



June 20, 2011

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

Dear Chairperson Brower and Board Members:

Budget Overview

This letter transmits the budget for Fiscal Year (FY) 2011-12. While preparing the budget, District staff was mindful of the continuing uncertain economic conditions as well as the current status of the District's User Fee. Despite the strategy to adopt balanced budgets as directed by the Board of Directors in 2005, the FY 2011-12 budget does include use of General Operating, Litigation/Insurance and Flood/Drought Reserves, as well as the use of the existing line of credit in order to maintain most District programs and services pending resolution of the User Fee issue.

After compilation of the original requests from all Divisions and a detailed review and numerous adjustments by Division Managers and the General Manager, budgeted expenditures and projected revenues for FY 2011-12 total \$9,674,200.

Expenditures

As shown in the expenditures portion of the FY 2011-12 budget, the budgeted expenditures of \$9,674,200 decreased by 6.4% from the amount budgeted in FY 2010-11. The project expenditures portion of the budget includes \$577,100 for additional construction on Water Project 1, \$957,100 towards construction of Water Project 2, and \$150,000 for preliminary expenditures for Water Project 3. The expenditure budget also includes \$135,400 for the operation Water Project 1 and \$63,100 for the operation of Water Project 2. The budget was prepared with the assumption that California American Water (Cal-Am) would continue to reimburse the District for the operation of Water Project 1, and reimburse the cost of both operation and construction of Water Project 2.

Other large project expenditures include \$184,800 for the operation of the Sleepy Hollow fish rearing facility and related fish rescue activities, \$61,000 for riparian and erosion control activities, \$300,000 for landscape irrigation audits related to water conservation, \$150,000 for a school retrofit grant program, and \$600,000 for water conservation rebates. The latter three amounts are also reimbursable by Cal-Am. The expenditure budget also includes \$470,000 for design and permitting and phase 1 construction of a new water intake system at Sleepy Hollow, \$114,300 for design of Sleepy Hollow Ford removal and bridge replacement, \$1,029,100 for the Integrated Regional Water Management Project, and \$6,700 for Steelhead counting station components. These four projects are funded by various grants.

The budget for legal expenses is \$450,000, including \$75,000 from the Litigation/Insurance reserve to fund one-time costs related to the User Fee issue. The budget also includes \$169,000 for election expenses as three Board of Director positions are up for election in November of 2011. The FY 2011-12 budget also includes a Capital Improvement Project Forecast as requested by the Board of Directors in 2005.

Revenues

The FY 2011-12 revenue budget totals \$9,674,200, including the use of General Operating, Litigation/Insurance and Flood/Drought Reserves in the amounts of \$501,300, \$75,000 and \$443,900, respectively, and \$727,100 from line of credit proceeds to fund budgeted capital costs for Water Project 1 and preliminary costs for Water Project 3. User Fee revenues are projected to be \$1,661,500, a decrease of approximately 55% from the amount budgeted in FY 2010-11. This projection is based on the approximate amount of \$1,560,000 to be received from Cal-Am based on the Interim Implementation Agreement for the 2011-12 Carmel River Mitigation Program, plus historical amounts received from the Seaside Municipal System and the CAWD/PBCSD Reclamation Project. Property tax revenues are projected to be about \$1,465,000 which is the same amount budgeted in FY 2010-11. Connection charges are estimated to be down slightly from \$400,000 in the current FY to \$375,000 in FY 2011-12, and permit revenues are budgeted at \$255,000 which is \$44,000 less than FY 2010-11. Projected revenues also include reimbursements of \$198,500 from Cal-Am for Water Project 1 and Water Project 2 operational costs, \$957,100 from Cal-Am for construction costs related to Water Project 2, \$1,225,700 from Cal-Am for rebates and other water conservation and mitigation activities, \$91,000 for services provided to the Seaside Basin Watermaster, and \$1,620,100 in grant funds for various activities as detailed in the expenditure section above.

Reserves

The following table summarizes the changes to reserves based on the budget:


Reserve Description	Balance 07/01/11	FY 2011-12 Change	Balance 06/30/12
Insurance/Litigation Reserve	\$250,000	(\$75,000)	\$175,000
Flood/Drought Reserve	443,944	(443,944)	0
Capital Equipment Reserve	373,700	0	373,700
General Operating Reserve	900,488	(501,300)	399,188
Totals	\$1,968,132	(\$1,020,244)	\$947,888

As the table indicates the General Operating Reserve is expected to have a balance of approximately \$399,188, which is approximately 5.0% of the FY 2011-12 operating budget after subtracting one-time grant funds of \$1,620,100. Total reserves at June 30, 2012 are projected to be \$947,888, or 11.8% of the operating budget.

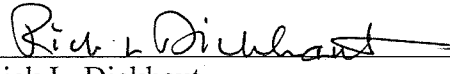
Summary

The 2011-12 budget was prepared using the strategies adopted in 2005 by the Board of Directors with the exception of the strategy to adopt balanced budgets on an annual basis. The FY 2011-12 budget does include use of General Operating, Litigation/Insurance and Flood/Drought Reserves pending resolution of the User Fee issue. Despite the reduced amount of User Fees budgeted in FY 2011-12, the budget allows the District to maintain most 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 the budget under difficult circumstances and we acknowledge their efforts.

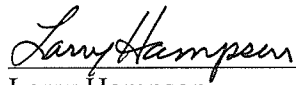
Respectfully submitted:



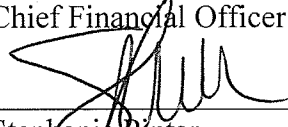
Darby Fuerst
General Manager



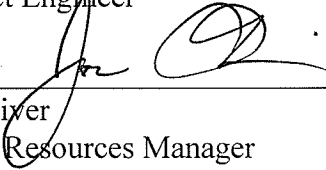
Rick L. Dickhaut
Administrative Services Manager/
Chief Financial Officer



Larry Hampson
Acting Planning & Engineering Manager/
District Engineer



Stephanie Pintar
Water Demand Manager



Joe Oliver
Water Resources Manager