



- Board of Directors
Water Planning and Stewardship Committee

7/14/2020 Board Meeting

8-1

Subject

Consider implications of board action to suspend collection of the Water Stewardship Rate and impacts of the COVID-19 pandemic on Metropolitan's budget and rates, and confirm Metropolitan's commitment to demand management programs and the Local Resources Program goal; the General Manager has determined that the proposed actions are exempt or otherwise not subject to CEQA

Executive Summary

In December 2019, Metropolitan's Board decided to suspend collection of its Water Stewardship Rate (WSR) for 2021 and 2022, and to fund demand management from program reserves in fiscal years 2020/21 and 2021/22, with the Board considering new Local Resources Program (LRP) agreements during this period on a case-by-case basis.

Currently, several LRP project applications are moving forward for potential board approval. Staff is looking for policy direction from the Board on how to process these program applications given the board direction on cost containment during the pandemic and the earlier suspension of any cost-recovery method to fund demand management.

Details

Background

In October 2018, the Board affirmed its longstanding commitment to diversifying water supplies and support of local resources by increasing the goal of the LRP to 170,000 acre-feet per year (AFY). Since approving this revised goal, the Board has authorized six new LRP project agreements for a total of 47,000 AFY. This leaves 123,000 AFY remaining to meet the LRP goal. Staff currently estimates that total LRP incentive payments will need to increase by \$75 million per year to support this goal.

Since 2003, the WSR has funded Metropolitan's demand management programs, including conservation device rebates, turf removal, advertising to promote conservation, and incentive payments for LRP projects. In December 2019, the Board considered alternatives to the WSR, but declined at that time to select an alternative rate design to collect revenues to fund demand management.

In December 2019, the Board authorized staff to use program reserve funds to fund demand management and to bring forward proposed LRP project agreements to the Board for consideration on a case-by-case basis. The Board expected during this period to review the goals of Metropolitan's demand management programs through the Integrated Resources Plan (IRP) process and to subsequently adopt an alternative to the WSR to collect funding for such programs. Additionally, the Board approved an LRP agreement for the City of San Diego's PureWater project but has not considered any further LRP projects.

Since these Board actions in December, the world was struck by the COVID-19 pandemic. Metropolitan began taking action to respond to the pandemic in mid-March, less than one month from adoption of its two-year budget. Staff rapidly developed a revised budget proposal that reduced spending on staffing, froze discretionary travel, suspended board inspection trips, deferred equipment purchases, reduced capital projects, and other cost containment actions. The proposed overall rate increases for 2021 and 2022 were reduced from 5 percent per year to 3 percent in 2021 and 4 percent in 2022. The Board adopted the revised budget with the reduced rate increases

and directed staff to continue to look for further cost containment opportunities, review COVID-19 impacts on member agencies, and bring back a report to the Board for consideration at the September 2020 Board meeting. While the full extent of the economic impacts of the pandemic to the local economy, Metropolitan, and its member agencies are not yet fully known, it is clear the impacts will be significant and far-reaching. Staff is currently in the process of developing a report on possible further cost containment actions, and we are gathering data on revenue and cost impacts to the member agencies.

In light of the crisis brought on by the pandemic and the direction from the Board to review the budget for possible cost savings, staff is seeking confirmation from the Board of its direction to continue bringing proposed LRP project agreements to the Board for approval. Two project applications have completed the staff review process and are ready for board consideration. These two projects would produce more than 16,000 AFY in combined new water yield and obligate Metropolitan to pay up to \$115 million in incentive payments over the term of the contracts. There are also four additional project applications currently in the review process that could be scheduled for future board consideration.

Staff believes that the LRP and other Metropolitan demand management programs have greatly increased Southern California's ability to manage long-term drought and climate change and are essential to ensuring Metropolitan's resiliency. Demand management has reduced demand for imported supplies, which reduces the costs to build, expand, operate, and maintain transportation facilities. This has a regional benefit for all member agencies throughout Southern California. However, these programs are expensive and need a clearly identified funding source, which has not yet been developed and approved by the Board. Additionally, the scope and nature of these programs are currently under review in the IRP, and they may be adjusted.

One approach is for the Board to consider delaying approval of further LRP agreements until the IRP has been completed and a new method to fund demand management has been adopted. While there are legitimate policy reasons to defer action on LRP projects at this time, staff instead recommends that the Board confirm its commitment to the LRP and other demand management and continue on the course of completing the IRP update and developing a rate design to fund demand management. Local project development requires significant lead time, and existing program reserves are sufficient for this biennium. Staff believes that the IRP process should not halt project development every five years; the process can accommodate action on individual projects while broad program refinement is considered.

The same is true with developing a demand management cost-recovery method. Rate structures must be thoughtfully and carefully crafted. However, project development can continue as long as the Board is committed to moving forward to develop a rate design that will fund these projects on a long-term basis prior to the exhaustion of the current program reserves, providing Metropolitan with a funding mechanism to comply with the contractual obligations created by each LRP agreement.

Staff Recommendation

Staff recommends that the Board take the following actions: (1) confirm the board-adopted goal of 170,000 AFY for LRP projects and direct staff to continue bringing forward proposed LRP project agreements for action; (2) direct staff to continue funding demand management programs through program reserves; (3) commit to completion of the IRP process, and make adjustments to LRP and other demand management programs as needed upon completion of the IRP, and (4) direct staff to assist the Board in developing a replacement funding mechanism to the WSR for 2023 forward.

Policy

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

By Minute Item 51356, the Board approved the interim LRP target to 170,000 acre-feet per year.

By Minute Item 51828, the Board directed staff to incorporate the use of the 2019/20 fiscal-year-end Water Stewardship Fund balance to fund all demand management costs in fiscal years 2020/21 and 2021/22; and to not incorporate the Water Stewardship Rate, or other rates or charges, to recover such costs in calendar years 2021 and 2022.

By Minute Item 51962, the Board approved the fiscal years 2020/21 and 2021/22 biennial budget, and calendar years 2021 and 2022 rates and charges, with direction to staff to revisit and consider by August 31, 2020 specified budget issues, and the Board's review by its September 2020 meeting of the budget and rates to consider impacts resulting from the COVID-19 crisis.

California Environmental Quality Act (CEQA)

CEQA determination for Options #1 and #2:

The proposed actions are not defined as a project under CEQA because they involve continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed actions are not subject to CEQA because they involve 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).

Board Options

Option #1

(1) Confirm the board-adopted goal of 170,000 AFY for LRP projects and direct staff to continue bringing forward proposed LRP project agreements for action; (2) direct staff to continue funding demand management programs through program reserves; (3) commit to completion of the IRP process, and make adjustments to LRP and other demand management programs as needed upon completion of the IRP; and (4) direct staff to assist the Board in developing a replacement funding mechanism to the WSR for 2023 forward.

Fiscal Impact: No additional fiscal impact relative to the actions to confirm the existing LRP goal, continue funding demand management with program reserves, and commit to completing the IRP process, as these actions maintain the status quo. The fiscal impacts of future LRP agreements, any future adjustments to demand management programs, and adoption of an alternative to the Water Stewardship Rate will be determined at the time of those future actions.

Business Analysis: The recommended actions will provide staff with policy direction to continue progress towards meeting the LRP goal, administer the demand management programs, and assist the Board in completing the IRP process and approval of a replacement cost-recovery method for demand management.

Option #2

Direct staff on an alternative action plan for LRP projects and other demand management, pending a new rate design being established to recover demand management costs.

Fiscal Impact: To be determined based on board direction.

Business Analysis: To be determined based on board direction. However, approval of new LRP agreements without a commitment to approve an alternative cost-recovery method for demand management would incur financial obligations into the future without an identified revenue collection mechanism.

Staff Recommendation

Option #1


 Brad Coffey
 Manager, Water Resource Management

7/2/2020
 Date


 Jeffrey Kightlinger
 General Manager

7/2/2020
 Date