

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

**Board of Directors
March 8, 2016**



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Ad Valorem Tax Limit

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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

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Fiscal Integrity:

Not defined by the Legislature in SB 1445

Legislative history and plain language suggest finding based on:

Suspension is reasonably necessary to preserve Metropolitan's overall financial health

Additional revenue is reasonably necessary to meet State Water Contract obligations

Suspension would strike a better balance between fixed and variable revenues

Other factors as determined by the Board

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 in 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

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.0035%:

.0006% to recover cost of Metropolitan's General Obligation bonds

.0029% to recover cost of SWP Burns-Porter Bonds + other SWP costs

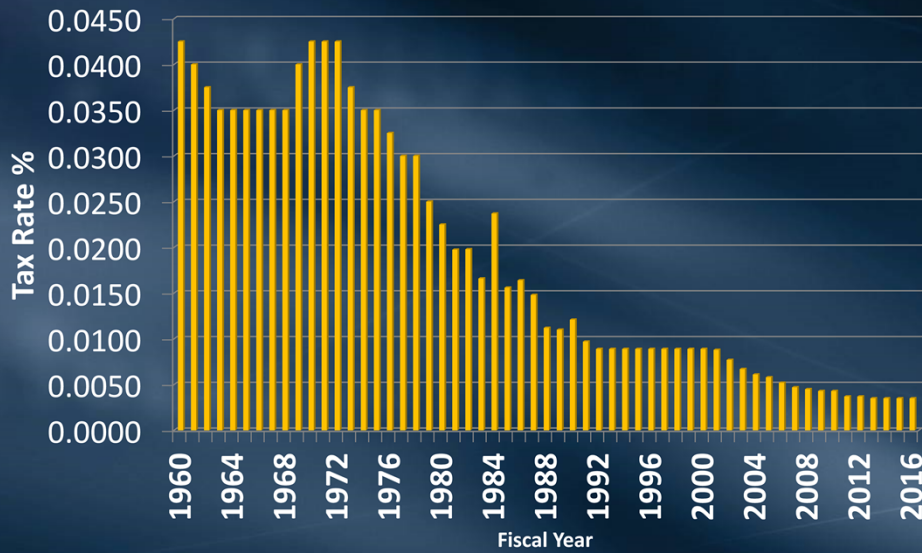
FY 2016/17 SWP costs budgeted to be \$582M

- Current SWP Burns-Porter bonds \$26.5M
- Fixing adds \$48.6M additional to pay SWP costs

FY 207/18 SWP costs budgeted to be \$599M

- SWP BP bonds \$20.0M
 - Fixing adds \$62M additional to pay SWP costs
- Plenty of SWP cost to absorb additional revenue

Historical Property Tax Rate



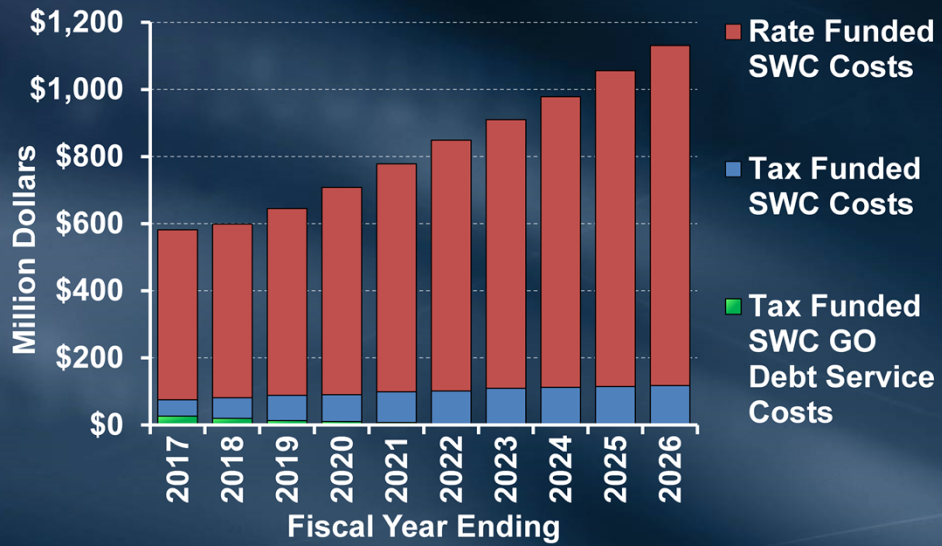
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FY	Assessed valuations		MWD GO dbt serv	SWP series A-Y Debt service	status quo projected tax limit
	secured	unsecured			
2015	2,314,948,470,714	90,119,305,008	23,162,001	36,505,276	59,667,277
2016	2,372,822,182,482	92,372,287,634	\$ 22,476,538	31,961,368	54,437,906
2017	2,432,142,737,044	94,681,594,825	22,423,700	26,481,200	48,904,900
2018	2,492,946,305,470	97,048,634,695	17,978,075	19,734,311	37,712,386
2019	2,555,269,963,107	99,474,850,563	13,514,175	13,081,325	26,595,500
2020	2,619,151,712,184	101,961,721,827	13,494,425	10,287,780	23,782,205
2021	2,684,630,504,989	104,510,764,872	7,534,425	7,554,898	15,089,323
2022	2,751,746,267,614	107,123,533,994	8,519,925	3,007,666	11,527,591
2023	2,820,539,924,304	109,801,622,344	2,487,175	564,249	3,051,424
2024	2,891,053,422,412	112,546,662,903	2,488,925	36,010	2,524,935
2025	2,963,329,757,972	115,360,329,475	2,487,675	21,052	2,508,727
2026	3,037,413,001,921	118,244,337,712	2,488,425	-	2,488,425
2027	3,113,348,326,969	121,200,446,155	2,485,925	-	2,485,925
2028	3,191,182,035,144	124,230,457,309	2,485,175	-	2,485,175
2029	3,270,961,586,022	127,336,218,741	2,635,925	-	2,635,925
2030	3,352,735,625,673	130,519,624,210	2,630,425	-	2,630,425
2031	3,436,554,016,315	133,782,614,815	2,629,250	-	2,629,250
2032	3,522,467,866,722	137,127,180,185	2,630,750	-	2,630,750
2033	3,610,529,563,390	140,555,359,690	2,632,500	-	2,632,500
2034	3,700,792,802,475	144,069,243,682	2,629,250	-	2,629,250
2035	3,793,312,622,537	147,670,974,774	2,631,000	-	2,631,000
2036	3,888,145,438,100	151,362,749,144	2,627,250	-	2,627,250
2037	3,985,349,074,053	155,146,817,872	2,633,000	-	2,633,000

State Water Contract Costs



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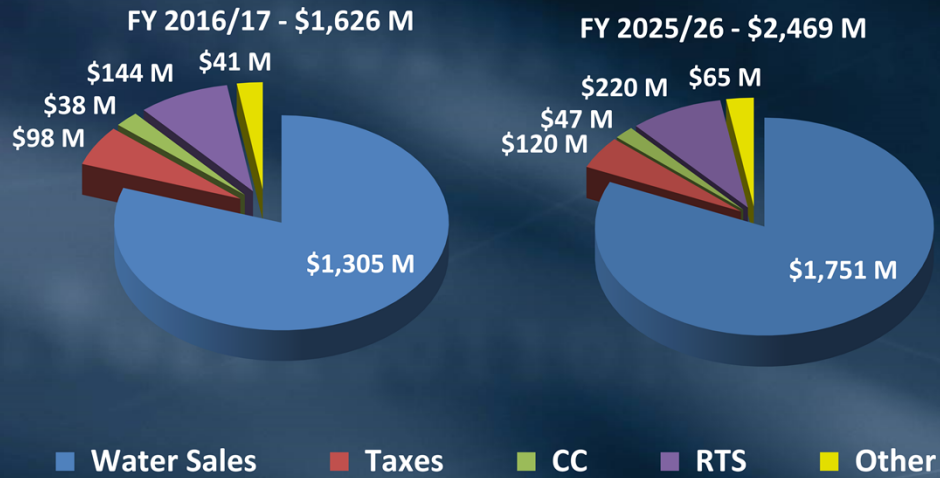
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2017: BP GO \$26.5
 AV tax \$48.6
 Rate funded \$507.2
 Total \$582

J2026 BP GO \$0
 AV tax \$117.6
 Rate funded \$1,013.7
 Total \$1,131.3

Revenue Trend

Long Range Financial Plan



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Fiscal Year Ending	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Items the INCREASE Reserves											
Water Sales & Wheeling	1,182.1	1,305.2	1,375.5	1,473.3	1,533.1	1,597.4	1,664.5	1,787.1	1,859.8	1,936.8	2,017.3
Capacity Charge	43.5	38.3	35.2	37.3	38.5	40.0	41.5	43.2	45.5	46.8	47.2
RTS Charge	156.7	144.0	137.5	141.5	145.5	152.0	162.0	175.0	189.0	203.5	219.5
Taxes & Annexation	102.3	98.3	100.5	102.8	105.1	107.4	109.8	112.3	114.8	117.4	120.1
Small Hydro & DVL Power Sales	7.1	15.3	18.5	19.2	19.5	19.0	18.5	19.5	19.7	18.2	18.5
CRA Power Sales	-	-	3.1	3.0	3.2	3.3	3.3	3.6	3.6	3.6	3.8
Interest Income(1)	8.8	13.2	12.1	18.6	19.3	19.9	20.5	21.7	23.4	25.3	27.4
Misc. allocated to supply (PVID Lease, CVWD Revenues)	8.9	8.9	9.0	9.2	9.6	10.0	10.3	10.6	10.8	11.1	11.3
Misc. allocated to A&G (Lease, Late Fees, etc.)	3.8	3.1	3.1	3.2	3.2	3.3	3.4	3.4	3.5	3.6	3.7
Total	1,513.3	1,626.4	1,694.5	1,808.0	1,877.0	1,952.4	2,033.9	2,176.3	2,270.2	2,366.2	2,468.8

Proposed Water Rates and Charges

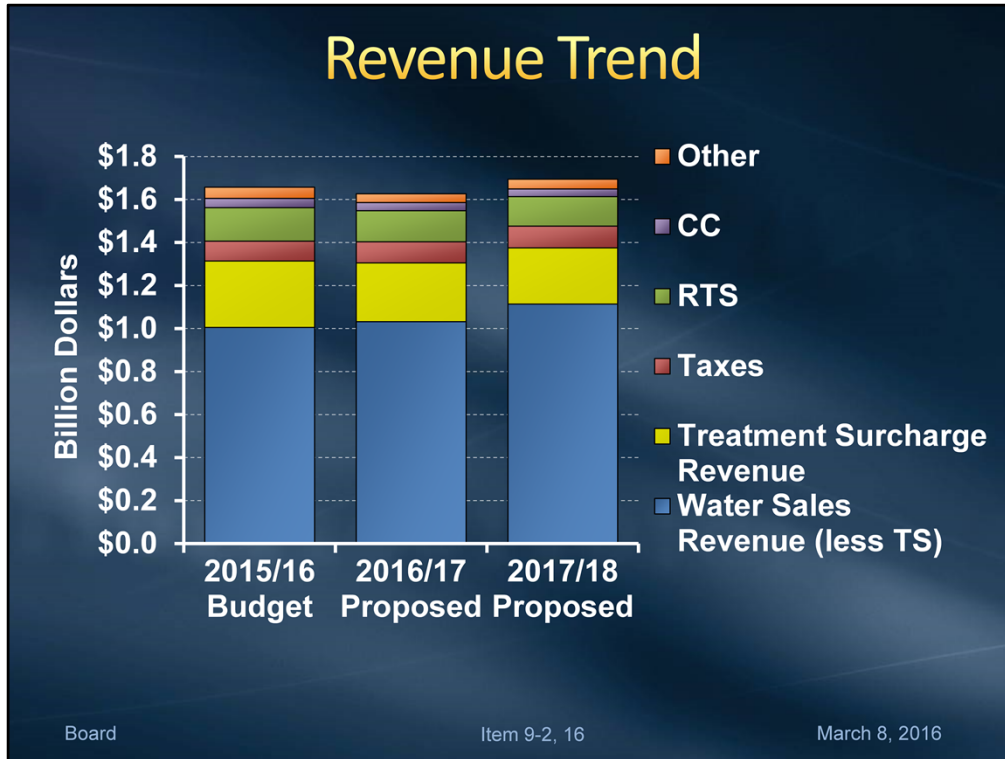
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Process

- 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

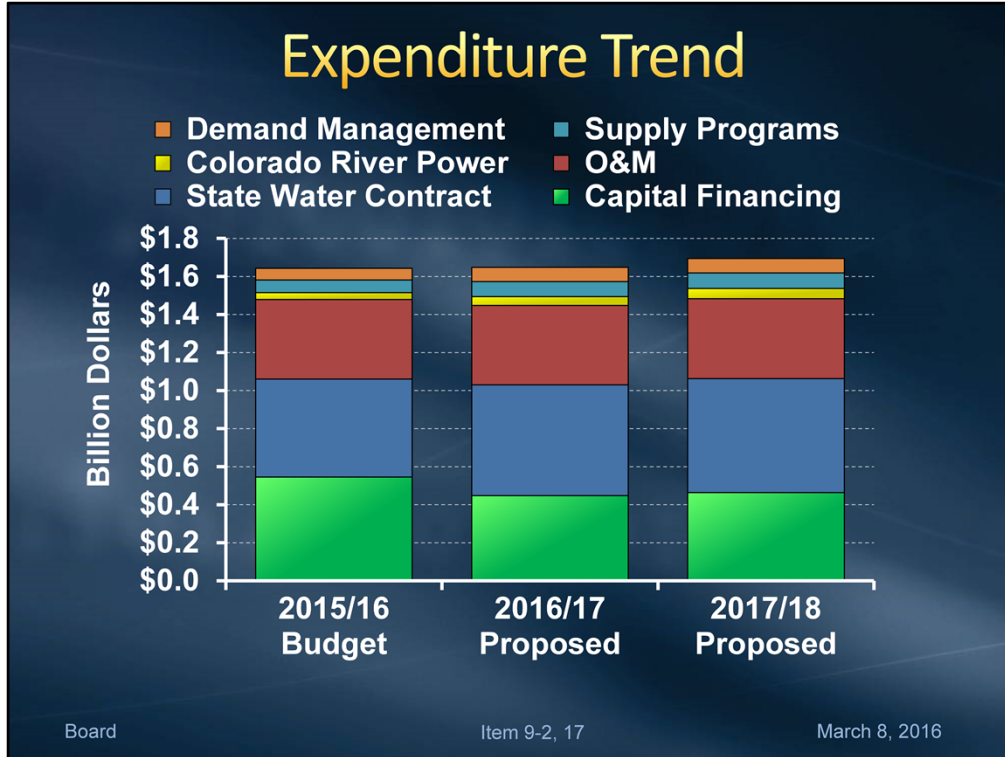


Revenue trend from overall increase of 4 percent
 Untreated revenues are up, treatment revenues down due to lower
 Treatment Surcharge and lower expected treated sales

Revenues are \$1.6B and \$1.7B

Due to decreasing RTS and CC, fixed revenues are about 17% in FY
 2016/17 and 15% in FY 2017/18

millions of dollars	Est.	Budget	Budget
Fiscal Year Ending	2016	2017	2018
Items the INCREASE Reserves			
Water Sales & Wheeling	1,182.1	1,305.2	1,375.5
Capacity Charge	43.5	38.3	35.2
RTS Charge	156.7	144.0	137.5
Taxes & Annexation	102.3	98.3	100.5
Small Hydro & DVL Power Sales	7.1	15.3	18.5
CRA Power Sales	-	-	3.1
Interest Income(1)	8.8	13.2	12.1
Misc. allocated to supply (PVID Lease, CVWD Revenue)	8.9	8.9	9.0
Misc. allocated to A&G (Lease, Late Fees, etc.)	3.8	3.1	3.1
Total	1,513.3	1,626.4	1,694.5



Total Expenditures of \$1.7B in each year; largest share is SWP, followed by DS and O&M

Fiscal Year Ending	2016	2017	2018
Items the DECREASE Reserves			
SWP - Capital	168.9	181.7	184.2
SWP - Min. OMP&R	274.3	282.1	294.7
SWP - On-Aqueduct Power	98.3	147.5	152.6
SWP - Off-Aqueduct Power	15.0	9.6	5.8
SWP - Credits	(60.9)	(38.6)	(37.9)
SWP Subtotal	495.6	582.3	599.4
O&M Subtotal	396.4	417.7	419.8
Debt Service Subtotal	314.3	328.5	344.1
Supply Programs paid from current operating revenue	119.4	78.7	81.7
CRA Power Costs	37.9	46.6	54.4
Conservation Credits Program	9.9	27.0	32.0
Local Resources Program	41.4	43.7	41.9
Foundational Actions	-	4.4	2.0
Increase in Required Reserves w/o min.	35.2	23.3	15.3
PAYGO	99.0	120.0	120.0
Deposit to TSSF	(8.0)	6.7	(3.2)
Deposit to WSF	-	-	-
TOTAL	1,540.9	1,678.7	1,707.4
Change in reserves	(27.7)	(52.4)	(12.9)
check	-	-	-

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

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Rated by three agencies:

AAA by Standard & Poors

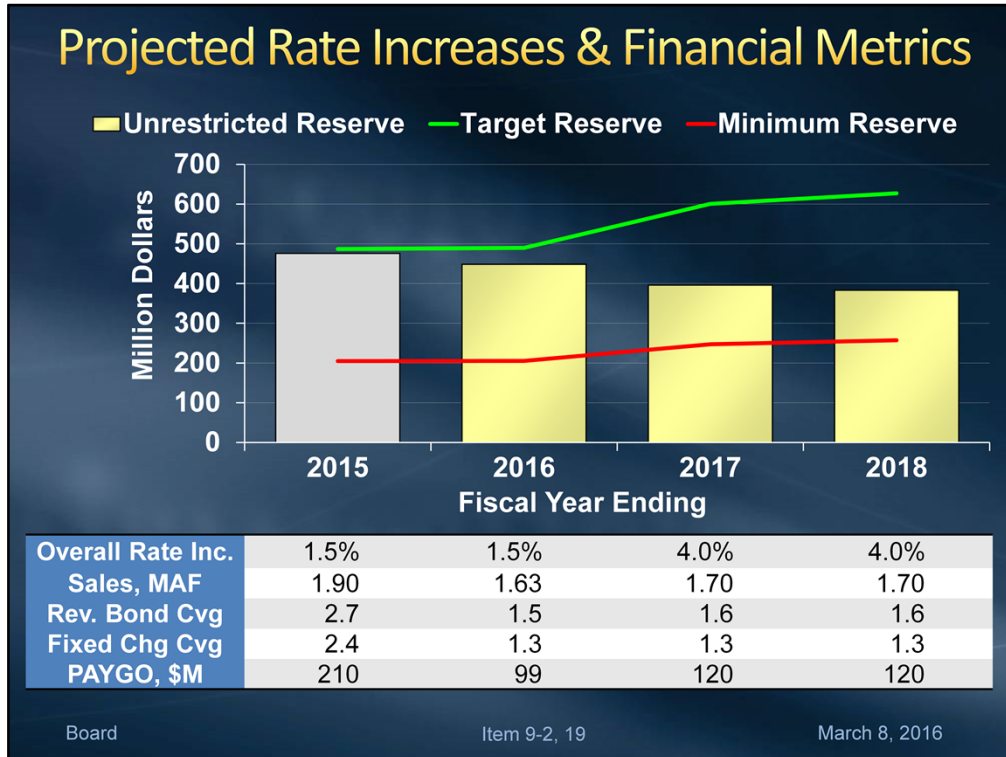
AA+ by Fitch

Aa1 by Moodys

Debt service coverage: net operating revenues divided by current year's debt service. Ensures Metropolitan has sufficient annual operating revenues to pay its operating expenses and meet debt service obligations on revenue bonds and other senior debt.

Fixed Charge Coverage: includes all fixed obligations after payment of operating expenditures. Accounts for the capital costs of the SWC. Demonstrates ability to pay all recurring costs.

PAYGo consistent with later years of the last 10-year forecast.



Summary of key financial policies

Sales of 1.7 MAF; below 1.75 MAF forecasted for this period in the last biennial budget

Revenue bond coverage not meeting target of 2.0 times, but supports our current ratings

Fixed charge coverage target is met

Draw on unrestricted reserves in both fiscal years

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.

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Discuss estimated rates to support revenue requirement in Workshop #2; discuss treatment cost recovery in Workshop #2 as well.

Overall increase in Metropolitan's revenues from rates and charges of 4%
Decrease in RTS and Capacity Charge amounts partially offsets increase in raw water rate

Tier 1 Untreated, 12.1%: \$72/AF - \$12/AF RTS - \$5/AF CC = 9%

Tier 2 Treated, 3.9%: \$37/AF - \$17/AF = 2%

Higher costs on untreated water combined with lower sales is resulting in the changes shown.
RTS and CC recover only capital costs; highly sensitive to the amount of PAYGo in costs

Treatment: reviewed how costs were functionalized.

- O&M to distribution

- Reviewed how we categorize assets for functionalizing

- Treatment capital projects closely scrutinized

- PAYGo level also impacts

Untreated	Tier 1	594	666	72	695	29
				9%		5%
Treated	Tier 1	942	979	37	1015	36
				2%		4%
	RTS	153	135	\$ (12)	140	\$ 3
	CC	43	34	\$ (5)	37	\$ 2

Estimated Overall Rate Impacts By Member Agency, CY 2017



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Overall increase in Metropolitan's revenues from rates and charges of 4%
Decrease in RTS and Capacity Charge amounts partially offsets increase
in raw water rate

Tier 1 Untreated, 12.1%: $\$72/\text{AF} - \$12/\text{AF RTS} - \$5/\text{AF CC} = 9\%$

Tier 2 Treated, 3.9%: $\$37/\text{AF} - \$17/\text{AF} = 2\%$

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





The proposed budget would result in overall increases to Metropolitan’s rates and charges of 4 % in each fiscal year.

Proposed rate increases are squarely within the 3 to 5 % forecast of the last biennial budget and 10-year forecast.