

Public Hearing: Ad Valorem Tax and Proposed Water Rates and Charges, Calendar Years 2017 and 2018

**Board of Directors
March 8, 2016**



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
- Metropolitan ensures reliable supplemental water supply to a broad service area
- 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 Limit (MWD 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

Suspension of Ad Valorem Tax Limit

- May 2013: Noticed Legislature
- June 2013: Public Hearing; Board suspended Section 124.5 for FY 2013/14
- August 2013: Tax rate for FY 2013/14 established
- March 2014: Noticed Legislature and held Public Hearing
- August 2014: Board continued suspension of Section 124.5 and established the tax rate for FY 2014/15
- July 2015: Noticed Legislature
- August 2015: Public Hearing; Board continued suspension of Section 124.5 and establish the tax rate for FY 2015/16
- February 2016: Noticed Legislature

Proposed Suspension of Tax Limit for FY 2016/17 and 2017/18

- Notice provided to Legislature on February 22, 2016
- Receive input at Public Hearing on March 8, 2016
- Resolution to continue suspension of Section 124.5 in April 2016
- Ad valorem tax rate is set in August 2016
- If tax rate not maintained, then increase to water rates and charges would need to be 3 percent higher in each fiscal year

Maintaining the Ad Valorem Tax Rate is Essential to Fiscal Integrity

- 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
 - Absent freeze, taxes will continue to decrease
- 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 less than 5 percent of the SWC costs

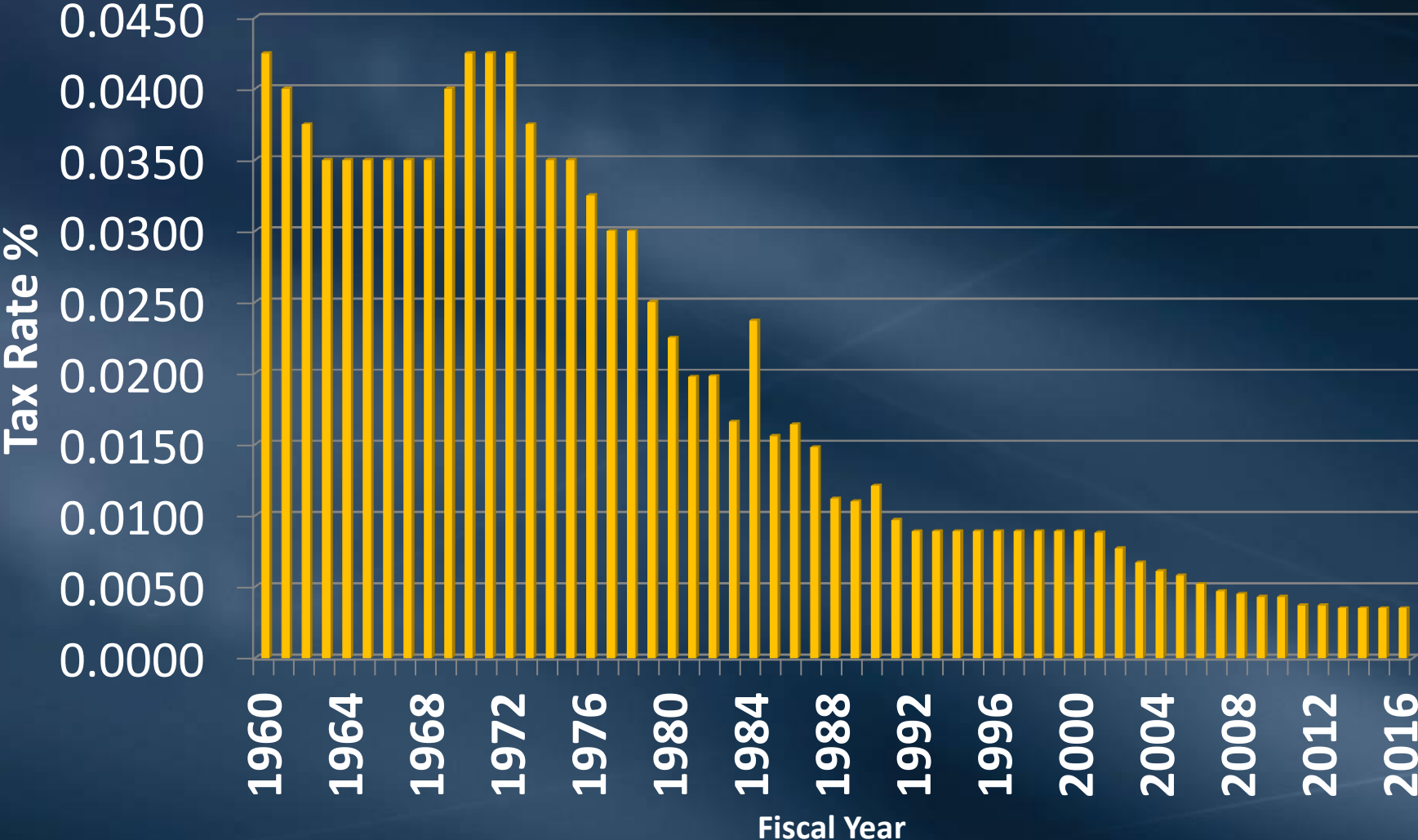
Maintaining the Ad Valorem Tax Rate is Essential to Fiscal Integrity

- 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

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
 - Helps mitigate future rate increases and provides flexibility for funding other needs

Historical Property Tax Rate



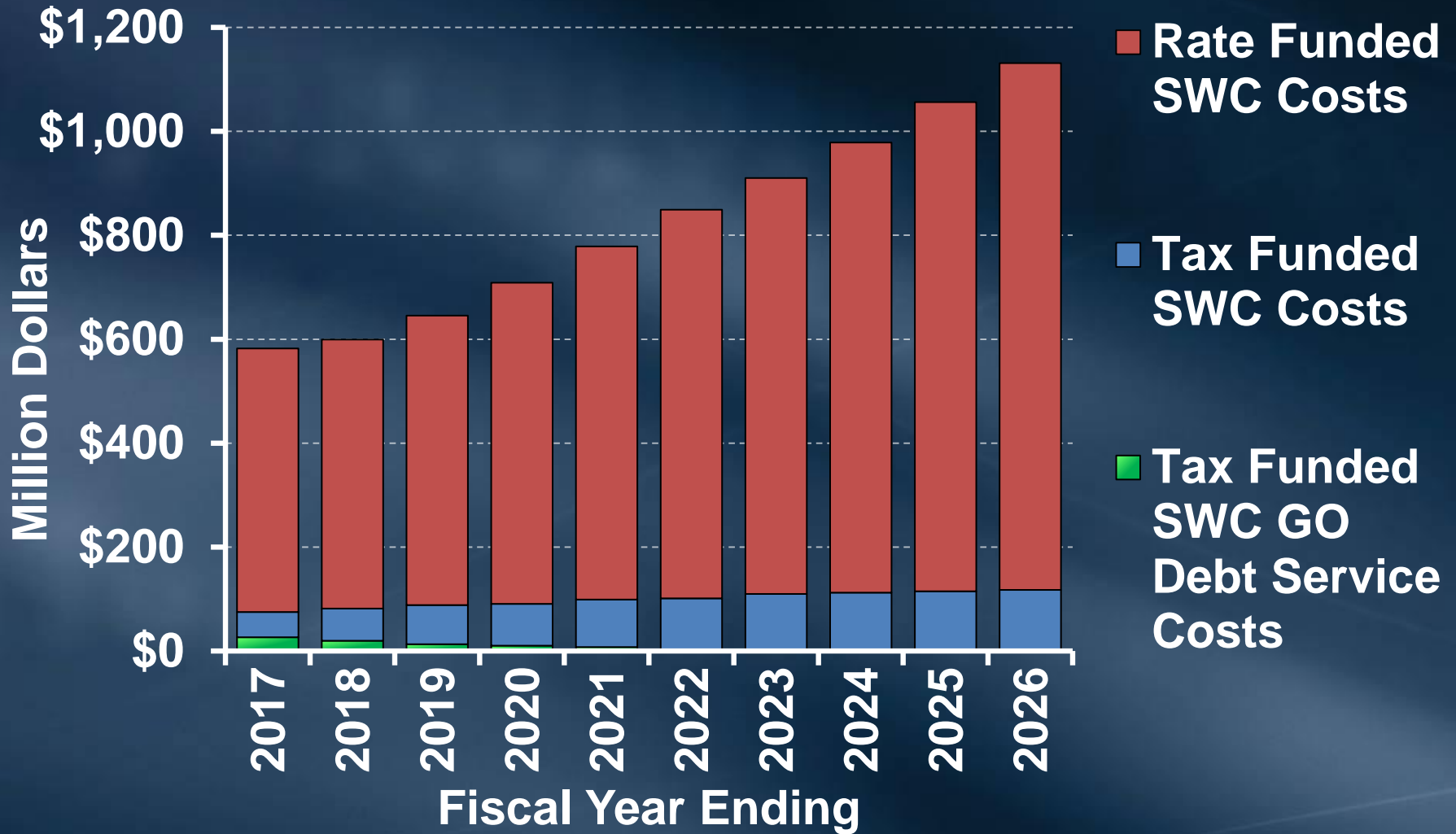
Tax Collected

■ Tax collected to fund SWC costs

■ Tax collected for GO and Burns Porter bonds



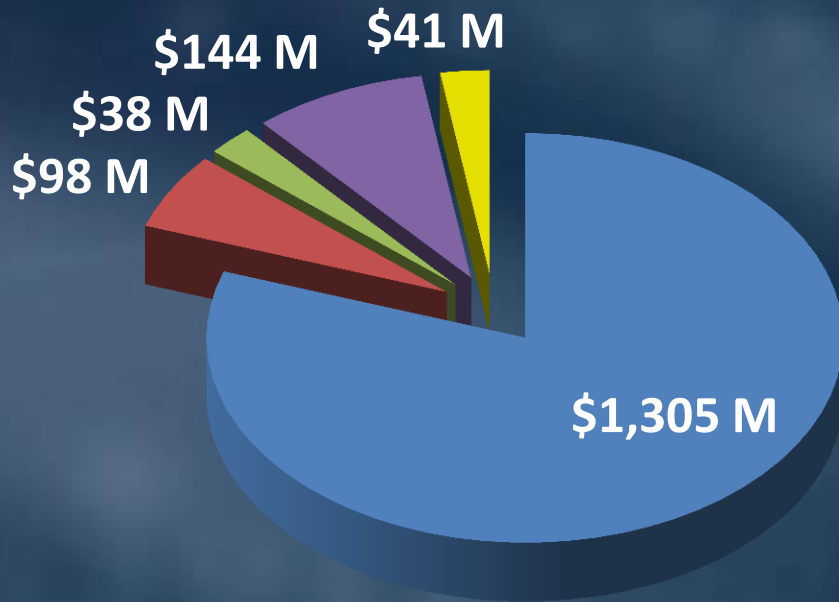
State Water Contract Costs



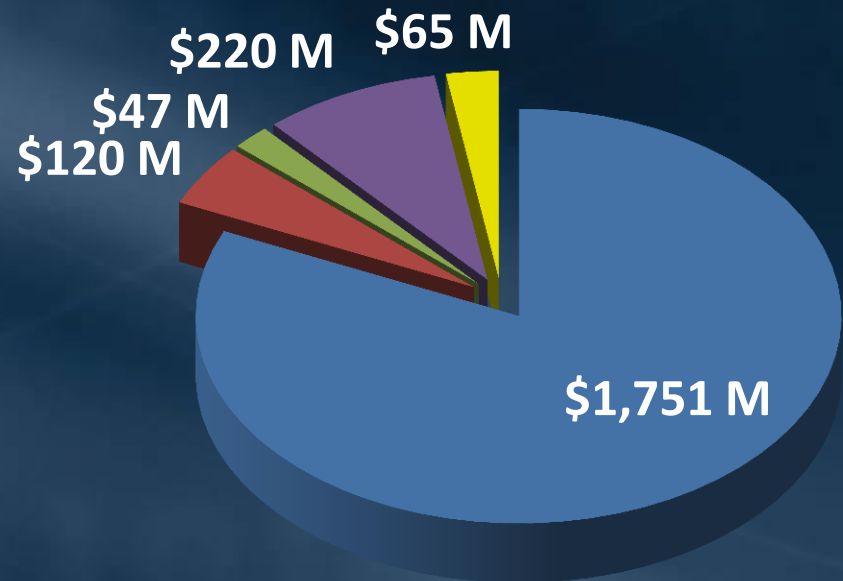
Revenue Trend

Long Range Financial Plan

FY 2016/17 - \$1,626 M



FY 2025/26 - \$2,469 M



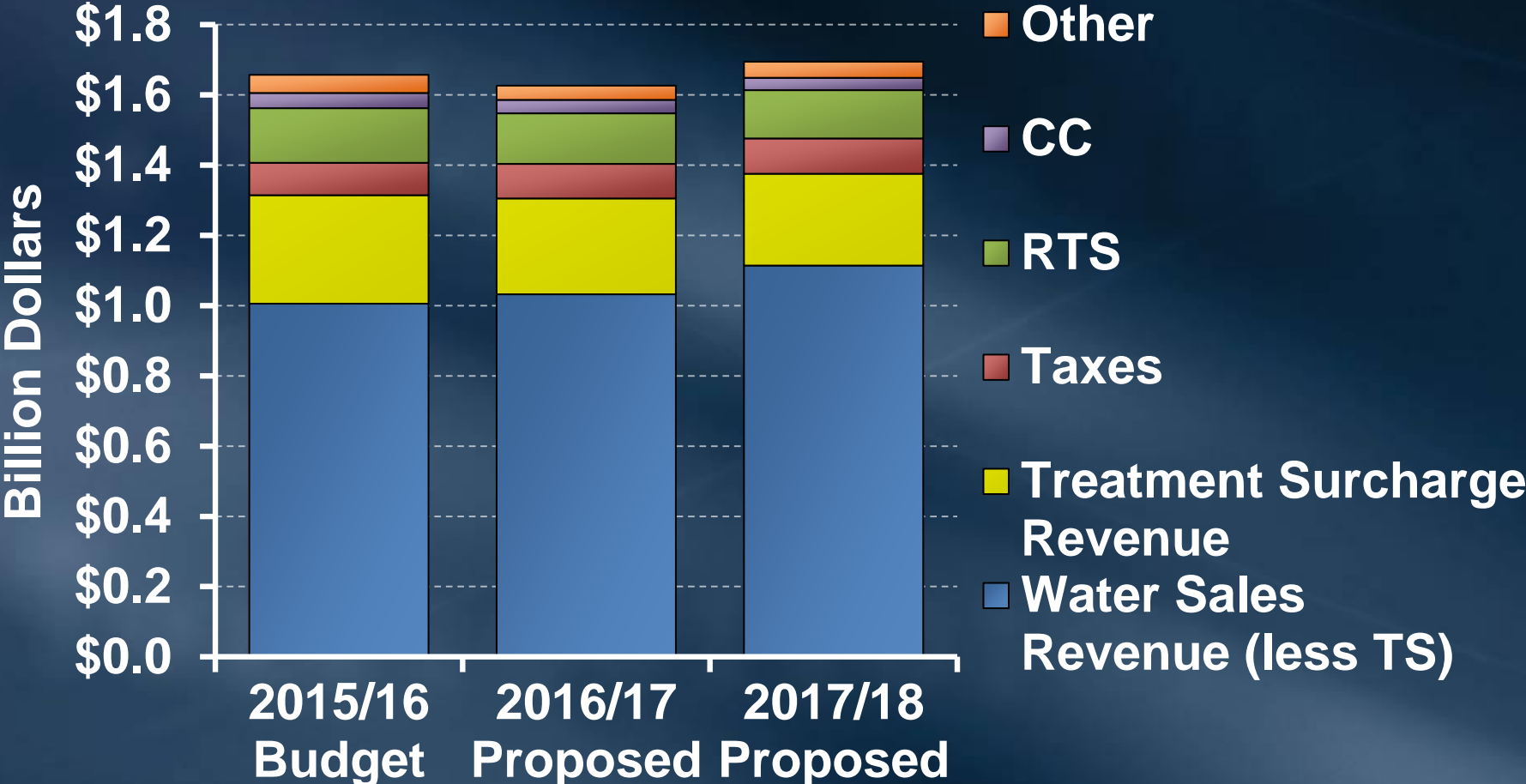
■ Water Sales ■ Taxes ■ CC ■ RTS ■ Other

Proposed Water Rates and Charges

Process

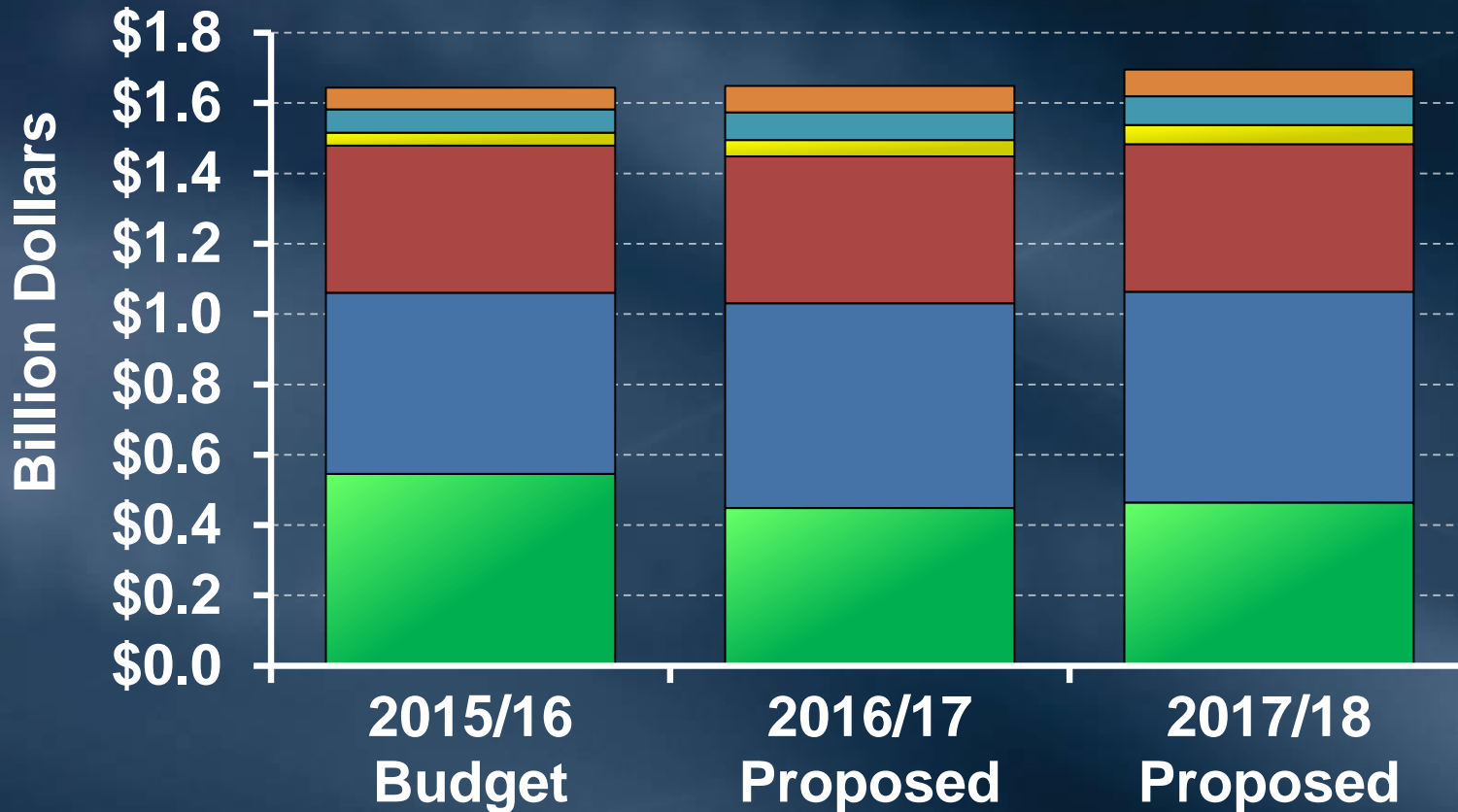
- Information Board Letter February 2016
- Workshop #1, February 8, 2016
- Workshop #2, February 23, 2016
- Workshop #3, March 7, 2016
- Receive input at Public Hearing on March 8, 2016
- Workshop #4, March 22, 2016
- April 11, 2016: Recommendation by F&I Committee, and Workshop #5, if needed
- April 12, 2016: Board Action

Revenue Trend



Expenditure Trend

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

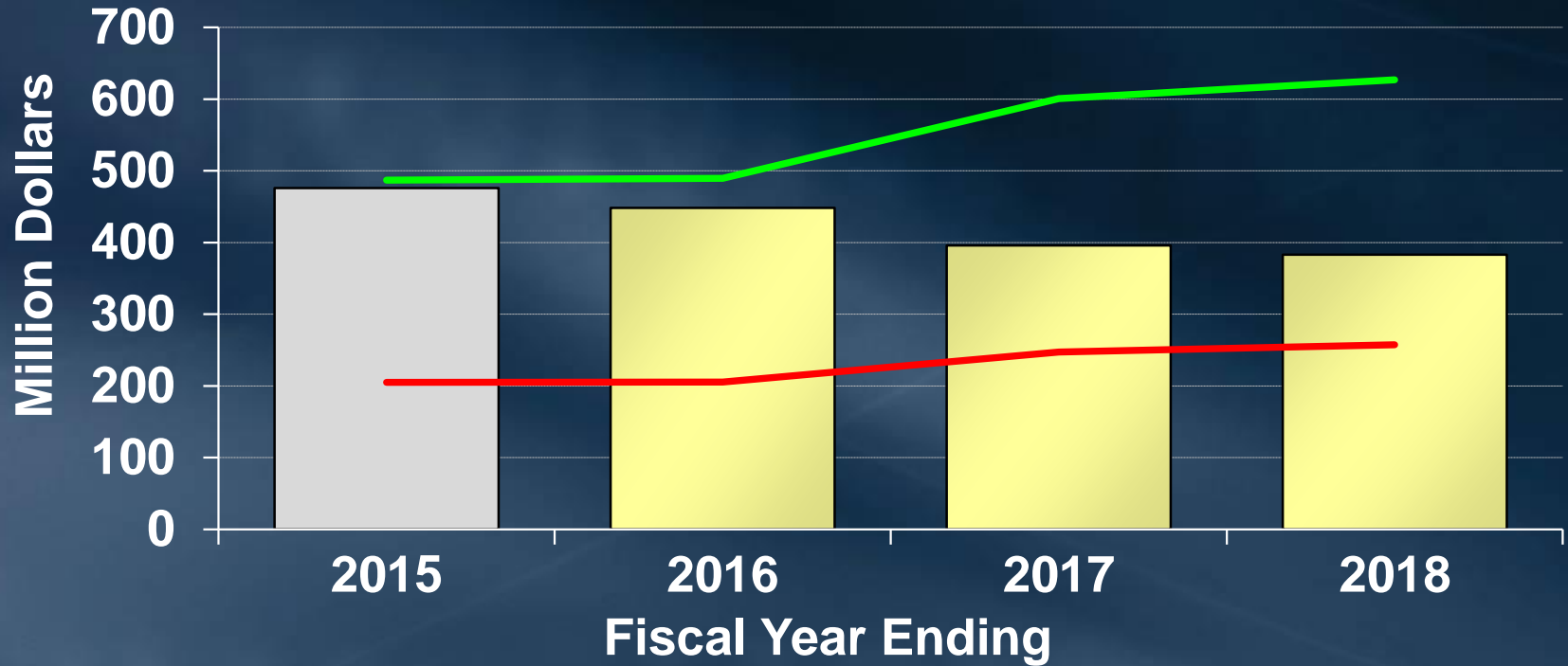


Summary of Financial Policies

- 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.	1.5%	1.5%	4.0%	4.0%
Sales, MAF	1.90	1.63	1.70	1.70
Rev. Bond Cvg	2.7	1.5	1.6	1.6
Fixed Chg Cvg	2.4	1.3	1.3	1.3
PAYGO, \$M	210	99	120	120

Proposed Rate Elements

Rates and Charges Effective January 1			
	2016 Approved	2017 Proposed	2018 Proposed
Tier 1 Supply Rate (\$/AF)	\$156	\$201	\$209
Tier 2 Supply Rate (\$/AF)	\$290	\$295	\$295
System Access Rate (\$/AF)	\$259	\$289	\$299
Water Stewardship Rate (\$/AF)	\$41	\$52	\$55
System Power Rate (\$/AF)	\$138	\$124	\$132
Treatment Surcharge (\$/AF)*	\$348	\$313	\$320
Readiness-to-Serve Charge (\$M)	\$153	\$135	\$140
Capacity Charge (\$M revenues)	\$43	\$34	\$37

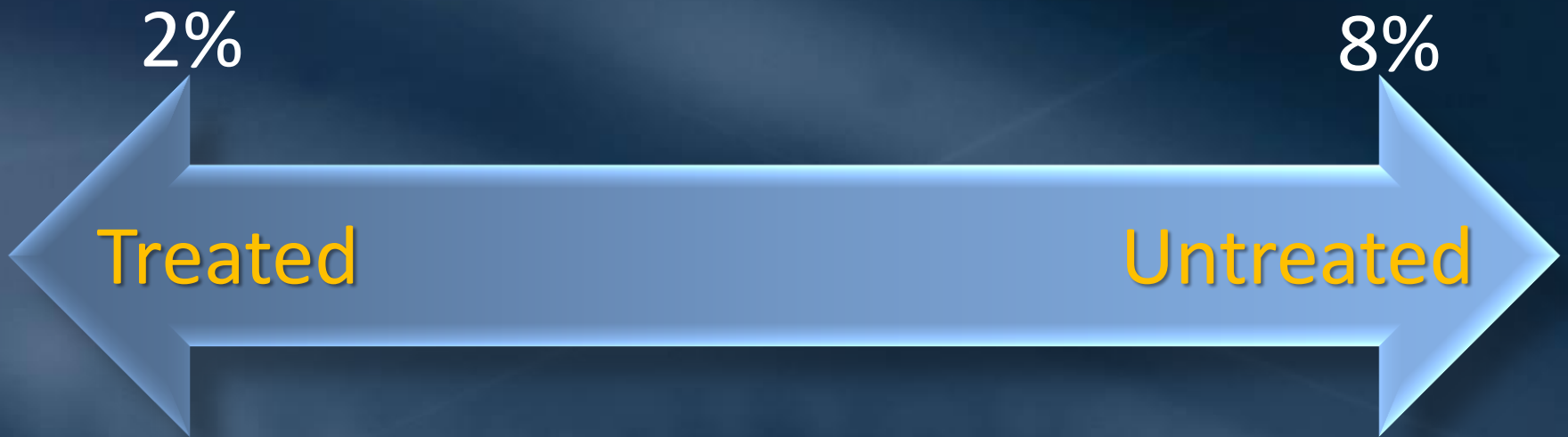
*A proposal was presented to the Board for consideration to address fixed cost recovery of Treatment costs which are currently only recovered through a volumetric rate.

Proposed Full Service Costs and Charges

Rate Type	2016 Approved	2017 Estimated	% Increase (Decrease)	2018 Estimated	% Increase (Decrease)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$594	\$666	12.1%	\$695	4.4%
Tier 2	\$728	\$760	4.4%	\$781	2.8%
Treatment Surcharge*	\$348	\$313	(10.1%)	\$320	2.2%
Full Service Treated Volumetric Cost (\$/AF)*					
Tier 1	\$942	\$979	3.9%	\$1,015	3.7%
Tier 2	\$1,076	\$1,073	(0.3%)	\$1,101	2.6%
RTS Charge (\$M)	\$153	\$135	(11.8%)	\$140	3.7%
Capacity Charge (\$M)	\$43	\$34	(21.5%)	\$37	8.8%

*A proposal was presented to the Board for consideration to address fixed cost recovery of Treatment costs which are currently only recovered through a volumetric rate.

Estimated Overall Rate Impacts By Member Agency, CY 2017



Proposed Fixed Treatment Charge

- Based on Cost of Service analysis
- Proposed 100% volumetric rates are \$313/AF effective January 1, 2017 and \$320/AF effective January 1, 2018
- Proposed fixed/variable option recovers sum of Treatment Demand and Standby costs through a fixed charge
 - ~38 percent of Treatment Revenue Requirements recovered through a fixed charge
 - Remaining costs recovered through a volumetric rate of approximately \$195/AF effective January 1, 2017 and \$197/AF effective January 1, 2018
- Total treatment revenue requirement recovered under either current 100% variable methodology or proposed fixed/variable option



Overall Rate Increases Since 2007

