

**RECORD OF PROCEEDINGS
MINUTES
of the
Board of Water Commissioners**

Denver Water Administration Building
1600 West 12th Avenue
Denver CO
Board Room, Third Floor

Wednesday, June 27, 2018

Open Session

A duly called Regular Meeting of the Board of Water Commissioners was held Wednesday, June 27, 2018, beginning at 9:05 a.m. in the Board Room, Room 309, 1600 West 12th Avenue, Denver, Colorado. Members of the Board present during the Regular Meeting were:

Paula Herzmark, President
H. Gregory Austin, Vice President
Gary M. Reiff, Vice President

Board employees and others present during portions of the meeting were:

J.A. Anderson, Chief of Staff	J. Martin, Project Engineer
A.C. Bricmont, Chief Financial Officer	J. Mitchell, Finance Sr. Analyst
G. Cagle, Chief Human Resources Officer	P. Reis, Engineer Sr.
C.R. Dermody, Chief Information Officer	A. Rettig, Finance Supervisor
B.D. Good, Chief Administrative Services Officer	S. Reum, Director Engineering – Projects
M. King, Chief External Affairs Officer	J. Ross, Engineer Sr.
J.S. Lochhead, CEO/Manager	J. Seagren, Distribution Relations Manager
R.J. Mahoney, Chief Engineering Officer	U. Sharma, Treasurer
T.J. Roode, Chief Operations and Maintenance Officer	R. Slade, Planner Sr.
P.L. Wells, General Counsel	S. Snyder, Communication Sr. Specialist
A. Andrews, Finance Sr. Analyst	J. Tejral, Public Affairs Manager
R. Angle, Finance Sr. Analyst	D. Wilson, Construction Project Sr. Manager
D. Batt, Construction Project Sr. Manager	J. Adams, Trammel Crow
	A. Buchanan
	J. Crockett, Jacobs

Denver Water aspires to be the best water utility in the nation.

Integrity :: Vision :: Passion :: Excellence :: Respect



J. Bogner, Finance Analyst
S. Chesney, Director Public Affairs
P. Coleman, Chief Internal Auditor
J. Daly, Finance Analyst
F. Davis, Rates Manager
R. Davis, Finance Analyst
P. Freeman, Finance Sr. Analyst
D. Hamm, Division Analyst
K. Knoll, Public Affairs Manager
J. Lorton, Accounting Manager

N. Cudahy, Green Mountain Water and Sanitation District
L. Ferguson, Trammel Crow
M. Haarmann
D. Irish, Southgate Water and Sanitation District
D. Kuntz, Mortenson
R. Moore, George K. Baum & Company
L. Suer, Jacobs

INTRODUCTORY BUSINESS

Commissioner Herzmark called the meeting to order at 9:05 a.m. Upon motion regularly made, seconded and unanimously carried, Commissioners Lucero and Jones were found to be absent for substantial cause and were excused.

Public Comment and Communications

Commissioner Herzmark issued an invitation to members of the public to comment to the Board on any matters not included in the Agenda for the meeting. There was no response.

Introductions, Awards, and Ceremonies

Ms. Seagren introduced two individuals who were present at today's meeting: Dave Irish, District Manager of Southgate Water and Sanitation District and Nina Cudahy, District Manager of Green Mountain Water and Sanitation District.

ACTION ITEMS

Upon motion regularly made, seconded and unanimously carried by the Commissioners then present, unless otherwise noted, the Board acted upon the following agenda items:

1. ITEM II-A-1: CROSS CONNECTION CONTROL SITE SURVEY – CONTRACT 503348

Approved Contract 503441 with Hydro Design, Inc. and Contract 503442 with Morrison Backflow for site survey, for the contract period from July 1, 2018 through December 31, 2020, and for a total contract amount not to exceed \$800,000.

2. ITEM II-B-1: BUDGET APPROVAL AND SPENDING AUTHORIZATION FOR NORTHWATER TREATMENT PLANT

Approved the \$520,000,000 budget for the Northwater Treatment Plant (NTP) and authorized execution of the Project, without requiring Board approval for individual Project contracts exceeding the CEO's expenditures authority, but with monthly Board updates and consultation with the Board prior to the award of specific work packages.

Mr. McCormick shared a presentation to the Board, a copy of which is attached to and incorporated in these Minutes as Exhibit A. Mr. McCormick reviewed the process by which Denver Water has developed a "north end solution" that provides Denver Water with improved water treatment reliability, flexibility for future expansion, added system redundancy and cost savings. The NTP will have a 75 MGD capacity, and will be an industry leader in terms of allowing for modern treatment processes, a change to safer treatment chemicals (from chlorine to liquid bleach), wireless technology that will allow the NTP to be operated remotely if necessary, more robust filtration, and other advanced treatment measures. The plant will have a hydropower facility that will generate more power than needed to operate the plant, the excess of which will be purchased by a power company. Commissioners Reiff and Austin both commented that they want to be informed when decisions are being made about material changes to the project. Groundbreaking for the construction is scheduled for September 4, 2018.

3. ITEM II-B-2: UPDATE OF THE CASH RESERVE POLICY

Approved the Cash Reserve Policy, a copy of which is attached to and incorporated in these Minutes as Exhibit B. The Policy describes reserve types, target levels, and events or conditions that prompt the use of the reserves. It should allow the Board to maintain adequate flexibility in terms of cash balances while maintaining sufficient reserves as required from a legal or operational perspective. Mr. Davis explained that the new Policy is designed to achieve the following goals:

1. Include reserves from grants and other legally restricted reserves;
- 2 Re-categorize operating cash reserves as Board-restricted and designated reserves;

3. Update guidelines for Capital Reserve to reflect current practice, and
4. Update policy review procedures and frequency.

4. ITEM II-B-3: UPDATE OF THE DEBT MANAGEMENT POLICY

Approved the Update to the Debt Management Policy, a copy of which is attached to and incorporated in these Minutes as Exhibit C. The Policy is meant to summarize the objectives and practices of debt management to ensure Denver Water has the ability to repay its debt obligations, maintain appropriate levels of financial flexibility, and seek optimal financing options for capital and manage interest rate risk. The most significant changes to the policy, last updated in 2013, include the following:

1. Confirm the commitment to maintaining strong credit ratings without defining the credit rating level;
2. Increase the debt ratio target from 40% to 45%, to reflect increasing capital needs in the near future;
3. Update a debt coverage target to a minimum of 1.8x the annual debt service to reflect the current practice;
4. Add a requirement for the Board's approval of borrowing programs while delegating to the CFO the authority to carry out the approved programs to reflect the current practice; and
5. Update policy review procedures and frequency.

In response to a question from Commissioner Reiff, Ms. Moore stated that the Policy update is unlikely to affect Denver Water's credit rating because it is reasonable to expect an increase in the amount of debt during a time of capital expenditures. She stated that if Denver Water maintains its conservative, long-term planning and budgeting processes, it should not see a change in credit rating. She also commented that the Policy update provides flexibility, is very thoughtful and consistent, and reflects a strong agency.

POLICY MATTERS

5. ITEM III-A: OCR UPDATE

Ms. Adams provided an OCR update, a copy of which is attached to and incorporated in these Minutes as Exhibit D. The update covered the project

budget, work package summaries, contingency summary, budget forecast, MWBE update and construction photographs. Going forward, Trammel Crow will provide spend updates regarding the additional \$4 million contingency. Mr. Lochhead said that there are now pictures of the graphics that will adorn the buildings as public art, and that these will be presented to the Board in the future.

6. ITEM III-B: HILLCREST TANKS AND PUMP STATION REPLACEMENT

Mr. Batt and Mr. Ries provided the Board with a briefing on the construction progress, budget tracking, and a milestone update on the Hillcrest Tanks and Pump Station Replacement Project. The Hillcrest Project is within scope and budget of the original Board approved contract amount. This may change for future work packages due to increased labor costs, some unanticipated renovation, a change in scope that will allow Hillcrest to be used as a decentralization station, and an increase in steel prices due to tariffs. As the Project proceeds, the 38 acre site's landscaping will conform to water use guidelines issued by Conservation.

7. ITEM III-C: EXPENDITURE AUTHORITY GUIDELINES

Ms. Bricmont sought feedback from the Board on proposed changes to the Board Resolution on the CEO/Manager's Spending Authority, and shared a "Variance Matrix" which is attached to and incorporated in these Minutes as Exhibit E. The Matrix describes categories of expense types that would be exempt from the CEO/Manager's general authority to approve expenditures under \$750,000, for example, non-discretionary expenses including utility costs, postage, payroll, employee benefits, pension, debt service payments, etc. Other changes would lower the approval threshold and require Board approval for expenditures below \$750,000, for example, legal settlements, professional services contracts, contingent staffing and inter-governmental agreements. The Board expressed general agreement with the rationale underlying the proposed changes to the resolution, and Commissioner Herzmark requested that Ms. Bricmont communicate her proposal to Commissioners Lucero and Jones. Mr. Good noted that many employees contributed excellent work to developing the Variance Matrix and proposed Board Resolution regarding the CEO/Manager's Spending Authority, and he recognized Dawn Hamm, who will be retiring this month, for her commitment and dedication to her job, and many contributions to Denver Water over her years of service. Commissioner Herzmark thanked Ms. Hamm for her real dedication and good work, and noted that she will be missed.

EXECUTIVE UPDATE

8. ITEM IV-A: CEO REPORT

Mr. Lochhead provided the Board with an update on Colorado River matters. A meeting of the seven basin states and Department of Interior officials was held in Santa Fe, New Mexico. Mr. Lochhead reported cautious optimism that progress is being made. The state of Arizona and Central Arizona Project have initiated a series of meetings to resolve internal differences, and a schedule is being implemented to finalize a lower basin and upper basin drought contingency plan (DCP) by the end of the year. This will culminate in approval of Arizona's participation in the lower basin DCP by the Arizona legislature, and federal legislation directing the Secretary of the Interior to implement the lower basin DCP, and make storage space available in federal upper basin reservoirs without charge, for demand management purposes.

9. ITEM IV-B: CFO REPORT

The Board received a Monthly Financial Update, dated May 31, 2018, a copy of which is attached to and incorporated in these Minutes as Exhibit F. Ms. Lorton explained that while evaluating the improvements to JDE, Accounting staff reviewed the asset categories and reallocated some of them; for example, it was noted that water rights was reported in the same line as another other category. Water rights will be reported without any other category added going forward. Water rights is reported at historical cost in the Comprehensive Annual Financial Report.

Mr. Mitchell reported that revenue from water sales is variable and dependent on the weather, and budgeting for water sales revenue is based on averages; this year water sales is \$500,000 above budget because of the hot dry weather. Expenses are .6% above budget, which is in line with projected budget, but personnel costs are lower because there are 53 fewer full time positions than anticipated. \$700k has been added to the budget for emergency clean-up costs, due to a larger than anticipated number of main breaks, which impact costs for labor, materials, and claims.

10. ITEM IV-C: OPERATIONS REPORT

Mr. Good reported that a position in the Administrative Services Division has become vacant due to a retirement, and he would like to reallocate the position to

work on sustainability issues. Currently, one employee is fully devoted to sustainability issues; she has one contractor, who is an energy analyst, and an intern, working with her. Mr. Good requested to make the energy analyst position a regular full-time position. He described some of the cost savings already generated by the contract energy analyst, which include finding errors in billing, cutting energy expenditures, obtaining rebates, and involvement in ten sustainability projects at treatment plants and reservoirs. The Board had no objection.

BRIEFING PAPERS & REPORTS

11. ITEM V-A-1: PROJECT COMPLETION MEMORANDUM – ASHLAND RESERVOIR TANK REPLACEMENTS

The Board received a Project Completion Memorandum regarding the Ashland Reservoir Tank Replacements, a copy of which is attached to and incorporated in these Minutes as Exhibit G.

ADJOURNMENT

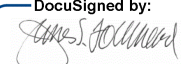
No further business appearing, the Board voted unanimously to adjourn into Executive Session at approximately 11:40 a.m.

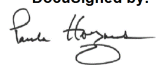
Executive Session

On Wednesday, June 27, 2018 , commencing approximately at 11:40 a.m. in the Board Room, Room 309, 1600 West 12th Avenue, Denver, Colorado, the Board of Water Commissioners met in Executive Session. The following matters, which are authorized by C.R.S. § 24-6-402 or D.R.M.C. § 2-34, were discussed during the Executive Session:

1. Property Transactions § 24-6-402(4)(a)
2. Attorney-Client Matters § 24-6-402(4)(b)

There being nothing further for the Board to consider, the Executive Session concluded at approximately 12:07 p.m.

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Secretary

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President