



Adopt Resolution Establishing the Tax Rate for FY 2017/18

Finance and Insurance Committee
Item 8-1
August 14, 2017

Ad Valorem Tax Background

- MWD Act authorizes property taxes to pay obligations of the district
- Proposition 13 allows agencies to repay existing voter-approved indebtedness
- Metropolitan's share of SWC costs are within the exception for indebtedness
- Metropolitan's general obligation bonds are within the exception for indebtedness

MWD Act Section 124.5

- MWD Act Section 124.5, enacted in 1984, restricts ad valorem property taxes to recover:
 - Metropolitan's general obligation bonds debt service
 - A portion of its State Water Contract obligations, limited to the debt service on state general obligation bonds (Burns-Porter bonds) for facilities benefitting Metropolitan
- Board may suspend restriction pursuant to providing notice to the Legislature, a public hearing, and a finding that doing so is "essential to the fiscal integrity of the district"
- Board suspended the restriction for FYs 2013/14, 2014/15, 2015/16 and most recently for FYs 2016/17 and 2017/18

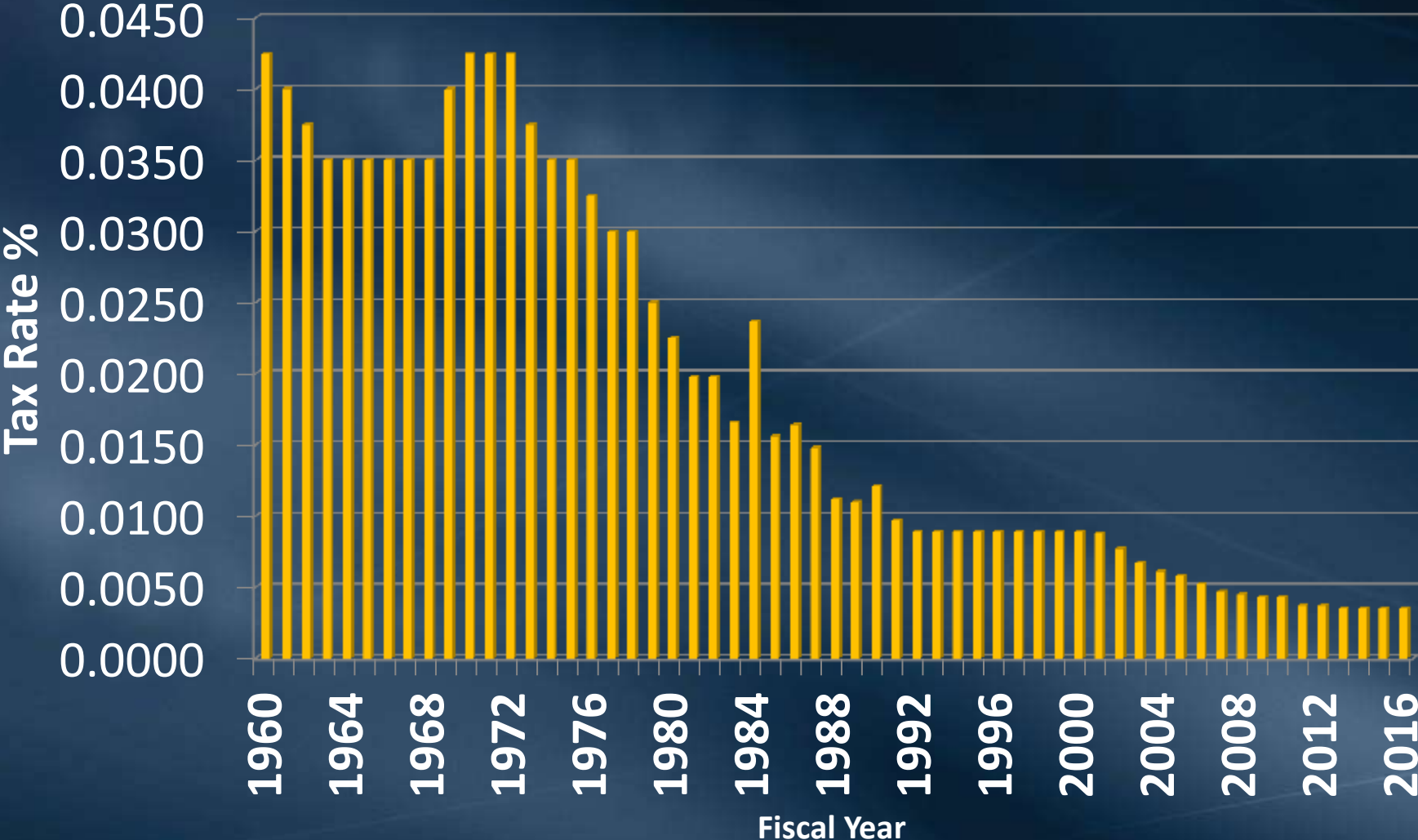
Process

- February 2016: Noticed Legislature
- March 2016: Public Hearing
- April 2016: Board adopted the resolution suspending Section 124.5 for FY 2016/17 and 2017/18
- August 2016: Board established the tax rate for FY 2016/17
- August 2017: Establish the tax rate for FY 2017/18

Current Ad Valorem Tax Rate

- .0035% of assessed valuations
- A single-family residence in Metropolitan's service area assessed at \$400,000 currently pays about \$14 per year in ad valorem taxes towards Metropolitan's costs
- Proposal to maintain the rate
 - Biennial budget and water rates and charges adopted in April 2016 for FY 2016/17 and FY 2017/18 are based on continuation of existing tax rate

Historical Property Tax Rate



Maintaining the Ad Valorem Tax Rate

- Fundamental to fiscal health are mechanisms for funding immediate and anticipated SWC obligations that are balanced
- SWC obligations have steadily increased and are expected to continue to increase
 - ~35 percent of budgeted expenditures; the single largest cost category
- Ad valorem taxes help ensure a fair and appropriate balance between fixed costs and fixed revenues
 - ~80 percent of Metropolitan's costs are fixed, yet only 16 percent of revenues are fixed
 - ~70 to 80 percent of SWC obligations are fixed, yet ad valorem taxes on Burns-Porter bonds are only 4 percent of the SWC costs

Maintaining the Ad Valorem Tax Rate

- Metropolitan provides 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 ensure:
 - The cost of Metropolitan's services are shared by all property-owning residences and businesses
 - The diversity of fixed revenues is maintained, which supports strong credit ratings
 - The diversity of fixed versus volumetric revenues preserves equity across member agencies
 - The use of property taxes, rates, and charges are balanced and promote long-term fiscal health
 - A critical fixed source of revenue is maintained when alternatives are unavailable or impractical

Board Options

- Option #1
 - Adopt the CEQA determination
 - Adopt the Resolution Levying Ad Valorem Property Taxes for the Fiscal Year Commencing July 1, 2017 and Ending June 30, 2018, maintaining the tax rate of .0035% of assessed valuation (exclusive of annexation levies), the same rate levied in FY 2015/16
 - Direct staff to transmit that resolution to the county auditors

Board Options (continued)

- Option #2
 - Adopt the CEQA determination
 - Adopt the Resolution Levying Ad Valorem Property Taxes for the Fiscal Year Commencing July 1, 2017 and Ending June 30, 2018 at a different rate (exclusive of annexation levies)
 - And direct staff to set a process to revisit the FY 2017/18 portion of the current biennial budget, and the water rates and charges for CYs 2017 and 2018, which were adopted based on an assumption that the existing .0035% ad valorem property tax rate would continue
 - Direct staff to transmit that resolution to the county auditors

Staff Recommendation

- Option #1
 - Adopt CEQA determination, and
 - Adopt the Resolution Levying Ad Valorem Property Taxes for the Fiscal Year Commencing July 1, 2017 and Ending June 30, 2018, maintaining the tax rate of .0035% of assessed valuation (exclusive of annexation levies), the same rate levied in FY 2015/16
 - Direct staff to transmit that resolution to the county auditors

