THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

BOARD ACTION

- **Board of Directors**
  Finance and Insurance Committee

4/12/2022 Board Meeting

7-2

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 2022/23 through 2025/26 or 2022/23 through 2023/24; 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 its fiscal integrity to continue to collect property taxes in excess of the limits found in Metropolitan Water District Act (MWD Act) Section 124.5, based on the supporting financial information and the budget, rates, charge, and ten-year financial forecast's assumptions of property taxes being set at the current rate of 0.0035 percent. The proposal in this letter was first presented to the Board in an informational letter for the Finance and Insurance (F&I) Committee in February of this year. Since then, the F&I Committee and the Board have: (1) heard presentations; (2) received information and presentations related to the proposed biennial budget and rates; and the ten-year financial forecast; (3) held a public hearing; and (4) participated in workshops to address Metropolitan's financial conditions for the upcoming biennium and ten-year forecast. This letter summarizes the conditions and circumstances that support staff's recommendation. Additional information on the financial circumstances that support the proposed determinations is also available at: https://www.mwdh2o.com/who-we-are/budget-finance/property-tax-rate-for-fy-202021/, which contains information relating to the Board's last determination in 2020 and the currently proposed determination for fiscal years 2022/23 through 2025/26. This letter also contains an alternative option for the Board to make the determination for a shorter period of two years, from fiscal years 2022/23 through 2023/24.

Details

Background on Statutory Authority to Collect Property Taxes

Metropolitan has the statutory authority to levy property taxes to pay its expenses pursuant to the Metropolitan Water District Act (MWD Act). MWD Act, § 124. Since its creation, voters in Metropolitan's service area have approved the use of property taxes to pay for Metropolitan's major system investments and improvements, including for the Colorado River Aqueduct, other improvements, and for Metropolitan's participation in the State Water Project (SWP). More recently in Metropolitan's history, Section 124.5 of the MWD Act was enacted to provide a mechanism to limit Metropolitan's ad valorem property taxes, but it does not apply if the Board of Directors makes the required determination that it is essential to Metropolitan's fiscal integrity to collect property taxes in excess of that limit.

Section 124.5 limits property taxes to the amount needed to pay: (1) Metropolitan's general obligation bonded indebtedness (GO bonds); and (2) Metropolitan's portion of bonds used to finance construction of SWP facilities for the benefit of Metropolitan (Burns-Porter bonds). However, the Section also provides that "the restrictions contained in this Section *do not apply* if the board of directors of the district, following a hearing held to consider that issue, finds that *a tax in excess of these restrictions is essential to the fiscal integrity of the district*," and written notice is provided to the Legislature in the manner specified therein. (Emphasis added.) The Section 124.5 limitation, if applicable, does not affect the collection of property taxes to pay Metropolitan's general obligation bonds. If applicable, the Section does limit collection of property taxes to pay Metropolitan's

State Water Contract (SWC) obligations for the SWP. Since fiscal year (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 and has maintained the current 0.0035 percent property tax rate to ensure payment of a portion of the SWC obligations in excess of the statutory limit. The rate of 0.0035 percent is the lowest property tax rate ever collected by Metropolitan.

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 February 2022, the Board approved a hearing date in order to satisfy the Section 124.5 determination procedural requirements and received informational Board Letter 9-2 explaining the proposed budget and rates that form the basis for staff's recommendation. Second, on February 24, 2022, 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 fiscal years 2022/23 through 2025/26. Third, in March 2022, staff submitted informational Board Letter 9-2 with an accompanying presentation for the Board's consideration (**Attachment 1**), which covered the substantive bases for the recommended determination. **The Board also held the required public hearing, after it was duly noticed, on March 8, 2022,** and the proposed biennial budget for FYs 2022/23 and 2023/24, rates for CYs 2023 and 2024, and charges for CY 2023.

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/who-we-are/budget-finance/property-tax-rate-for-fy-202021/ under the section *Review of Applicability of Property Tax Limit – FYs 22/23-25/26)*. The information on the website was available to the public at least ten days prior to the hearing on March 8, 2022.

Summary of Substantive Review

Continuing an Ad Valorem Property Tax Rate at the Existing Rate is Essential to Fiscal Integrity

Metropolitan's current budget and rate proposal assumes the application of a 0.0035 percent property tax rate. The proposed budget for FYs 2022/23 and 2023/24 and rates and charges for calendar years (CYs) 2023 and 2024 presented to the Finance and Insurance Committee in February included a projection of approximately $166 million per year in property tax revenues, which assumes the tax rate remains at 0.0035 percent, yet the initial biennial proposal still consisted of 8 percent overall rate increases for each year. The ten-year financial Forecast also uses a 0.0035 percent property tax rate assumption for its projections.

This letter recommends a Section 124.5 determination for the next four fiscal years, which covers a transitionary financial and strategic planning period for Metropolitan. During the four-year period, Metropolitan will be completing the 2020 Integrated Resources Plan, continuing with a rate refinement review process, undertaking a long-term financial plan, and addressing Metropolitan's role as it approaches 100 years. Accordingly, the four-year proposed determination provides certainty with regards to property tax revenue assumptions for those processes and better aligns with the inherent volatility of Metropolitan's water revenues under its current rate structure, which spans more than a two-year biennial budget period.

The March 2022 Board Letter 9-2 included a detailed analysis of Metropolitan's historical revenues, including property taxes, SWP costs, and the meaning of "essential to fiscal integrity" in Section 124.5. All historical data and analysis are incorporated herein by reference.

Considering the significance of achieving a financially healthy mix between variable and fixed revenue sources, it is important that the Board maintain fixed sources in line with growing increased SWP fixed costs, especially at a time when Metropolitan and its member agencies are working to reduce the overall rate increases from 8 percent per year to a rate closer to 5 percent per year. Property taxes provide revenue that was previously approved by the service area voters for the purpose of paying Metropolitan's SWC obligations, which are projected to be approximately $699 million and $781 million for FYs 2022/23 and 2023/24, respectively. If the property tax rate continues at its current 0.0035 percent rate, property tax revenue would pay about 22 percent of that SWC obligation. If the property tax rate were reduced to the Section 124.5 limits, property tax revenue would pay less than one-tenth of 1 percent of the SWC obligation. Setting a tax rate in excess of the limits of Section 124.5 significantly contributes to strengthening Metropolitan's current and long-term fiscal health and stability. It maintains diversity in fixed revenue sources, balancing the mechanisms for funding the immediate and anticipated obligations of the SWC. It also helps maintain Metropolitan's creditworthiness as measured by various national

credit rating agencies through their established methodologies. Maintaining Metropolitan's fixed revenue sources also provides the Board with flexibility to fund Metropolitan's SWC obligations.

Maintenance of fixed revenues also supports Metropolitan's financial policies. Metropolitan has adopted a set of financial policies, including revenue bond coverage and fixed-charge coverage targets, capital paid from revenues (Pay-As-You-Go, or PAYGO), and reserve policies that support Metropolitan's strong credit ratings. An important element of these financial policies is a diversity of revenue sources and fixed revenue sources. Utilities funded primarily from variable volumetric charges face economic risks because volumes of deliveries are subject to declines in revenue based on hydrology and consumption changes.

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, thereby enhancing those properties. Property taxes ensure that residences and businesses pay a modest share of the costs of maintaining and improving the Metropolitan water delivery system.

Four-Year Determination of the Applicability of the MWD Act Section 124.5 Limitation is Appropriate

Staff proposes that a four-year determination of the applicability of Section 124.5 is appropriate given the: (1) flexibility required to manage Metropolitan's finances during current drought conditions; (2) time required to complete ongoing financial and strategic planning efforts; (3) inherent volatility found in Metropolitan's financial profile; and (4) scope of financial planning timeframes.

First, Metropolitan is currently managing an ongoing drought emergency, during which it is essential to maintain financial flexibility to ensure the reliability of Metropolitan's services. It is essential that Metropolitan maintain its dedicated fixed revenue sources to pay at least a portion of the SWC costs the voters approved and intended for Metropolitan to pay with property taxes, thereby freeing up volumetric revenues to address current emergency drought conditions.

Second, Metropolitan is currently undergoing and commencing various financial and strategic planning processes, and it is appropriate to fix the Section 124.5 determination during this timeframe required to complete and implement those processes. For example, Metropolitan is undergoing a rate refinement review process that is likely to span longer than the next biennial budget cycle, and in that process, the Board will consider whether "Property Tax Alternatives" should be incorporated into Metropolitan's rate structure. Similarly, the ten-year term for the member agencies' Purchase Orders and the applicability of the Tier 2 Supply rate ends December 31, 2024. The Board will need to consider whether to adopt any alternative to the Purchase Order structure. Accordingly, maintaining a set determination through the time period of these significant reviews provides more financial certainty to Metropolitan investors. The four-year term will also provide the Board with time to consider whether Section 124.5 continues to be necessary or appropriate given updated circumstances and following any updates to Metropolitan's rate structure. The additional time of this determination will also allow the Board to discuss whether to seek legislative amendment of Section 124.5 to establish a different standard than what is currently required.

Third, the recommended four-year timeframe of this determination better aligns with the inherent volatility of Metropolitan's water revenues, which spans more than a two-year biennial budget period.

Fourth, the timeframe of a four-year determination is within the scope of typical time horizons used in the financial sector for various projections and analysis. For example, three- to five-year business plans, five-year or greater coverage projections for revenue bond disclosures, Fitch's rating stress-test scenarios covering a five-year horizon, and in fact, Metropolitan's own ten-year financial forecast all support the reasonableness of the timeframe of this proposed determination.

This letter also contains an alternative option for the Board to make a determination only for the next biennium. Although the shorter period would not cover the anticipated period of time in which Metropolitan will be engaging in key strategic planning, it would cover the time period of the upcoming biennial budget.

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

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it involves continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it involves 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. (Section 15378(b)(4) of the State of CEQA Guidelines).

CEQA determination for Option #2:

None required

CEQA determination for Option #3:

None required

Board Options

Option #1

Adopt the resolution finding that for fiscal years 2022/23 through 2025/26, 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 (**Attachment 2**)

Fiscal Impact: Provides the foundation for collection of property taxes over the Section 124.5 limitation to meet targeted budgetary needs related to qualified cost recovery at an average of approximately $171 million per fiscal year over the next four fiscal years.

Business Analysis: Making the determination pursuant to Section 124.5 allows the Board to set a rate in August of each fiscal year from 2022/23 through 2025/26, in an amount that exceeds the Section 124.5 limits. The Board is not setting a tax rate with this action.

Option #2

Adopt the resolution finding that for fiscal years 2022/23 and 2023/24, 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 (**Attachment 3**)

Fiscal Impact: Provides the foundation for collection of property taxes over the Section 124.5 limitation to meet targeted budgetary needs related to qualified cost recovery at an average of approximately $166 million per fiscal year.
Business Analysis: Making the determination pursuant to Section 124.5 allows the Board to set a rate in August of each fiscal year from 2022/23 through 2023/24, in an amount that exceeds the Section 124.5 limits. The Board is not setting a tax rate with this action.

Option #3

Make no determination and allow the Section 124.5 limitation to apply.
Fiscal Impact: If the Section 124.5 limitation applies and property tax revenues are reduced, revenue requirements from rates and charges will need to increase by an additional 9 percent to recover costs.
Business Analysis: Without the necessary finding, the Board may not set rates that exceed the Section 124.5 limit, thereby requiring revisions to the Proposed Biennial Budget for fiscal years 2022/23 and 2023/24 and the rates and charges proposed for calendar years 2023 and 2024.

Staff Recommendation

Option #1

4/6/2022
Katano Kasaine *Date*
Chief Financial Officer/
Assistant General Manager

4/6/2022
Adel Hagekhalil *Date*
General Manager

Attachment 1 – March 8, 2022 MWD Board Letter 9-2 on the Review of the Applicability of the Metropolitan Water District Act Section 124.5 Ad Valorem Property Tax Limitation for Fiscal Years 2022/23 through 2025/26; and the Accompanying Presentation

Attachment 2 – Resolution Finding that for Fiscal Years 2022/23 through 2025/26 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)

Attachment 3 – Resolution Finding that for Fiscal Years 2022/23 and 2023/24 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 2)

Ref# cfo12682039

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

INFORMATION

- **Board of Directors**
  Finance and Insurance Committee

3/8/2022 Board Meeting

9-2

Subject

Review of the applicability of the Metropolitan Water District Act Section 124.5 ad valorem property tax limitation for fiscal years 2022/23 through 2025/26

Executive Summary

Metropolitan has the statutory authority to levy property taxes to pay its expenses pursuant to the Metropolitan Water District Act (MWD Act). MWD Act, § 124. Since its creation, voters in Metropolitan's service area have approved the use of property taxes to pay for Metropolitan's major system investments and improvements, including for the Colorado River Aqueduct (CRA), other improvements, and for Metropolitan's participation in the State Water Project (SWP). More recently in Metropolitan's history, Section 124.5 of the MWD Act was enacted to provide a mechanism to limit Metropolitan's ad valorem property taxes, but it does not apply if the Board of Directors makes the required determination that it is essential to Metropolitan's fiscal integrity to collect property taxes in excess of that limit.

Section 124.5 limits property taxes to the amount needed to pay: (1) Metropolitan's general obligation bonded indebtedness (GO bonds), and (2) Metropolitan's portion of bonds used to finance construction of SWP facilities for the benefit of Metropolitan (Burns-Porter bonds). However, the Section also provides that "the restrictions contained in this Section *do not apply* if the board of directors of the district, following a hearing held to consider that issue, finds that *a tax in excess of these restrictions is essential to the fiscal integrity of the district*," and written notice is provided to the Legislature in the manner specified therein. (Emphasis added.) The Section 124.5 limitation, if applicable, does not affect the collection of property taxes to pay Metropolitan's general obligation bonds. If applicable, the Section does limit collection of property taxes to pay Metropolitan's State Water Contract (SWC) obligations for the SWP. Since fiscal year (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 and has maintained the current 0.0035 percent property tax rate to ensure payment of the SWC obligations in excess of the statutory limit. The rate of 0.0035 percent is the lowest property tax rate ever collected by Metropolitan.

Metropolitan's current budget and rate proposals also assume application of a 0.0035 property tax rate. The proposed budget for FYs 2022/23 and 2023/24 and rates and charges for calendar years (CYs) 2023 and 2024 presented to the Finance and Insurance Committee in February included a projection of approximately $166 million per year in property tax revenues, which assumes the tax rate remains at 0.0035 percent. The Ten-Year Financial Forecast also uses a 0.0035 percent property tax rate assumption for its projections.

This letter recommends a Section 124.5 determination for the next four fiscal years, which covers a transitionary financial and strategic planning period for Metropolitan. During the four-year period, Metropolitan will be completing the 2020 Integrated Resources Plan, continuing with a rate refinement review process, undertaking a long-term financial plan, and addressing Metropolitan's role as it approaches 100 years. Accordingly, the four-year proposed determination provides certainty with regards to property tax revenue assumptions for those processes and better aligns with the inherent volatility of Metropolitan's water revenues under its current rate structure, which spans more than a two-year biennial budget period.

The Board will hold the required public hearing on March 8, 2022, and it will consider whether to make the necessary finding regarding the applicability of Section 124.5 on April 12, 2022, along with its consideration of the proposed biennial budget for FYs 2022/23and 2023/24, rates for CYs 2023 and 2024, and charges for CY 2023. Notice of the hearing has been published for the public and provided to the Legislature. The public may provide comments and listen to the hearing using the information provided at https://mwdh2o.legistar.com/Calendar.aspx.

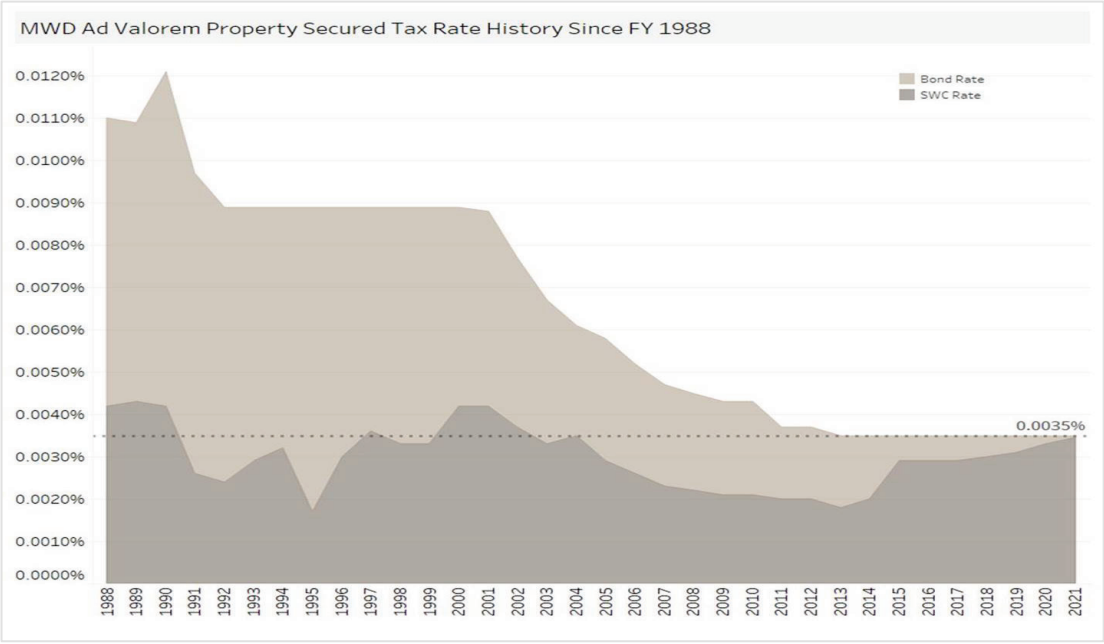
Details

History of Metropolitan's Property Tax Revenues

The shift in revenue sources from primarily property taxes to primarily water revenues provides a backdrop to 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 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 SWC and the voters approved the collection of property taxes to pay for Metropolitan's SWC costs. By 1974, 50 percent of Metropolitan's revenues came from water transactions, with the remainder derived primarily from property taxes.

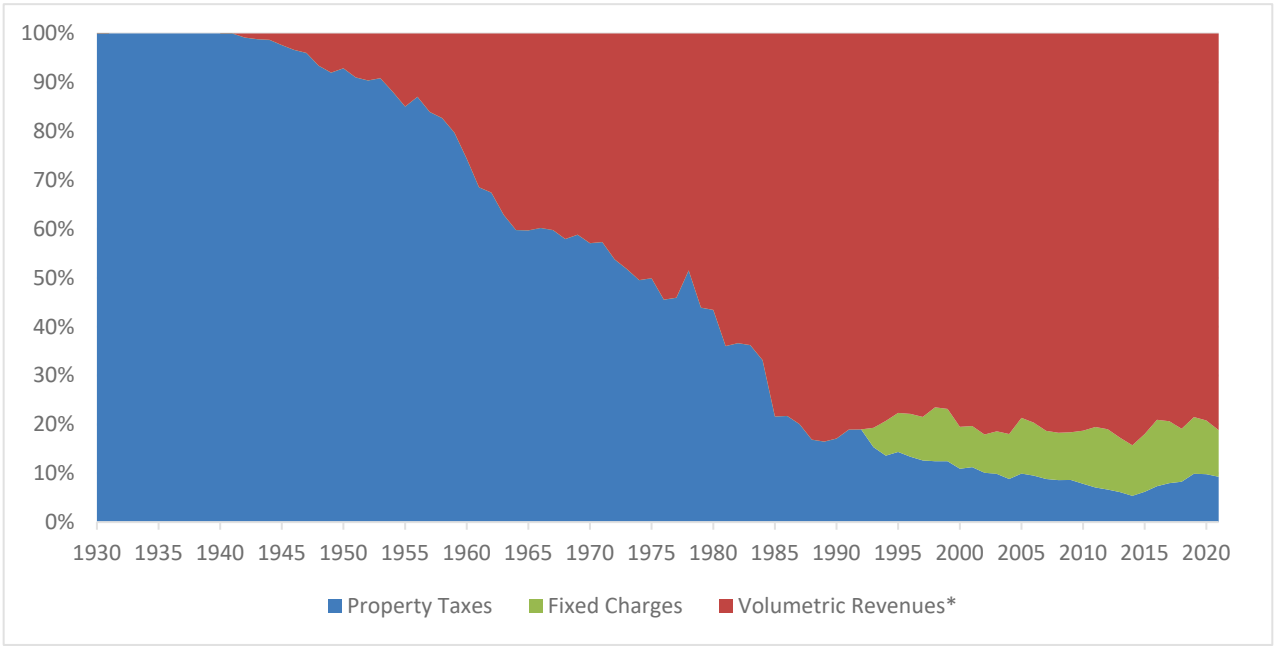
In 1984, the Legislature adopted SB 1445, amending the MWD Act to add Section 124.5, among other sections. Effective FY 1990/91, Section 124.5 limited Metropolitan's annual property tax levy at the amount needed to pay the total of annual debt service on the GO bonds and Burns-Porter bonds, unless after notice and hearing the Board finds that collecting property tax revenues beyond that limitation is essential to the District's fiscal integrity. In 1984, when SB 1445 was enacted, Metropolitan collected property taxes at the rate of 0.0237 percent, which resulted in revenues below the Section 124.5 limit at the time. However, as bond indebtedness on GO bonds and Burns-Porter bonds are paid down, the Section 124.5 limit also decreases and reduces the amount of property tax revenues that can be levied. At the same time, SWC costs continue to increase. Figure 1 shows Metropolitan's history of declining property tax rates.

Figure 1: Historical MWD Ad Valorem Property Tax Rates



Tax levy limits in Section 124.5 accelerated the shift of Metropolitan's revenues away from fixed property taxes to variable revenues. 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, approximately 1/7 of the 0.0237 percent rate in place at the time Section 124.5 was passed. In FY 2022/23, property taxes are projected to be about 9 percent of total revenue sources with water revenues from transactions accounting for about 78 percent of total revenues. Total volumetric revenues, which include power sales, interest income and other miscellaneous revenues, are about 82 percent of total revenues. Fixed Charges, which include the Readiness-To-Serve Charge and Capacity Charge, are about 9 percent of total revenues. **Figure 2** shows the history of the revenue source mix since 1930.

Figure 2: Historical Revenue Sources



* Includes water sales, exchanges, and wheeling

Background Regarding State Water Contract Obligations and Voter Approval of Property Taxes

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

Under the SWC, Metropolitan is obligated to pay allocable portions of the cost of construction of the SWP system and ongoing operating and maintenance costs. Metropolitan is obligated to pay these fixed costs regardless of quantities of water available and received from the project. In contrast, a smaller portion of payments are based on actual deliveries of water received for the costs of power and offsets for credits received. **Approximately 70 percent of Metropolitan's SWC obligations are fixed and unrelated to the quantity of water delivered.**

The ability of State Water Contractors to levy property taxes sufficient to satisfy their SWC obligations was a foundation of the Burns-Porter Act, and a factor relied on by California voters in approving it. *Goodman v. County of Riverside* (1983) 140 Cal.App.3d 900, 905-06; *see also, Alameda County Flood Control v. Department*

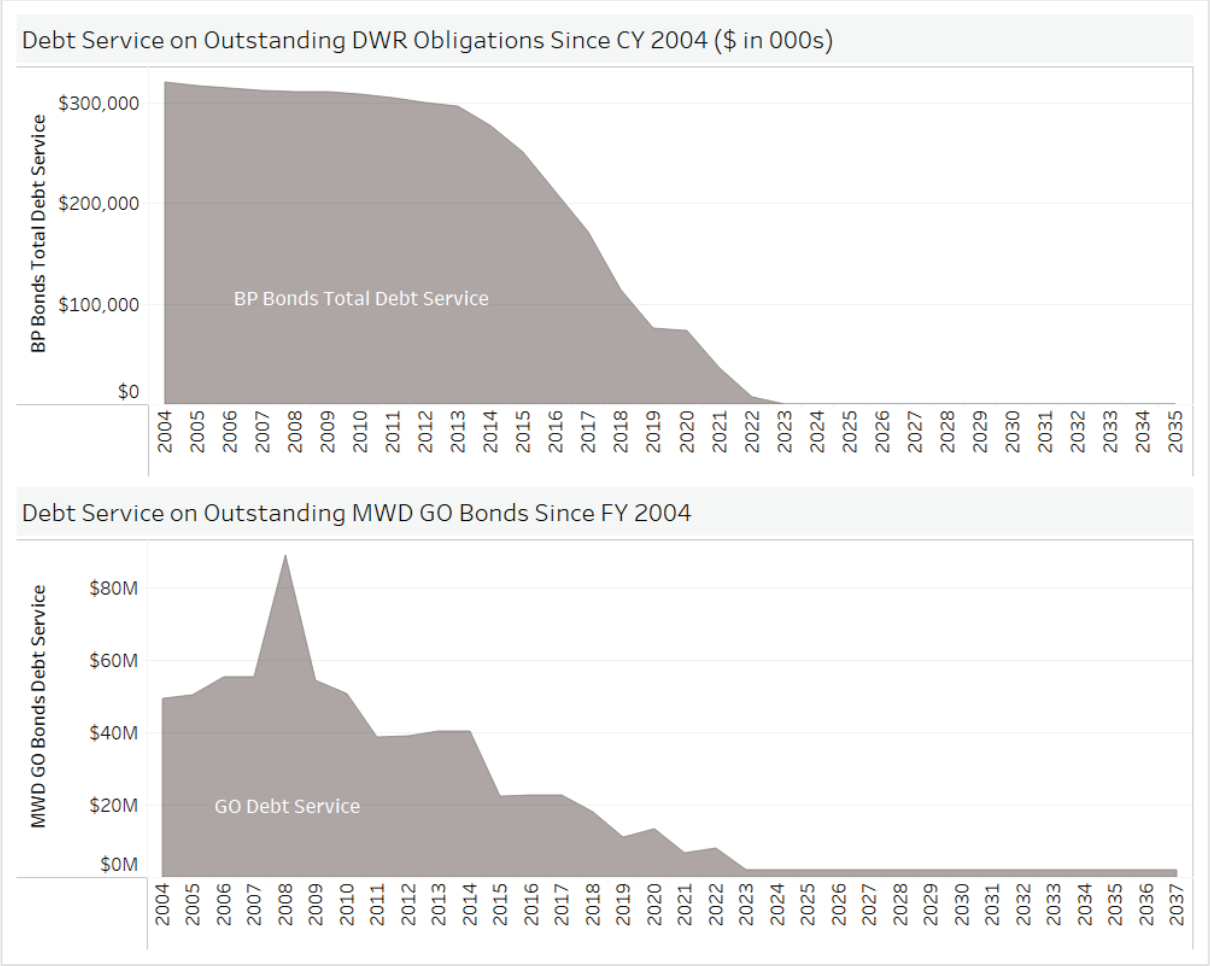
of Water Resources, Antelope Valley-East Kern Water Agency (2013) 213 Cal. App. 4th 1163. In approving the Burns-Porter Act, California's voters approved "an indebtedness in the amount necessary for building, operating, maintaining, and replacing the [State Water] Project, and they intended that the costs were to be met by payments from local agencies with water contracts. Further, the voters necessarily approved the use of local property taxes whenever the boards of directors of the agencies determined such use to be necessary to fund their water contract obligations . . . ." *Goodman,* 140 Cal.App.3d at 910. Thus, SWC obligations are voter-approved indebtedness that may be funded by override property taxes (taxes above the one percent general tax limit established by Article XIIIA (Proposition 13) of the State constitution).

Many SWP contractors substantially rely on property taxes to satisfy their SWC obligations. Metropolitan is unique in that since FY 1990/91, and unless otherwise determined by the Board, Section 124.5 has reduced its property taxes to a declining balance of its share of the Burns-Porter bonds—which has become an increasingly smaller portion of Metropolitan's SWC payment obligation.

Review of State Water Project Costs

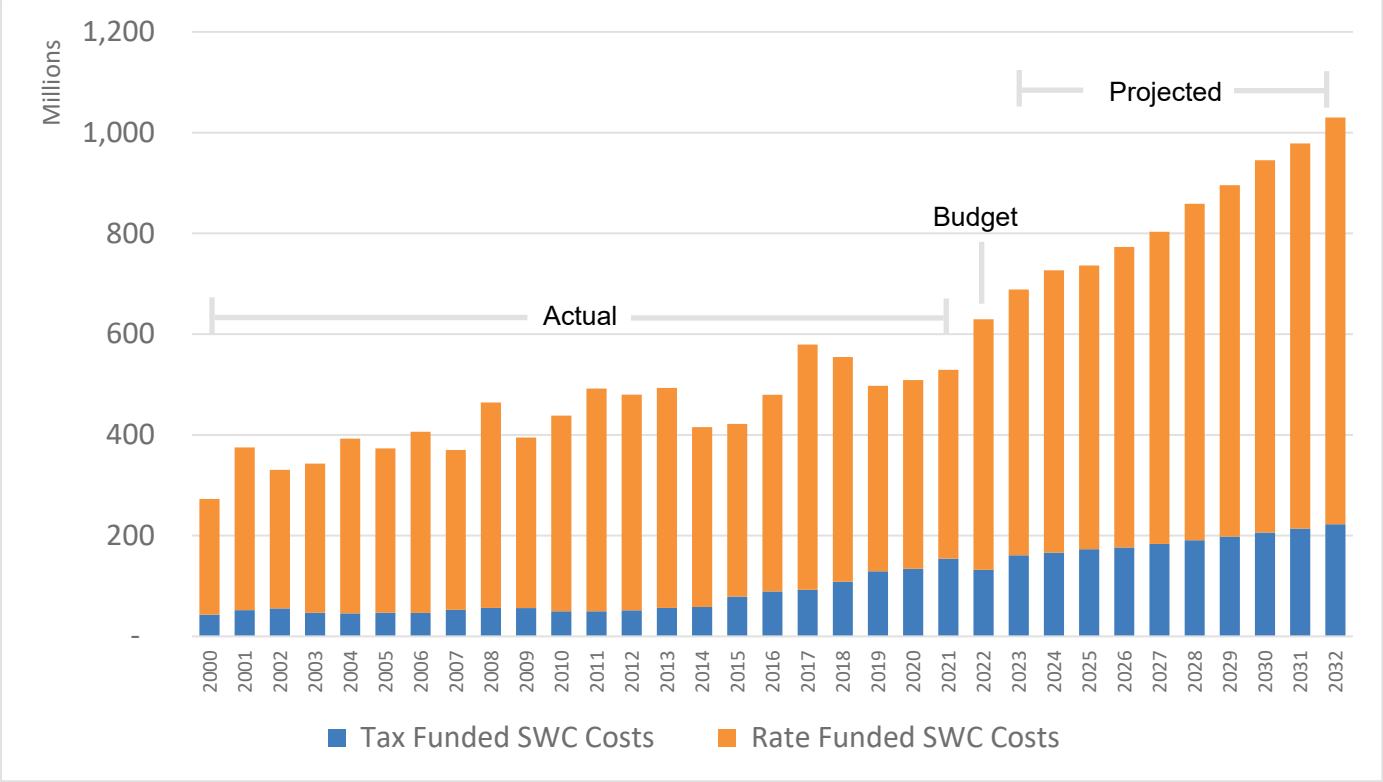
Prior to FY 2013/14, under Section 124.5's restriction, the property tax rate had decreased steadily in line with the decreasing debt service for the GO bonds and Burns-Porter bonds. The property tax rate would continue to decrease as the GO bonds and Burns-Porter bonds are ultimately paid off; provided the Board does not make a determination that the Section 124.5 limitation would not apply. Since FY 2013/14, the Board has determined that it was essential to Metropolitan's fiscal integrity to maintain the current 0.0035 percent property tax rate. **Figure 3** shows the declining debt service that is the subject of Section 124.5, shown since 2004.

Figure 3: Debt Service on Outstanding DWR Burns-Porter Bonds and MWD GO Bonds



Conversely, 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 damage, and California Aqueduct improvements. **Figure 4** shows the portion of SWC costs paid with property tax revenues, assuming Metropolitan maintains the 0.0035 percent in excess of the Section 124.5 limitation.

Figure 4: State Water Contract Costs



Proposed Budget SWC costs of $688.7 million in FY 2022/23 and $726.7 million in FY 2023/24 comprise approximately 35 percent of Metropolitan's annual expenditures and are Metropolitan's single largest cost category. If property taxes are reduced to Section 124.5 limits, in FY 2022/23 the amount of property taxes available to satisfy SWC obligations will only be approximately $0.6 million, and the proportion of SWC obligations that would be covered would be less than one tenth of 1.0 percent, even though the voters approved use of the property taxes to pay for Metropolitan's SWC obligations.

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

The determination of fiscal integrity is a determination of financial health and strength. Although the Legislature set a limit on property taxes, it left the determination of necessity for 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/condition. "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 continuing the current fixed property tax revenues is essential to its fiscal integrity.

Financial Industry Guidance for Evaluating Fiscal Integrity

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 the previous report to the Board on this matter, staff cited Fitch Rating's U.S. Water and Sewer Rating Criteria, published November 29, 2018. 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 published March 18, 2021, designed to give it more flexibility in evaluating the unique circumstances of public agencies.

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 key elements 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 7.)
> - "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. Metropolitan is a voluntary cooperative with varying collective demands from its member agencies based on, among other things, hydrological conditions, availability of local resources, and availability of Metropolitan's own water system and resources. Accordingly, fixed revenue sources help Metropolitan respond to such demand volatility. Additionally, SWP capital costs are consistently growing and are projected to continue to grow. Maintaining a fixed revenue source for that purpose enhances Metropolitan's ability to manage growing SWP capital and other costs. Moreover, property taxes represent nearly 50 percent of Metropolitan's fixed revenues (and 8 percent of total revenues). All fixed revenue sources for Metropolitan represent only about 18 percent of total revenues, making property tax revenues essential to Metropolitan's fiscal integrity and supportive of its current high credit ratings, in accordance with Fitch's stated importance of revenue defensibility.

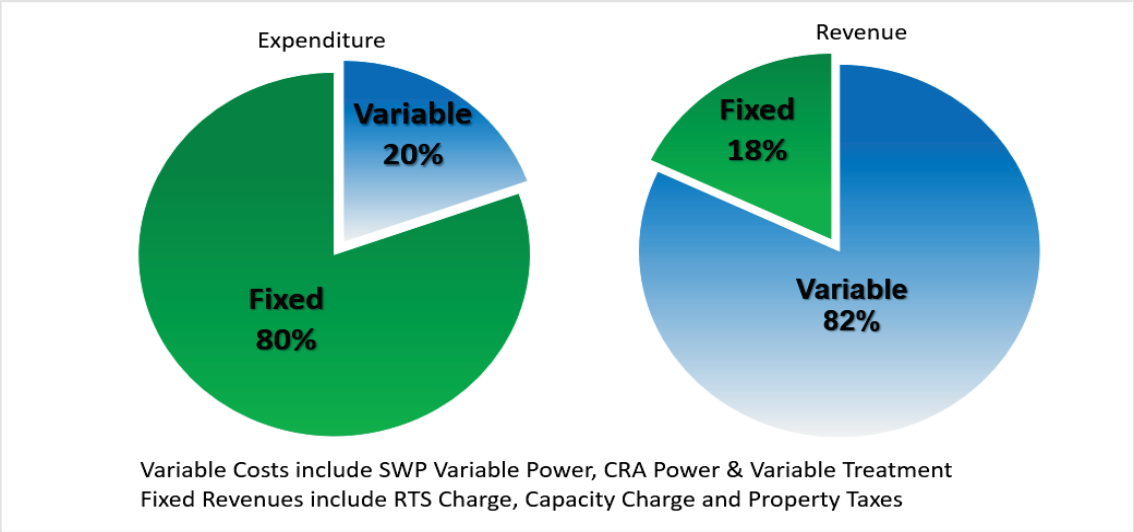
Metropolitan Financial Policies Provide Guidance for Evaluating Fiscal Integrity

Metropolitan's Board has adopted financial policies that are also relevant to determining its fiscal integrity. The Metropolitan Water District Administrative Code provides a fixed-charge coverage ratio of 1.2 times and a minimum and target for reserves at Section 5202. The Board has also adopted a revenue bond coverage target of 2.0 times. A reduction in fixed charges increases dependence on variable revenue, thereby increasing the likelihood of not meeting Metropolitan's financial policies during periods of low water transactions.

Limiting Property Taxes Pursuant to Section 124.5 Would Reduce Metropolitan's Fixed Revenues

Transfer of revenue from a fixed source to a volumetric rate or charge does not strengthen Metropolitan's financial integrity. Metropolitan's expenditures consist mostly of fixed costs (80 percent), while its fixed revenue sources make up only about 18 percent of total revenue. If the Section 124.5 limit were implemented, Metropolitan would lose about $163 million in property tax revenues annually, or about half of its fixed revenues.

Figure 5: Fixed vs. Variable Components of Metropolitan Revenues and Expenditures – Proposed FY 2022/23 Budget



Current hydrologic conditions are less predictable and more extreme as our climate changes and, therefore, volumetric revenues have become even more unpredictable. This increased volatility in water transactions further supports a finding that maintaining fixed property tax revenues is essential to increasing revenue stability, which is key to fiscal integrity. Without Metropolitan's property tax and fixed charges, additional volumetric rates and/or higher volumetric rates would be required to cover total expenses.

Summary of Review

Continuing an Ad Valorem Property Tax Rate at the Existing Rate is Essential to Fiscal Integrity

Considering the significance of achieving a financially healthy mix between variable and fixed revenue sources, it is important that the Board maintain fixed sources in line with growing increased SWP fixed costs. Service area voters approved property tax levies for the purpose of paying Metropolitan's SWC obligations, which are projected to be approximately $699 million and $781 million for FYs 2022/23 and 2023/24, respectively. If the property tax rate continues at its current 0.0035 percent rate, property tax revenue would pay about 22 percent of that SWC obligation. If the property tax rate were reduced to the Section 124.5 limits, property tax revenue would pay less than 2 percent of the SWC obligation. Continuing the current tax rate of 0.0035 significantly contributes to Metropolitan's long-term fiscal health and stability. It maintains diversity in fixed revenue sources, balancing

the mechanisms for funding the immediate and anticipated obligations of the SWC. It also helps maintain Metropolitan's creditworthiness as measured by various national credit rating agencies through their established methodologies. Maintaining Metropolitan's fixed revenue sources also provides the Board with flexibility as it funds Metropolitan's SWC obligations and other obligations, and is in line with credit rating criteria.

Maintenance of fixed revenues also supports Metropolitan's financial policies. Metropolitan has adopted a set of financial policies, including revenue bond coverage and fixed-charge coverage targets, capital paid for from revenues (Pay-As-You-Go, or PAYGO), and reserve policies that support Metropolitan's strong credit ratings. An important element of these financial policies is a diversity of revenue sources and fixed revenue sources. Utilities funded primarily from variable volumetric charges face economic risks because volumes of deliveries are subject to declines in revenue based on hydrology and consumption changes.

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, thereby enhancing those properties. Property taxes ensure that residences and businesses pay a modest share of costs of maintaining and improving the Metropolitan water delivery system.

Four-Year Determination of the Applicability of the MWD Act Section 124.5 limitation is Appropriate

Staff proposes that a four-year determination of the applicability of Section 124.5 is appropriate given (1) the flexibility required to manage Metropolitan's finances during current drought conditions, (2) the time required to complete ongoing financial and strategic planning efforts, (3) inherent volatility found in Metropolitan's financial profile, and (4) the scope of financial planning timeframes.

First, Metropolitan is currently managing an ongoing drought emergency, during which it is essential to maintain financial flexibility to ensure the reliability of Metropolitan's services. It is essential that Metropolitan maintain its dedicated fixed revenue sources to pay the SWC costs the voters approved and intended for Metropolitan to pay with property taxes, thereby freeing up volumetric revenues to address current emergency drought conditions. Second, Metropolitan is currently undergoing and commencing various financial and strategic planning processes and it is appropriate to fix the Section 124.5 determination during this timeframe required to complete and implement those processes. For example, Metropolitan is undergoing a rate refinement review process that is likely to span longer than the next biennial budget cycle, and in that process, the Board will consider whether "Property Tax Alternatives" should be incorporated in Metropolitan's rate structure. Similarly, the ten-year term for the member agencies' Purchase Orders and the applicability of the Tier 2 Supply rate ends December 31, 2024. The Board will need to consider whether to adopt any alternative to the Purchase Order structure. Accordingly, maintaining a set determination through the time period of these significant reviews provides more financial certainty to Metropolitan investors. The four-year term will also provide the Board with time to consider whether Section 124.5 continues to be necessary or appropriate given updated circumstances and following any updates to Metropolitan's rate structure. The additional time of this determination also will allow the Board to discuss whether to seek legislative amendment of Section 124.5 to establish a different standard than what is currently required.

Third, the recommended four-year timeframe of this determination better aligns with the inherent volatility of Metropolitan's water revenues, which spans more than a two-year biennial budget period. Fourth, the timeframe of a four-year determination is within the scope of typical time horizons used in the financial sector for various projections and analysis. For example, three- to five-year business plans, five-year or greater coverage projections for revenue bond disclosures, Fitch's rating stress-test scenarios covering a five-year horizon, and in fact, Metropolitan's own ten-year financial forecast all support the reasonableness of the timeframe of this proposed determination.

Conclusion and Next Steps

A determination that continued collection of fixed property tax revenues in excess of the Section 124.5 limit for FYs 22/23-25/26 is supported by the information and analysis provided herein, as well as additional supporting information available at https://www.mwdh2o.com/who-we-are/budget-finance/property-tax-rate-for-fy-202021/, which includes information on past determinations and the currently proposed determination.

The Board will hold a **public hearing on March 8, 2022,** to receive public comments on the applicability of Section 124.5. At its regular April meeting on **April 12, 2022**, the Board will determine whether it is essential to fiscal integrity to continue to collect property taxes in excess of the Section 124.5 limit for FYs 2022/23 through 2025/26. If it makes such a finding, Section 124.5 will not apply in that timeframe. **In August of each year, the Board may then set the property tax rate for the appropriate fiscal year in excess of the Section 124.5 limit or at any rate below the 124.5 limit. The determination does not require the Board to set any particular tax rate.** However, the proposed FYs 2022/23 and 2023/24 proposed budget and CY 2023 and 2024 rates and charges contain an assumption that the property tax rate will be continued at 0.0035 percent.

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

Fiscal Impact

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

Katano Kasaine 2/25/2022
Katano Kasaine *Date*
Assistant General Manager/CFO

2/25/2022
Adel Hagekhalil *Date*
General Manager

Ref# cfo12680747

Review of the applicability of the Metropolitan Water District Act Section 124.5 ad valorem property tax limitation for fiscal years 2022/23 through 2025/26

Finance and Insurance Committee
Item 9-2
March 7, 2022

MWD Act Section 124.5

- Metropolitan Act Section 124.5, enacted in 1984, limits ad valorem property taxes to recover:
  - Metropolitan's general obligation bond debt service
  - 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 maintain the tax rate at .0035 percent

Essential to Fiscal Integrity

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

Legal Effect of 124.5 Determination

- Section 124.5 would not apply in the relevant time period
- 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

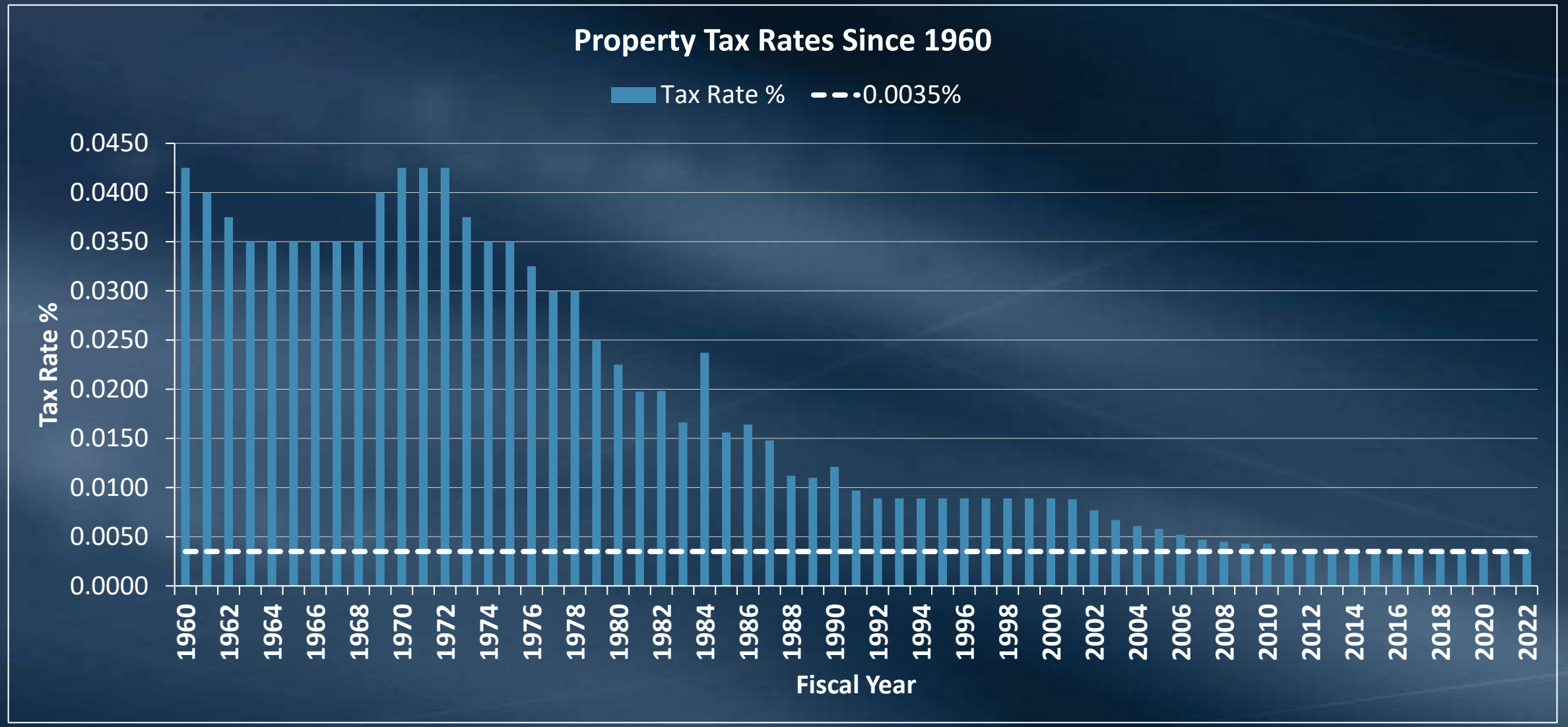
MWD Property Taxes

- Metropolitan has the statutory authority to levy property taxes to pay its expenses pursuant to the MWD Act Section 124.
- Since its creation, voters in Metropolitan's service area have approved the use of property taxes to pay for Metropolitan's major system investments and improvements:
  - CRA
  - Other improvements
  - State Water Project (SWP)

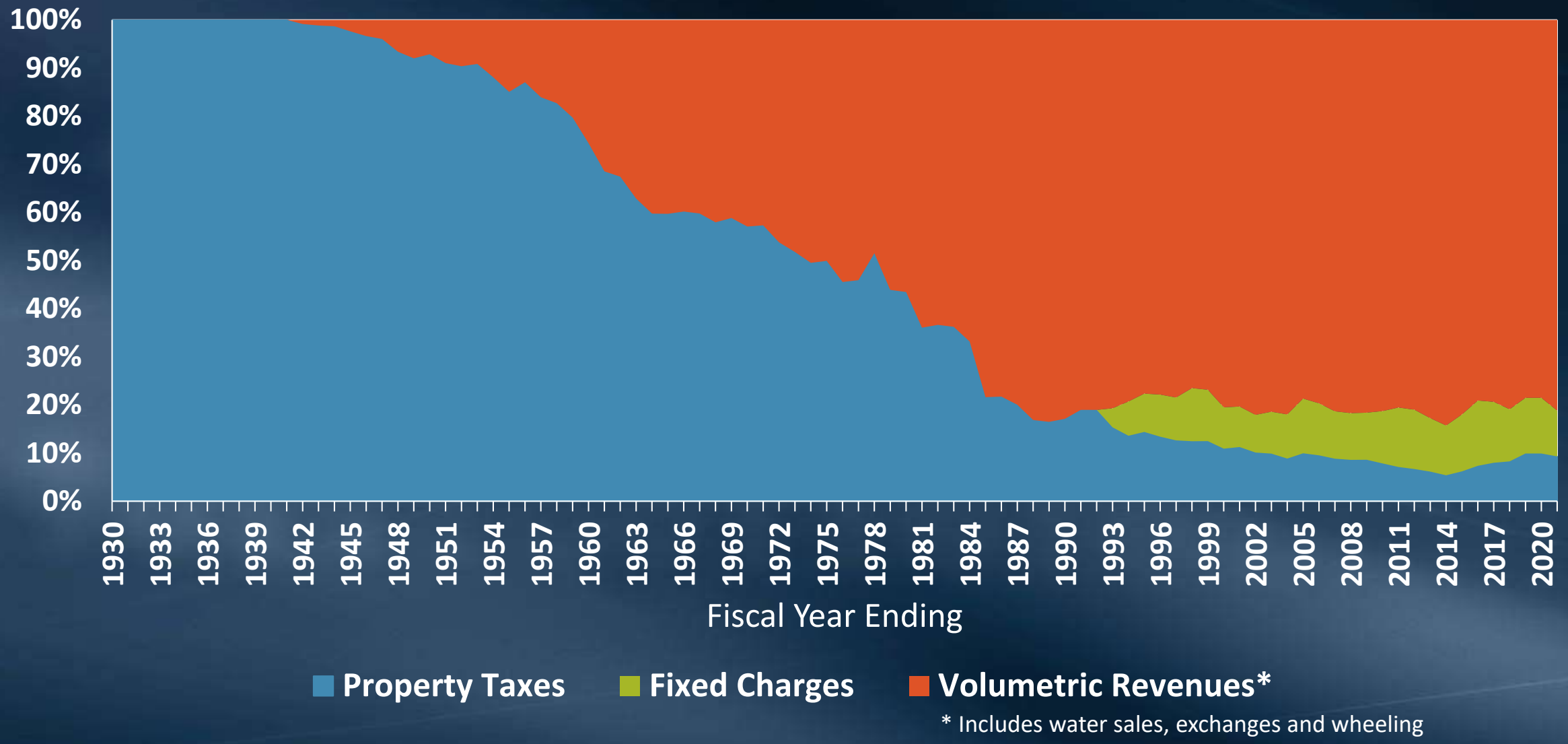
MWD Property Taxes, cont'd

- Metropolitan is one of 29 agencies that contract with the State (DWR) for participation in the SWP.
- Under the SWC, Metropolitan is obligated to pay allocable portions of the cost of construction of the SWP system and ongoing O&M costs regardless of the quantity of water delivered.
- Voters approved the use of property tax revenues for SWC expenditures, and therefore, the continued use of that revenue source would align with its intended use.

Historical Property Tax Rates



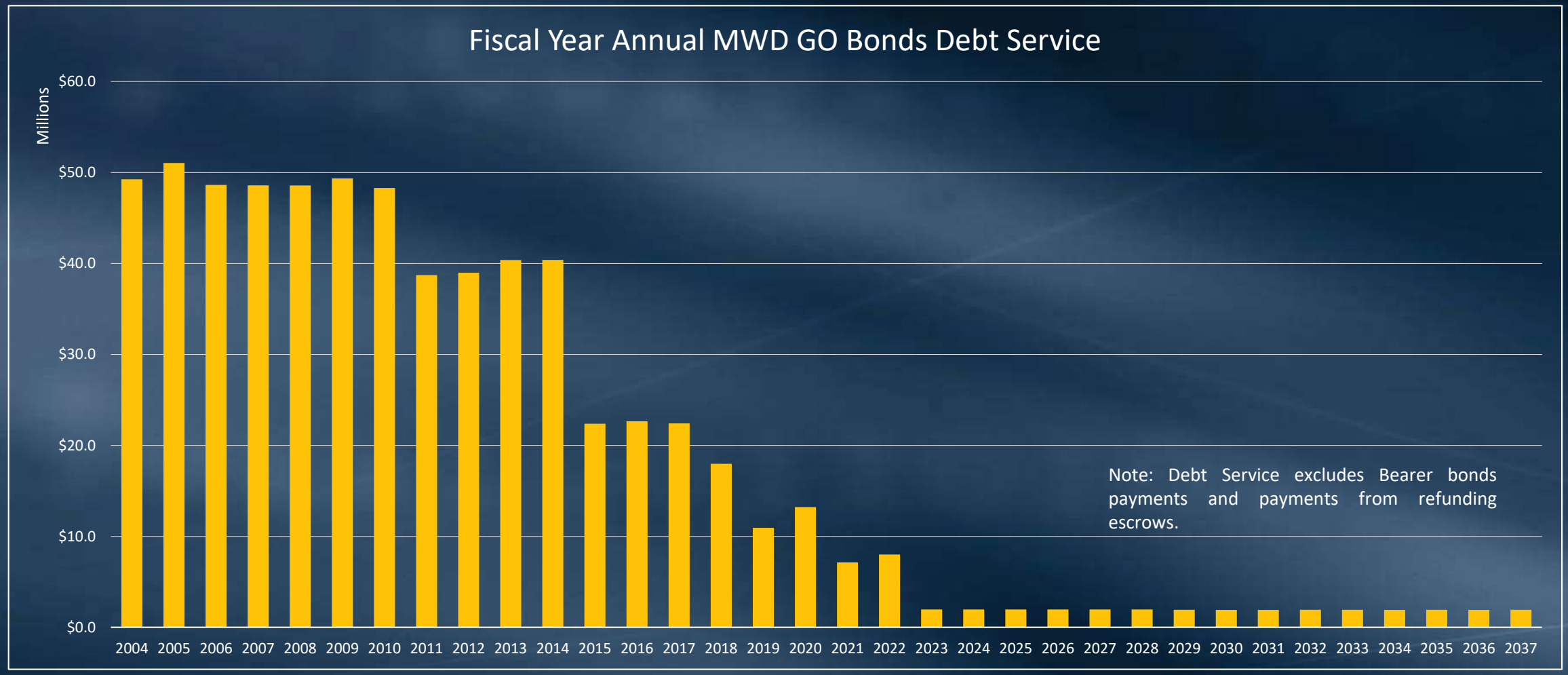
Historical Revenue Sources



* Includes water sales, exchanges and wheeling

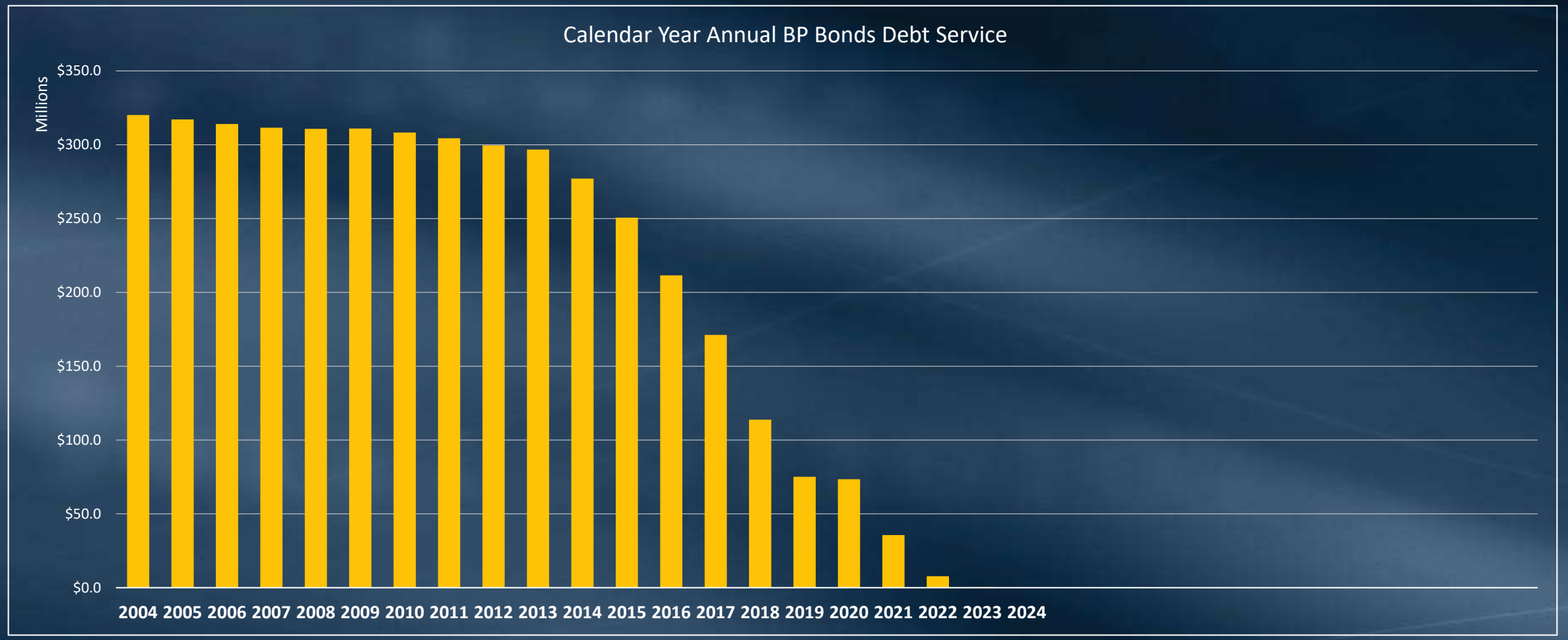
Outstanding Debt Service

MWD GO Bonds

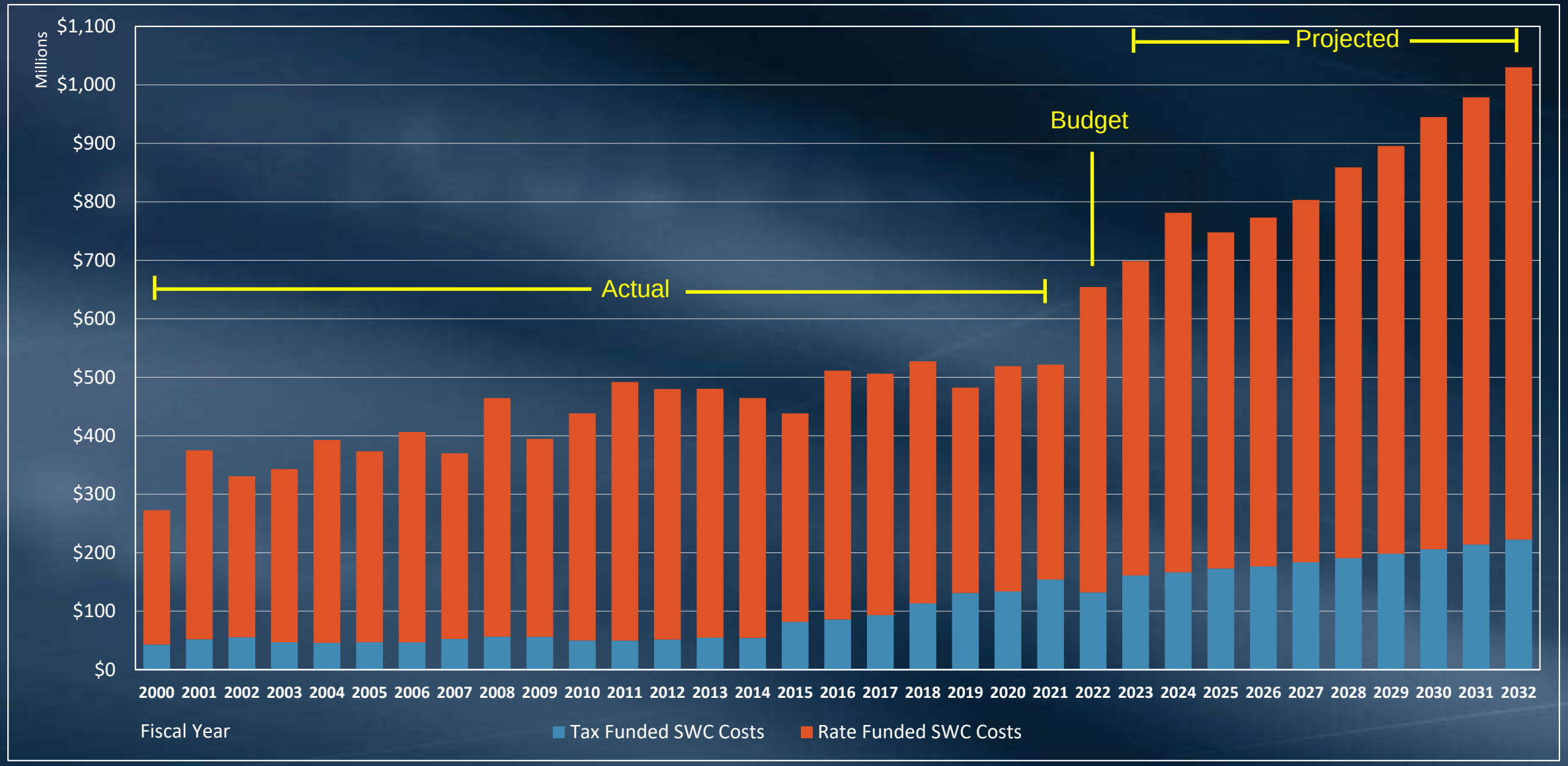


Outstanding Debt Service

DWR Burns-Porter Bonds

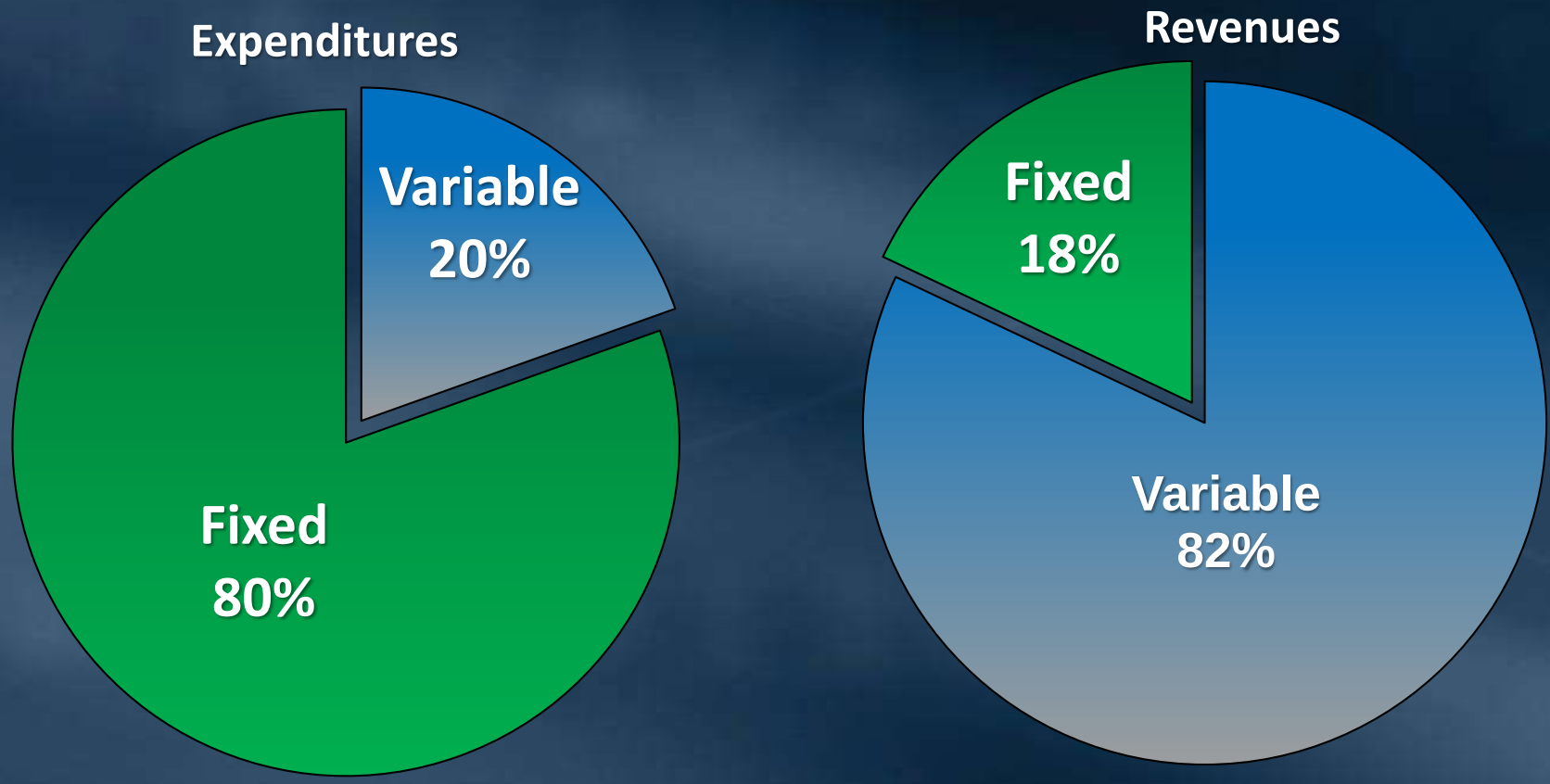


State Water Contract Costs



Fixed vs. Variable Components of Metropolitan Revenues and Expenditures

Proposed Budget FY 2022/23



Variable Expenditures include SWP Variable Power, CRA Power & Variable Treatment
Fixed Revenues include RTS Charge, Capacity Charge and Property Taxes

Credit Rating Assessment: Revenue Defensibility

- Credit ratings provide an overview of utilities' general financial health and ability to repay its debt obligations.
- Fitch Rating's U.S. Water and Sewer Rating Criteria
  - November 29, 2018 criteria included 30 percent or greater fixed revenue target
  - March 18, 2021 criteria introduce broader revenue defensibility metric
- Revenue defensibility is 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."

Revenue Defensibility, cont'd

- "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 7.)

- "Fitch evaluates a utility's vulnerability to sudden drops in demand and the impact on revenue defensibility..." (Page 7.)

Financial Policies and Fiscal Integrity

- The Board has adopted financial policies that provide guidance for determining its fiscal integrity.
  - Fixed-Charge Coverage Ratio of 1.20x
  - Minimum and Target Reserves
  - Revenue Bond Coverage Target of 2.00x
- A reduction in fixed charges increases dependence on variable revenue, which puts pressure on meeting the Board's financial policies during periods of higher volatility/low water transactions.

Property taxes help address Metropolitan's inherent volatility in its financial profile

- Metropolitan's inherent volatility is tied to cycles of hydrology and long-term impacts of Climate Change.
- Fixed revenues are a key factor in managing Metropolitan's financial volatility, which is tied to these underlying determinants.
- Property taxes represent approximately 50% of fixed revenues.
- As a more stable revenue stream, 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, an additional 9% rate increase would be required to recover costs

Metropolitan's fiscal integrity is supported by…

- Continuing an ad valorem property tax rate in excess of the 124.5 limit
- Maintaining a fixed revenue source in line with growing SWC costs
  - At its current rate of 0.0035 percent, property tax revenue would pay 22 percent of SWC obligations
  - If the Section 124.5 limit applies, property taxes would pay less than one-tenth of 1 percent of SWC obligations
- Providing a diversity of fixed revenue sources (Prop Tax, RTS/Standby Charge, Capacity Charge)
- Distributing the costs of Metropolitan's services more equitably (residences and businesses pay a modest share vs. Member Agencies) through property taxes

Support for a Four-Year Determination

- Making a four-year determination of the applicability of the MWD Act Section 124.5 is appropriate because…
  1. Provides flexibility to manage Metropolitan's finances during current drought conditions
  2. Ongoing financial and strategic planning efforts, which rely on this revenue component, won't be completed and implemented within the upcoming biennium budget period
  3. The inherent volatility found in Metropolitan's financial profile has a cyclicality beyond the biennium budget period
  4. Consistent with the scope of many financial planning timeframes

Next Steps

- The Board will hold a public hearing on March 8, 2022
  - Public comments on the applicability of Section 124.5 will be received at that time.
- At its regular Board Meeting on April 12, 2022, the Board will determine whether it is essential to fiscal integrity to continue to collect property taxes in excess of the Section 124.5 limit for FYs 2022/23 through 2025/26.
- If it makes such a finding, Section 124.5 will not apply in that timeframe.
- In August of each year, the Board may then set the property tax rate for the appropriate fiscal year. However, the Proposed Budget FYs 2022/23 and 2023/24 and CY 2023 and 2024 rates and charges assume the property tax rate is continued at 0.0035 percent.

THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA
1928

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 2022/23 THROUGH 2025/26, 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") hereby finds that:

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; and

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; and

3. Since its inception Metropolitan has levied and collected property taxes; and

4. 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; and

5. 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; and

6. On November 4, 1960, Metropolitan entered into its contract with the California Department of Water Resources (the "State Water Contract") for water service from 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; and

7. Under the State Water Contract, Metropolitan is 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; and

8. 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 only executed state water contracts with agencies that have taxing power; and

9. 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; and

10. 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; and

11. 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 2011/12 through fiscal year 2020/21, Metropolitan's annual Member Agency water transactions ranged from 1.37 million acre-feet to 2.06 million acre-feet; and

12. When fixing taxes and setting rates, 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; and

13. On May 8, 1984, the Board approved recommendations to amend the Act, set forth in Board Letter 6-2 dated April 30, 1984; and

14. Such amendments were incorporated into Assembly Bill 1445, which was approved by the Legislature and filed with the California Secretary of State on July 3, 1984, and added to the Act as Section 124.5; and

15. Section 124.5 provides that 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; and

16. 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;" and

17. Section 124.5's rate restriction became effective in fiscal year 1990/91; and

18. In fiscal years 1990/91 through 1999/2000, the Board maintained Metropolitan's tax levy rate at .0089 percent, a rate that was below the rate then permitted under the restriction clause of Section 124.5; and

19. Metropolitan's tax levy rate has declined from .0089 percent in fiscal year 1999/2000 to .0035 percent in fiscal year 2012/13, and the Board has made the necessary finding since fiscal year 2013/14 that it is essential to fiscal integrity to collect property taxes in excess of the limits set forth in Section 124.5; and

20. On February 8, 2022, the General Manager presented to the Board a proposed biennial budget for fiscal years 2022/23 and 2023/24, proposed rates for calendar years 2023 and 2024, proposed charges for 2023, and the Ten-Year Financial Forecast that were based on the proposal that Metropolitan maintain its current ad valorem property tax rate of 0.0035 to maintain fiscal integrity; and

21. On March 7, 2022, the General Manager provided an information letter to the Board reviewing the applicability of Section 124.5 for fiscal years 2022/23 through 2025/26; and

22. On March 8, 2020, the Board held a public hearing with advance notice as required by Section 124.5, to consider the recommendation to suspend the tax restriction clause of Section 124.5 for to give interested parties the opportunity to present their views regarding the recommendation that it is essential to fiscal integrity to collect property taxes in fiscal years 2022/23 through 2025/26 in excess of the limits of Section 124.5; and

23. 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 $26,830,000 as of December 31, 2021, and a portion of its State Water Contract obligations capital costs; and

24. Metropolitan provides, sells and delivers a reliable water supply at wholesale to its member agencies throughout a broad service area, and its integrated water system is able to deliver water throughout its service area; and

25. 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; and

26. 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. These costs and obligations were not foreseen by the Legislature when, in 1984, it established the Section 124.5 tax rate restriction and nothing suggests that the Legislature intended to prohibit the Board from considering such circumstances when deciding whether collecting more than the limitation in that Section is essential to Metropolitan's fiscal integrity; and

27. 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. These costs and obligations were not foreseen or considered by the Legislature when, in 1984, it established the Section 124.5 rate restriction and nothing suggests that the Legislature intended to prohibit the Board from considering such circumstances when deciding whether collecting more than the limitation in that Section is essential to Metropolitan's fiscal integrity; and

28. Consideration of, and providing for, current and anticipated State Water Contract obligations is essential to Metropolitan's fiscal stability and integrity; and

29. Availability of diverse financial resources to satisfy Metropolitan's State Water Contract obligations is essential to Metropolitan's fiscal stability and integrity; and

30. An appropriate balance of fixed costs and fixed revenue is essential to Metropolitan's long-term fiscal health; and

31. The ad valorem tax is essential to the appropriate balance of fixed costs and fixed revenue under current circumstances; and

32. Continuing an ad valorem property tax rate in excess of the limit of Section 124.5 will allow the Board flexibility to fund Metropolitan's State Water Contract obligations fully and fairly in fiscal year 2022/23 through 2025/26 and for the foreseeable future; and

33. 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 property owners already paying the ad valorem property taxes; and

34. In FY 2021/22, approximately 90 percent of Metropolitan's estimated costs are fixed, while approximately 18 percent of Metropolitan's revenues are from fixed sources, including ad valorem property taxes, readiness-to-serve and capacity charges; in FY 2022/23, approximately 80 percent of Metropolitan's estimated costs are fixed, while approximately 18 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 8 percent of overall revenues in fiscal year 2022/23 and fiscal year 2023/24. If Section 124.5 limitations were applied, it is anticipated that, in fiscal years 2022/23 through 2025/26, and thereafter, ad valorem property tax revenue would drop to less than 0.1 percent overall revenue; and

35. If the Section 124.5 limit is applicable, fiscal years 2022/23 through 2025/26 fixed revenues as a percentage of total revenues will decline approximately from 18 percent in fiscal year 2021/22 to an average of 10 percent for fiscal years 2022/23 through 2025/26; and

36. 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; and

37. 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. Ad valorem taxes ensure that residences and businesses pay a share of costs of the system; and

38. Maintaining the existing ad valorem tax rate advances fiscal integrity because it takes pressure off Metropolitan's volumetric water rates and readiness-to-serve and capacity

charges and assist the Board, in its discretion, in maintaining a fair and appropriate balance between fixed costs and fixed revenues and help ensure that all who benefit from Metropolitan's service pay a fair share of the cost of that service; and

39. 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; and

40. 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. Even if all of Metropolitan's property tax revenue were fully allocated to State Water Contract obligations—and it is not, as a portion covers Metropolitan's general obligation debt service—Metropolitan would cover only an average of 24 percent for fiscal years 2022/23 through 2025/26 of its State Water Contract obligations. This percentage is significantly lower than other state water contractors; and

41. An analysis of fiscal health and stability must consider long-term circumstances, and the full spectrum of facts and circumstances, including the appropriate mix of property taxes and water rates and charges that will best allow Metropolitan to satisfy the region's long-term water supply needs; and

42. Notices of a public hearing were filed with the offices of the Speaker of the Assembly and the President pro Tempore of the Senate on February 24, 2022; and

43. The Board conducted a public hearing at its regular meeting on March 8, 2022, at which interested parties were given the opportunity to present their views regarding the recommendation that it is essential to Metropolitan's fiscal integrity to collect taxes in excess of the Section 124.5 limitation for fiscal years 2022/23 through 2025/26; and

44. 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/who-we-are/budget-finance/property-tax-rate-for-fy-202021/ ; and

45. 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

46. A four-year determination of the applicability of Section 124.5 is appropriate given (1) the flexibility required to manage Metropolitan's finances during current drought conditions, (2) the time required to complete ongoing financial and strategic planning efforts, (3) inherent volatility found in Metropolitan's financial profile, and (4) the scope of financial planning timeframes used in the financial sector for various projections and analysis;

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 Board Letter 9-2 and presented on March 8, 2022, 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 2022/23 through 2025/26; and

2. Resolves and determines that pursuant to its finding, the tax rate restriction in Section 124.5 of the Act is inapplicable when setting the ad valorem property tax rate for fiscal years 2022/23 through 2025/26; 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 April 12, 2022.

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

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 2022/23 AND 2023/24, 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") hereby finds that:

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; and

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; and

3. Since its inception Metropolitan has levied and collected property taxes; and

4. 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; and

5. 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; and

6. On November 4, 1960, Metropolitan entered into its contract with the California Department of Water Resources (the "State Water Contract") for water service from 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; and

7. Under the State Water Contract, Metropolitan is 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; and

8. 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 only executed state water contracts with agencies that have taxing power; and

9. 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; and

10. 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; and

11. 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 2011/12 through fiscal year 2020/21, Metropolitan's annual Member Agency water transactions ranged from 1.37 million acre-feet to 2.06 million acre-feet; and

12. When fixing taxes and setting rates, 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; and

13. On May 8, 1984, the Board approved recommendations to amend the Act, set forth in Board Letter 6-2 dated April 30, 1984; and

14. Such amendments were incorporated into Assembly Bill 1445, which was approved by the Legislature and filed with the California Secretary of State on July 3, 1984, and added to the Act as Section 124.5; and

15. Section 124.5 provides that 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; and

16. 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;" and

17. Section 124.5's rate restriction became effective in fiscal year 1990/91; and

18. In fiscal years 1990/91 through 1999/2000, the Board maintained Metropolitan's tax levy rate at .0089 percent, a rate that was below the rate then permitted under the restriction clause of Section 124.5; and

19. Metropolitan's tax levy rate has declined from .0089 percent in fiscal year 1999/2000 to .0035 percent in fiscal year 2012/13, and the Board has made the necessary finding since fiscal year 2013/14 that it is essential to fiscal integrity to collect property taxes in excess of the limits set forth in Section 124.5; and

20. On February 8, 2022, the General Manager presented to the Board a proposed biennial budget for fiscal years 2022/23 and 2023/24, proposed rates for calendar years 2023 and 2024, proposed charges for 2023, and the Ten-Year Financial Forecast that were based on the proposal that Metropolitan maintain its current ad valorem property tax rate of 0.0035 to maintain fiscal integrity; and

21. On March 7, 2022, the General Manager provided an information letter to the Board reviewing the applicability of Section 124.5 for fiscal years 2022/23 through 2025/26; and

22. On March 8, 2020, the Board held a public hearing with advance notice as required by Section 124.5, to consider the recommendation to suspend the tax restriction clause of Section 124.5 for to give interested parties the opportunity to present their views regarding the recommendation that it is essential to fiscal integrity to collect property taxes in fiscal years 2022/23 through 2025/26 in excess of the limits of Section 124.5; and

23. 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 $26,830,000 as of December 31, 2021, and a portion of its State Water Contract obligations capital costs; and

24. Metropolitan provides, sells and delivers a reliable water supply at wholesale to its member agencies throughout a broad service area, and its integrated water system is able to deliver water throughout its service area; and

25. 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; and

26. 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. These costs and obligations were not foreseen by the Legislature when, in 1984, it established the Section 124.5 tax rate restriction and nothing suggests that the Legislature intended to prohibit the Board from considering such circumstances when deciding whether collecting more than the limitation in that Section is essential to Metropolitan's fiscal integrity; and

27. 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. These costs and obligations were not foreseen or considered by the Legislature when, in 1984, it established the Section 124.5 rate restriction and nothing suggests that the Legislature intended to prohibit the Board from considering such circumstances when deciding whether collecting more than the limitation in that Section is essential to Metropolitan's fiscal integrity; and

28. Consideration of, and providing for, current and anticipated State Water Contract obligations is essential to Metropolitan's fiscal stability and integrity; and

29. Availability of diverse financial resources to satisfy Metropolitan's State Water Contract obligations is essential to Metropolitan's fiscal stability and integrity; and

30. An appropriate balance of fixed costs and fixed revenue is essential to Metropolitan's long-term fiscal health; and

31. The ad valorem tax is essential to the appropriate balance of fixed costs and fixed revenue under current circumstances; and

32. Continuing an ad valorem property tax rate in excess of the limit of Section 124.5 will allow the Board flexibility to fund Metropolitan's State Water Contract obligations fully and fairly in fiscal year 2022/23 and 2023/24 and for the foreseeable future; and

33. 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 property owners already paying the ad valorem property taxes; and

34. In FY 2021/22, approximately 90 percent of Metropolitan's estimated costs are fixed, while approximately 18 percent of Metropolitan's revenues are from fixed sources, including ad valorem property taxes, readiness-to-serve and capacity charges; in FY 2022/23, approximately 80 percent of Metropolitan's estimated costs are fixed, while approximately 18 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 8 percent of overall revenues in fiscal year 2022/23 and fiscal year 2023/24. If Section 124.5 limitations were applied, it is anticipated that, in fiscal years 2022/23 and 2023/24, and thereafter, ad valorem property tax revenue would drop to less than 0.1 percent of overall revenue; and

35. If the Section 124.5 limit is applicable, fiscal years 2022/23 and 2023/24 fixed revenues as a percentage of total revenues will decline approximately from 18 percent to 10 percent; and

36. 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; and

37. 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. Ad valorem taxes ensure that residences and businesses pay a share of costs of the system; and

38. Maintaining the existing ad valorem tax rate advances fiscal integrity because it takes pressure off Metropolitan's volumetric water rates and readiness-to-serve and capacity

charges and assist the Board, in its discretion, in maintaining a fair and appropriate balance between fixed costs and fixed revenues and help ensure that all who benefit from Metropolitan's service pay a fair share of the cost of that service; and

39. 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; and

40. 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. Even if all of Metropolitan's property tax revenue were fully allocated to State Water Contract obligations—and it is not, as a portion covers Metropolitan's general obligation debt service—Metropolitan would cover only 25 percent of its fiscal year 2022/23 and 23 percent of its fiscal year 2023/24 State Water Contract obligations. This percentage is significantly lower than other state water contractors; and

41. An analysis of fiscal health and stability must consider long-term circumstances, and the full spectrum of facts and circumstances, including the appropriate mix of property taxes and water rates and charges that will best allow Metropolitan to satisfy the region's long-term water supply needs; and

42. Notices of a public hearing were filed with the offices of the Speaker of the Assembly and the President pro Tempore of the Senate on February 24, 2022; and

43. The Board conducted a public hearing at its regular meeting on March 8, 2022, at which interested parties were given the opportunity to present their views regarding the recommendation that it is essential to Metropolitan's fiscal integrity to collect taxes in excess of the Section 124.5 limitation for fiscal years 2022/23 through 2025/26; and

44. 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/who-we-are/budget-finance/property-tax-rate-for-fy-202021/ ; and

45. 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;

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 Board Letter 9-2 and presented on March 8, 2022, 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 2022/23 and 2023/24; and

2. Resolves and determines that pursuant to its finding, the tax rate restriction in Section 124.5 of the Act is inapplicable when setting the ad valorem property tax rate for fiscal years 2022/23 and 2023/24; 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 April 12, 2022.

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