



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Office of the General Manager

VIA EMAIL

November 22, 2016

Director Michael T. Hogan
Director Keith Lewinger
Director Elsa Saxod
Director Fern Steiner
San Diego County Water Authority
4677 Overland Avenue
San Diego, CA 92123

Dear Directors:

Your letter dated November 4, 2016 regarding November Board Meeting Board Memo 9-2 - Compliance with Fund Requirements and Bond Indenture Provisions.

This letter addresses your comments, received November 4, 2016, on November Board Meeting Board Memo 9-2 - Compliance with Fund Requirements and Bond Indenture Provisions.

Pursuant to the annual reporting requirement contained in Section 5204 of the Metropolitan Water District Administrative Code, entitled "Compliance with Fund Requirements and Bond Indenture Provisions," the General Manager reviewed the minimum fund requirements outlined in Chapter 5 of the Administrative Code and determined that those requirements had been met and that the District had complied with the provisions of the articles and covenants contained in the resolutions of issuance for all outstanding District bond issues during the preceding fiscal year. The General Manager and Chief Financial Officer reported the results of this review to the Board in Information Item 9-2, dated November 8, 2016. In your letter, you assert that there are discrepancies between MWD Act Section 134 and Administrative Code Section 4301(a) and between MWD Act Section 124.5 and Administrative Code Section 4301(b). You also assert that the discrepancy between MWD Act Section 134 and Administrative Code Section 4301(a) should have been addressed before compliance was certified.

Comment that Administrative Code Section 4301(a) must be amended because it is inconsistent with and does not accurately describe the statutory limitations of Section 134 of the MWD Act.

Administrative Code Section 4301(a) and MWD Act Section 134 are not inconsistent. Your interpretation of Section 134 is not reasonable because it would either read Metropolitan's authority to levy ad valorem taxes out of the Act or it would lead to the interpretation that Metropolitan is required to fix rates at levels that ignore the amount collected by the ad valorem taxes and other revenues received.

Pursuant to Section 124 of the MWD Act, Metropolitan 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" Section 124.5 of the MWD Act further expressly clarifies Metropolitan's authority to levy ad valorem taxes to pay, among other expenses, "(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 the district, 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 this section and used to finance construction of facilities for the benefit of the district." Thus, your interpretation that Administrative Code Section 4301(a) must be limited to the authority in Section 134 is incorrect.

Furthermore, Metropolitan does take in revenues other than water sales revenues and water standby or availability service charges or assessments. For example, the District receives grants and earns income on investments. Administrative Code Section 4301(a) recognizes that rates and charges should reflect Metropolitan's ad valorem tax revenues and any additional revenue sources of Metropolitan so that overall revenues are sufficient to pay the costs of providing Metropolitan's service.

Because there is not a discrepancy between Administrative Code Section 4301(a) and MWD Act Section 134, there was no reason for the General Manager not to certify the results.

Comment that Administrative Code Section 4301(b) contains language that is outdated and has no meaning separate and apart from the statutory limitations in Section 124.5 of the MWD Act; accordingly, this language should be deleted.

As you note, Administrative Code Section 4301(b) references a board policy to set the amounts raised by ad valorem property taxation at "not less than the approximate equivalent of the amounts levied for fiscal year 1990-91." However, Section 4301(b) expressly subjects that policy to the limitations of Section 124.5 of the MWD Act. Metropolitan complies with Section 124.5. Therefore, there was no need to change the Administrative Code in connection with the compliance determinations of the General Manager pursuant to Administrative Code

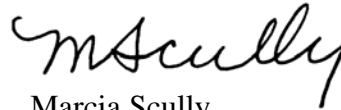
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Section 5204. Staff regularly reviews and recommends appropriate amendments of the Administrative Code to the Board, and will review Section 4301(b) as part of that process.

Sincerely,



Gary Breaux
Assistant General Manager/
Chief Financial Officer



Marcia Scully
General Counsel

cc: Jeffrey Kightlinger, General Manager
MWD Board Members
SDCWA Board of Directors and Member Agencies