



2018 Local Resources Program

Application Guidelines

Background

The Metropolitan Water District of Southern California (Metropolitan) has a long history in developing programs and approaches for encouraging the development of local resources. Metropolitan's Local Resources Program (LRP) was created to provide financial incentives to local projects such as water recycling, groundwater recovery, and seawater desalination projects developed by local and member agencies. The LRP was designed to accelerate the development of these local projects in an effort to reduce the demands for imported water supplies and increase water supply reliability in the region. Today, nearly one-half of the total recycled water and groundwater recovery production in Metropolitan's service area is developed by LRP supported projects.

Metropolitan is accepting applications for development of these local projects under the LRP. This application 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/LRP. 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 offsets an existing demand or prevent a new demand on Metropolitan's imported water deliveries either through direct replacement of imported water or increased regional groundwater production.

Application Submittals

Project applications will be accepted on an open and continuous basis until the target yield of 170,000 acre-feet per year is fully subscribed. For further coordination or questions, contact Ms. Nadia Hardjadinata (213) 217-6445 or via email at NHardjadinata@mwdh2o.com.

Mail applications to:

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

Attention: Nadia Hardjadinata
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 an LRP application does not signify or guarantee funding approval by Metropolitan.

Program Funding

There are three LRP incentive payment structure options to choose from:

- Option 1: Sliding scale incentives up to \$340/AF over 25 years
- Option 2: Sliding scale incentives up to \$475/AF over 15 years
- Option 3: Fixed incentive up to \$305/AF over 25 years.

Please note that:

- ✓ 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.
- ✓ Annual Cost Reconciliation is required for Sliding Scale Incentive Options.

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.

Expansion of an existing project may be eligible on a case by case basis. For an expansion project to be eligible, Agency must be committed for the expansion to produce water above the existing facility annual production acre-feet.

Application Process Overview

Project applications will be accepted on an open and continuous basis until the target yield of 170,000 acre-feet per year is fully subscribed. Applications must be submitted prior to start of construction. The following documents must be submitted to Metropolitan to start the process.

- a. A supporting letter by Member agency
- b. LRP Application for the project per application guidelines below
- c. California Environment Quality Act (CEQA) documents

d. Permits – either obtained or in process

After submittal, Metropolitan will send a letter/email acknowledging the receipt of the application and explanation of its review process. Agency may proceed with the project construction upon the receipt of this letter/email. However, such construction is at agency’s sole financial risk and Metropolitan will not be obligated to make any payments unless and until our Board’s approval and execution of an agreement for funding the Project.

After an initial review, Metropolitan will meet with each applicant to ensure an accurate understanding of project features and LRP terms. 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.

Annual Cost Reconciliation for Sliding Scale Incentive Options

As outlined in Attachment 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.

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.

Milestone	Timeline (full fiscal year)	Consequence if target is not achieved
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)

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

* Does not apply to recycled water for Indirect Potable Reuse (IPR), groundwater recovery, or seawater desalination projects

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**

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

**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 Operations & Maintenance (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 California Environmental Quality Act (CEQA) and/or National Environmental Protection Act (NEPA) provisions prior to Metropolitan board approval. Project CEQA documents must address LRP as possible source of funding and list Metropolitan as a potential responsible agency.
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. LRP agreement term is for 25 years for each option.

Option 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.

Option 2 - Sliding Scale Incentives Over 15 Years

- This alternative is similar to Option 1, but the incentive amount is up to \$475/AF over 15 years. In addition to the general requirements and 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 will require reimbursement for a percentage of the previous LRP payments toward that project. The calculations for reimbursement will be outlined in the LRP agreement

Option 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 Option 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.

Annual production assessment and cost reconciliation

Option 1 and Option 2: After the start of Project operation and by December 31 of each year, agency shall provide Metropolitan with the following reconciliation data for the previous Fiscal Year:

- a) Records of Recovered Water and Allowable Yield
- b) Supporting documentation of the actual cost of the Project
- c) Records of water deliveries to end users
- d) Terms and schedule of payments of the Project's financing instruments
- e) A description of any changes to the Project's financing instruments
- f) All other contributions, such as: grants

Option 3 does not require an annual production assessment and cost reconciliation. However, agency will be required to submit the selected construction bid for the project to determine the fixed incentive rate.

Record Keeping and Audit

Agency shall establish and maintain accounting records of all accounting records of all costs incurred for the construction, operations and maintenance, and replacement parts of the Project. Metropolitan shall have the right to audit Project costs and other data relevant to the

terms of this Agreement both during the Agreement term or and for a period of three years following the termination of the LRP agreement.