

# Local Resources Development Strategy Task Force Progress Report

Water Planning and Stewardship Committee

Item 9-2

January 9, 2011

# Background

- LRDS Task Force
  - Member agency managers
  - Local Resources Program refinements
  - Alternative funding mechanism
- November update
  - Nine financial approaches
- January update
  - Cost analysis and ranking of approaches
- February
  - Recycled water policy principles

# Current LRP Program

- Authorized in April 2007
- 174,000 AFY target
- 75,000 AFY approved (10 projects)
- 99,000 AFY remaining

# **Review of Financial Approaches Discussed With Member Agency Workgroup**

# Financial Approaches

## Incentive

1. Status quo
2. Reduced maximum incentive
  - A. Sliding scale
  - B. Fixed rate
3. Reduced agreement term
4. Competitive proposals

## Cost Recovery

5. Construction fund (revolving fund)
6. Co-ownership
7. Full ownership
9. Design-Build-Own-Operate-Transfer (DBOOT)

## No Incentive

8. Metropolitan water rates

# Evaluation Measures

- Meet the IRP Goals
- Net financial impact to Metropolitan
- Financial and other risks

# Ranking of Financial Approaches

- Achieving IRP goal
  - A ranking of “High” indicates a relatively high likelihood that the approach will achieve the IRP goal.
  - A ranking of “Low” indicates serious doubt that the approach will achieve the IRP goal.
- Financial and other risks
  - A ranking of “Low” indicates a relatively low financial impact or risk to Metropolitan.
  - A ranking of “High” indicates a high potential financial impact or risk to Metropolitan.

# Ranking Provided by the Task force

Approach	Criteria		
	Achieving IRP Goal	Financial	
		Net Impact	Risks
Approach 1: Status Quo	High	Med	Low
Approach 2A: Reduced Maximum Incentive (Sliding Scale)	Low	Med	Low
Approach 2B: Reduced Maximum Incentive (Fixed)	Med	Med	Low
Approach 3: Reduced Agreement Term	Low	Med	Low
Approach 4: Competitive Proposals	Low	Med	Low
Approach 5: Construction Fund (Revolving Fund)	Low	Low-High	High
Approach 6: Co-ownership	Med	Low	Med
Approach 7: Full Ownership	Med	Low	Med
Approach 8: Metropolitan Water Rates (No Incentive)	Low	Low	Low
Approach 9: Design-Build-Own-Operate-Transfer (DBOOT)	Med	Low	Low



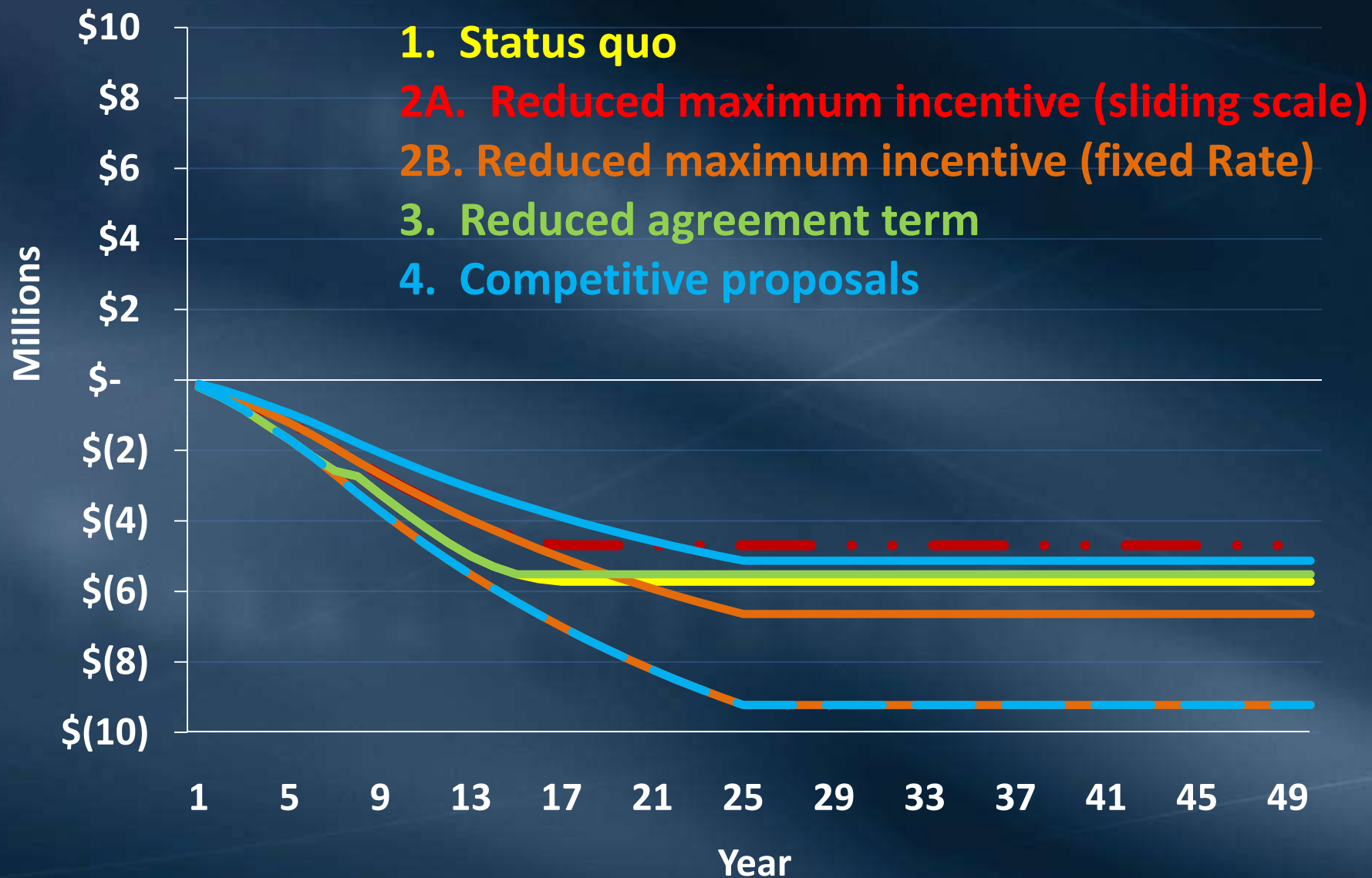
# Example Project – General Assumptions

- Project Type: Recycled Water
- Contract Yield: 4,000 AFY
- Project Life: 50 years
- LRP Agreement Term: 25 years
- Capital Financing Term: 5% over 25 years
- Inflation Rate: 3%
- Discount Rate: 5%

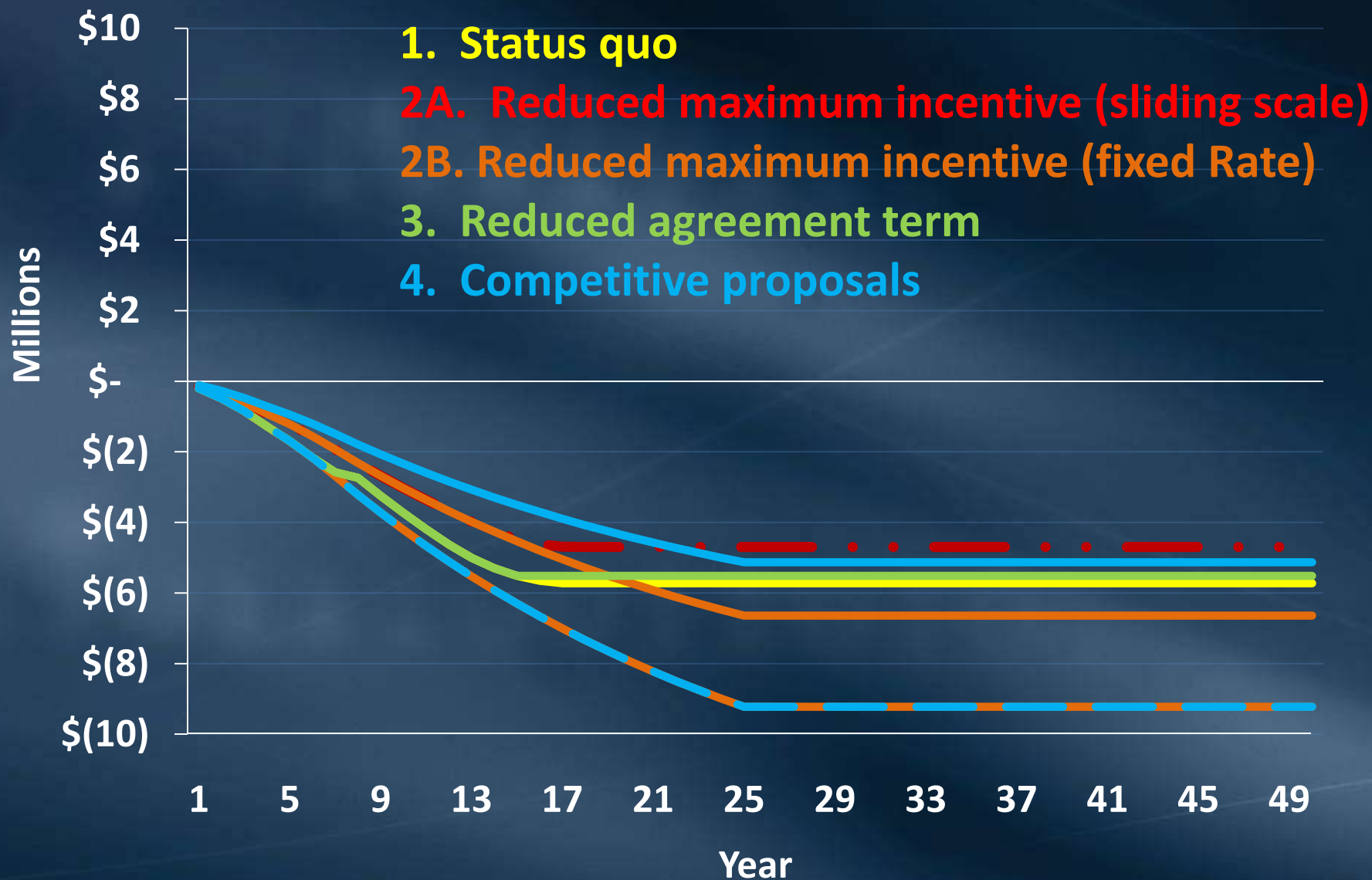
## Example Project – General Assumptions (continued)

- Capital: \$45 million
- O&M Unit Cost: \$220/AF (year 1)
- Grants: \$0
- Project water rate: 90% LRP effective rate
- Construction and production schedule based on historical observation

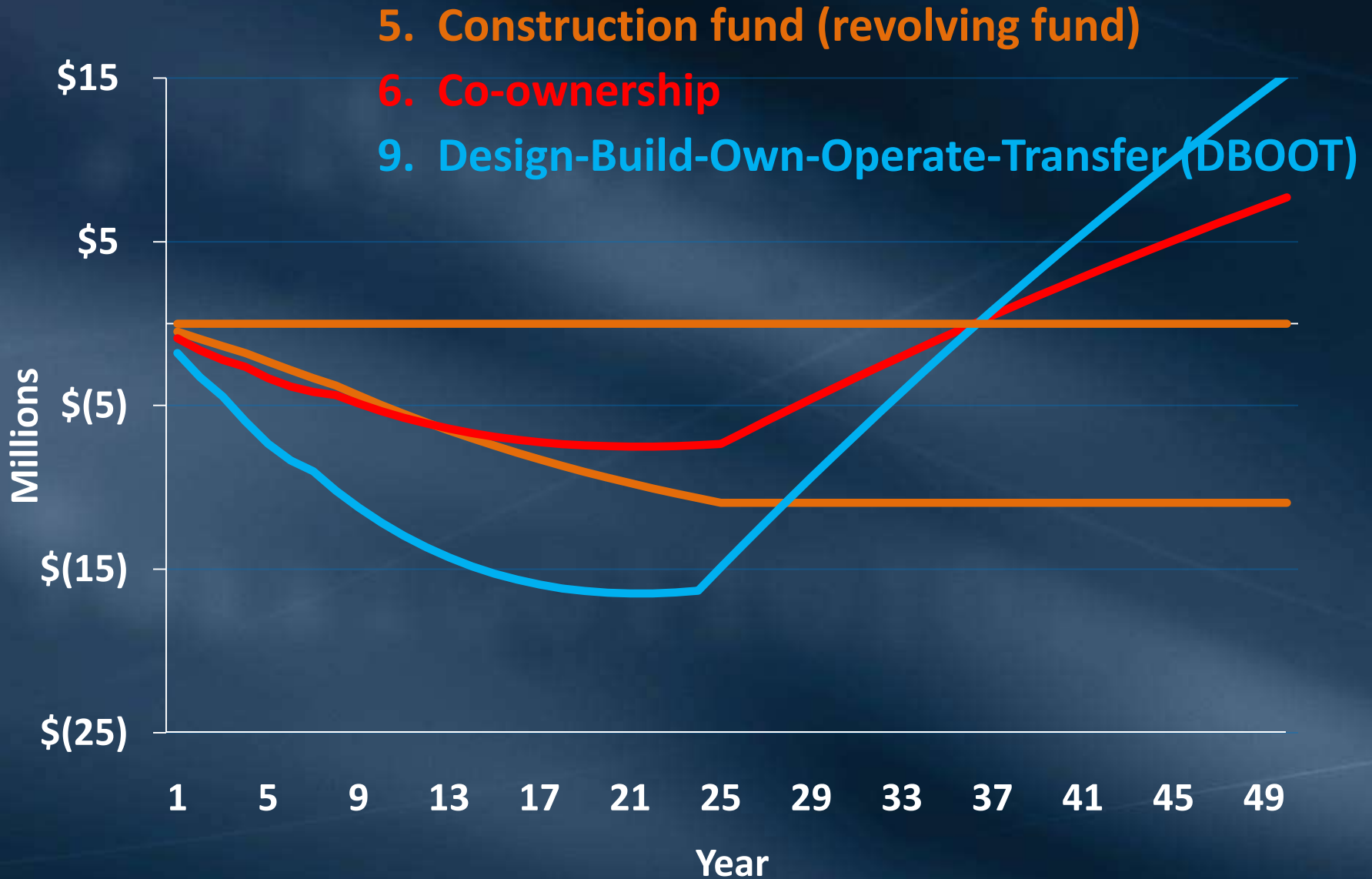
# MWD Net Financial Impact - (Incentive Approaches)



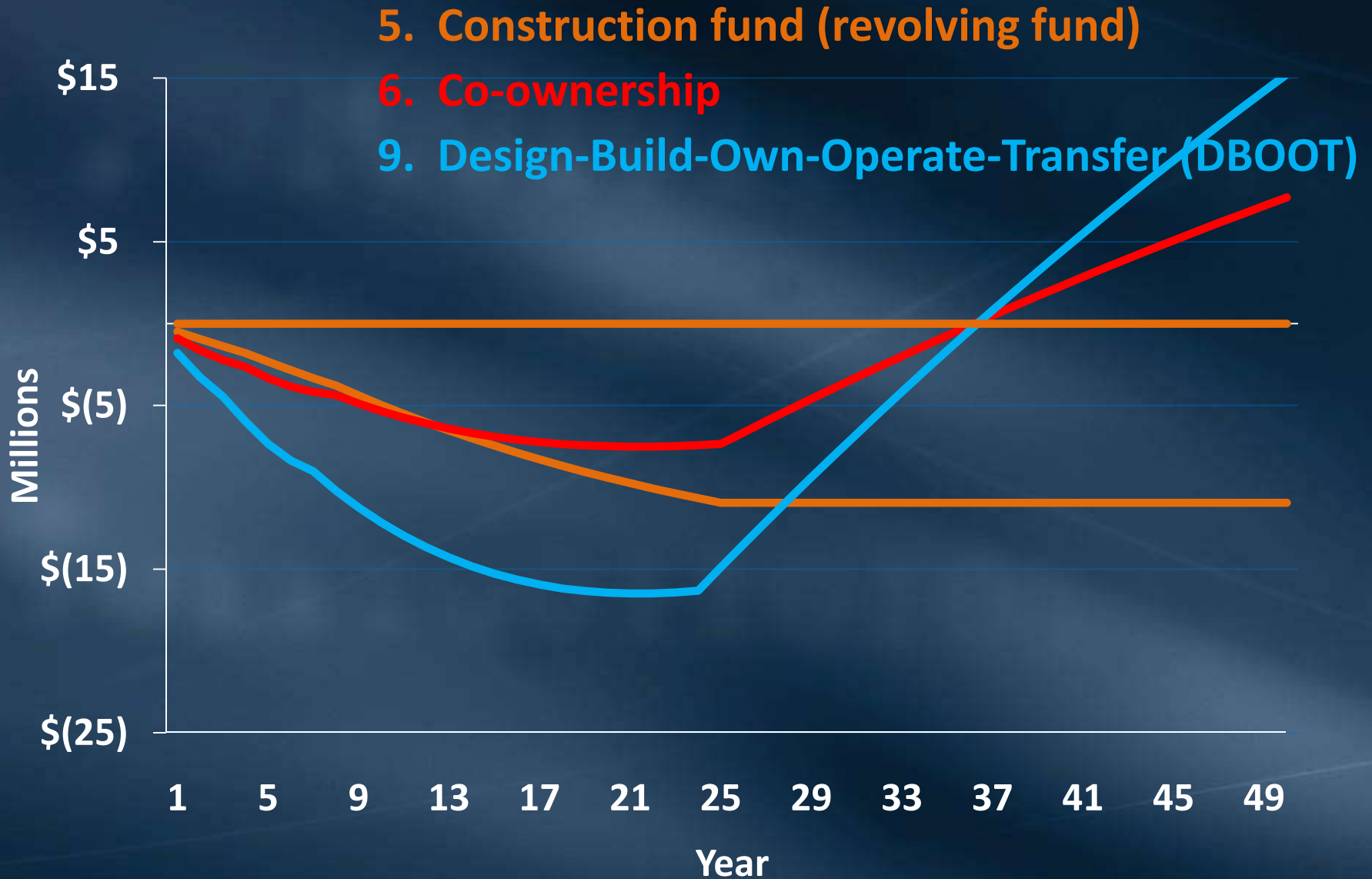
# MWD Net Financial Impact - (Incentive Approaches)



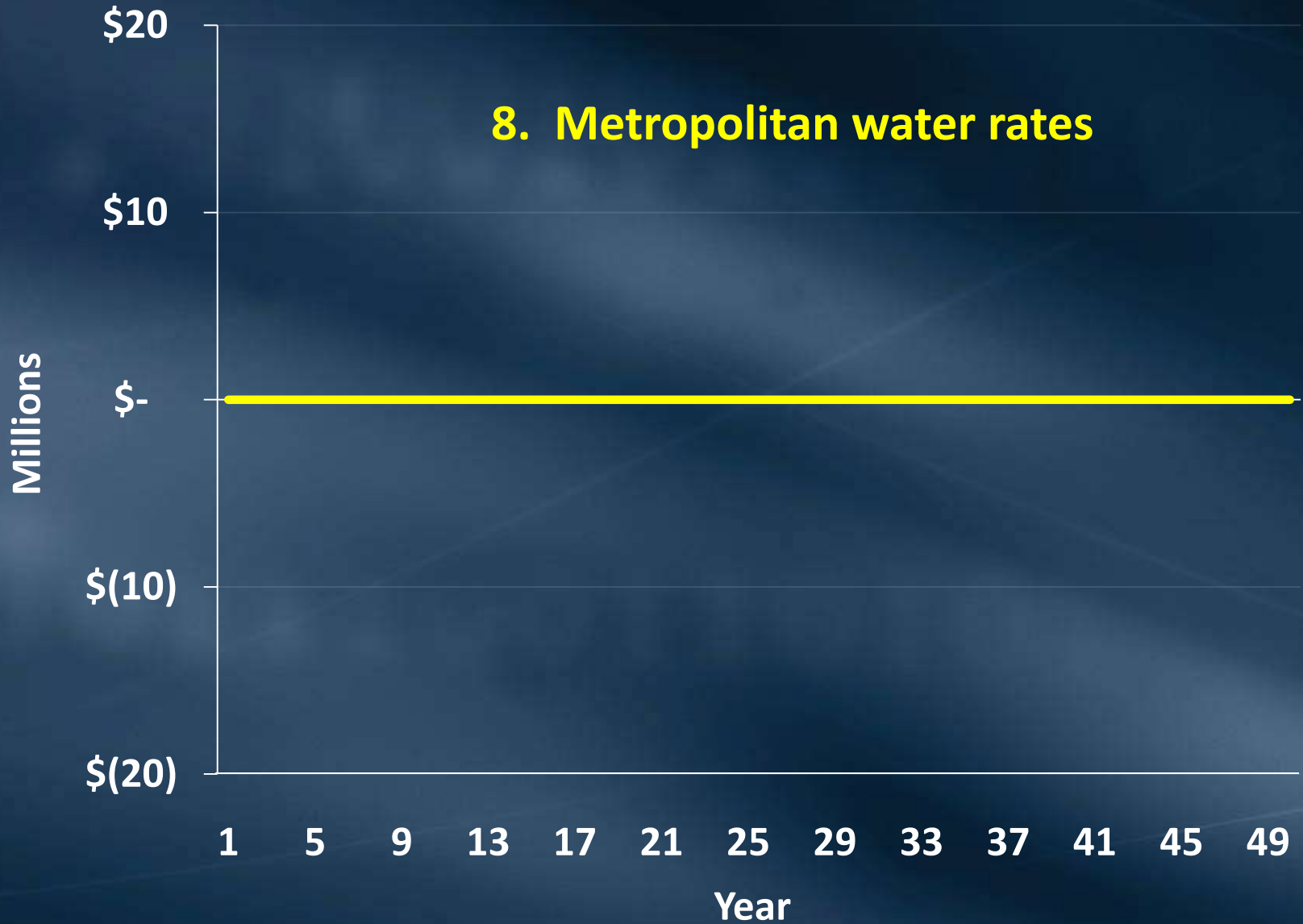
# MWD Net Financial Impact - (Cost Recovery Approaches)



# MWD Net Financial Impact - (Cost Recovery Approaches)



# MWD Net Financial Impact - (No Incentive)



# Pros and Cons - Incentive Approaches

## Pros

- Expedites meeting IRP goals
- Low risk - pay for water produced
- Self adjusting incentives (sliding scale rate)
- Steady funds for project operation (fixed rate)

## Cons

- MWD will not recover costs
- No upfront funding to agency
- Incentive subject to MWD water rate (sliding scale)
- Little help for agencies without capital to build



# Pros and Cons – Cost Recovery Approaches

## Pros

- MWD may recover investment
- Provides upfront capital to project
- Helps agencies with limited capital funds

## Cons

- Longer time to reach IRP goal
- Large upfront capital to support projects
- Risk to MWD if agency unable to buy water
- Construction and operation risks
- Complicated institutional and agreement arrangements

# Pros and Cons – No Incentive Approach

## Pros

- No cost to MWD

## Cons

- Some projects would not proceed without MWD financial assistance
- Least likely to meet IRP goal

# Options for Further Consideration

- General program
  - Approach 1: Status Quo
- Case-by-case options
  - Approach 2B: Reduced maximum incentive (fixed rate)
  - Approach 6: Co-ownership
  - Approach 9: DBOOT

# Next Steps

- Receive Committee feedback
- Continue analysis on approaches 2B, 6, and 9
- Draft recycled water policy principles
- LRP refinements
  - Information letter
  - Action letter

