Review of MWD Act Section 124.5 ad valorem property tax limitation for fiscal years 2020/21 and 2021/22

Finance & Insurance Committee
Item 9-2
March 9, 2020
MWD Act Section 124.5

Metropolitan Act Section 124.5, enacted in 1984, limits 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

The restrictions of Section 124.5 do not apply if the Board finds, pursuant to providing notice to the Legislature and a public hearing, that collecting more is “essential to the fiscal integrity of the District”

Since FY 2013/14, the Board has determined it was essential to Metropolitan’s fiscal integrity to maintain the tax rate at .0035 percent
Maintaining the Ad Valorem Tax Rate

- Fundamental to fiscal health are mechanisms for funding immediate and anticipated SWC obligations.

- SWC obligations have steadily increased and are expected to continue to increase.
  - ~36 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.
  - ~84 percent of Metropolitan’s costs are fixed, yet only 17 percent of revenues are fixed.
  - ~70 percent of SWC obligations are fixed, yet ad valorem taxes on Burns-Porter bonds are less than 2 percent of the SWC costs.
Maintaining the Ad Valorem Tax Rate

Metropolitan provides reliable supplemental water services to a broad service area; the region and its substantial economy benefit from the availability of Metropolitan’s water and system

Ad valorem taxes ensure:

- The diversity of fixed revenues is maintained, which supports strong credit ratings
- The mix of property taxes, rates, and charges are balanced and promote long-term fiscal health
- The cost of Metropolitan’s services are shared by all property-owning residences and businesses
Property Tax Revenue

<table>
<thead>
<tr>
<th>Million Dollars</th>
<th>2019/20 Budget</th>
<th>2020/21 Estimated</th>
<th>2021/22 Estimated</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$118$</td>
<td>$140$</td>
<td>$140$</td>
</tr>
</tbody>
</table>
Revenues
FY 2020/21 Budget

Property Tax
8%

Other
92%
<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 24, 2020</td>
<td>Notice of public hearing provided to Legislature</td>
</tr>
<tr>
<td>February 26, 2020</td>
<td>Published notice of hearing</td>
</tr>
<tr>
<td>March 9, 2020</td>
<td>Presentation to F&amp;I Committee</td>
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<tr>
<td>March 10, 2020</td>
<td>Public Hearing</td>
</tr>
<tr>
<td>April 14, 2020</td>
<td>Board action to adopt resolution on the applicability of the tax rate limit</td>
</tr>
<tr>
<td>August 2020</td>
<td>Board action to adopt resolution establishing the tax rate for FY 2020/21</td>
</tr>
<tr>
<td>August 2021</td>
<td>Board action to adopt resolution establishing the tax rate for FY 2021/22</td>
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