

# STAFF REPORT




## WATER AND POWER

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**DATE:** March 7, 2024

**TO:** Burbank Water and Power Board

**FROM:** Joseph Lillio, Interim General Manager, Burbank Water and Power 

**SUBJECT:** Update to Year Two of the Fiscal Year 2023-24 and FY 2024-25 Budgets

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At the direction of the Burbank City Council, last year, staff prepared, for the first time, a bi-annual budget for fiscal years (FY) 2023-24 and FY 2024-25. At the Burbank Water and Power (BWP) Board meeting on March 2, 2023, staff presented a draft of the proposed budgets for fiscal years FY 2023-24 and FY 2024-25 (the budgets) and finalized the presentation at the April 6, 2023 BWP Board meeting. The BWP Board provided its recommendation to the Burbank City Council on the proposed budgets, including two-year rate increases, rate design, and its capital and operating and maintenance plans.

Subsequent to the board's recommendation, unforeseen events and newly identified expenses for FY 2024-25 prompted staff to reevaluate and reprioritize projects, identify operational efficiencies, resulting in difficult decisions. Through these efforts, staff has ensured that the FY 2024-25 budget (with the exception of the Southern California Public Power Authority (SCPPA)-owned projects which are reimbursed by the project participants), presented to the board in April 2023 remains unchanged in total.

At the Burbank Water and Power Board meeting on March 7, 2024, staff will complete its presentation of the proposed budget for FY 2024-25 that was initially presented at the BWP Board meeting on February 1, 2024, and will request a recommendation from the BWP Board to the Burbank City Council on the proposed budget.

BWP's top priority and purpose remains supplying sustainable, affordable and reliable electricity and water to Burbank's residents and businesses. Staff foresees many issues and challenges to this goal in FY 2024-25, including inflation and continued supply chain issues, sourcing and delivering renewable energy, meeting regulatory compliance, modernizing aging infrastructure, climate change, and possible drought. Additionally, the

budget must address significant revenue under collections in both the electric and water funds from recent years, as well as several years of zero to very low rate increases which eroded reserves. 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 grant funding. Additionally, BWP staff continued to find cost savings and cost avoidance opportunities in the last 12 months. Some of those efforts included renegotiating contracts, changing service providers, and insourcing services.

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 affordable for BWP customers, 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 reasonable in the long term. The budget drivers include rate recovery from prior periods, higher energy and gas prices, ongoing IPP coal reliability 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 affordable for BWP customers. 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 customer conservation response.

The Burbank City Charter requires that the funds have rates that achieve full cost recovery and staff proposed ramping in rate increases over a five-year period (FY 2023-24 through FY 2027-28) to achieve this requirement. For the electric fund, staff proposed an 8.5% rate increase that went in effect July 1, 2023, an 8% rate increase that will 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. The BWP Board supported this staff proposal, and City Council formally approved the two-year rate increase in June 2023.

For the water fund, staff proposed a 9% rate increase that went in effect July 1, 2023, a 9% rate increase that will 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. The BWP Board supported this staff proposal, and City Council formally approved the two-year rate increase in June 2023.

Additionally, BWP intends to start utilizing an electric 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. To date, no increase to the ECAC or WCAC has been implemented during FY 2023-24. However, this tool continues to be evaluated monthly in the event either should warrant implementation. The largest rate drivers for the budgets of both funds are the prior period under collections and the cost of electric and water supply costs. The ECAC and WCAC provide for the immediate adjustment of electric and water rates based on changes in electric supply costs, such as purchased power 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 match revenues more closely 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 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 and will continuously monitor monthly budget reports to identify any budget anomalies.

Staff is requesting that the BWP Board recommend approval of the utility's proposed FY 2024-25 budget as presented at the March 7, 2024 BWP Board meeting to the Burbank City Council for the electric fund (fund 496), the water fund (fund 497), the MPP operating fund (fund 483), the Tieton operating fund (fund 133), the street lighting fund (fund 129), and the communications fund (fund 535).