



THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA

# Board Information

- **Board of Directors**

***Finance, Affordability, Asset Management, and Efficiency***

9/9/2025 Board Meeting

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## Subject

Review the applicability of the Metropolitan Water District Act Section 124.5 ad valorem property tax limitation for fiscal years 2026/27 through 2035/36, consistent with the Ten-Year Financial Forecast

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## Executive Summary

Since its inception, Metropolitan has had the statutory authority to levy property taxes to pay its expenses pursuant to the Metropolitan Water District Act (MWD Act § 124) and continues to have that authority now. However, Section 124.5 of the MWD Act established a limit effective in fiscal year (FY) 1990/91 on the amount of Metropolitan's ad valorem property tax revenues. This limit, however, does not apply if the Board of Directors makes a determination that it is essential to Metropolitan's fiscal integrity to collect property taxes in excess of that limit.

Specifically, Section 124.5 limits property taxes to the amount needed to pay: (1) Metropolitan's general obligation bonded indebtedness (GO bonds), and (2) Metropolitan's portion of bonds used to finance construction of State Water Project (SWP) facilities for the benefit of Metropolitan (Burns-Porter Bonds). However, the Section also provides that, "the restrictions contained in this section do not apply if the board of directors of the district, following a hearing held to consider that issue, finds that a tax in excess of these restrictions is essential to the fiscal integrity of the district," and written notice is provided to the Legislature in the manner specified therein. From FY 2013/14 through FY 2025/26, the Board has determined that it is essential to Metropolitan's fiscal integrity to collect property tax revenues more than the Section 124.5 limit.

In the upcoming biennial budget period, the Section 124.5 limit will drop to nearly zero and would require a tax rate so low that it cannot be processed by certain county tax collectors. Because the GO bonds and Burns-Porter bonds will not be reissued in the upcoming ten-year financial period, that circumstance will remain unchanged during the Ten-Year Financial Forecast period. Staff plans to recommend that the Board make a determination under Section 124.5 so that property taxes continue to be an available option to manage Metropolitan's finances, including for the upcoming FY 2026/27 and FY 2027/28 biennial budget and the Ten-Year Financial Forecast used by the Board for long-term planning.

**Importantly, approval of the Section 124.5 determination that makes the limit inapplicable does not set the ad valorem tax rate to be assumed in the budget or to be adopted each August. Rather, this forthcoming action recognizes that the collection of property taxes in excess of these limitations is essential for Metropolitan's fiscal integrity. The ad valorem rate is to be further discussed and adopted at a later time.**

With Board direction and feedback, staff may schedule a board public hearing and action item for the Board to consider later this Fall, whether to make the necessary finding regarding the applicability of Section 124.5. The Board action would occur after the public hearing at the same scheduled meeting of the Board. At least 10 days prior, notice of the hearing will be given to the public and the Legislature. The public may provide comments and listen to the hearing using the information provided at

<https://mwdh2o.legistar.com/Calendar.aspx>, <https://mwdh2o.legistar.com/Calendar.aspx>.

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## **Fiscal Impact**

If the Section 124.5 limitation applies and property tax revenues are reduced, revenue requirements from rates and charges must increase to recover the lost revenues.

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## **Applicable Policy**

Metropolitan Water District Act Section 124: Taxes, Levy and Limitation

Metropolitan Water District Act Section 124.5: Ad Valorem Tax Limitation

Metropolitan Water District Act Section 130: General Powers to Provide Water Services

Metropolitan Water District Act Section 133: Fixing of Water Rates

Metropolitan Water District Act Section 134: Adequacy of Water Rates; Uniformity of Rates Metropolitan Water

District Act Section 134.5: Water Standby or Availability of Service Charge

Metropolitan Water District Administrative Code Section 4301: Cost of Service and Revenue Requirement

Metropolitan Water District Administrative Code Section 4304: Apportionment of Revenues and Setting of Water Rates

Metropolitan Water District Administrative Code Section 5107: Biennial Budget Process

Metropolitan Water District Administrative Code Section 5109: Capital Financing

Metropolitan Water District Administrative Code Section 5112: State Water Contract Payments

Metropolitan Water District Administrative Code Section 5200(b): Funds Established

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## **Related Board Action(s)/Future Action(s)**

Proposed future board action later in fall 2025:

- Public hearing regarding the review of the applicability of Metropolitan Water District Act Section 124.5 ad valorem property tax limitation for FYs 2026/27 through 2035/36, consistent with the Ten-Year Financial Forecast
- Adopt the resolution finding that the ad valorem property tax rate limitation of Metropolitan Water District Act Section 124.5 is not applicable because it is essential to Metropolitan's fiscal integrity to collect ad valorem property taxes in excess of the limitation for FYs 2026/27 through 2035/36, consistent with the Ten-Year Financial Forecast

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## **Details and Background**

### **Background**

#### **History of Metropolitan's Property Tax Revenues**

The shift in revenue sources from primarily property taxes to primarily water revenues reflects an important transition over Metropolitan's history. The MWD Act authorizes Metropolitan to "levy and collect taxes on all property within the district for the purposes of carrying on the operations and paying the obligations of the district," pursuant to Section 124. Prior to 1942, Metropolitan was constructing the Colorado River Aqueduct (CRA) and had no water to sell; hence, all revenues came from property taxes approved by the voters for the CRA. In FY 1941/42, when Metropolitan began to sell water, most of Metropolitan's revenues were still derived from property taxes. In 1960, Metropolitan executed its State Water Contract (SWC), and the voters approved the collection of property taxes to pay for Metropolitan's SWC costs. By 1974, 50 percent of Metropolitan's revenues came from water transactions, with the remainder derived primarily from property taxes.

In 1984, the Legislature passed SB 1445, amending the MWD Act to add Section 124.5, among other sections. Effective FY 1990/91, Section 124.5 limits Metropolitan's annual property tax levy at the amount needed to pay the total of annual debt service on the GO bonds and Burns-Porter bonds, unless, after notice and hearing, the

Board finds that collecting property tax revenue beyond that limitation is essential to the district's fiscal integrity. In 1984, when SB 1445 was enacted, Metropolitan collected property taxes at the rate of 0.0237 percent, which resulted in revenues below the Section 124.5 limit at the time, given the outstanding balances of the GO bonds and Burns-Porter bonds. However, as bond indebtedness on GO and Burns-Porter bonds are paid down, the Section 124.5 limit also decreases and reduces the amount of property tax revenues that can be levied. In fact, as of November 1, 2024, all outstanding Burns-Porter Bonds have been paid off. As of July 1, 2025, Metropolitan has \$17.2 million of GO bonds outstanding with an annual debt service amount of approximately \$2.0 million. That means, if applicable, the Section 124.5 limit would restrict Metropolitan's property tax to a rate that will not collect more than \$2.0 million from the entire six-county service area, even though Metropolitan's SWC annual payment obligation is approximately \$700 million.

### **Background Regarding SWC Obligations and Voter Approval of Property Taxes**

Metropolitan is one of 29 agencies that contract with the State for participation in the SWP. Metropolitan's SWC was the first contract executed, and the prototype for the State Water Contracts that followed, and its terms were validated by the California Supreme Court in *Metropolitan Water Dist. v. Marquardt* (1963) 59 Cal.2d 159. Metropolitan is the largest participant in the SWP in terms of the number of residents in its service area, the allocation of SWP water that it has contracted to potentially receive, and the allocation of SWP infrastructure and power costs. As a result, Metropolitan pays the highest percentage of total annual payments made to the Department of Water Resources of all the agencies with State Water Contracts.

Under the SWC, Metropolitan is obligated to pay allocable portions of the cost of construction of the SWP system and ongoing operating and maintenance costs. Metropolitan is obligated to pay these fixed costs regardless of the quantity of water available and received from the project. In contrast, a smaller portion of payments are based on actual deliveries of water received for the costs of power and offsets for credits received.

### **Approximately 70 percent of Metropolitan's SWC obligations are fixed and unrelated to the quantity of water delivered.**

The ability of State Water Contractors to levy property taxes sufficient to satisfy their SWC obligations was a foundation of the Burns-Porter Act, and a factor relied on by California voters in approving it. *Goodman v. County of Riverside* (1983) 140 Cal.App.3d 900, 905-06; *see also, Alameda County Flood Control v. Department of Water Resources, Antelope Valley-East Kern Water Agency* (2013) 213 Cal. App. 4th 1163. In approving the Burns-Porter Act, California's voters approved "an indebtedness in the amount necessary for building, operating, maintaining, and replacing the [State Water] Project, and they intended that the costs were to be met by payments from local agencies with water contracts. Further, the voters necessarily approved the use of local property taxes whenever the boards of directors of the agencies determined such use to be necessary to fund their water contract obligations . . . ." *Goodman*, 140 Cal.App.3d at 910. Thus, SWC obligations are voter-approved indebtedness that may be funded by override property taxes (taxes above the one percent general tax limit established by Article XIII A (Proposition 13) of the State Constitution).

Many of the other contractors substantially rely on property taxes to satisfy their SWC obligations. Metropolitan is unique in that, since FY 1990/91, and unless otherwise determined by the Board, Section 124.5 has reduced its property taxes to a declining balance of its share of the Burns-Porter bonds—which has become an increasingly smaller portion of Metropolitan's SWC payment obligation. Although Metropolitan's annual budget for total SWC payment obligations is nearly \$700 million, Section 124.5 would limit the collection of voter-approved taxes to only a total of \$2.0 million.

### **The Ad Valorem Tax Rate Adoption Process and Next Steps**

Metropolitan currently collects only a special ad valorem (AV) property tax that is exempt from Proposition 13 limitations, based on voter approval for GO bonds and for all SWC expenses. Therefore, although the voters approved the use of a special AV tax for GO bonds and SWC expenses, Section 124.5 would limit Metropolitan's property tax collection to essentially \$0. Rather than tie the Board's hands for the next biennial budget and its Ten-Year Financial Forecast planning, staff will recommend that the Board adopt a determination that it is essential to fiscal integrity to collect more than the Section 124.5 limit for the entire upcoming budget and financial planning timeframe.

The determination would not set a rate for the AV tax rate to be assumed for the upcoming proposed biennial budget or for any other purpose. It will only find that it is essential to the district's fiscal integrity to collect more revenue from property taxes than the limit set by Section 124.5. It is up to the Board in the next biennial budget adoption process to determine an actual rate for the AV property taxes and to assume a particular rate for its ten-year planning process. It is then up to the Board again each August to adopt the specific AV tax rate for each fiscal year thereafter.

With Board direction and feedback, staff may schedule a public hearing of the Board later in fall 2025 to receive public comments on the applicability of Section 124.5. In connection with that hearing, staff will present all information supporting the recommendation regarding the Section 124.5 determination. After the public hearing, the Board will determine whether it is essential to Metropolitan's fiscal integrity to collect property taxes in excess of the Section 124.5 limit for FYs 2026/27 through 2035/36, which aligns with the term of our long-term forecasting and planning.

  
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Katano Kasaine  
Assistant General Manager/  
Chief Financial Officer  
9/2/2025  
Date

  
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Deven Upadhyay  
General Manager  
9/2/2025  
Date