



**WATER AND
POWER**

DATE: April 6, 2023

TO: Burbank Water and Power Board

FROM: Dawn Roth Lindell, General Manager, Burbank Water and Power *Dawn Roth Lindell*

SUBJECT: Proposed Fiscal Year 2023-24 and FY 2024-25 Budgets

At the direction of the Burbank City Council, staff is preparing, for the first-time, a bi-annual budget.

At the Burbank Water and Power (BWP) Board meeting on April 6, 2023, staff will complete its presentation of the proposed budgets for fiscal years (FY) 2023-24 and FY 2024-25 (the budgets) that were initially presented at the BWP Board meeting on March 2, 2023, and will request a recommendation from the BWP Board to the Burbank City Council on the proposed budgets, including rate increases, rate design, and its capital and operating and maintenance plans.

The table below summarizes changes staff has made to the budget since March 2, 2023. The primary changes include updated projections for the purchase of power and water, updated salaries and benefits, updated insurance premiums, and the inclusion of one-time funds to pay down the unfunded pension liability to CalPERS.

Summary of Changes to the Proposed FY 2023-24 and FY 2024-25 Budget

	FY 2023-24	FY 2024-25
Electric Fund	+\$1,003,000	+\$1,743,000
Water Fund	+\$1,225,000	+\$344,000
Communications Fund	-\$20,000	-\$43,000
Total	+\$2,208,000	+\$2,044,000

BWP’s top priority and mission remains safely supplying sustainable, affordable and reliable electricity and water to Burbank’s residents and businesses. Staff foresees many challenges to this goal in both FY 2023-24 and FY 2024-25, including inflation and supply chain issues, sourcing and delivering renewable energy, meeting regulatory compliance, modernizing aging infrastructure, climate change, and the ongoing drought. Additionally, the budgets must address significant revenue under collections in both the electric and water funds from recent years. At BWP we are able to partially mitigate rate impacts by hedging gas and energy, our economic

energy dispatch strategy, and revenues from wholesale, ONEBurbank, aid-in-construction, and from grant funding. Additionally, BWP staff has risen to the challenge by finding cost savings and cost avoidance opportunities of \$27.1 million in the last 12 months. Some of those efforts include early redemption of bonds and loans resulting in net present value savings and taking advantage of prepaid gas contracts.

In the electric fund, Burbank is facing the growing challenge of balancing the need to reduce our impact on the climate, our commitment to keeping rates low, government mandates that regulate how we approach energy consumption, and the complicated nature of securing and distributing new sources of renewable energy. The future of BWP's power is set to become more complex and costly as we transition to renewable energy in a way that is reliable and affordable in the long term. The budget drivers include rate recovery from prior periods, higher energy and gas prices, IPP coal issues, investments in future sustainability, inflation-driven higher operating and maintenance expenses, increase in capital improvements, capital financing, and supply chain issues.

In the water fund, Burbank faces challenges such as adapting to climate change, modernizing Burbank's water infrastructure, and our commitment to keeping rates low. Staff is working hard to improve the water infrastructure to make the system more sustainable, reliable, and cost-effective in the long-term. BWP needs to invest in our infrastructure to protect our water supply and to continue delivering the reliability Burbank depends on. The budget drivers include rate recovery from prior periods, higher water supply costs, inflation-driven higher operating and maintenance expenses, and lower sales due to drought response.

The Burbank City Charter requires that the funds have rates that achieve full cost recovery and staff is proposing ramping in rate increases to achieve this requirement. For the electric fund, staff proposes an 8.5% rate increase to go in effect July 1, 2023, an 8% rate increase to go in effect July 1, 2024, the use of cash reserves for operating expenses, and the use of proceeds from the 2023 bond issuance for capital improvements. For the water fund, staff proposes a 9% rate increase to go in effect July 1, 2023, a 9% rate increase to go in effect July 1, 2024, the use of cash reserves for operating expenses, and the use of proceeds from the 2021 bond issuance for capital improvements. Additionally, staff will share a 5-year rate plan that balances affordability, reliability, and sustainability that achieves cost recovery by increasing rates over time.

Additionally, BWP intends to start utilizing an energy cost adjustment charge (ECAC) and a water cost adjustment charge (WCAC), as provided for in the city's rules and regulations and the fee schedule, to facilitate a more efficient fiscal response to changes in electric and water supply costs. The largest rate drivers for the budgets of both funds are prior period under collections and the cost of electric and water supply costs. The ECAC and WCAC provides for the immediate adjustment of electric and water rates based on changes in electric supply costs, such as purchased power, renewable energy power sources and natural gas for local generation, and water supply costs, such as Metropolitan Water District purchases and local pumping costs. The use of the ECAC and WCAC is anticipated to significantly reduce the impact of electric and water under collections moving forward, and to more closely match revenues to costs in the periods when costs are incurred. Staff plans to provide an update to the BWP Board on the use of the ECAC and WCAC in the near future.

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 meeting the city's vision to do so in responsible and 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 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.

Staff is requesting that the BWP Board recommend approval of the utility's proposed FY 2023-24 and FY 2024-25 budgets as presented at the April 6, 2023 BWP Board meeting to the Burbank City Council for funds 496, 497, 483, 133, 129, and 535, including a proposed electric rate increase of 8.5% to go in effect July 1, 2023 and 8.0% to go in effect July 1, 2024, and a proposed water rate increase of 9% to go in effect July 1, 2023 and 9.0% to go in effect July 1, 2024.