rates.	9-5 (8-3-01)	CII Regional: Commercial, Industrial, and Institutional
10	44870	5-14-02	Authorized increase in Honeywell contract from $2.5 million to $7.9 million until June 2004.	9-3 (4-22-02)	CII Regional: Commercial, Industrial, and Institutional
11	45195 45208	2-11-03	Adopted water conservation policy principles. Supported increased agricultural water use efficiency.	9-2 (1-20-03)	Agricultural
12	45638	1-13-04	Authorized a long-term regional Commercial/Industrial/Institutional program. Increased the Honeywell contract by $2.5 million through December 2004 for FY 2004/05.	9-1 (12-23-03)	CII Regional: Commercial, Industrial, and Institutional
13	45828	7-13-04	Approved the 2003 Integrated Water Resources Plan Update report.	9-2 (6-22-04)	Integrated Water Resources Plan (IWRP)
14	45916	9-14-04	Authorized GM to enter into a contract with Honeywell as the long-term regional Commercial/Industrial/Institutional program vendor for five years, in an amount not to exceed $20 million for management and marketing services.	9-5 (8-23-04)	CII Regional: Commercial, Industrial, and Institutional

No.	M.I.	DATE	ACTION TAKEN	Board Letter	Target
15	46472	12-13-05	Authorized implementation of conservation incentive level updates and program refinements from Metropolitan's Five-Year Conservation Strategy Plan.	8-8 (11-30-05)	General
16	46773	8-15-05	Authorized refinements for Metropolitan's Water Conservation Program: Incentives for steam sterilizers, zero water and high-efficiency urinal upgrades, rotating nozzle retrofits for pop-up spray heads, large landscape surveys, choice of contracting options, and streamlined payment process.	7-5 (7-28-06)	Landscape and commercial
17	47049	4-10-07	Authorized Updated Policy and Procedure for Local Resources Program. Opened program alternative with sliding scale incentive approach up to $250/AF for new local projects and converted existing agreements from sliding scale incentive terms to fixed incentive terms. Increased target yield to 174,000 AF and limited the number of project phases to a total of three.	9-2 (3-27-07)	Covers all
18	47165	7-10-07	Authorized: (a) Regional Residential Device Incentive Program, (b) five new incentives for new construction and retrofits, (c) flat rate device incentives, and (d) improvement to Metropolitan's Measured Water Savings Program.	8-4 (6-21-07)	Covers residential, commercial and industrial
19	47205	8-21-07	Authorized $15 million for the Accelerated Public Sector Water Efficiency Partnership Demonstration Program: Audits for large public water users, enhanced device incentives program, pay-for-performance water use reduction incentives, immediate hookup of recycled water use customers.	Revised 8-9 (8-20-07)	Through member agencies
20	47328	12-11-07	Authorized $25 million increase (with maximum of $45 million) to Honeywell International's contract to administer the Commercial/Industrial/Institutional Conservation and Public Sector Programs.	8-5 (11-27-07)	CII Residential
21	47526	6-10-08	Adopted the proposed Water Supply Alert Resolution (Resolution 9075).	Revised 8-9 (6-9-08)	General

No.	M.I.	DATE	ACTION TAKEN	Board Letter	Target
22	47705	11-18-08	Authorized $15 million for the Phase II Public Sector Program. Authorized $7 million for new Turf Removal Pilot Project (accepted $2 million state grant for turf removal). Increased contract amount with Honeywell by $13 million. Eligibility to receive incentives under Phase II turf removal and new enhanced conservation program agreement was conditioned on adoption of conservation ordinances, following a report on criteria and implementation measures in December.	Revised 8-2 (1-18-08)	Public Sector Turf Removal New Enhanced Conservation Program
23	47770 47772	1-13-09	Immediate implementation of the extraordinary conservation programs. Phase II Public Sector Program funding to be prioritized and made available immediately, first to jurisdictions that already had met the conservation ordinance prerequisite. Staff directed to report back to the committee in June 2009 on the feasibility of developing a revolving fund program to be used for future Public Sector Program funding.	9-4 (12-29-08)	Phase II Public Sector Turf Removal Enhanced Conservation Program
24	47799	2-10-09	Requested increase by $20,000 million to the CCP for FY 2008/09. Board approved request with amendments: Board will retain authority to change devices and device incentives, and Metropolitan will reimburse member agencies for higher efficiency clothes washer incentives provided that certain conditions are met.	8-7 (1-29-09)	Residential rebate program and PSP

ATTACHMENT II

Honeywell Services

Honeywell provides administrative services for Metropolitan's regional commercial industrial/institutional program. These services can be group into four, namely: marketing and outreach, rebate processing, customer care, and system and reporting. In addition, Honeywell also prepares the marketing plan and annual report for Metropolitan; maintains device and rebate changes, as well as funding allocation, for member agencies; and fill-in member agency custom requests for materials, special handling and more. Most recently, Honeywell implemented the reservation system for Metropolitan (March 25th) and with some member agencies (May 18th).

The details below described four major services provided by Honeywell to Metropolitan as well as to member agencies.

1. Marketing and Outreach Services
    a. Collateral development – Involves customization per agency and printing (customization can include rebate level and device change).
    b. Advertising – Involves advertising through various industry related publications (food service, apartments, landscape, coin-laundry, etc).
    c. Trade shows, events and presentations - Includes presentation to Chamber of Commerce, commercial business request, member agency events, partnering with energy or gas events.
    d. Website development and maintenance – Involves development and maintenance of save a buck website. The website contains up-to-date program information, member agency information, and monthly report.
    e. Trade ally partnership with manufacturers and vendors - Includes education and advertising within MET guidelines. This also includes providing program pop up display and operational support such as past participation eligibility check, pre-inspection request coordination and application processing support.
    f. Member agency outreach support – Includes setting up booths on event, by providing pop-up display holder, and collaterals.
    g. Big check development and printing - As requested by MWD and its member agencies.
    h. Water energy partnership with Southern California Edison and Southern California Gas - Involves collateral development, attending meetings, presentations, and other collaborations for the program.
    i. Direct Mail campaign and custom mailers - As requested by agencies.
    j. Customer recognition program – Includes mailing a certificate of participation with the program.

2. Rebate Processing Services
    a. Application processing - From receipt, data entry, quality control.
    b. Invoice processing – Generates invoice and updates Member Agency funding.
    c. Rebate check processing - From printing, quality control, and mailing
    d. Rebate check maintenance - From inventory, stale check, void & re-issues, bank coordination, stop payment and resolving discrepancies.
    e. Quality control – Performed throughout the process.
    f. Month end close - Reconcile all applications with check register and other banking related activity.
    g. Filing - Customer applications filed with a copy of the check and stored in an outside location.

3. Customer Care Services
    a. Provides 800 Toll Free number for applicants.
    b. Customer support - From program information, processing to rebate check inquiry.
    c. Vendor support - From past participation eligibility check, pre-inspection request coordination, and other inquiries.
    d. Member agency support - From reports to ad-hoc requests.
    e. Pre-qualify and confirm phone reservations - Tracks and sends confirmation letters for both MWD funded and member agency funded reservations.
    f. Pre-qualify and coordinate large projects for member agencies.

4. System and Reporting Services
    a. Rebate system customization – Customizes the program and provides flexibility with rebate level and member agency changes.
    b. Monthly Report – Uploads report to the website for member agency access.
    c. Ad-hoc reports - As requested by member agencies.
    d. Member agency fund status report - Sends weekly or bi-weekly report to agencies with supplemental funding.
    e. Reservation report - Sends weekly or monthly report for MWD reservation & agency funded reservations.
    f. Program budget - Includes update on estimated rebates received weekly, invoice summary, and contract authority balance.
    g. Incomplete application summary update – Provides updates when requested. This report shows the number of incomplete applications received by month and reason for incomplete. This report also shows occurrences and estimated rebate.
    h. System Database maintenance – maintains system database.

Projected fiscal year 2009/10 Conservation Credits Program budget*

Conservation Credits Planned Investments for Fiscal Year 2009/10

Category	2009-2010 Planned
Regionwide Residential	$ 6,000,000
Regionwide CII	4,600,000
Public Sector	0
Water Savings Performance Program	500,000
Enhanced Conservation Program	500,000
Member Agency	5,500,000
Turf Removal Program	0
Agricultural Conservation Program	2,000,000
Conservation Credits Total	**$19,100,000**

*This is the approximate spending plan under Options #1 and #3

Proposed conservation program refinements

Below is the list of program changes proposed to assist with cost control on the regional programs. These changes are intended to maintain activity in the programs while increasing overall program efficiency. Staff also proposes program refinements that were developed in consultation with the member agencies over the last six months. Principally, these refinements would reduce incentive amounts to now cover up to 50 percent instead of 100 percent of average retail device costs. These refinements also include phase-out of certain devices.

Device Incentive Caps and Supporting Changes	

Limit incentives up to 50 percent of retail device cost or $195 / AF saved, whichever is less	Examples
	• Urinals:
	  ○ limit incentives to < 0.25 gpf fixtures
	  ○ $200 for replacements
	  ○ $60 for new construction
	• Commercial high efficiency nozzles
	  ○ Reduce from $13 to $7 per set
	• HETs: $50 per toilet, unless MA grant relies on MWD incentive
	• HECW: $50 per washer

Device Changes and Phase-outs	
Synthetic turf	• Require $0.30 local agency cost match • Limit to ½ acre of turf replacement
Rotating nozzles and pressure regulating heads	• Require rotating nozzles to be purchased with pressure regulating head to guarantee performance • Incentive stays at $4 per nozzle
Device incentive phase-outs	• Pre-rinse spray heads ($60 incentive) • CII washing machines ($210 incentive) and replace with Water Savings Performance Program • Urinals flushing between 0.26 – 0.5 gpf ($200 incentive)
Water Savings Performance Program	
Limit incentives up to 50 percent of project cost or $195 / AF saved, whichever is less	• Reduce incentive cap to 50 percent of project costs to match device incentive changes • Applies to industrial process, large landscape, permanent crop agricultural water use efficiency improvements • Expanded to include non-potable cooling water for industrial and commercial situations • 10-year water savings life for permanent crop and landscape irrigation system upgrades and retain 5-year water savings life for industrial process and commercial upgrades.
Enhanced Conservation Program Award Reductions	
	• Reduce annual awards from $2 million to $1 million to reflect actual program awards in recent years

* $50 recommended by member agencies is less than 50 percent of retail value and less than $195 per acre-foot times the water savings, which is $85 per washer.

Business Case for change incentive policy up to 50% of device cost and elimination of certain rebates

Overarching Strategy

Metropolitan's long-term conservation strategy identifies new, functional water saving technologies, provides incentives based on avoided-cost, and promotes awareness of devices that increase everyday water use efficiency. Over time, Metropolitan reduces and then phases out incentives as water efficient devices become commonly accepted and used by the public. The process is referred to as market transformation (see attached chart).

Market Transformation

Markets are transformed when prices decline, there are robust sales of many competing brands, and the public embraces the benefits of the new technology. In conservation, public messaging, internet promotion, training, building codes, increased water rates, product savings standards, manufacturer marketing and changes in social standards all help advance market transformation of water efficient products. Prices of new devices are initially set high by manufacturers to help recover investments in product research and development and because production unit costs are high for low volume runs. Prices drop as sales increase, and markets expand with competition. Metropolitan should reduce or end incentives when they are no longer needed to motivate consumer installations of the desired conservation device. A key example is when conservation devices are driven by legislative plumbing code or ordinance requirements.

The phenomenal amount of public requests experienced in 2009 for device retrofit incentives indicates market transformation is starting to occur regarding conservation devices. Adjustments to Metropolitan's incentive offerings are therefore warranted. Metropolitan and member agency staff believe that the incentive amounts adopted in 2005 are no longer needed to sustain the annual advances in water savings. Reduced incentive payments are expected to achieve the similar annual retrofit amounts.

Conservation Partnerships

With the constant messaging from Metropolitan's outreach campaign and the media coverage of water supply and "green" issues, many consumers are now searching for opportunities to conserve water and ensure supply reliability into the future. Staff believes that a market tipping point may have occurred with more choices of certain water efficient devices available than before, and at a lower cost. Staff believes that this is an appropriate time to transition Metropolitan's incentive programs. Metropolitan would offer the lesser of $195 per acre foot or up to 50 percent of the cost of a water efficient device instead of the current 100 percent, making the consumer a greater partner in obtaining regional water supply reliability. Metropolitan's current incentive levels are compared to other water agency's incentives in the following table.

Metropolitan's Incentive Levels and Approach Compared to Other Agencies

Agency	Incentive Benchmark	Incentive Limitation	Conservation Target	Operating Parameters	Application Qualifier	HET Rebates	HECW Rebates
MWD	$195/AF	100% of product cost	10,000 AF new annual water	Set buget	First come, first served	$165	$85
Santa Clara Valley	$400/AF	100% of product cost	N/A	Set budget	First come, first served	$125	$125 - $200
Seattle Public Utilities	$644/AF	50% of product & installation costs	1% demand reduction/yr	Set budget	First come, first served	$100	$50 - $100
Alberquerque Water Authority	N/A	50% of product cost	150 gpcd	Set budget	First come, first served	$200	$100
Contra Costa Water District	N/A	50% CII, 100% Residential	N/A	N/A	N/A	$175	$200
Denver Water	$7,000/AF	No set policy, portion of product cost	22% demand reduction by 2016	Set budget	First come, first served	$125	$150
City of Austin	N/A	N/A	N/A	N/A	N/A	$200	$100
Sonoma County Water Agency	N/A	N/A	N/A	N/A	N/A	$150	$90 - $125
East Bay Municipal Utility District	$150/AF	100% of product cost	1 MGD per year	Set budget	First come, 6 months	$150	$90 - $125

N/A = Not Available

Proposed changes from the annual review

Metropolitan staff, in cooperation with the member agencies, reviewed existing incentive offerings as part of the annual program review to determine whether incentives should be adjusted or eliminated. Of the 22 items that Metropolitan currently incentivizes, 17 are already below the 50 percent device level. These current incentive amounts are based on the standing policy of the lesser of 100 percent device cost or $195 per AF for the lifetime savings and defined by the latter. The evaluation team considered whether market transformation had occurred for certain devices and explored ways to increase the value of Metropolitans conservation investment. The annual review also considered requiring greater efficiency levels for these device categories to be eligible for rebates. Proposed changes are explained as follows:

High Efficiency Toilets: Earlier this year, staff identified a HET model with a retail price lower than Metropolitan's HET incentive of $100. The advent of a significant number of companies performing direct installation of HETs at little or no cost to the customer also signaled that wholesale prices for HETs had recently dropped below Metropolitan's incentive. As a result, staff and the member agencies

recommended reducing the HET incentive to 50 percent of the lowest retail price – reducing the incentive from $100 to $50 per HET.

High Efficiency Urinals: In 2008/09 Metropolitan offered two different incentives for water efficient urinals, a $400 rebate for urinals flushing from 0 - 0.25 gallons per flush and a $200 rebate for urinals that flush from 0.26 – 0.5 gallons per flush. During the year, Metropolitan saw an appreciable increase in the number of zero flush urinal incentive payments. In many cases, suppliers were able to use Metropolitan's incentive to cover the device cost and installation. Because Metropolitan's incentives do not cover installation, there is a clear indication that incentive payments could be reduced. With zero-flush urinals available at retail prices of about $400 per unit, staff proposes lowering the incentive from $400 to $200 per unit. By comparison, high-efficiency urinals that use less than 0.25 gallons per flush cost about $600 per unit, but do not have ongoing maintenance cost like the zero water urinals. In addition to the modification to the incentive amount, staff proposes removing the incentive for urinals flushing from 0.26 – 0.5 gallons per flush to further transform the market to the more efficient models now available.

High Efficiency Nozzles for Large Rotary Sprinklers: Staff has determined that high-efficiency nozzle sets for large rotary commercial sprinklers are available at retail costs close to Metropolitan's $13 incentive. Staff recommends lowering the incentive to an even $7 per nozzle under the 50 percent partnership principle.

High Efficiency Clothes Washers: In February Metropolitan's Board increased the performance requirements in order to receive an incentive of $85, which was already well below the 50 percent of the average retail device cost (approximately $900). Staff, in concert with member agency recommendations, believes that the market has appreciably transformed, with HECWs widely available at the retail level, such that a lower incentive of $50 per retrofit could now be offered. Metropolitan's incentive would be leveraged by added local agency incentives. The proposed incentive adjustment would likely be the last step before phasing-out the HECW incentive.

Rotating Nozzles: Staff recommends requiring that rotating nozzles to be purchased with complementary pressure regulating heads (which house the nozzles) in order to receive the $4 incentive. Nozzles combined with pressure regulating heads help ensure performance and retail at approximately $10 per nozzle/head combination. The nozzle/head combination will, in many but not all cases, provide greater water use efficiency. The pressure regulation heads saves up to an additional 20 percent of water above non-pressure regulated systems in areas with high water pressure.

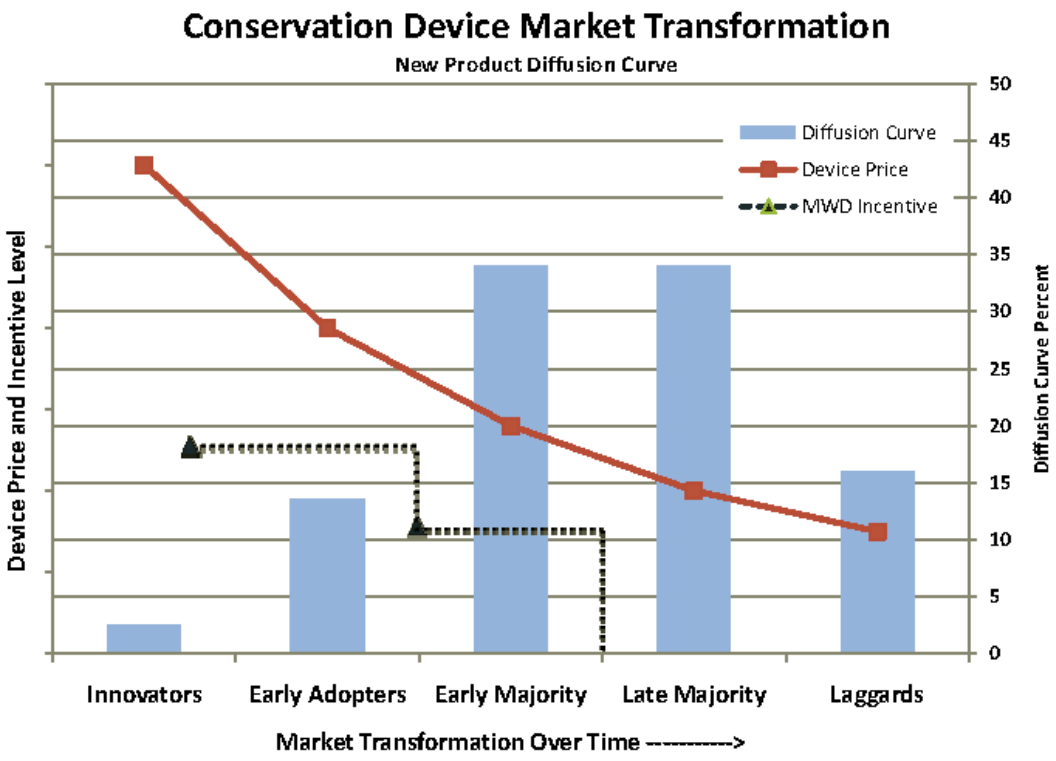
Pre-Rinse Spray Heads: The pre-rinse spray head is a device used in food service establishments that is the primary rinse before dish are cleaned. Staff is proposing the elimination of the incentive for pre-rinse sprays heads for three reasons. The first is that the market for this device is believed to be saturated at this time due to an aggressive direct installation program known as "Rinse and Save." The second reason is the low participation rate of commercial customers asking for this incentive. The third reason is that this device is now required by law which signifies the complete transformation of the market for this device. For these reasons, staff proposed eliminating this $60 incentive.

Commercial Clothes Washer: This $210 incentive was intended for commercial customers that use multi-load clothes washers in their business, examples would include laundromats, hotels, and hospitals. Staff is proposing the elimination of this incentive because this incentive is not high in demand. Staff believes this is due to the disproportionate ratio of the cost of the device to the incentive. Furthermore, it is staff's recommendation that this incentive for water efficient technology would be better achieved through

Metropolitan's Water Savings Performance Program, where the unique nature of each installation could be captured through the metered water savings.

Upcoming Annual Review

With the new fiscal year starting, staff will again initiate the annual review process with the member agencies. Included will be linkage to the Integrated Water Resource Plan update.

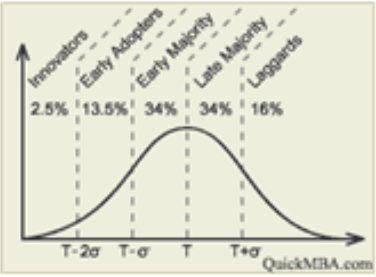

Conservation Device Market Transformation
New Product Diffusion Curve
Diffusion Curve
Device Price
MWD Incentive
Device Price and Incentive Level
Diffusion Curve Percent
50
45
40
35
30
25
20
15
10
5
0
Innovators
Early Adopters
Early Majority
Late Majority
Laggards
Market Transformation Over Time --------->


Introduce new technology using incentives
Maintain incentives to broaden market acceptance & develop industry standards
Solidify market structure with reduced incentives
Phase-out Incentives, Opportunities for plumbing codes and ordinances

Product Diffusion Curve

Consumers can be grouped according to how quickly they adopt a new product. On the one extreme, some consumers adopt the product as soon as it becomes available. On the other extreme, some consumers are among the last to purchase a new product. As a whole, the new product adoption process can be modeled in the form of a bell-shaped diffusion curve similar to the following:

New Product Diffusion Curve



Defining bins one standard deviation wide about the mean, five different product adoption groups can be defined:

- **Innovators** - well-informed risk-takers who are willing to try an unproven product. Innovators represent the first 2.5% to adopt the product.
- **Early adopters** - based on the positive response of innovators, early adopters then begin to purchase the product. Early adopters tend to be educated opinion leaders and represent about 13.5% of consumers.
- **Early majority** - careful consumers who tend to avoid risk, the early majority adopts the product once it has been proven by the early adopters. They rely on recommendations from others who have experience with the product. The early majority represents 34% of consumers.
- **Late majority** - somewhat skeptical consumers who acquire a product only after it has become commonplace. The late majority represents about 34% of consumers.
- **Laggards** - those who avoid change and may not adopt a new product until traditional alternatives no longer are available. Laggards represent about 16% of consumers.

Source: http://www.quickmba.com/marketing/product/diffusion/
Author: Gorchels, L.: The Product Managers Handbook

Options to address additional funding needs for Metropolitan's water conservation programs

Staff has identified the following options for board consideration to address additional funding needs from fiscal year 2008/09.

	Option 1 – Increase FY 09/10 budget by $14.2 million to pay additional needs from fiscal year 2008/09.	Option 2 – Use fiscal year 2009/10 funding to pay additional needs from fiscal year 2008/09.	Option 3 – Direct staff to reject requests received after exhaustion of authorized funding for fiscal year 2008/09.
Additional funding needs from fiscal year 2008/09 (1)*			
Regional programs	$9,600,000	$9,600,000	$0
Member agency programs	$3,400,000	$3,400,000	$0
Public Sector Program	$1,200,000	$1,200,000	$0
Subtotal (1)	**$14,200,000**	**$14,200,000**	**$0**
Fiscal Year 2009/10 (2)			
Regional Residential	$6,000,000	$1,900,000	$6,000,000
Regional Commercial	$4,600,000	$0	$4,600,000
Member Agency programs	$5,500,000	$0	$5,500,000
Agricultural Conservation	$2,000,000	$2,000,000	$2,000,000
Water Saving Performance	$500,000	$500,000	$500,000
Enhanced Conservation	$500,000	$500,000	$500,000
Subtotal (2)	**$19,100,000**	**$4,900,000**	**$19,100,000**
Subtotal (1) + Subtotal (2)	**$33,300,000**	**$19,100,000**	**$19,100,000**
Original FY 2009/10 Budget	$19,100,000	$19,100,000	$19,100,000
Board authorization for increased FY 09/10 funding	**$14,200,000**	**$0**	**$0**

* Additional funding needs from FY 2008/09 include vendor administration fees

Conservation and Local Resource Program Incentive Payments
July 1 , 2008 through June 30, 2009
(cash basis)

Member Agency	Conservation Credits	Local Resources	Total
Anaheim	$ 1,055,737	$ -	$ 1,055,737
Beverly Hills	36,919	202,500	239,419
Burbank	252,015	178,150	430,165
Calleguas	505,817	616,447	1,122,263
Central Basin	1,460,539	1,651,795	3,112,334
Compton	93,895	-	93,895
Eastern	3,075,253	1,159,567	4,234,819
Foothill	87,360	-	87,360
Fullerton	367,511	-	367,511
Glendale	94,714	299,099	393,813
Inland Empire	4,069,244	5,235,441	9,304,685
Las Virgenes	200,948	107,800	308,748
Long Beach	618,680	251,405	870,085
Los Angeles	3,487,952	219,558	3,707,510
MWDOC	5,265,492	10,770,586	16,036,078
Pasadena	416,242	-	416,242
San Diego CWA	6,831,049	5,057,766	11,888,814
San Fernando	1,990	-	1,990
San Marino	85	-	85
Santa Ana	328,928	27,275	356,203
Santa Monica	111,579	17,610	129,189
Three Valleys	1,698,427	31,325	1,729,752
Torrance	131,983	264,375	396,358
Upper San Gabriel	1,456,377	77,368	1,533,745
West Basin	1,701,673	7,802,025	9,503,698
Western MWD	2,962,013	5,460,515	8,422,528
Adjustments (1)	(111,379)	-	(111,379)
Total cash disbursements	$ 36,201,044	$ 39,430,606	$ 75,631,650

PRELIMINARY - UNAUDITED

(1) This line represents the total of reconciling entries needed to be made to balance member agency breakdown in Water Resource Management records to general ledger. This reconciliation will be completed by July 31.