



MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

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June 16, 2008

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

Dear Chairperson Lehman and Board Members:

Budget Overview

This letter transmits the budget for Fiscal Year (FY) 2008-09. The budget document has been prepared consistent with the strategy adopted by the Board in January 2005. This strategy was to develop balanced future annual budgets, while maintaining a minimum general operating reserve level of 5% to 10%, and planning for re-establishing general operating reserves to a prudent level of approximately 50% of budget in future years; all while preserving existing services and enabling the District to carry out its legislative mission and the Board's strategic vision. Despite the strategy to adopt a balanced budget, it should be noted that the FY 2008-09 budget includes use of reserves, and a general operating reserve drawdown to less than 5%, due to two exceptions to the strategy that were recently approved by the Board. First, at its November 2007 meeting, the Board authorized the use of general operating reserves to fund the completion of the Phase 1 Aquifer Storage and Recovery (ASR) Project on a pay-as-you-go basis. Also, at its April 2008 meeting, the Board authorized use of the flood/drought reserve to fund approximately \$170,000 of preliminary costs relating to the District's 95-10 Desalination Project.

After compilation of the original requests from all Divisions for the FY 2008-09 budget, a detailed review and numerous adjustments by Division Managers and the General Manager and one adjustment by the Board of Directors, expenditures total \$8,274,000. Projected revenues also total \$8,274,000, including the use of general operating Reserves in the amount of \$1,209,000 and flood/drought reserves of \$57,000 for the projects mentioned above. Included in the budget is \$1,479,500 for completion of the Phase 1 ASR Project. It should be noted that if the District was not funding the ASR project on a pay-as-you-go basis, the budget would actually replenish the general operating reserve by \$270,500 rather than using the \$1,479,000 as stated above.

Expenditures

As shown in the expenditures portion of the FY 2008-09 budget, total expenditures of \$8,274,000 increased by only 2.68% over the amount budgeted in FY 2007-08. The major expenditure in the FY 2008-09 budget is \$1,479,500 for completion of the Phase 1 ASR Project. The amount to be spent for this project in FY 2008-09 is higher than the amount previously reported due to the shifting of some expenditures from FY 2007-08 to FY 2008-09, and recently revised estimates that indicate the cost of completing the ASR Project will be about 21% more than the amount that was projected several years ago before construction began. The expenditure budget also includes \$211,200, not including labor, for operation of the ASR Project during the year. This amount, plus related labor costs, will be reimbursed by California American Water (CAW) pursuant to the Management and Operations agreement between the District and CAW. Also included in the budget is \$75,000 to evaluate an expanded ASR project.

Other one-time large expenditure items include \$57,000 for the FY 2008-09 portion of authorized preliminary work on the District's 95-10 Desalination Project, \$105,000 for upgrade of the water intake at the Sleepy Hollow Steelhead Rearing Facility, \$288,000 to complete the Water Demand Division database programming project, \$450,000 for landscape irrigation audits related to potential water rationing and \$200,000 for water conservation rebates. The latter two amounts are also reimbursable by CAW. The expenditure budget also includes \$236,400 for the purchase of capital assets, comprised mostly of computer related equipment and software and three vehicle replacements.

As requested at the September 2005 Strategic Planning Workshop, a Capital Improvement Project Forecast is again included in the Fiscal Year 2008-09 budget.

Revenues

The FY 2008-09 revenue budget totals \$8,274,000, including \$98,000 from the capital equipment reserve, \$57,000 from the flood/drought reserve and \$1,209,000 from the general operating reserve. As mentioned previously, the last two amounts are for preliminary work on the District's 95-10 Desalination Project and completion of the Phase 1 ASR project, respectively.

The District's largest revenue source is the User Fee which is currently collected at a rate of 8.325% on CAW's water billings. Total User Fee revenues are projected to be \$3,670,400 in FY 2008-09. This amount was developed based on current revenue data obtained from CAW, and by including about one-half of CAW's current rate increase request of over 80% that is pending before the California Public Utilities Commission. Property tax revenues, the District's second largest revenue source, are anticipated to increase by approximately \$55,000 in FY 2008-09. Projected revenues from reimbursements are \$1,157,600, consisting largely of amounts to be received from CAW for ASR and water conservation expenditures. Also included is \$110,000 for services provided to the Seaside Basin Watermaster and \$60,000 for billings related to water distribution system permitting.

Reserves

As discussed earlier in this transmittal, the strategy used to prepare the FY 2008-09 budget was to balance the budget without the use of general operating reserves. If it were not for the previously mentioned one-time use of reserves approved by the Board for completion of the Phase 1 ASR Project and preliminary work on the 95-10 Desalination Project, the amount available towards replenishment of the General Operating Reserve would be \$270,500.


Based on the mid-year adjustment to the FY 2007-08 budget, the total estimated general operating reserve carryover to the FY 2008-09 is about \$631,300, or approximately 7.8% of the FY 2007-08 budget. The actual amount will vary depending on actual vs. anticipated revenues and expenditures over the remainder of the FY 2007-08. It is anticipated that the final carryover will be larger.

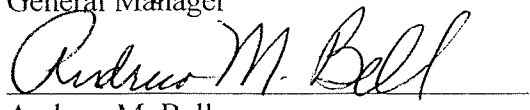
When combining the estimated general operating reserve carryover reflected in the FY 2007-08 budget of about \$631,300 with the Board authorized estimated use of \$1,209,000 in the FY 2008-09 budget, the general operating reserve balance as of June 30, 2009, is estimated to be a deficit amount of \$577,700. As noted earlier, the Board authorized going below the 5% minimum in November 2007 when it approved funding Phase 1 ASR Project on a pay-as-you-go basis. In addition to the General Operating Reserve, it is also estimated that the District will have other designated reserves of approximately \$775,000 on June 30, 2009.

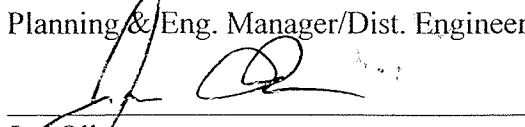
Summary

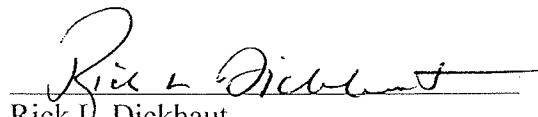
The 2008-09 budget was prepared using the strategies adopted in January 2005 to balance the budget, after taking into account one-time use of reserves specifically authorized by the Board. The budget allows the District to maintain, or improve, service levels currently provided by the District, and sustains its ability to achieve the objectives in the District's Strategic Plan, including Mission and Vision Statements. 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 on-going expenditures and we acknowledge their efforts.

Respectfully submitted:


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 Planning & Eng. Manager/Dist. Engineer


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