



## The Metropolitan Water District of Southern California

# **2014 Local Resources Program Application Guidelines**

### **INFORMATION FOR RESPONDENTS**

The Metropolitan Water District of Southern California (Metropolitan) invites applications for development of water recycling, groundwater recovery, or seawater desalination projects under the Local Resources Program (LRP). This package includes information regarding funding, eligibility and the application review process. Additional copies of this application package may be downloaded from Metropolitan's website at: [www.mwdh2o.com](http://www.mwdh2o.com). We look forward to working with all applicants to bolster our region's water supply reliability.

#### **Objective**

The LRP provides funding for the development of water recycling, groundwater recovery, and seawater desalination supplies that replace an existing demand or prevent a new demand on Metropolitan's imported water deliveries either through direct replacement of potable water or increased regional groundwater production.

#### **Application Submittals**

Project applications will be accepted on an open and continuous basis until the target yield of 63,000 acre-feet per year is fully subscribed. For further coordination or questions, contact Mr. Ray Mokhtari at (213) 217-6142 or via email at [rmokhtari@mwdh2o.com](mailto:rmokhtari@mwdh2o.com).

Mail applications to:

The Metropolitan Water District of Southern California  
P.O. Box 54153  
Los Angeles, California 90054-0153

Attention: Ray Mokhtari, US 9-223  
LRP Application Submittal

#### **Who Can Apply**

The LRP is open to public and private water agencies within Metropolitan's service area. Applications must be made through the applicant's respective Metropolitan member agency. Applicants are strongly encouraged to initiate early coordination with Metropolitan regarding proposed projects. Submittal of a LRP application does not signify or guarantee funding approval by Metropolitan.

#### **Program Funding**

There are three LRP incentive payment structure options to choose from: sliding scale incentives up to \$340/AF over 25 years, sliding scale incentives up to \$475/AF over 15 years, or fixed incentive up to \$305/AF over 25 years. One option must be chosen at the time of application. Combinations of options will not be permitted. Incentive commitments are contingent upon

approval by Metropolitan's Board of Directors. See attachment C for more information and incentive rate calculation process.

### **Annual Cost Reconciliation for Sliding Scale Incentive Options**

As outlined in Exhibit C, sliding scale incentives are calculated annually based on the actual project unit cost exceeding Metropolitan prevailing water rate as established by Metropolitan's Administrative Code § 4401. Prior to each fiscal year of operation, Metropolitan will set an estimated LRP incentive rate for deliveries during the year. At the end of each fiscal year, Metropolitan will conduct a cost reconciliation to determine the actual LRP incentive rate based on the actual project unit cost exceeding Metropolitan's prevailing water rate in that year. After reconciliation, over- or under-payment adjustments are made between Metropolitan and the agency. The calculated incentive rate may diminish in future years as Metropolitan's water rates increase or the project unit costs decrease as annual yield increases.

### **Eligible Projects**

New water recycling, groundwater recovery, and seawater desalination projects are eligible for funding provided they include construction of new substantive treatment or distribution facilities. Existing projects or those that have commenced construction prior to application submittal are ineligible. Strong consideration will be given to projects that are well positioned for construction and timely production of stated project capacities in the near future. Projects with long ramp-up schedules may be addressed in phases. Agency must apply for each phase separately when each phase is poised for timely construction and operation. See Attachment C for more information.

### **Process Overview**

Project applications will be accepted on an open and continuous basis until the target yield of 63,000 acre-feet per year is fully subscribed. Applications will be reviewed for compliance with general program requirements outlined in Attachment C. Metropolitan, at its sole discretion, may reject any and all applications and revise the terms of the LRP at any time. If a project qualifies and all environmental documents and permits are submitted, Metropolitan will draft an incentive agreement that must be approved by the respective member agency and retail agency. If Metropolitan's Board of Directors approves the project for LRP funding, the incentive agreement must then be executed by Metropolitan, member agency, and retail agency.

### **Performance Provisions**

Performance provisions will be included in all agreements to encourage timely and responsive project development and production. These provisions reduce or withdraw Metropolitan's financial commitment to projects that do not meet development and production milestones outlined in the following table.

<b>Milestone</b>	<b>Timeline (full fiscal year)</b>	<b>Consequence if target is not achieved</b>
Start construction	2 years after agreement execution	Terminate agreement*
Start operation	4 years after agreement execution	Terminate agreement*
50 percent of contract yield	4-7 years after agreement execution	Reduce ultimate yield by shortfall to meet target using the highest annual yield in the 4-year period
75 percent of contract yield**	8-11 years after agreement execution	Same as above
75 percent of contract yield**	12-15 years and every four years thereafter	Same as above

\* Agencies may appeal termination to Metropolitan’s Board of Directors.

\*\* Ultimate yield or revised ultimate yield specified in the incentive contract due to project’s performance in previous years (if applicable)

### **Application Options**

A written application outlined in the following pages must be submitted to Metropolitan to start the process. Metropolitan will accept applications/reports developed by the project sponsor for other purposes (e.g., applications for state funding programs, US Bureau of Reclamation feasibility report submittals, etc.) as long as they provide needed information. All applications must include an executive summary that identifies the location of the needed information. Failure to provide an executive summary may extend the review process. After an initial review, Metropolitan will meet with each applicant to ensure an accurate understanding of project features and LRP terms.

# LOCAL RESOURCES PROGRAM APPLICATION GUIDELINES

At a minimum, applicants must include the following information for Metropolitan to evaluate project eligibility for LRP funding:

## 1) Project Overview

- Location
- Source of water supply and yield
- Participating agencies and contractual commitments
- Complete Attachment A

### Additional information for groundwater projects:

- Basin hydrology and setting
- Existing groundwater production and projected increase as a result of project
- Imported water replenishment requirements
- Previously abandoned production and/or replenishment
- Basin adjudication or operating rules
- Ability to sustain project production during 3-year shortage conditions
- Compliance with sound basin management

## 2) Project Facilities

- Treatment process and quality objectives
- Storage features
- List and map distinguishing existing and proposed facilities, land acquisition, etc.
- Interties to existing LRP agreements
- Interties and points of connection to other non-project facilities
- Methodology to measure project yield (e.g. metering, basin adjudication or watermaster rules if applicable)

## 3) Project Costs

- Capital
- Operation and Maintenance
- Field Labor
- Complete Attachment B

## 4) Benefits

- Regional and local water supply reliability benefits
- Peaking and seasonal variability
- Local water supply benefits
- Other benefits (environmental, water quality, energy, wastewater, avoided facilities and permits, etc.)

## 5) Environmental Documentation and Permitting

- California Environmental Quality Act documents
- Regulatory agency approvals and permits

## **6) User Identification**

- Existing recycled water user names, demand and type of use
- Proposed user names, demand projections and type of usage
- Location map of existing and proposed users
- Deliveries outside of service area or non-project users
- Mandatory use ordinances
- Commitment letters
- Growth expectations

## **7) Implementation Schedule and Financing**

- Governing board approvals
- Status of design
- Construction and operation timelines and milestones
- Yield development (amount by year), type of use, and completion date for each phase
- Implementation obstacles/challenges
- Land acquisition
- Financing sources and terms
- Grants and third-party payments
- Schedule of permits

**ATTACHMENT A  
LOCAL RESOURCES PROGRAM  
PROJECT FACT SHEET**

<b>1.</b>	<b>Project Name:</b>	
<b>2.</b>	<b>Project Location (City, County):</b>	
<b>3.</b>	<b>Project Owner (Applicant) Contact Information:</b>	
<b>4.</b>	<b>Metropolitan Member Agency:</b>	
<b>5.</b>	<b>Source of Project Water:</b>	
<b>6.</b>	<b>Type of Uses:</b>	
<b>7.</b>	<b>Estimated First Year of Operation:</b>	
<b>8.</b>	<b>Ultimate Annual Project Yield (AFY):</b>	
<b>9.</b>	<b>Other agencies / Entities participating in the project:</b>	
	<u>Agency / Entity</u>	<u>Role</u>
	_____	_____
	_____	_____
<b>10.</b>	<b>CEQA and Permitting</b>	
<b>a.</b>	<b>Status of CEQA Documentation:</b>	
	<input type="checkbox"/> Exempt Declaration	<input type="checkbox"/> Negative
	<input type="checkbox"/> Mitigated Negative Declaration	<input type="checkbox"/> EIR/S
	Status:	
	<b>b. Other permits:</b>	
	Please list and include status:	
<b>11.</b>	<b>Funding option selected:</b>	

**ATTACHMENT B  
PROJECT COST AND PRODUCTION INFORMATION**

Total Project Capital Cost:			
Grants and Contributions by others:			
Net Capital Cost:			
Net Capital Funding Measures			
Source of Funding	Amount (\$)	Interest Rate (%)	Term (years)

Assumed annual inflation rate for O&M cost projections: \_\_\_\_%

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
No.	Fiscal Year End	Yield (AF)	Capital Expenditures (\$)	Amortized Capital Cost (\$)	Cost of Purchasing Water (\$)	O&M Cost (\$)	Total Project Cost (\$)
1							
2							
3							
4							
5							
.							
.							
24							
25							

- (1) July 1 to June 30
- (2) Projected annual production in acre-feet, excluding existing use
- (3) Total Capital Expenditure in each year
- (4) Total annual capital debt service
- (5) Applicable only if the project sponsor will purchase reclaimed water from another agency to operate the projects, groundwater basin pumping tax, etc.
- (6) Projected annual O&M cost, excludes item 5
- (7) Sum of (4) + (5) + (6)

# **ATTACHMENT C**

## **LOCAL RESOURCES PROGRAM**

### **GENERAL PROGRAM INFORMATION**

#### General Requirements

The Local Resources Program (LRP) provides incentives for development of new water recycling, groundwater recovery, and seawater desalination projects in Metropolitan's service area. Unless otherwise approved by Metropolitan, proposed projects must comply with the following general requirements:

1. Project must replace an existing demand or prevent a new demand on Metropolitan's imported water deliveries either through direct replacement of potable water or increased regional groundwater production.
2. Project must not exist or be under construction prior to application submittal.
3. Project must include construction of new substantive treatment or distribution facilities.
4. Proposals must be supported by a Metropolitan member agency.
5. Project must be owned and operated by the agency. Metropolitan has no ownership or operational obligations for a project.
6. Project must comply with the Metropolitan Water District Act and other applicable laws and regulations.
7. Project must comply with CEQA and/or NEPA provisions prior to Metropolitan board approval.
8. Project must have obtained all required Regional and State permits prior to receiving Metropolitan board approval.
9. Additional requirements specific to each project will be developed to address system integration issues related to use of Metropolitan's facilities, if needed.
10. Metropolitan's Board must approve each project prior to incentive agreement execution.

#### Incentive Payment Structures

Agencies can choose from one of the following three alternative incentive payment structures for each of their eligible projects to participate in the LRP:

Alternative 1 – Sliding Scale Incentives Over 25 Years (Current Payment Structure)

Alternative 2 – Sliding Scale Incentives Over 15 Years (New Structure)

Alternative 3 – Fixed Incentives Over 25 Years (Previously Approved Structure)

#### Alternative 1 - Sliding Scale Incentives Over 25 Years

Metropolitan would provide member or retail agencies a sliding scale incentive up to \$340/AF over 25 years, calculated annually based on actual project unit costs exceeding Metropolitan's prevailing water rate, for project water used within Metropolitan service area. Eligible project costs include an agency's out of pocket costs normally associated with developing local resource projects including design, capital, operations, maintenance, and replacement costs. Incentive payments are subject to an annual cost reconciliation process with adjustments for under- or over-payment to be included in subsequent water service invoices from Metropolitan.



### Alternative 2 - Sliding Scale Incentives Over 15 Years

This alternative is similar to Alternative 1, but the incentive amount is up to \$475/AF over 15 years. In addition to the current LRP performance provisions, projects must continue production for 25 years, even if LRP payments are reduced to zero after 15 years. This provision ensures continued production throughout the contract term. If an agency fails to comply with these provisions, Metropolitan may require reimbursement for a percentage of the previous LRP payments toward that project. The reimbursement would be determined for each year remaining in the agreement considering the following:

- Previous LRP payments
- Previous project production
- Project production in the year in which a reimbursement is required

### Alternative 3 – Fixed Incentive Over 25 Years

Compared to sliding scale incentives that are dependent on Metropolitan's water rate, a fixed incentive rate provides agencies with a more stable source of funds to help address financing issues. Metropolitan would offer a project-specific fixed incentive rate up to \$305/AF over 25 years. The fixed incentive amount for each project would be negotiated so that Metropolitan's maximum obligation toward a project under this alternative would not exceed 90% of the estimated financial obligations under Alternative 1 for the same project. In addition to the general requirements and performance provisions, the following provision would apply to this alternative: Total LRP payments under the agreement term would be limited to total estimated project yield presented by the agency at the time of agreement negotiation.