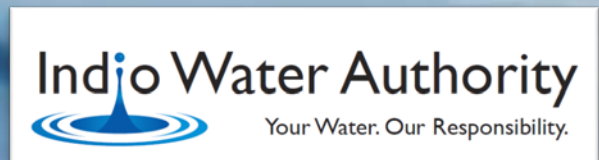




# Indio Water Authority Quarterly Financial Report

**Fiscal Year 2016-17  
First Quarter Report**

**December 6, 2016**



**Dan Martinez**  
Executive Director



**Brian Macy**  
General Manager

December 6, 2016

Honorable Commissioners  
Indio Water Authority  
83-101 Avenue 45  
Indio, CA 92201

## ***SUBJECT: FY 2016-17 First-Quarter Budget Report***

Commissioners:

This report provides a summary of FY 2016-17 revenue and expenditures and explanations of any major variances for the first quarter of the fiscal year (July 1, 2016 through September 30, 2016). FY 2015-16 audited financial statements are currently being compiled by independent auditors and will be presented for Board action at the appropriate time.

The period of July 1, 2016 through September 30, 2016 is 25% of the fiscal year or three months. However, the Authority's revenue and expenditures cycles does not follow this pattern due to the seasonal nature of revenue and as-needed variations in expenditure. Please note that the first quarter is not a strong trend indicator for revenue and expenditures. By September, we typically expect anywhere between 15-20% of the budget has been used, averaging 17% of expenditures.

After three months of the fiscal year, water revenues are at \$6.6 million, which is \$1,676,262 or 34% higher compared to the first quarter of FY 2015-16. Total revenues of \$6.6 million represent 29% of the budget while operating fund expenditures at \$3.9 million or 17% of the budget. All divisions continue to be focused on expenditure controls. Financial analysis for this report is 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.

Recognizing persistent yet less severe drought conditions throughout California, on May 18, 2016, the State Water Board adopted an emergency water conservation regulation that replaces the February 2 emergency regulation. The May 2016 regulation that will be in effect from June 2016 through January 2017 requires locally developed conservation standards based upon each agency's specific circumstances. It replaces the prior percentage reduction-based water conservation standard with a localized "stress test" approach. These standards require local water agencies to ensure a three-year supply assuming three more dry years like the ones the state experienced from 2012 to 2015.

Water agencies that would face shortages under three additional dry years will be required to meet a conservation standard equal to the amount of shortage.

Indio Water Authority submitted its self-certification by the June 22, 2016 deadline; the Water Board released the Self-Certification Conservation Standards or “Stress Test” data in late August that reduced IWA’s conservation standard to from 27% to 0%. In August, IWA lifted its Stage II Water Alert that had been in effect since 2015. As of August 1, customers in Tier I and 2 can utilize 100% of their water budget; however, drought penalties remained in effect for all customers surpassing their water budget. The Board made the decision to keep the drought penalty surcharge in place until the Emergency Regulations expires. The Water Board is currently preparing for when the “Stress Test” regulation expires on January 31, 2017. This includes developing permanent water prohibitions, a long-term Water Conservation and Efficiency Plan, and planning for a potential extended emergency regulation to being February 2017.

In terms of operating revenue, water sales increased by \$750,319, a 17.6% increase compared to the first quarter of FY 2015-16. The drought rate penalties, intended to discourage customers from using water beyond their established budgets, also contributed to the increased revenue. Since January 2016, IWA has collected \$2,191,246 in drought penalties with \$902,629 or 41.2% of the total amount collected in the first quarter of FY 2016-17 as conservation eases. The money is being used to fund the Supplemental Environmental Project and the enhanced Water Conservation Program put in place after the \$61,000 fine settlement with the State Water Board in May 2016.

With a budgeted surplus of \$414,168 for the fiscal year, IWA is and will continue to monitor expenditures to contain costs and provide adequate resources to ensure reliable water supply, excellent debt service coverage and credit rating, and healthy financial reserves.

Included attachments:

ATTACHMENT A – FY 2016-17 Q1 Revenue and Expenditure Summary

ATTACHMENT B – First Quarter Budget Recap

ATTACHMENT C – Drought Penalty Surcharge Summary

**IT IS RECOMMENDED** that the Board receive and file this report along with Attachments A and B and approve the budget adjustments contained in the last page of this Report.

Respectfully submitted,

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Dan Martinez  
Executive Director



Indio Water Authority  
Quarterly Financial Report

**Fiscal Year 2016-17**  
**First Quarter Report**

December 6, 2016  
Prepared by Indio Water Authority

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**A. QUARTERLY FINANCIAL IMPACTS**

Water operating revenue in the first quarter was \$1,676,262 or 34% higher than the same period last year due to a 4.3% increase in water consumption due to the lifting of the previous state-mandated conservation goal of reducing Indio’s water usage by 27%. \$902,269 in drought rate penalty revenue received during the first quarter also contributed to the revenue increase. Although the community welcomed the ease of restrictions with increased water usage, California remains in a state of emergency due to persistent drought conditions and IWA remains committed to maintaining a robust conservation program that customers can take advantage of.

**Quarter Financial Highlights**

25%	Budget Fiscal Year 2016-17	Through 9/30/2016	Percent Earned/ Spent	Previous Fiscal Quarter (9/30/2015)	Increase / (Decrease)	% Change
Total Revenues	\$22,709,951	\$ 6,568,028	28.9%	\$4,891,766	\$ 1,676,262	34%
Total Expenditures	22,295,781	3,865,677	17.3%	3,955,466	\$ (89,789)	-2%
Projected Revenue over Expenditures (+/-)	\$ 414,170	\$ 2,702,351		\$ 936,300	\$ 1,766,051	

As shown in the highlights above, with a quarter of the year completed, total operating revenues are at 29% while total operating expenditures are at 17%. At the corresponding period last year, total operating revenues were at 22% of FY 2015-16 budgeted revenue while total operating expenditures were at 19%. Despite the revenue increase, total operating expenditures declined by 2% compared to last fiscal year’s corresponding quarter and staff continues to monitor expenses and will continue to ensure that expenditures do not exceed revenue.

This report focuses on the current financial condition of IWA from July 1 through September 30, 2016 and anticipated trends throughout FY 2016-17.

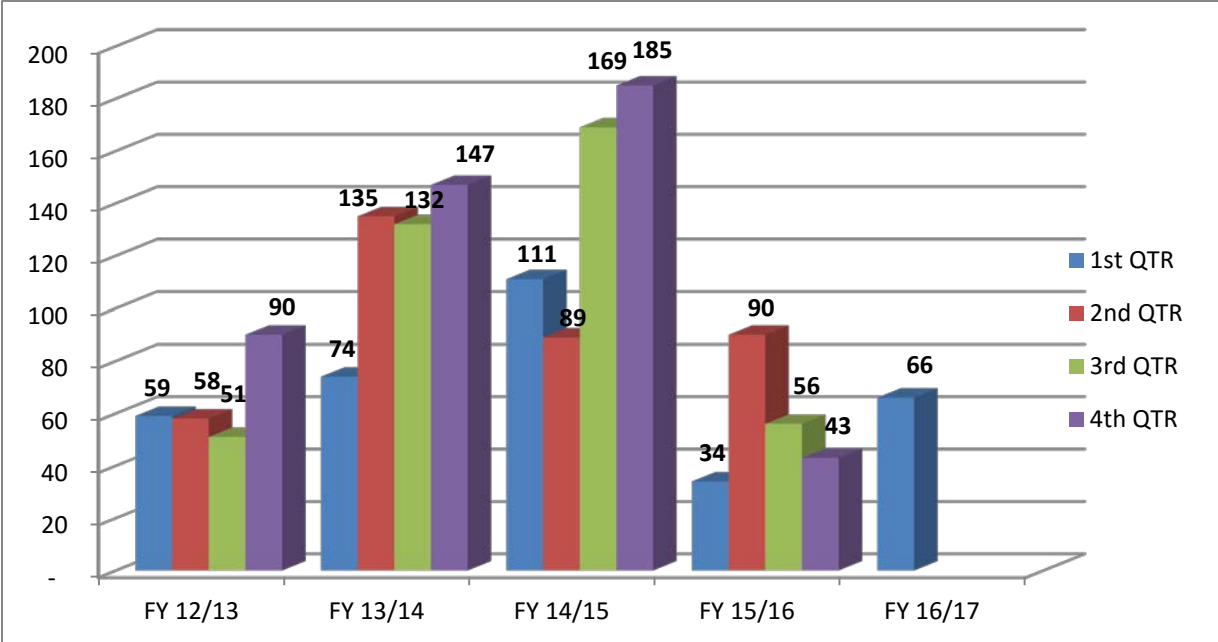
**B. CUSTOMER GROWTH**

At the beginning of FY 2016-17, IWA had 22,667 customers and did not project any new accounts. In the first quarter, IWA added 42 residential customers and lost 6 commercial accounts yielding 36 new accounts; a 5.5% customer growth over the same period last year.

Chart 1 reflects IWA’s quarterly customer growth over the past five (5) fiscal years. The steady growth is a reflection of a stable economy and healthy housing market. The slow but consistent growth is an indicator that while economic expansion may be slow, Indio’s abundant used land and centralized location in the Coachella Valley is attractive for business growth and residential expansion. IWA’s current

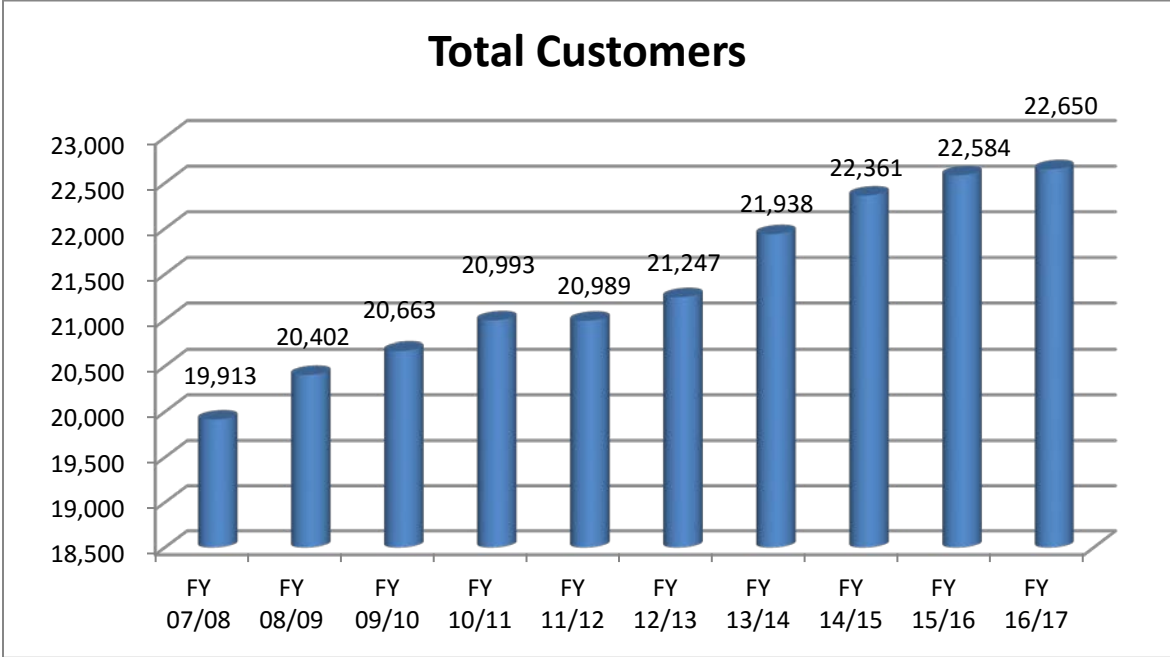
infrastructure is able to meet ongoing demands and will continue to be evaluated as additional developments utilize water from our distribution system.

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



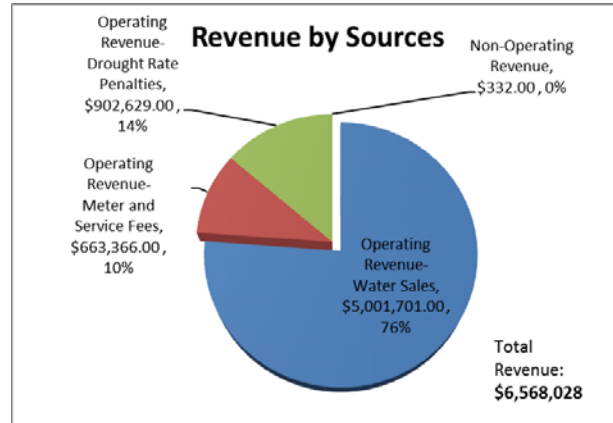
Over the last ten years, IWA customer base increased by 2,737 accounts. Chart 2 further illustrates the steady growth and this trend is expected to continue.

**Chart 2: Customer Growth by Fiscal Year**



**C. FUND REVENUE**

Revenue is categorized by operating and non-operating revenue. The total unaudited revenue recorded for the first quarter is \$6,568,028 or 29% of budget. Revenue increased by \$1,676,262 compared to the previous fiscal quarter.



Total revenue increased due to increased water consumption as a result of the State lifting the mandatory restrictions in May 2016. First quarter revenues due to water sales for the last five years are presented in Charts 3 and 4.

*Operating Revenue – Water Sales*

First quarter operating revenue from water sales, which consists of revenue based on water usage, is \$5,001,701, an increase of \$750,319, or 17.6% when compared to the first quarter of FY 2015-16 (Attachment B).

*Operating Revenue – Meter and Service Fees*

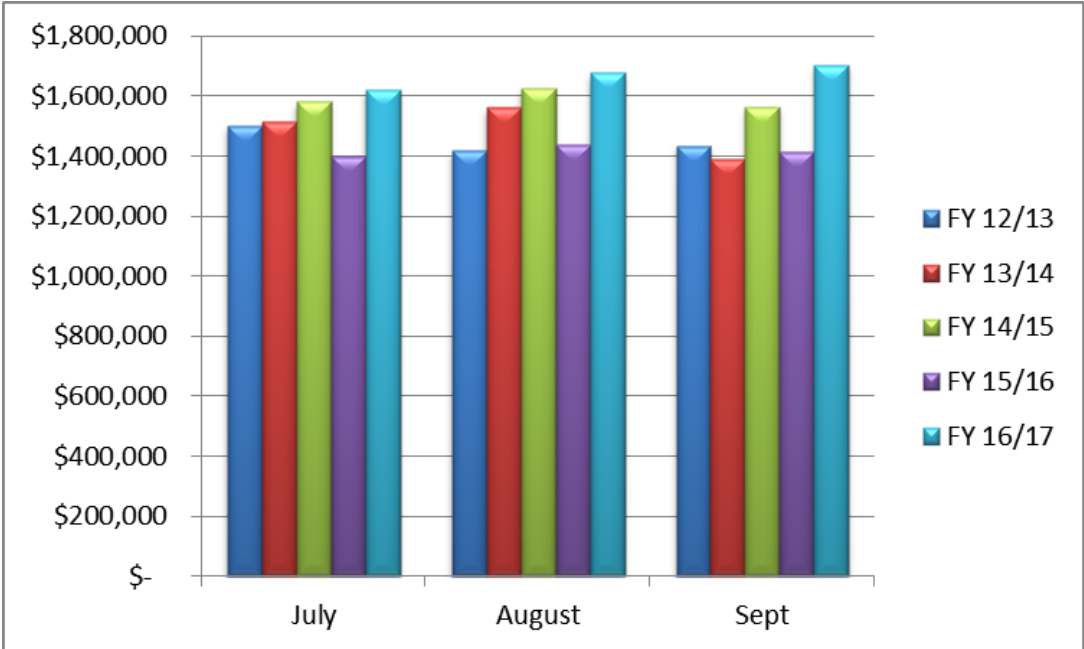
Meter and Service Fees, also part of operating revenue, includes fees associated with account establishment, delinquent account, inspection, plan checks, and more. Meter and Service Fees revenue is \$663,366, an increase of \$25,099 or 3.9% when compared to the first quarter of FY 2015-16 (Attachment B).

*Operating Revenue – Drought Rate Penalties*

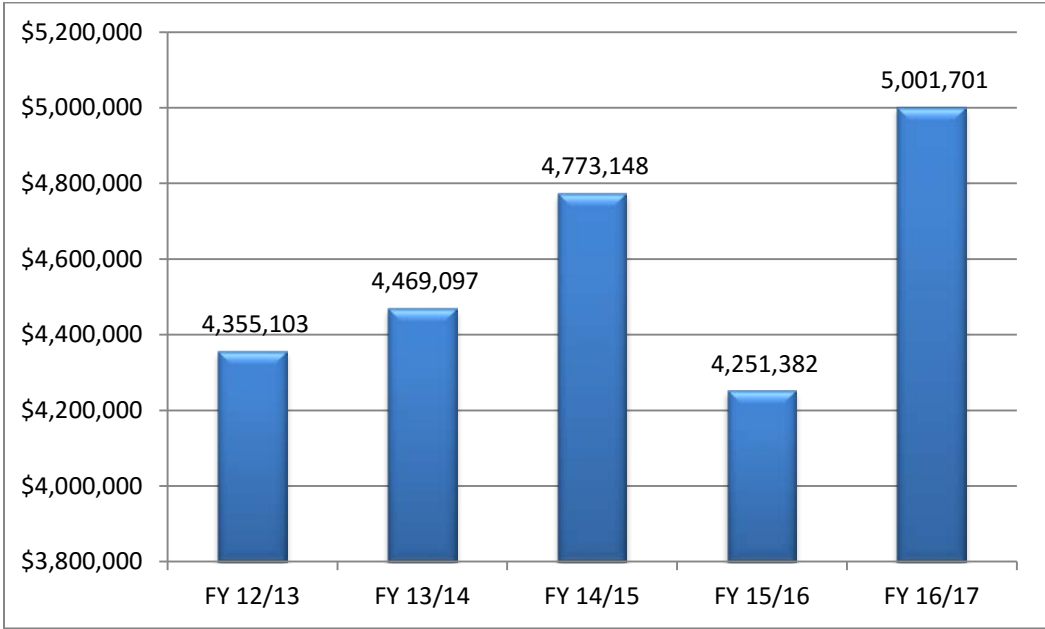
Operating revenue from drought rate penalties, which are the penalties customers incur for going over their water budget, totaled \$902,629 (Attachment B). The penalties were first collected in January 2016, and since then, IWA has collected a total of \$2,191,246. The revenue from drought rate penalties funds conservation programs in local schools and the Supplemental Environmental Project. (Chart 5).



**Chart 3: 5 Year Water Sales Revenue - History by Month**



**Chart 4: 5 Year Water Sales Revenue - History by First Quarter**



**Chart 5: Drought Rate Penalties Summary**

Description	Revenue / (Expense)
3rd Quarter FY 15-16 (Jan-Mar)	721,033
4th Quarter FY 15-16 (Apr-Jun)	567,584
1st Quarter FY 16-17 (Jul-Sep)	902,629
Total Penalties Collected	2,191,246
Supplemental Environmental Program	(2,000,000)
Unappropriated funds - subtotal	191,246
Water Conservation Education	(80,000)
Unappropriated funds - total	111,246

*Non-Operating Revenue*

First quarter investment income yielded \$332, a decrease of \$1,785 compared to FY 2015-16 as a result of lower investment returns. 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 2016-17 operating expenditure budget includes \$5,235,399 in salaries and benefits, \$11,286,520 for services and supplies, \$1,625,427 for capital outlay and \$4,148,437 for debt service. Table 1 indicates operating fund expenditures were 17.3% of the budget or \$3,865,678 through the end of the first quarter.

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

	Budget FY 2016-17		Actual September 30, 2016	% of Budget
Salaries and Benefits	\$ 5,235,399		\$ 1,105,620	21.1%
Services and Supplies	11,286,520		1,596,358	14.1%
Capital Outlay	1,625,427		25,482	1.6%
Debt Service	4,148,437		1,138,218	27.4%
<b>Total Expenditures</b>	<b>\$ 22,295,783</b>		<b>\$ 3,865,678</b>	<b>17.3%</b>

Total operating expenditures decreased by \$89,788 from FY 2015-16 (see Attachment A). The decrease in expenditures was driven by a reduction in debt services (\$391,990) and salary and benefit (\$8,445). Decrease expenditures were offset by increases of \$295,769 in services and supplies and \$14,878 in capital outlay.

**Salary and Benefits**

Salary and benefit expenditures through the end of the first quarter were \$1,105,620 or 21.1% of the budget as shown in Table 1. The decrease of \$8,445 in salaries and benefits over last fiscal year was approximately -0.8%.

**Services and Supplies**

First quarter service and supplies expenditures are \$1,596,358 or 14.1% of the budget. After the first quarter, all divisions are within a normal expenditure range as shown in Table 2. Staff will continue to monitor expenses to ensure adherence to the budget.

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

	<b>Budget</b>	<b>Actual</b>	<b>% of</b>
	<b>FY 2016-17</b>	<b>September 30, 2016</b>	<b>Budget</b>
Commission	\$ 10,500	\$ 54	0.5%
Administration	3,270,241	541,130	16.5%
Production	2,723,272	267,569	9.8%
Transmission Distribution	1,738,528	419,798	24.1%
Finance/Customer Service	756,752	167,737	22.2%
Information Technology	539,794	95,056	17.6%
Engineering/Water Quality	2,247,433	105,014	4.7%
<b>Total Expenditures</b>	<b>\$ 11,286,520</b>	<b>\$ 1,596,358</b>	<b>14.1%</b>

*Administration*

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

- Chromium-6 Compliance Implementation and Ionex contract management
- Implementation of the \$5.2 million Proposition 84 Regional Water Management Drought Grant

- Consolidation of the Boe Del Heights Mutual Water Association and Waller Tract Mutual Water Association
  - Submitted a \$57,088 grant for the Boe Del Heights Emergency Connection to the State Water Board
  - Submitted a \$5.5 million construction grant application to the Drinking Water State Revolving Fund to fund the consolidation of the two mutual water associations
- Project management for the \$2 million Supplemental Environmental Project
- Regional water management and recycled water efforts through the Coachella Valley Regional Water Management Group.

### Conservation

In May 2016, the State Water Resources Control Board adopted an emergency water conservation regulation that modified and extended Governor Brown's mandates. These updated regulations required Indio Water Authority to conduct a self-certification of its water supply to establish a new water conservation standard. IWA submitted a self-certification document that reduced its conservation standard to 0%.

While some of the drought restrictions have been relaxed, IWA continues to remind customers to remain efficient in order to stay within their water budget. As we move forward, we continue to educate customers on water efficiency and the need to protect this precious resource. The IWA water conservation program is still available for customers to help them do their part and reduce water usage.

Highlights of the conservation program for July through September 2016 include:

- Press release, flyers and bill insert in English and Spanish for the reduced Drought Penalty Surcharge
- Launch of the new Evaporative Cooler Rebate Program as part of the Supplemental Environmental Project
- Amended Variance Policy was approved by the Board in September to assist businesses impacted by special events.
- Worked with staff from Coachella Valley Water District and Desert Sands Unified School District on an enhanced water conservation education program
- Water conservation presentations to over 100 school-age children at the Desert Recreation District Indio Facility
- Water conservation presentations to over 400 students at Jackson Elementary School

- Timely submission of monthly reports to the State Water Board and coordination with the Board and CV Water Counts on conservation issues
- 216 variance applications were processed
- 176 rebates totaling \$210,363.08 was processed during the first quarter of FY 16-17 compared to 269 totaling \$224,492 during the same period of FY 15-16. Despite a decline in the number of rebates, the conservation numbers are very strong.

## *Engineering*

### Engineering and Water Quality Division

During this quarter, IWA Engineering and Water Quality Division provided engineering services including plan checks and fire flow system analysis, and continued to update the Geographical Information Systems database.

The Engineering and Water Quality Division also finished a waterline construction project, performed sample collection and water quality testing analysis, and pursued federal and state grant funding opportunities for recycled water projects.

The Engineering and Water Quality Division also worked with Coachella Valley Water District, Desert Water Agency, and Coachella Water Authority to prepare and submit a document to the Department of Water Resources (DWR) indicating how such agencies will implement management practices and projects to sustainably manage the Indio Sub-basin of the Coachella Valley Groundwater Basin. This document will be submitted to DWR by January 1, 2017.

The Engineering and Water Quality Division also has continued to work with the Operations Department on the implementation of the Chromium 6 Treatment Improvements.

### Engineering Services – Planning & Design

IWA Engineering staff completed numerous plan checks for water improvement and development projects. In addition, the Engineering staff has met with the developers to provide development guidelines and water system requirements.

### Engineering Services – Construction

Staff completed Highway 111 Water Main Construction project, from Monroe Street to Rubidoux Street.

### Engineering Services – Water Quality

IWA water quality staff continues to provide sampling and testing analysis as required by the Division of Drinking Water Program of the California State Water Resources Control Board. During this quarter, IWA collected over 600 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. In addition, as part of IWA's cross-connection program, staff tested approximately 446 backflow prevention devices in IWA's water system, inspected 9 new backflow installations and provided approximately 51 letters to customers as a result of failed backflow inspections.

### *Operations and Maintenance*

#### Production

IWA continues to produce and deliver safe and drinking water to customers while improving operational efficiency at all production facilities. From repairing minor and major equipment to adjusting pump set-points, efforts are geared towards enabling IWA to operate the system efficiently during peak and nonpeak demand periods.

During the current review period, Production staff worked with Engineering and Water Quality Engineering, Finance and Customer Division and external consultants to optimize IWA's Chromium-6 treatment facilities and options to reduce stranded assets.

#### Transmission Distribution

During the first quarter of FY 16-17, Distribution staff repaired and replaced water services, performed pavement repairs, replaced inefficient water meters with new efficient meters, and performed dead-end flushes and valve exercises.

Quarter Highlights include:

- 4,786 work orders were completed; an average of 320 per week or 45 work orders per day
- 35 water services were repaired and replaced
- 887 water meters replaced; accurate metering fosters conservation
- 532 valve exercises and 6 dead-end flushes were performed to maintain water quality
- Staff attended the 2016 Tri-State Conference and participated in technical presentations and workshops on subjects including water distribution, backflow prevention, groundwater recharge, water quality sampling, environmental compliance, water reclamation and reuse
- Performed 68,271 billing meter reads

### *Finance/Customer Service*

The Finance and Customer Service Division is responsible for managing IWA's financial resources. On the accounting side, the Division handles revenue, disbursements, financial reports preparation, audit coordination, investment management amongst other functions. On the customer service side, the Division services customer accounts, processes monthly bills, handles bill payments, and provide Call Center and Front Counter services amongst a wide variety of customer support functions.

During the first quarter of FY 16-17, the Finance and Customer Service Division has worked on the following:

- Worked with IWA staff and vendor on Customer Portal/Website Implementation, which was successfully demonstrated on September 29.
- Timely processing of approximately 60,000 financial transactions to support IWA's core functions.
- Coordinated the auditing of Fiscal Year 2015-16 Financial Statements, currently being compiled by independent auditors.
- Conducted training for Finance and Customer Service staff to enhance staff knowledge of the Navline/HTE financial and customer information system and Cityworks asset and workflow management system.
- Coordinated the development for the Customer Portal/Website

### *Information Technology (IT)*

IWA's Information Technology staff provides a variety of specialized services to IWA Administration, the three Divisions, and the City at large. Services provided include management of IWA's telephone, voice and electronic mail systems, SCADA and other local and wide-area networks, integrated databases, and information access and system management to support IWA's operations.

Highlights for the first quarter of FY 16-17 include:

- Hardware and software upgrades for enterprise applications and workstations at the Corporate Yard
- Server upgrades at the Corporate Yard to improve long-term site performance and stability
- Technical Support for the Customer Portal/Website and Advanced Metering Infrastructure Implementation

### **Capital Outlay**

Capital Outlay includes the purchase of new capital equipment, and infrastructure maintenance projects not part of the Capital Improvement Program.

The \$1,625,427 capital outlay budget for FY 2016-17 includes; pump, electric panel, valve and hydrant meter replacement programs, software upgrades, system distribution maintenance, wireless infrastructure update, and machinery to support ongoing operational requirements.

**Table 3: Capital Outlay by Division**

**Operating Fund Expenditures - Capital Outlay By Division**

	Budget FY 2016-17	Actual September 30, 2016	% of Budget
Administration	-	-	0.0%
Production	130,000	-	0.0%
Transmission Distribution	1,383,127	-	0.0%
Finance/Customer Service	-	-	0.0%
Information Technology	112,300	25,482	22.7%
Engineering/Water Quality	-	-	
<b>Total Expenditures</b>	<b>\$ 1,625,427</b>	<b>\$ 25,482</b>	<b>1.6%</b>

**Internal Services (IS)**

Internal Service Fund is used to account for 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 \$1,484,530. First quarter internal service expenses total \$370,635 or 25% 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 first quarter for FY 2016-17, the balance of this fund is \$225,878. Total budgeted expenses are \$220,000 for FY 2016-17. There have been no expenses through the first quarter due to prolonged use and life of existing equipment and vehicles. Two vehicles are scheduled to be purchased during FY 2016-17, one for Engineering and the other for Conservation and Administration.



Vehicles and equipment is inspected daily and IWA’s Finance staff reviews a comprehensive list of equipment with depreciation schedules and replacement costs on a monthly basis. Reliable vehicles and equipment ensure the safety and dependability of IWA’s daily operations for effective emergency response.

**F. CAPITAL IMPROVEMENT PROGRAM (CIP)**

This section presents a summary of all CIP projects adopted with the passage of the FY 2016-17 Budget. Capital improvements are projects that contribute to providing essential water services to customers and meeting regulatory requirements. In FY 2016-17, capital improvements are budgeted from three funds, the Supplemental Water Fee, Water Development Impact Fee, and remaining 2015 Water Bond funds. FY 2016-17 budgeted capital improvements totaling \$2,720,000 are highlighted in Table 4 below.

**Table 4: Capital Projects Expenditures**

	Budget FY 2016-17	Actual September 30, 2016	% of Budget
Water Bond	\$ 500,000	216,197	43.2%
Supplemental Water	665,000	-	0.0%
Water Development Fee	1,555,000	33,638	2.2%
<b>Total Expenditures</b>	<b>\$ 2,720,000</b>	<b>\$ 249,835</b>	<b>9.2%</b>

2015 Water Bond

In June, 2015, IWA refunded the 2006 Water Bond resulting in annual debt service payments and generated approximately \$4.8 million in new funding for the construction of Chromium 6 treatment facilities. The FY 2016-17 Capital Budget included \$500,000 Water Bond Funding for perceived expenditures not completed in FY 2015-16. As of June 30, 2016, remaining bond funds generated from the 2015 Bond Issue total \$602,717.

At the end of the first quarter FY 2016-17, IWA expended \$4,953 in authorized bond fund with \$211,244 remaining in current encumbrances for the Chromium 6 treatment facilities. Staff has included budget amendments to cover year-to-date expenditures and remaining encumbrances to complete the project.

Supplemental Water Fees

At the end of the first quarter FY 2016-17, IWA’s Supplemental Water Fees Fund budgeted projects total \$665,000. These funds are designated for the design of a recycled water facility and a non-potable water project.

Water Development Impact Fees

At the end of the first quarter of FY 2016-17, IWA’s budgeted projects had a remaining total project cost of \$1,521,362 from Water Development impact fees. Capital improvement projects under construction total \$127,725, remaining future projects total \$824,891. Remaining funds have been designated for projects within FY 2016-17. IWA anticipates a productive second quarter with multiple capital improvement projects commencing. Capital improvement projects include: Highway 111 Water Main from Oasis to Arabia, Highway 111 Ave 44 Water Main from Salpare Place to Dillion Road,

**G. RESERVE FUNDS**

Table 5 on the next page summarizes the allocation of reserve funding levels, approved by IWA’s Board of Directors on February 7, 2012.

**Table 5: Reserve Funds**  
**Summary of Reserve Funds**

Priority Ranking	Reserve Fund Description	Target Level (Moderate)	Current Balance	(Deficit)/ Surplus
1	Operating Reserve	\$ 5,175,848	\$ 9	\$ (5,175,839)
2	Capital Repair and Replacement/System Improvement Reserve	1,655,989	123,676	(1,532,313)
3	Equipment Replacement Reserve	500,000	225,878	(274,122)
4	Rate Stabilization Reserve	337,833	330,316	(7,517)
5	Water Transfer Reserve	1,750,000	51,154	(1,698,846)
6	Emergency Reserve	4,741,714	545,920	(4,195,794)
	<b>Total</b>	<b>\$ 14,161,384</b>	<b>\$ 1,276,953</b>	<b>\$ (12,884,431)</b>

The six reserve funds recognize the importance of formally adopting policies relative to reserves and funding. Reserves are prudent fiscal management tools, which are a cornerstone of successful long-term financial planning. The policies provide both flexibility to continually adapt, ensure continued operational solvency, and preserve adequate levels of services.

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

## H. BUDGET ADJUSTMENTS

IWA finished FY 2015-16 with revenues and expenditures consistent with the adopted budget, a \$1,357,008 surplus. Staff is recommending the transfers of the budget surplus from the Operating Fund balances, excluding Drought Rate Penalties, to the Reserve for Operating Contingency and the Rate Stabilization Fund.

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

### Operating Reserve

Increase Fund Balance:

010-0000-275-00-00	Reserve for Operating Contingency	\$1,349,491
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Decrease Fund Balance:

010-0000-273-00-00	Retained Earnings	(\$1,349,491)
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### Rate Stabilization Reserve

Increase Operating Transfers Out

010-0000-471-81-01		\$ 7,517
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Decrease Fund Balance:

010-0000-273-00-00	Retained Earnings	(\$ 7,517)
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Increase Operating Transfers In

013-0000-386-81-01	Reserve for Rate Stabilization	\$ 7,517
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Increase Fund Balance:

013-0000-273-00-00	Retained Earnings	\$ 7,517
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As a result of these adjustments, the revised Summary of Reserve Funds for FY 2016-17 is shown on the next page:

**Summary of Reserve Funds**

Priority Ranking	Reserve Fund Description	Target Level (Moderate)	Current Balance	(Deficit)/ Surplus
1	Operating Reserve	\$ 5,175,848	\$ 1,349,500	\$ (3,826,348)
2	Capital Repair and Replacement/System Improvement Reserve	1,655,989	123,676	(1,532,313)
3	Equipment Replacement Reserve	500,000	225,878	(274,122)
4	Rate Stabilization Reserve	337,833	337,833	0
5	Water Transfer Reserve	1,750,000	51,154	(1,698,846)
6	Emergency Reserve	4,741,714	545,920	(4,195,794)
	<b>Total</b>	<b>\$ 14,161,384</b>	<b>\$ 2,633,961</b>	<b>\$ (11,527,423)</b>

Staff is also recommending a budget transfer within the Finance and Customer Service Division for the cost of hiring two Customer Service Technicians in October, cost which is offset by savings in Contract Labor.

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

Increase:  
 010-4714-471-22-35 City Payroll Charges \$27,670

Decrease:  
 010-4714-471-22-20 Contract Labor (\$27,670)

Furthermore, IWA staff is recommending an appropriation to increase the Promotion Activities – Conservation Programs from Drought Rate Penalties revenue to further water conservation education in local schools.

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

Increase (for Conservation Programs)  
 010-4711-471-28-80 Promotion Activities – Conservation Programs \$80,000

Decrease Fund Balance:  
 010-0000-273-00-00 Retained Earnings (\$80,000)

**ATTACHMENT A: REVENUE AND EXPENDITURE SUMMARY - OPERATING FUNDS**

Indio Water Authority  
 Revenue & Expenditure Summary-Operating Fund  
 Quarter Ending September 30, 2016

REVENUES	Revenue through		25% of Year Elapsed Variance			
	9/30/2015	9/30/2016	FY 2015 vs. 2016	Percentage Change	Budget FY 2016	Percentage FY 2016/17
	<b>Operating Revenue</b>					
Water Utility Payments	4,251,382	5,001,701	750,319	17.6%	16,577,551	30.2%
Drought Rate Penalties	-	902,629	902,629	0.0%	-	0.0%
Other Operating						
Penalties, 10% delinquent fee	64,404	78,953	14,549	22.6%	245,000	32.2%
Water Meters	59,021	13,184	(45,837)	-77.7%	115,000	11.5%
Backflow Charges	75,622	77,709	2,087	2.8%	275,000	28.3%
Fire Protection Charges	35,440	36,050	610	1.7%	140,000	25.8%
Replenish Assessment Charge	288,283	366,963	78,680	27.3%	1,300,000	28.2%
Charges for Services	90,605	68,550	(22,055)	-24.3%	319,900	21.4%
Establishment Fee	16,400	16,340	(60)	-0.4%	65,000	25.1%
Reimbursements/Recovery of Labor	8,492	5,617	(2,875)	-33.9%	2,420,000	0.2%
<b>Total Operating Revenue</b>	<b>4,889,649</b>	<b>6,567,696</b>	<b>1,678,047</b>	<b>34.3%</b>	<b>21,457,451</b>	<b>30.6%</b>
<b>Non-Operating Revenue</b>						
Interest Earnings	2,117	332	(1,785)	-84.3%	7,500	4.4%
Transfers In	-	-	-	0%	1,245,000	0.0%
<b>Total Non-Operating Revenue</b>	<b>2,117</b>	<b>332</b>	<b>(1,785)</b>	<b>-84.3%</b>	<b>1,252,500</b>	<b>0.0%</b>
<b>Total Revenues</b>	<b>4,891,766</b>	<b>6,568,028</b>	<b>1,676,262</b>	<b>34.3%</b>	<b>22,709,951</b>	<b>28.9%</b>
EXPENDITURES	Expenditures through		Variance			
	9/30/2015	9/30/2016	FY 2015 vs. 2016	Percentage Change	Budget FY 2016	Percentage FY 2016/17
<b>Personnel</b>						
Salary and Benefits	1,114,065	1,105,620	(8,445)	-0.8%	5,235,399	21.1%
<b>Total Personnel</b>	<b>1,114,065</b>	<b>1,105,620</b>	<b>(8,445)</b>	<b>-0.8%</b>	<b>5,235,399</b>	<b>21.1%</b>
<b>Services and Supplies</b>						
Legal	-	4,000	4,000	0.0%	60,000	6.7%
Professional/Contract Services	156,585	153,465	(3,120)	-2.0%	3,104,515	4.9%
Regulatory/Government Agency	243,861	257,811	13,950	5.7%	1,331,000	19.4%
Utilities	117,653	133,540	15,887	13.5%	1,500,000	8.9%
Outside Repair & Maintenance	72,769	104,015	31,246	42.9%	422,625	24.6%
Travel & Training	5,995	2,213	(3,782)	-63.1%	73,000	3.0%
Dues and Subscriptions	3,740	4,571	831	22.2%	30,300	15.1%
Postage Freight	17,365	28,389	11,024	63.5%	164,500	17.3%
Conservation Programs	203,727	232,546	28,819	14.1%	1,325,000	17.6%
Advertising	7,500	-	(7,500)	-100.0%	15,000	0.0%
Cell Phones/Pagers	3,315	2,465	(850)	-25.6%	21,500	11.5%
Taxes	-	-	-	-	0	0.0%
Rents/Leases	4,069	3,339	(730)	-17.9%	22,750	14.7%
Printing and Software	4,107	5,833	1,726	42.0%	96,000	6.1%
Water Meters & Small Tools/Equip.	92,056	267,609	175,553	190.7%	1,192,000	22.5%
Supplies & Safety Equipment	6,375	4,135	(2,240)	-35.1%	33,800	12.2%
Chemical Lab	13,377	19,742	6,365	47.6%	160,000	12.3%
Contingency	-	-	-	0.0%	100,000	0.0%
Internal Service Funds	348,095	370,635	22,540	6.5%	1,484,530	25.0%
Transfer Out	-	2,050	2,050	0.0%	150,000	1.4%
<b>Total Services and Supplies</b>	<b>1,300,589</b>	<b>1,596,358</b>	<b>295,769</b>	<b>22.7%</b>	<b>11,286,520</b>	<b>14.1%</b>
<b>Total Operations</b>	<b>2,414,654</b>	<b>2,701,978</b>	<b>287,324</b>	<b>11.9%</b>	<b>16,521,919</b>	<b>16.4%</b>

**ATTACHMENT A: REVENUE AND EXPENDITURE SUMMARY - OPERATING FUNDS**

Continuation of Report:

25% of Year Elapsed

EXPENDITURES	Expenditures through		FY 2015 vs. 2016	Variance		
	9/30/2015	9/30/2016		Percentage Change	Budget FY 2016	Percentage FY 2016/17
<b>Capital Outlay</b>						
Equipment	10,604	25,482	14,878	140.3%	-	0%
Projects	-	-	-	0.0%	1,625,427	0%
<b>Total Capital Outlay</b>	<b>10,604</b>	<b>25,482</b>	<b>14,878</b>	<b>140.3%</b>	<b>1,625,427</b>	<b>1.6%</b>
<b>Total Operations and Capital Outlay</b>	<b>2,425,258</b>	<b>2,727,460</b>	<b>302,202</b>	<b>12.5%</b>	<b>18,147,346</b>	<b>15.0%</b>
<b>Debt Service</b>						
Interest - Revenue Bonds	785,208	208,218	(576,990)	-73%	2,288,437	9%
Principal - Revenue Bonds	745,000	930,000	185,000	25%	1,860,000	50%
<b>Total Debt Service</b>	<b>1,530,208</b>	<b>1,138,218</b>	<b>(391,990)</b>	<b>-25.6%</b>	<b>4,148,437</b>	<b>27%</b>
<b>Total Operations, Capital Outlay and Debt Service</b>	<b>3,955,466</b>	<b>3,865,678</b>	<b>(89,788)</b>	<b>-2.3%</b>	<b>22,295,783</b>	<b>17.3%</b>

**ATTACHMENT B: FIRST QUARTER BUDGET RECAP**

IWA 1ST QUARTER BUDGET RECAP FY 2016-2017  
 THROUGH SEPTEMBER 30, 2016 (3 MONTHS, 25%)  
 SUMMARY REPORT

25% of Year Elapsed

<b>Revenue</b>	<b>Budget FY 16/17</b>	<b>Through 9/30/2016</b>	<b>% Earned</b>
Water Sales	16,577,551	5,001,701	30%
Meter and Service Fees	4,879,900	663,366	14%
Drought Rate Penalites	-	902,629	
Non-Operating Revenue	1,252,500	332	0%
<b>Total Revenue</b>	<b>22,709,951</b>	<b>6,568,028</b>	<b>28.9%</b>

<b>Expenditures</b>	<b>Budget FY 16/17</b>	<b>Through 9/30/2016</b>	<b>% Spent</b>
Salary and Benefits	5,235,399	1,105,620	21%
Legal	60,000	4,000	7%
Professional/Contract Services/Software	3,104,515	153,465	5%
Regulatory/Government Agency	1,331,000	257,811	19%
Utilities	1,500,000	133,540	9%
Outside Repair & Maintenance	422,625	104,015	25%
Travel & Training	73,000	2,213	3%
Dues and Subscriptions	30,300	4,571	15%
Postage Freight	164,500	28,389	17%
Conservation Programs	1,325,000	232,546	18%
Advertising	15,000	-	0%
Cell Phones/Pagers	21,500	2,465	11%
Rents/Leases	22,750	3,339	15%
Printing	96,000	5,833	6%
Water Meters & Small Tools/Equip.	1,192,000	267,609	22%
Supplies & Safety Equipment	33,800	4,135	12%
Chemical Lab	160,000	19,742	12%
Contingency	100,000	-	0%
<b>Internal Service Funds</b>	<b>1,484,530</b>	<b>370,635</b>	<b>25%</b>
<b>Transfer Out</b>	<b>150,000</b>	<b>2,050</b>	<b>1%</b>
<b>Capital Outlay</b>	<b>1,625,427</b>	<b>25,482</b>	<b>2%</b>
<b>Total Operations &amp; Capital Outlay</b>	<b>18,147,346</b>	<b>2,727,460</b>	<b>15.0%</b>
<b>Debt Service</b>	<b>4,148,437</b>	<b>1,138,218</b>	<b>27.4%</b>
<b>Total Operations, Capital Outlay and Debt Service</b>	<b>22,295,783</b>	<b>3,865,678</b>	<b>17.3%</b>

<b>Projected Revenue Over Expenditures (+/ - )</b>	<b>414,168</b>	<b>2,702,350</b>
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**ATTACHMENT C: DROUGHT RATE PENALTIES**

Indio Water Authority  
Drought Rate Penalties  
Quarter Ending September 30, 2016

Description	Revenue / (Expense)
3rd Quarter FY 15-16 (Jan-Mar)	721,033
4th Quarter FY 15-16 (Apr-Jun)	567,584
1st Quarter FY 16-17 (Jul-Sep)	902,629
 Total Penalties Collected	 <u>2,191,246</u>

**Supplemental Environmental Project**

***IWA/Office of Enforcement Settlement Process***

Draft Plan Prepared for Internal Discussion	(1,800)
City Council Closed Session	(1,500)
Plan Submitted for Legal Review / Framework	(7,500)
City Council Closed Session	(1,500)
Plan Submitted to Office of Enforcement	(10,000)

***Public Outreach***

Drought Penalty Outreach	(22,080)
Customer Portal/AMI Outreach	(16,560)
Water Conservation Education	(16,200)
Customer Portal/AMI Outreach to Parents	(5,000)
Outreach incentives (250 gift cards)	(6,250)

***Evaporative Cooler Rebate***

Flyer Development	(2,500)
Rebate Program (50 x \$300)	(15,000)

***Customer Portal / Website***

Request for Proposals	(3,500)
Contract	(1,500)
Implementation	(100,000)

***Advanced Metering Infrastructure***

Request for Proposals	(3,500)
Contract	(1,500)
Implementation (Phases 1 & 2)	(1,773,610)

***Reporting Progress to State***

Monthly Progress Reports (10 Reports)	(8,000)
Certificate of Completion	(2,500)

Unappropriated funds - subtotal	<u>191,246</u>
Water Conservation Education	(80,000)
Unappropriated funds - total	<u><u>111,246</u></u>