



## MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

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June 21, 2010

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

Dear Chairperson Doyle and Board Members:

### ***Budget Overview***

This letter transmits the budget for Fiscal Year (FY) 2010-11. 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 2010-11 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 2010-11 budget, and a detailed review and numerous adjustments by Division Managers and the General Manager, budgeted expenditures total \$10,590,100. Projected revenues also total \$10,590,100, including the use of general operating Reserves in the amount of \$614,300 for the ASR Project. That use of reserves includes \$366,000 that is authorized in the FY 2009-10 budget, but not anticipated to be used until FY 2010-11 due to project delays. It should be noted that if the District was not funding the Phase 1 of the ASR project on a pay-as-you-go basis, the budget would actually replenish the general operating reserve by \$481,300 rather than using the \$614,300 as shown in the budget.

## ***Expenditures***

As shown in the expenditures portion of the FY 2010-11 budget, total budgeted expenditures of \$10,590,100 increased by 25.7% from the amount budgeted in FY 2009-10. This is mainly due to project expenditures, not including labor, in the FY 2010-11 budget which include \$1,095,600 for completion of the Phase 1 ASR Project, \$2,435,200 for Phase 2 ASR planning and development, and \$150,000 for preliminary studies for a District desalination project. The expenditure budget also includes \$165,000, not including labor, for operation of the Phase 1 ASR Project during the year. The budget was prepared with the assumption that California American Water (CAW) would continue to reimburse the District for the operation of the ASR Project pursuant to the Management and Operations agreement between the District and CAW, as well as for funds expended for Phase 2 ASR planning and development.

Other large expenditure items include approximately \$313,600 for the operation of the Sleepy Hollow fish rearing facility and related fish rescue activities, \$91,100 for riparian and erosion control activities, \$200,000 for landscape irrigation audits related to water conservation, \$225,000 for a school retrofit grant program and \$400,000 for water conservation rebates. The latter three amounts are also reimbursable by CAW. The expenditure budget also includes \$281,700 for the purchase of capital assets, comprised mostly of computer related equipment, software development, three vehicle purchases, two of which are replacements, and topographic data for watershed hydrological monitoring.

It is anticipated that legal activities related to the Cease and Desist Order, Regional Water Project and District User Fee will wind down during the first half of FY 2010-11. Accordingly, the legal services budget has been reduced from the FY 2009-10 amount of \$450,000 to \$400,000 for FY 2010-11, and the \$50,000 difference will be set aside in the Litigation/Insurance Reserve to fund potential future unanticipated legal activities. Legal Counsel and District staff believe that actual legal costs in FY 2010-11 could actually be as low as \$350,000 and any amount saved from the budgeted amount of \$400,000 would also be placed in the Litigation/Insurance Reserve.

As requested at the September 2005 Strategic Planning Workshop, a Capital Improvement Project Forecast is again included in the Fiscal Year 2010-11 budget.

## ***Revenues***

The FY 2010-11 revenue budget totals \$10,590,100, including \$69,600 from the capital equipment reserve, \$150,000 from line of credit proceeds and \$614,300 from the general operating reserve. The last two amounts are for continuing preliminary work on a District 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 2010-11, based on historical data combined with the CAW rate increase that recently went into effect, including the retroactive portion. Projected property tax revenues, the District's second largest revenue source, have increased by \$103,400, or 7.6%, from the FY 2009-10 budget based on the

amount that is expected to be received the current fiscal year; and because the borrowing of over \$110,000 of District property taxes by the State of California during FY 2009-10 to help fill its budget gap cannot be repeated in Fiscal Year 2010-11 due to State law. Connection charges are estimated to be \$600,000 in FY 2010-11. That amount is \$170,000 more than FY 2009-10 and is based on planned projects that are expected to come to fruition during the fiscal year. Projected revenues also include reimbursements of \$175,000 from CAW for ASR operational costs, \$2,435,200 from CAW for Phase 2 ASR planning and development costs, \$888,900 from CAW for rebates and other water conservation activities, 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 2010-11 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 \$481,300. Based on the mid-year adjustment to the FY 2009-10 budget, the total estimated general operating reserve carryover to the FY 2010-11 was \$545,000. That amount is expected to increase by approximately \$670,200, to about \$1,215,200, largely due to ASR Phase 1 and desalination project expenditures being delayed from FY 2009-10 to FY 2010-11. The actual carryover amount will vary depending on other actual vs. anticipated revenues and expenditures over the remainder of the FY 2009-10.

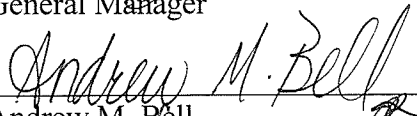
When subtracting the estimated use of \$614,300 from the General Operating Reserve in the FY 2010-11 budget from the estimated general operating reserve carryover from the FY 2009-10 budget of about \$1,215,200, the general operating reserve balance as of June 30, 2011 is estimated to be approximately \$600,900. This amounts to about 5.7% of the FY 2010-11 operating budget, or 8.5% of the net operating budget after subtracting the one-time ASR Phase 1 and 2 planning and development costs. In addition to the General Operating Reserve, it is also estimated that the District will have other designated reserves of approximately \$1,000,000 on June 30, 2011. This amount includes the \$50,000 addition to the Litigation/Insurance Reserve discussed in the Expenditures section of this letter.

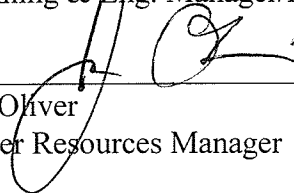
### ***Summary***


The 2010-11 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.

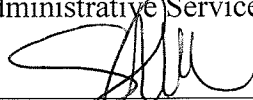
Respectfully submitted:

  
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