

A CURRENT LOOK AT NID

REASON FOR INVESTIGATION

Nevada Irrigation District (NID) is the largest Special District in Nevada County and is responsible for providing water for both household and agricultural use in portions of Western Nevada County and parts of Placer, Yuba and Sutter Counties. California Penal Code Section 933.5 authorizes all civil grand juries with oversight of special districts. The Nevada County Civil Grand Jury was concerned by the continuation of annual rate increases combined with the acknowledged large reserves retained by NID.

BACKGROUND

The Nevada Irrigation District is an independent Special District operated for the landowners within its 287,000 acre boundaries which include portions of Western Nevada County and Northwestern Placer County. NID has approximately 160 employees who provide service to some 22,000 customers of both raw (agricultural) and treated (household) water. NID also supplies raw water to Grass Valley and Nevada City. NID is managed by a five member Board of Directors elected by district voters.

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

METHOD OF INVESTIGATION

The Grand Jury interviewed senior management of NID including the General Manager and the Finance Manager and members of the Board of Directors. Grand Jury members also attended four Board of Directors meetings at which both the proposed 2006 rate increase and the proposed 2006 budget were discussed and at which the public was given the opportunity to comment on both the rate increase and the budget.

The Grand Jury reviewed financial and operational data for the period from 1999 through 2006 provided by NID. These included proposed and approved budgets, actual financial results, audit reports and construction plans.

The Grand Jury reviewed previous Grand Jury reports issued in 1999, 2001 and 2003.

FINDINGS

1. NID has made substantial changes to its budgeting process in recent years. The major change was made in the 2005-2007 budget when separate budgets were created for Operations and Maintenance (O&M) and Capital. The O&M budget supports normal day-to-day service and repair work. The Capital budget supports construction of new facilities including treatment plants and pipelines.
2. The annual NID budget includes specific line items for withdrawals from or deposits to reserves.
3. NID has repeatedly reported that expenses continue to exceed revenues for the O&M portion of the budget resulting in increased rates for both agricultural and treated water in each of the last five years.
4. In each year from 1999 to 2004, the original approved NID budget substantially underestimated revenues. The total amount of the underestimation of revenue for the six year period was \$24,000,000, which represents an average of 20% of budgeted revenues over the same time period.
5. For 2004, the amount of the underestimation of revenues was \$3,100,000. NID staff stated at a Board of Directors meeting that a 1% change in rates is roughly equivalent to \$150,000 in revenues. Therefore, the \$3,100,000 underestimation has an equivalent impact of a 20% rate increase.
6. During recent public hearings on the rate increase process, NID did not clearly state the amount of additional revenues required to balance the budget or the amount intended to be raised by the proposed rate increase.
7. In 2006, NID formally made proactively expanding water services to the existing and new customers within its service territory its top priority.
8. NID has been charging all labor costs to the O&M budget even if the labor was related to the Capital budget. As part of the 2006 proposed rate increase process, NID stated that the amount of labor that should be assigned to Capital rather than O&M was \$1,200,000 for 2006.
9. According to NID, the State of California took approximately \$1,600,000 in assessment revenues from NID in 2004, \$3,200,000 in 2005, and will take an additional \$1,600,000 in 2006. The money transferred from NID to the State amounts to approximately \$6,400,000.
10. Under current NID procedures, if a construction project cannot be completed on schedule, the moneys assigned to the project remain unspent resulting in under running current year capital outlays.

11. More than 50% of NID projects over the last five years have not been completed on schedule.
12. The costs of construction materials and labor have continued to increase over the last five years.

CONCLUSIONS

1. NID's \$24,000,000 underestimation of revenues over the last six years has had a substantial impact on the rate setting process.
2. Delays in completing more than 50% of scheduled projects have resulted in increasing the cost of projects.
3. The current NID practice of under-running the Capital budget due to delays in project schedules has contributed significantly to year end surpluses.
4. A perceived under-funding of the Operations and Maintenance (O&M) budget has been the basis of much of NID's proposed rate increases.
5. The recently adopted process of budgeting day-to-day operations separately from construction program requirements appears to be a valid way to manage and control revenues and expenses.

RECOMMENDATIONS

1. NID should review the process used to estimate water sale revenues, service connections and interest revenues to ensure that budgeted revenues more closely approximate actual revenues.
2. NID should implement a tighter control over construction projects including a documented five year construction program complete with a list of current year approved projects with schedules and budgets.
3. NID needs to improve overall management of its construction program in order to accomplish work identified in the Capital budget in a timely manner.
4. NID should allocate day-to-day labor costs to the O&M budget and labor associated with construction projects to the Capital budget to support the process of setting rates to properly support associated costs.
5. NID rate increases should be tied directly to the need for balancing revenues against expenses.

REQUIRED RESPONSE

NID Board of Directors – July 18, 2006