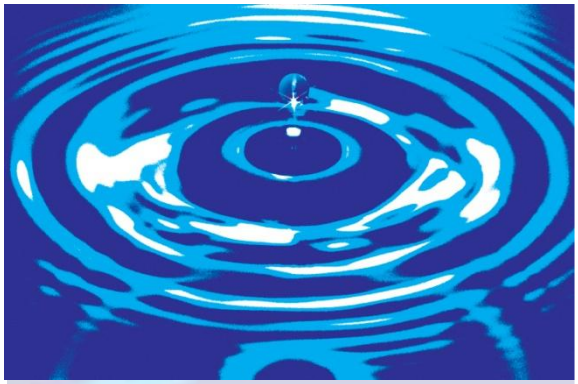


Denver Water

2012 Budget

www.denverwater.org

Distinguished Budget Presentation Award

The Government Finance Officers Association of the United States and Canada (GFOA) presented an Award of Distinguished Budget Presentation to Denver Water, Colorado for its annual budget for the fiscal year beginning January 1, 2011. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device. This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

Table of Contents

Introduction

Manager/CEO Letter

Board of Directors

Contact Information

Greetings,

Since I took over as Manager/CEO two years ago, Denver Water has gone through tremendous change. Many of those changes will affect our budget in the years ahead. We're becoming a leaner, more efficient organization, and we have some expensive projects on the horizon. We're enhancing our commitment to customer service, and we're improving our relationships with a variety of agencies and organizations throughout the state. These changes are marking an important and exciting time for Denver Water's employees, customers and neighbors.

Strategic Plan

In March 2011, Denver Water's Board of Water Commissioners adopted the Strategic Plan, which describes our vision for securing Denver Water's future as the best water utility in the nation. The plan provides long-term guidance for our thinking and practices. This plan is so important to Denver Water that the former director of Operations and Maintenance, Brian Good, has been reassigned to oversee the plan's implementation as the deputy manager of Organizational Improvement.

Denver Water is working on several initiatives designed to accomplish the plan's four desired outcomes:

Customer:	Satisfied and supportive customers.
Financial:	A financially strong and stable organization.
Organizational:	An effective, efficient and strategically driven organization.
External:	Strategically effective relationships and reputation.

The Strategic Plan's initiatives will take years to implement, and some will continue in perpetuity. Many projects highlighted within the plan, such as the Integrated Resource Plan and the Colorado River Cooperative Agreement, have been in the works for years, while others were direct outcomes of the Strategic Plan. There are four key Strategic Plan initiatives we will work on in 2012:

- **Lean** – We have set aside $325,000 in 2012 to implement Lean, a process by which we plan to carry out the Strategic Plan. Lean concepts, which began as a way to improve Toyota's manufacturing process, focus on serving internal and external customers better by eliminating waste in businesses processes. There are two main aspects of Lean. First, Lean processes strive to find efficiencies in processes instead of simply laying off employees. Secondly, Lean's philosophy is that waste is disrespectful. It's disrespectful to the employee, whose time is valuable, and it's disrespectful to the customer, who ends up paying for inefficiencies.

  Organizations that successfully use Lean to implement their programs see double- and triple-digit percent improvements in efficiency, which save time, money and valuable

resources. Those kinds of cost-savings are important to us, especially as we ramp up for significant expenditures down the road. For example, in the past 10 years, we've spent $900 million on our capital plan. In the next 10 years, we'll spend $1.6 billion. If we're going to ask ratepayers to pay for that infrastructure, we have to be as efficient as possible and focus revenue and employees on exactly the right processes and projects, at the right time, and in the right amount. We will spend 2012 beginning to implement this approach with our billing and tap sales processes, as well as with critical pressure regulating valves in our distribution system.

Organizations that successfully use Lean to implement their programs see double- and triple-digit percent improvements in efficiency.

- **Budget Development** – Currently, the Board approves a budget for the following year, but employees must return to the Board for approval when they want to use that budgeted money throughout the year. Most of the Board's time is spent approving items one at a time during Board meetings. In the future, the Board wants to be more involved in creating the budget, rather than approving expenditures after the budget has been approved. This would free up the Board to tackle more policy issues during Board meetings. It also means that employees won't waste time getting started on important projects as long as the projects have been approved in the budgetary process the year before. Only variances to the budget would have to go before the Board. Clearly, a new process like this will require some work – both to ensure a solid budget-development mechanism and to have adequate controls in place to make sure the budget is being carried out as approved. It also may require a few system upgrades. In 2012, Denver Water plans to spend $200,000 developing this new budgeting process.

- **Employer of the Future** – Fifty percent of our employees will be eligible to retire in the next eight years. In order to be the best utility in the nation, we will need to attract, hire, train and sustain the employees that will get us there. We need to be thoughtful in making sure we invest in our employees with training, benefits and pay structures that will allow us to hire and keep those employees. That will allow us to resist political pressure to reduce pay and benefits, institute furlough days and otherwise penalize employees simply because we are a governmental agency. Employer of the Future is a way of thinking about all the many facets of becoming the best workplace possible in order to attract and keep the best.

- **Compensation Change –** In 2011, the Board of Water Commissioners approved a change to Denver Water's compensation format. Instead of giving employees raises based on a step system, the Board approved a pay-for-performance system, in which employees' pay increases will depend on available payroll budget and individual performance evaluation ratings, among other factors. The new evaluation system will be introduced in 2012, but employees' pay will not be fully subject to the new system until 2013. This way, employees will be able to see how they would have fared under the new plan before it's actually implemented, and any bugs in the system can be worked out before pay-for-performance officially begins in 2013.

Reorganization

Though it doesn't have a significant impact on the budget, Denver Water has gone through an important reorganization. We're putting a new emphasis on customer needs and our ability to connect with them. We also want to educate customers about what it takes to operate the system so we have their support in building and maintaining our vast infrastructure. To do that, in 2011, Denver Water split the Public Affairs division into two: Public Affairs and Customer Relations. The Customer Relations division enhances our focus on exemplary service to our customers, including all of our interactions with residential and commercial customers, the city of Denver and the distributors. This increased customer focus will result in positive customer experiences and productive customer relationships.

The Customer Relations division will enhance our focus on exemplary service to our customers.

The Public Affairs division focuses on enhancing our communication efforts with employees, the general public and the media. Public Affairs also expands our relationships in the broader community, including small, women- and minority-owned businesses, and coordinates our relationships with other government agencies and the business community. Public Affairs also continues to innovate and lead our nationally recognized conservation programs.

This new structure is critical to the long-term success of our efforts to position Denver Water favorably among the customers we serve, as well as other important groups – key priorities in our Strategic Plan.

Colorado River Cooperative Agreement

In 2011, Denver Water and more than 30 West Slope partners announced the proposed Colorado River Cooperative Agreement, which will achieve better environmental health for the Colorado River Basin, improve economics for many cities, counties and businesses impacted by the river, and help secure future supply for Denver Water's service area. The proposed agreement, five years in the making, will now be considered by towns, counties, and water entities along the Colorado River from the headwaters to the Utah state line.

Focused on cooperation, the proposed agreement brings parties who traditionally have been at odds together as partners on a path to responsible water development benefitting both the East and West slopes. The proposed agreement, expected to be signed by all partners by the end of 2012, is the largest of its kind in the history of the state. In addition to its benefits for Denver Water and the West Slope, the proposed agreement will trigger a major water-sharing and conservation arrangement between Denver Water, Aurora Water and water providers in the south Denver-metro area. Taken as a whole, these landmark agreements mark the most significant change Colorado has seen in how the state's water resources are managed.

Integrated Resource Plan

The Integrated Resource Plan will help guide decisions related to our water system during the next 40 years. Long-term planning has always been a key element in our ability to meet customers' needs in a rapidly growing, dry region. Today's customers benefit from a reliable water system, much of which was planned decades ago.

The IRP, a planning process we instituted in 1997, examines water collection, treatment, and distribution systems, and provides guidance about what will be needed in the future. It scrutinizes water-demand projections and demand-management alternatives, as well as water-supply options and alternatives. We've considered a wide variety of supply and demand management methods available to Denver Water, including conservation, nonpotable water recycling, expansion or development of new water supply and storage projects, system refinements, and cooperative projects with other entities. We've considered strategies such as watershed management and water treatment methods to maintain our high quality of drinking water. We've also considered methods for minimizing water service interruption, including adding backup infrastructure and improving emergency management procedures. All strategies are aimed at meeting the future water needs of our customers.

In 2012, Denver Water plans to spend $650,000 on additional studies for long-term supply options identified in the IRP process. We will employ various services to help us complete several studies for the IRP, including watershed evaluations and climate analyses, as well as pilot programs on rebates for converting turf landscaping to Xeriscape, deep aquifer water storage, and graywater recycling, among other studies. Enlarging Gross Reservoir, an important near-term planning project, has $1.5 million in the 2012 budget to finalize the Environmental Impact Statement.

Denver Water has a long history of providing high-quality, reliable water service at a low cost. These changes will help us continue that vital mission long into the future, ensuring the upcoming generations – in Denver and across the Continental Divide – will always have the water they need.

Sincerely,

Jim Lochhead
Manager/CEO, Denver Water

Board of Water Commissioners

Greg Austin, President, Appointed: July 2009

Greg Austin is a former partner in the Denver law firm Holland & Hart LLP. He retired from the partnership in 2001 but continued serving as counsel to the firm until July 2009. Austin left Holland & Hart from 1973 to 1977 to serve as general counsel to the U.S. Small Business Administration, and later as solicitor (general counsel) of the U.S. Department of the Interior. Austin serves on the board of directors of Craig Hospital, Rocky Mountain Public Broadcasting System, the Denver Police Foundation and the Holland & Hart Foundation. He also is a member of the Secretary of State's Advisory Committee and has served on the Colorado State Treasurer's Advisory Commission.

John Lucero, First Vice President, Appointed: July 2007

John Lucero is the deputy director of the mayor's office of economic development. He served as a broker associate at Lucero Real Estate, Inc., a local real estate company that offers residential, commercial, development and investment real estate expertise. Lucero also is a former director of the Denver Board of Realtors, where he received the 2007 President's Distinguished Service Award and has been a member of numerous committees. He also has served on several committees for the Colorado Association of Realtors and the Colorado Association of Hispanic Real Estate Professionals. Lucero currently serves as a member of the Denver Zoning Code Task Force and was a member of the mayor's transition team for Community Planning and Development in 2003.

Penfield Tate III, Vice President Appointed: October 2005

Penfield Tate III is a former state legislator and a shareholder in the Public Finance Group at the law firm of Greenberg Traurig. He is a graduate of Colorado State University and Antioch School of Law. He has served on the boards for the Colorado Bar Association, State of Colorado Banking Board, Cerebral Palsy of Colorado, Colorado Housing and Finance Authority, Five Points Community Center and Metropolitan State College of Denver Foundation. He has been the executive director of the Colorado Department of Administration, an aide to former Denver Mayor Federico Peña and a trade regulation attorney for the Federal Trade Commission.

Thomas A. Gougeon, Vice President, Appointed August: 2004

Tom Gougeon is president of the Gates Family Foundation. He was a principal in Continuum Partners LLC, a Colorado-based development company known for mixed use and transit oriented "green" building projects. Gougeon served as chief executive officer of the Stapleton Redevelopment Foundation, assistant to the mayor of Denver, executive director of a charitable foundation and was a research associate at the Denver Research Institute in community planning and natural resource economics.

Gougeon also worked at the U.S. Environmental Protection Agency, where he worked on the Clean Air Act, western energy development and public lands issues. He is a former chair of the Nature Conservancy of Colorado and Volunteers for Outdoor Colorado, and he has served on the board of the Denver Urban Renewal Authority and many other community organizations. He holds a bachelor's degree in economics from the University of Denver and a master's degree in city and regional planning from Harvard University.

Paula Herzmark, Vice President, Appointed April: 2009

Paula Herzmark is the executive director of the Denver Health Foundation, a nonprofit organization that supports Denver Health. She previously worked as the chief executive officer of the Robert E. Loup Jewish Community Center, as well as the president and chief executive officer of Prime Time Cable Corp., a private cable television company. She also served in Gov. Richard Lamm's cabinet as the executive director of the Colorado Department of Local Affairs for five years, after having served as the governor's legislative liaison.

Herzmark has been active in several boards in the community, including Opera Colorado, Stapleton Foundation, Denver Judicial Nominating Commission, Rocky Mountain Planned Parenthood, National Jewish Hospital, the Denver Health and Hospitals and the Downtown Denver Partnership.

Previous 20 Commissioners

Charles G. Jordan	1983 to 1985	Ronald L. Lehr	1993 to 1999
D. Dale Shaffer	1978 to 1985	Joe Shoemaker	1995 to 2001
John A. Yelenick	1969 to 1987	Andrew D. Wallach	2001 to 2003
Marguerite S. Pugsley	1978 to 1987	Daniel E. Muse	2000 to 2003
Elizabeth Hennessey	1985 to 1989	Richard A. Kirk	1993 to 2005
Malcolm M. Murray	1987 to 1993	William R. Roberts	1997 to 2005
Donald L. Kortz	1987 to 1993	Denise S. Maes	1995 to 2007
Monte Pascoe	1983 to 1995	Harris D. Sherman	2005 to 2007
Romaine Pacheco	1989 to 1995	Susan Daggett	2007 to 2009
Hubert A. Farbes, Jr.	1985 to 1997	George Beardsley	2004 to 2009

Contact Us

Denver Water 1600 W 12th Avenue Denver, Colorado 80204-3412 www.denverwater.org	303-628-6000
Jim S. Lochhead, CEO/Manager	303.628.6500
Julie Anderson, Director of Customer Relations	303.628.6143
Sally Covington, Director of Public Affairs	303.628.6656
Christopher R. Dermody, Director of Information Technology	303.628.6262
Carla Elam Floyd, Director of Human Resources	303.628.6334
Tom Roode, Director of Operations and Maintenance	303.628.7033
Angela C. Bricmont, Director of Finance	303.628.6411
David L. Little, Director of Planning	303.628.6533
Robert J. Mahoney, Director of Engineering	303.628.6611
Patricia L. Wells, General Counsel	303.628.6464

With questions concerning the budget document please contact:

Grace Wilcox, Manager of Budget	303.628.6245 grace.wilcox@denverwater.org

About Denver Water

Denver Water Service Area

Mission and Values

History

Customers Served

Rates

Finances

Distribution System

Water Treatment Plants

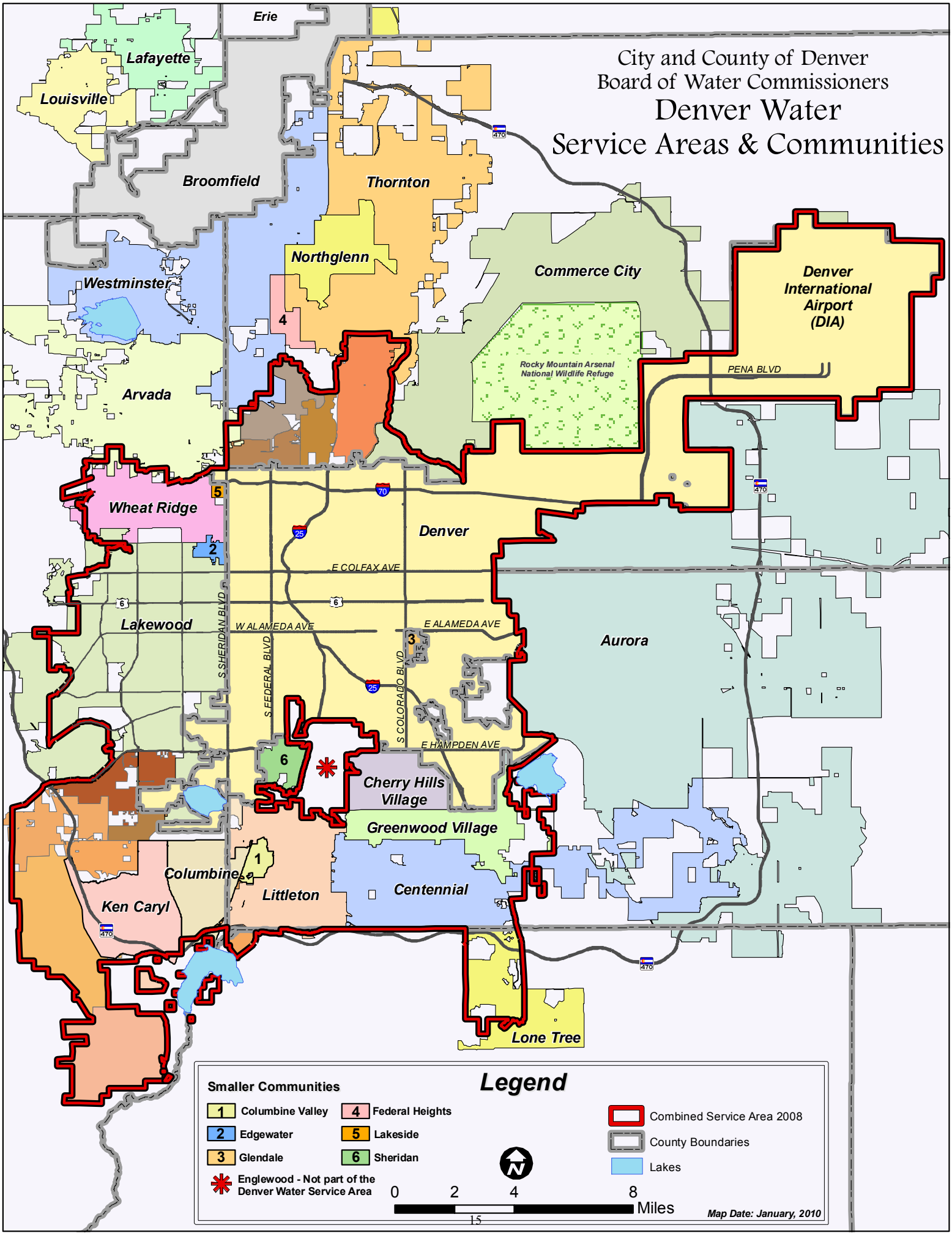
Treatment Plant Capacity

Recycled Water Treatment Plant

Where Your Water Goes

Denver Community Profile

Recreation


City and County of Denver
Board of Water Commissioners
Denver Water
Service Areas & Communities
Erie
Lafayette
Louisville
Broomfield
Thornton
Northglenn
Westminster
Commerce City
Denver International Airport (DIA)
Rocky Mountain Arsenal National Wildlife Refuge
PENA BLVD
Arvada
Wheat Ridge
Denver
E COLFAX AVE
Lakewood
W ALAMEDA AVE
E ALAMEDA AVE
Aurora
S SHERIDAN BLVD
S FEDERAL BLVD
S COLORADO BLVD
E HAMPDEN AVE
Cherry Hills Village
Greenwood Village
Columbine
Littleton
Centennial
Ken Caryl
Lone Tree
Legend
Smaller Communities
1 Columbine Valley
2 Edgewater
3 Glendale
4 Federal Heights
5 Lakeside
6 Sheridan
Englewood - Not part of the Denver Water Service Area
Combined Service Area 2008
County Boundaries
Lakes
0 2 4 8
Miles
Map Date: January, 2010

Mission and Values

Mission Statement:

Denver Water will be a responsible steward of the resources, assets and natural environments entrusted to us in order to provide a high-quality water supply, a resilient and reliable system, and excellent customer service.

Values:

Vision: Whether something happens in five minutes, five years or five decades, we will anticipate. We will take actions to be prepared. We will honor the history of Denver Water in doing what those before us have done: free our minds to think of what it possible and not be constrained by what has or has not worked in the past. We will be nimble, adaptable and prepared for what is possible.

Respect: We will listen, honor and value each other, our customers, our stakeholders and our environment. We will earn respect by acknowledging and validating the rich and diverse experiences of others and by always acting in a fair, thoughtful, inclusive and non-judgmental manner.

Integrity: Our word is our bond. In all our endeavors, we will act in the best interest of the public and our community with honesty and candor.

Excellence: In all we do every day, there is only one standard – to perform flawlessly both as individuals and as teams in order to be the best in every aspect of our operations. Doing anything less than our best is disrespectful to our customers, our employees and our mission.

Passion: Our future is based on our duty to pass on the legacy of a secure, reliable, high-quality water operation for generations to come. We have, can and will do this. We are steadfast to mastering our craft and offering superior value to our customers.

Our culture is a combination of these values, our experiences, our rich history and our common mission. These value statements are more than words; they are the ideas, aspirations and beliefs that guide us every day, lead us to the future and provide a measure against which we can hold ourselves accountable.

Use Only What You Need Campaign

History

- Denver Water ensures a continuous supply of water to the City and County of Denver and nearly 50 percent of Denver Water customers who live in the surrounding suburbs (water service contracts).

- Denver Water is responsible for the collection, storage, quality control and distribution of drinking water to nearly one-fourth of all Coloradans.

- Denver Water's primary water sources include: South Platte River, Blue River, Williams Fork River and Fraser River watersheds.

- Other water sources include: South Boulder Creek, Ralston Creek and Bear Creek watersheds.

- Denver Water was established in 1918 after Denver residents voted to buy the water system from a private company.

- Denver Water is Colorado's oldest and largest water utility.

- Denver Water is a separate entity from the city of Denver.

- Denver Water derives its authority from the Charter of The City and County of Denver (Article X).

Use Only What You Need Campaign

Customers Served (numbers based on Denver Water's 2010 annual report)

- Denver Water proudly serves high-quality water and promotes its efficient use to 1.3 million people in the city of Denver and many surrounding suburbs.
- Denver Water serves 1,174,000 people in the Denver-metro area and approximately 150,000 people through fixed and special contracts.
- Customer accounts served in City and County of Denver: 172,826.
- Suburban customer accounts served (wholesale): 75,840.
- Suburban customer accounts served (retail): 76,755.
- Provides service to 19,439 fire hydrants.

Rates

- Rates are set by Denver's Board of Water Commissioners.
- Since its inception, the Board has set rates at a level sufficient to service its debt and to meet its expenses of operation and maintenance.
- The Board has never required ad valorem taxes to meet its obligations. The city's charter requires the Board to charge more to customers who live outside the City and County of Denver.

Use Only What You Need Campaign

Finances

- Denver Water operates from the water works fund, which ensures the separation between city hall and Denver Water. The general city government has no access to the water works fund and Denver Water has no access to the city's general fund. Both funds, however, are accounted for by the city's auditor.

- It generates revenue from the sale of water to Denver and suburban customers and from the sale of hydropower to electric utility companies.

- Denver Water's total operating revenues for 2010: $243 million.

Distribution System

- Miles of water mains (pipelines): more than 3,000

- Miles of nonpotable pipes in system: 44.2

- Number of pumping stations: 18 potable, three recycled, and two raw water.

- Underground reservoirs in various city locations: 30

Water Treatment Plants

- The treatment plants use conventional process design, which consists of coagulation/sedimentation, filtration and disinfection processes.

- Denver Water's treated water meets or exceeds all the standards set by the state of Colorado and the federal Safe Drinking Water Act.

Use Only What You Need Campaign

Treatment Plant Capacity

- Marston: 250 million gallons per day
- Moffat: 185 million gallons per day
- Foothills: 280 million gallons per day

Recycled Water Treatment Plant

- Recycled water is used for industrial purposes and for outdoor irrigation in parks, golf courses and other public spaces.
- Treatment at the Recycle Plant incorporates biologically aerated filtration: coagulation, sedimentation, filtration and disinfection, to produce water that meets state regulatory requirements.
- Recycling water enables Denver Water to use more of the water in its reservoirs to provide drinking water to Denver-area residents

Where Your Water Goes

Activity	Number of Times*	Circumstances	Water Used*	Total Use (gallons)*
Toilet	Five	Conventional toilet	3.5 – 5 gallons per flush	17.5 – 25
		Low-flow toilet	1.6 gallons per flush	8
		High-efficiency toilet	1.28 gallons per flush	6.4
Shower	One (8 minutes long)	Pre-1993 showerhead	3 – 8 gallons per minute	24 – 64
		Standard showerhead	2.5 gallons per minute	20
		Low-flow showerhead	1.5 gallons per minute	12
Bath	Once	Tub 1/4 to 1/3 full	7.5 – 15 gallons	7.5 – 15
		Full tub	30 – 45 gallons	30 – 45
Shaving	Once	1 full basin	1 gallon	1
		Running water, five minutes	2.2 gallons per minute	11
Brushing teeth	Twice	Brush and rinse	0.25 – 0.5 gallon	0.5 – 1
		Running water, two minutes	2.2 gallons per minute	4.4
Hand washing	Seven (15 seconds)	Standard aerator	2.2 gallons per minute	7.7
		Low-flow aerator	0.5 gallon per minute	0.875
Cooking	Washing produce	One full kitchen basin	1 – 2 gallons	1 – 2
		Running water, three minutes	2.2 gallons per minute	6.6
Dishwasher	Once – full load	Water-conserving model	4.5 – 7 gallons	4.5 – 7
		Standard cycle	10 – 14 gallons	10 – 14
Dishwashing by hand	Once	Full basin/wash and rinse	2 – 4 gallons	2 – 4
		Running water, five minutes	2.2 gallons per minute	11
Laundry	Once	Front-load washer	13 – 20 gallons/load	13 – 20
		Conventional top-loader	35 – 50 gallons/load	35 – 50
Car washing	Once	Five full two-gallon buckets	10 gallons/wash	10
		Hose for 5 minutes	5/8-inch hose	32
Lawn watering	During hot dry spells, Kentucky bluegrass needs ¾ of an inch of water twice a week, turf-type tall fescue needs ½ to ¾ of an inch of water twice a week, and buffalo grass needs ½ to ¾ of an inch every other week.			

*Per Person Per Day

Source: www.denverwater.org/Conservation/TipsTools/WhereWaterGoes/

Denver Community Profile
www.metrodenver.org

Denver

Square Miles	156.0
Population 2010	605,722
Households 2010	287,066
Labor Force 2010	322,060
Employed 2010	290,731
Unemployment Rate 2010	9.7%
Per Capita Personal Income 2009	$57,887
Median Age	34

Sources: Colorado Division of Local Government, State Demography Office, Colorado Department of Local Affairs, Colorado Department of Labor and Employment, Labor Market Information.

Denver Population by Age, 2011

Age	Denver
0 to 14 years	19.0%
15 to 29 years	23.2%
30 to 44 years	25.1%
45 to 59 years	17.3%
60 to 74 years	10.5%
75 to 89 years	4.4%
90+ years	0.5%

Source: Colorado Division of Local Government, State Demography Office.

Cultural Diversity Population Composition 2010

Race	Denver
Not Hispanic or Latino	68.2%
Hispanic or Latino	31.8%
White alone	52.2%
Black or African American Alone	9.7%
Asian alone	3.3%
American Indian/Alaska Native	0.6%
Native Hawaiian/Pacific Islander	0.1%
Other Race	2.3%

Source: U.S. Census Bureau, Population Estimates Program

Ten Largest Employers in Metro Denver

Company	Employees
HealthOne Corporation	9,640
CentruyLink	7,380
Exempla Healthcare	7,320
Lockheed Martin Corporation	7,220
Centrua Health	6,370
Kaiser Permanente	5,870
Dish Network	4,690
United Airlines	4,500
Wells Fargo Bank	4,400
University of Denver	4,310

Source: Colorado Division of Local Government, State Demography Office.

Per Capita Personal Income 2009

Metro Denver	$46,868
Colorado	$41,895
United States	$39,635

Source: U.S. Bureau of Economic Analysis.

Housing

Metro Denver Housing	
Median Home Price	$235.6
Apartment Rent, 3Q 2011	
Average Monthly	$936.46

Source: National Association of Realtors, Apartment Association of Metro Denver, Denver metro Apartment Vacancy & Rent Survey.

Climate (Annual)

Max Temperature	64° F
Mean Temperature	50° F
Minimum Temperature	36° F
Average Relative Humidity A.M.	67%
Average Relative Humidity P.M.	41%
Precipitation Total Inches	15.8
Precipitation Snow Inches	60.1
Precipitation # of Days	82
% Possible Sunshine	69%
Average Wind Speed (mph)	8.7

Recreation

There's more to water than drinking it. Denver Water's reservoirs and watershed areas offer many recreational activities. Several sites are managed in conjunction with the Colorado Parks and Wildlife and federal agencies, such as the Bureau of Land Management.

For more information visit our website: www.denverwater.org/Recreation.

Organization

Denver Water

Manager and Staff

Human Resources

Customer Relations

Public Affairs

Legal

Information Technology

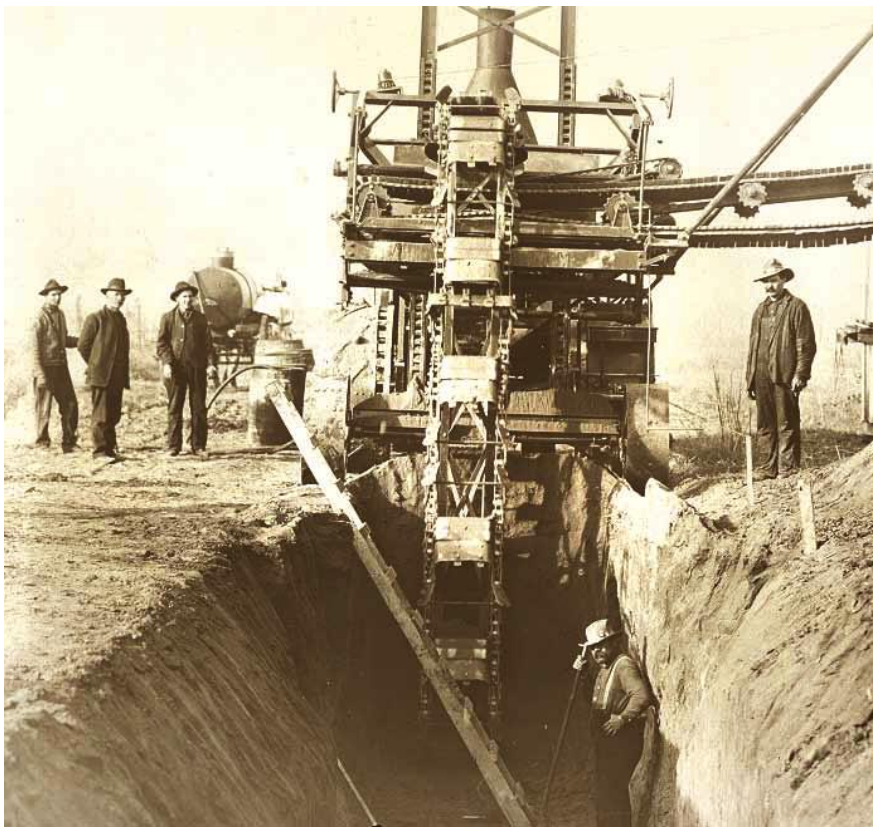
Finance

Engineering

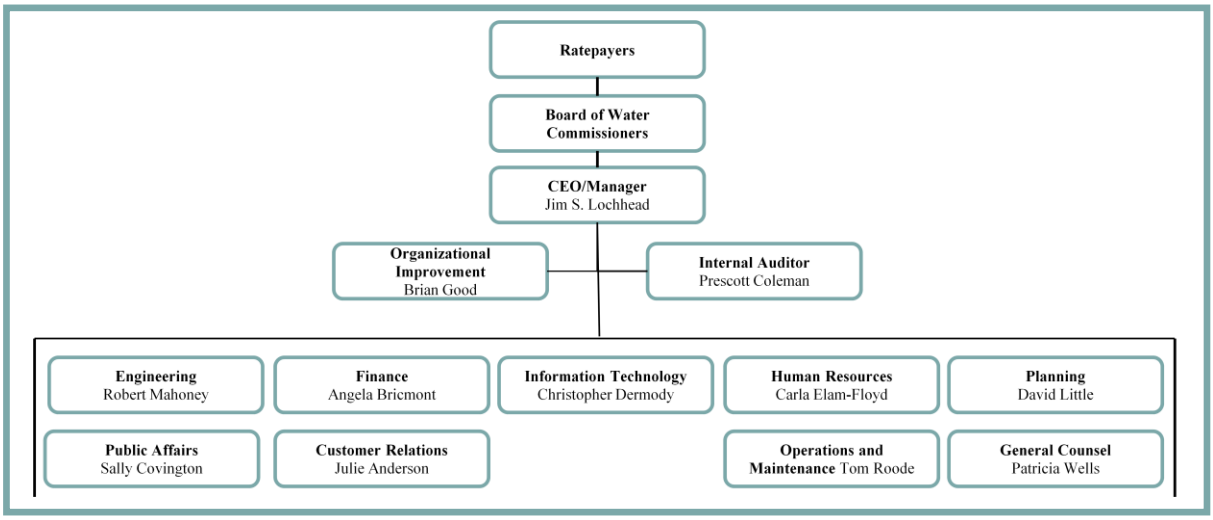
Operations & Maintenance

Planning

What we do at Denver Water...



Crews use a trenching machine to install a 48-inch wood stave pipe near Alameda Avenue in this November 1909 photo.



Denver Water Highlights

Established in 1918, Denver Water is Colorado's oldest and largest water utility. In general, we ensure a continuous supply of water to the City and County of Denver and Denver Water customers who live in the surrounding suburbs. We are responsible for the collection, storage, quality control and distribution of drinking water to nearly one-fourth of all Coloradans.

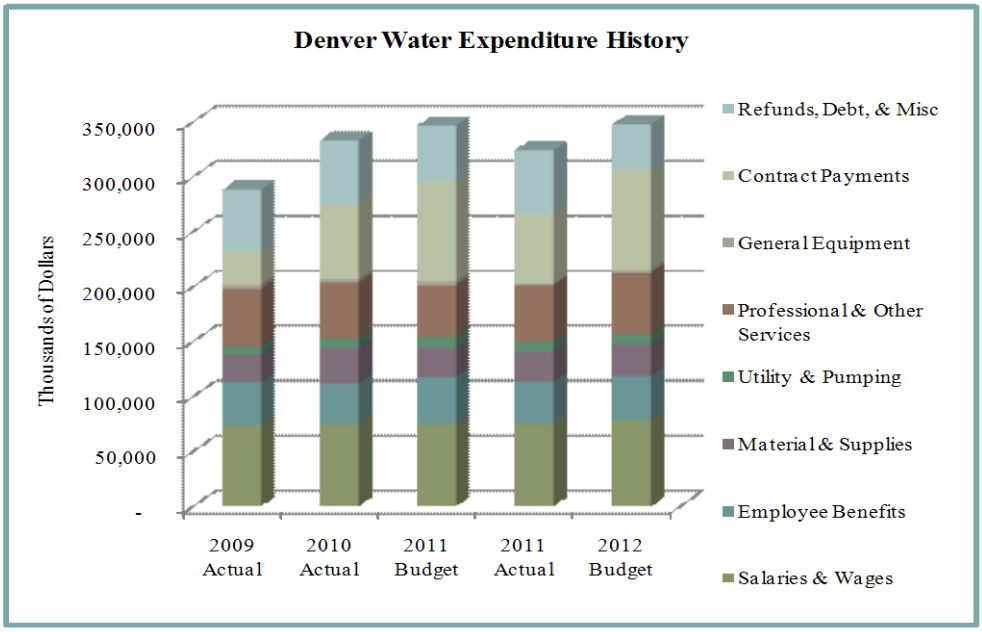
Denver Water is run by a five-member Board of Water Commissioners, which is charged with ensuring a continuous supply of water to the people of Denver and Denver Water's suburban customers. The Board designates a CEO/Manager to execute its policies and orders. The CEO/Manager oversees the different divisions within Denver Water, including: Engineering, Finance, Human Resources, Information Technology, Legal, Operations and Maintenance, Planning, Customer Relations, and Public Affairs.

Denver Water
Regular & Introductory Employees (At End of Year)

Section	2009 Actual	2010 Actual	2011 Budget	2011 Actual	2012 Budget
Manager & Staff	7.0	7.0	11.5	7.0	7.0
Human Resources	22.8	23.8	23.8	23.8	23.8
Public Affairs	30.6	30.6	33.6	29.6	36.6
Customer Relations	146.0	142.0	151.0	133.0	150.0
Engineering	159.0	161.0	163.0	158.7	164.6
Finance	58.0	50.0	60.0	56.0	59.0
IT	69.0	68.5	72.5	68.5	73.5
Planning	46.6	46.6	48.6	45.6	49.6
O&M	541.5	546.0	562.0	534.0	562.0
Legal	14.6	13.6	14.6	13.6	14.6
Total	**1,095.1**	**1,089.1**	**1,140.6**	**1,069.8**	**1,140.7**

Denver Water Goals for 2012

- Plan for future uncertainties that may affect water supplies.
- Be responsible stewards of our natural resources.
- Apply technology to strengthen Denver Water's focus on customers.
- Ensure that Denver Water is an efficient, effective, desirable place to work.
- Monitor the volatile economy and prepare for potential effects to Denver Water and its customers.



Jim Lochhead

CEO/Manager

Manager and Staff Highlights

The CEO/Manager is the chief executive officer for Denver Water, secretary to the Board of Water Commissioners and custodian of all records. He carries out all other duties and responsibilities as assigned by the Board as it fulfills its city charter obligations.

The CEO/Manager executes the policies and decisions of the Board and reviews and recommends to the Board changes in rules and regulations with respect to all matters appropriate for its action.

In addition, the CEO/Manager gives overall direction to employees and oversees the work necessary to provide an adequate supply of water to the residents of the City and County of Denver and areas economically and socially integrated with the city with whom Denver Water has a water service contract.

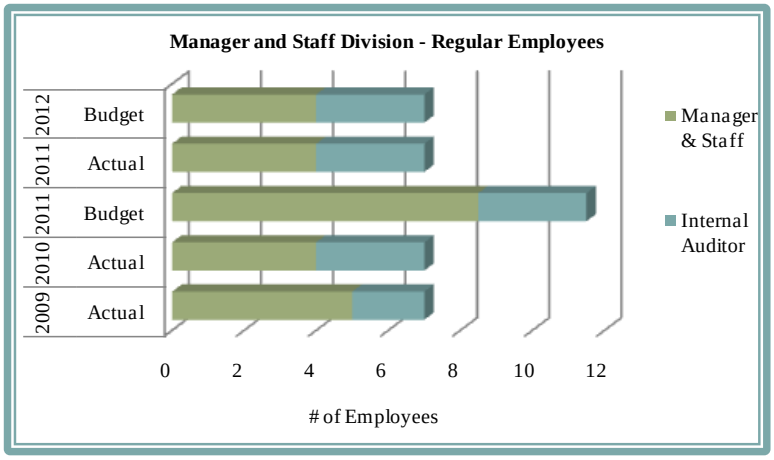
The CEO/Manager represents the Board in ongoing relationships with all levels of government, community organizations, and the public served, and recommends to the Board a rate structure and other income producing procedures that will assure adequate sources of funds to meet operating and maintenance costs, finance of ongoing capital improvement programs, and the principal and interest payments on long-term debts.

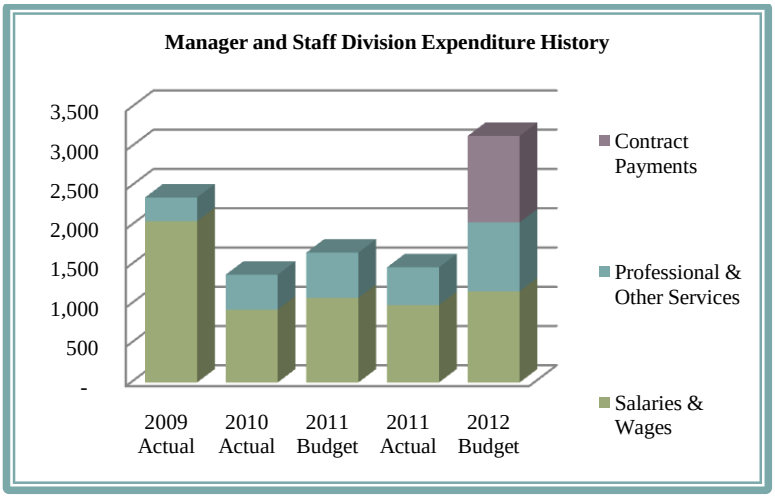
Manager and Staff Accomplishments in 2011

- Successfully transitioned leadership at Denver Water.
- Completed negotiations for the agreement with the West Slope regarding past and future operations of Denver Water facilities, and began implementing negotiations with the State of Colorado.
- Continued with Strategic Planning process and Compensation Change initiative.
- Advocated the interests of Denver Water in statewide policy and Colorado River Basin negotiations.
- Representated Denver Water in state, national and international forums in water resource and utility management.
- Included the small, minority and women business community to assist with outreach efforts for construction, purchasing and professional services.
- Received the Martin Luther King, Jr. Business Social Responsibility award.
- Successfully led efforts to negotiate conservation reporting standards in House Bill 10-1051, which will standardize the collection and reporting of conservation data and benefit statewide water conservation efforts.
- Generated support at the federal and local level for Denver Water's proposed Moffat Collection System Project.
- Initiated a strategic planning process for our government affairs section, designed to develop short- and long-term goals that will best serve Denver Water in the governmental affairs arena.

Manager and Staff Goals for 2012

- Finalize the Colorado River Cooperative Agreement and assist in the permitting process for the Moffat Project.
- Continue with Strategic Planning Process and Compensation Change Initiative.
- Continued focus on operational efficiencies and processes at Denver Water.
- Advocate and represent the interests of Denver Water in state, national and international forums and processes.
- Meet the requirements of the Internal Audit charter.
- Identify a reporting system for our Small, Minority and Women Business Enterprise Program to better track spending.
- Involve employees in various boards and committees.
- Continue community involvement through trade shows and other ethnic chamber events.
- Complete the development of Government Affairs strategic plan and begin implementation.
- Increase Denver Water's reputation as a resource on water provider issues with the Colorado General Assembly, the Governor's Office, City and County of Denver government, and other governments that works with Denver Water.
- Develop and implement a plan for educational outreach to government officials.





The addition of Professional Services is due Strategic Plan initiatives.

Carla Elam-Floyd

Director Human Resources

Human Resources Division Highlights

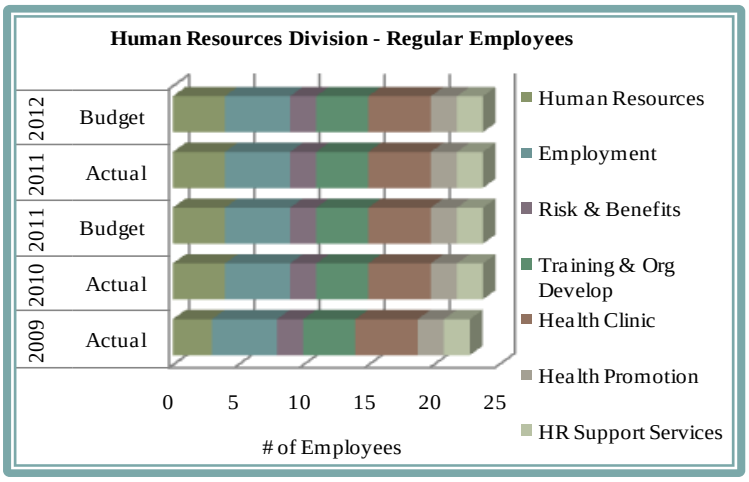
Under the direction of the CEO/Manager, the Human Resources Division is responsible for interpreting, updating and enforcing Denver Water's personnel policies; maintaining and revising Denver Water's classification and pay plans; establishing and maintaining employees' personnel records; implementing policies, procedures and programs relative to recruiting, hiring, managing and retaining Denver Water employees; developing programs for training, education, personal, professional and organization development; implementing programs related to health promotion, counseling, support, employee relations and equal opportunity; administering Denver Water's employee benefits and retirement programs; investigating internal and external employee complaints; and developing community outreach efforts with the goal of establishing Denver Water as an employer of choice.

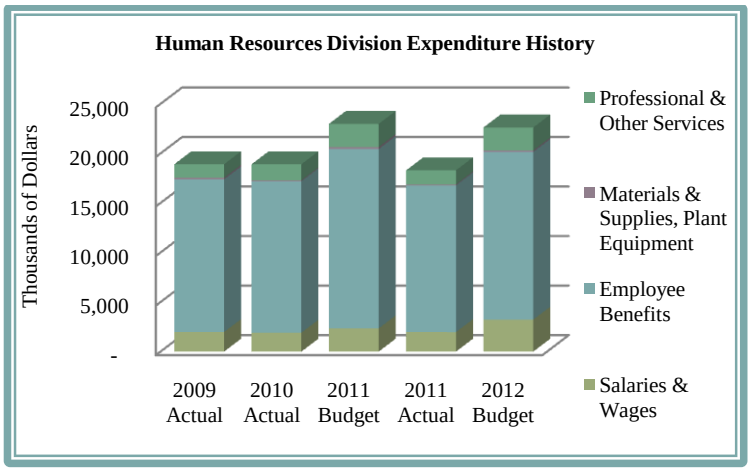
Human Resources Accomplishments in 2011

- Developed and implemented an electronic version of timekeeping called Kronos.
- Designed and developed pay-for-performance compensation system, which will reward high-performing employees. Provided employee technical training.
- Designed a new performance management system that will ensure evaluations are due at the same time of the year.
- Designed and delivered a more efficient and effective performance evaluation system called ePerformance.
- Designed and delivered the first employee opinion survey in seven years. The survey helped us understand our workforce better.

Human Resources Division Goals for 2012

- Implement the pay-for-performance compensation system.
- Analyze employee opinion survey results and respond to employees.
- Implement the new onboarding process that will encourage and help new employees.
- Implement solutions to control liability pertaining to post-employment benefits.
- Participate in the Executive Team's efforts to make Lean a part of Denver Water's culture and to implement the Strategic Plan.





Julie Anderson

Director of Customer Relations

Customer Relations Division Highlights

Under the direction of the CEO/Manager, the Customer Relations division promotes a customer-centric approach that spans the customer's lifecycle at Denver Water. Working closely together within the sections, the division plays a significant part in driving continuous process improvement that ensures fiscal responsibility to our ratepayers while building and maintaining open and honest communication that results in positive and productive customer relationships.

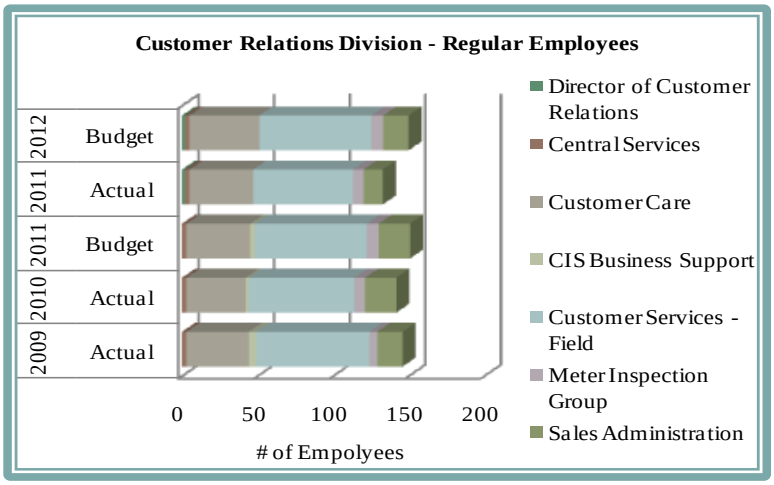
- Field Services
- Customer Care
- Water Sales and Licensing

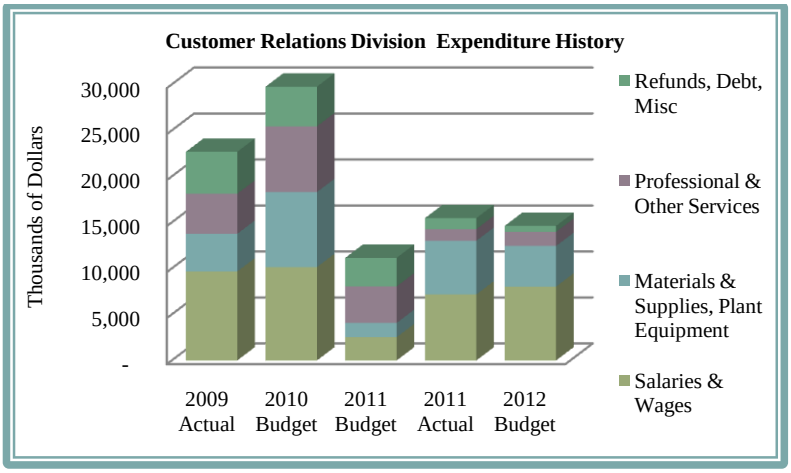
Customer Relations Accomplishments in 2011

- Fostered the creation of the Customer Relations division by splitting the customer facing operations, including Customer Care, Field Services and Water Sales and Licensing, from the Public Affairs division in order to enhance our focus on exemplary service to our customers, the city of Denver and distributors.
- Participated in developing and implementing mobile workforce – a tool that provides real-time management and monitoring of field activities associated with Field Services responsibilities and processes.
- Completed the transition with Greenwood Plaza Water District to transfer its customers from private wells to read and bill service through Southgate Water and Sanitation District.
- Developed a back office quality/auditing program to improve process consistency and benefit our customer's experience by reducing errors and rework.
- Evaluated work processes and implemented efficiencies between Customer Care and Water Sales and Licensing, including combining front desk operations and merging similar work types.
- Replaced more than 30,000 automatic meter reading devices installed about 10 years ago before their batteries expired to ensure seamless billing.
- Simplified and improved the scrape-off policy and procedures for monitoring redeveloped properties, especially those with lead service lines.

Customer Relations Division Goals for 2012

- Create a central contact center, which will be a central point of customer contact for front line and back office functions. The center will provide a simplified and efficient customer experience.
- Implement customer surveys and a contact disposition system within our billing system. This data will allow us to understand customer perspective and satisfaction drivers and to make continuous process improvements that further the customer's experience.
- Further improve field and dispatch efficiency, better schedule technician's time and add functionality not included in mobile workforce phase I, including field printing of customer notices and appointment booking.
- Refine the plan review process to ensure it is well communicated, easily understandable, and supportive of our internal and external customer's needs.
- Actively participate and support our Lean initiative and the service delivery value stream to include billing inquiries and tap sales.





Sally Covington

Director of Public Affairs

Public Affairs Division Highlights

Under the direction of the CEO/Manager, the Public Affairs division focuses on external and internal communication programs. The division maintains relationships in the broader community, including small, women- and minority-owned businesses, and coordinates relationships with other governments and the business community. The division also handles media relations and leads Denver Water's internationally recognized conservation programs.

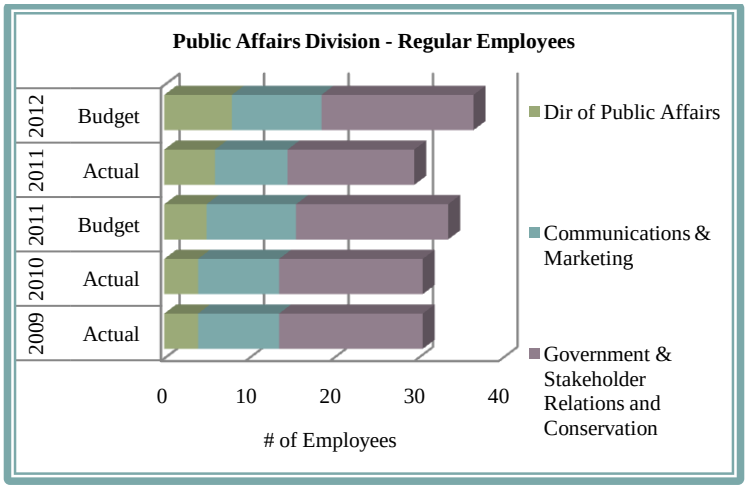
- Government and Stakeholder Relations/Conservation
- Communications and Marketing

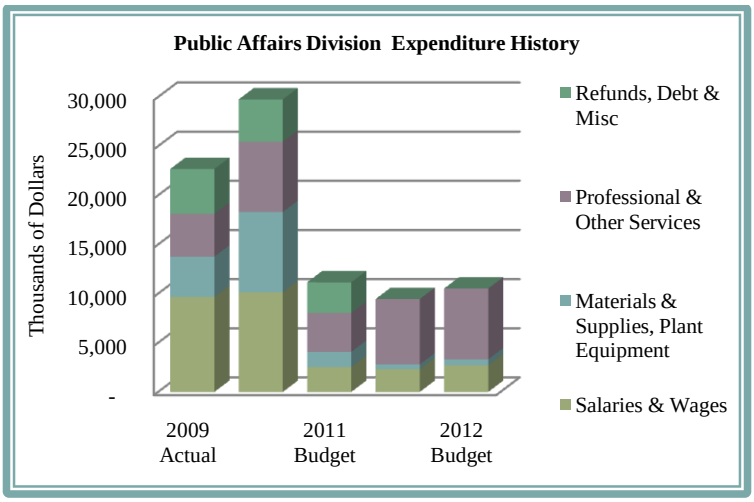
Public Affairs Accomplishments in 2011

- Developed a new identity for Denver Water as a collaborator working for the betterment of the state's water supply using the publicity of the Colorado River Cooperative Agreement.
- Exceeded annual water savings goal for the water conservation program by using creative solutions. Water use is now down 20 percent from pre-drought levels.
- Created a major publication detailing a day at Denver Water to highlight the varied, detailed, expansive, often unknown roles that our employees play 24 hours a day to ensure our customers always receive the highest quality water service.
- Continued successful execution of the Use Only What You Need advertising/social marketing campaign to further push the role of water conservation in our community
- Developed a new Public Affairs division, and hired an accomplished director to lead us toward accomplishing the goals set out in the Strategic Plan.

Public Affairs Division Goals for 2012

- Develop and define a brand for Denver Water that includes customer service, water quality, leadership, reliability, environmental stewardship and fiscal responsibility.
- Strengthen and develop our external relationships to make them more strategic and effective to relate Denver Water's reliable, high-quality water supply to economic development in our region.
- Expand internal communication to support employee initiatives in the organization, including compensation change, employee benefits and defining a vision of Denver Water as an employer of the future.
- Define and implement conservation programs that move Denver Water toward the 2016 conservation goal and develop a water-efficient future.
- Strengthen the role of public information and involvement related to major Denver Water initiatives.





Patricia L. Wells

General Counsel

Legal Division Highlights

The Legal division represents and gives legal advice to Denver's Board of Water Commissioners, the CEO/Manager and the various divisions of Denver Water. It also handles all of Denver Water's litigation.

The types of legal representation include water rights and diligence proceedings, administrative proceedings before state and federal agencies, contracts, civil rights, tort claims, real estate and condemnations, municipal, employment, environmental and regulatory law. When special counsel are hired, the Legal division collaborates in and supervises their activities.

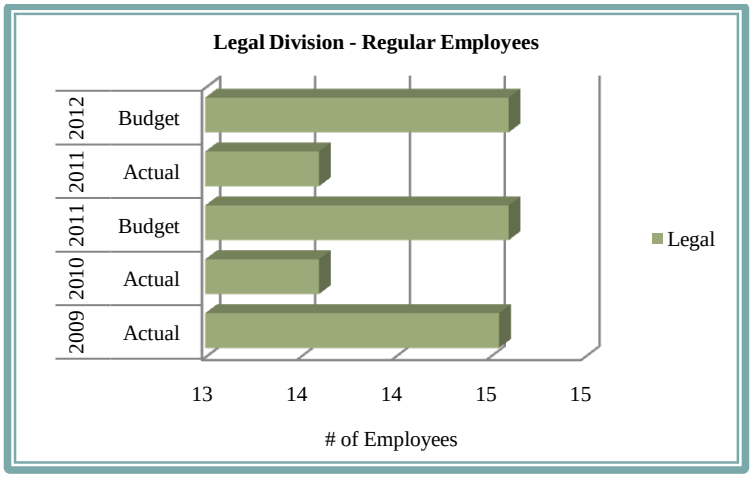
In addition, the Legal division represents Board interests in internal administrative appeals relating to personnel problems and customer complaints, reviews and advises upon matters of pending legislation, and prepares and reviews contract documents of all kinds.

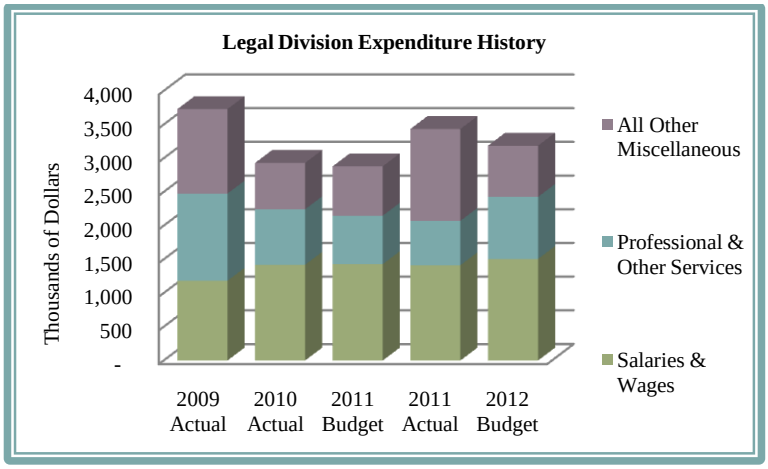
Legal Accomplishments in 2011

- Negotiated with state and West Slope entities and drafted proposed decrees and delivery agreements for environmental flows to implement the Colorado River Cooperative Agreement.
- Purchased needed property at both ends of Denver Water's Arrow Tunnel above Winter Park, successfully concluding a 20-year effort to acquire the land without litigating.
- Worked with Planning to obtain an exemption for Gross Reservoir from fees charged by Federal Energy Regulatory Commission, saving Denver Water $700,000.

Legal Goals for 2012

- Continue to work on legal issues presented by Colorado River Cooperative Agreement, pursue necessary water rights in water court, and achieve execution of the agreement by all signatories.
- Complete work with IT, Records and Document Administration, and Purchasing to create electronic systems for implementing legal holds to preserve records during litigation (Records and Document Administration), and for tracking the contract approval process (Purchasing).
- Successfully implement new performance evaluation and compensation systems within the Legal division to sustain high-level performance and morale.





Christopher R. Dermody

Director of Information Technology

Information Technology Division Highlights

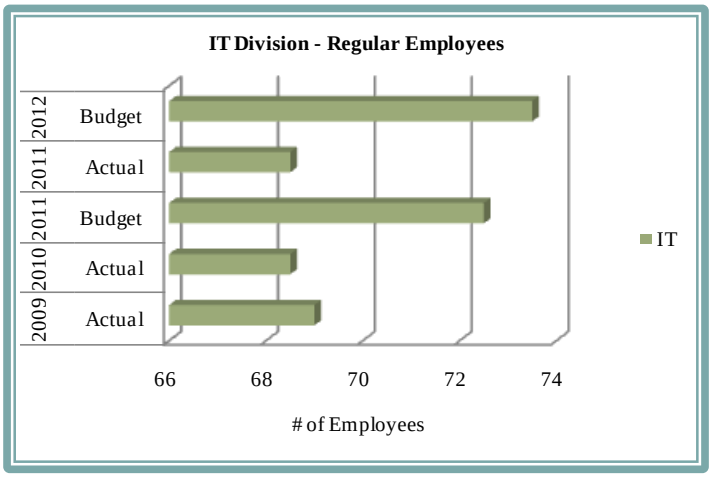
Under the direction of the CEO/Manager, the Information Technology Division develops, implements and supports computer applications, data-center operations and the technology infrastructure for Denver Water. This involves identifying and implementing appropriate technologies to meet the business needs of Denver Water, providing appropriate resources to support technologies that are implemented, providing availability of these technologies 24 hours per day, seven days per week and providing security for information maintained on the various computer systems.

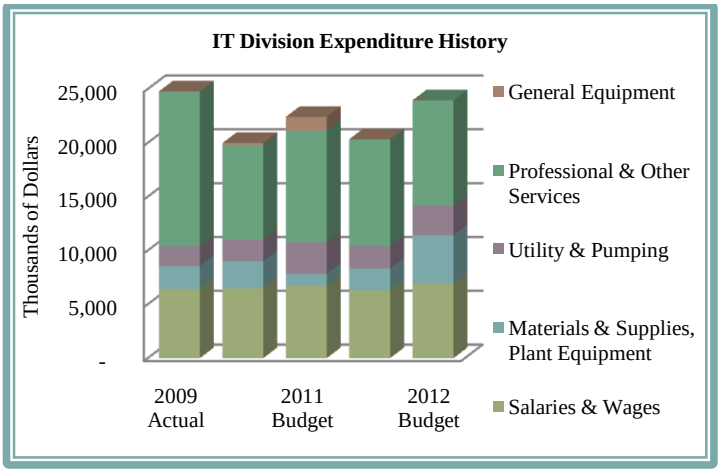
Information Technology Accomplishments in 2011

- Implemented an electronic version of timekeeping called Kronos.
- Implemented a web-based mapping application called E-Map.
- Implemented mLocates, which automates the surface identification of Denver Water infrastructure upon request of homeowners, contractors and utilities.
- Implemented the GIS/Maximo Integrated Water Network system that links GIS features and Maximo locations and assets and results in greatly improved data accuracy across the GIS and Maximo systems.
- Implemented the Customer Data Warehouse that established a new Metered/Consumption Data Mart (MCDM).

Information Technology Goals for 2012

- Implement the Customer Information System upgrade.
- Implement the mobile Customer Service Field work management system
- Implement the mobile T&D work management system.
- Implement additional disaster recovery capabilities that include putting in place the hardware and file replication mechanisms for supporting the recovery of our Information Systems and data in the case of a disaster.
- Implement the capital project information portal that will be a one-stop shop for a project in terms of referencing, displaying and logging project information.





Angela Bricmont

Director of Finance

Finance Division Highlights

Under the direction of the CEO/Manager, the Finance Division is responsible for managing financial resources, acting as the disbursing authority for the CEO/Manager and providing records management.

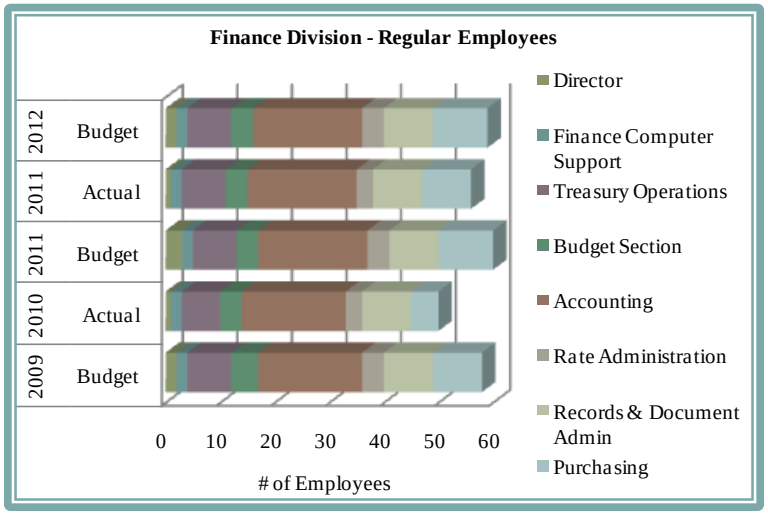
- Budget
- Accounting
- Treasury Operations
- Rate Administration
- Purchasing
- Records and Document Administration

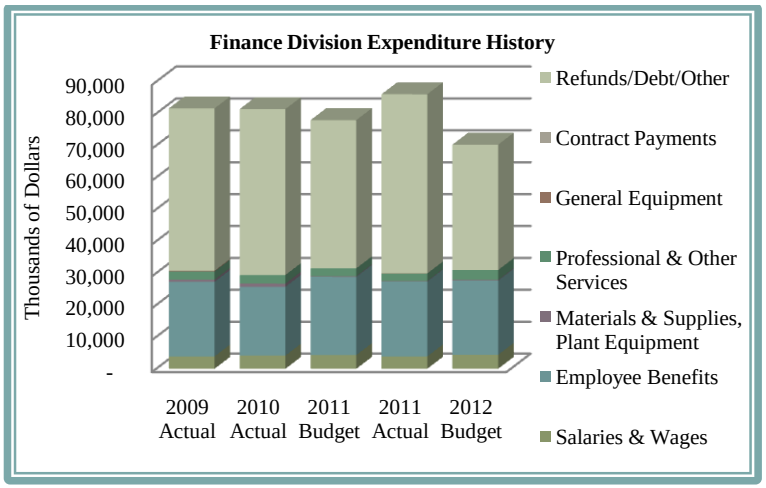
Finance Accomplishments for 2011

- Updated, improved and standardized contract processes and procedures through developing workflow and front-end collaboration with contract administrators, resulting in an 85 percent increase of contracts processed. Designed and implemented SharePoint site for updating and tracking contract documents and correspondence.
- Partnered with other divisions to implement new time-saving processes, such as electronic work order system and new timekeeping system.
- Reduced risks and costs associated with unmanaged network storage by cleaning up the organization-wide common shared network drive.
- Initiated technological improvements that increased efficiencies in customer payment processing, such as the Automatic Pay Plan application and the opt-out E-bill option.
- Refunded $9.6 million of 2001 Certificates of Participation, saving $1.3 million over five years.

Finance Division Goals for 2012

- Roll out the Finance Strategic Plan, addressing goals and priorities identified with help of entire division.
- Continue implementing Strategic Plan vision for a budget process that aligns spending with strategic priorities and engages employees in the budgeting and spending processes.
- Complete full assessment of business needs for our enterprise resource planning system to support current and future reporting needs of the organization.
- Review purchasing and contracting executive guidelines and purchasing card program and recommend updates and improvements.
- Lead public review process and recommend new cost-of-service rate model to the Board.





Robert J. Mahoney

Director of Engineering

Engineering Division Highlights

Under the direction of the CEO/Manager, the Engineering Division is responsible for the design, construction and related engineering aspects of physical additions or improvements to the water system.

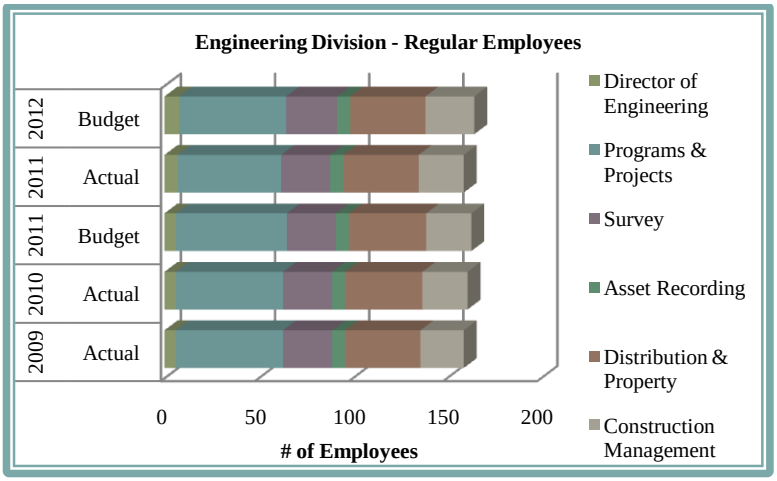
- Survey
- Programs and Projects
- Construction Management
- Distribution & Property Management
- Asset Recording

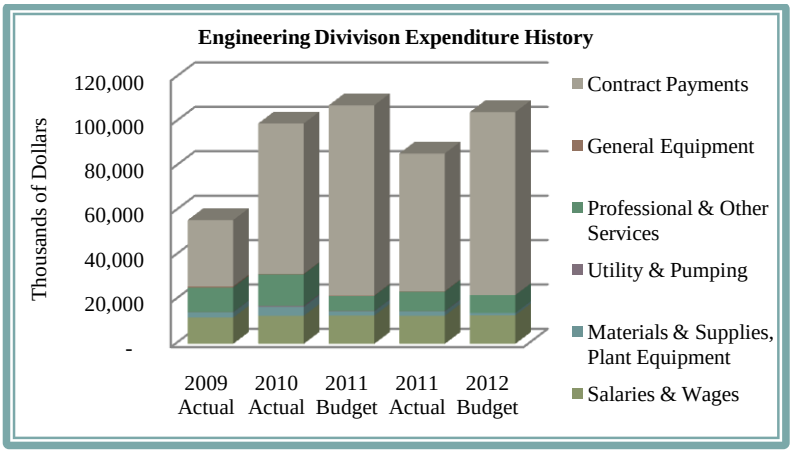
Engineering Accomplishments for 2011

- Published Denver Water's first multidisciplinary Capital Projects Construction Standards that help save design and drafting resources in capital projects by eliminating the need to include this information in each project's contract documents.
- Continued work on several large capital projects, including Williams Fork outlet works and Cheesman inlet control projects.
- Successfully executed the 2011 capital plan, including early initiation of several 2012 projects.
- Installed back-up generators at Highlands, Lone Tree, and Lakeridge pump stations.
- Started the two-year construction of a 10-million-gallon clear water reservoir at Lone Tree.
- Continued development of Recycled Water Program with additional infrastructure construction.
- Continued developing Downstream Reservoir infrastructure by starting Dunes Outlet Tower and installing interconnection pipeline between reservoir cells.
- Continued maintenance of our existing infrastructure by completing more than 20 miles of pipe rehabilitation and replacement, and more than $2 million of vault rehabilitation through our vault modification program.
- Completion of $4.3 million in modifications to accommodate RTD's FasTracks project.

Engineering Division Goals for 2012

- Successfully execute Denver Water's increased capital plan.
- Ongoing construction or completion of major capital projects, including Cheesman Dam, Williams Fork Dam and Lone Tree Storage Reservoir projects.
- Publish the Infrastructure Master Plan internally to provide Denver Water staff with critical information on Denver Water's system and drive future capital construction plans.
- Conduct a second project management class geared toward teaching project managers how to execute Denver Water projects using the established Capital Project Procedures.
- Compile the 2013 Capital Project Construction Standard to update code information and expand areas including mechanical, architectural and electrical disciplines.
- Complete the design of Ashland treated water reservoir and successfully bid the project.
- Initiate construction of the dual potable/recycle Elizabeth Street Pump Station.
- Continue work on major programs, including the recycled water, vault and pipe rehabilitation/replacement programs.
- Complete construction of the major Wynetka Decentralization Station.
- Complete the Downstream Reservoir infrastructure projects started in 2011, including Dunes Outlet Tower and Interconnects projects.
- Continue upgrading security measures.





Tom Roode

Director of Operations & Maintenance

Operations and Maintenance Division Highlights

Under the direction of the CEO/Manager, Operations and Maintenance is responsible for operating the physical plant of Denver Water, including ongoing maintenance and facility replacement. This division performs force account installations consistent with needs laid out by the Engineering Division and approved programs, and recommends modifications or additions to plant and facilities in cooperation with the Engineering and Planning divisions.

Operations and Maintenance establishes and implements operating criteria for the proper operation of all plant facilities to the satisfaction of outside regulating agencies and Denver Water customers.

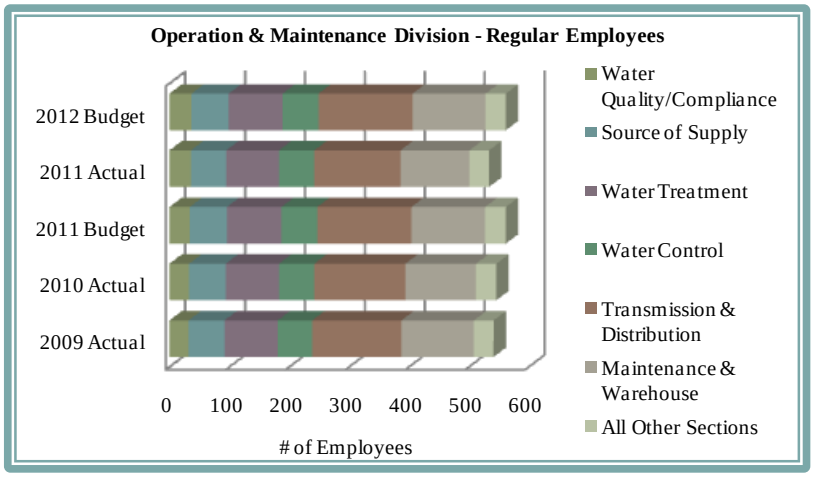
- Source of Supply
- Water Treatment
- Water Quality and Environment Compliance
- Water Control
- Safety & Loss Control
- Instrumentation & Control Systems
- Transmission & Distribution
- Maintenance
- Recycled Water
- Office

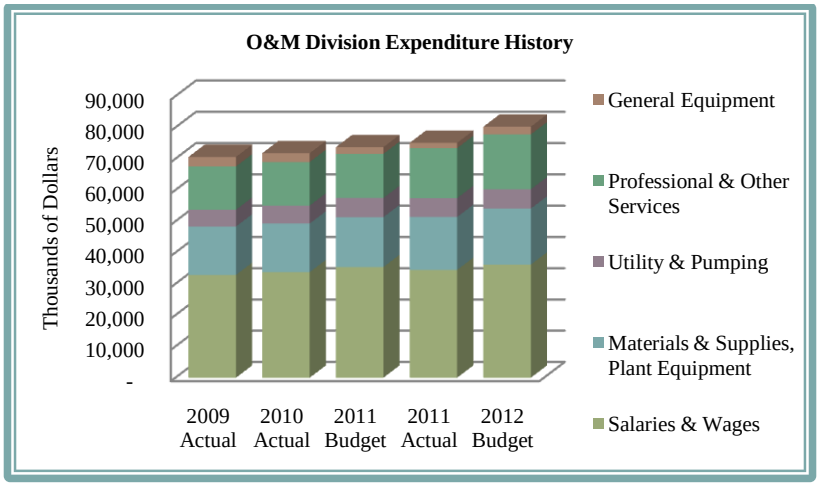
Operations & Maintenance Accomplishments for 2011

- Each section in O&M, as part of the Strategic Plan, has undertaken efforts to evaluate their standard work processes and organizational structure as positions open up through attrition in order to become more efficient.
- No major violations of water quality standards, drinking water regulations or discharge permit parameters.
- Placed second in a taste test among water utilities across the nation at the American Water Works Association's annual Best of the Best Water Taste in Washington, D.C.
- With the help of IT and Process Control, Transmission and Distribution completed the project to mobilize the locate function, which has resulted in more efficient operations of the locate function.
- Improved relationships and coordination with the local jurisdictions around Dillon Dam.

Operation & Maintenance Division Goals for 2012

- Participate in AWWA's Partnership for Safe Water Distribution System program, in which participants perform self-assessments of their distribution systems using tools proven to determine their optimization status.
- Continue to participate in the Lean process through continuous improvement in all sections.
- Implement and integrate a new PLC platform into the SCADA system that will help us stay up to date with current technology and ensure we can obtain competitive pricing for these systems.
- Increase recycle demand by 500 acre-feet per year by adding additional customers in Montbello, Gateway and Capitol Hill areas within the recycle system program budget.
- With help from IT, complete the process of mobilizing T&D crews and implement bar coding technology in the Warehouse to allow more efficient cycle counts and optimize inventory strategy.
- Standardize the budgeting process with the help of Finance to provide better tracking and monitoring tools and more transparency in the process.





David Little

Director of Planning

Planning Division Highlights

The Planning division identifies the future water and facilities needs of Denver Water and develops strategies for meeting those needs. As it plans for the future, Planning must consider how new water rights, infrastructure and resource management alternatives will work with the Board's existing raw water collection and treated water distribution systems.

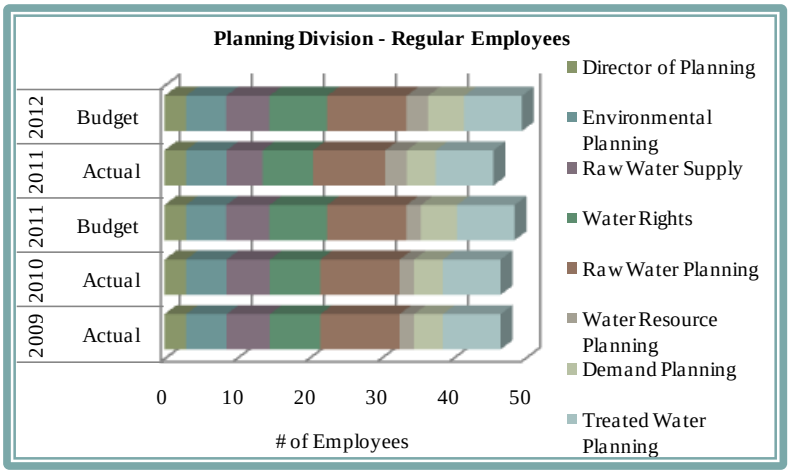
- Treated Water Planning
- Demand Planning
- Water Rights
- Water Resources Analysis
- Raw Water Supply
- Environmental Planning
- Water Resources Planning

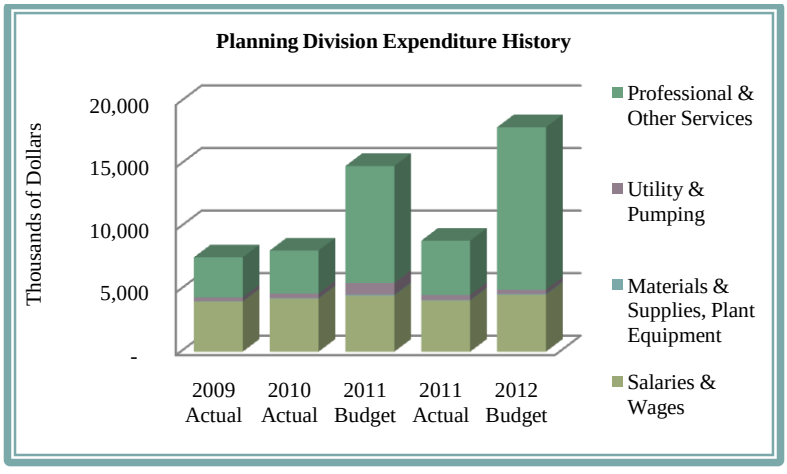
Planning Accomplishments in 2011

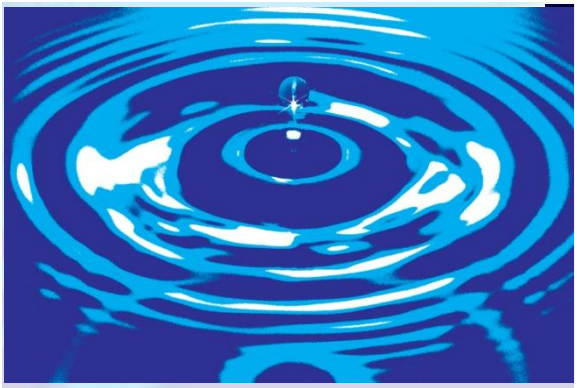
- Completed a hydraulic criticality study to look for vulnerabilities in the treated water distribution system.
- Completed negotiations for the Colorado River Cooperative Agreement.
- Made significant progress toward completing negotiations with the South Metro Water Authority and Aurora for WISE
- Completed the technical analysis for the Board's Integrated Resource Plan.
- Completed fish and wildlife mitigation and enhancement plans for the Moffat Project and received unanimous approval from the Colorado Wildlife Commission.

Planning Division Goals for 2012

- Complete the Pressure Zone Study and implement recommendations to improve service, reduce maintenance and save energy.
- Finish designing and executing actions to implement the agreed-to components of the Colorado River Cooperative Agreement.
- Complete and sign the final agreements with Aurora and the South Metro Water Supply Authority regarding the WISE Project. Complete negotiations with East Cherry Creek Water and Sanitation District for the purchase of their East-West Pipeline, or, begin development of an alternate pipeline.
- Develop and organize the work plans for the evaluation of the new IRP initiatives for conservation, supply, water quality and emergency demand management. Hire consultants and begin implementation of the work plans.
- Work with the U.S. Army Corps of Engineers to finalize the Moffat Collection System Environmental Impact Statement.







Strategic Overview

Long Range Planning

Strategic Planning

Integrated Resource Planning

10-Year Financial Planning

Annual Budget Process

Summary of Financial Policies

Fund Structure

Debt Information

Denver Water Long-Range Planning Activities

Long-Range Planning

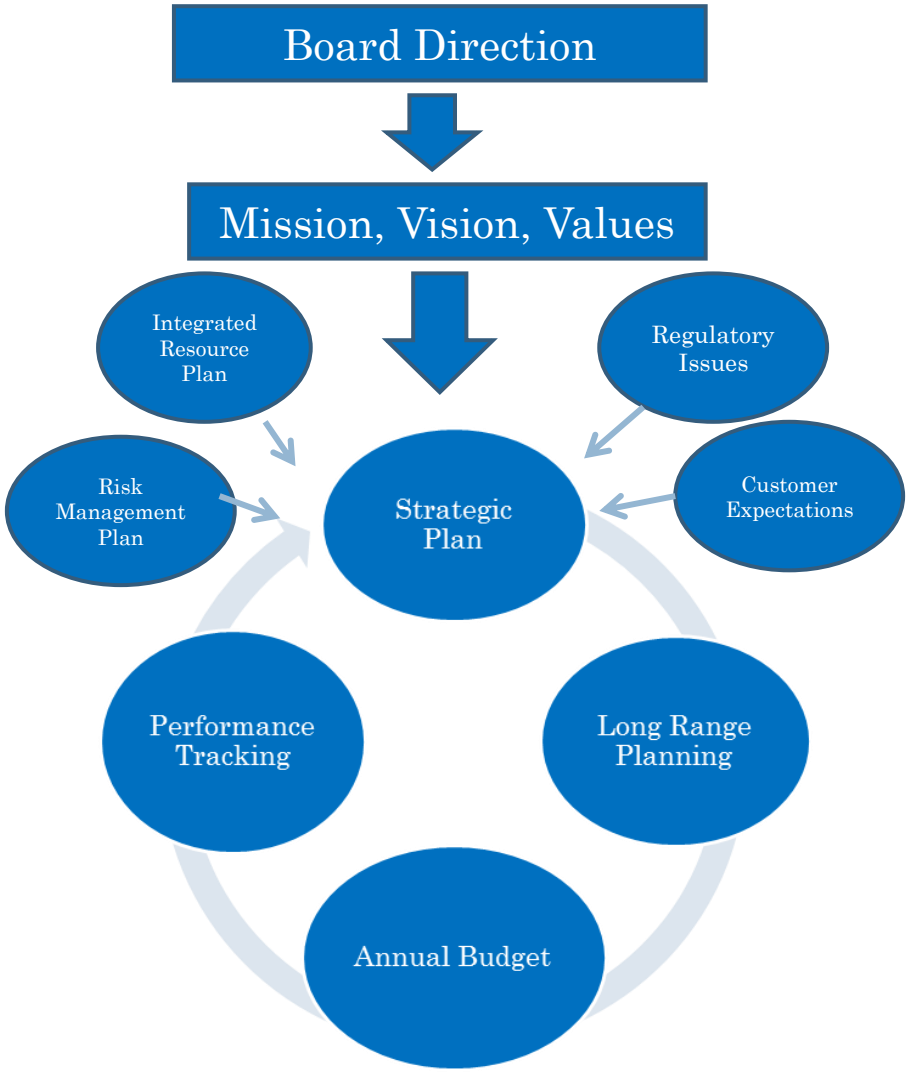
Denver's Board of Water Commissioners engages in a number of long-range planning efforts, all of which have a direct impact on the budget. Denver Water engaged in several significant planning efforts in 2011 that will guide our future operations and impact our budget for years to come. Each of the planning efforts and its impact on our budget is outlined below. All have the same goal: to make Denver Water the best water utility in the nation.

Strategic Planning

Denver Water continues to face growing challenges in water service. As infrastructure resource requirements become evident due to the age of our system, the need for project prioritization and sound financial planning become increasingly important.

In 2010, Denver Water staff began the process of revising its Strategic Plan. Denver Water understands that to be more responsive to its customers in a rapidly changing economy, Denver Water must increase its flexibility throughout the organization. The Strategic Plan describes how we will leverage our people and technology, not only to meet and exceed expectations, but also to excel as the state's largest water utility.

In 2011, The Board of Water Commissioners and the Executive Team, with support from more than 60 Denver Water Section Leaders, developed the Strategic Plan. As the plan is refined, it will provide a framework for the development of direction for Denver Water. The following graphic illustrates the strategic planning process.



The Strategic Plan encompasses important statements from the Board and CEO/Manager, a mission statement and our organizational values. The mission and values serve as the foundation of the planning process. These elements create direction for the organization and the method used to get us there. The plan foundation is solidified by four foundational perspectives – customer, financial, organizational and external – that create the foundation for everything we do. These perspectives are fundamental to our daily operation and sustained success.

The Board and Executive Team also identified the major desired outcomes to be achieved from each perspective.

They are as follows:

- Customer: Satisfied and supportive customers.
- Financial: A financially strong and stable organization.
- Organizational: An effective, efficient and strategically driven organization.
- External: Strategically effective relationships and reputation.

The details of the plan identify the goals and supporting key priorities necessary to achieve these outcomes.

The details of the plan identify the goals and supporting key priorities necessary to achieve these outcomes.

The Strategic Plan was then refined into 16 high level goals with 62 associated key priorities. Realizing that it was unrealistic to tackle all these goals and priorities in one year, the Executive Team worked with the Board to focus our 2012 efforts into four major areas, each of which impacts our budget in some way. The four major strategic plan initiatives for 2012 are:

1. **Compensation change**: In order to achieve our organizational perspective strategic planning goal of a "collaborative, capable, highly motivated workforce" we realized that we needed a pay system that would allow us to recruit, retain and reward the employees necessary to ensure a dynamic, innovative, excellent organization into the future. Throughout 2011, a group of 40 employees worked to design a new pay-for-performance system that will reward top performers at a higher rate than average performers. This is a major culture shift away from our traditional step and grade system. As such, we are piloting the program in 2012. Employees will be rated under the new system and be shown where they would have fallen if pay-for-performance had been fully implemented. However, for 2012, all employees meeting or exceeding expectations will receive a 2 percent salary increase effective April 1, 2012. The direct budgetary impact for 2012 is a result of the increase being given in April rather than January. **As a result, the increase in the payroll budget is $375,000 less than it would have been if the increase had been given in January.**

2. **Process Improvement**: Like most water utilities, Denver Water is faced with the challenge of increasing operating costs, decreasing water consumption and aging infrastructure. To address these challenges, we knew we needed to find new, more efficient ways to think about work. As a result, we included a high level goal in our Strategic Plan to ensure "business processes and assets that increase our efficiency and effectiveness." In addition to this goal in our organizational perspective, we developed several other goals related to spending our customers' money wisely and gaining the trust of our customers.

Our Executive Team spent a number of months gathering information and exploring different approaches for improving efficiency.

Our Executive Team spent a number of months gathering information and exploring different approaches for improving efficiency. In the end, we decided to undertake a Lean transformation, based on Toyota manufacturing principles. After an extensive request for proposal and interview process, we decided to engage the services of Simpler, a firm experienced not just in implementing Lean, but in coaching organizations to change their culture and "become Lean."

In a three-day visioning session, the Executive Team decided that in 2012, Denver Water would focus our Lean efforts in two specific areas: Service Delivery and Infrastructure Maintenance. **The cost of engaging Simpler for 2012 is budgeted at $300,000. The Executive Team also set a target of reducing operating costs per customer account by 10 percent, which will result in a savings of approximately $20 million by 2013.**

The Executive Team set a target of reducing operating costs per customer account by 10 percent, which will result in a savings of approximately $20 million by 2013.

3. **New Budget Process**: The Denver Board of Water Commissioners is a volunteer Board and most members have challenging full-time careers outside of their Denver Water duties. As such, the Board has expressed the desire to work toward an arrangement under which they have a high level of confidence in the way programs and projects are budgeted and managed and can, therefore, focus their efforts on high-level policy such as securing water supply for the future.

   To move the Board to their desired state, we must take several steps in 2012. First, we are changing the way in which we plan, prioritize, adopt and provide accountability for programs and projects (see "Budget Accountability Roadmap," Appendix). In addition, we have undertaken a review of our budget, accounting and procurement

processes, which we will complete in 2012. After we have reviewed our projects and agreed on how to improve them going forward, we will engage with Information Technology staff to determine whether new Enterprise Resource Planning and budget systems are needed to accomplish our objectives. **The 2012 budget for this effort is $200,000.**

4. **Employer of the Future:** The Strategic Plan lists several employee and workforce related goals that we must achieve if we are to reach our vision of being the best water utility in the nation. To that end, we realize we must define the key characteristics of the employees we wish to recruit and retain in the future to support our vision. Once that definition is clear, we can begin to alter our pay and benefits programs so that they attract desirable employees. This will be a time-intensive effort in 2012 for the CEO/Manager, Executive Team and Human Resources. For 2012 there is no direct budgetary impact for this initiative as it will be staff time only.

Integrated Resource Planning

In 1997, Denver Water was one of the first water utilities in the country to prepare an Integrated Resource Plan (IRP) to address changes in the water service industry that could impact our service area. The IRP is narrower in scope, but more detailed than the Strategic Plan and specifically addresses the level of system reliability we want to provide to customers, new facility needs, water quality issues, and operations and maintenance direction for our treatment and distribution systems. The 1997 plan resulted in the Board issuing a Resource Statement that identified a near-term strategy of conservation, non-potable reuse, system refinements, cooperative resource projects and supply projects. These projects are currently under development.

Efforts are currently underway to update the Integrated Resource Plan.

Efforts are currently underway to update the IRP. It has become apparent that the future for which the organization is planning is uncertain. New developments that could influence the Board's future actions include severe drought, catastrophic wildfires, terrorist attacks, climate change, the pine beetle impact on our watersheds, and new regulatory changes. The new IRP process addresses the need for an expanded, more fully integrated long-range planning process that will:

- Incorporate new demand planning and conservation opportunities.
- Address emerging water quality challenges.
- Integrate planning across the raw water, treatment, distribution and recycling water systems in a more complete manner.
- Redefine the appropriate levels for system reliability and water service goals.

- Develop planning strategies for addressing new uncertainties from climate changes, regulatory risks, demand pattern changes, system failure risks and rehabilitation requirements, and others.
- Reassess the Board's role in regional and statewide water activities.
- Integrate the results of the new IRP into future capital plans.

The projects that were identified in the 1997 IRP and subsequent 2002 update are underway and are included in our 10-year capitalpPlan and 2012 budget. Examples of these projects are the Moffat Collection System and Downstream Reservoir Storage projects, which are discussed in the section below. When the new IRP is completed in 2012, the results will be integrated into the long-range capital plan.

10-Year Financial Planning

Each year, Denver Water engages in a 10-Year financial planning process that looks at capital and operating priorities over the next ten years. Finance Division staff then conduct an analysis to determine the appropriate combination of rate revenue, debt, and cash reserves needed to finance the plan.

The 2012-2021 financial plan reflects Denver Water's focus on planning for the water needs of our customers and our neighbors in the coming years.

The 2012-2021 financial plan reflects Denver Water's focus on planning for the water needs of our customers and our neighbors in the coming years. Our organizational commitment to meeting these needs through a combination of new water supply, water conservation, and water reuse is apparent in these documents.

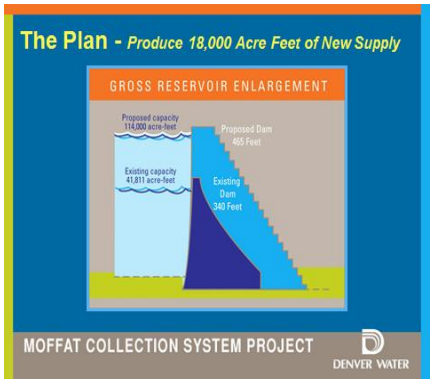
The single largest project in the 10-Year capital plan is the Moffat Collection SystemPproject.

The single largest project in the 10-Year capital plan is the Moffat Collection System Project. Currently, more than 80 percent of Denver Water's system relies on the unimpeded operation of just one of our reservoirs (Strontia Springs). There are three main reasons Denver Water believes the Moffat Collection System Project is necessary:

- Supply: Denver has identified a shortfall in supply that begins in approximately 2016 and grows to 34,000 acre-feet per year by 2030. Approximately 16,000 acre-feet per year of the shortfall is expected to be addressed through additional conservation, leaving Denver Water with a need to develop 18,000 acre-feet per year of new supply.

- Reliability: During the 2002 drought, Denver Water came perilously close to running out of water in the Moffat Collection System. Without water in this system, we would lose the operation of one of our three treatment plants and have difficulty meeting the needs of our treated water customers and raw water contractors such as Arvada, Westminster, Consolidated Mutual and others.

- Vulnerability: Denver Water's collection system is vulnerable to manmade and natural disasters, such as forest fires. Approximately 80 percent of our water supply comes through Strontia Springs Reservoir. Emergencies above this reservoir threaten the operation of the entire system, as the Hayman and Buffalo Creek fires highlighted in recent years. If approved by the U.S. Army Corps of Engineers, the Moffat Collection System Project would produce 18,000 acre-feet of new supply — enough water for roughly 45,000 households annually — by expanding an existing reservoir, rather than building a new one.



Our long-range plan projects $280 million for this project. Our current schedule, which depends on approval from the U.S. Army Corps of Engineers, anticipates receiving a permit for the project in 2012 and beginning design in earnest in 2013. There is $1.7 million in the 2012 budget related to obtaining the permit for this project.

The 10-year capital plan also outlines $59 million in funding for our Downstream Reservoir Storage Projects. These projects, which are being developed cooperatively with other Denver-metro water users, reclaim mined gravel pits and convert them into water storage, which can then be used for river exchanges or to supplement water available to the our recycled water plant. For 2012, just over $5 million has been allocated for construction work on the gravel pits, including construction of a pump station, an interconnect pipe, and additional land purchases.

Denver Water's commitment to recycled water is also reflected in the 10-Year capital plan.

Denver Water's commitment to recycled water is also reflected in the 10-year capital plan. The Board of Water Commissioners has expressed a desire to accelerate the build out of the recycled water system to 2022. There is a total of $99 million allocated to expanding the recycled water plant and distribution system. The distribution system will grow to connect new customers to the system. Seven million in projects are scheduled for construction in 2012.

As is the case with most water utilities, Denver Water is faced with aging infrastructure problems, with some parts of the collection, treatment and delivery system nearing the end of their useful lives. In order to meet our strategic objective and charter requirement to deliver

high-quality water at the lowest possible cost, we must step up our efforts to replace aging pipes, valves, fire hydrants and vaults. This commitment is reflected in the 10-year capital plan, in which we have budgeted $275 million for pipe replacements and rehabilitation, more than double the amount spent in the previous 10 years. The 2012 capital improvement plan includes $24 million for these efforts.

Denver Water's operating expenses, including debt service, are projected to increase from $240 million in 2012 to $259 million in 2021. The majority of the increase over that time is related to inflation, employee pay and benefits, and debt service.

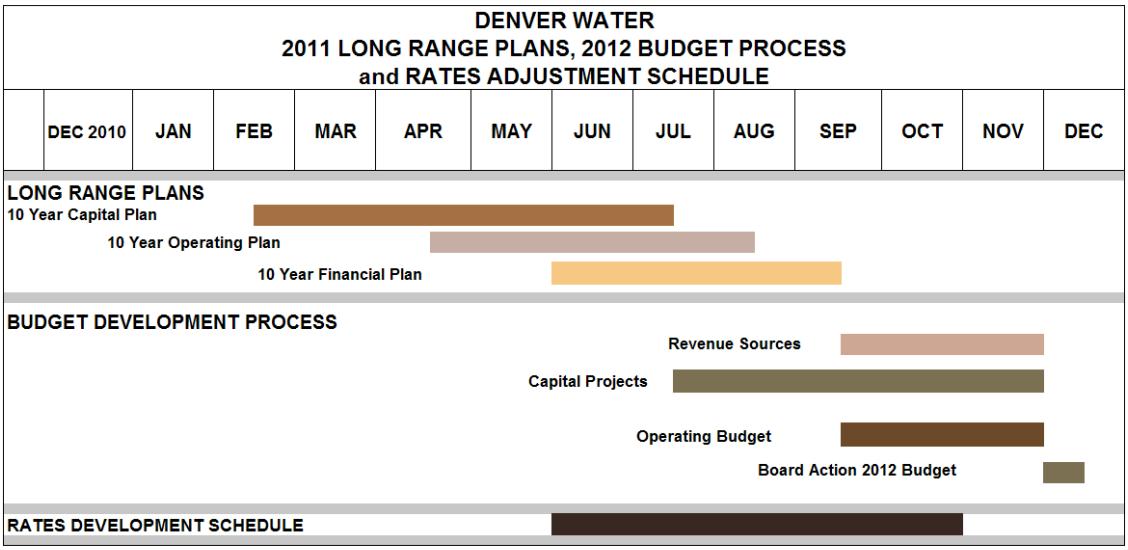
The 2012-2021 operating plan also reflects Denver Water's continued efforts to encourage our customers to use water wisely in all situations.

The 2012-2021 operating plan also reflects Denver Water's continued efforts to encourage our customers to use water wisely in all situations. In 2006, Denver Water's Board of Water Commissioners directed staff to accelerate conservation programs in order to achieve its stated goal of 29,000 acre-feet of water savings in 2016 rather than in 2050 as originally planned. Denver Water expects to spend $61 million on conservation programs in the next 10 years. In 2012, $8.4 million will be spent on education and outreach, rebates and incentives, and monitoring and evaluation of each program. Once we have achieved our goal, the conservation program will taper down into maintenance mode, and by 2021, the annual budget for conservation programs will be just $3 million.

As with most public sector enterprises, Denver Water is anticipating significant future cost increases for chemicals, maintenance, security and employee benefits. These increases are reflected in the 10-year plan and the 2012 annual budget; however, changes to our health care plan design have resulted in a lower 2012 budget for employee health care than the 2011 budget amount.

Once the 10-year capital and operating priorities have been finalized and incorporated into the financial plan, Denver Water's Finance division develops the strategy to finance the plan. The draft 10-year financial plan is presented to the Board each July. After Board approval, the water rates are developed for the following year.

Annual Budget Process



The annual budget process begins in July, when the 10-year financial plan has been finalized. The first year of the completed financial plan is presumed to be the following year's annual budget. Measurable changes are made to the annual capital and operating budgets as estimates for revenues, staffing levels, salaries, benefits and project schedules are refined. Throughout the fall, meetings are held with the Board's budget subcommittee to discuss budget assumptions or changes that have occurred since the rates were adopted. At the public Board of Commissioners workshop in November, the full Board is presented with a draft of the annual budget. Feedback is incorporated into the budget, and the final budget is presented to the Board for adoption at a public meeting in early December.

Amending the Budget

Budgets for projects or activities may be added or revised during the year. When possible, funds are transferred from another project that has been delayed or canceled. All changes must be requested via an official variance notification to the budget manager and signed by the appropriate division director. Division directors can authorize expenditures up to $20,000 without further approval. Expenditures up to $100,000 can be authorized by the CEO/Manager, but all contracts and purchases over $100,000, whether budgeted or unbudgeted, must be authorized by the Board of Water Commissioners. The Board agenda item form provides transparent information as to whether a particular item was budgeted in the current year.

Denver Water's budget office provides a variance report and updated forecast monthly to the executive staff and the Board. These reports provide information about year-to-date budget performance. They also detail changes that occurred during the previous month and their impact on reserve balances.

Summary of Financial Policies

The Board has established financial policies that constitute the basic framework for the financial management of Denver Water. These policies are intended to assist members of the Board and Denver Water's staff in evaluating current activities and proposals for future programs, and are reviewed on an annual basis and modified to accommodate changing circumstances or conditions. Where applicable, copies of the financial policies are included in the appendix at the end of this document. A summary of these policies is presented below:

Balanced Budget:
The Denver Board of Water Commissioners has not adopted an official policy on a balanced budget. Our practice is to balance the budget by the planned use or contribution to investment balances.

Cash Reserves:
The Charter of the City and County of Denver specifically allows the accumulation of reserves "sufficient to pay for operation, maintenance, reserves, debt service, additions, extensions, and betterments, including those reasonably required for anticipated growth of the Denver Metropolitan area and to provide for Denver's general welfare."
The Board's practice is to maintain reserves that are sufficient to provide:

- 25 percent of the next year's operating costs.
- The greater of average annual amortization cost and 2 percent of current total capital assets (before depreciation) for replacement capital and equipment purchases.
- 50 percent of expected annual debt service for next year.
- $10 million in exposure reserve.

Basis of Accounting:
The Board's financial statements are accounted for on the flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with operations are included on the statement of net assets, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred. This is different from the basis of budgeting. Denver Water's budget is prepared using the modified accrual basis in which revenues are recorded when they become available and expenditures are recorded at the time liabilities are incurred.

Accounting Standards:
The Board's financial statements are prepared in accordance with principles generally accepted in the United States of America (Generally Accepted Accounting Principles). Additionally, the Board applies all applicable pronouncements of the Governmental Accounting Standards Board.

Chart of Accounts:
The Chart of Accounts used by Denver Water generally follows the structure presented by the National Association of Regulatory Utility Commissioners for Class A Water Utilities.

Capital Policy:
Initial acquisition costs of assets are capitalized if they have a service life of more than one year and a cost of $5,000 or more. Costs not meeting these criteria are expensed. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the respective asset classes.

Revenues:
Denver Water is completely funded through rates, fees and charges for services provided by Denver Water. There are no transfers to or from the city's general fund. Water rates pay for operation and maintenance expenses, repair, capital replacements and modifications to existing facilities, debt service, a portion of the costs of new facilities, and water supply.

Expenditures:
In planning expenditures, Denver Water follows the city charter's mandate to keep rates as low as good service will permit. This means Denver Water will properly maintain its facilities and continue to seek ways to operate more efficiently.

Risk Management:
The Board is exposed to various risks of loss, including general liability, (limited under the Colorado Governmental Immunity Act to $150,000 per person and $600,000 per occurrence) property damage, employee life, medical, dental and accident benefits. The Board has a risk-management program that includes self-insurance for liability, employee medical, dental and vision. The Board carries commercial property insurance for catastrophic losses, including floods, fires, earthquakes and terrorism for identified major facilities.

Investments:
The Board has protection of principal as its primary investment policy objective. The Board designates its authority to invest money deposited in the water works fund to the manager and the director of finance. According to the current investment policy, U.S. government obligations and government sponsored federal agency securities, commercial paper, corporate fixed income securities, money market funds and repurchase agreements are permissible investments. The official policy outlines allowable credit risk and maximum maturities for each investment type.

Debt Guidelines:
Denver Water has no legal debt limits. However, the Board has adopted debt guidelines to guide the timing and use of debt in the future. The guidelines set forth a policy that prevents debt proceeds from being used to pay operating and maintenance expenditures. The guidelines instruct that debt proceeds will be used only for current refunding, advanced refunding and payment for non-recurring capital projects that expand the system or are otherwise unusual in nature or amount.

Fund Structure

Denver Water is an enterprise of the city within the meaning of Article X, Section 20 of the Colorado Constitution. The Board maintains a single fund as mandated by the city charter, which states:

> *"There is hereby created a Water Works Fund into which shall be placed all revenues received from the operation of the Water Works system and plant together with all monies received by the Board from other sources…"*

Although the Board approves the rates and the annual budget, no funds are appropriated.

Fund Balance: Denver Water defines fund balance for the water works fund as the balance at the beginning of the period, plus the total sources of funds, less total uses of funds for the period. Within the water works fund, there are legally restricted funds and Board-designated funds. As outlined above, the Board targets reserves to pay for operating, capital, self-insurance and debt service in an emergency, in addition to the restricted and designated funds. Any excess funds above these target amounts are considered available for future capital projects.

2011 Investment Balance Summary ($000)	
	2011 Actual
Beginning Balance 01/01	$ 225,410
Total Sources	$ 289,725
Total Uses	$ 324,307
Cash Balance Adjustment	$ (3,532)
Ending Investment Balance 12/31	$ 187,296
Less: Board Designated Cash	
Blue River Decree Litigation	$ 4,351
Total Board Designated Cash	$ 4,351
Total Legally Restricted Cash	$ 27,836
Available Investment Balance	$ 155,109
Less: Operating/Insurance Reserve (25% of Operating + $10,000,000)	$ 55,545
Less: Part II/III Capital Reserve (Greater of Average Amoritiztion or 2% of Capital less Deprication)	$ 48,818
Available for Future Operating & Capital	$ 50,746

Debt Information

As set forth in the debt guidelines adopted in May 2003, Denver Water issues debt only for refunding current maturities of existing debt (current refunding), refunding future maturities of existing debt (advance refunding) and for nonrecurring capital expenditures. Operating expenses and capital improvements of a normal recurring nature are included in the calculation of the revenue requirement from rates and are, therefore, financed on a pay-as-you-go basis.

The treasury section monitors the marketplace and evaluates the appropriateness of various financing sources for specific capital projects. The expected life of the asset, the nature of the covenants, the impact on the organization's future financial flexibility and the chances of Denver Water being able to support the projected level of debt are analyzed.

Denver Water structures current refunding so that the final maturity of the debt does not exceed the useful life of the asset. Advance refunding is considered when the net present value savings on the bonds being refunded are greater than 3 percent, and the refunding is permitted by statutory regulations.

Denver Water's debt guidelines state the organization's desire to maintain the standalone revenue bond rating at a level of AA or better. In order to maintain or exceed this rating, Denver Water uses the following guidelines in financial planning activities:

- The debt ratio (total debt divided by the sum of net fixed assets plus net working capital) should not exceed 40 percent.

- Interest coverage (net revenues divided by interest requirements-excluding system development charges) should be equal to or greater than 2.5 times.

- Debt service coverage, as defined in the master bond resolution, should be equal to or greater than 2.2 times.

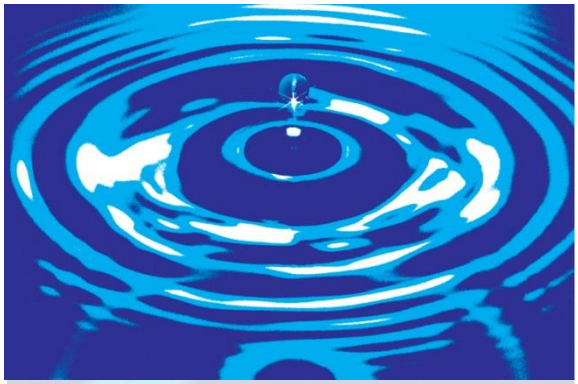
- The year-end balance in the water works fund, net of principal and interest requirements for the next 12 months should be equal to or greater than $5 million.

Debt Principal and Interest Obligations

(in Millions of dollars)

Year	Principal	Interest	Misc	Total
2012	19.2	20.0	0.7	39.9
2013	19.3	19.0		38.3
2014	20.2	18.1		38.3
2015	21.2	17.1		38.3
2016	22.5	16.1		38.6
2017	15.5	14.9		30.4

* Misc includes debt issuance costs



Budget Summary

Comparison of Sources and Uses of Funds

Priorities and Challenges

Comparison of Sources and Uses of Funds (Thousands of Dollars)					
	2009 Actuals	2010 Actuals	2011 Budget	2011 Actuals	2012 Budget
Beginning Investment Balance	**$198,311**	**$194,012**	**$225,410**	**$225,410**	**$187,296**
Sources of Funds:					
Operating Revenue	$ 188,293	$ 225,493	$246,079	$ 238,085	$ 261,978
Non-Operating	2,467	3,285	6,098	6,844	6,625
Hydropower	4,949	4,000	3,797	4,856	4,646
System Development Charges	9,013	11,283	8,000	14,649	10,714
Participation, Reimbursements &	10,938	10,940	4,863	6,160	5,367
Interest on Investments	5,183	310	1,134	1,405	498
All Other Revenue	5,675	8,879	8,503	17,726	7,014
Subtotal Sources of Funds	$ 226,518	$ 264,190	$278,474	$ 289,725	$ 296,842
Bond Proceeds	44,000	90,000	0	0	38,000
Total Sources of Funds	**$ 270,518**	**$ 354,190**	**$278,474**	**$ 289,725**	**$ 334,842**
Uses of Funds:					
Operation & Maintenance Programs:					
Raw Water	$ 9,411	$ 19,468	$ 34,376	$ 20,674	$ 29,920
Recycled Water	2,729	2,755	2,293	2,634	2,443
Water Treatment	16,109	17,355	15,480	16,468	15,938
Delivery	18,161	18,925	20,352	22,505	21,154
Conservation	8,741	10,846	8,793	7,652	8,392
Customer Service	10,085	13,657	10,149	10,402	10,516
General Plant	10,514	10,719	12,855	10,034	15,131
Information Technology	-	-	-	2,851	1,654
Administration	40,422	40,204	41,402	38,292	45,728
Distributed Indirect Costs	52,439	50,512	52,941	50,668	50,986
Total Operation & Maintenance	$ 168,611	$ 184,441	$198,641	$ 182,180	$ 201,862
Capital Programs:					
Raw Water	$ 23,045	$ 44,770	$ 24,274	$ 17,280	$ 27,330
Recycled Water	702	3,253	9,390	9,572	7,919
Water Treatment	10,019	11,142	7,108	5,279	7,143
Delivery	16,591	25,274	44,944	42,829	43,423
Customer Service	-	-	-	3,223	3,262
General Plant	18,791	13,127	16,162	7,975	16,988
Total Capital	$ 69,148	$ 97,566	$101,878	$ 86,158	$ 106,065
Debt Service:					
Debt Service	50,800	51,234	46,374	55,967	39,853
Total Uses of Funds	**$ 288,559**	**$ 333,241**	**$346,893**	**$ 324,305**	**$ 347,780**
Cash Balance Adjustment	$ 13,742	$ 10,449		$ (3,534)	
Net Cash Flow	**$ (4,299)**	**$ 31,398**	**$ (68,415)**	**$ (38,114)**	**$ (12,938)**
Ending Investment Balance	**$ 194,012**	**$ 225,410**	**$ 156,991**	**$ 187,296**	**$ 174,358**

The above table shows a comparison of Denver Water's 2012 budget to the 2011 budget and actual expenditures from 2009-2011.

Priorities and Challenges

Denver Water operates on a cost-of-service basis, a system through which rates are established in order to reimburse the utility for the cost to serve its customers. Each June, we examine priorities, demand forecasts and financial conditions to set revenue and expenditure projections through our 10-year planning process. The resulting rates and expenditures become the basis for the following year's annual budget, although some small changes are made in the interim.

Denver Water continues to implement its Strategic Plan. Advancements in 2012 include implementing a budget accountability process that ensures accountability for the budget is a priority at all levels in Denver Water. The new budget accountability process also will include measures from Lean to help eliminate waste and inefficiency.

Revenue Issues

Demand

Seasonal weather patterns in Colorado directly affect customer demand for water, which in turn affect Denver Water's operating revenues. Denver Water's 2011 revenue projections were calculated using a normalized water consumption assumption of 75 billion gallons of treated water. Our actual treated water demand for 2011 came very close to our expectation at 74 billion gallons. Revenue from water sales were $9.1 million (3.7 percent) lower than the budgeted amount. This was because higher consumption customers cut back on peak usage.

As we begin 2012, Denver Water will continue to monitor and prepare for changes in normal weather patterns. Runoff from melting mountain snow accounts for the majority of Denver Water's water supply. If snowpack and runoff figures are low enough, Denver Water may consider demand management alternatives, such as summer watering restrictions, which could have an impact on revenue. Although significant winter storms in the mountains can still change the outlook, Denver Water is monitoring the situation closely and will seek to respond to any revenue shortfalls in a way that enables us to operate our system efficiently, meet our system expansion and improvement needs, and remain financially healthy.

As we begin 2012, Denver Water will continue to monitor and prepare for changes in normal weather patterns.

Economy

Denver Water is an enterprise fund operating on an enterprise basis and, therefore, does not receive tax revenue. Our revenue vulnerabilities are largely related to water consumption and not the economic climate. While we face revenue shortfalls in an abnormally wet or dry year, consumer spending does not impact our revenue.

One aspect of the economy that impacts Denver Water's revenue projections is housing starts. Denver Water assesses a fee, known as a system development charge, for new connections to our system. These fees are used to fund expansion capital. As a result of the depressed housing market, revenue from system development charges in 2011 was 64 percent of normal. We expect system development charges to remain below normal for the next few years. We have projected 2012 revenue from system development charges to be $10.7 million, roughly half of the $22 million in revenue we would expect in a normal housing market.

One aspect of the economy that impacts Denver Water's revenue projections is housing starts.

Expenditures

Capital Expenditures

In 2011, the Board adopted a $1.45 billion 10-year capital expenditure program that includes money to double our annual rate of system reinvestment, complete our recycled water and gravel pit storage systems by 2020, and finish a $226 million project to raise the dam and expand storage capacity at Gross Reservoir. It is critical to our customers that we keep this capital program on track and not continue to push projects into the future.

Strategies that have been put into place to ensure these projects stay on schedule are continuing to be refined for 2012. Denver Water's capital program review committee was reconfigured in 2011 and renamed the programs and projects review committee. The committee's goal is to improve communication regarding major projects between the Engineering, Operations and Maintenance, Planning, and Finance divisions. Denver Water also formed a performance management office to oversee the committee. In addition, the Board implemented a plan of budget accountability. The plan requires improvements in the budget process that incorporates planning, prioritization and accountability. These changes will allow the Board to concentrate its focus on policy, strategic direction, and approval of large projects and programs.

Operating Expenses

Most of Denver Water's operating expenses are fixed. In fact, only 7 percent of our operating costs are variable. This fact is of special concern when you consider that only 4.4 percent of our revenues are fixed. In other words, when revenue is significantly reduced because of low customer demand, we still have to operate our reservoirs, treatment plants, and distribution systems; read meters; bill customers; operate computer systems; and process payments and payroll. Therefore, it is not easy to reduce operating expenses significantly when revenues are down.

Most of Denver Water's operating expenses are fixed.
In fact, only 7percent of our operating costs are variable.

Recent trends that are placing upward pressure on our operating expense budget continued in 2011. Employee and retiree health care costs are increasing rapidly, as are costs for security at our outlying facilities.

Despite these difficulties, Denver Water has made a concerted effort to streamline operating expenses where possible. In 2012, the Board will continue its transition to a pay for performance structure in order to reward high performing employees and allow greater flexibility in pay.

Despite these difficulties, Denver Water has made a concerted effort to streamline operating expenses where possible.

As a part of its Strategic Plan, the Board has begun implementing Lean, which is designed to streamline internal processes throughout Denver Water in order to eliminate waste.

The Board also adopted changes to its retiree health insurance program. The overall problem was that given the economic outlook and escalating health care costs, the retiree medical program was not sustainable in its present form. Furthermore, recent changes in government accounting rules require Denver Water to report future retiree costs as a liability of the organization. This affects not only retirement benefits, but also Denver Water's ability to properly finance capital projects and pay for operating costs. The recorded liability for retiree health care is expected to grow from $8.6 million in 2010 to $86 million by 2038. In order to address these problems, employees hired on or after Jan. 16, 2012, will not be eligible for the retiree medical subsidy.

Financial Impact of Conservation

Denver Water is faced with the seemingly contradictory relationship between water conservation and revenue from the sale of water. Denver Water sets water rates based on the cost of service ratemaking methodology and, therefore, sets rates to cover the costs of maintaining and operating the water system. The majority of our operating costs are fixed, and as a result, when water consumption is reduced, revenues fall and rates must be raised to cover costs. Although water conservation will result in reduced costs of future storage needs, most customers focus on the short-term impacts and believe they are being punished for conserving water.

This perceived conflict means that while Denver Water must continue to cover full cost of service through water rates, it's also important to be aware of the impact on customers. As part of this effort, proposed costs are evaluated each year with a mind toward the resulting rate increases. Through our Strategic Planning process, we have identified the need to educate our customers on the importance of water conservation and the future costs that can be avoided if we use water wisely.

This perceived conflict means that, while Denver Water must continue to cover full cost of service through water rates, we must also be aware of the impact on our customers.

Summary

Denver Water begins 2012 in a strong financial position with a watchful eye on the weather and the potential financial impact of another year of revenue shortfall. In the sections that follow, our revenue projections and budget drivers for 2012 are described in detail.

Our commitment to providing high-quality service at the lowest possible rates is reflected throughout the discussion of revenue and expenditures. The 2012 budget also has strong linkages to our long-term and strategic planning objectives.

Sources of Funds

Comparison of Sources of Funds

Water Rates

Water Bill Comparison

Types of Water Service

Operating

Non-Operating

Hydropower

System Development Charges

Participation, Reimbursements & Grants

Interest on Investments

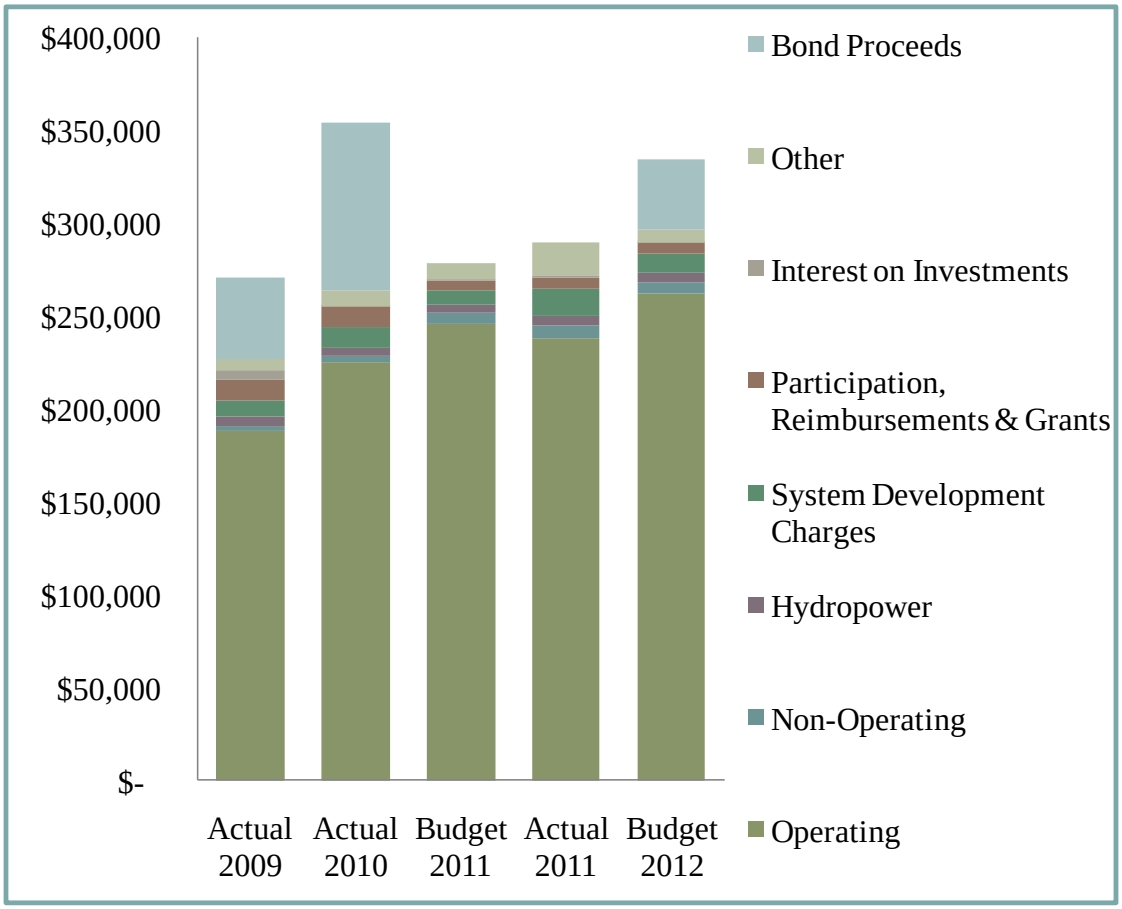
Other

Bond Proceeds

2009-2012 COMPARISON OF SOURCES OF FUNDS
(in thousands of dollars)

	2009 Actual	2010 Actual	2011 Budget	2011 Actual	2012 Budget
Operating	$ 188,293	$ 225,493	$ 246,079	$ 238,085	$ 261,978
Non-Operating	2,467	3,285	6,098	6,844	6,625
Hydropower	4,949	4,000	3,797	4,856	4,646
System Development Charges	9,013	11,283	8,000	14,649	10,714
Participation, Reimbursements & Grants	10,938	10,940	4,863	6,160	5,367
Interest on Investments	5,183	310	1,134	1,405	498
Other	5,675	8,879	8,503	17,726	7,014
Subtotal Sources	**$ 226,518**	**$ 264,190**	**$ 278,474**	**$ 289,725**	**$ 296,842**
Bond Proceeds	44,000	90,000	-	-	38,000
Total Sources	**$ 270,518**	**$ 354,190**	**$ 278,474**	**$ 289,725**	**$ 334,842**

The projected sources of funds for Denver Water in 2012 are $334.8 million.



Key Issues - Water Rates

Water Rates

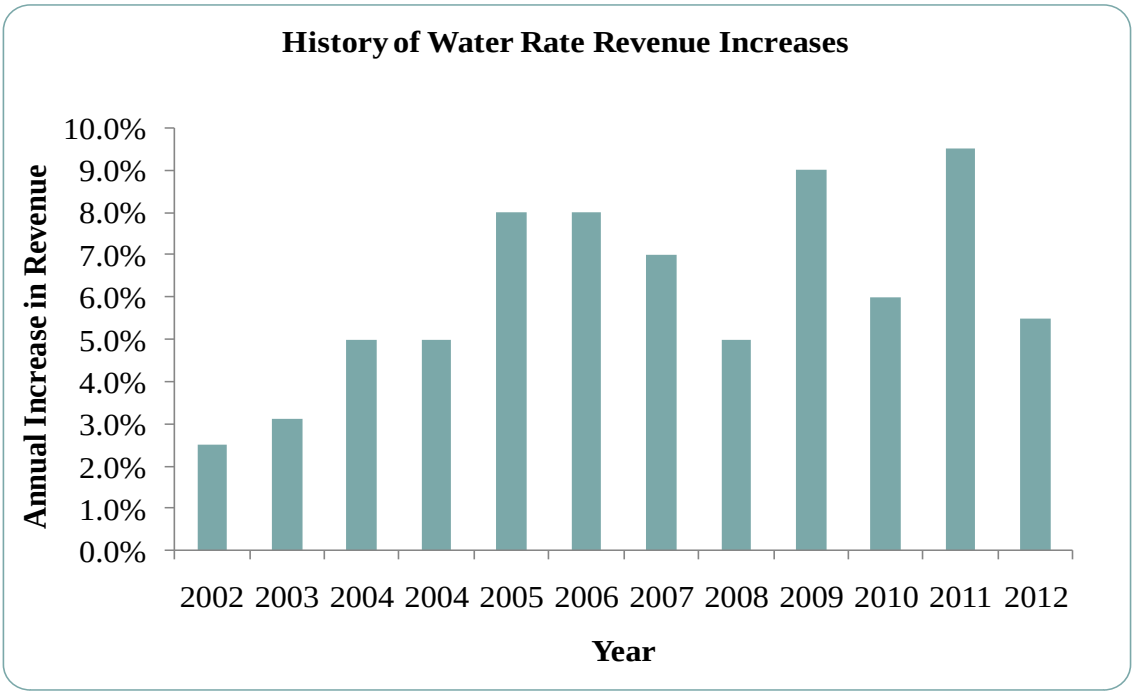
The Board of Water Commissioners adjusts water rates annually to adequately recover the cost of providing service. These costs include operations and maintenance, debt service and rate financed capital.

Rate Increase

Denver Water's user rates increased 5.5 percent in January 2012. Typical residential customers saw their bills increase by about $41 a year. Typical suburban residential customers served by Denver Water saw an increase of $33 per year. The amount of the bill varied depending on how much water the customer uses.

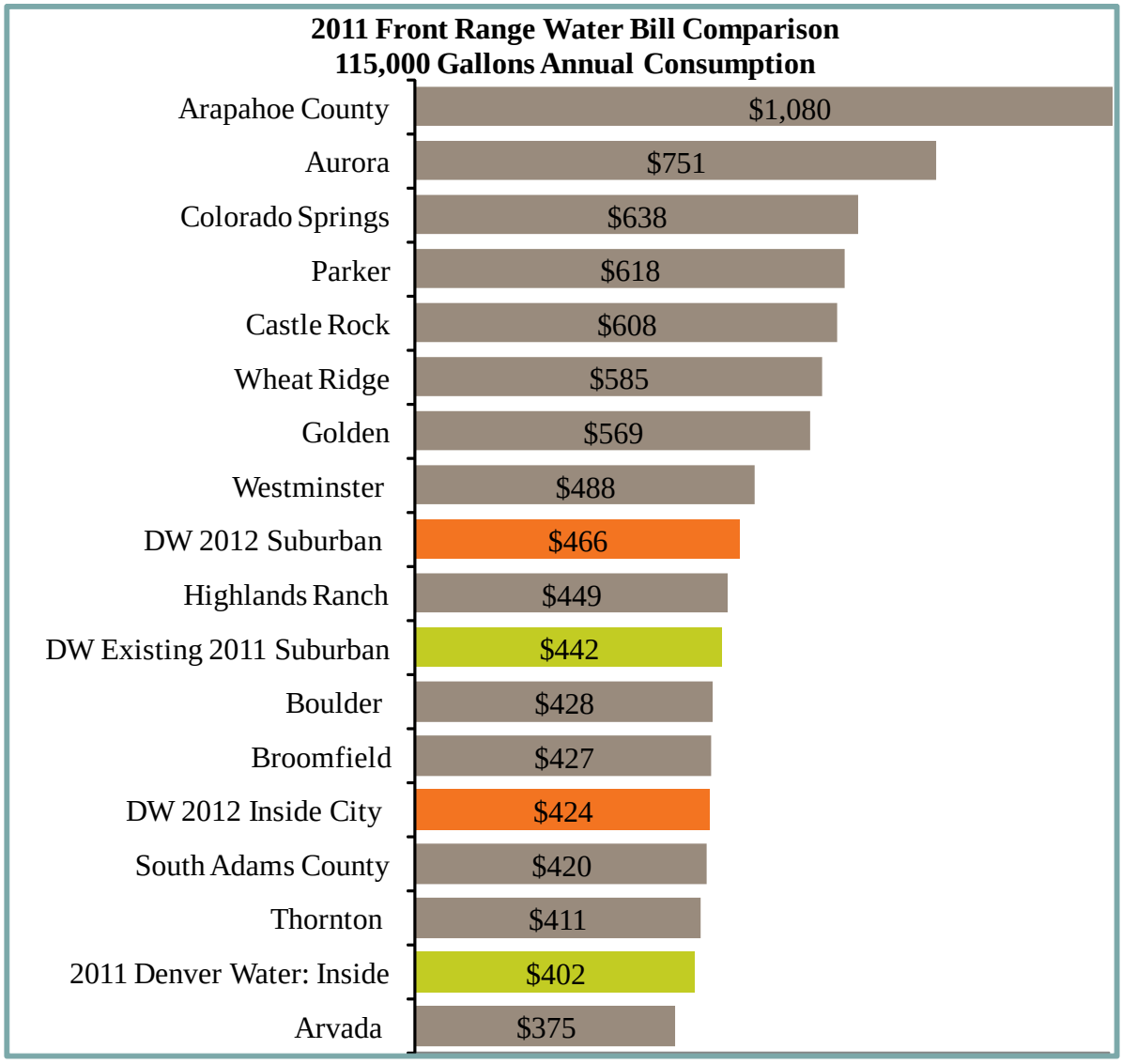
Why Is the Rate Increase Necessary?

Our most important responsibility is to ensure our community has a safe and reliable supply of clean water. Today, we are at a pivotal point. Our distribution system is aging. Over the long term, demand for water will continue to increase while the supplies to meet that demand will become increasingly limited. Also, the threat of climate change creates greater uncertainty with regard to our water supplies, 80 percent of which come from snow.



Water Bill Comparison

The following table compares Denver's annual residential water bills with other water utilities in the Denver-metro area. The comparison is based on annual usage of 115,000 gallons. This information is for comparison purposes only. Rates for Denver Water customers living inside the city remain among the lowest in the metro area.



Types of Water Service

Denver Water provides service to customers within the City and County of Denver as well as to more than 60 special districts and one water company outside the boundaries of the City and County of Denver. The boundary that includes the special districts and the City and County of Denver is Denver Water's combined service area. Denver Water also serves a limited number of customers outside the combined service area through special provision contracts.

Denver Water provides treated, raw and recycled water service. Treated water service includes retail and wholesale (master meter) customers. Retail customers consist of residential, multifamily, commercial, industrial, governmental and irrigation. Denver Water serves both inside- and outside-city retail customers. Retail services for districts are classified as read and bill, total service, and master meter. For read and bill districts, Denver Water is responsible for treatment, delivery, metering and billing of water; however, read and bill districts maintain their own distribution system. Total service districts receive the same level of service as inside-city retail customers, including treatment, delivery, metering and billing, as well as maintenance of the distribution system. Master meter districts purchase treated water on wholesale basis and are responsible for the distribution, metering and billing their customers. Denver Water currently serves raw water customers within the combined service area, as well as to select customers outside the combined service area. Denver Water serves recycled water to customers inside the City and County of Denver and to one customer outside the combined service area.

Approximately 52 percent of our customers live in the city and generate 45 percent of water sales revenue.

Approximately 48 percent of our customers live outside the city and generate 55percent of water sales revenue.
(Includes master meter distributors)

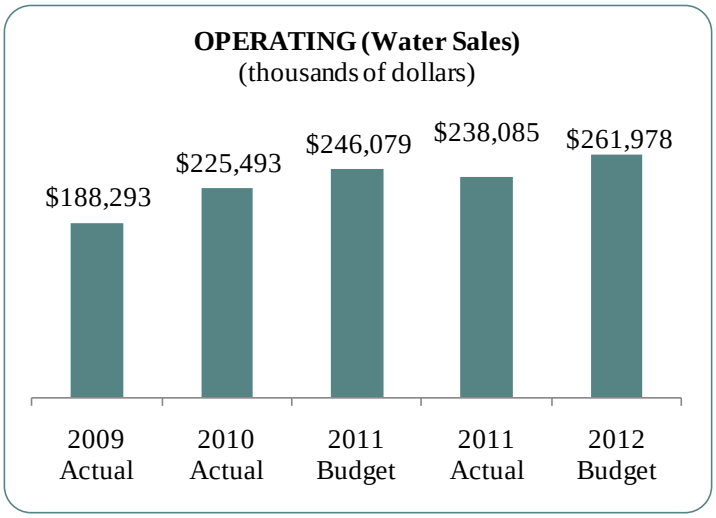
Denver Water also provides wholesale water service to master meter distributors (water districts outside the city) that own and operate their own water system, perform their own meter reading and customer billing, and purchase water on a wholesale basis for distribution to their respective retail customers. Denver Water will bill the distributor through master meters at a rate that reflects the cost of providing this additional service. Wholesale water distributors account for approximately 22 percent of our revenue from water sales.

Operating (Water Sales)

Operating revenues are generated from the sale of water to customers. In 2012, we anticipate that 86 percent of our sources of funds will result from water sales. The funds are used to pay normal operation and maintenance costs, replacement of facilities, and plant additions, as well as debt service.

Operating projections are based on an assumption of total demand for water compared to historic normal demand. Historically, Denver Water has predicted our consumer's water consumption patterns with a fair degree of accuracy. However, the recent drought and resulting change in our customers' water use has added a degree of uncertainty to our forecasting.

The 2012 projected water sales revenue totals $262 million based on a demand of approximately 77 billion gallons.



2012 Budget for Operating (Water Sales)

Metered Water Sales $178.7 million

Private Fire Protection $1.2 million

Government Water Sales $9.7 million

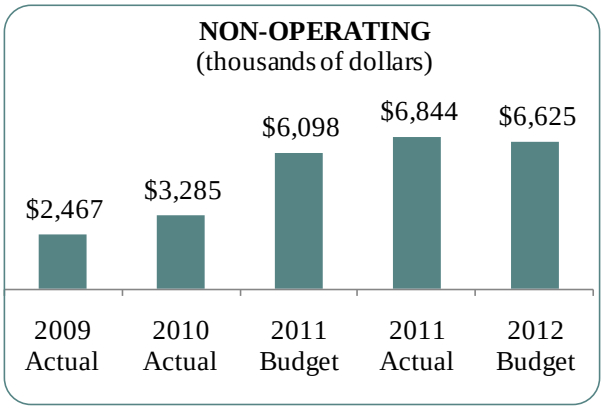
Master Meter $64.1 million

Nonpotable Water $7.0 million

Nonpotable for Resale $1.3 million

Non-Operating

These funds are obtained from payments for services that Denver Water renders, such as ditch assessments, irrigation, main inspections, tap installations, calculating and mailing sewer bills, rents on Denver Water facilities and other such services. Also included are Build America Bonds interest rebate. Non-Operating cash receipts are estimated based on historical trends.



2012 Budget for Non-Operating

Contract Work $1.2 million

Non-Utility Operating Income $.7 million

Other Non-Operating Income $2.4 million

Build America Bonds Interest Rebate $2.3

Hydropower

Denver Water generates hydroelectric power at Dillon, Strontia Springs, Williams Fork and Gross reservoirs, as well as at Roberts Tunnel, Foothills Treatment Plant and Hillcrest Reservoir. Denver Water enters into agreements with electric utilities that purchase the generated power. Projections are based on assumptions of normal weather and hydrological conditions. Actual revenues vary depending on precipitation and reservoir levels.

2012 Budget for Hydropower

Gross Reservoir: $1.6 million

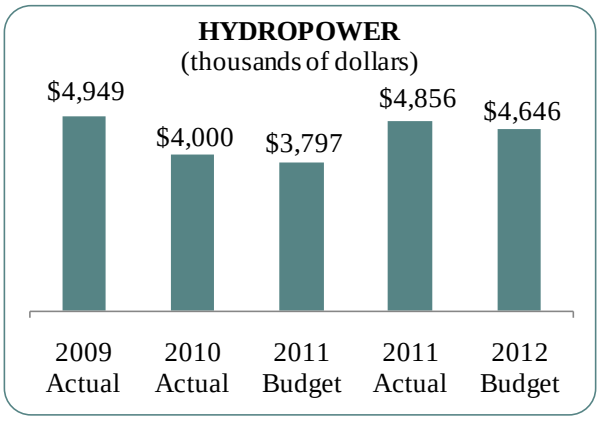
Foothills Treatment Plant: $400,000

Strontia Springs: $400,000

Dillon: $600,000

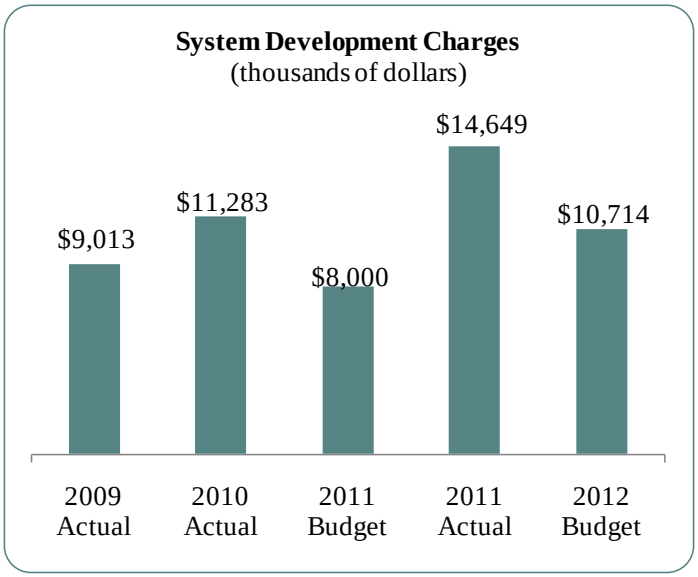
Roberts Tunnel $1.1 million

Hillcrest $500,000 million



System Development Charges

The system development charge is a fee for new connections to Denver Water's system. This charge applies to any applicant who is granted a license to take water through Denver Water's system or a system deriving its supply from Denver Water. The system development charge, first implemented in 1973, provides a source of funds for expansion capital.



The charge is based on the gross square footage of the single family residential lot or the number of units in a multifamily building, the size of the connection required, or estimated volume of water needed.

System development charge receipt projections are based on an estimate of the blended average cost for new taps, the anticipated growth rate for the number of new taps and any anticipated rate increases. Projected revenue from system development charges total $10.7 million for 2012. The level of system development charge revenue received in a year is influenced by many factors, including changes in the local economy, new real estate development and credit markets.

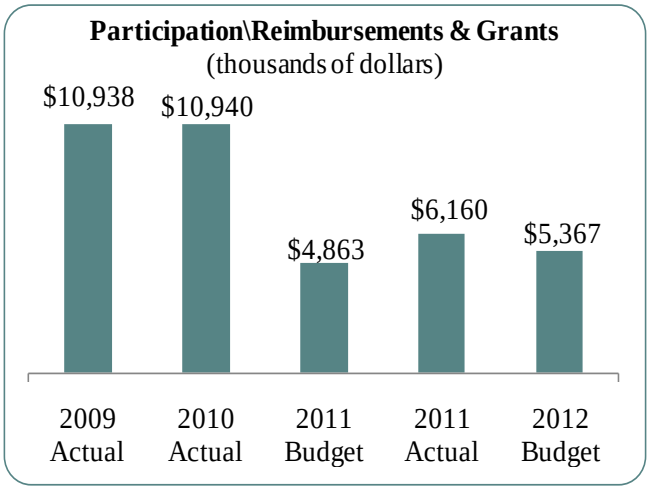
2012 Budget for System Development Charges

System Development Charges $10.7 million

Participation\Reimbursements and Grants

A participation agreement is one in which a distributor or developer pays for a portion of the costs of Denver Water's distribution facilities, such as conduits, treated water reservoirs or pump stations, required to provide service to that district. Estimates are based on the existence of contractual obligations.

Reimbursements are compensation received from another entity for money already spent on collaborative projects. Grants are an award of financial assistance given by the government or some other organization.



2012 Budget for Participation Reimbursements and Grants

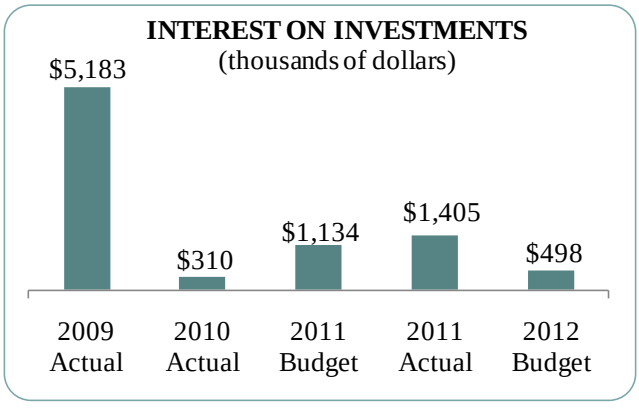
Participation/Reimbursements and Grants $5.4 million

Interest on Investments

The projection for interest on investments is based on estimates of month-by-month investment balances and assumptions about prevailing interest rates on authorized investments.

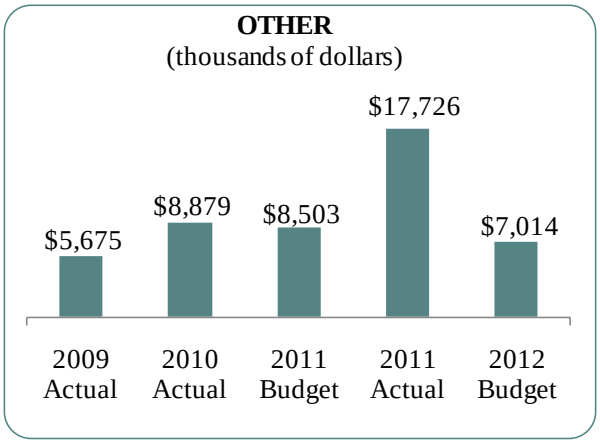
2012 Budget Interest on Investments

Interest Income $.5 million



Other

Other sources of funds consist of reimbursements for the relocation of mains and hydrants, proceeds from the sale of surplus assets, employee payments for health and dental insurance, and minor items not included elsewhere. Projections are based on historical experience and knowledge of upcoming changes.



2012 Budget for Other

Employee Insurance Collected $1 million

Special Assessments $3.4 million

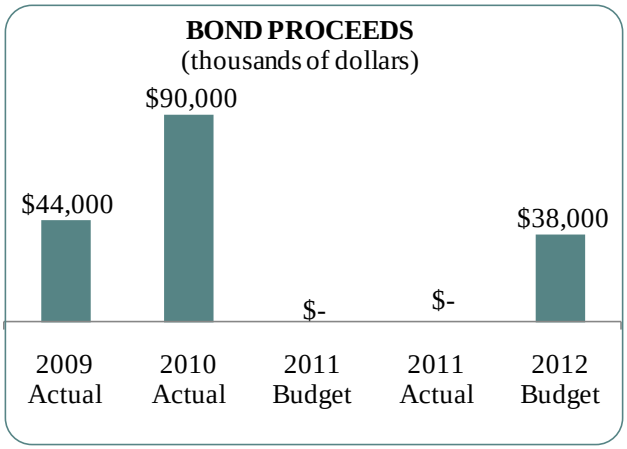
Reimbursements Received $1.8 million

Other $.8 million

Bond Proceeds

Bonds are issued in order to build facilities or make improvements to a public property. Denver Water uses debt proceeds to finance expansion capital projects.

Of the $90 million debt proceeds issued in 2010, $51 million reflects debt proceeds that were originally planned for 2011 but were issued early because of favorable market conditions and realizable savings from debt issuance costs.



2012 Budget for Bond Proceeds

Debt Proceeds $38 million

Uses of Funds

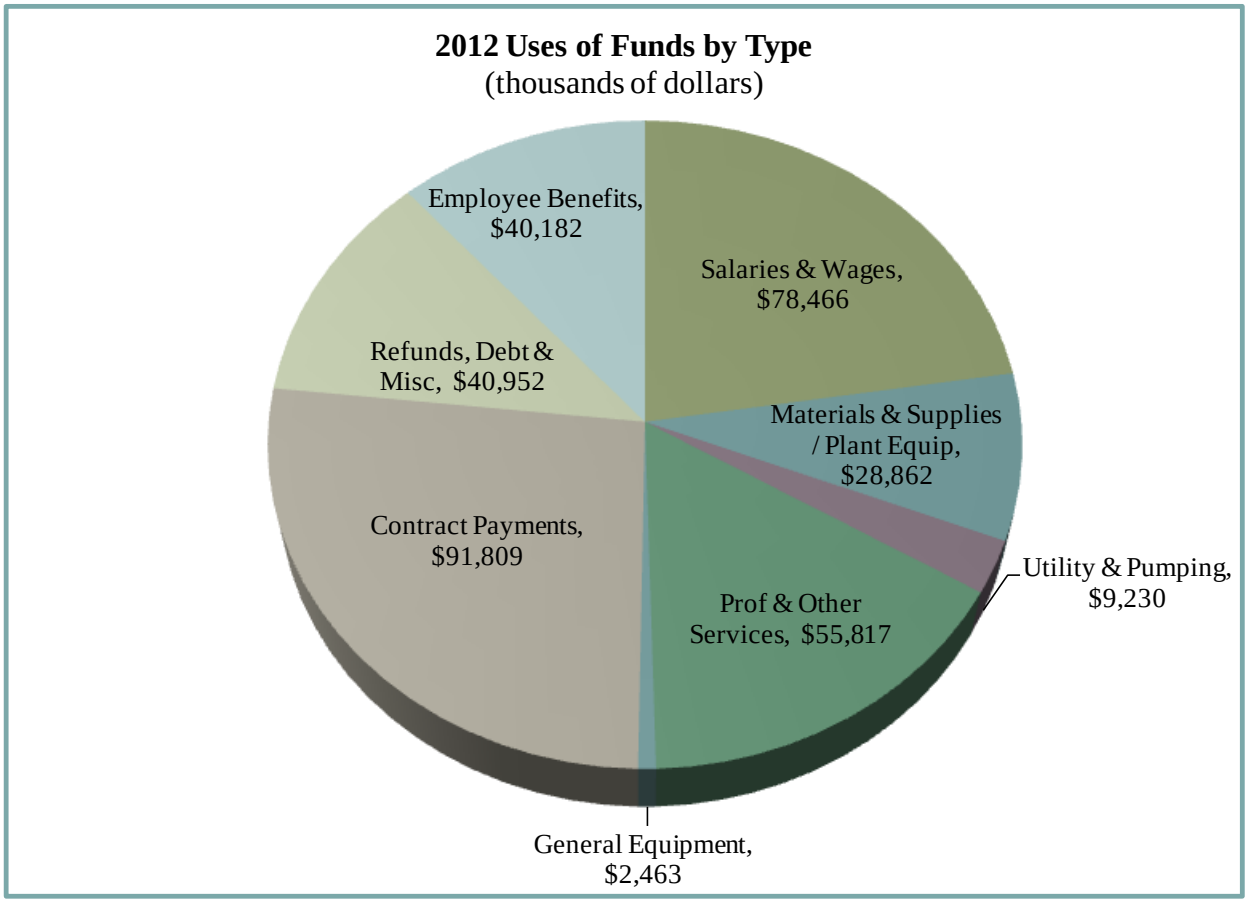
Uses of Funds by Type

Uses of Funds by Program

2012 Uses of Funds by Type

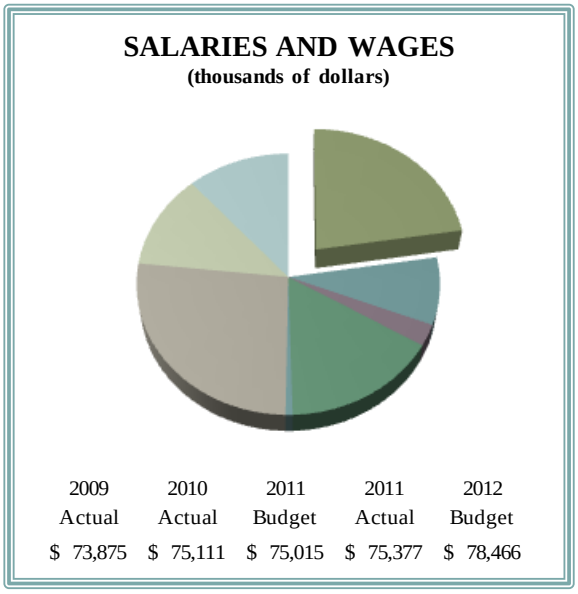
The projected Uses of Funds budget for Denver Water in 2012 is $347.8 million. Costs are displayed in categories by type, regardless of whether the cost is operating or capital.

Categorizing data this way is useful for trend analysis and for highlighting the impact different costs have on the budget.



2012 Uses of Funds
(in thousands of dollars)

2009 Actual	2010 Actual	2011 Budget	2011 Actual	2012 Budget
$288,559	$333,241	$346,893	$324,307	$347,781



Salaries and Wages

The 2012 budget is an increase of $3.5 million from the 2011 budget.

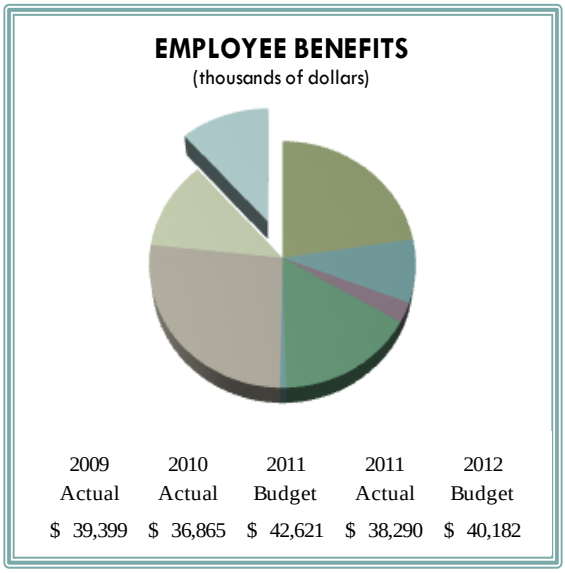
Total payroll for 2012 will support 1,140 regular employees as well as 102.5 full-time temporary positions. The total payroll also assumes a 4 percent overall vacancy rate.

In August 2011, the Board approved the move from a step system to a pay-for-performance system. The open range model was the employee-led compensation change workgroup's recommendation to replace the current step pay plan.

Pay-for-performance system:
• Pay ranges with minimums and maximums.
• No defined steps or predetermined points along the pay ranges.
• Payroll budget key factor to determine salary increases.
• Consistent relationship between performance and percentage of merit increase.

We are piloting the new pay-for-performance program in 2012. Supervisors will rate employees under the new system and show them where they would have fallen if pay-for-performance had been fully implemented. However, for 2012, all employees meeting or exceeding expectations will receive a 2 percent salary increase effective April 1. The direct budgetary impact for 2012 is a result of the increase being given in April rather than January. As a result, the increase in the payroll budget is $375,000 less than it would have been if the increase was given in January**.**

2012 BUDGET
Regular Wages $66.3 million
Overtime $2.2 million
Holiday, Vacation, Sick $8.1 million
Other Pay $1.8 million



Employee Benefits

The 2012 budget is a decrease of $2.4 million from the 2011 budget.

This category of costs covers employee medical, dental, vision and life insurance, as well as the defined benefit and defined contribution retirement programs. FICA, Medicare, long-term disability, and workers' compensation are also included in this category.

One reason for the decrease in employee benefits is because of the government reimbursement program. Denver Water was awarded money through the federal government's Early Retiree Reimbursement Program, which reduced our health care costs.

In addition, employee benefits are decreasing as a result of plan design changes, employee education on how to keep health care costs down and a reduction in the retirement fund.

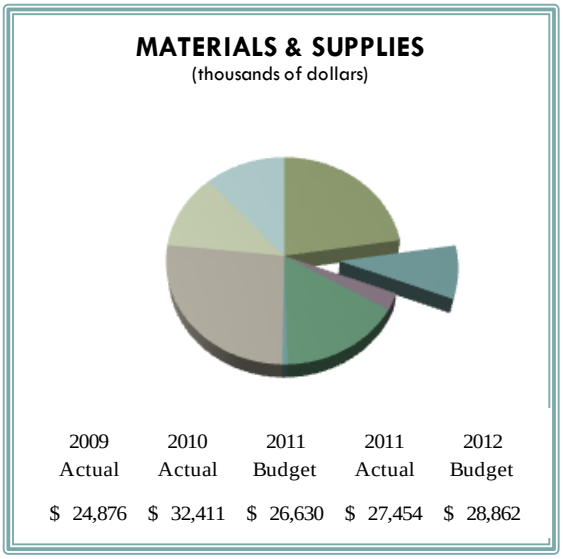
2012 BUDGET
Retirement plan contribution $14.3 million
Health and other benefits $25.9 million

Materials and Supplies

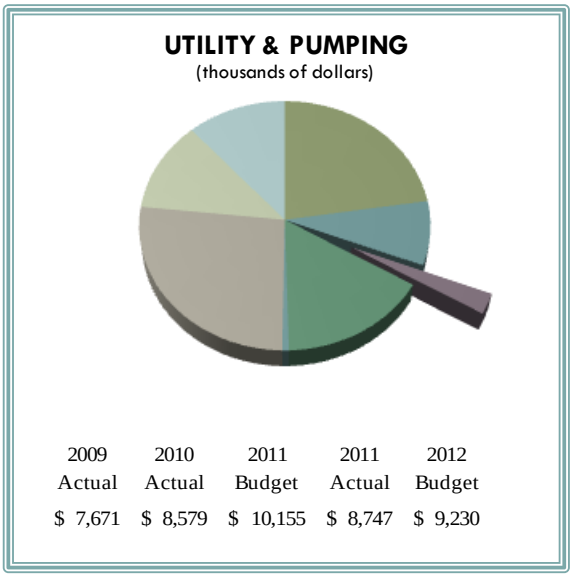
The 2012 budget is an increase of $2.2 million from the 2011 budget.

This category includes materials and supplies purchased for direct use and for warehouse stock. Office supplies, pipe, sand and chemicals fall into this category, as do fuel and employee safety equipment.

The majority of the increase in 2012 is equipment for information technology purposes.



2012 BUDGET
Materials and supplies for direct use $11.8 million
Chemicals purchased for direct use $5.9 million
Store issues $11.2 million



Utility and pumping

The 2012 budget is a decrease of $900,000 from the 2011 budget.

This category includes power and diesel fuel costs for pumping water, as well as utility costs. Electricity, gas, water, sewer, telephone and cellular service are also included in this group.

2012 BUDGET
Electricity, gas, water and sewer $3.5 million
Communications $2.7 million
Power purchased for pumping water $3 million

PROFESSIONAL & OTHER SERVICES
(thousands of dollars)

2009 Actual	2010 Actual	2011 Budget	2011 Actual	2012 Budget
$ 52,288	$ 50,816	$ 46,878	$ 51,244	$ 55,817

Professional and other services

The 2012 budget is an increase of $8.9 million from the 2011 budget.

This category includes funds for consultants with expertise in IT, engineering, finance, planning and other areas. Labor services such as those for landscaping, paving, equipment rentals and temporary employment are also included in other services. Employee costs such as travel, training, conferences and meeting-related costs are also under this category.

The primary increase in 2012 is because of conservation-related services moving from refunds, debt and miscellanous to the professional services category. There are also increases in paving services, rents and leases, and barricades and signage.

2012 BUDGET
Professional services $21.6 million
Other services $28.8 million
Conservation 5.4 million

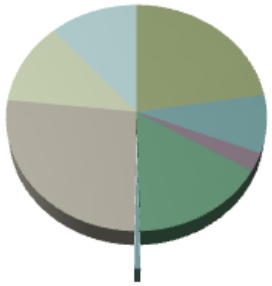
General Equipment

The 2012 budget is a decrease of $1.1 million from the 2011 budget.

This category includes communication equipment, personal computers, hardware and software, office furniture, laboratory instruments, garage and shop machines, and vehicles.

The 2012 decrease is primarily in mainframe hardware and system software.

GENERAL EQUIPMENT
(thousands of dollars)



2009 Actual	2010 Actual	2011 Budget	2011 Actual	2012 Budget
$ 3,816	$ 3,248	$ 3,581	$ 1,855	$ 2,463

2012 BUDGET
Vehicles $1.7 million
All other general equipment $800,000 million

Contract Payments

The 2012 budget is an increase of $1.1 million from the 2011 budget.

This category includes payments for construction work, major material purchases under contract, purchase of water rights and purchase of land or land rights.

The increase in contract payments reflect anticipated system expansion and reinvestment projects related to the sedimentation remediation at Strontia Springs.

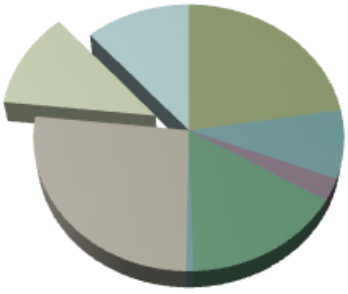
CONTRACT PAYMENTS
(thousands of dollars)

2009 Actual	2010 Actual	2011 Budget	2011 Actual	2012 Budget
$ 29,870	$ 67,785	$ 90,760	$ 63,387	$ 91,809

2012 BUDGET

Contract payments and construction materials $91.8 million

REFUNDS, DEBT & MISC.
(thousands of dollars)



2009 Actual	2010 Actual	2011 Budget	2011 Actual	2012 Budget
$ 56,764	$ 58,423	$ 51,252	$ 57,953	$ 40,952

Refunds, Debt and Misc.

The 2012 budget is a decrease of $10.3 million from the 2011 budget.

This category includes debt service, incentives, unemployment insurance and insurance/legal claims.

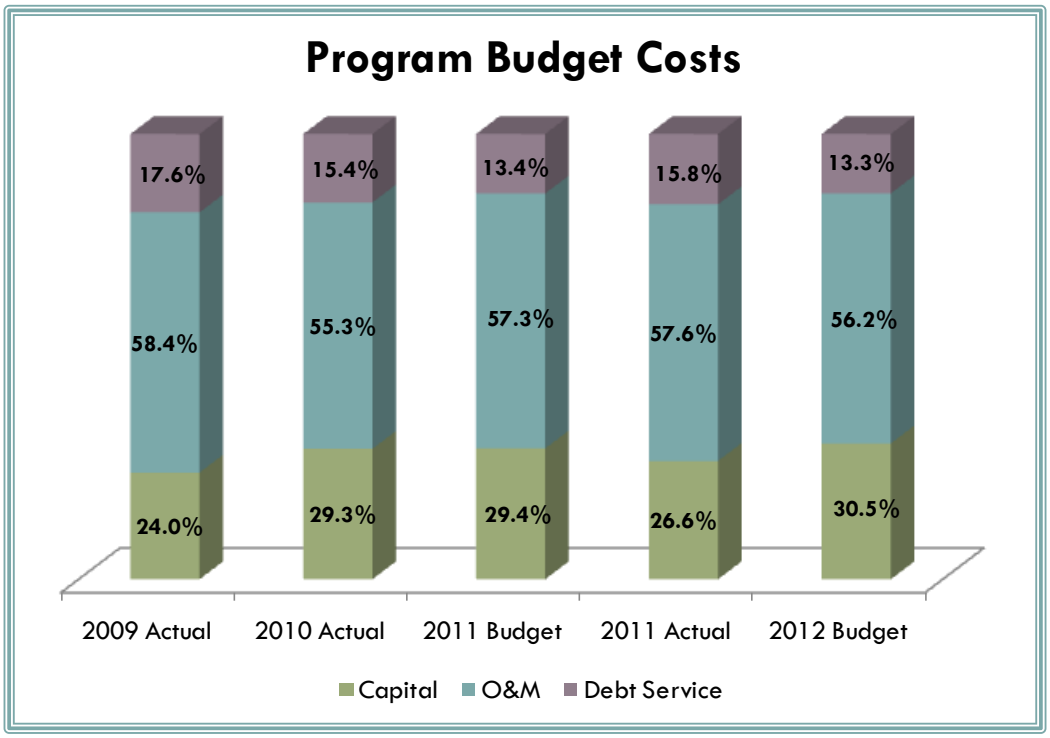
In 2011, no new debt was issued, some debts matured and some debt was redeemed early. As a result, long-term debt principal payments for 2012 were reduced.

Also, all other miscellaneous were reduced because of conservation-related services moving to the professional services category.

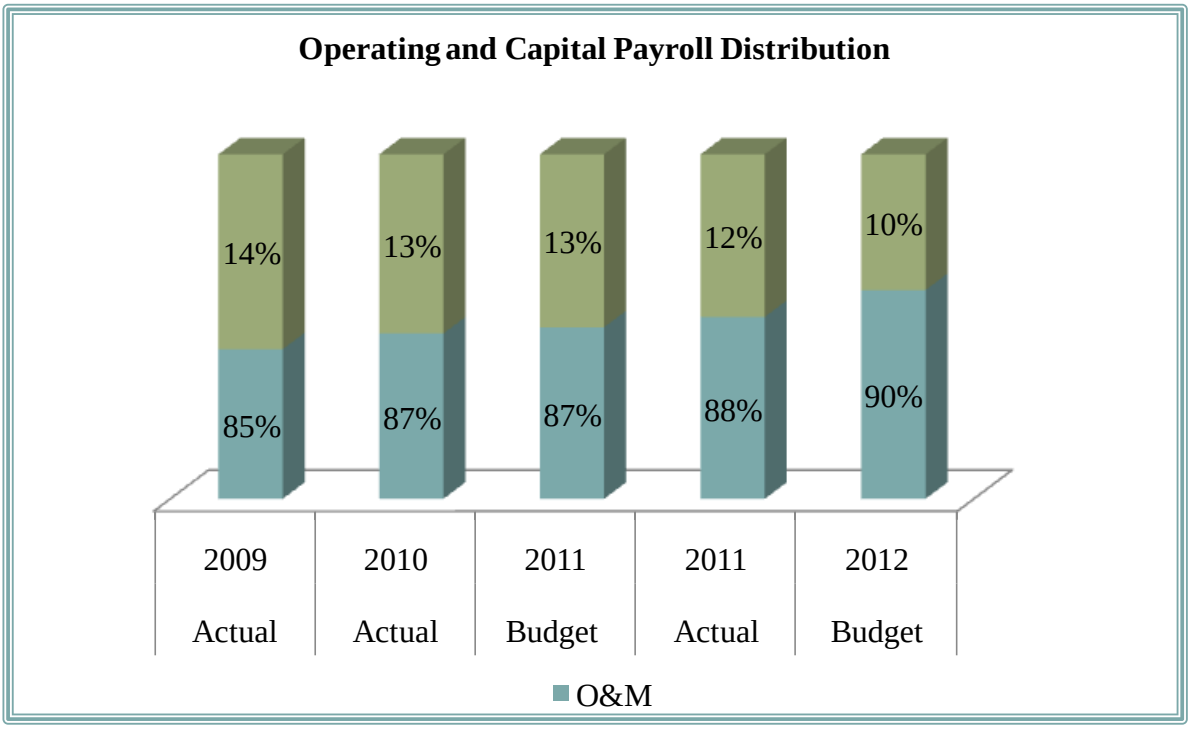
2012 BUDGET

Refunds $.7 million
Debt service $39.2 million
All other miscellaneous $1.0 million

Uses of Funds by Program



Uses of Funds by Program Summary (Thousands of Dollars)					
Operation and Maintenance Programs	**2009 Actuals**	**2010 Actuals**	**2011 Budget**	**2011 Actuals**	**2012 Budget**
Raw Water	$ 9,411	$ 19,468	$ 34,376	$ 20,674	$ 29,920
Recycled Water	2,729	2,755	2,293	2,634	2,443
Water Treatment	16,109	17,355	15,480	16,468	15,938
Delivery	18,161	18,925	20,352	22,505	21,154
Conservation	8,741	10,846	8,793	7,652	8,392
Customer Service	10,085	13,657	10,149	10,402	10,516
General Plant	10,514	10,719	12,855	10,034	15,131
Information Technology	-	-	-	2,851	1,654
Administration	40,422	40,204	41,402	38,292	45,728
Distributed Indirect Costs	52,439	50,512	52,941	50,668	50,986
Total Operation and Maintenance	168,611	184,441	198,641	182,180	201,862
Capital Programs					
Raw Water	$ 23,045	$ 44,770	$ 24,274	$ 17,280	$ 27,330
Recycled Water	702	3,253	9,390	9,572	7,919
Water Treatment	10,019	11,142	7,108	5,279	7,143
Delivery	16,591	25,274	44,944	42,829	43,423
Customer Service	-	-	-	3,223	3,262
General Plant	18,791	13,127	16,162	7,975	16,988
Total Capital	69,148	97,566	101,878	86,158	106,065
Debt Service					
Debt Service	$ 50,800	$ 51,234	$ 46,374	$ 55,967	$ 39,853
Total Uses of Funds	**$ 288,559**	**$ 333,241**	**$ 346,893**	**$ 324,305**	**$347,780**



Payroll Costs

Payroll costs are distributed between capital projects and operating activities. The cost of payroll for employees directly related to the completion of capital projects may be capitalized. The chart above shows the percentage of payroll allocated between capital and operations.

Of the total amount budgeted for payroll expenditures, 10 percent will be assigned to staff working with capital projects, and 90 percent will be allocated to employees engaged in other utility activities.

Operations & Maintenance

Operations & Maintenance *(In Thousands of Dollars)*	2009 Actual	2010 Actual	2011 Budget	2011 Actual	2012 Budget
Raw Water	$ 9,411	$ 19,468	$ 34,376	$ 20,674	$ 29,920
Recycled Water	2,729	2,755	2,293	2,634	2,443
Water Treatment	16,109	17,355	15,480	16,468	15,938
Delivery	18,161	18,925	20,352	22,505	21,154
Conservation	8,741	10,846	8,793	7,652	8,392
Customer Service	10,085	13,657	10,149	10,402	10,516
General Plant	10,514	10,719	12,855	10,034	15,131
Information Technology	-	-	-	2,851	1,654
Administration	40,422	40,204	41,402	38,292	45,728
Distributed Indirect Costs	52,439	50,512	52,941	50,668	50,986
Total O&M	$168,611	$ 184,441	$ 198,641	$ 182,180	$ 201,862

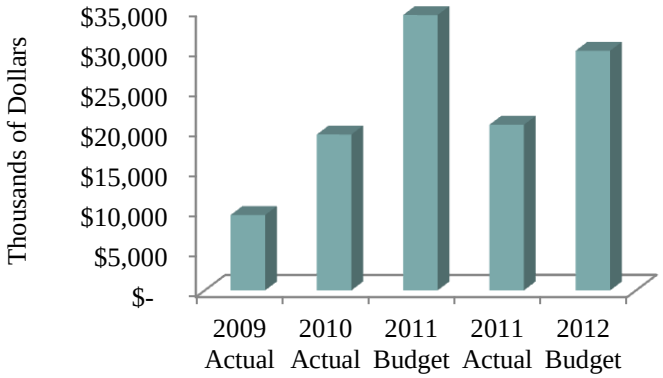
Operations & Maintenance costs are budgeted at $201.9 million for 2012, 1.6 percent more than the amount budgeted in 2011.

The principal driver of this increase is in the administration program, which comprises our overhead costs for administrative activities, maintenance shops, computer-related operation and maintenance, and other related activities.

Another key impact in 2012 is in the general plant program, which encompasses activities related to the operation and maintenance of our vehicles, equipment and administrative facilities as well safety, security and small tools.

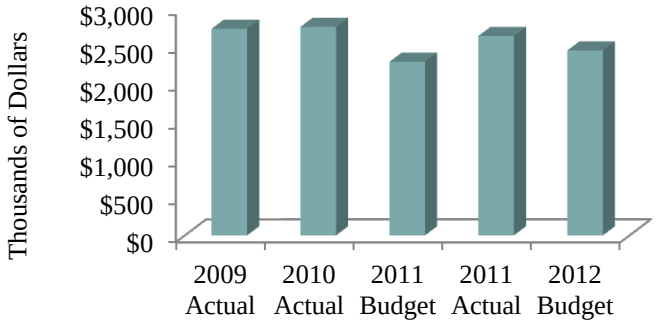
Raw Water

The raw water program ensures the supply of an adequate raw water supply. The 2012 operating and maintenance budget for the raw water Program is $29.9 million, which is $4.5 million lower than the 2011 budget.



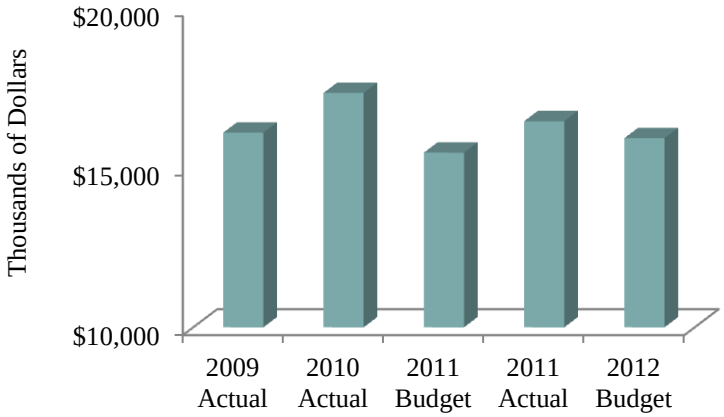
Recycled Water

Operating since 2004, Denver Water's Recycled Water Plant receives wastewater from Metro Wastewater's facility after its treatment process, treats it and delivers the water to our industrial and irrigation customers. Long-term plans include recycled water distribution system expansion to meet the needs of our future customers. The 2012 operating and maintenance budget for the recycled water program is $2.4 million, which is $200,000 higher than the 2011 budget.



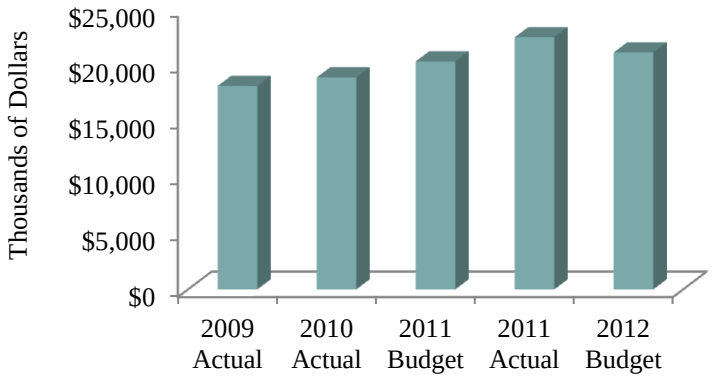
Water Treatment

The water treatment program includes costs related to the treatment of water prior to delivery to customers. The 2012 operating and maintenance budget for the water treatment program is $15.9 million, which is $500,000 higher than the 2011 budget.



Delivery

Delivery costs are related to maintaining our pump stations and clear water storage facilities, as well as those for operating our distribution system. Maintaining our system includes emergency leak repairs and leak detection in the system. The 2012 operating and maintenance budget for the delivery program is $21.2 million, which is almost $1 million higher than the 2011 budget.

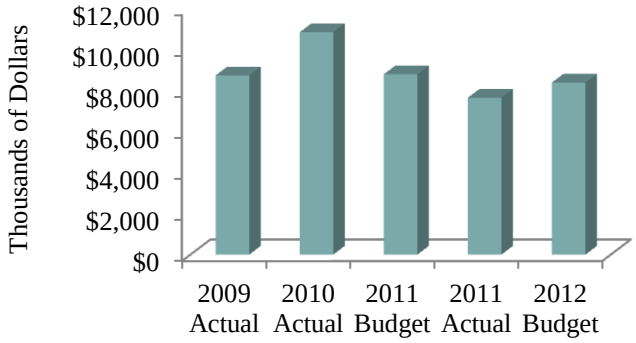


Conservation

The 2012 operating and maintenance budget for the conservation program is $8.4 million, which is $400,000 lower than the 2011 budget.

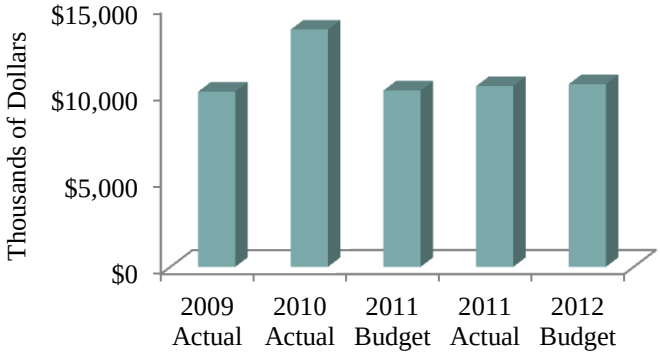
Denver Water's conservation plan involves accelerating the pace of water conservation in its service area and reducing overall water use from the 2001 pre-drought usage by 22 percent before 2016. The reduction for 2012 is a reflection of the progress that has been made toward this goal. This plan is a primary part of Denver Water's future water supply planning. In order to provide long-term, reliable supplies for customers, Denver Water uses three strategies: conservation, recycled water and new supply.

Some of conservation's efforts include programs such as education and outreach, in which conservation staff visits area schools, teaching students about conservation through presentations, materials and hands-on experiences. Other programs include rebates and incentives, which encourage the public to replace toilets and clothes washers with water-efficient products.



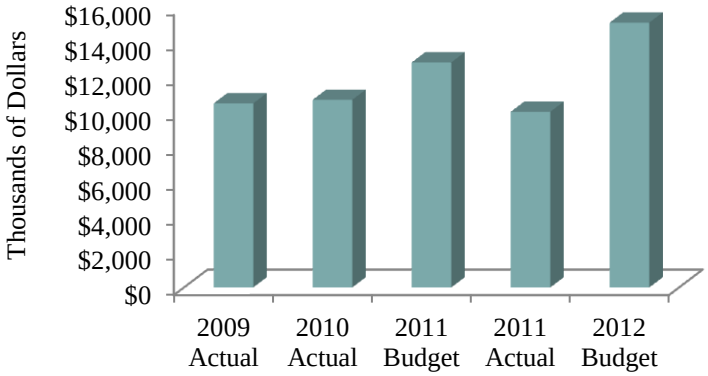
Customer Service

The 2012 operating and maintenance budget for the customer service program is $10.5 million, which is $400,000 higher than the 2011 budget. In April 2010, we began a three-year project to replace electronic metering devices that have a battery life of six to 10 years with ones that are not only more cost effective but also have a 20-year expected lifespan.



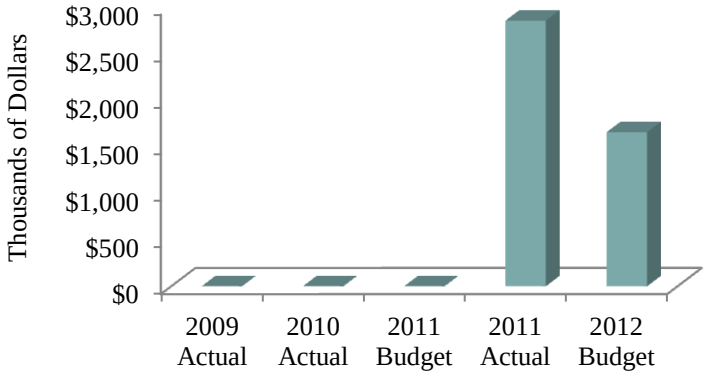
General Plant

The general plant program encompasses activities related to the operation and maintenance of our vehicles, equipment and administrative facilities as well safety, security and small tools. The 2012 operating and maintenance budget for the general plant program is $15.1 million, which is $2.2 million higher than the 2011 budget. The 2012 impacts are costs incurred for security upgrades and for motor vehicles.



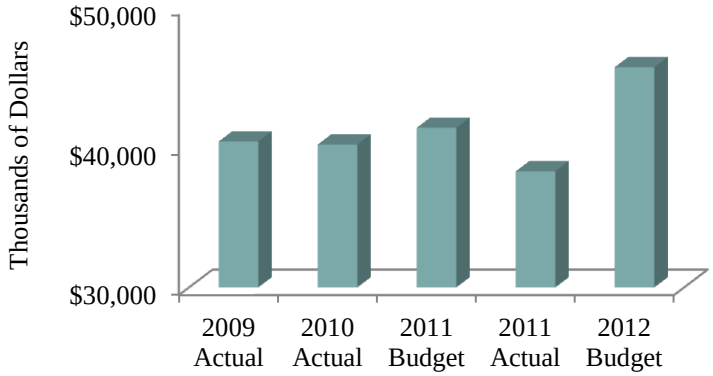
Information Technology

The information technology program encompasses activity related to the development, implementation and support of computer applications, data-center operations and technology infrastructure. In previous years, Information Technology was embedded in several programs but is now a separate division. The 2012 operating and Maintenance budget for information technology program is $1.7 million.



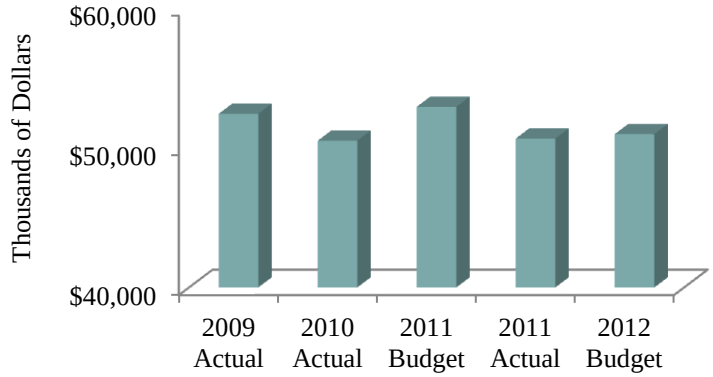
Administration

The administration program comprises our overhead costs for administrative activities, maintenance shops, computer-related operation and maintenance, and other related activities. The 2012 impacts are for legal services, warehouse, software and miscellaneous contract payments. The 2012 operating and maintenance budget for the administration program is $45.7 million, which is $4.3 million higher than the 2011 budget.



Distributed Indirect Costs

The distributed indirect costs program comprises employee benefits, general liability and other insurances. The 2012 operating and maintenance budget for the distributed indirect costs program is $51 million, which is $2 million lower than the 2011 Budget. The decrease is due in part to lower employee benefits and related costs.



Capital Projects

Capital *(In Thousands of Dollars)*	2009 Actual	2010 Actual	2011 Budget	2011 Actual	2012 Budget
Raw Water	$ 23,045	$ 44,770	$ 24,274	$ 17,280	$ 27,330
Recycled Water	702	3,253	9,390	9,572	7,919
Water Treatment	10,019	11,142	7,108	5,279	7,143
Delivery	16,591	25,274	44,944	42,829	43,423
Customer Service	-	-	-	3,223	3,262
General Plant	18,791	13,127	16,162	7,975	16,988
Total Capital	$ 69,148	$ 97,566	$ 101,878	$ 86,158	$ 106,065

Capital costs are budgeted at $106.1 million for 2012, 4 percent higher than the amount budgeted in 2011. The increase in capital is primarily in the raw water and general plant programs. The major projects for 2012 in raw water include the Colorado River Cooperative Agreement, Harriman Dam rehabilitation, and Williams Fork Dam Outlet Works. The major projects for 2012 in general plant include the decentralization station for Wynetka, IT disaster recovery, hardware, vehicles and security improvements.

Raw Water

The Raw Water program ensures the supply of an adequate raw water supply. This includes collection systems, storage reservoirs, ditches, canals and raw water supply mains.

The 2012 capital budget for the raw water program is $27.3 million, which is $3.1 million higher than the 2011 budget. Capital raw water is always one of the largest programs with most of the projects being multiyear projects that have already started. The major raw water projects for 2012 include the Colorado River Cooperative Agreement, Harriman Dam rehabilitation, and Williams Fork Dam outlet works.

Colorado River Cooperative Agreement

The Colorado River Cooperative Agreement focuses on enhancing the environmental health of much of the Colorado River Basin.

- **$4.0 Million**

Harriman Dam Rehabilitation

Harriman dam needs to be improved in order to satisfy current regulatory requirements and bring it to its full capacity for storage.

- **$3.0 Million**

Williams Fork Dam Outlet Works

Williams Fork will have additional hydropower generating capability and replace aging equipment.

- **$2.7 Million**

Recycled Water

Recycled water is treated wastewater used for irrigation, commercial and industrial use. Once build-out is complete, expected in the next decade, Denver Water's recycled water system will free up enough drinking water to serve almost 43,000 homes. So far, Denver Water is about one-third of the way toward its goal.

The 2012 Capital Budget for the recycled water program is $7.9 million, which is $1.5 million lower than the 2011 budget. The major projects for 2012 in recycled water include The Distribution Pipe in Montbello, Conduit 302, and purchasing property at the Park Hill Pump Station.

Distribution Pipe Montbello

Delivering recycled water to new customers in Montbello.

- **$6.1 Million**

Conduit 302

Conduit 302 will serve as the backbone infrastructure for recycled water delivery on the east side of Denver Water's service area.

- **$1 Million**

Park Hill Pump Station

This program will purchase property for the Park Hill Pump Station for future delivery of recycled water.

- **$500,000**

Water Treatment

The Water Treatment Program includes the construction, operation and maintenance of facilities for the treatment of water prior to delivery to customers. This program includes both potable water treatment plants as well as the Water Quality Laboratory.

The 2012 Capital Budget for the Water Treatment Program is $7.1 million, which is comparable to the 2011 Budget. The major projects for 2012 in Water Treatment include replacing original equipment, various upgrades, and replacing valves at Foothills.

Foothills Treatment Plant

Projects include replacing original equipment, various upgrades, and replacing valves at Foothills.

$2.3 Million Replace Equipment

$700,000 Upgrades

$500,000 Replace Valves

Delivery

The delivery program provides treated water to customers and distributors. Projects include pump stations, treated water reservoirs, transmission and distribution mains, fire hydrants, and decentralization stations.

The 2012 capital budget for the delivery program is $43.4 million, which is $1.5 million lower than the 2011 budget. The major 2012 deliver projects include main replacements, replacements of storage reservoirs at Ashland, converting Capitol Hill Pump Station to Elizabeth Pump Station, Conduit 151, and pipe rehabilitation.

Main Replacements

This program will replace mains that are corroding.

$6.1 Million

Storage Reservoirs at Ashland

This program will replace existing tanks at Ashland.

$5.4 Million

Convert Capitol Hill to Elizabeth

The new Elizabeth Pump Station will be able to pump Marston or Foothills Water up to Moffat.

$4.9 Million

Conduit 151

Conduit 151 will provide potable water to customers in Stapleton.

$4.4 Million

2012 Pipe Rehabilitation

Pipe Rehabilitation increases the life of the pipe and quality of water.

$5.4 Million

Customer Service

The newly created customer service program includes customer-related services such as meter reading, customer billing, call center, meter testing and repair services.

The 2012 capital budget for the customer service program is $3.3 million. The major project for 2012 in customer service is the Encoder Receiver Transmitters (ERTs) replacement project. ERTs are automated meter reading devices that electronically transmit water consumption data to meter readers as they drive by in their trucks. Crews are replacing ERTs that are nearing the end of their battery-powered life with new ones that, thanks to technological advances, will have a 20-year lifespan.

Replacement of ERTs

The goal for 2012 is to replace 35,000 ERTs.

$3.3 Million

General Plant

The general plant program provides operation and maintenance of our administrative facilities, security, computer support and administration.

The 2012 capital budget for the general plant program is $17 million, which is $800,000 higher than the 2011 budget. The major 2012 general plant projects include the Wynetka Decentralization Station, IT disaster recovery, hardware, vehicles and security improvements.

Decentralization Station Wynetka

The renovation of offices, garages and material storage. The site will allow Denver Water to increase crew and equipment for scheduled and emergency dispatching.

$4.7 Million

IT Disaster Recovery

Ensure capabilities of restoration to core infrastructure components the event of IT system interruptions.

$2.1 Million

Hardware

IT related equipment.

$1.9 Million

Vehicles

Replacement of deteriorated vehicles.

$1.7 Million

Security Improvements

Additional security at treatment plant facilities.

$1.1 Million

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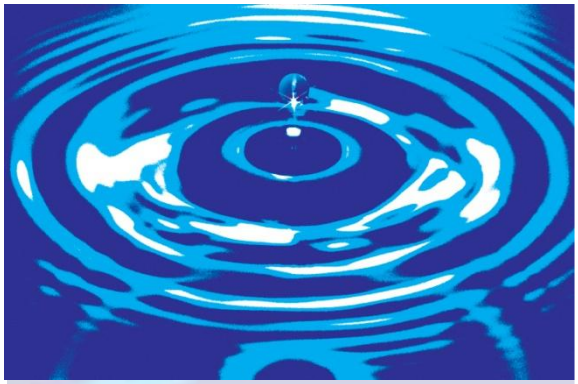
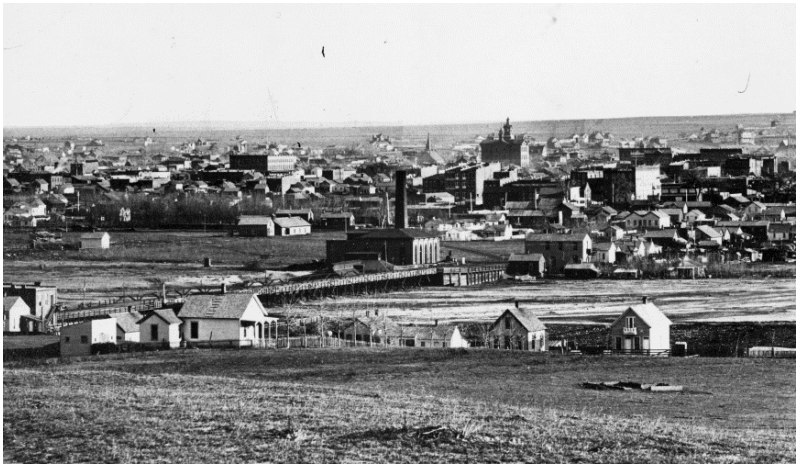


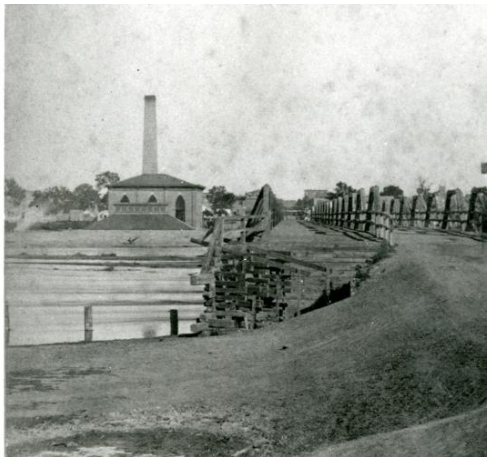
Glossary

Acronyms

Definitions

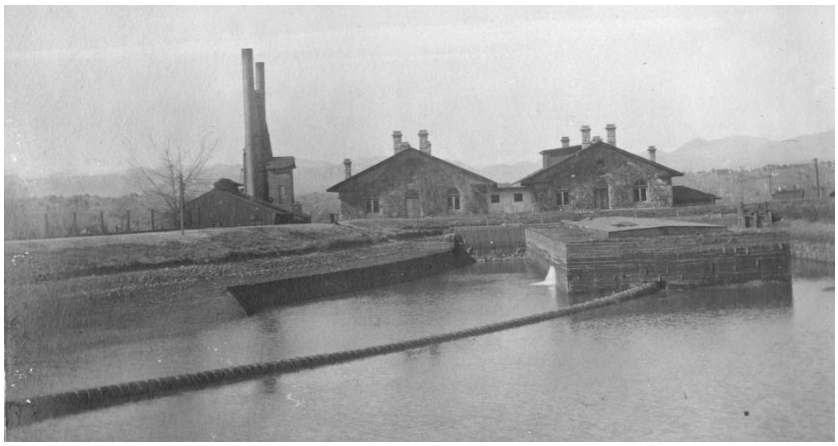
Denver's Early Pump Stations





John Archer and David Moffat, prominent water mavens of the 19th century, were directors of the first company to create a major pumping and piping system in Denver. In 1870, they started the Denver City Water Company, one of the many privately owned water companies that eventually evolved into Denver Water. In 1872, the company started operating Denver's first pump station: the 15th Street Pump Station.

The pump station, between the South Platte River and downtown at F (15th) and Bassett streets, pulled water from a large well on the river bank into the piping system. The 15th Street Pump Station, which no longer exists, operated continuously from 1872 to 1881 when the West Side Pumping Station began operation.



Starting construction in 1879, Denver City Irrigation and Water Company erected two stone buildings next to each other that became the West Side Pumping Station. The pumps drew water from the West Side Reservoir by a well. Water ran from the South Platte via the Lake Archer Canal to Lake Archer, then the reservoir, and finally connected back to the South Platte River by tail race. The thin Lake Archer was situated between 8th Avenue and W. Ellsworth Avenue just west of Osage Street.

The new system at West Side could pump more water to the growing Denver population. The 15th Street Pump Station only served as back-up when an issue arose, such as water levels in the South Platte being too low to drive the West Side Pump Station turbines.

In 1905, a third building went up to house a boiler. The West Side Reservoir existed until drained in the 1930s. In the 1980s, Denver Water repaired and reconstructed the facility to create the Three Stone Buildings for use as office and meeting space.

Acronyms A-E

ACP
Accelerated Conservation Plan

AF
Acre Foot

AMWA
Association of Metropolitan Water Agencies

BABS
Build American Bonds

BPPI
Budget and Planning Process Improvement

CAFR
Comprehensive Annual Financial Report

CBSM
Community Based Social Marketing

COP
Certification of Participation

CIP
Capital Improvement Plan

CIS
Customer Information System

CPR
Capital Program Review

CWA
Clean Water Act

DIA
Denver International Airport

DW
Denver Water

ECMS
Enterprise Content Management System

EIS
Environmental Impact Statement

EPA
Environmental Protection Agency

EMS
Environmental Management System

ERT
Encoder Receiver Transmitter

ETMS
Enterprise Time Management System

Denver's first Board of Water Commissioners, August 1918. From left: John Skinner, Finlay MacFarland, Charles Reynolds, Frank Woodward and Benjamin Sweet.

Acronyms F-Z

Roberts Tunnel hole-through, when crews boring from each end met and broke through. 2/24/1960

FERC
Federal Energy Regulatory Commission

FRICO
Farmers Reservoir & Irrigation Company

GAAP
Generally Accepted Accounting Principles

GAD
Gallons Per Account Per Day

GASB
Governmental Accounting Standards Board

GIS
Geographic Information System

G.O. Bonds
General Obligation Bonds

IRP
Integrated Resource Planning

MGD
Millions of Gallons Per Day

NARUC
National Association of Regulatory Utility Commissioners

NEPA
National Environmental Policy Act

NRCS
Natural Resource Conservation Service

NWRS
National Water Resource Association

OPEB
Other Post-Employment Benefits

RCRA
Resource Conservation and Recovery Act

PACSM
Platte and Colorado Simulation Model

POS
Point of Service

SDBE
Small Disadvantaged Business Enterprise

SMWBE
Small Minority Women Business Enterprise

WISE
Water Infrastructure Supply Efficiency Partnership

WUWC
Western Urban Water Coalition

Crews working on Moffat Tunnel October, 1932

DEFINITIONS
A-B

Accounting Standards
The Board's financial statements are prepared in accordance with principles generally accepted in the United States of America (GAAP). Additionally, the Board applies all applicable pronouncements of the GASB.

Acre Foot
Volume of water equal to one foot in depth covering an area of one acre, or 43,560 cubic feet; approximately 325,851 gallons. Roughly two-thirds of an acre foot serves the needs of a typical family of four for a year.

Annual Yield
Maximum basic demand the water supply could meet throughout a period of historical or synthesized hydrological conditions.

Average Winter Consumption
The amount of water used on average by a customer during the winter; provides a good indication of indoor water use.

Balanced Budget
The Denver Board of Water Commissioners has not adopted an official policy on a balanced budget. Our practice is to balance the budget by the planned use of contribution to investment balances.

Basis of Accounting
The Board's financial statements are accounted for on the flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with operations are included on the statement of net assets, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred. This is different from the basis of budgeting. Denver Water's budget is prepared using the modified accrual basis in which revenues are recorded when they become available and expenditures are recorded at the time liabilities are incurred.

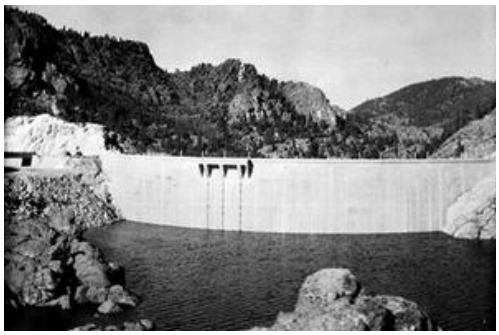
Block
A volume of water used in setting water rates; a quantity or volume of water sold at a particular rate.

Bonds
Debt instruments. According to Denver Water's charter, the Board may issue revenue bonds that are secured solely by their revenue. In the past, it was able to issue general obligation bonds that were secured by the full faith and credit of the City and County of Denver.

Budget
A financial plan for a specified period of time (fiscal year) that assigns resources to each activity in sufficient amounts so as to reasonably expect accomplishment of the objectives in the most cost effective manner.

DEFINITIONS

C



Upstream from Rising Reservoir June 11, 1934

Capital Expenditure
Expenditures having a depreciable life of over one year and a cost of over $5,000.

Capital Improvement Plan
Projects and equipment purchases and provides prioritization, scheduling and financing options.

Capital Leases
A lease having essentially the same economic consequences as if the lessee had secured a loan and purchased the leased asset.

Capital Policy
Initial acquisition costs of assets are capitalized if they have a service life of more than one year and a cost of $5,000 or more. Costs not meeting these criteria are expensed. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the respective asset classes.

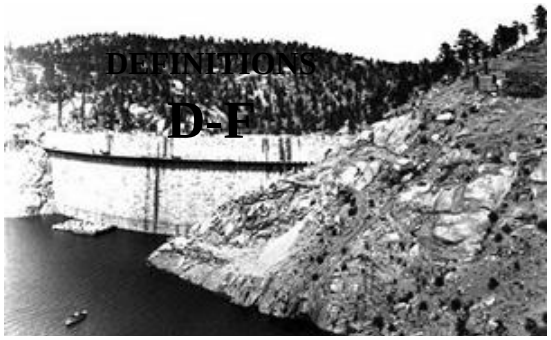
Cash Flow Adjustment
The cash flow adjustment is the difference between expenditures as booked and disbursed. Expenditures are budgeted and reported on a modified accrual basis (as booked). Total expenditures are then converted to a cash basis (disbursed) for purposes of determining year-end designated balances.

Cash Reserves
The Charter of the City and County of Denver specifically allows the accumulation of reserves "sufficient to pay for operation, maintenance, reserves, debt service, additions, extensions, and betterments, including those reasonably required for anticipated growth of the Denver Metropolitan area and to provide for Denver's general welfare." The Board's practice is to maintain reserves that are sufficient to provide 25 percent of the next year's operating costs, 50 percent of replacement and equipment purchases, one year of debt service, and a 5 percent self-insurance reserve.

Certificate of Participation
Evidence of assignment of proportionate interests in rights to receive certain revenues pursuant to a lease purchase agreement.

Chart of Accounts
The Chart of Accounts used by Denver Water generally follows the structure presented by the National Association of Regulatory Utility Commissioners for Class A Water Utilities (NARUC).

Clean Water Act
The federal law that establishes how the United States will restore and maintain the chemical, physical and biological integrity of the country's waters (oceans, lakes, streams and rivers, ground water and wetlands.) The law provides protection for the country's waters from both point and non-point sources of pollution.



Upstream Face of Cheesman Dam August 5, 1903

DEFINITIONS

C-D

Conduit
A 24-inch (or larger) diameter pipe carrying raw or potable water from or to treatment facilities, reservoirs and delivery points feeding a distribution system.

Contract Payments
Consists of contract payments for construction, materials purchased for contractor installation, acquisition of land and land rights and water rights.

Corporate Culture
Values that set a pattern for a company's activities, opinions and actions.

Cost Control Center
A term used to denote a responsibility center. It is an organizational unit that has been placed in charge of accomplishing certain specified tasks. Example: Water Control Section.

Customer Information System
The multifaceted, multimillion-dollar project to modernize our aging Customer Information System (CIS) and enhance the system's capabilities, performance and security. Among numerous other objectives, an up-to-date CIS has boosted our ability to track customer account information, analyze water savings and administer more sophisticated rate designs aimed at achieving our demand-management and revenue goals. A more contemporary CIS also accommodates the switch from bimonthly to monthly billing.

Debt Guidelines
Denver Water has no legal debt limits. However, the Board has adopted debt guidelines to guide the timing and use of debt in the future. The guidelines set forth a policy that prevents debt proceeds from being used to pay operating and maintenance expenditures. The guidelines instruct that debt proceeds will be used only for current refunding, advanced refunding and payment for non-recurring capital projects that expand the system or are otherwise unusual in nature or amount.

Debt Service
Principal and interest on debt and payments under capital leases.

Demand Side Management
Term used to describe policies aimed at increasing long-term supply by decreasing customer demand for water, typically through conservation programs.

Direct Materials
Includes materials and supplies purchased for direct use and fuel and oil for vehicles and equipment (non-stores issues only).

DEFINITIONS

D-F

Gross Reservoir construction, Aug. 30, 1951

Disbursements
Money paid out for expenses, liabilities or assets.

Discretionary Employee
The charter of the City and County of Denver allows the Board to establish a classification of employees who have "executive discretion," who shall number no more than 2 percent of all people employed, and shall serve solely at the pleasure of the Board.

Division
Largest organizational unit reporting to the CEO/Manager.

Employee Benefits
Employee benefits are expenditures paid by Denver Water for worker's compensation, social security, retirement, employee assistance program, health and other insurances. It does not include employee withholdings or unemployment insurance.

EPA Section 319
Environmental Protection Agency program to provide funds to agencies to assist in clean water protection.

Encoder Receiver Transmitter
An electronic device that receives a signal from a water meter, encodes the current reading into a digital signal, and transmits it to a meter reader.

Expenditures
In planning expenditures, Denver Water follows the city charter's mandate to keep rates as low as good service will permit. In practice, this means Denver Water will properly maintain its facilities and continuously seek ways to operate more efficiently.

Fund
An accounting entity with a set of self-balancing accounts that is used to account for financial transactions for specific activities or government functions. By charter, Denver Water is reflected in the city's financial statement in a single fund known as the water works fund.

Fund Balance
The balance in the water works fund. Fund balance is calculated each year by adding total sources of funds to the balance at the beginning of the year and then subtracting total expenditures

Capitol Hill Pump Station 1905

DEFINITIONS
G-I

General Equipment
Computer equipment; office furniture and equipment; transportation equipment; storehouse equipment; construction and maintenance tools and equipment; chemical laboratory equipment; power-operated equipment; communication equipment; garage and shops equipment; and miscellaneous equipment.

General Obligation Bonds
A security representing the promise to repay borrowed money secured by the full faith and credit of the governmental borrower.

Geographic Information System
A component of our enterprise asset management system. This system is used in large part to record the geographic location and many other attributes of distribution and collection system assets. From the GIS, we produce many types of maps, as well as analysis related to our assets, and the world around them.

Goals
Overall end toward which effort is directed.

Governmental Accounting Standards Board
A board that establishes the generally accepted accounting principles for state and local governmental units.

Gross Revenue
All income and revenues, from whatever source, including system development charges and participation payments, excluding only money borrowed and used for providing capital improvements or other revenues legally restricted to capital expenditures.

Hydropower
Hydroelectric power of/or relating to production of electricity by water power.

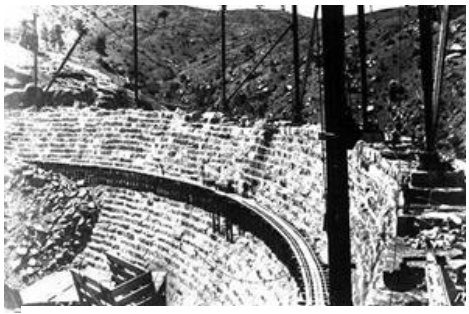
Infill
Undeveloped areas within the combined service area that Denver Water would be expected to serve in the future.

Integrated Resource Planning
A method for looking ahead using environmental, engineering, social, financial and economic considerations. Includes using the same criteria to evaluate both supply and demand options while involving customers and other stakeholders in the process.

Interest Requirements
As used in the debt guidelines, scheduled interest payments during the 12 month period following the date of calculation.

DEFINITIONS

I-M



Top of Cheesman Dam, Aug. 4, 1903

Investment Balance
The total sum held in cash and investments net of uncleared warrants.

Introductory Employee
An employee who is newly appointed to a position and is serving an introductory period, generally of six month's duration.

Investments
The Board has protection of principal as its primary investment policy objective. The Board designates its authority to invest money deposited in the water works fund to the CEO/manager and the director of Finance. According to the current investment policy, U.S. government obligations, government-sponsored federal agency securities, commercial paper, corporate fixed income securities, money market funds and repurchase agreements are permissible investments. The official policy outlines allowable credit risk and maximum maturities for each investment type.

Lease Payments
Periodic payments made in order to obtain use of a facility or piece of equipment.

Long-Term Debt
Debt with a maturity of more than one year from date reported.

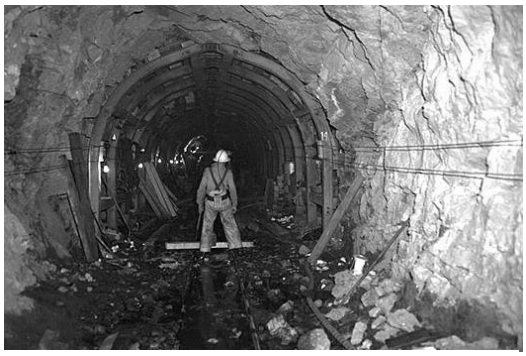
Master Plan
Expenditures identified by projects and activities that are necessary to accomplish Denver Water's overall operating goals and objectives. The master plan, or program budget, is divided into a capital work plan and an O&M work plan.

Master Plan Item
A specific activity or project that is identified in the master plan.

Maximo
Maximo (work and maintenance management system) is a component of our enterprise asset management system, and is used to manage work activities and programs related to operational assets.

Mobile Worforce
Mobile workforce (the service suite system) is a component of our enterprise asset management system that enables scheduling, dispatching, sharing of work order information and work completion reporting for our field workers.

Modified Accrual Basis
Accounting method inwhich recvenues are budgeted and recorded when received and expenditures are recorded when incurred, regardless of when payment is made.



Roberts Tunnel construction

DEFINITIONS
M-N

Municipal Water Utilities
Public entities whose responsibility is to deliver water to the customers.

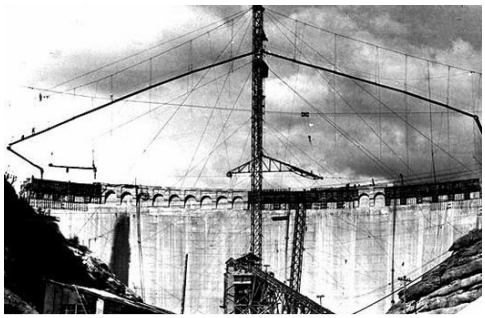
Net Revenues
Gross revenue less operating and maintenance expenses.

Non-Operating Revenue
As used in this document, revenue received from payments for services such as main inspections, installation of taps, calculating and mailing of sewer bills and other such services.

Nonpotable
Water not suitable for drinking. (See also Potable)

DEFINITIONS

O-P



Downstream face of 11-Mile dam August 7, 1932

Objectives
Something toward which effort is directed – an aim, goal or end of action.

Operating Reserves and Restricted Funds
The amount of cash and invested funds available at any point in time. The balance is the water works fund as defined in this glossary.

Operating Revenue
Revenue obtained from the sale of water.

Operation and Maintenance (O&M) Work Plan
A category of master plan items not capital in nature, that are normally ongoing activities and pertain to the general operations of Denver Water.

Other
Expenditures for items such as payroll deductions, sales tax, insurance claims, cash over and short, and budget adjustments.

Other Services
Expenditures for items such as training, employee expenses, rents and leases, ditch assessments, convention and conference expenses, subscriptions, maintenance and repair agreements, and memberships.

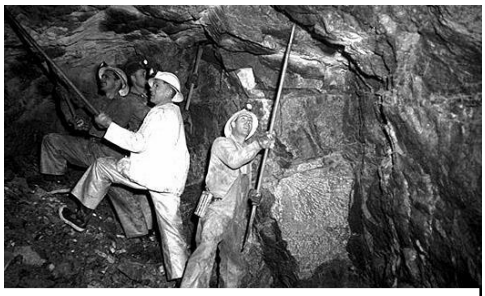
Participation Agreement
An agreement in which a distributor or developer pays for the cost of the distribution facilities such as conduits, treated water reservoirs or pump stations required to provide service within that district from the nearest existing available source.

Potable
Water that does not contain pollution, contamination, objectionable minerals or infective agents and is considered safe for domestic consumption; drinkable. (See also Nonpotable)

Principal and Interest Requirements
As used in the debt guidelines, interest requirements plus the current portion of long-term debt. (Includes general obligation bonds, certificates of participation, and capital leases.)

Professional Services
Consists of consultant payments for consultants to provide services such as facility design, legal work and auditors.

Program
An organized group of activities and the resources to carry them out, aimed at achieving related goals.



Roberts Tunnel construction Feb. 20, 1957

DEFINITIONS
P-R

Program Budget
A method of budgeting in which the focus is on the project and activities that are required to accomplish Denver Water's mission, goals and objectives. It provides for consideration of alternative means to accomplish these criteria. It also provides a control device for higher level management and cuts across organizational lines. Resources are allocated along program lines and across organizational lines.

Program Element
Series of smaller categories of activities contained in the program such as raw water, water treatment, etc.

Project Employee
A contract worker assigned to a project of more than one year's duration and receiving a limited benefits package.

Raw Water
Untreated water.

Recycled Water
Application of appropriately treated effluent to a constructive purpose. In Colorado, the source of recycled water must be another basin. Also, to intercept – either directly or by exchange – water that would otherwise return to the stream system for subsequent beneficial use. Sometimes recycled water is called reclaimed, gray or reuse water.

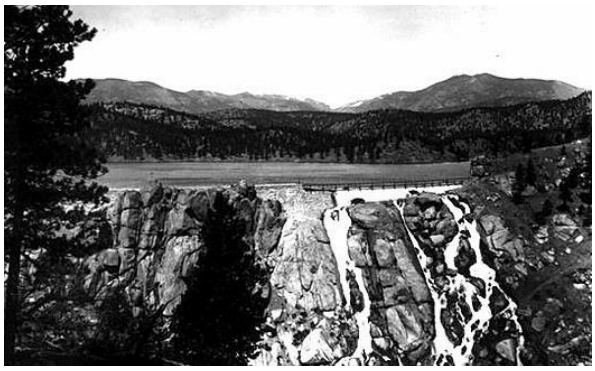
Refunds
Includes system development charge refunds and customer refunds.

Regular Employee
An employee who has satisfactorily completed an introductory period and has been approved by the Board to receive the rights and privileges of a tenured employee.

Regular Pay
Includes all straight-time salaries and wages earned, leaves, tuition refunds, suggestion awards, swing and graveyard shift payrolls, and safety equipment allowances. Regular pay consists of all payroll items except for overtime pay.

Reservoir
An impoundment to collect and store water. Raw water reservoirs impound water in a watershed; terminal reservoirs collect water where it leaves a watershed to enter the treatment process; and treated-water reservoirs are tanks or cisterns used to store potable water.

DEFINITIONS
R-T



First Water Over Cheesman Spillway May 9, 1905

Revenues
Denver Water's system is completely funded through rates, fees and charges for services provided by Denver Water. There are no transfers to or from the city's general fund. Water rates pay for operation and maintenance expenses, repair, capital replacements and modifications to existing facilities, debt service and a portion of the costs of new facilities and water supply.

Risk Management
The Board is exposed to various risks of losses, including general liability (limited under the Colorado Governmental Immunity Act to $150,000 per person and $600,000 per occurrence); property damage; and employee life, medical, dental and accident benefits. The Board has a risk-management program that includes self-insurance for liability, employee medical, dental and vision. The Board carries commercial property insurance for catastrophic losses including floods, fires, earthquakes and terrorism for scheduled major facilities.

Safe Drinking Water Act
Federal legislation passed in 1974 that regulates the treatment of water for human consumption and requires testing for and elimination of contaminants that might be present in the water.

Stores Issues
Includes materials and supplies issued from inventory, as well as fuel and oil for vehicles and equipment

Strategic Plan
Process that is a practical method used by organizations to identify goals and resources that are important to the long-term wellbeing of its future.

System Development Charges
A one-time connection charge that provides a means for financing a portion of the source of supply, raw water transmission facilities, treatment plants and backbone treated water transmission facilities required to provide service to a new customer. Sometimes called a tap fee.

Tap
A physical connection made to a public water distribution system that provides service to an individual customer.

Temporary Employee
An employee hired as an interim replacement or temporary supplement of the work force. Assignments in this category can be of limited duration or indefinite duration, but generally do not exceed one year.

Cheesman Dam, 2008

DEFINITIONS
T-Z

Type of Expenditure
A classification of resources or commodities that will be budgeted and charged to projects and activities by Cost Control Centers.

Utilities & Pumping
Consists of gas, electric and telephone, electricity wheeling charges, replacement power purchased and power purchased for pumping.

Warehouse Purchases
Adjustments related to the timing of purchases and issues of warehouse stock. Denver Water maintains a warehousing operation that purchases materials and supplies into stock. These items are then issued and charged to jobs as needed. The warehouse purchases and issues adjustment is required to insure that the total of materials as issued balances to the amount of purchases made for the warehouse stock.

Water Conservation
Obtaining the benefits of water more efficiently, resulting in reduced demand for water. Sometimes called "end-use efficiency" or "demand management."

Water Revenues
Revenues generated through billing process from the sale of water.

Water Works Fund
A fund into which are placed all revenues received for the operation of the water works system and plant together with all money coming into the fund from other sources. The city charter creates the water works fund, in which all activities of Denver Water are reported in the city's financial statements. All revenues and expenditures of Denver Water flow through the water works fund. The balance of the water works fund is referred to in this budget document as the designated balances, capital and land sales account.

Appendix

Budget Accountability Roadmap

Strategic Plan

Budget Accountability Roadmap

1st Level Diagram

Planning → Board Review

- Develop Programs
- Create Metrics/Standards

Prioritization → Board Review

- Prioritize Projects in Programs
- Review
- Finance

Adoption → Board Decision

Accountability → Quarterly Updates

- Track Variances
- Review
- Reporting
- Track Performance

2nd Level Diagram

Planning

- **Planning Initiatives** — Risk Management, IRP, Strategic Plan, Board Initiatives, Asset Management, and the IRP create Standards
- **Standards Review** — PMO Filters Standards for E-Team review and approval
- **Projects** — Gaps in standards will require projects to meet the standards
- **Hopper** — Projects require a business case and are run through a criteria evaluation process by the PMO. Metrics are created for each project.
- **Project Review** — PMO Filters Projects for E-Team review and approval
- **Programs** — Individual projects are grouped together to create Programs. Each Program is assigned a Program Manager

Board Reviews Standards and Programs

Prioritization

- **Program Sequencing** — Individual Program Managers sequence their program
- **Group Sequencing** — Programs are sequenced as a group with Programs Managers and the PMO.
- **Program Review** — PMO Filters Programs for E-Team review and approval
- **LTB** — Projects and Programs are reviewed in the Long Term Budget by the PMO and Budget Group.
- **Financial Plan** — The Budget Group creates and filters a Financial Plan for E-Team review.

Board Reviews LTB

Adoption

- **Rates** — The Budget Group works with Rates to create possible rate options.
- **Line Item Review** — The Budget Group does a Line Item Review for E-Team and Board
- **Changes From LTB** — Changes in the LTB from the Prioritization Phase are tracked and recorded by the Budget Group
- **Metrics Review** — Changes in the Metric created in the Hopper are reviewed and confirmed by the Budget Group
- **E-Team Review** — The Budget Group filters the LTB for E-Team review and approval.

Board Approval of LTB

Accountability

- **Variance Process** — The Budget Group reviews variances though out the year
- **Metrics Reviews** — The Budget Group reviews and tracks changes in the Metrics created in the Hopper and Adoption Phase
- **Monthly PPR Reviews** — The PMO has monthly Project review with the E-Team (formally the CPR)
- **Monthly Director Reviews** — The Budget Group meets monthly with Directors to review their budgets
- **Final Business Case Review** — Once a project has been completed the PMO does a "lessons learned" with each business case.

Quarterly Board Updates

Adopted: March 9, 2011

INTRODUCTION

The Board of Water Commissioners and the Executive Team, with support from more than 60 Denver Water Section Leaders, developed this strategic plan.

The Plan encompasses important statements from the Board and CEO/Manager, a new mission statement and is organized by four perspectives – customer, financial, organizational and external – that create the foundation for everything we do. These perspectives are fundamental to our daily operation and sustained success.

The Board and Executive Team also identified the major desired outcomes to be achieved from each perspective.

They are as follows:

- Customer: **Satisfied and supportive customers**
- Financial: **A financially strong and stable organization**
- Organizational: **An effective, efficient and strategically driven organization**
- External: **Strategically effective relationships and reputation**

The details of the plan identify the goals and supporting key priorities necessary to achieve these outcomes.

PURPOSE OF THIS PLAN

This Strategic Plan lays the foundation for Denver Water's work. It is the strategy by which we will fulfill our vision and mission.

The Board of Commissioners wishes this plan to provide long-term guidance for Denver Water's thinking and practices. Therefore, the outcomes, goals and priorities we identify are fundamental in nature.

The plan frames the important work in which we are engaged and creates a platform for examining anew that which we must accomplish today and in the future.

The direction this plan sets should be the source for numerous tasks and projects needed to achieve our goals. This will be a continual process, and it requires the best thinking and efforts of every Denver Water employee. The Integrated Resource Plan (IRP) is one example of the type of project that fulfills this plan's goals and requires updating every few years.

Importantly, the plan recognizes that the talent, knowledge and performance of each employee are vital to our success. Every staff member contributes daily to the fulfillment of our mission, the satisfaction of our customers and to our strong reputation.

As conditions change and our knowledge increases, we urge everyone at Denver Water to use this plan as a touchstone of strategic focus and to bring their best in adapting our operational plans to ensure that we always remain an outstanding manager of Denver's vital water resources.

Sincerely,

THE DENVER BOARD OF WATER COMMISSIONERS

OUR VISION

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

To achieve that goal we must think of our role in a new, expansive way.

The settlement and creation of the Denver metropolitan area would not have been possible without the development of Denver Water's system. We supply a resource essential to human life, a resource that is necessary for economic development, and a resource that creates beauty and recreational opportunity. It is our responsibility – in perpetuity – to sustain a world class metropolitan area in a semi-arid climate at the foot of the spectacular Rocky Mountains.

Our employees are committed to our core mission of delivering high-quality water every minute of every day without fail. This requires us to be innovative in how we manage our collection, storage, treatment and distribution systems.

However, as the interdependence of our region's water resources and capabilities becomes more intricate, that core mission must be managed in a broader context than in years past. We face unprecedented and multidimensional challenges – everything from population growth to climate change, and from dwindling new water resources to protecting our watersheds and the natural environment. Our operations affect – and are affected by – trends and events at local, regional, river-basin, national and worldwide levels. These trends and events can be foreseeable, or sudden and transformational.

As a result, our responsibility extends well beyond the geographic area of our system.To successfully forge our future, we will continually balance the changing needs and values of our customers and our neighbors. We will manage Denver Water and our water supply – and we will interact with the land, water resources and communities we affect – in ways that provide the best possible results for our customers, our neighbors and the environment.

We will be a strategy-driven organization focused clearly on accomplishing our most important goals and priorities with integrity, innovation and excellence.

We will be nimble and adaptable, and have the ability to quickly apply our knowledge to strengthen our system and solve problems.

And we will be accountable and responsible in our practices in order to continually earn the public's trust.

OUR VISION, CONT'D.

Key to our success is our ability to move rapidly and forcefully on a number of initiatives:

- Managing our resources to ensure we have a secure, reliable, flexible and resilient water system capable of adapting to changing circumstances and emergencies.
- Upgrading and maintaining our current system, large parts of which are 100 years old.
- Securing a diverse array of water supply sources.
- Pursuing water conservation and water efficiency efforts, including water re-use, that yield real results on an ongoing basis while, at the same time, enabling our customers to save even more water when faced with short-term emergencies or droughts.
- Operating from a position of financial strength and security.
- Earning our customers' trust that we are securing their water future and spending their money wisely.
- Maintaining operational excellence and cutting-edge practices.
- Utilizing innovative planning both short and long-range.
- Leading the water industry in environmental practices, applied research, water technology, and information technology.
- Employing management and business processes that are productive, efficient and adaptable.
- Attracting and retaining the most talented work force in the industry, and ensuring that Denver Water is a place where top-level performance, continuous learning and collaborative decision-making are customary.
- Expanding our leadership in local, state, regional and national water issues and problem-solving.
- Forming and maintaining cooperative partnerships to develop and manage water resources for the benefit of our service area and the region.
- Taking responsibility and being accountable for our performance, investments and stewardship.

A future based on these principles is achievable. Our customers and our region are counting on us to succeed. Just as our predecessors rose to the challenges of their time, we will rise to the challenges of ours.

Denver Water's vision of the future is based on our duty to pass on the legacy of a secure, reliable, high-quality water operation for generations to come. We will succeed in doing so. This Plan is the blueprint to guide us on that path.

MISSION STATEMENT

Denver Water will be a responsible steward of the resources, assets and natural environments entrusted to us in order to provide a high-quality water supply, a resilient and reliable system, and excellent customer service.

Customer Perspective

Desired Outcome – Satisfied and supportive customers

GOALS	KEY PRIORITIES
Meet future water needs of our customers	Diverse, flexible and resilient supply sources
	Visionary, adaptable, long-range planning approach
	Appropriate margins of safety including a drought plan and strategic water reserve
	Participation in cooperative/collaborative regional projects
Efficient water use and conservation	Water conservation and other demand-management techniques integral to our future
	Educated and engaged customers are partners in the wise use of water
	A water-efficient system
	Lead by example in our water-usage practices

Customer Perspective

Desired Outcome – Satisfied and supportive customers

GOALS	KEY PRIORITIES
An excellent collection, treatment and delivery system	Reliable infrastructure
	All drinking and recycled water regulations are met or surpassed
	Margins of safety and security in system operations that ensure resiliency
	Watersheds are protected
A customer-centric approach at all levels of the organization*	Outstanding customer service
	Customer and stakeholder interaction that is open, honest, effective and productive
	Strong relationships with our distributors
	Awareness of customer affordability issues
	Effective customer communication and education

*Goal continued on next page

Customer Perspective

Desired Outcome – Satisfied and supportive customers

GOALS	KEY PRIORITIES
A customer-centric approach at all levels of the organization*	Address rate equity issues among customer classes, including the rationale for any differences
	Current research and knowledge about our customers and their water needs and habits

*Goal continued from previous page

Financial Perspective

Desired Outcome – A financially strong and stable organization

GOALS	KEY PRIORITIES
Excellent short and long-term financial health	Rates and fees evaluated annually to maintain fiscal health, comply with the City Charter, and provide good value for customers
	Sound financial performance targets and cash reserves
	Optimize funding sources
Maintain the public's trust by spending money wisely	Strong financial governance and controls
	Develop a "spend only what you need" culture
	Timely and transparent financial reporting to customers
Budgeting and spending driven by strategic priorities	A budget process that aligns spending with strategic priorities to drive and control spending
	Employees are engaged in the budgeting and spending processes with timely and accurate reporting at the appropriate levels

Organizational Perspective

Desired Outcome – An effective, efficient and strategically driven organization

GOALS	KEY PRIORITIES
Leadership that maintains a strategic focus and strengthens management practices at all levels	A close working relationship between the Board and Executive Team founded on clarity about their respective governance roles and responsibilities
	An Executive Team focused on leading and managing the organization while ensuring that their divisions perform highly
	Leadership at multiple levels that is capable of and accountable for achieving the Board's goals
	A managerial environment that empowers and supports decision making at appropriate levels
	Clear internal management and accountability that strategically align policies, procedures, priorities, projects and implementation
	Awareness and information sharing about best practices that may improve performance

Organizational Perspective

Desired Outcome – An effective, efficient and strategically driven organization

GOALS	KEY PRIORITIES
A collaborative, highly capable, motivated workforce	Every employee understands, and is prepared to perform, his/her individual role in fulfilling the mission and enhancing Denver Water's reputation
	Human resource capabilities and actions that are strategically aligned to attract, grow and retain the needed talent and skills
	A work culture that respects the expertise in each department while encouraging greater cross-departmental collaboration, teamwork and decision making
	Excellent employee communication and a clear, smooth information flow throughout the organization
	An employee base that strengthens Denver Water through its diversity
A flexible organization, capable of adapting to future challenges and opportunities	An organizational structure that advances our strategic goals and is adaptable to changing work demands
	A workforce that is multi-talented, adaptable to changing work demands, and efficient in how we perform our work
	An easy-to-use knowledge and information-sharing capability

Organizational Perspective

Desired Outcome – An effective, efficient and strategically driven organization

GOALS	KEY PRIORITIES
Business processes and assets that increase our efficiency and effectiveness	Cost-effective asset, operational and resource management
	Appropriate technologies that enhance our ability to achieve Denver Water's business objectives
	Appropriate consistency in business processes and policies across the organization
Be environmentally responsible in delivering on our mission	Conduct business in a manner that reflects our role as a responsible manager of natural resources, is sustainable and respects the environment
	System management that respects the multiple uses of our resources
	Proactive management of our properties to improve our operations and the areas around them
Appropriate risk management for our system and operations	A structured approach to assess and appropriately mitigate and prepare for risks related to disasters, data, infrastructure and public safety
	Employees understand their individual responsibility to help minimize risk

External Perspective

Desired Outcome – Strategically effective relationships and reputation

GOALS	KEY PRIORITIES
An excellent reputation	Define our brand reputation and manage our actions to achieve it
	Demonstrated adherence to ethics and public accountability
	A strategic approach to our organizational and individual involvement in civic, community, state and national organizations
	Strengthen our issues-management process
Relationships that are managed to achieve our strategic objectives*	A strategic approach to prioritizing and investing in our external relationships
	Information of strategic importance is evaluated at appropriate levels of the organization and considered in the decision process
	Local businesses are supported as appropriate
	Strong and effective relationships with government officials at the local, regional, state and national levels

*Goal continued on next page

External Perspective

Desired Outcome – Strategically effective relationships and reputation

GOALS	KEY PRIORITIES
Relationships that are managed to achieve our strategic objectives*	Close coordination with the City of Denver as a key partner and customer
	Strong relations with media – especially in Denver and in areas where we have customers, facilities or watersheds
Play a key role in issues important to our success	Active engagement in forums and organizations that influence Denver Water's central issues
	Advocate the interests of Denver Water and our customers in legislative and regulatory matters
	Play a leadership role on important issues when it is appropriate and effective

** Goal continued from previous page*