

- **Board of Directors**  
**Budget, Finance, Investment and Insurance Committee**

February 8, 2005 Board Meeting

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7-1

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**Subject**

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Approve Administrative Code amendments to annexation charge calculation

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**Description**

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Metropolitan currently levies an annexation charge upon land annexed into Metropolitan's service area. Annexation charges are set to recover the net economic value of investments made in the imported water system that will benefit future users of the system that have not yet contributed toward those investments. Per Metropolitan Water District Administrative Code Section 3300, the annexation charge levied is the greater of either a back tax computation or a per-acre annexation charge. This letter recommends revising the method used to calculate the per-acre annexation charge. The per-acre annexation charge is currently \$3,460 per acre, and would not change significantly under the revised calculation method.

Staff has completed a review of the data and calculation methodology used to calculate the per-acre annexation charge and several refinements were identified. These refinements include: (1) using asset-by-asset original cost information to estimate the net economic value of Metropolitan's assets based on the replacement cost less depreciation method; (2) including land assets valued in current dollars based on long-term trends in assessed values; (3) estimating depreciation of assets on a replacement cost basis; and (4) valuing contractual rights such as the State Water Project on a replacement cost basis less depreciation, less a portion of the outstanding debt on State Water Project facilities attributed to Metropolitan. These changes will result in a more consistent calculation.

It is recommended that the annexation charge for calendar year 2005 be kept at its current level of \$3,460 per acre. Based on the refined calculation method, the annexation charge for calendar year 2006 is expected to be near the current proposed level of \$3,460 per acre.

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**Policy**

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Metropolitan Water District Administrative Code Section 3300: Annexation Charge Computation

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**California Environmental Quality Act (CEQA)**

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CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it involves continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it involves other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action is not subject to CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

CEQA determination for Option #2:

None required

**Board Options/Fiscal Impacts**

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**Option #1**

Adopt the CEQA determination and amend Metropolitan Water District Administrative Code Section 3300, as set forth in **Attachment 1**, effective January 1, 2006.

**Fiscal Impact:** Potential change in per-acre annexation revenue after January 1, 2006.

**Option #2**

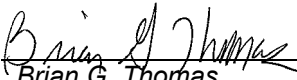
Do not amend Metropolitan Water District Administrative Code Section 3300.

**Fiscal Impact:** None

**Staff Recommendation**

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Option #1

  
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Brian G. Thomas  
Chief Financial Officer

1/6/2005

Date

  
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Gilbert F. Ivey  
Interim Chief Executive Officer

1/16/2005

Date

**Attachment 1 – Metropolitan Water District Administrative Code Section 3300**

**§ 3300. Annexation Charge Computation.**

Annexation Charge - The annexation charge for areas newly annexing to the District shall be the greater of the amounts computed under Sections 3300(a) and 3300(b):

(a) Back-Tax Computation - The annexing area shall be required to pay an amount that bears the same relation to total District taxes levied and annexation taxes to be levied (both exclusive of interest or adjusting factors) as the assessed valuation of the annexation area bears to the assessed valuation of the District, all data to be as of the August 31 preceding the year in which the annexation will be effective, and back interest to be simply calculated by multiplying the amount established as the bare back tax obligation by 5 percent and the resultant by half the number of years since taxes were first levied by the District.

(b) Per-acre Charge - The annexation charge per acre of land, other than land devoted to public roads, streets, highways, and freeways, to be paid by the annexing areas shall be determined by dividing the sum of the estimated replacement cost of the District's facilities and the ~~unamortized~~ participation rights in facilities of the State Water Project and other non-District owned projects in which Metropolitan participates, less accumulated depreciation of the District's facilities and participation rights on a replacement cost basis, less outstanding bonded indebtedness of the District's facilities and participation rights, and the accumulated depreciation of facilities on the replacement cost basis, by the total acreage within the service area of the District, all as of the end of the recently completed fiscal year.