




Burbank Water and Power

MEMORANDUM

DATE: March 2, 2017

TO: Burbank Water and Power Board

FROM: Jorge Somoano, General Manager, BWP 

SUBJECT: **PROPOSED FISCAL YEAR 2017-18 BUDGET**

At the Burbank Water and Power Board (Board) meeting on March 2, 2017, staff intends to complete its presentation related to the Proposed FY 2017-18 Budget (Budget) and request a Board resolution that recommends the Budget to the Burbank City Council, including rate and rate design adjustments. This memo is provided to assist in understanding the issues and challenges Burbank Water and Power (BWP) faces related to the Budgets of the Electric and Water Enterprise Funds. The City Charter requires that the Electric and Water Enterprise Funds have rates that achieve full cost recovery. While preparing the FY 2015-16 Budget two years ago, staff developed and shared 5-year rate plans for both the Electric and Water Funds that were designed to reach full cost recovery for each Fund by ramping in rate increases over time. At the February 2, 2017 Board meeting, staff shared revised 5 year rate plans for the Electric and Water Enterprise Funds; these revised rate plans were modified to account for forecasted changes to utility operations, such as lower energy and water demand, lower energy prices, and higher water prices.

Since the February 2, 2017 Board meeting, staff has made some minor adjustments to the Budget, including updating estimates provided by the City for services it provides to the utility and planned capital spending; however, in the aggregate, these adjustments were not material enough to impact the rate plans discussed with the Board on February 2, 2017. Staff believes that the proposed budgets for the Electric and Water Funds' revenues, and the costs associated with producing and procuring power and water, contain the best information and data available at this time for forecasting and budgeting, and does not anticipate any significant changes to them going forward in the budget process with the Board or Burbank City Council.

The BWP Budget is designed to continue balancing the requirements of providing safe and reliable electric and water services to the residents and businesses of Burbank, while leading in the City's vision of doing so in responsibly sustainable ways, with affordable and competitive rates. The electric and water services provided by BWP are amongst the most reliable in the nation; and BWP's rates are

amongst the most competitive in Southern California. The BWP Budget includes planned and prudent upgrades and replacements of plant for efficiency and reliability, no deferred maintenance, and no additions to staff.

In the Electric Fund, the impacts of reaching the mandated 33% renewable energy portfolio, along with lower energy demand related to conservation and lack of load growth, were and remain budget drivers of the Electric Fund. The two 2.10% rate increases that were implemented at the start of the last two fiscal years were designed to be the first of a series of increases that are close to long-term inflation to achieve full cost recovery. Staff now forecasts that fuel, energy and transmission prices in the next couple years will be slightly lower than previously forecasted and therefore recommends amending the rate plan by not implementing the planned 2.10% rate increase for FY 2017-18. Without the FY 2017-18 rate increase, the Electric Fund would be budgeted to once again slightly under-recover costs in the upcoming fiscal year; however, staff forecasts the City Charter's required full cost recovery can still be achieved by future rate increases close to long-term inflation. Such a rate plan is anticipated to maintain cash operating reserves at below recommended, but above minimum levels, through FY 2021-22. It remains staff's goal to continue providing highly reliable services with rate increases that average long-term inflation even as renewable energy portfolio mandates increase toward 50% in 2030.

As planned in the last two adopted budgets, water rates have significantly under-recovered costs and the Water Fund's cash reserves have been used to avoid a drought surcharge and higher rates. This under-recovery was a result of the cost impacts of the multi-year drought, lower water demand, and the rising cost of purchased water from the Metropolitan Water District (MWD). A long-term reduction in demand, about 15% lower than pre-drought levels, is the new forecasted reality. Lower demand, when combined with known MWD future rate increases of 4% to 5% for the foreseeable future, have resulted in larger than previously planned water rate increases to achieve full cost recovery over time to maintain minimum cash reserve levels, keep pace with purchased water costs, and maintain the water system's reliability. Staff recommends implementing the planned 3.4% rate increase for FY 2017-18 and now estimates that larger rate increases in FY 2018-19 and beyond will be needed to achieve full cost recovery over time. Even with larger rate increases, Burbank is still forecasted to remain a leader in supplying low cost water.