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January 20, 2009

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VIA FACSIMILE

Kristi Markey
Chair, Board of Directors
Monterey Peninsula Water Management District
5 Harris Court, Building G
P. O. Box 85
Monterey, CA 93942-0085

Re: Ryan Ranch Water System Production Limits
Our File: 3361.29048

Dear Chair Markey and Members of the Board:

I am writing on behalf of Community Hospital of the Monterey Peninsula (the "Hospital"), which owns property in the Ryan Ranch Water System ("Ryan Ranch System") service area. The Hospital acquired and planned the phased development of its Ryan Ranch property as an outpatient medical campus in reliance on the prior determination of the Monterey Peninsula Water Management District (the "District") that sufficient water was available within the Ryan Ranch System to allow full development of the Hospital's property, as evidenced by the District's approval of an annual production limit ("System Capacity") of 175 acre feet per year for the Ryan Ranch System. It has now come to the Hospital's attention that the District believes it may have erred when it originally approved the System Capacity and that the District is considering a significant reduction in the System Capacity. The District Board will consider this action at a special hearing on January 21, 2009.

The Monterey City Council granted the necessary discretionary approvals for the phased development of five medical office buildings on four parcels and related improvements on a fifth common area parcel at the Hospital's Ryan Ranch Campus in November of 2002. Two of the buildings have been built, are fully occupied, and are currently serving the medical needs of the District's residents. California-American Water Company issued a "will serve" letter for the third building on June 13, 2007. Building plans for the third building, currently proposed to

include various ancillary Hospital services, a community wellness center, and office space for medical and other health care practitioners and services, have been submitted to the City of Monterey and are currently undergoing review by City staff.

Completion of the development of the Ryan Ranch Campus is an important component of the Hospital's integrated plan to fulfill its mission to meet the present and future health care needs of the residents of the Monterey Peninsula. The Hospital is entrusted with the community's fiscal resources for the purpose of allowing it to provide for the changing health care needs of the community. The Hospital takes its obligations very seriously and plans carefully and responsibly for the use of those resources in executing its mission. In undertaking the acquisition, planning and development of its Ryan Ranch Campus, the Hospital anticipated it would be able to complete the development and begin realizing a return on its investments within a reasonable time frame that would be dictated by the health care needs of the community and fiscal responsibility. The Hospital's ability to do so remains essential to the economic and financial success of the Ryan Ranch Campus and to the overall fiscal health of the Hospital.

The Hospital has serious concerns that any significant reduction in the System Capacity for the Ryan Ranch System will result in a moratorium that could prevent or indefinitely delay completion of the Hospital's phased development of the Ryan Ranch Campus. This would result in significant adverse and unforeseen economic consequences to the Hospital and could result in an unconstitutional taking of the Hospital's undeveloped parcels. Such action by the District would force the Hospital to assume substantial carrying costs of the undeveloped parcels, including but not limited to financing costs for infrastructure already developed to serve build-out of the project, for an indeterminate time period. Such costs were not part of the Hospital's calculus in its decision to undertake development of the Ryan Ranch Campus. If the District's action forces the Hospital to assume such costs, valuable fiscal resources will be diverted from uses that directly benefit the public health and welfare of the community to completely unproductive purposes. To force the Hospital to assume such costs due to circumstances over which it had no control would be extremely unfair. More importantly, such a result has the potential, particularly in these challenging and uncertain economic times, to compromise the Hospital's ability to respond to and provide for the changing health care needs on the Monterey Peninsula in the future. For these reasons, the Hospital urges the District Board to consider these potentially significant adverse consequences to the public health and welfare and to the economic vitality of the Hospital. Furthermore, the Hospital urges the Board to refrain from any action which could delay or prevent the completion of the Hospital's planned development of its Ryan Ranch Campus.

In the event the District finds it necessary to modify the System Capacity of the Ryan Ranch System, we would urge the Board to provide for a special allocation of water from the Ryan Ranch System to the Hospital in an amount sufficient to allow it to complete the approved development of its Ryan Ranch Campus. As evidenced by the District's adoption of Ordinance 87 in 1997, there is District precedent for measures to allow for the expeditious development of specific projects that provide a substantial public benefit and that are necessary for the protection

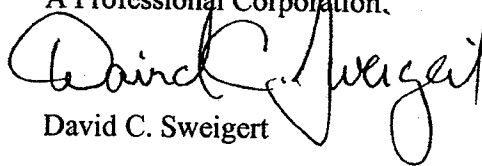
Judi Lehman
January 20, 2009
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of the public health, safety and welfare. In fact, many of the findings adopted in approving Ordinance 87 are equally applicable to the current circumstances. As the Hospital did in the context of its Master Plan for its main hospital campus as discussed in the findings Ordinance 87, the Hospital intends to incorporate appropriate technologies for water conservation into its new Ryan Ranch facilities and to work with District staff to explore opportunities for further water conservation within existing buildings and landscaping irrigation facilities at its Ryan Ranch Campus.

We appreciate the opportunity to comment on this very important matter and your attention to the Hospital's important concerns.

Very truly yours,

FENTON & KELLER
A Professional Corporation.



David C. Sweigert

cc: Regina Doyle, Vice Chair – Division 4, MPWMD (via e-mail)
Alvin Edwards – Division 1, MPWMD (via e-mail to Sara Reyes)
Judi Lehman- Division 2, MPWMD (via e-mail)
Bob Brower – Division 5, MPWMD (via e-mail)
David Pendergrass – Mayoral Representative, City of Sand City (via e-mail)
David Potter – Monterey County Board of Supervisors (via e-mail)
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