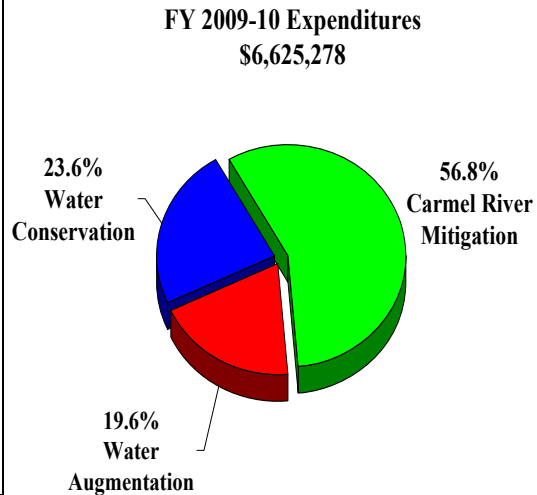
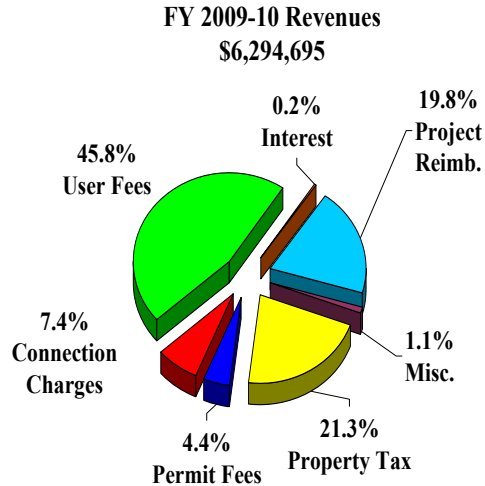


MONTEREY PENINSULA WATER MANAGEMENT DISTRICT 2010 ANNUAL REPORT

FINANCIAL ANALYSIS

Total revenues received in Fiscal Year 2009-10 were \$6,294,695 while expenditures totaled \$6,625,278. The difference of \$330,583 came from funds that were accumulated in the General Operating Reserve in previous years. As of June 30, 2010, a balance of \$937,688 remained in the General Operating Reserve.

The budget for Fiscal Year 2010-11 anticipates revenues of \$9,975,800 and expenditures of \$10,590,100. The difference of \$614,300 is being used out of the General Operating Reserve to fund a portion of the amount budgeted to complete Water Project 1. The total amount budgeted for completion of Water Project 1 is \$1,095,600, while \$2,435,200 is budgeted for work on Water Project 2. The budget also includes \$150,000 in funding for preliminary work on Water Project 3. Water Projects 1 & 2 are wells and appurtenances for underground water storage and recovery; while Water Project 3 is a proposed desalination plant.



PRESENT AND FUTURE WATER REQUIREMENTS

Present Water Requirements: In Water Year 2010, approximately 16,000 acre-feet (AF) of water were produced to satisfy existing water requirements within the District. Of this total, 11,410 AF or approximately 70% was produced by California American Water (CAW), the largest water purveyor in the District.

Future Water Requirements: In 2006, District staff estimated that approximately 4,500 acre-feet per year (AFY) of new water supplies would be needed to meet future CAW water requirements within the District. This estimate was based on general plan build-out conditions provided by each of the jurisdictions within the District and included a 20% contingency factor. This estimate has been questioned and is scheduled to be reviewed in Calendar Year 2011¹.

Available Water Supplies: Presently, approximately 13,760 AFY of water are available in the Carmel River and Seaside Groundwater Basins to serve CAW customers within the District. Similarly, approximately 4,740 AFY of water are assumed to be available to serve non CAW users in the District. However, because of legal and regulatory constraints, the amount of water available to CAW in the future will be reduced by 8,610 AFY and the amount of water available to non CAW users will be reduced by approximately 200 AFY. This calculation assumes that CAW will retain rights to produce 3,376 AFY from Carmel River sources, 1,474 AFY from Seaside Groundwater sources, and receive 300 AFY from the Sand City Desalination Facility.

In 2006, District staff estimated that approximately 12,500 AFY of new supplies would need to be developed to replace existing unpermitted unlawful diversions from the Carmel River or production in excess of adjudicated rights in the Seaside Groundwater Basin. This estimate includes an adjustment for weather effects and possible sedimentation in Los Padres Reservoir.

Requirements for Future Capital Improvements: A number of water supply alternatives have been proposed by the District, CAW, and others to address the present and future water needs in the District. On December 2, 2010, the California Public Utilities Commission (CPUC) approved the proposed Regional Water Project and associated Water Purchase Agreement between CAW, Marina Coast Water District (MCWD), and Monterey County Water Resources Agency (MCWRA). Under this agreement, the Regional Desalination Project and associated brackish water wells would cost up to \$297,000,000. Similarly, the CAW-only conveyance facilities would cost up to \$107,000,000. All of these costs would be recovered through water rates.

¹ As an example, the City of Pacific Grove in its comment letter on the draft EIR for California American Water's Coastal Water Project, noted that the "City of Pacific Grove's future water needs should be revised to reflect development trends since the adoption of the 1994 General Plan, as well as a more realistic potential for residential development based on the recent study of available vacant and underutilized sites recently prepared as part of the 2007-2014 Housing Element Update process". Specifically, City staff estimated that Pacific Grove's long term water needs should be reduced from 1,264 afy to 488 afy.

Requirements for Operation and Maintenance: Updated costs for operation and maintenance of the proposed Regional Water Project are being developed and will be subject to CPUC review.

METHODS AVAILABLE FOR FINANCING

The District has historically paid for costs associated with water supply projects on a pay-as-you-go basis with the majority of the funding coming from user fees, the District's largest and most fluid revenue source. The District also has a \$1.5 million line of credit to provide additional funding for preliminary costs of current and future potential water supply projects. Possible sources of funds to pay for actual construction of future water supply projects include ongoing revenue increases, new revenue categories, grants, bond financing and user fee increases. Actual funding sources would be dependent on the type of project, the amount of funding needed and other variables.

GROUNDWATER CHARGE

Groundwater Zone: In June 1980, the District Board approved formation of a groundwater charge zone including all District territory, except portions of the District lying within the City of Sand City. The District-wide groundwater zone was formed to provide the legal basis for a comprehensive well-monitoring program consisting of well registration, well metering, and water production reporting. Formation of the groundwater charge zone was not intended to generate revenues and it was acknowledged that no groundwater charge would be levied for the production of any naturally occurring groundwater.

Accordingly, it is recommended that no groundwater charge be levied in any zone of the District during Water Year 2011.

PROPOSED RATES

The District does not propose to levy any agricultural water or other non-agricultural water charges in Fiscal Year 2011-12.