



# Suspend Tax Rate Restrictions of Section 124.5 of the MWD Act for FY 2013/14

Finance and Insurance Committee

Item 8-2

June 10, 2013

# Discussion Overview

- Review of property taxing authority
- Metropolitan Water District Act Section 124.5 provisions
- Resolution Finding that Maintaining the Ad Valorem Tax Rate for Fiscal Year 2013/14 is Essential to the Fiscal Integrity of the District
  - Findings needed to maintain tax rate
  - Factors to consider to support findings

# Ad Valorem Tax Background

- MWD Act authorizes property taxes
- By Proposition 13, voters set limits for ad valorem property taxes
- Proposition 13 included an exception to allow agencies to repay certain indebtedness
- Metropolitan's share of SWP costs are within the exception for indebtedness
- Metropolitan's general obligation bonds are within the exception for indebtedness

# Provisions of Metropolitan Water District Act Section 124.5

- Enacted by the Legislature in 1984 with Metropolitan support
- Restricts ad valorem taxes to the amount necessary to cover debt service for Metropolitan's General Obligation bonds and Burns-Porter bonds
- Authorizes suspending the tax limit if the Board finds that doing so is "essential to the fiscal integrity of the district"
  - Must hold a public hearing
  - Must notify the Speaker of the Assembly and the President pro Tempore of the Senate at least 10 days prior to the date of the hearing

# Current Ad Valorem Tax Rate

- .0035% of assessed valuations
- Averaged assessed value of a single-family residence in Los Angeles County is \$300,000
  - Results in AV tax assessment of \$10.50 per year
- Proposal to maintain the rate for FY 2013/14

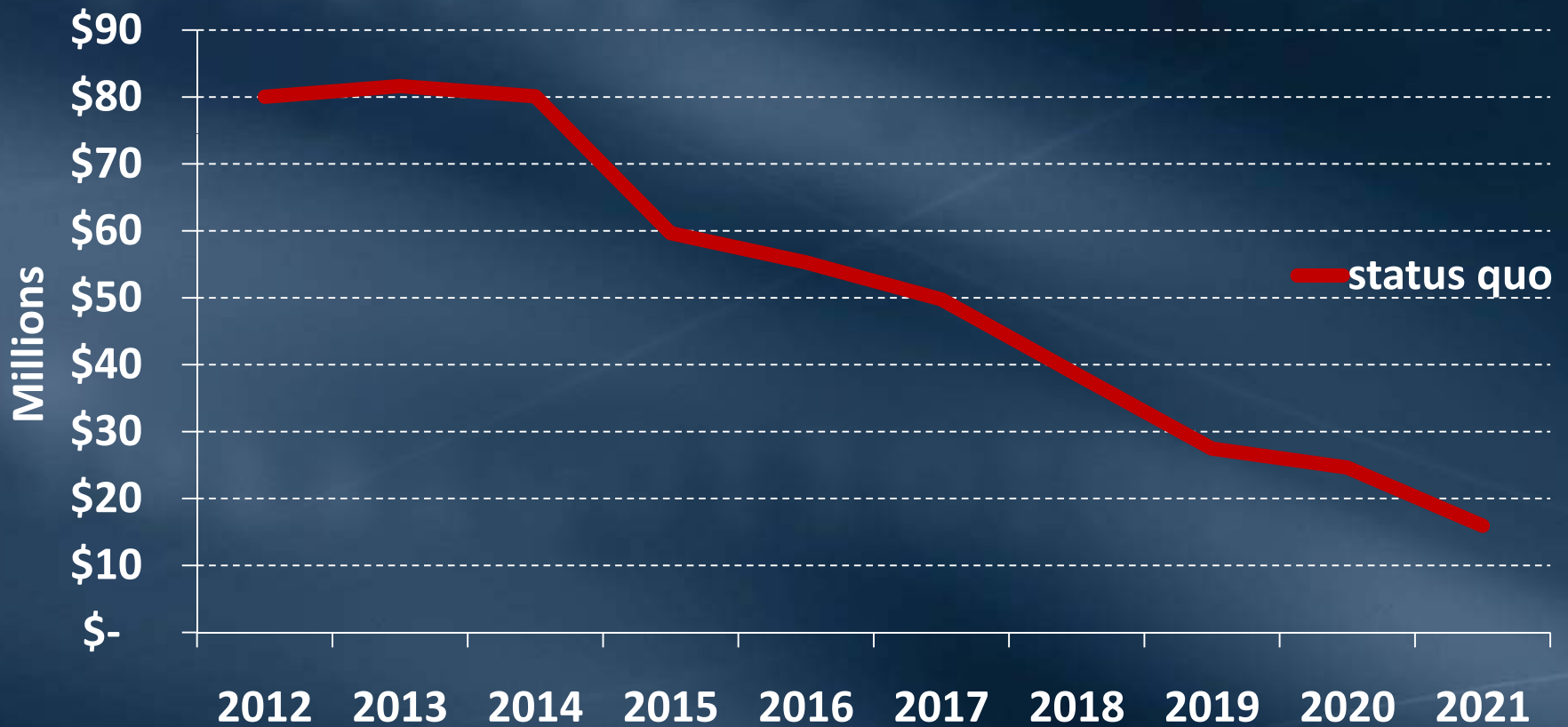
# Reasons to Maintain the Ad Valorem Tax Rate

- SWC obligations have steadily increased and are expected to continue to increase
  - 37 percent of budgeted expenditures; the single largest cost category
  - Absent freeze, taxes will continue to decrease
- Ad valorem taxes help ensure a fair and appropriate balance between fixed costs and fixed revenues
  - In FY 2012/13, 80 percent of Metropolitan's costs are fixed, yet only 17 percent of revenues are fixed
  - Approximately 75 percent of SWC obligations are fixed, yet ad valorem taxes on Burns-Porter bonds are only 7 percent of the SWC costs

# Benefits of Maintaining the Ad Valorem Tax Rate

- Metropolitan ensures a reliable supplemental water supply to a broad service area; the region and its substantial economy benefit from the availability of water
- Ad valorem taxes are a unique tool to ensure that the cost of Metropolitan's services are shared by all residences and businesses

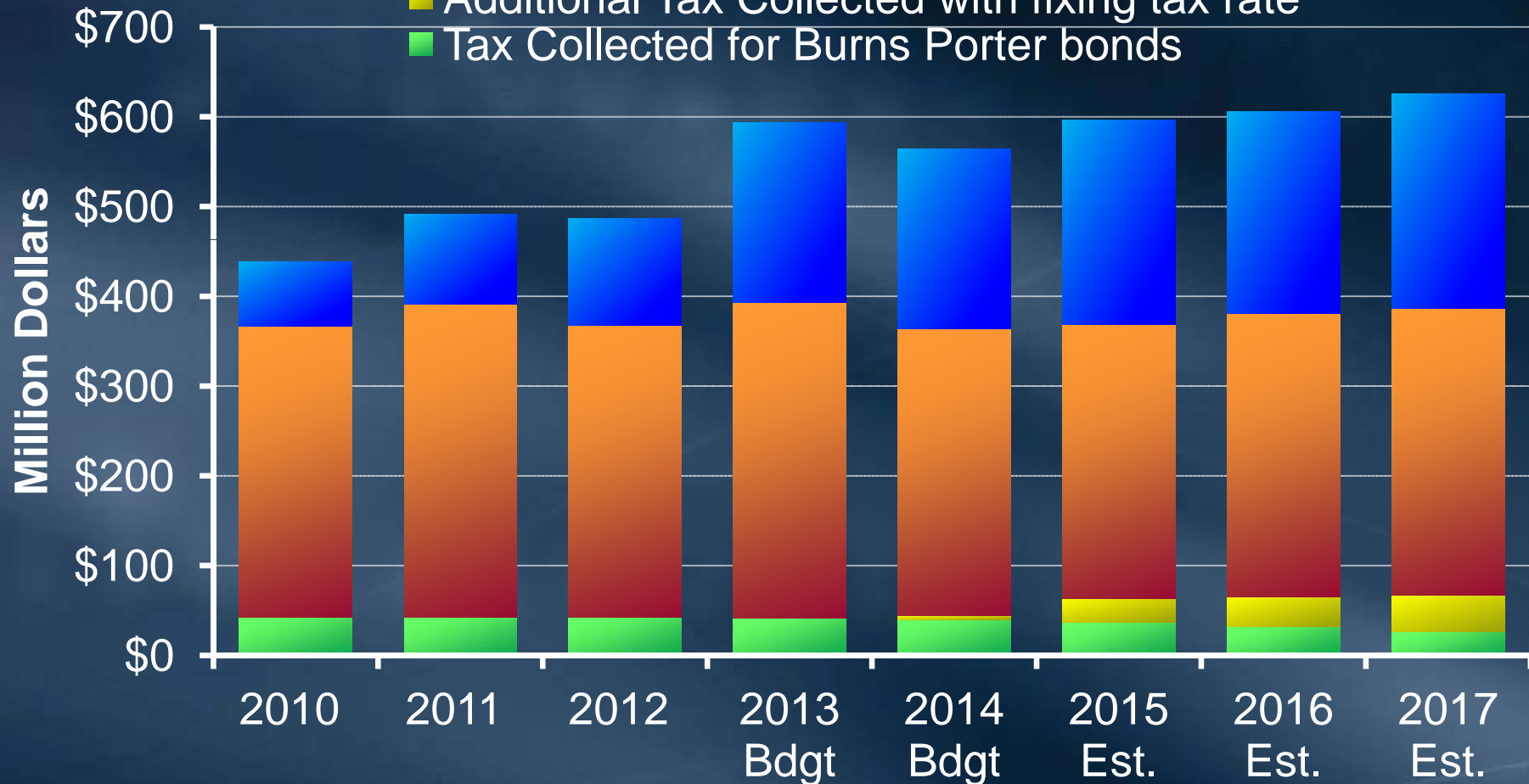
# Ad Valorem Tax Projection





# State Water Contract Costs

- Variable Power
- Remaining Fixed Costs
- Additional Tax Collected with fixing tax rate
- Tax Collected for Burns Porter bonds



Fiscal Year Ending

# Process

- May 13: F&I made recommendation to Board to set a Public Hearing to freeze the ad valorem tax rate restriction for FY 2013/14
- May 14: Board set the Public Hearing
- May 29: Notice to Legislature
- June 10: F&I to recommend Action
- June 11: Public Hearing

Board consideration of Resolution Finding that Maintaining the Ad Valorem Tax Rate for Fiscal Year 2013/14 is Essential to the Fiscal Integrity of the District

# Board Options

- Option #1
  - Adopt the CEQA determination
  - Adopt the Resolution Finding that Maintaining the Ad Valorem Tax Rate for Fiscal Year 2013/14 is Essential to the Fiscal Integrity of the District
- Option #2
  - Take no action

# Staff Recommendation

- Option #1 – Adopt CEQA determination and adopt the Resolution Finding that Maintaining the Ad Valorem Tax Rate for Fiscal Year 2013/14 is Essential to the Fiscal Integrity of the District

