

# AGENDA

## Denver Board of Water Commissioners

Denver Water Administration Building  
1600 West 12<sup>th</sup> Avenue  
Denver, CO  
Board Room, Third Floor

**Wednesday, November 16, 2016 9:00 a.m.**

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### I. INTRODUCTORY BUSINESS

#### A. Call to Order and Determination of Quorum

#### B. Public Comment and Communications

At this point in the agenda, the Board may allow members of the public to address the Board on any item of interest within the jurisdiction of the Board, and not on the agenda for action. Speakers wishing to address a specific Action Item will be invited to address the Board when the item is being considered. Three minutes are allowed for each person unless the President determines otherwise.

1. Distributor Communications
2. Citizen Advisory Committee Communications

#### C. Ceremonies, Awards and Introductions

### II. ACTION ITEMS

#### A. Consent Items

Items listed below are considered routine and may be enacted by one motion and vote. If any Board member desires discussion beyond explanatory questions, or corrections to the Minutes, the President may order that item to be considered in a separate motion and vote.

1. Contract # 13490A Fourth Authorization for Additional Funds - Travelers Indemnity Co.
2. Contract 16758A ORCA: Timekeeping System (Kronos) Upgrading and Enhancements
3. Contract 15920A Third Amendment for ORCA Change Management and Organizational Readiness
4. Contract 16759A Enterprise Financial System Procurement and Payment
5. Contract 12206A Confluence Group Inc., Contract Amendment
6. Purchase of Oracle Database Servers
7. Contract 16964A Phone System Upgrade to Voice Over IP
8. Contract 13396A CenturyLink Network Services – Third Contract Amendment

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9. Contract 16918A Water Meters for Warehouse Stock
10. Contract 16598A Contract with Interpersonal Frequency LLC for Development of New External Website

**B. Individual Approval Items**

**III. POLICY MATTERS**

- |   |                |            |
|---|----------------|------------|
| <b>A. 2017 Rates</b>                                    | Todd Cristiano | 45 minutes |
| <b>B. Procurement and Supplier Diversity Objectives</b> | Brian Good     | 45 minutes |

**IV. EXECUTIVE UPDATE**

- A. CEO Update**
- B. CFO Update**
- C. Operations Update**

**V. BRIEFING PAPERS & REPORTS**

- A. Briefing Paper**
  1. OCR Project Financing with Green Bonds
- B. Report**

**VI. ADJOURNMENT**

**VII. TRUSTEE MATTERS**

**VIII. EXECUTIVE SESSION**

The Board may adjourn the regular meeting and reconvene in executive session on topics authorized by C.R.S. Sec. 24-6-402 or D.R.M.C Sec. 2-34.

- A. Confidential Report § 24-6-402(4)**

# DENVER BOARD OF WATER COMMISSIONERS

Meeting Date: November 16, 2016

Board Item: II-A-1

## Fourth Authorization for Additional Funds – Travelers Indemnity Co. Contract # 13490A

Action by Consent

Individual Action

### Summary:

Travelers Indemnity Company provided the Board workers' compensation insurance during the period February 2011 to January 2016. The Board is responsible for paying the first \$250,000 of all claims initiated during each year of this five-year period. Currently 19 claims remain open with an estimated unpaid liability of \$1,200,000. This fourth authorization requests the Board authorize additional funds of \$1,200,000 to pay claims when due.

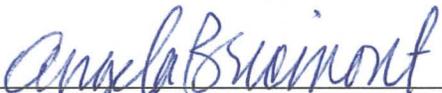
### Budget Information:

The total amount of this contract is \$6,370,760, and the term of the contract is February 1, 2011 to February 1, 2016. Funds for this service/contract will come from the 2016 budget for Workers Compensation Business Unit, which has sufficient funds to pay the \$491,000 estimated to be needed in 2016. The remaining \$708,800 will be budgeted in years 2017 and future years until all claims are closed.

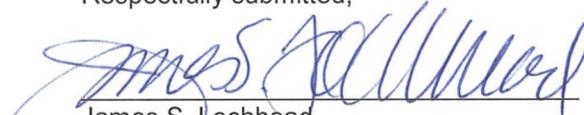
### Recommendation:

It is recommended that the Board approve the Fourth Authorization for Additional Funds to Contract 13490A with Travelers Indemnity Co. for an addition of \$1,200,000 for a total amended contract amount not to exceed \$6,370,760.

### **Approvals:**

  
\_\_\_\_\_  
Angela Brumont  
Chief Finance Officer

Respectfully submitted,

  
\_\_\_\_\_  
James S. Lochhead  
CEO/Manager

## DENVER BOARD OF WATER COMMISSIONERS

Meeting Date: November 16<sup>th</sup>, 2016

Board Item: II-A-2

### ORCA: Timekeeping System (Kronos) Upgrade and Enhancements Contract # 16758A

 Action by Consent

 Individual Action

#### **Summary:**

In order to achieve the objectives of the 2<sup>nd</sup> Increment of the ORCA (Organization Reporting & Communication Alignment) project, the Kronos Timekeeping System Upgrade and Enhancement project will be completed with the following improvements:

- Providing a mobile application for better access and usability for employees to report their time
- Providing the ability to track complicated absences and other leaves such as FMLA and Military Leave
- Enable other efficiencies for employees such as exception-based time report for exempt employees, a single/common time reporting work-week for all employees, and pre-populated timecards based on employee work schedules
- Upgrading Kronos from version 6 to version 8 and moving from an on premise hosted solution to a cloud hosted solution

This contract will provide the vendor resources needed to complete this implementation. Additionally, it will also provide funding for a 36 month Software-as-a-Service subscription, including licensing, maintenance, and support for the Kronos 8 cloud hosted solution.

#### **Budget Information:**

The following chart describes the breakout of costs for this contract:

Description	Start Date	End Date	Total Cost
Implementation	Nov 2016	Aug 2017	\$212,000
36 Month Subscription	Aug 2017	Aug 2020	\$309,000
<b>Total</b>			<b>\$521,000</b>

As show above, the total amount of this contract is \$521,000 and the term of the contract is 11/16/2016 to 8/30/2020. Budgeted funds to pay the \$50,000 estimated 2016 implementation costs are included in the 2016 IT ORCA project budget. The remaining implementation costs of \$162,000 will be included in the 2017 IT ORCA project budget. Funds for ongoing software subscription fees will be included in the 2017 through 2020 IT HCM operations budget.

#### **Selection of Business Partner:**

In 2008, Kronos, Inc. was selected to provide an enterprise timekeeping system through an open competitive RFP process. The Kronos timekeeping system was implemented in 2011 at the version 6 level of the product. The optimal solution approach for achieving the ORCA Increment 2 timekeeping improvements calls for upgrading the Kronos system to version 8 of the product and transitioning from Denver Water on premise hosting of the system to a cloud hosted solution offered by Kronos. Based on this, Kronos will continue to provide the enterprise timekeeping system as selected in 2008.

#### **Recommendation:**

It is recommended that the Board approve Contract 16758A with Kronos Inc. for upgrade and enhancement services as well as a 36 month Software-as-a-Service subscription for the contract period 11/16/2016 through 8/30/2020 for a total contract amount not to exceed \$521,000.

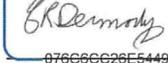
*Denver Water aspires to be the best water utility in the nation.*

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



**Approvals:**

DocuSigned by:



076C6C628E5449B...  
Chris Dermody  
Chief Information Officer



Angela Brimont  
Chief Financial Officer

Respectfully submitted,



James S. Lochhead  
CEO/Manager

# DENVER BOARD OF WATER COMMISSIONERS

Meeting Date: 11/16/2016

Board Item: II-A-3

## Contract 15920A Third Amendment for ORCA Change Management and Organizational Readiness

Action by Consent

Individual Action

### **Summary:**

The Organization Reporting and Communication Alignment (ORCA) project is an enterprise-wide system change that will take place in three increments. The first increment was deployed on July 5, 2016. The second increment is currently underway and will be completed by the end of 2017. The third increment will take place in 2018.

The ORCA Change Management effort is aimed at managing the people side of change associated with the changes to Denver Water's systems and business processes. The consultant will utilize change management methodologies to plan, manage and reinforce change, with the goal of maximizing organizational readiness and employee adoption. The selected consultant will continue leading this effort through the second increment of the ORCA project, which will include development of business impact assessments, organization readiness activities, communication, and training activities. The consultant will also support the ORCA Project Team in integrating change management activities into their project plans and activities.

### **Budget Information:**

The total amount of this contract amendment is \$170,000, and the term of the contract is being extended to 12/31/2017. Funds for this service/contract extension are included in the 2016 ORCA project budget and the proposed 2017 ORCA project budget.

### **Selection of Business Partner:**

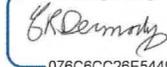
In February 2016, Denver Water issued a Request for Proposals via Rocky Mountain E-Purchasing System (BidNet) and the Denver Water public website. Denver Water received responses from ten proposers, of which four were SBE, two were both SBE and MWBE, and four were neither SBE nor MWBE. The selection committee evaluated each proposal based on the proposer's methodology and approach to the work, qualifications and change management experience, price, and references. The committee then agreed on the top three candidates to interview. The interview consisted of each candidate presenting their approach to a specified change management scenario followed by preset questions from the selection committee. Based on these interviews, the committee unanimously selected Breo Solutions, LLC as the consultant best meeting Denver Water's need. Breo Solutions, LLC is a SBE organization. The RFP and resulting contract with Breo Solutions included the provision to extend scope and funding for additional ORCA project increments.

### **Recommendation:**

It is recommended that the Board approve this Third Amendment to contract 15920A with Breo Solutions, LLC for continued Change Management services for the ORCA Increment 2 project, through 12/31/2017, for an additional amount of \$170,000 and a total amended contract amount not to exceed \$458,000.

**Approvals:**

DocuSigned by:



076C8CC28E5449B  
Chris Dermody  
Chief Information Officer

  
Angela Bricmont  
Chief Finance Officer

Respectfully submitted,

  
James S. Lochhead  
CEO/Manager

## DENVER BOARD OF WATER COMMISSIONERS

Meeting Date: November 16, 2016

Board Item: II-A-4

### Enterprise Financial System Procurement and Payment Contract # 16759A

 Action by Consent Individual Action**Summary:**

In order to achieve the objectives of the 2nd Increment of the ORCA (Organization Reporting & Communication Alignment) project, the Enterprise Financial System (JDE) Procurement and Payment project will be completed. In order to mitigate project risks and ensure a successful implementation, this contract will be split into two phases. The first phase will include:

- Discovery – The process to understand the needs of the organization and define the project scope. This includes capture of current state as well as the desired state.
- Detailed Functional Requirements – Development of the detailed requirements necessary to achieve the desired state as defined during the Discovery work.
- Design – This process will deliver a system design that will meet the detailed functional requirements. This design will represent what will be built and delivered.
- Development of cost and timing estimates for phase 2 (construction, delivery, and post Go-Live support).

Following completion of Phase 1, an amendment will be presented to the Board for authorization to move forward with Phase 2.

**Budget Information:**

The term of the contract is 11/16/2016 to 12/31/2017 and the total amount for the Phase 1 scope is \$343,200. Funds for this service/contract are included in the 2016 ORCA project budget, which has sufficient funds to pay the \$110,000 estimated to be needed in 2016. The remaining \$233,200 are included in the proposed 2017 ORCA project budgeted.

**Selection of Business Partner:**

RFP 16759A was issued on Denver Water's Website, Rocky Mountain E-Purchasing System (BidNet), through direct email to the SBE/M/WBE list, and through direct solicitation to nine (9) vendors. Six (6) vendors submitted Proposals, three (3) of which were invited to interview with the Denver Water evaluation team. None of the six Proposers were S/M/WBE certified.

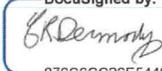
The evaluation committee selected Global Systems Integration, Inc. ("GSI") as their top choice for the JDE Procurement and Payment project based on their project approach and work plan, understanding of the work, key staff experience and qualifications, professional references, and proposed pricing.

**Recommendation:**

It is recommended that the Board approve 16759A with GSI for Phase 1 of the Enterprise Financial System (JDE) Procurement and Payment project consulting services for the contract period 11/16/2016 – 12/31/2017 for a total contract amount not to exceed \$343,200.

**Approvals:**

DocuSigned by:



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Chris Dermody  
Chief Information Office

Respectfully submitted,



James S. Lochhead  
CEO/Manager



Angela Brimont  
Chief Finance Officer

## DENVER BOARD OF WATER COMMISSIONERS

Meeting Date: 11/16/2016

Board Item: II-A-5

### Confluence Group Inc., Contract Amendment Contract #12206A

 Action by Consent

 Individual Action

#### **Summary:**

The Confluence Group has been working with the Denver Water IT team to train and assist in the development of significant mobile system enhancements in 2016. Through this process, the Denver Water IT team has achieved a high level of self-sufficiency in developing and maintaining the mobile system (mPlatform) technology.

The 2016 mobile system advancements include:

- Water Quality Backflow process
- Water Quality System Improvements and Development process
- Appointment Booking for Customer Care/CSF
- Distribution Inspections
- Lead Service Line identification
- Ability to view graphical corrosion areas and out-of-service Hydrants on the map

These advancements will be delivered with the mPlatform release in January 2017. No significant mobile system advancements are planned for 2017. However, this Amendment also includes funding for up to 480 hours of as-needed Confluence support services in 2017.

#### **Budget Information:**

The total amount of this contract amendment is \$117,780.00 and the term of the contract is 12/1/2016 to 12/31/2017. Budgeted funds to pay the \$55,380 estimated to complete development work in 2016 are included in the 2016 IT OAM budget. The remaining costs of \$62,400 for support services are included in the proposed 2017 IT OAM budget.

#### **Recommendation:**

It is recommended that the Board approve this Fourteenth Amendment to 12206A with The Confluence Group Inc. to finalize 2016 mobile system advancements and support services for 2017, with an extension of the contract period through December 31, 2017, and for an additional amount of \$117,780.00, for a total amended contract amount not to exceed \$5,656,444.00

#### **Approvals:**

DocuSigned by:



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Chris Dermody  
Chief Information Officer

Respectfully submitted,



James S. Lochhead  
CEO/Manager



Angela Bricmont  
Chief Finance Officer

## DENVER BOARD OF WATER COMMISSIONERS

Meeting Date: November 16, 2016

Board Item: II-A-6

### Purchase of Oracle Database Servers

Action by Consent

Individual Action

**Summary:**

Denver Water has a need to purchase four new database servers to replace four aging database servers. The servers being replaced are approximately eight years old and are beginning to experience hardware failures and can no longer meet the performance demands of the enterprise applications they support. These database servers host the majority of the Oracle databases that support enterprise applications including JDE, PeopleSoft, Maximo, GIS and other critical components of our datacenter infrastructure.

**Budget Information:**

The total amount of this purchase is \$114,983.68. Funds for this purchase/contract are included in the 2016 IT Infrastructure budget.

**Selection of Business Partner:**

The IT Infrastructure group developed the server hardware requirements and provided this information to the Purchasing & Contracts section. An RFQ (Request for Quotation) was sent to ten targeted vendors and posted on the Rocky Mountain E-Purchasing System (Bidnet). Four certified Oracle partners submitted quotes, including one through Bidnet. All four submitting vendors are self-declared small business enterprises. Mythics was the 2<sup>nd</sup> lowest bid and was selected because the lowest bidder did not provide quotes on the entire list of required hardware.

**Recommendation:**

It is recommended the Board approve the purchase of the additional Oracle server equipment as outlined in the quote from Mythics for a total amount not to exceed \$114,983.68.

**Approvals:**

DocuSigned by:



076C6CC26E5449B

Chris Dermody  
Chief Information Officer

Respectfully submitted,

  
James S. Lochhead  
CEO/Manager

Angela Brimont  
Chief Finance Officer

## DENVER BOARD OF WATER COMMISSIONERS

Meeting Date: November 16, 2016

Board Item: II-A-7

### Phone System Upgrade to Voice Over IP Contract # 16964A

Action by Consent

Individual Action

#### **Summary:**

Over the past several years, portions of Denver Water's organization-wide Alcatel telephone system have been converted to a contemporary, industry standard technology platform, referred to as Voice over Internet Protocol (VoIP). Most recently, due to OCR project construction work, all of the existing on premise underground phone system network had to be removed, which required conversion to VoIP for all remaining buildings on the Operations Complex, with the exception of the Administration building. This contract is for the completion of the VoIP conversion in the Administration building, involving purchase and installation of VoIP phones that will replace all existing telephones in the Administration building. With the VoIP conversion completed, transition of telephone services to new building facilities in Phase 1 and Phase 2 of the OCR project will occur seamlessly, as all new OCR buildings are being constructed to support VoIP. The new VoIP phones in the existing Administration building will be moved the new Administration Building in Phase 2 of the OCR project.

#### **Budget Information:**

The total amount of this contract is \$177,716.29, and the term of the contract is 11/16/2016 to 6/30/2017. Funds for this service/contract are included in the 2016 IT Network Services budget and the proposed 2017 IT Network Services budget.

#### **Selection of Business Partner:**

Dice Communications, Inc. is the certified Alcatel phone system reseller and professional services provider for the western United States. Denver Water is also contracted with Dice Communications for software maintenance and equipment services for its Alcatel phone system through April, 2019.

#### **S/MWBE Information:**

Dice Communications is a certified Woman-Owned business.

#### **Recommendation:**

It is recommended that the Board approve Contract 16964A with Dice Communications, Inc. for the Alcatel phone system upgrade to Voice Over IP, for the contract period 11/16/2016 to 6/30/2017, for a total contract amount not to exceed \$177,716.29.

**Approvals:**

Respectfully submitted,

DocuSigned by:  
  
076C6CC26E5449B  
\_\_\_\_\_  
Chris Dermody  
Chief Information Officer

  
\_\_\_\_\_  
James S. Lochhead  
CEO/Manager

  
\_\_\_\_\_  
Angela Bricmont  
Chief Finance Officer

# DENVER BOARD OF WATER COMMISSIONERS

Meeting Date: November 16, 2016

Board Item: II-A-8

## CenturyLink Network Services – Third Contract Amendment Contract # 13396A

Action by Consent

Individual Action

### **Summary:**

In December, 2015, CenturyLink and Denver Water agreed to extend the current Master Service Agreement (MSA) by one year to provide additional time to complete the MPLS network conversion under the existing MSA pricing model. Completion of this conversion project is on schedule and nearing the end. Denver Water's IT Network Services team has traditionally negotiated Master Service Agreements directly with CenturyLink. However, this year, the Network Services team would like to engage a telecommunications broker/consultant to assist with these negotiations, as well as provide additional services including evaluations of existing carrier services to ensure services are right-sized, negotiate pricing on new circuits, correct billing errors and researching diverse carrier options. In order to adequately execute our due diligence and procurement process for engaging a telecommunications broker/consultant, an additional six-month extension to the existing CenturyLink MSA is requested.

### **Budget Information:**

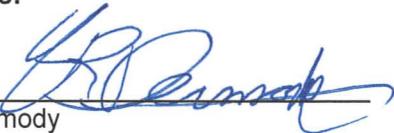
The current amount of this contract is \$14,855,250, and the term of the contract is 12/10/2010 to 12/8/2016. Funds for this service/contract extension are included in the 2016 IT Network Services budget, sufficient to pay the \$210,000 estimated to be needed in 2016. Funds for the remaining \$1,050,000 estimated to be spent in 2017 are included in the proposed 2017 IT Network Services budget.

### **Recommendation:**

It is recommended that the Board approve the Third Amendment to 13396A with Qwest Corporation dba CenturyLink for the Master Service Agreement for telecommunications services for an extension of the contract period through June 8, 2017 and for an additional amount of \$1,260,000.00, for a total amended contract amount not to exceed \$16,115,250.00.

### **Approvals:**

Respectfully submitted,



Chris Dermody  
Chief Information Officer



James S. Lochhead  
CEO/Manager



Angela Bricmont  
Chief Finance Officer

Meeting Date: November 16, 2016

Board Item: II-A-9

## Water Meters for Warehouse Stock Contract # 16918A

 Action by Consent Individual Action

### **Summary:**

Denver Water utilizes water meters to record customer water usage for the purpose of accurate billing. In order to maximize meter reliability and minimize billing errors Denver Water has developed standards and testing protocols that all meter manufacturers must meet in order for their product to be approved for use in the Denver Water system.

Since the last meter contract was awarded by the Board, Denver Water was solicited by Mueller Systems under the Appendix A – Procedure for the Evaluation of Materials to review the Hersey water meter. After further identifying a system need, Denver Water proactively evaluated five additional meter manufacturers for compliance with Material Specification 16. Denver Water's Material Review Committee evaluated the meters in accordance with the Testing Protocol. Of the six meter manufacturers evaluated with the Appendix A process, the Mueller Systems Hersey water meter met the minimum standards and was approved and is identified as an Acceptable Manufacturer in Material Specification 16, thereby listing three acceptable manufacturers and models

### **Budget Information:**

The total amount of this contract is \$950,000.00, and the term of the contract is December 1, 2016 to November 30, 2019. Funds for this service/contract will come from the 2016 budget for the Warehouse, which has sufficient funds to pay the \$26,500.00 estimated to be needed in 2016. The remaining \$923,500.00 will be budgeted in years 2017 through 2019.

### **Selection of Business Partner:**

Denver Water issued an Invitation for Bids for water meters in October 2016 via Rocky Mountain E-Purchasing System (BidNet), the Denver Water public website, and direct e-mail to the SBE/M/WBE Chamber contact list. Denver Water received three bids, none of which were SBE or M/WBE.

Water Meters are a covered spend category under Denver Water's Covered Goods and Services MWBE program. The low bidder is National Meter & Automation, Inc.

### **S/MWBE Information:**

For 2016 O&M has set an overall 15% target for MWBE participation in contracts.

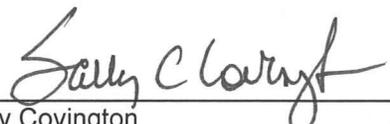
### **Recommendation:**

It is recommended that the Board approve Contract # 16918A with National Meter & Automation, Inc. for water meters for the contract period December 1, 2016 to November 30, 2019 for a total contract amount not to exceed \$950,000.00.

**Approvals:**

  
\_\_\_\_\_  
Thomas J. Roode  
Chief Operations Maintenance Officer

  
\_\_\_\_\_  
Angela Bricmont  
Chief Finance Officer

  
\_\_\_\_\_  
Sally Covington  
Chief Public Affairs Officer

Respectfully submitted,

  
\_\_\_\_\_  
James S. Lochhead  
CEO/Manager

# DENVER BOARD OF WATER COMMISSIONERS

Meeting Date: November 16, 2016

Board Item: II-A-10

## Contract with Interpersonal Frequency LLC for Development of New External Website

### Contract # 16598A

Action by Consent

Individual Action

#### **Summary:**

Denver Water's external website, DenverWater.org, was last fully redeveloped and redesigned in 2009 and has served the organization well for the past seven years. However, the site was built using now-outdated technology, and does not offer many of the features, ease of use and flexibility desired and expected from modern websites. The current site is not mobile-responsive, and therefore a separate condensed m.denverwater.org site was created and is managed separately. The content management system for the site is a proprietary software, locking Denver Water into using only one vendor over the life of the website. Additionally, customer feedback over the last two years has indicated the need for a better web experience.

Drupal will be the underlying platform of the new website and content management system. Drupal is an open-source, flexible content management system that is completely free. The costs of this contract are related to professional services needed for the customization, design and information architecture of the site, as well as the hosting of the site. Drupal is mobile-responsive, eliminating the need for the separate mobile site. The selected vendor, Interpersonal Frequency, has vast experience building Drupal websites across sectors. In addition to building the new site on the Drupal platform, Interpersonal Frequency will use its data-driven process to identify what needs to be changed to improve the site's navigation and content management functions. The end result allows site visitors to find exactly what they are looking for in less time, with fewer clicks.

#### **Budget Information:**

The total amount of this contract is \$350,000.00, and the term of the contract is Nov. 16, 2016 to Sept. 30, 2021. The majority of the costs will be incurred in 2016 and 2017 for site construction (\$245,650.00). The additional funds and contract duration are for Drupal developer support, such as troubleshooting and maintenance, and web hosting. Funds for this service/contract will come from the 2016 budget for Electronic Communications, which has sufficient funds to pay the \$122,825.01 estimated to be needed in 2016. The remaining \$227,174.99 will be budgeted in years 2017, 2018, 2019, 2020 and 2021.

#### **Selection of Business Partner:**

Denver Water issued a request for proposal (RFP) to the public on the Rocky Mountain E-Purchasing System (BidNet), on Denver Water's website, and through notifications to the SBE and MWBE communities. Denver Water received 19 proposals; eight were SBE and three were MWBE. Interpersonal Frequency LLC was selected based on their experience, understanding of work, project approach, methodology, design portfolio and price.

#### **S/MWBE Information:**

Interpersonal Frequency LLC is an MBE.

#### **Recommendation:**

It is recommended that the Board approve Agreement 16598A with Interpersonal Frequency LLC for the design, creation and maintenance of a new Denver Water website for the contract period from November 16, 2016, to September 30, 2021, for a total contract amount not to exceed \$350,000.00.

**Approvals:**

  
\_\_\_\_\_  
Sally Covington  
Chief Public Affairs Officer

Respectfully submitted,  
  
\_\_\_\_\_  
James S. Lochhead  
CEO/Manager

  
\_\_\_\_\_  
Angela Brimont  
Chief Finance Officer

# DENVER BOARD OF WATER COMMISSIONERS

Meeting Date: November 16, 2016

Board Item: V-A-1

## Briefing Memorandum for OCR Project Financing with Green Bonds

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### **Summary:**

The purpose of this briefing paper is to give the Board an introduction to green bonds, provide an overview of the green bond market and describe the potential financing of most of the costs of the OCR Project with the issuance of green bonds in 2017.

### **Background:**

Green bonds are debt instruments used to finance or refinance, in part or in full, projects that provide environmental and sustainability benefits, such as climate adaptation, pollution control or water quality projects. The first "Green Bond" was issued by the World Bank in 2008. Since then, green bonds have been gaining momentum as an attractive tool to draw investors' attention in a highly competitive bond market while advancing environmentally beneficial investments and highlighting issuers' commitments to environmental stewardship. The first municipal green bonds were issued in 2013 by the Commonwealth of Massachusetts to fund environmentally beneficial projects across that state. A significant number of municipal entities have entered the green bonds market since then. Municipal green bonds make up nearly 50% of U.S. green bonds market. 43% of total municipal green bonds were issued for water and sewer related projects.

Green bond investors include advisors and asset managers with sustainability or low-carbon growth mandates such as bond funds, trust funds and pension plans. Others include investors that self-identify as socially responsible investors and have environmental, social and governance criteria as part of their investment analysis.

Generally, the structuring and issuing of issuance of green bonds resembles in most respects the issuance of traditional municipal bonds. Green bonds are essentially identical to the normal bonds that municipalities issue, except that the bonds are labeled as "green" by their issuer, proceeds are earmarked for green investments as defined by the issuer, and the issuer tracks and reports on the use of proceeds to ensure green compliance.

Both issuers and investors note a number of benefits associated with green bonds:

- Designating a bond issue as "green" highlights an issuer's public service and environmental stewardship.
- A green bond provides for positive marketing opportunities and publicity of a major capital public project.
- Diversification of the municipal bond investor base by attracting investors who wish to invest in sustainable investments within the fixed income market.
- Advancing the adoption of innovative technologies and promoting economic and climate resiliency.

However, green bond issuance could result in certain additional costs and administrative efforts associated with implementing procedures used to identify, evaluate, and select green projects, and then tracking, monitoring, and reporting the actual use of bond proceeds for green projects.

*Standards for Green Bonds:* The green bond market has been growing rapidly but there is a lack of uniform standards for issuing green bonds. Analysts believe that in order for the green bond market to continue to expand and remain credible, standardized guidance and criteria are needed. The first initiative to promote transparency and disclosure in the green bond market was released in 2014 by the International Capital Market Association - the Green Bond Principles (GBPs). The GBPs are voluntary guidelines with recommendations for process and disclosure for issuing green bonds. There are four major components to the GBPs, also referred to as the Green Bond Framework:

- Use of Proceeds
- Process for project evaluation and selection
- Management of proceeds
- Reporting

A sample GBP framework can be found in Exhibit A.

There have been a few other proposed standards for green bond issuance such as the Climate Bond Initiative's Climate Bonds Standard and Taxonomy and Moody's Green Bond Assessment which have been used by some municipal issuers.

*External Verification vs Self-Certification:* Third party reviews are recommended but not required by the GBPs and by Moody's but are required in the Climate Bond Standard. Given a potential risk to the reputation of an issuer of green bonds if the green credentials of the green bonds are challenged, issuers often look to external consultants to guide them in designing their green bond criteria and processes. Equally, investors are increasingly seeking evidence that the criteria for the use and management of green bond proceeds are robust, and that these proceeds are indeed used to fund the intended green projects. According to the Climate Bonds Initiative database of all bonds labeled as "green bonds," nearly 70% of the issues have undergone independent review, although among US municipal issuers, only about 40% requested a second opinion.

### **Budget Information:**

The total cost for the OCR Project is \$195.6 million. OCR Project expenditures for years 2015 and most of 2016 totaling \$36 million were financed from the proceeds of the Series 2016A Revenue Bonds. Proceeds from 2017A Revenue Bonds, labeled as green bonds, in the amount of approximately \$160 million are proposed to reimburse remaining 2016 expenditures and finance the remaining costs of the OCR Project for years 2017 through 2020.

### **Approach:**

A variety of sustainability goals assigned to the OCR project make it a prime candidate for the first Denver Water green bonds issuance. It is expected that the green bonds would be issued during the second quarter of 2017 and the proceeds used over the next three years to finance all of the remaining OCR Project expenditures.

Staff will bring back a more detailed outline of 2017 revenue (green) bonds issuance timeline, including a GBPs framework specific to Denver Water, at a later Board meeting.

### **Owner(s):**

The process of issuing green bonds will be owned by Finance who will partner with the sustainability office to develop a green bond framework and post-issuance reporting. In addition, a great deal of cooperation will be required from all divisions throughout Denver Water in preparation and review of bond documents and ratings presentation.

### **Attachments:**

- Exhibit A. Green Bond Principles (GBPs)