



- Board of Directors
Water Planning and Stewardship Committee

8/16/2011 Board Meeting

9-1

Subject

Report on Local Resources Development Strategy Task Force

Description

In April 2011, staff began working with member and retail agencies to conduct a review of Metropolitan's Local Resources Program (LRP) through the Local Resources Development Strategy Task Force (Task Force). The goals of the Task Force are to: (1) identify program improvements and alternative mechanisms to support development of local resources consistent with the goals in Metropolitan's 2010 Integrated Water Resources Plan Update (IRP Update), and (2) investigate approaches that are most cost-effective and sustainable based on the net financial impact on Metropolitan and its rates.

Background

The 2010 IRP Update established four areas in which local resources play a key role. First, water recycling can go towards meeting the regional goal of reducing per capita water use by 20 percent by 2020. Second, the Core Resources Strategy calls for the development of 102 TAF of local resources. Third, local resources projects may contribute toward additional regional buffer supplies should the Board decide to do so. Fourth, components of local supply projects may have value as Foundational Actions that prepare the region for additional development in the future. The Task Force is reviewing the LRP with a focus on how these goals can be achieved.

Since 1982, Metropolitan has assisted local agencies in the development of local water recycling and groundwater recovery projects. Metropolitan currently provides financial incentives up to \$250 per acre-foot of water produced. Since program inception, Metropolitan has provided about \$370 million in incentives for the development of more than 1,487,000 acre-feet of recycled water and about 532,000 acre-feet of recovered groundwater. There are currently 85 approved projects, of which 81 are in operation.

Periodically, Metropolitan has reviewed and developed recommendations for updating the LRP. The last LRP review followed the 2004 IRP Update, which established the current program. At that time, the LRP was administered through a competitive process that favored projects requesting lower LRP funding for their implementation. In 2006, staff convened a task force comprised of member agency managers and staff to review program criteria and recommend new options for board consideration. The current program was adopted in 2007 with a goal of incentivizing 174,000 acre-feet per year of new annual local production.

Under the current program, applications are reviewed on a first-come first-serve basis and the LRP incentive is calculated on a sliding scale up to \$250 per acre-foot based on a project's unit cost exceeding Metropolitan's water rate. Under the current program, the Board has approved ten projects with a combined contractual yield of about 75,000 acre-feet per year (AFY), out of which six are in operation and four are under construction. In addition, staff is currently reviewing ten project proposals totaling an additional 25,000 AFY.

Local Resources Development Strategy Task Force

In response to the Board's adoption of the 2010 IRP Update, staff began a new review of the LRP in April of 2011. Over the last several months, staff convened three Task Force meetings that were open to member agency staff and their invited local agency staff. Going forward, the process for facilitating local resources development will need to recognize that the 2010 IRP Update has four areas for local resources development: The Core Resources Strategy, the 20 percent by 2020 Regional goals, potential buffer supply, and Foundational Actions. The Task Force discussed local resource targets, member and retail agency plans for resource development, the current Local Resources Program, and potential program changes. The Task Force discussions have focused on both financial and non-financial approaches to encourage local resource development.

The Task Force is in its early stages of identifying and investigating different approaches to support local resource development. Therefore, approaches listed below should be considered preliminary in form and represent the current status of the Task Force discussions. Non-financial-incentive approaches discussed by the Task Force include:

- **Public Education & Outreach:** Support for surveys and education activities that seek to enhance the public's understanding of recycled water and seawater desalination as a water resource.
- **Regulatory:** Support effective implementation of regulation for recycled water uses including: groundwater recharge and reservoir augmentation.
- **Legislative:** Identify and support state or federal legislative initiatives that facilitate protective and cost-effective water quality standards.
- **Research:** Promote, develop, and pursue research to address water quality issues that may hinder local resource development. Develop methods to determine whether stormwater projects could produce regional benefits that would qualify these projects for LRP incentives.

Financial incentive approaches and options identified by the Task Force to date include:

- **Status Quo:** Provide up to \$250 per acre-foot for project yield, on a sliding-scale based upon documented project cost and contract terms up to 25 years.
- **Reduced Maximum Incentive:** Reduce maximum incentive below \$250 per acre-foot for project yield, either fixed or sliding scale.
- **Reduced Agreement Term:** Set maximum contract terms at less than 25 years.
- **Competitive Proposals:** Establish a competitive selection process for projects.
- **Construction Fund (Revolving fund):** Provide a portion of project capital costs with a repayment obligation to Metropolitan within a set period of time.
- **Co-ownership:** Provide a portion of the project capital costs in exchange for an equity position in the project. Develop projects jointly with member agencies or other governmental entities.
- **Full Ownership:** Develop, own, and operate projects directly as a component of Metropolitan's water supply.
- **Metropolitan Water Rates:** Metropolitan would not provide a regional financial incentive. Agencies would make local resources decisions to avoid the cost of Metropolitan water.

The Task Force will continue to develop these and possible additional approaches. The approaches will be examined to determine the potential impact on local resource development and regional financial sustainability.

Next Steps

Staff will incorporate board comments and continue to work with member and retail agencies to develop a local resources development strategy recommendation. Staff will provide periodic updates to the Board as the Task Force works to produce a recommendation for board consideration by the end of the fiscal year.

Policy

By Minute Item 48449, dated October 12, 2010, the Board adopted the 2010 Integrated Water Resources Plan.

By Minute Item 47049, dated April 10, 2007, the Board adopted the Local Resources Program provisions including a goal of 174,000 acre-feet per year of new production.

Fiscal Impact

None



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8/1/2011
Date



Jeffrey Kightlinger
General Manager

8/3/2011
Date