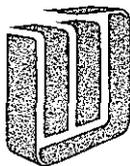


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**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

December 20, 1990

To: Board of Directors (Finance and Insurance Committee--Action)  
(Water Problems Committee--Information)

From: General Manager and General Counsel

Subject: Amendment of Proportionate Use Formula and Prospective Tax Revenues

Summary

Pursuant to the recommendations of the Finance and Insurance Committee at its December 1990 meeting, it is proposed that the proportionate use formula specified in sections 4301-4303 of the Administrative Code, which provides for the allocation of revenue requirements between water sales and taxes, be amended to establish a minimum property tax levy equivalent to the amount levied in fiscal year 1990-91. This minimum amount would necessarily be less than the maximum amount of taxes permitted by section 124.5 of the MWD Act. To the extent that additional capital expenditures in future years result in the proportionate use formula calling for future taxes greater than the minimum called for by this amendment, but less than the maximum permitted by the Act, that intermediate amount would be applicable. Staff's best estimate at this time is that the amount of taxes called for by the formula will reach the maximum permitted by the Act in about eleven years. The substantive change in the formula is indicated in new paragraph (b) of section 4301. The amendments proposed for section 4303 are nonsubstantive, for clarification only, and reflect more precisely the historical implementation of that section. Upon your approval, the affected code provisions would read as shown in Attachment A. The proposed revisions are shown by underscoring and strikeover in Attachment B.

Staff has made estimates of prospective tax revenues under several alternative tax policies. Graph No. 1, attached, shows actual and projected MWD taxes under the proportionate use formula, without amendment, compared to a revised formula including a minimum tax of approximately \$77 million, an amount equal to the 1990-91 tax levy, and the maximum allowed under section 124.5 of the MWD Act, as recommended by the Finance and

Insurance Committee at its December 1990 meeting. The Committee also requested data but did not select an alternative proposal which would have held the tax rate constant at the 1990-91 level (.0097 percent of assessed value). Graph No. 2, also attached, shows how tax revenues would be increased under that standard.

### Recommendation

Pursuant to the recommendations of the Finance and Insurance Committee at its December 1990 meeting, it is proposed that the proportionate use formula specified in sections 4301-4303 of the Administrative Code, which provides for the allocation of revenue requirements between water sales and taxes, be amended to establish a minimum property tax levy equivalent to the amount levied in fiscal year 1990-91. This minimum amount would necessarily be less than the maximum amount of taxes permitted by section 124.5 of the MWD Act.

### Detailed Report

Pursuant to the recommendations of the Finance and Insurance Committee at its December 1990 meeting, it is proposed that the proportionate use formula specified in sections 4301-4303 of the Administrative Code, which provides for the allocation of revenue requirements between water sales and taxes, be amended to establish a minimum property tax levy equivalent to the amount levied in fiscal year 1990-91. This minimum amount would necessarily be less than the maximum amount of taxes permitted by section 124.5 of the MWD Act. To the extent that additional capital expenditures in future years result in the proportionate use formula calling for future taxes greater than the minimum called for by this amendment, but less than the maximum permitted by the Act, that intermediate amount would be applicable. Staff's best estimate at this time is that the amount of taxes called for by the formula will reach the maximum permitted by the Act in about eleven years. The substantive change in the formula is indicated in new paragraph (b) of section 4301. The amendments proposed for section 4303 are nonsubstantive, for clarification only, and reflect more precisely the historical implementation of that section. Upon your approval, the affected code provisions would read as shown in Attachment A. The proposed revisions are shown by underscoring and strikeover in Attachment B.

Staff has made estimates of prospective tax revenues under several alternative tax policies. Graph No. 1, attached, shows actual and projected MWD taxes under the proportionate use formula, without amendment, compared to a revised formula including a minimum tax of approximately \$77 million, an amount equal to the 1990-91 tax levy, and the maximum allowed under section 124.5 of the MWD Act, as recommended by the Finance and Insurance Committee at its December 1990 meeting. The maximum is determined as the annual debt service on voter-approved general obligation bonds issued by the District, together with the District's share of debt service on Burns-Porter general obligation bonds issued for construction of the State Water Project. This upper limit is \$98 million for 1991-92, and is projected to decrease to \$95 million by the year 2000.

Also included on Graph No. 1 is a 1984 projection of District taxes which served as the basis for establishing 1991 as the year in which the section 124.5 limit would take effect. As shown, actual MWD taxes have been significantly below the 1984 projection. This has occurred mainly due to lower capital costs being incurred by both the District and the State Water Project as planned facilities were deferred, and due to higher than anticipated MWD water sales. The increase in water sales is attributable to high population growth, loss of alternative supplies of the City of Los Angeles, and the 4-year drought that has pushed up water demands in Southern California. The high water sales have resulted in substantial, accelerated increases in the proportionate use numerator that have shifted the burden of capital costs to the water users at a faster rate than anticipated in 1984.

It is projected that taxes under the formula will begin to increase after 1993 as the District's capital improvement program moves forward. By about 1997 taxes under the formula should exceed the proposed \$77 million minimum amount. The projection indicates the taxes under the formula will reach the legal limit just after the turn of the century in about the year 2002. Projections indicate that the proposed floor of \$77 million per year will not exceed the section 124.5 limit until the year 2016 when general obligation bond debt service declines to that level.

The Committee requested data on but did not select an alternative proposal which would have held the tax rate constant at the 1990-91 level (.0097 percent of assessed value). Graph No. 2, also attached, shows how tax revenues

would be increased under that standard. The projection was made using two assumptions of future escalation in assessed values, 10 percent per year and 5 percent per year. The ten-year historical average annual increase has been 10 percent per year. However, since increases in assessed values are mostly attributable to new construction, improvements, and changes in ownership under Proposition 13 (regular increases are limited to 2 percent per year), the rate of escalation will be less during periods of slow real estate market activity. The range of 5 percent to 10 percent shown on Graph No. 2 should represent a reasonable approximation of how much tax revenue could be raised if the District's tax rate were held constant.

  
Carl Boronkay

  
Fred Vendig

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Attachments

ATTACHMENT A

## § 4301. Formula for Allocation of Water Revenues.

(a) The District shall fix water rates so that water sales revenues pay all of its annual operation and maintenance costs and that portion of its annual capital costs as the ratio of the quantity of water it has sold annually to its member public agencies bears to its total ultimate annual contractual entitlements to water. Tax and annexation charge revenues may be used to pay remaining costs. Other funds and revenues available and not provided for in this chapter may be allocated to reduce required water revenues or taxes as determined by the Board.

(b) Notwithstanding the provisions in subsection (a) above, amounts raised by ad valorem property taxation shall not exceed the limitations established by section 124.5 of the Act and, subject to those limitations, shall be not less than the approximate equivalent of the amounts levied for fiscal year 1990-91.

## § 4303. Capital Costs for Use in Allocation Formula.

(a) Capital costs referred to in Section 4301 shall include:

(1) Capital payments made to the State under the District's State water service contract and the Devil Canyon-Castaic contract.

(2) Debt service on bonds issued by the District, including both principal and interest, excluding however, debt service attributable to bonds the proceeds of which were used to finance construction of treatment plants.

(3) Payments for the First San Diego Aqueduct.

(4) Increases in restricted funds and working capital pursuant to Sections 5201 and 5202 of the Administrative Code.

(5) The replacement portions of the minimum and variable operation, maintenance, power and replacement components of the Delta and Transportation Charges under the District's State water service contract and the Devil Canyon-Castaic contract.

(6) Purchases of operating equipment.

(7) Increases in appropriations for inventories of supplies.

(8) Expenditures for the cost of construction projects, property acquisition, and capital costs under the contract with Imperial Irrigation District, to the extent they are paid from the Pay-As-You-Go Fund or the General Fund.

All other costs shall be considered operation and maintenance costs.

(b) Income to the District other than from water sales and tax revenues shall be credited to the amounts allocated by Section 4301 for payment from water sales revenues and from tax revenues, as follows:

(1) Interest income shall be credited against water sales and tax revenues in proportion to total cash receipts from water sales and taxes, respectively, in the most recently completed fiscal year.

(2) Income received from sales and leases of the District's real property shall be credited one-half to water sales revenues and one-half to tax revenues.

(c) All computations necessary to implement the policy stated in Section 4301 shall be on a cash basis.

(d) After the close of each fiscal year, the District shall conduct a review to determine the degree of actual compliance with the provision of this Chapter during the previous fiscal year. Based on such review, the District shall make an adjustment for the amount of any deficiency or surplus in the tax revenue calculations, which adjustment shall be made in the annual budget for the fiscal year next succeeding the year in which the review is made. In the event such adjustment would result in a severe fluctuation in the District's tax rates, such adjustment may be spread over a period not exceeding three fiscal years.

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ATTACHMENT B

§ 4301. Formula for Allocation of Water Revenues.

(a) The District shall fix water rates so that water sales revenues pay all of its annual operation and maintenance costs and that portion of its annual capital costs as the ratio of the quantity of water it has sold annually to its member public agencies bears to its total ultimate annual contractual entitlements to water. Tax and annexation charge revenues may be used to pay remaining costs. Other funds and revenues available and not provided for in this chapter may be allocated to reduce required water revenues or taxes as determined by the Board.

(b) Notwithstanding the provisions in subsection (a) above, amounts raised by ad valorem property taxation shall not exceed the limitations established by section 124.5 of the Act and, subject to those limitations, shall be not less than the approximate equivalent of the amounts levied for fiscal year 1990-91.

§ 4303. Capital Costs for Use in Allocation Formula.

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(3) Payments for the First San Diego Aqueduct.

(4) Increases in restricted funds and working capital pursuant to Sections 5201 and 5202 of the Administrative Code.

(5) The replacement portions of the minimum and variable operation, maintenance, power and replacement components of the Delta and Transportation Charges under the District's State water service contract and the Devil Canyon-Castaic contract.

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(7) Increases in appropriations for inventories of supplies.

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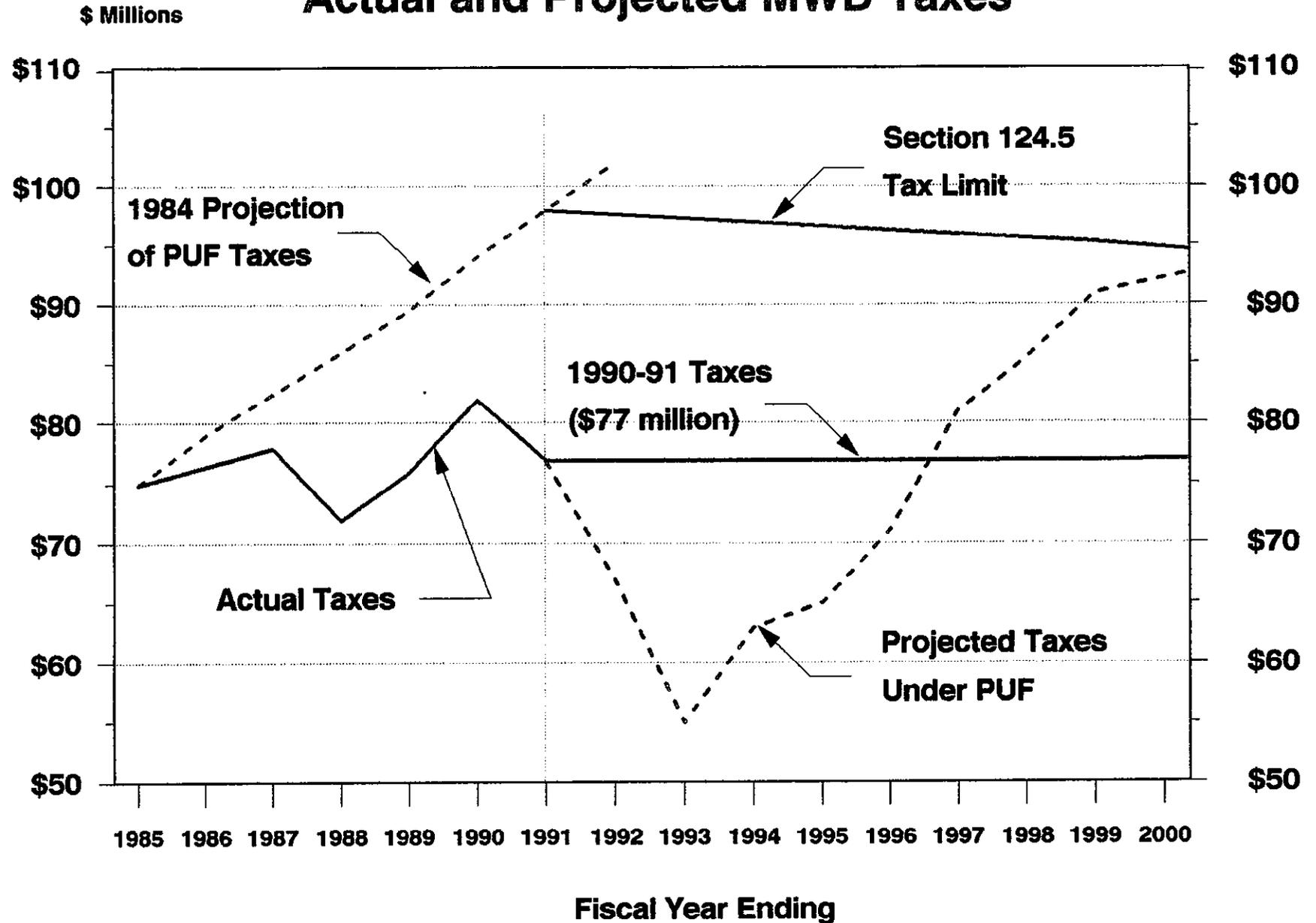
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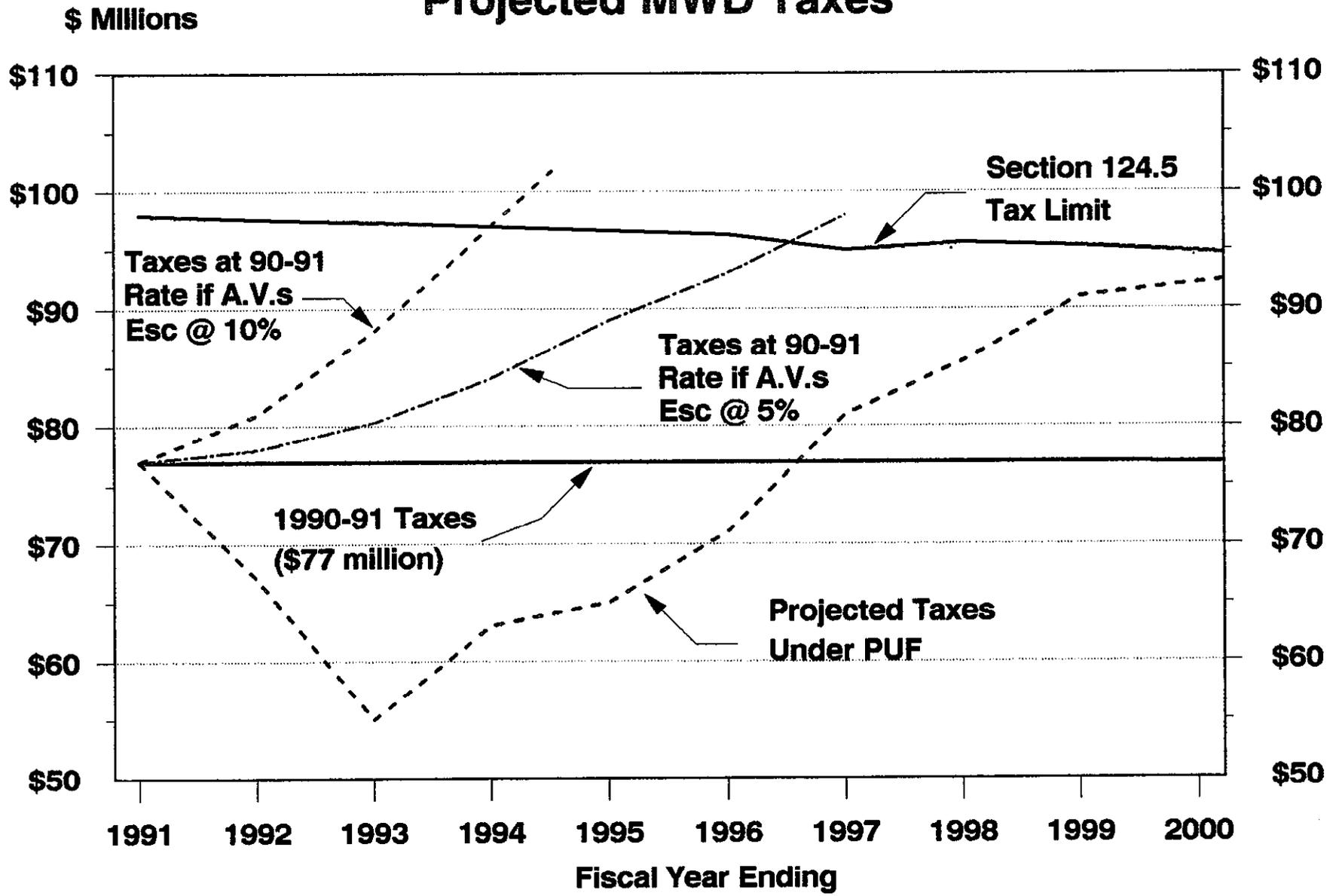
(c) All computations necessary to implement the policy stated in Section 4301 shall be on a cash basis.

(d) After the close of each fiscal year, the District shall conduct a review to determine the degree of actual compliance with the provision of this Chapter during the previous fiscal year. Based on such review, the District shall make an adjustment for the amount of any deficiency or surplus in the tax revenue calculations, which adjustment shall be made in the annual budget for the fiscal year next succeeding the year in which the review is made. In the event such adjustment would result in a severe fluctuation in the District's tax rates, such adjustment may be spread over a period not exceeding three fiscal years.

# Actual and Projected MWD Taxes



# Projected MWD Taxes



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