

NEVADA IRRIGATION DISTRICT RATE INCREASE

Summary

Nevada Irrigation District provides raw and treated water to 25,000 customers in portions of Nevada, Placer, and by contract, parts of Yuba and Sierra counties. It is governed by a five member Board of Directors representing five geographical divisions within the district. The Board of Directors is the district's policy-making body.

The Nevada Irrigation District Board of Directors recently approved a 6% per year rate increase that was to be in effect over a five year period. Their reasoning for this increase was that the Nevada Irrigation District was on a path to insolvency.

Previously, the Board of Directors had opted not to increase water rates by using their reserves to meet their obligations, keeping rates steady. However, additional financial impacts, caused by a decrease in revenue from the lower sales of their electric power, the cost of relicensing their hydroelectric facilities with the Federal Energy Regulatory Commission, and contractual changes with Pacific Gas and Electric Company, obligating the Nevada Irrigation District to directly fund their hydroelectric operations and maintenance costs, drastically reduced their reserves to dangerously low levels. If Nevada Irrigation District continued to operate in this fashion, the reserve fund would be totally depleted by 2020. This would make it impossible to respond to any unexpected event.

The rate increase was designed to replenish their reserve funds for future expenditures and make the Nevada Irrigation District more fiscally sound. The Board of Directors realized that continuing to use reserve funds for their operations and management costs and limiting rate increases was not prudent. Nevada Irrigation District hired an independent contractor to identify the problem areas and to offer solutions to improve their fiscal position. One of the measures the independent contractor identified was the need for a rate increase of 6% per year over five years to ensure that operations and maintenance costs and other expenses would be covered while building a healthy reserve fund. The rate increase was presented to the rate payers for review, but was found to be unpopular with some.

A citizen complaint was received by the Nevada County Grand Jury questioning the justification of the rate increase. In processing the complaint, the Nevada County Grand Jury found that Nevada Irrigation District's rate increase was proposed following the requirements of California Proposition 218 by providing notice of the proposed increase by mail and news media to its customers. A public hearing was held within 45 days of the notification to explain the reasoning and justification for the increase. Of the 25,000 NID customers, 342 objected to the proposed rate increase. Subsequently, the 6% rate increase was approved by the Board of Directors.

Reasons for Investigation

The Nevada County Grand Jury (Jury) received a citizen complaint regarding the justification of a 6% annual rate increase over the next five years by the Nevada Irrigation District (NID). The Grand Jury is empowered to investigate various districts pursuant to California Penal Code.

Background

NID is an independent special district operated for landowners within its 287,000 acre boundaries, which include principally portions of Nevada County and Placer County, and contractual areas in Yuba and Sierra counties. NID was formed by public vote in 1921 and provides service to some 25,000 customers of both raw (agricultural) and treated (household) water. NID also supplies raw water to Grass Valley, Nevada City and the portion of the City of Lincoln within its boundaries.

NID operates under authority and regulation of the California Water Code and in conformance with the California Government Code §54950 et seq., commonly known as the Ralph M. Brown Act (Brown Act).

It is governed by a five member Board of Directors (Board) representing five geographical divisions within the district and is their policy-making body. All meetings of the Board and its committees are public and are held within the NID.

Procedures Followed

The Jury interviewed several members of NID's management and the complainant. The Jury also reviewed previous Jury reports and various other documents received from the interviewees and those available on NID's website. Information from other water agency websites was also reviewed.

Facts

- Fa. 1** NID provides raw and treated water to parts of Nevada, Placer, Yuba and Sierra counties.
- Fa. 2** NID is an independent special district governed by an elected board.
- Fa. 3** Board members are elected to four year terms by district voters.
- Fa. 4** The Board holds open public meetings pursuant to the Brown Act and Proposition 218, entitled the *Right to Vote on Taxes Act* (Proposition 218).
- Fa. 5** NID employs approximately 200 full-time and part-time employees.

- Fa. 6** NID has approximately 19,000 residential and 6,000 agricultural customers.
- Fa. 7** NID is the primary source of drinking and irrigation water in western Nevada County.
- Fa. 8** NID's rates are currently below those of adjacent water agencies.
- Fa. 9** The salary for NID's General Manager is comparable to that of the Placer County Water Agency and the El Dorado Irrigation District.
- Fa. 10** NID sells hydroelectric power to Pacific Gas and Electric Company (PG&E) under a long-term agreement.
- Fa. 11** In fiscal year 2011-2012, revenues from hydroelectric sales to PG&E decreased by \$1.5 million dollars.
- Fa. 12** In 2014, NID began paying for operations and maintenance of the Hydroelectric Division instead of PG&E.
- Fa. 13** NID is in the process of renewing a 50 year license of their hydroelectric power facilities with the Federal Energy Regulatory Commission (FERC).
- Fa. 14** The renewal by FERC is estimated to cost \$12 million dollars.
- Fa. 15** NID's Hydroelectric Division borrowed from the Water Division to pay for the renewal.
- Fa. 16** NID is reimbursing the Water Division \$3 million dollars per year for the next four years.
- Fa. 17** For fiscal year 2012-2013, the total overall revenue of NID had a net gain of 11.7%, while their expenses increased by 12.7%.
- Fa. 18** NID's total overall budget for fiscal year 2013-2014 is approximately \$60 million dollars; up from \$55 million dollars for the previous fiscal year.
- Fa. 19** There were no water rate increases between the years of 2000 to 2007.
- Fa. 20** The 2005-2006 Jury recommended NID rate increases be tied directly to the need for balancing revenues against expenses.
- Fa. 21** The 2006-2007 Jury recommended the water division rely less on reserves and more on increased rates to fund their operations.
- Fa. 22** During this period, NID transferred funds from their reserves to supplement operation and maintenance costs.
- Fa. 23** In the January 8, 2014 NID Board Minutes, the Board agreed with previous Jury reports indicating water rates were too low with over-reliance on reserves.

Fa. 24 There were annual water rate increases from 2008 to 2013.

Fa. 25 The October 23, 2013 Board Minutes stated the continued transfer from reserves to supplement operating and maintenance costs could not continue. It was stated, “...*this was not a sustainable path, and is a formula for bankruptcy in six years.*”

Fa. 26 An independent contractor (IC) was contracted by NID to prepare a full financial analysis and to make recommendations.

Fa. 27 The purpose of the study was to develop rates and charges which would generate sufficient revenue.

Fa. 28 The IC report focused on:

- operating expenses,
- non-operating expenses,
- capital project expenses,
- maintenance of operating reserve balances,
- debt service coverage.

Fa. 29 Key assumptions in the IC report were:

- no growth in customer base,
- unrestricted reserve balance of four to six months,
- new debt,
- inflation,
- maintaining debt service.

Fa. 30 The IC report stated the proposed rate increase was in conformance with industry standard ratemaking practice, being a fair and equitable recovery of costs and to fully restore the reserve requirements.

Fa. 31 On November 6, 2013, a presentation to the Board pertaining to the rate study was given by the IC.

Fa. 32 Written notification regarding the proposed 6% rate increase was mailed to all NID customers on November 13, 2013, in addition to notifying the public through local media.

Fa. 33 Of the 25,000 NID customers, 342 objected to the proposed rate increase.

Fa. 34 The 6% rate increase was discussed at a noticed public hearing on January 8, 2014.

Fa. 35 The IC presentation at the scheduled public hearing indicated NID operating reserves, under existing rates and use, would be gone by the end of 2020.

- Fa. 36** During the noticed public hearing, the IC made a presentation illustrating the purpose of the study.
- Fa. 37** During the public hearing, NID management explained the reasoning behind the rate increase.
- Fa. 38** During the public hearing, NID management compared the proposed increased rates to neighboring water districts, agencies and municipalities, showing NID has the least expensive rates in the region.
- Fa. 39** At the hearing, the Board received public comment regarding the rate increase. At the public hearing, the Board resolved to conduct annual budget reviews with a goal of limiting the rate increase below 6%.
- Fa. 40** During the public hearing, NID's Board committed to work toward improving communications with their customers.
- Fa. 41** The 6% rate increase was approved by the Board.

Findings

- Fi. 1** Revenue growth from new customers will be minimal.
- Fi. 2** Without passage of the rate increase NID would have depleted reserves.
- Fi. 3** Decreased revenues and additional unanticipated expenses resulted in the depletion of the reserve fund.
- Fi. 4** The Board had ignored their fiscal responsibility by failing to address increased costs.
- Fi. 5** NID followed the rules and regulations pursuant to Proposition 218.
- Fi. 6** NID recognized that it was in fiscal trouble unless their business model changed.
- Fi. 7** NID has made proactive fiscal decisions to control operating and maintenance costs and rebuild reserves.

Recommendations

None

Responses

No response is required.

