



- **Board of Directors**

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

11/18/2025 Board Meeting

8-2

Subject

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 fiscal years 2026/27 through 2035/36, consistent with the Ten-Year Financial Forecast; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

Staff proposes that Metropolitan's Board make a determination that it is essential to the district's fiscal integrity to collect property taxes in excess of the limits found in the Metropolitan Water District Act (MWD Act) Section 124.5. The Section limits property tax collection to the amount required to pay debt service for: (1) general obligation (GO) bonds, and (2) Metropolitan's portion of the Burns-Porter bonds, unless the Board determines that it is "essential to fiscal integrity" to collect more than that limit. Because the GO bonds and Burns-Porter bonds will not be reissued in the upcoming ten-year financial period, the statutory limit will remain unchanged during the Ten-Year Financial Forecast period. The proposed determination would enable property taxes to 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.

The proposal in this letter was first presented to the Board in an informational letter for the Finance, Affordability, Asset Management and Efficiency (FAAME) Committee in September 2025. This current action letter summarizes the conditions and circumstances that support staff's recommendation. In March 2022, the Board held the last public hearing on this matter. In April 2022, the Board approved a four-year determination under this section, covering FY 2022/23, FY 2023/24, FY 2024/25, and FY 2025/26, aligned with Metropolitan's subsequent two-year biennial budgets. Instead of a four-year determination, staff recommends that the current determination match Metropolitan's financial planning horizon of ten years to provide more certainty in the Board's long-term financial planning.

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, the proposed action recognizes that the collection of property taxes in excess of these limitations is essential for Metropolitan's fiscal integrity and financial planning. The ad valorem rate is to be further discussed and adopted at a later time.

Staff's recommendation is based on a host of supporting financial, policy and research documentation. This includes our Long-Range Finance Plan-Needs Assessment, Climate Adaptation Master Plan for Water (CAMP4W) process, reports and analyses, and the key cost drivers assessment for the upcoming biennial budget and ten-year forecast period, which includes an estimate of rates, charges, and the ten-year financial forecast assumptions of property taxes being set at the current rate of 0.007 percent. Additional information on the financial circumstances and relevant documents that support Metropolitan's determinations is also available at: (<https://www.mwdh2o.com/budget-finance/property-tax-rate-for-fy/>), which contains information relating to the

currently proposed determination for fiscal years 2026/27 through 2035/36 and the Board's previous determinations.

Proposed Action(s)/Recommendation(s) and Options

Staff Recommendation: Option #1

Option #1

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 fiscal years 2026/27 through 2035/36, consistent with the Ten-Year Financial Forecast

Fiscal Impact: This action provides the ability to collect property taxes above the Section 124.5 limitation to meet budgetary needs related to qualified State Water Contract costs. Approval of the finding of necessity does not have a direct fiscal impact, as the property tax rate assumption will be determined by the Board through the budget process and set each August during the annual levy setting process.

Business Analysis: Making the determination pursuant to Section 124.5 allows the Board to set a rate in August of each fiscal year from 2026/27 through 2035/36, in an amount that exceeds the Section 124.5 limits. The Board is not setting a tax rate with this action.

Option #2

Do not adopt the proposed resolution.

Fiscal Impact: Without the Board's determination of fiscal integrity related to the applicability of Section 124.5 limitation, Metropolitan will need to recover property taxes no longer able to be collected with rates and possibly fixed charges. Staff's preliminary analysis indicates that the loss of property tax revenues would increase overall rates and charges by at least 25 percent in the FY 2026/27 and FY 2027/28 biennial budget. To compensate for the loss of property tax revenues, the 25 percent overall rate adjustment would need to take effect on January 1, 2027, and would still require the use of approximately \$265 million in unrestricted reserves in the first year of the biennium (FY 2026/27), if available, as the rate increase would only be effective for four months of the fiscal year. This would be in addition to the rate increases already projected from other factors discussed in this board letter.

Business Analysis: By not adopting the proposed resolution, Metropolitan will be subject to the limitation under Section 124.5, which is currently at approximately \$2 million per year, declining to zero in 2037. The Board should note that even with the current \$2 million annual limit, this will result in a rate so minimal that the counties have advised their systems may not be able to process our levy.

Alternatives Considered

Not applicable

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

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

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

The Board will determine in the upcoming budget process for the FY 2026/27 and 2027/28 Biennial Budget what assumptions it will incorporate for property tax rates. This assumption will be reflected in the two budget years of the biennium as well as the following eight years of the Ten-Year Financial Forecast term. Each August of the biennium, the Board will have an opportunity to set the actual property tax rate based on current assessed valuation information received from the six counties in Metropolitan's district.

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it involves the creation of government funding mechanisms or other government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment. (State CEQA Guidelines Section 15378(b)(4).)

CEQA determination for Option #2:

None required

Details and Background

Background

History of Metropolitan's Property Tax Revenues

The shift in revenue sources from 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. The terms of the SWC were validated by the California Supreme Court in *Metropolitan Water Dist. v. Marquardt* (1963) 59 Cal.2d 159. By 1974, 50 percent of Metropolitan's revenues came from water transactions, with the remainder derived primarily from property taxes. Subsequent to the voter approval of the taxing authority for the SWC, California voters approved Proposition 13 in 1978, which limited, among other things, property taxes to 1 percent of assessed valuation and exempted from that limitation several special taxes, including indebtedness approved by the voters prior to the passage of the Proposition. The voter-approved State Water Project and Metropolitan GO bonds indebtedness are exempt from Proposition 13. (See *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.

Figure 1 shows Metropolitan's historical ad valorem property tax rates from FY 1959/60 through FY 2025/26. It demonstrates how the tax levy limits in Section 124.5 accelerated the shift of Metropolitan's revenues away from fixed property taxes to variable revenues commencing in FY 1990/91. Since FY 2013/14, Metropolitan's Board has adopted a determination that it is essential to fiscal integrity to exceed the Section 124.5 limit and set the

property tax rate at 0.0035 percent. Starting in Fiscal Year 2012/13, Metropolitan’s property tax rates were set at 0.0035 percent, the lowest Metropolitan’s ad valorem tax rate has ever reached, until the Board increased the tax rate assumption to 0.007 percent in the current Adopted Budget for Fiscal Years 2024/25 and 2025/26, and implemented each August of the current biennium.

Figure 1: Ad Valorem Property Tax Rates, FY1960 – FY 2026

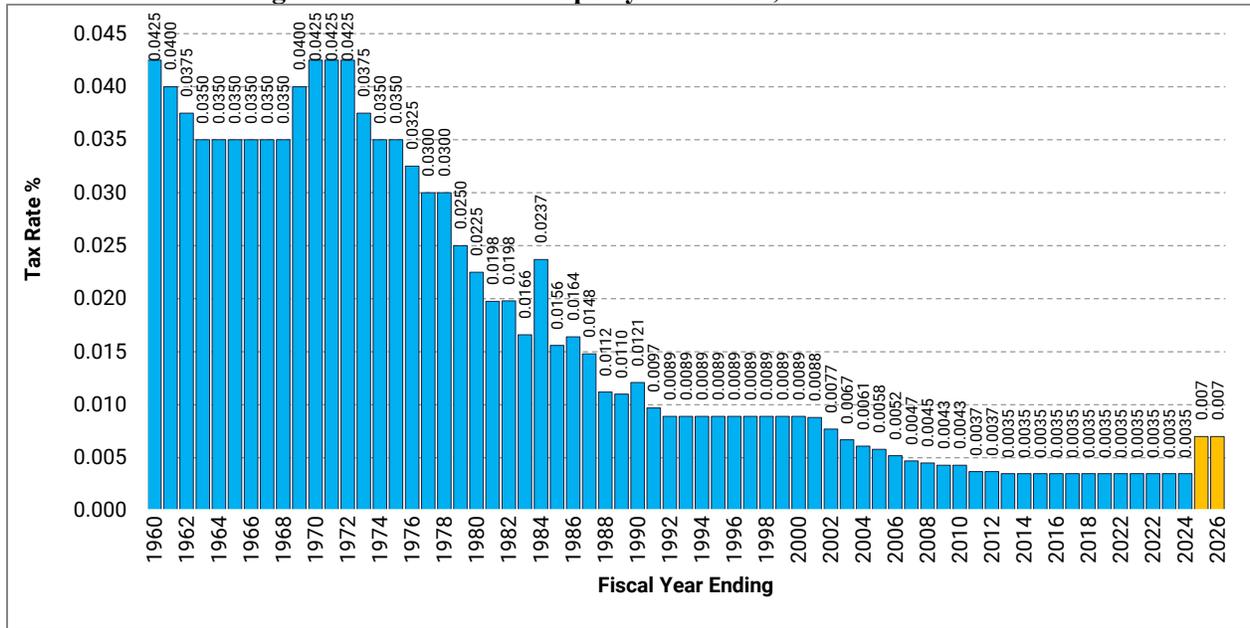
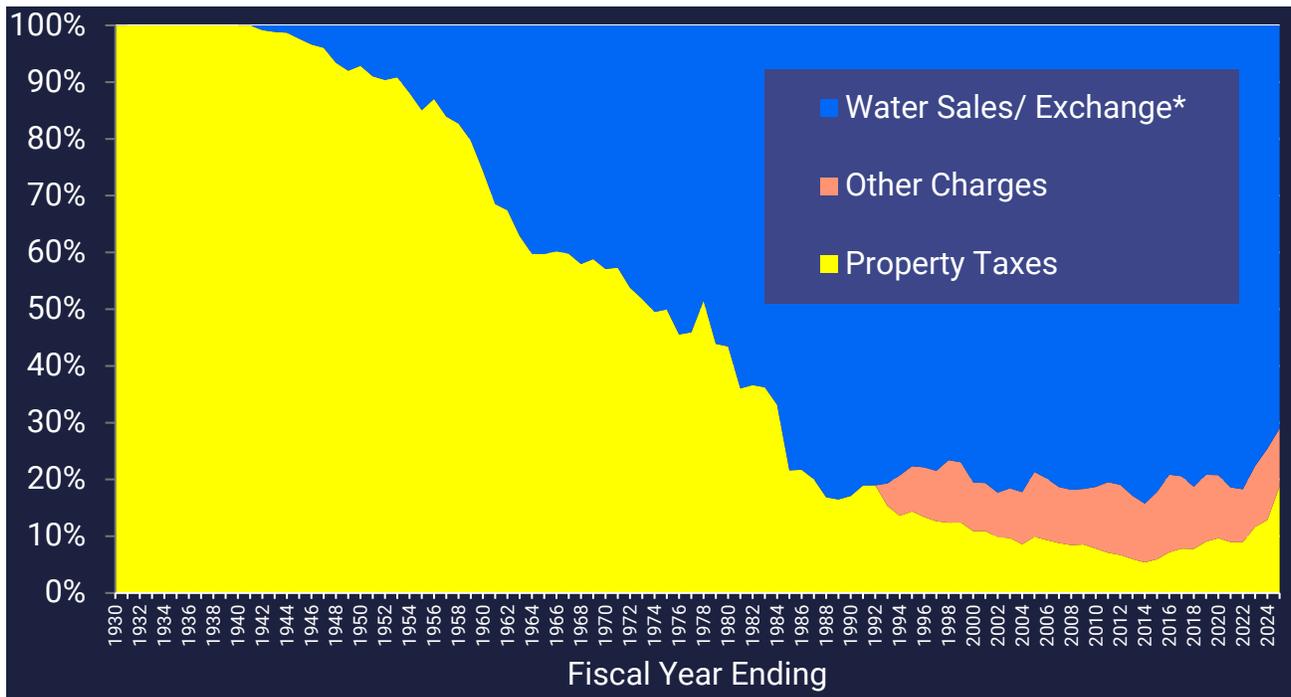


Figure 2 shows Metropolitan’s proportional mix of revenue sources over time since FY 1929/30. As shown in the figure, Metropolitan’s proportion of property taxes as a component of overall revenues steadily declined until the Board’s recent actions in the prior and current fiscal year. In FY 2025/26, the current fiscal year, property taxes are projected to be about 18 percent of total revenue sources with water revenues from transactions (which includes water sales, exchange and other transactions) accounting for about 65 percent of total revenues. The Readiness-to-Serve Charge and Capacity Charge revenues account for approximately 10 percent of total revenues. Metropolitan’s remaining revenues, which include interest income, CRA power sales, Small Hydro & DVL power sales, among others, total 7 percent of total revenues.

Figure 2: Metropolitan’s Historical Revenue Sources, FY 1930 – FY 2025

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 (1) the GO bonds and (2) 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, 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 is paid down, the Section 124.5 limit also decreases, reducing 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 revenues to no more than \$2.0 million from the entire six-county service area, resulting in a rate so minimal that the counties have advised their systems may not be able to process our levy.

What is the Meaning of “Essential to Fiscal Integrity” in Section 124.5?

Although the Legislature set a limit on property taxes, it left the determination of fiscal integrity to the discretion of the Board. Section 124.5 does not define the meaning of “essential to fiscal integrity.” Merriam-Webster defines “essential” in many ways, including “of the utmost importance,” and “something necessary, indispensable, or unavoidable.” “Fiscal” simply means it is related to a financial issue. And “integrity” is defined by Merriam-Webster as “an unimpaired condition: soundness,” or “the quality or state of being complete or undivided.” (Definitions taken from www.merriam-webster.com/dictionary.) Accordingly, “essential to fiscal integrity” is reasonably interpreted to mean important or valuable for financial soundness or to financial health. “Essential to fiscal integrity” does not mean an act is necessary to avoid an emergency financial crisis. Nowhere in Section 124.5 does the Legislature reference a need for the existence of a fiscal “emergency.” In the absence of a statutory definition of the phrase “essential to fiscal integrity,” Metropolitan has looked to financial industry standards and its own financial policies to evaluate whether collecting more than the limit is essential to its fiscal integrity.

Metropolitan's Past Determinations to Collect Property Taxes above the Section 124.5 Limitation

Since FY 2013/14, the Board has determined that it was essential to Metropolitan's fiscal integrity to collect property tax revenues in excess of the Section 124.5 limit. Initially, the Board made the determination on a yearly basis. In 2016, in conjunction with Metropolitan's budget approval process, the Board held hearings and made a Section 124.5 determination for two years of each adopted budget. In response to the Board's feedback that they wanted to see options to stabilize the Section 124.5 process, staff proposed a longer term of four years in 2022 and now proposes a ten-year term to match the significantly reduced Section 124.5 limit for the foreseeable future and the various financial pressures Metropolitan is facing over the ten-year forecast period.

Summary of Process

Metropolitan staff and the Board have taken several steps leading to the currently proposed board action on the above-referenced subject. First, in September 2025, staff submitted informational Board Letter 9-2 with an accompanying presentation for the Board's consideration, which covered the key issues related to this matter and the rationale for staff proceeding forward with a recommendation for the Board to make a determination of inapplicability of Section 124.5's limitation. Second, on October 31, 2025, staff provided notice to the Legislature of the Board's hearing regarding its review of the applicability of Section 124.5 ad valorem property tax limitation for FYs 2026/27 through 2035/36. This Board action letter further provides the substantive bases for staff's recommendation to make this determination to find that the levy of a tax in excess of Section 124.5's limitation is essential to Metropolitan's fiscal integrity. The Board will hold, after it is duly noticed, the required public hearing on November 18, 2025. Staff also assembled a website that contains the key supportive documents for its findings and recommendation to the Board on this matter (<https://www.mwdh2o.com/budget-finance/property-tax-rate-for-fy/>) under the section *Review of Applicability of Property Tax Limit – FYs 26/27-35/36*. The information on the website was available to the public at least ten days prior to the hearing on November 18, 2025.

Collection of Ad Valorem Property Tax Revenues Higher than \$2 Million per year (translating to nearly zero percent tax rate) is Essential to Metropolitan's Fiscal Integrity for at Least the Next Ten Years

Long-Term Financial Planning is Consistent With Board Guidance and Metropolitan Planning Needs

Metropolitan's Board has requested since at least November 2023 that staff address long-range financial planning needs. In November 2023, the Board voted to concur with the Long-Range Financial Plan Needs Assessment (LRFP-NA). The LRFP-NA outlined the estimated total capital investment requirements and estimated overall water rate increases associated with four demand and supply scenarios taken from the 2020 Integrated Resources Plan-Needs Assessment. These scenarios are referred to as IRP A, B, C, and D Scenarios. The LRFP-NA also introduced potential financial tools that could become components of a tailored financial strategy and cataloged Metropolitan's key policies related to the capital markets.

Metropolitan is currently in the planning phase of several major projects that will be considered by the Board for approval over the next several years. Despite the timing of these decisions, Figure 3 below shows the estimated scale of capital investments needed to achieve 100 percent reliability by 2032 and 2045. This estimate uses the IRP D scenario (the most aggressive climate-stressed scenario) with two alternative levels of assumed storage – 250 TAF and 500 TAF of storage capacity. Using a set of assumptions based on recent projects, Metropolitan converted the unit rates from the analysis above into estimated capital and operations and maintenance (O&M) costs. Taking the derived capital financing unit rate and multiplying it by a resource development target results in an annual financing cost, which can then be incorporated into an estimated total project cost calculation.

Figure 3: Estimated Capital Investment for IRP D Scenario

Forecast Period	Resource Development		Estimated Capital Investment (billions in 2023\$)
	Core Supply (TAF)	Storage Capacity (TAF) ⁴	
Thru 2032	200	250	\$5.5 - \$6.0
Thru 2045	550	250	\$14.6 - \$15.3
Thru 2045	500	500	\$14.0 - \$15.3

To be 100 percent reliable by 2032 under the IRP D scenario with the lowest average annual overall rate increases (7.1 percent), Metropolitan's preliminary estimate is that \$5.5 billion to \$6.0 billion of capital investment (in 2023 dollars) could be needed by 2032 to achieve that objective. Extended out to 2045, the projected required capital investment would increase (in 2023 dollars) to a range of \$14.0 billion to \$15.3 billion, depending on the amount of storage capacity. These figures, however, should be considered a high-level estimate, as numerous factors can affect the overall cost of a project. Additional distribution infrastructure, economies of scale, inflation, environmental and regulatory compliance, and treatment technology will impact the ultimate cost of a project.

With respect to our ability to finance a portion of this capital expense, the LRFP-NA analyzed the bond capacity of our existing revenue bond program under certain assumptions. Staff estimates that Metropolitan has a range of revenue bond debt capacity between \$3.6 billion and \$5.1 billion over the next 10 years. This range assumes that Metropolitan's debt service coverage target would not fall below 1.5, has an average water transaction projection of 1.5 million acre feet (MAF) per year, and complies with relevant statutory, administrative, and contractual covenant requirements. With an estimate of \$5.5 billion to \$6.0 billion in capital needs under IRP scenario D and an assumption of 40 percent PAYGO, this results in a debt financing need of \$3.3 to \$3.6 billion. Based on staff's preliminary analysis of debt capacity, there is barely sufficient revenue bond debt capacity to accommodate this new projected capital financing need (in accordance with the delineated assumptions). Still, the funding of costs associated with refurbishment and replacement of Metropolitan's existing facilities and conveyance system need to be considered. In addition, there is the potential for projected capital cost estimates to push the upper limits of Metropolitan's debt capacity, not to mention the exposure risk to member agency demands (i.e., water sales) not occurring as projected. This would negatively impact net operating revenues and potentially debt service coverage. Although Metropolitan may be able to finance these capital needs by maximizing its revenue bond capacity, this may not be the only or most advisable approach. A different story concerning debt capacity emerges, however, when looking at the longer forecasted timeline through 2045 for IRP D. As Metropolitan's existing outstanding debt is paid down, additional debt capacity is made available for new capital infrastructure investment. That said, it is important to note that it is difficult to project Metropolitan's Net Position. Hence, in lieu of considering this projected result as revenue bond capacity, it is more conservative to reference this result as improved cash flow leverage. For IRP D (250 TAF Storage), we estimate that Metropolitan could realize up to \$15.9 billion of cashflow leverage capacity at the Board's 2.00x debt service coverage target. Depending on Metropolitan's future Net Position in its balance sheet, the components of the cashflow leverage may vary, but most likely would include a mix of potential debt instruments.

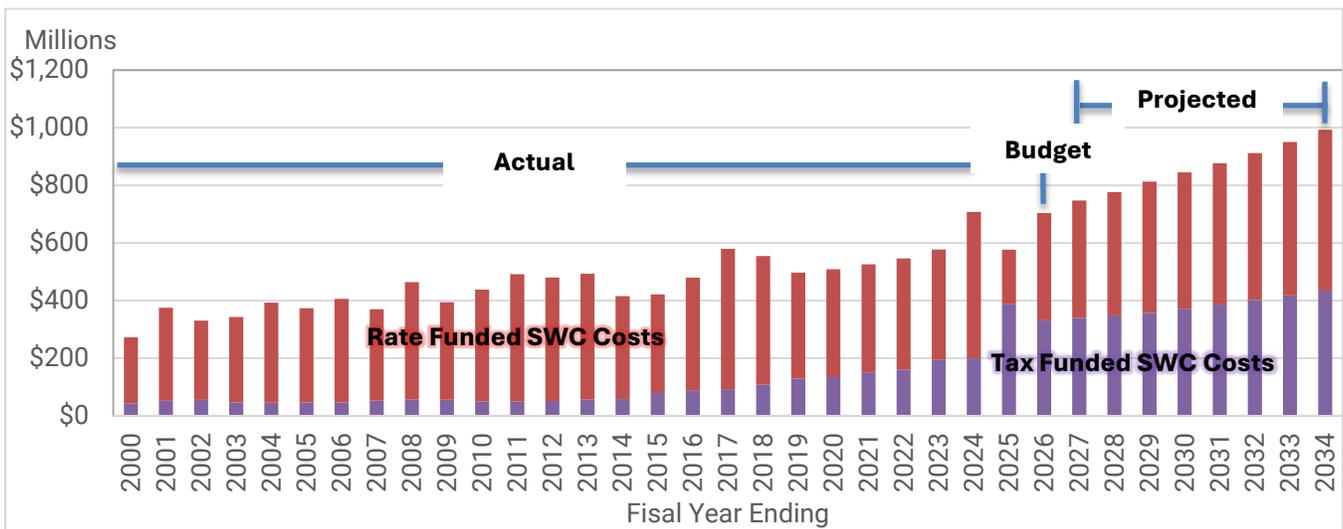
While there are many other key observations made in the LRFP-NA, one topic specifically relevant to this board letter is its finding that Metropolitan should consider funding more of State Water Project costs with property taxes, and aligning its Section 124.5 determination term with the 10-year Financial Plan horizon. Staff's proposal for a long-term view of property tax revenues consistent with the Ten-Year Financial Forecast is in line with the Board's concurrence with the LRFP-NA. The board letter and presentation for the LRFP-NA are publicly posted at <https://d1q0afiq12ywwq.cloudfront.net/media/msjfw5vv/concurrence-with-the-long-range-finance-plan-for-camp4w-planning-purposes-nov-14-2023.pdf>.

Property Tax Revenue is Essential to Paying Metropolitan's State Water Contract Expenses

Metropolitan's property tax revenues are authorized by the voters to pay for SWC expenses and GO bonds. Only \$17.2 million remains in GO bond debt obligations, and therefore, Metropolitan's property taxes are collected primarily for SWC expenses. 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. Many of the other contractors substantially rely on property taxes to satisfy their SWC obligations. Metropolitan is unique in that, in the last 30 years, it has consistently voluntarily reduced its property tax revenues used to pay for its State Water Contract. Metropolitan's SWC payment obligations have been increasing and are expected to continue to increase. For example, the State is expecting substantial costs associated with repair and replacement of the 50-year-old SWP infrastructure, such as the Oroville Spillway repair, work necessary to address subsidence, and California Aqueduct improvements. Figure 4 below shows the portion of SWC costs paid with property tax revenues, assuming for the projected costs, that Metropolitan maintains the 0.007 percent in excess of the Section 124.5 limitation.

Figure 4: State Water Contract Costs



Metropolitan’s FY 2025/26 annual budget for total SWC payment obligations is \$704 million. Of that amount (before the application of capital credits), approximately \$538 million is fixed (69 percent), and \$242 million are variable expenses (31percent). Moreover, in the SWP Annual Budget Report (2025 and 2026), the Department of Water Resources (DWR) shows that costs for Operation, Maintenance, Power, and Replacement has increased on average by 4.7 percent since 2019. DWR projects capital costs will also increase. DWR estimates capital costs to total approximately \$5.7 billion over the next 12 years. As SWC costs are increasing, at present and going forward, Section 124.5 would limit the collection of voter-approved taxes to only a total of \$2.0 million, declining ultimately to zero in 2037.

Anticipated Financial Pressure on Costs and Rates

Metropolitan’s property tax revenues are approved for the specific purpose of paying for SWC expenses. If the Board decides not to collect property taxes for that purpose, then Metropolitan must pay for those expenses with revenues from rates and charges. However, those rates and charges are already forecasted to be significantly burdened by the need for replacement and refurbishment of Metropolitan’s conveyance and distribution system.

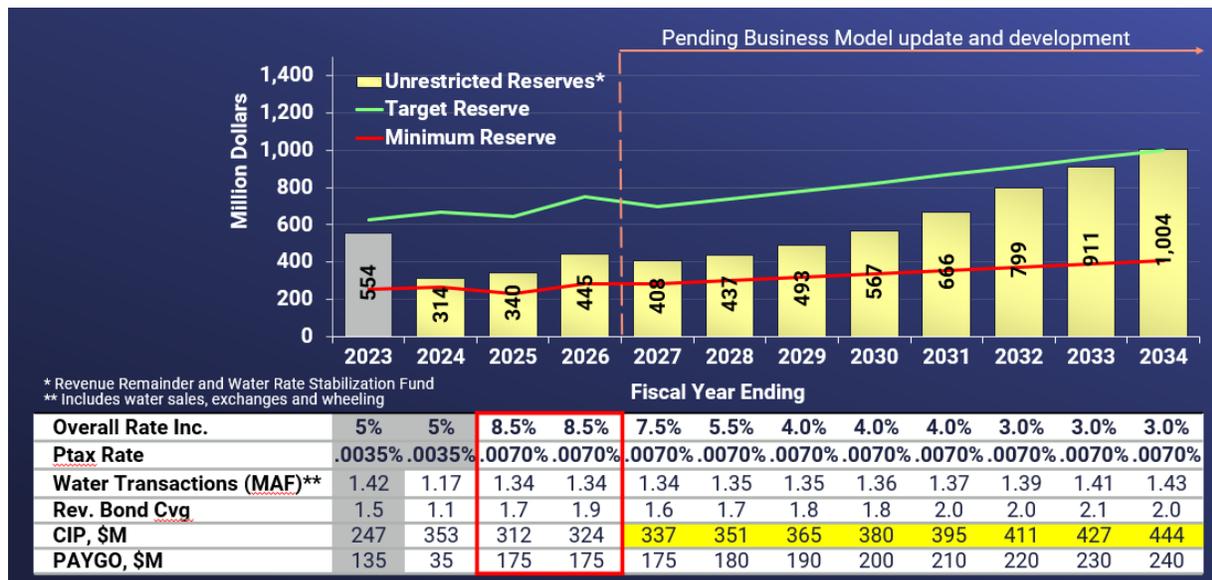
In May 2025, staff provided an early indication of the major budget drivers for the upcoming biennial budget at the regular FAAME committee meeting, which included multi-year rate projections based on the identified costs to maintain Metropolitan’s existing system as well as potential new projects currently being contemplated by the Board.

At the October 2025 FAAME committee, staff posted a detailed board letter more definitively setting forth the financial circumstances Metropolitan is facing. The assumptions included the cost impacts of maintaining the existing system, investing in new projects, and a combination of other parameters, including water demand sensitivities, conservation funding, and impacts of post-2026 guidelines on the Colorado River. Even under the most optimistic scenario analyzed, without new project development, Metropolitan is facing volumetric rate

increases year after year. This forecast included a .007 percent property tax rate assumption. In the absence of the property tax assumption, Metropolitan’s rates would need to increase even more significantly each year.

Property tax revenues are a critical component of Metropolitan’s adopted biennial budget and Ten-year financial forecast, as shown in Figure 5 below, from the October 2025 FAAME Committee Board Letter. The forecast assumes that the rate of 0.007 percent will continue throughout the planning horizon to provide a stable and predictable revenue source that supports Metropolitan’s overall financial sustainability. The Section 124.5 proposed determination does not set the rate; it only proposes a finding that it is essential to Metropolitan’s fiscal integrity to collect more than the current limit.

Figure 5: Adopted Biennial Budget FY 2024/25 and FY 2025/26 with Ten-Year Forecast without PWSC



Once the Board makes the Section 124.5 determination, it can project and implement related actions at Metropolitan based on the assumption that Metropolitan *will* collect more than \$0 in property tax revenues. For Fiscal Year 2025/2026, property tax revenues are estimated at about \$395 million and represent a key component of revenues used to meet Metropolitan’s total appropriated budget of \$2.397 billion. Along with rates, charges, interest income, and other miscellaneous revenues, these property tax collections help to balance expenditures and revenues while keeping water rate increases at a manageable level.

Even with prudent fiscal management, staff asserts that property tax revenues at the current rate are essential to offset future cost pressures, including the inherent volatility of water sales, and to help sustain Metropolitan’s long-term financial stability, and at the very least requires some level of property tax collection. Stated differently, one could ask if an estimated 25 percent minimum increase to the overall rates and charges, above the rate increases already forecasted, to recover lost property tax revenues in the upcoming biennium budget for FY 2026/27 and FY 2027/28 is fiscally sustainable. To compensate for the loss of property tax revenues, the 25 percent overall rate adjustment would need to take effect in January 1, 2027, and would still require the use of approximately \$265 million in unrestricted reserves in the first year of the biennium (FY 2026/27), if available, as the rate increase would only be effective for four months of the fiscal year. As outlined in the September 2025 FAAME Board Letter (Item 9-2), Metropolitan’s ability to collect property tax revenues beyond the Section 124.5 limitation is considered essential to maintaining Metropolitan’s fiscal integrity and ensuring sufficient resources to meet ongoing SWC obligations and other system costs.

Metropolitan's Existing System Requires Significant Capital Investment to Maintain System Integrity

As discussed in the October 2025 FAAME Committee Board Letter, Metropolitan's Ten-Year Financial Forecast includes two near-term cost scenarios that together describe the pressures on system O&M: the Revised Forecast with Known Changes and the Needed to Maintain Current System Integrity scenario. These analyses provide a transparent view of the funding required to sustain Metropolitan's existing system while maintaining reliable water delivery, meeting workforce needs, and complying with regulatory requirements.

The Revised Forecast with Known Changes updates the adopted Biennial Budget and Ten-Year Forecast to reflect recent Board actions and updated assumptions while holding all other factors constant. The revision incorporates lower projected water transactions based on updated demand projections and the 70 percent exceedance level approved by the Board in July 2025. It also reflects the amended San Diego County Water Authority – Metropolitan Exchange Agreement, which decouples exchange price from Metropolitan's rates; funding for Delta Conveyance Project planning and preconstruction costs for 2026 and 2027; \$75 million in new credits from DWR to offset existing SWC costs; and \$35 million in funding, supported by a \$35 million credit facility, to transition Metropolitan's fleet to zero-emission vehicles (ZEV), with related debt service of approximately \$5 million annually beginning in FY 2026/27. Finally, the scenario includes higher property tax revenues reported in the FY 2024/25 Fourth Quarter Report.

The Needed to Maintain Current System Integrity scenario builds upon the Revised Forecast with Known Changes by adding the near-term cost drivers identified through updated operational and capital planning assessments. These additional requirements reflect the investments necessary to maintain adequate staffing, expand capital reinvestment, and modernize critical assets. Metropolitan's multi-year staffing plan calls for the gradual addition of 287 positions over three biennia to support operations, capital delivery, and regulatory compliance, with incremental costs increasing from \$10 million in fiscal year 2027 to \$54 million by fiscal year 2032. The Capital Investment Plan (CIP) is projected to rise from \$666.5 million in the current biennium to approximately \$950 million in FY 2026/27–2027/28, driven by carryover contract commitments, drought-resilience investments, and recalibrated baseline infrastructure needs. To manage the initial impact on rates, the \$284 million increase in CIP for the upcoming biennium will be supported by long-term debt, resulting in about \$17 million in annual debt service. Fleet modernization costs add approximately \$12 million per year, including \$5 million in debt service from the ZEV credit facility and \$7 million in ongoing maintenance and replacement expenses.

Together, these factors illustrate that the Revised Forecast with Known Changes and Needed to Maintain Current System Integrity scenarios reflect the increased funding needs required to sustain reliable operations, meet regulatory and workforce demands, and preserve the integrity of Metropolitan's existing system. These investments are necessary to sustain reliable operations and system performance.

Under the Revised Forecast with Known Changes, without including new long-term resource initiatives such as Pure Water Southern California, rate increases totaling approximately 15 percent are projected during Calendar Years 2027 and 2028 before incorporating updates to supply program cost increases due to Colorado River supply reduction post 2026, State Water Project costs and variable costs, and without the additional fundings necessary for existing system. When factoring in additional funding required to sustain the existing system's integrity, the projected total rate increases rise to about 18 percent over the same two years. Continued collection of property taxes is essential to avoid worsening these upward pressures and provide a measure of stability for Metropolitan's water rates for its member agencies.

Figure 6: Projected Overall Cost Increases – Needed to Maintain Current System Integrity vs. Revised Forecast with Known Changes

Calendar Year	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037 – 2045 Avg %/yr
Adopted Ten-year forecast w/ PWSC *	23% 11.5%	11.5%	5%	5%	4%	4%	4%	4%			
Adopted Ten-Year Forecast w/o PWSC *	13% 7.5%	5.5%	4%	4%	4%	3%	3%	3%			
Revised Forecast with Known Changes	15% 10%	5%	3%	3%	4%	4%	5%	5%	4%	4%	~4%/yr
Needed to Maintain Current System Integrity	18% 12%	6%	5%	5%	6%	6%	5%	5%	4%	4%	~4%/yr

* PWSC Phase 1 - 115 MGD using 2023 estimated costs (\$6.4B in 2023\$)

Metropolitan is Facing a Less Predictable Water Supply and Demand Future, as Shown in CAMP4W’s Adaptive Management Approach and Major Project Assessments

As the Board embarked on the CAMP4W process, it recognized the importance of analyzing Metropolitan’s future water resource portfolio needs through a more focused lens of climate change and other environmental risk factors. As conditions are expected to remain volatile (see <https://mwdh2o.legistar.com/View.ashx?M=F&ID=13996354&GUID=92FD9ECE-A39F-44A1-A27D-4ADB954DD8EA>), Metropolitan must adapt to address these often significant and swiftly changing conditions, which staff believes should include a reconsideration of the level of fixed revenues (i.e., property taxes) as part of Metropolitan’s revenue structure. Regardless of the specific project or portfolio of projects the Board chooses, the costs from all the options are extensive and will add financial pressure to the projected Ten-Year Financial Forecast.

Metropolitan’s long-term water reliability strategy includes several large-scale projects currently under evaluation, as shown in Figure 7 below. These projects represent significant capital investments aimed at enhancing regional water reliability, operational flexibility, and drought resilience. For clarity, all cost estimates in this section are expressed in 2025 dollars unless otherwise noted. These figures and dates are preliminary and subject to refinement as planning advances and additional information becomes available.

Figure 7: Summary of Major Projects in Metropolitan’s Long-Term Planning Process

Project Names	MWD Share Capital Costs (in 2025 \$)	Construction Year Start	Production Year
Pure Water Southern California (PWSC) – 45/75 MGD (Staged) *	\$7.2 B (net of grants)	2027	45MGD – 2035 75MGD – 2037
AVEK Expansion (Phase 2)	\$500 M	2030	2035
Sites Reservoir (22% participation)	\$1.7 B	2027	2033
SWP Surface Storage	\$2.6 B	2033	2040
Delta Conveyance Project (47% participation)	\$10.1 B (\$9.5 B in 2023\$)	2029	2045
East-West Conveyance	\$4.6 B	2032	2042

* The staged PWSC 45/75 MGD is one of several potential options to be considered by the Board.

Rating Agency Considerations on Property Tax Revenues

It is important to emphasize that the Board's decision in making a determination regarding the applicability of Section 124.5 should consider the perspective of outside stakeholders, particularly credit rating agencies that provide credit assessments and ratings on Metropolitan's outstanding bonds.

Metropolitan is rated by three major credit rating agencies – Standard and Poor's, Moody's Investors Service (Moody's) and Fitch Ratings Service (Fitch) on approximately \$4.6 billion of outstanding debt. Positive ratings maintain Metropolitan's accessibility to lower-interest financing. Several rating agencies have provided relevant commentary in their rating reports on the value of fixed revenues to a utility's revenue mix to mitigate revenue volatility in addition to any established reserve funds. Each of the agencies in their most recent credit reports cited the importance of fixed revenues (i.e., property taxes) in the ability of Metropolitan to achieve rate affordability. This diversification is noted as a credit positive, ensuring Metropolitan is a competitive source for member agencies to meet their water demands.

Credit rating agencies provide criteria for rating debt issued by public agencies based on various financial, demographic, legal and socio-economic factors, among others. Essentially, ratings provide an overview of an agency's financial health, i.e., fiscal integrity, to assess risk exposure generally and (in this instance) an agency's ability to repay its debt obligations. In a previous report to the Board on this matter, staff cited Fitch Ratings' U.S. Water and Sewer Rating Criteria, published March 18, 2021. In it, Fitch set forth relevant criteria that provided guidance on this matter. Whereas Fitch was more explicit with some of its recommended targets—specifically the proportion of fixed revenue to total revenue, today it operates under an updated set of criteria—Fitch Rating's U.S. Water and Sewer Rating Criteria, published February 24, 2025, designed to give it more flexibility in evaluating the unique circumstances of public agencies. This report is available on Metropolitan's [website](#), containing all supportive information and documents related to this matter.

Instead of stating an explicit target of 30 percent or more of fixed revenue to total revenue, Fitch now more broadly describes (and relies on) "revenue defensibility" as a key element to assessing the financial health of a public agency in the water and sewer sector. Fitch's rating process includes an analysis of a utility's financial flexibility under certain stress-test scenarios over a five-year horizon.

"[P]articular aspects of [Fitch's] criteria may have applicability depending on the type of operations and related risks of a given utility." However, one criterion that stands out is the significance fixed revenue (such as Metropolitan's property taxes) has for purposes of evaluating an agency's fiscal health.

Fitch Criteria: Revenue Defensibility entails "...an assessment of a utility's exposure to demand volatility and the flexibility within its rate-setting framework to recover costs of service and maintain operating profitability."

- "In its assessment of revenue defensibility, Fitch analyzes the historical patterns of revenue performance through economic and investment cycles, as well as growth trends over time, considering the utility's revenue mix, customer characteristics, contractual framework, the economic underpinnings of its service area, and its capability to preserve revenue generation through rate increases or other measures." (Page 4.)
- "Fitch may also determine the rate flexibility assessment to be higher...if characteristics are present that would tend to...lead to overall revenue stability...utilities who collect a significant amount of revenues from fixed charges, including revenues from property taxes or assessments, etc., may be assessed higher...given the nature of this income would...ensure greater revenue stability..." (Page 6.)
- "Fitch evaluates a utility's vulnerability to sudden drops in demand and the impact on revenue defensibility..." (Page 7.)

Applying Fitch's revised criteria for fixed revenues to Metropolitan supports that maintaining property tax revenues (a fixed revenue source) is essential to Metropolitan's fiscal integrity.

Moody's Ratings credit analysis compliments management and the Board: "MWD's strong budgeting strategies are evidenced by the adoption of rate increases of 8.5 percent in both fiscal 2025 and 2026; a property tax increase that is expected to drive the share of fixed revenue charges to 25 percent; and a reduction in assumed water consumption levels to 1.34 MAF. In combination, these strategies will improve the likelihood that projections of stronger debt service coverage levels will be met." Moreover, Moody's acknowledged that MWD and its member

agencies continue to take steps to address risks associated with California's variable precipitation and recurring drought conditions. In April 2025, the Board approved the Climate Adaptation Master Plan for Water Implementation Strategy (CAMP4W), an iterative planning framework that will integrate water resources, climate, and financial planning to guide decision-making. Ongoing efforts include additions to storage and the development of new local supplies. MWD has also begun construction projects to ensure redundancy throughout the system.

Affordability and Equity

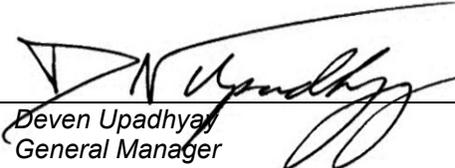
The Board has clearly expressed concerns of rate affordability over recent years. Rate increases at Metropolitan raise the cost of wholesale water and may potentially increase the cost of retail water, depending on a great number of factors at each member agency and their customer agencies. Water rates are not income-dependent in California, while ad valorem property taxes are, in fact, progressive taxes. Ad valorem taxes collect more from higher-valued properties than from lower-valued properties that are more likely to be occupied by low-income earners. The recovery of revenues from ad valorem property taxes relieves low-income households from carrying a higher burden of the cost of reliability needed for all properties in Metropolitan's service area.

Property taxes are also important to fiscal health because they help Metropolitan equitably distribute the costs of Metropolitan's services. As a wholesale water agency, Metropolitan's customers are its 26 member agencies. Each member agency pays volumetric rates based on the amount of water Metropolitan sells and delivers to it. In contrast, property taxes are levied directly on residents and businesses that are property owners within Metropolitan's service area. All property owners within Metropolitan's service area benefit from the water system that allows water to be sold and delivered in Southern California, which also supports the value of these same properties. Property taxes ensure that residences and businesses pay a modest share of the costs of maintaining and improving the Metropolitan water delivery system.

Conclusion

In summary, this board letter provides the Board with the background and implications of the Section 124.5 Act's limitations on Metropolitan's ability to collect property taxes beginning on and following July 1, 2026. Given the importance of this revenue component to Metropolitan's finances, staff has carefully provided a host of supportive analyses and documentation from internal and external stakeholders for the Board's consideration when making its determination. This information is made available on Metropolitan's [website](#) under the section *Review of Applicability of Property Tax Limit – FYs 26/27-35/36*. After its due diligence and assessment of all the relevant analysis and documentation, staff concludes that it is essential to Metropolitan's fiscal integrity to collect more than the Section 124.5 limit.


 _____ 11/6/2025
 Katano Kasaine Date
 Assistant General Manager/
 Chief Financial Officer


 _____ 11/6/2025
 Deven Upadhyay Date
 General Manager

Attachment 1 – Resolution Finding that for Fiscal Years 2026/27 through 2035/36 the Ad Valorem Property Tax Limitation in Section 124.5 of the Metropolitan Water District Act is not Applicable Because it is Essential to Metropolitan's Fiscal Integrity to Collect Ad Valorem Property Taxes in Excess of that Limitation (Option 1)

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

RESOLUTION _____

**RESOLUTION OF THE BOARD OF DIRECTORS
OF THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA**

**FINDING THAT FOR FISCAL YEARS 2026/27 THROUGH 2035/36, THE AD
VALOREM PROPERTY TAX RATE LIMITATION IN SECTION 124.5 OF THE
METROPOLITAN WATER DISTRICT ACT IS NOT APPLICABLE BECAUSE IT IS
ESSENTIAL TO METROPOLITAN'S FISCAL INTEGRITY TO COLLECT AD
VALOREM PROPERTY TAXES IN EXCESS OF THAT LIMITATION**

The Board of Directors of The Metropolitan Water District of Southern California (the "Board") has considered and finds the following:

1. The Metropolitan Water District of Southern California ("Metropolitan"), pursuant to Section 124 of the Metropolitan Water District Act (the "Act"), is authorized 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.
2. Pursuant to Section 307 of the Act, the Board of Directors ("Board") determines the amount of money necessary to be raised by taxation for district purposes each fiscal year and fixes rates of taxation upon the assessed valuation of property taxable by the district to be levied accordingly.
3. The Board, pursuant to sections 133 and 134 of the Act, is authorized to fix the rate or rates at which water shall be sold. Such rates, so far as practicable, shall result in revenue which, together with revenue from fixed charges or assessments, will pay Metropolitan's operating expenses, capital costs, debt service and other expenses and obligations.
4. Before 1942, all revenues to pay for operations, construction of the Colorado River Aqueduct, other facilities, and other Metropolitan obligations came from ad valorem property taxes. After deliveries of Metropolitan water began in fiscal year 1941/42, water sales were an additional source of revenues, but not until 1974 did revenues from water sales equal revenues from ad valorem taxes.
5. On November 4, 1960, Metropolitan entered into its long-term contract with the California Department of Water Resources (the "State Water Contract") for participation in the State Water Project. Metropolitan's was the first contract executed and the prototype for the 28

state water contracts that followed; its terms were validated by the California Supreme Court in *Metropolitan Water Dist. v. Marquardt* (1963) 59 Cal.2d 159.

6. Under the State Water Contract, Metropolitan is a participant and obligated to pay allocable portions of the cost of construction and replacement of the State Water Project system, as well as ongoing operating and maintenance costs, regardless of quantities of water delivered to Metropolitan and regardless of the amounts of water Metropolitan delivers to its member agencies. Approximately 70 percent of Metropolitan's State Water Contract obligations are fixed, or unrelated to the quantity of water delivered.

7. Metropolitan's authority to levy a tax or assessment to satisfy State Water Contract obligations was a condition to entering into the State Water Contract, and the California Department of Water Resources ("DWR") only executed state water contracts with agencies that have taxing power. The State Water Contract expressly provides that, if other available funds are not sufficient, Metropolitan must levy a tax or assessment to satisfy its State Water Contract obligations.

8. Metropolitan's outstanding general obligation bonds and State Water Contract obligations are indebtedness approved by the California voters before Article XIII A of the California Constitution (Proposition 13) was adopted. (Cal. Const., Art. XIII A, §1(b)(1); see also, *Goodman v. County of Riverside* (1983) 140 Cal.App.3d 900.)

9. Section 124.5 provides that beginning in fiscal year 1990/91, Metropolitan must limit the ad valorem property tax to collect no more than the amount required to pay for a fraction of voter-approved debt, specifically, the composite amount required to pay (1) the principal and interest on general obligation bonded indebtedness of the district and (2) that portion of the district's payment obligation under a water service contract with the state which is reasonably allocable, as determined by Metropolitan, to the payment by the state of principal and interest on bonds issued pursuant to the California Water Resources Development Bond Act as of the effective date of Section 124.5 and used to finance construction of facilities for the benefit of the district.

10. Section 124.5 further provides that its restrictions 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 of the hearing is filed with the offices of the Speaker of the Assembly and the President pro Tempore of the Senate at least 10 days prior to that date of the hearing."

11. The Board has made the determination of "essential to fiscal integrity" to collect above the statutory limit since fiscal year 2013/14 when it started setting the rate at an all-time low of 0.0035 percent.

12. Metropolitan is in the process of assessing its long-term system, resources, and financial needs. On November 14, 2023, the Board voted to concur with the Long-Range Financial Plan Needs Assessment (LRFP-NA). The LRFP-NA outlined the estimated total

capital investment requirements and estimated overall water rate increases associated with four demand and supply scenarios taken from the 2020 Integrated Resources Plan-Needs Assessment. Each of the scenarios set forth significant financial needs for Metropolitan to meet demands and reliability needs of its member agencies. The LRFP-NA also introduced potential financial tools that could become components of a tailored financial strategy and cataloged Metropolitan's key policies related to the capital markets, including the use of property tax revenues.

13. In connection with its long-term planning, on September 9, 2025, the General Manager presented an information letter to the Board reviewing the process for determining the applicability of Section 124.5 for fiscal years 2026/27 through 2035/36. In the letter, the General Manager informed the Board that, among other factors, the Section 124.5 limit would restrict Metropolitan to collecting no more than approximately \$2 million in property tax revenues each year. Spread across all properties within Metropolitan's service area, collection of \$2 million would require a tax rate so small that county tax collectors may not be able to process.

14. On October 14, 2025, the General Manager provided an information letter to the Board reviewing near-term and long-term financial circumstances Metropolitan is facing. The assumptions included the cost impacts of maintaining the existing system, investing in new projects, and a combination of other parameters, including water demand sensitivities, conservation funding, and impacts of post-2026 guidelines on the Colorado River. Even under the most optimistic scenario analyzed, without new project development, Metropolitan is facing volumetric rate increases year after year. This forecast included a 0.007 percent property tax rate assumption, which is more than the Section 124.5 limit. In the absence of the property tax assumption, Metropolitan's rates would need to increase even more significantly than the projected increases presented to the Board.

15. On November 18, 2025, the Board held a public hearing as required by Section 124.5, for the public to comment on the recommendation that it is essential to Metropolitan's fiscal integrity to collect more than the Section 124.5 limit (which is close to \$0 in property tax revenues) in fiscal years 2026/27 through 2035/36. Metropolitan filed notices of the November 18, 2025, public hearing with the offices of the Speaker of the Assembly and the President pro Tempore of the Senate on October 31, 2025. Since at least October 31, 2025, Metropolitan has posted supporting documentation of the recommendation regarding Section 124.5 at <https://www.mwdh2o.com/budget-finance/property-tax-rate-for-fy/>.

16. On November 18, 2025, after the public hearing, the General Manager presented to the Board the proposal that the Board make a determination that the Section 124.5 limit is not applicable to for fiscal years 2026/27 through 2035/36, including the financial information provided in the action letter published on November 7, 2025. The Board discussed and considered the information provided.

17. When fixing tax rates and setting water service rates and charges, the Board and Metropolitan's member agencies evaluate the appropriate mix of property taxes and water rates and charges to promote Metropolitan's fiscal stability and ensure its ability to satisfy the region's

long-term water supply needs while reasonably and fairly allocating the cost of providing service to its member agencies and complying with legal requirements.

18. Metropolitan's revenues from water transactions and deliveries vary with the quantity of water delivered and water deliveries fluctuate significantly with drought, weather conditions, availability of local supplies, economic conditions and other factors affecting regional demands. During the period from fiscal year 2014/15 through fiscal year 2024/25, Metropolitan's annual Member Agency water transactions ranged from 1.17 million acre-feet to 2.02 million acre-feet.

19. Metropolitan currently utilizes tax revenues solely to pay debt service on its general obligation bonds, approved by the voters in 1966 and presently outstanding in the amount of \$17,155,000 as of July 1, 2025, and a portion of its State Water Contract obligations capital costs.

20. Metropolitan's participation in the State Water Project under the State Water Contract is fundamental to Metropolitan's ability to consistently provide a reliable water supply and delivery at wholesale to its service area and, thus, satisfaction of its State Water Contract obligations is essential to Metropolitan's mission.

21. The State Water Project facilities are over 50 years old, and Metropolitan's State Water Contract obligations include increasing costs for repair and replacement of existing facilities that are needed to both maintain the storage and conveyance capacity of the State Water Project facilities and assure continued availability and delivery of supplies from the State Water Project and other sources. Metropolitan's State Water Contract obligations also include substantial construction, replacement, operation, and maintenance costs for endangered species protection and conservation measures, consistent with state and federal mandates. These obligations must be undertaken to ensure the reliability of the State Water Project, to address ecosystem needs, and to secure long-term operating permits consistent with the federal and state endangered species acts.

22. Metropolitan's FY 2025/26 annual budget for total State Water Contract payment obligations is \$704 million. Of that amount (before the application of capital credits), approximately \$538 million is fixed (69 percent), and \$242 million are variable expenses (31 percent). Moreover, in the State Water Project Annual Budget Report (2025 and 2026), DWR shows that costs for Operation, Maintenance, Power, and Replacement has increased on average by 4.7 percent since 2019. DWR projects capital costs will also increase. DWR estimates capital costs to total approximately \$5.7 billion over the next 12 years.

23. When it enacted Section 124.5, the Legislature recognized the importance of robust fixed revenue sources. At the same time that it established the rate restriction and safety valve to make the restriction inapplicable, it authorized alternative fixed revenue sources in the form of benefit assessments and standby charges. To the extent such assessments or charges would be new assessments or charges, they would likely be governed by additional requirements not in place or contemplated when the Legislature enacted Section 124.5. In the Board's

judgment, adoption of such new or additional assessments or charges is not practical and they are not practical fixed revenue sources at this time, especially because those assessments and charges would be collected from the same property owners already paying the ad valorem property taxes.

24. FY 2025/26, approximately 86 percent of Metropolitan's estimated costs are fixed, while approximately 28 percent of Metropolitan's revenues are from fixed sources, including ad valorem property taxes, readiness-to-serve and capacity charges; Collecting an amount in excess of the Section 124.5 rate limitation will allow Metropolitan to sustain ad valorem property tax revenues at 14 percent of overall revenues in fiscal year 2026/27 through fiscal year 2035/36. If Section 124.5 limitations were applied, it is anticipated that, in fiscal years 2026/27 through 2035/36, and thereafter, ad valorem property tax revenue would drop to \$2 million, declining to zero in FY 2036/37.

25. If the Section 124.5 limit is applicable, in fiscal years 2026/27 through 2035/36 fixed revenues as a percentage of total revenues will decline by approximately 14 percent.

26. Considering Metropolitan's significant fixed costs and fluctuating volumetric revenues, robust and diverse fixed revenues are essential to Metropolitan's fiscal well-being for the additional reason that they help Metropolitan maintain its creditworthiness. Positive credit ratings are central to fiscal integrity because they reduce the cost of borrowing and provide flexibility by increasing access to credit markets. Access to credit markets is especially important whenever Metropolitan faces supply or demand uncertainties. As set forth above, collecting more tax revenue in excess of the Section 124.5 limit will allow Metropolitan to retain important fixed revenues.

27. Ad valorem taxes are an important component of Metropolitan's fiscal integrity because they help ensure that those for whom costs are incurred help pay those costs. As a wholesale water agency, Metropolitan's customers are its 26 member agencies. Each member agency pays volumetric rates based on the amount of water transactions with Metropolitan; whereas ad valorem taxes are levied directly on residents and businesses that are property owners within Metropolitan's service area. All property owners within Metropolitan's service area benefit from the water system that allows water to be delivered in Southern California, which also supports the value of these same properties. Ad valorem taxes ensure that residences and businesses pay a share of costs of the system.

28. Continuing an ad valorem property tax rate in excess of the limits of Section 124.5 and preventing the decline in fixed revenues will create a more stable water revenue structure that can better deal with fluctuations in water transactions and support drought response measures.

29. Metropolitan's reliance on property taxes is significantly lower than most other agencies that entered into state water contracts. Other state water contractors rely on property taxes to cover up to 100 percent of their State Water Contract obligations. With Metropolitan's recent increase in property tax rates in the current biennium, Metropolitan pays approximately 56 percent of its State Water Contract obligations from property tax revenues.

30. The Board has carefully considered the comments and evidence and all material factors relevant to the finding, and all such materials were made available at <https://www.mwdh2o.com/budget-finance/property-tax-rate-for-fy/>.

31. The meeting of the Board was conducted in accordance with the Brown Act (commencing at Section 54950 of the Government Code), for which due notice was provided and at which a quorum was present and acting throughout; and

32. A ten-year determination of the applicability of Section 124.5 is appropriate given (1) the flexibility required to manage Metropolitan's finances during fluctuating water supply conditions, (2) the time required to complete ongoing financial and strategic planning efforts, (3) inherent volatility found in Metropolitan's financial profile, (4) the scope of financial planning timeframes used in the financial sector for various projections and analysis, and (5) Metropolitan's long-term planning time period, including the LRFP-NA and Ten-Year Financial Forecast.

NOW, THEREFORE, the Board of Directors of The Metropolitan Water District of Southern California, after receiving, considering, and evaluating public comments and evidence and all material factors pertaining thereto, including the financial and operating information summarized in the board letter presented on November 18, 2025, and in recognition of the facts and considerations set forth in this Resolution, hereby:

1. Finds and determines that it is essential to Metropolitan's fiscal integrity to collect ad valorem property taxes in excess of the Section 124.5 limitation on ad valorem property taxes in fiscal years 2026/27 through 2035/36; and
2. Resolves and determines that pursuant to its finding, the tax rate limitation in Section 124.5 of the Act is inapplicable when setting the ad valorem property tax rate for fiscal years 2026/27 through 2035/36; and
3. Waives compliance with Section 4301(b) of Metropolitan's Administrative Code for any tax levy that utilizes this finding regarding Section 124.5 of the Act.

I HEREBY CERTIFY that the foregoing is a full, true, and correct copy of a resolution of the Board of Directors of The Metropolitan Water District of Southern California, adopted at its meeting held November 18, 2025.

Secretary of the Board of Directors
of the Metropolitan Water District
of Southern California