

From: Philip Rodriguez prodriguez@brightonco.gov 
Subject: Re: 2018 Audit & Utility Rate Study Update
Date: June 27, 2019
To: Phil Rodriguez prodriguez@brightonco.gov



Dear Council:

In an effort to keep you as updated as possible, with the hope that I can receive any feedback prior to the likely difficult, public conversations to come, I want to let you know the latest on the rate study as of today. Staff and our consultant have met yet again, and more information is known that warrants this update today.

The high-level issues referenced as of 6/25/19, remains the same, **except for**:

High-level issue update as of 6/27/19:

- The City of Brighton accumulated enough cash and increased its customer rates high enough through and including 2017 in its water fund, that we may end up having too much money in our water fund over the next decade. This is just like the wastewater fund that I described below. One potential decision point is that the City would need to consider lowering customer water rates soon, and not just leave them static as initially suggested earlier this week. This could create an entirely different dynamic for the public that I need to prepare you as a Council for that potential conversation. * Note: this alone will not impact the need for development rate increases as described below.

Please let me know if you have any questions on this update.

Thank you,
Philip

Philip Rodriguez, MPA
City Manager

City of Brighton
303.655.2050
500 S 4th Ave., Brighton, CO 80601

prodriguez@brightonco.gov | www.brightonco.gov

On Tue, Jun 25, 2019 at 2:33 PM Philip Rodriguez <prodriguez@brightonco.gov> wrote:

Dear Council:

I want to take a moment and let you know some of the preliminary findings as we get close to bringing forward the 2018 Audit and the Utility Rate Study, both being part of the 75 Day Work Plan.

For the 2018 Audit, it is anticipated that it will be a "clean audit" for the year 2018, much like we believed it would. This simply means that our internal processes and our accounting of funds in 2018 were handled in a way that matched generally accepted accounting principles, and that the financial statements are as represented by the Finance Department and City Management. This is good news as all "clean" audits typically are. I do wish to remind you as a Council though, that this is not an analysis or commentary on any other year than 2018. Please let me know if you have any questions or concerns on this.

Secondly, the new utility rate study has provided us some concerns and issues that we'll be continuing to work through for final decision making by you as a Council soon. It is important to note that the information below is only in draft form at this time, and is intended to give you as a Council as much notice as possible about what we're seeing at this point. It is likely that some of this information will be modified when released to you in a public meeting, and that subsequently, your potential decision points will be modified as well.

Here are the high-level issues as of 6/25/19:

- The City of Brighton accumulated enough cash and increased its customer rates high enough through and including 2017, that the wastewater fund should not consider raising customer rates again for an approximate time period between 9-15 years. This includes sufficient cash and rates to cover all anticipated future capital projects, to provide each years maintenance and operations, to pay its portion in full for a new Municipal Operations Center, and to pay all debts and contracts including to the Metro Wastewater Reclamation District for the Northern Treatment Plant. Ultimately, it is becoming more apparent that the fund will have more money than what the City will need for its wastewater enterprise for many years to come. One potential decision point is to consider lowering customer rates so that the City does not have more money than it needs or is legally allowable in order to provide its customer's wastewater service.
- The City of Brighton accumulated enough cash and increased its customer rates high enough through and including 2017, that the water fund should not consider raising customer rates again for an approximate time period between 4-9 years. This includes sufficient cash and rates to cover all anticipated future capital projects including a significant expansion of the Greensand Plant and aggressive water acquisition annually, to provide each years maintenance and operations, to pay its portion in full for a Municipal Operations Center, and to pay all debts and contracts including to Thornton/Westminster for its treated water. One potential decision point is to consider leaving rates at the same level yet again for the next half-decade or so to ensure that the City does not have more money than it needs or is legally allowable in order to provide water service. This is only achievable if we aggressively spend down the cash in the water fund, otherwise, it is highly likely that the City would need to consider lowering customer water rates instead.
- The City of Brighton does not collect enough through its new development rates (Plant Investment Fees) through and including 2018, and consequently, its broader, existing customers are significantly subsidizing the new growth that happens in Brighton in the utility funds. The potential decision point is to consider raising rates some 15% - 25% on new development, particularly in water, in order for the broader, existing customers to no longer subsidize new growth in the City. This can likely be tiered over a couple of years to lessen the impact or shock to developers.
- The Utility Fund as of 5/31/19 still has a verifiable cash position of over \$63 million. This is with some significant capital projects being funded and completed, some significant change orders to projects such as for the firm that maintains the City's water tanks adding to its scope last winter, with reduced revenue in 2019 due to a wetter and colder spring than anticipated, and with us already carving out over \$5.5 million for water acquisition in 2019 in a separate line item in the budget. This cash is part of what is reflected above when there's a discussion of possibly reducing rates or leaving them static for a very long time. It is also due to robust rate increases largely over the years 2010 - 2017, that have provided more than adequate revenue to provide these services - and then some. The bottom line as I can see it now, is that we need to shift our conversation from "what if there exists more cash than needed, and what if our customer rates are higher than needed", to how you as a Council and us as staff will partner together to make difficult decisions that put our customers first once more. There is justifiably shaky public trust over our Utility Fund, and I am very confident that if we work diligently together to rebuild that trust we can. Conversely, if we take these findings and do nothing to acknowledge some rate-making and serious capital project delivery missteps in the past, then that lack of trust will be wholly justified. Me and my staff are ready to rebuild that trust and I hope to get your support in doing so as well.

Please let me know if you have any questions or concerns on these matters.

Thank you,
Philip

Philip Rodriguez, MPA
City Manager

City of Brighton
303.655.2050
500 S 4th Ave., Brighton, CO 80601

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