



MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

5 HARRIS COURT, BLDG. G
POST OFFICE BOX 85
MONTEREY, CA 939420085 • (831) 658-5600
FAX (831) 644-9560 • <http://www.mpwmd.dst.ca.us>

June 18, 2007

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

Dear Chairman Pendergrass and Board Members:

Budget Overview

This letter transmits the proposed budget for Fiscal Year 2007-08. 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 2007-08 budget, requested expenditures totaled \$8,617,000 and projected revenues, including \$127,600 from the capital equipment reserve and \$1,703,000 in bond proceeds for completion of the Phase 1 Aquifer Storage and Recover (ASR) project, totaled \$8,685,300. This would have resulted in a hypothetical contribution to general operating reserves of \$68,300. Subsequently, the General Manager and Division Managers held a half-day budget session and identified several expenditure adjustments resulting in a reduction of \$112,500 which reduced total proposed expenditures to \$8,504,500. At the May 31, 2007 budget workshop, staff proposed the addition of \$18,000 to the expenditure budget, bringing final proposed expenditures to \$8,522,500. This results in a proposed budget contribution to general operating reserves of \$162,800.

Budget Development - Expenditures

Table I attached to this transmittal compares the 2006-07 expenditure budget as amended at the February 22, 2007 Board meeting, the 2007-08 expenditure budget as originally requested by staff and the proposed 2007-08 expenditure budget as amended by the General Manager and Division Managers. The table also shows the percentage change from the 2006-07 budget to the 2007-08 proposed budget. As the table indicates, the expenditure budget totals \$8,522,500 which is \$100,300, or approximately 1% more than the current fiscal year's budget.

The proposed 2007-08 expenditure budget includes \$1,703,000 for completion of the District's ASR Phase 1 Project, as well as \$85,000 for debt service on financing for the Project. Also included in the Facility Maintenance line item of the expenditure budget is \$25,000 to paint the exterior of the District's office building.

As mentioned in the overview section of this memorandum, the General Manager and Division Managers held a half-day budget session and identified several expenditure adjustments resulting in a net reduction of \$112,500 bringing total proposed expenditures at that time down to \$8,504,500. These expenditure adjustments are listed in the table below. The service level impacts of the line-item changes have been ranked according to the following categories:

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>Adjustment</u>
P&E	Project Expenditures - Project 1-2-1-6	Expanded ASR Environmental & Technical Services	None - Budget includes \$50,000 to cover potential District expenditures for project expansion being jointly developed with CAW	\$(50,000)
WRD	Project Expenditures - Project 2-3-1-H	Sleepy Hollow Pump Repairs	None – Repairs needed only if project to upgrade not completed. If so, can be covered by funds budgeted for upgrade	\$(12,500)
ASD	Services & Supplies	Legal Services	None – No impact unless significant unanticipated legal costs incurred	\$(50,000)
			Total Reduction	\$(112,500)

It is important to note that the current Memorandum of Understandings with the District's three bargaining units, which expire on June 30, 2007, are currently being renegotiated for Fiscal Year 2007-08. Because the amount of any increases to employee compensation is unknown, no funds have been included in the proposed 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 again been included in the proposed Fiscal Year 2007-08 budget.

Budget Development – Revenues

The proposed revenue budget totals \$8,685,300, including \$127,600 from the capital equipment reserve and \$1,703,000 in financing proceeds for completion of the Phase 1 ASR project. This is \$224,400, or 2.7%, more than the current fiscal year's budget.

User fee revenues for the proposed 2007-08 budget, which were projected based on recent rate increases and additional surcharges granted to California American Water (CAW) by the California Public Utilities Commission, are anticipated to increase by \$215,000, or 8.2%. Property tax revenues are anticipated to increase by approximately \$109,000, or 8.6%, due to increased assessed valuations within the District. Projected revenues from reimbursements increased by \$951,800, or about 169%, due to anticipated additional conservation reimbursements from CAW and potential outside funding for the Sleepy Hollow intake retrofit project included in the expenditure side of the budget.

Reserves

As discussed earlier in this transmittal, the strategy used to prepare the proposed 2007-08 budget was to balance the budget without the use of general operating reserves. The 2007-08 proposed budget would actually increase general operating reserves by \$162,800. However, as discussed earlier, any adjustments for employee compensation will change this amount.

Based on the mid-year adjustment to the 2006-07 budget, the total estimated general operating reserve carryover to Fiscal Year 2007-08 is about \$1,438,400, or approximately 17.1% of the 2006-07 budget. This amount, which is reflected in the proposed 2007-08 budget, will vary depending on actual vs. anticipated revenues and expenditures over the remainder of the Fiscal Year 2006-07.

When combining the estimated general operating reserve carryover from Fiscal Year 2006-07 of about \$1,438,400 and the estimated carryover of \$162,800 in the proposed 2007-08 budget, the general operating reserve balance as of June 30, 2008 would be about \$1,601,200, or approximately 19% of the 2007-08 operating budget. This is well above the 5% to 10% minimum adopted by the Board in January 2005.

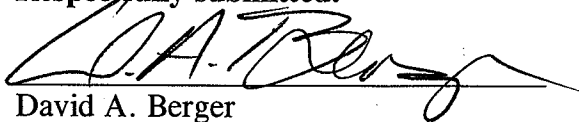
Summary

The proposed 2007-08 budget was prepared using the strategies adopted in January 2005 to balance the budget. 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.

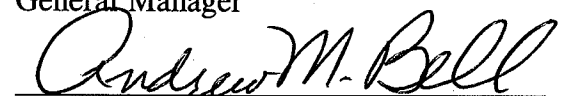
Budgeted expenditures are \$8,522,500 and budgeted revenues are \$8,685,300 resulting in an increase of \$162,800 to the general operating reserve.

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 third consecutive year, and we acknowledge their efforts.

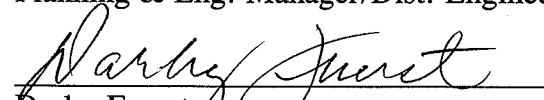
Respectfully submitted:



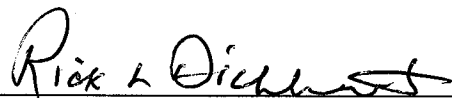
David A. Berger
General Manager



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



Darby Fuerst
Water Resources Manager



Rick L. Dickhaut
Administrative Services Manager/CFO



Stephanie Pintar
Water Demand Manager

Table I

	2006-07 <u>Budget</u>	2007-08 <u>Requested</u>	2007-08 <u>Proposed</u>	Percentage <u>Change</u>
<u>PERSONNEL</u>				
Salaries	\$2,068,000	\$2,060,600	\$2,060,600	-0.36%
Retirement	361,300	360,500	360,500	-0.22%
Auto Allowance	3,600	3,600	3,600	0.00%
Temporary Personnel	500	500	500	0.00%
Workers' Comp.	57,700	55,300	55,300	-4.16%
Employee Insurance	355,100	367,700	367,700	3.55%
Medicare & FICA Taxes	25,400	25,700	25,700	1.18%
Personnel Recruitment	5,600	5,600	5,600	0.00%
Pre-Employment Physicals	600	600	600	0.00%
Staff Development	41,300	43,100	43,100	4.36%
Subtotal	\$2,919,100	\$2,923,200	\$2,923,200	0.14%
<u>SERVICES & SUPPLIES</u>				
Board Member Comp	\$33,100	\$30,000	\$30,000	-9.37%
Board Expenses	6,900	10,400	10,400	50.72%
Telephone	31,400	31,500	31,500	0.32%
Insurance	49,500	54,200	54,200	9.49%
Facility Maint.	22,000	53,500	53,500	143.18%
Membership Dues	9,200	12,000	12,000	30.43%
Miscellaneous	800	1,000	1,000	25.00%
Bank Charges	2,000	2,000	2,000	0.00%
Office Supplies	27,100	30,800	30,800	13.65%
Courier Expense	5,000	5,000	5,000	0.00%
Meeting Expenses	15,200	14,700	14,700	-3.29%
Printing/Duplicating/Binding	9,000	8,800	8,800	-2.22%
Data Processing	72,100	65,600	65,600	-9.02%
Professional Fees	28,100	33,300	33,300	18.51%
Legal Notices	5,000	5,000	5,000	0.00%
Utilities	28,300	27,500	27,500	-2.83%
Rent	18,600	19,900	19,900	6.99%
Legal Services	500,000	450,000	400,000	-20.00%
Travel	21,500	30,100	30,100	40.00%
Transportation	40,000	44,300	44,300	10.75%
Operating Supplies	11,800	15,600	15,600	32.20%
Subtotal	\$936,600	\$945,200	\$895,200	-4.42%
Fixed Assets	154,700	244,800	262,800	69.88%
Program Expenditures	4,167,000	4,187,600	4,125,100	-1.01%
Debt Service	126,500	85,000	85,000	-32.81%
Capital Equipment Reserve	43,300	43,200	43,200	-0.23%
Election Expense	0	113,000	113,000	#DIV/0!
Contingency	75,000	75,000	75,000	0.00%
Expenditure Total	\$8,422,200	\$8,617,000	\$8,522,500	1.19%