



MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

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June 15, 2009

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

Dear Chairperson Markey and Board Members:

Budget Overview

This letter transmits the budget for Fiscal Year (FY) 2009-10. While preparing the budget, District staff was mindful of the current uncertain economic conditions. The budget was also prepared consistent with the strategy adopted by the Board in January 2005. That strategy was to develop balanced future annual budgets, maintain a minimum general operating reserve level of 5% to 10%, and increase reserve levels over time; 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 2009-10 budget does include use of reserves for completion of the Phase 1 Aquifer Storage and Recovery (ASR) Project. The Board previously approved funding the ASR Project on a pay-as-you-go basis at its November 2007 meeting, acknowledging that using reserve funds for this purpose could result in a general operating reserve drawdown to less than the 5% minimum.

After compilation of the original requests from all Divisions for the FY 2009-10 budget, and a detailed review and numerous adjustments by Division Managers and the General Manager, expenditures total \$7,953,600. Projected revenues also total \$7,953,600, including the use of general operating Reserves in the amount of \$827,400 for the ASR Project. That use of reserves is limited to the amount authorized in the FY 2008-09 budget, but not anticipated to be used until FY 2009-10 due to project delays. 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 \$46,600 rather than using the \$780,800 as shown in the budget.

Expenditures

As shown in the expenditures portion of the FY 2009-10 budget, total expenditures of \$7,953,600 decreased by 4.75% from the amount budgeted in FY 2008-09. The major project expenditures, not including labor, in the FY 2009-10 budget include \$1,242,000 for completion of the Phase 1 ASR Project, \$309,700 for Phase 2 ASR planning and development, and \$195,000 for preliminary studies for the MPWMD 95-10 Desalination Project. The expenditure budget also includes \$155,100, 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.

Other large expenditure items include approximately \$213,000 for the operation of the Sleepy Hollow fish rearing facility and related fish rescue activities, \$111,000 for riparian and erosion control activities, \$225,000 for landscape irrigation audits related to water conservation and \$300,000 for water conservation rebates. The latter two amounts are also reimbursable by CAW. The expenditure budget also includes \$155,300 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 2009-10 budget.

Revenues

The FY 2009-10 revenue budget totals \$7,953,600, including \$104,600 from the capital equipment reserve, \$195,000 from line of credit proceeds and \$780,800 from the general operating reserve. 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 \$3,700,000 in FY 2009-10. This amount was developed based on historical data, CAW current revenue data, and by including the 35% CAW rate increase included in the recent proposed decision by the California Public Utilities Commission. Property tax revenues, the District's second largest revenue source, have been reduced \$118,400, or 8%, from the original projected amount of \$1,480,000 due to the proposal by the Governor that the State borrow \$2.1 billion in local property tax revenues from cities, counties and special districts to help fill its budget gap. The original amount was based on current year receipts and discussions with the Monterey County Assessor. Connection charges are estimated to be \$400,000 in FY 2009-10. That amount is \$50,000 less than FY 2008-09; however, it is still dependent on planned projects actually coming to fruition. Projected revenues also include reimbursements of \$902,600 from CAW for ASR and water conservation expenditures and \$110,000 for services provided to the Seaside Basin Watermaster.

Reserves

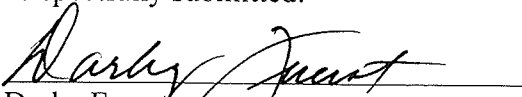
As discussed earlier in the Budget Overview section of this transmittal, the strategy used to prepare the FY 2009-10 budget was to balance the budget without the use of general operating reserves. If it were not for the previously mentioned one-time use of reserves approved by the Board for completion of the Phase 1 ASR Project, the amount available towards replenishment of the General Operating Reserve would be \$46,600. Based on the mid-year adjustment to the FY 2008-09 budget, the total estimated general operating reserve carryover to the FY 2009-10 was about \$528,000. That amount is expected to increase by approximately \$860,000, to about \$1,388,000, largely due to ASR Phase 1 expenditures being delayed from FY 2008-09 to FY 2009-10. The actual carryover amount will vary depending on other actual vs. anticipated revenues and expenditures over the remainder of the FY 2008-09.

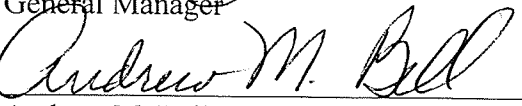
When subtracting the estimated use of \$780,800 from the General Operating Reserve in the FY 2009-10 budget from the estimated general operating reserve carryover from the FY 2008-09 budget of about \$1,388,000, the general operating reserve balance as of June 30, 2010, is estimated to be approximately \$607,200. This amounts to about 7.6% of the FY 2009-10 operating budget. In addition to the General Operating Reserve, it is also estimated that the District will have other designated reserves of approximately \$950,000 on June 30, 2010.

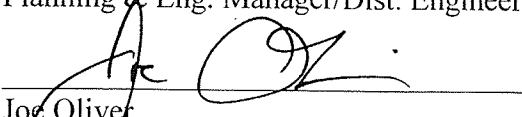
Summary


The 2009-10 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, and being mindful of the current uncertain economic conditions. 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.

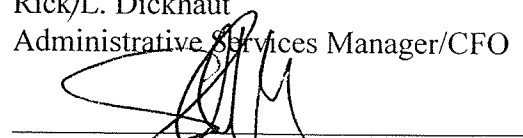
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