



- Board of Directors
Finance and Insurance Committee

5/10/2011 Board Meeting

8-4

Subject

Adopt resolution approving modification of method of raising annexation charges for eleven annexations to Metropolitan

Description

Summary

Metropolitan has eleven annexation areas where the annexation charge was authorized to be paid over time through the levy of special taxes on property tax bills within the respective annexation areas. These eleven areas currently have an estimated unpaid balance as of June 30, 2011 of \$17.8 million; the current annual tax levy is \$1.0 million. No fixed term was set for the payments, but the resolutions indicate that the expectation was payment would be completed within 30 years. Annual annexation tax levies, including interest at 4 percent per annum compounding on any unpaid balance, were capped at .1875 percent of assessed valuation. Due to the rural and/or undeveloped nature of these annexation areas, the assessed valuations are very low and have been further limited by the passage of Proposition 13 in 1978. Since annexing to Metropolitan, some of these areas have had parcels acquired by tax exempt entities; the effect of this is to shift the burden of paying the annexation levy to the remaining tax-paying parcels in the annexation areas. The result of these events is that levies at the maximum rate for periods from 38 to 45 years have not paid off the annexation charge and accrued interest.

Attachment 1 provides a numerical analysis of the impact of the options for addressing these eleven annexation areas. The proposed Resolution in **Attachment 2** modifies the method of raising annexation charges provided in these original resolutions under the option chosen by the Board. It is proposed that these changes would be effective with tax assessments for fiscal year 2011/12.

Background

Prior to implementation of Proposition 13 in 1978, Metropolitan allowed many areas annexing to member agencies and Metropolitan to pay the annexation charge through the levy of special taxes on property tax bills within the respective annexation areas. The terms and conditions for annexation required payment of interest compounded at 4 percent on any unpaid balance. Generally, this method of financing annexation charges worked well. Of the approximately 90 areas using tax levies to raise annexation charges, most paid off within 30 years as anticipated, with one area taking 46 years to pay off the annexation charge. This approach continued to work in spite of Proposition 13's limits on increases in assessed valuation for a number of annexed areas.

However, eleven areas do not have tax levies sufficient to pay the annexation charges within a reasonable time frame or at all. These areas are not paying off for the following reasons:

- The areas are rural and/or undeveloped, leading to very low assessed valuations. In many cases, the current levies are inadequate to even pay the annual interest assessment, resulting in ever-increasing balances that are unlikely to be paid off. These areas were originally annexed into Metropolitan's service area at the request of existing property owners who wanted to ensure that imported water would be available if needed in the future. Although these areas benefit indirectly from having potential access to

imported water, in many cases these properties rely on well water and may never directly receive imported water. Meanwhile, they continue to be accounted for in Metropolitan's annexation levy system.

- The effect of interest charges compounding on prior interest charges results in payoff amounts that far exceed the original charge. While the original interest rate of 4 percent and compounded interest is legally enforceable and reasonable, and was agreed to in the terms and conditions of annexation, in several areas the amounts paid to date are more than double the original levies.
- Some parcels within the annexation areas became exempt from property taxes, resulting in a reduced tax base to support payment of the levies. Parcels transferred to an exempt entity and taken off the tax rolls shifted the tax burden to the other parcels in the annexation area. In some of the eleven annexation areas, the percentage of exempt parcels is high relative to non-exempt parcels.
- In 1966, in response to property owner complaints about high annual tax levies, the Board capped the maximum levy on assessed valuations at .1875 percent of assessed valuations. This effectively capped the amount of levies an annexation area could raise below the amount needed to amortize the charge over 30 years.
- Two of the annexation areas are now publicly held open space in their entirety, and are exempt from property taxes. These annexation areas will never pay off.

While the properties in the eleven annexation areas are obligated to continue paying the required annexation charges through tax levies, the tax levies have lasted longer and/or resulted in higher cumulative payments than originally anticipated due to the factors described above and Proposition 13's limits on increases in assessed value. The eleven outstanding annexation areas are summarized in the following table.

Annexation Area	Original Levy	Paid-to-Date	Amount Outstanding	Years Levied	Years Remaining
Annexation No. 8d (MWDOC)	\$373,000	\$723,660	\$1,015,142	45	48
Annexation No. 8e (MWDOC)	461,100	1,269,324	617,940	45	5
Annexation No. 8h (MWDOC)	494,200	91,472	2,441,475	45	Never Pays Off
Twenty-first Fringe (Eastern)	1,460,400	2,942,403	1,893,726	39	13
Eleventh Fringe (Western)	536,200	463,996	1,938,847	41	Never Pays Off
Fifteenth Fringe (Western)	8,000	893	33,637	38	Never Pays Off
Rainbow No. 3 (SDCWA)	1,728,000	2,137,121	5,759,883	43	33
Fallbrook Community Air Park (SDCWA)	59,800	188,078	11,998	41	1
De Luz Heights Reorganization (SDCWA)	2,002,000	4,499,452	2,791,740	43	15
De Luz Heights No. 1 (SDCWA)	312,000	188,840	1,222,589	41	Never Pays Off
Rincon del Diablo No. 4 (SDCWA)	19,200	14,053	51,439	38	Never Pays Off
Total	\$7,453,900	\$12,519,292	\$17,778,416		

Even though \$17.8 million is outstanding, the likelihood of collecting the full amount is doubtful, as explained above. Metropolitan records an allowance for uncollectible receivables on pre-1978 annexations when the principal and interest thereon cannot be collected within 50 years following the date of annexation. The

annexation receivables reflected in Metropolitan's basic financial statements as of June 30, 2010, net of allowance for uncollectible receivables, is \$5.6 million.

Staff is recommending that for these eleven annexation areas the Board adopt the attached Resolution modifying the method of raising annexation charges provided in the original resolutions in accordance with Section 405, Procedure for Modification, of the Metropolitan Water District (MWD) Act. Any modification of the annexation charge is proposed only for these eleven annexation areas still using tax levies to pay off the original annexation charge. Future annexations will not be affected.

Section 405 of the MWD Act allows the Board to “modify the method of raising an amount previously fixed by the Board to be collected by special tax levies as a condition or term of annexation, in any manner which would result in a cash payment or a series of annual levies either of which would have a present value equal to the present value of the amounts remaining to be levied in such area according to terms previously specified by the Board.” The present value of amounts remaining to be levied “shall be as determined by the Board as of the date such modification is approved by the Board.”

Staff is requesting that the Board determine the present value of the amounts remaining to be levied on the outstanding eleven annexation areas and modify the tax levies, using one of the following three options.

Discussion

This section describes three options for addressing the eleven annexation areas. [Attachment 1](#) provides a detailed analysis of these options.

Option #1

A. Annexation Areas with Zero Tax Levies

In two annexation areas, the parcels are held entirely by tax exempt agencies and are collecting no levies, as they are exempt from property taxes in their entirety. The areas are: (1) the MWDOC annexation No. 8h, which is now the Ronald W. Caspers Regional Park, part of the Orange County parks system; and (2) SDCWA Rincon del Diablo No. 4 annexation area, which was acquired by the San Dieguito Valley Regional Open Space Park.

Staff is requesting that under any of the three options presented that the Board determine the present value of the amounts remaining to be levied in these two annexation areas is zero. The effect is to write down \$2.5 million of the outstanding annexation balance of \$17.8 million.

B. Excluding Tax-Exempt Acreage

The first option adjusts for the impact of tax exempt parcels on the annexation levies in the other nine annexation areas by excluding all tax exempt acreage from the original annexation charge. The results of the analysis are shown in [Attachment 1](#), Tables 1, 4, and 5. Several of the annexation areas have a considerable amount of acreage that is tax exempt. In fact, Metropolitan has acquired parcels in two of the annexation areas. Excluding the exempt acreage has a significant impact on the remaining payment period in several of the annexation areas because it results in lower compounded interest charges throughout the assessment periods. The effect is to write down an additional \$6.8 million of the outstanding annexation balance of \$17.8 million.

C. Fifty-Year Maximum

Four areas would be assessed for a very long time or would never pay off. It is proposed that the Board adopt a 50-year time limit, or not later than June 2020, for assessing the annexation charges.

Option #2

A. Annexation Areas with Zero Tax Levies

Same as Option #1.

B. Thirty-Year Simple Interest Amortization

For Option #2, Metropolitan would determine that sufficient levies have been collected when the annexation areas have paid the amount required to fully amortize a 30-year, simple interest, 4 percent loan in the amount of the original annexation charge. The results of the analysis are shown in [Attachment 1](#), Tables 2, 4, and 5. This analysis reveals that the compounding interest included as a provision of the original resolution has a significant impact on whether annexation areas have paid off or not. The effect is to write down an additional \$13.6 million of the outstanding annexation balance of \$17.8 million.

C. Fifty-Year Maximum

Four areas would continue the levies. Three areas would be assessed for a very long time or never pay off. It is recommended that the Board adopt a limit for assessing the annexation levies of 50 years or not later than June 2020.

Option #3

A. Annexation Areas with Zero Tax Levies

Same as Option #1.

B. Excluding Tax-Exempt Acreage and Thirty-Year Simple Interest Amortization

A third option is to combine Option #1 and Option #2 by excluding tax exempt parcels and using the simple interest calculation for determining whether an annexation area has met its obligations to pay off the annexation charge. The results are shown in [Attachment 1](#), Tables 3, 4 and 5. The effect is to write down an additional \$14.4 million of the outstanding annexation balance of \$17.8 million.

C. Fifty-Year Maximum

Three areas would continue the levies. Under this option, one annexation area never pays off. This is because it consists of two undeveloped parcels, privately held, with low assessed values that generate an annual levy of \$13, which is less than the annual accruing interest. It is recommended that the Board adopt a limit for assessing the annexation levies of 50 years or not later than June 2020.

Conclusion

Staff recommends that the Board adopt Option #1. This will resolve all issues related to this long-standing historical issue in a timely manner that is fair both to the annexing areas and to Metropolitan.

Policy

Metropolitan Water District Administrative Code Division III: Annexations

Metropolitan Water District Act Section 405: Procedure for Modification

California Environmental Quality Act (CEQA)

CEQA determination for Options #1, #2 and #3:

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 #4:

None required

Board Options

Option #1

Adopt the CEQA determination and

- a. Adopt Resolution Approving Modification of Method of Raising Annexation Charges for Eleven Annexation Area Annexations to Metropolitan, amending Resolutions 6630, 6631, 6634, 6929, 7009, 7160, 7209, 7215, 7347, 7415, and 7748 with Exhibit A, Option 1;
- b. Direct the Board Executive Secretary to transmit the Resolution to the affected member agencies and request that they obtain approval as provided in the Resolution;
- c. Authorize the General Manager to write down balances related to the annexation areas pursuant to the resolution approved in Option #1a; and
- d. Authorize the General Manager to write off as uncollectible any remaining balances related to the annexation areas, as appropriate, once the annexation areas have been levied for 50 years or not later than June 2020.

Fiscal Impact: No reduction to annexation levies in FY 2011/12; write down outstanding annexation levy receivables by \$9.3 million; levies would collect an estimated \$4.6 million through June 30, 2020

Option #2

Adopt the CEQA determination and

- a. Adopt Resolution Approving Modification of Method of Raising Annexation Charges for Eleven Annexation Area Annexations to Metropolitan, amending Resolutions 6630, 6631, 6634, 6929, 7009, 7160, 7209, 7215, 7347, 7415, and 7748 with Exhibit A, Option 2;
- b. Direct the Board Executive Secretary to transmit the Resolution to the affected member agencies and request that they obtain approval as provided in the Resolution;
- c. Authorize the General Manager to write down balances related to the annexation areas pursuant to the resolution approved in Option #2a; and
- d. Authorize the General Manager to write off as uncollectible any remaining balances related to the annexation areas, as appropriate, once the annexation areas have been levied for 50 years or not later than June 2020.

Fiscal Impact: Approximately \$662,751 reduction in annexation levies in FY 2011/12; write down outstanding annexation levy receivables by \$16.1 million; levies would collect an estimated \$0.9 million through June 30, 2020.

Option #3

Adopt the CEQA determination and

- a. Adopt Resolution Approving Modification of Method of Raising Annexation Charges for Eleven Annexation Area Annexations to Metropolitan, amending Resolutions 6630, 6631, 6634, 6929, 7009, 7160, 7209, 7215, 7347, 7415, and 7748 with Exhibit A, Option 3;
- b. Direct the Board Executive Secretary to transmit the Resolution to the affected member agencies and request that they obtain approval as provided in the Resolution;
- c. Authorize the General Manager to write down balances related to the annexation areas pursuant to the resolution approved in Option #3a; and,
- d. Authorize the General Manager to write off as uncollectible any remaining balances related to the annexation areas, as appropriate, once the annexation areas have been levied for 50 years or not later than June 2020.

Fiscal Impact: Approximately \$671,464 reduction in annexation levies in FY 2011/12; write down outstanding annexation levy receivables by \$16.9 million; levies would collect an estimated \$0.8 million through June 30, 2020.

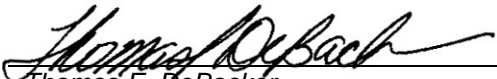
Option #4

Do not adopt any of the above options.

Fiscal Impact: No reduction in annexation levies

Staff Recommendation

Option #1



Thomas E. DeBacker
Interim Chief Financial Officer

5/4/2011
Date



Jeffrey Lightlinger
General Manager

5/4/2011
Date

Attachment 1 – Analysis of Options for Addressing Eleven Outstanding Annexation Areas

Attachment 2 – Resolution Approving Modification of Method of Raising Annexation Charges for Eleven Annexation Area Annexations to Metropolitan

Ref# cfo12608758

Attachment 1

Analysis of Options for Addressing Eleven Outstanding Annexation Areas

For purposes of this analysis, two annexation areas are excluded because the parcels are held entirely by tax exempt agencies and are collecting no levies, as they are exempt from property taxes in their entirety. The areas include: (1) the MWDOC annexation No. 8h, which is now the Ronald W. Caspers Regional Park, part of the Orange County parks system; and (2) SDCWA Rincon del Diablo No. 4 annexation area, which was acquired by the San Dieguito Valley Regional Open Space Park. Staff is requesting that under any of the three options presented that the Board determine the present value of the amounts remaining to be levied in these two annexation areas is zero. The effect is to write down \$2.5 million of the outstanding annexation levy balance of \$17.8 million.

Option #1

The first option adjusts for the impact of tax exempt parcels on the annexation levies. Several of the annexation areas have a considerable amount of acreage that is tax exempt. Metropolitan owns parcels in two of the annexation areas. Excluding the exempt acreage has a significant impact on the remaining payment period in several of the annexation areas. It is not possible to reconstruct what the levies and annexation area balances would have been historically if public parcels had been assessed the annexation levy, because parcels held by public agencies do not have an assessed value. As an alternative, all tax exempt parcels were excluded from the original annexation charge by recalculating the charge without the exempt acreage and recomputing the resulting annexation area balances. Excluding all exempt parcels from the original annexation charge resulted in lower compounded interest charges throughout the assessment periods. The results for Option #1 are shown in Table 1 and summarized in Tables 4 and 5.

Table 1: Excluding Exempt Parcels, Option #1

Annexation Area	Original Charge	Revised Charge	Revised Amount Outstanding	Original Years Remaining	Revised Years Remaining, or 50-Year Cap
Annexation No. 8d (MWDOC)	\$373,000	\$351,991	\$ 892,423	48	5
Annexation No. 8e (MWDOC)	461,100	460,932	616,961	5	5
Twenty-first Fringe (Eastern) *	1,460,400	1,089,956	183,620	13	2
Eleventh Fringe (Western)	536,200	530,338	1,909,578	Never	9
Fifteenth Fringe (Western)**	8,000	8,000	33,637	Never	9
Rainbow No. 3 (SDCWA) *	1,728,000	1,452,296	4,270,944	33	7
Fallbrook Community Air Park (SDCWA)	59,800	59,800	11,998	1	1
De Luz Heights Reorganization (SDCWA)	2,002,000	1,577,934	501,575	15	2
De Luz Heights No. 1 (SDCWA)	312,000	70,758	18,053	Never	3

* Annexation areas include Metropolitan-owned parcels

** Annexation area levy terminates June 2020

The "Revised Years Remaining" column is calculated assuming no change in assessed valuations over the remaining years for taxable properties and assuming 4 percent interest. Under this option, Metropolitan would write down an additional \$6.8 million of the annexation levy outstanding balance (\$9.3 million, including the \$2.5 million related to the two annexation areas discussed previously). Estimated annexation levies for fiscal year 2011/12 of \$1.0 million would not be impacted. The levies would collect an estimated \$4.6 million through June 30, 2020.

Four areas would be assessed for a very long time or would never pay off: MWDOC No. 8d, Western Eleventh Fringe, Western Fifteenth Fringe, and SDCWA Rainbow No. 3. It is proposed that the Board adopt a 50-year time limit, or not later than June 2020, for assessing the annexation charges. The 50-year limit was adopted by the Board for annexations beginning in 1976; this provision was terminated with the passage of Proposition 13.

For Option #1, staff is requesting that the Board determine the present value of the amounts remaining to be levied on the outstanding eleven annexation areas under this option as follows:

1. Permanent open space acquisitions: MWDOC annexation No. 8h is now the Ronald W. Caspers Regional Park, part of the Orange County parks system. SDCWA Rincon del Diablo No. 4 annexation area was acquired by the San Dieguito River Valley Regional Open Space Park. These agencies are exempt from paying property taxes, so these two annexation areas are collecting no levies. The present value of expected future levies is zero.
2. Adjust original annexation charge and resulting compounded interest to exclude tax exempt parcels: Several of the eleven annexation areas are comprised of significant acreage that has been obtained by tax exempt entities. These parcels do not contribute to the annexation levies, leaving the remaining taxable acreage to pay the shifted burden. It is recommended that, where tax exempt acreage exists, the tax exempt acreage be excluded from the annexation charges for the annexation areas listed in Table 1 and that the Board determine that the obligation to pay the annexation levies should be adjusted as shown in Table 1, and that the present value of the amounts remaining to be levied in these areas is shown as the "Revised Amount Outstanding" in Table 1.
3. Sparse development: Four remaining areas are very sparsely developed. For practical purposes, these annexation areas are not expected to ever pay off. While it is possible these areas could develop at some time, they are relatively remote and development is unlikely. Although payment of the annexation charges was expected in 30 years or less, these areas have been assessed for 38 years to 45 years. It is Metropolitan's policy to record an allowance for uncollectible receivables on pre-1978 annexations when the principal and interest thereon cannot be collected within 50 years following the date of annexation. It is recommended that the Board adopt a limit for assessing the annexation levies of 50 years or not later than June 2020, and determine that the present value of the amounts remaining to be levied in these areas after 50 years or not later than June 2020 is zero.

Option #2

For Option #2, the amounts paid to date by annexation area were compared against the amount required to fully amortize a 30-year, simple interest, 4 percent loan. This analysis reveals that the compounding interest included as a provision of the original resolution has a significant impact on whether annexation areas have paid off or not. The results for Option #2 are shown in Table 2 and summarized in Tables 4 and 5.

Table 2: Simple Interest Calculation, Option #2

Annexation Area	Paid to Date	Years Remaining, including interest	4% Simple Interest, 30 Years	Paid to Date Exceeds Simple Interest Calculation	Years Remaining, or 50-Year Cap
Annexation No. 8d (MWDOC)	\$723,660	48	\$641,119	Yes	0
Annexation No. 8e (MWDOC)	1,269,324	5	799,964	Yes	0
Twenty-first Fringe (Eastern)	2,942,403	13	2,533,652	Yes	0
Eleventh Fringe (Western)	463,996	Never	960,255	No	9
Fifteenth Fringe (Western)*	893	Never	13,879	No	9
Rainbow No. 3 (SDCWA)	2,137,121	33	2,997,912	No	3
Fallbrook Community Air Park (SDCWA)	188,078	1	103,747	Yes	0
De Luz Heights Reorganization (SDCWA)	4,499,452	15	3,473,276	Yes	0
De Luz Heights No. 1 (SDCWA)	188,840	Never	541,290	No	9

* Annexation area levy terminates June 2020

Under this option, Metropolitan would determine that sufficient levies have been collected when the annexation areas have paid the amount required to fully amortize a 30-year, simple interest, 4 percent loan in the amount of the original annexation charge. Metropolitan would write down an additional \$13.6 million of the annexation levy outstanding balance (\$16.1 million including the \$2.5 million relating to the two annexation areas previously discussed), and cease levies on five areas. Annexation levies for fiscal year 2011/12 would be reduced by an estimated \$0.6 million.

Four areas would continue the levies and collect an estimated \$0.9 million through June 30, 2020. SDCWA Rainbow No. 3 would fully amortize under the revised formula in approximately three years; however, the Western Eleventh Fringe, Western Fifteenth Fringe, and DeLuz Heights No.1 would, for all practical purposes, never pay off. It is recommended that the Board adopt a limit for assessing the annexation levies of 50 years or not later than June 2020, and determine that the present value of the amounts remaining to be levied in these areas after 50 years or not later than June 2020 is zero.

For Option #2, staff is requesting that the Board determine the present value of the amounts remaining to be levied on the outstanding eleven annexation areas under this option as follows:

1. Permanent open space acquisitions: MWDOC annexation No. 8h is now the Ronald W. Caspers Regional Park, part of the Orange County parks system. SDCWA Rincon del Diablo No. 4 annexation area was acquired by the San Dieguito River Valley Regional Open Space Park. These agencies are exempt from paying property taxes, so these two annexation areas are collecting no levies. The present value of expected future levies is zero.
2. Amounts paid to date exceed the amount determined by computing simple interest: Several of the eleven annexation areas have paid well over their original annexation charge amount but have not paid off the compounded interest that accrued on the outstanding balances. It is recommended that the Board determine that the obligation to pay the annexation levies is met

when the amount paid to date is equal to the amount necessary to fully amortize a 30-year loan at 4 percent, using simple interest and that the present value of the amounts remaining to be levied is zero.

3. Sparse development: Four remaining areas are very sparsely developed. For practical purposes, three of these annexation areas are not expected to ever pay off. While it is possible these areas could develop at some time, they are relatively remote and development is unlikely. Although payment of the annexation charges was expected in 30 years or less, these areas have been assessed for 38 years to 43 years. It is Metropolitan's policy to record an allowance for uncollectible receivables on pre-1978 annexations when the principal and interest thereon cannot be collected within 50 years following the date of annexation. It is recommended that the Board adopt a limit for assessing the annexation levies of 50 years or not later than June 2020, and determine that the present value of the amounts remaining to be levied in these areas after 50 years or not later than June 2020 is zero.

Option #3

A third option is to combine the exclusion of tax exempt parcels with the simple interest calculation for determining whether an annexation area has met its obligations to pay off the annexation charge. These results will differ from the first option because the amount necessary to fully amortize the annexation charge over 30 years at 4 percent simple interest will be less for those areas with excluded acreage as the annexation charge to be financed is lower. The results for Option #3 are shown in Table 3 and summarized in Tables 4 and 5.

Table 3: Excluding Exempt Parcels Combined with Simple Interest Calculation, Option #3

Annexation Area	Paid to Date	Years Remaining, including interest	Simple Interest, 4%, Revised Charge	Paid to Date Exceeds Simple Interest Calculation	Years Remaining, or 50-Year Cap
Annexation No. 8d (MWDOC)	\$723,660	48	\$610,670	Yes	0
Annexation No. 8e (MWDOC)	1,269,324	5	799,672	Yes	0
Twenty-first Fringe (Eastern)	2,942,403	13	1,890,968	Yes	0
Eleventh Fringe (Western)	463,996	Never	920,085	No	9
Fifteenth Fringe (Western)*	893	Never	13,879	No	9
Rainbow No. 3 (SDCWA)	2,137,121	33	2,519,593	No	2
Fallbrook Community Air Park (SDCWA)	188,078	1	103,747	Yes	0
De Luz Heights Reorganization (SDCWA)	4,499,452	15	2,737,562	Yes	0
De Luz Heights No. 1 (SDCWA)	188,840	Never	122,758	Yes	0

* Annexation area levy terminates June 2020

For Option #3, Metropolitan would exclude exempt acreage from the original annexation charge and determine that sufficient levies have been collected when the annexation areas have paid the amount required to fully amortize a 30-year, simple interest, 4 percent loan in the amount of the revised annexation charge. Metropolitan would write down an additional \$14.4 million of the annexation levy outstanding balance (\$16.9 million including the \$2.5 million related to the two annexation areas previously discussed), and cease levies on six areas. Annexation levies for fiscal year 2011/12 would be reduced by an estimated \$0.7 million. Three areas would continue the levies and would collect an estimated \$0.8 million through June 30, 2020. Even under Option #3, one annexation area will never pay off. This is because it consists of two undeveloped parcels, privately held, with low assessed values that generate an annual levy of \$13, which is less than the annual accruing interest.

For Option #3, staff is requesting that the Board determine the present value of the amounts remaining to be levied on the outstanding eleven annexation areas under this option as follows:

1. Permanent open space acquisitions: MWDOC annexation No. 8h is now the Ronald W. Caspers Regional Park, part of the Orange County parks system. SDCWA Rincon del Diablo No. 4 annexation area was acquired by the San Dieguito River Valley Regional Open Space Park. These agencies are exempt from paying property taxes, so these two annexation areas are collecting no levies. The present value of expected future levies is zero.
2. Amounts paid to date exceed the amount determined by computing simple interest after excluding exempt acreage from the annexation charge: Several of the eleven annexation areas have paid well over their original annexation charge amount but have not paid off the compounded interest that accrued on the outstanding balances. They are also comprised of significant acreage that has been obtained by tax exempt entities that do not contribute to the annexation levies, leaving the remaining taxable acreage to pay the shifted burden. It is recommended that the tax exempt acreage be excluded from the annexation charges for the annexation areas listed in Table 3 and the Board determine that, where tax exempt acreage exists, the obligation to pay the annexation levies should be adjusted for the effect of the tax exempt acreage and that the obligation to pay the annexation levies is met when the amount paid is equal to the amount necessary to fully amortize a 30-year loan at 4 percent, using simple interest. For the six annexation areas listed in Table 3 where the amount paid to date exceeds the simple interest calculation, it is recommended that the Board determine that the present value of the amounts remaining to be levied is zero.
3. Sparse development: Three remaining areas are very sparsely developed. For practical purposes, one of these annexation areas is not expected to ever pay off. While it is possible these areas could develop at some time, they are relatively remote and development is unlikely. Although payment of the annexation charges was expected in 30 years or less, these areas have been assessed for 38 years to 43 years. It is Metropolitan's policy to record an allowance for uncollectible receivables on pre-1978 annexations when the principal and interest thereon cannot be collected within 50 years following the date of annexation. It is recommended that the Board adopt a limit for assessing the annexation levies of 50 years or not later than June 2020, and determine that the present value of the amounts remaining to be levied in these areas after 50 years or not later than June 2020 is zero.

The following Table 4 shows the estimated write offs to occur in the current fiscal year, based on the options presented. Additional future write offs may occur depending on the Board's determination. For example, if the Board adopts the 50-year limit to assess the annexation levies, then additional write offs would occur after the 50-year time period elapses.

Table 4: Summary of Proposed Write Offs, Current Fiscal Year

Annexation Area	Amount Outstanding	Write Off: Option #1	Write Off: Option #2	Write Off: Option #3
Annexation No. 8d (MWDOC)	\$1,015,142	\$(122,719)	\$(1,015,142)	\$(1,015,142)
Annexation No. 8e (MWDOC)	617,940	(979)	(617,940)	(617,940)
Annexation No. 8h (MWDOC)	2,441,475	(2,441,475)	(2,441,475)	(2,441,475)
Twenty-first Fringe (Eastern)	1,893,726	(1,710,106)	(1,893,726)	(1,893,726)
Eleventh Fringe (Western)	1,938,847	(29,269)	(1,442,588)	(1,482,758)
Fifteenth Fringe (Western)	33,637	0	(20,651)	(20,651)
Rainbow No. 3 (SDCWA)	5,759,883	(1,488,939)	(4,899,092)	(5,377,411)
Fallbrook Community Air Park (SDCWA)	11,998	0	(11,998)	(11,998)
De Luz Heights Reorganization (SDCWA)	2,791,740	(2,290,165)	(2,791,740)	(2,791,740)
De Luz Heights No. 1 (SDCWA)	1,222,589	(1,204,536)	(870,139)	(1,222,589)
Rincon del Diablo No. 4 (SDCWA)	51,439	(51,439)	(51,439)	(51,439)
Total	\$17,778,416	\$(9,339,627)	\$(16,055,930)	\$(16,926,869)

The following table 5 shows the amounts remaining to be levied, based on the options presented.

Table 5: Summary of Amounts Remaining to be Levied

Annexation Area	Current Amount Outstanding	Amount Remaining to be Levied: Option #1	Amount Remaining to be Levied: Option #2	Amount Remaining to be Levied: Option #3
Annexation No. 8d (MWDOC)	\$1,015,142	\$892,423	\$0	\$0
Annexation No. 8e (MWDOC)	617,940	616,961	0	0
Annexation No. 8h (MWDOC)	2,441,475	0	0	0
Twenty-first Fringe (Eastern)	1,893,726	183,620	0	0
Eleventh Fringe (Western)	1,938,847	1,909,578	496,259	456,089
Fifteenth Fringe (Western)	33,637	33,637	12,986	12,986
Rainbow No. 3 (SDCWA)	5,759,883	4,270,944	860,791	382,472
Fallbrook Community Air Park (SDCWA)	11,998	11,998	0	0
De Luz Heights Reorganization (SDCWA)	2,791,740	501,575	0	0
De Luz Heights No. 1 (SDCWA)	1,222,589	18,053	352,450	0
Rincon del Diablo No. 4 (SDCWA)	51,439	0	0	0
Total	\$17,778,416	\$8,438,789	\$1,722,486	\$851,547

RESOLUTION ____

RESOLUTION OF THE BOARD OF DIRECTORS
OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
APPROVING MODIFICATION OF METHOD OF RAISING ANNEXATION CHARGES
FOR ELEVEN ANNEXATIONS TO METROPOLITAN

WHEREAS, Annexation No. 8d concurrently annexed to Orange County Municipal Water District, now known as the Municipal Water District of Orange County (“MWDOC”) and to The Metropolitan Water District of Southern California, subject to the terms and conditions set forth in Resolution 6630 of this Board; and

WHEREAS, the method of raising the annexation charge by special taxes upon property within Annexation No. 8d was modified pursuant to the authority contained in Section 405 of the Metropolitan Water District Act (the “Act”) in Resolution 6904 of this Board; and

WHEREAS, Annexation No. 8e concurrently annexed to MWDOC and to Metropolitan, subject to the terms and conditions set forth in Resolution 6631 of this Board, and the method of raising the annexation charge by special taxes upon property within Annexation No. 8e was modified pursuant to the authority contained in Section 405 of the Act in Resolution 6905 of this Board; and

WHEREAS, Annexation No. 8h concurrently annexed to MWDOC and to Metropolitan, subject to the terms and conditions set forth in Resolution 6634 of this Board, and the method of raising the annexation charge by special taxes upon property within Annexation No. 8h was modified pursuant to the authority contained in Section 405 of the Act in Resolution 6908 of this Board; and

WHEREAS, the Twenty-first Fringe Annexation Area concurrently annexed to Eastern Municipal Water District (“Eastern”) and to The Metropolitan Water District of Southern California, subject to the terms and conditions set forth in Resolution 7737 of this Board; and

WHEREAS, the Eleventh Fringe Annexation Area concurrently annexed to Western Municipal Water District (“Western”) and to Metropolitan, subject to the terms and conditions set forth in Resolution 7160 of this Board; and

WHEREAS, the Fifteenth Fringe Annexation Area concurrently annexed to Western and to Metropolitan, subject to the terms and conditions set forth in Resolution 7415 of this Board; and

WHEREAS, the De Luz Heights Annexation Area (Reorganization) concurrently annexed to the San Diego County Water Authority (“SDCWA”) and to Metropolitan, subject to the terms and conditions set forth in Resolution 6929 of this Board; and

WHEREAS, the Rainbow No. 3 Annexation Area concurrently annexed to SDCWA and to Metropolitan, subject to the terms and conditions set forth in Resolution 7009 of this Board; and

WHEREAS, the De Luz Heights No. 1 Annexation Area concurrently annexed to SDCWA and to Metropolitan, subject to the terms and conditions set forth in Resolution 7209 of this Board; and

WHEREAS, the Fallbrook Community Air Park Annexation Area concurrently annexed to SDCWA and to Metropolitan, subject to the terms and conditions set forth in Resolution 7215 of this Board; and

WHEREAS, the Rincon del Diablo No. 4 Annexation Area concurrently annexed to SDCWA and to Metropolitan, subject to the terms and conditions set forth in Resolution 7448 of this Board; and

WHEREAS, the special taxes levied upon property within each of the foregoing annexation areas to have raised the cash annexation charges intended to be collected at the time of annexation, except for certain annexation areas listed in Exhibit A to this Resolution where because of acquisition by public entities or for other reasons listed in Exhibit A future special tax levies for this purpose are impossible or impracticable; and

WHEREAS, it is proposed that the method of raising the annexation charge by special taxes upon property within each of the foregoing annexation areas be modified pursuant to the authority contained in Section 405 of the Act as described in this Resolution;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of Metropolitan that:

1. The modification of method or raising the amount previously fixed by this Board to be raised by special taxes as a condition or term of annexation in each of the foregoing annexation areas as set forth in Exhibit A attached to this resolution is hereby approved, subject to compliance with paragraph 3 hereof.

2. The Board hereby determines that as of the date of this resolution the present value of the future annual levies for annexation fees in each of these annexation areas is equal to the "Amount Remaining to be Levied" for the annexation area, as set forth in Exhibit A.

3. For each of the respective annexation areas listed above, on or before August 1, 2011, the Board of Directors of MWDOC, Eastern, Western or SDCWA, as applicable shall certify to Metropolitan's Board either:

(a) that twelve or more voters reside in the annexation area and that the modification of method of raising the annexation charge as set forth in Exhibit A has been approved by a majority of the voters voting on such proposition at an election called and held within such area; or

(b) that less than twelve voters reside within such area and that there has been filed with Metropolitan's Secretary a written approval of such modification signed by owners or more than one-half of the value of the taxable property within such area as shown on the last equalized assessment roll.

BE IT FURTHER RESOLVED, that the Board Executive Secretary be, and she hereby is, directed to transmit forthwith to the governing bodies of MWDOC, Eastern, Western and SDCWA a certified copy of this resolution.

I HEREBY CERTIFY that the foregoing is a full, true, and correct copy of a resolution adopted by the Board of Directors of The Metropolitan Water District of Southern California, at its meeting held May 10, 2011.

Board Executive Secretary
The Metropolitan Water District of
Southern California

EXHIBIT A [OPTION #1]

MODIFICATION OF METHOD OF RAISING ANNEXATION CHARGE

The annexation charges for the annexations listed in Resolution __ were raised by means of special taxes on taxable property within the annexation area, with a maximum annual tax levy of .1875 percent of the assessed valuation of taxable properties, with interest at 4 percent per annum accruing on the unlevied balance. If the tax levy in any year did not equal the interest due on the unlevied balance, the amount of such deficiency was added to the balance due. When the annual levy needed to amortize the annexation charges over 30 years was reduced below .1875 percent of assessed valuation, reduced annual levies in approximately equal amounts were to be spread over the remainder of the 30-year term anticipated by the resolution that provided this method.

This method of raising the annexation charges is hereby modified as follows:

1. The following two annexation areas have been acquired by public agencies and permanently set aside as open space:

Annexation No. 8h to MWDOC (now the Ronald W. Caspers Regional Park)
Rincon del Diablo No. 4 Annexation Area to SDCWA (acquired for the San Dieguito River Valley Regional Open Space Park)

The property within these annexation areas is no longer taxable property. No special taxes will be levied in the future and the amount remaining to be levied is zero.

2. In each of the annexation areas listed below, tax exempt acreage is excluded from the annexation charges and the original annexation charge is revised as shown below. The present value of the amounts remaining to be levied in these areas is determined to be the amount shown as the "Amount Remaining to be Levied" in the following table:

Annexation Area	Original Charge	Revised Charge	Amount Remaining to be Levied
Annexation No. 8d (MWDOC)	\$373,000	\$351,991	\$ 892,423
Annexation No. 8e (MWDOC)	461,100	460,932	616,961
Twenty-first Fringe (Eastern)	1,460,400	1,089,956	183,620
Eleventh Fringe (Western)	536,200	530,338	1,909,578
Fifteenth Fringe (Western)	8,000	8,000	33,637
Rainbow No. 3 (SDCWA)	1,728,000	1,452,296	4,270,944
Fallbrook Community Air Park (SDCWA)	59,800	59,800	11,998
De Luz Heights Reorganization (SDCWA)	2,002,000	1,577,934	501,575
De Luz Heights No. 1 (SDCWA)	312,000	70,758	18,053

3. The Board hereby adopts a 50-year time limit for assessing annexation charges in the annexation areas listed in Resolution __ and determines that the present value of the amounts remaining to be levied in these areas after 50 years of tax levies, or not later than June 2020, is zero.

EXHIBIT A [OPTION #2]

MODIFICATION OF METHOD OF RAISING ANNEXATION CHARGE

The annexation charges for the annexations listed in Resolution __ were raised by means of special taxes on taxable property within the annexation area, with a maximum annual tax levy of .1875 percent of the assessed valuation of taxable properties, with interest at four percent per annum accruing on the unlevied balance. If the tax levy in any year did not equal the interest due on the unlevied balance, the amount of such deficiency was added to the balance due. When the annual levy needed to amortize the annexation charges over 30 years was reduced below .1875 percent of assessed valuation, reduced annual levies in approximately equal amounts were to be spread over the remainder of the 30-year term anticipated by the resolution that provided this method.

This method of raising the annexation charges is hereby modified as follows:

1. The following two annexation areas have been acquired by public agencies and permanently set aside as open space:

Annexation No. 8h to MWDOC (now the Ronald W. Caspers Regional Park)
Rincon del Diablo No. 4 Annexation Area to SDCWA (acquired for the San Dieguito River Valley Regional Open Space Park)

The property within these annexation areas is no longer taxable property. No special taxes will be levied in the future and the amount remaining to be levied is zero.

2. In each of the annexation areas listed below, the obligation to pay the annexation levies is determined to be met if the amount paid to date is at least equal to the amount necessary to fully amortize a 30-year loan at 4 percent, using simple interest. No property taxes will be refunded if the amount paid to date exceeds the revised charge. The amount raised is determined to be sufficient to pay annexation charges in full when the present value of the amounts remaining to be levied in these areas is determined to be the "Amount Remaining to be Levied" as shown in the following table:

Annexation Area	Paid to Date	Simple Interest, 4% loan	Amount Remaining to be Levied
Annexation No. 8d (MWDOC)	\$723,660	\$641,119	\$ 0
Annexation No. 8e (MWDOC)	1,269,324	799,964	0
Twenty-first Fringe (Eastern)	2,942,403	2,533,652	0
Eleventh Fringe (Western)	463,996	960,255	496,259
Fifteenth Fringe (Western)	893	13,879	12,986
Rainbow No. 3 (SDCWA)	2,137,121	2,997,912	860,791
Fallbrook Community Air Park (SDCWA)	188,078	103,747	0
De Luz Heights Reorganization (SDCWA)	4,499,452	3,473,276	0
De Luz Heights No. 1 (SDCWA)	188,840	541,290	352,450

3. The Board hereby adopts a 50-year time limit for assessing annexation charges in the annexation areas listed in Resolution __ with amounts remaining to be levied and determines that the present

value of the amounts remaining to be levied in these areas after 50 years of tax levies, or not later than June 2020, is zero.

EXHIBIT A [OPTION #3]

MODIFICATION OF METHOD OF RAISING ANNEXATION CHARGE

The annexation charges for the annexations listed in Resolution __ were raised by means of special taxes on taxable property within the annexation area, with a maximum annual tax levy of .1875 percent of the assessed valuation of taxable properties, with interest at 4 percent per annum accruing on the unlevied balance. If the tax levy in any year did not equal the interest due on the unlevied balance, the amount of such deficiency was added to the balance due. When the annual levy needed to amortize the annexation charges over 30 years was reduced below .1875 percent of assessed valuation, reduced annual levies in approximately equal amounts were to be spread over the remainder of the 30-year term anticipated by the resolution that provided this method.

This method of raising the annexation charges is hereby modified as follows:

1. The following two annexation areas have been acquired by public agencies and permanently set aside as open space:

Annexation No. 8h to MWDOC (now the Ronald W. Caspers Regional Park)
 Rincon del Diablo No. 4 Annexation Area to SDCWA (acquired for the San Dieguito River Valley Regional Open Space Park)

The property within these annexation areas is no longer taxable property. No special taxes will be levied in the future and the amount remaining to be levied is zero.

2. In each of the annexation areas listed below, tax exempt acreage is excluded from the annexation charges and the obligation to pay the annexation levies is determined to be met if the amount paid to date is at least equal to the amount necessary to fully amortize a 30-year loan at 4 percent, using simple interest. No property taxes will be refunded if the amount paid to date exceeds the revised charge. The present value of the amounts remaining to be levied in these areas is determined to be the "Amount Remaining to be Levied" as shown below:

Annexation Area	Paid to Date	Simple Interest 4%, Revised Charge	Amount Remaining to be Levied
Annexation No. 8d (MWDOC)	\$723,660	\$610,670	\$ 0
Annexation No. 8e (MWDOC)	1,269,324	799,672	0
Twenty-first Fringe (Eastern)	2,942,403	1,890,968	0
Eleventh Fringe (Western)	463,996	920,085	456,089
Fifteenth Fringe (Western)	893	13,879	12,986
Rainbow No. 3 (SDCWA)	2,137,121	2,519,593	382,472
Fallbrook Community Air Park (SDCWA)	188,078	103,747	0
De Luz Heights Reorganization (SDCWA)	4,499,452	2,737,562	0
De Luz Heights No. 1 (SDCWA)	188,840	122,758	0

3. The Board hereby adopts a 50-year time limit for assessing annexation charges in the annexation areas listed in Resolution __ and determines that the present value of the amounts remaining to be levied in these areas after 50 years of tax levies, or not later than June 2020, is zero.