

**NEW ISSUE
BOOK-ENTRY ONLY**

**RATINGS: Moody's: “_”
S&P: “_”
Fitch: “_”
See “RATINGS”**

In the opinion of Sherman & Howard L.L.C., Bond Counsel, assuming continuous compliance with certain covenants described herein, interest on the Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended to the date of delivery of the Bonds (the “Tax Code”), interest on the Bonds is excluded from alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code except that for taxable years of corporations beginning before January 1, 2018 such interest is required to be included in calculating the “adjusted current earnings” adjustment applicable to corporations for purposes of computing the alternative minimum taxable income of corporations, and interest on the Bonds is excluded from Colorado taxable income and Colorado alternative minimum taxable income under Colorado income tax laws in effect on the date of delivery of the Bonds as described herein.

CITY OF COLORADO SPRINGS, COLORADO

\$ _____ *

Utilities System Refunding Revenue Bonds, Series 2018A-1

\$ _____ *

Utilities System Refunding Revenue Bonds, Series 2018A-2

\$ _____ *

Utilities System Refunding Revenue Bonds, Series 2018A-3

\$ _____ *

Utilities System Improvement Revenue Bonds, Series 2018A-4

Dated: Date of Delivery

Due: November 15, as shown on the inside cover

The City of Colorado Springs, Colorado (the “City”) is issuing its Utilities System Refunding Revenue Bonds, Series 2018A-1 (the “Series 2018A-1 Bonds”), its Utilities System Refunding Revenue Bonds, Series 2018A-2 (the “Series 2018A-2 Bonds”), its Utilities System Refunding Revenue Bonds, Series 2018A-3 (the “Series 2018A-3 Bonds”), and its Utilities System Improvement Revenue Bonds, Series 2018A-4 (the “Series 2018A-4 Bonds”) and collectively with the Series 2018A-1 Bonds, the Series 2018A-2 Bonds, and the Series 2018A-3 Bonds, the “Bonds”). The Bonds are issued as fully registered bonds in denominations of \$5,000, or any integral multiple thereof. The Bonds initially will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), securities depository for the Bonds. Purchases of the Bonds are to be made in book-entry form only. The Bonds bear interest at the rates set forth on the inside cover page of this Official Statement, payable semiannually on May 15 and November 15 of each year, commencing November 15, 2018. Purchasers will not receive certificates from the City or the Paying Agent representing their interests in the Bonds. So long as the Bonds are held by DTC, payments of principal of and interest on the Bonds will be paid by the Paying Agent to DTC for subsequent disbursement to DTC participants for remittance to the beneficial owners of the Bonds, as more fully described herein.

The maturity schedules for the Bonds appear on the inside cover page of this Official Statement.

Certain maturities for certain series of the Bonds are subject to optional redemption prior to maturity and mandatory sinking fund redemption as set forth in this Official Statement.

The Bonds will not constitute an indebtedness or a debt of the City within the meaning of any constitutional, charter or statutory provision or limitation; the Bonds will not be payable from the proceeds of general property taxes; and the Bonds will not be considered or held to be general obligations of the City, but will be its special obligations, payable and collectible solely out of the net revenues derived from the operation and use of the municipal water system, electric system, gas system, wastewater system, streetlight system and any other systems designated in accordance with the City Charter, collectively comprising the City’s utilities system, with the possible future exclusion of any Special Facility (as defined in the Bond Ordinance). The City may not issue utilities revenue bonds which have a lien on such net revenues which is senior to the lien thereon securing the Bonds. The

This Preliminary Official Statement and information contained herein are subject to change, completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Official Statement constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

Bonds constitute an irrevocable lien upon the net revenues derived from the System on a parity with any future or existing parity debt.

This cover page contains certain information for quick reference only. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as, and if issued by the City, subject to the delivery of an approving opinion by Sherman & Howard L.L.C., Denver, Colorado, as Bond Counsel, and other conditions. Stradling Yocca Carlson & Rauth, a Professional Corporation, Denver, Colorado, has acted as disclosure counsel to the City in connection with the preparation of this Official Statement and the sale of the Bonds to the Underwriters. Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock LLP, Denver, Colorado. George K. Baum & Company, Denver, Colorado, has acted as Financial Advisor to the Utilities. It is expected that the Series 2018A-1 Bonds, the Series 2018A-2 Bonds, and the Series 2018A-4 Bonds will be available for delivery on or about _____, 2018 through the facilities of DTC. It is expected that the Series 2018A-3 Bonds will be available for delivery on or about _____, 2018 through the facilities of DTC.

[Underwriters to be inserted]

This Official Statement is dated _____, 2018.

* *Preliminary, subject to change.*

CITY OF COLORADO SPRINGS, COLORADO

CUSIP[†] Issuer Number: 196632

\$ _____*

Utilities System Refunding Revenue Bonds, Series 2018A-1

SERIAL MATURITIES

<i>Maturity (November 15)</i>	<i>Principal Amount*</i>	<i>Interest Rate</i>	<i>Yield*</i>	<i>CUSIP[†] Issue Number</i>	<i>Maturity (November 15)</i>	<i>Principal Amount*</i>	<i>Interest Rate</i>	<i>Yield*</i>	<i>CUSIP[†] Issue Number</i>
	\$					\$			

\$ _____* _____% Term Bond Due November 15, 20____, Yield: _____%*, CUSIP[†] Issue Number _____

\$ _____* _____% Term Bond Due November 15, 20____, Yield: _____%*, CUSIP[†] Issue Number _____

\$ _____*

Utilities System Refunding Revenue Bonds, Series 2018A-2

SERIAL MATURITIES

<i>Maturity (November 15)</i>	<i>Principal Amount*</i>	<i>Interest Rate</i>	<i>Yield*</i>	<i>CUSIP[†] Issue Number</i>	<i>Maturity (November 15)</i>	<i>Principal Amount*</i>	<i>Interest Rate</i>	<i>Yield*</i>	<i>CUSIP[†] Issue Number</i>
	\$					\$			

\$ _____* _____% Term Bond Due November 15, 20____, Yield: _____%*, CUSIP[†] Issue Number _____

\$ _____* _____% Term Bond Due November 15, 20____, Yield: _____%*, CUSIP[†] Issue Number _____

\$ _____ *

Utilities System Refunding Revenue Bonds, Series 2018A-3

SERIAL MATURITIES

<i>Maturity (November 15)</i>	<i>Principal Amount*</i>	<i>Interest Rate</i>	<i>Yield*</i>	<i>CUSIP[†] Issue Number</i>	<i>Maturity (November 15)</i>	<i>Principal Amount*</i>	<i>Interest Rate</i>	<i>Yield*</i>	<i>CUSIP[†] Issue Number</i>
	\$					\$			

\$ _____ * _____ % Term Bond Due November 15, 20 __, Yield: _____ %*, CUSIP[†] Issue Number ____

\$ _____ * _____ % Term Bond Due November 15, 20 __, Yield: _____ %*, CUSIP[†] Issue Number ____

\$ _____ *

Utilities System Improvement Revenue Bonds, Series 2018A-4

SERIAL MATURITIES

<i>Maturity (November 15)</i>	<i>Principal Amount*</i>	<i>Interest Rate</i>	<i>Yield*</i>	<i>CUSIP[†] Issue Number</i>	<i>Maturity (November 15)</i>	<i>Principal Amount*</i>	<i>Interest Rate</i>	<i>Yield*</i>	<i>CUSIP[†] Issue Number</i>
	\$					\$			

\$ _____ * _____ % Term Bond Due November 15, 20 __, Yield: _____ %*, CUSIP[†] Issue Number ____

\$ _____ * _____ % Term Bond Due November 15, 20 __, Yield: _____ %*, CUSIP[†] Issue Number ____

* Preliminary, subject to change.

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CITY OF COLORADO SPRINGS, COLORADO

Mayor

John W. Suthers

City Council

Richard Skorman, *President of the City Council*

Jill Gaebler, *President Pro Tem*

Merv Bennett

Don Knight

David Geislinger

Yolanda Avila

Andy Pico

Bill Murray

Tom Strand

Wynetta Massey, *City Attorney*

COLORADO SPRINGS UTILITIES

Eric Tharp, Acting Chief Executive Officer

Tamela Monroe, Chief Planning and Finance Officer

_____, Acting Chief Energy Services Officer

Earl Wilkinson III, Chief Water Services Officer

Carl Cruz, Chief Customer and Corporate Services Officer

David Padgett, Chief Environment, Health, and Safety Officer

Sherri Newell Wilkinson, Chief Strategy and External Affairs Officer

Utilities Policy Advisory Committee

Richard Kramer, Chair

Rex Adams, Vice Chair

Balu Bhayani

Gary Burghart

James Colvin

Scott Harvey

Joseph Mark

Financial Advisor

George K. Baum & Company

Bond Counsel

Sherman & Howard L.L.C.

Disclosure Counsel

Stradling Yocca Carlson & Rauth, a Professional Corporation

THE BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY OF THE BONDS IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION IN SUCH JURISDICTION.

NO DEALER, SALESMAN OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION, OTHER THAN THE INFORMATION AND REPRESENTATIONS CONTAINED IN THIS OFFICIAL STATEMENT, IN CONNECTION WITH THE OFFERING OF THE BONDS, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON. THE CITY AND THE UTILITIES EACH MAINTAIN AN INTERNET WEBSITE, A FACEBOOK HOMEPAGE, AND/OR A TWITTER FEED; HOWEVER, THE INFORMATION PRESENTED THERE IS NOT PART OF THIS OFFICIAL STATEMENT AND SHOULD NOT BE RELIED UPON IN MAKING AN INVESTMENT DECISION WITH RESPECT TO THE BONDS. THE INFORMATION AND EXPRESSIONS OF OPINION CONTAINED HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER WILL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE CITY OR THE UTILITIES SINCE THE DATE HEREOF.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THIS OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT WITH THE PURCHASERS OF THE BONDS. STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT WHICH INVOLVE ESTIMATES, FORECASTS OR MATTERS OF OPINION, WHETHER OR NOT EXPRESSLY SO DESCRIBED HEREIN, ARE INTENDED SOLELY AS SUCH AND ARE NOT TO BE CONSTRUED AS REPRESENTATIONS OF FACTS. SEE "INTRODUCTION—FORWARD LOOKING STATEMENTS."

THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPONSIBILITY TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTY THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

THE CUSIP NUMBERS ARE INCLUDED IN THIS OFFICIAL STATEMENT FOR THE CONVENIENCE OF THE OWNERS AND POTENTIAL OWNERS OF THE BONDS. THE CUSIP NUMBER FOR ANY MATURITY OF THE BONDS MAY BE CHANGED AFTER THE ISSUANCE OF THE BONDS AS THE RESULT OF VARIOUS SUBSEQUENT ACTIONS, INCLUDING, WITHOUT LIMITATION, A REFUNDING OF ALL OR A PORTION OF SUCH MATURITY OR THE PROCUREMENT OF SECONDARY MARKET PORTFOLIO INSURANCE OR OTHER SIMILAR ENHANCEMENT BY INVESTORS THAT IS APPLICABLE TO ALL OR A PORTION OF CERTAIN MATURITIES OF THE BONDS. NONE OF THE CITY, THE UTILITIES OR THE UNDERWRITERS UNDERTAKE ANY RESPONSIBILITY FOR ANY CHANGES TO OR ERRORS IN THE LIST OF CUSIP NUMBERS INCLUDED IN THIS OFFICIAL STATEMENT.

REFERENCES TO WEBSITE ADDRESSES PRESENTED HEREIN ARE FOR INFORMATIONAL PURPOSES ONLY AND MAY BE IN THE FORM OF A HYPERLINK SOLELY FOR THE READER'S CONVENIENCE. UNLESS SPECIFIED OTHERWISE, SUCH WEBSITES AND THE INFORMATION OR LINKS CONTAINED THEREIN ARE NOT INCORPORATED INTO, AND ARE NOT PART OF, THIS OFFICIAL STATEMENT.

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OFFICIAL STATEMENT

CITY OF COLORADO SPRINGS, COLORADO

\$ _____ *

Utilities System Refunding Revenue Bonds, Series 2018A-1

\$ _____ *

Utilities System Refunding Revenue Bonds, Series 2018A-2

\$ _____ *

Utilities System Refunding Revenue Bonds, Series 2018A-3

\$ _____ *

Utilities System Improvement Revenue Bonds, Series 2018A-4

INTRODUCTION

This Introduction is only a brief description of certain matters set out in this Official Statement and is subject in all respects to more complete information contained in this Official Statement. Investors should make a full review of this Official Statement, which includes the cover page and attached Appendices, as well as of the documents summarized and described in this Official Statement, before making a decision to purchase any of the Bonds. **Capitalized terms used but not defined in this Official Statement are defined in Appendix B to this Official Statement.**

The City

The City of Colorado Springs, Colorado (the “City”) is a home rule municipal corporation with a population of approximately 465,000 which is located in the south central Front Range of Colorado. The economy of the City and the surrounding area is based substantially on employment attributable to service industries, retail businesses, construction industries, military installations, the high technology industry and tourism. For a detailed summary of economic and demographic information for the Colorado Springs area see APPENDIX F—“ECONOMIC AND DEMOGRAPHIC INFORMATION” to this Official Statement.

The City owns and operates the Colorado Springs Utilities (the “Utilities”), which includes the municipal water system, the electric system, the gas system, the wastewater system, the streetlight system, and any other systems designated in accordance with the home rule charter of the City (collectively, the “System”). For a further description of the Utilities, see “COLORADO SPRINGS UTILITIES” in this Official Statement.

Security for the Bonds

The Bonds (and any parity securities previously or subsequently issued) are utilities system revenue bonds of the City payable solely from the “Net Pledged Revenues” available after the costs of operating and maintaining the System are deducted from the “Gross Pledged Revenues” generated from the operation and use of the System. Upon issuance of the Bonds, \$ _____ * in aggregate principal of Parity Bonds (including the Bonds and excluding the Refunded Obligations) will be outstanding which have a parity lien on the Net Pledged Revenues. **[To be confirmed]** The City does not anticipate issuing any additional utilities system revenue bonds in 2018. The City is prohibited from issuing additional bonds with a lien on the Net Pledged Revenues which is superior to the Parity Bonds (including the Bonds). See “DESCRIPTION OF THE BONDS—Security for the Bonds” in this Official Statement.

* Preliminary, subject to change.

The Bonds will not constitute an indebtedness or a debt of the City within the meaning of any constitutional, charter or statutory provision or limitation, will not be payable from the proceeds of general property taxes, and will not be considered or held to be general obligations of the City, but will be its special obligations, payable as described in this Official Statement.

Debt Service Reserve Fund

Under the ordinance authorizing the issuance of the Bonds, the City is required to fund the Reserve Fund in an amount equal to the Reserve Fund Requirement as additional security for the Bonds. The City has applied to _____ for the issuance of a _____ to use in lieu of cash in the Reserve Fund. _____ has issued a commitment to issue the _____. See APPENDIX B—“THE BOND ORDINANCE—Reserve Fund.”

The Bonds

The Bonds are authorized to be issued pursuant to the City’s home rule charter and an ordinance adopted by the City Council of the City on May 22, 2018. The Bonds are subject to optional and mandatory redemption as described in this Official Statement. See “DESCRIPTION OF THE BONDS.”

Purpose of the Bonds

Net proceeds of the Series 2018A-1 Bonds are to be used, along with other available revenues, to: (a) refund all or a portion of the City’s outstanding Variable Rate Demand Utilities System Subordinate Lien Improvement and Refunding Revenue Bonds, Series 2006A (the “2006A Bonds”) and Variable Rate Demand Utilities System Improvement and Refunding Revenue Bonds, Series 2007B (the “2007B Bonds”); (b) pay certain costs of issuing the Series 2018A-1 Bonds; and (c) to pay a portion of the Surety Premium. See APPENDIX G – “THE REFUNDING PLAN.”

Net proceeds of the Series 2018A-2 Bonds are to be used, along with other available revenues, to: (a) refund all of the City’s Utilities System Commercial Paper Notes, Series A and B (collectively, the “Commercial Paper Notes”); (b) pay certain costs of issuing the Series 2018A-2 Bonds; and (c) to pay a portion of the Surety Premium. See APPENDIX G – “THE REFUNDING PLAN.”

Net proceeds of the Series 2018A-3 Bonds are to be used, along with other available revenues, to: (a) refund the City’s outstanding Utilities System Refunding Revenue Bonds, Series 2008B (the “2008B Bonds”); (b) pay certain costs of issuing the Series 2018A-3 Bonds; and (c) to pay a portion of the Surety Premium]. See APPENDIX G – “THE REFUNDING PLAN.”

Net proceeds of the Series 2018A-4 Bonds are to be used, along with other available revenues, to: (a) finance a portion of the costs of a number of general capital improvements to the utility system; (b) pay certain costs of issuing the Series 2018A-4 Bonds; and (c) to pay a portion of the Surety Premium. See APPENDIX G – “THE REFUNDING PLAN.”

The specific principal amount, if any, of each maturity of the outstanding 2006A Bonds, 2007B Bonds, 2008B Bonds, and Commercial Paper Notes (collectively, the “Refunded Obligations”) that will be refunded will be determined by the City on the day of pricing of the Bonds. The issuance of the Bonds and the refunding of the Refunded Obligations are subject to market conditions, and the City will only issue the Bonds to refund any of the Refunded Obligations if such issuance and refunding result in acceptable debt service to the City.

Tax Status of Interest on the Bonds

In the opinion of the City's bond counsel, Sherman & Howard L.L.C., interest on the Bonds is excluded from gross income under current federal income tax laws and is excluded from federal alternative minimum taxable income. Such interest is, however, required to be included in computing the alternative minimum taxable income of corporations whose taxable years began before January 1, 2018. Interest on the Bonds is excluded from Colorado taxable income and Colorado alternative minimum taxable income. Bond Counsel's opinion regarding the Bonds specifically assumes that the City will comply with the covenants described under the heading "TAX STATUS" and the failure to comply with these covenants could result in the Internal Revenue Service declaring the interest on the Bonds taxable from the date of their issuance.

Forward Looking Statements

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute "forward looking statements." In this respect the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward looking statements. The achievement of certain results or other expectations contained in such forward looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements.

General

This Official Statement contains information current as of its date. Information contained in this Official Statement is subject to change after the date of this Official Statement. All references in this Official Statement to the Bond Ordinance and the various contracts of or relating to the City or the Utilities are qualified in their entirety by reference to such documents, and references to the Bonds are qualified in their entirety by reference to the form of the Bonds included in the Bond Ordinance. During the period of the offering of the Bonds, copies of the forms of the Bond Ordinance will be available from the Utilities' Chief Planning and Finance Officer, 121 South Tejon Street, Suite 500, Colorado Springs, Colorado 80903, (719) 668-8136, and the Utilities' Financial Advisor, George K. Baum & Company, 1400 Wewatta Street, Suite 800, Denver, Colorado 80202, (303) 292-1600.

Appendix A to this Official Statement contains the audited financial statements of the Utilities for the year ended December 31, 2017 (with comparative totals for the year ended December 31, 2016). Inquiries relating to financial information of the Utilities presented in this Official Statement may be directed to the Utilities' Chief Planning and Finance Officer, 121 South Tejon Street, Suite 500, Colorado Springs, Colorado 80903, (719) 668-8136.

SOURCES AND USES OF BOND PROCEEDS

The sources and uses of proceeds of the Bonds are set forth in the following table.

	<u>Series 2018A-1</u>	<u>Series 2018A-2</u>	<u>Series 2018A-3</u>	<u>Series 2018A-4</u>	<u>Total⁽¹⁾</u>
Sources					
Par Amount	\$	\$	\$	\$	\$
Plus Net Original Issue Premium					
Plus moneys in existing bond and reserve funds					
Total Sources ¹	\$	\$	\$	\$	\$
Uses					
Project Fund Deposit	\$	\$	\$	\$	\$
Commercial Paper Reimbursement Accounts Deposit ⁽²⁾					
Escrow Fund Deposit ⁽²⁾					
Costs of Issuance ⁽³⁾					
Total Uses ⁽¹⁾	\$	\$	\$	\$	\$

⁽¹⁾ Totals may not sum due to rounding.

⁽²⁾ See APPENDIX G – THE REFUNDING PLAN.

⁽³⁾ Costs of Issuance include legal fees, underwriters' discount, consultant fees, printing costs, rating agency fees, other miscellaneous fees and expenses, and a portion of the Surety Premium.

INVESTMENT CONSIDERATIONS

The purchase of the Bonds involves special risks and the Bonds may not be appropriate investments for all types of investors. Each prospective investor should read this Official Statement in its entirety and give particular attention to the factors described below, which, among others factors discussed herein, could affect the payment of the Bonds and could affect the market price of the Bonds to an extent that cannot be determined at this time. *The following does not purport to be an exhaustive listing of risks and other considerations which may be relevant to investing in the Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of such risks.*

Special, Limited Obligations

The Bonds are special, limited obligations of the City. The Bonds do not constitute a general obligation debt or indebtedness of the City or any other political subdivision of the State, and no owner of any Bond may look to any source of funds other than the Net Pledged Revenues for payment of debt service on the Bonds. The full faith and credit of the City is not pledged for the payment of the amounts due on the Bonds or under the Bond Ordinance. The Bonds are payable solely from the Net Pledged Revenues. Therefore, the punctual payment of the principal of and interest on the Bonds is dependent on the generation of Net Pledged Revenues in an amount sufficient to meet debt service requirements on the Bonds.

No Pledge of Property

The payment of the Bonds is not secured by an encumbrance, mortgage or other pledge of property of the City, except the Net Pledged Revenues for each series of Bonds, and any other moneys pledged for the payment of the Bonds. No property of the City, subject to such exceptions, shall be liable to be forfeited or taken in payment of the Bonds.

Capital Program

As discussed in “THE ELECTRIC SYSTEM – Environmental Regulation,” “THE WATER SYSTEM,” and “THE WASTEWATER SYSTEM,” the Utilities has capital needs which are currently forecasted to total approximately \$916.1 million from 2018 through 2022. The Utilities currently estimates that approximately 80% of this amount will be cash-funded and the remaining 20% will be funded from the proceeds of future bond issues or other borrowings. However, such percentages are only estimates and are subject to change at any time. The 2018 Annual Budget approved by City Council on November 14, 2017 included total capital expenditures of approximately \$193.0 million. This is approximately \$7.4 million less than the budgeted amount for 2017. Electric projects account for 38.2% of the total major capital projects budget. Combined water and wastewater projects account for 42.8% of the total.

Risks Related to the Federal Subsidy Payment on Bonds Issued as Build America Bonds

The City has designated certain previously issued utilities system revenue bonds as “Build America Bonds” for purposes of the Tax Code and originally expected to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable on such bonds. Such subsidy historically totaled approximately \$8.6 million annually, which is approximately 5% of the Utilities’ total estimated 2018 debt service. To date, the City has timely filed for and received the subsidy for all such bonds. However, recent subsidy payments have been reduced and future subsidy payments will likely be lower than originally expected as a result of the congressionally mandated sequestration process of the 2011 Budget Control Act. The Utilities presently expects an annual average reduction in subsidy payments of approximately \$545,000 through 2024 based upon the current sequestration process. The Utilities’ forecast of revenues has been adjusted to reflect this reduction in non-operating income.

Dependence Upon Federal Defense Spending

The military installations of Fort Carson Army Base (“Fort Carson”), Peterson Air Force Base (“Peterson”) and the United States Air Force Academy (the “Academy”) receive water and electric service and gas supply and transportation from the System, and Peterson also receives wastewater treatment service from the System. These installations, along with Cheyenne Mountain Air Force Station and Schriever Air Force Base, are also large employers in the City and El Paso County and make a significant contribution to the local economy.

In recent years, many federal deficit reduction plans and military base realignment and closure plans have been proposed for consideration by the U.S. Congress. It is not clear at this time what impact, if any, these proposals would have on the City and/or the Utilities, if enacted into law.

Risks Related to Customer Sales and Usage

The Utilities’ sales and revenues are related to customer usage which is influenced by demand for electricity, water and natural gas. Customer usage is affected by a number of factors outside the control of the Utilities, such as weather, energy efficiency, demand side management, distributed generation, and economic and demographic conditions such as population, job and income growth, housing starts and the overall level of economic activity. Technological advances utilizing energy efficiency end use devices and other improvements or applications of technology could lead to declines in per capital utility consumption. Over the past several years, average customer usage for electricity has remained stable or declined slightly while average customer usage for natural gas and water has declined. While many of the Utilities’ costs are variable and will fluctuate with variance in commodity use, fixed cost recovery is embedded in the Utilities’ base (and fixed) rate components. The inconsistency between a fixed cost component and a variable revenue structure can cause budgeting and financial instability and uncertainty. The Utilities has historically addressed these variances by periodic base rate adjustments and utilizing its cash reserves as necessary.

Risks Regarding Fluctuations in Water Revenues

The revenues derived from the Utilities' water sales are subject to significant fluctuation primarily due to weather. For example, in 2014 and 2015 water revenues experienced significant shortfalls as a result of wetter and cooler than normal weather. In addition, customers continue to use less water each year in response to drought conditions, watering restrictions, indoor conservation/efficiency, and increased water rates. Some customer behavior may result in permanent change, such as when lawns are abandoned or replaced with xeriscaping.

The annual fluctuations in water revenues are exacerbated by the fixed nature of the Water System's costs as the fixed cost of providing water does not vary considerably when the amount of water delivered to customers varies. The infrastructure intensive water system is built to meet peak day to annual demands which also includes fire flows, reliability and redundancy requirements, and increasingly stringent regulatory requirements. Moreover, the rate structures used to recover the cost of service are designed to encourage water efficiency and conservation and are, therefore, variable in nature because the vast majority of revenue (nearly 80%) comes from highly variable commodity use. The inconsistency between a fixed cost structure and a variable revenue structure causes annual budgeting and financial instability and uncertainty.

It is not possible to predict what impacts, if any, weather will have on the Water System's revenues in the future.

Risks Regarding Liquidity Facilities

Currently, the City has \$_____ of outstanding variable rate Parity Bonds which are supported by liquidity facilities ("Support Facilities"). The City has also established a Commercial Paper Program for the Utilities in the maximum principal amount of \$150,000,000 (the "Commercial Paper Notes"), of which \$0 is expected to be outstanding upon issuance of the Bonds and completion of the Refunding Project. The Commercial Paper Notes are also supported by Support Facilities. The Parity Bonds and the Commercial Paper Notes (when and if drawn upon) which are supported by the Support Facilities are subject to the risk of expiration and non-renewal of the related Support Facilities and the inability of the City to find replacement Support Facilities. In addition, there can be no assurance that the providers of such Support Facilities will be financially able to meet their respective contractual obligations thereunder, whether as a result of bankruptcy, insolvency or other events adversely affecting their creditworthiness. Any non-renewal of a Support Facility, any inability of the provider of a Support Facility to meet its obligations thereunder, or any rating downgrade associated therewith could have an adverse effect on the City. If any of these were to occur, the City could pursue various options in order to remedy the situation, including replacing the Support Facility or converting or refunding the bonds or Commercial Paper Notes in question to a fixed interest rate or another interest rate mode, depending upon market conditions. See "COLORADO SPRINGS UTILITIES—Liquidity/Support Facilities."

Environmental Regulation

The Utilities' Electric System operations are subject to various local, state and federal environmental laws and regulations. Compliance with such laws and regulations will likely require significant capital outlays. In its long range forecasts, the Utilities has included expenses for such capital outlays of which it is aware, or which it reasonably anticipates incurring. These expenses are discussed below in the section entitled "THE ELECTRIC SYSTEM." However, there are a number of federal and state legislative and regulatory efforts underway which seek to limit and/or control emissions of greenhouse gases and other pollutants. The impact and cost of such proposed legislative and regulatory initiatives on the Utilities are under evaluation, but the costs of compliance with such proposed legislation and initiatives are not yet known and therefore cannot be quantified at this time. See "THE ELECTRIC SYSTEM—Environmental Regulation."

Federal and state legislation and regulations also impact the operation of the Utilities' Water System through the regulation of land use, appropriation of water, and water quality. The constraints imposed by environmental laws and regulations can potentially limit the current yield or further expansion of existing water projects (particularly transmountain projects) as well as prohibit new project development. The financial impact of these constraints on the Utilities is not yet known and therefore cannot be quantified at this time. See "THE WATER SYSTEM—Environmental Requirements Affecting Water Treatment" and "THE WATER SYSTEM—Environmental Requirements Affecting Water Supply."

Federal and state legislation and regulations also impact various aspects of the operation of the Utilities' Wastewater System, including wastewater treatment and effluent discharge. The Utilities has formulated a Wastewater Integrated Master Plan which addresses the impacts of new regulations and plans for capital improvements necessary to keep the facilities in compliance with new regulations. However, new regulations and legislation beyond current Utilities estimates could add significant costs to the operation of the Wastewater System. The full extent of such costs is not yet known and therefore cannot be quantified at this time. See "THE WASTEWATER SYSTEM—Environmental Regulation" and "THE WASTEWATER SYSTEM—Capital Improvements to the Wastewater System."

DESCRIPTION OF THE BONDS

Security for the Bonds

The City's Utilities System Refunding Revenue Bonds, Series 2018A-1 (the "Series 2018A-1 Bonds"), Utilities System Refunding Revenue Bonds, Series 2018A-2 (the "Series 2018A-2 Bonds"), Utilities System Refunding Revenue Bonds, Series 2018A-3 (the "Series 2018A-3 Bonds"), and Utilities System Improvement Revenue Bonds, Series 2018A-4 (the "Series 2018A-4 Bonds" and collectively with the Series 2018A-1 Bonds, the Series 2018A-2 Bonds, and the Series 2018A-4 Bonds the "Bonds") are not general obligations of the City and are not repayable from tax revenues of the City. Payment of the Bond Requirements (which are defined in the Bond Ordinance to include principal and interest) of the Bonds and other Parity Bonds is secured by a lien on the Net Pledged Revenues. The City is prohibited from issuing utilities system revenue bonds or other obligations which have a lien on the Net Pledged Revenues which is senior to the lien thereon securing the Bonds. The owner of any Bond may not look to any general or other fund of the City for the payment of the Bond Requirements except the special funds pledged for that purpose under the Bond Ordinance. The City in its discretion may exclude from the System any interest in any Special Facility subsequently acquired or constructed by or on behalf of the City and financed in whole or in part by Special Facility Obligations. See APPENDIX B—"THE BOND ORDINANCE—Definitions" and "—Equality of Lien."

As additional security for the owners of the Bonds, the City has established a reserve fund (the "Reserve Fund"). See APPENDIX B—"THE BOND ORDINANCE—Reserve Fund." The City plans to fund the Reserve Fund with the Surety Bond.

Upon issuance of the Bonds, \$ _____* in aggregate principal of Parity Bonds (including the Bonds and excluding the Refunded Obligations) will be outstanding which have a parity lien on the Net Pledged Revenues. The City is prohibited from issuing additional bonds with a lien on the Net Pledged Revenues which is superior to the Parity Bonds (including the Bonds). See "COLORADO SPRINGS UTILITIES—Outstanding Utilities Revenue Bonds and Other Obligations." The City has issued the Commercial Paper Notes, which are secured by a lien on the Net Pledged Revenues which is junior and subordinate to the lien thereon securing the Parity Bonds. For a description of the requirements for issuance of additional Parity Bonds, see APPENDIX B—"THE BOND ORDINANCE—Additional Securities Prior to the Effective Date" and "—Additional Securities On and After the Effective Date."

* Preliminary; subject to change

Springing Modifications to the Bond Ordinance

The City intends to modify certain of its covenants contained in the ordinances authorizing the issuance of all of its outstanding Parity Bonds. These modifications will also be reflected in the Bond Ordinance and will not be effective until the Effective Date, which is defined as the earlier of the date on which (a) none of the Parity Bonds issued prior to 2003 are outstanding or (b) the date on which the City receives the consent of the holders of 66% of the aggregate principal amount of each series of the Parity Bonds issued prior to 2003, as well as any other entities whose consent is required. The purchasers of the Bonds will be deemed to have irrevocably consented to these modifications by purchasing the Bonds. Since 2003, the purchasers of each series of the Parity Bonds, including the purchasers of the Bonds, have been deemed to have consented to these modifications.

On and after the Effective Date, these modifications will provide that the consent of the owners of a majority in principal amount of all outstanding Parity Bonds is required for certain amendments to the Bond Ordinance, as opposed to the current requirement of the consent of the holders of 66% of the principal amount of each series of the Parity Bonds. These modifications will also change the City's ability to dispose of certain assets of the System. These modifications are more particularly described in APPENDIX B—"THE BOND ORDINANCE." The City is not seeking the consent of the holders of the Parity Bonds issued prior to 2003. Accordingly, the City does not currently expect these modifications to become effective in the foreseeable future.

Bond Details

The Bonds will be issued pursuant to the Bond Ordinance, will be dated as of their date of delivery, and will mature on the dates and in the principal amounts and bear interest at the rates set forth on the inside cover page of this Official Statement. Interest on the Bonds will be calculated based on a 360-day year, consisting of twelve 30-day months. The Bonds will be issued as fully registered bonds without coupons and will initially be registered in the name of "Cede & Co.," as nominee for The Depository Trust Company, New York, New York ("DTC") as securities depository for the Bonds. Purchases by beneficial owners of the Bonds ("Beneficial Owners") will be made in book-entry only form in the denominations of \$5,000 and integral multiples of \$5,000. See APPENDIX E – "DTC BOOK-ENTRY ONLY SYSTEM" to this Official Statement. Interest on the Bonds will be payable semiannually on May 15 and November 15 of each year, commencing on November 15, 2018.

Principal will be payable to the registered Owner of each Bond, as shown on the registration records kept by the Paying Agent, upon maturity or prior redemption and upon presentation of the Bond at the principal office of the Paying Agent, or at such other office as the Paying Agent directs in writing to Owners of the Bonds. Payment of interest will be made by the Paying Agent by check mailed on each interest payment date to the registered Owner (initially Cede & Co.) of each Bond as of the May 1 or November 1 next preceding each interest payment date (or by other payment means as mutually agreed). If interest is not so paid, it will instead be payable to the person who is the registered Owner as of a "Special Record Date" for the payment of defaulted interest. The Paying Agent will fix the Special Record Date whenever funds become available for payment of the defaulted interest, with notice of the Special Record Date to be mailed to each registered Owner of Bonds at least ten days prior to the Special Record Date. Payments to Beneficial Owners are to be made as described in Appendix E to this Official Statement.

The Bonds will bear interest from the most recent date to which interest has been paid, or if no interest has been paid, from the date of the Bonds. If any Bond is not paid in accordance with the Bond Ordinance, it will continue to accrue interest at the applicable rate until paid in full.

Optional Redemption

The Series 2018A-1 Bonds maturing on or after November 15, 20__ are redeemable at the option of the City on or after November 15, 20__, in whole or in part, on any day, from any Maturity-Rate selected by the City and by lot within a Maturity-Rate, at a redemption price equal to 100% of the principal amount of such Series 2018A-1 Bonds redeemed, plus accrued interest to the redemption date.

The Series 2018A-2 Bonds maturing on or after November 15, 20__ are redeemable at the option of the City on or after November 15, 20__, in whole or in part, on any day, from any Maturity-Rate selected by the City and by lot within a Maturity-Rate, at a redemption price equal to 100% of the principal amount of such Series 2018A-2 Bonds redeemed, plus accrued interest to the redemption date.

The Series 2018A-3 Bonds maturing on or after November 15, 20__ are redeemable at the option of the City on or after November 15, 20__, in whole or in part, on any day, from any Maturity-Rate selected by the City and by lot within a Maturity-Rate, at a redemption price equal to 100% of the principal amount of such Series 2018A-3 Bonds redeemed, plus accrued interest to the redemption date.

The Series 2018A-4 Bonds maturing on or after November 15, 20__ are redeemable at the option of the City on or after November 15, 20__, in whole or in part, on any day, from any Maturity-Rate selected by the City and by lot within a Maturity-Rate, at a redemption price equal to 100% of the principal amount of such Series 2018A-4 Bonds redeemed, plus accrued interest to the redemption date.

Mandatory Sinking Fund Redemption

The Series 2018A-1 Bonds maturing November 15, 20__ and 20__ will be subject to mandatory sinking fund redemption at a redemption price equal to the principal amount of such Series 2018A-1 Bonds redeemed, plus accrued interest to the redemption date on the schedule set forth below:

Series 2018A-1 Bonds maturing November 15, 20__:

<u>Redemption Date</u>	<u>Principal Amount</u>
	\$

*

* Final maturity

The Series 2018A-2 Bonds maturing November 15, 20__ and 20__ will be subject to mandatory sinking fund redemption at a redemption price equal to the principal amount of such Series 2018A-2 Bonds redeemed, plus accrued interest to the redemption date on the schedule set forth below:

Series 2018A-2 Bonds maturing November 15, 20__:

<u>Redemption Date</u>	<u>Principal Amount</u>
	\$

*

* Final maturity

Series 2018A-2 Bonds maturing November 15, 20__:

Redemption Date

Principal Amount

\$

*

* Final maturity

At least 40 days prior to a redemption date, the Paying Agent is to select by lot for redemption, from the Bonds of the appropriate series and Maturity-Rate, \$5,000 units of those Bonds equal to the total principal amount of Bonds of the appropriate series and Maturity-Rate redeemable on the redemption date, and the Paying Agent is to call those Bonds (or portions of those Bonds) for redemption on the next November 15th.

At the option of the City to be exercised by delivery of a written certificate to the Paying Agent at least 45 days before any mandatory redemption date, the City may (i) deliver to the Paying Agent for cancellation Bonds of the appropriate series and Maturity-Rate (or \$5,000 portions of those Bonds) in an aggregate principal amount desired by the City or (ii) specify a principal amount of Bonds of the appropriate series and Maturity-Rate (or \$5,000 portions) which previously have been redeemed (otherwise than pursuant to the operation of the respective sinking fund) and cancelled by the Paying Agent and not previously applied as a credit against any mandatory redemption obligation. Any Bond of the appropriate series and Maturity-Rate (or portion) so delivered or previously redeemed is to be credited by the Paying Agent at 100% of its principal amount against the amount of Bonds of the appropriate series and Maturity-Rate the City is to redeem on the next succeeding mandatory redemption date and any excess over such amount will be credited against future sinking fund obligations for Bonds of the appropriate series and Maturity-Rate in chronological order, or any other order specified by the City.

Notice of Prior Redemption

Notice of any optional or mandatory redemption is to be given by the Paying Agent on behalf of the City. The Paying Agent is to give notice of the call and identify the Bonds to be redeemed by first-class postage prepaid mail not less than 30 nor more than 45 days prior to the redemption date, to the registered address of the registered owner of each Bond to be redeemed.

Such notice will specify the Bonds to be so redeemed (if less than all of the Bonds of a series are to be redeemed), the redemption price to be paid and the date fixed for redemption; and such notice will further state that, upon satisfaction of any condition to such redemption, on the redemption date there will become and will be due and payable upon each Bond or portion thereof (\$5,000 or any integral multiple thereof) so to be redeemed at the Paying Agent (designated by name) the redemption price, and that from and after such date interest on the Bonds (or portions thereof) called for redemption will cease to accrue. If a notice of redemption will be unconditional, or if the conditions of a conditional notice of redemption will have been satisfied, then, upon notice having been given in the manner hereinabove provided, the Bond or Bonds so called for redemption will become due and payable on the redemption date so designated and upon presentation thereof at the Paying Agent, the City will pay the Bond or Bonds so called for redemption. No further interest will accrue on the principal of any such Bond (or portion thereof) called for redemption from and after the redemption date, provided sufficient funds are on deposit with the Paying Agent on the redemption date.

Selection of Bonds for Redemption

In the event that less than all of the Outstanding Bonds of a series shall be optionally redeemed, the Bonds of such series shall be redeemed from any Series and Maturity-Rate specified by the City. If less than

all of the Bonds of a single series and Maturity-Rate are to be redeemed, they shall be selected by lot within a such Maturity-Rate in such manner as the Paying Agent may determine.

Continuing Disclosure Undertaking

The City will execute a continuing disclosure certificate (the “Disclosure Certificate”) at the time of the closing for the Bonds. The Disclosure Certificate will be executed for the benefit of the Beneficial Owners of the Bonds. The Disclosure Certificate will provide that so long as the Bonds remain outstanding, the City will annually provide certain financial information and operating data and will provide notice of certain material events to the Municipal Securities Rulemaking Board (“MSRB”) through its Electronic Municipal Market Access System (the “EMMA System”) or any successor method designated by the MSRB, in compliance with the Disclosure Certificate. The form of the Disclosure Certificate is attached to this Official Statement as Appendix C. With certain exceptions noted below, the City has been substantially compliant over the past five years with the terms of each undertaking previously entered into pursuant to Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 with respect to the Utilities. The Utilities believes that its current continuing disclosure compliance processes are sufficient to ensure timely compliance with its continuing disclosure obligations in the future.

The following description of instances of noncompliance by the Utilities with continuing disclosure undertakings should not be construed as an acknowledgement that any such instance was material. On November 14, 2013, Moody’s upgraded its short term rating of the City’s Variable Rate Demand Utilities System Subordinate Lien Refunding Revenue Bonds, Series 2004A as a result of its upgrade of the short-term rating of Citibank, N.A., the then-current liquidity provider for such bonds. A notice was not timely filed for this upgrade, though one was filed on September 4, 2015. On November 14, 2013, Moody’s upgraded its short term rating of the City’s Variable Rate Demand Utilities System Improvement Revenue Bonds, Series 2008A as a result of its upgrade of the short-term rating of Bank of America, N.A., the then-current liquidity provider for such bonds. A notice was not timely filed for this upgrade, though one was filed on September 4, 2015.

In order to ensure compliance by the Utilities with its continuing disclosure undertakings in the future, the Chief Planning and Finance Officer approved Disclosure Procedures on August 15, 2017 (the “Disclosure Procedures”). Pursuant to the Disclosure Procedures, the Chief Planning and Finance Officer or his or her delegate is required to take steps to ensure that continuing disclosure filings are prepared and filed in a timely manner.

COLORADO SPRINGS UTILITIES

Nature of the Utilities

Colorado Springs Utilities, created by the home rule charter of the City (the “Charter”) consists of a water system (the “Water System”), an electric system (the “Electric System”), a gas system (the “Gas System”), a wastewater system (the “Wastewater System”), a streetlight system (the “Streetlight System”), and other systems designated in accordance with the Charter (collectively, the “System”). The Utilities is wholly owned by the City and constitutes an enterprise under certain Colorado Constitution and Charter provisions described below under “—Tax and Spending Limits.” The Utilities operates primarily through functional divisions responsible for planning, financing, constructing, operating, customer service, environmental, strategy, and external affairs associated with the delivery of electric, gas, water, wastewater and streetlight services.

The service areas of the System include the City, Manitou Springs, the City of Fountain, and many of the suburban residential areas surrounding the City. The military installations of Fort Carson, Peterson and the Academy receive water and electric service and gas supply and transportation from the System, and Peterson also receives wastewater treatment service from the System.

The City is the sole customer of the Streetlight System.

The following table summarizes information concerning operating revenues, operating income (loss) and gross book value of plant for the electric, gas, water, wastewater, and streetlight operations of the Utilities for the fiscal year ended December 31, 2017.

2017 Summary of Business Segments

	<i>Operating Revenues</i>		<i>Operating Expenses</i>		<i>Operating</i>	<i>Utilities Plant</i>	
	<i>(\$000)</i>	<i>% of Total</i>	<i>(\$000)</i>	<i>% of Total</i>	<i>Income (Loss)</i>	<i>Gross Book Value⁽¹⁾</i>	
					<i>(\$000)</i>	<i>(\$000)</i>	<i>% of Total</i>
Electric	\$441,009	51.5%	\$364,683	49.7%	\$ 76,326	\$2,521,498	39.7%
Gas ⁽²⁾	158,160	18.5	135,116	18.4	23,044	400,346	6.3
Water ⁽³⁾	185,192	21.6	170,575	23.3	14,617	2,457,064	38.7
Wastewater	68,008	7.9	57,654	7.9	10,354	920,607	14.5
Streetlight	4,075	0.5	5,199	0.7	(1,124)	50,426	0.8
Total	\$856,444	100.0%	\$733,227	100.0%	\$ 123,217	\$6,349,941	100.0%
Less: Interdepartmental Sales	(16,622)		(16,715)		93		
Net Total	\$839,822		\$716,512		\$ 123,310		

⁽¹⁾ Total Net Utilities Plant (excluding water component units) is \$4,007,151,291. This amount represents \$6,076,761,279 in Gross Utilities Plant plus \$273,179,981 in Construction Work in Progress, less Accumulated Depreciation and Amortization of \$2,342,789,969. See Note 5 in the 2017 Audited Financial Statements attached hereto as Appendix A.

⁽²⁾ The gas information excludes amounts attributable to the Public Authority for Colorado Energy described in Note 18 in the 2017 Audited Financial Statements. For a description of Public Authority for Colorado Energy (PACE) see page 57 in the 2017 Audited Financial Statements attached hereto as Appendix A.

⁽³⁾ The water information excludes amounts attributable to the water component units described in Note 18 in the 2017 Audited Financial Statements. For descriptions of the component units see page 57 in the 2017 Audited Financial Statements attached hereto as Appendix A.

Surplus Payments

The Charter provides that the funds of the Utilities are to be kept separate from all other funds of the City and that the net earnings of the Utilities are to be appropriated for the necessary requirements of the Utilities. The Charter also provides that any surplus remaining after meeting the necessary requirements of the Utilities may be appropriated to the general revenues of the City by the City Council of the City (the “City Council”) in its annual budget and appropriation ordinance. Pursuant to this authority, the City Council has appropriated annually to the City’s general fund certain amounts, denoted as surplus payments. These payments are calculated at a fixed rate per kWh of electricity and a fixed rate per Mcf at 14.65 p.s.i.a. of natural gas applied to all inside City sales volumes, without exclusion for interdepartmental sales.

Total surplus payments made by the Utilities to the City amounted to \$31,251,420 in 2015, \$31,408,269 in 2016 and \$30,966,578 in 2017.

City Governance

The City is governed by mayor-council form of governance. Under this form of governance, the Mayor appoints all department directors except for the City Auditor, the Council Administrator, and the Utilities Executive Director (the “Chief Executive Officer”), who are appointed by the City Council. The Mayor serves as an ex-officio and non-voting member of the Board of Directors of the Utilities (the “Utilities Board”), participates in such meetings and attends Executive Sessions of the Utilities Board.

The City Council has all rate making authority for the Utilities, and the Mayor does not have any veto authority over rate decisions.

Management and Operation of the Utilities

The Chief Executive Officer has authority over the management, finances and operation of the Utilities. The City Council, through its role as the Utilities Board, governs the management and operations of the Utilities through established written policies. The members of the Utilities Board, their occupations, and the dates their current terms expire are as follows:

<u>Member</u>	<u>Occupation</u>	<u>Expiration of Current Term</u>
Tom Strand (Chair)	U.S. Air Force JAG, Retired	April 2019
Andy Pico (Vice Chair)	Defense Contractor	April 2021
David Geislinger	Attorney (licensed but inactive), Hospital Chaplain, Deacon	April 2021
Merv Bennett	Nonprofit CEO, Retired	April 2019
Yolanda Avila	Criminal Defense Investigator/Community Leader	April 2021
Jill Gaebler	Nonprofit/Education Leader	April 2021
Richard Skorman	Business Owner	April 2021
Don Knight	U.S. Air Force/Defense Contractor, Retired	April 2021
Bill Murray	U.S. Army, Retired; Defense Consultant	April 2019

The Utilities Policy Advisory Committee (“UPAC”) is comprised of seven regular members appointed by the Utilities Board. The Utilities Board directs UPAC to study specific issues or policies and provide recommendations to the Utilities Board. The present members of UPAC, their occupations, and the dates their current terms expire are as follows:

<u>Member</u>	<u>Occupation</u>	<u>Expiration of Current Term</u>
Richard Kramer (Chair)	Financial/Business	September 2018
Rex Adams (Vice Chair)	Financial/Business	September 2020
Joseph Mark	Engineering	September 2020
Balu Bhayani	Engineering	September 2018
Gary Burghart	Financial/Business	September 2020
Scott Harvey	Engineering	September 2018
James Colvin	Financial/Business	September 2019

Key Management Staff

Eric Tharp is the Acting Chief Executive Officer of the Utilities, Tamela Monroe is the Chief Financial Officer of the Utilities, and Scott Shewey is the General Manager, Financial Services for the Utilities. Brief biographies for Mr. Tharpe, Ms. Monroe, and Mr. Shewey follow:

Eric Tharp, Acting Chief Executive Officer. Eric Tharp was appointed as Acting Chief Executive Officer in May 2018. Mr. Tharp joined the Utilities in 2014 as Chief Energy Services Officer. Prior to joining the Utilities, Mr. Tharp was employed by the Los Angeles Department of Water and Power (“LADWP”) for over 30 years. During his tenure at LADWP he held a variety of positions, most recently as Director of Fuel and Purchased Power. Mr. Tharp has a Masters and a Bachelor of Science degree in Civil Engineering from the University of Missouri.

Tamela Monroe, Chief Planning and Finance Officer. Tamela Monroe joined the Utilities on January 29, 2018 as Chief Planning and Finance Officer. Prior to joining the Utilities, Ms. Monroe was

employed by Omaha Public Power District for over 30 years where she held a variety of financial-related positions, most recently as Senior Director of Business Analysis and Pricing. Ms. Monroe has a Masters of Business Administration from Creighton University and a Bachelor of Science degree in Finance and Accounting from Northwest Missouri State University.

Scott Shewey, General Manager, Financial Services. Scott Shewey has been with the Utilities for 10 years. In that time, he has held positions of SDS Project Manager – Finance, Principal Financial Analyst, Manager – General Accounting and General Manager – Financial Services. Prior to joining the Utilities, Mr. Shewey worked as a financial analyst for SAB Miller and Ford Financial. Mr. Shewey has Bachelor of Science degrees in both Finance and Accounting from Florida State University.

Employees

As of December 31, 2017, the Utilities employed 1,822 full-time employees. The Utilities management believes that relations with its employees are satisfactory.

Retirement Plans

[TO BE UPDATED TO REFLECT SB18-200 AS NEEDED]

The Utilities is a member of and contributes to the Local Government Division Trust Fund of the Public Employees' Retirement Association of Colorado ("PERA"), a multi-employer defined benefit plan. During 2015, 2016, and 2017 the Utilities contributed \$19,687,959, \$20,447,450, and \$20,962,071 respectively, to the PERA plan, which was equal to the Utilities' annual required contribution for each of those years. These amounts include amounts contributed to the Health Care Trust Fund discussed below under "Postemployment Health Care Plan." The rates for employer and employee contributions to PERA are established under State statutes and the Utilities believes its contribution in 2017 complied with such statutes. The Utilities' contribution rate may fluctuate in accordance with the funded (or unfunded) status of the plan. The current statutory employer contribution rate is 8.0% of covered salary for plan members and 10.0% of covered salary for the Utilities. For 2018, the Utilities has budgeted a contribution to the PERA plan of \$21,803,045.

The Utilities adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27 ("GASB 68") and Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions made Subsequent to Measuring Date – An Amendment of GASB Statement No. 68 ("GASB 71") beginning January 1, 2015. See Note 19 and the Required Supplementary Information in the audited financial statements attached hereto as Appendix A. GASB 68 significantly changes pension accounting and financial reporting by separating pension accounting methodologies from pension funding methodologies. Among other requirements, the Utilities is required to report its proportionate share of the total PERA net pension liability ("NPL") in its financial statements. The Utilities' proportionate share of the net pension liability as of December 31, 2017 was \$345.5 million. PERA reports the NPL, measured by an actuarial valuation, and members' proportionate share percentages annually. The NPL represents the present value of projected benefit payments to be provided through the pension plan, less the amount of the plan's fiduciary net position, and will be funded through both employee and employer contributions. The Utilities' actual annual contributions are limited to the rates established by the State Legislature described above.

In 2014, PERA adopted Governmental Accounting Standards Board Statement No. 67, Financial Reporting for Pension Plans ("GASB 67"). The guidance under GASB 67 established a shift from a funding-based approach to an accounting-based approach with the intent of promoting consistency and increased transparency of the pension liability. The annual required contribution ("ARC") was replaced with the plan-specific actuarially determined contribution ("ADC") benchmark to gauge the adequacy of the State's statutory contribution rates. GASB 67 requires the disclosure of the amount of contributions recognized by the pension

plan, the ADC amount, and the difference between these two amounts as Required Supplementary Information (“RSI”). An ADC deficiency arises when actual contributions are less than the ADC. The ADC is calculated using the investment rate of return and discount rate assumptions according to the Board’s funding policy. In 2016, the Local Government Division had an ADC deficiency of \$0.7 million and a cumulative excess of \$236.0 million between 2007 and 2016.

The Utilities is currently required to contribute an amortization equalization disbursement of 2.2% of the employer’s total payroll and a supplemental amortization equalization disbursement of 1.5% of the employer’s total payroll, which is included in the total contribution rate of 13.7% of covered salary. The additional funding requirements are included in the Utilities total contribution amounts denoted above. The amortization equalization disbursement and the supplemental amortization equalization disbursement will remain at that level until adjusted in accordance with Colorado law. Effective January 1, 2011, decreases by 0.5% for each disbursement are mandated when the Local Government Division Trust Fund’s year-end funded status reaches 103.0%, and increases by 0.5% for each disbursement are mandated when the Local Government Division Trust Fund funded status reaches 90.0% and subsequently falls below 90.0%.

The supplemental amortization equalization disbursement is to be financed from monies intended for employee salary increases, to the extent permitted by law.

PERA’s assets and liabilities are divided amongst several trust funds, with the Utilities participating in the Local Government Division Trust Fund and the Health Care Trust Fund. The Health Care Trust Fund is discussed below under “Postemployment Health Care Plans.” According to PERA’s Comprehensive Annual Financial Report for the year ended December 31, 2016 (the “Report”), the Local Government Division Trust Fund had an unfunded actuarial accrued liability of \$1,333,855, and the ratio of the actuarial value of assets to the actuarial accrued liability was 74.4%. These amounts are based on the actuarial and other assumptions set forth in the Report, including an assumed investment rate of return of 7.25% per year.

PERA does not break out the funding status for each participating entity in the Local Government Division Trust Fund; therefore, it may not be possible to determine the City’s allocable share of the unfunded actuarial accrued liability of the Local Government Division Trust Fund. For additional information about PERA and the Local Government Division Trust Fund, see Note 12 to the Financial Statements included in Appendix A. A copy of the Report can be obtained from PERA at www.copera.org or by writing to PERA at 1301 Pennsylvania Street, Denver, Colorado 80203. Investors are advised to review the Report to obtain information about the funding status of the Local Government Division Trust Fund and the assumptions used to calculate such funding status.

Postemployment Health Care Plan

The Utilities contributes to the Health Care Trust Fund, a cost-sharing, multiple-employer postemployment health care plan administered by PERA. The Health Care Trust Fund provides a health care premium subsidy to PERA participating benefit recipients and their eligible beneficiaries. According to the Report, the Health Care Trust Fund had an unfunded actuarial accrued liability of \$1,286,612 as of the end of 2016, and the ratio of the actuarial value of assets to the actuarial accrued liability was 17.4%. These amounts are based on the actuarial and other assumptions set forth in the Report, including an assumed investment rate of return of 7.25% per year.

The Utilities is required to contribute at a rate of 1.02% of covered salary for all PERA members. This amount is included in the statutory employer contribution rate of 10.0% of covered salary discussed above under “Retirement Plans.” The Utilities contribution to the Health Care Trust Fund is included in the total contribution to the PERA plan. No employee contributions are required. The Utilities’ contributions to the Health Care Trust Fund for the years ended December 31, 2015, 2016 and 2017 were \$1,465,778, \$1,522,365 and \$1,560,680 respectively, equal to the required contributions for each year.

PERA does not breakout the funding status for each participating entity in the Health Care Trust Fund; therefore, it is not possible to determine the City's allocable share of the unfunded actuarial accrued liability of the Health Care Trust Fund. For additional information about the Health Care Trust Fund see Note 14 to the Financial Statements included in Appendix A. A copy of the Report can be obtained from PERA at www.copera.org or by writing to PERA at 1301 Pennsylvania Street, Denver, Colorado 80203. Investors are advised to review the Report to obtain information about the funding status of the Health Care Trust Fund and the assumptions used to calculate such funding status.

In accordance with the City Code, the Utilities also offers a health care plan for retirees. Employees eligible to retire prior to January 1, 1979 receive this health care plan without costs to the employee (full coverage) and those eligible to retire after January 1, 1979 and hired prior to August 1, 1988 receive a limited Utilities' contribution (partial coverage) not to exceed \$91.40 per month. During 2017, the Utilities made \$1,241,287 in contributions to the plan consisting of payments totaling \$1,187,834 paid directly to employees/surviving spouses with partial coverage and \$53,453 to employees with full coverage. In addition to regular medical insurance subsidies, Utilities also funds a Medicare supplement for eligible retirees, and in 2017, Utilities paid a total of \$18,312 to eligible retirees. Post-retirement health care benefits are considered to be unfunded since there are no dedicated assets and retiree benefits are paid annually in an amount equal to the benefits distributed or claimed in that year (pay-as-you-go basis).

As of January 1, 2017, the most recent actuarial valuation date, the other post-employment benefits obligation for the Utilities had an unfunded actuarial accrued liability of \$19,800,341.

For more information, see Note 14 to the Financial Statements included in Appendix A.

Summary of Operations

The following summary of operations was derived from the audited financial statements of the Utilities for fiscal years ended December 31, 2013 to 2017 (not taking into account water component units such as joint water authorities). For water component unit information, see Notes 1 and 17 to the Financial Statements included in Appendix A.

The Utilities uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the related liabilities are incurred. All assets and liabilities for these funds are included on the balance sheet with this measurement focus. Net position is segregated into net investment in capital assets, restricted, and unrestricted.

SUMMARY OF OPERATIONS

	<i>Year ended December 31</i>				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Operating Revenues ⁽¹⁾	\$ 823,759,529	\$ 868,847,747	\$ 830,820,813	\$ 793,292,942	\$ 839,822,300
Operating and Other Expenses:					
Operating Expenses: ⁽¹⁾					
Production and Treatment	\$ 153,634,499	\$ 155,521,610	\$ 137,547,139	\$ 136,020,467	\$ 137,311,177
Purchased Power, Gas and Water for Resale	168,003,399	184,585,684	121,158,448	103,729,998	125,253,944
Transmission and Distribution	39,342,897	40,281,124	40,469,104	41,359,461	43,171,241
Maintenance	63,023,290	61,436,693	61,106,731	63,173,224	68,191,087
Administration and General	93,143,285	95,046,556	102,570,936	119,931,173	157,179,237 ⁽²⁾
Customer Service and Information	11,027,005	10,354,189	11,606,789	12,725,576	14,425,593
Customer Accounting and Collection	20,362,110	19,385,277	18,852,540	18,510,043	18,685,796
Products and Services	12,105	6,317	625	24	88
Franchise Taxes	289,996	303,178	303,927	299,095	311,489
Depreciation and Amortization	<u>118,430,128</u>	<u>119,842,074</u>	<u>120,099,931</u>	<u>129,693,856</u>	<u>151,983,064</u>
Total Operating Expenses	<u>\$ 667,268,714</u>	<u>\$ 686,762,702</u>	<u>\$ 613,716,170</u>	<u>\$ 625,442,917</u>	<u>\$ 716,512,716</u>
Operating Income	\$ 156,490,815	\$ 182,085,045	\$ 217,104,643	\$ 167,850,025	\$ 123,309,584
Non-Operating Revenues (Expenses)					
Derivatives Instruments Gain/Loss	\$ (67,935,921)	\$ (30,067,132)	\$ 3,462,806	\$ 19,107,213	\$ 8,556,190
Investment Income	2,322,578	2,184,880	2,207,045	3,125,982	3,211,581
Other Revenues ⁽³⁾	16,679,905	16,107,988	13,306,323	17,766,122	12,459,498
Other Expenses	(5,276,473)	(3,560,054)	(1,951,162)	(2,715,281)	(4,336,001)
Interest Expense	<u>(81,468,977)</u>	<u>(77,485,447)</u>	<u>(73,593,102)</u>	<u>(86,168,070)</u>	<u>(94,244,128)</u>
Total Non-Operating Revenues (Expense)	<u>\$ (135,678,888)</u>	<u>\$ (92,819,765)</u>	<u>\$ (56,568,090)</u>	<u>\$ (48,884,034)</u>	<u>\$ (74,352,860)</u>
Income (Loss) before Contributions, Transfers, and Extraordinary Items	\$ 20,811,927	\$ 89,265,280	\$ 160,536,553	\$ 118,965,991	\$ 48,956,724
Contributions in Aid of Construction	44,490,038	47,073,875	44,681,903	52,833,199	56,491,029
Transfers Out – Surplus Payments to the City	(31,844,422)	(31,454,151)	(31,251,419)	(31,408,269)	(30,966,579)
Transfers – Other	(308,288)	(601,481)	276,960	(128,425)	(301,437)
Extraordinary Expense ⁽⁴⁾⁽⁵⁾	<u>(507,495)</u>	<u>--</u>	<u>--</u>	<u>(9,810,541)</u>	<u>--</u>
Change in Net Position	\$ 32,641,760	\$ 104,283,523	\$ 174,243,997	\$ 130,451,955	\$ 74,179,737
Total Net Position, January 1 ⁽⁶⁾	<u>\$1,453,355,866</u>	<u>\$1,485,997,626</u>	<u>\$1,397,645,665</u>	<u>\$1,571,889,662</u>	<u>\$1,702,341,617</u>
Total Net Position, December 31	<u>\$1,485,997,626</u>	<u>\$1,590,281,149</u>	<u>\$1,571,889,662</u>	<u>\$1,702,341,617</u>	<u>\$1,776,521,354</u>

⁽¹⁾ Operating Revenues and Operating Expenses are shown net of interdepartmental sales transactions.

⁽²⁾ Increase in Administration and General expense from 2016-2017 is primarily attributable to a \$31,000,000 increase in employee Pension and Benefits expense in 2017. For more information see Note 12 in the 2017 Audited Financial Statements.

⁽³⁾ Includes accrued interest earnings subsidies from the United State Treasury for previously issued utilities system revenue bonds designated as "Build America Bonds": 2013 - \$7,875,124; 2014 - \$7,933,210; 2015 - \$7,949,572; 2016 - \$7,953,143; 2017 - \$7,965,437.

⁽⁴⁾ In September 2013, significant rainfall and flooding occurred in Utilities' service area and surrounding areas causing significant damage to some of the Utilities' infrastructure and assets, including some which were permanently impaired. This rainfall and subsequent flooding were rare and unusual based upon historical rainfall patterns in the Utilities' service area. In accordance with GASB 42, an extraordinary expense has been recognized. For more information see Note 19 in the 2013 Audited Financial Statements.

⁽⁵⁾ In 2016, Drake unit 5 was decommissioned. In accordance with GASB 42, an extraordinary expense has been recognized. For more information see Note 5 in the 2017 Audited Financial Statements.

⁽⁶⁾ Beginning year net position for 2015 has been restated from \$1,590,281,149 to \$1,397,645,665 to reflect the implementation of GASB 68 and GASB 71. For more information see Note 19 of the 2017 Audited Financial Statements.

Pursuant to GASB 34, the audited financing statements attached as Appendix A hereto include a management discussion and analysis for the fiscal year ended December 31, 2017.

Financial Statements

The Utilities' Statements of Net Position for the periods ended December 31, 2013 through December 31, 2017, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows for the years ended December 31, 2013 through December 31, 2017 have been audited by Baker Tilly Virchow Krause, LLP, the Utilities' independent certified public accountants. The Financial Statements and the report of the independent certified public accountants as of and for the years ended December 31, 2016 and 2017 are included as Appendix A to this Official Statement.

Outstanding Utilities Revenue Bonds and Other Obligations

Upon issuance of the Bonds, \$_____*

in aggregate principal of Parity Bonds (including the Bonds) will be outstanding which have a parity lien on the Net Pledged Revenues. The City is prohibited from issuing additional bonds with a lien on the Net Pledged Revenues which is superior to the Parity Bonds (including the Bonds).

The City has entered into a \$60.0 million revolving loan agreement with U.S. Bank National Association dated as of September 8, 2016, that currently expires on September 9, 2019 (the “Revolving Loan Agreement”). The City may receive advances up to the maximum amount of the Revolving Loan Agreement in order to fund the Utilities’ operating needs and normal expenditures including, without limitation, regularly scheduled capital expenses. The City’s repayment obligations under the Revolving Loan Agreement is limited to the Net Pledged Revenues on a subordinate basis to the Parity Bonds and certain related obligations. The City has entered into other similar revolving loan agreements beginning in 2002 and, to date, the City has not initiated advances under any such agreement.

The Utilities has authorized Commercial Paper Notes in the maximum principal amount of \$150,000,000, of which \$-0- is expected to outstanding upon issuance of the Bonds. The lien on the Net Pledged Revenues which secures the Commercial Paper Notes is subordinate to the lien thereon securing the Parity Bonds (including the Bonds), and on a parity with the lien thereon securing the City’s repayment obligations under the Revolving Loan Agreement.

Liquidity/Support Facilities

The City has the following outstanding Parity Bonds and Commercial Paper which are supported by Support Facilities. These Support Facilities are listed in the table below.

* Preliminary; subject to change.

Support Facilities

<i>Name of Support Facility Provider</i>	<i>Series of Bonds</i>	<i>Total Outstanding Amount of Associated Bonds or Commercial Paper</i>	<i>Ratings of Provider⁽¹⁾</i>	<i>Stated Termination Date(s) of Support Facility(ies)</i>
Bank of America N.A.	Commercial Paper	-0- ⁽²⁾	P-1/A-1/F1	12/7/2018
Barclays Bank PLC	2010C	43,015,000	P-1/A-1/F1	10/25/2021
JPMorgan Chase Bank, N.A.	2006A ⁽³⁾	58,375,000	P-1/A-1/F1+	09/14/2018
Landesbank Hessen-Thuringen Girozentrale	2000A, 2006B	175,550,000 ⁽⁴⁾	P-1/A-1/F1+	11/29/2020; 09/13/2021
Mizuho, Ltd.	2002C, 2005A	110,275,000 ⁽⁵⁾	P-1/A-1/F1	09/13/2019; 09/13/2019
Sumitomo Mitsui Banking Corporation	2007B ⁽³⁾ , 2009C	148,410,000 ⁽⁶⁾	P-1/A-1/F1	09/14/2021; 09/16/2022
U.S. Bank National Association	2008A, 2012A	85,420,000 ⁽⁷⁾	P-1/A-1+/F1+	08/31/2020; 09/14/2018
Wells Fargo Bank, National Association	2007A	62,105,000	P-1 /A-1/F1+	09/22/2020

⁽¹⁾ Short-term ratings by Moody's Investors Service Inc. ("Moody's"), S&P Global Ratings, a business unit of Standard and Poor's Financial Services LLC ("S&P"), and Fitch Ratings, respectively.

⁽²⁾ Outstanding principal amount as of the date of this Official Statement. The Liquidity Facility provided by Bank of America, N.A. allows for issuance of up to \$150,000,000 in Commercial Paper Notes.

⁽³⁾ The City, on behalf of the Utilities, intends to refund these bonds with proceeds of the Series 2018A-1 Bonds and terminate the related swap and liquidity facility.

⁽⁴⁾ \$110,000,000 associated with the 2000A Bonds and \$65,550,000 associated with the 2006B Bonds.

⁽⁵⁾ \$27,055,000 associated with the 2002C Bonds and \$83,220,000 associated with the 2005A Bonds.

⁽⁶⁾ \$87,275,000 associated with the 2007B Bonds and \$61,135,000 associated with the 2009C Bonds.

⁽⁷⁾ \$41,260,000 associated with the 2008A Bonds and \$44,160,000 associated with the 2012A Bonds.

For a description of some of the risks in connection with these Support Facilities, see "INVESTMENT CONSIDERATIONS—Risks Regarding Liquidity Facilities."

The obligation of the City to make payments under any of the Support Facilities for the Parity Bonds discussed above is secured by a lien on the Net Pledged Revenues which is on parity with the lien thereon of the Parity Bonds (including the Bonds). The obligation of the City to make payments under the Support Facility for the Commercial Paper discussed above is secured by a lien on the Net Pledged Revenues which is subordinate to the lien thereon of the Parity Bonds (including the Bonds).

Interest Rate Swap Agreements

Summary of Current Interest Rate Swap Agreements. The City, on behalf of the Utilities, has entered into various interest rate swap agreements. Set forth below is a summary of the interest rate swap agreements entered into by the City on behalf of the Utilities.

Interest Rate Swap Agreements

<u>Name of Swap</u>	<u>Counterparty</u>	<u>Counterparty Rating</u>	<u>Notional Amount</u>	<u>Fixed Rate Payable by the City</u>	<u>Variable Rate Payable to the City</u>	<u>Associated Bond Issue</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Mark to Market Value as of 12/31/2017⁽¹⁾</u>
2005 SIFMA Swap	Bank of America, N.A.	Aa3/A+/A+	\$ 62,737,500	4.7099%	SIFMA	2005A	09/15/05	11/1/35	(\$16,601,262)
2005 SIFMA Swap	J. Aron & Co.	A3/BBB+/A ⁽¹⁾	20,912,500	4.7099	SIFMA	2005A	09/15/05	11/1/35	(5,533,754)
2006 Refunding LIBOR Swap ⁽²⁾	JP Morgan Chase Bank	Aa3/A+/AA-	58,375,000	4.4810	68% of LIBOR	2006A	08/24/06	11/1/25	(11,332,098)
2006 New Money LIBOR Swap	Morgan Stanley Capital Group Inc.	A3/A+/A ⁽¹⁾	39,330,000	4.1185	68% of LIBOR	2006B	09/14/06	11/1/36	(9,942,433)
2006 New Money LIBOR Swap	JP Morgan Chase Bank	Aa3/A+/AA-	26,220,000	4.1185	68% of LIBOR	2006B	09/14/06	11/1/36	(6,628,288)
2007 New Money LIBOR Swap	J. Aron & Co.	A3/BBB+/A ⁽¹⁾	37,263,000	3.1980	68% of LIBOR	2007A	9/13/07	11/1/37	(6,037,363)
2007 New Money LIBOR Swap	Morgan Stanley Capital Group Inc.	A3/A+/A ⁽¹⁾	24,842,000	3.1980	68% of LIBOR	2007A	9/13/07	11/1/37	(4,024,909)
2007 Refunding SIFMA Swap ⁽²⁾	The Bank of New York Mellon	Aa2/AA-/AA-	87,275,000	5.2950	SIFMA	2007B	10/01/07	11/1/26	(21,045,002)
2008 SIFMA Swap	Bank of America, N.A.	Aa3/A+/A+	41,260,000	4.2686	SIFMA	2008A	09/12/08	11/1/38	(10,317,135)
2009 LIBOR Swap	Wells Fargo Bank, N.A.	Aa2/AA-/AA-	58,975,000	5.4750	68% of LIBOR	2009C	10/01/09	11/1/28	(20,943,718)
2010 LIBOR Swap	Morgan Stanley Capital Group Inc.	A3/A+/A ⁽¹⁾	43,015,000	3.8807	68% of LIBOR	2010C	10/26/10	11/1/40	(11,315,515)
2012 LIBOR Swap	Morgan Stanley Capital Group Inc.	A3/A+/A ⁽¹⁾	44,160,000	4.0242	68% of LIBOR	2012A	03/15/12	11/1/41	(12,827,916)

⁽¹⁾ Ratings at 12/31/2017 of the respective parent companies by Moody's, S&P and Fitch, respectively.

⁽²⁾ The City, on behalf of the Utilities, intends to refund these bonds with proceeds of the Series 2018A-1 Bonds and terminate the related swap and liquidity facility.

Source: George K. Baum & Company, a third party valuation service provider. The Mark to Market values shown on this table generally represent the difference between the present value of the fixed rate payments to be made by the City and the present value of the variable rate payments to be made by the applicable swap counterparty, as of the date noted. When the present value of the payments to be made by the City exceeds the present value of the payments to be made by the applicable counterparty, the applicable swap agreement has a negative Mark to Market value to the City. When the present value of the payments to be made by the applicable counterparty exceeds the present value of the payment to be made by the City, the applicable swap agreement has a positive Mark to Market value to the City. If at the time of termination the applicable swap agreement has a negative Mark to Market value to the City, the City would be liable to the counterparty for a payment equal to such value. None of the counterparties has the right to terminate the applicable swap agreement unless the City is in default in its obligations under the swap agreement. The Mark to Market values are shown for informational purposes only and, unless the applicable swap agreement is terminated, do not impact the financial condition of the Utilities.

[Discussion of swap termination policy currently being considered]

Risks Associated with Collateral Posting. The swap agreements discussed above have provisions relating to collateral posting by each party. Collateral postings are required to protect either party from risk of default on the financial derivatives used in the hedging transaction. As the mark to market value of the financial derivative changes according to market conditions, the party incurring a “negative” mark to market position on the financial instrument will be required to post collateral as the negative value reaches predefined thresholds. Specifically, the Utilities may be obligated to post collateral with the applicable counterparty if the market value of an agreement decreases according to market conditions. Conversely, as the market value of an agreement increases, the mark to market value favors the Utilities and the Utilities may require the counterparty to post collateral. If an agreement is terminated prior to its stated expiration date due to default, any collateral posted by a party would be retained by the other party. As of December 31, 2017, the Utilities had posted \$14.7 million in collateral, with the various counterparties to the interest rate swap agreements discussed above.

Currently, the Utilities has no existing gas hedge agreements. For a discussion of the Utilities’ gas hedge program, see “THE GAS SYSTEM—Gas Price Hedge Program.”

Priority of Interest Rate Swap Payment Obligations. The obligation of the City to make payments under any of the interest rate swap agreements discussed above, other than termination payments, is secured by a lien on the Net Pledged Revenues which is on parity with the lien thereon of the Parity Bonds (including the Bonds). The obligation of the City to make any termination payments under any of the interest rate swap agreements discussed above is payable from surplus revenues remaining after payment on Parity Bonds (including the Bonds) and subordinate lien bonds, including the Commercial Paper Notes.

Debt Service Reserve Surety Providers

The Bonds and a portion of the outstanding Parity Bonds are secured by reserve funds that have been funded with debt service reserve surety policies provided by Assured Guaranty Municipal Corp. (“AGMC”) (as successor to Financial Security Assurance Inc.), and National Public Finance Guarantee Corporation

("NPFGC") (as successor to MBIA Insurance Corporation) in lieu of cash deposits. Each series of Parity Bonds is secured by its own reserve fund. The total face amount of the reserve fund surety policies provided by AGMC is \$_____* , and the total face amount of reserve fund surety policies provided by NPFGC is \$_____. In the event that there are insufficient Net Pledged Revenues available to pay the debt service on the Parity Bonds which are secured by such surety policies, it may become necessary for the City to draw upon its surety policies in order to make a portion of such debt service payments. In the event that AGMC or NPFGC fails to honor such a draw, the Bonds could be negatively impacted; however, the full extent of such impact cannot be measured at this time. The City has no obligation to replace any of the providers of the debt service reserve surety policies or deposit additional cash, securities, or debt service reserve surety policies into reserve funds if the respective ratings of the providers are lowered. While the reserve funds containing the City's debt service reserve surety policies do not secure the Bonds, the Parity Bonds that are secured by such reserve funds have a parity lien upon the Net Pledged Revenues and a default under any of the Parity Bond ordinances for failure to pay debt service on such Parity Bonds would be a default under the Bond Ordinance.

Other Fixed Cost Obligations

In addition to the Parity Bonds, the City has other fixed cost obligations relating to the Utilities. These include, but are not limited to, payments to the authorities in which the City and/or the Utilities is a member, and payments to the U.S. Department of Energy, Western Area Power Administration ("WAPA"), and payments to General Electric International, Inc. pursuant to a maintenance contract for the Utilities' Front Range Power Plant. These payments are primarily treated as operation and maintenance expenses of the System and are therefore payable prior to debt service on the Parity Bonds.

For the fiscal year ended December 31, 2017, the City made the following payments pursuant to these obligations: (a) \$5,579,774 to Fountain Valley Authority; and (b) \$5,731,532 to WAPA. The Utilities also estimates that it will pay \$5,574,537 and \$5,257,939 to Fountain Valley Authority and WAPA, respectively, in the fiscal year ending December 31, 2018. In December 2010, the City acquired Front Range Power and the Front Range Power Plant. The City has a contract with General Electric International, Inc. for maintenance of the Front Range Power Plant. For the fiscal year ended December 31, 2017, the City paid \$1,538,521 under this contract. In 2018, such payments are estimated to total \$4,227,003. The annual costs of maintenance pursuant to this contract will fluctuate because the required maintenance pursuant to this contract is based upon total run hours on the turbine.

Debt Service Coverage

The ordinances governing the Parity Bonds include a rate covenant requiring that rates charged to users of the System's services be sufficient so that the ratio of Net Pledged Revenues to debt service on the Parity Bonds for the current fiscal year will be at least 1.30 (the "Rate Coverage Ratio"). Historically, the City has maintained debt service coverage greater than the required Rate Coverage Ratio of 1.30.

A separate debt service coverage covenant in the Bond Ordinance, applicable to the Utilities' issuance of additional bonds in certain situations, requires the ratio of Net Pledged Revenues to Average Annual Principal and Interest Requirements to be at least 1.30 (the "Additional Bonds Coverage Ratio").

The table on the following page shows debt service coverage as calculated by the Utilities with respect to the years indicated (without taking into account component units) using the Average Annual Principal and Interest Requirements as of each year (as required for the Additional Bonds Coverage Ratio) and using the fiscal year debt service for each year (as required for the Rate Coverage Ratio):

* Preliminary, subject to change.

Debt Service Coverage

	<i>Fiscal Year Ended December 31</i>				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Operating Revenues	\$ 823,759,529	\$ 868,847,747	\$ 830,820,813	\$ 793,292,942	\$ 839,822,300
Operating Expense	(667,268,714)	(686,762,702)	(613,716,169)	(625,442,918)	(716,512,716)
GASB 68 expenses ⁽¹⁾			6,773,286	11,612,732	42,730,514
Depreciation and Amortization	<u>\$ 118,430,128</u>	<u>\$ 119,842,074</u>	<u>\$ 120,099,931</u>	<u>\$ 129,693,856</u>	<u>\$ 151,983,064</u>
Operating Revenues Available For Debt Service	\$ 274,920,943	\$ 301,927,119	\$ 343,977,861	\$ 309,156,612	\$ 318,023,162
Interest Earnings (excl. interest on bonds) ⁽²⁾	8,431,662	8,423,858	8,604,113	9,068,244	9,830,731
Development Fees ⁽³⁾	<u>30,766,658</u>	<u>29,194,146</u>	<u>28,654,702</u>	<u>35,465,693</u>	<u>34,340,473</u>
Net Pledged Revenues	<u>\$ 314,119,263</u>	<u>\$ 339,545,123</u>	<u>\$ 381,236,676</u>	<u>\$ 353,690,549</u>	<u>\$ 362,194,366</u>
Average Annual Principal and Interest Requirements	\$ 112,483,565	\$ 112,667,232	\$ 110,700,469	\$ 108,666,374	\$ 110,700,274
Additional Bonds Coverage Ratio	2.79	3.01	3.44	3.25	3.27
Fiscal Year Debt Service Rate Coverage Ratio	\$ 154,192,910 2.04	\$ 162,598,321 2.09	\$ 167,284,812 2.28	\$ 175,109,056 2.02	\$ 175,420,295 2.06

⁽¹⁾ Adjustment for GASB Statement No. 68 (Accounting and Financial Reporting for Pensions) implemented in 2015 which is a non-cash expense.

⁽²⁾ Interest Earnings include Build America Bond cash payment subsidies received: 2013 - \$7,870,848; 2014 - \$7,930,703; 2015 - \$7,947,804, 2016 - \$7,964,905, and 2017 - \$7,956,141.

⁽³⁾ Development Fees are cash contributions for general and specific utilities capital projects. These fees are utilized to compensate existing customers for the costs of developing the System and to help pay for the growth of the System caused by new customers.

The Utilities' goal is a Rate Coverage Ratio of 2.0 or greater, prior to making any surplus payments to the City. See "—Surplus Payments" above. However, actual coverage ratios will be a function of not only the Utilities' long term capital structure but also the specific costs and revenues in each year. This can be significantly impacted by economic conditions, annual weather variations, volatility in fuel and power markets, and other factors.

Debt Service Schedule

The following table sets forth the estimated debt service schedule for the Bonds and the outstanding Parity Bonds. This table does not reflect the refunding of the Refunded Obligations. See APPENDIX G – THE REFUNDING PLAN.

Year	Debt Service on Outstanding Parity Bonds ^{(1) (2)}	Series 2018A-1 Bonds		Series 2018A-2 Bonds		Series 2018A-3 Bonds		Series 2018A-4 Bonds		Total Debt Service Requirements
		Principal ⁽³⁾	Interest	Principal ⁽³⁾	Interest	Principal ⁽³⁾	Interest	Principal ⁽³⁾	Interest	
2018										
2019										
2020										
2021										
2022										
2023										
2024										
2025										
2026										
2027										
2028										
2029										
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2047										
2048										
2049										
2050										
2051										

(1) Exclusive of costs associated with Support Facilities.

(2) Includes principal, interest and mandatory sinking fund payments with respect to the Parity Bonds, excluding the Bonds. Interest does not reflect subsidy expected to be received on outstanding Build America Bonds. This assumes an interest rate of 4.00% for the variable rate 2000A Bonds, an interest rate of 4.90% for the variable rate 2002C Bonds and an interest rate of 3.00% for the unhedged portion of the 2009C Bonds. This also assumes an interest rate of 4.7099% for the 2005A Bonds, an interest rate of 4.4810% for the 2006A Bonds, an interest rate of 4.1185% for the 2006B Bonds, an interest rate of 3.198% for the 2007A Bonds, an interest rate of 5.295% for the 2007B Bonds, an interest rate of 4.2686% for the 2008A Bonds, an interest rate of 3.8807% for the 2010C Bonds, and an interest rate of 4.0242% for the 2012A Bonds based upon swap agreements related to these bonds. Assumes an interest rate of 5.475% for \$61,475,000 of the 2009C Bonds based upon the swap agreement related to that portion of the 2009C Bonds. See “—Interest Rate Swap Agreements” above.

(3) Includes principal and mandatory sinking fund payments with respect to the Bonds.

Source: George K. Baum & Company, as Financial Advisor.

Financial Risk Management Policy

The Utilities has adopted a Financial Risk Management Policy as part of a broader Enterprise Risk Management Policy. The stated goals of the Financial Risk Management Policy are to minimize debt cost, maintain quality credit ratings, balance risk and benefits, and maintain financial flexibility. The primary features of the Financial Risk Management Policy are discussed below.

Risk Management Committee. As part of an enterprise wide risk management initiative, Utilities has formed a Risk Management Committee which reports to the Chief Executive Officer. The committee, along with the Chief Executive Officer, is responsible for the overall direction, structure, conduct, control, and reporting of the Utilities’ risk management activities. The committee’s voting members consist of the officers (except for the Chief Executive Officer) of the Utilities.

Variable Rate Debt. Currently, the Utilities has ____% of its total outstanding debt in a variable rate structure which is hedged. These bonds include the outstanding:

- Variable Rate Demand Utilities System Subordinate Lien Improvement Revenue Bonds, Series 2005A,
- Variable Rate Demand Utilities System Subordinate Lien Improvement and Refunding Revenue Bonds, Series 2006A,
- Variable Rate Demand Utilities System Subordinate Lien Improvement Revenue Bonds, Series 2006B,
- Variable Rate Demand Utilities System Improvement Revenue Bonds, Series 2007A,
- Variable Rate Demand Utilities System Improvement and Refunding Revenue Bonds, Series 2007B,
- Variable Rate Demand Utilities System Improvement Revenue Bonds, Series 2008A,
- A portion of Variable Rate Demand Utilities System Refunding Revenue Bonds, Series 2009C,
- Variable Rate Demand Utilities System Improvement Revenue Bonds, Series 2010C, and
- Variable Rate Demand Utilities System Improvement Revenue Bonds, Series 2012A.

Upon issuance of the Bonds and completion of the Refunding Project, the Utilities expects to have ____%* of its total outstanding debt in a variable rate structure which is hedged.

Pursuant to the Utilities' Financial Risk Management Policy, the Utilities is allowed to have up to 30% of its total outstanding debt in unhedged variable rate debt. As of December 31, 2017, the Utilities had 6.8% of its total outstanding debt (including the Commercial Paper Notes) in a variable rate structure which is not hedged. Upon issuance of the Bonds and completion of the Refunding Project, the Utilities expects to have ____%* of its total outstanding debt in a variable rate structure which is not hedged.

Credit Risk. Pursuant to the Utilities' Financial Risk Management Policy, all counterparties in swap or other financial products agreements with the Utilities must have a long-term credit rating in the "A-" category issued by at least one major credit rating agency at the time of execution of such swap or financial products agreement, though there is no requirement that such a rating be maintained throughout the life of the financial products agreement. In the alternative, a counterparty must provide a guarantee, swap surety, or other form of credit enhancement such that its enhanced creditworthiness is in at least the "A-" category at the time of execution of such swap or financial products agreement.

Capital Improvements

The 2018 Annual Budget approved by City Council on November 14, 2017 included total capital expenditures of approximately \$193.0 million. This is approximately \$7.4 million less than the budgeted amount for 2017. Electric projects account for 38.2% of the total major capital projects budget. Combined water and wastewater projects account for 42.8% of the total.

Some of the major projects included as a part of the Utilities' capital improvement program are described under "THE ELECTRIC SYSTEM – Environmental Regulation," "THE WATER SYSTEM – Capital Improvements to the Water System," and "THE WASTEWATER SYSTEM – Capital Improvements to the Wastewater System." Capital expenditures are currently budgeted to total approximately \$916.1 million through 2022. The Utilities' forecasts of its long range capital expenditures and the timing of construction of a number of the proposed major capital projects are dependent on future economic conditions, population growth within the Utilities' service areas and other factors beyond its control, such as environmental regulations. The ability of the Utilities to construct these projects in the projected timeframes and to maintain the Rate Coverage Ratio at historical levels will depend, in part, upon rate increases in future years.

* Preliminary; subject to change

Tax and Spending Limits

In 1991, the City's voters approved an amendment to the Charter (the "Charter Amendment"), and in 1992, the State's voters approved an amendment to the Colorado Constitution (the "Constitutional Amendment" and together with the Charter Amendment, the "Amendments"). The Amendments are similar and attempt to restrict the City's spending by (a) limiting the amount by which fiscal year spending may change from year to year in accordance with a formula based upon inflation and City growth, (b) limiting annual changes in City property taxes in accordance with a formula based upon inflation and City growth and (c) requiring voter approval in advance for new taxes, tax rate increases, certain property tax mill levies and the creation of most direct or indirect City obligations. While several provisions of the Amendments have been interpreted by the courts, many provisions remain unclear and may require judicial interpretation in the future.

Both Amendments, however, exclude "enterprises," which are defined as government-owned-business authorized to issue revenue bonds and receiving under 10% of annual revenue in grants from all state and local governments combined. Management of the Utilities believes that the Utilities currently constitutes an "enterprise" under the Amendments due to the level of revenues it currently receives from governmental grants. Management of the Utilities also considers it extremely unlikely that in the future the Utilities would receive a sufficient percentage of its revenues from government grants to cause the Utilities to lose its status as an "enterprise" for purposes of the Amendments.

If the Utilities ever ceases to be an enterprise within the meaning of either of the Amendments, the Utilities' spending and revenues would become integrated with the City's overall spending and revenues for purposes of compliance with the applicable Amendment. In such a situation, the applicability of the spending and revenue limitations upon the Utilities could restrict the Utilities' ability to spend the Utilities' revenues in excess of such limitations absent voter approval. The effect of any future inclusion of the Utilities as part of the City's compliance with the limitations of the Amendments would depend on the City's overall spending and revenues at that time. Furthermore, the provisions of the Amendments requiring voter approval for City obligations would apply to future bond issues of the Utilities, including certain refunding bonds, and the Constitutional Amendment's 3% reserve requirement would become applicable to the City, which would then include the Utilities as part of the City. Even if the Utilities ceases to have enterprise status within the meaning of either of the Amendments, however: (i) the City could still impose increased fees, rates and charges for the Utilities without voter approval; (ii) the rate covenant and the lien on Net Pledged Revenues provided for in the Bond Ordinance will continue to secure the payment of debt service on the Bonds; and (iii) if the City is required to reduce spending in order to comply with its overall spending limit, the City would first be required to reduce spending for purposes for which it does not have an obligation under law or by contract prior to reducing spending required to comply with its covenants related to outstanding indebtedness (including the debt of the Utilities).

The City and the Utilities have not conducted a detailed analysis, however, of the overall impact on the City and the Utilities if the Utilities ever ceases to qualify as an "enterprise;" accordingly, no representation can be made as to the overall impact of the Amendments on the future activities of the Utilities.

Insurance

The Utilities' Enterprise Risk Management group is responsible for developing the process to identify, prioritize, and report risks so that appropriate mitigation plans are developed and implemented to protect and enhance the business performance of the Utilities. The program requires specific risk mitigation policies, plans and procedures be maintained to identify significant risks, document risk mitigation plans, and ongoing monitoring and communication.

As part of this broader enterprise risk process, the Utilities manages an ongoing insurance risk management program, insuring against both hazard and liability exposures where appropriate. Working with

insurance providers and the Utilities' operations, loss tolerances are identified and insured through the provider, or are self-insured.

The Utilities has insurance policies covering damages due to most types of major losses. Property insurance for physical damage is purchased commercially for the Utilities' facilities and for most of the infrastructure (excepting transmission lines, underground piping, and dams). Coverage for losses under the Terrorism Risk Insurance Act is purchased under the property insurance. The Utilities also purchases comprehensive information security and privacy "cyber" liability insurance, with a retention level of \$1,000,000 per occurrence.

The Utilities is covered under the Colorado Governmental Immunity Act for certain liability claims. The Colorado Governmental Immunity Act provides the maximum amount that may be recovered through tort claims under Colorado law of \$350,000 for any injury to one person in any single occurrence and \$990,000 for any injury to two or more persons in any single occurrence. To cover auto and general liability exposures not covered by the Colorado Governmental Immunity Act, the Utilities purchases excess liability coverage, with a retention level of \$1,000,000 per occurrence.

The Utilities accrues on its Statements of Net Position as a liability an amount estimated for public officials', general and auto liability claims. As of December 31, 2017, the Utilities' Statements of Net Position reflected an accrual of \$4,641,235.

Workers' compensation claims are self-insured and managed by City in-house staff. An excess workers' compensation liability insurance policy is purchased for statutory benefits in excess of \$750,000 per occurrence. The Utilities also contributes, along with the City, to a joint Workers' Compensation Self-Insurance Fund. The Utilities' outstanding workers' compensation claims are reserved at \$1,084,864 as of December 31, 2017, under the City's self-insurance fund. The City believes that any liability arising out of unforeseen losses will not materially impact Utilities' financial position. This balance is not reflected on Utilities' Statements of Net Position.

Infrastructure Security

The Utilities is committed to ensuring reliability of service through the protection of its critical infrastructure and by providing a secure environment for employees and customers. Federal directives and mandates such as the North American Electric Reliability Corporation Critical Infrastructure Protection Standards, Department of Homeland Security Chemical Facility Anti-Terrorism Standards, Department of Homeland Security Critical Infrastructure Protection Program, and Fair and Accurate Credit Transactions Act require the development, implementation, and ongoing administration of security programs and plans to protect critical infrastructure, cyber assets and customer information. In addition, the Utilities Governance Policy requires that programs, policies and processes be in place to protect corporate assets including, but not limited to, physical assets, intangible assets, intellectual property, confidential customer information and records. Finally, the Utilities' commitment to the corporate values around "people" and "safety" ensures through its practices that employees and customers conduct business in a safe and secure environment.

Actions taken because of federal and state mandates, critical infrastructure risk and vulnerability assessments, and the Utilities Governance Policy focus on defense in depth through a philosophy of deter, detect, delay, and defend. Physical hardening includes technology measures such as surveillance and intrusion detection systems, the addition and placement of trained security personnel to protect critical utilities infrastructure, personnel and cyber assets and active partnerships with local and federal law enforcement agencies. Cyber security measures include an identity theft prevention program to protect customer information, and enhanced information technology vulnerability assessments, controls and training to mitigate the risk of compromising systems and business information and active monitoring and defense of cyber systems. Overall, the Utilities' approach to security is one of balancing cyber security technology with physical security controls and response.

Emergency Management and Business Continuity programs for the Utilities centers on a business model which integrates the practices and principles of emergency operations and continuity of operations planning. These programs target an enhanced enterprise-wide state of readiness which embodies crisis management preparedness for the four utility services as well as support departments. Initiatives associated with this model include a comprehensive risk assessment approach which involves a joint Threat and Hazard Vulnerability Analyses and enhanced Business Impact Analysis model; the consolidation of approximately 40 disparate emergency/continuity plans into a single Emergency Operations Plan hierarchy with functional and/or risk specific subordinate Emergency Continuity Plans; the creation of a formal Crisis Management Team; Utility focused Crisis Management Team – Incident Command System 300 Level training for all Crisis Management Team personnel; and the development of a series of Crisis Management Team tabletop and functional exercises. Dam emergency planning is also being enhanced to include outreach and orientations to emergency managers and public safety personnel in communities where the Utilities’ dams pose a risk.

Investment Policy

Pursuant to a City Council resolution, the Chief Executive Officer implemented the “Colorado Springs Utilities Investment Policy” (the “Investment Policy”). The most recent revision to the Investment Policy is dated February 28, 2017. The principal objectives of the Investment Policy are: (a) the preservation of capital and protection of investment principal; (b) maintenance of sufficient liquidity to meet anticipated cash flows; (c) diversification to avoid unreasonable market risk; (d) attainment of a market rate of return; (e) conformance with all City, state and federal regulations; and (f) conformance with all applicable bond ordinance provisions for the outstanding utilities revenue bonds. Consistent with the Utilities’ Financial Risk Management Policy, at the time of selection, only financial institutions and banks with a minimum credit rating (long-term) in the “A-” category by at least one of the three major credit rating agencies (Moody’s, Standard and Poor’s and Fitch) shall be eligible to provide safekeeping and custodial services to the Utilities. In the absence of this minimum rating requirement, financial institutions and banks may also provide a guarantee, swap surety or other form of enhancement to get to the “A-” category at the time of execution. All banks must be members of the FDIC.

THE ELECTRIC SYSTEM

The Electric System provides retail service to metropolitan Colorado Springs, Manitou Springs, and portions of the City of Fountain, and delivers special contract power to the Academy, Peterson, [Cheyenne Mountain Air Force Station], and Fort Carson. More than 90% of the population of El Paso County (the “County”) is directly or indirectly served by the Electric System.

The Utilities has the electric franchise to serve Manitou Springs through July 2024. As part of its agreement with Manitou Springs, the Utilities must pay Manitou Springs a franchise fee equal to 8% of the gross revenues from the electric service provided to customers within the municipal limits of Manitou Springs.

The Utilities also has the electric franchise to serve portions of the City of Fountain through December 2033. As part of its agreements with the City of Fountain, the Utilities will not pay a franchise fee for electric service within the current service area of City of Fountain.

Electric Rates

In addition to base electric rates, the Utilities charges customers an electric cost adjustment, which recovers fuel and purchased power-related costs. The electric cost adjustment may be changed as frequently as monthly to reflect actual costs of fuel and purchased power to customers on a timely basis.

The following base rates for residential and small commercial service have been in effect since January 1, 2018.

**Electric Rates
(As of May 1, 2018)**

	Standard Option:	
Residential Service		
Electric Cost Adjustment ⁽¹⁾	Per kWh ⁽²⁾	\$ 0.0202
Electric Capacity Charge	Per kWh.....	0.0047
Access and Facilities Charges	Per day.....	0.5103
	Per kWh.....	0.0777
Commercial Service General		
Electric Cost Adjustment ⁽¹⁾	Per kWh.....	0.0202
Electric Capacity Charge	Per kWh.....	0.0044
Access and Facilities Charges	Per day.....	0.7943
	Per kWh.....	0.0662

-
- (1) The Utilities’ electric rates include an electric cost adjustment, which reflects changes in the cost of fuel and purchased power. The current electric cost adjustment was effective May 1, 2018 and can change monthly.
- (2) A measure of electrical energy equivalent to a power consumption of 1,000 watts for 1 hour.

The City Council is authorized to determine rates charged for electric services within the Electric System’s total service area (both inside and outside City limits). However, if the rates to be charged for the same customer classifications are different for customers within and outside the City limits, then a state statute requires that rates to be charged outside the City limits be reviewed and approved by the Colorado Public Utilities Commission (the “PUC”) before becoming effective. The statute also provides that the PUC has jurisdiction to resolve any conflict relating to the rates established by the City Council upon the filing of a complaint by 5% of the affected customers outside the City limits (which, in the case of the Electric System’s residential customers, would be approximately 868 customers). Under the statute, the City Council is ordinarily required to give at least 30 days’ notice prior to holding a public hearing to consider proposed base rate changes. The statute allows rate changes absent the public notice and hearing for good cause. By virtue of the ordinances establishing the rate making process for the Utilities, a 30 day public notice is not provided for changes to the electric cost adjustment. Published notice is provided within 10 days after City Council approval for the electric cost adjustment.

Electric System Sales and Revenues

In 2017, the Electric System had sales of 4,432,267 megawatt hours (“MWh”) (excluding interdepartmental, wheeled power, and miscellaneous sales). Of this amount, 33.4% came from Residential sales and 58.7% came from Commercial/Industrial sales. The Electric System had revenue of \$421.7 million (excluding interdepartmental, wheeled power, and miscellaneous revenue) with 43.6% attributable to Residential revenue and 50.2% attributable to Commercial/Industrial revenue.

The ten largest customers of the Electric System during 2017, ranked by sales volume in megawatt hours (“MWh”), represented 668,676 MWh, or 15.1% of sales (excluding interdepartmental and miscellaneous sales), and \$36.2 million or 8.6% of revenues during that period (excluding interdepartmental revenues, wheeling and miscellaneous revenues previously classified as non-regulated revenues).

Four of the Electric System’s military customers, Peterson, the Academy, Cheyenne Mountain Air Force Station and Fort Carson, purchase a portion of their power from WAPA. The Utilities imposes wheeling rates for WAPA power delivered over the Electric System’s facilities to these customers, and such wheeling rates and backup power charges are designed to recover the Electric System’s costs of service.

The number of active residential meters served by the Electric System was 190,382, 191,539 and 194,448 at the end of 2015, 2016 and 2017 respectively. The average annual use per residential customer was 7,662 kilowatt hours in 2015, 7,770 in 2016, and 7,607 in 2017.

The following tables set forth Electric System sales and revenues by customer class for the past five years:

<i>Electric Sales (MWh)</i>					
<i>Fiscal Year Ended December 31</i>					
<i>Customer Class</i>	<u>2013⁽¹⁾</u>	<u>2014⁽¹⁾</u>	<u>2015⁽¹⁾</u>	<u>2016⁽¹⁾</u>	<u>2017</u>
Residential.....	1,456,492	1,416,750	1,458,677	1,488,251	1,479,131
Commercial.....	715,267	719,057	729,711	733,576	741,998
Industrial.....	1,858,543	1,851,967	1,859,780	1,875,393	1,860,302
Contract Service - Military.....	335,555	272,284	335,498	342,964	340,032
Transmission (OATT).....	3,765	3,717	8,854	10,792	10,804
Interdepartmental.....	<u>129,642</u>	<u>100,774</u>	<u>98,486</u>	<u>108,092</u>	<u>129,684</u>
Subtotal.....	4,499,264	4,364,549	4,491,006	4,559,068	4,561,951
Miscellaneous Sales.....	<u>597,915</u>	<u>494,320</u>	<u>560,017</u>	<u>417,562</u>	<u>293,770</u>
Total Electric Sales.....	5,097,179	4,858,869	5,051,023	4,976,630	4,855,721
Less Interdepartmental.....	<u>(129,642)</u>	<u>(100,774)</u>	<u>(98,486)</u>	<u>(108,092)</u>	<u>(129,684)</u>
Net Electric Sales.....	<u>4,967,537</u>	<u>4,758,095</u>	<u>4,952,537</u>	<u>4,868,538</u>	<u>4,726,037</u>
Transmission (Wheeled Power).....	<u>31,902</u>	<u>32,902</u>	<u>32,799</u>	<u>32,819</u>	<u>34,779</u>
Net Peak Demand (MW).....	<u>878</u>	<u>879</u>	<u>851</u>	<u>890</u>	<u>890</u>
Total Number of Active Electric Meters as of Year End.....	<u>217,273</u>	<u>220,568</u>	<u>223,109</u>	<u>225,406</u>	<u>229,909</u>

⁽¹⁾ In 2017 a decision was made to reclassify some of the reported sales from one customer class to another to improve reporting consistency. Sales for 2013 through 2016 were restated above. Total sales did not change from the original reporting.

<i>Electric Revenues</i>					
<i>Fiscal Year Ended December 31</i>					
<i>Customer Class</i>	<u>2013⁽¹⁾</u>	<u>2014⁽¹⁾</u>	<u>2015⁽¹⁾</u>	<u>2016⁽¹⁾</u>	<u>2017</u>
Residential.....	\$162,929,577	\$170,971,153	\$180,009,198	\$180,070,392	\$183,807,742
Commercial.....	62,696,849	66,404,010	66,700,175	64,309,468	70,449,430
Industrial.....	128,428,313	141,426,798	140,478,655	133,584,943	141,282,524
Contract Service - Military.....	20,012,738	18,624,567	19,541,288	18,310,028	20,244,312
Street Lighting.....	4,250,035	4,141,433	4,129,000	4,129,000	4,075,140
Transmission (OATT).....	2,203,479	1,920,967	2,327,365	2,025,677	1,810,819
Interdepartmental.....	<u>9,045,857</u>	<u>8,196,802</u>	<u>8,430,516</u>	<u>8,453,678</u>	<u>10,311,461</u>
Subtotal.....	\$389,566,848	\$411,685,730	\$421,616,197	\$410,883,186	\$431,981,428
Miscellaneous Revenue.....	<u>32,181,513</u>	<u>25,522,753</u>	<u>23,474,536</u>	<u>15,249,091</u>	<u>12,821,271</u>
Total Electric Revenue.....	\$421,748,361	\$437,208,483	\$445,090,733	\$426,132,277	\$444,802,699
Less: Interdepartmental.....	<u>(9,045,857)</u>	<u>(8,196,802)</u>	<u>(8,430,516)</u>	<u>(8,453,678)</u>	<u>(10,311,461)</u>
Net Electric Revenue ⁽²⁾	<u>\$412,702,504</u>	<u>\$429,011,681</u>	<u>\$436,660,217</u>	<u>\$417,678,599</u>	<u>\$434,491,239</u>
Wheeled Power.....	<u>\$ 281,099</u>	<u>\$ 281,099</u>	<u>\$ 281,099</u>	<u>\$ 281,570</u>	<u>\$ 281,099</u>

⁽¹⁾ In 2017 a decision was made to reclassify some of the reported revenue from one customer class to another to improve reporting consistency. Revenues for 2013 through 2016 were restated above. Total revenues did not change from the original reporting.

⁽²⁾ Figures may not equal totals when added due to the rounding

System Capability

The Electric System peak (net of auxiliary power used to operate the generating units) of 908 megawatts (“MW”) was established in July 2012. The following table sets forth information on the sources and amount of the net capability of the Electric System. Of the 2018 purchases noted in the table below, 19 MWs is considered intermittent capacity available through solar gardens and solar arrays.

Net Capability of Electric System

<i>Unit</i>	<i>Fuel</i>	<i>Year Unit Completed</i>	<i>2017-2018 Net Winter Capability (MW)⁽¹⁾</i>	<i>2018 Net Summer Capability (MW)</i>
Owned Assets:				
Drake #6	Coal or Gas	1968	77	77
Drake #7	Coal or Gas	1974	131	131
Birdsall #1	Gas or Oil	1953	16	16
Birdsall #2	Gas or Oil	1954	16	16
Birdsall #3	Gas or Oil	1957	23	23
Nixon #1	Coal	1980	208	208
Nixon #2 & 3 (Combustion Turbines)	Gas	1999	64	60
Front Range Power Plant	Gas	2003	480	460
Cascade, Tesla, Manitou, and Ruxton	Hydro		<u>35</u>	<u>35</u>
Total Resources			1,050	1,026
Purchases:				
U.S. Department of Energy, Western Area Power Administrative Purchase:				
Salt Lake City Integrated Projects			60	15
Loveland Area Projects			57	61
United States Air Force Academy Solar			5	5
Solar Gardens			4	4
Clear Springs Ranch Solar Array			<u>10</u>	<u>10</u>
Total Purchases			<u>136</u>	<u>95</u>
Grand Total			<u>1,186</u>	<u>1,121</u>

⁽¹⁾ "MW" is an abbreviation for megawatt.

The table below details the Utilities' potential summer resources classified by energy source. The Utilities' actual energy output from these resources can, and frequently does, significantly differ from the percentages shown below.

Potential Summer 2018 Resources

	<i>Owned Resources (MW)</i>	<i>Pct.</i>	<i>Purchases (MW)</i>	<i>Pct.</i>	<i>Total (MW)</i>	<i>Pct.</i>
Coal	416	41%	0	0%	416	37%
Natural Gas and Oil	575	56	0	0	575	51
Hydro Generation	35	3	76	80	111	10
Other Renewable Resources	<u>0</u>	<u>0</u>	<u>19</u>	<u>20</u>	<u>19</u>	<u>2</u>
Total	<u>1,026</u>	<u>100%</u>	<u>95</u>	<u>100%</u>	<u>1,121</u>	<u>100%</u>

In 1989, the Utilities entered into contracts with WAPA for post September 30, 1989 energy and capacity. These contracts were later extended to September 30, 2024. The Loveland Area Projects contract is now extended from 2024 through 2054. The two WAPA contracts are for purchases from WAPA's Salt Lake City Integrated Area Projects ("SLCA/IP") and from its Loveland Area Projects ("LAP"), providing for

15.1 MW in the summer season and 60.3 MW in the winter season, and 60.7 MW in the summer season and 57.6 MW in the winter season, respectively.

Currently, the energy available under the SLCA/IP contract is controlled by the Record of Decision on the Glen Canyon Environmental Impact Statement (the “EIS”), which was implemented on April 1, 1997. Because of the EIS and the resulting Glen Canyon operating criteria, generation at SLCA/IP facilities has been reduced. As a result, WAPA determines monthly Available Hydro Power based on prevailing water release conditions. To the extent that Available Hydro Power does not meet WAPA’s firm obligations, WAPA has made arrangements to purchase Western Replacement Power for its customers up to an amount not to exceed their firm allocations. The cost of Western Replacement Power is on a pass-through-cost basis. The Utilities takes advantage of Western Replacement Power as needed.

The LAP contract also provides the option for 3.9 kilowatt-hours per kilowatt of its contract capacity for summer season and 4.4 kilowatt-hours per kilowatt of its contract capacity for the winter season, to be provided from WAPA’s Mount Elbert pumped storage facility. Any energy taken from this account must be returned to the Mount Elbert plant at the rate of 1.4 megawatt hours returned for each megawatt hour received to meet the pumping requirements.

The Utilities reviews its Electric Integrated Resource Plan (the “EIRP”) annually, and officially submits an update to WAPA every five years. New resources, including renewable energy, are evaluated as well as demand side management strategies.

Fuel Supply

The 2010 purchase of the Front Range Power Plant, a 480 MW natural gas fired combined cycle electric generation facility located south of the City, significantly increased the percentage of electricity generated using natural gas as a fuel. Also, when necessary or economical, the Utilities will purchase market power to supplement existing generation.

For several years the Utilities has maintained about 1.2 billion cubic feet of gas storage capacity contracted with Tallgrass Interstate Gas Transmission. Storage services are renegotiated periodically with various providers, but the level of capacity is consistent. Starting in mid-2018, the Utilities will transition about 500 million cubic feet of the Tallgrass capacity to a new storage provider, East Cheyenne Storage, LLC. This transition will preserve the same total capacity (1.2 Bcf), but increase the available injection and withdrawal capacities while resulting in a lower net cost. The primary use of the storage service is to provide firm deliveries and balancing of gas supplies to the Utilities’ Front Range Power Plant and nearby Nixon gas turbines. The Utilities also maintains firm natural gas pipeline transportation from various Rocky Mountain supply areas sufficient to meet fuel requirements. This includes about 95,000 MMBTU/D to the Front Range Power Plant and 9,000 of MMBTU/D of winter-only capacity to two gas fired turbines located near the Nixon coal plant. During the summer months, the gas utility releases 18,000 MMBTU/D of their surplus gas pipeline capacity to the electric utility for use by the gas-fired turbines at Nixon.

When natural gas prices are low, gas generation throughout the U.S. can be more economical than coal, leading to significant reduction in both coal production and prices. Arch Coal and Peabody Energy are two of the top coal producers in the world. The Utilities is able to purchase coal at current market prices from either entity without limitation in quantity or delivery. These companies own and operate the two largest mines in the southern Powder River Basin in Wyoming, Black Thunder mine (Arch), and North–Antelope Rochelle mine (Peabody), which are the sources for the majority of coal used by Utilities. The Utilities maintains a good working relationship with these mines.

The Utilities’ coal supplies and transportation services are procured through a portfolio of contracts which are managed to ensure a dependable and economic fuel supply. All of the Utilities’ coal supply is from the southern Powder River Basin in Wyoming. Approximately 50% of future coal demand is purchased under

a term contract. Spot market contracts with terms varying between one month and one year supply the remaining 50%. This contractual flexibility allows Utilities to respond quickly to changes in plant operations and market conditions. Coal inventory levels as of December 31, 2017, were at or above Utilities' target ranges.

Colorado Renewable Energy Standard

In November 2004, Colorado voters approved an initiative that created a renewable portfolio standard for retail electric utilities in Colorado that serve over 40,000 customers, such as the Utilities (each a "qualifying utility"). The language of that initiative was modified by the Colorado General Assembly and codified in C.R.S. Section 40-2-124. The statute was subsequently amended by the Colorado General Assembly in 2007, 2008, 2010, and 2013 and was renamed the Colorado Renewable Energy Standard. The Colorado Renewable Energy Standard requires qualifying utilities to acquire a defined percentage of their electricity from "eligible energy resources," which include solar, wind, geothermal, qualifying biomass, coal mine methane, synthetic gas produced by pyrolysis of municipal solid waste, existing hydroelectric generation with a nameplate rating of 30 megawatts or less, and new hydroelectric generation with a nameplate rating of 10 megawatts or less.

The statute requires the PUC to establish a maximum retail rate impact for compliance with the Colorado Renewable Energy Standard requirements of 2% of the total electric bill annually for each customer of a cooperative electric association and investor-owned utility that is a qualifying utility. The Utilities filed its self-certification statement with the PUC on September 7, 2006 which set its maximum retail rate impact at 1%. If a qualifying utility reaches the rate cap but is otherwise unable to meet the Colorado Renewable Energy Standard requirements, then it is exempt from administrative penalties for such noncompliance.

The final version of Colorado Renewable Energy Standard does not apply to the Utilities, but the Utilities has chosen to exceed the Colorado Renewable Energy Standard requirements for renewable energy resources, which are 3% of Colorado retail sales for the years 2011 through 2014, 6% for the years 2015 through 2019, and 10% for the year 2020 and thereafter.

Based on expected load projections made in 2016, the Utilities expects to have sufficient eligible energy resources to comply with the Colorado Renewable Energy Standard requirements through at least 2028. During 2006-2010, the Utilities made a substantial purchase of "Renewable Energy Certificates," to be received in future years, which will be used along with qualifying generation hours from the Utilities-owned generation units to comply with the Colorado Renewable Energy Standard. WAPA successfully qualified its hydroelectricity units under 30 megawatts as qualifying renewable energy generating resources in the State of Colorado and will deliver the Renewable Energy Certificates to the Utilities as part of two WAPA power purchase agreements. The Renewable Energy Certificates from the WAPA power purchase agreements will be used by the Utilities for Colorado Renewable Energy Standard compliance. In 2015 the Utilities entered into additional local Renewable Energy Certificate purchase agreements and a new Purchase Power Agreement with associated Renewable Energy Certificates through a solar array located on Utilities property to ensure compliance with the Colorado Renewable Energy Standard.

To comply with the Colorado Renewable Energy Standard after 2028, and to meet voluntary renewable energy goals in excess of the Colorado Renewable Energy Standard requirements, the Utilities has issued Request for Proposals and received responses for additional eligible renewable energy resources. The Utilities also offers a customer facing incentive program whereby the Utilities customers receive a rebate in exchange for renewable energy credits that contribute to the Utilities compliance requirements.

Transmission and Distribution Facilities and Interconnections

The Electric System's transmission system is interconnected with WAPA south of the City and with Xcel Energy in the northeast part of the City.

The Utilities is a member of a group of power suppliers operating in Colorado, Wyoming, Nebraska and South Dakota known as the Rocky Mountain Reserve Group. The participants pool their reserve capacities and provide mutual assistance in times of emergency. Participants must maintain reserve capacity based on their loads and their largest hazard as a ratio of the pool load and the largest generating unit within the pool.

[This section is currently under review] The Utilities is currently in discussions to join a regional transmission organization with Basin Electric Power Cooperative, Black Hills Energy's three electric utilities located in the Rocky Mountain region, Platte River Power Authority, Public Service Company of Colorado, Tri-State Generation and Transmission Association, and the Western Area Power Administration's Colorado River Storage Project and Loveland Area Projects. Joining a regional transition organization often has advantages, such as reduction in transmission charges, broader perspective for the planning of future transmission and generation, access to a centralized wholesale market, optimization of existing generation and transmission asset capability, and improved grid reliability services. As part of its decision on whether to join, the Utilities will factor the membership-related costs and the requirement to share in the cost of future regionally-beneficial transmission projects against the potential advantages and market benefits.

Decommissioning of Martin Drake Power Plant

In November 2015, the Utilities Board voted to close and decommission the Martin Drake power plant no later than 2035. On December 31, 2016, Unit 5 was moved from inactive reserve status to a retired status. The 46 Net MW capacity of the unit will no longer be available for system operations. The timing of closing and decommissioning of units 6 and 7 (other than the 2035 date) has not been determined. The Utilities is continuing to evaluate the transmission, generation, and fuel infrastructure that could be needed to decommission and replace the plant prior to 2035.

Environmental Regulation

In operating the Electric System, the Utilities is subject to various State and federal environmental requirements, which affect operating and capital costs of the System. Ongoing promulgation of new regulations under the Clean Air Act Amendments of 1990 and the Colorado Air Quality Control Act will have the effect of imposing more stringent air emission requirements for the Electric System's generating facilities, particularly the Nixon and Drake coal-fired units.

The Federal Clean Air Act requires that states develop "State Implementation Plans" ("SIPs") that address how each state will control air pollution, including visibility impacts to Class I federal areas. The Environmental Protection Agency's (the "EPA") Regional Haze Rule requires that certain emission sources, such as Drake, that may reasonably be anticipated to cause or contribute to visibility impairment in Class I areas, to install Best Available Retrofit Technology ("BART"). Additionally, Colorado's Regional Haze SIP phases in emission limits for other stationary sources, such as Nixon, as part of "Reasonable Progress" towards natural levels of visibility under the Regional Haze Rule. Utilities completed full implementation of its approved BART and Reasonable Progress plans in 2017. Compliance with the BART emission limits for sulfur dioxide ("SO₂") for Drake and the Reasonable Progress limit for Nixon was demonstrated on November 3, 2017, approximately two months ahead of the deadline. Compliance with the Reasonable Progress emission limit for nitrogen oxides (NO_x) for Nixon was demonstrated on July 3, 2017, approximately six months ahead of the deadline. Compliance with the other particulate and NO_x limits for the Drake and Nixon plants required under BART and Reasonable Progress were previously demonstrated in 2013 and 2015. As of December 31, 2017, there are no remaining capital costs for BART and Reasonable Progress. Drake Units 6 and 7 (coal-fired), Nixon Units 1 (coal-fired), 2 and 3 (natural gas-fired), and Front Range Power Plant Units 1 and 2 (natural gas-fired) are subject to the Clean Air Act Title IV Phase 2 Acid Rain Requirements. The Utilities has sufficient emission allowances to satisfy its future SO₂ allowance obligations.

Since the publication of the greenhouse gas “endangerment finding” in 2009, new regulations, proposed regulations and policies have been developed to regulate carbon dioxide and other greenhouse gases. In May 2010, the EPA issued its final “Prevention of Significant Deterioration and Title V Greenhouse Gas Tailoring Rule” (the Tailoring Rule) for regulating greenhouse gas emissions. In August 2015 the EPA submitted its final “Carbon Pollution Emission Guidelines for Existing Stationary Sources: Electric Utility Generating Units” (the “Clean Power Plan”) for Federal Register publication, along with a proposed model implementation plan for states and New Source Performance Standards for new coal and natural gas-fired generating units. The Clean Power Plan creates a process for reducing carbon dioxide emissions from existing power plants on a state-by-state basis to reach a national reduction goal by 2030. The Clean Power Plan and proposed model rule encourage emissions trading to achieve these goals, although it remains to be seen whether such trading will be implemented at the state and/or regional level. In 2015, the Utilities evaluated potential impacts of the Clean Power Plan as part of its Electric Integrated Resource Plan. As it was previously proposed, the Clean Power Plan would not necessarily result in closures of coal-fired generation but could restrict utilization of such units to meet specific reduction goals and create additional reliance on natural gas-fired generation and new sources of renewables. In February 2016 the United States Supreme Court stayed the rule pending legal challenges. The Utilities will continue to evaluate potential impacts of the Clean Power Plan as part of its ongoing evaluation of its existing coal-fired generation, future resource needs, and any operational constraints that may be imposed through a state plan for implementation of the regulation. The New Source Performance Standards for new coal and natural gas-fired plants allows for construction of new coal-fired generation but only if it can meet new and stringent carbon dioxide limits through costly carbon controls.

As an ongoing regulatory process to implement its 2010 revised SO₂ National Ambient Air Quality Standard, EPA requested that Colorado submit a designation for Drake as being “attainment area,” “nonattainment area,” or “unclassifiable.” In August 2015, the Colorado Air Quality Control Commission approved the designation of Drake as “unclassifiable” for submission to the EPA. The EPA accepted this recommendation in September 2016. The ongoing regulatory process at the State level for an attainment or nonattainment status for Drake will continue into 2018. On March 16, 2017, the Colorado Air Quality Control Commission accepted the Colorado Air Quality Control Division’s designation for Nixon as “attainment/unclassifiable” for submission to the EPA. In November 2017, the Colorado Air Quality Control Commission did not take action on the Colorado Air Quality Control Division’s proposed redesignation for Drake as “attainment/unclassifiable”, therefore Drake remains “unclassifiable”.

Additional regulations, such as the October 1, 2015 EPA release of the final revised National Ambient Air Quality Standard for ozone, which lowered the standard from 75 parts per billion to 70 parts per billion, may necessitate the installation of additional pollution controls beyond those described above. While it is uncertain the extent to which this standard will affect the Utilities’ power plants or operations, additional future pollution controls for NO_x, i.e., post-combustion controls such as Selective Catalytic Reduction, could potentially cost the Utilities an additional \$151 million beyond 2020, depending on which units would be required to install such controls.

In December 2011, the EPA’s final Maximum Achievable Control Technology rule was finalized as the Mercury and Air Toxics Standard. The Utilities’ emissions testing performed in recent years indicate that the Utilities can comply with the limits in the Mercury and Air Toxics Standard for all of the Nixon and Drake coal-fired boilers with minimal capital investment. The combination of scrubbers, activated carbon injection, and existing baghouses are adequate to meet these new standards.

In December 2014, the EPA issued a final rule regarding “Coal Combustion Residuals,” which are also referred to as “coal combustion byproducts” or “coal ash.” The rule establishes requirements for the impoundment and disposal of Coal Combustion Residuals under subtitle D of the Resource Conservation and Recovery Act as a non-hazardous waste. Additional capital expenditures will be needed beyond 2030 as the existing ash landfill reaches capacity. The Utilities currently disposes of its Coal Combustion Residuals in a

“dry” form at its Clear Spring Ranch Solids Handling and Disposal facility under a County solid waste disposal authorization known as a “Certificate of Designation.”

In February 2012 the CDPHE adopted revisions to Section 9 (regarding waste impoundments) of its “Regulations Pertaining to Solid Waste Sites and Facilities.” Additional capital investment in the range of \$1.0 million to \$9.0 million for existing impoundments may be required to meet these revisions in the 2020-2022 timeframe. The Utilities expects to receive clarity from the CDPHE in 2018 regarding the extent for impoundment related capital investment following their review of the Utilities’ preliminary impoundment classification submittals. The revised regulation will require Nixon to obtain a “Certificate of Designation” from El Paso County.

In September 2015, the EPA finalized the Effluent Limit Guidelines rule for the Steam Electric Power Generating industry, establishing a zero-discharge requirement for bottom ash transport water with a compliance date of November 1, 2018. On September 12, 2017 the EPA issued a final rule postponing the bottom ash transport water compliance date by two years (November 1, 2020). As a result of this rule, Drake will be required to modify the boilers’ bottom ash systems by November 1, 2020. In 2017 design for a modified closed-loop bottom ash water transport system was completed with an engineering design cost of \$157,000. The construction is planned for 2019-2020 with an estimate cost of \$197,000.

Except as described in the preceding paragraphs of this section, the Utilities believes that the air and water pollution control facilities at its electric generating units are sufficient so that those facilities will remain in compliance with all present air and water pollution laws and regulations.

Certain Factors Affecting the Electric Utility Industry

The electric utility industry in general has been, or in the future may be, affected by a number of factors which could impact the financial condition and competitiveness of an electric utility and the level of utilization of generating and transmission facilities. In addition to those discussed elsewhere in this Official Statement, such factors include, among others, (a) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements; (b) changes resulting from conservation and demand side management programs, more cost-effective renewable resources, distributed generation, energy storage and smart-grid opportunities on the timing and use of electric energy; (c) changes resulting from a national energy policy; (d) effects of competition from other electric utilities (including increased competition resulting from mergers, acquisitions, and “strategic alliances” of competing electric and natural gas utilities and from competitors transmitting less expensive electricity from much greater distances over an interconnected system) and new methods of, and new facilities for, producing low-cost electricity; (e) the proposed repeal of certain federal statutes that would have the effect of increasing the competitiveness of many investor-owned utilities; (f) increased competition from independent power producers and marketers, brokers and federal power marketing agencies; (g) “self-generation” by certain industrial and commercial customers and other distributed generation sources; (h) issues relating to the ability to issue tax-exempt obligations to finance and refinance projects; (i) effects of inflation on the operating and maintenance costs of an electric utility and its facilities; (j) changes from projected future load requirements; (k) increases in costs and uncertain availability of capital; (l) shifts in the availability and relative costs of different fuels; (m) sudden, drastic increases in the price of energy purchased on the open market that may occur in times of high public demand in an area of the country experiencing high peak demand; (n) the credit quality of third-party power providers; and (o) the national, state, and local economic conditions. Any of these factors (as well as other factors) could have an impact on the financial condition of any given electric utility and likely will affect individual utilities in different ways.

The Utilities cannot predict what effects such factors will have on its operations and financial condition, but the effects could be significant. The discussion contained in this Official Statement does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof.

FERC Electric Transmission Regulation

The Federal Energy Regulatory Commission (“FERC”) regulates interstate-related electric transmission services under the Federal Power Act, 16 USC § 791a, et seq. FERC jurisdiction under the Federal Power Act does not extend to the Utilities. However under FERC precedent, FERC-jurisdictional electric utilities (mainly investor-owned utilities) could deny the Utilities interstate electric transmission services if the Utilities does not provide those electric utilities access to the Utilities electric transmission system on the same terms and conditions that the Utilities provides to itself (“Reciprocal Service”). For the purpose of ensuring that the Utilities would not be denied such Reciprocal Service, the Utilities maintains an Open Access Transmission Tariff (“OATT”) for interstate electric transmission service that is similar to the pro forma OATT prescribed by the FERC for its jurisdictional utilities. The FERC pro forma OATT is generally adopted (with minor variations) by FERC-jurisdictional electric utilities for those utilities interstate transmission services.

NERC Regulation

The North American Reliability Corporation (“NERC”) establishes and enforces reliability standards, including critical infrastructure protection standards, for the bulk power system. The critical infrastructure protection standards focus on controlling access to critical physical and cyber security assets. Compliance with these standards is mandatory. The maximum penalty that may be levied for violating a NERC reliability standard is \$1 million per violation, per day. The Utilities is in the Western Interconnection, and in that interconnection NERC standards are enforced and monitored by NERC and by its delegate the Western Electricity Coordinating Council (“WECC”).

The Utilities has self-reported some violations of NERC reliability or critical infrastructure protections standards to WECC and has paid the necessary fines. The Utilities was audited by WECC during 2015. That audit listed minor violations of the NERC standards, and those violations were remediated and the review terminated in 2016 with no penalty assessed to the Utilities. In 2017, the Utilities reported two violations which have been remediated and did not result in any fines. The next WECC audit will be in May 2018. **[To be updated as necessary]**

The Utilities has formal programs, processes, and policies in place to promote compliance with NERC standards. However, it is not possible to predict whether the Utilities will have future violations or what the fines for such violations might be.

THE GAS SYSTEM

The Gas System operates a local distribution system which supplied natural gas to approximately 202,000 customers in 2017 in a 527 square mile service area. In addition to the City, the service area includes Manitou Springs, the Academy, the northerly portion of Fort Carson and certain unincorporated portions of the County. The Gas System purchases gas under contracts with a variety of gas suppliers including nationwide marketing companies as well as national and regional production companies. The Academy, Peterson and Fort Carson are currently served under a Government Services Administration Areawide Contract.

The Utilities has the natural gas franchise to serve Manitou Springs through July 2024. No franchise fee is paid upon the gross revenues received from natural gas service to Manitou Springs. The Utilities also has the natural gas franchise to serve portions of the City of Fountain through December 2033. As part of its agreements with the City Fountain, the Utilities will pay the City of Fountain a franchise fee equal to 3% of the gross revenues from the natural gas service provided to customers within Utilities certificated area located in the City of Fountain’s municipal limits.

The Gas System facilities consist of approximately 2,543 miles of natural gas pipe mains, approximately 164,650 service lines. The Utilities undertakes improvements to maintain the Gas System and

to provide capacity for increased customer demand. It does not anticipate the incurrence of material costs for capital improvements to the Gas System.

While the Gas System is subject to federal and state environmental regulations, the Utilities does not anticipate the incurrence of material costs for its compliance with such regulations.

Gas Rates

The following table sets forth rates as they relate to residential and commercial service provided by the Gas System. As noted in the table, the Utilities imposes a gas cost adjustment to pass through to its customers changes in costs of gas from its suppliers. As with the electric cost adjustment, the gas cost adjustment calculation considers the forecasted cost of gas and is subject to revision as often as monthly, depending on market conditions.

**Natural Gas Rates
(As of May 1, 2018)**

Residential and Small Commercial Service:

The bills are the sum of:

Gas Cost Adjustment ⁽¹⁾	-- Per 100 cubic feet	\$ 0.1776
Gas Capacity Charge	-- Per 100 cubic feet	0.1009
Access and Facilities Charges	-- Per day	0.3930
	-- Per 100 cubic feet	0.1645

Commercial Service Large:

The bills are the sum of:

Gas Cost Adjustment ⁽¹⁾	-- Per 100 cubic feet	0.1776
Gas Capacity Charge	-- Per 100 cubic feet	0.0851
Access and Facilities Charges	-- Per day	0.7860
	-- Per 100 cubic feet	0.1480

⁽¹⁾ The Utilities' gas rates include a gas cost adjustment, which reflects changes in the costs of gas from its suppliers. The current gas cost adjustment was effective May 1, 2018 and can change monthly.

The City Council is authorized to determine rates charged for gas service within the Gas System's service area (both inside and outside City limits). However, if the rates to be charged for the same customer classifications are different for customers within and outside City limits, then a state statute requires that rates to be charged to customers outside the City limits be reviewed and approved by the PUC before becoming effective. The statute also provides that the PUC has jurisdiction to resolve any conflict relating to the rates established by the City Council upon the filing of a complaint by 5% of the affected customers outside the City limits. Under the statute, the City Council is ordinarily required to give at least 30 days' notice to the public prior to holding a public hearing to consider proposed base rate changes. The statute allows rate changes absent the public notice and hearing for good cause. By virtue of the ordinances establishing the rate making process for the Utilities, a 30 day public notice is not provided for changes to the gas cost adjustment. Published notice is provided within 10 days after City Council approval for the gas cost adjustment.

Gas Sales and Revenues

In 2017, the Gas System had sales of 19,987,135 Mcf (excluding interdepartmental and transportation volumes). Of this amount, 56.5% came from Residential sales and 35.5% came from Commercial/Industrial sales. The Gas System had revenue of \$145.0 million (excluding interdepartmental, miscellaneous, and transportation revenues) with 64.4% attributable to Residential revenue and 29.6% attributable to Commercial/Industrial revenue.

The ten largest customers of the Gas System during 2017, ranked by sales volume, represented 3,355,504 McF, or 16.8% of sales (excluding interdepartmental and miscellaneous sales), and \$12.2 million or 8.4% of revenues during that period (excluding interdepartmental revenues and miscellaneous revenues).

The number of active residential meters served by the Gas System was 178,703, 180,032 and 183,267 at the end of 2015, 2016 and 2017 respectively. The average annual use per residential customer was 67.1 McF in 2015, 65.7 McF in 2016 and 61.6 McF in 2017.

The following tables set forth the Utilities' gas sales and revenues by customer class for the past five years (excluding information relating to the component units for the Public Authority for Colorado Energy described in Note 18 to the Audited Financial Statements included in Appendix A to this Official Statement):

Customer Class	Gas Throughput (Mcf) ⁽¹⁾ 14.65 p.s.i.a.				
	Fiscal Year Ended December 31				
	2013 ⁽²⁾	2014 ⁽²⁾	2015 ⁽²⁾	2016 ⁽²⁾	2017
Firm Sales:					
Residential	12,932,320	12,552,841	11,992,038	11,826,770	11,285,120
Commercial	7,371,441	7,067,745	6,573,449	6,480,441	6,286,074
Contract Service - Military	1,630,025	1,810,950	1,644,809	1,887,313	1,607,820
Interruptible Sales:					
Industrial.....	741,288	688,926	803,347	825,694	808,121
Interdepartmental – Firm and Interruptible					
	<u>257,717</u>	<u>368,398</u>	<u>106,957</u>	<u>104,828</u>	<u>99,716</u>
Total Gas Sales Volume	22,932,791	22,488,860	21,120,600	21,125,046	20,086,851
Gas Transportation Volume	<u>1,141,379</u>	<u>1,262,342</u>	<u>1,259,999</u>	<u>1,242,367</u>	<u>1,214,660</u>
Total Throughput Volume.....	24,074,170	23,751,202	22,380,599	22,367,413	21,301,511
Less: Interdepartmental– Firm and Interruptible.....	<u>(257,717)</u>	<u>(368,398)</u>	<u>(106,957)</u>	<u>(104,828)</u>	<u>(99,716)</u>
Net Throughput Volume.....	<u>23,816,453</u>	<u>23,382,804</u>	<u>22,273,642</u>	<u>22,262,585</u>	<u>21,201,795</u>
Total Number of Active Gas Meters as of Year End.....	<u>192,872</u>	<u>195,832</u>	<u>198,347</u>	<u>200,841</u>	<u>205,030</u>

(1) "Mcf" = one thousand cubic feet

(2) In 2017 a decision was made to reclassify some of the reported sales from one customer class to another to improve reporting consistency. Sales for 2013 through 2016 were restated above. Total sales did not change from the original reporting.

Customer Class	Gas Revenue				
	Fiscal Year Ended December 31				
	2013 ⁽¹⁾	2014 ⁽¹⁾	2015 ⁽¹⁾	2016 ⁽¹⁾⁽²⁾⁽³⁾	2017
Firm Sales:					
Residential	\$ 114,265,884	\$ 115,688,686	\$ 101,933,786	\$ 83,918,427	\$ 93,454,476
Commercial	56,112,430	54,479,060	45,128,542	33,518,368	39,390,645
Contract Service – Military.....	10,236,660	12,359,959	8,954,409	8,823,096	8,645,063
Interruptible Sales:					
Industrial.....	3,571,034	3,747,950	3,339,638	3,079,588	3,558,713
Interdepartmental – Firm and Interruptible					
	<u>1,591,784</u>	<u>2,237,279</u>	<u>1,060,555</u>	<u>957,890</u>	<u>1,168,761</u>
Subtotal.....	\$ 185,777,792	\$ 188,512,934	\$ 160,416,930	\$ 130,297,369	\$ 146,217,658
Gas Transportation Revenue	2,248,841	2,322,513	2,362,471	2,285,653	2,441,799
Miscellaneous Revenue.....	<u>20,143,236</u>	<u>22,251,118</u>	<u>13,554,126</u>	<u>3,561,429</u>	<u>9,500,271</u>
Total Gas Revenue.....	\$ 208,169,869	\$ 213,086,565	\$ 176,333,527	\$ 136,144,451	\$ 158,159,728
Less: Interdepartmental Sales.....	<u>(1,591,784)</u>	<u>(2,237,279)</u>	<u>(1,060,555)</u>	<u>(957,890)</u>	<u>(1,168,761)</u>
Net Gas Revenue.....	<u>\$ 206,578,085</u>	<u>\$ 210,849,286</u>	<u>\$ 175,272,972</u>	<u>\$ 135,186,561</u>	<u>\$ 156,990,967</u>

(1) In 2017 a decision was made to reclassify some of the reported revenue from one customer class to another to improve reporting consistency. Revenues for 2013 through 2016 were restated above. Total revenues did not change from the original reporting.

(2) The Gas Cost Adjustment was lowered in 2016 due to over-collections of gas revenue in 2015 resulting in a decrease in gas revenue.

(3) In May 2016, Accounting had a change in methodology for recognizing unbilled revenue resulting in the reversal of unbilled revenue in the amount of \$7,304,103.

Gas Supply

The Utilities contracts for sufficient firm transportation capacity and supplies to meet its firm peak day needs. The Utilities defines peak day conditions as a day with an average temperature of -13 degrees Fahrenheit. The Utilities' goal is to hold a diversified portfolio of gas supplies, pipeline transportation and

storage services in order to provide reliability and economic efficiency in meeting its supply obligations. Notably, the Utilities entered into a prepaid gas supply agreement with Merrill Lynch & Co., Inc. and Merrill Lynch Commodities, Inc. in June 2008. This agreement provides for about 20% of the Utilities retail natural gas load with firm supplies priced at approximately \$5 million below market for each year of its 30-year term.

The Utilities' firm gas supply portfolio is comprised of multiple contracts with terms ranging from three months to thirty years. The expiring contracts are competitively bid by the suppliers each year, usually during the spring. In addition, the Utilities purchases approximately 20% of its annual gas supply needs on a short-term (30-day or less) basis, giving the Utilities the flexibility to react to warmer than normal conditions without having to manage excess firm commitments, and providing the flexibility to take advantage of short-term drops in gas prices. The staggered terms of the supply contracts help shape supply commitments to better match load requirements, and ensure the Utilities can acquire and replace supplies in an orderly fashion.

In addition to maintaining a diversified portfolio of contracted supplies and assets, the Utilities actively pursues opportunities to reduce costs and realize value from its gas supply assets when they are not actively in use to serve the Utilities' load. This "optimization" process includes releasing transportation and storage capacity to third parties to monetize short term capacity surpluses. These gains are entirely credited to the Utilities' cost of service, thereby reducing overall customer costs.

The Utilities maintains firm contracted natural gas pipeline capacity on Colorado Interstate Gas Company, an interstate pipeline, to transport natural gas supplies to the Gas System's distribution facilities. In addition, Utilities maintains contracted natural gas storage services on Colorado Interstate Gas Company, Tallgrass Interstate Gas Transmission, and East Cheyenne. The Utilities is a contracted customer and part owner (5%) of Young Gas Storage Company LLC. The Utilities also owns and operates a peak shaving propane air plant inside the boundaries of the Gas System itself.

Gas Price Hedge Program

Historically, the Utilities has sought to reduce energy price uncertainty in an effort to allow customers to better plan the utilization of utility services and their respective costs. To support the effort to reduce energy price uncertainty, the Utilities implemented a natural gas hedging program which required specific volumes to be hedged according to a defined schedule. This hedging program had successfully reduced price uncertainty through periods of high natural gas price volatility. However, following an extensive program evaluation in 2010 and 2011, the Utilities determined that changes should be made to this program to more effectively balance volatility reduction with program costs. As a result of this evaluation, the Utilities suspended its hedging activities in February 2012 and currently has no gas hedges in place. The suspension is under continual evaluation and will be lifted when market conditions indicate that the risk of higher market pricing outweighs the benefit of participation in the current environment. In addition, the Utilities continues to maintain an active gas cost adjustment process whereby natural gas cost volatility can be quickly passed through to customer rates.

The Energy Risk Management Plan requires that the Utilities' counterparties to both physical and financial energy transactions have adequate credit support depending on their credit ratings issued by S&P, Moody's and/or Fitch, or as determined by the Utilities' Risk Management Committee.

THE WATER SYSTEM

In 2017, the Water System served an estimated population of approximately 489,000 persons, including City residents and customers living in the Ute Pass communities west of the City, military bases, and other suburban areas outside the City limits. In 2017, the Water System delivered 72,470 acre-feet (23.6 billion gallons) of potable water to the distribution system. This compares to water deliveries of 72,624 acre-feet (23.7 billion gallons) in 2016, 67,159 acre-feet (21.9 billion gallons) in 2015, and 70,255 acre-feet (22.9 billion gallons) in 2014. When fully developed as planned (approximately 2070), the City's water

resources will reliably meet potable water demands of approximately 136,000 acre-feet. Presently, developed potable water supply sources and infrastructure can meet demands of roughly 95,000 acre-feet. See “– Water Supply and Raw Water Delivery” below.

Water Rates and Development Charges

The Utilities’ base water rates, which became effective January 1, 2018 are as follows:

Water Rates – Inside City

Single Family Residential Service	
Service Charge—Per meter, per day ⁽¹⁾	\$ 0.7079
Commodity Charge—Per cubic foot	
1 through 999 cubic feet.....	0.0381
1,000 through 2,499 cubic feet.....	0.0654
2,500 cubic feet and greater	0.0988
Non-Residential Service	
Service Charge—Per meter, per day ⁽²⁾	1.6562
Commodity Charge—Per cubic foot (Nov-April).....	0.0451
Commodity Charge—Per cubic foot (May-Oct).....	0.0676

⁽¹⁾ For meters from 5/8 to 1 inch. Higher rates apply for larger meter sizes.

⁽²⁾ For meters less than 2 inches. Higher rates apply for larger meter sizes.

Water Rates – Outside City

Single Family Residential Service	
Service Charge—Per meter, per day ⁽¹⁾	\$ 1.0619
Commodity Charge—Per cubic foot	
1 through 999 cubic feet.....	0.0572
1,000 through 2,499 cubic feet.....	0.0981
2,500 cubic feet and greater	0.1482
Non-Residential Service	
Service Charge—Per meter, per day ⁽²⁾	2.4843
Commodity Charge—Per cubic foot (Nov-April).....	0.0677
Commodity Charge—Per cubic foot (May-Oct).....	0.1014

⁽¹⁾ For meters from 5/8 to 1 inches. Higher rates apply for larger meter sizes.

⁽²⁾ For meters less than 2 inches. Higher rates apply for larger meter sizes.

Pursuant to the requirements set forth in the City Code, City Council may declare a Stage II water shortage when the Utilities’ Chief Executive Officer informs City Council that the analysis required by the City Code or the existence of an emergency shortage indicates that the Stage I response is insufficient to reduce demands to a level in proportion to the severity of the shortage. The City is currently in Stage I (Level A) with approved commodity charges in effect.

The Utilities also assesses a water development charge to partially recover the costs of water supply infrastructure and services provided to new customers connecting to the Water System, whether inside or outside the City limits. The water development charge for commercial and industrial customers is based on meter size and varies from \$9,292 and \$13,938 for ¾” and smaller meters inside and outside the City limits, respectively, to \$154,867 and \$232,300 for 4” meters inside and outside the City limits, respectively. The methodology for calculating development charges for meter sizes above ¾ inches and less than 6 inches was

changed in 2012, resulting in a decreased charge for these meters. In January 2017 the methodology for calculating development charges for meters 6” and larger was changed from a flow based formula to a charge based upon the meter capacity to be consistent with the methodology used for meter sizes up to 4 inches. For single family residential customers, the water development charge is based on lot size and varies from \$5,779 and \$8,669 for smaller lots inside and outside the City limits, respectively, to \$12,913 and \$19,939 for larger lots inside and outside the City limits, respectively. The water development charge for individually metered multi-family residential customers is \$5,295 and \$7,942 inside and outside the City limits, respectively. The water development charge for master metered multi-family residential customers are based upon the commercial meter rates and the size of the service. Virtually all water sold within the Water System is metered.

Water Sales and Revenues

In 2017, the Water System had sales of 27,493,863 CCF (excluding interdepartmental and miscellaneous sales). Of this amount, 45.7% came from Residential sales and 43.3% came from Commercial sales. The Water System had revenue of \$175.4 million (excluding interdepartmental, and miscellaneous revenues) with 50.8% attributable to Residential revenue and 43.6% attributable to Commercial revenue.

During 2017, the Utilities’ ten largest water customers ranked by sales volume accounted for 422,517 CCF, or 16.2% of Utilities’ sales (excluding interdepartmental, nonpotable and miscellaneous sales), which represented \$16.2 million, or 9.3% of revenues for sales (excluding interdepartmental, nonpotable and miscellaneous sales).

The number of active residential meters served by the Water System was 126,825, 128,427 and 130,989 at the end of 2015, 2016 and 2017 respectively. The average annual use per residential customer was 96.6 CCF in 2015, 99.3 CCF in 2016 and 100.0 CCF in 2017.

The following tables set forth the Utilities’ water sales and revenues by customer class for the past five years (excluding information relating to the component units described in Note 18 to the Financial Statements included in Appendix A to this Official Statement):

<i>Customer Class</i>	<i>Water Sales (CCF) ⁽¹⁾</i>				
	<i>Fiscal Year Ended December 31</i>				
	<i>2013⁽²⁾</i>	<i>2014⁽²⁾</i>	<i>2015⁽²⁾</i>	<i>2016⁽²⁾</i>	<i>2017</i>
Residential (City).....	12,508,844	12,881,303	12,172,742	12,663,060	12,490,427
Residential (Suburban).....	87,313	86,925	84,401	85,200	80,759
Commercial (City).....	11,050,431	12,204,487	11,746,010	12,184,934	11,849,365
Commercial (Suburban).....	36,981	40,205	37,522	219,762	42,908
Contract Sales – Military.....	1,746,250	1,904,546	1,685,509	1,710,473	1,654,532
Nonpotable ⁽³⁾	1,426,490	1,482,888	1,229,441	1,443,262	1,375,872
Interdepartmental.....	<u>2,610,892</u>	<u>2,182,864</u>	<u>2,473,356</u>	<u>2,040,086</u>	<u>2,191,889</u>
Subtotal	29,467,201	30,783,218	29,428,981	30,346,777	29,685,752
Miscellaneous Sales ⁽²⁾	1,528,628	1,676,254	8,003,162	6,661,431	1,565,492
City Use and Losses (Est.).....	<u>2,431,834</u>	<u>2,571,442</u>	<u>2,554,012</u>	<u>3,733,332</u>	<u>4,209,518</u>
Total Water Delivered for Sales.....	33,427,663	35,030,914	39,986,155	40,741,540	35,460,762
Less Interdepartmental.....	<u>(2,610,892)</u>	<u>(2,182,864)</u>	<u>(2,473,356)</u>	<u>(2,040,086)</u>	<u>(2,191,889)</u>
Net Water Delivered for Sales.....	<u>30,816,771</u>	<u>32,848,050</u>	<u>37,512,799</u>	<u>38,701,454</u>	<u>33,268,873</u>
Total Number of Active Water Meters as of Year End.....	<u>137,619</u>	<u>139,115</u>	<u>140,601</u>	<u>142,298</u>	<u>144,823</u>

(1) “CCF” is an abbreviation for 100 cubic feet, which represents approximately 748 gallons.

(2) In 2017 a decision was made to reclassify some of the reported sales from one customer class to another to improve reporting consistency. Sales for 2013 through 2016 were restated above. Total sales did not change from the original reporting.

(3) Raw water spot sales volumes excluded

Water Revenues

<i>Customer Class</i>	<i>Fiscal Year Ended December 31</i>				
	<u>2013⁽¹⁾</u>	<u>2014⁽¹⁾</u>	<u>2015⁽¹⁾</u>	<u>2016⁽¹⁾⁽²⁾</u>	<u>2017</u>
Residential (City)	\$ 70,599,105	\$ 78,437,888	\$ 74,214,768	\$ 84,379,885	\$ 88,147,260
Residential (Suburban)	825,588	907,966	879,730	993,098	1,021,214
Commercial (City).....	55,188,086	67,698,812	65,022,787	72,272,130	76,062,740
Commercial (Suburban)	326,683	384,658	360,155	421,674	446,792
Contract Sales – Military	5,993,323	7,532,948	6,553,833	7,497,274	7,708,637
Nonpotable ⁽³⁾	1,862,167	1,960,931	1,565,852	1,993,718	2,021,270
Interdepartmental	<u>4,069,614</u>	<u>3,404,726</u>	<u>4,527,252</u>	<u>4,594,028</u>	<u>4,606,753</u>
Subtotal.....	\$138,864,566	\$160,327,929	\$153,124,377	\$172,151,807	\$180,034,667
Miscellaneous Revenues	<u>4,513,107</u>	<u>5,229,784</u>	<u>4,289,999</u>	<u>5,099,675</u>	<u>5,157,690</u>
Total Water Revenues	\$143,377,673	165,557,713	157,414,376	177,251,482	185,192,357
Less Interdepartmental	<u>(4,069,614)</u>	<u>(3,404,726)</u>	<u>(4,527,252)</u>	<u>(4,594,028)</u>	<u>(4,606,753)</u>
Net Water Revenues	<u>\$139,308,059</u>	<u>\$162,152,987</u>	<u>\$152,887,124</u>	<u>\$172,657,454</u>	<u>\$180,585,603</u>

⁽¹⁾ In 2017 a decision was made to reclassify some of the reported revenue from one customer class to another to improve reporting consistency. Revenues for 2013 through 2016 were restated above. Total revenues did not change from the original reporting

⁽²⁾ In May 2016 Accounting had a change in methodology for recognizing unbilled revenue resulting in the reversal of unbilled revenue in the amount of \$7,109,368.

⁽³⁾ Raw water spot sales volumes excluded.

Water Demand

Per capita water demand in the City varies considerably from year to year depending upon weather conditions, economic conditions, water restrictions, and other factors. In 2017, the total demand on the Water System of 20.5 billion gallons of potable water (total metered water sales) resulted in an estimated average metered per capita demand on the Water System of 132 gallons per day (“gpd”). This compares to estimated average metered per capita use of the Water System of 135 gpd in 2016 and 127 gpd in 2015.

The Utilities estimates that it will have sufficient water supply to meet the growing needs of the area served by the Water System until approximately the 2070 decade under present population and per capita demand projections, assuming retention of all present water resource entitlements and timely development of necessary additional facilities and sources as discussed below under “-Capital Improvements to the Water System.” The loss of entitlement, delays in the development of water resources, or growth of population and/or per capita demand in excess of projections, or other similar factors, could result in the Utilities not meeting Water System level of service criteria, which may result in interim water supply shortages and reductions in total system wide storage levels below approved risk tolerance thresholds. See “-Water Supply and Raw Water Delivery” below.

Drought Conditions in the Region

Colorado, along with most of the western United States, experiences recurring cycles of drought. The Utilities’ water supply system is designed and operated to withstand recurring cycles of drought through its complex network of storage reservoirs, water delivery systems, and related water infrastructure. Utilities relies more heavily on storage to meet customer demands during periods of drought when water system inflows are below average. Although the western United States has been experiencing general drought conditions of varying degrees at different locations for the last fifteen years, the specific effects on local water providers varies greatly. The City’s watersheds experienced below average snowpack and water system yield during the winters of 2011-2012 and 2012-2013 and persistent hot and dry weather which resulted in drought conditions. However, in 2013, the Utilities implemented a Comprehensive Drought Response Plan and supply side water management strategies to achieve significant water savings and minimize the decline in water storage levels. With subsequent years of improved snowpack and system yields, system-wide water storage has recovered to levels exceeding two and three quarters years of customer demand in storage. Utilities’ goal is to maintain greater than one year of customer demand in system-wide storage to mitigate known and unknown uncertainties and risks to the water system. The Utilities’ closely monitors its water supply situation and will continue to rely on a combination of water in storage, water system inflows, and effective management of these supplies to meet customer demands.

The snowpack from the winter of 2017-2018 has been below average. However, the storage levels for the Utilities' reservoirs are ahead of their seasonal averages.

Reliance on Colorado River Water Supply

The Utilities' water supply is heavily reliant on the Colorado River Basin. The Utilities, along with the other major Colorado Front Range water providers including Denver, Aurora and certain others, serve approximately 80% of Colorado's population and economy. Approximately 72% of the major Front Range water providers' supply comes from the Colorado River Basin. As a result, Front Range water providers, including the Utilities, have a large stake in the future of the Colorado River and how the challenges of increasing water demands, long-term drought, and climate change will be addressed.

The Colorado River Compact allocates Colorado River water according to specified formulas among seven western states (the Lower Basin States of Arizona, California, and Nevada and the Upper Basin States of Colorado, New Mexico, Utah, and Wyoming). Pursuant to this system of allocation, the Utilities' water rights are subject to the obligation of Colorado and the other Upper Basin States to ensure that they do not cause a river depletion below a certain ten-year rolling delivery requirement. If shortage conditions were experienced (e.g., as a result of a prolonged drought and resulting low streamflows) and the Lower Basin States did not receive deliveries consistent with the aforementioned ten-year rolling delivery requirement, it is possible that the Utilities would be unable to divert all or part of its Colorado River water rights entitlements due to their subordinate status in relation to the State's obligations under the Colorado River Compact. However, due to the potential severe impacts of such an occurrence to the State and its citizens, the Utilities, along with other Front Range water providers are actively working on adaptation strategies for this unlikely event in coordination with downstream entities.

Currently the Upper Basin States of the Colorado River Basin have delivered in excess of their ten-year rolling delivery requirement to the Lower Basin States of 75 million acre-feet, having delivered over 90 million acre-feet to the Lower Basin States over the past 10 years. Colorado's share of that obligation is 51% of the 75 million acre-feet delivery requirement. Even with the current year's drought conditions and expected lower runoff, the Upper Basin States are collectively within their Colorado River Compact allocations and are at little risk of Colorado River curtailment in the near term, unless severe drought conditions continue for a period of several years.

[Currently under review] There are, however, other concerns related to maintaining critical storage levels in Lake Powell and Lake Mead. Lake Powell elevations above the minimum power pool (i.e. the minimum elevation required to produce hydropower) are desired [by WAPA]. Implementing proactive measures to protect the power pool in Lake Powell will reduce the potential impacts to power production and avoid the risk of Colorado River curtailment. Critical Lake Mead water elevations are related to Lower Basin storage sharing agreements and Southern Nevada Water Authority water intake elevations. The Upper and Lower Basin States are both working on their respective contingency planning efforts in coordination with the U.S. Department of Interior to achieve the protection of the critical storage levels in both reservoirs.

The Utilities is actively involved in numerous planning efforts and studies and is closely monitoring the ongoing discussions that are occurring between the Upper and Lower Basin States, the Federal Government, and other stakeholders on issues involving the Colorado River. Front Range water providers, including the Utilities, are actively engaged in and monitoring a contingency planning process that is being developed by the Upper Basin States and U.S. Bureau of Reclamation to evaluate risks and develop potential mitigation strategies. The Utilities is also in close contact with the State of Colorado officials responsible for advancing the interests of the State's interest, and Utilities, in the interstate forums.

Water Facilities

The Water System's raw water storage capacity is approximately 242,800 acre-feet in 25 reservoirs. In addition, the Utilities has a long term contract for up to 28,000 acre-feet of water storage available as excess capacity in the Fryingpan-Arkansas Project. The Water System also has covered treated water storage capacity of approximately 108 million gallons.

The Water System presently includes six water treatment facilities located around the City, with a sustained rated water treatment capacity of 259.5 million gallons per day ("mgd") and a peak capacity of 268.0 mgd. Phase I of SDS water treatment plant capacity was placed in service in April 2016. This new plant increased the Water System's sustained rated water treatment capacity by 50 mgd and also provides treatment redundancy to existing facilities in the near term.

Peak water usage in a single day of approximately 182 million gallons occurred in July 2001. The Utilities believes that the Water System's current treatment capacity will be more than sufficient to meet the needs of Utilities customers with the addition of the SDS treatment capacity. Upon full development of the SDS treatment plant, the Water System's treatment capacity is expected to be sufficient until at least the 2040 decade.

The Water System has over 2,000 miles of water distribution system main, most of which have been constructed since 1954. The Water System's level of unaccounted water has historically been approximately 8.5% of water treated, including unmetered water such as fire flows, main breaks, and system leakage.

Water Supply and Raw Water Delivery

Over 60% of the City's raw water supply originates from the headwaters of the Colorado River system, while the remainder originates from the Arkansas and South Platte River systems.

Utilities recently completed its Integrated Water Resource Plan (the "IWRP") (discussed below) which provides a long-term strategic plan for providing a reliable and sustainable water supply to Utilities in a cost-effective manner. The planning process used in the IWRP is a new approach that is a departure from previous planning processes. Previous estimates of water supply used historical hydrology compared with a single set of assumed system infrastructure and future demand conditions to estimate a "firm yield" for the Water System (i.e., the annual amount of demands that the Water System can reliably meet without realizing a shortage). This backward looking analysis assumed that future conditions would basically be a repeat of the past. In contrast, the IWRP utilized a risk-based planning approach in which multiple risks and uncertainties affecting future raw water system performance were identified and analyzed in the context of multiple possible future scenarios. This included a robust analysis of both climate and non-climatic factors potentially facing Utilities. Consistent with the adoption of a risk-based planning approach, the Utilities Board formally adopted three levels of service planning criteria to measure the performance of the Water System under future conditions. These three criteria are an expansion of previous performance criteria. The level of service criteria include:

- 1) Reserve Storage Reliability: Maintaining a minimum of 1.0 years of demand ("YOD") in storage reserve at all times (100% reliability);
- 2) Operational Storage Reliability: Maintaining a minimum of 1.5 YOD in storage reserve at least 90 percent of the time (90% reliability); and
- 3) Demand Reliability: Meeting indoor customer demands at all times (100% reliability)

Based on lessons learned during the recovery from the most recent drought cycle and continual advancement in the understanding of hydrologic risks through the IWRP and other related water resource planning efforts, the Utilities has recognized that maintaining a minimum of 1.0 YOD of emergency storage is

appropriate to mitigate against unforeseen or unprecedented risks to the Water System. Maintaining 1.5 YOD in storage at least 90 percent of the time represents a reasonable level at which to initiate shortage response analysis in accordance with the current shortage response policies. Under these policies, if the analysis shows that conditions warrant, shortage response, including watering restrictions and supply side options, may be implemented. This is consistent with historic practice in which Utilities' customers were in watering restrictions nine of the last sixty years, or approximately 15% of the time. Meeting indoor customer demands at all times (100% reliability) is critical for maintaining community health and safety.

Through the IWRP, the Utilities now evaluates the performance of the Water System by determining the maximum annual demand that can be reliably met by the Water System while maintaining the three level of service criteria (Reliably Met Demand). Reliably Met Demand allows for the concepts of risk based planning to be presented in a manner that is consistent with the previous firm yield methodology, allowing current evaluations of the Water System to connect to past evaluations. The Reliably Met Demand of the Water System was determined by running the Utilities' Operations and Yield Model under increasing demands with specific operational, climate, and risk tolerance assumptions until the three level of service goals were no longer collectively met for the Water System as it existed in 2016 (Existing System). The Operations and Yield Model was then run in the same manner to determine the Reliably Met Demand for the Water System as it is proposed to exist at community buildout. At this buildout future, the Existing System components were operated in combination with a balanced portfolio containing a diversity of demand management, supply, storage, reuse, and conveyance options that were recommended and approved in the IWRP for future implementation (Existing System plus Full Balanced Portfolio). The table below shows the current estimated system Reliably Met Demand firm yield for developed (Existing System 2016) and undeveloped (Existing System plus Full IWRP Balanced Portfolio) system configurations. This data represents the contribution to the total Reliably Met Demand by system component for the two system configurations.

	<i>Reliably Met Demand (formerly Firm Yield)⁽¹⁾</i>	
	<i>acre-feet / year</i>	<i>million gallons per day</i>
Developed System		
Local System	24,000	21.4
Blue River Pipeline	7,400	6.6
Otero Pipeline	36,500	32.5
Fountain Valley Conduit	8,400	7.5
Southern Delivery System (Phase I)	<u>18,700</u>	<u>16.7</u>
Total Developed System	95,000	84.7
Undeveloped System		
Full IWRP Balanced Portfolio	<u>41,000</u>	<u>36.6</u>
Full System at Buildout	136,000	121.3

(1) With the completion of the Integrated Water Resource Plan ("IWRP") the Utilities adopted a new risk based approach, Reliably Met Demand, in which multiple risks and uncertainties affecting future raw water system performance were identified and analyzed in the context of multiple possible future scenarios. Previous estimates of water supply used historical hydrology compared with a single set of assumed system infrastructure and future demand conditions to estimate a "firm yield" for the Water System.

The table below shows the summarized estimates of Reliably Met Demand for current conditions, and expected conditions at community buildout. In future disclosures, the Utilities will present the Reliably Met Demand in the summarized format as shown below.

Reliably Met Demand of the Water System⁽¹⁾

System Configuration	Reliably Met Demand
Existing System (2016)	95,000 acre-feet/year (84.7 MGD)
Existing System plus Full IWRP Balanced Portfolio	136,000 acre-feet/year (121.3 MGD)

⁽¹⁾ This table shows the summarized estimates of Reliably Met Demand for current conditions, and expected conditions at community buildout.

The Utilities believes its capacity for delivery of raw water from remote watersheds to local storage, including planned capacity additions and system improvements, will be adequate to meet demands until approximately the 2070 decade, when community buildout is expected to be complete. A diversity of demand management, supply, storage, reuse, and conveyance options (the IWRP Balanced Portfolio) will be implemented in the future to address water supply risks and satisfy the service area's needs between now and community buildout.

Reuse of Return Flows

The Utilities has the legal right (and in some cases, a legal obligation) to reuse and successively use to extinction the return flows that result from the initial use of its imported (or transmountain) water and certain other water sources. Based upon present projections, the total amount of return flow available for reuse is estimated to be approximately 50,000 acre-feet per year in the 2070 decade. Reuse of these return flows can occur directly through non-potable uses of reclaimed wastewater or indirectly both by the operation of exchanges (i.e. the trading of the Utilities' return flows for other water sources at different upstream locations) and through augmentation of well pumping and diversions.

The Utilities' non-potable reuse of return flows in the last ten years has ranged from a low of 2,879 acre-feet in 2016 to a high of 5,047 acre-feet in 2011 with the difference being attributable primarily to variations in demand due to weather, changes to the customer base and the implementation of water saving practices by large non-potable water users.

The Utilities exchanged approximately 29,000, 30,000, and 41,000 acre-feet of water during the 2015, 2016, and 2017 water years (October 1 to September 30), respectively. These totals include local system exchanges, river exchanges and contract exchanges within the Arkansas River basin. Reuse by augmentation totals approximately 4,600 acre-feet annually.

Joint Water Authorities

The City is a participant in the Fountain Valley Authority and the Aurora-Colorado Springs Joint Water Authority (the "Aurora-Colorado Springs Authority"). Each of these authorities is a separate political subdivision of the State and is treated as a component unit of the City for financial reporting purposes.

The Fountain Valley Authority constructed a water treatment plant with 18 mgd capacity approximately 17 miles south of the City. The Utilities acts as operator of the plant under contract with the Fountain Valley Authority. The City is entitled to receive approximately 71% of the water treated at the Fountain Valley Authority plant. The remaining water is available to the other Fountain Valley Authority participants, which include Fountain, the Security Water District, the Stratmoor Hills Water District and the Widefield Water and Sanitation District, each of which owns and operates a water distribution system.

Under the applicable long-term contracts relating to the Fountain Valley Authority, the City is obligated to pay water treatment service charges to the Fountain Valley Authority and water conveyance service charges to the U.S. Bureau of Reclamation (the "Bureau") for conveyance of its water through the Bureau's Fountain Valley Conduit, which conveys raw water from the Pueblo Reservoir to the Fountain Valley

Authority's treatment plant and treated water from the treatment plant to distribution reservoirs of the Fountain Valley Authority participants. See Note 17 to the Financial Statements included in Appendix A to this Official Statement.

As of December 31, 2017, Fountain Valley Authority had approximately \$4.4 million in outstanding bonds and other obligations. Parity bonds and any parity securities subsequently issued by Fountain Valley Authority will be payable from and secured by a pledge of all net revenues (revenues after deducting operation and maintenance expenses, which do not include payments pursuant to the Conveyance Service Contract and Conveyance Service Subcontract) of the Fountain Valley Authority derived from the ownership and operation of the Fountain Valley Authority's Water Treatment Plant, including revenues derived under the Water Treatment Contract, and will be further secured by a pledge of certain funds created under the Resolution. The debt service on these bonds and other obligations is treated as a fixed cost to the member entities in proportion to their ownership interests in the Fountain Valley Authority. The Utilities' ownership interest in the Fountain Valley Authority is approximately 71% and, accordingly, the Utilities is ultimately responsible for approximately 71% of the debt service on these bonds and other obligations.

The City has a two-thirds participation share in the Aurora-Colorado Springs Authority. The Aurora-Colorado Springs Authority constructed a 66-inch diameter pipeline from the Twin Lakes Dam to the Otero Pumping Station intake pipeline. This pipeline is operated by Homestake Water Project staff on behalf of Aurora and Colorado Springs. The bonds for this project have been repaid and the Aurora-Colorado Springs Authority has no long-term debt outstanding. There are no current plans by either city to use the Aurora-Colorado Springs Authority for future system extensions. See Note 17 to the Financial Statements included in Appendix A to this Official Statement. The payments made by the City to the Aurora-Colorado Springs Authority are nominal.

The payments to be made by the City to the Fountain Valley Authority and the Aurora-Colorado Springs Authority are contractually required to be treated as Operation and Maintenance Expenses of the System payable out of the Gross Pledged Revenues of the System. See "DESCRIPTION OF THE BONDS—Security for the Bonds" and APPENDIX B—"THE BOND ORDINANCE—Equality of Lien." The payments made by the City to the Fountain Valley Authority for 2015, 2016 and 2017 were \$8,251,665, \$8,164,965 and \$9,385,279 respectively.

Environmental Requirements Affecting Water Treatment

The Federal Safe Drinking Water Act, originally passed in 1974 and amended in 1986 and 1996, is enforced by federal and state agencies with responsibility over drinking water protection. The law requires actions by public water systems to protect drinking water from the source (e.g., rivers, reservoirs, and groundwater wells) to the customer's tap. This regulatory oversight applies to the public water systems' storage, treatment, and distribution facilities, as well as operational practices.

The Federal Safe Drinking Water Act authorizes the EPA to establish national health-based standards for the protection of drinking water from both naturally occurring and man-made contaminants. Additionally, the EPA maintains a list of unregulated contaminants that are not currently subject to any proposed or promulgated national primary drinking water regulation, but that are known or anticipated to occur in public water systems and may become subject to regulation in the future. As such, there is always the potential for new and/or more stringent standards that may impose additional costs to the Utilities, either to existing infrastructure or operations or to new water project development.

The Utilities' current long-term capital improvements forecast for the Water System addresses normal repairs and replacements in the treatment and distribution facilities to maintain both operational reliability and compliance with the Federal Safe Drinking Water Act and applicable regulations. The Utilities is required to provide a sufficient capacity and level of water treatment and disinfection necessary to meet EPA-established "maximum contaminant levels" for regulated contaminants as well as provide regular monitoring for these

contaminants in its treatment plants and distribution systems. The Utilities' laboratory performs chemical, physical, and biological analyses of its finished water supplies, and is certified by the Colorado Department of Public Health and Environment ("CDPHE") for the analysis of drinking water.

The CDPHE and the EPA have the authority to enforce drinking water quality standards for the water supplied by the Water System. The CDPHE periodically conducts compliance inspections of the water treatment processes and laboratory monitoring provided by the Utilities. The laboratory is capable of meeting future analytical demands in response to system capacity additions and increased regulatory requirements. As part of the "consumer awareness" provisions of the Federal Safe Drinking Water Act, the Utilities is required to submit annual "consumer confidence reports" to its customers addressing the sources of its drinking water and the levels of regulated contaminants found in the drinking water through its monitoring programs. The Utilities' annual Water Quality Report to its customers has consistently reported that the water treated and supplied by the Utilities meets applicable primary drinking water quality standards. Other provisions of the Federal Safe Drinking Water Act require the Utilities to maintain operator certifications, submit a Source Water Assessment report to the CDPHE, and maintain a cross-connection program.

Environmental Requirements Affecting Water Supply

Federal and state laws and regulations often influence the Utilities' water development activities. Regulations promulgated by federal, state, and local agencies generally implement environmental policies concerned with land use, appropriation and allocation of water resources, and water quality. The constraints imposed by environmental laws and regulations could potentially limit the Utilities' current system yield or further expansion of existing water projects (particularly transmountain projects) as well as prohibit new project development. The most significant federal laws and regulations include the National Environmental Policy Act ("NEPA"), the Federal Land Policy and Management Act, the Wilderness Act of 1964, the Federal Wild and Scenic Rivers Act, the Clean Water Act, the Endangered Species Act, and the National Historic Preservation Act.

As part of the environmental assessment process under NEPA, reasonable alternatives to a proposed project must also be evaluated and reviewed as part of the federal decision-making process. This requirement has historically had the effect of both delaying projects and increasing project costs.

The Federal Land Policy and Management Act authorizes the federal government to grant easements or issue special use permits for rights-of-way for water facilities crossing or located upon federal property and requires that special use permits include conditions necessary to protect the environment. Upon renewal or reopening of the various special use permits that the Utilities currently holds for the Water System, additional conditions, such as minimum stream flows or bypass requirements, might be imposed that could reduce the yield of related parts of the Water System in the future. Such conditions could also reduce the yield of future water projects.

In addition, the Federal Land Policy and Management Act authorizes federal agencies to identify parcels of federally managed land for possible inclusion within the national wilderness preservation system under the Wilderness Act of 1964. The inclusion of land within a wilderness area, or its management as suitable for such inclusion, can render a water source unusable due to access restrictions and federal reserved water rights claims. Similarly, it can force a change to a less desirable, more expensive alternative for the development of a water project or its operation plan. Such designations have previously impacted the ability of the Utilities, through its joint partnership with the City of Aurora, to develop the remaining portions of the conditional water rights associated with the Homestake Project. Designation of 126,000 acres of land in the Holy Cross Wilderness Area in 1980 ultimately required that the Homestake conditional water rights be changed to new points of diversion located outside the Holy Cross Wilderness boundary. The Utilities is currently pursuing a joint use project with the City of Aurora and water users on the West Slope of Colorado to develop the remaining Homestake water rights and is evaluating a wide range of project configurations. The Utilities is continuously assessing new wilderness proposals that would impair the ability of the Utilities to

operate its water system or fully develop its water rights entitlements. The Utilities has been successful in working with wilderness proponents, local stakeholders, and Colorado's congressional delegation to negotiate proposed boundaries for new wilderness additions that would accommodate existing water system operations and allow for future development of its conditional water rights.

The Federal Wild and Scenic Rivers Act is designed to protect certain free-flowing rivers identified by federal agencies and designated by Congress as wild, scenic, or recreational depending upon the presence of certain outstanding remarkable values ("ORVs"). Designation of a rivers, or river segments, requires federal agencies to manage the river and adjacent lands to protect the identified ORVs and provides legal support for the appropriation of new federal water rights. Both of these effects present potential issues that could restrict the future operations and development of the Water System. Currently, there are no river segments in Colorado that have been designated for inclusion in the National Wild and Scenic Rivers System which affect the Utilities' water system. There are, however, segments of the Upper Colorado River, Upper South Platte River, and Arkansas River within or above which the Utilities diverts water, operates water system infrastructure, or maintains existing decreed water rights for which alternative management plans to a Federal Wild and Scenic Rivers designation have been established. These alternative management plans have been developed by diverse groups of local stakeholders, including water providers, to protect identified ORVs but avoid federal management of the rivers and adjacent lands under the Wild and Scenic Rivers Act. These plans are designed in a manner that appropriately balances protection of environmental and recreational ORVs with the ability of water users to maintain water system yield, operate and maintain water infrastructure, and develop their water rights entitlements.

The federal Clean Water Act also presents potential constraints on the Utilities' water operations and water system development activities. For example, the United States Supreme Court has considered whether hydrologic modifications should be considered as "pollution" under the Clean Water Act, and found that instream flow requirements may be appropriate as special use permit conditions to protect flow that support designated stream uses. Similarly, ongoing cases before federal courts of appeals (outside the Utilities' jurisdiction) continue to present the issue of whether a National Pollutant Discharge Elimination System permit is necessary under the Clean Water Act to transfer raw water from one water body to another. Such judicial interpretations of the Clean Water Act, along with those commonly imposed under Section 404 of the Clean Water Act (relating to dredge and fill permits), Section 401 (relating to state certification of water quality conditions), Section 303(d) (relating to impaired water bodies and wasteload allocations), and those which may be necessary to meet Section 319 (non-point source best management practices) – as well as new watershed-based requirements – may increase the costs of future operations of the Water System and restrict the future development of water resources and projects.

In addition to federal laws and regulations, similar polices exist at both the state and local level that can affect the Utilities' development of water projects and acquisition of additional water supplies. Significant laws and regulations within the state of Colorado include requirements to develop and implement Fish and Wildlife Mitigation Plans for major water projects. Significant local regulations include the authority of county governments to identify and regulate areas and activities of state interest through a local permitting process (known as 1041 Permits), which can complicate and restrict the development of water projects and the acquisition of water supplies.

The permit conditions imposed under federal, state, and local water quality laws and regulations are typically determined based on an assessment of the potential impacts of a proposed project. As a result, the additional costs to operate the Water System and develop additional water sources as a result of these regulations will be determined on a case-by-case basis and cannot be accurately quantified at this time. The Utilities is actively engaged in and partnering with several water industry groups to influence proposed new laws and regulations, and agency administration and judicial interpretations of existing laws and regulations which have the potential to adversely impact Utilities' water system.

Water Concerns

As part of the Pueblo County 1041 permit obtained by Utilities for the development of the Southern Delivery System pipeline project (the “SDS”), the City and the Utilities agreed to “maintain storm water controls and other regulations intended to ensure that Fountain Creek peak flows resulting from new development served by SDS within the Fountain Creek basin are no greater than existing conditions.” However, it is the City that holds a Municipal Separate Storm Sewer System (“MS4”) permit under the Federal Clean Water Act, and the City’s storm water system and MS4 Permit do not fall within the jurisdiction or responsibility of Utilities. In furtherance of this commitment, in 2014 the City adopted a newly revised Drainage Criteria Manual that requires new development within the City to manage stormwater runoff so as to not increase Fountain Creek peak flows. Despite the adoption of the updated Drainage Criteria Manual, limited resources were available for the City’s stormwater management program at that time.

In April 2015, the Pueblo County Board of County Commissioners adopted a resolution directing the Pueblo County staff to investigate compliance with the storm water provisions of the Pueblo County 1041 permit for SDS. In May 2015, Pueblo County staff recommended to the Board of County Commissioners that there was adequate justification to order the City and the Utilities to show cause at a public hearing on why the Pueblo County 1041 permit should not be amended or suspended. The Pueblo County staff also recommended that the Board of County Commissioners delay the action on any show cause order until August 1, 2015.

In order to resolve Pueblo County’s concerns, the City and Utilities engaged in negotiations with the County which resulted in the execution of an April, 2016 intergovernmental agreement among Pueblo County, the City, and the Utilities pursuant to which the City and the Utilities agreed to spend \$460 million on storm water control activities and capital projects over the next twenty years. Of this total, the Utilities agreed to contribute \$3 million per year towards certain stormwater-related capital projects of benefit to the Utilities (escalated over time) and to act as a guarantor of the City’s portion of the obligation (subject to reimbursement from the City under a separate agreement). Under this agreement with Pueblo County the City will construct a total of 71 identified stormwater capital projects (or agreed upon substitutes therefore). All 2016 and 2017 commitments under the intergovernmental agreement have been timely met.

In November 2017, City voters approved reestablishment of Stormwater User Service Fees to be imposed upon all developed or improved property within the City. This approval directs that the revenues derived therefrom will be collected by an enterprise fund and used only for the stormwater system capital and operating expenses, performance of MS4 Discharge Permit obligations, and meeting the obligations arising under intergovernmental agreements entered into prior to June 1, 2016, which includes the agreement with Pueblo County. The voter authorization also allows the fees to be increased by City Council if necessary to comply with federal law, a court order, or to meet intergovernmental agreement obligations. After imposition of the fees beginning July 1, 2018, it is anticipated that this revenue stream will be sufficient to fund the financial commitments under the Pueblo County agreement.

Also related to stormwater management within Colorado Springs, on November 5, 2015, the EPA, through the U.S. Department of Justice (DOJ), informed the City that it intended to initiate an enforcement action against the City for violations of the City’s MS4 permit. In November 2016, after a year of unsuccessful negotiations, EPA and CDPHE entered a legal action against the City for alleged violations of its MS4 permit. Both Pueblo County and the Lower Arkansas Valley Water Conservancy District subsequently intervened in that ongoing litigation. The Court has ordered segmentation of the case, with trial of the first segment likely to be held in mid-2018. It is not clear at this time when the action may be resolved through negotiation or trial, or what specific impact, if any, it will have on the City. Any possible indirect effects on the Utilities as a result of this matter are also uncertain at this time.

A recent regional groundwater contamination issue is also of interest to Utilities. Specifically, two perfluorinated compounds, perfluorooctane sulfonate and perfluorooctanoic acid, were detected in regional public groundwater wells, not used or operated by Utilities, that draw water from the Widefield Aquifer. In

2016, the EPA established a health advisory of 0.07 micrograms per liter (parts per billion) for the sum of perfluorooctane sulfonate and perfluorooctanoic acid in drinking water to provide guidance regarding concentrations that should trigger action to reduce exposure to these unregulated contaminants. The affected regional groundwater wells, in part, serve as a potable water source to the communities of Security, Fountain, Widefield, and Stratmoor Hills which are located to the south of Colorado Springs. The several water districts serving these neighboring communities have reduced or discontinued their use of Widefield Aquifer water and are implementing long-term solutions to remove these compounds from well water through advanced treatment processes. To assist neighboring communities in addressing their water quality concerns, the Utilities has entered into short-term water service agreements with Security Water District and Stratmoor Hills to establish emergency infrastructure interconnections and provide supplement water supplies to offset a portion of customer demands that were previously met by the Widefield Aquifer wells. The City of Fountain was able to eliminate the use of their wells through their participation in SDS and did not require further support from Utilities. Through its participation in the Fountain Valley Authority, the Utilities is also allowing the City of Fountain, the Widefield Water & Sanitation District, Stratmoor Hills Water District, and Security Water District to use a portion of the Utilities delivery capacity in the Fountain Valley Conduit on a temporary basis to deliver additional surface water supplies until treatment facilities are constructed to treat groundwater to levels below public health advisory levels.

Capital Improvements to the Water System

[Section currently under review] The City owns twenty-five earthen and rock-fill dams as a part of the Water System. The Utilities is required to have each of these dams inspected frequently by the State Engineer pursuant to the Colorado Rules and Regulations for Dam Safety and Dam Construction (the “State Dam Safety Regulations”). Specifically, the State Dam Safety Regulations require that dams have spillway capacity and structural integrity sufficient to withstand a major flood without failing or otherwise contributing to the magnitude of the flood. Based on such inspections of these dams, the Office of the State Engineer has recommended further study of certain facilities to address potential deficiencies in structural conditions or spillway capacity. Additionally, Rampart Dam is regulated by the FERC due to its connection to the Tesla hydroelectric generation facility. The FERC conducts annual inspections of Rampart Dam, and requires third-party inspections by an independent engineering consultant on a five-year cycle. Additional investigations, instrumentation requirements, or safety improvements to Rampart Dam may arise as a result of regulation by the FERC. The Utilities also completed its own comprehensive inspection program of the dams as part of the Raw Water Infrastructure Improvement Program, which also recommended certain additional improvements. In response to these studies’ conclusions and recommendations, the Utilities intends to design and construct the recommended improvements at a cost averaging approximately \$5 million per year through 2020 to remain in compliance with federal and state requirements. Comprehensive inspections of the Utilities’ dams will be updated through planning efforts described below.

Master planning efforts will continue for all water assets and infrastructure. The Mesa Water Treatment Plant Master Plan Update was completed in 2015 and identified a capital improvement program of \$28.5 million through 2020 at the Utilities’ oldest water treatment plant. The Finished Water System Plan is expected to be updated in 2018 to address future growth, resiliency, and redundancy needs of the distribution system. Other planning efforts expected to be completed in the next five years include Non-Potable System Plan and Raw Water System Plans, a Raw Water Storage Plan, Dam Facility Plans, updates to the Potable Tank and Pump Station Facility Plans, and remaining Water Treatment Plant Facility Plans. Utilities will also conduct additional operations and yield modeling and planning studies to evaluate water system risks and opportunities, refine the timing and phasing of water projects identified in the IWRP, and evaluate its current and future water supply needs.

Over the next ten years, the Utilities expects to implement an extensive capital improvement program focused on enhancing its water system infrastructure. These include improvements to water treatment plants and related pump stations, raw water system improvements on the Homestake System, and general pump station and tank facility upgrades and improvements.

The Utilities recently completed a major regional water delivery project from Pueblo Reservoir known as the Southern Delivery System (“SDS”). All facilities constituting the first phase of SDS are complete and water deliveries began on April 28, 2016.

Phase 2 of SDS will address water demand and water system capacity and water system redundancy beyond Phase 1, the components of which include a terminal storage reservoir, a return flow reservoir, expansion of the three pump stations’ capacity, and expansion of the water treatment plant and finished water pumping capacity to serve additional pressure zones within the distribution system. Timing for the construction of SDS Phase 2 components is currently being evaluated and will be based on projected customer demands, operational requirements, climate and hydrologic trends, and other considerations.

The Utilities will begin implementing several of the projects that comprise the IWRP Balanced Portfolio within the next five years. These projects include a diversity of water supply, conveyance, storage, and water reuse projects that will increase Utilities’ water system reliability, resiliency, and yield. Utilities expects to begin design and permitting processes for two projects that will divert, convey, and deliver additional water supplies from the Colorado River Basin. Utilities plans to enlarge Montgomery Reservoir to increase the yield of its Continental-Hoosier Transmountain Diversion System as well as develop its remaining Homestake System conditional water rights per the terms of the 1998 Eagle River Memorandum of Understanding.

The Utilities will also actively pursue and acquire one or more storage locations near Fountain Creek or the Arkansas River for the primary purpose of managing reusable return flows and exchanges and will seek to acquire additional local and Arkansas Basin water rights as opportunities arise. Utilities is also actively pursuing temporary use agreements with agricultural interests in the Arkansas River Basin. Water obtained through these temporary use agreements will be used for drought and storage recovery purposes. These projects are included in the Utilities’ general capital improvement program. See “COLORADO SPRINGS UTILITIES – Capital Improvements.”

On-going water main renewal and replacement efforts completed under the Water Main Replacement Program will invest approximately \$30 million per year through 2020 and \$13 million per year thereafter for the foreseeable future. These efforts are expected to be completed in coordination with the City’s 2C Road Improvement projects.

Long term water supply planning is an ongoing endeavor. The previous major planning effort was the Water Resource Plan, completed and approved by the City Council in 1996. Implementation of the Water Resource Plan has been carried out since its adoption, and most major projects identified in the plan, including SDS project, have been completed.

THE WASTEWATER SYSTEM

The Wastewater System provides wastewater services for the City and for those areas approved by the City Council on a long-term, contractual basis, including Peterson, Manitou Springs and the Stratmoor Hills Water and Sanitation District. An average of nearly 38 million gpd of wastewater is treated for a per capita treatment of about 89 gpd. This average has steadily decreased since 2007 due to improvements in the collection system, increased customer drought awareness and greater usage of water efficient appliances. As of December 2017, the Utilities owned and operated over 1,712 miles of sewer main.

Wastewater Rates

Wastewater treatment services are not metered (except for three contract customers), and residential charges for this service are based on the two lowest periods of water billed during the December, January, and February billing periods of each winter. Charges for non-residential customers are calculated monthly based

on water usage (less irrigation and consumptive use adjustments, if applicable). The charges for users within the City and for suburban users are set forth below.

These charges became effective January 1, 2018.

Wastewater Treatment Service Charges

	<i>Inside City</i>	<i>Outside City</i>
Residential		
Service Charge — Per day.....	\$0.4975	\$0.7463
Quantity Charge — Each 100 cubic feet	2.4400	3.6600
Commercial		
Service Charge — Per day.....	0.9880	1.4820
Quantity Charge — Each 100 cubic feet	2.7500	4.1300

The City also assesses a surcharge to some large industrial customers whose discharge exceeds 25,000 gpd. The surcharge is adjusted periodically and is based on the average excess of biochemical oxygen demand and total suspended solids measured for each specific customer over normal discharge levels. The City imposes wastewater development charges for new connections to partially compensate for the cost of treatment plant expansion and other capital improvements. The wastewater development charges for single family residential customers were increased on January 1, 2010, and are now \$1,868 within the City limits and \$2,802 outside the City limits.. Non-residential wastewater development charges vary based on water meter size, and range from \$2,604 and \$3,906 for ¾” and smaller meters within and outside the City limits, respectively.. Multi-family development charges are \$1,213 inside the City limits and \$1,820 outside the City limits. In January 2017 the methodology for calculating development charges for meters 6” and larger was changed from a flow based formula to a charge based upon the meter capacity to be consistent with the methodology used for meter sizes up to 4 inches.

Wastewater Revenues

The following table sets forth the wastewater revenues by customer class for the past five years:

<i>Wastewater Revenues</i>					
<i>Fiscal Year Ended December 31</i>					
<i>Customer Class</i>	<u>2013⁽¹⁾</u>	<u>2014⁽¹⁾</u>	<u>2015⁽¹⁾</u>	<u>2016⁽¹⁾⁽²⁾</u>	<u>2017</u>
Residential (City).....	\$ 47,737,927	\$49,293,132	\$49,096,853	\$50,469,281	\$50,006,516
Residential (Suburban).....	98,139	105,599	106,849	126,142	89,700
Commercial (City).....	15,126,309	14,857,395	14,448,748	15,770,265	15,242,345
Commercial (Suburban).....	85,962	82,171	80,507	(712,843)	87,402
Contract Service - Military.....	--	--	--	--	171,590
Interdepartmental.....	<u>541,110</u>	<u>496,806</u>	<u>588,959</u>	<u>528,410</u>	<u>534,851</u>
Subtotal.....	\$ 63,589,447	\$64,835,103	\$64,321,916	\$66,181,255	\$66,132,405
Miscellaneous Revenues.....	<u>1,841,445</u>	<u>2,214,397</u>	<u>1,986,444</u>	<u>1,835,914</u>	<u>1,875,838</u>
Total Wastewater Revenues.....	\$ 65,430,892	\$67,049,500	\$66,308,360	\$68,017,169	\$68,008,244
Less Interdepartmental Sales.....	<u>(541,110)</u>	<u>(496,806)</u>	<u>(588,959)</u>	<u>(528,410)</u>	<u>(534,851)</u>
Net Wastewater Revenues.....	<u>\$ 64,889,782</u>	<u>\$66,552,694</u>	<u>\$65,719,401</u>	<u>\$67,488,759</u>	<u>\$67,473,392</u>
Total Number of Active Wastewater Accounts as of Year End.....	<u>134,007</u>	<u>135,479</u>	<u>137,001</u>	<u>138,712</u>	<u>141,353</u>

(1) In 2017 a decision was made to reclassify some of the reported revenue from one customer class to another to improve reporting consistency. Revenues for 2013 through 2016 were restated above. Total revenues did not change from the original reporting.

(2) In July 2016 Accounting had a change in methodology for recognizing unbilled revenue resulting in the reversal of unbilled revenue in the amount of \$4,077,630.

Wastewater Facilities

The Wastewater System operates two wastewater treatment facilities with a combined permitted capacity of 95 million gpd. These include JD Philips Water Resource Recovery Facility and the Las Vegas St. Water Resource Recovery Facility. The Utilities evaluates existing infrastructure and short and long-range alternatives for meeting future demand on an ongoing basis.

Environmental Regulation

The Utilities operates the Las Vegas Street Water Resource Recovery Facility, which discharges treated wastewater to Fountain Creek, and the J.D. Phillips Water Resource Recovery Facility, which discharges treated wastewater to Monument Creek. Both facilities operate under the terms of Colorado Discharge Permit System (“CDPS”) permits issued in 2006 pursuant to the Federal Clean Water Act. Under the CDPS permits, the Utilities is required to monitor wastewater discharges and report on a monthly basis the results of that monitoring to the CDPHE. In 2010, permit renewal applications were submitted to the CDPHE as required for both facilities. The permits were renewed and effective June 1, 2015 and expire on May 31, 2020.

In accordance with the CDPHE regulations, the Utilities is subject to public health protection limits for E. coli and turbidity applicable to the distribution system for reclaimed wastewater used for nonpotable purposes. The Utilities does not expect that additional capital or other expenditures will be required to comply with these regulations in the next several years.

The CDPS permits for the facilities require that when peak monthly throughput and treatment under normal circumstances reach 80.0% of facility design capacity, Utilities must initiate engineering and financial planning for additional treatment capacity, and that construction must be commenced when peak monthly throughput and treatment is at 95.0% capacity. For both facilities, the throughput and treatment are currently below these capacity standards. In 2017, peak monthly organic and hydraulic throughputs for the Las Vegas Street Water Resource Recovery Facility reached 41.1% and 42.5%, respectively. For the same period, peak monthly organic and hydraulic throughputs for the J.D. Phillips Water Resource Recovery Facility reached 75.5% and 44.3%, respectively.

A new ultraviolet disinfection system for the Las Vegas Street Water Resource Recovery Facility came on-line in January 2011 to both enable the facility to meet more stringent future E. coli limits as well as reduce operational and regulatory risks associated with chlorine gas disinfection. The CDPHE changed

Fountain and Monument Creeks' stream designations from "use-protected" to "reviewable" in July 2008. The Utilities saw the first impact of this change in the discharge permit renewal negotiations 2014 and 2015. This change may ultimately result in more stringent effluent limits for pollutants that have been detected in the discharge but are not limited by the treatment facilities' current CDPS permits. Additionally, pollutants that were limited by the previous CDPS permits were subjected to an "antidegradation" review. This resulted in monitoring requirements for cadmium (for the Las Vegas Street Water Resource Recovery Facility) and copper (for the J.D. Phillips Water Resource Recovery Facility) and compliance schedules to meet limits for these parameters. However, monitoring for copper and cadmium since 2015 has demonstrated that these parameters do not occur at levels that would result in effluent limitations in future permits.

The CDPHE adopted regulations for reducing nutrients (nitrogen and phosphorus) in State waters through 2022 which became effective in September 2012. Additional capital investment will be required by the Utilities in order to meet these standards. Based on these regulations, approximately \$5.63 million in capital investment will be required at the Las Vegas Street Water Resource Recovery Facility through 2022. Construction work is expected to be phased between 2016 and 2019 to allow sequencing of modifications in five aeration basins. Additional facility improvements will be accomplished during this same time period at a cost of \$6.9 million. Compliance with new nutrient limits is required by 2019. The J.D. Phillips Water Resource Recovery Facility will be able to meet the new limits with a \$1.5 million process improvement project which was completed in 2014. However, some nutrient regulatory scenarios could result in much greater capital investment being required after 2027. The CDPHE has developed the Voluntary Incentive Program whereby wastewater facilities can earn extended compliance schedules for early reduction of nutrients in discharges below the limits that will apply in 2019.

As required by discharge permits, the Utilities has reported both sanitary sewer overflows ("SSOs") and reclaimed wastewater releases to regulatory agencies. SSOs can be caused by blockages in the sewer lines due to debris, tree roots and grease or can be caused by vandalism, construction damage, pump or pipeline failures, and severe flooding. In 2004, the CDPHE and the Utilities entered into a Compliance Order on Consent ("Consent Order") which addressed capacity and condition evaluations, along with the systematic repair, rehabilitation, and replacement of portions of the wastewater collection system through the year 2012. On January 29, 2013, the Utilities submitted a "Notice of Completion" to the CDPHE for the Consent Order and subsequent amendments. In a letter dated March 8, 2013, the CDPHE informed the Utilities that the Notice of Completion ". . . was satisfactory and Colorado Springs has fully responded to and met its obligations pursuant to the Consent Order." As a result, the CDPHE formally closed the Consent Order and no further action is required from the Utilities on this matter.

The Clear Spring Ranch Resource Recovery Facility, which processes sludge from the Las Vegas Street Water Resource Recovery Facility and the J.D. Phillips Water Resource Recovery Facility, is currently regulated under federal sludge disposal regulations, the CDPHE's solid waste regulations, a County solid waste disposal authorization known as a "Certificate of Designation," and State air quality permits. Under these permits and related regulations, the Utilities is required to frequently monitor sludge and ground water quality.

In February 2012, the CDPHE adopted revisions to Section 9 (regarding waste impoundments) of its "Regulations Pertaining to Solid Waste Sites and Facilities." Additional capital investment in the range of \$7.0 to \$15.0 million for existing impoundments at the Clear Spring Ranch Resource Recovery Facility may be required to meet these revisions in the 2020-2022 timeframe. Utilities expects to receive clarity from the CDPHE in 2018 regarding the extent for impoundment-related capital investment following their review of Utilities' preliminary impoundment classification submittals.

Capital Improvements to the Wastewater System

The Utilities owns and operates over 1,712 miles of sanitary sewer pipelines throughout thirty separate basins in Colorado Springs. Beginning in 2000 the Utilities implemented several aggressive and

comprehensive wastewater programs to systematically inspect, evaluate, prioritize, and rehabilitate its entire collection system. Included in the Wastewater System improvement programs are the Sanitary Sewer Evaluation and Rehabilitation Project, the Sanitary Sewer Creek Crossing Project, the Local Collectors Evaluation and Rehabilitation Project, Collection System Rehabilitation and Replacement Project, and the Manhole Evaluation and Rehabilitation Project. These Wastewater System improvement projects are independent of the Utilities' normal operation and maintenance programs and are intended, in part, to fulfill the requirements set by the CDPHE, and the terms and conditions of Pueblo County 1041 Permit for construction of SDS within Pueblo County. The budget for these various projects in 2018 is approximately \$7,685,000.

PENDING LEGAL PROCEEDINGS

For a discussion of litigation regarding the Utilities' Southern Delivery System, see "THE WATER SYSTEM—Water Concerns."

On September 17, 2012, the Sierra Club served a Notice of Intent to Sue for Clean Air Act violations at the Utilities' Drake and Nixon Power Plants (hereafter, the "Sierra Club Notice") with respect to their coal-fired boilers. The Martin Drake power plant facility fires coal as the primary fuel. The Sierra Club Notice alleges violations at three boilers (Units 5, 6, and 7), all of which are pulverized-coal, front-fired boilers. (Unit 5 is no longer in operation.) The Nixon Power Plant facility has one coal-fired boiler (Unit 1). These are the units at issue.

The Sierra Club Notice lists 37 projects at the Drake and Nixon Power Plants that allegedly violated the Clean Air Act. The Sierra Club Notice also alleges that Drake and Nixon Power Plants have violated air quality permits. This matter primarily involves the New Source Review program and a subset of that program known as Prevention of Significant Deterioration. These programs require pre-construction permitting. The Sierra Club alleges that the projects at issue meet the legal criteria for a pre-construction permit. The relief sought is not specifically alleged, although the Sierra Club Notice references injunctive relief and civil penalties.

The Sierra Club Notice is not the commencement of a legal proceeding, as there has been no court filing. The outcome of this litigation, if commenced by the Sierra Club, is unclear at this time.

The Utilities Statements of Net Position as of December 31, 2017 reflected the accrual of \$4,641,235 for estimated liability for injury and damage claims. The City Risk Manager estimates that the amount of liability for potential claims (taking into account such accrual, the Colorado Governmental Immunity Act and insurance coverage) against the Utilities would not materially affect the financial condition or operations of the Utilities. The Utilities has purchased insurance covering damages due to most types of major contingencies, subject to the limits in those policies and subject to the application of the Colorado Governmental Immunity Act. For a description of the Utilities' insurance coverage and the Colorado Governmental Immunity Act, see "COLORADO SPRINGS UTILITIES—Insurance."

There is no pending litigation and the Utilities is not aware of any threatened litigation relating to the issuance of the Bonds or to the Bond Ordinance.

LEGAL MATTERS

Legal matters incidental to the authorization and issuance of the Bonds are subject to the approving opinion of Sherman & Howard L.L.C., Denver, Colorado, as Bond Counsel. Stradling Yocca Carlson & Rauth, a Professional Corporation, Denver, Colorado, has been engaged to advise the City as disclosure counsel in connection with the preparation of this Official Statement and the sale of the Bonds to the purchasers. Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock LLP, Denver, Colorado.

The obligations of the City are subject to the reasonable exercise in the future by the State of Colorado and its political subdivisions of the police power inherent in the sovereignty of the State and to the exercise by the United States of the powers delegated to it by the Federal Constitution, including without limitation exercise of such powers pursuant to the provisions of the Federal Bankruptcy Code. The opinion of Sherman & Howard L.L.C. as Bond Counsel will refer to such limitations.

TAX STATUS

In the opinion of Sherman & Howard L.L.C., Bond Counsel, assuming continuous compliance with certain covenants described herein, interest on the Bonds is excluded from gross income under federal income tax laws pursuant to Section 103 of the Internal Revenue Code of 1986, as amended to the date of delivery of the Bonds (the “Tax Code”), interest on the Bonds is excluded from alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code except that for taxable years of corporations beginning before January 1, 2018 such interest is required to be included in calculating the “adjusted current earnings” adjustment applicable to corporations for purposes of computing the alternative minimum taxable income of corporations, and interest on the Bonds is excluded from Colorado taxable income and Colorado alternative minimum taxable income under Colorado income tax laws in effect on the date of delivery of the Bonds as described herein.

The Tax Code and Colorado law impose several requirements which must be met with respect to the Bonds in order for the interest thereon to be excluded from gross income, alternative minimum taxable income (except to the extent of the aforementioned adjustments applicable to corporations), Colorado taxable income and Colorado alternative minimum taxable income. Certain of these requirements must be met on a continuous basis throughout the term of the Bonds. These requirements include: (a) limitations as to the use of proceeds of the Bonds; (b) limitations on the extent to which proceeds of the Bonds may be invested in higher yielding investments; and (c) a provision, subject to certain limited exceptions, that requires all investment earnings on the proceeds of the Bonds above the yield on the Bonds to be paid to the United States Treasury. The City will covenant and represent in the Bond Ordinance that it will take all steps to comply with the requirements of the Tax Code and Colorado law (in effect on the date of delivery of the Bonds) to the extent necessary to maintain the exclusion of interest on the Bonds from gross income and alternative minimum taxable income (except to the extent of the aforementioned adjustments applicable to corporations) under such federal income tax laws and Colorado taxable income and Colorado alternative minimum taxable income under such Colorado income tax laws. Bond Counsel’s opinion as to the exclusion of interest on the Bonds from gross income, alternative minimum taxable income, Colorado taxable income and Colorado alternative minimum taxable income is rendered in reliance on these covenants, and assumes continuous compliance therewith. The failure or inability of the City to comply with these requirements could cause the interest on the Bonds to be included in gross income, alternative minimum taxable income, Colorado taxable income or Colorado alternative minimum taxable income, or a combination thereof, from the date of issuance. Bond Counsel’s opinion also is rendered in reliance upon certifications of the City and other certifications furnished to Bond Counsel. Bond Counsel has not undertaken to verify such certifications by independent investigation.

Section 55 of the Code contains a 20% alternative minimum tax on the alternative minimum taxable income of corporations. Under the Code, 75% of the excess of a corporation’s “adjusted current earnings” over the corporation’s alternative minimum taxable income (determined without regard to this adjustment and the alternative minimum tax net operating loss deduction) is included in the corporation’s alternative minimum taxable income for purposes of the alternative minimum tax applicable to the corporation. “Adjusted current earnings” includes interest on the Bonds. The alternative minimum tax on corporations described in this paragraph has been repealed effective for taxable years beginning after December 31, 2017, but continues to apply for taxable years of corporations that begin before January 1, 2018. Corporations with taxable years that do not coincide with the calendar year should consult their tax advisors about inclusion of interest on the Bonds in alternative minimum taxable income of the corporation as described in this paragraph during the corporation’s taxable year that begins during calendar year 2017.

With respect to Bonds that were sold in the initial offering at a discount (the “Discount Bonds”), the difference between the stated redemption price of the Discount Bonds at maturity and the initial offering price of those bonds to the public (as defined in Section 1273 of the Tax Code) will be treated as “original issue discount” for federal income tax purposes and will, to the extent accrued as described below, constitute interest which is excluded from gross income, alternative minimum taxable income, Colorado taxable income, or Colorado alternative minimum taxable income under the conditions and subject to the exceptions described in the preceding paragraphs. The original issue discount on the Discount Bonds is treated as accruing over the respective terms of such Discount Bonds on the basis of a constant interest rate compounded at the end of each six-month period (or shorter period from the date of original issue) ending on May 15 and November 15 with straight line interpolation between compounding dates. The amount of original issue discount accruing each period (calculated as described in the preceding sentence) constitutes interest which is excluded from gross income, alternative minimum taxable income, Colorado taxable income, and Colorado alternative minimum taxable income under the conditions and subject to the exceptions described in the preceding paragraphs and will be added to the owner’s basis in the Discount Bonds. Such adjusted basis will be used to determine taxable gain or loss upon disposition of the Discount Bonds (including sale or payment at maturity). Owners should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

Owners who purchase Discount Bonds after the initial offering or who purchase Discount Bonds in the initial offering at a price other than the initial offering price (as defined in Section 1273 of the Tax Code) should consult their own tax advisors with respect to the federal tax consequences of the ownership of the Discount Bonds. Owners who are subject to state or local income taxation (other than Colorado state income taxation) should consult their tax advisor with respect to the state and local income tax consequences of ownership of the Discount Bonds. It is possible that, under the applicable provisions governing determination of state and local taxes, accrued original issue discount on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The Tax Code contains numerous provisions which may affect an investor’s decision to purchase the Bonds. Owners of the Bonds should be aware that the ownership of tax-exempt obligations by particular persons and entities, including, without limitation, financial institutions, insurance companies, recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, foreign corporations doing business in the United States and certain “subchapter S” corporations may result in adverse federal and Colorado tax consequences. Under Section 3406 of the Tax Code, backup withholding may be imposed on payments on the Bonds made to any owner who fails to provide certain required information, including an accurate taxpayer identification number, to certain persons required to collect such information pursuant to the Tax Code. Backup withholding may also be applied if the owner underreports “reportable payments” (including interest and dividends) as defined in Section 3406, or fails to provide a certificate that the owner is not subject to backup withholding in circumstances where such a certificate is required by the Tax Code.

Certain of the Bonds may be sold at a premium, representing a difference between the original offering price of those Bonds and the principal amount thereof payable at maturity. Under certain circumstances, an initial owner of such bonds (if any) may realize a taxable gain upon their disposition, even though such bonds are sold or redeemed for an amount equal to the owner’s acquisition cost. Bond Counsel’s opinion relates only to the exclusion of interest (and, to the extent described above for the Discount Bonds, original issue discount) on the Bonds from gross income, alternative minimum taxable income, Colorado taxable income and Colorado alternative minimum taxable income as described above and will state that no opinion is expressed regarding other federal or Colorado tax consequences arising from the receipt or accrual of interest on or ownership of the Bonds. Owners of the Bonds should consult their own tax advisors as to the applicability of these consequences.

The opinions expressed by Bond Counsel are based on existing law as of the delivery date of the Bonds. No opinion is expressed as of any subsequent date nor is any opinion expressed with respect to

pending or proposed legislation. Amendments to the federal or state tax laws may be pending now or could be proposed in the future that, if enacted into law, could adversely affect the value of the Bonds, the exclusion of interest (and, to the extent described above for the Discount Bonds, original issue discount) on the Bonds from gross income or alternative minimum taxable income or both from the date of issuance of the Bonds or any other date, the tax value of that exclusion for different classes of taxpayers from time to time, or that could result in other adverse tax consequences. In addition, future court actions or regulatory decisions could affect the tax treatment or market value of the Bonds. Owners of the Bonds are advised to consult with their own tax advisors with respect to such matters.

The IRS has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the IRS, interest on such tax-exempt obligations is includable in the gross income of the Owners thereof for federal income tax purposes. No assurance can be given as to whether or not the IRS will commence an audit of the Bonds. If an audit is commenced, under current procedures the IRS will treat the City as the taxpayer and the Owners may have no right to participate in such procedure. Neither the Underwriters nor Bond Counsel is obligated to defend the tax-exempt status of the Bonds. The City has covenanted in the Bond Ordinance not to take any action that would cause the interest on the Bonds to lose its exclusion from gross income for federal income tax purposes or lose its exclusion from alternative minimum taxable income for the Owners thereof for federal income tax purposes. None of the City, the Underwriters, or Bond Counsel is responsible to pay or reimburse the costs of any Owner with respect to any audit or litigation relating to the Bonds.

FINANCIAL ADVISOR

George K. Baum & Company, Denver, Colorado, is serving as Financial Advisor to the Utilities with respect to the Bonds, and in such capacity has assisted in the preparation of this Official Statement and in other matters relating to the planning, structuring, rating and execution and delivery of the Bonds. However, the Financial Advisor has not undertaken either to make an independent verification of or to assume responsibility for the accuracy or completeness of the information contained in this Official Statement, nor is the Financial Advisor permitted to underwrite the Bonds.

UNDERWRITING

The Series 2018A-1 Bonds will be purchased by the underwriters set forth on the cover of this Official Statement (the "Underwriters") at a price of \$_____ (representing the principal amount of the Series 2018A-1 Bonds of \$_____, [less an original issue discount of \$_____], [plus an original issue premium of \$_____,] less an Underwriters' discount of \$_____.

The Series 2018A-2 Bonds will be purchased by the underwriters set forth on the cover of this Official Statement (the "Underwriters") at a price of \$_____ (representing the principal amount of the Series 2018A-2 Bonds of \$_____, [less an original issue discount of \$_____], [plus an original issue premium of \$_____,] less an Underwriters' discount of \$_____.

The Series 2018A-3 Bonds will be purchased by the underwriters set forth on the cover of this Official Statement (the "Underwriters") at a price of \$_____ (representing the principal amount of the Series 2018A-3 Bonds of \$_____, [less an original issue discount of \$_____], [plus an original issue premium of \$_____,] less an Underwriters' discount of \$_____.

The Series 2018A-4 Bonds will be purchased by the underwriters set forth on the cover of this Official Statement (the "Underwriters") at a price of \$_____ (representing the principal amount of the Series 2018A-4 Bonds of \$_____, [less an original issue discount of \$_____], [plus an original issue premium of \$_____,] less an Underwriters' discount of \$_____.

The Underwriters have advised the City that they intend to offer the Bonds to the public initially at the offering prices set forth on the inside cover page of this Official Statement. The Underwriters may allow concessions from the public offering price to certain dealers. After the initial public offering, the public offering price may be varied from time to time by the Underwriters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the City, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and investments. Such investment and securities activities may involve securities and instruments of the City.

The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Prior to the delivery of the Series 2018A-3 Bonds, Causey Demgen & Moore Inc., certified public accountants, Denver, Colorado, will deliver a report on the mathematical accuracy of certain computations contained] in schedules provided to them by the Underwriters, relating to the adequacy of the maturing principal amounts of the Federal Securities to be held in the Escrow Fund, interest earnings and certain other uninvested cash to effect a defeasance of the Refunded Obligations refunded by the Series 2018A-3 Bonds.

CERTAIN RELATIONSHIPS OF PARTIES

J.P. Morgan Securities LLC, one of the Underwriters of the Bonds, [currently acts as remarketing agent for certain utilities revenue bonds issued by the City]. J.P. Morgan Securities LLC is an affiliate of JPMorgan Chase Bank, N.A., which currently acts as a liquidity provider to certain utilities revenue bonds issued by the City as described in “COLORADO SPRINGS UTILITIES – Liquidity/Support Facilities” and is a counter party to certain interest rate swap agreements with the City as described in “COLORADO SPRINGS UTILITIES – Interest Rate Swap Agreements.”

Goldman, Sachs & Co., one of the Underwriters of the Bonds, currently acts as dealer for a series of the Commercial Paper Notes.

George K. Baum & Company acts as Financial Advisor to the Utilities and Independent Swap Advisor to the Utilities.

RATINGS

Moody’s, S&P, and Fitch Ratings (“Fitch”) have assigned the Bonds the ratings listed on the cover of this Official Statement. An explanation of the significance of the ratings given by Moody’s may be obtained from Moody’s at 7 World Trade Center, 250 Greenwich Street, 23rd Floor, New York, New York 10007. An explanation of the significance of the ratings given by S&P may be obtained from S&P at 55 Water Street,

New York, New York 10041. An explanation of the significance of the ratings given by Fitch may be obtained from Fitch at 33 Whitehall Street, New York, New York 10004.

The Utilities furnished the rating agencies with information relating to the Bonds. Generally, the rating agencies base their ratings on information furnished by issuers and their own investigation and assumptions. Each of the ratings assigned the Bonds should be evaluated independently of the other ratings. None of the ratings constitutes a recommendation by the rating agency to buy, sell or hold the Bonds. Any further explanation of the significance of any rating must be obtained from the rating agency. Each rating is subject to revision or withdrawal at any time by the rating agency. Any downward revision or withdrawal of any of the ratings may have an adverse effect on the market price of the Bonds.

MISCELLANEOUS

The references in this Official Statement to the Bond Ordinance, statutes, resolutions, contracts, and other documents are brief outlines or partial excerpts of certain provisions of the documents. These outlines or excerpts do not purport to be complete, and reference is made to the documents, copies of which are available at the offices of the City, for full and complete statements of their provisions. All estimates used in this Official Statement are intended only as estimates and not as representations.

The execution and delivery of this Official Statement by the Utilities' Acting Chief Executive Officer and the Chief Planning and Finance Officer have been duly authorized by the City Council of the City of Colorado Springs, Colorado.

COLORADO SPRINGS UTILITIES

By: _____
Eric Tharp,
Acting Chief Executive Officer

By: _____
Tamela Monroe,
Chief Planning and Finance Officer

APPENDIX A
FINANCIAL STATEMENTS

APPENDIX B

THE BOND ORDINANCE

The following summary describes certain provisions of the Bond Ordinance and is qualified in its entirety by reference to the document itself for a full statement of its provisions.

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

EXHIBIT A

APPENDIX D
FORM OF BOND COUNSEL OPINION

APPENDIX E

DTC BOOK-ENTRY ONLY SYSTEM

The Bonds initially will be issued solely in book-entry form to be held in the book-entry only system maintained by The Depository Trust Company (“DTC”), New York, New York. So long as such book-entry system is used, only DTC will receive or have the right to receive physical delivery of Bonds and Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or Owners of the Bonds under the Bond Ordinance.

The information in this Appendix E concerning DTC and DTC’s book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an

authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest and redemption proceeds on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest or redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

SO LONG AS CEDE & CO., AS NOMINEE OF DTC, IS THE REGISTERED OWNER OF THE BONDS, REFERENCES IN THIS OFFICIAL STATEMENT TO THE REGISTERED OWNERS OF THE BONDS WILL MEAN CEDE & CO. AND WILL NOT MEAN THE BENEFICIAL OWNERS.

APPENDIX F

ECONOMIC AND DEMOGRAPHIC INFORMATION

This portion of the Official Statement contains general information concerning historic economic and demographic conditions in and surrounding the City of Colorado Springs. It is intended only to provide prospective investors with general information regarding the City's community. The information was obtained from the sources indicated and is limited to the time periods indicated. The information is historic in nature; it is not possible to predict whether the trends shown will continue in the future. The City makes no representation as to the accuracy or completeness of data obtained from parties other than the City.

Population

The following table sets forth a history of the populations of the City, El Paso County and the State. Between 2000 and 2010, the City's population increased 15.64%, El Paso County increased 20.38% and the State increased 16.92%.

Population⁽¹⁾

Year	City of Colorado Springs	Percent Change	El Paso County	Percent Change	Colorado	Percent Change
1970	135,517	--	235,972	--	2,209,596	--
1980	215,105	58.73%	309,424	31.13%	2,889,733	30.78%
1990	281,140	30.70	397,014	28.31	3,294,394	14.00
2000	360,890	28.37	516,929	30.20	4,301,261	30.56
2010	417,335	15.64	622,263	20.38	5,029,196	16.92
2011	427,799	2.51	638,289	2.58	5,119,538	1.80
2012	433,723	1.38	647,446	1.43	5,191,086	1.40
2013	438,795	1.17	656,981	1.47	5,268,413	1.49
2014	444,465	1.29	665,052	1.23	5,350,118	1.55
2015	451,718	1.63	676,178	1.67	5,448,055	1.83
2016	460,953	2.04	690,207	2.07	5,538,180	1.65

⁽¹⁾ Figures for 1970 represent Historical Census Population results. Population for 1980, 1990, 2000 and 2010 are from the April 1st Decennial Census Data. All other years contain a July 1st estimate from the Colorado Department of Local Affairs, Demography Section.

Source: Colorado Department of Local Affairs

Income

The following table sets forth annual total personal income for El Paso County, the State and the nation.

Personal Income (in thousands)

Year ⁽¹⁾	El Paso County ⁽²⁾	Colorado	United States
2011	\$25,242,286	\$219,860,916	\$13,233,436,000
2012	26,050,723	234,005,901	13,904,485,000
2013	26,626,735	246,648,165	14,068,960,000
2014	28,142,423	267,225,467	14,811,388,000
2015	29,631,593	282,665,204	15,547,661,000
2016	30,565,961	288,103,337	15,912,777,000

⁽¹⁾ Figures based on Census Bureau midyear population estimates.

⁽²⁾ Estimates for 2011-2016 reflect county population estimates available as of March 2017.

Source: United States Department of Commerce, Bureau of Economic Analysis. All figures are subject to periodic revisions.

The following table sets forth annual per capita personal income levels for El Paso County, the State and the nation. Per capita personal income levels in El Paso County have consistently been lower than personal income levels in the State and the nation during the period shown.

Per Capita Personal Income⁽¹⁾

Year	El Paso County ⁽²⁾	Colorado	United States
2011	\$39,633	\$42,955	\$42,461
2012	40,349	45,089	44,282
2013	40,652	46,824	44,493
2014	42,470	49,952	46,494
2015	43,945	51,876	48,451
2016	44,409	51,999	49,246

⁽¹⁾ Figures based on Census Bureau midyear population estimates.

⁽²⁾ Estimates for 2011-2015 reflect county population estimates available as of March 2017.

Source: United States Department of Commerce, Bureau of Economic Analysis. All figures are subject to periodic revisions.

Employment

The following table presents information on employment within El Paso County, the State and the nation, for the time period indicated.

Labor Force and Percent Unemployed⁽¹⁾

Year	El Paso County		Colorado ⁽¹⁾		United States
	Labor Force	Percent Unemployed	Labor Force	Percent Unemployed	Percent Unemployed
2011	307,563	9.1	2,736,079	8.4	8.9
2012	307,002	8.9	2,757,222	7.9	8.1
2013	307,665	7.9	2,775,670	6.8	7.4
2014	307,611	6.0	2,810,415	5.0	6.2
2015	308,526	4.6	2,833,509	3.9	5.3
2016	314,872	3.8	2,891,046	3.3	4.9

⁽¹⁾ Not seasonally adjusted

Sources: State of Colorado, Department of Labor and Employment, Labor Market Information, Labor Force Data, and U.S. Bureau of Labor, Bureau of Labor Statistics.

The following table sets forth the number of individuals employed in selected industries in El Paso County covered by unemployment insurance. The largest employment sector in El Paso County in 2016 was health care and social assistance (comprising approximately 14.9% of the county's work force), followed, in order, by retail trade; accommodation and food services, educational services, and professional and technical services. For the 12-month period ended December 31, 2016, total average employment in the County increased 3.0% as compared to the same 12-month period ending December 31, 2015, and average weekly wages increased 1.3% during the same time period.

Average Number of Employees Within Selected Industries – El Paso County

Industry	2012	2013	2014	2015	2016
Accommodation & Food Services	25,552	26,725	27,088	28,496	29,518
Administrative & Waste Services	17,190	17,605	17,890	18,573	18,892
Agriculture, Forestry, Fishing, & Hunting	200	209	249	307	414
Arts, Entertainment & Recreation	4,599	4,754	4,857	4,995	5,152
Construction	11,415	12,211	13,419	14,263	14,850
Educational Services	25,595	26,063	26,178	26,332	26,918
Finance & Insurance	11,026	11,618	11,611	11,634	12,077
Health Care & Social Assistance	32,706	33,512	34,896	36,978	39,496
Information	7,678	7,333	7,267	7,055	6,417
Management of Companies & Enterprises	1,068	1,142	1,120	1,105	1,219
Manufacturing	12,824	11,447	11,854	11,678	11,480
Mining	183	149	96	92	65
Other Services, Ex. Public Admin	9,068	9,330	9,693	10,316	10,853
Professional & Technical Services	20,122	21,771	22,097	22,986	23,309
Public Administration	12,993	13,150	13,021	13,045	13,157
Real Estate & Rental and Leasing	3,992	4,062	4,070	4,325	4,653
Retail Trade	29,296	30,109	30,971	31,843	32,687
Transportation & Warehousing	4,814	4,677	4,827	5,041	5,234
Unclassified	24	26	32	56	39
Utilities	2,592	2,482	2,461	2,431	2,493
Wholesale Trade	4,746	4,924	5,004	5,155	5,525
Total ⁽¹⁾	<u>237,682</u>	<u>243,299</u>	<u>248,701</u>	<u>256,705</u>	<u>264,447</u>

⁽¹⁾ Figures may not equal totals when added due to the rounding of averages.

Source: State of Colorado, Department of Labor and Employment, Labor Market Information, Quarterly Census of Employment and Wages (QCEW).

Major Employers

The following table sets forth a brief description of the major employers located in the Pikes Peak Region. No independent investigation has been made regarding these major employers. Therefore, there can be no representation as to whether or not such employers will retain their status as major employers in the County.

Largest Employers in Pikes Peak Region – March 2018 1,000 or more employees

<i>Employer</i>	<i>Product or Service</i>
City of Colorado Springs	Government
Colorado Springs Utilities	Government
Conduent Inc.	Telecommunications/Computer
DePuy Synthes Companies of Johnson & Johnson	Electronic Equipment Manufacturing
El Paso County	Government
Fort Carson	Military installation
Lockheed Martin Corporation	Defense Contractor
Microchip Technologies, Inc.	Electronic Equipment Manufacturing
Penrose-St. Francis Health Services/Centura	Healthcare Supplier
Peterson Air Force Base	Military installation
Pikes Peak Community College	Education/Training
Progressive Insurance Company	Back Office/Customer Service
School District #11 – Colorado Springs	Education/Training
School District #2 – Harrison	Education/Training
School District #20 – Air Academy	Education/Training
School District #3 – Widefield	Education/Training
School District #49 – Falcon	Education/Training
School District #8 – Fountain/Fort Carson	Education/Training
Schriever Air Force Base	Military Installation
The Broadmoor	Visitor Industry
UCHealth Memorial Health System	Healthcare Supplier
United Services Automobile Association	Back Office/Customer Service
United States Air Force Academy	Military Installation
University of Colorado - Colorado Springs	Education/Training

Source: Colorado Springs Regional Business Alliance.

Retail Sales

Annual retail sales figures for the City, El Paso County and the State are set forth below.

Retail Sales (in thousands)

Year ⁽¹⁾	City of Colorado Springs	Percent Change	El Paso County	Percent Change	Colorado	Percent Change
2011	\$11,931,673	--	\$13,929,941	--	\$154,632,762	--
2012	12,454,783	4.38%	14,502,456	4.11%	164,175,836	6.17%
2013	13,438,634	7.90	15,610,575	7.64	172,784,033	5.24
2014	14,311,405	6.49	16,684,061	6.88	182,709,978	5.74
2015	13,876,737	-3.04	16,548,061	(0.82)	182,845,695	0.07

⁽¹⁾ Calendar year

Source: State of Colorado, Department of Revenue, State Sales Tax Collected in Colorado Counties and Selected Cities and Related Statistics (quarterly reports).

Current Construction

The following table sets forth the number of permits issued for both residential and commercial construction in the County during the time period indicated.

Building Permits Issued for New Structures in El Paso County⁽¹⁾

Year	Single Family		Multi-Family ⁽²⁾		Commercial ⁽³⁾	
	Permits	Value	Units	Value	Permits	Value
2013 ⁽⁴⁾	2,688	\$1,079,909,778	745	\$104,505,202	231	\$371,251,694
2014 ⁽⁵⁾	2,433	1,032,039,203	1,090	153,369,996	238	132,072,961
2015 ⁽⁶⁾	2,739	1,131,190,529	846	114,315,368	302	245,974,639
2016 ⁽⁷⁾	3,237	1,360,333,105	1,717	294,641,637	371	363,575,512
2017 ⁽⁸⁾	3,504	1,417,418,973	1,351	202,830,494	333	396,109,558

⁽¹⁾ Pikes Peak Regional Building Department issue permits for unincorporated El Paso County and for the municipalities of Colorado Springs, Fountain, Green Mountain Falls, Manitou Springs, Monument, and Palmer Lake.

⁽²⁾ Includes townhouses, duplexes, condominiums, and multi-family buildings.

⁽³⁾ Includes commercial buildings such as hotels, motels, amusement/recreation, manufacturing, offices, banks and professional buildings; and stores and other retail buildings. Does not include structures other than buildings (Swim Pools, etc.) or signs.

⁽⁴⁾ Approximately 263 permits issued to replace residences destroyed by Waldo Canyon wildfire and Black Forest wildfires

⁽⁵⁾ Approximately 186 permits issued to replace residences destroyed by Waldo Canyon and Black Forest wildfires.

⁽⁶⁾ Approximately 48 permits issued to replace residences destroyed by Waldo Canyon and Black Forest wildfires.

⁽⁷⁾ Approximately 32 permits issued to replace residences destroyed by Waldo Canyon and Black Forest wildfires.

⁽⁸⁾ Approximately 27 permits issued to replace residences destroyed by Waldo Canyon and Black Forest wildfires.

Source: Pikes Peak Regional Building Department.

Foreclosure Activity

The following table sets forth the number of foreclosures filed in El Paso County during the time period shown. Such information only represents the number of foreclosures filed and does not take into account foreclosures which were filed and subsequently redeemed or withdrawn.

History of Foreclosure Filings – El Paso County

Year	Number of Foreclosures Filed	Percent Change
2011	3,461	--
2012	3,364	(2.80)%
2013	1,861	(44.68)
2014	1,825	(1.93)
2015	1,470	(19.45)
2016	1,287	(12.45)
2017	1,089	(15.38)

Sources: El Paso County Public Trustee's Office.

APPENDIX G

THE REFUNDING PLAN

The proceeds of the Series 2018A-1 Bonds and Series 2018A-4 Bonds will be deposited into the Escrow Fund and will be used, together with other available moneys of the Utilities, to redeem certain of the Refunded Obligations on the applicable redemption or maturity date listed below. Such amounts will be held by Wells Fargo Bank, N.A., Minneapolis, Minnesota, as Escrow Agent, pursuant to the Escrow Agreement dated as of _____, 2017 between the City and the Escrow Agent. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS.” Amounts in the Escrow Fund are not pledged as security for the Bonds.

The Refunded Obligations consist of the following obligations:

**City of Colorado Springs, Colorado
Variable Rate Demand Utilities System
Improvement and Refunding Revenue Bonds, Series 2007B**

<i><u>Maturities to be Refunded (November 15)</u></i>	<i><u>CUSIP</u></i> [†]	<i><u>Principal Amount to be Refunded</u></i>	<i><u>Redemption Date</u></i>	<i><u>Redemption Price (% of Par Amount)</u></i>
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**City of Colorado Springs, Colorado
Variable Rate Demand Utilities System Subordinate Lien
Improvement and Refunding Revenue Bonds, Series 2006A**

<i><u>Maturities to be Refunded (November 15)</u></i>	<i><u>CUSIP</u></i> [†]	<i><u>Principal Amount to be Refunded</u></i>	<i><u>Redemption Date</u></i>	<i><u>Redemption Price (% of Par Amount)</u></i>
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**City of Colorado Springs, Colorado
Utilities System Refunding Revenue Bonds, Series 2008B**

<i>Maturities to be Refunded (November 15)</i>	<i><u>CUSIP</u>[†]</i>	<i>Principal Amount to be Refunded</i>	<i><u>Redemption Date</u></i>	<i>Redemption Price (% of Par Amount)</i>
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**Utilities System Commercial Paper Notes,
Series _____**

<i>Maturities to be Refunded (_____)</i>	<i><u>CUSIP</u>[†]</i>	<i>Principal Amount to be Refunded</i>	<i><u>Redemption Date</u></i>	<i>Redemption Price (% of Par Amount)</i>
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