



- **Board of Directors**
One Water and Stewardship Committee

1/14/2025 Board Meeting

7-2

Subject

Authorize the General Manager to enter into a funding agreement for the Disadvantaged Communities Leak Detection and Repair Program with the U.S. Bureau of Reclamation to implement phase two of the Lower Colorado River Basin System Conservation and Efficiency Program; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

Staff recommends that the Board authorize the Interim General Manager to enter into an agreement with the U.S. Bureau of Reclamation (Reclamation) under its Lower Colorado Conservation and Efficiency Program (LC Conservation Program). Under this agreement, Reclamation would pay for conserved water generated from a Metropolitan disadvantaged community (DAC) Leak Detection and Repair Program.

Under this agreement with Reclamation, Metropolitan would receive up to \$8 million in federal funding through 2031. Of these funds, staff estimates that approximately \$1.2 million would offset Metropolitan's projected DAC Leak Detection and Repair Program expenses in the current budget biennium. The remaining funds would be received in future budget cycles. In exchange, Metropolitan would implement the project and create a total of 4,000 acre-feet of conserved water to benefit Lake Mead as system water.

Additionally, this Bucket 2 project will yield long-term reductions in demand for Colorado River water. This demand reduction will continue after all agreement terms have been met. This allows Metropolitan to capture federal investment to decrease long-term demands for Colorado River water. Long-term reductions in demand will improve our ability to manage our water supply under post-2026 operations which could include potential supply reductions. Metropolitan and other Colorado River water users would also benefit from increased Lake Mead elevation associated with the system water creation.

Additional agreements will be necessary to implement this System Conservation Implementation Agreement (SCIA). Before Reclamation will pay Metropolitan, the California Section 5 contractors (Metropolitan, Coachella Valley Water District, Imperial Irrigation District, Palo Verde Irrigation District, and the City of Needles) will need to forbear water through the remaining period of the 2007 Interim Guidelines. New intra-state and inter-state forbearance agreements will also be needed to continue implementing these system conservation agreements post-2026. Staff will bring those agreements to the Board for consideration as needed.

Timing and Urgency

Reclamation would like to execute Bucket 2 SCIA's as quickly as possible. This will ensure that funding under the 2022 Inflation Reduction Act (IRA) is obligated without delay. Nevertheless, funding provided by Reclamation in these agreements could be withdrawn after they are executed by future congressional action or delayed by the next Administration.

Proposed Action(s)/Recommendation(s) and Options

Staff Recommendation: Option #1

Option #1

Authorize the General Manager to enter into a funding agreement for the Disadvantaged Communities Leak Detection and Repair Program with the U.S. Bureau of Reclamation to implement phase two of the Lower Colorado River Basin System Conservation and Efficiency Program.

Fiscal Impact: Federal funding increase of up to approximately \$8 million; approximately \$1.2 million would offset currently budgeted expenses over the current 2-year budget cycle. The rest of the funds would be received in a future budget cycle.

Business Analysis: This agreement would provide federal funding for leak detection projects that would reduce long-term demands for Colorado River water. Reduced demands would improve our ability to manage our water supply under post-2026 operations, which could include potential future supply reductions.

Option #2

Direct the General Manager not to enter into the agreement under the proposed terms.

Fiscal Impact: None

Business Analysis: Metropolitan would forego an opportunity to leverage federal dollars to reduce Metropolitan's long-term demands on the Colorado River and improve our ability to manage our water supply under post-2026 operations which could include potential future supply reductions.

Alternatives Considered

Staff submitted six different proposals for Bucket 2 funding. A total of three projects were selected by Reclamation. The other two have existing agreements.

Applicable Policy

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

By Minute Item 53051 in December 2022, Metropolitan's Board adopted legislative priorities and principles to support the funding of conservation projects to enhance the resiliency of the Colorado River System to reduce the risk of Lake Mead and Lake Powell falling below critical elevations.

The General Manager's 24/25 Business Plan identified Goal 2.2 to identify and secure programmatic cost savings, organizational efficiencies, and external funding. One of the outcomes identified under this goal was to secure IRA funding to support Colorado River water use objectives.

Related Board Action(s)/Future Action(s)

By Minute Item 53447 in November 2023, Metropolitan's Board approved forbearance for system conservation created by Coachella Valley Water District and Imperial Irrigation District in 2023 to be left in Lake Mead as system water under Reclamation's LC Conservation Program.

By Minute Item 53469 in December 2023, Metropolitan's Board approved a similar action for system conservation projects with the Palo Verde Irrigation District, Bard Water District, and the Quechan Tribe under Reclamation's LC Conservation Program.

By Minute Item 53752 in August 2024, Metropolitan's Board approved forbearance for system conservation created by CVWD and IID between 2024-2026 to be left in Lake Mead as system water under Reclamation's LC Conservation Program.

In December 2024, Metropolitan's Board approved a similar action for system conservation projects for Metropolitan's Antelope Valley East Kern (AVEK) High Desert Water Bank (HDWB) facilities and its Turf Replacement program for commercial, industrial, and institutional properties. The Minute Item number for this action is not yet available.

Summary of Outreach Completed

All LC Conservation Program projects were discussed with and received input from the Colorado River Ad-hoc Committee. The Bucket 2 proposals were also discussed with the One Water Stewardship and Planning Committee in August of 2023 when the proposals were submitted to Reclamation and again in November of 2024 prior to the recent December 2024 Board action for the AVEK HDWB and Turf Replacement projects.

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it involves the creation of government funding mechanisms or 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. (State CEQA Guidelines Section 15378(b)(4)).

CEQA determination for Option #2:

None required

Details and Background

Background – The LC Conservation Program

The 2022 IRA provides \$4 billion in funding specifically for conservation efforts in the Colorado River Basin. The Department of the Interior, through Reclamation, created the LC Conservation Program to use the IRA funding to increase system conservation and efficiency opportunities to address the drought in the Lower Colorado River Basin. Similar conservation programs are being developed in the Upper Colorado River Basin. The LC Conservation Program provides funding opportunities for voluntary participation to increase system conservation and efficiency opportunities.

These opportunities consisted of two main components. The first was for conservation projects that could be implemented in the short-term and provide short-term savings and is often called “Bucket 1”. The second was for conservation projects that improve long-term efficiencies and result in multi-year system conservation and is often called “Bucket 2”. These Bucket 2 projects are intended to reduce long-term demands for Colorado River water to improve the ability to manage the Colorado River system under post-2026 operations, which are likely to include future supply reductions within the Lower Basin.

Metropolitan submitted six separate proposals for potential conservation projects under Bucket 2, and two proposed programs were approved in December 2024. Reclamation also selected the DAC Leak Detection and Repair proposal to move forward to the negotiation phase. The negotiations are reaching their conclusion and staff seeks Board authorization to enter into an SCIA for the project. This Bucket 2 project would help Metropolitan manage our water supplies in a drier future by leveraging federal funds for projects that will reduce our demands for Colorado River water post-2026.

DAC Leak Detection and Repair Participation in the LC Conservation Program

As part of Bucket 2 of the LC Conservation Program, Reclamation will pay Metropolitan up to \$8 million to defray the costs of Metropolitan’s existing disadvantaged community leak detection and repair program. Identified activities include a municipal program for leak detection and repair of water pipelines, including mainlines. The residential program provides leak detection and repair for income-qualified homeowners. Costs associated with these activities must be incurred between June 24, 2024 and September 30, 2031. In exchange, Metropolitan will create a total of 4,000 acre-feet of system conservation water within 10 years of the date of execution of the agreement. This system conservation water may be left in Lake Mead prior to the completion of project milestones. Water would be conserved through Metropolitan’s existing Extraordinary Conservation Intentionally Created Surplus exhibits to achieve this “predelivery” prior to 2027. A different process for creating system conservation water may be in place post-2026. Reclamation’s payments will be made quarterly based on

per project completion. Payments are also contingent on the forbearance of the California Section 5 contractors covering this agreement.

The material terms of the proposed agreement are summarized in **Attachment 1**.

Future Agreements Will Be Necessary

Additional agreements will be necessary to implement these SCIA's. Before Reclamation will pay Metropolitan, the California Section 5 contractors will need to forbear water through the remaining period of the 2007 Interim Guidelines. New intra-state and inter-state forbearance agreements will also be needed to continue implementing these system conservation agreements post-2026. For additional background on the purpose and mechanics of forbearance by Metropolitan, please see the June 2024 presentation on that subject, available at:

<https://mwdh2o.legistar.com/View.ashx?M=F&ID=13012478&GUID=5C7533D3-F668-4FC6-A12E-EACEF0DF52DD>

Staff will bring those agreements to the Board for consideration as needed.

Summary

Metropolitan is expanding opportunities to conserve system water in a continuing effort to reduce long-term demands on Colorado River water to improve our ability to manage our water supply under post-2026 operations. Staff recommends that the Board authorize the General Manager to enter into agreements with Reclamation which will allow Metropolitan to utilize federal dollars to decrease long-term demands of Colorado River water.

The LC Conservation Program Bucket 2 agreement would provide up to \$8 million in federal funding to defray the costs of Metropolitan's existing disadvantaged community leak detection and repair program. This funding would apply toward project or program expenses through September 30, 2031. In exchange, over a period of ten years, Metropolitan would create 4,000 acre-feet of system conservation water. While some federal funding would go toward currently budgeted items, some funds would be received beyond the current two-year budget cycle.

Staff estimates that, over the current 2-year budget cycle, Metropolitan's expenses related to existing municipal leak detection and repair efforts would be reduced by approximately \$1.2 million. Therefore, a total of \$1.2 million would count toward Metropolitan's new revenue and reduced expenditure goals associated with the current 2-year budget cycle. Additionally, Metropolitan would benefit from the long-term reduction in demands for Colorado River water that will improve our ability to manage our water supply under potentially reduced supply conditions under post-2026 operations.

Project Milestone

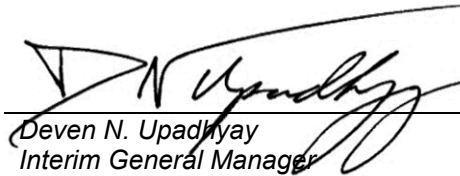
Metropolitan will submit quarterly reports to Reclamation providing written justification for payment and reports detailing leak detection and repair actions and costs consistent with program standards.



Brandon J. Goshi
Interim Manager
Water Resource Management

1/2/2025

Date



Deven N. Upadhyay
Interim General Manager

1/2/2025

Date

Attachment 1 – Term Sheet for DAC Leak Detection and Repair SCIA under Federally Funded Lower Colorado River Basin System Conservation and Efficiency Program

Ref# wrm12698806

Term Sheet for DAC Leak Detection and Repair SCIA under Federally Funded Lower Colorado River Basin System Conservation and Efficiency Program

1. Reclamation agrees to provide funding to Metropolitan's DAC Leak Detection and Repair Program between June 24, 2024, and September 30, 2031.
2. Metropolitan's proposal is to provide funding for leak detection and repair on municipal and residential properties in disadvantaged communities which are completed and paid between June 24, 2024, and September 30, 2031.
3. Eligible costs are those incurred by Metropolitan's Leak Detection and Repair Program for municipal and residential properties between June 24, 2024, and September 30, 2031, for up to 4,000 acre-feet of water saved.
4. All costs incurred beyond September 30, 2031, are Metropolitan's responsibility.
5. Reclamation's total payment to Metropolitan shall not exceed \$8,000,000. Metropolitan's administration costs for the program are eligible for payment.
6. Reclamation's payment is contingent on the execution of a California Forbearance agreement covering this project.
7. Metropolitan will provide quarterly progress reports for the duration of this agreement. Payments will be made based on the incurred eligible expenses identified in these quarterly reports. Metropolitan will also provide a closeout report.
8. Metropolitan will create a total of 4,000 acre-feet of System Conservation Water over a period of 10 years after the date of execution of this agreement.
9. System Conservation Water may be created and left in Lake Mead prior to completion of leak detection and repair activities. Such water must be created using existing Extraordinary Conservation Intentionally Created Surplus (EC ICS) exhibits prior to 2027, and an Extraordinary Conservation Certification Report must be provided. A different process for creating System Conservation Water may be in place post-2026.
10. If Metropolitan does not create the full volume of System Conservation Water, Metropolitan must reimburse Reclamation. For example, if Metropolitan leaves 93 percent of the System Conservation Water in Lake Mead, then Metropolitan will reimburse Reclamation 7 percent of the total payments made.
11. Creation of System Conservation Water will be included in Reclamation's existing water order approval process. System Conservation Water can only be created in a year in which delivery of water is less than available supplies. Verified volumes will be reported in Reclamation's annual Water Accounting Report.
12. If Metropolitan does create the full volume of System Conservation Water, but not all of the funding is spent under the program, all such System Conservation Water will stay in Lake Mead as system water, and no changes to payment will be made.