



# Indio Water Authority Quarterly Financial Report

**Fiscal Year 2012-13 Mid-Year  
Report**

**February 5, 2013**



## Table of Contents

1.0	CURRENT FINANCIAL CONDITIONS.....	2
2.0	CUSTOMER GROWTH.....	2
	Chart 1 - Customer Growth Each Quarter by Fiscal Year.....	3
3.0	OPERATING FUND REVENUE.....	3
	Chart 2 - 5 Year Water Sales Revenue - History by Month.....	4
	Chart 3 - 5 Year Water Sales Revenue - History by Quarter .....	4
3.1	Non-Operating Revenue .....	5
4.0	OPERATING FUND EXPENDITURES .....	5
	Table 1 - Operating Fund Expenditures - By Category.....	5
4.1	Salary and Benefits .....	6
4.2	Services and Supplies.....	6
	Table 2 - Operating Fund Expenditures - By Department .....	6
4.3	Capital Outlay.....	8
4.4	Internal Service (IS) .....	8
5.0	EQUIPMENT REPLACEMENT FUND.....	8
6.0	CAPITAL IMPROVEMENT PROGRAM (CIP).....	8
7.0	RESERVE FUND.....	9
	Table 3 – Reserve Funds .....	10

ATTACHMENT A - SECOND QUARTER BUDGET RECAP

ATTACHMENT B - REVENUE AND EXPENDITURE SUMMARY: OPERATING FUNDS

## **1.0 CURRENT FINANCIAL CONDITIONS**

Today, water utilities are under immense pressure to control costs and become more competitive while complying with increasingly stringent regulatory requirements and maintaining the fiscal and structural integrity of aging infrastructure. US Utility Government Models are stretched between meeting long-term goals and addressing short-term issues.

Although much of the Indio Water Authority's production infrastructure is relatively new, a vast majority of the distribution system was installed many decades ago and will be reaching the end of its useful life in the near term. IWA's challenge is to replace the pipes and water service connections in a timely manner, keep up with increased costs of energy, unfunded regulations, and cost of goods which combined has stretched the budget to its maximum level. IWA has handled all of these challenges with a rate structure that was adopted in 2006.

In August 2012, IWA staff shared with the Board our long-range financial forecast model which takes a look at revenue and debt issuance needs to avoid any financial imbalance. After running the model against existing budgets, the results have demonstrated the need to increase water rates or implement a new rate structure for the upcoming fiscal year to maintain debt coverage ratio.

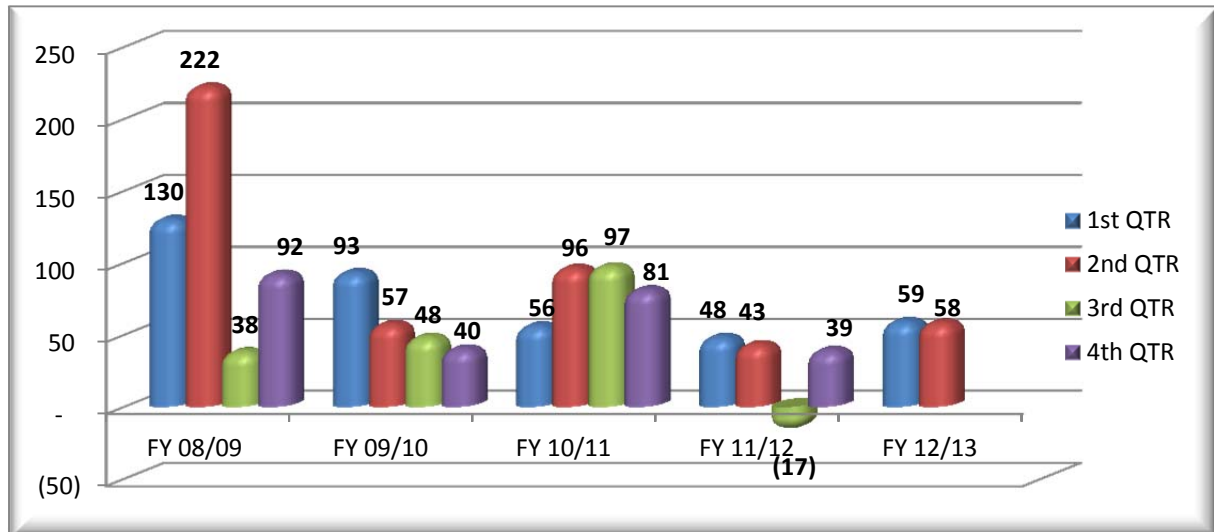
IWA staff continues to excel financially, addressing many of the above referenced challenges while adhering to a strict budget. The fiscal year 2012-13 year-to-date numbers indicate the Authority is generally in-line with its budget and on track to end the year within budget. Total operating revenues for the water enterprise are at 52%, while total operating expenditures are at 45% of budgeted amounts (Attachment A). In order to operate under the current rate structure and tight budgets, IWA closely monitors all revenues and expenses while focusing on providing high quality services customers have come to expect.

## **2.0 CUSTOMER GROWTH**

At the beginning of FY 2012-13, IWA had 20,989 customers with a revised growth projection of 100 new accounts. During the second quarter of FY 2012-13 a total of 58 meters were added, 4 commercial and 54 residential. Residential development continues at Sun City while commercial development spans throughout the city. A total of 117 meters have been added to the system this fiscal year.

Chart 1 depicts slower economic growth over the last four years with current growth slightly higher than last fiscal year. This conservative growth pattern is expected to continue as the economy improves.

**Chart 1 - Customer Growth Each Quarter by Fiscal Year**



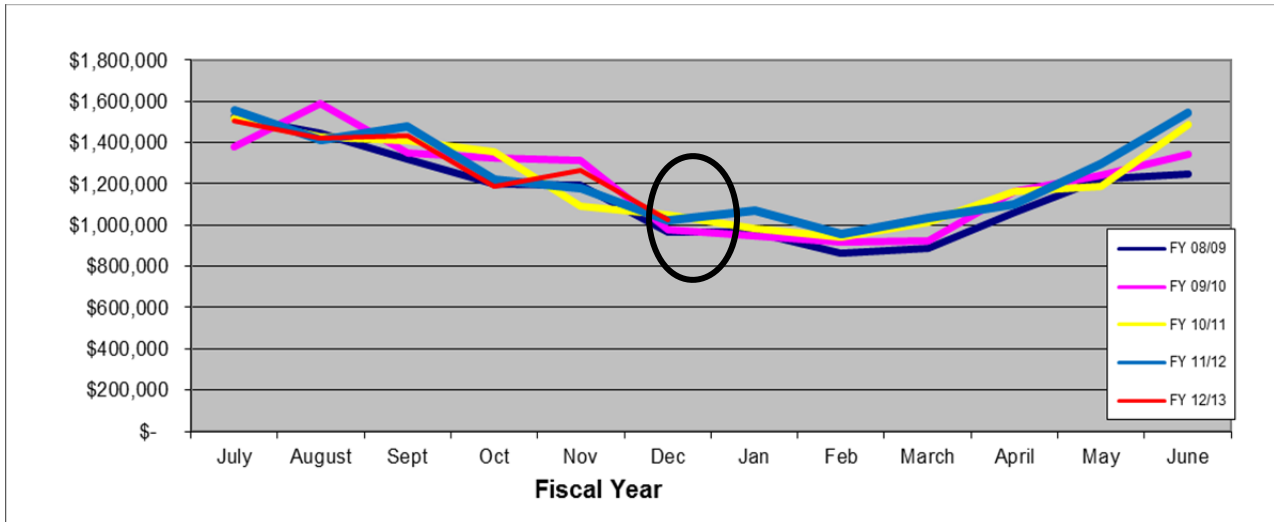
### 3.0 OPERATING FUND REVENUE

Revenues are comprised of operating revenues and non-operating revenues. In FY 2011-12 the mid-year budget reported earnings of \$8,706,672. The total unaudited operating revenues recorded for this FY after six months of operation are \$8,668,765 or 52% of budget. This is a decrease of \$37,907 over the prior fiscal year (Attachment B). Water sales make up \$7,828,344 of the revenue earned thru December 31, 2012. Water sales are slightly lower (by \$42,480) when compared to last fiscal year during the same time frame; nonetheless IWA is expected to meet current revenue projections by fiscal year-end.

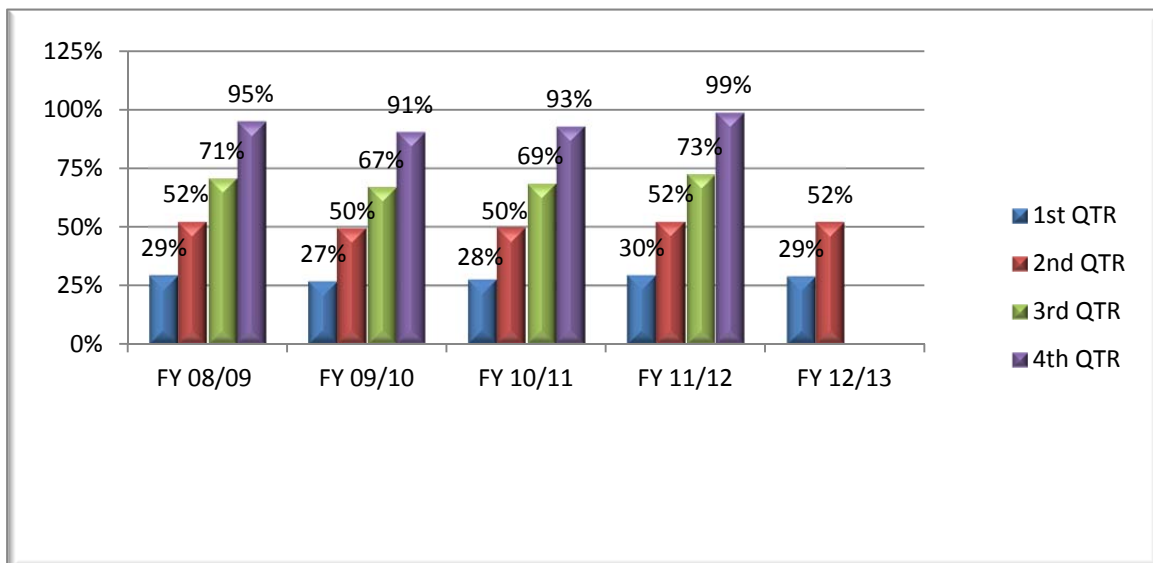
Other operating revenues for FY 2012-13 totaled \$803,486 through mid-year or 51% of budget. This is a slight increase of \$16,237 when compared to the second quarter of FY 2011-12. Other operating revenue includes account establishment fees, delinquent account fees, inspections, plan checks, backflows, replenishment assessment charge fees passed thru to Coachella Valley Water District, sphere of influence fees, and reimbursements.

Charts 2 and 3 reflect revenues are on target with historical trends over the last five years.

**Chart 2 - 5 Year Water Sales Revenue - History by Month**



**Chart 3 - 5 Year Water Sales Revenue - History by Quarter**



### 3.1 Non-Operating Revenue

Investment income ended the second quarter at 35% of the budget, or \$36,935. Through the mid-year, investment income decreased by \$11,664 when compared to the prior year. A combination of lower interest yields for long-term investments and lower cash balances are attributed to declining interest income. IWA Finance/Customer Service Department staff will continue to monitor pooled cash investments with the City of Indio to ensure operational obligations are met and a sound return on investments is achieved.

## 4.0 OPERATING FUND EXPENDITURES

The FY 2012-13 operating expenditure budget includes \$4,641,608 in salaries and benefits, \$7,515,014 for services and supplies, and \$246,000 for capital outlay. At the end of the second quarter, 50% or less of the allocated budget has been expended.

Table 1 indicates through the end of the second quarter, operating fund expenditures were at 43.4% of the budget or \$5,382,717. Total operating and capital outlay expenditures increased by \$205,224 from FY 2011-12 (Attachment B). This increase is due to salary and benefits, outside repairs and maintenance, rents and leases, the advanced purchase of water meters for capital projects and the small meter change out program, as well as a rise in internal service fund costs.

**Table 1 - Operating Fund Expenditures - By Category**

	<b>Budget FY 2012-13</b>	<b>Actual December 31, 2012</b>	<b>% of Budget</b>
Salaries and Benefits	\$4,641,608.00	\$2,049,389.00	44.2%
Services and Supplies	\$7,515,014.00	\$3,285,751.00	43.7%
Capital Outlay	\$246,000.00	\$47,577.00	19.3%
<b>Total Expenditures</b>	<b>\$12,402,622.00</b>	<b>\$5,382,717.00</b>	<b>43.4%</b>

#### 4.1 Salary and Benefits

Salary and benefit expenditures through the end of the second quarter were \$2,049,389 or 44.2% of the budget (Table 1). IWA employees are working forty hours a week and business hours have been extended to Monday through Friday from 8:00AM to 5:00PM to better meet the needs of customers. Vacant positions reported in the first quarter budget report have been filled. Savings are attributed to the deferral of hiring for these funded positions.

The increase of \$502,771 in the overall budget for salaries and benefits over last fiscal year are attributed to the termination of furloughs representing an increase in wages of 10%. In addition, there were increases in Public Employee’s Retirement System (PERS) costs and in medical benefits for certain employees. During the third quarter, the City of Indio and Indio Water Authority will engage in upcoming labor negotiations with represented employees. Forthcoming contracts will be effective July 1, 2013.

#### 4.2 Services and Supplies

Services and supplies expenditures are \$5,382,717 or 43.4% of budget through mid-year. Each Department is responsible for monitoring and adhering to their adopted budget. As shown on Table 2 below after the second quarter, all Departments are within a normal expenditure range. IWA will continue to monitor expenses to ensure adherence to the budget.

**Table 2 - Operating Fund Expenditures - By Department**

	<b>Budget FY 2012-13</b>	<b>Actual December 31, 2012</b>	<b>% of Budget</b>
Commission	\$13,074.00	\$6,111.58	46.7%
Administration/ Engineering	\$5,168,666.00	\$2,253,653.42	43.6%
Production	\$2,784,156.00	\$1,228,767.00	44.1%
Transmission Distribution	\$1,994,492.00	\$903,816.00	45.3%
Finance/Customer Service	\$1,868,259.00	\$774,572.00	41.5%
Information Technology	\$573,975.00	\$215,797.00	37.6%
<b>Total Expenditures</b>	<b>\$12,402,622.00</b>	<b>\$5,382,717.00</b>	<b>43.4%</b>

***Administration/Engineering***

IWA continues to work with the community and its consultants to implement a Supplemental Water Supply Program with the associated fee to take effect in March 2013. The Authority is also in the process of updating IWA fees, beginning outreach programs related to conservation and implementation of the budget tiered rate structure, and implementation of its asset management software, Cityworks. This new software will allow staff to enter daily activities related to specific IWA facilities and assets, which accurately track the asset value and staff performance.

***Production***

The Authority continues to upgrade the SCADA (Supervisor Control and Data Acquisition) system which will enable IWA to better control and monitor operations to promote energy efficiency. In addition to SCADA, an electrical safety audit has been completed to ensure a safe working environment for IWA staff and reliable powered water facilities. Recently Lost Horse Reservoir was taken out of service for warranty repair.

***Transmission/Distribution***

Directional and hydrant flushing of the water system along with valve exercising to maintain water quality continues to be an ongoing effort of the distribution department. The Authority has also been working with customers, Indio Police Department, and suppliers to reduce the number of backflow prevention devices and fire hydrants stolen throughout the water system.

***Finance/Customer Service***

IWA is actively working on meeting the strategic planning goal for the implementation of a separate financial system by July 2013. Contracts with SPS VAR for hardware and SunGard for software have been approved and hardware has been ordered. The transfer of data is expected to occur in late spring followed by training and implementation.

An IWA Fee study and review of charges is currently underway and expected to be completed during the third quarter. Also, the assessment of a new tiered rate structure is in progress which will be brought to the Board for its consideration in the third quarter.

***Information Technology (IT)***

During the second quarter, the Information Technology Department has been busy with the Finance system separation process. IT is currently building the servers required to host applications, including several hardware upgrades and storage space requirements. In addition, as part of the configuration process IT is closely working with IWA's Finance/Customer Service Department to ensure accuracy of data.



---

### 4.3 Capital Outlay

Capital Outlay includes the purchase of capital equipment, vehicles, and capital maintenance projects that are not part of the Capital Improvement Program (CIP). The \$246,000 capital outlay budget for FY 2012-13 covers a budget tiered rate structure design and implementation, small meter change out program, and needed machinery (pumps, chlorine tanks, etc.). Expenses through the second quarter totaled \$47,577 or 19.3% of the budget. The total budgeted amount is expected to be expended by year end.

### 4.4 Internal Service (IS)

These funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the City, or to other Government entities, on a cost allocation basis. This budget component includes: risk management, buildings and grounds maintenance, information technology, centralized services, and fleet maintenance.

The IS current fiscal year's budget is \$1,437,477. Through the second quarter, Internal Service expenses total \$691,818 or 48.1% of the budget.

---

## 5.0 EQUIPMENT REPLACEMENT FUND

The Authority has an equipment replacement fund separate from the City. This fund is for the replacement of vehicles and equipment as needed. At the end of the second quarter for FY 2012-13, the balance of this fund is \$536,442. Through the second quarter, \$75,000 was transferred from fund 010 to Equipment Replacement fund as approved in the operating budget. Total budgeted expenses are \$331,301 for FY 2012-13. Although there have been no expenses through mid-year, staff has selected a vendor for the purchase of a backhoe milling attachment and is reviewing other equipment needs. The Authority will continue to monitor vehicles and equipment to ensure safety and reliability of its daily operations.

---

## 6.0 CAPITAL IMPROVEMENT PROGRAM (CIP)

This section presents a summary of all CIP projects adopted with the passage of the FY 2012-13 budget. CIP projects are projects that contribute to providing essential water services to customers and meeting regulatory requirements.

At the end of the second quarter of FY 2012-13, the Authority's budgeted projects had a remaining total project cost of \$453,378 from the revenue bond and \$907,063 from Water

Development Impact Fees. These available funds have been designated for projects during the current fiscal year. Projects completed in the second quarter were:

- Well Z Blow-off Piping Repairs
- Well 2D building Enclosure
- Plant 3 Altitude Valve Retrofit Project
- Indio Boulevard Water Line Improvements
- Luce Court Water Line Improvements

The Authority is looking forward to a busy 2013. IWA will be implementing CASGEM, upgrading Plant 1 Valve and Site Security, and completing Electrical Safety Upgrades.

During the third quarter a budget adjustment from Water Development impact fees to IWA will be presented to the Board for approval. This adjustment will recognize \$2.4 million in reimbursable revenue. This revenue was tied to a 2007 Development Agreement with SunCal for the Terra Lago development. IWA used bond proceeds for the construction of Lost Horse Reservoir which provides water storage and reliability to the Terra Lago development. The revenue from SunCal could not be released until the completion of the reservoir. The warranty work that was completed in December at the reservoir finalized the construction contract, and thusly, IWA can now recognize the revenue.

## **7.0 RESERVE FUND**

---

Table 3 summarizes the allocation of reserve funding levels, which were approved by the Board on February 7, 2012. These six reserve funds recognize the importance of formally adopted policies relative to reserves and the funding of them. Reserves are prudent fiscal management tools, which are a cornerstone of successful long-term financial planning. The policies provide both flexibility to continually adapt to change, ensure continued operational solvency, and preserve adequate levels of services.

**Table 3 – Reserve Funds**

<b>Priority Ranking</b>	<b>Reserve Funds Unrestrictive – Designated</b>	<b>Allocation</b>	<b>Target Level Moderate</b>	<b>Unfunded (difference)</b>
1	Operating Reserve	\$4,000,000	\$4,000,000	
2	Capital Repair and Replacement/System Improvement Reserve	\$74,655	\$374,080	\$299,425
3	Equipment Replacement Reserve	\$536,203	\$500,000	
4	Rate Stabilization Reserve	\$331,688	\$330,000	
5	Water Transfer Reserve	\$51,367	\$1,750,000	\$1,698,633
6	Emergency Reserve	\$545,920	\$4,904,060	\$4,358,140
	<b>Total</b>	<b>\$5,539,833</b>	<b>\$11,858,140</b>	<b>\$6,356,198</b>

**ATTACHMENT A**

## ATTACHMENT A - SECOND QUARTER BUDGET RECAP

IWA 2ND QUARTER BUDGET RECAP FY 2012-13  
 THRU DECEMBER 31, 2012 (6 MONTHS, 50%)  
 SUMMARY REPORT

50% of Year Elapsed

<b>Revenue</b>	<b>Budget FY 12/13</b>	<b>Through 12/31/2012</b>	<b>% Earned</b>
Water Sales	14,963,355	7,828,344	52%
Meter and Service Fees	1,585,678	803,486	51%
Investment Income	104,000	36,935	36%
<b>Total Budgeted Operating Revenue</b>	<b>16,653,033</b>	<b>8,668,765</b>	<b>52.1%</b>

<b>Expenditures</b>	<b>Budget FY 12/13</b>	<b>Through 12/31/2012</b>	<b>% Spent</b>
Salary and Benefits	4,641,608	2,049,389	44%
Legal	190,000	27,744	15%
Professional/Contract Services	380,000	138,013	36%
Regulatory/Government Agency	817,250	385,553	47%
Utilities	1,600,000	662,878	41%
Outside Repair & Maint.	301,500	99,269	33%
Travel & Training	42,000	7,154	17%
Dues and Subscriptions	39,500	4,766	12%
Postage Freight	118,500	36,627	31%
Conservation Programs	67,700	28,673	42%
Telephones	5,000	1,656	33%
Cell Phones	13,000	6,178	48%
Pagers	500	1,096	219%
Rents/Leases	1,400,000	678,480	48%
Printing	89,500	16,499	18%
Water Meters & Small Tools/Equip.	666,587	377,792	57%
Supplies & Safety Equipment	21,500	7,330	34%
Chemical Lab	75,000	39,225	52%
Contingency	100,000	-	0%
<b>Capital Outlay</b>	<b>246,000</b>	<b>47,577</b>	<b>19%</b>
<b>Internal Service Funds</b>	<b>1,437,477</b>	<b>691,818</b>	<b>48%</b>
<b>Transfer Outs</b>	<b>150,000</b>	<b>75,000</b>	<b>50%</b>
<b>Total Appropriations</b>	<b>12,402,622</b>	<b>5,382,717</b>	<b>43.4%</b>
<b>Debt Service</b>	<b>4,162,738</b>	<b>2,084,123</b>	<b>50.1%</b>
<b>Total Budgeted Appropriations</b>	<b>16,565,360</b>	<b>7,466,840</b>	<b>45.1%</b>
<b>Projected Revenue Over Expenditures (+/ - )</b>	<b>87,673</b>	<b>1,201,925</b>	

**ATTACHMENT B**

## ATTACHMENT B - REVENUE AND EXPENDITURE SUMMARY OPERATING FUNDS

Indio Water Authority  
Revenue & Expenditure Summary-Operating Fund  
Quarter Ending December 31, 2012

50% of Year Elapsed

REVENUES	Revenue through		Variance			
	12/31/2011	12/31/2012	FY 2012 vs. 2013	Percentage Change	Budget FY 2012/13	Percentage FY 2012/13
<b>Operating Revenue</b>						
Water Utility Payments	7,870,824	7,828,344	(42,480)	-0.5%	14,963,355	52.3%
Other Operating			-			
Water Meters	39,839	28,459	(11,380)	-28.6%	72,500	39.3%
Backflow Charges	88,198	91,949	3,751	4.3%	145,472	63.2%
Fire Protection Charges	31,750	43,870	12,120	38.2%	50,651	86.6%
Replenish Assmnt Charge	351,213	434,670	83,457	23.8%	736,000	59.1%
Charges for Services	164,185	160,684	(3,501)	-2.1%	293,735	54.7%
Establishment Fee	43,168	40,790	(2,378)	-5.5%	97,820	41.7%
Reimbursements/Recovery of Labor	68,896	3,064	(65,832)		189,500	1.6%
<b>Total Operating Revenue</b>	<b>8,658,073</b>	<b>8,631,830</b>	<b>(26,243)</b>	<b>-0.3%</b>	<b>16,549,033</b>	<b>52.2%</b>
<b>Non-Operating Revenue</b>						
Interest Earnings	48,599	36,935	(11,664)	-24.0%	104,000	35.51%
<b>Total Non-Operating Revenue</b>	<b>48,599</b>	<b>36,935</b>	<b>(11,664)</b>	<b>-24.0%</b>	<b>104,000</b>	<b>35.51%</b>
<b>Total Revenues</b>	<b>8,706,672</b>	<b>8,668,765</b>	<b>(37,907)</b>	<b>-0.4%</b>	<b>16,653,033</b>	<b>52.1%</b>

EXPENDITURES	Expenditures through		Variance			
	12/31/2011	12/31/2012	FY 2012 vs. 2013	Percentage Change	Budget FY 2012/13	Percentage FY 2012/13
<b>Personnel</b>						
Salary and Benefits	1,920,334	2,049,389	129,055	6.7%	4,641,608	44.2%
<b>Total Personnel</b>	<b>1,920,334</b>	<b>2,049,389</b>	<b>129,055</b>	<b>6.7%</b>	<b>4,641,608</b>	<b>44.2%</b>
<b>Services and Supplies</b>						
Legal	22,988	27,744	4,756	20.7%	190,000	14.6%
Professional/Contract Services	216,284	138,013	(78,271)	-36.2%	380,000	36.3%
Regulatory/Government Agency	347,638	385,553	37,915	10.9%	817,250	47.2%
Utilities	714,642	662,878	(51,764)	-7.2%	1,600,000	41.4%
Outside Repair & Maint.	60,479	99,269	38,790	64.1%	301,500	32.9%
Travel & Training	15,620	7,154	(8,466)	-54.2%	42,000	17.0%
Dues and Subscriptions	29,798	4,766	(25,032)	-84.0%	39,500	12.1%
Postage Freight	46,075	36,627	(9,448)	-20.5%	118,500	30.9%
Conservation Programs	27,803	28,673	870	3.1%	67,700	42.4%
Telephones	1,165	1,656	491	42.1%	5,000	33.1%
Cell Phones	5,642	6,178	536	9.5%	13,000	47.5%
Pagers	230	1,096	866	376.5%	500	219.2%
Rents/Leases	652,696	678,480	25,784	4.0%	1,400,000	48.5%
Printing	28,406	16,499	(11,907)	-41.9%	89,500	18.4%
Water Meters & Small Tools/Equip.	209,729	377,792	168,063	80.1%	666,587	56.7%
Supplies & Safety Equipment	5,233	7,330	2,097	40.1%	21,500	34.1%
Chemical Lab	35,540	39,225	3,685	10.4%	75,000	52.3%
Contingency	-	-	-	0.0%	100,000	0.0%
Internal Service Funds	687,404	691,818	4,414	0.6%	1,437,477	48.1%
Transfer out	93,624	75,000	(18,624)	-19.9%	150,000	50.0%
<b>Total Services and Supplies</b>	<b>3,200,996</b>	<b>3,285,751</b>	<b>84,755</b>	<b>2.6%</b>	<b>7,515,014</b>	<b>43.7%</b>
<b>Total - Operations</b>	<b>5,121,330</b>	<b>5,335,140</b>	<b>213,810</b>	<b>4.2%</b>	<b>12,156,622</b>	<b>43.9%</b>

## ATTACHMENT B - REVENUE AND EXPENDITURE SUMMARY OPERATING FUNDS

Continuation of Report:

50% of Year Elapsed

EXPENDITURES	Expenditures through		FY 2012 vs. 2013	Variance		
	12/31/2011	12/31/2012		Percentage Change	Budget FY 2012/13	Percentage FY 2012/13
<b>Capital Outlay</b>						
Equipment	-	-	-	0.0%	-	0%
Projects	56,163	47,577	(8,586)	-15.3%	246,000	0%
<b>Total Capital Outlay</b>	<b>56,163</b>	<b>47,577</b>	<b>(8,586)</b>	<b>-15.3%</b>	<b>246,000</b>	<b>19.3%</b>
<b>Total Operations &amp; Capital Outlay</b>	<b>5,177,493</b>	<b>5,382,717</b>	<b>205,224</b>	<b>4.0%</b>	<b>12,402,622</b>	<b>43.4%</b>
<b>Debt Service</b>						
Interest -Revenue Bonds	1,426,913	1,421,369	(5,544)		2,842,738	50%
Principal Revenue Bonds	660,000	662,754	2,754		1,320,000	50%
<b>Total Debt Service</b>	<b>2,086,913</b>	<b>2,084,123</b>	<b>(2,790)</b>		<b>4,162,738</b>	<b>50%</b>
<b>Total Operations and Debt Service</b>	<b>7,264,406</b>	<b>7,466,840</b>	<b>202,434</b>	<b>4.0%</b>	<b>16,565,360</b>	<b>45.1%</b>