



- Board of Directors

5/26/2015 Board Meeting

5-1

Subject

Authorize: (1) Additional funding for conservation incentives; and (2) Implementation of modifications to the Turf Removal Program

Executive Summary

At its May 11 meeting, the Metropolitan Board of Directors considered modifications to the Turf Removal Program along with a request for additional funding for the conservation incentives program. After significant discussion, the Board approved continuing the item to a special Board Meeting on May 26. This board letter provides additional background on the Turf Removal Program along with recommended modifications to the program and requests an additional \$350 million in funding to continue providing conservation incentives in fiscal year 2015/16.

Details

Metropolitan's Conservation Incentives Program (Program) has benefited from tremendous consumer response. Throughout the region, consumers have shown a heightened interest in the use of Metropolitan's incentives to help move toward more efficient water use practices. While interest in incentives for water efficient devices is increasing across the board, the most significant increase is occurring in the Turf Removal Program. Interest in turf removal not only provides an important immediate drought response, it also provides long-term benefits by focusing public attention on a necessary transition to more drought tolerant landscapes throughout Southern California.

Conservation Program Status

Table 1 shows that through May 17, 2015, total program expenditures have been \$88.1 million. Expenditures are broken down between incentives for devices, turf removal, and other conservation activities. The other category is largely comprised of member agency-administered turf removal programs with about \$3.5 million that was used for the drought advertising and outreach program in 2014. The current approved budget for the Program is \$100 million. Staff is currently reviewing or processing invoices that will utilize the remaining budget.

Table 1 also shows the incentive amounts that have been tentatively earmarked for preapproved projects. These represent projects where a consumer has submitted a request for incentive funding for a given device or turf removal project and the project has already undergone review, resulting in a notice of preapproval to proceed with the project. Once these projects are completed and deemed to have conformed with the program rules, then they would be eligible for their incentive. Finally, Table 1 includes additional requests for incentives that have not been preapproved. These requests represent applications that have been submitted for projects that are in some form of review. They have not been preapproved to proceed. All applicants are informed that their incentives are only available subject to available funding.

Table 1

	Actual Expenditures	Preapproved	Additional Requests**
Device Rebates	\$24.7	\$20.9	-
Turf Removal (Residential)	\$33.4	\$33.2	\$58.7
Turf Removal (Commercial/Other)	\$11.1	\$68.2	\$117.5
Member Agency/Other	\$18.9	\$1.2	\$31.1
Total	\$88.1	\$123.5	\$207.3

*As of May 17, 2015

**Shown under previous Turf Removal Program terms

There has been a unprecedented increase in additional requests for turf removal projects since the Governor's Executive Order was announced on April 1, 2015. Weekly turf removal requests increased above \$10 million in the three following weeks including residential applications of between 2,500 to 3,000 per week. This dramatic peak in requests was triggered by the State Water Resources Control Board issuance of mandatory conservation regulations and the Board's consideration of changes to the Turf Removal Program. In the recent two weeks, additional requests for turf removal more than tripled to above \$32.8 million for the week ending on May 3 and more than quadrupled to \$48.2 for the week ending on May 10. Of these requests, 78 percent of the dollars requested were for commercial turf removal projects. The rate of additional requests for turf removal funding seems to have dropped off with the week ending May 17 coming in at \$16.7 million in net requests.

Staff has observed that the pace of requests for turf removal funding and the mix of residential vs. commercial requests is highly volatile from week to week. It also appears that the volume of requests is influenced by major announcements related to water issues at the State or Regional level. This makes predicting the future volume and mix of requests very difficult. However, since July 1, 2014, Metropolitan has received a total of 46,578 applications for turf removal. Approximately 44,496 of these requests were for residential projects and approximately 2,082 were requests for commercial turf removal projects. While the overwhelming majority of the applicants are residential, Table 1 shows the majority of the requested funding is for commercial projects.

In addition to the Turf Removal Program, funding of incentives for water saving devices has also been robust. Through May 17, 2015, Metropolitan has paid \$24.7 million for device rebates in fiscal year 2014/15.

Turf Removal Program Modifications

Metropolitan's Turf Removal Program provides an incentive to consumers who remove their turf and replace it with a drought tolerant landscape. The program first began in 2008 as a member agency-administered program with a \$0.30 per square foot rebate. Over the years, the program has been adjusted several times to meet regional needs. Currently, the program exists both in the member agency-administered program and the Regional program, with a \$2 per square foot incentive and no maximum funding limits (approved by the Board in May 2014 as an important drought response).

In February 2015, staff brought to the Board an informational letter describing the Turf Removal Program, its funding requests and potential program modifications to achieve sustainable long-term program expenditures. At that time, staff reported that the incentive of \$2 per square foot with no maximum funding level had led to a dramatic increase in requests to fund large commercial turf removal projects over \$100,000 per property. These

large commercial projects do result in water savings, but they also prevent a broader distribution of funds to residential consumers due to budget constraints in the Program.

More recently, in the May 12, 2015 Board Letter 8-2, staff suggested additional changes to the Turf Removal Program including funding limits per property and changes to the incentive amount to ensure that broad participation is available going forward, while continuing to encourage a long-term change toward drought tolerant landscaping in Southern California. During the board meeting on May 12 the Board clarified that Metropolitan is in the midst of considering changes to the Turf Removal Program and, at a minimum, any applications received after May 12, 2015 at 1:00 pm would be subject to the new program terms approved at the Special Board meeting on May 26, 2015. The Board also discussed the option of applying changes to the Turf Removal Program to any application that has not already been preapproved. As part of the board discussion on May 12, 2015, and in separate discussions with member agency general managers in recent weeks, staff received valuable input that has helped to develop the following recommendation for modifications to the Turf Removal Program.

Residential Applicants

Staff recommends maintaining the turf removal incentive at \$2 per square foot for 3,000 square feet removed for residential applicants. A one-time per property funding limit of up to \$6,000 per residential property would apply. Approximately 90 percent of the residential applications submitted are for 3,000 square-feet or less. Residential customers that submitted requests before May 12, 2015 at 1:00 pm would be processed under the previous program terms. All other residential applications would be processed under these new terms.

Public Agency Applicants

Staff recommends maintaining the turf removal incentive at \$2 per square foot for the first 3,000 square feet removed for public agency applicants. Public agency applicants would be eligible for \$1 per square foot of turf removed above 3,000 square feet up to a total annual limit of \$50,000 per property. The annual limit would be in place for each public agency property in a given fiscal year, allowing projects to be phased over multiple fiscal years. Each phase of a project would have to be submitted in subsequent years as a separate project subject to the terms of the Turf Removal Program in place at the time of submittal. Public agency applications submitted before May 12, 2015 at 1:00 pm would have their requests processed under the previous program terms. All other public agency applications would be processed under these new terms. For purposes of the Turf Removal Program, "public agency" would mean any county, city, whether general law or chartered, municipal corporation, town, school district, special district or water district that is located within the geographic areas served by the Metropolitan. "Public agency" also would include any state agency, department or division, to the extent it is situated on property that is located within the geographic areas served by Metropolitan. "Public agency" would not include any for profit, nonprofit, not-for-profit, mutual benefit, public benefit or quasi-public entity or corporation.

Commercial/Other Turf Removal Applicants

Staff recommends a turf removal incentive of \$1 per square foot for commercial and other non-residential and non-public agency applicants. A total annual limit of \$25,000 per property would apply. Approximately 85 percent of the commercial applications submitted are for 25,000 square-feet or less. The annual limit would be in place for each property in a given fiscal year, allowing projects to be phased over multiple fiscal years. Each phase of a project would have to be submitted as a separate project subject to the terms of the Turf Removal Program in place at the time of submittal. All applications that have not been preapproved with a reservation number would be processed under these new terms.

Summary of Modifications

The program terms described in the sections above would provide incentives for the full square footage requested by most residential and commercial applicants. The terms also provide for larger requests that may be submitted by public agency applicants. This helps address input staff received that the Turf Removal Program should help public agency applicants, which tend to be higher profile projects that could help influence public support of

drought tolerant landscaping. In addition, the annual limits on commercial and public agency projects allow phasing of larger projects over time, as compared to lifetime limits.

With these recommended changes to the Turf Removal Program, the total amount of the additional requests shown in Table 1 is estimated to drop from \$207.3 million down to \$93.1 million, a reduction of about \$114.2 million. The amount of additional residential applications drops by \$8.6 million to about \$50.1 million and the amount of additional commercial applications drops by \$105.6 million to about \$11.9 million. Staff has also estimated a drop in the additional requests within the member agency-administered programs from \$31.1 million down to \$11.2 million. However, it is difficult to estimate this impact as Metropolitan staff does not have data for the requests handled directly by the member agencies.

The recommended incentive amounts take into account that smaller residential projects tend to have a higher cost per square foot as compared to larger commercial turf removal projects. In an effort to encourage residential applicants to consider a change from turf toward drought tolerant landscaping, staff believes it is important to keep the incentive amount at \$2 per square foot for residential customers. Staff has also seen some commercial projects come through the Turf Removal Program with costs of less than \$2 per square foot. As such, staff believes an incentive of \$1 per square foot would continue to encourage commercial entities to consider turf removal as a way for their businesses to use less water.

Program Budget

As mentioned earlier in this letter, staff is reviewing and processing invoices that will fully utilize the current \$100 million Program budget. As such, an increase to the budget is necessary in order to provide funds for additional conservation incentives. Staff has prepared a series of options below for board consideration.

Option #1: Additional budget of \$100 million

Table 1 shows there are approximately \$123.5 million in preapproved conservation projects that may be completed and be eligible for incentives in addition to the \$88.1 million that have already been paid.

Option #1 requests funding to process incentives for the preapproved projects as they are completed and prove their eligibility under the Program terms. It is estimated that an additional budget of \$100 million, bringing the total biennial budget to \$200 million, would be enough to cover the preapproved projects, because not all of them are likely to be completed. However, if all projects were completed and met the Program terms, then up to an additional \$12 million could be necessary at a later time. Under Option #1 none of the additional requests shown in Table 1 would be preapproved and the Program would be closed to new requests through June 30, 2016.

Under Option #1 staff estimates the following important statistics:

- 165,823 device rebates would be paid for a total of \$50.6 million and a projected lifetime savings of 259,487 acre-feet based on assumed useful life of the devices (typically ten years).
- A total of \$145.9 million in turf removal rebates would be paid with a projected savings of 98,483 acre-feet based on an assumed benefit of ten years of water savings. The rebates would be projected to remove a total of 73 million square feet of turf. All of these rebates would fall under the previous Turf Removal Program terms.
- Total water savings of the Program is projected to be 357,970 acre-feet with a combined unit cost of \$549 per acre-foot over the next ten years.

Option #2: Additional budget of \$250 million

Option #2 requests funding to process incentives for all remaining preapproved projects and to implement the Turf Removal Program under the new terms described above. The additional budget of \$250 million would bring the total Program biennial budget to \$350 million.

Under Option #2 staff estimates the following important statistics:

- 362,451 device rebates would be paid for a total of \$110.6 million and a projected lifetime savings of 567,179 acre-feet based on assumed useful life of the devices (typically ten years). This projection assumes that the device rebate program would be implemented throughout fiscal year 2015/16 at a relatively high level of device-related activity of \$60 million, in addition to device rebates that have already been paid or approved. Rebates for devices are more cost-effective than turf removal in the near term and can provide immediate savings once the new device is installed.
- A total of \$235.9 million in turf removal rebates would be paid with a projected savings of 162,074 acre-feet based on an assumed benefit of ten years of water savings. The rebates would be projected to remove a total of 120 million square feet of turf.
 - At this funding level, staff estimates that all the additional requests for turf removal received as of May 17, 2015, could be accommodated. New requests could not be processed until drop outs of previous request occur.
- Total water savings of the Program is projected to be 729,254 acre-feet with a combined unit cost of \$479 per acre-foot over the next ten years.

Option #3: Additional budget of \$350 million (staff recommendation)

Option #3 requests funding to process incentives for all remaining preapproved projects and implement the Turf Removal Program terms described above. The additional budget of \$350 million would bring the total Program biennial budget to \$450 million.

Under Option #3 staff estimates the following important statistics:

- Device rebates would be the same as Option #2.
- A total of \$335.9 million in turf removal rebates would be paid with a projected savings of 232,732 acre-feet based on an assumed benefit of ten years of water savings. The rebates would be projected to remove a total of 172 million square feet of turf.
 - About \$100 million in new turf removal applications beyond those submitted as of May 17, 2015 could be accommodated.
 - At the rate of \$5 million per week of new requests, the Turf Removal Program at this funding level would be expected to continue through summer and fall 2015.
- Total water savings of the Program is projected to be 800,000 acre-feet with a combined unit cost of \$562 per acre-foot over the next ten years.

All of the statistics shown under Option #2 and Option #3 assume a continued high level of interest in the Program, leading to full use of the budgeted funds. Lower activity levels could lead to reduced applications, expenditures, and water savings. The statistics are meant to give a sense of what would happen if interest levels are similar to what has been seen in the past. A different mix of commercial, residential, or public agency applications could lead to different results.

Option #3 is the most likely to allow continued customer applications for conservation rebates through the summer and fall months. As an important method of support for the reductions in water use that consumers will face during this period, staff recommends Option #3 as the approach that will best help the region cope with drought and shortage impacts.

Source of Funds

Each of the budget options described above would utilize funds that are projected to be available in reserves at the end of fiscal year 2014/15. Staff projects availability of about \$50 million in the Water Stewardship Fund, about \$140 million in the Water Management Fund, and an additional \$160 million in the Water Rate Stabilization Fund

above its target level. In total, these funds would be available to provide up to the \$350 million necessary for the budget increase requested under Option #3. Options #1 and #2 would result in a lower use of funds from these reserves.

Administrative Changes

In addition to the budget request and turf removal modifications described above, staff will also be making administrative changes to the Program. These changes are described below:

- No preapprovals will be given in excess of the budget limit
 - Staff recognizes that a fair number of preapproved projects may not be completed and ultimately drop out of the Program. However, in order to ensure that expenditures stay within a given budget constraint, preapprovals will only be given up to the Program budget limit. Once preapprovals reach the budget limit, no more preapprovals will be issued.
 - As preapproved projects drop out of the Program, funds that would have been used to pay those incentive could be used to preapprove additional requests.
- Staff will administer separate budget limits for device rebates and the Turf Removal Program
 - The process for handling device rebates and turf removal requests is very different. These programs also have very different cost and water savings profiles. As such, staff will administer the incentives for conserving devices under a separate budget from the Turf Removal Program. This means that the device program could continue processing new rebates within its budget limit, even if the Turf Removal Program has stopped issuing new preapprovals because it has reached its budget limit.

These administrative changes and the proposed modifications to the Turf Removal Program described earlier would apply to both the member agency-administered and regional programs.

Additional Changes May Be Necessary

The Turf Removal Program as described in this letter has been designed to provide consumer assistance during this drought period. Metropolitan is working to encourage a longer-term market transformation toward drought tolerant landscaping throughout Southern California. This transformation and the policy discussion of how Metropolitan can best help to create it will be an important part of the Integrated Resources Plan Update. It will also be important to address how best to design and fund the Program in light of the budget and rate discussions for fiscal year 2016/17 and beyond. In addition to the actions recommended in this letter, staff believes that additional actions are appropriate relative to both turf removal and outdoor landscaping in Southern California:

1. Staff will seek state funding support for Metropolitan's Turf Removal Program. The Governor's April 1 Executive Order called for 50 million square feet in statewide turf removal. Metropolitan projects that its Turf Removal Program could achieve much more than that through fiscal year 2015/16. Staff will pursue funding opportunities through the state to help support these efforts.
2. Additional modifications to the Turf Removal Program may be necessary. These changes would help refine the program that would be in place and be funded by the fiscal years 2016/17 and 2017/18 biennial budget. Changes would need to be effective on January 1, 2016, due to the fact that turf removal projects typically take six months to complete. Turf removal applications submitted in January of 2016 will result in expenditures in fiscal year 2016/17. Further changes may be necessary to help continue support for the Program while reducing long-term budgetary impacts.
3. Regional landscape ordinances and standards should also be changed. In order to complement programs that encourage turf removal in existing developments, new concepts need to be developed for ordinances and landscape requirements that limit the use of turf in new development and help to further the transition toward drought tolerant landscaping throughout the region.

Summary

Staff recommends the modifications to the Turf Removal Program described in this letter along with an increase in the conservation incentive program budget of \$350 million for the biennial budget of fiscal years 2014/15 and 2015/16 (Option #3). The recommended changes to the Turf Removal Program will provide for a broad distribution of the incentives to consumers throughout the region while increasing the cost-effectiveness of the Turf Removal Program. The budget request is projected to allow Metropolitan to continue to offer incentives to consumers through the summer and fall of 2015. Staff would provide monthly tracking updates to the Board and bring additional recommendations for program changes and funding levels as part of the Integrated Resources Plan Update and the biennial budget process for fiscal years 2016/17 and 2017/18.

Policy

By Minute Item 49773, dated May 13, 2014, the Board authorized proposed changes to Conservation Program in response to drought conditions.

By Minute Item 49676, dated February 11, 2014, the Board adopted a Water Supply Alert Resolution (Resolution 9168).

By Minute Item 49675, dated February 11, 2014, the Board authorized the On-site Retrofit Pilot Program for converting sites to receive recycled water.

By Minute Item 49542, dated September 10, 2013, the Board authorized new conservation program initiatives.

By Minute Item 49068, dated May 8, 2012, the Board authorized changes to Metropolitan's Water Conservation Program.

By Minute Item 48772, dated August 16, 2011, the Board adopted the Long-Term Conservation Plan and revisions to the water conservation policy principles.

By Minute Item 42785, dated January 13, 1998, the Board approved expanding Conservation Credits Program funding to projects that conserve recycled water.

California Environmental Quality Act (CEQA)

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

The proposed action is not defined as a project and is not subject to CEQA because it involves continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, 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).

The CEQA determination is: Determine that the proposed action is not defined as a project and is not subject to CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

Board Options

Option #1

Adopt the CEQA determination that the proposed action is not defined as a project and is not subject to CEQA, and

- a. Authorize an increase in the biennial fiscal years 2014/15 and 2015/16 budget of \$100 million for conservation incentives from the Water Stewardship Fund and the Water Management Fund; and
- b. Direct staff to process only preapproved conservation incentive applications and close the conservation incentive program to any further activity through June 30, 2016.

Fiscal Impact: \$100 million from Metropolitan's Water Stewardship and Water Management Funds

Business Analysis: The increased funding is projected to allow staff to provide incentives to all preapproved projects that are likely to be completed, assuming that some projects drop out of the program. If 100 percent

of these projects are completed, then staff may need to request up to \$12 million in additional funds at a later date. Additional consumer access to conservation incentives through Metropolitan's conservation program would be terminated. Consumers that have recently submitted funding requests, largely for turf removal, would be notified that they are not able to receive incentives.

Option #2

Adopt the CEQA determination that the proposed action is not defined as a project and is not subject to CEQA, and

- a. Authorize an increase in the biennial fiscal years 2014/15 and 2015/16 budget of \$250 million for conservation incentives from the Water Stewardship, Water Management, and Water Rate Stabilization Funds; and
- b. Authorize the implementation of Turf Removal Program modifications as described in the letter.

Fiscal Impact: \$250 million from Metropolitan's Water Stewardship, Water Management, and Water Rate Stabilization Funds. The Water Rate Stabilization Fund would still be projected to end fiscal year 2014/15 at or above the target level.

Business Analysis: The increased funding would support the Governor's drought declaration and would help achieve Metropolitan's Integrated Resource Plan goal of reducing per capita water use. The Turf Removal Program modifications would allow Metropolitan to affordably incentivize consumers and provide better equity among consumers and make funds available to a broad consumer base. Staff would continue to monitor the Program activity and report monthly to the Board, but the approved budget may not be enough to continue offering turf removal incentives beyond those requests already submitted.

Option #3

Adopt the CEQA determination that the proposed action is not defined as a project and is not subject to CEQA, and

- a. Authorize an increase in the biennial fiscal years 2014/15 and 2015/16 budget of \$350 million for conservation incentives from the Water Stewardship, Water Management, and Water Rate Stabilization Funds; and
- b. Authorize the implementation of Turf Removal Program modifications as described in the letter.

Fiscal Impact: \$350 million from Metropolitan's Water Stewardship, Water Management, and Water Rate Stabilization Funds. The Water Rate Stabilization Fund would still be projected to end fiscal year 2014/15 at the target level.

Business Analysis: The increased funding would support the Governor's drought declaration and would help achieve Metropolitan's Integrated Resource Plan goal of reducing per capita water use. The Turf Removal Program modifications would allow Metropolitan to affordably incentivize consumers and provide better equity among consumers and make funds available to a broad consumer base. Staff would continue to monitor the Program activity and report monthly to the Board, but the approved budget would be likely to carry through the summer and fall of 2015.

Staff Recommendation

Option #3



5/22/2015

Deven N. Upadhyay
Manager, Water Resource
Management

Date



5/22/2015

Jeffrey Kightlinger
General Manager

Date

Ref# wrm12637614