



# Adopt Resolution Establishing the Tax Rate for FY 2019/20

Finance & Insurance Committee  
Item 8-1  
August 19, 2019

# Ad Valorem Tax Background

- Metropolitan Water District (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 State Water Contract (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, limits 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
- The Section 124.5 limitation does not apply if the Board makes the required determination following a noticed public hearing, with separate notice to the Legislature
- Board has suspended the limitation for FYs 2013/14 through FY 2019/20

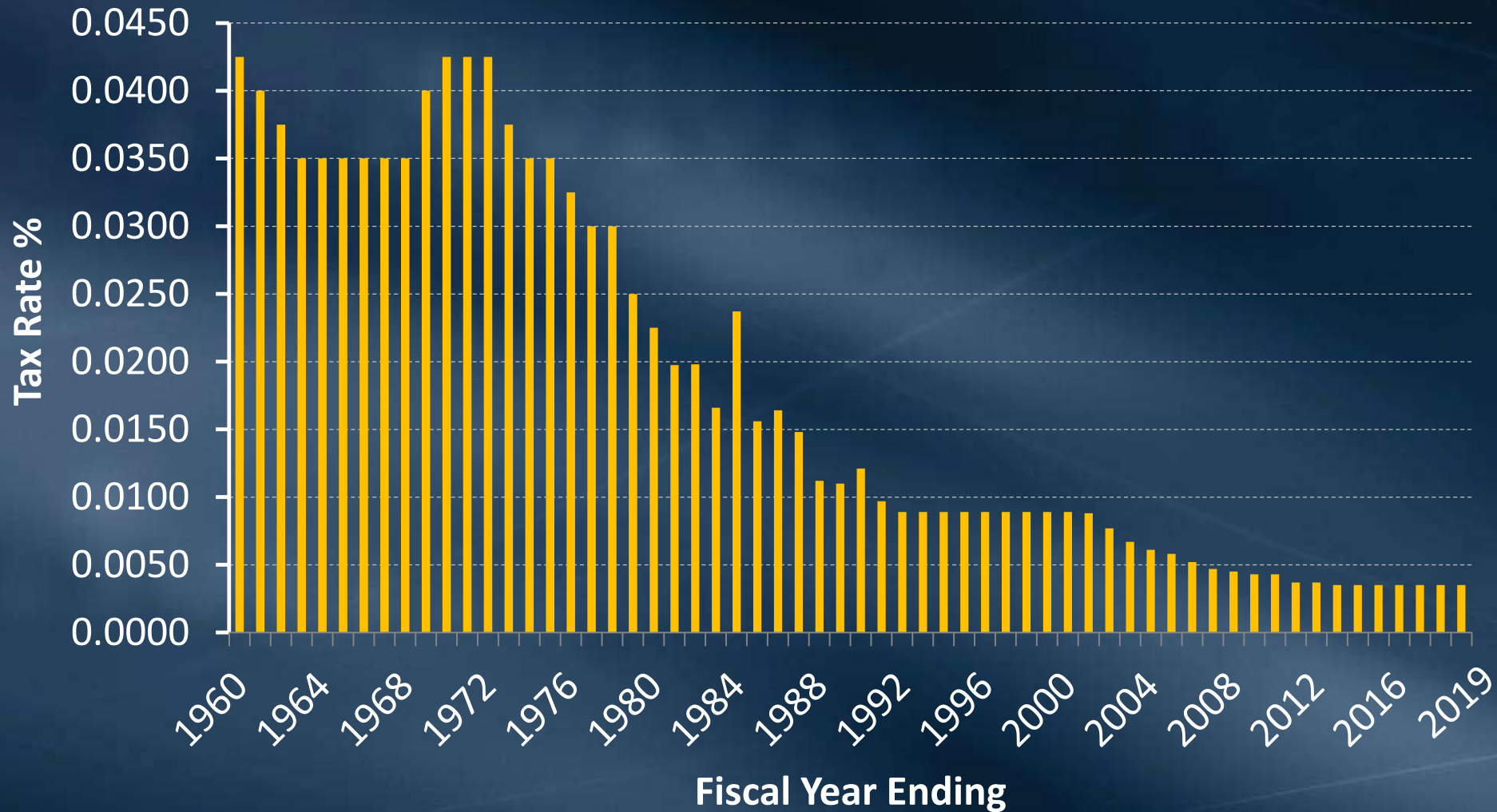
# Process

- February 2018: Noticed Legislature
- March 2018: Public Hearing
- April 2018: Board adopted the resolution suspending Section 124.5 for FYs 2018/19 and 2019/20
- August 2018: Board established the tax rate for FY 2018/19
- August 2019: Establish the tax rate for FY 2019/20

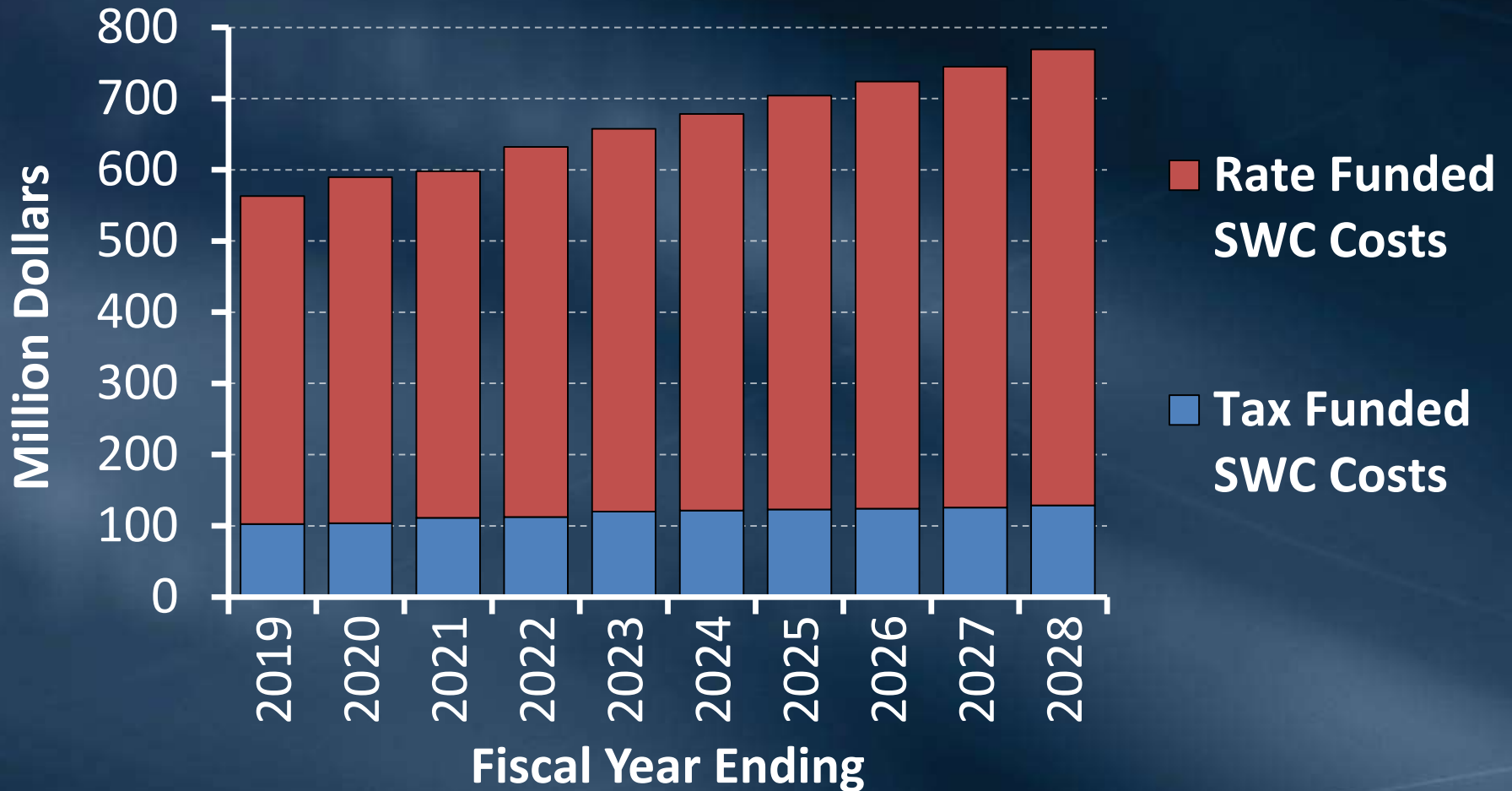
# Current Ad Valorem Tax Rate

- .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
  - Biennial budget for FYs 2018/19 and 2019/20, water rates for CYs 2019 and 2020, and charges for CYs 2019 and 2020, adopted in April 2018 and April 2019, respectively, are based on continuation of existing tax rate

# Historical Property Tax Rate



# State Water Contract Costs\*



\*without costs for California WaterFix in the 10-year forecast

# Maintaining the Ad Valorem Tax Rate

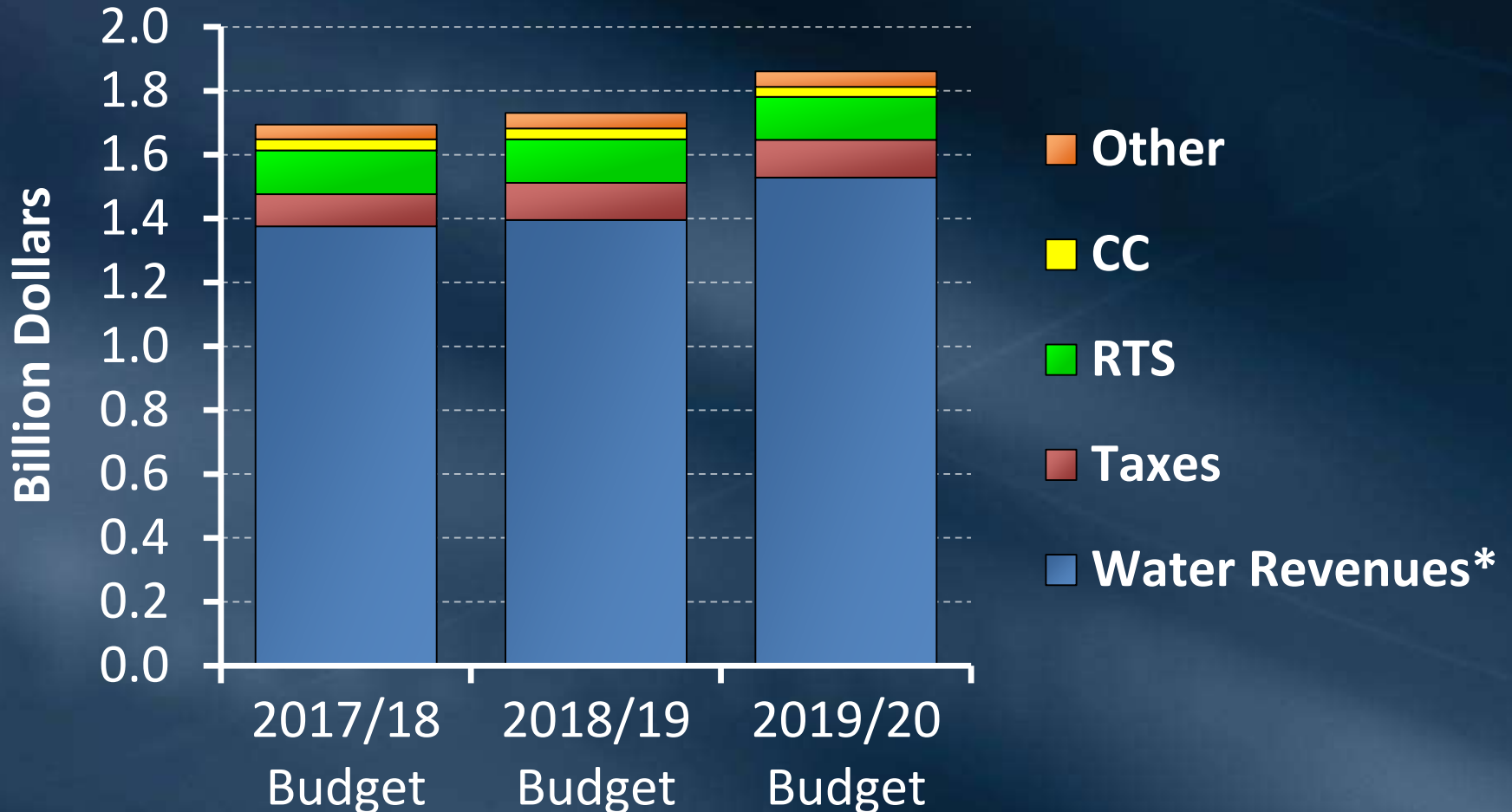
- Fundamental to fiscal health are mechanisms for funding immediate and anticipated SWC obligations that are balanced
- SWC obligations have steadily increased and are expected to continue to increase
  - ~34 percent of budgeted expenditures; the single largest cost category
- Ad valorem taxes help ensure a fair and appropriate balance between fixed costs and fixed revenues
  - ~80 percent of Metropolitan's costs are fixed, yet only 15 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 alternative new collections from properties are unavailable or impractical

# Revenue Trend



\* Includes water sales, exchanges and wheeling

# Board Options

- Option #1
  - Adopt Attachment 1, Resolution Levying Ad Valorem Property Taxes for the Fiscal Year Commencing July 1, 2019 and Ending June 30, 2020, maintaining the tax rate of .0035% of assessed valuation (exclusive of annexation levies), the same rate levied in FY 2017/18
  - Direct staff to transmit that resolution to the county auditors

# Board Options *(continued)*

- Option #2

- Adopt Attachment 2, Resolution Levying Ad Valorem Property Taxes for the Fiscal Year Commencing July 1, 2019 and Ending June 30, 2020 at a different rate (exclusive of annexation levies)
- And direct staff to set a process to revisit the FY 2020 portion of the current biennial budget and the water rates and charge for CY 2020, 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 Attachment 1, Resolution Levying Ad Valorem Property Taxes for the Fiscal Year Commencing July 1, 2019 and Ending June 30, 2020, maintaining the tax rate of .0035% of assessed valuation (exclusive of annexation levies), the same rate levied in FY 2017/18
  - Direct staff to transmit that resolution to the county auditors

