



Finance, Affordability, Asset Management &  
Efficiency Committee

# Section 124.5 Determination Finding

Item 8-2

November 18, 2025

Item 8-2  
Metropolitan  
Water District  
Act Section  
124.5

## 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

## Purpose

- To provide supportive information to the Board to make a determination regarding the applicability of Section 124.5 and its impact on property tax revenues

## 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.

*Staff and the Board have engaged in a detailed, methodical and transparent process to assess the circumstances for making a finding related to the applicability of Section 124.5*

# Summary of Process

## 2023 to 2025

- Staff developed a Long-Range Finance Plan Needs Assessment, and embarked on the CAMP4W planning process that is still ongoing

## Sep 2025

- Staff provided the Board an informational Board letter and presentation covering the background, process and relevance of Section 124.5 limitation
- Member agency manager meeting presentation

## Oct 2025

- Staff provided the Board a Major Budget Drivers Report for the upcoming Biennium Budget and Ten-Year Financial Forecast period
- Staff provided notice to the CA State Legislature of the public hearing
- Staff assembled a website of key supportive documentation for its findings and recommendation

## Nov 2025

- Public Hearing to be held at Nov. Board Meeting

# MWD Act Section 124.5

- Metropolitan Act Section 124.5, enacted in 1984 and effective FY 1990/91, limits ad valorem property taxes to recover:
  - Metropolitan's general obligation bond debt service; and
  - A portion of its State Water Contract (SWC) 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 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 collect more than the Section 124.5 limit

# Meaning of “Essential to Fiscal Integrity”

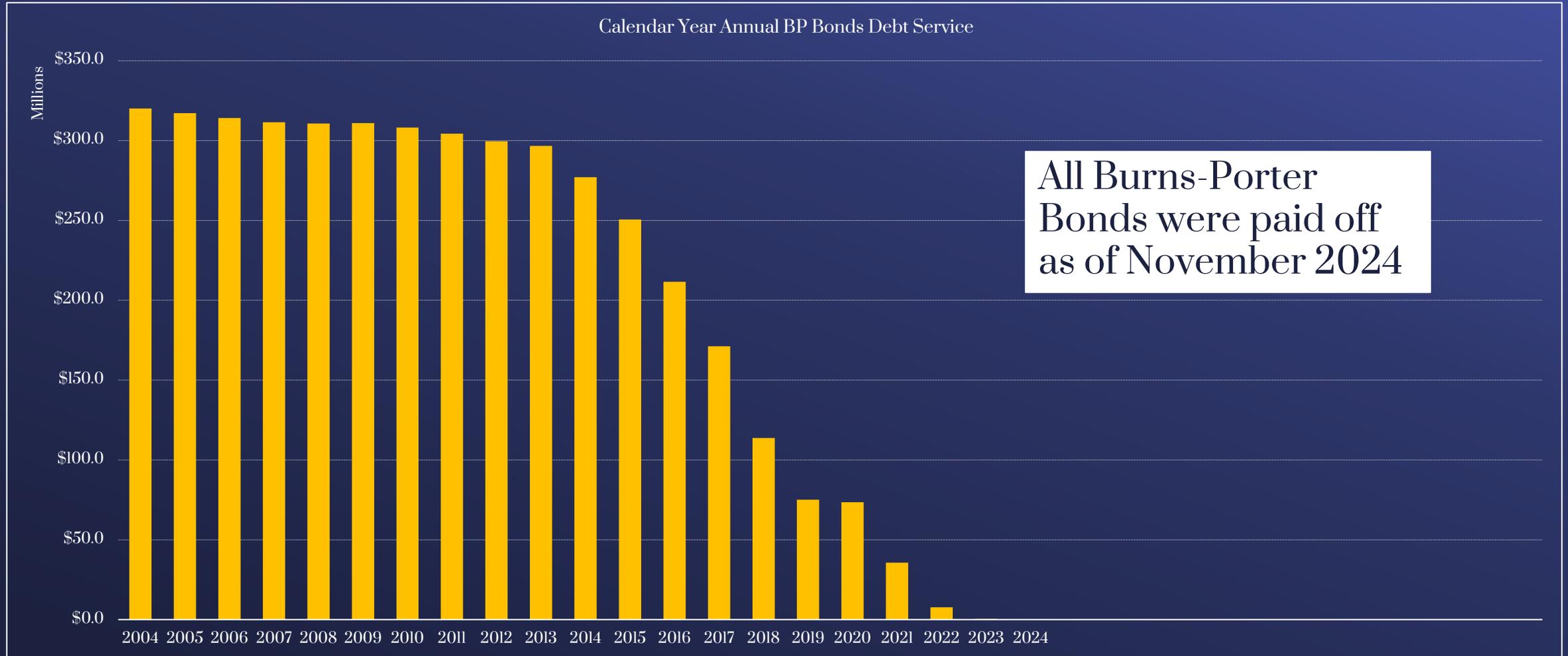
- Not defined in statute
- Applicability determination left to discretion of the Board
- No time period for the determination was established by the State Legislature
- Industry and Metropolitan metrics provide guidance

# Legal Effect of 124.5 Determination

- Section 124.5 limit does not apply during the applicable period; the Board may set a rate in excess of the limit during that period, but is not required to do so.
- No specific tax rate is set with this determination; no minimum or maximum tax rate established
- Tax rates are considered and set by the Board each August

# Outstanding Debt Service

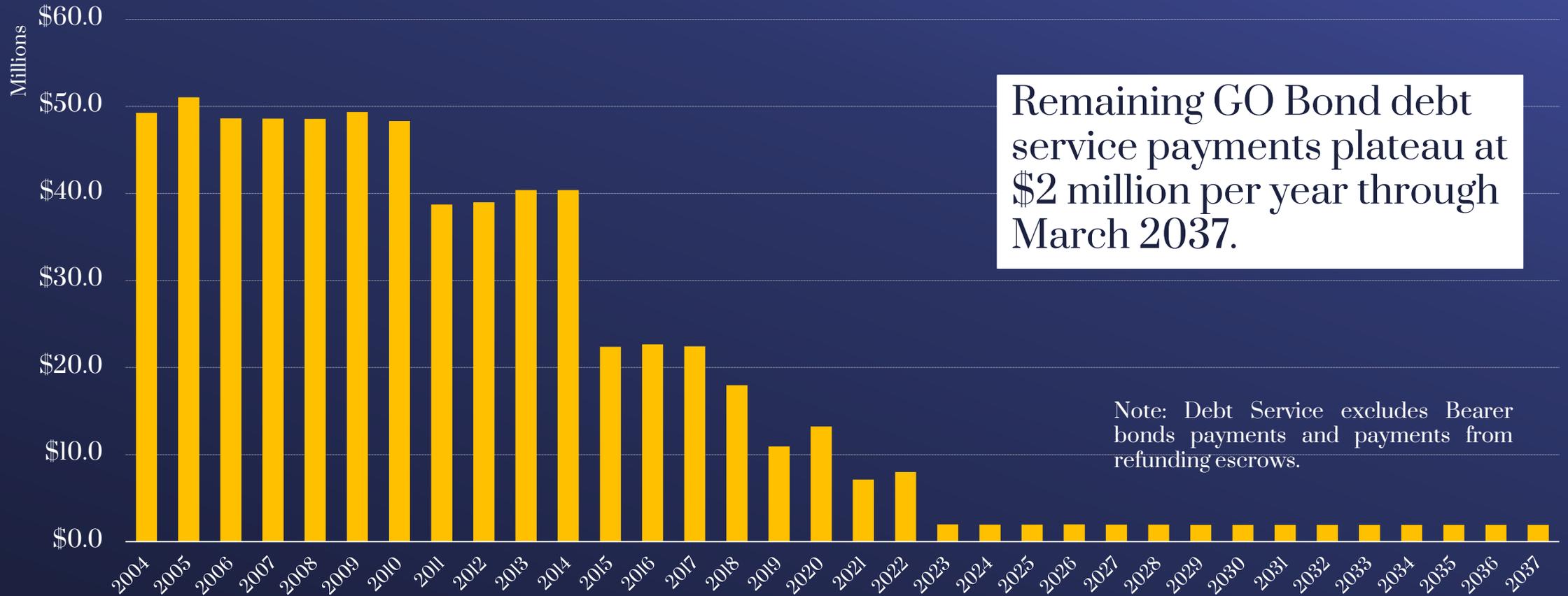
## SWC -DWR Burns-Porter Bonds



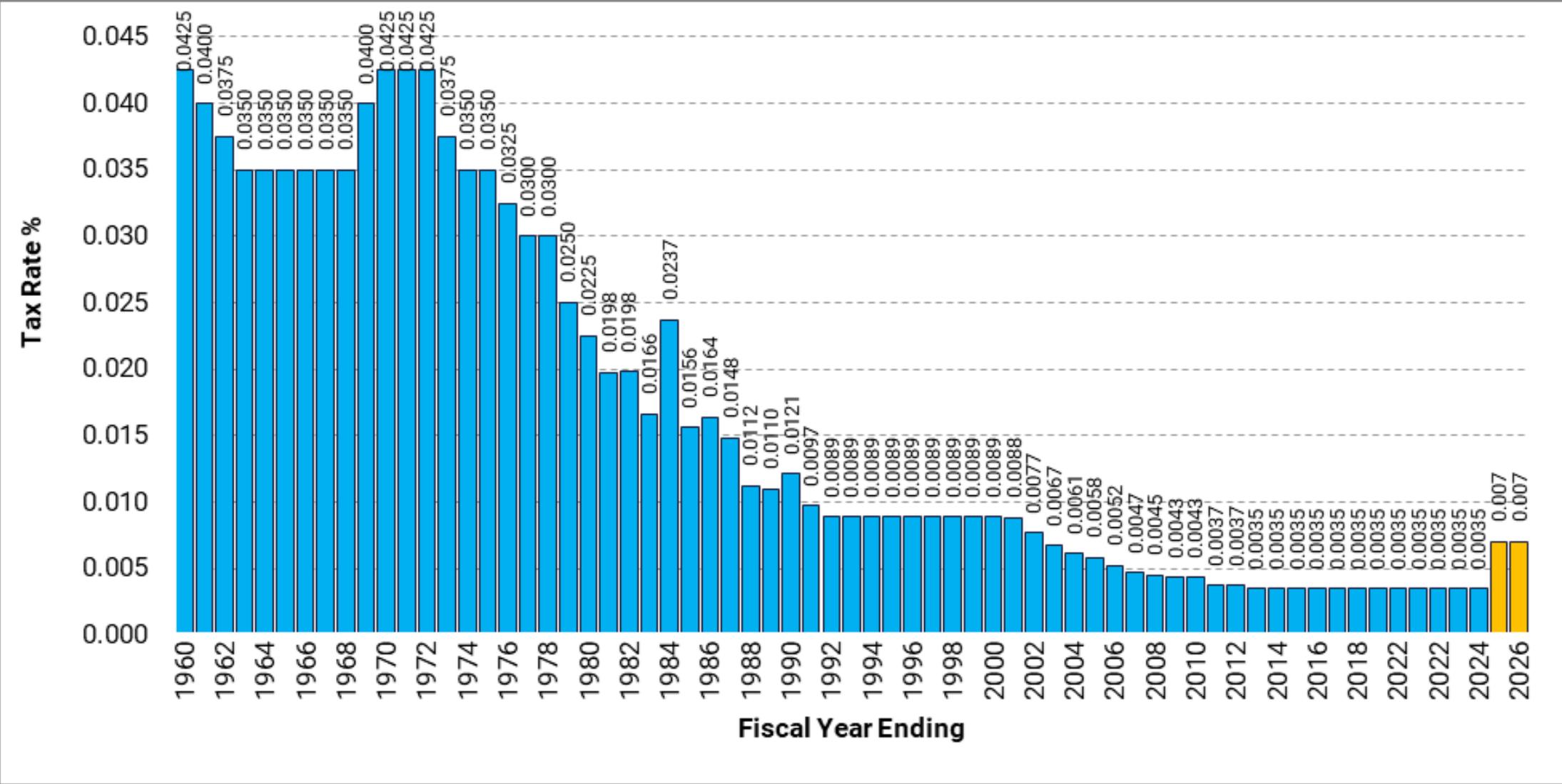
# Outstanding Debt Service

## MWD GO Bonds

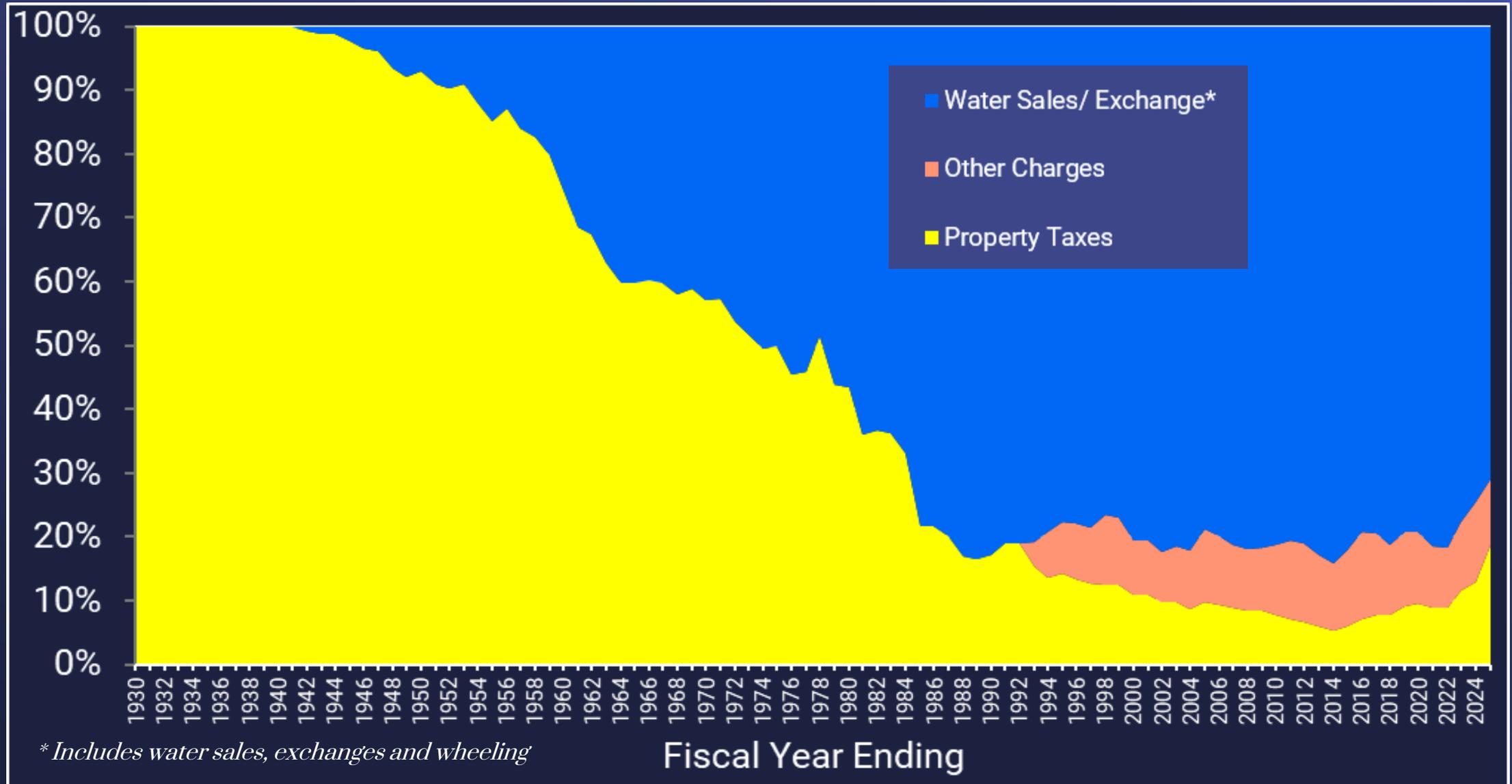
Fiscal Year Annual MWD GO Bonds Debt Service



# Ad Valorem Property Tax Rates, FY1960 – FY 2026



# Metropolitan's Historical Revenue Sources, FY 1930 – FY 2025



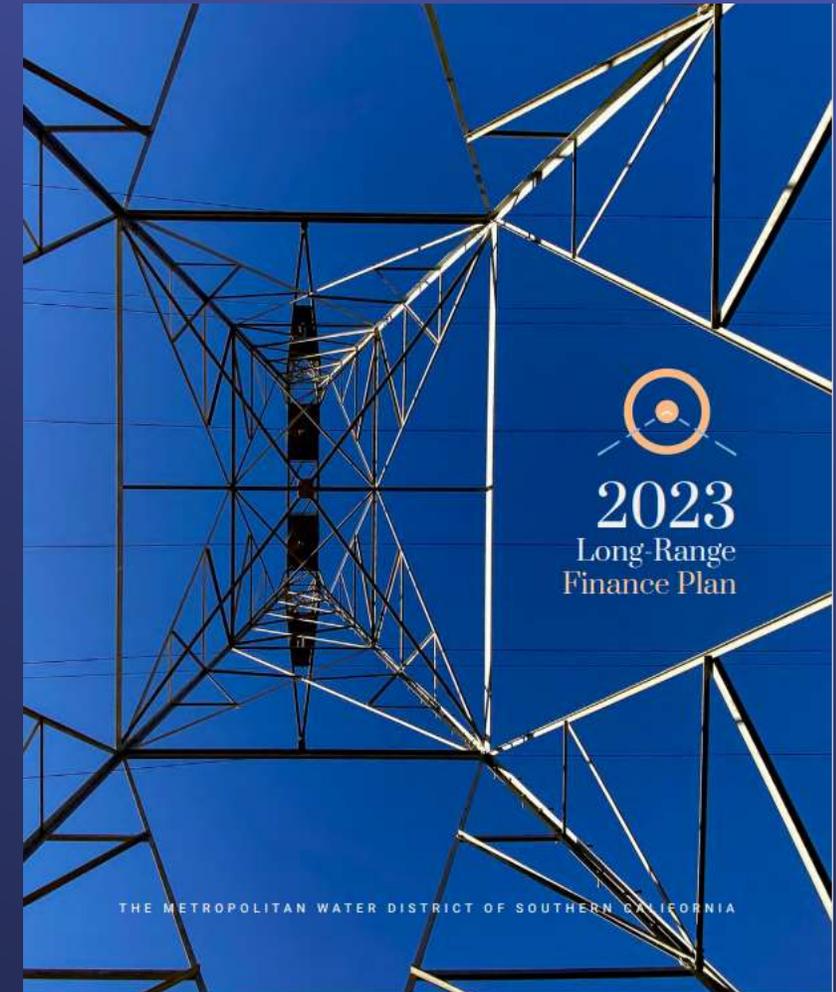
\*Includes water sales, exchanges and wheeling

# Metropolitan's 2023 Long-Range Finance Plan

2023 Long-Range  
Finance Plan

## Needs Assessment

- 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 LRFP-NA
- Estimated total capital investment requirements and overall water rate increases associated with the four IRP A, B, C, and D demand and supply scenarios taken from the 2020 Integrated Resources Plan-Needs Assessment.



# Estimated Capital Investment for IRP D Scenario

Metropolitan is currently conducting an important planning process.

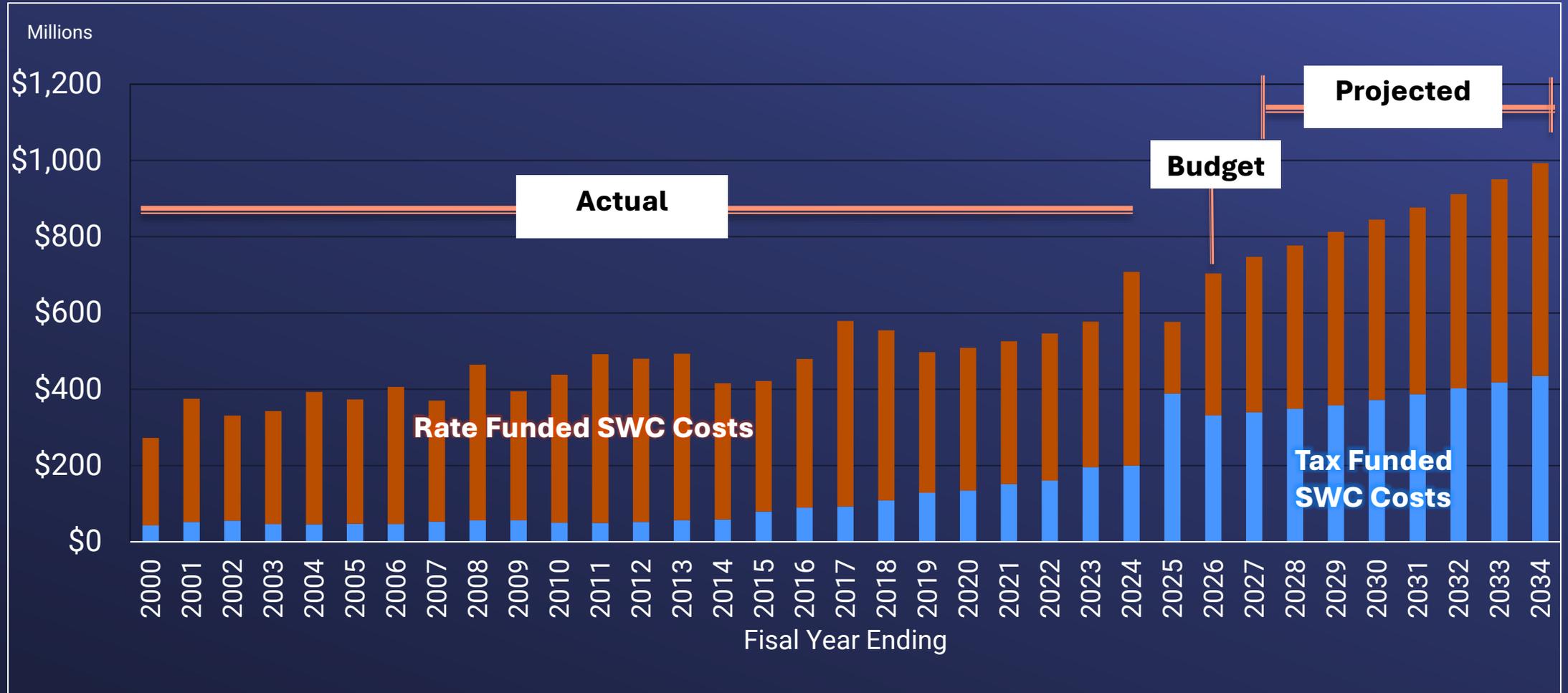
Staff estimated the scale of capital investments required to achieve 100% reliability by 2032 and 2045.

This estimate in the table below 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.

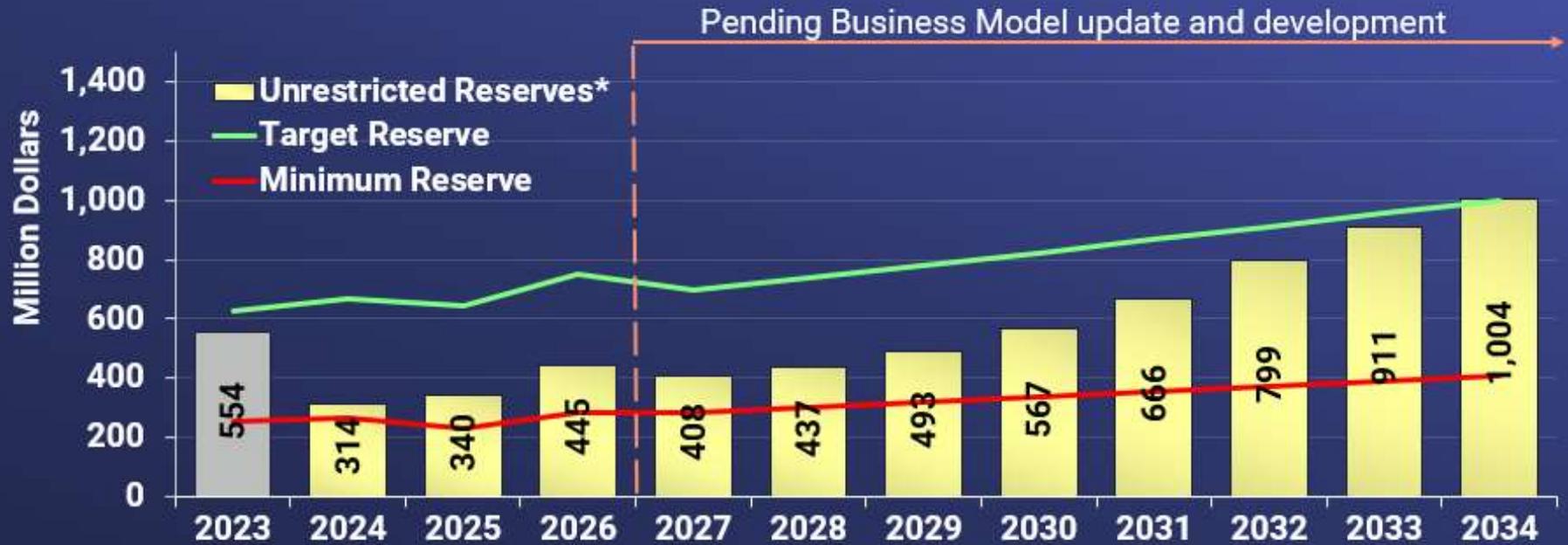
Forecast Period	Resource Development		Estimated Capital Investment ( billions in 2023\$)
	Core Supply (TAF)	Storage Capacity (TAF)	
Thru 2032	200	250	\$5.5 - \$6.0
Thru 2045	550	250	\$14.6 - \$15.3
Thru 2045	500	500	\$14.0 - \$15.3

# State Water Contract Costs

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.



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



\* Revenue Remainder and Water Rate Stabilization Fund  
 \*\* Includes water sales, exchanges and wheeling

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
<b>Overall Rate Inc.</b>	5%	5%	8.5%	8.5%	7.5%	5.5%	4.0%	4.0%	4.0%	3.0%	3.0%	3.0%
<b>Ptax Rate</b>	.0035%	.0035%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%
<b>Water Transactions (MAF)**</b>	1.42	1.17	1.34	1.34	1.34	1.35	1.35	1.36	1.37	1.39	1.41	1.43
<b>Rev. Bond Cvg</b>	1.5	1.1	1.7	1.9	1.6	1.7	1.8	1.8	2.0	2.0	2.1	2.0
<b>CIP, \$M</b>	247	353	312	324	337	351	365	380	395	411	427	444
<b>PAYGO, \$M</b>	135	35	175	175	175	180	190	200	210	220	230	240

# Major Drivers for the Upcoming Biennium Budget for FY27, FY28, and Ten-Year Forecast

More recently, staff embarked on an early budget planning process to provide the Board with preliminary indications of key drivers of the upcoming budget process.

A report provided to the FAAME Committee and Board in October 2025 included a robust discussion of the various drivers and their potential rate impacts on the next budget and the next ten years.

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\$)

# Projected Overall Cost Increases

With the availability of specific project information, although some are still preliminary and subject to change, staff summarized the capital costs, construction year start and production year for the array of projects being considered by the Board.

<b>Project Names</b>	<b>MWD Share Capital Costs (in 2025 \$)</b>	<b>Construction Year Start</b>	<b>Production Year</b>
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.

# Metropolitan's inherent volatility in its financial profile

- Metropolitan's inherent volatility is tied to:
  - Cycles of hydrology
  - Climate Change
- Fixed revenues are a key factor in managing Metropolitan's financial volatility.
- Property taxes offset the need to adjust volumetric rates more frequently, or in a greater magnitude.
  - If a determination regarding the applicability of Section 124.5 limitation is not made, Metropolitan would have a significant revenue impact
  - 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.

# Metropolitan's fiscal integrity is supported by...

- Collecting an ad valorem property tax rate in excess of the 124.5 limit
- Maintaining a fixed revenue source in line with projected growing SWC costs
  - Metropolitan pays approximately 56 percent of its State Water Contract obligations from property tax revenues.
  - If the Section 124.5 limit applies, it would restrict Metropolitan to collecting no more than approximately \$2 million in property tax revenues each year.
- Providing a diversity of fixed revenue sources (Prop Tax, Standby Charge, Capacity Charge) to manage volatile hydrologic conditions

# Justification for a 10-Year Determination...

Making a ten-year determination of the applicability of the MWD Act Section 124.5 is appropriate because...

- |  |   |
|--|---|
| <ol style="list-style-type: none"><li>1. Provides flexibility to manage Metropolitan's finances for anticipated long-term financial needs</li><li>2. The inherent volatility found in Metropolitan's financial profile has a cyclicity beyond the biennium budget period</li><li>3. Provides certainty for Board to consider ongoing financial and strategic planning efforts, which rely on this revenue component</li><li>4. Anticipated Financial Pressure on Cost and Rates due to various anticipated long-term portfolio decisions.</li><li>5. Metropolitan's existing system requires significant capital investment to maintain system integrity</li></ol> | <ol style="list-style-type: none"><li>6. DWR estimates capital costs to total approximately \$5.7 billion over the next 12 years; OMP&amp;R costs increased on average by 4.7 percent since 2019; and project expenses will continue to increase for repair/replacement, subsidence and Aqueduct improvements.</li><li>7. Consistent with the scope of many financial planning timeframes, including Metropolitan's 10-Year Financial Forecast</li><li>8. It aligns with the 2023 Long-Range Finance Plan Needs Assessment objectives.</li><li>9. Section 124.5 limit will remain at ~\$2M total revenue and would require a rate so small county tax collectors may not be able to process</li></ol> |
|--|---|

# Rating Agency Considerations on Property Tax Revenues

Metropolitan's Senior Revenue Bond Credit Ratings		
Moody's	Fitch	S&P
AA1	AA+	AAA

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% in both fiscal years 2025 and 2026; a property tax increase that is expected to drive the share of fixed revenue charges to 25%; and a reduction in assumed water consumption levels to 1.34 million acre feet (MAF).

"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., [their credit ratings] may be assessed higher...given the nature of this income would...ensure greater revenue stability..."

# Metropolitan Water District Act Section 124.5

## Options for Consideration

- 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
- Option #2  
Do not adopt the proposed resolution

# Metropolitan Water District Act Section 124.5

## Staff Recommendation

- 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

