



F&I Committee

Vacant, Chair
R. Record, Vice Chair
S. Blois
B. Dennstedt
L. Dick
S. Faessel
S. Goldberg
P. Hawkins
F. Jung
A. Ortega
T. Quinn
M. Ramos
T. Smith
S. Tamaribuchi

Finance and Insurance Committee

Meeting with Board of Directors *

March 7, 2022

2:00 p.m.

**Monday, March 7, 2022
Meeting Schedule**

08:30 am - E&O
10:00 am - WP&S
12:30 pm - Break
01:00 pm - C&L
02:00 pm - F&I

Teleconference meetings will continue until further notice. Live streaming is available for all board and committee meetings on mwdh2o.com ([Click Here](#))

A listen only phone line is also available at 1-800-603-9516; enter code: 2176868#. Members of the public may present their comments to the Board on matters within their jurisdiction as listed on the agenda via teleconference only. To participate call (404) 400-0335 and enter Code: 9601962.

MWD Headquarters Building • 700 N. Alameda Street • Los Angeles, CA 90012

* The Metropolitan Water District's meeting of this Committee is noticed as a joint committee meeting with the Board of Directors for the purpose of compliance with the Brown Act. Members of the Board who are not assigned to this Committee may participate as members of the Board, whether or not a quorum of the Board is present. In order to preserve the function of the committee as advisory to the Board, members of the Board who are not assigned to this Committee will not vote on matters before this Committee.

1. Opportunity for members of the public to address the committee on matters within the committee's jurisdiction (As required by Gov. Code Section 54954.3(a))

**** CONSENT CALENDAR ITEMS -- ACTION ****

2. CONSENT CALENDAR OTHER ITEMS - ACTION

- A. Approval of the Minutes of the Finance and Insurance Committee [21-923](#)
held February 7, 2022

Attachments: [03072022 FI 2A minutes.pdf](#)

3. CONSENT CALENDAR ITEMS - ACTION

NONE

**** END OF CONSENT CALENDAR ITEMS ****

4. OTHER BOARD ITEMS - ACTION

NONE

5. BOARD INFORMATION ITEMS

- 9-2 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 [21-879](#)

Attachments: [03082022 FI 9-2 B-L.pdf](#)
[03082022 FI 9-2 Presentation.pdf](#)

6. WORKSHOP/COMMITTEE ITEMS

- a. Proposed biennial budget, which includes the Capital Investment Plan and revenue requirements for fiscal years 2022/23 and 2023/24; proposed water rates and charges for calendar years 2023 and 2024 to meet revenue requirements for fiscal years 2022/23 and 2023/24; ten-year forecast; and Cost of Service Report.(Workshop #3) [21-894](#)

Attachments: [03072022 FI 6a Presentationpdf.pdf](#)

7. MANAGEMENT REPORTS

- a. Chief Financial Officer's Report [21-924](#)

8. FOLLOW-UP ITEMS

NONE

9. FUTURE AGENDA ITEMS

10. ADJOURNMENT

NOTE: This committee reviews items and makes a recommendation for final action to the full Board of Directors. Final action will be taken by the Board of Directors. Agendas for the meeting of the Board of Directors may be obtained from the Board Executive Secretary. This committee will not take any final action that is binding on the Board, even when a quorum of the Board is present.

Writings relating to open session agenda items distributed to Directors less than 72 hours prior to a regular meeting are available for public inspection at Metropolitan's Headquarters Building and on Metropolitan's Web site <http://www.mwdh2o.com>.

Requests for a disability related modification or accommodation, including auxiliary aids or services, in order to attend or participate in a meeting should be made to the Board Executive Secretary in advance of the meeting to ensure availability of the requested service or accommodation.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

MINUTES

FINANCE AND INSURANCE COMMITTEE

February 07, 2022

Vice Chair Record called the teleconference meeting to order at 8:30 a.m.

Members present: Vice Chair Record, Directors Blois, Dennstedt, Dick, Faessel, Goldberg, Hawkins, Jung, Ortega, Quinn, Smith, and Tamaribuchi.

Members absent: Director Ramos

Other Board Members present: Chairwoman Gray, Directors Abdo, Atwater, Cordero, De Jesus, Erdman, Fellow, Fong-Sakai, Kurtz, Lefevre, Miller, Morris, Peterson, and Sutley.

Committee Staff present: Beatty, Hagekhalil, Kasaine, Ros, Scully, Upadhyay

1. OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO ADDRESS THE COMMITTEE ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION

Caty Wagner, Sierra Club, commented in support of the \$500 million state budget request for the recycled water program.

The following correspondence commenting on Item 7-1 was received and will be made part of the record: Chris Gilbert, dated February 2, 2022 at 1:26 p.m.; Mark Hattam of San Diego County Water Authority, dated February 3, 2022 at 4:45 p.m. Sydney Pitcher dated February 5, 2022 at 11:24 p.m.; and Karen Jacques, dated February 6, 2022 at 10:21p.m.

CONSENT CALENDAR ITEMS — ACTION
--

2. CONSENT CALENDAR OTHER ITEMS – ACTION

- A. Subject: Approval of the Minutes of the Meeting of the Finance and Insurance Committee held October 11, 2021

3. CONSENT CALENDAR ITEMS – ACTION

The General Manager, Adel Hagekhalil, addressed the Committee with an overview of the proposed budget. His statement included goals and an overview of rate increases.

7-1 Subject: Set combined public hearing regarding: (1) the proposed water rates and charges for calendar years 2023 and 2024 necessary to meet the revenue requirements for fiscal years 2022/23 and 2023/24, and (2) review of the applicability of the MWD Act Section 124.5 ad valorem property tax limitation for fiscal years 2022/23 through 2025/26; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Motion: Set a combined public hearing on March 8, 2022, regarding:
(1) the proposed water rates and charges for calendar years 2023 and 2024 necessary to meet the revenue requirements for fiscal years 2022/23 and 2023/24, and (2) review of the applicability of the MWD Act Section 124.5 ad valorem property tax limitation for fiscal years 2022/23 through 2025/26

Presented by: Katano Kasaine, Assistant General Manager/Chief Financial Officer
Ms. Kasaine introduced the item and staff was available for any questions.

The following Directors provided comments or asked questions:

1. Goldberg
2. Fong- Sakai
3. Smith

Staff responded to the Directors' questions and comments.

Katano Kasaine noted that a letter, dated February 3, 2022, was received from the San Diego County Water Authority commenting on Item 7-1. She stated staff will respond to their questions at the March workshop. This item will be made part of the record.

Director Dennstedt made a motion, seconded by Director Blois, to approve the consent calendar consisting of items 2A and 7-1.

The vote was:

Ayes: Directors Blois, Dennstedt, Dick, Faessel, Goldberg, Hawkins, Jung, Ortega, Quinn, Record, Smith, and Tamaribuchi

Noes: None

Abstentions: None

Absent: Directors Ramos

The motion passed by a vote of 12 ayes, 0 noes, 0 abstain, and 1 absent.

END OF CONSENT CALENDAR ITEMS

4. OTHER BOARD ITEMS – ACTION

None

5. BOARD INFORMATION ITEMS

9-2 Subject: Proposed biennial budget, which includes the Capital Investment Plan and revenue requirements for fiscal years 2022/23 and 2023/24; proposed water rates and charges for calendar years 2023 and 2024 to meet revenue requirements for fiscal years 2022/23 and 2023/24; ten-year forecast; and Cost of Service Report (Workshop #1)

Presented by: Katano Kasaine, Assistant General Manager/Chief Financial Officer
Deven Upadhyay, Assistant General Manager/Chief Operating Officer
Arnout Van den Berg, Section Manager- Revenue & Budget
Lisa St. Regis, Unit Manager- Budget

Ms. Kasaine presented the committee with an overview of the proposed biennial budget for Fiscal Years 2022/23 and 2023/24, which included strategic priorities, highlights, and goals.

Mr. Upadhyay presented the committee with an overview of Metropolitan's projected water transactions.

Mr. Van den Berg presented the committee with an overview of the budget development. He presented the proposed revenue requirements, proposed rate elements and charges, and proposed full-service rates and charges. Next, he provided an overview of the proposed biennial budget, which included revenue and expenditure trends.

Ms. St. Regis presented the Operations and Maintenance (O&M) expenditure budget.

Mr. Van den Berg continued the presentation with an overview of the ten-year financial forecast, which included projected rate increases and financial metrics, projected water rates and charges, revenue forecast, expenditure trend, State Water Contract forecast, demand management, capital investment plan expenditures, outstanding debt, and debt service.

Ms. Kasaine concluded the presentation with the next steps.

The following Directors provided comments or asked questions:

1. Ortega
2. Sutley
3. Smith

4. Faessel
5. Fong-Sakai
6. Miller

Staff will respond to Directors' comments and questions at the next workshop.

6. COMMITTEE ITEMS

- a. Subject: Quarterly Financial Report
Presented by: Bernadette Robertson, Controller

Ms. Robertson presented the committee with Metropolitan's quarterly financial report for the period ending December 31, 2021. The report included cumulative water transactions in acre-feet, revenues, and expenses. Ms. Robertson also reported on reimbursable costs and Operations & Maintenance costs for the Delta conveyance project through December 2021.

- b. Subject: Quarterly Investment Activities Report
Presented by: Samuel Smalls, Manager of Treasury & Debt Management

Ms. Kasaine introduced the item and Mr. Smalls presented the committee with an overview of Metropolitan's liquidity portfolio through December 31, 2021. The report included credit quality, sector allocation, maturities, and total returns.

7. MANAGEMENT REPORT

- a. Subject: Chief Financial Officer's report
No report was given.

8. FOLLOW-UP ITEMS

None

9. FUTURE AGENDA ITEM

None

10. ADJOURNMENT

The next workshop will be held on February 22, 2022.

Meeting adjourned at 10:28 a.m.

Randy Record
Vice Chair

Taxes on Water Rates Correspondence Received 2022

Ref No.	DateReceived	Time Received	Position	Name	Organization	Email	Date Sent to BOD
1	2/2/2022	1:26 PM	Opposed	Chris Gilbert		mailto:chris@gilbertbiz.com	2/7/2022
2	2/3/2022	4:45 PM	Opposed	Mark Hattman	San Diego Water Authority		2/7/2022
3	2/5/2022	11:24 PM	Opposed	Sydney Pitcher		syditude@gmail.com	2/7/2022
4	2/6/2022	10:21 PM	Opposed	Karen Jacques		threegables1819@gmail.com	2/7/2022

From: [Chris Gilbert](#)
To: [DL-Board Support Team](#)
Subject: comments
Date: Wednesday, February 2, 2022 1:26:50 PM

Please forward to the Board & Finance and Insurance Committee:

It's important to start to become self-sufficient in water. Lack of water and lack of snow pack will not provide the quantities of water that can be imported as in the past, from the Colorado and from N. California. Don't throw money at solutions that won't work anymore.

- Do not raise taxes or water rates unless it is to pay for local conservation programs
- Do not to spend money on new imported water projects, like increased funding for the Delta Conveyance Design and Construction Authority, or Delta Conveyance planning or permitting

Chris Gilbert

February 3, 2022

MEMBER AGENCIES

Carlsbad
Municipal Water District
City of Del Mar
City of Escondido
City of National City
City of Oceanside
City of Poway
City of San Diego
Fallbrook
Public Utility District
Helix Water District
Lakeside Water District
Olivenhain
Municipal Water District
Olay Water District
Padre Dam
Municipal Water District
Camp Pendleton
Marine Corps Base
Rainbow
Municipal Water District
Ramona
Municipal Water District
Rincon del Diablo
Municipal Water District
San Dieguito Water District
Santa Fe Irrigation District
South Bay Irrigation District
Vallecitos Water District
Valley Center
Municipal Water District
Vista Irrigation District
Yuima
Municipal Water District

OTHER
REPRESENTATIVE

County of San Diego

VIA E-MAIL

Marcia Scully, General Counsel
Metropolitan Water District of Southern California
700 N. Alameda Street
Los Angeles, CA 90012
(mscully@mwdh2o.com)

RE: Board memo 7-1: Set combined public hearing regarding: (1) the proposed water rates and charges for calendar years 2023 and 2024 necessary to meet the revenue requirements for fiscal years 2022/23 and 2023/24, and (2) review of the applicability of the MWD Act Section 124.5 ad valorem property tax limitation for fiscal years 2022/23 through 2025/26; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Dear Ms. Scully:

Under the above-referenced Board Memo 7-1, the MWD Board of Directors next week will consider setting a public hearing on suspension of MWD Act Section 124.5 tax rate limitations for a four-year period for fiscal years 2022/23 through 2025/26. Section 124.5 has a required finding that the collection of property taxes in excess of the statutory limitation is "essential to the fiscal integrity of the district." This determination must be made by the Board of Directors based on evidence in the record. We have the following concerns and objections.

First, we question whether MWD's public notice regarding "review of the applicability" of Section 124.5 provides legally sufficient notice about the real issue at hand, which is whether the statutory property tax limitation – which would otherwise reduce the amount of property taxes assessed and paid in the MWD service area – should be suspended. We reiterate this concern but will not debate the merits again since we have previously exchanged correspondence¹ on this point.

The second concern we have is with the new recommendation by staff to suspend the tax rate limitation for a *four-year period*. When MWD first began suspending the statutory tax reduction in 2014, it provided for an annual public hearing. Beginning in 2016, staff began to conduct a public hearing only once every two-years, as part of the biennial budget process. Now, staff is recommending that the board action cover a four-year period, for fiscal years 2022/23 through 2025/26. We do not believe that it will be possible for the Board to make the requisite evidentiary finding that suspension of the

¹ [Water Authority letter dated February 8, 2020](#) and [MWD letter dated February 10, 2020](#).

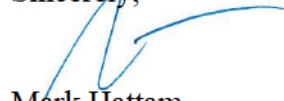
Ms. Scully
February 3, 2022
Page 2

tax rate limitation is essential to the fiscal integrity of the district so far into the future, or for a period longer than the biennial budget under consideration.

Finally, we are concerned that the schedule presented in Board Memo 7-1 will not provide the public, MWD's member agencies, or even the Board itself with the requisite information in time for the public hearing. Board Memo 7-1 references February 8, 2022 Board Information Item 9-2, but that Memo is not yet posted on the website. Are we correct to assume that the complete budget proposal will at least be presented before next week's workshop #1? We are concerned because the February 22 workshop is only two weeks prior to the public hearing and the third workshop on March 7 is one day before the public hearing. If any new information is presented at or in connection with the second and third workshops, there is no practical ability or opportunity for member agencies or the public at large to engage or even for the board itself to review all of the information and make the requisite determination under Section 124.5.

Thank you for your consideration of these matters.

Sincerely,



Mark Hattam
General Counsel

cc: Sandy Kerl, Water Authority GM
Adel Hagekhalil, MWD GM
Water Authority Board of Directors
MWD Board of Directors

-----Original Message-----

From: Sydney Pitcher <syditude@gmail.com>

Sent: Saturday, February 5, 2022 11:24 PM

To: DL-Board Support Team <DL-BoardSupportTeam@mwdh2o.com>; catywagner@gmail.com

Subject: Taxes on water rates.

Hello, my name is Sydney and I have some requests and concerns I would like for you to share with other board members this Monday. First of all, I request you do not raise taxes on water rates unless it will fund local and sustainable water projects such as stormwater capture, recycled water, groundwater recharge and maybe brackish water desalination. I also request your board does not spend money on any more imported water projects such as the Delta Tunnel or Sites Reservoir.

By implementing rain harvesting and stormwater capture systems in buildings and helping residents install them, we can greatly reduce the amount of stormwater running into our waterways and carrying toxic pollution along with it as well as helping home owners save money. If California greatly increases the amount of local water saving initiatives, we can save millions of dollars every year along with reducing California's energy use and carbon emissions. We can also reduce flooding by placing porous pavement in areas susceptible to flooding and instead, the water would absorb into the ground, helping to restore our ground water.

I oppose the Delta Tunnel because there is no guarantee that with climate change and more severe, frequent droughts that we are going to be able to depend on shipping water from Northern to Southern California. I'm very concerned that tens of billions of dollars will be wasted on a tunnel that may not be able to withstand corrosive sea level rise and or earthquakes. There are numerous species like the chinook salmon that are gravely threatened with extinction and I fear that these projects will withdraw more water out of places like the Sacramento River that are already water stressed. Due to hotter temperatures, more water from the tunnel will evaporate from the Sites Reservoir and we must find more sustainable ways to make it so that water flows into reservoirs. This is where storing water underground or in tanks can help reduce evaporation. We can even help farmers implement massive rainwater storage systems so they can water crops in the dryer months. I'm also concerned that some of the dams are contributing to the massive salmon die off and I request that we look into which ones are able to be taken down in order to help restore the population.

Please forward this message to the rest of the board members so they can review and look at it. If the reason for wanting to push through with the Delta Tunnel is the creation of numerous jobs, I want to point out that there are more sustainable, efficient and cost effective water projects we can promote that will also create new jobs. Thank you for your time and hope I can hear back if any of you get a chance to respond.

Sent from my iPad

This communication, together with any attachments or embedded links, is for the sole use of the intended recipient(s) and may contain information that is confidential or legally protected. If you are not the intended recipient, you are hereby notified that any review, disclosure, copying, dissemination, distribution or use of this communication is strictly prohibited. If you have received this communication in error, please notify the sender immediately by return e-mail message and delete the original and all copies of the communication, along with any attachments or embedded links, from your system.

-----Original Message-----

From: Karen Jacques <threegables1819@gmail.com>

Sent: Sunday, February 6, 2022 10:21 PM

To: DL-Board Support Team <DL-BoardSupportTeam@mwdh2o.com>

Subject: Do Not Raise Taxes or Water Rates Except to Pay for Local Projects

The comments in this email are addressed to Monday February 7th meeting of MWD's Finance and Insurance Committee. Please forward them.

Climate change models predict that temperatures in California will continue to rise and that drought will become longer and more frequented, punctuated by extreme rain events. They also predict that the snow pack in the Sierra will likely be completely gone by mid-century. Conditions may be more or less extreme depending on how quickly California, our country and the world take action to address the climate crisis. They do not bode well for the long term effectiveness of a water system (including the proposed new Delta tunnel) that is based on the southern part of the state continuing to get the bulk of its water from the northern part of the state.

Given this reality, the best and most cost effective thing that the water districts that Metropolitan serves can do is to take action at the district level to conserve and recycle water and recharge local aquifers. Doing this is the most effective use of property tax and rate payer money because it will lead to sustainability at the local level rather than being dependent on receiving the bulk of their water from Northern California via a complex conveyance system which will be extremely costly to build and maintain and likely won't have enough water to meet their needs. Water districts have to choose how to best spend their money. If they spent the bulk of their money on constructing and maintaining the proposed Delta tunnel, they won't have that money to spend on much more cost effective local measures. Los Angeles has put significant resources into building local water sustainability and, as a result, has reduced its per capita water use such that it has more than doubled in population while still using roughly the same amount of water. Other water districts that are part of WMD would be wise to emulate Los Angeles rather than pouring their resources into long distance water transport, especially given that, as heat and drought increase, there may be little or no available water to transport.

Spending money on local projects is also the best guarantee of resiliency. Natural disasters caused by the climate crisis could potentially put sections of a complex conveyance system out of operation for long periods of time as could an earthquake anywhere along the conveyance system route. It could take months or years to repair such damage. Damage to local projects could be repaired much more quickly and cost effectively and would impact far fewer people, making them much easier to deal with.

Thank-you for this opportunity to comment.

Karen Jacques,
Sacramento, California

This communication, together with any attachments or embedded links, is for the sole use of the intended recipient(s) and may contain information that is confidential or legally protected. If you are not the intended recipient, you are hereby notified that any review, disclosure, copying, dissemination, distribution or use of this communication is strictly prohibited. If you have received this communication in error, please notify the sender

immediately by return e-mail message and delete the original and all copies of the communication, along with any attachments or embedded links, from your system.



- **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 transitional 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 2022/23 and 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>.

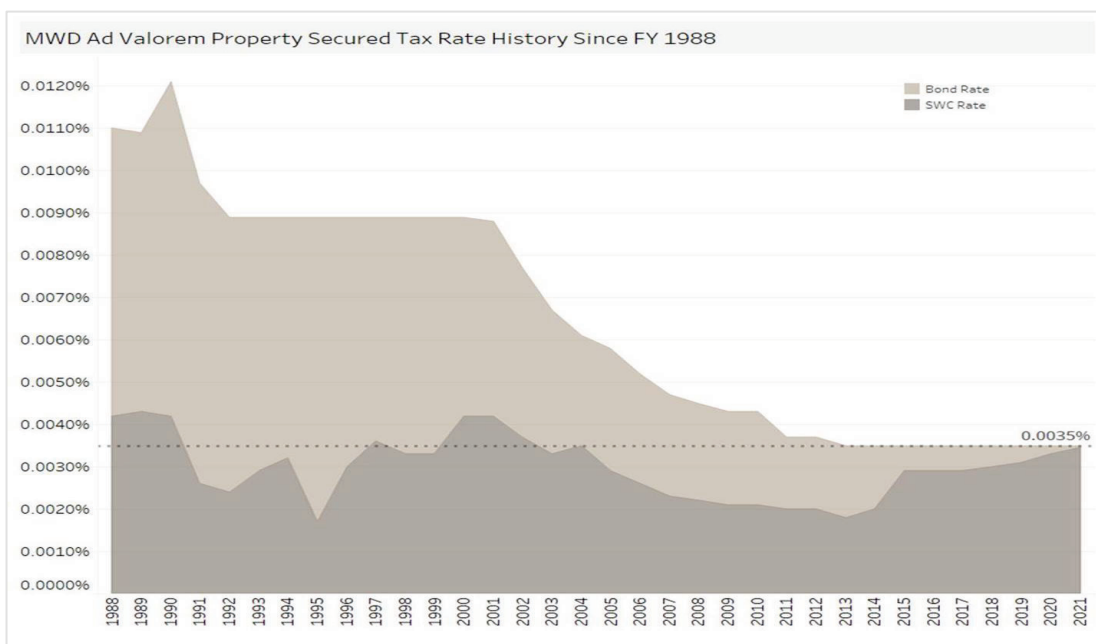
Details

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.

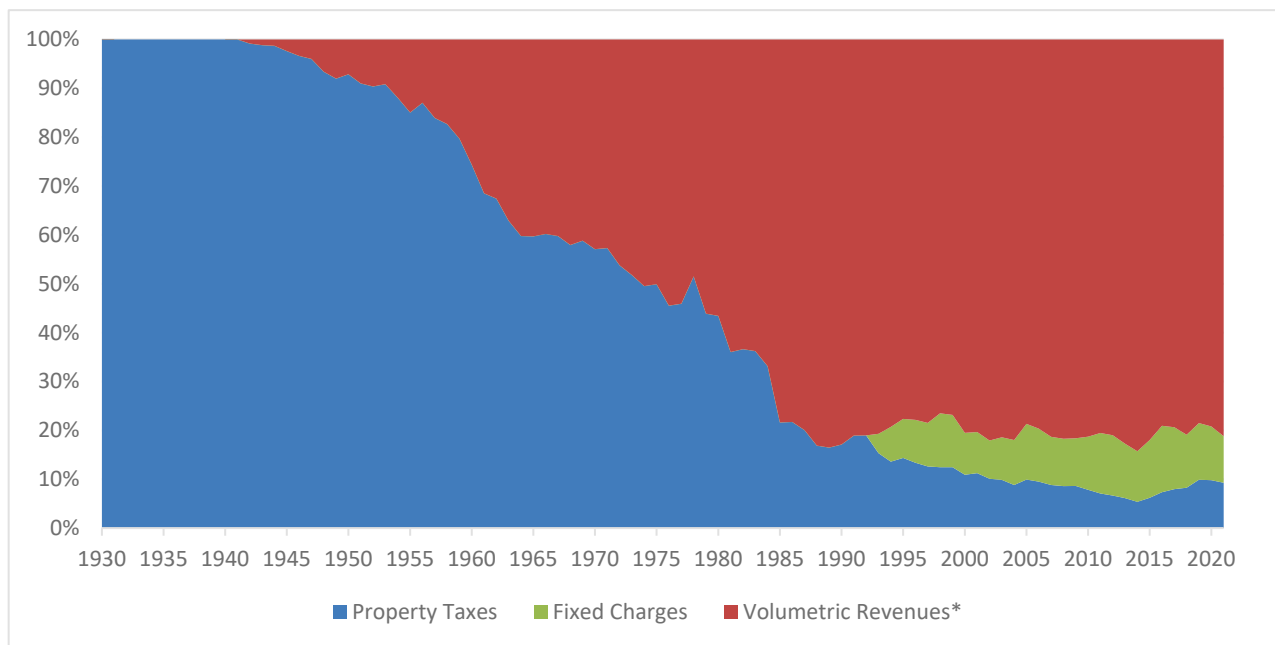
In 1984, the Legislature adopted SB 1445, amending the MWD Act to add Section 124.5, among other sections. Effective FY 1990/91, Section 124.5 limited Metropolitan's annual property tax levy at the amount needed to pay the total of annual debt service on the GO bonds and Burns-Porter bonds, unless after 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*

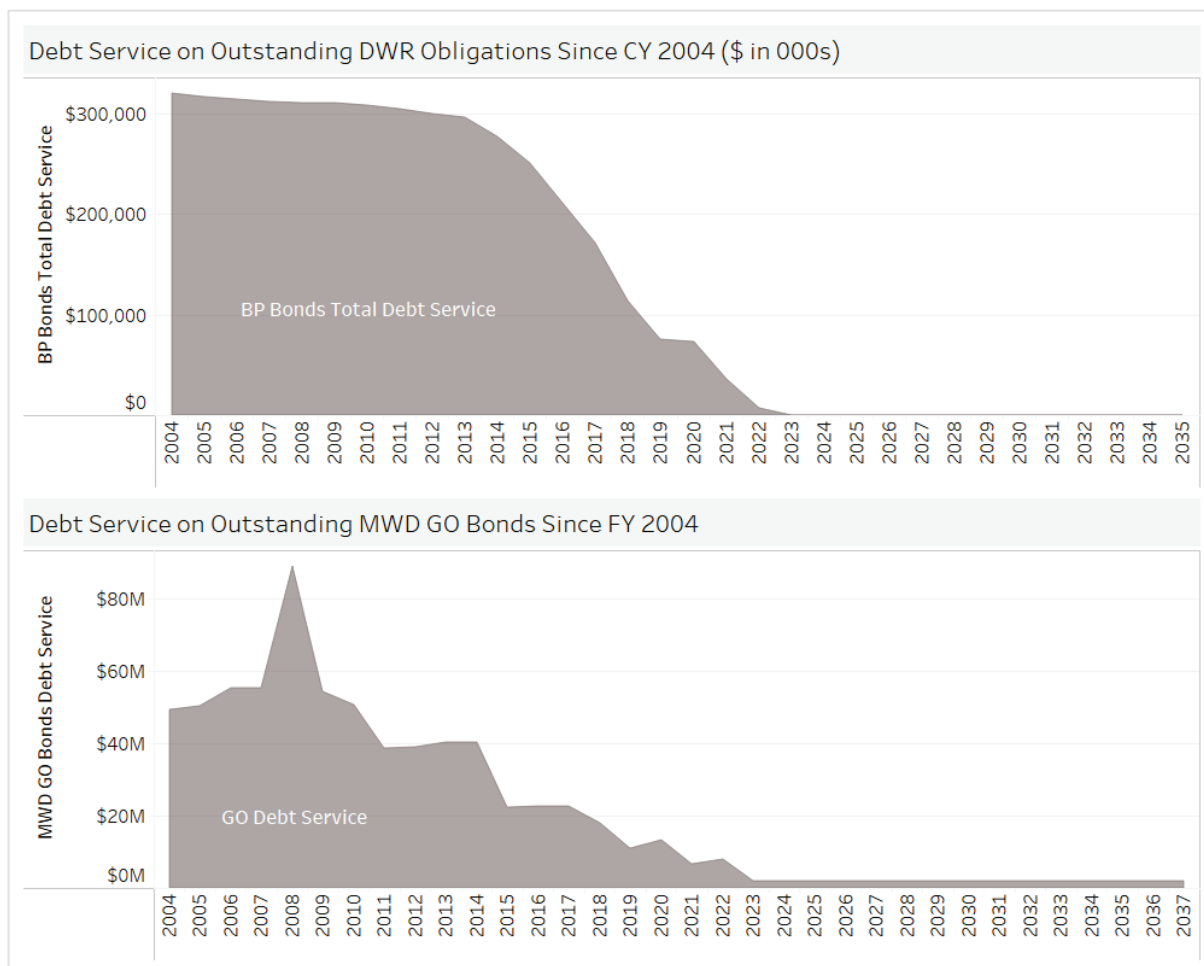
of Water Resources, Antelope Valley-East Kern Water Agency (2013) 213 Cal. App. 4th 1163. In approving the Burns-Porter Act, California’s voters approved “an indebtedness in the amount necessary for building, operating, maintaining, and replacing the [State Water] Project, and they intended that the 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 XIII A (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

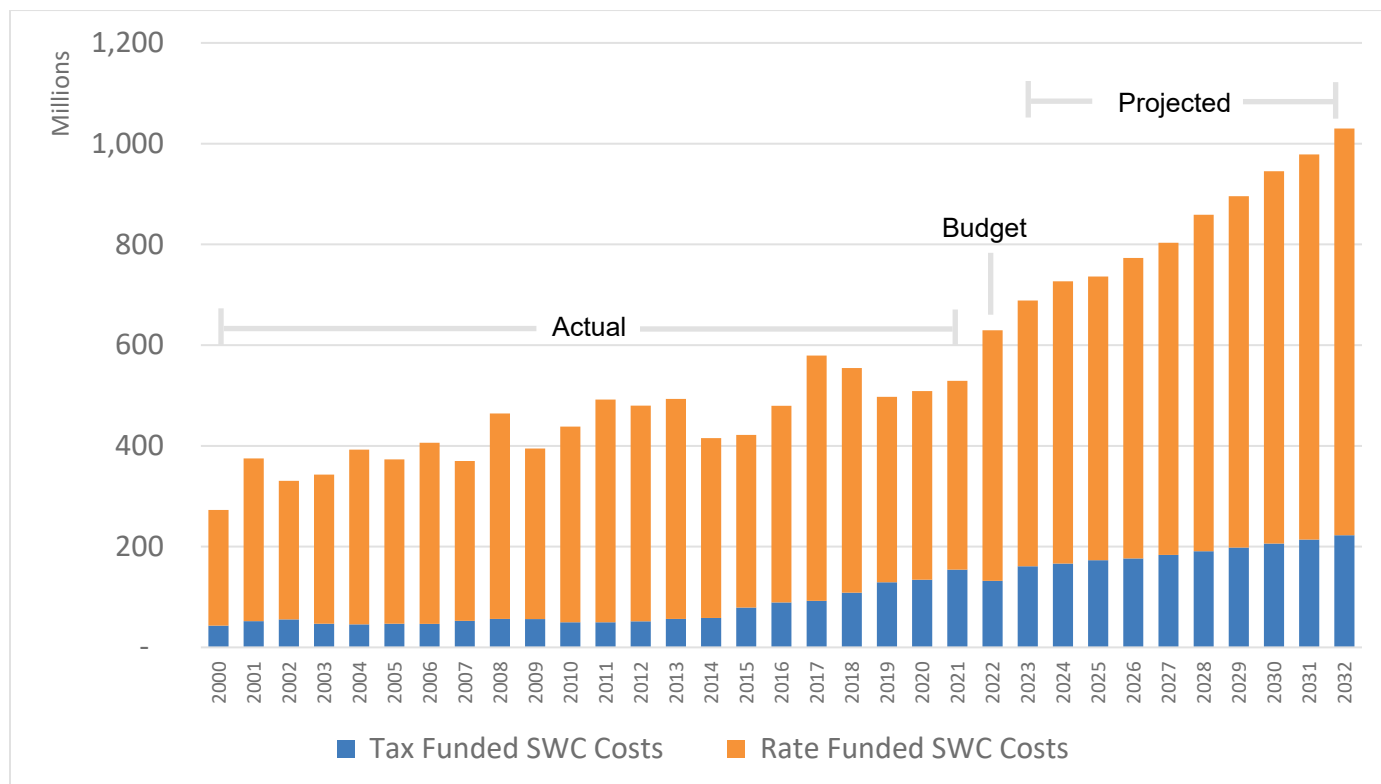
Prior to FY 2013/14, under Section 124.5’s restriction, the property tax rate had decreased steadily in line with the decreasing debt service for the GO bonds and Burns-Porter bonds. The property tax rate would continue to decrease as the GO bonds and Burns-Porter bonds are ultimately paid off; provided 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.

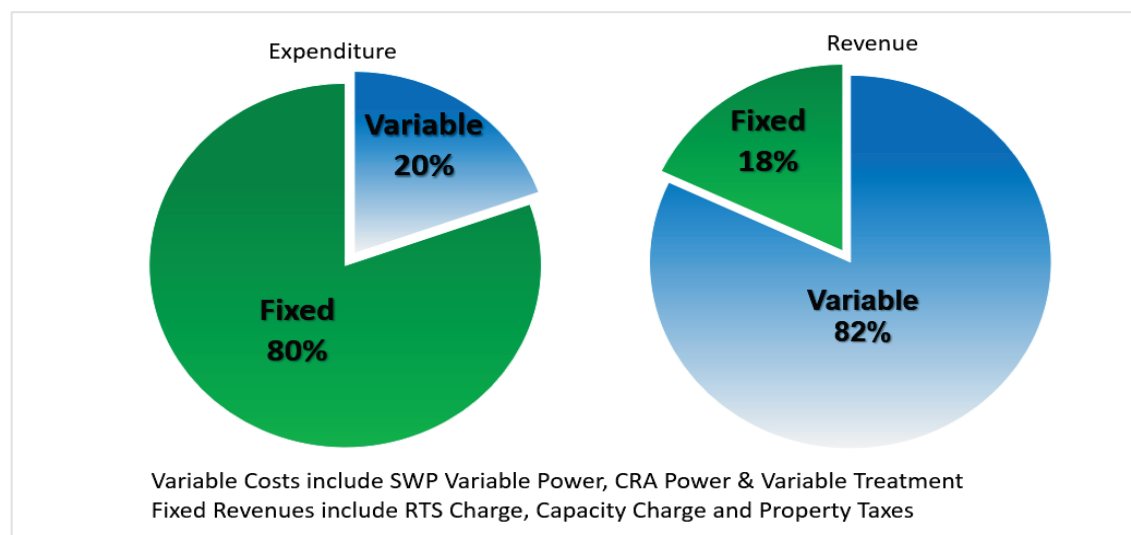
Metropolitan Financial Policies Provide Guidance for Evaluating Fiscal Integrity

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
 Assistant General Manager/CFO
 2/25/2022
 Date


 Adel Hagekhalil
 General Manager
 2/25/2022
 Date



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

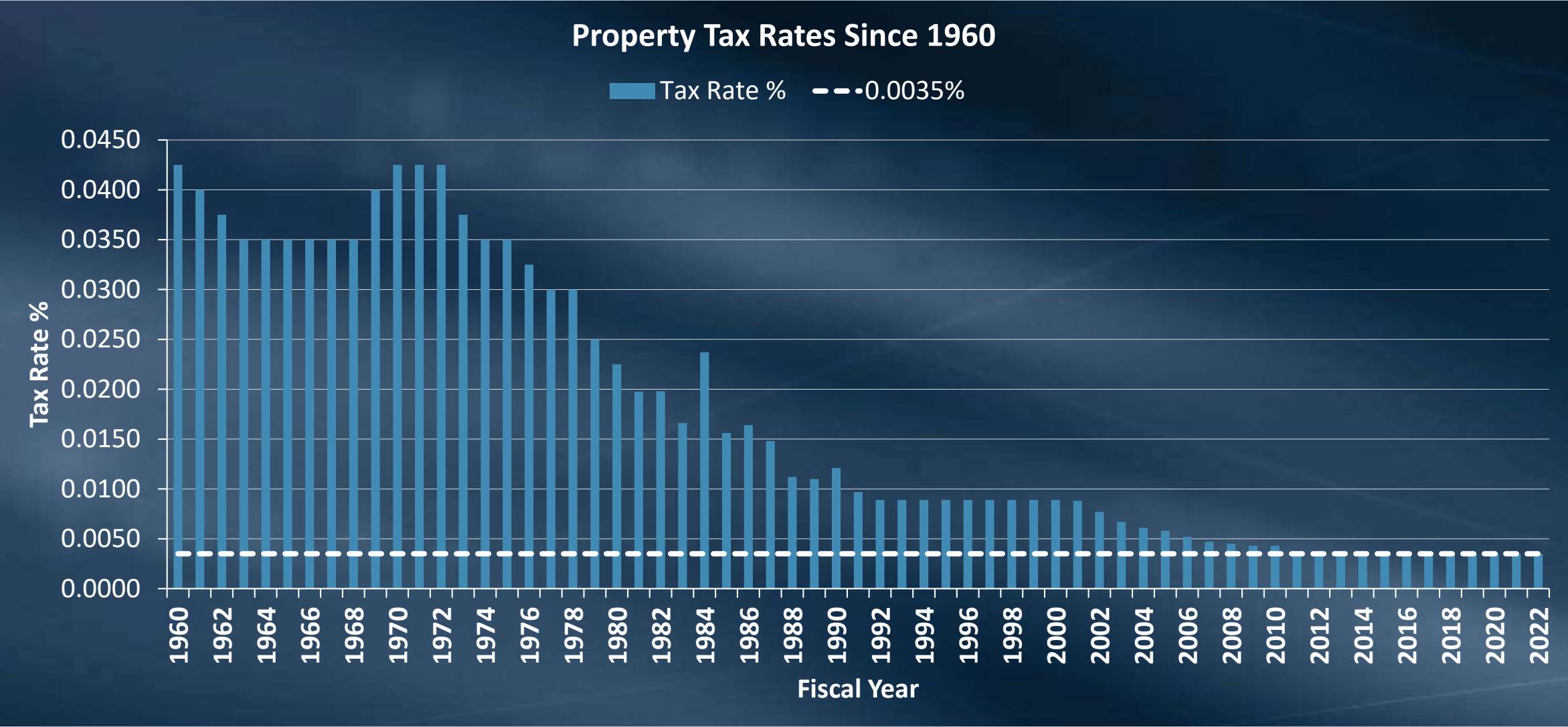
MWD Property Taxes

- 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)

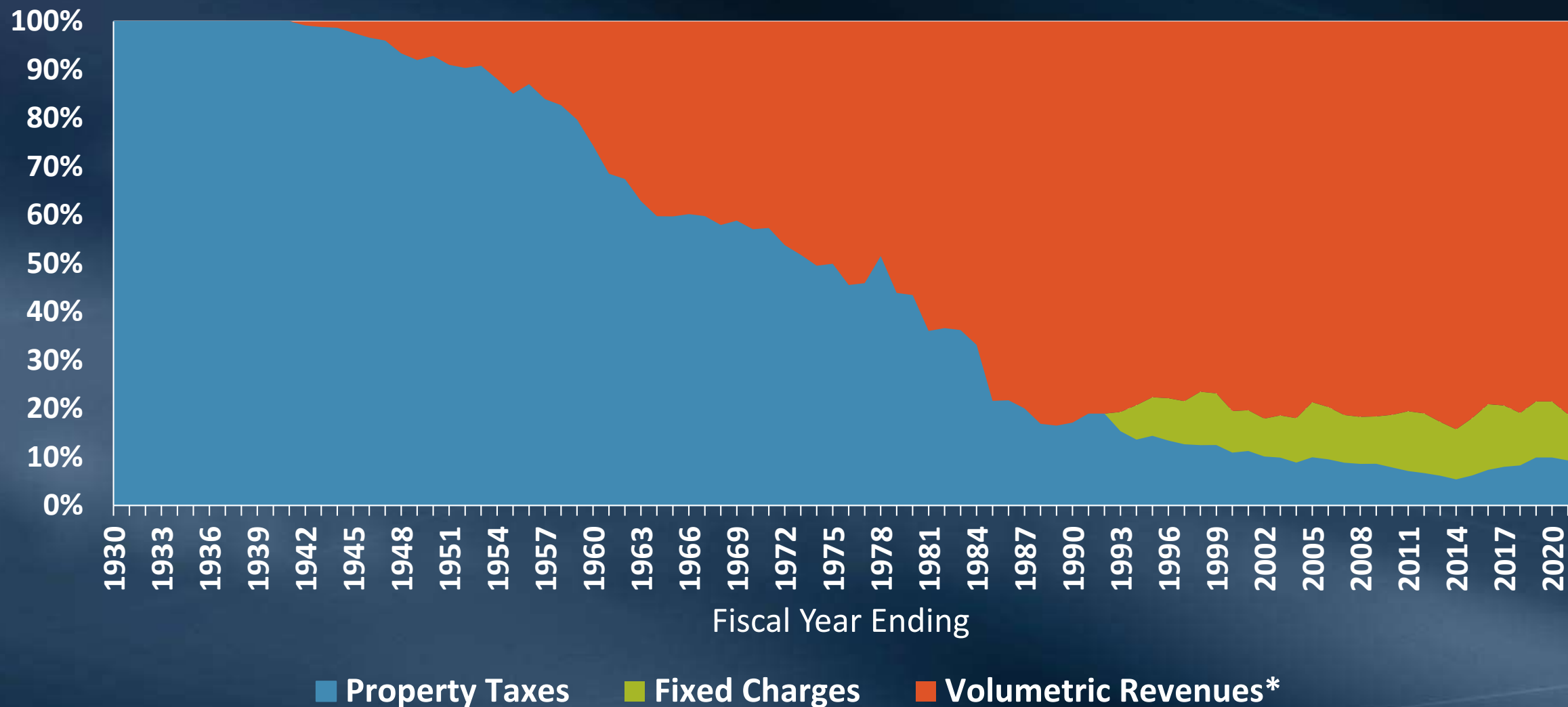
MWD Property Taxes, cont'd

- 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



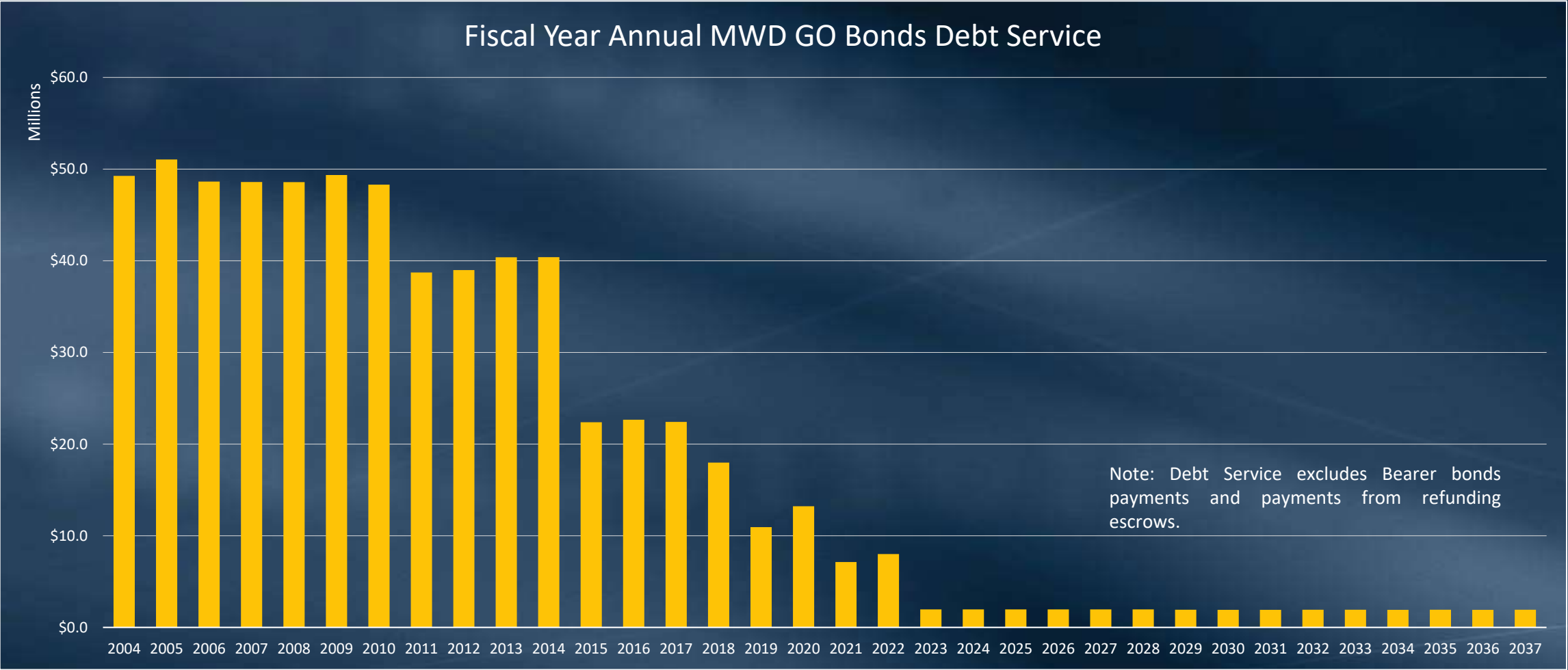
Historical Revenue Sources



* Includes water sales, exchanges and wheeling

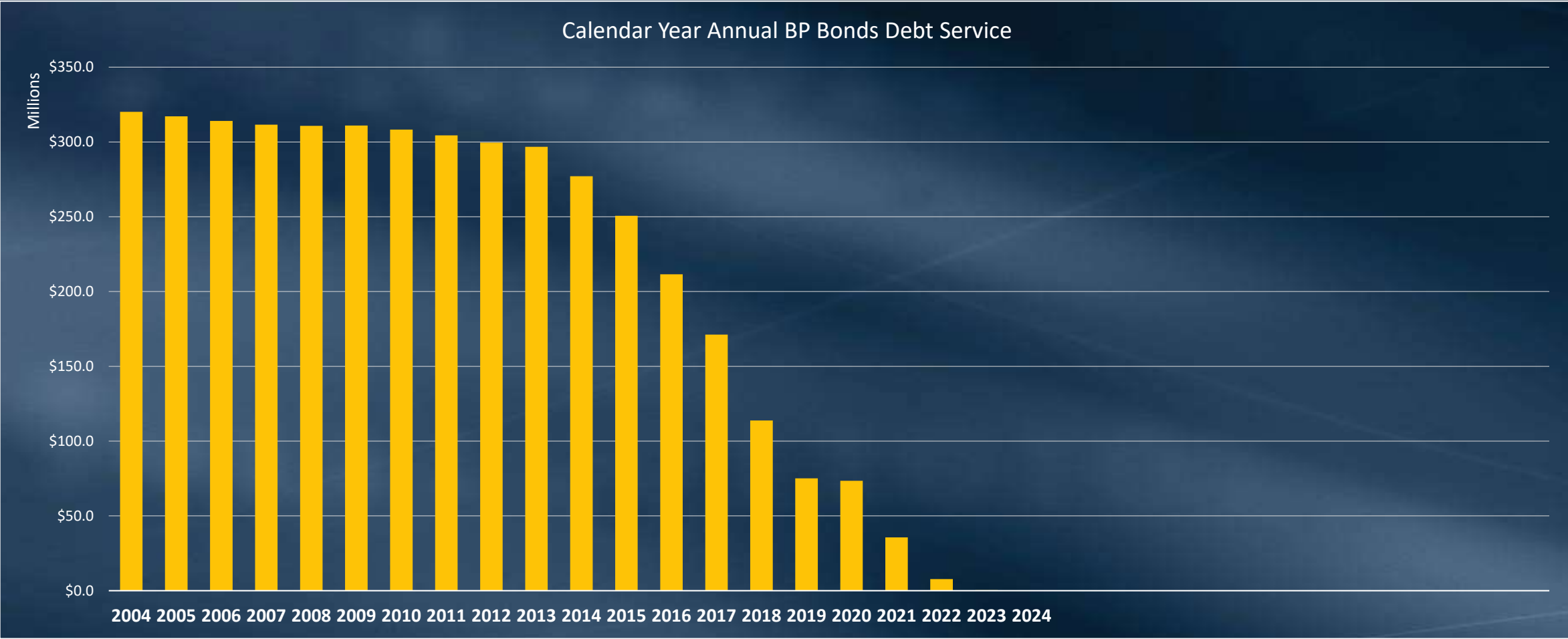
Outstanding Debt Service

MWD GO Bonds

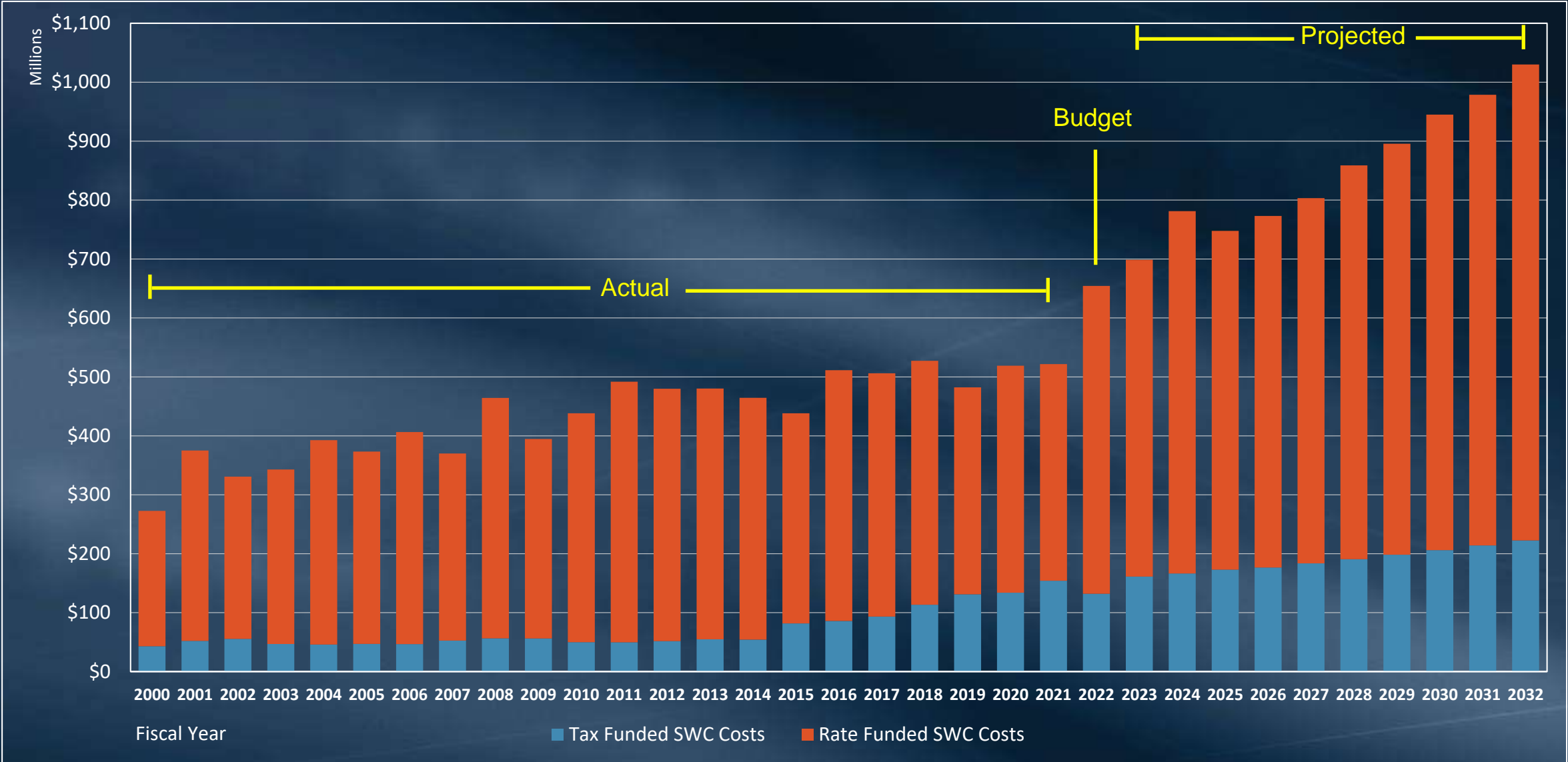


Outstanding Debt Service

DWR Burns-Porter Bonds

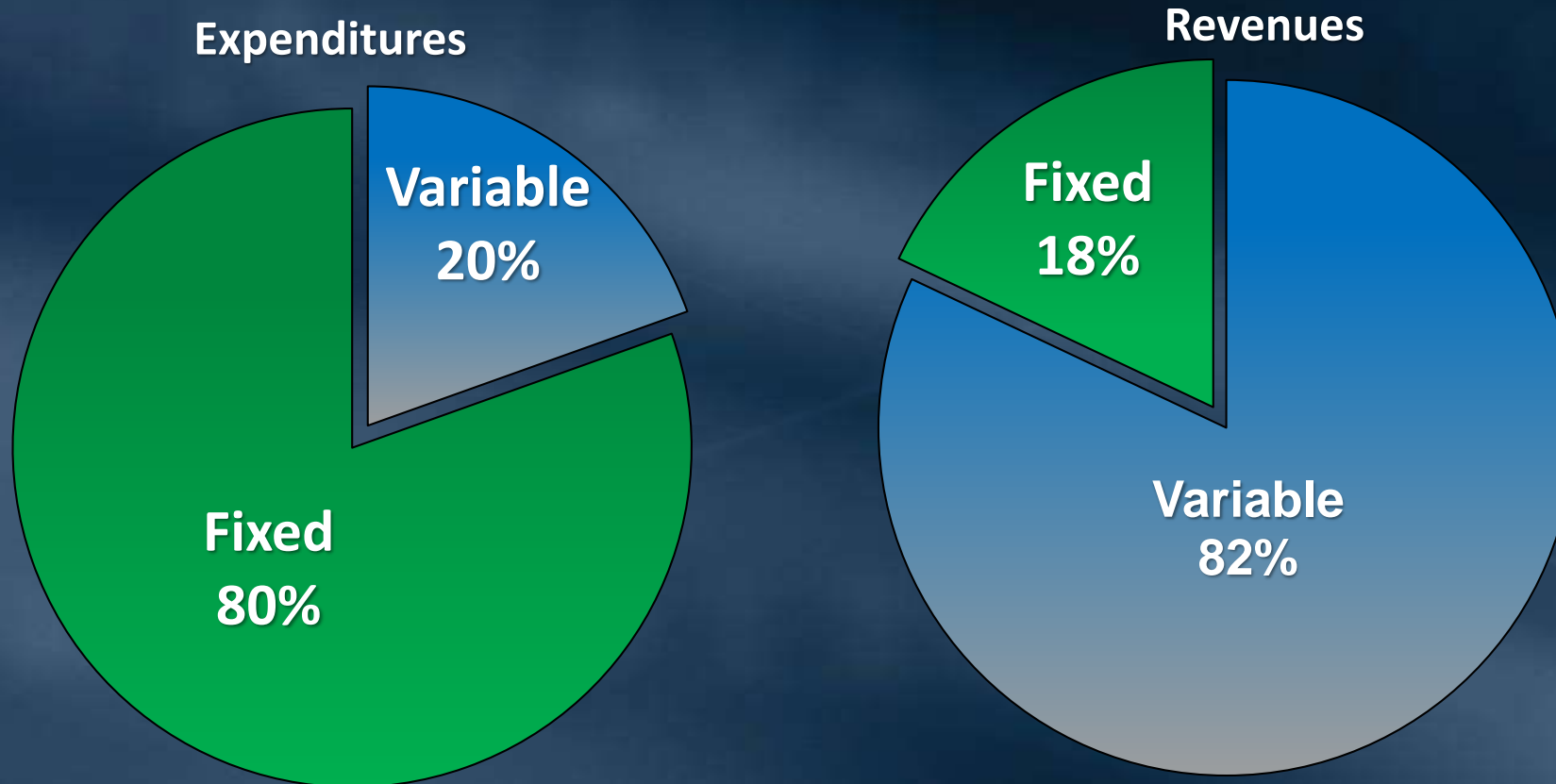


State Water Contract Costs



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 cyclical nature 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.





Proposed Biennial Budget for FYs 2022/23 and 2023/24;
Proposed Water Rates and Charges for Calendar years 2023
and 2024; Overview of Rates and Charges; Ten-Year Forecast

Workshop #3

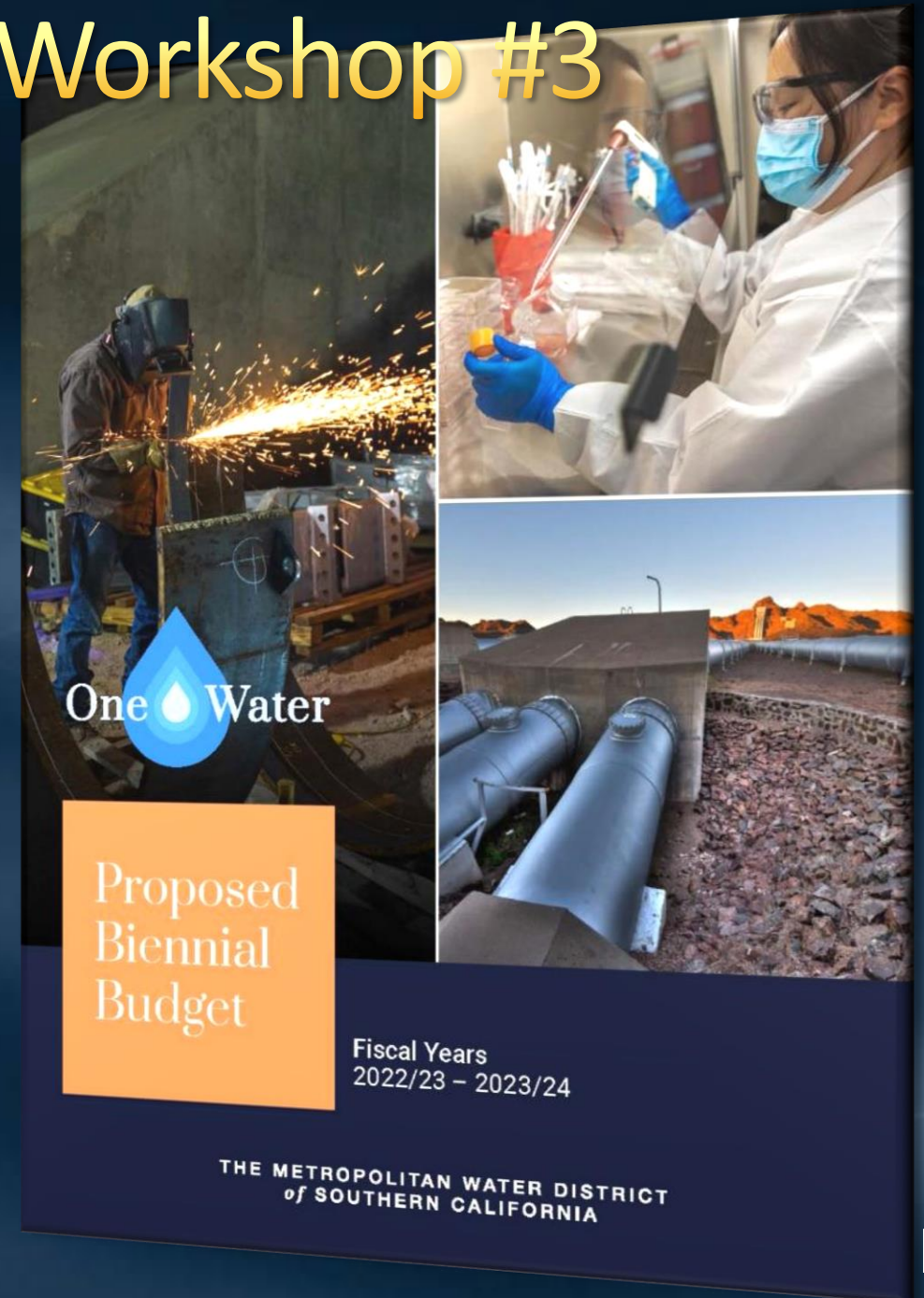
Finance & Insurance Committee

Item 6a

March 7, 2022

Proposed Biennial Budget - Workshop #3

- Overview
 - Follow-up from Workshop #2
 - Response to Question in SDCWA Letter
- Next Steps



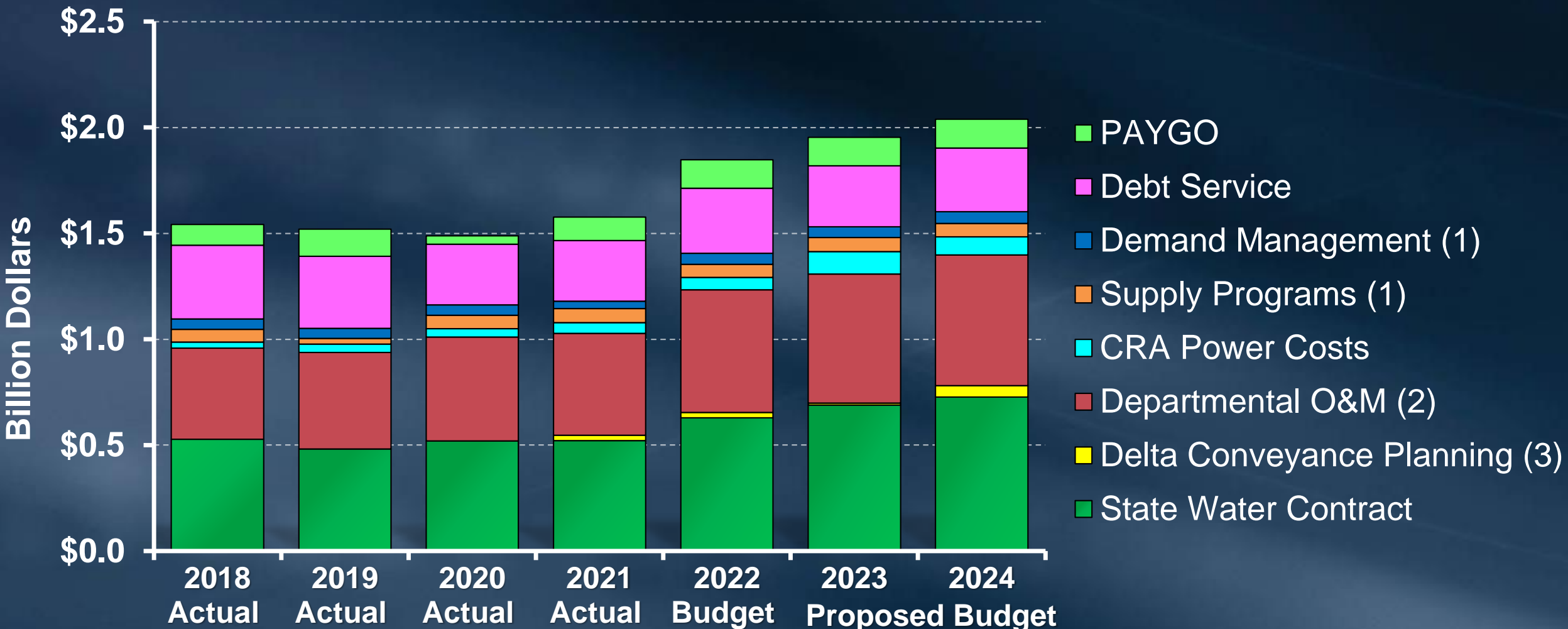
Historical and Projected Expenditures

Fiscal Year Ending	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Budget	2023 Proposed Budget	2024 Proposed Budget
State Water Contract - Capital	172.3	177.0	181.9	180.4	211.9	203.7	218.8
State Water Contract - Min. OMP&R	242.3	208.4	233.7	271.1	275.2	304.2	305.7
State Water Contract - On-Aqueduct Power	153.8	127.5	134.0	118.3	208.8	243.4	253.5
State Water Contract - Off-Aqueduct Power	2.7	3.6	2.5	4.3	3.5	5.1	5.0
State Water Contract - Credits	(43.8)	(34.2)	(33.2)	(52.4)	(70.1)	(67.8)	(56.3)
State Water Contract - subtotal	527.3	482.2	518.9	521.8	629.4	688.7	726.7
Delta Conveyance Planning - cash funded				25.0	25.0	10.0	54.5
Delta Conveyance Planning - paid from CWF refund						24.5	10.0
Departmental O&M (1)	430.9	454.8	490.8	481.2	579.9	608.9	616.7
CRA Power Costs	29.1	39.3	39.6	50.5	57.6	105.9	85.6
Supply Programs - cash funded	59.0	27.1	64.2	66.2	61.2	66.7	64.1
Supply Programs - bonded (AVEK High Desert)						38.4	46.0
Conservation Program - cash funded	15.6	16.6	25.7	16.6	25.0	25.0	25.0
Conservation Program - bonded						18.0	18.0
Local Resources Program & Future Supply Actions	34.6	31.8	22.4	18.1	27.5	25.8	29.9
Debt Service	347.1	340.2	287.2	287.1	307.0	288.0	301.0
PAYGO	98.4	128.0	38.9	110.0	135.0	135.0	135.0
Total Expenditures	1,542.1	1,520.3	1,487.8	1,576.5	1,847.5	2,034.9	2,112.6

FYE 2018 to 2022 is based on modified accrual, FYE 2023 & 2024 are based on cash

(1) includes Operating Equipment & Regional Recycled Water Program Planning Costs

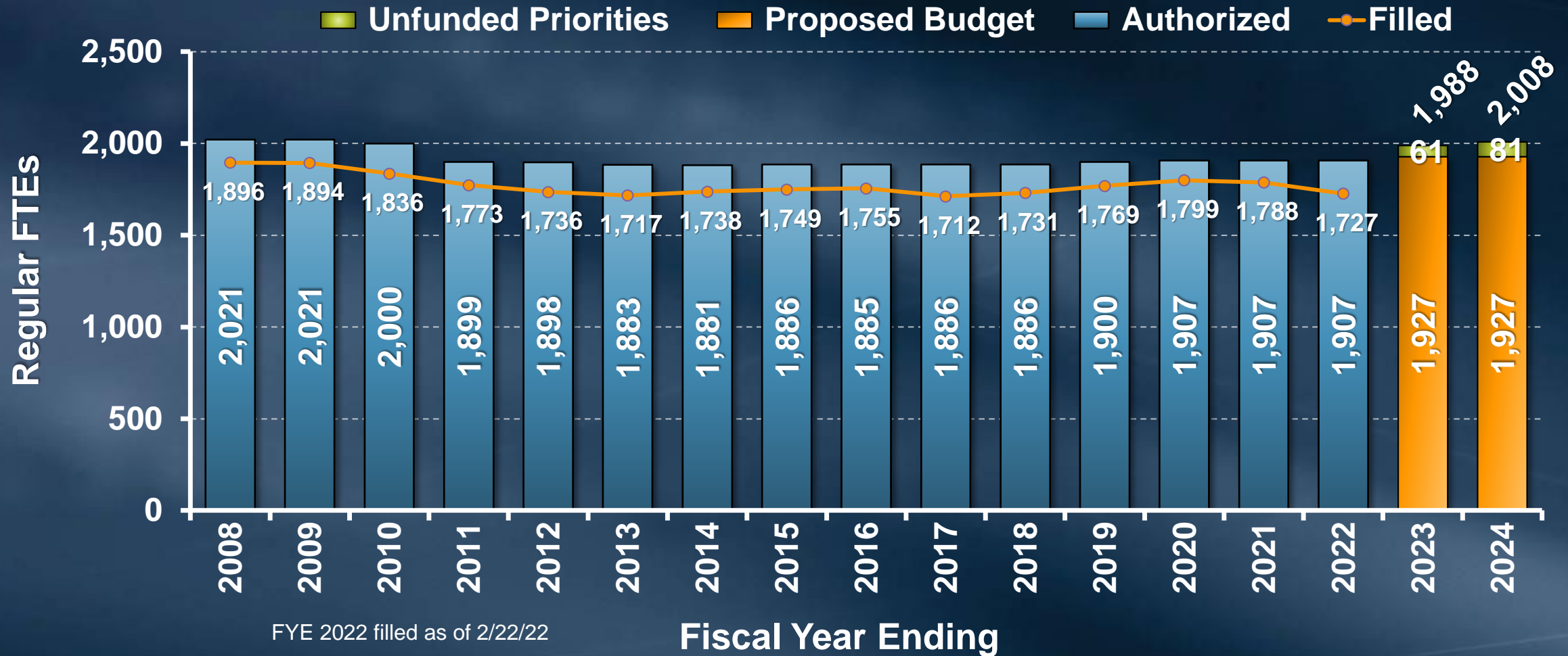
Historical and Projected Expenditures



FYE 2018 to 2022 is based on modified accrual, FYE 2023 & 2024 are based on cash
(1) only includes cash funded portion
(2) includes Operating Equipment & Regional Recycled Water Program Planning Costs
(3) net of CWF refund

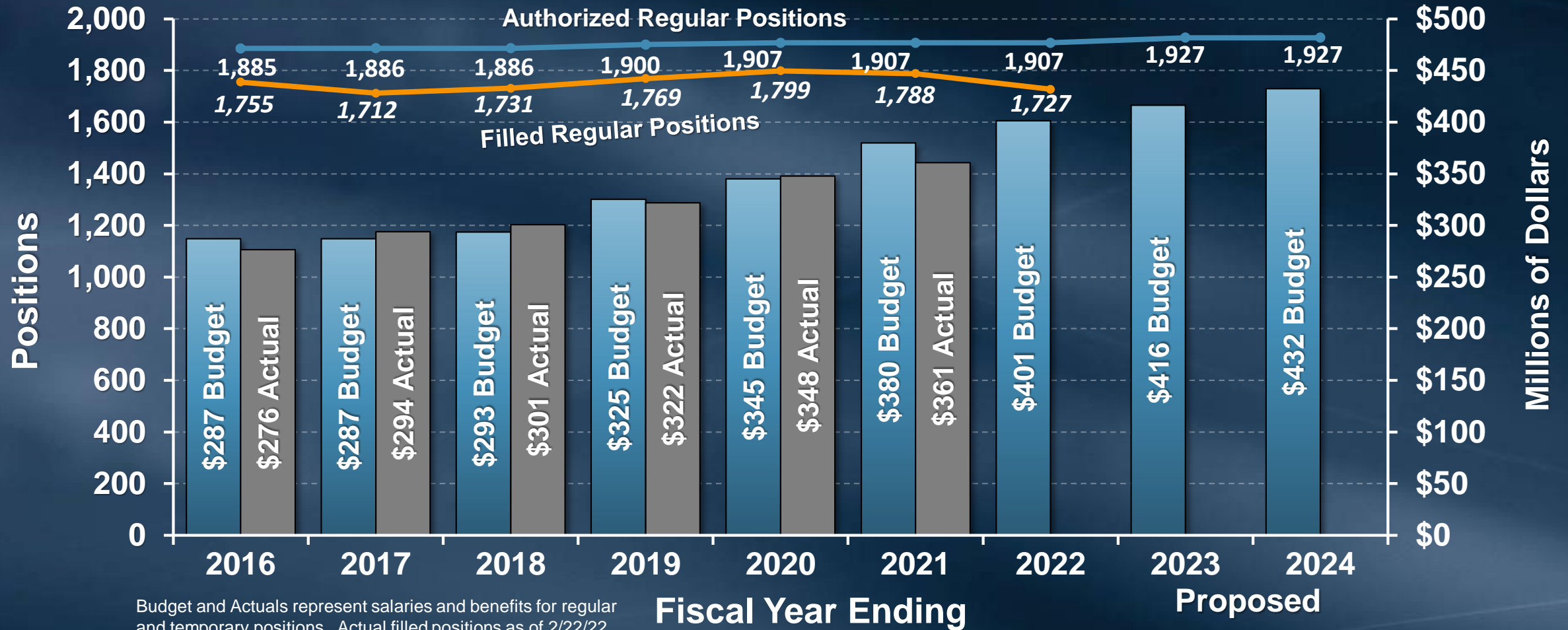
Historic Staffing Levels

Regular FTEs



Historic Staffing Levels

Positions and Dollars



Ethics' Department Budgeted Salary

Proposed Budget	FY 2022/23	FY 2023/24
5 FTEs	\$1.8 million	\$1.9 million

Additional Request	FY 2022/23	FY 2023/24
Additional 4 FTEs	\$1.1 million	\$1.2 million

Information on Debt & Principal Amortization

Metropolitan's Bond Ratings

Rating Agency	Metropolitan Lien and Mode	Rating Assigned	Rating Outlook
S&P Global Ratings	General Obligation Bonds	AAA (highest)	Stable
	Senior Lien—Long-Term Bonds	AAA (highest)	Stable
	Subordinate Lien—Long-Term Bonds	AA+	Stable
	Short-Term Obligations—Senior and Subordinate Liens	A-1+ (highest)	Stable
Moody's Ratings	General Obligation Bonds	Aaa (highest)	Stable
	Senior Lien	Aa1	Stable
Fitch Ratings	General Obligation Bonds (2014A)	AA+	Stable
	Senior Lien and Subordinate Lien	AA+	Stable
	Short-Term Obligations	F1+ (highest)	Stable

Metropolitan's Projected Coverage

- Error was discovered that changed some revenue & fixed charge coverage numbers +/- 0.1 over the 10-year projection
- Over the biennium the only number affected was FY2023/24 Revenue Bond Coverage. The corrected value is 1.4x not 1.5x
- All coverage numbers in this presentation have been corrected.
- Revenue Bond Coverage Target = 2.0x
- Fixed Charge Coverage Target = 1.2x

Fiscal Year Ending	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Revenue Bond Coverage	1.4	1.4	1.8	1.7	1.8	1.7	1.7	1.7	1.8	1.7
Fixed Charge Coverage	1.4	1.4	1.8	1.7	1.8	1.7	1.7	1.7	1.7	1.6

CIP Revenue Bonds Assumptions

- 30-year fixed rate bonds (Tax-Exempt) at current ratings

FYE Issued	Principal (\$M)	Rate (%)
2023	170	2.75
2024	160	2.75
2025	200	3.00
2026	210	3.00
2027	300	3.25
2028	670	3.25
2029	850	3.50
2030	990	3.50
2031	1,010	3.50
2032	640	3.50

Conservation and Supply Program Bonds Assumptions

- Conservation

- 10-year fixed rate bonds (taxable) at current ratings

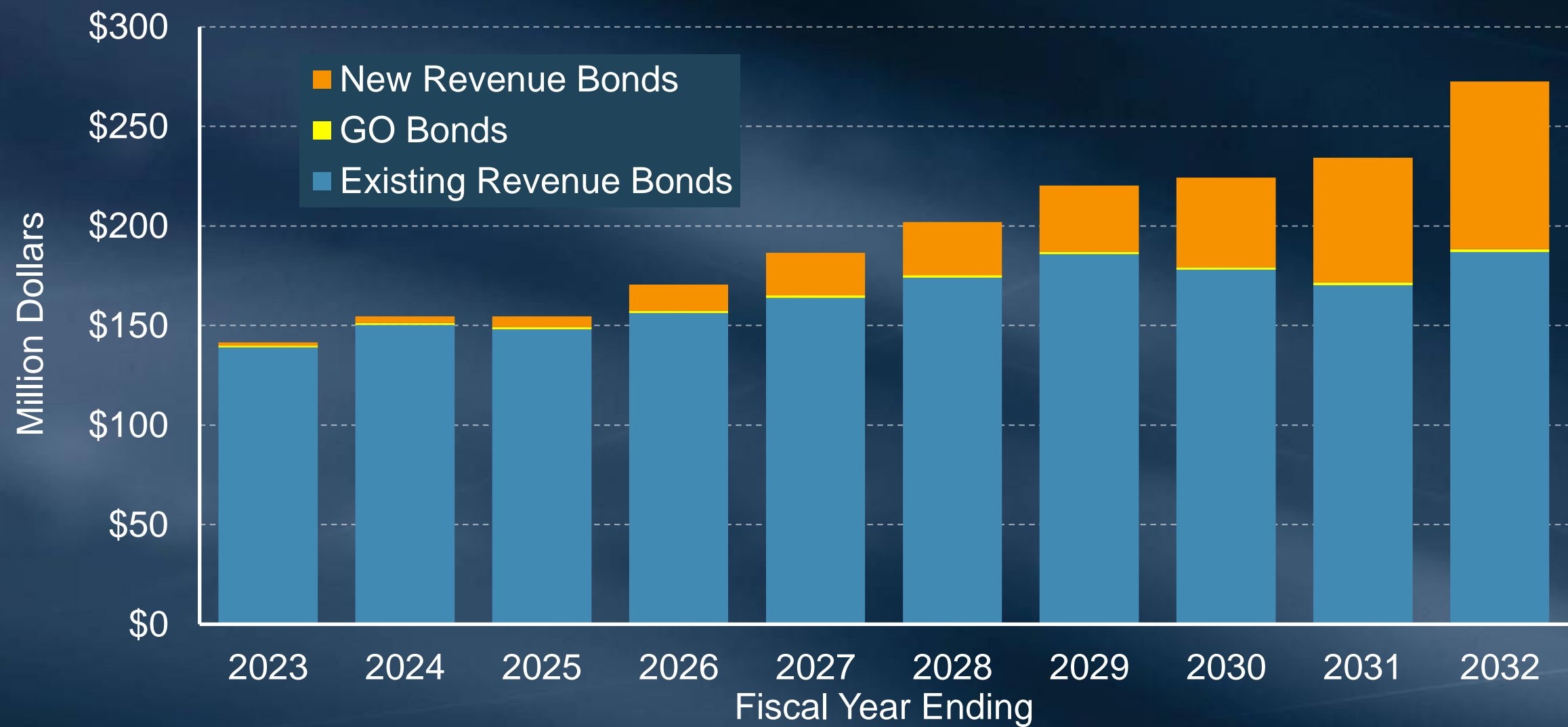
FYE Issued	Principal (\$M)	Rate (%)
2023	36	2.25

- Supply Program

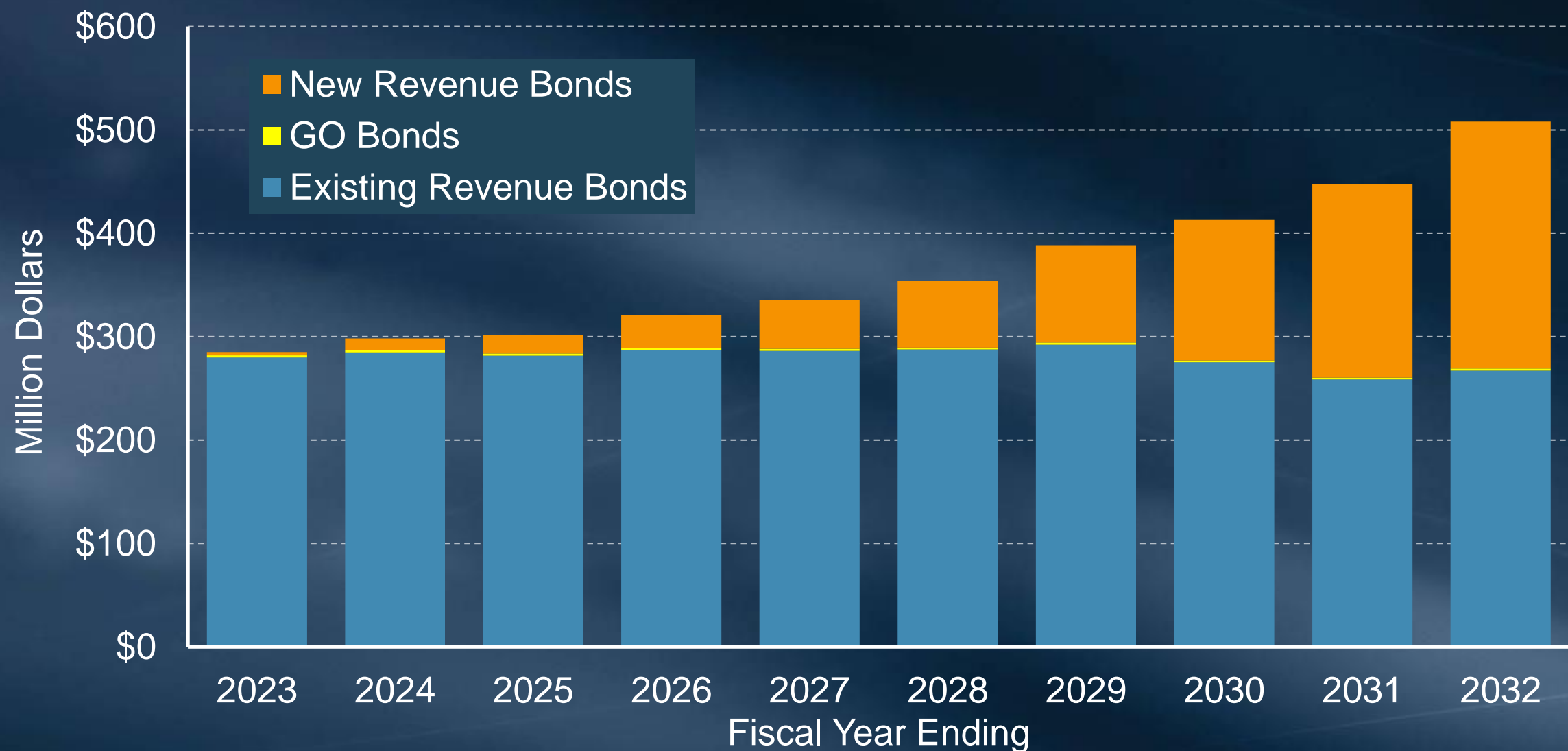
- 15-year fixed rate bonds (tax-exempt) at current ratings

FYE Issued	Principal (\$M)	Rate (%)
2023	97.9	1.75

Principal Amortization Over 10-Year Forecast Period



Debt Service Over 10-Year Forecast Period



Question: New revenue sources being pursued

- Regional Recycled Water Program (RRWP) contributions
 - LA County Sanitation District, S. Nevada Water Authority and Central Arizona Water Conservation District
- Reverse-Cyclic Program
 - Preserve SWP supplies & maintains current year revenues
- License fee revenue from direct carbon capture in the Delta Islands
- Federal Grants
 - Bureau of Reclamation Large-Scale Recycled Water Program
 - Total Fund: \$450 M/5-years
 - Request amount pending eligibility criteria set to be released this summer
 - Water Infrastructure Finance and Innovation Act (WIFIA)
 - Bureau of Reclamation's WaterSMART
 - Tentatively proposing \$30M for expected RRWP planning, design, and DPR demo expenditures
 - Clean Water State Revolving Fund (CWSRF)
- State Grants
 - FY 2021-22 DWR Urban Drought Relief Funding
 - \$10M request for conservation (turf removal and retrofit program)
 - FY 2022-23 Budget Request
 - \$52M for emergency drought projects, \$500M for Regional Recycled Water Project

Question: How do the WRM and SRI programs differ?

- Water Resource Management manages imported water supplies; advances water-use efficiency; provides supply and demand forecasts foundational for long-term resource planning; and develops and implements timely resource programs and projects.
 - Focus areas: Colorado River, groundwater storage program, regional resources and water conservation, state water project, desalination, water supply and system planning, and water transfers, exchanges, and storage programs
- Office of Sustainability, Resilience and Innovation (SRI) was established in 2021. Initial efforts include planning and preparation for the future through innovative and sustainable solutions in collaboration with key stakeholders.
 - Focus areas: climate action planning, regulatory compliance (e.g. CEQA), multi-species reserve management programs, and support proposed Delta improvements and development of water supplies

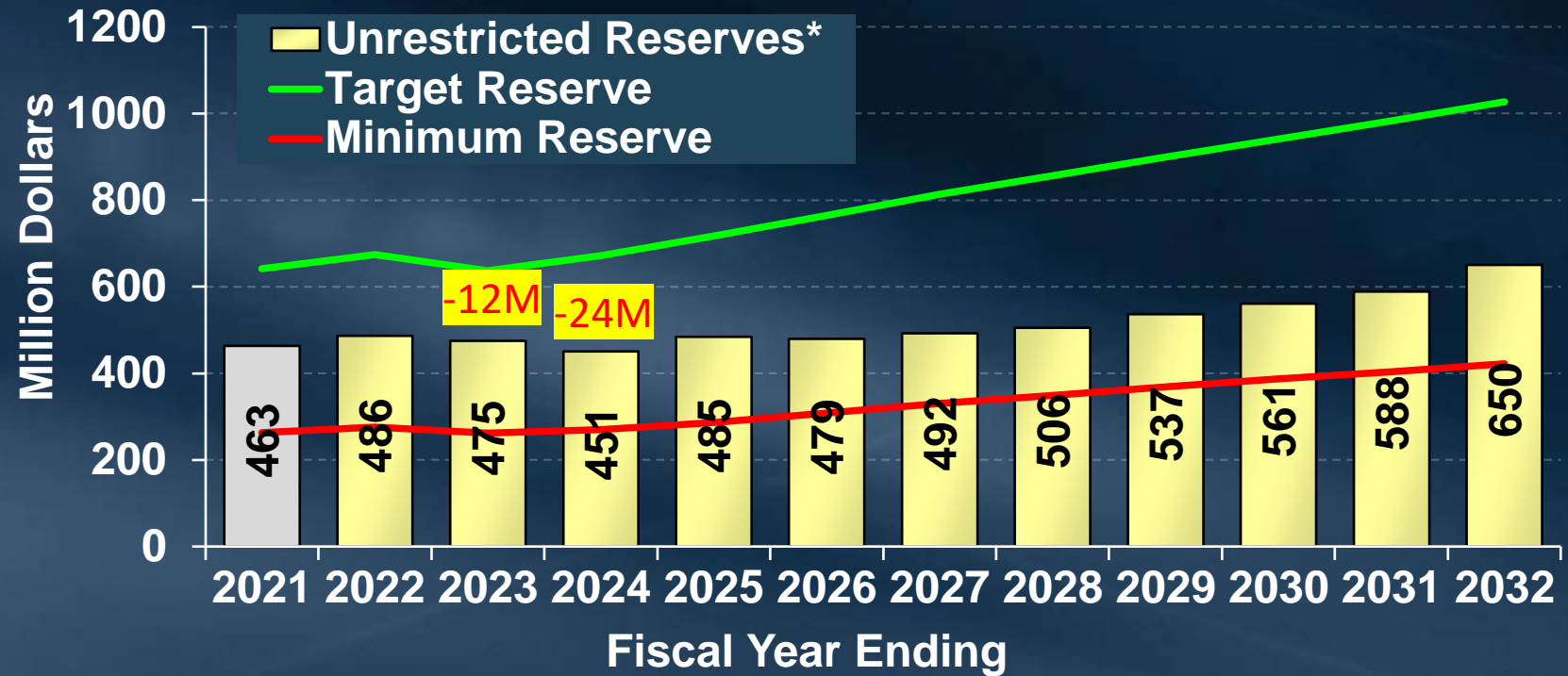
Question: What would be the reduction in rate increase (in % for each year 2023 and 2024) for a reduction of CIP expenditures of \$20 million in 2022/2023 and \$20 million in 2023/2024? Also show the resulting change in staff needs.

- Reducing the CIP \$20M/yr does not have a significant impact on the rates increases.
 - \$20M debt (2.75%, 30 year) = \$1m/yr debt service
 - For Oct 2023 issues, no principal payment until Jan 2026
- Staffing would remain unchanged as additional positions are requested to meet the \$300M/yr.
- Lowering the CIP will be achieved by reducing construction contract awards and/or reducing consultant expenditures

Question: What would be the reduction in rate increase for a use of \$20 M in reserves in 2023 and \$20 M in reserves in 2024? Also show the resulting debt coverage.

- The Proposed Budget already includes projected reserves draws greater than \$20M/yr.
 - \$49M draw of WSF in FY2022/23 (to zero)
 - \$12M draw on unrestricted reserves in FY2022/23
 - \$24M draw on unrestricted reserves in FY2023/24

Proposed Biennial Budget and 10-year Forecast

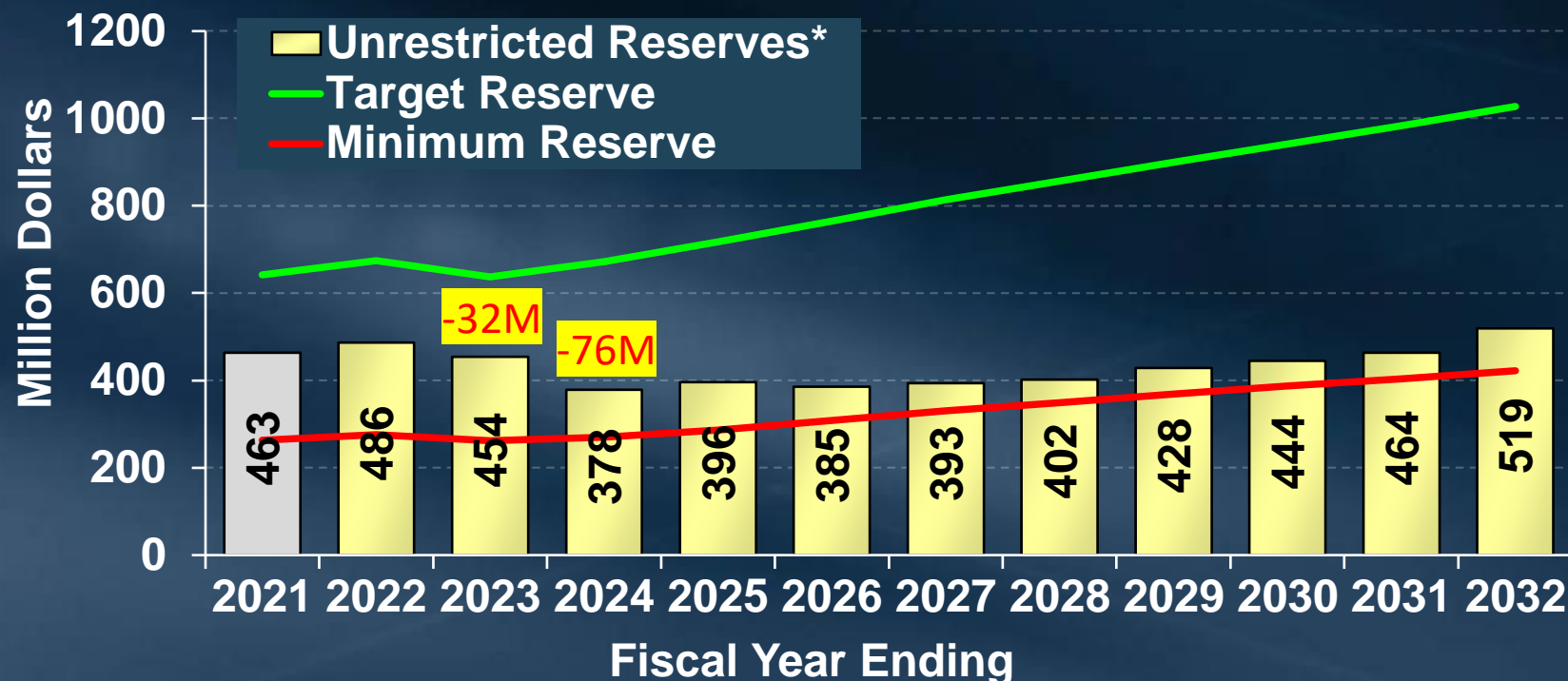


Overall Rate Inc.	3.0%	4.0%	8.0%	8.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Water Transactions (MAF)**	1.57	1.60	1.59	1.54	1.54	1.51	1.53	1.53	1.54	1.55	1.55	1.57
Rev. Bond Cvg	2.0	1.5	1.4	1.4	1.8	1.7	1.8	1.7	1.7	1.7	1.8	1.7
Fixed Chg Cvg	2.2	1.5	1.4	1.4	1.8	1.7	1.8	1.7	1.7	1.7	1.7	1.6
PAYGO, \$M	110	135	135	135	175	175	175	175	200	200	200	200

* Revenue Remainder and Water Rate Stabilization Fund

** Includes water sales, exchanges and wheeling

Scenario: Draw an additional \$20M in FY2022/23

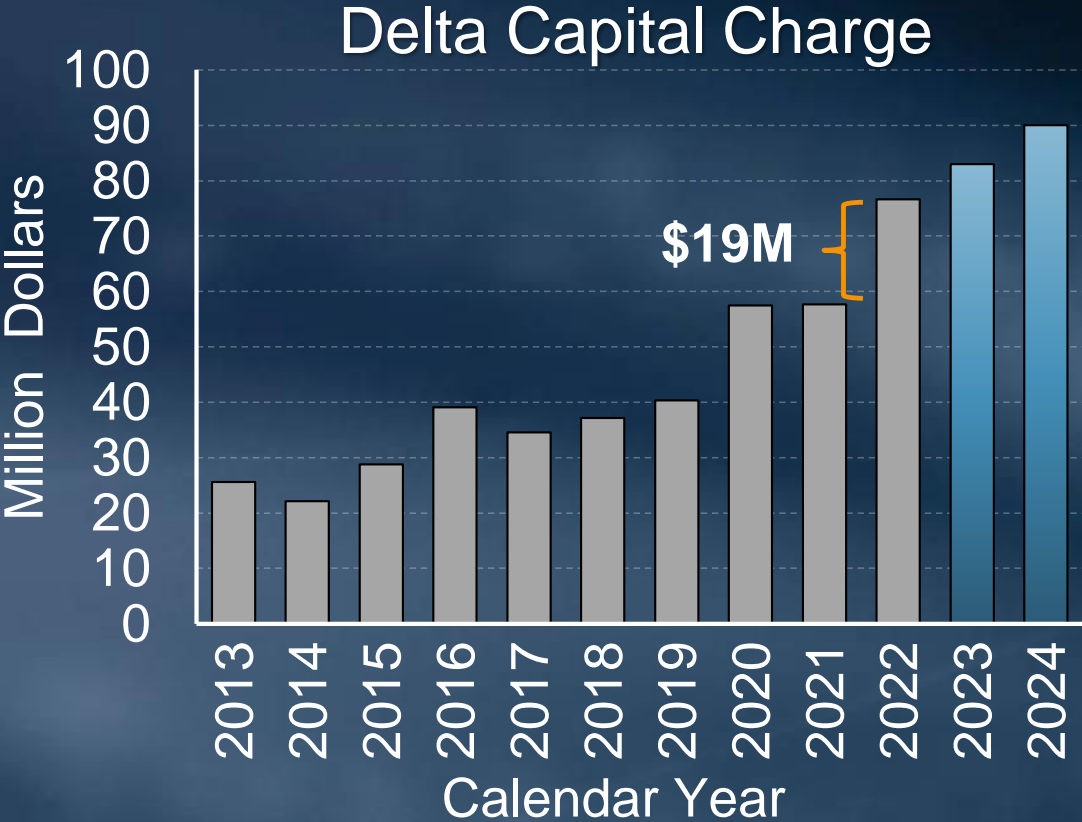


Overall Rate Inc.	3.0%	4.0%	2.8%	13.2%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Water Transactions (MAF)**	1.57	1.60	1.59	1.54	1.54	1.51	1.53	1.53	1.54	1.55	1.55	1.57
Rev. Bond Cvg	2.0	1.5	1.3	1.2	1.8	1.6	1.7	1.7	1.7	1.7	1.7	1.7
Fixed Chg Cvg	2.2	1.5	1.3	1.2	1.8	1.6	1.7	1.7	1.7	1.6	1.7	1.6
PAYGO, \$M	110	135	135	135	175	175	175	175	200	200	200	200

* Revenue Remainder and Water Rate Stabilization Fund

** Includes water sales, exchanges and wheeling

Question: Details for the increase in the Delta capital Charge



Annual Compound Growth Rate
2013-2022 = 13%
2018-2022 = 20%
Annual Growth 2022 = 33%
Projected Growth 2023 & 2024 ~8.5%

2022 Delta Capital Change Increase	\$M	%
Power Revenues	3.3	17
True Up to Actual	(0.8)	(4)
Additional Spillway Repair	13.4	71
Future Costs	3.1	16
Total	\$19.0	100

Emergency Spillway Repair Costs	\$M
Total Capital Spillway Cost	1,182
Total Spillway \$ in Contractors Charges	529
Emergency spillway \$ added to Delta Capital Charge Calculation in 2022	242
2022-2035 increased MWD Delta Capital Charge for Emergency Spillway Repairs	\$13.4/yr

Question: OPEB & CalPERS Liability

- OPEB (Other Postemployment Benefits.. i.e. retiree medical)
 - MWD pays the full Actuarially Determined Contribution (ADC)
 - Started funding Section 115 trust in FY2013/14
 - June 30, 2021 Liability = \$165 M, Funded ratio 64%
 - Up from 61% on June 30, 2020
 - Estimated to be at 80% funded by FY2027/28
- CalPERS (i.e. pension)
 - MWD pays the full ADC
 - No current policy to accelerate Unfunded Accrued Liability (UAL) paydown
 - June 30, 2021 Liability = \$725 M, Funded ratio 72%
 - Down from 73% on June 30, 2020

Question:

Prepay CalPERS pension, rate impact & long-term savings

CalPERS Pension Liability – Payment Options

- For more information see Sept 10, 2019 Board information letter on Prefunding PERS and OPEB
- 2019 F&I Committee presentations: April 8, July 8, Aug 19, Sep 9
- Bartel Associates, actuarial consultant, presented accelerated repayment options for the District's UAL
 - Option 1 - Payments directly to CalPERS
 - Option 2 - Irrevocable Supplemental Pension Trust (ISPT)

OBJECTIVE	MOST EFFECTIVE METHOD
Pay down UAL* faster, save on interest	Direct payments to CalPERS
Reduce contributions in peak years	ISPT
Provide contribution flexibility, if needed	Direct payments to CalPERS, ISPT
Stabilize contribution rates	ISPT

* Unfunded Actuarial Liability

CalPERS Prepayment – Rate Impact & Savings

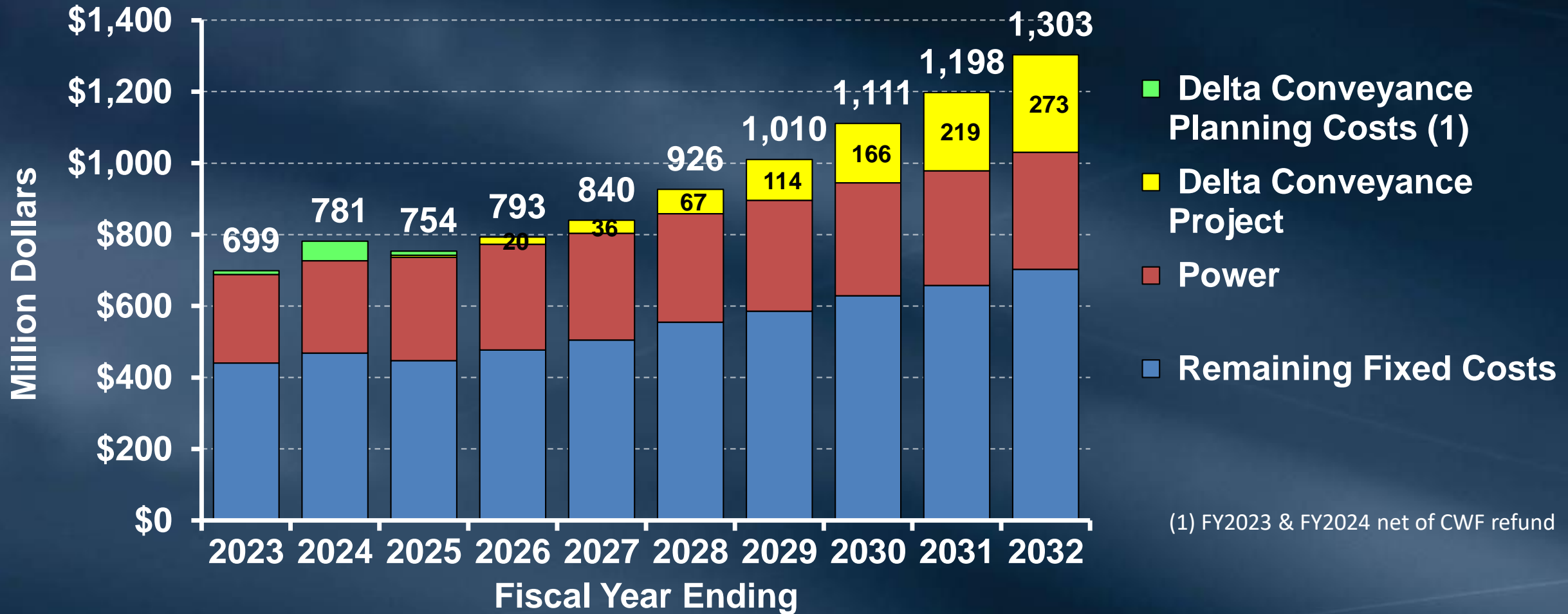
- In 2019 Bartel Associates determined that if Metropolitan funds an additional \$15M/year towards UAL pension obligations, the pension funded ratio would reach the 80% funded threshold by June 30, 2028.
 - Approximately 2 years earlier than the default payment schedule.
- Prefunding PERS at \$15M/year would require a one-time increase in overall rates and charges of about 1% in the year of initiating the additional payment
 - The rate impact could be smoothed out by adding the \$15M/yr over a period of years.
- As a point of reference, Bartel estimated that a \$100M direct payment to CalPERS would have produced present value savings ranging from \$22M to \$110M.

Rate Scenario with Hypothetical Delta Conveyance Project

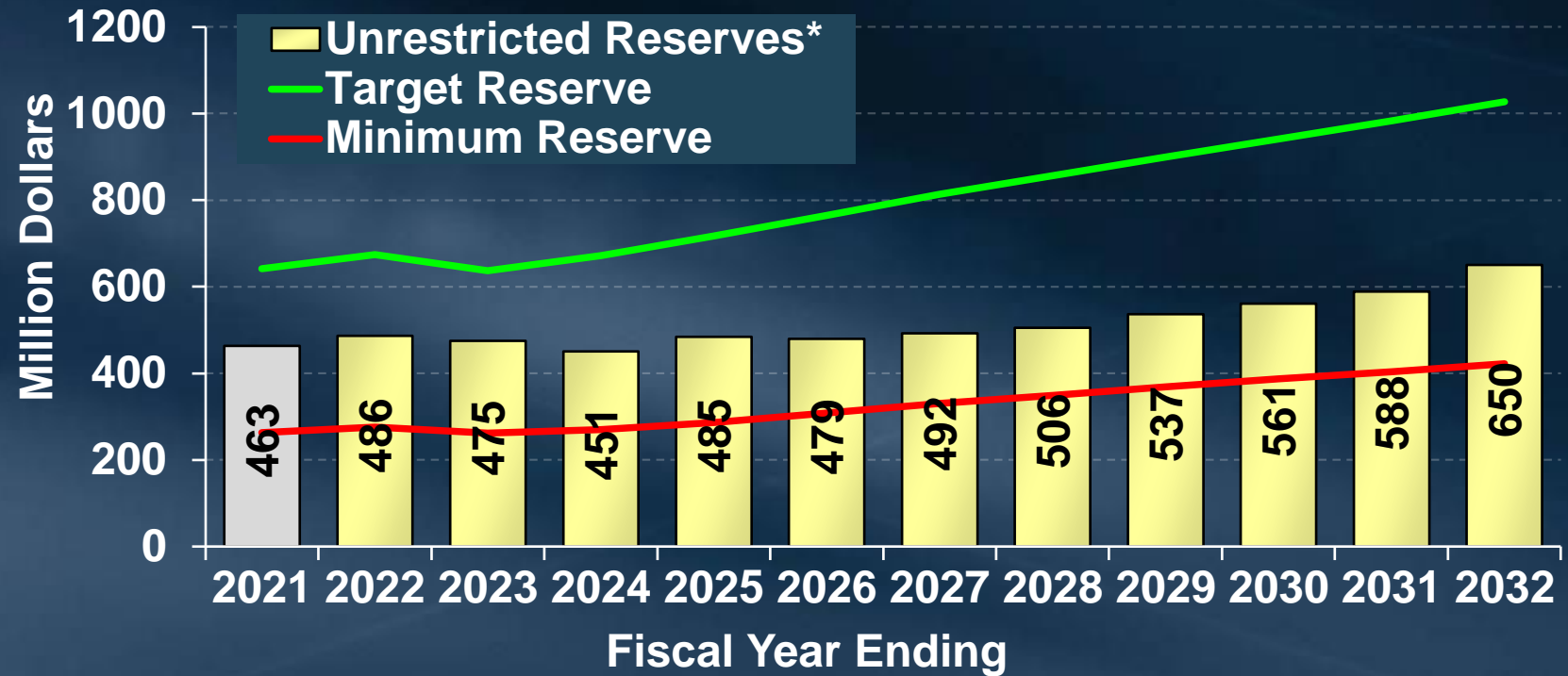
- Based on Aug 2020 DCA costs assessment
- Cost Assessment based on 6,000 cfs, single tunnel
- Estimated operation date: 2042
- Capital Costs: preliminary est. \$15.9B in 2020 Dollars*
- Assuming 47.2% Metropolitan Share
- MWD Capital Share: \$7.5B in 2020 Dollars
- Financed: 40-year term, 4.5% fixed rate debt

*Delta Conveyance Design and Construction Authority's preliminary cost information developed in August 2020 based on assumed facilities and capacity. A cost estimate will be prepared closer to project approval.

State Water Contract Forecast with Hypothetical Delta Conveyance Project



Proposed Biennial Budget and 10-year Forecast

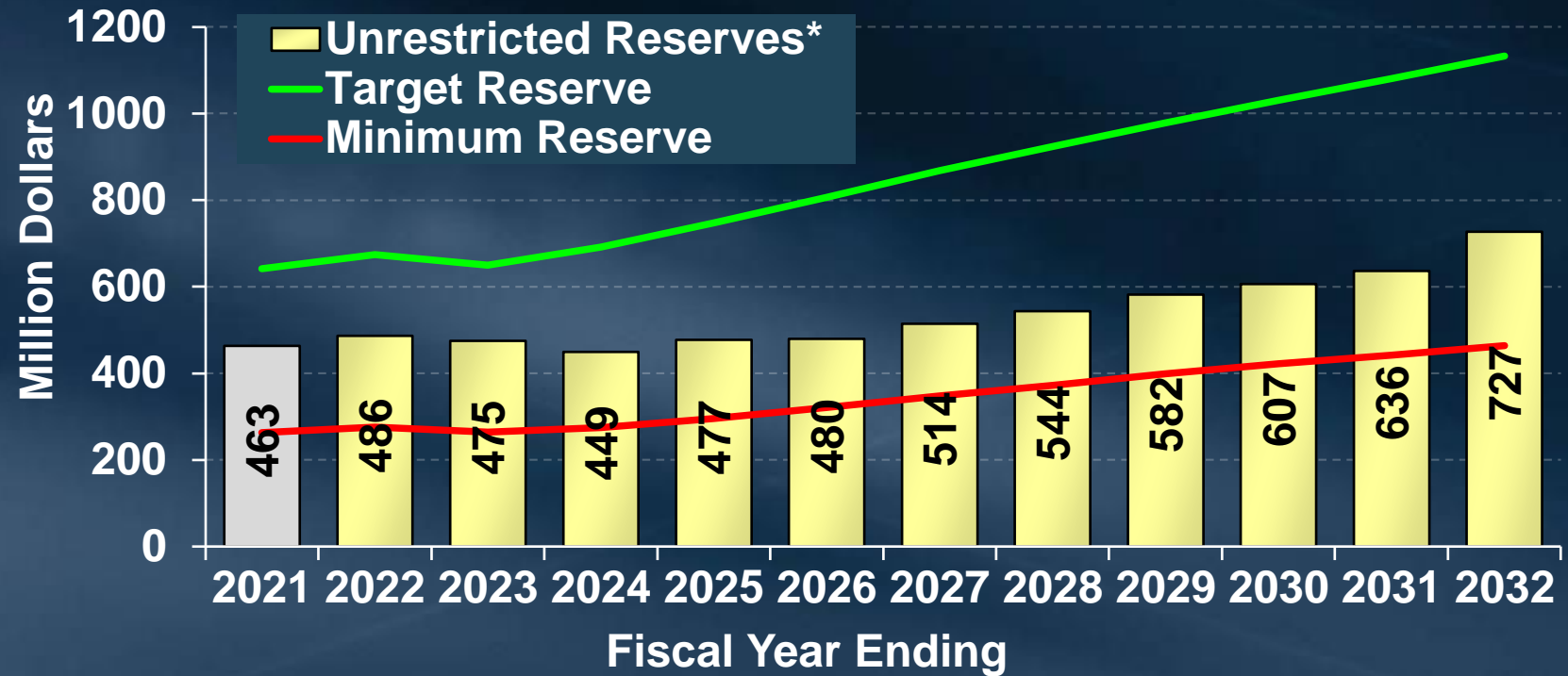


Overall Rate Inc.	3.0%	4.0%	8.0%	8.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Water Transactions (MAF)**	1.57	1.60	1.59	1.54	1.54	1.51	1.53	1.53	1.54	1.55	1.55	1.57
Rev. Bond Cvg	2.0	1.5	1.4	1.4	1.8	1.7	1.8	1.7	1.7	1.7	1.8	1.7
Fixed Chg Cvg	2.2	1.5	1.4	1.4	1.8	1.7	1.8	1.7	1.7	1.7	1.7	1.6
PAYGO, \$M	110	135	135	135	175	175	175	175	200	200	200	200

* Revenue Remainder and Water Rate Stabilization Fund

** Includes water sales, exchanges and wheeling

Rate Scenario w/ Hypothetical Delta Conveyance Project



Overall Rate Inc.	3.0%	4.0%	8.0%	8.0%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Water Transactions (MAF)**	1.57	1.60	1.59	1.54	1.54	1.51	1.53	1.53	1.54	1.55	1.55	1.57
Rev. Bond Cvg	2.0	1.5	1.4	1.4	1.8	1.8	2.0	2.0	2.1	2.2	2.3	2.3
Fixed Chg Cvg	2.2	1.5	1.4	1.4	1.8	1.7	1.8	1.7	1.6	1.5	1.5	1.4
PAYGO, \$M	110	135	135	135	175	175	175	175	200	200	200	200

* Revenue Remainder and Water Rate Stabilization Fund

** Includes water sales, exchanges and wheeling

Next Steps

March 8, 2022	Public hearing on proposed water rates and charges and applicability of the tax rate limit pursuant to Section 124.5 of the MWD Act
March 22, 2022	F&I Committee, Workshop #4, if needed
April 1, 2022	Member Agency Managers Meeting
April 11, 2022	F&I Committee, Recommend Biennial Budget and Calendar Year rates and charges; Workshop #5, if needed
April 12, 2022	Board action regarding Biennial Budget, Calendar Year rates and charges, and applicability of Section 124.5 limit

Q&A

