



MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

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June 22, 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 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, resulting in a proposed budget contribution to general operating reserves of \$155,200. On May 25, 2006, the Board reviewed the budget proposed by staff, requested one addition to the expenditure portion of the budget and requested some additional information. Staff has made the adjustment requested by the Board, as well as one additional one identified by staff. After these two adjustments totaling \$9,900, expenditures now total \$8,143,600, while revenues are unchanged at \$8,288,900. This results in a new contribution to reserves of \$145,300.

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 expenditure budget as amended by the General Manager and Division Managers, and the Board of Directors. The table also shows the percentage change from the 2005-06 budget to the 2006-07 budget. As the table indicates, the expenditure budget totals \$8,143,600 which is \$1,777,100, or 27.9%, 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 budget to fund

work towards the completion of the District's ASR Phase 1 Project. Also included in the 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)

Subsequent to the May 25, 2006 budget workshop, two additional increases were made to the expenditure side of the budget. The first adjustment was to add \$5,500 to the Board Member Compensation expenditure line-item to cover any additional compensation that may implemented as set forth in the California Water Code sections 20201 and 20202. The second adjustment was to add \$4,400 to the Professional Fees expenditure line-item to cover the costs for facilitation services for the District's annual strategic planning session.

General Counsel David Laredo's contract with the District expires on June 30, 2006. He 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 requests similar increases in fiscal year 2007-08, has been approved by the Administrative Committee and Board of Directors. It is anticipated that the 2006-07 increase can be funded within the amount of \$500,000 for legal expenditures currently included in the budget.

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 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 budget.

Budget Development – Revenues

The 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 \$3,258,900, or 64.8%, 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 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 2006-07 budget was to balance the budget without the use of general operating reserves. The 2006-07 budget would actually increase general operating reserves by \$145,300. However, as discussed earlier, any adjustments for employee 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, which is reflected in the 2006-07 budget, will vary depending on actual vs. anticipated revenues and expenditures over the remainder of the fiscal year 2005-06. In fact, the most recent review of fiscal year 2005-06 budget activity indicated that significant amounts budgeted for grant funded, ASR and water conservation program expenditures will likely not be expended until fiscal year 2006-07. Also, carryovers could also vary considerably based on the timing of approval and collection of Cal-Am's retroactive rate increases. However, these timing variances would only shift the funds from one fiscal year to another and would have no overall effect on the general operating reserve balance.

When combining the estimated general operating reserve carryover to fiscal year 2006-07 of about \$883,000 and the estimated carryover of \$145,300 from the 2006-07 budget, the general operating reserve balance as of June 30, 2007 would be about \$1,028,300, or approximately 12.6% of the 2006-07 operating budget. This is well above the 5% to 10% minimum adopted by the Board in January 2005.

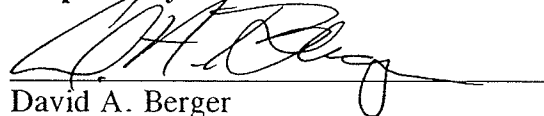
Summary

The 2006-07 budget was prepared using the strategies adopted in January 2005 to balance the budget. The budget 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.

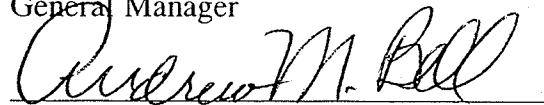
Budgeted expenditures are \$8,143,600 and budgeted revenues are \$8,288,900 resulting in an increase of \$145,300 to the general operating reserve.

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 budget without depending on the use of reserves for the second consecutive year, and we acknowledge their efforts.

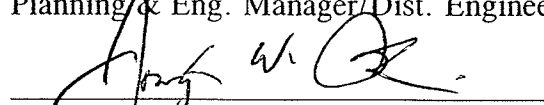
Respectfully submitted:



David A. Berger
General Manager



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



Joseph W. Oliver
Water Resources Manager



Rick L. Dickhaut
Administrative Services Manager/CFO



Stephanie Pintar
Water Demand Manager

Table I

	2005-06 <u>Budget</u>	2006-07 <u>Requested</u>	2006-07 <u>Budget</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	\$2,700,300	\$2,789,800	\$2,789,800	3.31%
<u>SERVICES & SUPPLIES</u>				
Board Member Comp	\$27,500	\$27,600	\$33,100	20.36%
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	23,900	7.17%
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	\$1,877,500	\$927,200	\$921,200	-50.93%
Fixed Assets	68,600	125,700	104,700	52.62%
Program Expenditures	1,501,500	4,145,100	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	\$6,366,500	\$8,232,600	\$8,143,600	27.91%