



## Burbank Water and Power

7B.

### MEMORANDUM

DATE: March 8, 2018

TO: Burbank Water and Power Board

FROM: Jorge Somoano, General Manager, BWP 

SUBJECT: **PROPOSED FISCAL YEAR 2018-19 BUDGET**

At the Burbank Water and Power (BWP) Board Meeting on March 8, 2018, BWP staff will review its changes to the Proposed FY 2018-19 Budget (Budget) that was originally discussed at the BWP Board Meeting on February 8, 2018. The changes, while not material, impact most parts of the Budget; and staff will distribute updated documents with these minor changes at the March 8 meeting. Exhibit A at the end of this document outlines the changes to the Budget staff has made since February 8. Staff has reduced both the Electric and Water Funds' Budget authority requests by approximately \$207,000 and \$75,000 respectively; primarily driven by revised labor costs. Staff has also revised cost allocations from the City for services, including IT services, and adjusted costs between operating divisions and cost centers. At the meeting, staff will also request a recommendation from the BWP Board to the Burbank City Council regarding the Budget.

This memo is provided to assist in understanding the issues and challenges BWP faces related to the Budgets of the Electric and Water Enterprise Funds (Funds). The City Charter requires that the Funds have rates that achieve full cost recovery. Three years ago, in the FY 2015-16 Budget process, staff shared 5-year rate plans for both of the Funds that were designed to reach full cost recovery for each Fund by ramping in rate increases over time. Last year, staff shared revised 5-year rate plans for the Funds; these revised rate plans were modified to account for forecasted material changes to utility operations, such as lower energy and water demand, lower energy prices, higher water prices, and higher unfunded pension costs. For the Budget, staff has further refined its 5-year rate plans for the aforementioned changes in utility operations, including recommending no rate increase for the Electric Fund in FY 2018-19.

Staff believes that the forecasted revenues, and the forecasted costs associated with producing and procuring power and water, were derived using the best information and data available at this time. Staff does not anticipate any significant or material changes to the Budget going forward.

The 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 safest and most reliable in the nation and BWP's rates are amongst the most competitive in Southern California. The Budget includes planned and prudent upgrades and replacements of plant for efficiency and reliability, no deferred maintenance, and no changes in staffing levels.

In the Electric Fund, lower energy demand related to conservation and lack of load growth remain budget concerns; and consequently FY 2018-19 operating revenues net of wholesale revenues are expected to be lower than FY 2017-18. However, since FY 2018-19 power supply costs are now projected to be lower than previously forecasted, and operating expenses net of depreciation are projected to be flat, despite higher unfunded pension costs, staff is now recommending no electric rate increase for FY 2018-19 instead of the 2.1% forecasted last year. Without a FY 2018-19 electric rate increase, staff forecasts that the Electric Fund, barring unforeseen events, will still achieve the City Charter's required full cost recovery with future rate increases below long-term inflation. Such a rate plan is also anticipated to maintain cash operating reserves near recommended levels through FY 2022-23. It remains staff's goal to continue providing highly reliable services with rate increases that average below long-term inflation even as renewable energy portfolio mandates increase toward 50% in 2030.

In the Water Fund, as planned in the last three adopted budgets, water rates have under-recovered costs and the Water Fund's cash reserves were used to allow ramping in rate increases and avoid a drought surcharge. Last year, staff recommended only a 3.4% rate increase for this current fiscal year (FY 2017-18) while noting a planned large under-recovery and forecasts of rate increases 4.9% in the following years. 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 forecasted new normal. Lower demand, when combined with planned MWD rate increases for the foreseeable future, have resulted in forecasting that water rate increases will be needed to achieve full cost recovery over time, to keep pace with purchased water costs and maintain the water system's safety and reliability. The Water Budget also includes: (1) increasing costs associated with the unfunded pension liability, (2) upgrading critical software and hardware that have had their useful lives fully extended, and (3) offsetting adjustments in planned costs between potable and recycled water O&M. Staff recommends implementing the planned 4.9% rate increase for FY 2018-19 as part of a multi-year rate plan designed to achieve full cost recovery over time. Even with the anticipated rate increases, Burbank is still forecasted to remain a leader in supplying low cost water in the region.

Staff recommends that the BWP Board recommend approval of the Utility's Proposed FY 2018-19 Budget by the Burbank City Council for funds 496, 497, 483, 129, 133, and 535, including a proposed water rate increase of 4.9%, and no increase to the Electric Fund.

Attachments:

Exhibit A

## Exhibit A: Authority Changes since 2/8/18 Board Meeting

(\$ in 000's)

|                                                                 | <u>Electric Fund (496)</u> | <u>Water Fund (497)</u> |
|-----------------------------------------------------------------|----------------------------|-------------------------|
| Expenses 2/8/18                                                 | \$ 235,204                 | \$ 31,373               |
| Expense 3/8/18                                                  | 234,997                    | 31,298                  |
| <b>Change in Expense:</b>                                       | <b><u>\$ 207</u></b>       | <b><u>\$ 75</u></b>     |
|                                                                 | <u>Fav / (Unfav)</u>       | <u>Fav / (Unfav)</u>    |
| Labor and Fringe Benefit Adjustments                            | 574                        | 134                     |
| City Cost Allocations **                                        | (337)                      | (186)                   |
| WCAC - Purchased Water                                          |                            | (16)                    |
| Correct Project 21749 (PS12Z & PS51A)                           | (24)                       | 24                      |
| Correct Deferred Charges in Public Benefits to 2.85%            | (6)                        |                         |
| Allocated O&M & Security correction to 2.8.18 for Labor         |                            | 76                      |
| Allocated Admin, Security & Fin. correction to 2.8.18 for Labor |                            | 43                      |
| Unreconciled changes                                            | -                          | -                       |
| <b>Total changes</b>                                            | <b><u>\$ 207</u></b>       | <b><u>\$ 75</u></b>     |

\*\* Primarily driven by IT Cost of Service Study allocating more labor & licensing to BWP.