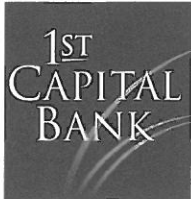


July 12, 2016

Felicia Marcus, Chair  
Tom Howard, Executive Director  
State Water Resources Control Board  
1001 I Street  
Sacramento, CA 95814

Matthew Quint  
Division of Water Rights  
State Water Resources Control  
Board  
P.O. Box 2000  
Sacramento, CA 95812-2000



Dear Ms. Marcus, Mr. Howard and Mr. Quint:

1<sup>st</sup> Capital Bank is a community bank that serves the Monterey Peninsula. As such, we have a particular interest in the economic health and stability of the region. For this reason, we fully support the extension of the Cease and Desist Order on terms that will further the process of legalizing the region's water supply while at the same time doing so in a responsible manner that does not jeopardize the region's economy. We support the modifications as outlined in the joint letter sent to you by Cal Am, Monterey Peninsula Regional Water Authority, Monterey Peninsula Water Management District, the City of Pacific Grove and Pebble Beach Company.

We do, however, have an additional concern that is not covered in that letter. Of concern to us is the condition in Paragraph 3 of the draft CDO extension that restricts any increase in use where there is a change in zoning or use to the lesser of actual average annual water use for the five-year period from 2008/9 to 2012/13, or the amount calculated using the Monterey Peninsula Water Management Districts fixture – unit count method. This condition could potentially have a negative impact on the values of property and on the values that we have lent on. As a matter of practice we have relied upon the water allocation that has been granted by the Water Management District in evaluating loans and in considering both existing uses as well as alternative legal property uses. To now retroactively limit otherwise legal uses by restricting water to an arbitrary 5-year period potentially causes not only losses in value to property owners but also creates a number of unintended consequences, among those are to financial

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institutions whose existing collateral could now be impaired, as well as making future lending decisions more challenging.

It is also important to note that the 5-year measuring period in the draft order includes one of the most severe recessions in our history. The consequences of a provision like this could ripple through the region potentially harming viable development opportunities and ultimately impacting job creation.

We request this condition in Paragraph 3 restricting water allocation increase where there is a zoning or use be deleted from the final order to avoid causing a number of unintended economic consequences that would have far reaching impacts on the region.

Sincerely,

Thomas E. Meyer  
President & Chief Executive Officer

C.C. Clay Larson

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