Proposition 50 Water Use Efficiency Draft Funding Recommendation Staff Report
Department of Water Resources

Background:
In November 2002, California voters passed Proposition 50, the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002. The source of funding for the Department of Water Resources' (DWR) 2004 Water Use Efficiency (WUE) Proposal Solicitation is Water Code Chapter 7, Section 79550(g) of Proposition 50.

The Draft 2004 Water Use Efficiency Proposal Solicitation Package (PSP) was submitted to the California Bay-Delta Authority (CBDA) on December 11, 2003 and released for public review by DWR's, Office of Water Use Efficiency on December 12, 2003. The Draft PSP was made available on the DWR website for public review and to accept public comments. Three workshops were held on August 31, September 1 and September 2, 2004 in Southern and Northern California and the San Joaquin Valley, respectively, to explain the application process for the 2004 WUE Final PSP.

The PSP was further modified and, after receiving public comments, the Final PSP was released on November 15, 2004 with a deadline for submitting applications of January 11, 2005. DWR held 3 workshops to explain the Final PSP to interested parties in Southern and Northern California and the San Joaquin Valley in December, 2004.

The PSP solicited proposals from local public agencies for implementation or research and development projects. Applicants for implementation projects are required to provide a cost share. Entities involved with water management activities including cities, counties, joint power authorities, public water districts, universities and colleges, tribes, non-profit organizations, watershed management groups, State and federal agencies are eligible to apply. Private entities are eligible for implementation projects funds only.

Section A (Implementation Projects) funding is available to projects from Bay-Delta watersheds, State Water Project watersheds and any watershed that can exchange water with the above watersheds. Section B (Research and Development) funding is available to projects from throughout the State.

Locally not-cost effective projects are eligible for State cost share. Section A applicants are required to qualitatively describe the Bay-Delta and local benefits. Section A applicants are also required to quantify monetary local benefits and are also encouraged, but not required, to quantify the physical Bay-Delta and local benefits.

Also, locally cost effective projects are eligible for State funding only if the project, in addition to Bay-Delta system benefit, would provide broad transferable benefits, overcome implementation barriers, or accelerate implementation. Furthermore, these projects are only eligible for State cost share of up to 25 percent of project cost through this grant. DWR will only provide up to approximately 10 percent of the Section A grants to these types of projects. Regulatory, contract, and law-required projects are not eligible for State funding if the projects are currently required to comply.

Cost share is based on the balance of Bay-Delta system and local benefits. Projects with quantitative assessment of Bay-Delta system benefits will score higher.

Section B (Research and Development) applicants are required to qualitatively describe the Bay-Delta and local benefits and costs. While it is encouraged, no applicant cost share is required.

Proposals Review and Selection Process

DWR committed to a process that included an outreach to potential applicants and a project selection that was based on science, economic, and technical review involving experts as well as stakeholders.

The project review and selection process was initiated following the receipt of 168 eligible proposals by the submittal deadline. This process included the following:

- **Reviewer Orientation.**
  An orientation meeting was scheduled for January 25, 2005 for science, economics, tribal, and technical reviewers. A group of nearly 50 qualified individuals drawn from CALFED agencies as well as environmental, urban, agricultural and environment stakeholder groups actively involved in water use efficiency programs were selected by DWR staff for proposal review. The session provided reviewers an opportunity to hear from DWR staff on the review and scoring guidelines and process and their roles and responsibilities. DWR informed the reviewers of ground rules regarding review guidelines, confidentiality and non-conflict of interest. Reviewers were given a Non-Conflict of Interest Statement to read and sign. Any reviewer with potential conflict of interest for proposals as defined in the Statement was excused from reviewing proposals.

- **Science, Economic and Tribal Review.** Each proposal was reviewed initially by an economist, a scientist, and CBDA Tribal Coordinator. These reviews are designed to generate detailed, project-by-project critiques. The Economic and Science Reviewers provided a score and written comments for each proposed project. The option of indicating where and why projects did not, in their view, merit funding. The review comments and scores were provided to both the Technical Review Panel (TRP) and the WUE Agency Team (WUE-AT) (described below) for their deliberation.

- Technical Review. Each proposal was reviewed by a three-member TRP. Five panels reviewed 62 agricultural water use efficiency proposals and 8 panels reviewed 106 urban water use efficiency proposals. Each panel member was asked to review and score 10 to 17 proposals individually. The TRPs were asked to use the Science and Economic scores and comments as guidance to help them to complete the Technical Review and score the proposals for ranking. Each reviewer also was asked to indicate those projects that merited a “do not fund” characterization if the proposal didn’t get the minimum required score of 70. The TRP members submitted their draft scores to DWR on March 11, 2005.

- Reviewers Meeting. Economic, Science, and Technical Reviewers and Tribal Coordinator were asked to meet on March 15, 2005 for deliberation and developing final scores for submittal to DWR.

  At the March 15 meeting, DWR facilitated discussions within TRPs and in some cases across panels. DWR provided the Science, Economic and Technical Review scores for all the proposals to all reviewers. The Science and Economic Reviewers were present to answer any questions. The Tribal Coordinator did not contribute any comments. The meeting allowed panel members to share information and perspectives on the various projects, as well as normalize scoring within a panel. Reviewers

adjusted their scores during the meeting, if appropriate, for normalization and submitted a signed hard copy of final scores. DWR staff calculated the average score for each proposal from the three final scores. The average score determined proposal's rank.

- **WUE Agency Team Review.** The WUE Agency Team (WUE-AT) consisting of managers from DWR, the U.S. Bureau of Reclamation (Bureau), State Water Resources Control Board (SWRCB), and California Bay-Delta Authority (CBDA) met several times to develop the draft funding recommendation. Relying on the TRP ranking, the WUE-AT met on March 17, 18, 24, April 7, April 8, April 20 and May 10 and used the following process and criteria to guide its deliberations and developing draft recommendation(s):

  - Review "do not fund" recommendations by TRP, ineligible because of not complying with the Urban Water Management Planning Act requirements, and legally required projects. All proposals with scores of less than 70 were rejected and 3 proposals that did not comply with the Urban Water Management Planning Act requirements were not considered for funding. DWR staff called these applicants to assure there was no error in UWMPs.

  - Review and assign each proposal according to the most appropriate topic category Section A and Section B for both agriculture and urban and locally cost effective or not-locally cost effective categories. For example, one project was moved from Agriculture to Urban category.

  - Review Disadvantaged Community (DC) claims. DWR staff used the 2002 census data to calculate the annual average medium household income (MHI) for the project service area. If the MHI was less than $37,994 the applicant was considered DC and eligible for waiver of local cost share. Two Urban Implementation Section A applicants who claimed DC were found to be ineligible for waiver of applicant cost share

  - Applicant's proposed local cost share was accepted whether or not the applicant was a Disadvantaged Community.

  - Review locally cost effective claims. The locally cost effective projects were subject to 25 percent cost share and 10 percent of total Section A projects. Based on the Economic Review comments, WUE-AT determined that 2 of the 3 applicants who claimed locally cost effective were actually not locally cost effective based on the applicant's data presented in the proposal. One applicant was found to be locally cost effective. The unused funding allocated to locally

cost effective projects was used to fund not-locally cost effective projects.

- Review funding levels. The WUE-AT reviewed and considered for funding the projects in each category of A and B based on their final scores. Cost share considered the balance of benefit between local and CALFED systems, direct or indirect benefit to CALFED, and quantitative or qualitative benefits. The WUE-AT recommended full requested funding for some projects, and reduced requested funding for other projects by reducing or eliminating specific tasks or by reducing project duration, or eliminating unacceptable project costs to achieve a mix of projects from different topics and geographic regions. If project tasks were eliminated or scaled down or duration was reduced, the applicant is required to complete the approved tasks or scaled down project and the applicant's proposed local cost share was reduced appropriately. Staff considered scalability of project and recommended tasks be reduced or eliminated without unproportionately affecting the Bay-Delta system benefits.

  - WUE-AT used the final score as the criteria for selection of proposals for funding. However, among Ag's Section B subcategories (research and development, feasibility studies, pilot and demonstration projects, technical assistance, and education), 11 research proposals were eligible for funding. Most of them earned the top scores followed by other project subcategories. WUE-AT recommends funding only the top 6 research proposals to allow other subcategories of projects to be funded. To fund proposals from other subcategories WUE-AT decided to bypass 5 research proposals as a result, in addition to 6 research proposals all the other eligible proposals in Section B were funded.

- The WUE-AT recommends DWR consider requiring:

  - Section A applicants monitor, document, and report project's quantitative or qualitative Bay-Delta benefits to ensure the Bay-Delta system benefits. DWR should utilize the contract process to ensure project's Bay-Delta system benefits as proposed by the applicant are achieved. Applicant's that are qualified under the DC for the waiver of local cost share, are required to monitor, document, and report how disadvantaged communities in their project service area were served by the project.

  - Section B applicants monitor, document, and report project's Bay-Delta system and Statewide potential benefits.

- Applicants comply with their cost share requirement in all cases.

- If applicant declines DWR's recommended funding, DWR has discretion to shift the remaining funding to other scaled down projects or not to use it in this cycle of funding.

- **Public Workshop.** DWR will hold a public workshop on June 1, 2005.

- **Appeal Period.** DWR will give PSP applicants 5 days to appeal funding decisions.

Draft Funding Recommendations

The agricultural proposals submitted to DWR for Sections A and B ranked by score are included as Tables 1 and 2. The Urban Section A and B proposals ranked by score are included as Tables 3 and 4. WUE-AT recommended funding for Agriculture Sections A and B are included as Tables 5 and 6. Urban recommended projects for Section A and B are in included as Tables 7 and 8. Tables include application number, application's rank, requested funding, applicant's proposed cost share, DWR recommended funding, adjusted applicant cost share, and comments.

Funding highlights are as follows:

- Staff recommends awarding $28,132,982 in grant funding to 72 projects. This represents $11,237,791 in grant funding to 27 agricultural projects (10 in Section A and 17 in Section B) with an estimated $5,237,165 in local match and $16,895,191 in grant funding to 45 urban projects (22 in Section A and 23 in Section B), with an estimated $16,976,957 in local match.
- Projects recommended for funding are located in a number of regions throughout the State. The overview of the geographic distribution is provided in Table 9 below.
- Projects recommended for funding are expected to generate significant quantified and non-quantified benefits. Quantified conservation benefits include water savings and instream flow benefits. Non-quantified benefits include improvements in water quality and local flexibility.

Draft Funding Recommendations is posted on DWR's website and staff will discuss the Draft Funding Recommendations, the award, and the contract process at a public workshop on June 1, 2005. After CBDA approval, staff will request the DWR Director to approve the final funding decision in time to commit the funds by the June 10, 2005 deadline. This deadline is critical in order to commit and encumber the FY 04-05 funds for the approved projects.

Fiscal Information

Funding Source: Water Code Chapter 7, Section 79550 (g) of Proposition 50

Term: First Year: July 1, 2004 to June 30, 2005

Total Funding:

Category	*Available Funding*	*Recommended Funding*
Agricultural Section A	$12,671,249	$ 7,013,849
Agricultural Section B	$4,223,749	$ 4,223,942
Urban Section A	$12,671,249	$12,671,249
Urban Section B	$4,223,749	$ 4,223,942
Totals	**$33,789,996**	**$28,132,982**

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