

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

RESOLUTION 9384

**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 LRF-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/>.

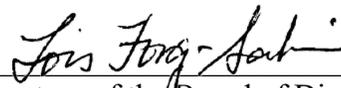
31. The meeting of the Board was conducted in accordance with the Brown Act (commencing at Section 54950 of the Government Code), for which due notice was provided and at which a quorum was present and acting throughout; and

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