

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

Board of Directors
March 8, 2016



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Ad Valorem Tax

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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

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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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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

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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

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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

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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

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Current Ad Valorem Tax Rate

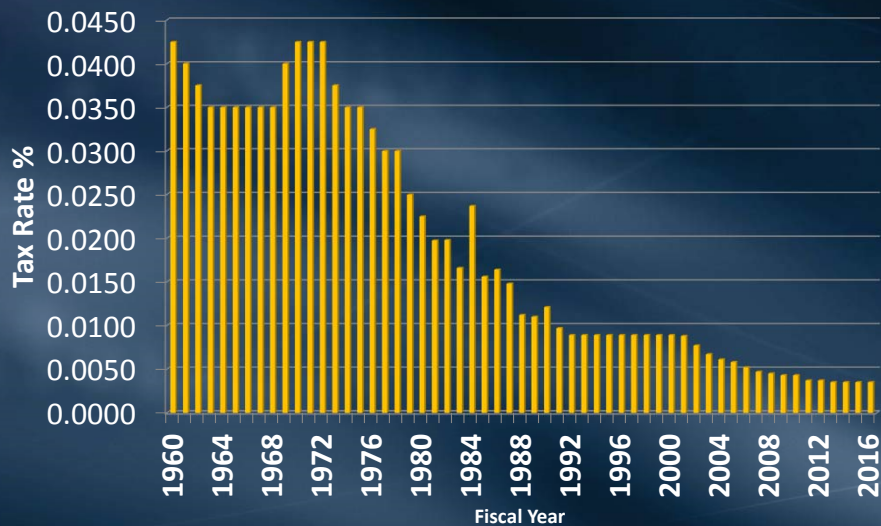
- .0035% of assessed valuations
- A single-family residence in Metropolitan’s service area assessed at \$400,000 currently pays about \$14 per year in ad valorem taxes towards Metropolitan’s costs
- Proposal to maintain the rate
 - Helps mitigate future rate increases and provides flexibility for funding other needs

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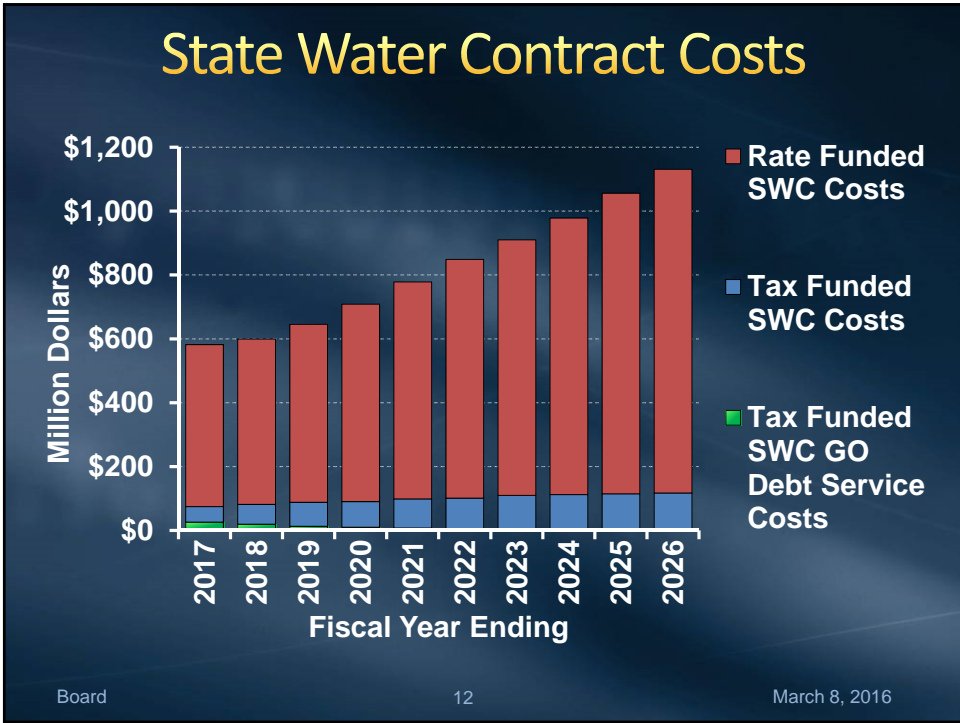
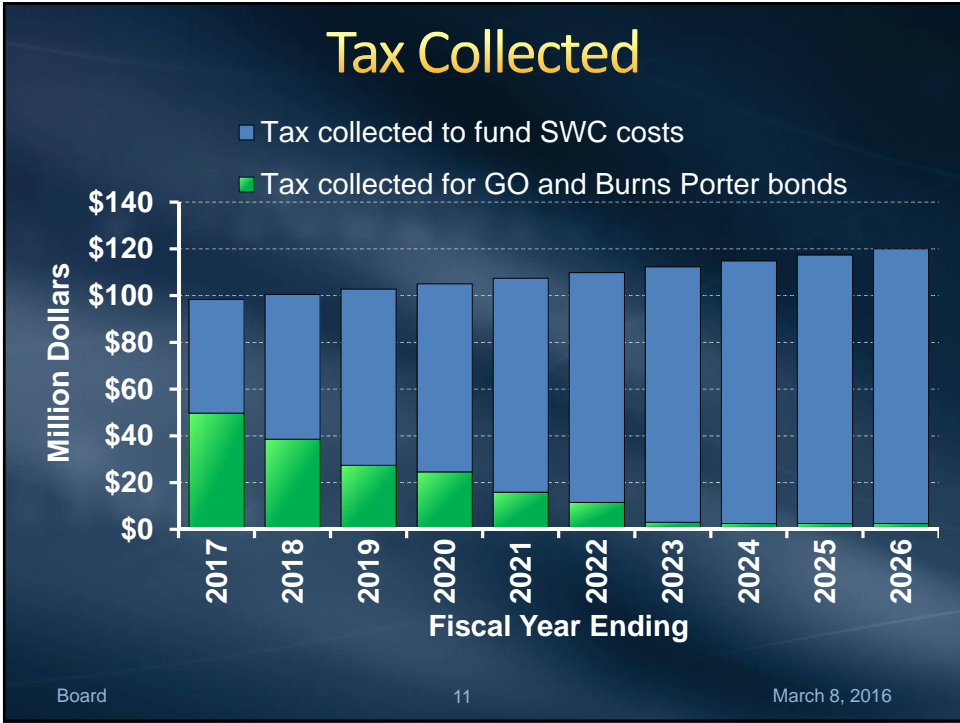
Historical Property Tax Rate

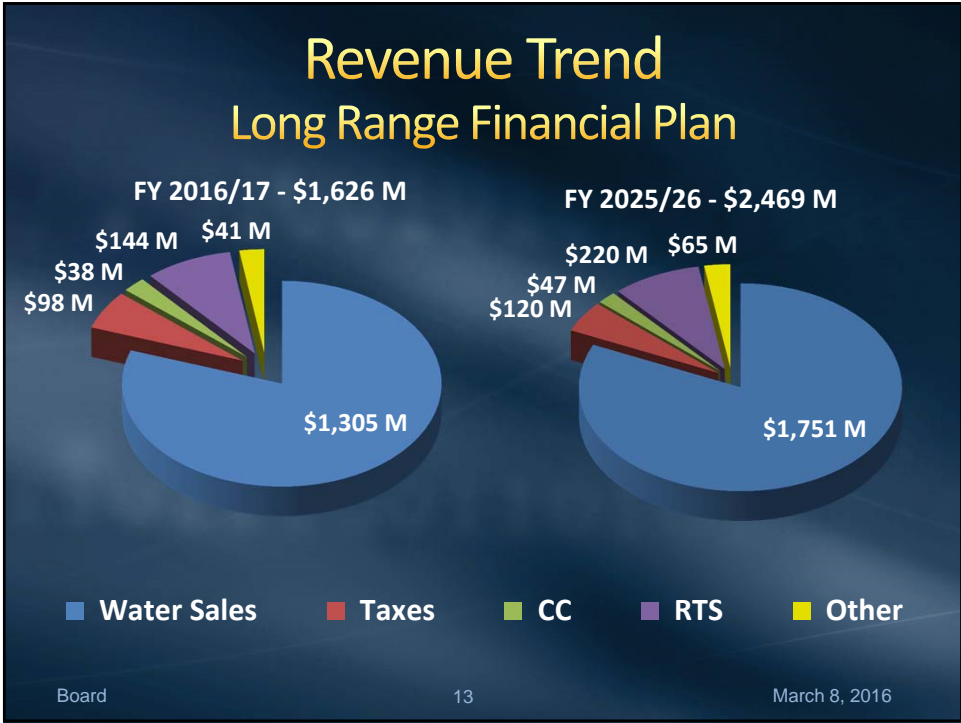


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Proposed Water Rates and Charges

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Process

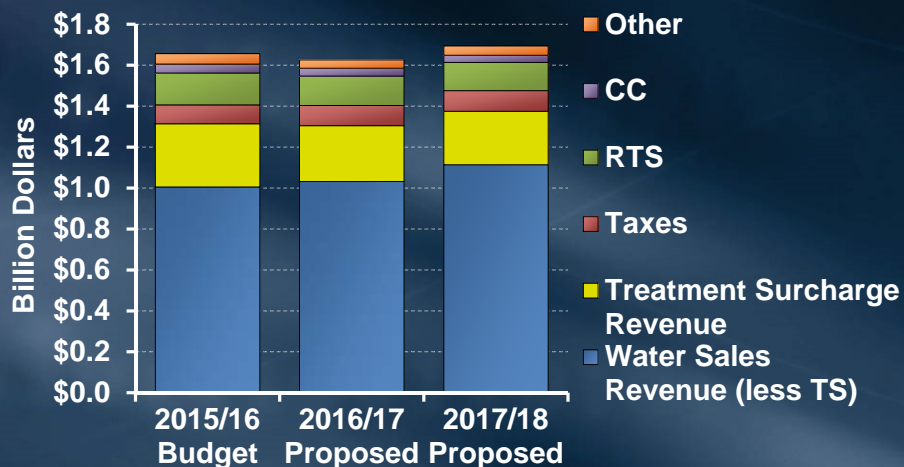
- Information Board Letter February 2016
- Workshop #1, February 8, 2016
- Workshop #2, February 23, 2016
- Workshop #3, March 7, 2016
- Receive input at Public Hearing on March 8, 2016
- Workshop #4, March 22, 2016
- April 11, 2016: Recommendation by F&I Committee, and Workshop #5, if needed
- April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

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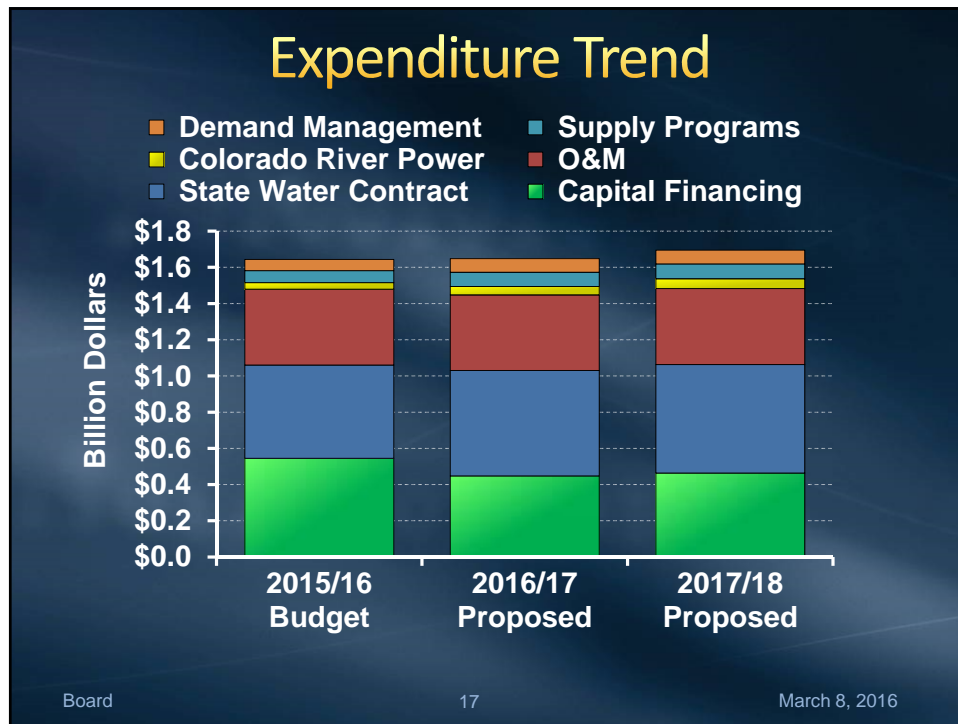
Revenue Trend



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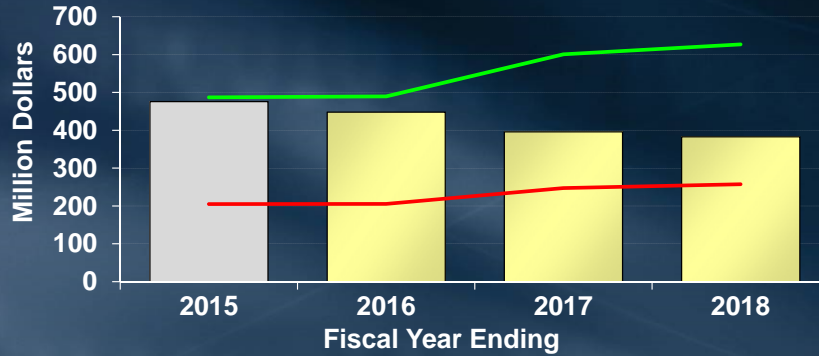
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- ### Summary of Financial Policies
- Maintain AAA/AA+/Aa1 ratings
 - Achieve/Maintain coverage ratios
 - Debt service coverage = 2.0
 - Fixed charge coverage = 1.2
 - PAYGO funding
 - 60 percent per year
 - Integral to maintaining coverage targets
 - Provides financial flexibility
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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

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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.

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Proposed Full Service Costs and Charges

Rate Type	2016 Approved	2017 Proposed	% Increase (Decrease)	2018 Proposed	% 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 Service Type, CY 2017



Proposed Fixed Treatment Charge: Objectives

- Cost of Service
- Align charges with service commitment / investment
- Cost recovery - revenue stability

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Proposed Fixed Treatment Charge

- 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; FY 2016/17 = \$97.5M, FY 2017/18 = \$101.7M
 - Remaining costs, ~62 percent, 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 volumetric or fixed/variable option

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Proposed Fixed Treatment Charge: Options

- Recommended Fixed-Minimum and Volume Method
- Option – 10-Year Rolling Average
- Option – 20-Year Rolling Average

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