



● **Board of Directors**
Water Planning and Stewardship Committee

1/11/2022 Board Meeting

7-6

Subject

Authorize modifications to the On-Site Retrofit Program; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

This letter seeks authorization to increase the existing On-Site Retrofit Program (Program) incentive term and, in addition to potable water, include untreated imported water as eligible for retrofit under the Program. These proposed changes intend to increase Program participation and recognize the longer-term benefits provided to the region. Metropolitan calculates the incentive with a five-year estimate of water savings at \$195 per acre-foot. However, water savings achieved by retrofitting to recycled water systems are remaining in place beyond five years, therefore extending the benefits of the water savings. Staff proposes increasing the incentive calculation to ten years of imported water savings to capture the additional water savings benefits. This proposed modification intends to expand program participation, especially as retrofit costs become more expensive. Together, these Program modifications will further support increased recycled water use to improve water supply reliability in the region.

Details

Background

Developing local water supplies is an important objective of Metropolitan's Integrated Water Resources Plan (IRP) and is consistent with Metropolitan's drought planning framework. Expanded use of recycled water offsets future imported water demands and helps achieve water supply reliability.

Based on discussions with member and other agencies, end-user retrofit costs impede expanded recycled water use in the region. Projects that participate in Metropolitan's Local Resources Program are also impacted if there are not enough recycled water customers to consume the supply. In response, Metropolitan's Board approved the On-Site Retrofit Pilot Program in February 2014. After a successful pilot period, the Board authorized the Program to continue in 2016. The Program provides financial incentives directly to property owners (public or private) to convert irrigation or industrial systems to recycled water. Completed projects receive an incentive of \$195 per acre-foot of saved water for a five-year term. To date, the Program provided \$11 million in incentives, which converted 12,700 acre-feet per year (AFY) of potable water to recycled water.

Eligibility of Untreated Imported Water

The Program limits participation to projects that offset potable water demands. Member agencies expressed an interest to expand Program eligibility to projects that offset untreated imported water. Reducing Metropolitan's imported demands benefits the region. To retrofit projects currently operating on untreated imported water, staff recommends relaxing the requirement that retrofit projects offset only potable water to also allow projects that offset imported water.

Program Incentive Term

The Program incentive term currently assumes five years of water savings benefits. Metropolitan staff recently surveyed projects retrofitted through the Program over five years ago. All of the projects continue to use recycled water. The surveys show that recycled water systems remain operational for over five years after installation.

Therefore, the current five-year incentive does not match the anticipated lifetime savings of these investments because the conversion costs assume an infrastructure life of ten years or greater.

Staff regularly works with member agencies to explore strategies to increase recycled water use. Feedback received from the member agencies indicated that less expensive, easier-to-install recycled water conversions are mostly complete. Today, increased site conversion costs are a significant barrier for switching to recycled water. Based on staff analysis of the project costs provided, the current incentives provided to Program applicants cover about 40 percent of their total project costs. Metropolitan expects the percentage to decrease as construction costs increase over time.

Program activity declined in recent years, reflecting an incentive amount that may not adequately move customers to recycled water. In the FY 2020/21 and 2021/22 biennial budget, staff expected about 2,000 AFY of conversions to occur. Rather, staff now expects only about 700 AFY of conversions.

Staff recommends increasing the Program incentive calculation from five years of water savings to ten years. Upon Board approval, this Program modification would take effect immediately. Because approved applications must begin operation within 280 days, new water savings may be seen as early as August 2022. Metropolitan staff received feedback from agencies that potential retrofit projects could create near-term water savings and complement Metropolitan's drought actions to improve reliability against multi-year, severe drought.

Proposed Modifications

Staff recommends allowing untreated imported water as also eligible for retrofit under the Program and increasing the Program incentive calculation from an estimated five years of water savings to ten years to reflect the longer-term water savings achieved from Program retrofits. These changes will support continued investments in recycled water conversions and will help address the increased cost barrier associated with site retrofits. The proposed modifications will encourage participation, increase recycled water use, and support IRP goals. If approved, Metropolitan staff would implement the proposed changes and report program activity and results to the Board.

Policy

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

Metropolitan Administrative Code Section 3107: Water Use Efficiency Guidelines

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 49773, dated May 13, 2014, the Board increased the incentive term of the On-Site Retrofit Pilot Program from two years to five years.

By Minute Item 50358, dated January 12, 2016, the Board adopted the 2015 Integrated Water Resources Plan Update, as set forth in Agenda Item 8-3 board letter.

By Minute Item 52581, dated November 9, 2021, the Board declared a Drought Emergency and directed staff to identify and implement measures to ensure all portions of the service area attain a high level of reliability against multi-year, severe droughts.

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under 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).

CEQA determination for Option #2:

None required

Board Options

Option #1

Authorize modifications of the On-Site Retrofit Program to increase the \$195 per acre-foot incentive term from five to 10 years, and to also allow untreated imported water as eligible for retrofit under the Program.

Fiscal Impact: The annual budget for the On-Site Retrofit Program is \$2 million per year. The proposed modification will increase activity and application payments, but the Program will be sustained within the current budgeted amount.

Business Analysis: The proposed changes are intended to increase recycled water use and water supply reliability in the region.

Option #2

Take no action

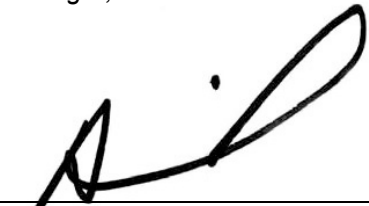
Fiscal Impact: No anticipated change of expenditures based on current spending patterns.

Business Analysis: Staff would consider other initiatives to increase imported water savings.

Staff Recommendation

Option #1

	12/22/2021
_____ <i>Brad Coffey</i> Manager, Water Resource Management	<i>Date</i>

	12/27/2021
_____ <i>Adel Hagekhalil</i> General Manager	<i>Date</i>