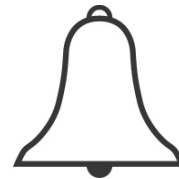


Santa Margarita Water District



MEMORANDUM

REVISED

TO: Board of Directors

DATE: June 19, 2015

FROM: Dan Ferons, Nate Adams

SUBJECT: Consideration and Action on Supplemental Funding for the District's Turf Removal Program and Drip Conversion Program

SUMMARY

Issue: Recent information from MWDOC and MWD indicates that MWD's updated turf program will be fully subscribed by July including the extra money that was allocated in May. There is still funding for the other rebate programs including sprinklers, drip irrigation and controllers. The District's customers continue to exhibit strong interest in the regional turf removal rebate program and the District is considering the various opportunities to provide supplemental funding for commercial and public sector participants. The District can also supplement drip irrigation conversion rebates for residential and commercial customers.

Recommendation: Authorize supplemental funding for turf removal and retrofit projects per negotiated terms in an amount not to exceed \$1,000,000.

Committee Status: This topic was discussed at the May 11th Board meeting.

Fiscal Impact: Funding is proposed to be provided from undesignated reserves.

Adherence to Policy/Strategic Planning: The proposed activities are consistent with the District's Strategic Plan goals for a reliable water supply including 100% use of recycled water and the recently approved water use conservation initiatives.

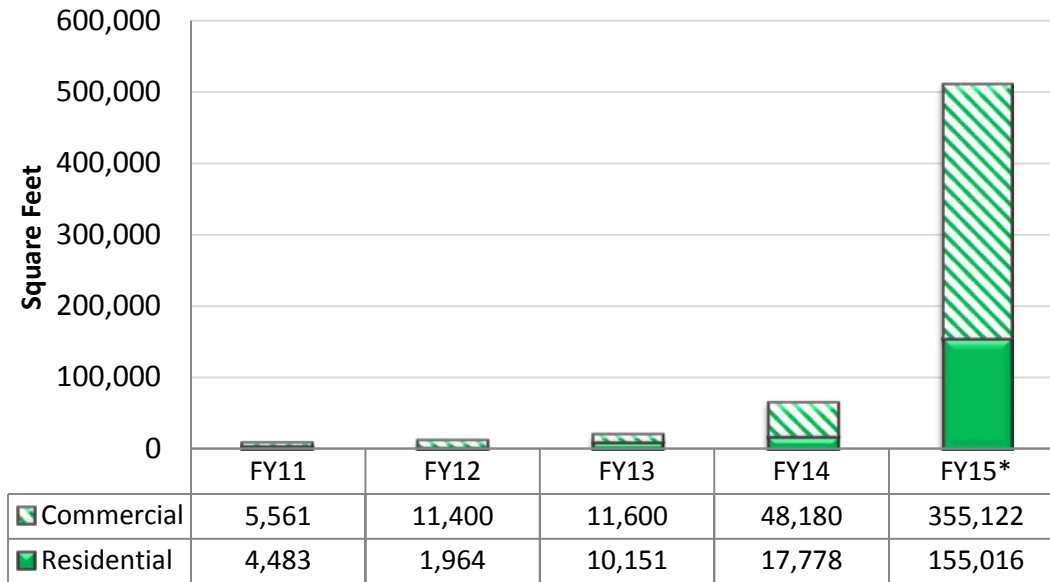
Previous Related Action: The District has funded water use efficiency programs for several decades and added supplemental funding to regional rebate programs administered by Metropolitan Water District of Southern California (MWD) and the Municipal Water District of Orange County (MWDOC).

DISCUSSION

Turf Removal Rebate Program:

The District continues to be a leader in Southern California and Orange County in turf removal. To date, over 14 acres (621,250 square feet) of turf has been removed from residential and large landscape areas. The bulk of this activity has occurred this fiscal year with nearly 12 acres of turf removed (over 510,000 square feet). Program participation has grown exponentially as customers respond to the drought.

Turf Removal in SMWD



This level of activity has occurred in conjunction with MWD’s \$2 per square foot (unlimited square footage) rebate without the District providing supplemental funding.

As part of the District’s strategy to meet the State’s mandated 24% reduction requirement, the District is committed to implementing a range of water efficiency programs. One strategy is to comprehensively market, promote, and leverage Metropolitan Water District’s (MWD) regional rebate programs which include indoor and outdoor water efficiency rebates. The District already provides supplemental funding for the following devices and has budgeted to continue to do so for FY16:

- Residential toilets;
- Residential clothes washers; and
- Weather-based irrigation controllers.

On May 11th, the Board authorized staff to add supplemental funding to rotating nozzles (\$7,500) and also earmarked one million dollars (\$1,000,000) to supplement MWD’s turf removal rebate. On May 12, MWD placed its turf rebate program on hold while it researched alternatives to the program. The older program was \$2/SF without limits on the amount of acreage that was eligible. According to MWD, the program was too successful and its budget was fully subscribed with an increasing interest.

Subsequently MWD made sweeping changes to its turf rebate program in an effort to reduce the pressures that the \$2/SF turf removal rebate program is placing on MWD’s budget, specifically the water conservation budget. The MWD Board decided to continue offering a turf removal rebate (as well as other conservation programs) by adding \$150 million to their conservation budget. Even with this extra funding, MWD staff now anticipates that the turf rebate funding will be fully allocated by July. The modifications to the regional turf program are as follows:

- Residential: \$2/SF up to 3,000 SF (up to \$6,000)
- Commercial: \$1/SF up to 25,000 SF (up to \$25,000) per property
- Public Agency: \$2/SF up to 3,000 SF and \$1/SF up to an additional 44,000 SF (up to \$50,000)

MWD's new turf rebate treats HOAs as commercial properties. For example, a master planned community such as SAMLARC will not be considered for the public agency funding level. The cap at 3,000 SF for the residential sector is based on more than 90% of residential applications coming in below 3,000 SF. The more restrictive cap on the commercial side is to relieve the funding impacts that large commercial properties impose on MWD's funding, such as a private golf course that have taken up to \$500,000.

The District has met with several larger associations with significant plans for conversion of landscape to drought tolerant plantings, the budgets are estimated to be up to \$2 million. The discussion have included alternatives to the traditional rebate program including a loan program that is paid back through the water meter charges since some conversions will result in significant reductions in water costs to the customers.

One significant issue that still needs to be resolved by MWD is what a "property" consists of for commercial customers. Previously, applications were tied to the meter such that an HOA could submit an application for every irrigation meter they had. MWD's new turf program may now limit an HOA to one application, up to 25,000 square feet, regardless of property size or number of irrigation meters. MWD's legal department has yet to issue a determination.

Based on the activity to date, the \$2/SF rebate level is a significant incentive for commercial customers as many projects can be executed at a \$2-4 per square foot cost. Staff expects to see a reduction in applications from commercial customers (e.g. HOA's) based on MWD's new funding level and caps.

The MWD action has put the District customers into three categories:

- Customer's with a notice to proceed prior to May 12th receive the \$2/SF
- Customer's that applied prior to May 12th were initially told that they would be eligible under the \$2/SF program, however, MWD now indicates that the notice to proceed date controls, so they will be eligible only for the new program
- Customer's that applied after May 12th will be enrolled in order of receipt of their application up to the maximum funding level for MWD.

The District has evaluated the opportunity to provide supplemental turf funding in light of MWD's recent changes to its turf rebate program in addition to providing supplemental funding to the regional drip conversion rebate program.

The proposed District supplement funding program includes the following:

- Customer's receiving \$2/SF will not receive supplemental funding

- Customer's that applied prior to May 12 will receive additional funding of up to \$2/SF based on the submitted applications subject to receipt of project approval. The District has a potential of 19 applicants for a total of 256,425 square feet. The District can backfill the funding that MWD otherwise would have provided at the time of the applicant's submittal in the amount of \$339,500.
- Commercial customers that applied after May 12 will be eligible to enter into an agreement with the District for supplemental funding to support specific District objectives. The District currently has a potential of 20 commercial applicants for a total of up to 500,000 square feet primarily in large homeowner associations. The specific objectives include:
 - A site that is situated to be a demonstration garden to encourage others to convert
 - A strategic objective to reduce water use with a long term obligation
 - As part of funding program that includes a low interest loan to fund the change in landscaping with repayment of the loan based on water sales. The District would provide funding for turf removal, the customer would pay back the District through maintaining a higher water bill until the loan is paid and then it would benefit from reduced bills.

Alternatively, the District can provide supplemental turf removal funding in the amount of \$1/SF up to 25,000 SF for commercial and public sector customers. This funding level would match MWD's \$1/SF so that commercial participants can receive up to \$50,000. Doing so would cost the District approximately \$1,100 per acre-foot saved over a 10-year lifetime. The District can adopt rules and procedures for how to limit supplemental funding based on the type of water service being provided.

Drip Conversion Rebate Program

The Municipal Water District of Orange County (MWDOC) has implemented a pilot drip conversion rebate program this past year. District staff has aggressively marketed this program and the District's customers comprise the bulk of MWDOC's drip rebate activity. This program is funded through MWD's Member Agency funding program which MWD has temporarily suspended due to the turf rebate funding re-shuffle. MWDOC anticipates funding to resume but at a reduced level. The District's supplemental funding could offset MWD's reductions.

Drip conversion has comparable water savings to turf removal as inefficient overhead spray irrigation is converted to drip. Moreover, sites without turf can still switch from inefficient spray irrigation to drip irrigation and achieve water savings. The District can supplement the drip rebate so that more customers have access to this program, which may be critical in the event MWD reduces funding to MWDOC's drip program. The District can offset what MWD had been providing so that MWDOC's grant is stretched further and additional customers in the District's service area can participate. As the MWD's funding for turf removal wanes, the District can begin to fund other irrigation related programs, such as drip irrigation, that will offer water savings in addition to ancillary benefits like reducing runoff and overspray.

FUNDING

Funding for supplemental turf removal and drip conversion rebates would be included in the Engineering Professional Services budget with a transfer from the undesignated reserves. The cost to implement these proposed programs would be \$1,000,000 as follows:

Funding of turf removal of accepted applications made prior to May 12, 2015	\$339,500
Funding of turf removal by agreement, including potential low interest loan program or demonstration installations	\$500,000
Drip irrigation conversion program	\$160,500
Total	\$1,000,000