



MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

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May 25, 2006

Chairperson Knight and Board Members
Monterey Peninsula Water Management District
5 Harris Court, Building G
Monterey, California 93940

Dear Chairperson Knight and Board Members:

Budget Overview

This letter transmits the Fiscal Year 2006-07 proposed budget. The budget document has been developed consistent with the strategy adopted by the Board in January 2005, which was to develop balanced annual budgets, while preserving existing services and enabling the District to carry out its legislative mission and the Board's strategic vision. After compilation of the original requests from all Divisions for the 2006-07 budget, requested expenditures totaled \$8,232,600 and projected revenues, including \$39,000 from the capital equipment reserve and \$2,550,000 in bond proceeds for completion of the Phase 1 Aquifer Storage and Recover (ASR) project, totaled \$8,288,900. This would have resulted in a hypothetical contribution to general operating reserves of \$56,300. Subsequently, the General Manager and Division Managers held several budget sessions and identified a series of expenditure adjustments resulting in a net reduction of \$98,900 which reduced total proposed expenditures to \$8,133,700. This results in a proposed budget contribution to general operating reserves of \$155,200.

Budget Development - Expenditures

Table I attached to this transmittal compares the 2005-06 expenditure budget as amended at the February 23, 2006 Board meeting, the 2006-07 expenditure budget as originally requested by staff and the 2006-07 proposed expenditure budget as amended by the General Manager and Division Managers. The table also shows the percentage change from the 2005-06 budget to the proposed 2006-07 budget. As the table indicates, the proposed expenditure budget totals \$8,133,700 which is \$1,767,200, or 27.8%, more than the current fiscal year's budget.

The increase is mainly attributable to \$2,550,000 that has been included in the 2006-07 proposed budget to fund work towards the completion of the District's ASR Phase 1 Project. Also included in the proposed expenditure budget is \$126,500 for a partial year's debt service on bonds to be issued to fund the ASR Phase 1 Project completion. Partially

offsetting these increases is a reduction of \$1,022,500 for legal services which is mostly due to elimination of one-time costs related to the Seaside Basin adjudication lawsuit.

As mentioned in the overview section of this memorandum, the General Manager and Division Managers held several budget sessions and identified a series of expenditure adjustments resulting in a net reduction of \$98,900 bringing total proposed expenditures down to \$8,133,700. These expenditure adjustments are listed in the tables below. The service level impacts of the line-item changes have been ranked as follows:

- None – The reduction has no impact on service levels
- Low – The reduction will have a minimal impact on services levels
- Moderate – The reduction will have a somewhat greater, but not a significant, impact on service levels

| <u>Division</u> | <u>Category</u> | <u>Change Detail</u> | <u>Service Level Impact</u> | <u>Change Amount</u> |
|-----------------|----------------------|---|---|----------------------|
| GMO | Services & Supplies | Data Processing expenditures | Low - Reduction in non-capitalized hardware and software purchases and upgrades, and deferral of purchase of aerial photo updates | \$(15,900) |
| GMO | Fixed Assets | Web-based mapping application software | Low - Defer purchase to future year | \$(12,600) |
| GMO | Fixed Assets | 42" Large Format Plotter Replacement | Low – Defer replacement to future year | \$(11,800) |
| GMO | Fixed Assets | Lap top computer for general staff use | Low – Staff will continue to share existing laptops | \$(1,600) |
| ASD | Fixed Assets | Window for Accountant's office | Moderate – Only office with no window access that is used full-time | \$5,000 |
| P&E | Project Expenditures | ASR Phase I EIR | None – EIR will be completed in FY 2005-06 | \$(27,000) |
| WRD | Project Expenditures | Fixed Vertical Profiling System for Lagoon monitoring | None - Cost should be shared by all agencies involved if equipment is necessary | \$(35,000) |
| | | | Net Reduction | \$(98,900) |

General Counsel David Laredo's contract with the District expires on June 30, 2006. He has proposed a two-year contract with an increase from \$165 to \$175 (6.1%) for 45 retained hours each month and an increase from \$170 to \$180 (5.9%) for all monthly service in excess of 45 hours for fiscal year 2006-07. The proposed contract, which proposes similar increases in fiscal year 2007-08, will be presented to the Administrative Committee and Board of Directors in June 2006. If the proposed increases are approved, it is anticipated that they can be funded within the amount of \$500,000 for legal expenditures currently included in the proposed budget.

Attached as **Exhibit 1-B** is a memorandum from David Laredo, dated May 15, 2006, related to Board Member Compensation. Should the Board decide to increase its compensation pursuant to the criteria included in the memorandum, a corresponding increase to the Board Member Compensation line-item of the budget would be required.

It is also important to note that the current Memorandum of Understandings with the District's three bargaining units which expire on June 30, 2006 are currently being renegotiated for fiscal year 2006-07. Because the amount of any increases to employee compensation is unknown, no funds have been included in the proposed expenditure budget; and any agreed upon amounts will need to be added upon Board approval.

As requested at the September 2005 Strategic Planning Workshop, a Capital Improvement Project Forecast has also been added to the fiscal year 2006-07 proposed budget.

Budget Development – Revenues

The proposed revenue budget totals \$8,288,900, including \$39,000 from the capital equipment reserve and \$2,550,000 in bond proceeds for completion of the Phase 1 Aquifer Storage and Recover (ASR) project. This is \$3,262,400, or 64.9%, more than the current fiscal year's budget.

The majority of the increase in revenues is from anticipated proceeds of \$2,550,000 from a pooled debt issuance to fund fiscal year 2006-07 activities towards completion of the Phase 1 ASR Project.

User fee revenues for the 2006-07 proposed budget were calculated using an estimated increase of 10.3%, which is based on the portion of Cal-Am's pending total rate increase request that has been agreed upon by the Office of Ratepayer's Advocates. The actual amount of Cal-Am's rate increase, which will be retroactive effective to January 1, 2006, is still awaiting a decision from the California Public Utilities Commission (CPUC). Depending on how much of Cal-Am's total request is approved by the CPUC; the actual increase could range from 10.3% to 24.5%.

Property tax revenues are anticipated to increase by almost 25% due to increased assessed valuations within the District and the end of the State of California's two-year property tax shift from Special Districts to the Educational Revenue Augmentation Fund.

Reserves

As discussed earlier in this transmittal, the strategy used to prepare the proposed 2006-07 budget was to balance the budget without the use of general operating reserves. As currently proposed, the 2006-07 budget would actually increase general operating reserves by \$155,200. However, as discussed earlier, any adjustments for employee and/or Board compensation will change this amount as will any other revenue and/or expenditures adjustments made by the Board in adopting the final budget.

Based on the mid-year adjustment to the 2005-06 budget, the total estimated general operating reserve carryover to fiscal year 2006-07 is about \$883,000, or approximately 13.9% of the 2005-06 budget. This amount will vary depending on actual vs. anticipated revenues and expenditures over the remainder of the fiscal year 2005-06. The general operating reserve carryover from fiscal year 2005-06 to fiscal year 2006-07 could also vary considerably based on the timing of approval and collection of Cal-Am's retroactive rate

increases. However this would only shift the funds from one fiscal year to another and would have no overall effect on funds available in the general operating reserve.

When combining the estimated general operating reserve carryover to fiscal year 2006-07 of about \$883,000 and the estimated carryover of \$155,200 from the 2006-07 proposed budget, the general operating reserve balance as of June 30, 2007 would be about \$1,038,500, or approximately 12.8% of the 2006-07 operating budget. This is well above the 5% to 10% minimum adopted by the Board in January 2005.

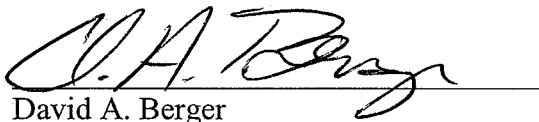
Summary

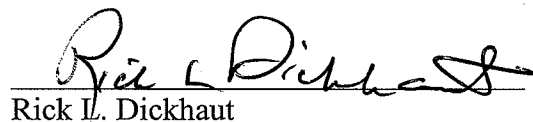
The 2006-07 proposed budget was prepared using the strategies adopted in January 2005 to balance the budget. The budget, as proposed, does not have a significant impact on the services provided by the District or its ability to achieve the objectives in the District's Strategic Plan, including Mission and Vision Statements.


Proposed expenditures are \$8,133,700 and proposed revenues are \$8,288,900 resulting in an increase of \$155,200 to the general operating reserve.


This budget process has been one of extraordinary partnership – with the Board of Directors, the District Management Team and other District employees. They have made a direct contribution to the development of a balanced proposed budget without depending on the use of reserves for the second consecutive year, and we acknowledge their efforts.

Respectfully submitted:


David A. Berger
General Manager


Rick L. Dickhaut
Administrative Services Manager/CFO


Andrew M. Bell
Planning & Eng. Manager/Dist. Engineer


Stephanie Pintar
Water Demand Manager

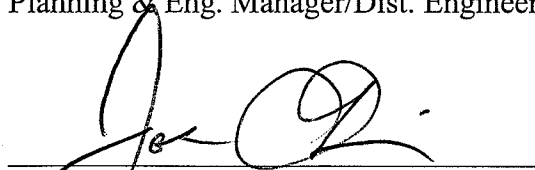

Joseph W. Oliver
Water Resources Manager

Table I

| | 2005-06 <u>Budget</u> | 2006-07 <u>Requested</u> | 2006-07 <u>Proposed</u> | Percentage <u>Change</u> |
|--------------------------------|--------------------------|-----------------------------|----------------------------|-----------------------------|
| <u>PERSONNEL</u> | | | | |
| Salaries | \$1,948,000 | \$1,991,400 | \$1,991,400 | 2.23% |
| Retirement | 309,300 | 347,100 | 347,100 | 12.22% |
| Auto Allowance | 3,600 | 3,600 | 3,600 | 0.00% |
| Temporary Personnel | 0 | 500 | 500 | #DIV/0! |
| Workers' Comp. | 70,700 | 65,100 | 65,100 | -7.92% |
| Employee Insurance | 314,900 | 316,900 | 316,900 | 0.64% |
| Medicare & FICA Taxes | 23,700 | 23,700 | 23,700 | 0.00% |
| Personnel Recruitment | 0 | 5,600 | 5,600 | #DIV/0! |
| Pre-Employment Physicals | 0 | 600 | 600 | #DIV/0! |
| Staff Development | 30,100 | 35,300 | 35,300 | 17.28% |
| Contingency | 0 | 0 | 0 | #DIV/0! |
| Subtotal | <hr/> \$2,700,300 | <hr/> \$2,789,800 | <hr/> \$2,789,800 | <hr/> 3.31% |
| <u>SERVICES & SUPPLIES</u> | | | | |
| Board Member Comp | \$27,500 | \$27,600 | \$27,600 | 0.36% |
| Board Expenses | 3,200 | 6,900 | 6,900 | 115.63% |
| Telephone | 31,400 | 31,400 | 31,400 | 0.00% |
| Insurance | 47,100 | 49,500 | 49,500 | 5.10% |
| Facility Maint. | 15,600 | 22,000 | 22,000 | 41.03% |
| Membership Dues | 7,000 | 9,200 | 9,200 | 31.43% |
| Miscellaneous | 1,000 | 800 | 800 | -20.00% |
| Bank Charges | 0 | 2,000 | 2,000 | #DIV/0! |
| Office Supplies | 29,500 | 27,100 | 27,100 | -8.14% |
| Courier Expense | 4,000 | 5,000 | 5,000 | 25.00% |
| Meeting Expenses | 20,400 | 13,800 | 13,800 | -32.35% |
| Printing/Duplicating/Binding | 9,100 | 9,000 | 9,000 | -1.10% |
| Data Processing | 35,700 | 78,900 | 63,000 | 76.47% |
| Professional Fees | 22,300 | 19,500 | 19,500 | -12.56% |
| Legal Notices | 6,000 | 5,000 | 5,000 | -16.67% |
| Utilities | 24,200 | 28,300 | 28,300 | 16.94% |
| Rent | 18,600 | 18,600 | 18,600 | 0.00% |
| Legal Services | 1,522,500 | 500,000 | 500,000 | -67.16% |
| Travel | 11,300 | 20,800 | 20,800 | 84.07% |
| Transportation | 33,900 | 40,000 | 40,000 | 17.99% |
| Operating Supplies | 7,200 | 11,800 | 11,800 | 63.89% |
| Subtotal | <hr/> \$1,877,500 | <hr/> \$927,200 | <hr/> \$911,300 | <hr/> -51.46% |
| Fixed Assets | 68,600 | 125,700 | 104,700 | 52.62% |
| Program Expenditures | 1,501,500 | 4,345,100 | 4,083,100 | 171.93% |
| Debt Service | 0 | 126,500 | 126,500 | #DIV/0! |
| Capital Equipment Reserve | 0 | 43,300 | 43,300 | #DIV/0! |
| Election Expense | 118,600 | 0 | 0 | -100.00% |
| Contingency | 100,000 | 75,000 | 75,000 | -25.00% |
| Expenditure Total | <hr/> <hr/> \$6,366,500 | <hr/> <hr/> \$8,432,600 | <hr/> <hr/> \$8,133,700 | <hr/> <hr/> 27.76% |