

NEVADA IRRIGATION DISTRICT – A SEA CHANGE¹

SUMMARY

“A Sea Change,” as in a marked transformation, sums up the Nevada County Grand Jury’s (Jury) view of the Nevada Irrigation District (NID) following its 2006-2007 look at Nevada County’s largest Special District. Over the past few years virtually all of NID’s senior management has turned over, resulting in an effective, smooth working, highly efficient team which has demonstrated innovation and attention to the public’s needs. While economic circumstances, and the threat of drought, make the use of long-term debt to finance capital improvements less desirable than in the past, and while the NID Water Division needs to rely less on reserves and more on increased rates to fund the operations of the Water Division, the Jury was impressed with the efforts of the NID Directors and management to set NID on a fiscally sound path. The Jury encourages NID to review the use of its reserves with a view to freeing funds for capital improvements. The Jury also applauds the decision of the NID Directors to add to the methods and opportunities for expanding the infrastructure available to deliver treated water to District residents. In brief, NID is becoming more user friendly

REASON FOR INVESTIGATION

NID is responsible for providing water for both household and agricultural use in portions of Western Nevada, Placer, Yuba, and Sutter Counties. California Penal Code §933.5 authorizes all grand juries with oversight of special districts.

The Jury was interested in the methodology supporting rate increases combined with acknowledged large reserves retained by NID. Concern about these issues date back to reports generated by the 1998-1999 Grand Jury Report – Nevada Irrigation District Financial Report; 2000-2001 Grand Jury Report – Nevada Irrigation District; 2002-2003 Grand Jury Report – Special Districts Revenues and Reserves; and 2005-2006 Grand Jury Report – A Current Look At NID. An updated review of the issues identified in these reports, particularly any improvements, was deemed appropriate for the Grand Jury this session.

¹ defined as “A MARKED TRANSFORMATION” Ref: [American Heritage Dictionary](#)

BACKGROUND

NID is an independent special district operated for landowners within its 287,000-acre boundaries, which include principally portions of Western Nevada County and Northwestern Placer County. NID was formed by public vote in 1921. NID has approximately 175 full and part time employees who provide service to some 24,500 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. A five member Board of Directors elected by district voters governs NID. District voters elect each director for staggered four-year terms. All meetings of the board and its committees are public and are held within the District. NID operates under authority and regulation of the California Water Code and in conformance with the Brown open meeting act.

NID operates dams, reservoirs, flumes, ditches, and pipelines to store and transport water as well as seven water treatment plants and seven hydroelectric plants. NID provides recreational facilities at Rollins and Scotts Flat reservoirs as well as Faucherie and Jackson Meadows.

METHOD OF INVESTIGATION

The 2006-2007 Jury interviewed senior managers of NID and a member of the Board of Directors. Jury members attended NID meetings of the Water Rates Committee, the Administrative Practices Committee and the Board of Directors where the proposed 2007 rate increase and the proposed 2007- 2009 budget, reserve account definition revisions, rate planning and service extensions were discussed. The public was given the opportunity to comment on the rate increase, proposed budget, proposed service extensions, and especially Lower Cascade Canal/Banner Cascade Pipeline Project.

The Jury reviewed the 2005-2006 Grand Jury Report and Response covering NID, the 2005 NID Auditor's Report, the 2006 NID Audited Financial Statements, and the March 2001 Water Cost of Service Study prepared by Economic and Engineering Services, Inc. The Jury reviewed data provided by NID including their 2007-2009 Proposed Budget, Working Capital and Reserve Accounts, and Investment Policy and Guidelines. Also reviewed was financial and operational data dating back to 1996 from prior Grand Jury reports as well as NID provided data and operational information. These included proposed and approved budgets, actual financial results, audit reports, and the NID prepared schedules attached.

The Grand Jury investigation focused on six areas:

- **Management Team**
- **Funding of Capital Improvements**
- **Reserve Definitions and Uses**
- **Operating Deficits**
- **Service Extensions**
- **Water Rates**

Management Team:

The current senior managers were found to be very competent.

Findings

1. There has been a significant turnover in the NID management team over the past four years.
2. The general manager, assistant general manager, finance manager and chief engineer have replaced long-term predecessors who have retired.
3. There is a new human resources manager and a new maintenance manager.
4. The new NID management team members bring with them relevant prior experience and expertise.
5. The 2007-2009 budget was well presented to the public.
6. The Jury observed a pattern of lack of sensitivity to public and other director comment on the part of one board member.

Conclusions

1. Turnover in NID management has provided NID with an opportunity to effect positive change of the organization.
2. The New NID management team has demonstrated competence and the ability to work together as a team.
3. One director undermines the stature of the Board of Directors showing lack of respect for public and other director input.

Recommendations

1. NID Board of Directors should take full advantage of the expertise and experience of the NID management team.
2. NID Board of Directors should take steps to assure that all of its members demonstrate sensitivity towards and respect for each other and for members of the public appearing before them.

Funding of Capital Improvements:

Up to now, use long-term debt has been effective, but future caution is warranted.

Findings

1. The NID Water Division has historically funded the cost of capital improvements from property tax revenues and borrowing on a long term, low interest rate loan (3%-5%) basis. The borrowings have been effected by NID directly, and through assessment districts formed by NID to place the repayment obligation on the District customers benefited by the improvements.
2. As of December 31, 2006, NID's borrowings totaled \$39,761,147. **Schedule I** reflects the principal and interest payments NID will be obligated to make in each of the years 2007-2011, and in the following two five-year increments.
3. NID management projects the need to borrow approximately \$20 million in 2008 and \$15 million in 2009 to cover capital improvements in these years.
4. Prior to 2006, a majority of the NID property tax receipts were devoted to funding capital improvements. Effective January 1, 2006, one-half of the net property taxes estimated to be received on land-assessed value only is to be placed in the Rate Augmentation Fund to cover deficits in the operations and maintenance portions of the Water Division.
5. **Schedule II** reflects, for the period 2003 – 2006, the discretionary revenue (investments, and property taxes) available to the Water Division for operating expenses as compared to the Water Division's debt service (principal and interest) expense in the same years.
6. NID, as well as weather experts, project a drought for 2007, with the Sierra snow pack at half its normal level.
7. A reduced water supply will reduce NID's revenue generated from hydroelectric operations, as well as the amount of water available for sale.

Conclusions

1. The use of debt to finance capital improvements and the investment of surplus cash has been a successful strategy for generating revenue.
2. Care needs to be shown regarding the timing and amount of future long-term debt incurred to support capital improvements.
3. The increased use of debt to fund capital improvements (for example, the Lower Cascade Canal/Banner Cascade Pipeline Project, and the Lincoln Water Treatment Project) can be expected to significantly absorb property tax revenue to service such debt, impacting the revenue available for operations and maintenance.

Recommendations

1. NID should review its designated reserves (see discussion under Reserve Definitions and Uses) to make inactive reserves available to fund capital improvements and/or meet debt service expenses.
2. NID's use of debt to fund capital improvements should be tempered during times of rising interest rates, and until there is a meaningful increase in the value of the property comprising NID's tax base, such that the revenue available to service debt increases.

Reserve Definitions and Uses:

Reserves are good, but only when their purposes remain relevant.

Findings

1. The public historically has misunderstood the need for and purposes of NID's reserves.
2. In particular, the public has questioned the need for NID's reserves, believing they should be used to keep water rates low.
3. As of December 31, 2006, NID had twenty reserve accounts plus two working capital accounts totaling \$79,051,484. **Schedule III** reflects the name, December 31, 2006 balance, and use of each reserve and working capital account.
4. The Water Division accounted for \$75.0 million of the December 31, 2006 total of \$79.1 million in NID reserves.
5. For at least the four-year period 2003-2006, there have been no additions to, nor expenditures charged against the Water Division's Depreciation Reserve, Maintenance Reserve, Insurance Reserve, or Unemployment Insurance Reserve, which totaled \$7,700,000 as of December 31, 2006.
6. During 2006, NID management team recommended, and the NID Board adopted, changes regarding the funding and use of three of the reserves. (Rate Augmentation Fund, Hydroelectric Relicensing Reserve, and Watershed Improvement Reserve).
7. On April 11, 2007, the NID auditors recommended to the NID Board the establishment of a Depreciation Reserve to cover the replacement of infrastructure.

Conclusions

1. The maintenance of reserves by NID reflects prudent financial management.
2. Except for the Depreciation Reserve (which covers the replacement of equipment costing more than \$50,000), and the Rate Augmentation Fund (as modified retroactive to

January 1, 2006), the NID Water Division has no reserve for maintenance, repairs or replacement.

3. Some NID discretionary reserves would appear (by reason of their inactivity) to be no longer necessary; others like the Treated Water Capacity Reserve, would appear to be unnecessarily restrictive in their use.

Recommendations

1. NID should undertake to demystify and better inform the public of the need for, and the uses of, its reserves.
2. The NID Board should direct management to reevaluate the allocation of its discretionary reserves to generate more funds for capital improvements.
3. The current Depreciation Reserve for equipment replacement and the Maintenance Reserve for unbudgeted emergency repairs should be replaced with a reserve for maintenance, repairs, and replacement of Water Division assets.

Operating Deficits:

Operating the Water Division at a loss, year after year, is unwise.

Findings

1. For the year 2006, \$26 million of the NID Water Division's total revenue of \$30 million came from investments, water sales, and property taxes. **Schedule IV** reflects the portion of the Water Division's rate related operating revenues and expenses for the years 2000 - 2006.
2. **Schedule IV** reflects that in each of the years covered, except 2000, the NID Water Division had an operating deficit before depreciation and excluding investment income and property tax contribution.
3. Former budgeting practices specifically related to the allocation of expenditures between operations and capital improvements have contributed to NID Water Division operating losses.
4. Budgeting practices initiated in 2006 refined the methodology for allocating Water Division operating and capital improvement expenditures to more accurately reflect the cost of Water Division operations.

Conclusions

1. Continually operating the NID Water Division at a loss is not in the long-term best interest of NID or its customers.

2. Relying on reserves to cover operating deficits in the Water Division is not financially prudent, especially in light of expected increased debt service charges.

Recommendation

The NID Board should adopt and adhere to fiscal and other practices which lead to and maintain at least a balanced budget for the Water Division.

Service Extensions:

The more people supplied with treated water, the better. Ditch water must go.

Findings

1. Historically, the extension of NID's treated water distribution facilities has been largely developer driven and developer financed.
2. The growth of Nevada and Placer Counties has seen a sharp increase in the demand for treated water.
3. The NID Board, in 2006, adopted The NID Strategic Plan 2005-2006 "Expansion of Water Service Area Within NID" (Plan) which was intended to create processes by which treated water could be delivered by new pipelines to residential areas currently served by wells and irrigation ditches.
4. Under the Plan, the NID Board has approved the formation of a Community Facilities District to deliver treated water to the Cement Hill Area.
5. Under the Plan, the NID Board is reviewing pilot programs to deliver treated water to the Rodeo Flats and Rancho Way/Knolls Drive/East Hacienda areas through the formation, as appropriate, of community facilities or assessment districts under which NID would advance the startup expenses and some portion of the project costs. The balance of the project costs would be funded through loans repayable through assessments on the affected property owners.
6. Whether the startup costs advanced by NID for the pilot projects described in 4 and 5 above would be recovered by NID from the loan proceeds has yet to be determined by the NID Board.
7. In April 2006, the NID Board adopted a "Pilot Policy for Temporary Service Location (TSL)" under which a qualifying property owner within the District not receiving NID treated water may secure, at the property owner's expense, temporary treated water services.
8. The property to receive a TSL must be capable of connecting to an existing water main and be located where NID facilities will logically require a mainline fronting the property in the future.

9. NID, through the Placer County Water Agency and the City of Lincoln, currently causes treated water to be delivered to approximately 3500 homes in a portion of the City of Lincoln lying within the NID exterior boundaries.
10. NID has approved a Memorandum of Understanding covering the feasibility, planning and eventual construction of a water treatment plant near Lincoln to supply NID raw water which will be treated and sold to residents within the NID boundaries (10,000 to 20,000 homes estimated).
11. The Lincoln water treatment plant, if constructed, would be paid for by Lincoln and NID (currently estimated at 80% Lincoln, and 20% NID), owned, and operated by NID.
12. The NID Board approved absorbing the cost of the installation of a treated water line adjacent to the route of the pending Lower Cascade Canal/Banner Cascade Pipeline Project.

Conclusions

1. The growth of Nevada and Placer Counties reflects a change from agricultural prominence to increasing domestic need for treated water.
2. In Western Nevada County, NID is the sole supplier of raw water.
3. NID is the only viable source of treated water in unincorporated Western Nevada County for residents currently dependent on well or ditch water.
4. The NID Board of Directors is commended for its adoption of the NID Strategic Plan 2005-2006 "Expansion of Water Service Area within NID," as approved in principal on August 27, 2006; as well as its ongoing efforts to bring treated water to residential areas currently without treated water.

Recommendation

The NID Board should establish a District wide program for cost effective extension of treated water to areas within the District currently depending on well and ditch water for domestic purposes.

Water Rates:

The Water Division should pay its own way. Simplify, and then raise the water rates.

Findings

1. NID has 31 published rate schedules for raw and treated water.
2. The NID rate schedule contains anomalies whereby some raw water customers pay more per miners inch than others who buy more water.

3. Despite a 2007 budget which projected a Water Division deficit of \$3,403,400, the NID Board decided not to increase water rates for 2007, electing instead to cover the deficit from the Rate Augmentation Fund.
4. During the period 1997 – 2007, the NID Board has raised treated and raw water rates in every year except 2000 and 2007. **Schedule V** reflects the percentage of rate increase over the prior year, and the dollar amount of each increase for both treated and raw water.
5. On April 11, 2007, the NID auditors recommended to the Board that depreciation be taken into account in determining water rates, a practice that has not previously occurred.
6. On April 11, 2007, the NID auditors recommended to the Board that an increase in water rates is needed to avoid having the NID Water Division operate at a loss.
7. On December 13, 2006, the NID Board budgeted \$55,000 for a cost of services study. To date that study has not been initiated.

Conclusions

1. NID's increase in both treated and raw water rates over the past ten years has, at best, produced only nominal increases in revenue and has not been sufficient to cover projected Water Division operating deficits.
2. To rely on the Rate Augmentation Fund to cover Water Division operating deficits will not support operations indefinitely.
3. The current NID rate structure does not lend itself to easy use or public understanding.
4. NID has consistently avoided raising rates sufficient to assure that the Water Division at least broke even financially.
5. The current NID rate structure is inequitable with the treated water customers paying a disproportionate share of Water Division operating expenses.
6. The current NID rate schedules do not generate income sufficient to produce a balanced budget for Water Division operations.

Recommendations

1. The NID Board should accelerate its budgeted cost of service study.
2. The NID rate structure should be modified to fairly allocate expenses between raw and treated water customers.

3. The NID rate schedules should be simplified to achieve equitable charges for increased quantities of water purchased with uniform adjustments when rates are adjusted up or down.
4. The NID rate schedule should produce revenue sufficient to achieve a balanced budget for the Water Division without the need to use reserves to avoid a deficit.

REQUIRED RESPONSES

NID Board of Directors August 29, 2007

Schedules Attached:

- I. Long Term Debt Maturity schedule: Dec 31, 2006
- II. Investment Income, Property and Tax Revenue, Interest Expense, Annual Debt Service, Long-Term Debt and Reserve Balances 2003-2006
- III. Working Capital and Reserve Accounts: Dec 31, 2006
- IV. Statement of Rate Related Revenues and Expenses including Depreciation: 2000-2006
- V. Raw and Treated Water Rates: 1997-2007

SCHEDULE I

NEVADA IRRIGATION DISTRICT
 LONG-TERM DEBT MATURITY SCHEDULE
 DECEMBER 31, 2006

A B C D E F G H I J

Account	DESCRIPTION	Interest Rates - Stated	2007		2008		2009		2010		2011	
			Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
26130	1997 CERTIFICATES OF PARTICIPATION - 2017	4% to 5.5%	605,000	15,503	-	-	-	-	-	-	958,000	411,868
26145	2002 CERTIFICATES OF PARTICIPATION - 2023	3% to 5%	863,590	539,254	878,520	513,122	908,260	484,050	928,190	449,592	920,000	192,437
26147	2005 CERTIFICATES OF PARTICIPATION - 2015	3% to 4%	200,000	291,838	840,000	276,237	865,000	250,663	895,000	224,262	7,000	807
26145	2002 COP - EDGEWOOD (combine w fund 10)	5.15% to 5.35%	6,410	1,746	6,480	1,553	6,740	1,338	6,810	1,083	7,000	807
SUBTOTAL GENERAL FUND 10			1,675,000	848,341	1,725,000	790,912	1,780,000	736,051	1,830,000	674,937	1,885,000	605,112
26150	DEPARTMENT OF WATER RESOURCES											
	FOREST PARK - 2012	3.22%	1,788	360	1,846	303	1,906	242	1,968	180	2,032	117
	GREEN - 2012	3.37%	3,462	733	3,579	615	3,701	493	3,827	368	3,956	238
	HIGHLAND PARK - 2014	3.03%	3,971	1,041	4,091	921	4,217	795	4,345	667	4,477	534
	LAKE VERA - 2016	3.08%	22,476	7,346	23,169	6,654	23,898	5,925	24,636	5,187	25,401	4,422
	PINO ALTO - 2011	3.22%	4,061	665	4,193	534	4,330	397	4,470	256	4,614	112
	ROHR SHANLEY - 2013	3.41%	9,348	2,396	9,668	2,076	10,003	1,740	10,346	1,398	10,702	1,042
	STARBRIGHT ACRES - 2015	3.08%	15,074	4,324	15,539	3,859	16,027	3,371	16,522	2,876	17,035	2,363
	TROOST-HIDDEN VALLEY - 2014	3.41%	2,304	640	2,382	561	2,465	478	2,549	394	2,637	306
	WILLAURA ACRES - 2009	3.37%	3,668	286	3,793	162	1,945	33	-	-	-	-
26010	DAVIS-GRUNSKY - LOAN - 2012	2.50%	91,084	13,416	93,361	11,125	95,695	8,734	98,088	6,326	100,540	3,843
26020	DAVIS-GRUNSKY -DFRD INTEREST - 2012	2.50%	11,937	-	11,938	-	11,937	-	11,937	-	11,937	-
SUBTOTAL IMPROVEMENT DISTR FUND 20			169,173	31,207	173,559	26,810	176,124	22,208	178,688	17,652	183,331	12,977
FUND 10 and 20			1,844,173	879,548	1,898,559	817,722	1,956,124	758,259	2,008,688	692,589	2,068,331	618,089
26160	BONDS PAYABLE - FIRST DIVISION - 2013	3.25% to 3.75%	2,123,000	601,350	2,204,000	520,987	2,287,000	437,569	2,374,000	351,000	2,463,000	261,150
COMBINED DEBT BY YEAR AND FIVE YEAR INCREMENTS			3,967,173	1,480,898	4,102,559	1,338,709	4,243,124	1,195,828	4,382,688	1,043,589	4,531,331	879,239

Reprinted with the permission of the Nevada Irrigation District

SCHEDULE I

NEVADA IRRIGATION DISTRICT
 LONG-TERM DEBT MATURITY SCHEDULE
 DECEMBER 31, 2006

K L M N O P Q R

Account	DESCRIPTION	Interest Rates - Stated	Row #	2012 - 2016		2017 - 2021		2022 - 2023		TOTAL		Row #
				Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
26130	1997 CERTIFICATES OF PARTICIPATION - 2017	4% to 5.5%	1	-	-	-	-	-	-	605,000	15,503	1
26145	2002 CERTIFICATES OF PARTICIPATION - 2023	3% to 5%	2	3,570,190	1,499,981	3,110,000	772,500	1,475,000	74,625	12,691,750	4,744,992	2
26147	2005 CERTIFICATES OF PARTICIPATION - 2015	3% to 4%	3	4,900,000	401,344	-	-	-	-	8,620,000	1,636,781	3
26145	2002 COP - EDGEWOOD (combine w fund 10)	5.15% to 5.35%	4	14,810	707	-	-	-	-	48,250	7,234	4
SUBTOTAL GENERAL FUND 10				8,485,000	1,902,032	3,110,000	772,500	1,475,000	74,625	21,965,000	6,404,510	5
												6
26150	DEPARTMENT OF WATER RESOURCES		7	-	-	-	-	-	-	-	-	7
	FOREST PARK - 2012	3.22%	8	2,097	51	-	-	-	-	11,637	1,253	8
	GREEN - 2012	3.37%	9	4,090	103	-	-	-	-	22,615	2,550	9
	HIGHLAND PARK - 2014	3.03%	10	14,270	765	-	-	-	-	35,371	4,723	10
	LAKE VERA - 2016	3.08%	11	124,420	9,780	-	-	-	-	244,000	39,314	11
	PINO ALTO - 2011	3.22%	12	-	-	-	-	-	-	21,668	1,964	12
	ROHR SHANLEY - 2013	3.41%	13	22,515	968	-	-	-	-	72,582	9,620	13
	STARBRIGHT ACRES - 2015	3.08%	14	63,892	3,996	-	-	-	-	144,089	20,789	14
	TROOST-HIDDEN VALLEY - 2014	3.41%	15	6,996	363	-	-	-	-	19,333	2,742	15
	WILLAURA ACRES - 2009	3.37%	16	-	-	-	-	-	-	9,406	481	16
26010	DAVIS-GRUNSKY - LOAN - 2012	2.50%	17	103,054	1,299	-	-	-	-	581,822	44,743	17
26020	DAVIS-GRUNSKY -DFRD INTEREST - 2012	2.50%	18	11,938	-	-	-	-	-	71,624	-	18
SUBTOTAL IMPROVEMENT DISTR FUND 20				353,272	17,325	-	-	-	-	1,234,147	128,179	20
												21
FUND 10 and 20				8,838,272	1,919,357	3,110,000	772,500	1,475,000	74,625	23,199,147	6,532,689	22
												23
26160	BONDS PAYABLE - FIRST DIVISION - 2013	3.25% to 3.75%	24	5,111,000	239,100	-	-	-	-	16,562,000	2,411,156	24
												25
COMBINED DEBT BY YEAR AND FIVE YEAR INCREMENTS				13,949,272	2,158,457	3,110,000	772,500	1,475,000	74,625	39,761,147	8,943,845	26

Reprinted with the permission of the Nevada Irrigation District

SCHEDULE II

**NEVADA IRRIGATION DISTRICT
Water Fund
Investment Income, Property Tax Revenue, Interest Expense, Annual Debt Service,
Long-term Debt and Reserve Balances
Years Ended December 31, 2006, 2005, 2004 and 2003**

	<u>12/31/2006</u> Water Actual	<u>12/31/2005</u> Water Actual	<u>12/31/2004</u> Water Actual	<u>12/31/2003</u> Water Actual
Investment Income	\$ <u>2,553,451</u>	\$ <u>1,653,612</u>	\$ <u>2,997,709</u>	\$ <u>2,749,306</u>
Property Taxes less County Collection fees	9,965,704	8,981,653	8,043,895	7,145,467
ERAF III Deduction	<u>(1,620,924)</u>	<u>(3,241,848)</u>	<u>(1,620,924)</u>	-
Net Property Tax Revenue	\$ <u>8,344,780</u>	\$ <u>5,739,805</u>	\$ <u>6,422,971</u>	\$ <u>7,145,467</u>
Interest Expense	\$ <u>913,777</u>	\$ <u>1,157,162</u>	\$ <u>1,210,779</u>	\$ <u>1,086,157</u>
Annual Debt Service - Principal and Interest	\$ <u>2,618,871</u>	\$ <u>10,658,585</u>	\$ <u>2,668,299</u>	\$ <u>2,330,179</u>
Debt Outstanding at Year End:				
Current Portion - Debt	\$ 1,844,173	\$ 1,684,845	\$ 1,525,704	\$ 1,466,629
Long-term Portion	<u>21,354,974</u>	<u>23,199,152</u>	<u>24,134,716</u>	<u>25,651,311</u>
Total long-term debt outstanding	\$ <u>23,199,147</u>	\$ <u>24,883,997</u>	\$ <u>25,660,420</u>	\$ <u>27,117,940</u>
Reserve Balances:				
Restricted	\$ 26,109,490	\$ 24,715,642	\$ 23,034,972	
Designated	47,212,480	43,177,293	42,075,768	
Undesignated	<u>1,631,488</u>	<u>2,766,327</u>	<u>(2,217,292)</u>	
	\$ <u>74,953,458</u>	\$ <u>70,659,262</u>	\$ <u>62,893,448</u>	

SCHEDULE II

SCHEDULE III

NEVADA IRRIGATION DISTRICT WORKING CAPITAL & RESERVE ACCOUNTS	Total 12-31-06 Audited	Interest/ Accretion	Additions	Expenses	Total 12-31-05 Audited	Interest	Additions	Expenses	Total 12-31-04 Audited
RESTRICTED RESERVES - WATER									
TREATED WATER SYSTEM IMPROVEMENT FUND - statute	\$ 20,652,325	\$ 822,132	\$ 539,019	\$ (257,595)	\$ 19,548,769	\$ 464,598	\$ 2,059,928	\$ (266,454)	\$ 17,290,697
VOTER APPROVED DEBT SERVICE RESERVE - loan documents	205,898	871	188,155	(116,421)	133,293		83,461	(128,359)	178,191
PG&E CONSOLIDATED CONTRACT=PAR B-15 - contractual	251,062	1,062	-	-	250,000				250,000
RETIREMENT FUND - contractual	1,512,717	65,172		(20,190)	1,467,735	43,440		(247,620)	1,671,915
RETIREMENT FUND - interest receivable - contractual	19,352	19,352	(15,405)		15,405	15,405	(8,403)		8,403
RETIREMENT FUND - contractual	(70,883)				(101,640)				(117,499)
	<u>22,570,471</u>				<u>21,313,562</u>				<u>19,281,707</u>
CERTIFICATES OF PARTICIPATION - loan documents	2,987,171	35,930	2,520,001	(2,449,334)	2,880,573	24,730	2,070,446	(2,472,989)	3,258,386
IMPROVEMENT DISTRICT - loan documents	547,676	23,823	97,087	(92,024)	518,790	13,706	105,622	(92,073)	491,535
CUSTOMER DEPOSITS	4,172	178	1,276		2,717	159	(786)		3,344
TOTAL RESTRICTED	\$ 26,109,490				\$ 24,715,642				\$ 23,034,972
DESIGNATED RESERVES - WATER									
DAM FAILURE RESERVE	4,249,339	133,336	150,000	-	3,966,002	97,906	150,000	-	3,718,096
INSURANCE RESERVE	2,000,000	-	-	-	2,000,000	-	-	-	2,000,000
UNEMPLOYMENT INSURANCE RESERVE	200,000	-	-	-	200,000	-	-	-	200,000
ACCRUED LEAVE RESERVE - unfunded accrued leave	1,485,332	-	86,350	-	1,398,982	-	-	(95,000)	1,493,982
MEDICAL CLAIMS LIABILITY RESERVE	541,199	9,423	2,755,054	(2,303,474)	80,196	-	2,774,863	(4,283,057)	1,588,390
DEPRECIATION RESERVE - equipment replacement > \$50K	500,000	-	-	-	500,000	-	-	-	500,000
MAINTENANCE RESERVE - emergency repairs	5,000,000	-	-	-	5,000,000	-	-	-	5,000,000
HYDROELECTRIC RELICENSING RESERVE	7,180,851	265,957	500,000	(89,843)	6,504,737	169,681		(103,084)	6,438,140
RATE AUGMENTATION FUND	13,089,091		1,422,055	(134,392)	11,801,428	253,032	2,774,555	(835,319)	9,609,160
TREATED WATER SYSTEM IMPROVE FUND - excess footage	103,118	4,096	-	-	99,022	2,222	17,213	-	79,587
RAW WATER SYSTEM IMPROVEMENT FUND - annexation fees	10,542,021	388,668	766,992	-	9,386,361	242,014	(27,550)	(35,951)	9,207,848
WATERSHED IMPROVEMENT RESERVE - timber sales	2,321,529	91,115	-	(10,151)	2,240,565	-	-	-	2,240,565
TOTAL DESIGNATED	\$ 47,212,480				\$ 43,177,293				\$ 42,075,768
UNDESIGNATED RESERVES - WATER									
WORKING CAPITAL - Water Division	\$ 1,631,488				\$ 2,766,327				\$ (2,217,292)
TOTAL WORKING CAPITAL	\$ 1,631,488				\$ 2,766,327				\$ (2,217,292)
TOTAL WATER WORKING CAPITAL AND RESERVES	\$ 74,953,458				\$ 70,659,262				\$ 62,893,448
RESTRICTED RESERVES - HYDRO									
O&M TRUST FUNDS	\$ 476,409	506	464,844		\$ 11,059	330			\$ 10,729
BOND DEBT SERVICE FUND - loan documents	1,415,108	17,200	3,318,602	(3,617,706)	1,697,012	9,162	2,938,932	(2,851,369)	1,600,287
TOTAL RESTRICTED	\$ 1,891,517				\$ 1,708,071				\$ 1,611,016
UNDESIGNATED RESERVES - HYDRO									
WORKING CAPITAL - Hydro Division	\$ 2,206,509				\$ 338,829				\$ 5,546,195
TOTAL WORKING CAPITAL	\$ 2,206,509				\$ 338,829				\$ 5,546,195
TOTAL HYDRO WORKING CAPITAL AND RESERVES	\$ 4,098,026				\$ 2,046,900				\$ 7,157,211
GRAND TOTAL WORKING CAPITAL AND RESERVES	\$ 79,051,484				\$ 72,706,161				\$ 70,050,659

NEVADA IRRIGATION DISTRICT
WORKING CAPITAL & RESERVE ACCOUNTS
Approved 1/13/99, revised 3/28/01, 6/23/04, 10/27/04 AND 11/29/06

RESTRICTED RESERVES - WATER:

SYSTEM IMPROVEMENT FUND - (Established 12/17/78, Rev. 12/12/79, 3/28/84, 11/13/85, 4/27/88, 1/13/99)

The System Improvement Fund is established to provide funds for rehabilitation, enlargement, and improvements of District facilities. Amounts authorized for expenditure shall be transferred to the Working Capital Fund. The fund shall consist of the following components (See Designated Reserves for components I & III):

- II. **Treated Water System** - All capacity fees received shall be deposited to this component together with all interest earned from this component.

VOTER APPROVED DEBT SERVICE RESERVE

PG&E CONSOLIDATED CONTRACT = PAR B-15 - (Established 11/26/86)

The PG&E Consolidated Contract Reserve Fund shall be established with a minimum of \$250,000 to pay for water purchased from Pacific Gas & Electric Company. This reserve is a condition of the amendment of paragraph B-15 of Part II of the District's Yuba River Consolidated Contract. The amendment will delete the requirement to maintain a \$500,000 credit account currently held by PG&E without interest.

RETIREMENT FUND - (Established 6/1/83, Rev. 1/13/99, 3/28/01)

The Retirement Fund shall be used to pay the cost of living adjustment (annual change in the CPI with a maximum of 3%) for employees that retired under the Aetna Plan. Due to PERS employer rate for FY00/01 & 01/02 being zero (-0-) deposit \$500,000 annually up to a maximum of \$3,000,000 to be used to pay future PERS contributions. Interest shall stay in the fund.

CERTIFICATES OF PARTICIPATION - Acquisition Fund

IMPROVEMENT DISTRICTS - loan documents

CUSTOMER DEPOSITS

DESIGNATED RESERVES - WATER:

DAM FAILURE RESERVE (Established 9/25/85, Rev. 1/13/99):

The Dam Failure Reserve shall be maintained at \$5,000,000. The purpose of the fund is to pay for damages caused by the failure of a dam. The annual budget shall include a yearly appropriation of \$150,000. Interest shall accrue in the fund.

INSURANCE RESERVE - (Established 2/76, rev 12/12/79, 3/28/90, 1/13/99)

NEVADA IRRIGATION DISTRICT
WORKING CAPITAL & RESERVE ACCOUNTS

Approved 1/13/99, revised 3/28/01, 6/23/04, 10/27/04 AND 11/29/06

The Insurance Reserve Fund shall have a minimum balance of \$400,000 and maximum balance of \$2,000,000. Expenditures are restricted to the payment of uninsured claims for damages or injury against the District. Interest earned on this fund shall remain in the fund until the maximum balance is achieved. When the fund balance falls below \$400,000, the next annual budget shall contain an appropriation adequate to return the fund to its authorized amount. (Retroactive liability insurance for the period 7/77 to 10/79 was purchased. The cost of the liability insurance is \$32,500 [4/11/84 Board Mtg.]) The fund shall also be used to fund contingencies on self-insurance program for General Liability. District is self-insured for General & Auto Liability from 10/1/89 to 1/13/98 and Property Damages from 4/1/90 to 1/13/93.

UNEMPLOYMENT INSURANCE RESERVE - (Established 11/25/81, Rev 6/23/04)

The Unemployment Insurance Reserve is set up to pay unemployment insurance claims. This reserves shall have a maximum amount of \$200,000. The District elected to change the method of financing unemployment insurance benefit as follows:

From: Local Public Entities Employee Fund Section 841-852 California
Unemployment Ins. Code

To : Prorated Cost of Benefits Paid Section 803 (b) (1) California Unemployment
Ins. Code

ACCRUED LEAVE RESERVE - (Established 12/12/79)

The Accrued Leave Reserve Fund shall be established with an initial deposit of \$100,000. Thereafter, the fund shall be adjusted by the change in the value of the unfunded accrued vacation, sick leave and compensatory time on record as of the last day of each budget year. Interest earned on this fund shall be deposited to the Working Capital Fund.

MEDICAL CLAIMS LIABILITY RESERVE -(Established 12/84, Rev. 1/13/99, 6/23/04)

The medical claims liability reserve shall be established to pay for actual medical claims. This reserve shall have a maximum amount of \$2,500,000.

DEPRECIATION RESERVE - (Established 12/12/79, Rev. 1/13/99)

The Depreciation Reserve shall be maintained at \$500,000. The balance of this fund in excess of \$500,000 shall be transferred to the "Rate Augmentation Fund". The reserve shall be used for emergency replacement of equipment costing \$50,000 or more. The annual budget shall contain an appropriation to fund 25% of the deficit. Interest on this fund shall be deposited in the Working Capital Fund.

MAINTENANCE RESERVE - (Established 11/21/79, Rev. 12/12/79, 10/22/80, 3/28/84, 1/13/99)

The Maintenance Reserve Fund shall be maintained at \$5,000,000 and shall be used for unbudgeted emergency repairs. Amounts authorized for expenditure shall be transferred to the Working Capital Fund. The annual budget shall contain an appropriation adequate to maintain the fund (estimated annual interest on the fund or 1% of the annual budget, which ever is greater, but not to exceed the authorized limit of the fund).

NEVADA IRRIGATION DISTRICT
WORKING CAPITAL & RESERVE ACCOUNTS
Approved 1/13/99, revised 3/28/01, 6/23/04, 10/27/04 AND 11/29/06

HYDROELECTRIC RELICENSING RESERVE - (Established 12/13/95, Rev 6/23/04, 11/29/06)

Effective January 1, 2006 and for each of the following six years thereafter, up to \$500,000 annually, shall be transferred from any excess funds generated in the hydroelectric division to the Hydroelectric Relicensing Reserve after first funding any deficit in the recreation division (11/29/06). Interest earned shall remain in the fund.

Funds in the reserve shall be used for relicensing expenses and after July 1, 2013, for any major replacement or repair of the facilities connected to the hydroelectric plants.

RATE AUGMENTATION FUND (Established 10/27/04, revised 11/29/06)

Rate Augmentation Fund - The reserve may be used along with rate increases to fund anticipated deficits in the operations and maintenance portion of the water division providing rate stability to the District's customers and to fund major non-recurring repair/replacements as well as unplanned and unforeseen contingency expenditures. Effective January 1, 2006, one half (1/2) of the net property taxes estimated to be received on the land assessed value only, shall be deposited to this fund. Interest earned on this fund shall be credited to the operations and maintenance portion of the water division's budget.

SYSTEM IMPROVEMENT FUND - (Established 12/17/78, Rev. 12/12/79, 3/28/84, 11/13/85, 4/27/88, 1/13/99)

The System Improvement Fund is established to provide funds for rehabilitation, enlargement, and improvements of District facilities. Amounts authorized for expenditure shall be transferred to the Working Capital Fund. The fund shall consist of the following

- I. **Raw Water System** - the following monies shall be deposited to this component:
 - (a) - All acreage fees received from annexations.
 - (b) - Surplus of the annual budget, up to an annual deposit of \$750,000.
 - (c) - Interest earned from this component.
- II. **Treated Water System** - All capacity fees received shall be deposited to this component together with all interest earned from this component. See Restricted section of the
- III. **Excess Footage** - All funds received under Section 10.10.04 of the Rules & Regulations Relating to Water Service.

WATERSHED IMPROVEMENT RESERVE (Established 1/13/99, revised 11/29/06):

The Watershed Improvement Reserve shall be established with an initial transfer of \$1,000,000 from the Revenue Reserve. The reserve shall be used for the maintenance and improvement of the District's watershed. The reserve shall be funded as follows:

1. Net revenues from all timber sales
2. Residual dollars from the Building Reserve (included in amount).
3. Effective January 1, 2006, Interest earned on this fund shall remain in this fund (11/29/06).

UNDESIGNATED RESERVES - WATER:

WORKING CAPITAL - (Established 12/12/79, Rev. 3/28/84)

NEVADA IRRIGATION DISTRICT
WORKING CAPITAL & RESERVE ACCOUNTS

Approved 1/13/99, revised 3/28/01, 6/23/04, 10/27/04 AND 11/29/06

The working capital fund shall consist of Treasurer's Cash, Payroll Fund, Petty Cash Funds, and any other Imprest Cash Funds, which may be established. All receipts and expenditures shall be processed through this fund.

RESTRICTED RESERVES - HYDRO:

BOND TRUSTEE FUNDS

BOND DEBT SERVICE FUND - loan documents

UNDESIGNATED RESERVES - HYDRO:

WORKING CAPITAL - (Established 12/12/79, Rev. 3/28/84)

The working capital fund shall consist of Treasurer's Cash, Payroll Fund, Petty Cash Funds, and any other Imprest Cash Funds, which may be established. All receipts and expenditures shall be processed through this fund.

NEVADA IRRIGATION DISTRICT
Water Fund
Statement of Rate Related Revenues and Expenses Including Depreciation
Years Ended December 31, 2006, 2005, 2004, 2003, 2002, 2001, and 2000

	<u>12/31/2006</u>	<u>12/31/2005</u>	<u>12/31/2004</u>	<u>12/31/2003</u>	<u>12/31/2002</u>	<u>12/31/2001</u>	<u>12/31/2000</u>
	Water Actual	Water Actual	Water Actual	Water Actual	Water Actual	Water Actual	Water Actual
Operating revenues:							
Water sales	\$ 15,130,682	\$ 14,017,291	\$ 13,390,812	\$ 11,821,502	\$ 10,992,386	\$ 10,830,458	\$ 10,121,388
Standby charges	124,648	150,201	135,848	145,590	150,732	226,843	94,926
Insurance settlements & refunds	-	-	-	-	-	-	1,264,372
Reimbursable costs	2,056	7,032	4,350	1,301	14,017	2,998	5,029
New connections and installations	265,621	496,762	442,201	455,418	412,049	336,623	365,704
Other income	291,270	232,600	228,886	211,262	712,739	693,648	718,102
Total operating revenues	<u>15,814,277</u>	<u>14,903,886</u>	<u>14,202,097</u>	<u>12,635,073</u>	<u>12,281,923</u>	<u>12,090,570</u>	<u>12,569,521</u>
Operating expenses:							
Departments	5,543,354	4,690,618	4,584,374	3,509,980	3,172,355	5,705,868	4,709,483
Canals	5,172,722	5,170,680	6,366,713	4,494,413	4,728,075	3,373,025	3,076,977
Treatment plant costs	2,395,983	2,097,426	2,357,184	2,091,803	1,331,409	1,636,985	1,247,583
Treated water systems	3,043,478	2,406,452	3,206,855	2,978,419	3,139,400	2,056,970	1,322,337
Other facilities	331,996	583,386	611,529	575,794	440,085	641,434	218,279
Routine maintenance	30,676	74,657	35,105	15,267	1,700	-	-
Administration	160,149	30,448	8,241	6,964	3,842	11,751	6,424
Other expenses	-	-	-	(186,178)	627,035	608,142	619,842
Total operating expenses	<u>16,678,358</u>	<u>15,053,667</u>	<u>17,170,001</u>	<u>13,486,462</u>	<u>13,443,901</u>	<u>14,034,175</u>	<u>11,200,925</u>
Net Operating Income (Loss) B4 Depreciation	(864,081)	(149,781)	(2,967,904)	(851,389)	(1,161,978)	(1,943,605)	1,368,596
One-half of Investment Income	1,276,726	826,806	1,498,855	1,374,653	1,415,555	1,944,579	1,905,780
Withdrawals to fund Reserves	(369,687)	(247,906)	(309,466)	(464,684)	(576,923)	(503,890)	(1,055,308)
Potential Portion of Property Taxes	<u>1,422,055</u>						
Operating Income (Loss) before Depreciation	1,465,013	429,119	(1,778,516)	58,580	(323,347)	(502,917)	2,219,068
Depreciation and amortization	<u>(4,414,565)</u>	<u>(4,120,693)</u>	<u>(3,927,073)</u>	<u>(3,350,910)</u>	<u>(2,268,329)</u>	<u>(2,129,364)</u>	<u>(2,551,996)</u>
Operating Income (Loss) after depreciation	<u>\$ (2,949,553)</u>	<u>\$ (3,691,574)</u>	<u>\$ (5,705,589)</u>	<u>\$ (3,292,330)</u>	<u>\$ (2,591,676)</u>	<u>\$ (2,632,281)</u>	<u>\$ (332,929)</u>

SCHEDULE V

Raw Water - Annual Rates

<u>Year</u>	<u>Percentage Increase</u>	<u>.25 MI</u>	<u>.5 MI</u>	<u>1.0 MI</u>	<u>2.0 MI</u>	<u>3.0 MI</u>	<u>Over 20 MI</u>
<u># of customers:</u>	<u>Base Rate</u>	<u>160</u>	<u>1,180</u>	<u>1385</u>	<u>510</u>	<u>110</u>	<u>130</u>
							per Miners Inch
1997	2.50%	\$ -	\$ 221.00	\$ 295.00	\$ 509.00	\$ 683.00	\$ 111.00
Increase		-	4.00	6.00	10.00	13.00	2.30
1998	2.00%	-	225.00	301.00	519.00	696.00	113.30
Increase		-	4.00	5.00	8.00	12.00	1.80
1999	1.60%	-	229.00	306.00	527.00	708.00	115.10
Increase		-	-	-	-	-	-
2000	0.00%	-	229.00	306.00	527.00	708.00	115.10
Increase		-	4.00	5.00	10.00	12.00	2.07
2001	1.80%	-	233.00	311.00	537.00	720.00	117.17
Increase		-	5.50	7.00	12.13	17.28	2.90
2002	2.25%	178.88	238.50	318.00	549.13	737.28	120.07
Increase		10.73	14.31	19.08	28.33	35.85	4.80
2003	6%/4%	189.61	252.81	337.08	577.46	773.13	124.87
Increase		13.27	17.70	23.60	40.42	54.12	8.77
2004	7.00%	202.88	270.51	360.68	617.88	827.25	133.64
Increase		16.23	21.64	28.85	49.43	66.18	10.69
2005	8.00%	219.11	292.15	389.53	667.30	893.40	144.33
Increase		13.15	17.53	23.37	40.04	53.60	8.66
2006	6.00%	232.26	309.68	412.90	707.34	947.01	152.99
Increase		-	-	-	-	-	-
2007	0.00%	232.26	309.68	412.90	707.34	947.01	152.99
10 year increase			\$ 88.68	\$ 117.90	\$ 198.34	\$ 264.01	\$ 41.99
Average increase per year			\$ 8.87	\$ 11.79	\$ 19.83	\$ 26.40	\$ 4.20

SCHEDULE V

Treated Water - Monthly Residential Rates

<u>Year</u>	<u>Percentage Increase</u> <u>Base Rate</u>	<u>Base Rate</u> <u>5/8"</u> <u>Residential</u>	<u>Base Rate</u> <u>3/4"</u> <u>Residential</u>	<u>Percentage Increase</u> <u>Usage</u>	<u>First Tier</u> <u>Usage</u> <u>> .1 - 2.9 HCF</u>	<u>Second Tier</u> <u>Usage</u> <u>> 2.9 - 17 HCF</u>	<u>Third Tier</u> <u>Usage</u> <u>Over 20 HCF</u>	<u>Mandatory</u> <u>Fee</u> <u>Percentage</u>
# of customers:		<u>12,200</u>	<u>4,000</u>					
1997	2.50%	\$ 12.08	\$ 15.33	2.50%	\$ 0.770	\$ 0.780	\$ 0.790	3.40%
Increase		0.25	0.31		0.015	0.015	0.015	
1998	2.00%	12.33	15.63	2.00%	0.785	0.795	0.805	3.17%
Increase		0.21	0.25		0.040	0.040	0.040	
1999	1.60%	12.53	15.88	5.00%	0.825	0.835	0.845	3.54%
Increase		-	-		-	-	-	
2000	0.00%	12.53	15.88	0.00%	0.825	0.835	0.845	3.54%
Increase		0.23	0.27		0.014	0.015	0.015	
2001	1.80%	12.75	16.15	1.80%	0.839	0.850	0.860	5.02%
Increase		0.25	0.32		0.025	0.025	0.025	
2002	2.00%	13.00	16.48	3.00%	0.864	0.875	0.885	4.36%
Increase		0.40	0.50		0.051	0.070	0.079	
2003	3.00%	13.40	16.98	6/8/9%	0.915	0.945	0.964	4.35%
Increase		0.33	0.42		0.082	0.104	0.145	
2004	2.50%	13.73	17.40	9/11/15%	0.997	1.049	1.109	6.43%
Increase		0.55	0.70		0.095	0.168	0.200	
2005	4.00%	14.27	18.10	9.5/16/18%	1.092	1.217	1.309	4.83%
Increase		0.83	1.10		0.066	0.073	0.079	
2006	6.00%	15.10	19.20	6.00%	1.157	1.290	1.387	4.96%
Increase		-	-		-	-	-	
2007	0.00%	15.10	19.20	0.00%	1.157	1.290	1.387	4.96%
10 year increase		\$ 3.03	\$ 3.88		\$ 0.387	\$ 0.510	\$ 0.597	

SCHEDULE V

Treated Water - Monthly Commercial Rates

<u>Year</u>	<u>Percentage Increase</u>	<u>Base Rate</u>	<u>Base Rate</u>	<u>Percentage Increase</u>	<u>First Tier Usage</u>	<u>Second Tier Usage</u>	<u>Third Tier Usage</u>	<u>Mandatory Fee</u>
<u># of customers:</u>	<u>Base Rate</u>	<u>5/8" Residential</u>	<u>3/4" Residential</u>	<u>Usage</u>	<u>> .1 - 2.9 HCF</u>	<u>> 2.9 - 17 HCF</u>	<u>Over 20 HCF</u>	<u>Percentage</u>
1997	2.50%	\$ 15.08	\$ 19.18	2.50%	\$ 0.965	\$ 0.975	\$ 0.990	3.40%
Increase		0.30	0.37		0.015	0.020	0.015	
1998	2.00%	15.38	19.55	2.00%	0.980	0.995	1.005	3.17%
Increase		0.26	0.30		0.050	0.050	0.050	
1999	1.60%	15.63	19.85	5.00%	1.030	1.045	1.055	3.54%
Increase		-	-		-	-	-	
2000	0.00%	15.63	19.85	0.00%	1.030	1.045	1.055	3.54%
Increase		0.28	0.34		0.018	0.019	0.019	
2001	1.80%	15.90	20.20	1.80%	1.048	1.063	1.073	5.02%
Increase		0.35	0.40		0.032	0.031	0.033	
2002	2.00%	16.25	20.60	3.00%	1.080	1.094	1.106	4.36%
Increase		0.48	0.63		0.064	0.087	0.099	
2003	3.00%	16.73	21.23	6/8/9%	1.144	1.181	1.205	4.35%
Increase		0.43	0.52		0.103	0.130	0.181	
2004	2.50%	17.15	21.75	9/11/15%	1.247	1.311	1.386	6.43%
Increase		0.67	0.87		0.118	0.210	0.249	
2005	4.00%	17.82	22.62	9.5/16/18%	1.365	1.521	1.635	4.83%
Increase		1.09	1.39		0.082	0.091	0.100	
2006	6.00%	18.90	24.00	6.00%	1.446	1.612	1.734	4.96%
Increase		-	-		-	-	-	
2007	0.00%	18.90	24.00	0.00%	1.446	1.612	1.734	4.96%
10 year increase		\$ 3.83	\$ 4.83		\$ 0.481	\$ 0.637	\$ 0.744	

NID Nevada Irrigation District

1036 W Main St ♦ Grass Valley, CA 95945 ♦ (530) 273-6185
From Auburn & Lincoln: 1-800-222-4102 FAX: 477-2646 www.nid.dst.ca.us

AUG 28 2007

August 27, 2007

Honorable Robert L. Tamietti
Presiding Judge of the Superior Court
201 Church Street
Nevada City, Ca 95959

RE: Response to the Grand Jury's Report dated May 31, 2007

To the Honorable Judge Tamietti:

The District wishes to thank the Grand Jury for its findings and recommendations. The District will endeavor to evaluate, implement, improve and refine its methodologies as suggested in the Grand Jury report.

The Grand Jury's investigation focused on six areas: 1) Management Team, 2) Funding of Capital Improvements, 3) Reserve Definitions and Uses, 4) Operating Deficits, 5) Service Extensions and 6) Water Rates. The District agrees with Grand Jury's findings and welcomed its recommendations. The District intends to continue to improve its processes and implement new management, supervision and reporting ideas to ensure innovative solutions are developed to satisfy our public's needs. The Board of Directors' commitment to develop a business plan and related cost of service study acknowledges the District's desire to assure a fiscally sound future.

Additionally, while ditch water is, and will continue to be, an integral part of the District's business for purposes of irrigation, agriculture, farming and ranching, the District is dedicated to developing methodologies and policies which will allow households currently depending on well and ditch water for domestic purposes to obtain District treated water.

In closing, and in addition to the commitments made above, the District will strive to provide understandable, transparent and consistent descriptions of all of the District's business activities.

Sincerely,

NEVADA IRRIGATION DISTRICT



Ron Nelson
General Manager

cc: NID Board of Directors
Marie G. Owens

Management Team:

The current senior managers were found to be very competent.

Findings

1. There has been a significant turnover in the NID management team over the past four years.

Agree

2. The general manager, assistant general manager, finance manager and chief engineer have replaced long-term predecessors who have retired.

Agree

3. There is a new human resources manager and a new maintenance manager.

Agree

4. The new NID management team members bring with them relevant prior experience and expertise.

Agree

5. The 2007-2009 budgets were well presented to the public.

Agree

6. The Jury observed a pattern of lack of sensitivity to public and other director comment on the part of one board member.

Duly noted

Conclusions

1. Turnover in NID management has provided NID with an opportunity to effect positive change of the organization.
2. The New NID management team has demonstrated competence and the ability to work together as a team.
3. One director undermines the stature of the Board of Directors showing lack of respect for public and other director input.

Recommendations

1. NID Board of Directors should take full advantage of the expertise and experience of the NID management team.

The recommendation is currently being implemented by taking advantage of the expertise and experience of the NID management team. The Board has implemented many of the NID management team's suggested programs and recommendations. The Board intends to continue to exercise its fiduciary responsibility to the public by reviewing, analyzing and implementing fiscally sound innovative approaches to improve its business.

2. NID Board of Directors should take steps to assure that all of its members demonstrate sensitivity towards and respect for each other and for members of the public appearing before them.

See answer to #1 above. As is the case with all other NID team members, this Board is dedicated to providing the best possible service to our community. Towards that end, the Board will continue to attend training and education programs to achieve and maintain a high level of service.

Funding of Capital Improvements:

Up to now, use long-term debt has been effective, but future caution is warranted.

Findings

1. The NID Water Division has historically funded the cost of capital improvements from property tax revenues and borrowing on a long term, low interest rate loan (3%-5%) basis. The borrowings have been effected by NID directly, and through assessment districts formed by NID to place the repayment obligation on the District customers benefited by the improvements.

Agree

2. As of December 31, 2006, NID's borrowings totaled \$39,761,147. Schedule I reflects the principal and interest payments NID will be obligated to make in each of the years 2007-2011, and in the following two five-year increments.

Agree

3. NID management projects the need to borrow approximately \$20 million in 2008 and \$15 million in 2009 to cover capital improvements in these years.

Agree

4. Prior to 2006, a majority of the NID property tax receipts were devoted to funding capital improvements. Effective January 1, 2006, one-half of the net property taxes estimated to be received on land-assessed value only is to be placed in the Rate Augmentation Fund to cover deficits in the operations and maintenance portions of the Water Division.

Agree

5. Schedule II reflects, for the period 2003 - 2006, the discretionary revenue (investments, and property taxes) available to the Water Division for operating expenses as compared to the Water Division's debt service (principal and interest) expense in the same years.

Agree

6. NID, as well as weather experts, project a drought for 2007, with the Sierra snow pack at half its normal level.

Agree

7. A reduced water supply will reduce NID's revenue generated from hydroelectric operations, as well as the amount of water available for sale.

Agree

Conclusions

1. The use of debt to finance capital improvements and the investment of surplus cash has been a successful strategy for generating revenue.
2. Care needs to be shown regarding the timing and amount of future long-term debt incurred to support capital improvements.
3. The increased use of debt to fund capital improvements (for example, the Lower Cascade Canal/Banner Cascade Pipeline Project, and the Lincoln Water Treatment Project) can be expected to significantly absorb property tax revenue to service such debt, impacting the revenue available for operations and maintenance.

Recommendations

1. NID should review its designated reserves (see discussion under Reserve Definitions and Uses) to make inactive reserves available to fund capital improvements and/or meet debt service expenses.

The recommendation has been partially implemented with three of the reserves being revised in 2006. It is planned to revise several of the other reserve definitions in 2007 in conjunction with the recommendations and findings of our currently engaged water rate cost of service and business plan studies. Additional revisions are anticipated to be made in 2008 and 2009.

2. NID's use of debt to fund capital improvements should be tempered during times of rising interest rates, and until there is a meaningful increase in the value of the property comprising NID's tax base, such that the revenue available to service debt increases.

The recommendation will be evaluated and implemented depending on prevailing interest rate market conditions, available reserves and estimated future property tax revenues anticipated. The District will evaluate, on an on-going basis, the pay-as-you-use versus pay-as-you-go financing options based upon the aforementioned items.

Reserve Definitions and Uses:

Reserves are good, but only when their purposes remain relevant.

Findings

1. The public historically has misunderstood the need for and purposes of NID's reserves.

Agree

2. In particular, the public has questioned the need for NID's reserves, believing they should be used to keep water rates low.

Agree

3. As of December 31, 2006, NID had twenty reserve accounts plus two working capital accounts totaling \$79,051,484. Schedule III reflects the name, December 31, 2006 balance, and use of each reserve and working capital account.

Agree

4. The Water Division accounted for \$75.0 million of the December 31, 2006 total of \$79.1 million in NID reserves.

Agree

5. For at least the four-year period 2003-2006, there have been no additions to, nor expenditures charged against the Water Division's Depreciation Reserve, Maintenance Reserve, Insurance Reserve, or Unemployment Insurance Reserve, which totaled \$7,700,000 as of December 31, 2006.

Agree

6. During 2006, NID management team recommended, and the NID Board adopted, changes regarding the funding and use of three of the reserves. (Rate Augmentation Fund, Hydroelectric Relicensing Reserve, and Watershed Improvement Reserve).

Agree

7. On April 11, 2007, the NID auditors recommended to the NID Board the establishment of a Depreciation Reserve to cover the replacement of infrastructure.

Agree

Conclusions

1. The maintenance of reserves by NID reflects prudent financial management.
2. Except for the Depreciation Reserve (which covers the replacement of equipment costing more than \$50,000), and the Rate Augmentation Fund (as modified retroactive to January 1, 2006), the NID Water Division has no reserve for maintenance, repairs or replacement.
3. Some NID discretionary reserves would appear (by reason of their inactivity) to be no longer necessary; others like the Treated Water Capacity Reserve, would appear to be unnecessarily restrictive in their use.

Recommendations

1. NID should undertake to demystify and better inform the public of the need for, and the uses of, its reserves.

The recommendation has not been fully implemented but will be when the definitions and ultimate consolidation of the existing reserves is presented to and adopted by the Board of Directors. It is anticipated that several of the reserve definitions will be revised in 2007 upon completion of our water rate cost of service and business plan studies.

2. The NID Board should direct management to reevaluate the allocation of its discretionary reserves to generate more funds for capital improvements.

See answer to #1 immediately above.

3. The current Depreciation Reserve for equipment replacement and the Maintenance Reserve for unbudgeted emergency repairs should be replaced with a reserve for maintenance, repairs, and replacement of Water Division assets.

The recommendation has not been implemented but it is anticipated that several of the reserve definitions will be revised in 2007 upon completion of our water rate cost of service and business plan studies. It is anticipated that this will occur as a result of those studies.

Operating Deficits:

Operating the Water Division at a loss, year after year, is unwise.

Findings

1. For the year 2006, \$26 million of the NID Water Division's total revenue of \$30 million came from investments, water sales, and property taxes. Schedule IV reflects the portion of the Water Division's rate related operating revenues and expenses for the years 2000 - 2006.

Agree

2. Schedule IV reflects that in each of the years covered, except 2000, the NID Water Division had an operating deficit before depreciation and excluding investment income and property tax contribution.

Agree

3. Former budgeting practices specifically related to the allocation of expenditures between operations and capital improvements have contributed to NID Water Division operating losses.

Partially agree. The former budgeting practices may have contributed to the operating losses but without an in-depth analysis, current management cannot definitively confirm or deny the accuracy of the statement.

4. Budgeting practices initiated in 2006 refined the methodology for allocating Water Division operating and capital improvement expenditures to more accurately reflect the cost of Water Division operations.

Agree

Conclusions

1. Continually operating the NID Water Division at a loss is not in the long-term best interest of NID or its customers.
2. Relying on reserves to cover operating deficits in the Water Division is not financially prudent, especially in light of expected increased debt service charges.

Recommendation

The NID Board should adopt and adhere to fiscal and other practices which lead to and maintain at least a balanced budget for the Water Division.

The recommendation is being implemented currently on an on-going basis. Procedures have been put in place to create a balanced budget for the Water Division which allow for the withdrawal of money from the rate augmentation reserve to fund unplanned and unforeseen contingency expenditures to the extent of approximately 3% of the District's total budget. Additionally, the Board has designated both the General Manager and the Administrative Practices Committee with specific budget amendment authorities to manage and maintain a balanced budget.

Service Extensions:

The more people supplied with treated water, the better. Ditch water must go.

Findings

1. Historically, the extension of NID's treated water distribution facilities has been largely developer driven and developer financed.

Agree

2. The growth of Nevada and Placer Counties has seen a sharp increase in the demand for treated water.

Agree

3. The NID Board, in 2006, adopted The NID Strategic Plan 2005-2006 "Expansion of Water Service Area within NID" (Plan) which was intended to create processes by which treated water could be delivered by new pipelines to residential areas currently served by wells and irrigation ditches.

Agree

4. Under the Plan, the NID Board has approved the formation of a Community Facilities District to deliver treated water to the Cement Hill Area.

Agree

5. Under the Plan, the NID Board is reviewing pilot programs to deliver treated water to the Rodeo Flats and Ranchero Way/Knolls Drive/East Hacienda areas through the formation, as appropriate, of community facilities or assessment districts under which NID would advance the startup expenses and some portion of the project costs. The balance of the project costs would be funded through loans repayable through assessments on the affected property owners.

Agree

6. Whether the startup costs advanced by NID for the pilot projects described in 4 and 5 above would be recovered by NID from the loan proceeds has yet to be determined by the NID Board.

Agree

7. In April 2006, the NID Board adopted a "Pilot Policy for Temporary Service Location (TSL)" under which a qualifying property owner within the District not receiving NID treated water may secure, at the property owner's expense, temporary treated water services.

Agree

8. The property to receive a TSL must be capable of connecting to an existing water main and be located where NID facilities will logically require a mainline fronting the property in the future.

Agree

9. NID, through the Placer County Water Agency and the City of Lincoln, currently causes treated water to be delivered to approximately 3500 homes, in a portion of the City of Lincoln lying within the NID exterior boundaries.

Agree

10. NID has approved a Memorandum of Understanding covering the feasibility, planning and eventual construction of a water treatment plant near Lincoln to supply NID raw water which will be treated and sold to residents within the NID boundaries (10,000 to 20,000 homes estimated).

Agree

11. The Lincoln water treatment plant, if constructed, would be paid for by Lincoln and NID (currently estimated at 80% Lincoln, and 20% NID), owned, and operated by NID.

Agree

12. The NID Board approved absorbing the cost of the installation of a treated water line adjacent to the route of the pending Lower Cascade Canal/Banner Cascade Pipeline Project.

Partially agree. The NID Board approved including the cost of the treated water transmission line in the total project. These transmission lines will be paid out of the system improvement reserve.

Conclusions

1. The growth of Nevada and Placer Counties reflects a change from agricultural prominence to increasing domestic need for treated water.
2. In Western Nevada County, NID is the sole supplier of raw water.
3. NID is the only viable source of treated water in unincorporated Western Nevada County for residents currently dependent on well or ditch water.
4. The NID Board of Directors is commended for its adoption of the NID Strategic Plan 2005-2006 "Expansion of Water Service Area within NID," as approved in principal on August 27, 2006; as well as its ongoing efforts to bring treated water to residential areas currently without treated water.

Recommendation

The NID Board should establish a District wide program for cost effective extension of treated water to areas within the District currently depending on well and ditch water for domestic purposes.

The recommendation has been implemented with the creation of the District financed water line extension and temporary service line pilot programs. The District will also encourage the use of CFD's as a cost effective means of extending its treated water system. The Board will continue to evaluate and modify these programs as the District gains experience and receives recommendations from staff.

Water Rates:

The Water Division should pay its own way. Simplify, and then raise the water rates.

Findings

1. NID has 31 published rate schedules for raw and treated water.

Agree

2. The NID rate schedule contains anomalies whereby some raw water customers pay more per miner's inch than others who buy more water.

Agree

3. Despite a 2007 budget which projected a Water Division deficit of \$3,403,400, the NID Board decided not to increase water rates for 2007, electing instead to cover the deficit from the Rate Augmentation Fund.

Agree

4. During the period 1997 – 2007, the NID Board has raised treated and raw water rates in every year except 2000 and 2007. **Schedule V** reflects the percentage of rate increase over the prior year, and the dollar amount of each increase for both treated and raw water.

Agree

5. On April 11, 2007, the NID auditors recommended to the Board that depreciation be taken into account in determining water rates, a practice that has not previously occurred.

Agree

6. On April II, 2007, the NID auditors recommended to the Board that an increase in water rates is needed to avoid having the NID Water Division operate at a loss.

Agree

7. On December 13, 2006, the NID Board budgeted \$55,000 for a cost of services study. To date that study has not been initiated.

Agree. As of July, 2007, the District initiated the water rate cost of service and business plan studies.

Conclusions

1. NID's increase in both treated and raw water rates over the past ten years has, at best, produced only nominal increases in revenue and has not been sufficient to cover projected Water Division operating deficits.
2. To rely on the Rate Augmentation Fund to cover Water Division operating deficits will not support operations indefinitely.
3. The current NID rate structure does not lend itself to easy use or public understanding.
4. NID has consistently avoided raising rates sufficient to assure that the Water Division at least broke even financially.
5. The current NID rate structure is inequitable with the treated water customers paying a disproportionate share of Water Division operating expenses.
6. The current NID rate schedules do not generate income sufficient to produce a balanced budget for Water Division operations.

Recommendations

1. The NID Board should accelerate its budgeted cost of service study.

The recommendation has been implemented as of July of 2007.

2. The NID rate structure should be modified to fairly allocate expenses between raw and treated water customers.

The recommendation will be evaluated pending the results of the cost of service study. Once the study is completed, it will require further analysis as to the proper course of action the District should take.

3. The NID rate schedules should be simplified to achieve equitable charges for increased quantities of water purchased with uniform adjustments when rates are adjusted up or down.

See #2 above.

4. The NID rate schedule should produce revenue sufficient to achieve a balanced budget for the Water Division without the need to use reserves to avoid a deficit.

See #2 above.

REQUIRED RESPONSES

NID Board of Directors August 29, 2007

Schedules Attached:

- I. Long Term Debt Maturity schedule: Dec 31, 2006
- II. Investment Income, Property and Tax Revenue, Interest Expense, Annual Debt Service, Long-Term Debt and Reserve Balances 2003-2006
- III. Working Capital and Reserve Accounts: Dec 31, 2006
- IV. Statement of Rate Related Revenues and Expenses including Depreciation: 2000-2006
- V. Raw and Treated Water Rates: 1997-2007