

DATE ISSUED: August 1, 2001

REPORT NO. 01-174

ATTENTION: Honorable Mayor and City Council
Docket of August 6, 2001

SUBJECT: Ultra-Low Flush Toilet (ULFT) Incentive Program

REFERENCE: Manager's Report No. 00-28, dated February 4, 2000

Manager's Report No. 00-160, dated August 2, 2000

SUMMARY

Issue - Shall the City join the San Diego County Water Authority's (CWA) regional Incentive Program for ULFTs and urinals?

Manager's Recommendations - 1) Authorize the Manager to amend two existing Memorandums of Understanding with the CWA to participate in their voucher Incentive Program for ULFTs and urinals. 2) Authorize the Manager to continue with the existing ULFT Rebate Program vendor on an interim basis through August 31, 2001, to provide program continuity until the CWA Board approves adding the City to the regional Incentive Program for ULFTs and urinals.

Other Recommendations - 1) The Water Department Citizen's Advisory Board, the City's Competition Committee and ULFT Select/Competition Subcommittee have previously endorsed participating in the CWA Voucher Incentive Program for ULFTs and urinals.

Fiscal Impact - Under the CWA voucher Incentive Program, the City will pay approximately \$476,280.00 to process 16,000 vouchers, which includes the incentive for the fixture, voucher processing administrative fees, marketing, on-site inspections, and old toilet pick-up and recycling. The Metropolitan Water District of Southern California (MWD) will contribute \$60.00 towards the ULFT fixture costs. The remaining fixture and administrative fees will be split between the City of San Diego and the CWA, up to CWA's allocation to the City of San Diego of the first 12,400 fixtures each year.

BACKGROUND

The City of San Diego's ULFT Rebate Program has been in operation since 1991. The Rebate Program provides monetary incentives for replacing high-volume flush toilets with ULFTs that use 1.6 gallons per flush or less. Originally, the ULFT Rebate Program was administered regionally by the CWA. In 1993, the City hired its own consultant to operate a rebate program. Currently, more than 200,000 rebates have been issued to City water customers.

For the first few years, the City's Rebate Program averaged approximately 24,000 fixtures per year. In 1996-97, the program issued a total of almost 25,000 fixtures in a twelve-month period. However, in the last two years, program participation dropped to approximately 11,000 fixtures per year.

In a study conducted by the CWA, the projected potential of high-volume toilet retrofits in the

City were enough to continue providing retrofit incentives through 2006. Likewise, continued interest in the program has been demonstrated by organizations like the San Diego Association of Realtors, and by water customers who continue to retrofit homes and apply for rebates in order to comply with SDMC 147.04.

DISCUSSION

The City's current ULFT Rebate Program contract ends June 30, 2001. At this juncture, the City has the unique opportunity to modify the program to achieve greater participation, and to provide customer friendly enhancements. The CWA's Voucher Incentive Program has been in operation for the past seven years. Their program provides point-of-purchase vouchers or instant discounts for ULFTs, low-flow urinals, residential and commercial high-efficiency washing machines, and cooling tower controllers. The City currently participates in the CWA Voucher Incentive Program for all fixtures except ULFTs and urinals. Now that the existing City ULFT Rebate Program's contract term is ending, the opportunity exists to have ULFTs and urinals be included in the CWA Voucher Incentive Program and for the City to have just one type of program for all these water savings devices.

Vouchers present unique advantages over rebates. For example, customers get the instant discount from the purchase price and do not have to wait several weeks after mailing in an application to receive a rebate check. This service enhancement is anticipated to draw participation from customers who did not previously consider rebates, due to the initial out-of-pocket expenses. Participating retailers have years of experience in processing vouchers for the CWA program and will now deal with only one type of ULFT incentive program for the entire County, thus eliminating customer confusion. Customers often get confused about which program they are eligible for and have submitted incorrect application forms in the past. By joining the CWA's Voucher Incentive Program, customers would have only one phone number to call and dealers would have one program to promote. Commercial customers would have one-stop shopping for all program offerings. Any plumbing fixture retailer can participate in this program.

The City benefits from the voucher system because only the City's portion of the program operations cost is budgeted and expensed, instead of the City fronting the entire program cost and later invoicing co-funding agencies for their share of the costs. It also allows the City to redirect staff efforts towards other water conservation programs, as the Voucher Incentive Program is managed by CWA staff, with minimal coordination by the City.

The Water Department recommends joining the CWA Voucher Incentive Program, where the City will pay the CWA \$22.25 for each \$75.00 voucher. The unit cost reflects fixture costs, consultant fees, toilet inspections and recycling, and co-funding from the MWD and the CWA. This fee is set for three years, and for an unlimited number of toilet pick-ups for recycling. It includes an enhanced marketing effort—which is needed to boost participation and to effectively notify City customers of the change in program type, from a post-purchase rebate application to a pre-purchase voucher. City staffing for program management is anticipated to be \$2.88 per fixture, and increases the City's expense from \$22.25 to \$25.13. In contrast, current costs under the existing rebate program, including City staffing is \$27.75.

The CWA Voucher amount is \$75.00 per residential ULFT and \$95.00 per commercial ULFT. The increased incentive for commercial models will provide an enhanced incentive to the City's commercial customers whose valve type ULFT models are more expensive than residential tank style toilets. The increased incentive has worked well for the CWA program in attracting participation from commercial customers. As always, City of San Diego water customers will

continue to enjoy the same incentive amount for all high-volume fixtures replaced with ULFTs.

CONCLUSION

Based upon the expected increase in program participation and the enhanced service to water customers associated with joining the CWA Voucher Incentive Program, the Water Department recommends that the City join the CWA Voucher Incentive Program after the current Rebate Program contract ends on June 30, 2001.

ALTERNATIVES

- 1) Direct the City Manager to continue with the ULFT rebate system and to develop and issue a new Request for Proposals (RFP) for selecting a vendor to administer the City's ULFT Rebate Program.
- 2) Direct the City Manager to issue ULFT rebates by using City staff, rather than consultant services. This option is not recommended as it has the highest unit cost estimate.

Respectfully submitted,

Larry Gardner	Approved: George I. Loveland
Water Department Director....Senior Deputy City Manager

GARDNER/AUR