



## • Quarterly Report on Conservation Credits Program

### Summary

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Status report on water conservation credits program for January 2010

### Attachments

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Regional Rebate Program Weekly Update dated December 28, 2009

### Detailed Report

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#### Projected Water Savings

Metropolitan and its member agencies have long been leaders in water conservation. Metropolitan encourages water use efficiency through a variety of water resource management programs. Since 1990, Metropolitan has provided about \$250 million in conservation incentives, saving about 120,000 acre-feet annually. Conservation incentives paid this fiscal year are expected to save an additional 16,000 acre-feet of water annually.

#### Backlog Payment Processing

Approximately \$8.7 million of the \$14.2 million identified as backlog payments in the audit has been paid or processed by Metropolitan. Applications for approximately \$2 million cannot be processed until work is completed, additional documentation is provided by the customers or landscape inspections are completed by member agencies. Some projects included in the audit estimate were not completed, invoiced for lesser amounts or duplicates of projects that had already been paid. There were also applications for member agency and regional projects that were not included in the estimate that qualify for funding. Overall, net backlog payments are projected to be approximately \$3.2 million less than the audit estimate. Table 1 below provides a status of the estimated \$14.2 million of backlog payments using the four categories identified in the Audit report:

**Table 1- Backlog Payment Summary (\$)**

| Item                     | Audit Report Estimate<br>(1) | Committed Cost To Date<br>(2) | Projected Additional Costs<br>(3) | Projected Total Costs<br>(4) | Projected Cost Variance<br>(5) |
|--------------------------|------------------------------|-------------------------------|-----------------------------------|------------------------------|--------------------------------|
| Regional Rebate Programs | 8,375,713                    | 5,318,456                     | 1,194,408                         | 6,512,864                    | 1,862,849                      |
| Administrative Fees      | 1,256,357                    | 889,261                       | 203,483                           | 1,092,744                    | 163,613                        |
| Member Agency Programs   | 3,350,688                    | 2,226,997                     | 0                                 | 2,226,997                    | 1,123,691                      |
| Recycled Water Retrofits | 1,172,015                    | 267,700                       | 904,315                           | 1,172,015                    | 0                              |
| <b>Total</b>             | <b>14,154,773</b>            | <b>8,702,414</b>              | <b>2,302,206</b>                  | <b>11,004,620</b>            | <b>3,150,153</b>               |

#### Notes:

- (1) Estimated backlog amount from the Audit Report in July 2009
- (2) Actual costs plus invoices currently being processed by Metropolitan as of December 28, 2009.
- (3) Projected additional costs when incomplete projects are finished or missing documentation is provided, plus adjustments for member agency and regional projects that qualified for funding.
- (4) Sum of columns 1 and 2.
- (5) Difference between Audit Report Estimate and Projected Total Cost.

## Board Report (Quarterly Report on Conservation Credits Program)

Regional Rebate Programs – Metropolitan has processed invoices for the last of the residential applications included in the backlog. Some of the regional commercial program backlog cannot be paid until customers submit missing documentation. Staff is working directly with some customers and contractors to resolve issues, obtain the missing documentation and expedite payment processing. There are also projects that must be inspected by member agencies before payment can be issued. Member agencies have indicated that it will take up to two months to complete the inspections. At this time, staff estimates that the actual cost of the regional backlog will be less than the audit estimate by approximately \$1.9 million primarily due to close out of projects that were not completed and elimination of duplicate applications.

Administrative Fees – Administrative fees for the regional rebate programs were estimated at 15 percent of backlog amount in the Audit report. The projected total cost for administrative fees is expected to be less than the audit estimate by approximately \$160,000 because it will not be necessary to process applications for regional rebate projects that were closed out or found to be duplicates.

Member Agency Programs - To date, Metropolitan has received invoices from the member agencies totaling approximately \$2.2 million and staff has processed all the payments. Staff anticipates that the actual cost of the member agency program backlog will be approximately \$1.2 million less than the audit estimate because some member agencies completed fewer projects than were initially envisioned.

Recycled Water Retrofits - Much of the remaining work for the recycled water retrofits will not be completed for up to three months because it requires approvals from the public agency's governing body, permits to prevent cross-connections and work that needs to be completed during limited windows of opportunity (e.g., when school is not in session). It is estimated that the final payments of the backlog of approximately \$900,000 will occur near the end of the fiscal year.

Member Agency Pass-Through Payments - Since some member agencies elected to fully fund the regional programs while Metropolitan's rebates were on-hold, there is approximately \$1.2 million of pass-through payments remaining to be paid. Staff is concurrently processing the member agency pass-through payments and the Metropolitan backlog payments when the projects and applications are fully complete.

### **Addressing Audit Issues**

Contract Language - Staff has worked closely with the Office of General Counsel to improve the contract language of the member agency master agreements. Addendums to the contracts have clarified language and included deadlines for payment processing.

Service Provider Contract - Service providers continue to provide weekly reports of paid, committed and projected costs to Metropolitan on Monday mornings for activity during the previous week.

Financial Controls – Data submitted by the service providers is utilized for balancing and reconciling rebate applications received, in-process and paid on a weekly basis to ensure rebates are processed on a timely basis and within budget.

Operational Controls – The on-line reservation system for the regional commercial program limits applications to the approved budget amount. The regional residential program utilizes close monitoring, controlled marketing and a contingency in lieu of a reservation system to ensure costs stay within budget. To control costs on the member agency program, staff allocated a portion of the budget to each member agency based on the project requests that had been submitted. Member agencies payments will be limited to the allocated amounts and final invoices must be submitted to Metropolitan by June 1<sup>st</sup>, so payments can be made before the end of the fiscal year.

Program Management - Staff has established separate projects with fixed budgets to track programs included in the fiscal year 2009/10 budget and is actively managing expenditures. Staff also renegotiated the contract with the regional commercial vendor, which will reduce administrative fees by up to 35 percent.

Executive Communication - Board and Executive Management communication will be improved through this quarterly written report and oral updates at committee meetings. Executive management is engaged in the oversight of this program to ensure the programs stay within budget and expectations are met.

## Board Report (Quarterly Report on Conservation Credits Program)

Reputation Risk Management - Staff has also worked closely with External Affairs to improve communication to solidify our reputation as a leader in regional conservation efforts and establish realistic expectations due to budgetary constraints in these challenging financial times.

### Fiscal year 2009/10

Approximately \$11.1 million of the original budget of \$19.1 million has been committed to date. Program activity and payments are expected to increase as the year progresses. Some programs have projected costs that exceed budget and others have projected costs less than budget. At this time, staff projects costs will be approximately \$1.6 million under budget. Table 2 below provides a status of the fiscal year 2009/10 programs, backlog totals and carryover resulting from the deferral of the Board action from June 2009 to July 2009:

**Table 2- Fiscal Year 2009/10 Budget Summary (\$)**

| <b>Item</b>               | <b>Budget<br/>(1)</b> | <b>Committed<br/>Costs<br/>To Date<br/>(2)</b> | <b>Projected<br/>Additional<br/>Costs<br/>(3)</b> | <b>Projected<br/>Total<br/>Cost<br/>(4)</b> | <b>Projected<br/>Cost<br/>Variance<br/>(5)</b> |
|---------------------------|-----------------------|--|---|---|--|
| Regional Residential      | 6,000,000             | 651,375  | 2,400,000   | 3,035,813                                   | 2,964,187                                      |
| Regional Commercial       | 4,600,000             | 4,570,109                                      | 29,891  | 4,600,000                                   | 0  |
| Water Saving Performance  | 500,000               | 54,554   | 588,274   | 642,828                                     | (142,828)                                      |
| Enhanced Conservation     | 500,000               | 743,245  | 949,635   | 1,692,880                                   | (1,192,880)                                    |
| Member Agency Programs    | 5,500,000             | 5,136,983                                      | 363,017   | 5,500,000                                   | 0  |
| Agricultural Conservation | 2,000,000             | 0  | 2,000,000   | 2,000,000                                   | 0  |
| <b>Sub Total</b>          | <b>19,100,000</b>     | <b>11,156,266</b>                              | <b>6,330,817</b>                                  | <b>17,471,521</b>                           | <b>1,628,479</b>                               |
| Backlog Totals            | 14,200,000            | 8,702,414                                      | 2,302,206   | 11,004,620                                  | 3,195,380                                      |
| Carryover from FY08/09    | 3,798,956             | 4,302,047                                      | 0   | 4,302,047                                   | (503,091)                                      |
| <b>Total</b>              | <b>37,098,956</b>     | <b>24,160,727</b>                              | <b>8,633,022</b>                                  | <b>32,793,750</b>                           | <b>4,305,206</b>                               |

### Notes:

- (1) Approved budget for fiscal year 2009/10 and backlog payments plus the cash budget for carryover payments resulting from the deferral of the Board action from June 2009 to July 2009
- (2) Actual costs incurred plus in-process invoices, applications or reservations for the regional programs, unpaid member agency program allocations and expected contractual payments for existing agreements in water saving performance and enhanced conservation programs as of December 28, 2009.
- (3) Projected additional costs for the regional programs and contractual payments for new agreements within the agricultural conservation program.
- (4) Projected total cost at the end of the fiscal year (sum of columns 2 and 3).
- (5) Difference between the Budget Amount and Projected Total Cost (column 1 minus column 4).

Regional Rebate Programs – The regional rebate programs provide incentives to residential and commercial customers that install water saving devices. As of December 28, 2009, total reservations for the commercial program were \$4,600,000. Most of the reservations were taken for weather-based irrigation controllers, rotating spray nozzles and high efficiency toilets. Since Metropolitan’s funding has all been reserved, the program transitioned to a member agency fully funded program on January 4, 2010. As of December 28, 2009, the total committed cost for the regional residential program was \$651,375. Staff provides a weekly update report on the

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regional rebate programs to member agency conservation coordinators and general managers, as shown in [Attachment 1](#).

Water Saving Performance Program – This program provides incentives for both industrial process improvements and large landscape water use efficiency projects that demonstrate water savings within a specified monitoring period. Industrial process improvements include the installation of new equipment that captures, treats, and reuses water. Incentives are also available for the replacement of existing equipment with more water efficient models and for large landscape irrigation system improvements. Projects up to five years in duration were selected last year for this program on a first come, first served basis. The program is fully subscribed and staff is only processing payments for existing projects. Based on recent discussions with customers regarding the timing of invoice submittals, some customers plan to accelerate completion so the projected fiscal year expenditures for this program are expected to exceed the fiscal year budget.

Enhanced Conservation Program – This program provides funding directly to Metropolitan’s member agencies to encourage new and creative approaches to implement urban water conservation. Projects up to five years in duration were selected for this program through a competitive selection process last year. The program is fully subscribed and staff is only processing payments for existing projects. Some customers with signed agreements have indicated that they plan to accelerate completion of their projects. This does not increase the total cost of Metropolitan incentives because each agreement has fixed maximum amounts payable. However, accelerated completion will shift more of the project costs into the current fiscal year and result in projected expenditures exceeding the fiscal year budget.

Member Agency Program – In addition to regional rebate programs implemented by Metropolitan, member and retail agencies may also implement local water conservation programs within their respective service areas and receive Metropolitan incentives for qualified retrofits and other water saving actions. Typical projects include direct installation toilet projects, locally administered 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. Requests for funding this fiscal year were almost double the budget amount of \$5.5 million, so member agencies were allocated a fixed amount equal to 50 percent of the amount requested to avoid exceeding the overall budget. Agreements to proceed with the allocated funding were executed in early October 2009.

Agricultural Conservation Program – In March 2009, the Board approved adding an agricultural water use efficiency component to Metropolitan’s Water Savings and Performance Program, but the program was broken out as a separate line item in the fiscal year 2009/10 budget. Incentives will be first offered in fiscal year 2009/10 to assist agricultural customers that opt-out of Metropolitan’s Interim Agricultural Water Program and pay full service rates. These customers could be eligible for incentives that focus on agriculture improvements leading to greater water use efficiency. The IAWP will be entirely phased out over a five-year period from 2008 to January 1, 2013. Staff is currently evaluating options for program guidelines and plans to start the program soon.

Backlog Totals – The backlog totals shown in Table 2 are the same as those from Table 1 and include both incentives and administrative fees.

Carryover Payments – Staff processed payments from fiscal year 2008/09 after approval from the Board in July 2009, which resulted in carryover payments into fiscal year 2009/10.

### **Moving Forward**

Staff will continue to expedite payments of the backlog, closely monitor the regional rebate programs and address the issues identified in the audit report. Staff will also initiate the new agricultural conservation program and continue to develop the long-term programmatic overview of the conservation programs.



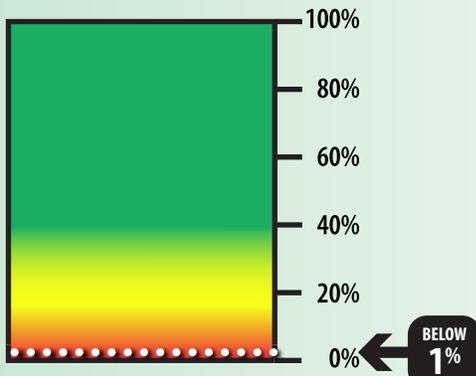
# Regional Rebate Program Weekly Update

## Conservation Program

December 28, 2009

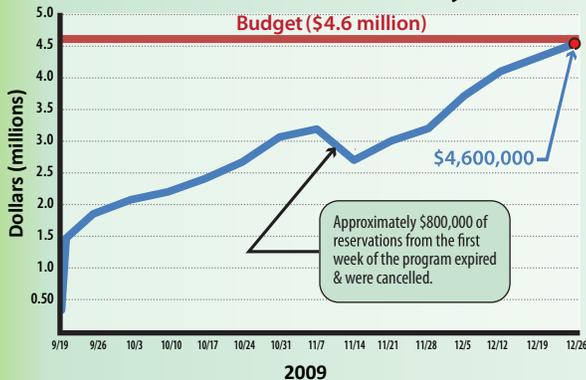
### COMMERCIAL

Rebate Remaining Index\*  
(as of December 26, 2009)



\* This index is an informational graphic and is not a guarantee that funds are available.

Net Total Amount Reserved By Date\*



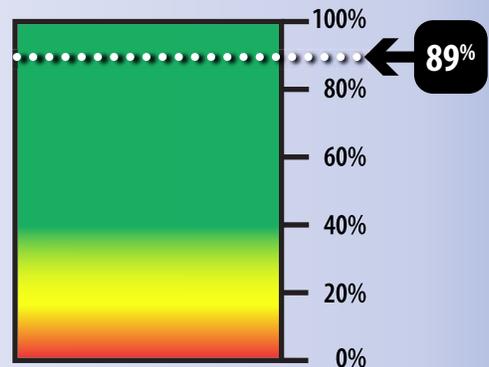
\* Graph covers September 20, 2009 through December 31, 2009

### Summary

- ❖ Net total reserved amount after subtracting cancellations and expirations was \$4,600,000 as of 12/26/2009
- ❖ Reservations last week were \$48,050
- ❖ The program will transition to member agency fully funded on 1/4/2010 for those agencies that elect to participate
- ❖ Most reservations last week were for high-efficiency toilets
- ❖ The number of weekly visitors to website: 363 (50% less than the prior week)
- ❖ For additional information, contact Bill McDonnell at (213) 217-7693

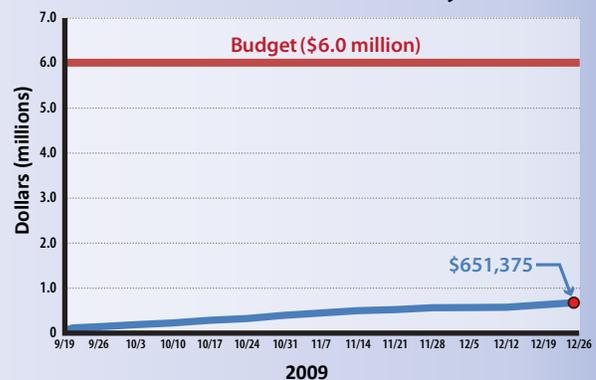
### RESIDENTIAL

Rebate Remaining Index\*  
(as of December 26, 2009)



\* This index is an informational graphic and is not a guarantee that funds are available.

Total Amount Committed By Date\*



\* Committed includes both paid rebates and applications received that have not yet been paid.

### Summary

- ❖ Committed amount was \$651,375 as of 12/26/2009
- ❖ Applications totaling approximately 15,562 were received last week
- ❖ External Affairs is working with the vendor to increase marketing activities
- ❖ The number of weekly visitors to website: 2,300 (21% less than the prior week)
- ❖ For additional information, contact Alice Webb-Cole at (213) 217-6716