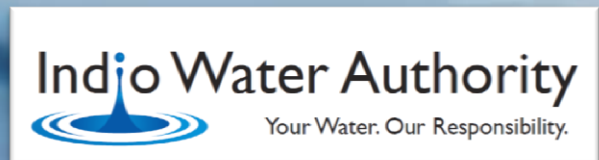




Indio Water Authority Quarterly Financial Report

**Fiscal Year 2014-15
Second Quarter Report**

February 3, 2015



Dan Martinez
Executive Director



Brian Macy
General Manager

February 3, 2015

Honorable Board of Directors
Indio Water Authority
P.O. Drawer 1480
83101 Avenue 45
Indio, CA 92201

SUBJECT: FY 2014-15 Second-Quarter Budget Report

Board members:

Indio Water Authority (IWA) continues to focus on providing essential water related services to its customers; including uninterrupted water service, compliance with water quality regulations, environmental stewardship, and prudent financial management.

The attached quarterly budget report summarizes IWA's financial condition as of the second quarter FY 2014-15. It presents a comparison of revenue and expenditures for the second quarter of FY 2014-15 with that of the previous fiscal year. After six months of activity, water sale revenues are consistent with previous fiscal years at 51% of the yearly budget earned.

Current operating revenues and non-operating revenues were \$10.0 million or 51% of the budget with operating fund expenditures at \$8.5 million or 44% of the budget. All divisions continue to be focused on expenditure controls. Financial analyses in this report are provided for the Operating Water Fund, Equipment Replacement Fund, Capital Improvement Program, and Reserves. The report also provides information for key economic indicators affecting the water industry and financial summaries for all of IWA's major funds. The focus of this report is on IWA's financial performance and includes a budget adjustment to allocate \$438,881 in budget savings from FY 2013-14 to operating reserves (\$389,551) and capital repair reserves (\$49,330).

Regulatory requirements from the California Department of Public Health (CPDH) with regard to hexavalent chromium, Cr(VI), continue to be a threat to the financial stability of IWA and the Coachella Valley. On June 14, 2014, the CPDH issued a letter to all public water systems announcing that as of July 1, 2014, the California maximum contaminant level (MCL) was set at .010mg/L or 10 parts per billion (10 ppb). To date, no state or federal funding has been allocated for Cr(VI) treatment. Compliance with the 10 ppb MCL could result in a 165% increase in IWA water rates. IWA has been working closely with other water purveyors in the region to lobby for an extension of the implementation for the mitigation Cr(VI) from IWA's drinking water supplies.

IWA has been operating seven (7) of the twenty (20) IWA wells to meet the winter season peak demands which has allowed the Authority to stay within compliance. IWA is currently working with Hazen and Sawyer, the Authority's consultant, to develop a permanent solution to limit the number of stranded assets.

IWA is looking forward to another busy six months to end the fiscal year. IWA will implement the second year of budget tiered rates, continue key infrastructure projects, and increase implementation measures for the Cr(VI) regulatory requirements.

Included attachments:

ATTACHMENT A – Revenue and Expenditure Summary

ATTACHMENT B – Second Quarter Budget Recap

IT IS RECOMMENDED that the Board receive and file this report along with Attachments A and B and approve the budget adjustment reallocating FY 2013-14 savings to operating and capital repair reserves.

Respectfully submitted,


Dan Martinez
Executive Director



Indio Water Authority
Quarterly Financial Report

**Fiscal Year 2014-15
Second Quarter Report**

February 3, 2015
Prepared by Indio Water Authority

TABLE OF CONTENTS

A. CURRENT FINANCIAL CONDITIONS	3
B. CUSTOMER GROWTH	4
Chart 1: Customer Growth Each Quarter by Fiscal Year.....	4
C. OPERATING FUND REVENUE.....	5
Chart 2: 5 Year Water Sales Revenue - History by Month	5
Chart 3: 5 Year Water Sales Revenue - History by Quarter.....	6
D. OPERATING FUND EXPENDITURES	6
Table 1: Operating Fund Expenditures - By Category.....	7
SALARY AND BENEFITS	7
SERVICES AND SUPPLIES	7
Table 2: Operating Fund Expenditures Services and Supplies - By Division	8
CAPITAL OUTLAY	13
Table 3: Capital Outlay by Division	14
INTERNAL SERVICE (IS)	14
E. EQUIPMENT REPLACEMENT FUND.....	14
F. CAPITAL IMPROVEMENT PROGRAM (CIP)	15
Table 4: Capital Project Expenditures.....	16
G. RESERVE FUNDS	16
Table 5: Reserve Funds	16
H. 2006 WATER BOND.....	17
I. Attachment A: Revenue and Expenditure Summary.....	A-1
J. Attachment B: Second Quarter Budget Recap.....	B-1

A. CURRENT FINANCIAL CONDITIONS

Drought and water conservation messages continue to immerse California. Although the Coachella Valley's current groundwater levels are not affected by this drought, ongoing conservation to prevent the aquifer from reaching an overdraft state and avoid ground subsidence is always an effort of all water purveyors in the Coachella Valley. Recycled and imported water have alleviated the strain on the water basin and the implementation of budget tiered rates by IWA with a strong conservation message will continue to further reduce groundwater impacts in the years to come.

The East Valley Reclamation Authority (EVRA), a joint effort between the City of Indio – Indio Water Authority and Valley Sanitary District, is also assisting in managing water conservation efforts. The EVRA will focus on recycled water treatment, groundwater recharge by way of Posse Park and the tertiary treatment of water. IWA also continues to nurture its relationships with connecting water agencies to reach common goals and have a united message of conservation, water quality and service. Indio is located in a desert region and IWA's focus always has been and will continue to be on long-term water management and responsible stewardship of our water supply.

The California Department of Public Health (CDPH) has adopted a maximum contaminate level (MCL) for hexavalent chromium, Cr(6), at 10 parts per billion. This has dire economic consequences on IWA, City of Indio residents, and the entire Coachella Valley region. To date, no state or federal funding has been allocated for Cr(6) treatment and compliance with the MCL which could result in a 165% increase in cost. IWA aggressively continues to research treatment needs, cost estimates, and funding sources. IWA is preparing to comply with the final MCL issued by CDPH and ensure our water supply continues to meet state and federal standards.

In addition to increased regulatory requirements, water utilities continue to be under mounting pressure to control costs while implementing upgrades and becoming more competitive by way of technological advancements while also maintaining the structural integrity of aging infrastructure and being fiscally responsible. IWA, like most other water agencies, are stretched between meeting long-term goals and addressing short term issues.

FY 2014-15 year-to-date numbers indicate IWA is generally in line with its budget and on track to end the year within budget. Total operating revenues are at 50.9%, while total operating expenditures are at 43.5% of budgeted amounts. Moving forward with a new rate structure, IWA is closely monitoring all revenues and expenses while focusing on providing high quality services that our customers have

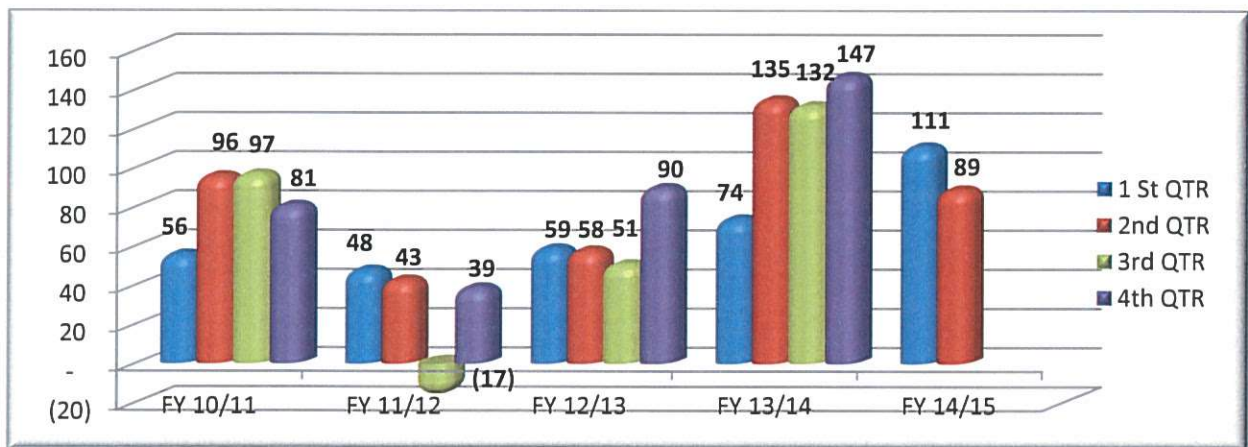
come to expect. In addition to maintaining current programs, it is critical that we continue to educate residents and business leaders about the importance of water conservation and the new regulatory requirements.

B. CUSTOMER GROWTH

At the beginning of FY 2014-15, the IWA had 21,938 customers with growth projected to be 150 new accounts for the fiscal year. In the second quarter of the fiscal year, IWA added 89 residential customers and no commercial accounts for a total of 89 new accounts. During the second quarter, IWA also identified 58 fire detector meters that were added to existing water services.

The reflection of an unsettled economy is indicated on Chart 1 below where customer growth has significantly fluctuated over the last five years. Current growth during the second quarter of FY 2014-15 is lower than the second quarter last fiscal year but higher than the previous two fiscal years. IWA engineering division has seen an increase in inspections and plan reviews. IWA infrastructure is in place to meet ongoing demands and will continue to be evaluated as additional resources pull water from our distribution system.

Chart 1: Customer Growth Each Quarter by Fiscal Year



Active residential developments include: Madison Estates, Terra Lago Phase II, Trilogy at the Polo Club Phases 3 & 4, and Gallery Links (Indian Palms).

Commercial developments include: Applebee’s, East County Detention Center, County of Riverside – Law Building, Las Plumas Development, Trilogy Club House at the Polo Club, Verizon Cell Site, County of Riverside – Law Building Parking Structure, Coachella Valley Rescue Mission – Annexation Project, and the Santa Rosa Estates.

C. OPERATING FUND REVENUE

Revenues are delineated by operating revenues and non-operating revenues. The total unaudited revenues recorded for this fiscal year after six months of operation are \$9,992,303 or 50.8% of budget. This is an increase of \$718,211 over the prior fiscal year (Attachment A). Water sales make up \$8,627,377 of the revenue earned through December 31, 2014. Water sales are up \$684,824, or 8.6% when compared to last year during the same time frame.

Other operating revenues for FY 2014-15 totaled \$1,323,865 through the second quarter or 35% of the budget (Attachment B). This is an increase of \$39,927 when compared to the second quarter of FY 2013-14. Other operating revenue includes account establishment fees, delinquent account fees, inspection fees, plan checks, backflow fees, replenishment fees passed thru to Coachella Valley Water District, sphere of influence fees and reimbursements. This revenue is higher than last fiscal year due in part to the establishment of a ten percent penalty fee, review of fire detector services to identify non-billed accounts, and increased replenishment fees.

Chart 2 below reflects water sales revenue is higher than last fiscal year. This is attributed to a new rate structure which incorporated a rate adjustment starting in January 2014. Overall, Chart 3 on page 6 reflects revenues are slightly higher than historical trends over the last five years and are meeting expected revenues for fiscal year 2014-15.

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

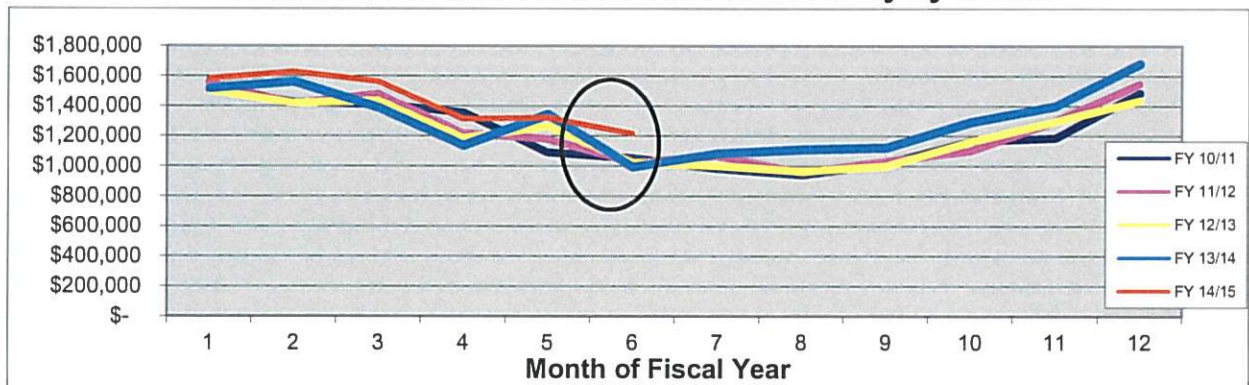
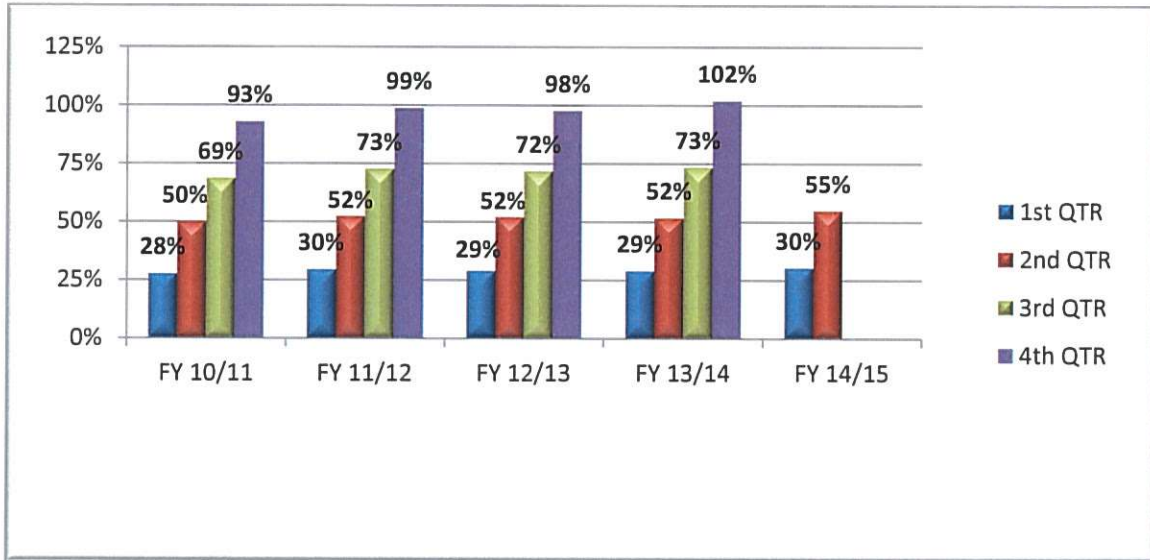


Chart 3: 5 Year Water Sales Revenue - History by Quarter



Non-Operating Revenue

Investment income ended the second quarter at \$11,061 or 13% of the budget. Through the second quarter, investment income decreased by \$6,540 when compared to the prior year during the same period due to lower pooled cash investments during the second quarter. To ensure liquidity of funds and a conservative return on investments, IWA finance staff will continue to monitor pooled cash investments with the City of Indio.

D. OPERATING FUND EXPENDITURES

The FY 2014-15 operating expenditure budget includes \$4,739,161 in salaries and benefits, \$10,312,704 for services and supplies, \$350,300 for capital maintenance and \$4,178,037 for debt service. Table 1 indicates through the end of the second quarter, operating fund expenditures were at 43.5% of the budget or \$8,524,125. Total operating expenditures increased by \$601,802 from FY 2013-14 (see Attachment A). The increase in expenditures were due to a increase in salary and benefits of \$114,031 a increase of \$499,995 in service and supplies, a decrease in capital outlay of \$27,167 and offset by an increase in debt service of \$14,943.

Table 1: Operating Fund Expenditures - By Category

	Budget FY 2014-15	Actual December 31, 2014	% of Budget
Salaries and Benefits	\$ 4,739,161	\$ 2,433,940	51.4%
Services and Supplies	10,312,704	3,961,141	38.4%
Capital Outlay	350,300	46,025	13.1%
Debt Service	4,178,037	2,083,019	49.9%
Total Expenditures	\$ 19,580,202	\$ 8,524,125	43.5%

Salary and Benefits

Salary and benefit expenditures through the end of the second quarter were \$2,433,940 or 51.4% of the budget as shown in Table 1. There was an increase of \$114,031 in salaries and benefits over last fiscal year.

Services and Supplies

Services and supplies expenditures are \$3,961,141 or 38.4% of the budget through the second quarter. Each division is responsible for monitoring and adhering to their adopted budget. As shown in Table 2 on page eight, after six months, all divisions are within a normal expenditure range with the exception of Transmission Distribution. IWA will continue to monitor expenses to ensure adherence to the budget. Overall operating expenditures are at 43.5% of the budget and expected to end the year within budgeted projections.

Table 2: Operating Fund Expenditures – Services and Supplies by Division

	Budget FY 2014-15	Actual December 31, 2014	% of Budget
Commission	\$ 20,500	\$ 4,059	19.8%
Administration	3,554,685	1,503,192	42.3%
Production	2,400,575	807,083	33.6%
Transmission Distribution	1,575,015	957,088	60.8%
Finance/Customer Service	666,838	269,274	40.4%
Information Technology	374,155	164,779	44.0%
Engineering/Water Quality	1,720,936	255,666	14.9%
Total Expenditures	\$ 10,312,704	\$ 3,961,141	38.4%

Administration

In addition to the overall management of IWA, the Administration Division has been involved in the following areas for IWA:

- Chromium 6
 - New law passed on June 14, 2014 implementing new standards
 - Agreement with Toxsorb LTD, for a pilot study for mitigation of Chromium 6 and site access at Well 1E
 - Board authorization to hire Hazen & Sawyer for Chromium 6 mitigation plan
- IWA Lobby Upgrade for increased secure payment processing
- Joint efforts for recycling facilities development
- Adoption of a Water Conservation Ordinance
- Water Bond Support Resolution
- Regional water efforts through the Coachella Valley Regional Water Management Group

Conservation

The Administration Division works on the implementation of IWA Water Conservation Programs. The State Water Resources Control Board recently issued a mandate ordering Californians to stop outdoor water waste, or face steep fines. The state has called on agencies to impose fines for customers that wash down driveways and sidewalks, have water running from landscaped areas onto the street or sidewalk, use a hose without a shutoff nozzle to wash a vehicle, or use a fountain or water feature (without recirculating water). Furthermore, the state is asking agencies to require customers to water landscaping only twice a week. IWA is currently asking customers to visually inspect their irrigation system to make sure the systems are working properly. In addition, IWA is planning to comply with the State Water Resources Control Board mandate by aggressively enhancing its water conservation programs and may adopt an ordinance triggering mandatory watering restrictions.

Upon hiring a full time Water Conservation Programs Coordinator, IWA expanded its water conservation programs to help residents do their part to reduce water use during California's fourth consecutive year of this severe drought. Enhanced and new programs being offered include:

- Designed and implemented a Water Waster Mobile App
- Field all Water Waster hotline calls
- Declared Stage II Watering Restrictions
- Process Variance Applications
- Disseminate Free Indoor Water Conservation Kits
- Conduct Outdoor Irrigation Audits
- Process Turf, Irrigation Equipment, Smart Controller, Toilet, and Washing Machine Rebates
- Facilitate Water Conservation Workshops: HOA's, Businesses and Schools
- Created a Water Conservation Logo - 'Commit 2 Conserve'
- Developed a Water Conservation Outreach Campaign – Print, TV, Radio, Billboard, Websites, Social Media, Buses, and Bus Stops
- Development of Website/Social Media Tools regarding Water Conservation

Last year, IWA implemented budget tiered rates, which not only helps reduce water use, but also provides funding for additional conservation efforts. These newly implemented programs will continue to expand over the next six months.

Engineering

Engineering and Water Quality Division

During this quarter, IWA Engineering and Water Quality Division provided engineering services including plan checks, fire flow system analysis, development guidelines for new and infill projects within the City.

The Engineering and Water Quality Division also implemented a waterline construction project, performed sample collection and water quality testing analysis, pursued federal and state grant funding opportunities for recycled water projects, initiated a joint study with the Coachella Water Authority for Chromium-6 Treatment and Compliance Study and coordinated integrated regional water management activities with the Coachella Valley Regional Water Management Group (CVRWVG).

Engineering Services – Planning & Design

IWA Engineering staff completed plan checks for the following water improvement and development projects:

- Applebee's
- East County Detention Center
- County of Riverside – Law Building
- Las Plumas Development
- Trilogy Club House at the Polo Club
- Verizon Cell Site
- County of Riverside – Law Building Parking Structure
- Coachella Valley Rescue Mission – Annexation Project
- Santa Rosa Estates

In addition, Northgate Development (Apartments) is currently in plan check review.

Staff initiated a joint study with the Coachella Water Authority (CWA) by issuing a Request for Proposal to provide Engineering Services for Chromium-6 Treatment and Compliance Study. Proposals were reviewed and a consultant was selected by IWA and CWA. Currently, IWA and CWA are gathering water system information and operational data for the consultant. A draft report for the Chromium-6 study is expected in January 2015.

Additionally, the Engineering staff has met with the following developers to provide development guidelines and water system requirements:

- Stonewater Development

- Citrus Ranch Development
- Terra Lago Development
- Trilogy at the Polo Club Phases 3 & 4
- Gallery Links (Indian Palms)

Engineering Services – Construction

Staff completed Phase 1 of Highway 111 Water Main Construction project, which consisted of approximately 1,300 linear feet of 12-inch water main from Oasis Street to Jackson Street.

Phase 2 of Highway 111 Water Main Construction is currently in progress, which consists of approximately 6,400 linear feet of 12-inch water main from Monroe Street to Madison Street. The project will provide system reliability and water supply to existing and new businesses in the surrounding areas.

Engineering Services – Water Quality

IWA water quality staff continues to provide sampling and testing analysis as required by the Division of Drinking Water Program from the California State Water Resources Control Board. During this quarter, IWA collected over 1,000 water quality samples from various constituents as required for regulatory compliance including nitrates, perchlorates, disinfection-by-products, general minerals, inorganics, routine coliform and E.coli bacterial analysis, metal digests and chromium-6. Additionally, as part of IWA's cross-connection program, staff tested approximately 600 backflow prevention devices in IWA's water system, inspected 90 new backflow installations and provided approximately 120 letters of annual backflow testing reminders to customers.

Operations and Maintenance

Production

IWA continues to improve its water production operation at all facilities throughout the water system to comply with the Cr6 regulations implemented by The State Water Resources Control Board and effective July 1, 2014.

In addition to water operation efficiency, staff continues to work with other divisions and consultants to meet Winter/Spring Potable Water Demands (January 2015 – June 2015).

Transmission Distribution

Operation and maintenance of the water system is comprised of: replacement of polyethylene water services, old meters and damaged valves; and dead-end flushing of the water system.

In addition, Distribution Division performs valve exercising to maintain water quality; as well as meter reading which continues to be an evolving achievement of IWA.

During the second quarter of FY 14-15, the Distribution Division has:

- Repaired and replaced 41 water services
- Replaced 903 water meters
- Performed 13 dead-end flushes, 367 valve exercises
- Completed 5,488 work orders

IWA continues to produce and deliver quality water to its customers.

Finance/Customer Service

During the second quarter of FY 14-15, the Finance and Customer Service Division has worked on the following:

- Total financial transactions were 53,519, a daily average of 907 per day
- Customer service phone calls totaled 5,619, a daily average of 95 per day
- Fiscal Year 2013-14 Audit (first time with separate financial systems)
- Hired a Financial Advisor to assist with IWA 2006 Bond Issue refunding
- Conducted in-house training for IWA staff for customer service training to enhance staff knowledge of conservation programs and procedures
- Met with East Valley Water District to further discuss and present items and issues regarding design and implementation of budget-tiered rates
- Presentation at the Bond Buyer, California Public Finance Conference in San Diego on the Smaller Water Issuer Panel
- Presentation and attendance by staff at the annual SunGard Conference where IWA shared and gained knowledge to enhance its use of the current financial system

Information Technology (IT)

IWA's Information Technology Division continues to implement enhancements, upgrades, as well as new systems with the objective to improve efficiency, productivity, innovation, and security.

A list of those enhancements is as follows:

- Number of IWA close helpdesk tickets for this quarter: 380
- Number of virus blocks: 6,500
- Number of blocked email spam: 900,000
- 98% of our web traffic coming to our website is from the United States which is around 300 GB of data
- Deploy our Mobile Water Conservation Application
 - IWA has a mobile water conservation platform, to engage citizens in reporting water waste and educate them on how to better conserve water. The IWA mobile water platform is available both on the web and as a downloadable app for Android and iPhone and integrates effectively with our Asset Management System
 - Article published in ESRI – ARC News Winter 2014-15 Magazine called “Getting Citizens Involved in Reducing Water Waste” featuring IWA’s mobile application.

Capital Outlay

Capital Outlay includes the purchase of new capital equipment, new vehicles, and capital infrastructure maintenance projects that are not part of the Capital Improvement Program. The \$350,300 capital outlay budget for FY 2014-15 covers a lobby upgrade for payment processing, security improvements, pump and electrical panel replacements, valve and hydrant meter replacement programs. In addition, capital outlay includes system software upgrades, machinery as needed to support ongoing operational requirements, and system distribution maintenance.

On Page 14 is a summary of capital outlay budget by division for FY 2014-15.

Table 3: Capital Outlay by Division

	Budget FY 2014-15	Actual December 31, 2014	% of Budget
Administration	-	-	0.0%
Production	140,000	276	0.2%
Transmission Distribution	100,000	21,136	21.1%
Finance/Customer Service	50,000	2,050	4.1%
Information Technology Engineering/Water Quality	60,300	22,563	37.4%
	-	-	
Total Expenditures	\$ 350,300	\$ 46,025	13.1%

Internal Services (IS)

Internal Service Fund is 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 \$1,330,740. Through the second quarter, internal service expenses total \$672,739 or 50.6% of the budget.

E. EQUIPMENT REPLACEMENT FUND

IWA has an equipment replacement fund separate from the City of Indio. This fund is for the replacement of vehicles and equipment as needed. At the end of the second quarter for FY 2014-15, the balance of this fund is \$717,260. Total budgeted expenses are \$220,000 for FY 2014-15. There have been no expenses through the second quarter due to prolonged use and life of existing equipment and vehicles. Staff continues to evaluate requirements for equipment and vehicle replacements.

Vehicles and equipment are inspected daily and on a monthly basis. IWA's Finance staff reviews a comprehensive list of equipment with depreciation schedules and replacement costs listed by year. Reliable vehicles and equipment ensure the safety and dependability of IWA's daily operations for effective responses to emergencies.

F. CAPITAL IMPROVEMENT PROGRAM (CIP)

This section presents a summary of all CIP projects adopted with the passage of the FY 2014-15 budget. Capital improvements are projects that contribute to providing essential water services to customers and meeting regulatory requirements. In FY 2014-15, capital improvements are budgeted from two funds, the Supplemental Water Fee and Water Development Impact Fees. The total budgeted for FY 2014-15 is \$3,370,000 as highlighted in Table 4 on page 16.

At the end of the second quarter of FY 2014-15, IWA received the following revenue for the CIP funds (including interest earnings):

- Supplement Water Fees \$371,080
- Water Facilities Development Impact Fees \$411,464

Supplemental Water Fees

At the end of the second quarter of FY 2014-15, IWA's budgeted projects in the Supplemental Water Fees Fund had a remaining total balance of \$500,000. These funds are designated for the design of a recycled water facility and the Cadiz Valley Water purchase.

Water Development Impact Fees

At the end of the second quarter of FY 2014-15, IWA's budgeted projects had a remaining total project cost of \$1,393,340 from Water Development impact fees. It is important to point out that \$116,517 is encumbered for the capital improvements under construction, and is included in the remaining total project cost. The remaining funds have been designated for projects during the current fiscal year. IWA is looking forward to a busy third quarter with multiple capital improvement projects underway. These projects include: the design of Plant 2 and Terra Lago Emergency Power, the completion of Highway 111 water main improvements from Rubidoux to Arabia, preparation of Hexavalent Chromium Compliance Study, and recycling facility design and master plan.

On Page 16 is a summary of the capital improvement budgets by fund for FY 2014-15.

Table 4: Capital Projects Expenditures

	Budget FY 2014-15	Actual December 31, 2014	% of Budget
Supplemental Water	\$ 500,000	\$ -	0.0%
Water Facilities DIF Fee	2,870,000	1,360,143	47.4%
Total Expenditures	\$ 3,370,000	\$ 1,360,143	40.4%

G. RESERVE FUNDS

Table 5 below is a summarized allocation of reserve funding levels, which were approved by IWA's Board of Directors on February 7, 2012.

Table 5: Reserve Funds

Priority Ranking	Reserve Fund Description	Target Level (Moderate)	Current Balance	(Deficit)/ Surplus
1	Operating Reserve	\$ 4,577,551	\$ 4,188,000	\$ (389,551)
2	Capital Repair and Replacement/System Improvement Reserve	374,080	74,346	(299,734)
3	Equipment Replacement Reserve	500,000	717,740	217,740
4	Rate Stabilization Reserve	330,000	330,316	316
5	Water Transfer Reserve	1,750,000	51,154	(1,698,846)
6	Emergency Reserve	4,904,060	545,920	(4,358,140)
	Total	\$ 12,435,691	\$ 5,907,476	\$ (6,528,215)

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.

Closing of the financial records for FY 2013-14 identified savings of \$438,881 from revenue over expenditures. IWA recommends the saving be allocated to operating and capital repair reserves, thereby decreasing the unfunded portion of reserve accounts as follows:

- Operating \$389,551
- Capital Repair and Replacement/System Improvement \$ 49,330

Over the next several years with the implementation of a rate structure change, IWA expects to decrease the unfunded reserve levels.

Recommended Motion: That the City Council/IWA Board approve and direct the IWA Finance Department to adjust appropriations as follows:

Increase Fund Balance:		
010-0000-275-00-00	Reserve for Operating Contingency	\$389,551

Decrease Fund Balance:		
010-0000-273-00-00	Retained Earnings	\$389,551

Increase Operating Transfers Out	\$ 49,330
010-000-471-81-01	

Decrease Fund Balance:		
010-0000-273-00-00	Retained Earnings	\$ 49,330

Increase Operating Transfers In	\$ 49,330
012-0000-386-81-01	

Increase Fund Balance:		
012-0000-273-00-00	Retained Earnings	\$ 49,330

H. 2006 WATER BOND

IWA hired Fieldman Rolapp and Associates (FRA) as Financial Advisor to assist staff with the process of refinancing the 2006 IWA/City of Indio Water Bond. The refinancing of a portion of the outstanding bonds could lead to annual debt service savings of over \$300,000 for ratepayers depending upon the market conditions at the closing of the potential refinancing bond issue.

Staff issued a Request for Proposals, through FRA, to 12 Investment Banking firms. IWA received proposals from the following 10 firms:

- FTN Financial
- William Blair
- Citigroup Global Markets
- Mesirow Financial
- Alamo Capital
- Southwest Securities, Inc.
- J.P. Morgan
- KeyBanc Capital Markets, Inc.
- Stifel Nicolaus & Company, Inc.
- Cabrera Capital Markets, LLC

Staff along with FRA evaluated the proposals and will recommend to the City Council/IWA Board at a future meeting that the following firms be utilized for the refinancing based upon the firms expertise, selling distribution and pricing:

- JP Morgan - Senior Manager
- Citigroup Global Markets – Co-Manager

Staff will also be recommending a law firm for the role of Disclosure Counsel to prepare the offering and continuing disclosure documents for the potential refinancing. Staff will be recommending that Richards, Watson and Gershon perform the Bond Counsel duties.

Staff is anticipating the possibility of issuing the refinance bonds in May, 2015.

ATTACHMENT A: REVENUE AND EXPENDITURE SUMMARY - OPERATING FUNDS

Indio Water Authority
 Revenue & Expenditure Summary-Operating Fund
 Quarter Ending December 31, 2014

50% of Year Elapsed

REVENUES	Revenue through		Variance			
	12/31/2013	12/31/2014	FY 2014 vs. 2015	Percentage Change	Budget FY 2014/15	Percentage FY 2014/15
Operating Revenue						
Water Utility Payments	7,942,553	8,627,377	684,824	8.6%	15,753,900	54.8%
Other Operating						
Penalties, 10% delinquent fee	-	141,313	141,313		96,000	
Water Meters	212,011	75,624	(136,387)	-64.3%	250,000	30.2%
Backflow Charges	116,602	141,888	25,286	21.7%	230,000	61.7%
Fire Protection Charges	47,100	63,710	16,610	35.3%	100,000	63.7%
Replenish Assessment Charge	528,118	566,548	38,430	7.3%	1,144,000	49.5%
Charges for Services	273,763	207,998	(65,765)	-24.0%	432,200	48.1%
Establishment Fee	32,933	32,400	(533)	-1.6%	80,000	40.5%
Reimbursements/Recovery of Labor	73,411	94,384	20,973	28.6%	1,455,000	6.5%
Total Operating Revenue	9,226,491	9,951,242	724,751	7.9%	19,541,100	50.9%
Non-Operating Revenue						
Interest Earnings	17,601	11,061	(6,540)	-37.2%	85,000	13.0%
Transfers In	30,000	30,000	-	0%	30,000	0.0%
Total Non-Operating Revenue	47,601	41,061	(6,540)	-13.7%	115,000	35.7%
Total Revenues	9,274,092	9,992,303	718,211	7.7%	19,656,100	50.8%

EXPENDITURES	Expenditures through		Variance			
	12/31/2013	12/31/2014	FY 2014 vs. 2015	Percentage Change	Budget FY 2014/15	Percentage FY 2014/15
Personnel						
Salary and Benefits	2,319,909	2,433,940	114,031	4.9%	4,739,161	51.4%
Total Personnel	2,319,909	2,433,940	114,031	4.9%	4,739,161	51.4%
Services and Supplies						
Legal	126,915	8,307	(118,608)	-93.5%	75,000	11.1%
Professional/Contract Services	167,322	324,800	157,478	94.1%	2,062,000	15.8%
Regulatory/Government Agency	450,988	547,940	96,952	21.5%	1,208,000	45.4%
Utilities	517,516	512,219	(5,297)	-1.0%	1,550,000	33.0%
Outside Repair & Maintenance	257,569	112,222	(145,347)	-56.4%	417,025	26.9%
Travel & Training	8,581	24,555	15,974	186.2%	69,500	35.3%
Dues and Subscriptions	3,360	24,345	20,985	624.6%	24,750	98.4%
Postage Freight	52,699	57,608	4,909	9.3%	156,200	36.9%
Conservation Programs	15,475	124,863	109,388	706.9%	400,000	31.2%
Advertising	4,554	5,124	570		20,000	25.6%
Cell Phones/Pagers	8,375	10,788	2,413	28.8%	17,000	63.5%
Taxes	-	-	-		0	0.0%
Rents/Leases	678,898	683,785	4,887	0.7%	1,353,916	50.5%
Printing and Software	57,651	74,883	17,232	29.9%	295,073	25.4%
Water Meters & Small Tools/Equip.	372,081	695,569	323,488	86.9%	1,071,500	64.9%
Supplies & Safety Equipment	4,419	13,540	9,121	206.4%	28,000	48.4%
Chemical Lab	38,359	42,854	4,495	11.7%	84,000	51.0%
Contingency	-	-	-	0.0%	100,000	0.0%
Internal Service Funds	621,384	672,739	51,355	8.3%	1,330,740	50.6%
Transfer Out	75,000	25,000	(50,000)	-66.7%	50,000	50.0%
Total Services and Supplies	3,461,146	3,961,141	499,995	14.4%	10,312,704	38.4%
Total Operations	5,781,055	6,395,081	614,026	10.6%	15,051,865	42.5%

ATTACHMENT A: REVENUE AND EXPENDITURE SUMMARY - OPERATING FUNDS

Continuation of Report:

50% of Year Elapsed

EXPENDITURES	Expenditures through		Variance			
	<u>12/31/2013</u>	<u>12/31/2014</u>	<u>FY 2014 vs. 2015</u>	<u>Percentage Change</u>	<u>Budget FY 2014/15</u>	<u>Percentage FY 2014/15</u>
Capital Outlay						
Equipment	-	-	-	0.0%	-	0%
Projects	<u>73,192</u>	<u>46,025</u>	<u>(27,167)</u>	<u>-37.1%</u>	<u>350,300</u>	<u>0%</u>
Total Capital Outlay	<u>73,192</u>	<u>46,025</u>	<u>(27,167)</u>	<u>-37.1%</u>	<u>350,300</u>	<u>13.1%</u>
Total Operations and Capital Outlay	5,854,247	6,441,106	586,859	10.0%	15,402,165	41.8%
Debt Service						
Interest - Revenue Bonds	1,366,019	1,338,019	(28,000)	-2%	2,688,037	50%
Principal - Revenue Bonds	<u>702,057</u>	<u>745,000</u>	<u>42,943</u>	<u>6%</u>	<u>1,490,000</u>	<u>50%</u>
Total Debt Service	<u>2,068,076</u>	<u>2,083,019</u>	<u>14,943</u>	<u>1%</u>	<u>4,178,037</u>	<u>50%</u>
Total Operations, Capital Outlay and Debt Service	<u><u>7,922,323</u></u>	<u><u>8,524,125</u></u>	<u><u>601,802</u></u>	<u><u>10.7%</u></u>	<u><u>19,580,202</u></u>	<u><u>43.5%</u></u>

ATTACHMENT B: SECOND QUARTER BUDGET RECAP

IWA 2ND QUARTER BUDGET RECAP FY 2014-2015
 THROUGH DECEMBER 31, 2014 (6 MONTHS, 50%)
 SUMMARY REPORT

50% of Year Elapsed

Revenue	Budget FY 14/15	Through 12/31/2014	% Earned
Water Sales	15,753,900	8,627,377	55%
Meter and Service Fees	3,787,200	1,323,865	35%
Non-Operating Revenue	115,000	41,061	36%
Total Revenue	19,656,100	9,992,303	50.8%

Expenditures	Budget FY 14/15	Through 12/31/2014	% Spent
Salary and Benefits	4,739,161	2,433,940	51%
Legal	75,000	8,307	11%
Professional/Contract Services	2,062,000	324,800	16%
Regulatory/Government Agency	1,208,000	547,940	45%
Utilities	1,550,000	512,219	33%
Outside Repair & Maintenance	417,025	112,222	27%
Travel & Training	69,500	24,555	35%
Dues and Subscriptions	24,750	24,345	98%
Postage Freight	156,200	57,608	37%
Conservation Programs	400,000	124,863	31%
Advertising	20,000	5,124	26%
Cell Phones/Pagers	17,000	10,788	63%
Rents/Leases	1,353,916	683,785	51%
Printing and Software	295,073	74,883	25%
Water Meters & Small Tools/Equip.	1,071,500	695,569	65%
Supplies & Safety Equipment	28,000	13,540	48%
Chemical Lab	84,000	42,854	51%
Contingency	100,000	-	0%
Internal Service Funds	1,330,740	672,739	51%
Transfer Out	50,000	25,000	50%
Capital Outlay	350,300	46,025	13%
Total Operations & Capital Outlay	15,402,165	6,441,106	41.8%
Debt Service	4,178,037	2,083,019	49.9%
Total Operations, Capital Outlay and Debt Service	19,580,202	8,524,125	43.5%
Projected Revenue Over Expenditures (+/ -)	75,898	1,468,178	