

Public Hearing: Ad Valorem Tax Public Hearing: Proposed Water Rates and Charges, Calendar Years 2019 and 2020

**Board of Directors
March 13, 2018**



Ad Valorem Tax

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 bond 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, 2016/17 and 2017/18

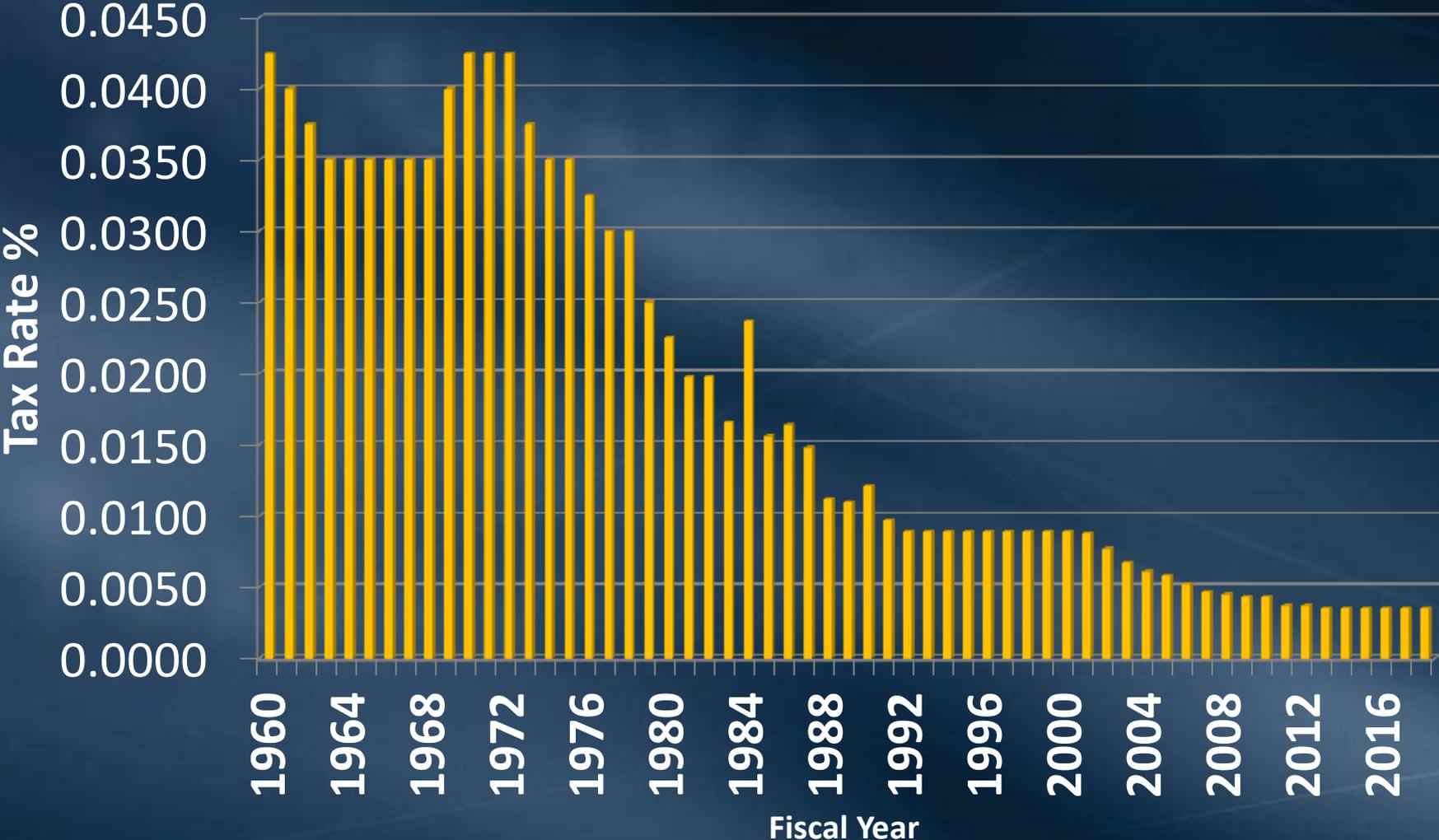
Process

- February 2018: Noticed Legislature
- March 2018: Public Hearing
- April 2018: Board adopts resolution suspending Section 124.5 for FY 2018/19 and 2019/20
- August 2018: Board establishes the tax rates for FY 2018/19
- August 2019: Board establishes the tax rates for FY 2019/20

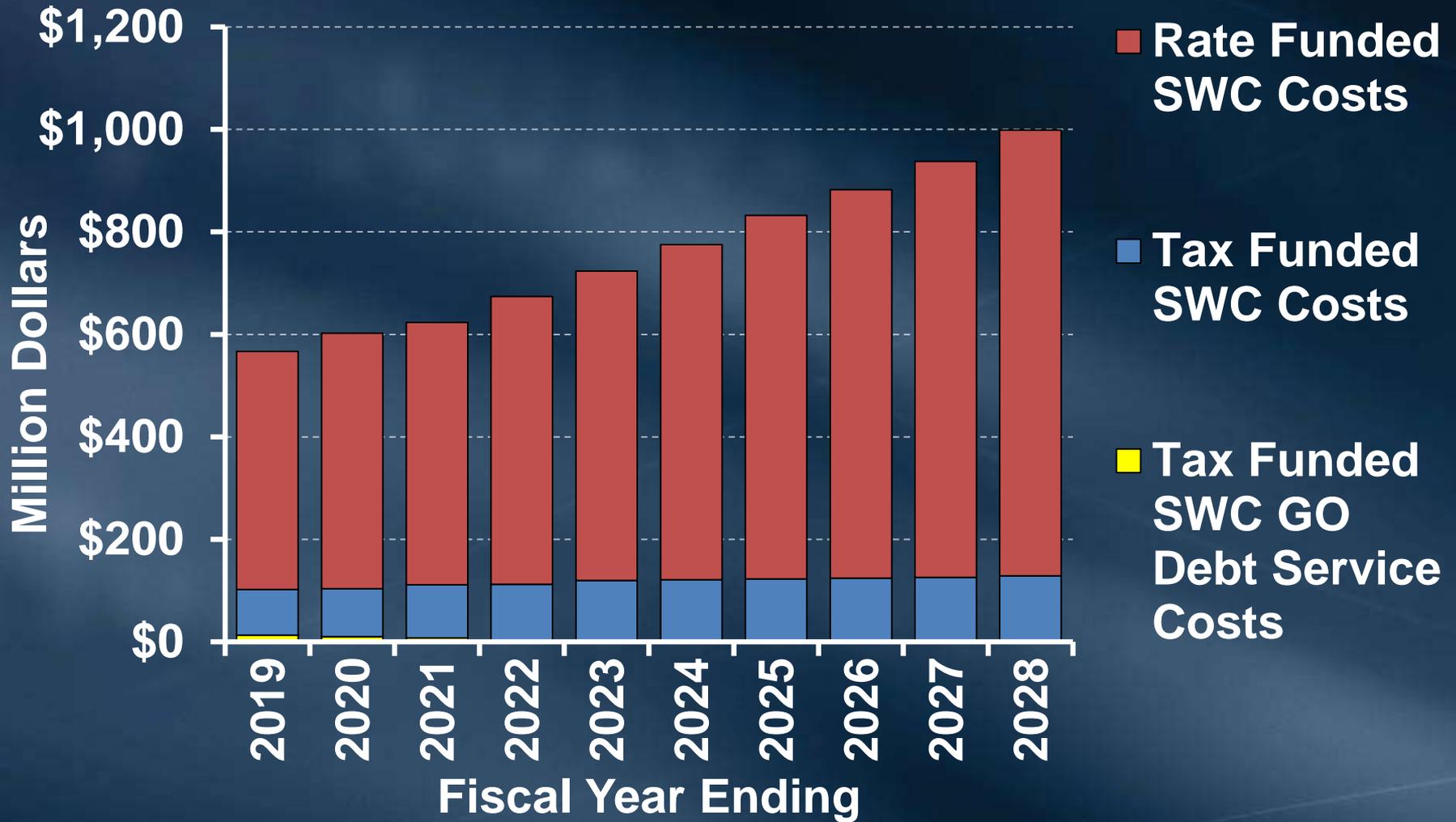
Current Ad Valorem Tax Rate

- .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
 - Proposed biennial budget and water rates and charges for FYs 2018/19 and 2019/20 are based on continuation of the existing tax rate

Historical Property Tax Rate



State Water Contract Costs



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
 - ~33 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 2 percent of the SWC costs

Maintaining the Ad Valorem Tax Rate

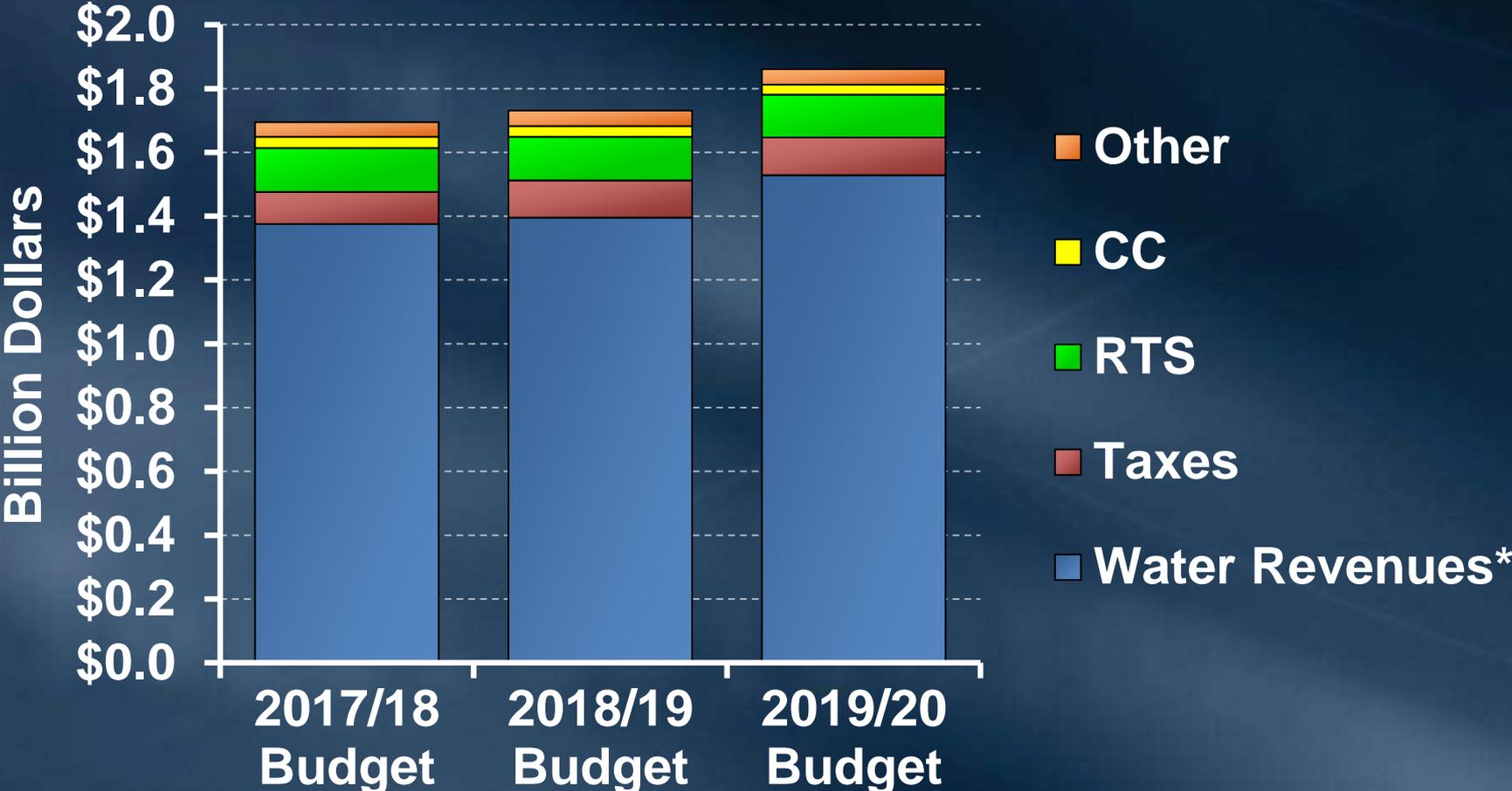
- Metropolitan provides a reliable supplemental water supply to a broad service area; the region and its substantial economy benefit from the availability of water
- Ad valorem taxes ensure:
 - The cost of Metropolitan's services are shared by all property-owning residences and businesses
 - The diversity of fixed revenues is maintained, which supports strong credit ratings
 - The diversity of fixed versus volumetric revenues preserves equity across member agencies
 - The balance 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

Proposed Water Rates and Charges

Process

- Notice to Member Agencies, January 23, 2018
- Information Board Letter February 1, 2018
- Workshop #1, February 12, 2018
- Workshop #2, February 27, 2018
- Workshop #3, March 12, 2018
- Receive input at Public Hearing on March 13, 2018
- Workshop #4, March 27, 2018, if needed
- April 9, 2018: Recommendation by F&I Committee, and Workshop #5, if needed
- April 10, 2018: Board Action

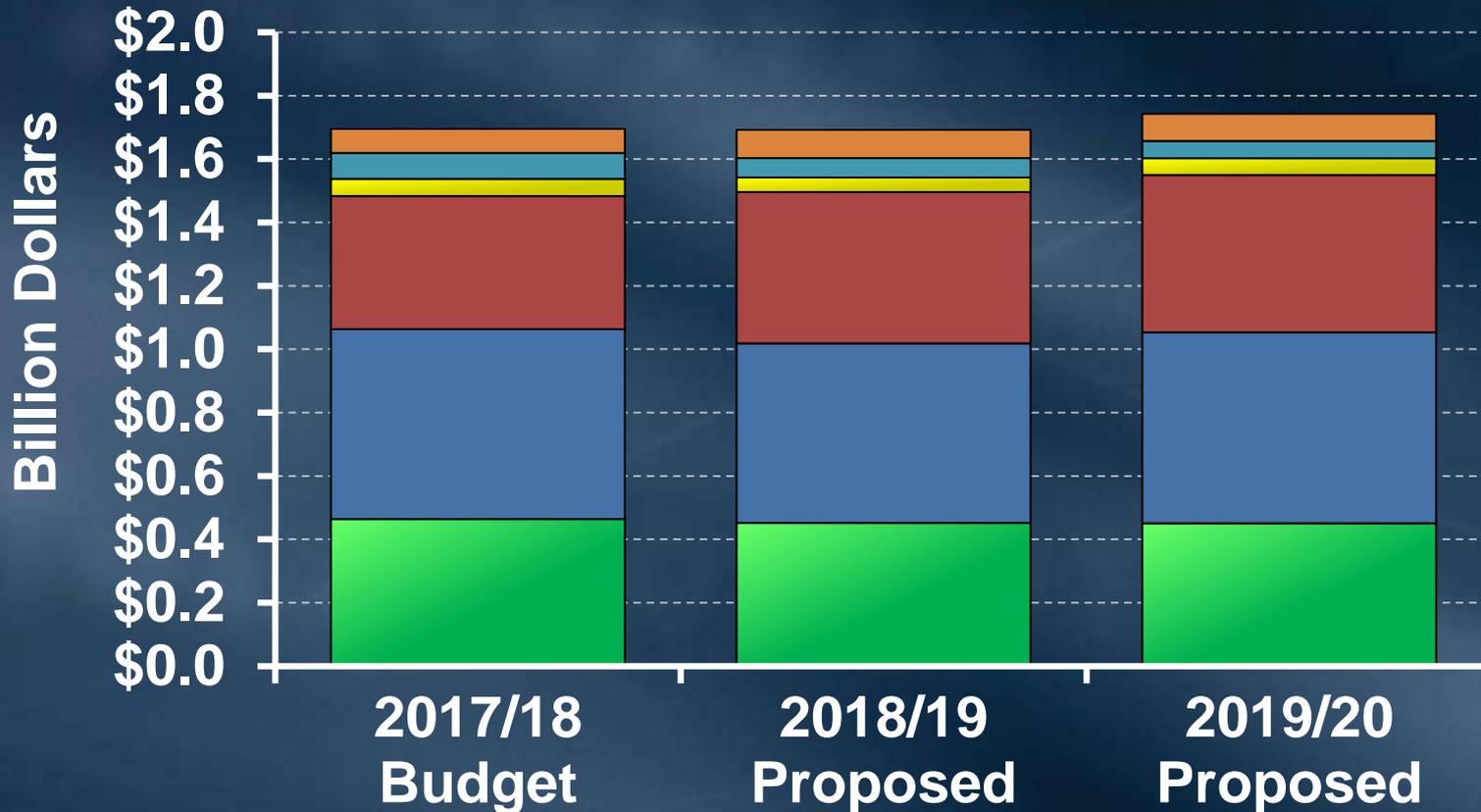
Revenue Trend



* Includes water sales, exchanges and wheeling

Expenditure Trend

- Demand Management
- Colorado River Power
- State Water Contract
- Supply Programs
- O&M
- Capital Financing

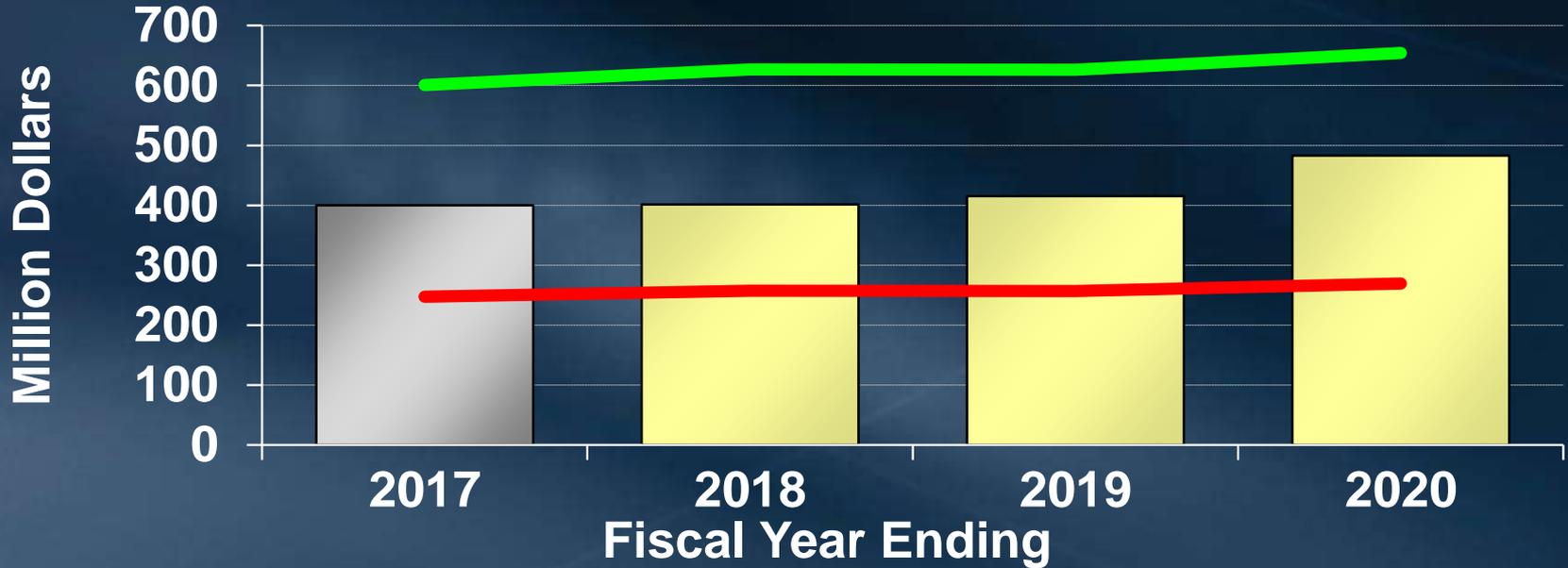


Summary of Financial Policies

- Maintain AAA/AA+/Aa1 ratings
- Achieve/Maintain coverage ratios
 - Debt service coverage = 2.0
 - Fixed charge coverage = 1.2
- PAYGO funding
 - 60 percent per year
 - Integral to maintaining coverage targets
 - Provides financial flexibility

Projected Rate Increases & Financial Metrics

■ Unrestricted Reserve* — Target Reserve — Minimum Reserve



Overall Rate Inc.	4.0%	4.0%	3.0%	3.0%
Water Transactions (MAF)**	1.54	1.55	1.65	1.75
Rev. Bond Cvg	1.6	1.5	1.6	1.9
Fixed Chg Cvg	1.4	1.4	1.5	1.7
PAYGO, \$M	132	108	120	120

* Revenue Remainder and Water Rate Stabilization Fund

** Includes water sales, exchanges and wheeling.

Proposed Full Service Costs and Charges

Rate Type	2018 Approved	2019 Proposed	% Increase (Decrease)	2020 Proposed	% Increase (Decrease)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$695	\$731	5.2%	\$755	3.3%
Tier 2	\$781	\$817	4.6%	\$842	3.1%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$1,015	\$1,050	3.4%	\$1,078	2.7%
Tier 2	\$1,101	\$1,136	3.2%	\$1,165	2.6%
RTS Charge (\$M)	\$140	\$133	(5.0%)	\$136	2.3%
Capacity Charge (\$M)	\$37	\$31	(15.7%)	\$32	2.3%

Rates and Charges Effective January 1st

Full Service Cost means the Full Service Rate, consisting of the following rate components: the applicable Supply Rate, the System Access Rate, the System Power Rate, the Water Stewardship Rate, and if applicable the Treatment Surcharge for treated water service.



Estimated Overall Rate Impacts By Service Type, CY 2019

