

STAFF REPORT



WATER AND POWER PUBLIC WORKS

DATE: June 6, 2023

TO: Justin Hess, City Manager

FROM: Dawn Roth Lindell, General Manager, Burbank Water and Power *Dawn Roth Lindell*
Ken Berkman, Public Works Director *KB*

SUBJECT: Adoption of a Resolution Approving Increases to City Fees and Charges for Water, Refuse, Sewer, and Electric Services

RECOMMENDATION

Adopt A RESOLUTION OF THE COUNCIL OF THE CITY OF BURBANK APPROVING INCREASES TO FEES AND CHARGES FOR WATER, REFUSE, SEWER, AND ELECTRIC SERVICES FOR INCLUSION IN THE 2023-2024 and 2024-2025 CITYWIDE FEE SCHEDULE (Attachment 1).

BACKGROUND

On May 9, 2023, staff presented a detailed overview of the proposed fiscal year (FY) 2023-2025 budget, along with the five-year forecast. The proposed budget is inclusive of the recommended increases to city fees and charges for water, refuse, sewer, and electric services. Approval of these increases would be reflected in the fee schedule for FY 2023-2024 and 2024-2025. The fee schedule will be brought to the City Council on June 13, 2023, for consideration and final approval and, to the extent that City Council has adopted the attached resolution, the proposed changes to the fees will be incorporated in such fee schedule. The primary purpose of the fee schedule is to provide a one-stop listing of all city fees, charges, and rates. The fee schedule is reviewed and updated annually.

Cost of Service Studies for Water and Electric

Public utilities regularly conduct cost of service studies to ensure they are setting rates in compliance with Proposition 218 (water) and Proposition 26 (electricity). Cost of service studies allow utilities to equitably divide the costs they incur for providing service among several broadly defined classes of ratepayers. Utility costs are typically referred to as the "revenue requirement." The studies determine the share of the revenue requirement paid by each customer class (residential, small commercial, large commercial, etc.) and then the rate design determines how the utility will collect the revenues from each customer class in cost-based manner. The rate-making process for utilities generally has three steps: (1) determining the annual revenue requirement, (2) allocating the costs of the

revenue requirement among the defined rate classes and (3) designing the rates each customer ultimately will pay.

Proposition 218, passed in 1996, limits the methods by which local governments can create or increase taxes, fees, and charges without taxpayer consent. It applies to water service, among others, and requires that revenues derived by a charge shall not be used for any other purpose other than that for which the charge was imposed – and that the amount of a fee may not exceed the proportional cost of service for the parcel. Proposition 218 has additional procedural requirements for the city to provide notices and assessment ballots to property owners and water customers that proposed rate increases are being considered in a noticed public hearing. At the public hearing, the protest ballots are tallied, and public comments are heard by the City Council.

Electric service is specifically excluded from Proposition 218 but is subject to Proposition 26, passed in 2010. Proposition 26 amended the California Constitution to define a “tax,” giving specific exceptions which apply to electric utility rates. It requires that public utilities have electric rates which reflect the reasonable cost of service and bear a reasonable relationship to the service being provided to the customer. Proposition 26 is thus the legal framework within which BWP sets electric rates.

Before this year, Burbank had last conducted cost of service studies in 2016 for water and in 2017 for electric service. The studies were performed internally, with some third-party guidance for the electric service study. In general, the best practice is for utilities to conduct cost of service studies every five years.

DISCUSSION

Noticing Requirements

Staff has complied with the noticing requirements established by California Proposition 218 and the 2006 California Supreme Court *Bighorn-Desert View Water Agency v. Verjil* decision. These noticing requirements apply to city fees and charges for water, refuse, and sewer services. Electric service is not subject to California Proposition 218. The noticing requirements include a mailed notice to all fee payers at least 45 days prior to the public hearing at which the fees may be imposed or increased. A copy of that notice is attached as Attachment 2. The proposed changes to the city’s fees and charges for these services are outlined below.

Sewer Service

The proposed budget includes a 4.0% rate increase for sewer service in FY 2023-2024, and a 4.0% increase in FY 2024-2025. For the average residential customer, this equates to a monthly increase of approximately \$1.05 for FY 2023-2024, and \$1.09 in FY 2024-2025. There was a 2.0% increase for sewer service in FY 2022-2023, and there were no increases for sewer service in FY 2020-2021 and FY 2021-2022. The proposed increases in sewer charges are due to increased charges from the City of Los Angeles for sewage treatment services, capital improvement projects, and labor, chemical, and electrical costs to operate the Burbank Water Reclamation Plant (BWRP).

Refuse Service

The proposed budget includes a 6.0% rate increase for refuse service in FY 2023-2024,

and a 6.0% increase in FY 2024-2025. For the average residential customer, this equates to a monthly increase of approximately \$2.09 in FY 2023-2024, and \$2.22 in FY 2024-2025. The refuse fund only had one 1.0% rate increase in the four FYs between 2017-2018 and 2020-2021, a 2.0% increase in FY 2021-2022, and a 4.0% rate increase in FY 2022-2023. The refuse collection fee increases are needed to meet rising operational costs, particularly those associated with state mandate SB 1383 related to organics (food) diversion for greenhouse gas reductions, and to continue providing comprehensive refuse services that include household trash disposal, organics composting, recyclable collection and processing, and bulky item pick-ups.

Water Service

The proposed budget includes an overall 9.0% rate increase for water service in FY 2023-2024 and an overall 9.0% rate increase in FY 2024-2025. The overall 9.0% increase represents the average system-wide increase across all customer classes and rate components for each customer type (single-family residential, multi-family, commercial, irrigation, private fire service, and recycled water). However, the specific increases vary by customer class based on rate adjustments from BWP's cost of service study and are set forth in fee schedules for FY 2023-2024 and 2024-2025.

BWP retained Raftelis in 2022 to perform a cost of service study and assist in developing rates. Raftelis uses industry-standard principles and methods for allocating costs and designing rates¹ to ensure Burbank's rates meet Proposition 218 requirements that rates are based on costs. These cost of service principles and methods are set forth by the American Water Works Association M1 Manual Principles of Water Rates, Fees, and Charges (AWWA M1 Manual).

BWP staff worked with Raftelis to document capital expenditures and to categorize operations and maintenance (O&M) expenses on the FY 2022-2023 budget into functional categories consistent with the AWWA M1 Manual, such as supply, treatment, distribution, recycled water, private fire protection, and meters. Raftelis allocated each functional category into cost components and developed customer class characteristics by cost component.

Table 1 shows a summary of the cost of service results by customer class. The first column ("Customer Class") shows the proposed new customer classes, with multi-family, commercial/industrial, and irrigation now three separate classes instead of one.² The second column ("Current") shows the current percentage of total revenue collected from each class. The third column ("COS Results") shows the portion of revenue that reflects the cost to serve for each class. If the current rate structure was perfectly aligned with the cost of service, the two columns would be equal.

¹ [American Water Works Association, M1, Water Rates, Fees, and Charges](#)

² Note that the multi-family, commercial/industrial/city, and irrigation charge types are all currently in the "Multi-family residential, commercial and industrial service" rate.

Table 1: Current Revenue vs Cost of Service Results for Potable and Recycled Water

Customer Class	Current (%)	COS Results (%)
Single Family Residential	45.4%	48.9%
Multi-Family Residential	20.9%	19.4%
Commercial/Industrial	16.8%	16.2%
Irrigation	0.8%	0.8%
Private Fire Service	2.2%	1.3%
Recycled Water	13.9%	13.3%
Total	100.0%	100.0%

Table 1 shows that single-family residential customers currently account for 45.4% of revenue but are associated with a higher percentage of the total cost to serve—48.9%. All other customer classes show a modest decrease between current revenue collection and cost to serve.

Peak demand for water in Burbank is driven by outdoor irrigation – and by single family homes in particular. Meeting peak demand means having larger pipes, water storage tanks, and pumps. Larger pipes and tanks are more expensive to build, maintain and replace than smaller pipes and tanks. The proposed rates for the upcoming year reflect the need to account for peaking costs – both in the residential and non-residential rates. Certain rates for the amount of water that customers use will increase – and certain monthly fixed charges will increase as well.

Raftelis worked with BWP staff on a cost-based rate design strategy to balance equity, conservation, and revenue stability—identifying which customer classes would have their own specific rate.³ BWP chose a rate design strategy that aligns costs with rates and lowers the residential single-family tier thresholds to align with essential indoor use (tier 1) and non-essential outdoor use (tiers 2 and 3). Tier 1’s new upper threshold of 8 HCF – or about 6,000 gallons -- reflects a home with efficient indoor water use for a family of 4 and little to no outdoor irrigation. Tier 2’s upper threshold of 20 HCF – or about 15,000 gallons -- reflects average water use for a home during peak summer months from 2022.

Table 2: Proposed Single-Family Tier Thresholds

Tier	Existing Thresholds	Proposed Thresholds	Rationale for Proposed Upper Threshold
1	0-15 HCF	0-8 HCF	Efficient indoor water-use for family of 4
2	15.01-30 HCF	8.01-20 HCF	Average water-use during peak summer months
3	30+ HCF	20+ HCF	-

Sixty percent of single-family water consumption is for outdoor uses, such as irrigation and swimming pools. This outdoor water use drives many of the costs of the system and

³ Raftelis is producing a written report as part of the scope of work, which will detail the methodology and findings.

the higher tier users put more wear and tear on the system and require the larger infrastructure. With the proposed rate increases, higher water users—in tiers 2 and 3—would have higher proportional rate increases, because higher water use drives up the costs of the entire system. BWP has to build and maintain a water system capable of meeting our peak usage.

The new rate design also separates rates for multi-family, commercial/industrial, and irrigation customers, as their usage patterns are different and therefore have a different cost structure. Note that multi-family customers are metered at the building level – so the entire building gets one water bill, and each unit does not receive a separate bill. Rates have also been updated so that multi-family, commercial/industrial, and irrigation customers will no longer have seasonality in their rates. These customers will have a consistent rate throughout the year, instead of a higher summer rate from May through October, which will simplify rates and stabilize bills.

With a system average rate increase of 9% for the next two fiscal years to cover the revenue requirement, residential single-family customers with average consumption would see bill increases greater than 9%. These differences in the rate increase reflect the combination of the cost of service adjustment and the system average rate increase and will vary based on connection type and usage.

The median single-family bill of 12 hundred cubic feet (HCF) per month would increase by 10.2%, or \$6.44, and the average single-family bill of 15 HCF would increase by 14.6%, or \$10.86. Single-family homes that conserve water or use it more efficiently would see bill increases of less than 9%. For instance, households consuming 7 HCF, which is the 25th percentile of usage during the year, would only see a bill increase of 1.1%, or \$0.48. The average multi-family building consumes 47 HCF and would see a bill increase of 3.8%, or \$8.16/month for the total building.

Electric Service

The proposed budget includes an overall 8.5% rate increase for electric service in FY 2023-2024 and an overall 8.0% rate increase in FY 2024-2025. The proposed rate increase will be effective July 1, 2023. For the typical residential customer, the proposed fees and charges reflect a monthly electric bill increase of approximately \$12.77. The overall 8.5% and overall 8.0% rate increases are necessary to cover the increased cost of fuel and power, replenish cash reserves from multiple years of under collection, and for capital financing needed to meet growing demand and to comply with the requirement to have a 100% greenhouse gas neutral electric supply by 2045. These percentages represent the average system-wide increase across all customer classes and rate components for each customer type (residential, small commercial, medium commercial, large commercial, and extra-large commercial). However, the increases vary by customer class based on rate adjustments from BWP's cost of service study.

BWP retained NewGen Strategies & Solutions (NewGen) in 2022 to perform an electric cost of service study and assist in developing rates.⁴ NewGen uses industry-standard

⁴ NewGen is producing a written report as part of the scope of work, which will detail the methodology and findings.

practices to allocate costs and develop rates compliant with legal requirements. BWP provided NewGen with budget information from the FY 2023-24 and FY 2024-25 proposed budgets and worked with NewGen to functionalize the budget for the upcoming two fiscal years—aligning BWP accounts with cost of service categories.

The cost of service study examined what the fair share is for each customer class to pay – or the rates that a customer should pay based on the cost to serve its customer class. Table 3 shows a summary of the cost of service results by customer class. The first column shows the customer classes for electric service. The second column shows the current percentage of total revenue collected from each class. The third column shows the portion of revenue that reflects the cost to serve for each class. If the current rate structure was perfectly aligned with the cost to serve, columns two and three would be equal. The results show that residential customers currently account for 29.9% of revenue but are associated with a higher percentage of the total cost to serve—36.6%. Small commercial customers account for 8.1% of revenue but 8.5% of the cost to serve. All other commercial classes show a modest difference between current revenue collection and cost to serve.

Table 3: Current Revenue Versus Proposed Cost of Service for Electric Service

Customer Class	Current (%)	COS Results (%)
Residential	29.9%	36.6%
Small Commercial	8.1%	8.5%
Medium Commercial	20.4%	18.9%
Large Commercial	19.9%	16.8%
Extra Large Commercial	21.2%	18.8%
Street Lighting	0.4%	0.4%
Total	100%	100%

The main reason that the cost to serve for residential customers is higher than what is reflected in current rates is that the residential customer class accounts for a significant portion of Burbank’s system peak demand, but is not contributing enough through rates to support the system needed to meet this demand. Figure 1 shows Burbank’s system peak by month throughout the year, or the hour with the highest level of electricity demand for each month over a recent one-year period. The system needs to have the capacity to deliver electricity at that level of demand—even if it is only for a short period of time. We can see from the graph that the residential portion goes up and down the most and has the largest portion of demand—40 to 45%--during summer months when the peak is highest (shaded in pink). The reason for this is that BWP’s system peaks are driven by electricity used as residential customers return to their homes in the late afternoon, use their air conditioners, cook, watch tv, and use their computers. This usage contributes to our system peak and is also the most expensive energy to procure. Inexpensive solar energy rapidly declines in the late afternoon and every utility needs to find energy to cover the loss of that solar.

Commercial customers also account for a substantial portion of the peaking costs – and their current rates more closely reflect that. Commercial customers pay rates that are different based on the time of day they are using electricity, which sends the price signals to customers about the best times to use electricity.

Figure 1: Customer Class Contributions to Monthly BWP System Peaks

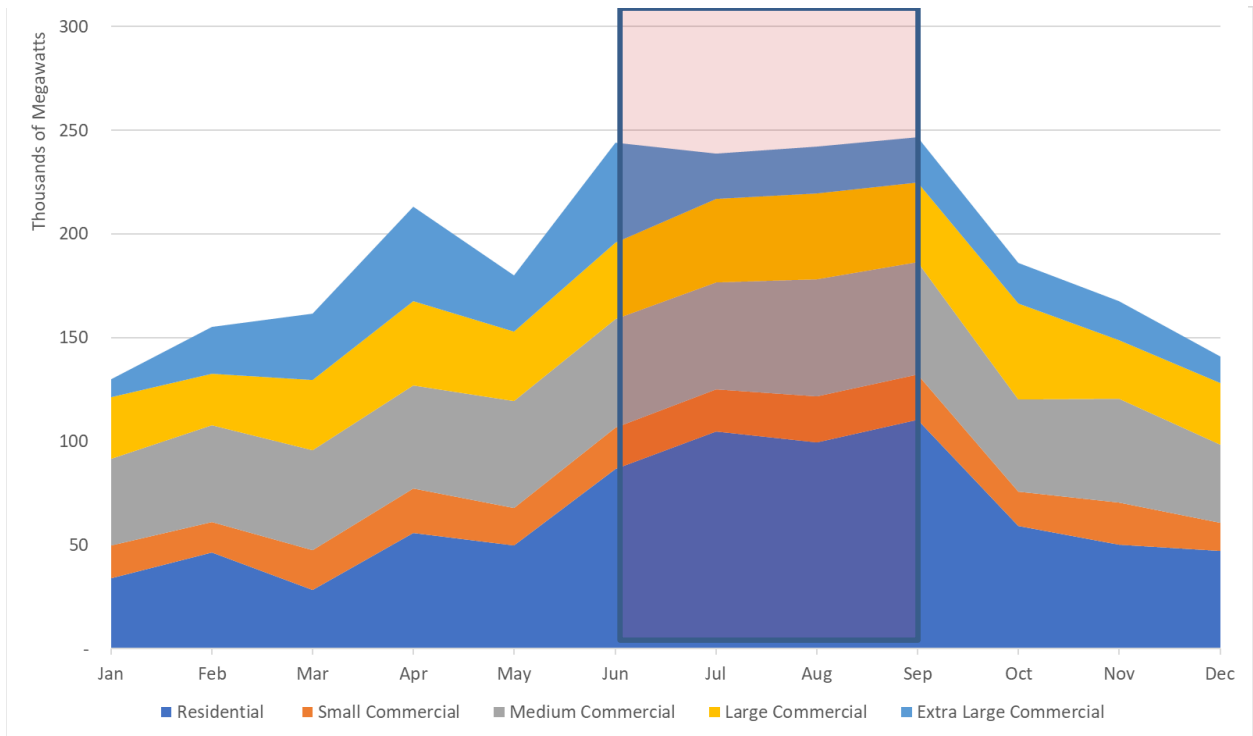
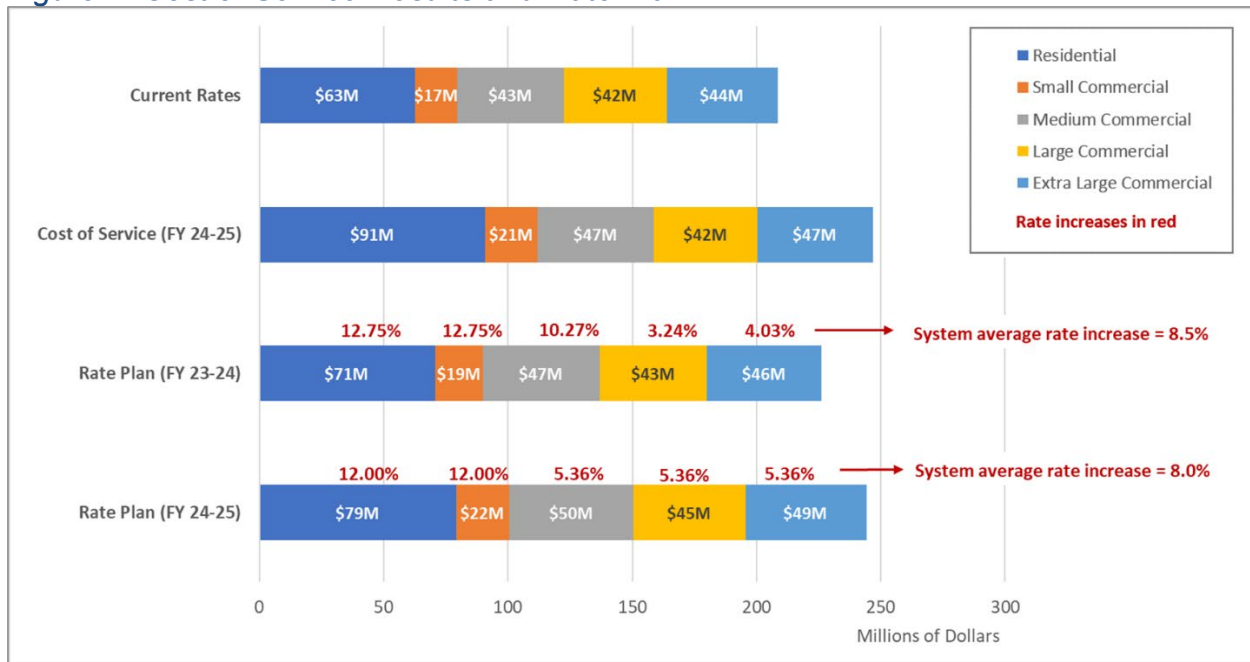


Figure 2: Cost of Service Results and Rate Plan



BWP developed a rate plan that uses a 5-year glide path to move the customer classes toward their cost to serve while accounting for the need to raise the average rate overall. Proposition 26 provides more flexibility for mitigating rate shocks while moving more gradually toward the cost to serve for each customer class. Figure 2 is a bar chart which illustrates the first two years of the rate plan. The colors of the bar chart sections represent the different customer classes. The top bar shows the amount of the revenue requirement collected from each class under the current set of rates. The second bar from the top shows the amount that would be collected by rates that aligned with the cost to serve each class in FY 2024-2025. This second bar labeled ‘cost of service’ shows two things. First, it is larger, reflecting the need to increase rates overall over the next two years. Second, it shows a change in the portions of the customer classes – particularly residential.

The bottom two bars show the plan for the next two fiscal years. Under the plan, no customer class would initially get a rate decrease and no class would get more than 1.5-times the average rate increases of 8.5% and 8%. The rate plan thus puts bounds on how fast rates are adjusted. Residential and small commercial customers would receive average rate increases of 12.75% and 12.00% respectively for FY 2023-2024 and FY 2024-2025. Medium commercial customers initially have a rate increase of 10.27% - but apart from that, the larger commercial classes have smaller increases than the system average. This allows BWP to comply with Proposition 26 by moving toward the cost to serve over several years.

The 12.75% increase for the upcoming fiscal year represents \$12.77 for the average residential customer overall, \$7.98 per month for a customer living in an apartment and \$18.52 per month for a customer in a single-family home.

BWP will undertake two additional efforts over the next two years that could help mitigate bill impacts for residential customers:

1. We will reanalyze smart meter data to see if businesses reopening and people returning to work after the COVID-19 Pandemic have changed customer usage patterns substantially in Burbank. If it turns out that the cost to serve residential customers decreases, BWP will adjust the rate plan after the first two years.
2. BWP will introduce residential time of use (TOU) rates in 2024, which will better align costs with rates. TOU will enable customers to shift their usage to save money, especially when using major appliances like dishwashers, washing machines, water heaters, and air conditioners. In the meantime, we urge customers to make full use of our sustainability programs to reduce their usage, including our Home Improvement Program, A/C Replace it Before it Breaks, and a suite of residential and commercial water-saving and energy-saving rebates that can be layered with the incentives from the Federal Inflation Reduction Act.

Correspondence

Approximately 53,000 customers are affected by the proposed rate increases described above. Attached are copies of the correspondence received in protest and in support of the increases up to the time of completing this staff report (Attachment 3). As of May 24, 2023, **18** letters have been received. To the extent that any letters of protest or support are received prior to the conclusion of the public hearing, staff will provide copies to City Council. For customers to override the proposed increases for water, refuse, and sewer services, the number of protests received would need to be equal to 50%+1 of those eligible to submit a protest. For water service, 13,501 customers would need to protest and for sewer and refuse services, 26,501 customers would need to protest to equal a majority.

ENVIRONMENTAL REVIEW

This activity has no potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, and as such, is not a “project” subject to the requirements of the California Environmental Quality Act (CEQA) 14 Cal. Code Regs § 15378.

CONCLUSION

Staff has met the noticing requirements of California Proposition 218, which applies to the proposed increases for water, refuse, and sewer fees and charges. Staff recommends that the City Council adopt a resolution approving increases to fees and charges for water, refuse, sewer, and electric services for inclusion in the FY 2023-2024 and FY 2024-2025 citywide fee schedules.

ATTACHMENTS

Attachment 1 – Resolution

Attachment 2 – Notice of Public Hearing to Consider Increases to Rates and Charges for Water, Refuse, and Sewer Services

Attachment 3 – Redacted Rate Hearing Protest Letters (as of May 24, 2023)

Correspondences