Nevada Irrigation District

2026 Cost of Service Study
March 5, 2026 *Draft*

BARTLE WELLS ASSOCIATES
INDEPENDENT PUBLIC FINANCE ADVISORS

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March 5, 2026

Nevada Irrigation District
1036 West Main Street
Grass Valley, CA 95945

Re: 2026 Cost of Service Study

Bartle Wells Associates (BWA) is pleased to submit the attached *2026 Cost of Service Study* for the Nevada Irrigation District. The study develops long-term financial projections for the District's water utility and calculates new rates designed to equitably recover the costs of providing service. The recommended rates are designed to meet the District's funding needs, comply with legal requirements, and be equitable to the District's customers.

The proposed rates incorporate both overall rate revenue increases as well as some modifications to the rate structures designed to improve rate equity and align rates with the current cost of providing service. Rate increases are phased-in over five years to minimize the annual impact on customers.

We enjoyed working with the District on this project and appreciate the assistance and input received from the District throughout the project. Final recommendations were developed with input from the District's project team, the District's Board, and independent legal counsel. Please contact us anytime if you have questions about the recommendations in this report or other issues regarding utility rates and finances.

Sincerely,

BARTLE WELLS ASSOCIATES

Erik Helgeson, MBA
Principal/Vice-President

Nevada Irrigation District
Cost of Service Study

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1. Executive Summary

Background

The Nevada Irrigation District (NID or District) provides water service to over 25,000 homes, businesses, and farms throughout a 450 square-mile service area that includes portions of Nevada, Placer, and Yuba Counties. The District provides raw water, primarily for agricultural irrigation, and treated potable water for domestic, commercial, municipal, and industrial needs. The District also produces hydroelectric energy and provides recreational services at its reservoirs in the foothills of the Sierra Nevada. NID's water supply comes from natural runoff from over 70,000 acres of high mountain watershed in the Sierra Nevada Mountains. NID owns and operates 10 major and 17 minor reservoirs, more than 470 miles of canals, 6 water treatment plants, 13 water systems, and over 430 miles of treated water pipelines. NID's water system serves nearly 20,000 treated water customers and approximately 6,000 raw water customers. The three major sources of revenue for the District are water sales, property taxes, and hydroelectric power revenue.

In 2023, the District retained Bartle Wells Associates (BWA) to develop updated financial projections and a cost of service study for the District. Final recommendations incorporate input from District staff. The proposed rates are designed to fund the operating and capital needs of the District's water system, while proportionally and equitably recovering costs from all customers.

Financial Challenges

The District is facing a number of financial challenges that will require annual rate increases over the next five years. These challenges include:

- **Water System Maintenance and Improvements** – The District takes a proactive approach to maintaining its water system, which requires continuous repair and improvement projects. Additionally, the District is required to complete several capital projects within the next five years to comply with regulatory requirements. The largest of these is the Scotts Flats Spillway Improvement Project, estimated to cost over $54 million. Accounting for construction cost inflation, the District anticipates funding approximately $139 million of capital improvement projects over the next 5 years, averaging $27.8 million per year. The proposed rates will allow the District to fund capital expenditures through a combination of revenue from rates, reserves, and debt issuance.
- **Ongoing Cost Inflation** – On top of rate increases needed for other purposes, annual rate increases are needed to keep revenues aligned with inflation and prevent rates from falling below the cost of providing service. Historically, inflation consistently hovered between 2% and 3%, but in recent years it exceeded 25% for public works projects. Given the recent volatility in inflation,

BWA designed the inflation projections to be slightly conservative, leaving the District in a strong financial position while avoiding excessive rate increases.

Water Rate Recommendations

Updated District financial projections indicate the need for annual increases in water rate revenue over the next five-year period. The proposed rates incorporate modifications to the District's water rate structure designed to align rates with the current cost of providing service. Due to these modifications, impacts on customer water bills will vary based on customer class, water meter size, and water use when the proposed rates are implemented. The remaining four years of the recommended rate increases are applied on an across-the-board basis with the same percentage increase to all charges.

The proposed water rates share several similarities with the District's existing rate structure but incorporate structural modifications to better align rates with the current projected cost of service and customer demand. Rate structure and customer class recommendations are described as follows:

- Remove the Monthly Regulatory Fee for Treated Water Customers: BWA reviewed the current regulatory fee that is used to recover regulatory compliance costs and determined that it would be more appropriate to incorporate these costs into the overall rate structure. Removing this separate fee will simplify billing and reduce administrative burden.
- Establish Uniform Water Use Rates for Volumetric Charges for Treated Water Customers: Move from two tiers to a single tier or uniform rate per hundred cubic feet of water use. This reflects the District's operating cost structure, which remains relatively flat despite changes in the usage volume.

The following tables show the proposed water rates, including the recommended rate structure changes, based on the District's financial projections and the cost of providing service.

Table1: Recommended Treated Water Rates

	2025	2026	2027	2028	2029	2030
Treated Water Rates	*Existing*	*Projected*	*Projected*	*Projected*	*Projected*	*Projected*
Inside District Monthly Fixed Service Charges						
5/8inch	$29.33	$32.69	$36.78	$41.38	$46.55	$52.37
3/4inch	44.00	49.05	55.18	62.08	69.84	78.57
1inch	73.34	81.74	91.96	103.46	116.39	130.94
1.5 inch	146.67	163.49	183.93	206.92	232.79	261.89
2 inch	234.68	261.57	294.27	331.05	372.43	418.98
3 inch	469.35	523.16	588.56	662.13	744.90	838.01
4inch	733.36	817.44	919.62	1,034.57	1,163.89	1,309.38
6inch	1,466.72	1,634.86	1,839.22	2,069.12	2,327.76	2,618.73
8inch	2,346.75	2,615.78	2,942.75	3,310.59	3,724.41	4,189.96
Outside District Monthly Fixed Service Charges						
5/8inch	36.67	43.16	48.56	54.63	61.46	69.14
3/4inch	55.00	64.73	72.82	81.92	92.16	103.68
1inch	91.67	107.89	121.38	136.55	153.62	172.82
1.5 inch	183.34	215.76	242.73	273.07	307.20	345.60
2 inch	293.34	345.22	388.37	436.92	491.54	552.98
3 inch	586.69	690.45	776.76	873.86	983.09	1,105.98
4inch	916.70	1,078.82	1,213.67	1,365.38	1,536.05	1,728.06
6inch	1,833.40	2,157.64	2,427.35	2,730.77	3,072.12	3,456.14
8inch	2,933.44	3,452.22	3,883.75	4,369.22	4,915.37	5,529.79
Additional Monthly Regulatory Fee						
All Treated Customers	1.90	0.00	0.00	0.00	0.00	0.00
Inside District Volumetric Rates, $ per HCF						
Tier 1 (0-5 HCF)	2.42	3.21	3.61	4.06	4.57	5.14
Tier 2 (>5 HCF)	3.13	3.21	3.61	4.06	4.57	5.14
Outside District Volumetric Rates, $ per HCF						
Tier 1 (0-5 HCF)	3.03	4.26	4.79	5.39	6.06	6.82
Tier 2 (>5 HCF)	3.91	4.26	4.79	5.39	6.06	6.82
Volumetric Rates ($ per Acre Foot)						
Inside Municipal	1,227.09	1,396.64	1,571.22	1,767.62	1,988.57	2,237.14
Outside Municipal	1,532.88	1,857.29	2,089.45	2,350.63	2,644.46	2,975.02

Table 2: Recommended Raw Water Rates

	2025	2026	2027	2028	2029	2030
Raw Water Rates	*Existing*	*Projected*	*Projected*	*Projected*	*Projected*	*Projected*
Fixed Service Charges						
In-District						
Summer	570.99	660.60	743.18	836.08	940.59	1,058.16
Winter	713.73	807.14	908.03	1,021.53	1,149.22	1,292.87
Annual	1,284.72	1,467.74	1,651.21	1,857.61	2,089.81	2,351.04
Municipal	1,284.72	1,467.74	1,651.21	1,857.61	2,089.81	2,351.04
Out-District Raw Water						
Summer	713.73	1,151.87	1,295.85	1,457.83	1,640.06	1,845.07
Winter	890.74	1,298.41	1,460.71	1,643.30	1,848.71	2,079.80
Volumetric Rates ($ per Miners Inch)						
In-District						
Summer	336.48	393.50	442.69	498.03	560.28	630.32
Winter	420.61	478.78	538.63	605.96	681.71	766.92
Annual	757.09	872.28	981.32	1,103.99	1,241.99	1,397.24
Out-District Raw Water						
Summer	420.61	1,560.03	1,755.03	1,974.41	2,221.21	2,498.86
Winter	524.91	1,639.73	1,844.70	2,075.29	2,334.70	2,626.54
Volumetric Rates ($ per Acre Foot)						
Inside Municipal	296.79	104.25	117.28	131.94	148.43	166.98
Outside Municipal	370.99	233.82	263.05	295.93	332.92	374.54

In future years, the District can re-evaluate its finances and revenue requirements and adjust rates as needed based on updated projections. However, while the District always has the flexibility to implement rate adjustments lower than those adopted pursuant to Proposition 218, future rates cannot exceed the adopted increases without going through the Proposition 218 process again. Rates adopted pursuant to Proposition 218 are essentially future rate caps.

2. Background, Objectives, and Legal Requirements

Background

The Nevada Irrigation District (NID or District) provides water service to over 25,000 homes, businesses, and farms throughout a 450 square-mile service area that includes portions of Nevada, Placer, and Yuba Counties. The District provides raw water, primarily for agricultural irrigation, and treated potable water for domestic, commercial, municipal, and industrial needs.

NID's water supply comes from natural runoff from over 70,000 acres of high mountain watershed in the Sierra Nevada Mountains. NID owns and operates 10 major and 17 minor reservoirs, more than 475 miles of canals, six water treatment plants, 13 water systems, and over 400 miles of treated water pipelines. NID's water system serves approximately 20,000 treated water customers and 6,000 raw water customers.

The District also produces hydroelectric energy and provides recreational services at its reservoirs in the foothills of the Sierra Nevada Mountains. NID is a leader among Northern California water agencies in producing clean, hydroelectric energy. The District began producing power in 1966 and has seven power plants that generate enough electricity to supply the equivalent of more than 60,000 homes. NID's hydroelectric division generates revenues that help defray the costs of operating NID's water systems. NID also operates recreational facilities and campgrounds and provides opportunities for boating and other water sports at District reservoirs. The three major sources of revenue for the District are water sales, property taxes, and electric power revenue.

Cost of Service Study Objectives

In 2025, NID retained Bartle Wells Associates (BWA) to assist the District with a comprehensive effort to identify the cost of service for a) providing treated water vs. irrigation water service. The analysis is based on current and historical data provided by the District. The findings presented in this report are developed with substantial input from District staff and represent a comprehensive effort to identify costs associated with providing treated and irrigation water service, including costs for ongoing operations, wholesale water supply, debt service, and capital improvements needed to keep the District's aging infrastructure in safe and reliable operating condition. Key goals and objectives of this study include developing water rates that:

- Recover the costs of providing service, including operating, capital, and debt funding needs;
- Are proportionate, fair, and equitable to all customers;
- Are easy to understand and implement;
- Comply with the substantive requirements of the California Constitution, Article 13D, Section 6 (which was adopted by the voters as Proposition 218 in 1996) and other applicable laws;

- Support the long-term operational and financial stability of the District.

General Cost of Service Study Process

The general process used for this cost-of-service rate study is summarized in the following diagram.

Figure 1: Cost-of-Service Rate Study Process

Key elements of the study include:

1) **Project Initiation and Data Collection –** Review financial policies; collect financial and other relevant data; and review rate structures; and
2) **Demand Analysis** – Analyze past water demands and customer characteristics and forecast future demands; and
3) **Long Range Financial Plans** - Develop financial projections to evaluate annual revenue requirements from rates and the overall level of rate increases needed to fund the costs of providing service and support long-term financial stability; and
4) **Cost Allocation** – Group the District's costs in terms of the function they serve as a basis to proportionally allocate the revenue requirement from rates; and
5) **Cost of Service Rate Design** - Develop rate structures that proportionately recover costs between customer classes (i.e., residential and commercial), as well as from customers within their designated customer class; and
6) **Prop 218 Process** – Ensure compliance with the substantive and procedural requirements of Proposition 218.

Constitutional Requirements for Rates

The water rates proposed in this report are designed to comply with two key articles of the California Constitution: Article 13D and Article 10, as explained below.

Article 13D, Section 6

Proposition 218 was adopted by California voters in 1996 and added Articles 13C and 13D to the California Constitution. Article 13D, Section 6 governs property-related charges, which the California Supreme Court has ruled include rates imposed for water service. Article 13D, Section 6 establishes both a) procedural requirements for imposing or increasing property-related charges, and b) substantive requirements for those charges. Article 13D, section 6, prohibits a local agency from imposing a proposed rate change if there is a majority written protest. Article 13D, section 6, also requires voter approval for new or increased property-related charges but exempts rates for water, wastewater, and garbage service from this secondary voting requirement if rates are adopted by the appropriate procedure, without a majority protest, and meet the substantive requirements. This report substantiates water rates to comply with the substantive requirements of Proposition 218.

The substantive requirements of Article 13D, Section 6 require property-related charges, such as the District's water rates, to meet the following conditions:

1) Revenues derived from the fee or charge shall not exceed the costs required to provide the property-related service.
2) Revenues derived from the fee or charge shall not be used for any purpose other than that for which the fee or charge was imposed.
3) The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel.
4) No fee or charge may be imposed for a service unless that service is used by or immediately available to the property in question.
5) No fee or charge may be imposed for general governmental services, such as police or fire services, where the service is available to the public at large in substantially the same manner as it is to property owners.

Statute of Limitations

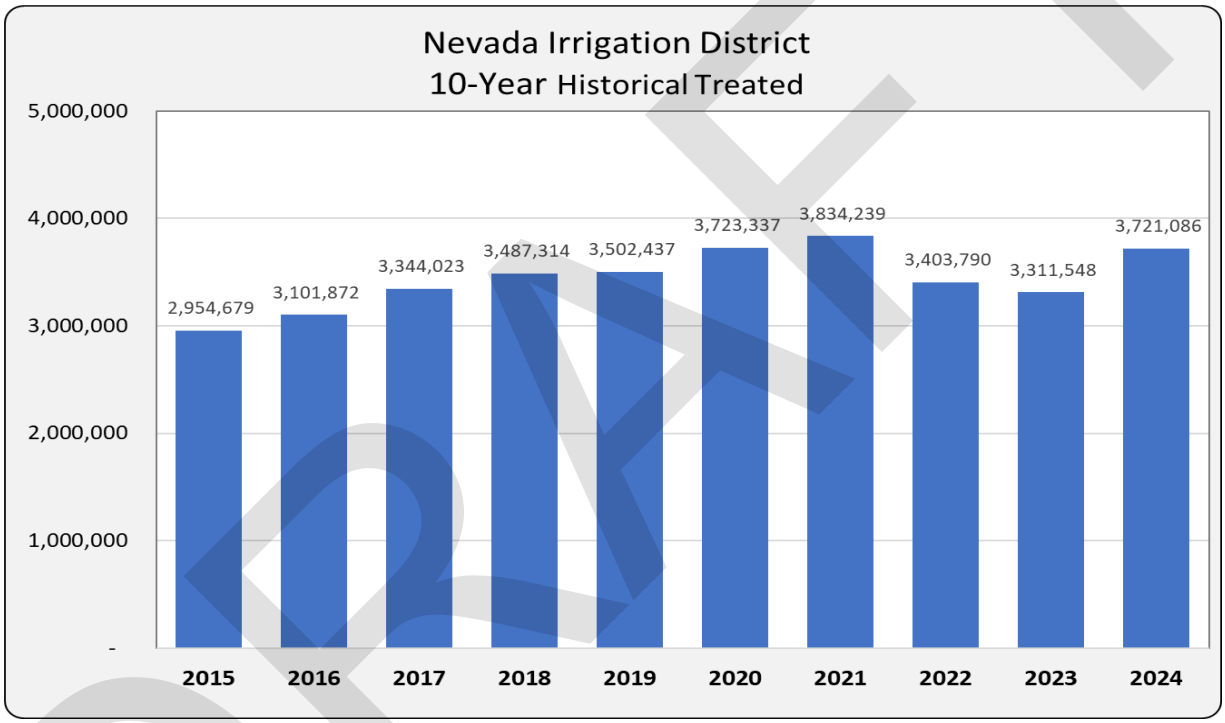
Pursuant to California Government Code 53759, there is a 120-day statute of limitations for challenging any new, increased, or extended fees. This statute of limitations applies to the water rates proposed in this rate study and included in the Proposition 218 Notice.

3. Water Demand and Customer Characteristics

Treated Water Demand

The District's treated water demand grew at a steady pace from 2015 to 2021. In 2021, the District Board declared a drought emergency, eventually imposing conservation measures to achieve a 20% reduction in water use from all District customers. Statewide drought conditions continued in 2022. In 2023 precipitation was far above average due to atmospheric rivers.

Figure 2: Historical Water Demand



The District experiences a seasonal demand pattern, with increased water use during the warmer summer months. This is primarily due to landscape irrigation and the delivery of water to irrigation customers, reaching two to three times the level of use during the lower-demand winter months. Although the exact timing and magnitude of peak and minimum demands vary from year to year, these higher seasonal demands require the District to maintain additional infrastructure capacity, including larger storage facilities, pumps, and pipelines, as well as increased water supplies. The costs associated with maintaining this additional capacity form the basis for the District's seasonal irrigation water rates, which vary depending on the level of water use.

The following chart shows the District's current and projected annual water use by customer class.

Table 3: Current and Projected Water Use by Customer Class

Water Account Type	Usage Description	2024	2025
		Actual	*Projected*
In-District Raw			
Summer	Miners Inches	10,987.0	10,987.0
Winter	Miners Inches	536.0	536.0
Annual	Miners Inches	184.3	184.3
Municipal	Acre Feet	1,462.1	1,462.1
Out-District Raw			
Summer	Miners Inches	276.0	276.0
Winter	Miners Inches	4.0	4.0
Municipal	Acre Feet	1,147.9	1,147.9
In-District Treated			
Step 1	HCF	1,482,729.0	1,482,729.0
Step 2	HCF	2,160,150.0	2,160,150.0
Municipal	HCF	10,304.0	10,304.0
Out-District Treated			
Step 1	HCF	8,729.0	8,729.0
Step 2	HCF	7,697.0	7,697.0
Municipal	HCF	51,477.2	51,477.2

Projected 2025 water demand is based on partial-year actual use in 2024 and continuing non-drought conditions. Water demand projections are conservative to reflect statewide elevated awareness of drought conditions and water-efficiency messaging and upgrades during the drought, which will result in long-term water-use reductions within the District's service area. The District is projecting demand will stabilize around the historical three-year average, approximately 3.4 million HCF of annual water use.

Customer Characteristics & Equivalent Capacity

Each connection to the District's water system is considered one service. Some of the District's fixed costs are reasonably recovered on a per-customer basis, while others are recovered based on the capacity required to serve each customer. The size of a customer's meter reflects the portion of the water system's capacity they require. A significant percentage of the costs of any water system is related to its requirement to deliver water to any customer instantaneously at any time, up to the maximum safe flow capacity of a customer's meter. Simply put, as a customer's water meter size increases, the instantaneous demand it can place on the District's water system increases.

Fixed charges for each meter size are based on the capacity of a meter relative to the capacity of the smallest meter size (e.g., a 5/8-inch meter) in the District's system. In this study, the relative capacity of a meter size, referred to as a meter equivalent ratio (MEU), is calculated by dividing the capacity of a given meter size by the capacity of a 5/8-inch meter. The sum of all MEU's reflects the total capacity of the District.

The meter equivalent ratios used for all customer classes are proportional to the maximum safe flow of a 5/8-inch meter, which is 20 gallons per minute (GPM). For example, a 1-inch meter with a maximum safe flow of 50 GPM has a meter-equivalent ratio of 2.5 MEUs. Total meter equivalent units for each meter size are derived by multiplying the meter equivalent ratio by the number of services at each meter size.

The following table contains the counts of water services and the calculations of meter-equivalent units.

Table 4: Water Services and Meter Equivalent Units

Water Accounts	Accounts	Seasonal Accounts	Meter Equivalent Ratio	Meter Equivalent Units (MEUS)
In-District Raw Water	**Accounts**	**Seasonal Accounts**		
Summer	4,536	4,536		
Winter	590	590		
Annual	237	474		
Municipal	2	4		
Out-District Raw Water	**Accounts**	**Seasonal Accounts**		
Summer	82	82		
Winter	7	7		
Municipal	2	4		
In-District Treated Water	**Accounts**	**Meter Equivalent Ratio**		**Total MEUs**
5/8”	14,898	1.0		14,898
3/4"	4,171	1.5		6,257
1”	209	2.5		523
1 ½”	122	5.0		610
2”	50	8.0		400
3”	27	16.0		432
4”	10	25.0		250
6”	9	50.0		450
8”	1	80.0		80
Out-District Treated Water	**Accounts**	**Meter Equivalent Ratio**		**Total MEUs**
5/8”	99	1.0		99
3/4"	13	1.5		20
1”	0	2.5		0
1 ½”	1	5.0		5
2”	1	8.0		8

4. Water Finances & Cash Flow Projections

Working closely with District staff, BWA developed long-term cash-flow projections to determine the water utility's annual revenue requirements and project required water rate revenue increases. The financial projections incorporate the latest information available from the District's budget, annual reports, capital spending projections, and metered water demand data, as well as a number of reasonable assumptions developed with input from the District.

Water Financial Overview

The water division relies on revenues from water rates to fund the costs of providing service. Water rate revenues are projected to account for approximately 58% of total water revenues, with the remaining revenues coming from property tax allocations, interest earnings, rents, and other miscellaneous revenues. As such, water rates must be set at adequate levels to cover operating and maintenance costs, pay for wholesale water purchases, and fund necessary capital improvements to keep the water system in good operating condition.

Current and Historical Water Rates

The following table shows the history of the District's treated water rates. Historical rates include the following components:

- Fixed monthly service charges based on meter size and service area,
- Fixed monthly regulatory fees based on a fixed per customer portion, and
- Volumetric tiered water rates vary by service area.

Table 5: Current and Historical Treated Water Rates

	2018	2019	2020	2021-Current
Treated Water Rates				
Inside District Monthly Fixed Service Charges				
5/8 inch	$24.83	$26.25	$27.75	$29.33
3/4 inch	37.25	39.37	41.62	44.00
1 inch	62.07	65.61	69.37	73.34
1.5 inch	124.15	131.23	138.74	146.67
2 inch	198.64	209.97	221.98	234.68
3 inch	372.43	419.94	443.96	469.35
4 inch	620.73	656.15	693.68	733.36
6 inch	1,241.45	1,312.30	1,387.36	1,466.72
8 inch	1,986.32	2,099.68	2,219.78	2,346.75
Outside District Monthly Fixed Service Charges				
5/8 inch	31.03	32.81	34.68	36.67
3/4 inch	46.56	49.21	52.03	55.00
1 inch	77.58	82.02	86.71	91.67
1.5 inch	155.18	164.04	173.42	183.34
2 inch	248.29	262.46	277.47	293.34
3 inch	465.54	524.92	554.95	586.69
4 inch	775.91	820.19	867.10	916.70
6 inch	1,551.81	1,640.37	1,734.20	1,833.40
8inch	2,482.89	2,624.60	2,774.73	2,933.44
Additional Monthly Regulatory Fee				
All Treated Customers		1.90	1.90	1.90
Inside District Volumetric Rates, $ per HCF				
Tier 1 (0-5 HCF)	2.05	2.17	2.29	2.42
Tier 2 (>5 HCF)	2.65	2.80	2.96	3.13
Outside District Volumetric Rates, $ per HCF				
Tier 1 (0-5 HCF)	2.56	2.71	2.86	3.03
Tier 2 (>5 HCF)	3.31	3.50	3.70	3.91

The following table shows the history of the District's raw water rates. Historical rates include the following components:

- Fixed monthly service charges based on meter size and service area, and
- Volumetric tiered water rates vary by service area.

Table 6: Current and Historical Raw Water Rates

	2018	2019	2020	2021-Current
Raw Water Rates				
Fixed Service Charges				
Inside	510.87	540.09	570.99	570.99
Outside[1]	638.59	675.12	713.73	713.73
Volumetric Rates ($ per Miners Inch)				
Inside	301.06	318.28	336.48	336.48
Outside[1]	376.32	397.85	420.61	420.61

[1] Winter Seasonal Raw Rates = 125% of Summer Raw Rates, and outside winter users= 1.56% of Inside Summer Raw Rates (i.e., 1.25 x 1.25).

Financial Plan Assumptions

Financial plan assumptions are based on input from District staff, historical escalations, and conservative projections for future escalations to reasonably ensure that the rates adopted by the District will provide sufficient revenues to meet the revenue requirements.

Revenue Assumptions

- Proposed rates are effective annually for the next five years, beginning July 1, 2026, which will only represent a six-month rate increase, and then subsequent rate increases will be implemented in January.
- The customer base is projected to remain static (minimal to no growth) because the District is materially built out.
- Interest earnings are projected based on the annual beginning fund balance multiplied by the projected interest rate. The interest rate projections are based on recent and anticipated interest rates.
- Discretionary non-rate revenues, which materially support the water system, including property taxes and transfers in from the District's hydroelectric enterprise, will continue.

Expense Assumptions

- Operating and maintenance expenses are based on the District's 2025 Budget adjusted for rate-setting purposes with input from District staff.

- Cost escalation is based on the recent and historical Consumer Price Index (CPI) and Engineering News-Record Construction Cost Index (ENR). This report projects that during the rate period covered by this study, the average annual inflation rate will be 4%.
- Debt service projections are based on outstanding debt schedules and any projected issuances of new debt.

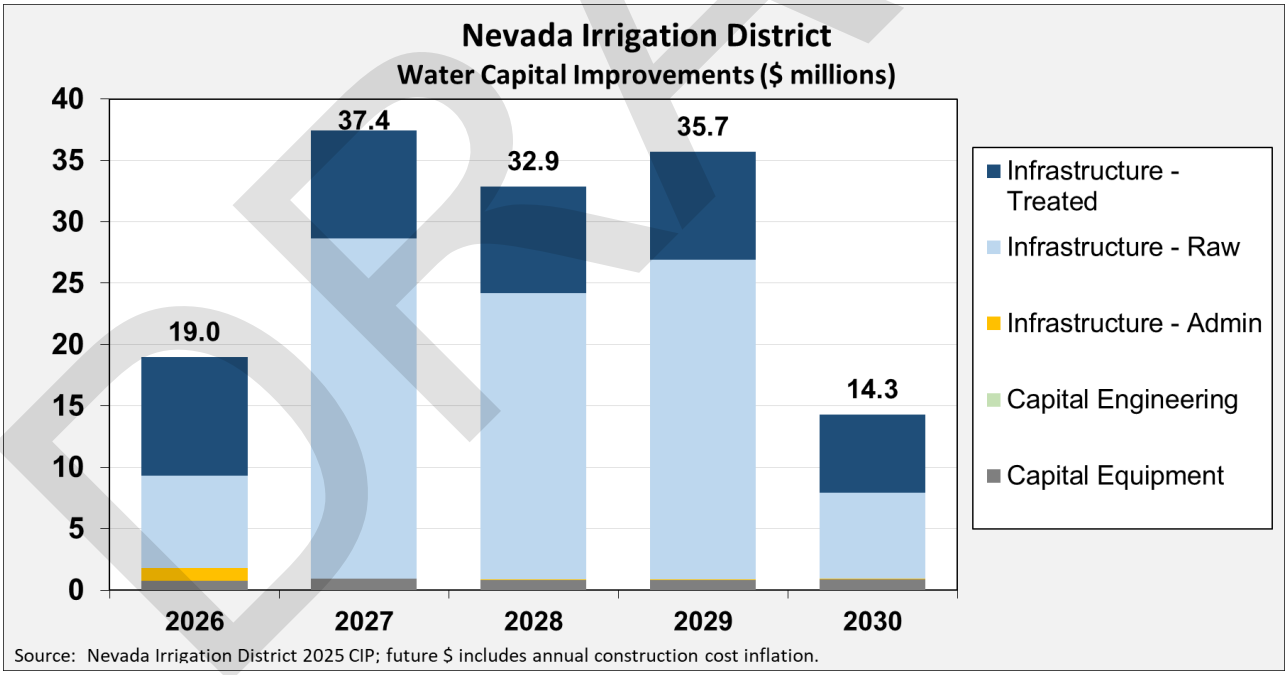
Key Drivers of Rate Increases

The District is facing a number of financial challenges that will drive the need for rate increases in upcoming years. Key drivers of future rate increases are summarized below.

Capital Improvement Funding Needs

The District takes a proactive approach to maintaining its water system, which requires ongoing repair and improvement projects. Accounting for construction cost inflation, the District anticipates funding approximately $139 million of capital improvement projects over the next five years, averaging $27.8 million per year. With the proposed rate increases, the District will be able to fund all $139 million with rate revenue, debt, and reserves. Capital projects and funding details are in Appendix B of this report.

Figure 3: Water Capital Improvements



Source: Nevada Irrigation District 2025 CIP; future $ includes annual construction cost inflation.

Ongoing Cost Inflation

On top of rate increases needed for other purposes, annual rate increases are needed to keep revenues aligned with inflation and prevent rates from falling below the cost of providing service. Inflation has recently increased due to a variety of factors, including tariffs, rising labor and materials costs, and

increased regulatory requirements. Given the recent volatility, BWA designed the inflation projections to be slightly conservative, leaving the District in a strong financial position while avoiding excessive rate increases.

Cash Flow Projections and Funding Sources that Subsidize Water Rates

Long-term cash-flow projections were developed based on assumptions and key drivers of future rate increases described in the previous section. The projections were used to determine the water utility's annual revenue requirements and project required water rate revenue increases. The long-term cash-flow projections incorporate the latest information available from the District's budget, annual reports, capital spending projections, and metered water demand data, as well as a number of reasonable assumptions developed with input from the District. Detailed revenue, expense, and customer demand projections are shown in Appendix B of this report.

As shown in the following table, the water division relies on substantial funding from multiple sources other than water rates to pay for both operating and capital expenses. NID's costs of providing water service are supported by a number of funding sources other than water rates. These other funding sources substantially reduce the funding requirements from NID's water rates and allow NID to levy water rates that are significantly below the cost of service. These other revenue sources include:

- **Property Tax Revenues** – NID receives property tax revenues that are used to fund the District's capital improvement programs and fund reserves for repairs and replacements. Property taxes are projected to increase by 1% per year.
- **Hydroelectric Revenue** – The hydroelectric fund pays for certain source of supply operating costs and some source of supply capital projects. Hydroelectric revenues also may be pledged to support water debt issuance.
- **Other Non-Rate Revenues** – NID generates revenues from rents, interest earnings, connection fees, and other miscellaneous fees and revenues that are used to help offset the funding requirements from water rates.
- **Grant Funding** – Although grant funding is difficult to obtain, NID has previously been successful in obtaining grant funding and actively pursues grant funding whenever applicable to the District.

The water division also receives a substantial indirect benefit from the hydroelectric division, which funds the operation and maintenance of NID's water supply reservoirs, costs that otherwise would need to be borne by the water division. The hydroelectric division also helps cover NID's administrative costs, further reducing the water division's funding requirements.

The overall rate revenue increases are designed to fund the District's cost of providing service, maintain roughly balanced budgets, maintain healthy debt service coverage, and meet long-term fund reserve targets. The projections indicate the need for annual increases in water rates for the next five years. Due

to proposed modifications to the rate structure and the updated cost-of-service analysis, the actual impacts on customers' water bills during the first year of the proposed rate increases will vary by customer class and water use. The remaining four years of the recommended rate increases are applied on an across-the-board basis with the same percentage increase to all charges.

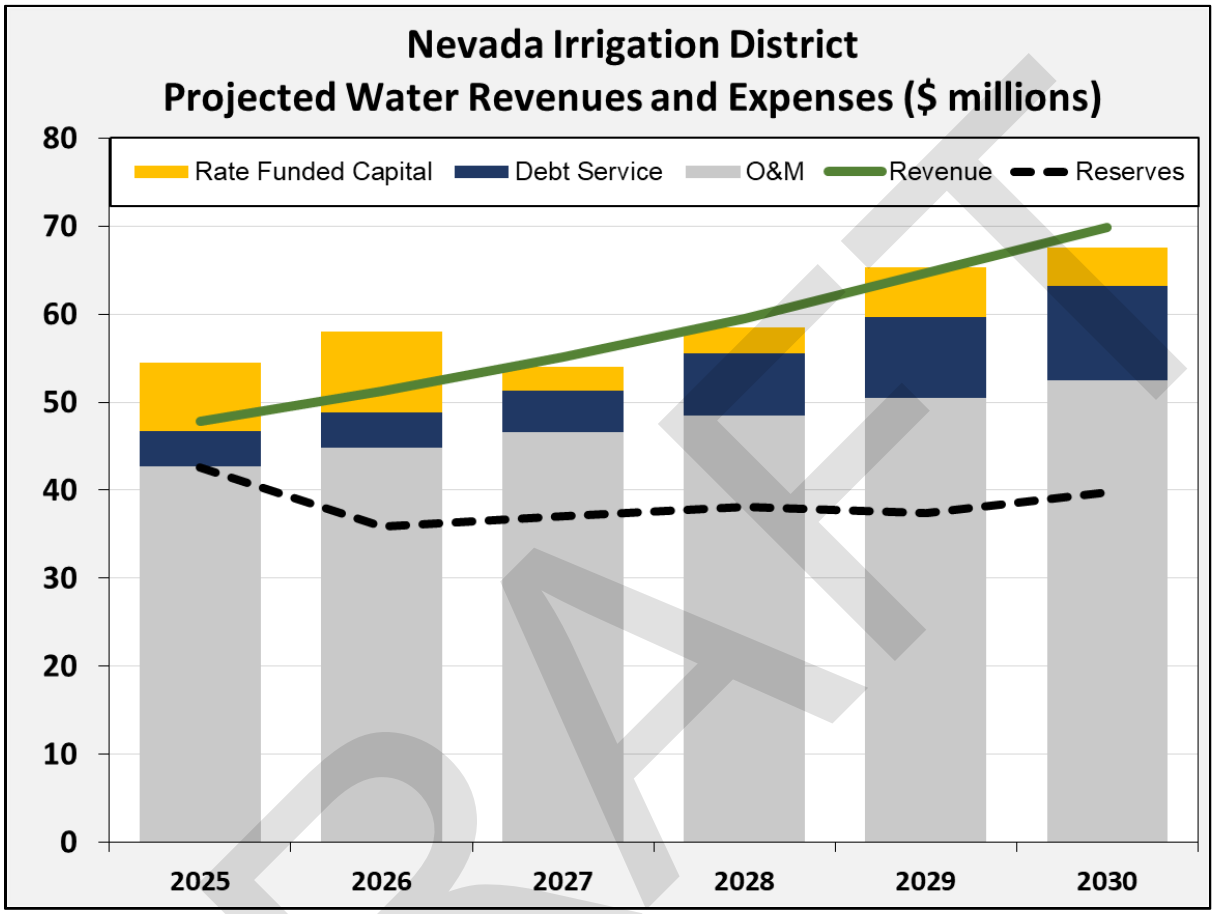
The following table details the long-term cash-flow projections for the District.

Table 7: Cash Flow Projections

Water Cashflow	2025	2026	2027	2028	2029	2030
	Adj. Budget	*Projected*	*Projected*	*Projected*	*Projected*	*Projected*
Rate Revenue Adjustment		***12.5%***	***12.5%***	***12.5%***	***12.5%***	***12.5%***
Interest Earnings Rate		*2.5%*	*2.5%*	*2.0%*	*2.0%*	*2.0%*
O&M Cost Escalation		*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
Property Tax Escalation			*1.0%*	*1.0%*	*1.0%*	*1.0%*
Beginning Fund Balance	**49,354,000**	**42,600,000**	**35,855,000**	**37,018,000**	**38,077,000**	**37,388,000**
Revenues						
Rate Revenue						
Current Rate Revenue	27,555,986	27,556,000	31,001,000	34,876,000	39,236,000	44,141,000
Rate Increase Revenue	0	3,444,500	3,875,125	4,359,500	4,904,500	5,517,625
Total Rate Revenue	27,556,000	31,001,000	34,876,000	39,236,000	44,141,000	49,659,000
Non-Rate Revenue						
Charges and Fees	635,000	617,000	623,000	629,000	635,000	641,000
Miscellaneous	557,000	478,000	478,000	478,000	478,000	478,000
Property Tax	17,070,000	17,330,000	17,503,000	17,678,000	17,855,000	18,034,000
CFD and Rodeo Flat Debt Service	436,000	429,000	429,000	429,000	429,000	0
Interest	960,000	1,065,000	896,000	740,000	762,000	748,000
Transfer-In	219,000	219,000	219,000	219,000	219,000	219,000
Rents and Leases	347,000	118,000	118,000	118,000	118,000	118,000
Total Non-Rate Revenue	20,224,000	20,256,000	20,266,000	20,291,000	20,496,000	20,238,000
Total Revenues	**47,780,000**	**51,257,000**	**55,142,000**	**59,527,000**	**64,637,000**	**69,897,000**
Expenses						
Operating Expenses						
Internal Services	8,283,000	8,614,000	8,959,000	9,317,000	9,690,000	10,078,000
Engineering	2,761,000	2,871,000	2,986,000	3,105,000	3,229,000	3,358,000
Water Treatment	1,928,000	2,005,000	2,085,000	2,168,000	2,255,000	2,345,000
Water Distribution	1,195,000	1,243,000	1,293,000	1,345,000	1,399,000	1,455,000
Electrical Depart.	620,000	645,000	671,000	698,000	726,000	755,000
Water Resources	467,000	486,000	505,000	525,000	546,000	568,000
Water Purchase	1,650,000	1,716,000	1,785,000	1,856,000	1,930,000	2,007,000
Customer Service	609,000	633,000	658,000	684,000	711,000	739,000
Operations Staffing	11,131,000	11,576,000	12,039,000	12,521,000	13,022,000	13,543,000
Maintenance	12,625,000	13,130,000	13,655,000	14,201,000	14,769,000	15,360,000
Vegetation	1,423,000	1,480,000	1,539,000	1,601,000	1,665,000	1,732,000
Transfer to Fund 50 (WSupply)	0	441,000	458,000	477,000	496,000	516,000
Total Operating Expenses	42,692,000	44,840,000	46,633,000	48,498,000	50,438,000	52,456,000
Debt Service						
Cement Hill Loan	611,000	611,000	611,000	611,000	611,000	82,000
Bonds - 2016A	2,237,000	2,232,000	2,233,000	2,235,000	2,232,000	2,230,000
Bonds - 2020A	1,116,000	1,125,000	1,122,000	1,117,000	1,120,000	1,121,000
New Debt Service	0	0	670,000	3,116,000	5,215,000	7,313,000
Total Debt Expenses	3,964,000	3,968,000	4,636,000	7,079,000	9,178,000	10,746,000
Capital						
Cash Funded Capital	7,878,000	9,194,000	2,710,000	2,891,000	5,710,000	4,311,000
Total Capital Expenses	7,878,000	9,194,000	2,710,000	2,891,000	5,710,000	4,311,000
Total Expenses	**54,534,000**	**58,002,000**	**53,979,000**	**58,468,000**	**65,326,000**	**67,513,000**
Revenues Less Expenses	**(6,754,000)**	**(6,745,000)**	**1,163,000**	**1,059,000**	**(689,000)**	**2,384,000**
Ending Fund Balance	**42,600,000**	**35,855,000**	**37,018,000**	**38,077,000**	**37,388,000**	**39,772,000**

The following figure shows the cash flow projections incorporating the assumptions described above.

Figure 4: Cash Flow Projections



5. Cost of Service Methodology

Article XIII D, Section 6 of the California Constitution (which was adopted by the voters in 1996 as a part of Proposition 218) requires that the District adopt only rates that meet a number of substantive requirements.

Specifically:

(1) Revenues derived from the water rates cannot exceed the funds required to provide water service.

(2) Revenues derived from the water rates cannot be used for any purpose other than providing water service.

(3) The amount of the water rates imposed upon any parcel or person as an incident of property ownership cannot exceed the proportional cost of the service attributable to the parcel.

(4) Water rates may not be imposed unless the water service is used by, or immediately available to, the owner of the property in question.

(5) Water rates cannot be used to fund general governmental services, such as police or fire services.

Each water customer is charged both a monthly fixed rate and a volumetric rate based on the quantity of water delivered by the District to the customer. This reflects that (i) some system costs are based entirely on the actual quantity of water consumed, (ii) other system costs are fixed from the point of view of the District, but are a result of design decisions that were made to accommodate all users, including high-demand users, and (iii) some costs, particularly the cost of administering the water system, would be largely the same regardless of the volume of water use.

Water utilities have employed a wide range of approaches and perspectives for allocating and recovering costs of service provision, often through a combination of fixed and variable charges. The percentage of revenues derived from the fixed and variable charges should be proportional to each system's expenditures and must not exceed the cost of providing service.

Many of the District's costs are fixed and do not vary with the level of service provided, such as operational and staff costs, as well as costs for building and maintaining infrastructure. Some of these costs are related to the number of customers, but most of the fixed costs are related to the total capacity of the water system. Fixed costs related to system capacity can reasonably be apportioned by meter size or by variable, usage-based rate recovery, in recognition that both units of measure reasonably reflect customer usage, thereby driving the District to incur capacity-related costs. For example, a share of the fixed cost of salaries related to water production can reasonably be recovered from usage-based charges, as these costs are incurred to provide water supply to meet customer demand, or from a fixed charge based on a customer's meter size, which reflects the magnitude of water a customer can pull

from the water system. Likewise, debt service payments may be fixed annual costs, but it is reasonable to recover some of these costs from usage-based rates as the costs are incurred to fund infrastructure that will improve the water delivery system.

While there is no single correct approach, BWA believes that costs should be allocated within a reasonable range that reflects both a) underlying cost causation, to the extent such causation can reasonably be determined or estimated, and b) the policy preferences of the agency in cases where a range of reasonable approaches can be justified.

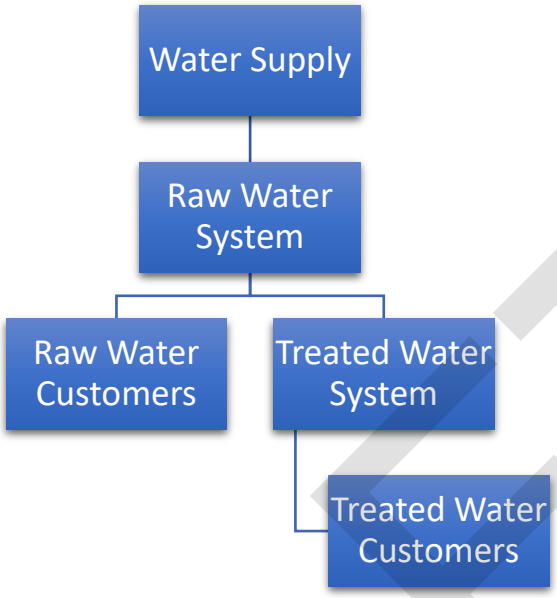
Cost of Service Analysis

This section describes the steps BWA took to determine the rate revenue requirement needed from each customer class that is proportional to their cost of service. The proposed rates are developed based on a detailed cost allocation that reflects the District's costs of providing service based on analysis of operations and input from District staff. Projected expenses are offset by non-rate revenues to identify the portion of rate revenue needed. To ensure the rates derived for the next five years are proportional to the cost of providing service, the expenses and non-rate revenues are based on the projected average amounts for the next five years.

Cost Allocation Between Treated and Raw Water Service

The District provides both treated and Irrigation water service to customers. Water for both raw and treated customers flows into the raw water system, which then conveys a portion of the water to the treated water system.

Figure 5: District Water Flow



Customers receiving raw water services do not benefit from the treated water system, but all treated water customers benefit from the raw water system. The first step taken to proportionately allocate costs was to identify and allocate costs to the treated water system that was specific to that system. District costs and non-rate revenues were allocated to the following categories:

- **Treated** – Items in this category are related only to the operations of the treated water system.
- **Raw** – Items in this category are related only to the operations of the raw water system.
- **As All Other** – Items in this category do not impact allocation because they are driven by the overall activity of the utility.

The basis for the allocations are as follows:

- Capital-related items included engineering, capital, and new debt, which were allocated based on the project portion of raw and treated costs in the District's capital plan.
- Customer service costs were allocated based on the number of customers.
- Purchased water is used to provide water to municipal water customers, and the cost was allocated based on the projected treated and raw municipal water demands.
- All other direct allocations were based on the results of analysis performed by the District.

The result of these allocations is that 69.2% of the District's costs only benefit the treated water system, while the remaining costs benefit the raw water system. The allocations are shown in the Table 9. The next cost allocation step was to identify the portion of water in the raw water system that flows into the treated water system. This amount of raw water system cost was then allocated to treated water customers and is shown in Table 10.

Table 8: Cost Allocation to Treated and Raw Water Systems

Allocation Category		Total System			
Water Expenses	**5-Year Average**	**Treated**	**Raw**	**As All Other**	**Total**
Addition/Use of Reserves	(565,600)			100%	*100%*
Net Source of Supply Cost	477,600		100.0%		*100%*
Internal Services	9,331,600			100%	*100%*
Engineering	3,109,800	50.0%	50.0%		*100%*
Water Treatment	2,171,600	100.0%	0.0%		*100%*
Water Distribution	1,347,000	45.0%	55.0%		*100%*
Electrical Depart.	699,000	70.0%	30.0%		*100%*
Water Resources	526,000	0.0%	100.0%		*100%*
Water Purchase	1,858,800	84.2%	15.8%		*100%*
Customer Serv.	685,000	77.0%	23.0%		*100%*
Staffing	12,540,200			100%	*100%*
Maintenance	14,223,000	57.0%	43.0%		*100%*
Vegetation	1,603,400	7.0%	93.0%		*100%*
Capital	4,963,200	50.0%	50.0%		*100%*
Cement Hill Loan	505,200	100.0%	0.0%		*100%*
Bonds - 2016A	2,232,400	100.0%	0.0%		*100%*
Bonds - 2020A	1,121,000	50.0%	50.0%		*100%*
New Debt Service	3,262,800	50.0%	50.0%		*100%*
Total	$60,092,000	$22,544,958	$16,240,842	n/a	*$38,785,800*

Water Non-Rate Revenue	**5-Year Average**	**Treated**	**Raw**	**As All Other**	**Total**
Charges and Fees	629,000			100%	*100%*
Miscellaneous	478,000			100%	*100%*
Property Tax	17,680,000		30%	70%	*100%*
CFD and Rodeo Flat Debt Service	343,200	100%			*100%*
Interest	842,200			100%	*100%*
Capacity Charge Debt Transfer	219,000	100%			*100%*
Rents and Leases	118,000		100%	0%	*100%*
Total	$19,202,400	$562,200	$5,422,000	n/a	*$5,984,200*

Cost Allocation	**5-Year Average**	**Treated**	**Raw**	**As All Other**	**Total**
Expenses	60,092,000	$22,544,958	$16,240,842		
Non-Rate Revenue	19,202,400	$562,200	$5,422,000		
Cost Allocation Amount	$40,889,600	$21,982,758	$10,818,842	n/a	*$32,801,600*
Total Cost Allocation %		67.0%	33.0%		
% of Total Raw Cost		6.7%	93.3%		
Adjustment for Treated % of Raw Flow		$725,799	-$725,799		
Total Cost Allocation Amount		$22,708,556	$10,093,044		*$32,801,600*
Total Cost Allocation %		69.2%	30.8%		
2026 Rate Revenue (No Increase)		**19,077,019**	**8,478,981**		***$27,556,000***

Table 9: Cost Allocation of Raw Water System Costs to Treated Water Customers

Allocation Category	All Raw Water		
Water Expenses	**5-Year Average Expenses**	**Treated Portion of Raw**	**Treated Portion of Raw**
Addition/Use of Reserves	(186,535)	7.0%	(13,117)
Net Source of Supply Cost	477,600	4.1%	19,372
Internal Services	3,077,562	7.0%	216,406
Engineering	1,554,900	7.0%	109,337
Water Treatment	0	7.0%	0
Water Distribution	740,850	7.0%	52,095
Electrical Depart.	209,700	7.0%	14,746
Water Resources	526,000	7.0%	36,987
Water Purchase	293,690	0.0%	0
Customer Serv.	157,550	7.0%	11,079
Staffing	4,135,758	7.0%	290,816
Maintenance	6,115,890	7.0%	430,054
Vegetation	1,491,162	7.0%	104,855
Capital	2,481,600	7.0%	174,500
Cement Hill Loan			
Bonds - 2016A			
Bonds - 2020A	560,500	7.0%	39,413
New Debt Service	1,631,400	7.0%	114,716
Total	$23,267,627		$1,601,259
Water Non-Rate Revenue	**5-Year Average Non-Rate Revenue**	**Treated Portion of Raw**	**5-Year Average Non-Rate Raw Revenue**
Charges and Fees	207,444	7.0%	14,587
Miscellaneous	157,644	7.0%	11,085
Property Tax	9,385,605	7.1%	668,939
CFD and Rodeo Flat Debt Service	0	7.0%	0
Interest	277,758	7.0%	19,531
Capacity Charge Debt Transfer	0	7.0%	0
Rents and Leases	38,916	7.0%	2,737
Total	$9,702,279		$691,206
Cost Allocation	**5-Year Average Net**	**Treated Portion of Raw**	**Treated Portion of Raw**
Expenses	23,267,627	6.9%	1,601,259
Non-Rate Revenue	9,702,279	7.1%	691,206
Cost Allocation Amount	$13,565,348	6.7%	$910,052
Total Cost Allocation %			
% of Total Raw Cost Adjustment for Treated % of Raw Flow			
Total Cost Allocation Amount			
Total Cost Allocation %			
2026 Rate Revenue (No Increase)			

Functional Allocation

There must be a cost-based nexus between the revenue requirement from the cash flow and the proposed rates. The nexus is created by allocating the expenses and offsetting non-rate revenues to functional components and then dividing each functional component's revenue requirements by the allocations units most reasonably related to each function. A functional component reflects a grouping of the utility's expenses whose magnitude is driven by the quantity of a specific unit-of-measure. For example, costs allocated to the customer functional component are driven by the number of customers served. The cost allocations to each functional allocation were based on input from District staff.

The raw water functional allocation is shown in Table 11. The functional components for raw water cost allocation are:

- **Customer -** Fixed costs providing an equivalent benefit to each customer were allocated to this functional component.
- **Monthly (Fixed) -** Fixed costs providing an equivalent benefit to each customer that remain consistent throughout the year were allocated to this functional component.
- **Volumetric -** Costs related to system capacity and the volume of water sold were allocated to this functional component.
- **Monthly (Volumetric) -** Costs related to system capacity and the volume of water sold that remain consistent throughout the year were allocated to this functional component.
- **Purchased Water –** The cost of purchased water was allocated to this functional component.
- **As All Other -** Items in this category do not impact the allocation because they are driven by the overall activity of the utility.

The treated water functional allocation is shown in Table 12. The functional components used for treated water cost allocation are:

- **Capacity-** Fixed related to system capacity was allocated to this category.
- **Volumetric -** Costs related to system capacity and the volume of water sold were allocated to this functional component.
- **As All Other -** Items in this category do not impact the allocation because they are driven by the overall activity of the utility.

The following table shows the total cost allocation for the District's water utility for raw water customers.

Table 10: Cost Allocation by Raw Water Customers

Allocation Category	Raw Water Customers						
Water Expenses	**5-Year Average Expenses**	**Customer**	**Monthly**	**Volumetric**	**Monthly**	**Purchased Water**	**As All Other**
		Fixed	*Fixed*	*Variable*	*Variable*	*Variable*	
Addition/Use of Reserves	**(173,418)**						100%
Net Source of Supply Cost	**458,228**			100%	0%		
Internal Services	**2,861,155**	100%		0%	0%		
Engineering	**1,445,563**	15%		85%	0%		
Water Treatment							
Water Distribution	**688,755**	0%	20%	80%	0%		
Electrical Depart.	**194,954**	10%		90%	0%		
Water Resources	**489,013**	30%		70%	0%		
Water Purchase	**293,690**	0%		0%	0%	100%	
Customer Serv.	**146,471**	95%	5%	0%	0%		
Staffing	**3,844,942**						100%
Maintenance	**5,685,836**	47%	3%	47%	3%		
Vegetation	**1,386,307**	33%	1%	65%	1%		
Capital	**2,307,100**	15%	0%	85%	0%		
Cement Hill Loan							
Bonds - 2016A							
Bonds - 2020A	**521,087**	0%		100%	0%		
New Debt Service	**1,516,684**	15%		85%	0%		
Total	**$21,666,368**	$7,086,729	$329,513	$10,100,475	$184,438	$293,690	n/a

Water Non-Rate Revenue	**5-Year Average Non-Rate Revenue**	**Customer**	**Monthly**	**Volumetric**	**Monthly**	**Purchased Water**	**As All Other**
Charges and Fees	**192,857**	100%					
Miscellaneous	**146,559**	100%					
Property Tax	**8,716,666**						100%
CFD and Rodeo Flat Debt Service	**0**						100%
Interest	**258,226**						100%
Capacity Charge Debt Transfer	**0**						100%
Rents and Leases	**36,180**						100%
Total	**$9,011,072**						n/a

Cost Allocation	**5-Year Average Net**	**Customer**	**Monthly**	**Volumetric**	**Monthly**	**Purchased Water**	**As All Other**
Expenses	**21,666,368**	$7,086,729	$329,513	$10,100,475	$184,438	$293,690	
Non-Rate Revenue	**9,011,072**	$0	$0	$0	$0	$0	
Cost Allocation Amount	**$12,655,296**	$7,086,729	$329,513	$10,100,475	$184,438	$293,690	n/a
Total Cost Allocation %							
% of Total Raw Cost Adjustment for Treated % of Raw Flow							
Total Cost Allocation Amount							
Total Cost Allocation %		39.39%	1.83%	56.13%	1.02%	1.63%	
2026 Rate Revenue (No Increase)		**$3,339,871**	**$155,165**	**$4,759,252**	**$86,486**	**$138,207**	

The following table shows the total cost allocation for the District's water utility for treated water customers.

Table 11: Treated Water Service Allocation

Allocation Category	Treated Water Customers				
Water Expenses	**5-Year Average Expenses**	**Capacity**	**Volumetric**	**As All Other**	**Total**
		Fixed	*Variable*		
Addition/Use of Reserves	**(392,182)**			100%	*100%*
Net Source of Supply Cost	**19,372**		100%		*100%*
Internal Services	**6,470,445**	95%	5%		*100%*
Engineering	**1,664,237**	50%	50%		*100%*
Water Treatment	**2,171,600**	0%	100%		*100%*
Water Distribution	**658,245**	0%	100%		*100%*
Electrical Depart.	**504,046**	10%	90%		*100%*
Water Resources	**36,987**		100%		*100%*
Water Purchase	**1,565,110**		100%		*100%*
Customer Serv.	**538,529**	100%			*100%*
Staffing	**8,695,258**			100%	*100%*
Maintenance	**8,537,164**	25%	75%		*100%*
Vegetation	**217,093**	0%	100%		*100%*
Capital	**2,656,100**	50%	50%		*100%*
Cement Hill Loan	**505,200**	50%	50%		*100%*
Bonds - 2016A	**2,232,400**	50%	50%		*100%*
Bonds - 2020A	**599,913**	50%	50%		*100%*
New Debt Service	**1,746,116**	50%	50%		*100%*
Total	**$38,425,632**	$13,572,130	$16,550,426	n/a	*$30,122,555*
Water Non-Rate Revenue	**5-Year Average Non-Rate Revenue**	**Capacity**	**Volumetric**	**As All Other**	**Total**
Charges and Fees	436,143	100%			*100%*
Miscellaneous	331,441	100%			*100%*
Property Tax	8,963,334			100%	*100%*
CFD and Rodeo Flat Debt Service	343,200	100%			*100%*
Interest	583,974			100%	*100%*
Capacity Charge Debt Transfer	219,000	100%			*100%*
Rents and Leases	81,820			100%	*100%*
Total	$10,191,328	$562,200	$0	n/a	*$562,200*
Cost Allocation	**5-Year Average Net**	**Capacity**	**Volumetric**	**As All Other**	**Total**
Expenses		$13,572,130	$16,550,426		
Non-Rate Revenue		$562,200	$0		
Cost Allocation Amount	$28,234,304	$13,009,930	$16,550,426	n/a	*$29,560,355*
Total Cost Allocation %					
% of Total Raw Cost Adjustment for Treated % of Raw Flow					
Total Cost Allocation Amount					
Total Cost Allocation %		44.01%	55.99%		*100%*
2026 Rate Revenue (No Increase)		**$8,395,796**	**$10,681,223**		***$19,077,019***

6. Rate Derivation

Treated Water Rate Derivation

Revenue requirements were adjusted so that property tax applies only to inside District customers. Outside District source of supply costs are applied only to outside District customers, with no reduction for property tax. The full cost revenue requirements for each functional component are divided by the units related to each function. The Capacity functional component revenue requirement is divided by the total treated MEUs to calculate the unit cost for capacity. The Volumetric functional component revenue requirement is divided by the total treated HCF to calculate the volumetric unit cost.

Table 12: Treated Water Unit Cost Calculation

Allocation Units	Total Amount	Capacity	Volumetric
Allocation Unit of Measure		*MEU*	*HCF*
Allocation %	100.0%	44.0%	56.0%
Rate Revenue Requirement	19,077,019	8,395,796	10,681,223
Allocation %	100.0%	44.0%	56.0%
Property Tax	6,056,239	2,665,351	3,390,888
Allocation %	100.0%	0.0%	100.0%
Net Source of Supply Cost	13,089	-	13,089
Unit Revenue Requirement	25,146,347	11,061,147	14,085,200
Allocation Units		24,031	3,721,086
Unit Cost ($/Unit)		**$460.30**	**$3.79**

The adjusted unit costs are then multiplied by the corresponding units for inside District and outside District customers to identify the full revenue requirement for each customer type. The revenue requirements for inside District customers are reduced by the property tax offset and the source-of-supply costs. The reduced revenue requirements are divided by the corresponding units to calculate the fixed and variable rates.

The rate derivation tables below present the recalculated cost-of-service rates designed to recover revenue at existing rate levels. The proposed Fiscal Year 2026 rates will include an overall revenue adjustment of 12.5 percent, applied to the newly derived cost-of-service rates shown below to produce the proposed rates effective July 1, 2026.

Table 13: Treated Water Rate Derivation

Rate Derivation	Inside	Outside		Inside	Outside
Allocation Unit of Measure	*MEU*	*MEU*		*HCF*	*HCF*
Units	23,899	132		3,653,183	67,903
Unit Cost ($/Unit)	460.30	$460.30		3.79	3.79
Revenue Requirement w/o Property Tax	11,000,618	60,529		13,828,171	257,030
Property Tax	(2,665,351)			(3,390,888)	
Source of Supply Cost	-			(13,089)	
Revenue Requirement	8,335,267	60,529		10,424,193	257,030
Rate ($ per MEU)	**$348.77**	**$460.30**	**Rate ($ per CCF)**	**$2.85**	**$3.79**
Rate ($ per MEU per Month)	**29.06**	**38.36**	**Rate ($ per AF)**	**$1,241.46**	**$1,650.92**

The fixed rates per MEU for inside District and outside District are multiplied by the meter-equivalent ratio for each meter size to calculate the rate for that size. A meter equivalent unit (MEU) is a ratio of any given meter size relative to the baseline 5/8-inch meter. The ratio is calculated by comparing each meter's potential flow capacity to the baseline.

Table 14: Monthly Fixed Treated Water Service Charge Derivation

Rate by Meter Size	MEU Ratio	Inside $ per Account Per Month	Outside $ per Account Per Month
5/8inch	1.0	29.06	38.36
3/4inch	1.5	43.60	57.54
1inch	2.5	72.66	95.90
1.5 inch	5.0	145.32	191.79
2 inch	8.0	232.51	306.86
3 inch	16.0	465.03	613.73
4inch	25.0	726.61	958.95
6inch	50.0	1,453.21	1,917.90
8inch	80.0	2,325.14	3,068.64

Proposed Treated Water Rates

The proposed rates shown below reflect the updated cost-of-service rate structure, with the recommended 12.5 percent revenue increase applied to generate the rates to be implemented on July 1, 2026. The following table shows the proposed treated water rates and their effective schedule.

Table 15: Projected Treated Water Rates

Treated Water Rates Effective:		July 1, 2026	Jan 1, 2027	Jan 1, 2028	Jan 1, 2029	Jan 1, 2030
	Existing	*Proposed*	*Proposed*	*Proposed*	*Proposed*	*Proposed*
Inside District Monthly Fixed Service Charges						
5/8inch	$29.33	$32.69	$36.78	$41.38	$46.55	$52.37
3/4inch	44.00	49.05	55.18	62.08	69.84	78.57
1inch	73.34	81.74	91.96	103.46	116.39	130.94
1.5 inch	146.67	163.49	183.93	206.92	232.79	261.89
2 inch	234.68	261.57	294.27	331.05	372.43	418.98
3 inch	469.35	523.16	588.56	662.13	744.90	838.01
4inch	733.36	817.44	919.62	1,034.57	1,163.89	1,309.38
6inch	1,466.72	1,634.86	1,839.22	2,069.12	2,327.76	2,618.73
8inch	2,346.75	2,615.78	2,942.75	3,310.59	3,724.41	4,189.96
Outside District Monthly Fixed Service Charges						
5/8inch	36.67	43.16	48.56	54.63	61.46	69.14
3/4inch	55.00	64.73	72.82	81.92	92.16	103.68
1inch	91.67	107.89	121.38	136.55	153.62	172.82
1.5 inch	183.34	215.76	242.73	273.07	307.20	345.60
2 inch	293.34	345.22	388.37	436.92	491.54	552.98
3 inch	586.69	690.45	776.76	873.86	983.09	1,105.98
4inch	916.70	1,078.82	1,213.67	1,365.38	1,536.05	1,728.06
6inch	1,833.40	2,157.64	2,427.35	2,730.77	3,072.12	3,456.14
8inch	2,933.44	3,452.22	3,883.75	4,369.22	4,915.37	5,529.79
Additional Monthly Regulatory Fee						
All Treated Customers	1.90	0.00	0.00	0.00	0.00	0.00
Inside District Volumetric Rates, $ per HCF						
Tier 1 (0-5 HCF)	2.42	3.21	3.61	4.06	4.57	5.14
Tier 2 (>5 HCF)	3.13	3.21	3.61	4.06	4.57	5.14
Outside District Volumetric Rates, $ per HCF						
Tier 1 (0-5 HCF)	3.03	4.26	4.79	5.39	6.06	6.82
Tier 2 (>5 HCF)	3.91	4.26	4.79	5.39	6.06	6.82

The proposed rates shown above reflect the application of the recommended 12.5 percent revenue increase to the recalculated cost-of-service rates and are proposed for implementation beginning July 1, 2026.

Raw Water Rate Derivation

To allocate property tax to only inside District customers and allocate the outside District source of supply costs to outside District customers, the revenue requirements were adjusted to reflect the inclusion of source of supply costs and no reduction for property tax. The full cost revenue requirements for each functional component are divided by the units related to each function to calculate unit costs.

Table 16: Raw Water Unit Rate Calculations

Raw Water Allocation Unit Rates	Total Amount	Customer	Fixed Monthly	Volumetric	Monthly	Water
Allocation Unit of Measure		*Fixed per Customer*	*Fixed per Month*	*Acre Feet*	*per MI*	
Rate Revenue Requirement	$8,478,981	$3,339,871	$155,165	$4,759,252	$86,486	$138,207
Allocation %		39.4%	1.8%	56.1%	1.0%	1.6%
Net Source of Supply Cost (Outside Only)	-$307,010	$0	$0	-$307,010	$0	$0
Allocation %		0.0%	0.0%	100.0%	0.0%	0.0%
Property Tax Reduction (Inside Only)	$5,840,120	$2,338,542	$108,645	$3,332,377	$60,556	$0
Allocation %		40.0%	1.9%	57.1%	1.0%	0.0%
Revenue Requirement w/o Specific Allocations	**$14,012,091**	**$5,678,412**	**$263,810**	**$7,784,619**	**$147,042**	**$138,207**
Allocation Units		5,697	12	112,942	12	13
Raw Water Allocation Unit Rates ($/ Unit)		**$996.74**	**$21,984.21**	**$68.93**	**$12,253.49**	**$10,631.34**

Next, the following specific unit rates are calculated:

- Seasonal rates are calculated based on dividing the seasonal revenue requirements by the customers and volume in each season.
- A unit rate for the purchased water which is only paid by municipal customers is calculated.
- The inside District property tax and source of supply rates are calculated.

Table 17: Specific Unit Rate Calculations

Specific Allocation Unit Rates

Seasonal Unit Rates	Summer Fixed Monthly	Winter Fixed Monthly	Volumetric Monthly	Volumetric Monthly
Fixed Monthly Unit Rate ($/ Month)	$21,984.21	$21,984.21	$12,253.49	$12,253.49
Months	6	6	6	6
Summer Revenue Requirements	$131,905.23	$131,905.23	$73,520.95	$73,520.95
Allocation Units	Customers	Customers	Acre Feet	Acre Feet
Allocation Units	4,859	838	105,121	7,820
Seasonal Unit Rates ($/ Unit)	$27.15	$157.40	$0.70	$9.40

Municipal Unit Rates	Purchased Water
Net Source of Supply Cost	$138,207
Allocation %	100.0%
Allocation Units	Acre Feet
Allocation Units	2,582
Municipal Unit Rates ($/ Unit)	$53.52

Inside Unit Rates	Total Amount	Customer	Volumetric
Allocation %		41.9%	58.1%
Property Tax Reduction	-5,840,120	-2,447,187	-3,392,933
Allocation Units		Customers	Acre Feet
Allocation Units		5,604	109,254
Inside Unit Rates ($/ Unit)		-$436.69	-$31.06

Outside Unit Rates	Total Amount	Customer		Volumetric
Net Source of Supply Cost	$307,010	$0	$0	$307,010
Allocation %		0.0%	0.0%	100.0%
Allocation Units				Acre Feet
Allocation Units				3,687
Outside Unit Rates ($/ Unit)				$83.26

The raw water rates are derived by adding the unit rates and the specific unit rates that correspond with each rate type together. For example, the inside District, fixed, summer rate of $587.20 per customer is derived by adding the customer unit rate of $996.74, plus the summer customer unit rate of $27.15, plus the inside District adjustment unit rate of -$436.69.

The rate derivation tables below present the recalculated cost-of-service rates designed to recover revenue at existing rate levels. The proposed Fiscal Year 2026 rates include an overall revenue adjustment of 12.5 percent, applied to the newly derived cost-of-service rates shown below to produce the proposed rates effective July 1, 2026.

Table 18: Inside District Raw Water Rate Derivation

Inside Raw Water Seasonal Rates	Customer Summer	Customer Winter	Volumetric Summer	Volumetric Winter	
Raw Water Unit Rates	$996.74	$996.74	$68.93	$68.93	
Seasonal Unit Rates	$27.15	$157.40	$0.70	$9.40	
Inside Unit Rates	($436.69)	($436.69)	($31.06)	($31.06)	
Net Inside Unit Rate	$587.20	$717.46	$38.57	$47.27	
Allocation Units	Customers	Customers	Acre Feet	Acre Feet	
Allocation Units	4,775	829	102,042	7,212	
Inside Revenue Requirements	$2,803,871	$594,771	$3,935,785	$340,921	
Inside Summer Rate Units	Customers	Customers	Miners Inches	Miners Inches	
Inside Summer Rate Units	4,775	829	11,252	801	
Inside Summer Rates ($ per Unit)	**$587.20**	**$717.46**	**$349.78**	**$425.58**	

Inside Rates	Customer	Volumetric
Allocation Units	Customers	Miners Inches
Inside Sumer Rates	**$587.20**	**$349.78**
Inside Winter Rates	**$717.46**	**$425.58**
Inside Annual Rates ($ per Unit)	**$1,304.66**	**$775.36**

Inside Municipal Rates	Customer	Seasonal Volumetric	Purchased Water	Total Volumetric Rate
Inside Revenue Requirement		$4,276,706	$76,773	
Inside Municipal Rate Units	Customers	Acre Feet	Acre Feet	
Inside Units		109,254	1,434	
Inside Municipal Rates ($ per Unit)	**$1,304.66**	$39.14	$53.52	**$92.67**

Table 19: Outside District Raw Water Rate Derivation

Outside Raw Water Seasonal Rates	Customer Summer	Customer Winter	Volumetric Summer	Volumetric Winter	
Raw Water Unit Rates	$996.74	$996.74	$68.93	$68.93	
Seasonal Unit Rates	$27.15	$157.40	$0.70	$9.40	
Outside Unit Rates	$0.00	$0.00	$83.26	$0.00	
Net Outside Summer Unit Cost	$1,023.88	$1,154.14	$152.89	$161.59	
Allocation Units	Customers	Customers	Acre Feet	Acre Feet	
Allocation Units	84	9	3,079	608	
Outside Revenue Requirements	$86,006	$10,387	$470,717	$98,315	
Outside Summer Rate Units	Customers	Customers	Miners Inches	Miners Inches	
Outside Summer Rate Units	84	9	339	67	
Outside Summer Rates ($ per Unit)	**$1,023.88**	**$1,154.14**	**$1,386.69**	**$1,457.54**	

Outside Rates	Customer	Volumetric
Allocation Units	Customers	Miners Inches
Outside Sumer Rates	$1,023.88	$1,386.69
Outside Winter Rates	$1,154.14	$1,457.54
Outside Annual Rates ($ per Unit)	**$2,178.02**	**$2,844.23**

Outside Municipal Rates	Total Customer Rate	Seasonal Volumetric	Purchased Water	Total Volumetric Rate
Outside Revenue Requirement		$569,032	$61,434	
Outside Municipal Rate Units	Customers	Acre Feet	Acre Feet	
Outside Units		3,687	1,148	
Outside Municipal Rates ($ per Unit)	**$2,178.02**	$154.32	$53.52	**$207.84**

Proposed Raw Water Rates

The rate derivation tables below present the recalculated cost-of-service rates. These calculations update the allocation of costs among customer classes based on the current cost-of-service analysis. The proposed Fiscal Year 2026 rates include an overall revenue adjustment of 12.5 percent, applied to the newly derived cost-of-service rates shown below to produce the proposed rates effective July 1, 2026. The following table shows the proposed raw water rates and their effective schedule.

Table 20: Projected Raw Water Rates

Raw Water Rates Effective:	July 1, 2026	Jan 1, 2027	Jan1, 2028	Jan 1, 2029	Jan 1, 2030
	Existing	*Projected*	*Projected*	*Projected*	*Projected*	*Projected*
Fixed Service Charges						
In-District						
Summer	570.99	660.60	743.18	836.08	940.59	1,058.16
Winter	713.73	807.14	908.03	1,021.53	1,149.22	1,292.87
Annual	1,284.72	1,467.74	1,651.21	1,857.61	2,089.81	2,351.04
Out-District						
Summer	713.73	1,151.87	1,295.85	1,457.83	1,640.06	1,845.07
Winter	890.74	1,298.41	1,460.71	1,643.30	1,848.71	2,079.80
Municipal	1,604.47	2,450.27	2,756.55	3,101.12	3,488.76	3,924.86
Volumetric Rates ($ per Miners Inch)						
In-District						
Summer	336.48	393.50	442.69	498.03	560.28	630.32
Winter	420.61	478.78	538.63	605.96	681.71	766.92
Annual	757.09	872.28	981.32	1,103.99	1,241.99	1,397.24
Out-District						
Summer	420.61	1,560.03	1,755.03	1,974.41	2,221.21	2,498.86
Winter	524.91	1,639.73	1,844.70	2,075.29	2,334.70	2,626.54
Volumetric Rates ($ per Acre Foot)						
Inside Municipal	296.79	104.25	117.28	131.94	148.43	166.98
Outside Municipal	370.99	233.82	263.05	295.93	332.92	374.54

The proposed rates shown above reflect the application of the recommended 12.5 percent revenue increase to the recalculated cost-of-service rates and are proposed for implementation beginning July 1, 2026.

Conclusion & Recommendations

This 2026 Cost of Service Study evaluates the Nevada Irrigation District's projected financial needs and allocates the cost of providing treated and raw water service in a manner that is fair, equitable, and consistent. Based on updated financial projections, capital improvement funding requirements, and a comprehensive cost-of-service analysis, the District requires an annual water rate revenue adjustment in 2026 to maintain long-term financial stability and continue providing safe and reliable water service.

While the study recommends adoption of five years of rate adjustments to provide financial stability and predictability, the District retains the flexibility to implement increases at levels below the adopted maximums if financial conditions allow. Future financial performance, water demand trends, capital project timing, inflation, and external economic factors should be monitored annually, and the District may update projections and conduct additional analyses as needed.

NOTICE OF PROPOSED WATER RATE INCREASES

Public Hearing 9:00 a.m. May 27, 2026 at 1036 West Main Street, Grass Valley, CA 95945

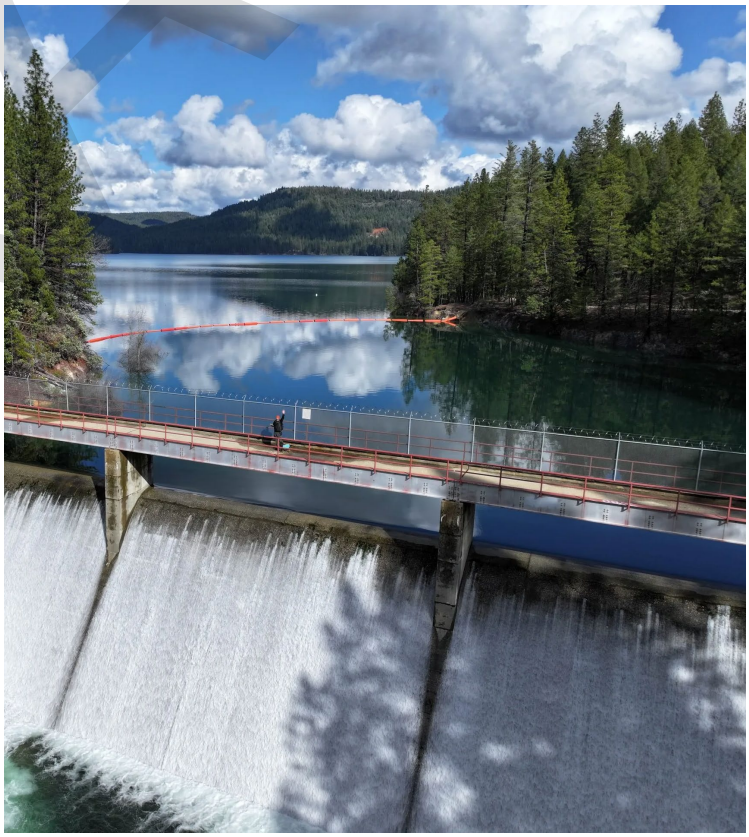
Nevada Irrigation District (District) is notifying all property owners and water customers of the proposed changes to treated and irrigation water rates. This notice explains the proposed rate changes and includes information on how you can participate in the public hearing for the proposed rate increase. You can learn more at https://www.nidwater.com/nid-water-rate-adjustments.

For more than a century, the District has provided dependable treated and irrigation water service to customers in Placer, Nevada, and Yuba Counties. Maintaining this service requires ongoing investment in water supply reliability, infrastructure maintenance, regulatory compliance, and responsible financial management.

The District hired an independent water rate consultant to evaluate current customer demands, revenues, operating expenses, capital infrastructure needs, and financial reserves, and recommend rates that proportionally recover projected costs. The results of this analysis are presented in the 2026 Cost of Service Study.

Why NID Is Proposing to Adjust Water Rates

The District has done its best to contain costs since it last raised rates in 2021. However, like many business, households, and other public agencies, the District has experienced increases in expenses related to regulations, labor, materials, chemicals, utilities, insurance, and other essential materials and services needed to operate and maintain the water system.



Having completed the Plan for Water process to address our community's future water needs, the District must continue investing in the repair and replacement of aging infrastructure to ensure reliable water delivery now and in the future, to protect water quality and the environment, and to mitigate the effects of climate change and potential natural disasters. In addition, the District has identified several significant infrastructure projects that must be completed, the largest and most immediate being repairs and upgrades to the Scotts Flat Reservoir Spillway, which is projected to cost $55 million.

Proposed Treated Water Rates

The District is proposing to phase in a series of annual water rate increases over the next five years, with the maximum allowable rates being those shown in the following table. Proposed treated water rates will be effective on July 1, 2026 and on January 1st from 2027 through 2030. The proposed rates for customers receiving treated water service include:

- A monthly fixed service charge based on a customer's meter size. The District is proposing to discontinue the "Additional Regulatory Fee" currently included on customers' bills.
- A single, volumetric rate per unit of water used. The District is proposing to no longer have two volumetric rate tiers and instead charge the same amount for every unit of treated water used.

Treated Water Rates Effective:	Jul. 1, 2026	Jan. 1, 2027	Jan. 1, 2028	Jan. 1, 2029	Jan. 1, 2030
	Existing	*Proposed*	*Proposed*	*Proposed*	*Proposed*	*Proposed*
Inside District Monthly Fixed Service Charges						
5/8inch	$29.33	$32.69	$36.78	$41.38	$46.55	$52.37
3/4inch	44.00	49.05	55.18	62.08	69.84	78.57
1inch	73.34	81.74	91.96	103.46	116.39	130.94
1.5 inch	146.67	163.49	183.93	206.92	232.79	261.89
2 inch	234.68	261.57	294.27	331.05	372.43	418.98
3 inch	469.35	523.16	588.56	662.13	744.90	838.01
4inch	733.36	817.44	919.62	1,034.57	1,163.89	1,309.38
6inch	1,466.72	1,634.86	1,839.22	2,069.12	2,327.76	2,618.73
8inch	2,346.75	2,615.78	2,942.75	3,310.59	3,724.41	4,189.96
Outside District Monthly Fixed Service Charges						
5/8inch	36.67	43.16	48.56	54.63	61.46	69.14
3/4inch	55.00	64.73	72.82	81.92	92.16	103.68
1inch	91.67	107.89	121.38	136.55	153.62	172.82
1.5 inch	183.34	215.76	242.73	273.07	307.20	345.60
2 inch	293.34	345.22	388.37	436.92	491.54	552.98
3 inch	586.69	690.45	776.76	873.86	983.09	1,105.98
4inch	916.70	1,078.82	1,213.67	1,365.38	1,536.05	1,728.06
6inch	1,833.40	2,157.64	2,427.35	2,730.77	3,072.12	3,456.14
8inch	2,933.44	3,452.22	3,883.75	4,369.22	4,915.37	5,529.79
Additional Monthly Regulatory Fee						
All Treated Customers	1.90	0.00	0.00	0.00	0.00	0.00
Inside District Volumetric Rates, $ per HCF						
Tier 1 (0-5 HCF)	2.42	3.21	3.61	4.06	4.57	5.14
Tier 2 (>5 HCF)	3.13	3.21	3.61	4.06	4.57	5.14
Outside District Volumetric Rates, $ per HCF						
Tier 1 (0-5 HCF)	3.03	4.26	4.79	5.39	6.06	6.82

Tier 2 (>5 HCF)	3.91	4.26	4.79	5.39	6.06	6.82

Proposed Irrigation Water Rates

The District is proposing to phase in a series of annual water rate increases over the next five years, with the maximum allowable rates being those shown in the table below. Proposed irrigation water rates will be effective on July 1, 2026 and on January 1st from 2027 through 2030. The proposed rates for customers receiving irrigation water service include:

- A seasonal, fixed service charge per customer.
- A seasonal, volumetric rate per miner's inch.

Raw Water Rates Effective:		Jul. 1, 2026	Jan. 1, 2027	Jan. 1, 2028	Jan. 1, 2029	Jan. 1, 2030
	Existing	*Proposed*	*Proposed*	*Proposed*	*Proposed*	*Proposed*
Fixed Service Charges ($ per Irrigation Season)						
In-District						
Summer	570.99	660.60	743.18	836.08	940.59	1,058.16
Winter	713.73	807.14	908.03	1,021.53	1,149.22	1,292.87
Annual	1,284.72	1,467.74	1,651.21	1,857.61	2,089.81	2,351.04
Out-District						
Summer	713.73	1,151.87	1,295.85	1,457.83	1,640.06	1,845.07
Winter	890.74	1,298.41	1,460.71	1,643.30	1,848.71	2,079.80
Volumetric Rates ($ per Miners Inch)						
In-District						
Summer	336.48	393.50	442.69	498.03	560.28	630.32
Winter	420.61	478.78	538.63	605.96	681.71	766.92
Annual	757.09	872.28	981.32	1,103.99	1,241.99	1,397.24
Out-District						
Summer	420.61	1,560.03	1,755.03	1,974.41	2,221.21	2,498.86
Winter	524.91	1,639.73	1,844.70	2,075.29	2,334.70	2,626.54

How to Participate

These proposed increases in water rates are considered property-related fees and charges governed by section 6 of Article XIII D of the California Constitution, Government Code sections 53751 et seq. and 53759 et seq., and other applicable laws, which together are commonly referred to as Proposition 218. There are multiple ways that property owners and customers subject to the proposed rates, as well as any other interested member of the public, may participate in the Proposition 218 process.

- **Learn About the Proposed Rate Change** - Information on the District's water rates, the written basis, including the 2026 Cost of Service Study, is available at https://www.nidwater.com/nid-water-rate-adjustments.
- **Participate in the Public Hearing** - On May 27, 2026, beginning at 9:00 a.m., the District's Board of Directors will hold a public hearing to receive public feedback, including written protests, on the proposed rates.
- **Submit a Written Protest** - Proposition 218 is subject to a "majority protest" process where any property owner or customer may submit one written protest per parcel of the proposed rate increase. Immediately following the close of the public hearing on May 27, 2026, protests will be counted, and if a majority of the parcels subject to the proposed rate increases have submitted valid protests, then the rates will not be implemented. Additional details on submitting a protest are set forth below.
- **Submit a Written Objection** - Parties that wish to preserve the ability to legally challenge the rate change must submit a timely written objection by 5:00 p.m. on May 11, 2026. Failure to object in writing in a timely manner bars any right to challenge the rates in a legal proceeding. This is known as Proposition 218's exhaustion of administrative remedies requirement and is a separate legal requirement from the written protest. Additional details on submitting a written objection are set forth below.

How to Submit a Written Objection to Proposed Rates

Pursuant to Government Code section 53759.1, any person or entity that may wish to challenge any new, increased, or extended rates adopted, modified, or amended by Nevada Irrigation District pursuant to this Notice must first exhaust administrative remedies. All substantive and procedural requirements for submitting a written objection are set forth in this Notice and the written objection form.

To exhaust administrative remedies, you must do the following:

1. Obtain a written objection form and complete all portions of the form. Oral objections will not be considered. Written objection forms are available at nidwater.com/nid-water-rate-adjustment and will be mailed to any interested party upon request by contacting the District at (530) 273-6185 and
2. Submit the completed written objection in a timely manner, no later than 5:00 p.m. on May 11, 2026, to 1036 West Main Street, Grass Valley, CA 95945 or by hand delivery during normal business hours at the same address. Mailed objection forms must be received (not postmarked) by 5:00 p.m. on May 11, 2026. Failure to object in writing in a timely manner bars any right to challenge the rates through a legal proceeding. Late-filed, non-compliant, or incomplete written objections will not be considered as satisfying the exhaustion of administrative remedies requirement.

Prior to the public hearing on May 27, 2026, the District's Board of Directors will review written objections and determine whether (1) amendments or clarifications are necessary; (2) to reduce the proposed new rates; (3) to review further prior to making a determination; or (4) to proceed with the public hearing. Pursuant to Government Code section 53759.1, subdivision (c)(2), the District has posted at nidwater.com/nid-water-rate-adjustments the written basis for the rates, including a copy of the 2026 Cost of Service Study. Additionally, the written basis will be mailed to any person upon request by contacting the District at (530) 273-6185.

How to Protest Proposed Rates

Proposition 218 allows property owners or customers to file one written protest per parcel subject to the proposed rates in this Notice. Written protests must be received (not postmarked) by the District no later than the close of the public hearing on May 27, 2026. A sample protest form is available at nidwater.com/nid-water-rate-adjustment and will be mailed to any interested party upon request by contacting the District at (530) 273-6185. However, property owners/customers are not required to use the sample protest form. Although this notice is sent to both property owners and the customer identified on the account (if different), only one protest may be cast per parcel.

Every written protest must include all the following to be considered valid:

1. Customer or property owner name;
2. Parcel Number or street address(es) of all property(ies) serviced for which protest is made;
3. Original signature of property owner or water customer; and
4. Statement in opposition to the rate proposal.

Protests must be submitted in a timely manner by mail or in person only to the following address (oral protests or protests submitted by email or other electronic means are not accepted and will not be counted):

Nevada Irrigation District – Kris Stepanian, Board Secretary

1036 West Main Street, Grass Valley, CA 95945

At the conclusion of the public hearing, protests will be publicly counted and validated. If a majority protest exists, the District's Board of Directors cannot proceed with the proposed rate change. However, if a majority protest does not exist, the District has the authority to adopt the proposed rates, which would go into effect July 1, 2026.

Pursuant to Government Code section 53759, there is a 120-day statute of limitations for any judicial action or proceeding challenging any new, increased, or extended rate, fee, or charge that is subject to this Notice.