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**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 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 Improvement Revenue Bonds, Series 2014A-1

\$ _____*

Utilities System Improvement Revenue Bonds, Series 2014A-2

Dated: Date of Delivery

Due: November 15, as on the inside cover

The City of Colorado Springs, Colorado (the "City") is issuing its Utilities System Improvement Revenue Bonds, Series 2014A-1 (the "Series 2014A-1 Bonds") and its Utilities System Improvement Revenue Bonds, Series 2014A-2 (the "Series 2014A-2 Bonds" and collectively with the Series 2014A-1 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 May 15, 2015. 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 each 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 are payable and collectible solely out of the net revenues derived from the operation and use of the municipal water system, electric light and power 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 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, Reno, Nevada, 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 City. It is expected that the Bonds will be available for delivery on or about _____, 2014, through the facilities of DTC.

[Underwriters to be inserted]

This Official Statement is dated _____, 2014.

* *Preliminary, subject to change.*

CITY OF COLORADO SPRINGS, COLORADO

CUSIP[†] Issuer Number: 196632

\$ _____ *

Utilities System Improvement Revenue Bonds, Series 2014A-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>
2015	\$	%	%		2025	\$	%	%*	
2016					2026				
2017					2027				
2018					2028				
2019					2029				
2020					2030				
2021					2031				
2022					2032				
2023					2033				
2024					2034				

\$ _____ % 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 2014A-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>
2015	\$	%	%		2025	\$	%	%*	
2016					2026				
2017					2027				
2018					2028				
2019					2029				
2020					2030				
2021					2031				
2022					2032				
2023					2033				
2024					2034				

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

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

* Preliminary, subject to change.

CITY OF COLORADO SPRINGS, COLORADO

Mayor

Steve Bach

City Council

Keith King, *President of the City Council*

Merv Bennett, *President Pro Tem*

Helen Collins
Jill Gaebler
Don Knight
Jan Martin

Joel Miller
Andy Pico
Val Snider

Wynetta Massey, *City Attorney*

COLORADO SPRINGS UTILITIES

Jerome Forte, Jr., Chief Executive Officer
Gary Bostrom, Chief Water Services Officer
William J. Cherrier, Chief Planning and Finance Officer
Carl Cruz, Chief Customer and Corporate Services Officer
George Luke, Interim Chief Energy 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
Scott Harvey, Vice Chair
Balu Bhayani
Anthony Elia
Erik Honaker
Jerry Novak
Thomas Taylor

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.

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OFFICIAL STATEMENT

CITY OF COLORADO SPRINGS, COLORADO

\$ _____*

Utilities System Improvement Revenue Bonds, Series 2014A-1

\$ _____*

Utilities System Improvement Revenue Bonds, Series 2014A-2

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 430,000 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—Colorado Springs Metropolitan Statistical Area” to this Official Statement.

The City owns and operates the Colorado Springs Utilities (the “Utilities”), which includes the municipal water system, the electric light and power 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 from the “Net Pledged Revenues” available after the costs of operating and maintaining the utility system are deducted from the “Gross Pledged Revenues” generated from the operation and use of the utility system. 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 does not anticipate issuing any additional utilities system revenue bonds in 2014. 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

*Preliminary; subject to change

Debt Service Reserve Fund

Under the ordinance authorizing the issuance of the Bonds, the City is required to fund the Reserve Fund as additional security for the Bonds. The amount required to be on deposit in the Reserve Fund will be \$_____ and will be funded with a portion of the proceeds of the Bonds. 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 August 12, 2014. 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 2014A-1 Bonds are to be used, along with other available revenues to: (a) finance a portion of the costs of a major water delivery system known as the Southern Delivery System (see “THE WATER SYSTEM – Capital Improvements to the Water System – Southern Delivery System - General”); (b) pay a portion of certain costs of issuing the Series 2014A-1 Bonds; and (c) fund a portion of the Reserve Fund.

Net proceeds of the Series 2014A-2 Bonds are to be used, along with other available revenues to: (a) finance a portion of the costs of a number of other general improvements to the utility system; (b) pay a portion of certain costs of issuing the Series 2014A-2 Bonds; and (c) fund a portion of the Reserve Fund. For a description of the potential general improvements to be financed, see “COLORADO SPRINGS UTILITIES – Capital Improvements.”

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. 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 City's 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, 2013 (with comparative totals for the year ended December 31, 2012). 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 Series 2014A-1 Bonds are set forth in the following table.

<u>Sources of Funds</u>	<u>Amount</u>
Par amount of the Bonds	\$
Plus Net Original Premium [less original discount].....	_____
Total Sources of Funds	<u>\$</u>
<u>Uses of Funds</u>	
Acquisition Fund Deposit.....	\$
Reserve Fund Deposit	
Costs of Issuance ⁽¹⁾	_____
Total Uses of Funds	<u>\$</u>

⁽¹⁾ Costs of Issuance include legal fees, underwriters' discount, consultant fees, printing costs, rating agency fees and other miscellaneous fees and expenses.

The sources and uses of proceeds of the Series 2014A-2 Bonds are set forth in the following table.

<u>Sources of Funds</u>	<u>Amount</u>
Par amount of the Bonds	\$
Plus Net Original Premium [less original discount].....	_____
Total Sources of Funds	<u>\$</u>
<u>Uses of Funds</u>	
Acquisition Fund Deposit.....	\$
Reserve Fund Deposit	
Costs of Issuance ⁽¹⁾	_____
Total Uses of Funds	<u>\$</u>

⁽¹⁾ Costs of Issuance include legal fees, underwriters' discount, consultant fees, printing costs, rating agency fees and other miscellaneous fees and expenses.

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 security for 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.

Capital Program and Need for Rate Increases in the Future

As discussed in “THE ELECTRIC SYSTEM,” “THE WATER SYSTEM,” and “THE WASTEWATER SYSTEM,” the Utilities has significant capital needs in the next decade. These capital needs are currently estimated to total approximately \$1.3 billion from 2014 through 2018. The largest of these is the proposed Southern Delivery System (“SDS”). As of March 2014, the forecasted project cost through completion of construction in 2016 and mitigation payments through 2021 is \$841 million, of which the Utilities is responsible for 94.81%. Of this amount, approximately \$338 million remains to be spent to complete the project.

To support the financing of the first phase of SDS, the City has issued approximately \$417 million of utilities system revenue bonds, not including the Series 2014A-1 Bonds. The City Council approved 12% water rate increases for 2011 and 2012 in May 2010 and 10% water rate increases for 2013 and 2014 in July 2012. See “THE WATER SYSTEM—Water Rates and Development Charges.”

The Utilities is also undertaking Emissions Control Technology projects at both the Martin Drake and Nixon power plants. The total cost of these projects is forecasted at \$291 million. Of this amount, approximately \$175 million remains to be spent. See “THE ELECTRIC SYSTEM - Environmental Regulation.”

The Utilities seeks to balance the impact of annual rate increases to the typical residential bill for all four of its services combined, excluding fuel related costs, over the next five years in order to finance its capital needs and maintain its liquidity, fixed cost ratio, and debt service coverage at acceptable levels. Rate increases beyond 2014 which are needed for SDS, if any, and rate increases for other capital projects will be brought to the City Council at the appropriate time. Historically, the City Council has supported necessary rate increases for SDS and other major projects. However, no assurances can be given that such rate increases will be approved in the future.

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 expects 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. 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 reduction in subsidy payments to the Utilities in 2014 is estimated to total approximately \$615,645. The Utilities presently expects an annual average reduction in subsidy payments of approximately

\$615,000 through 2018 based upon the current sequestration process. The Utilities' forecast of revenues has been adjusted to reflect this reduction in non-operating income.

Possible Cuts in 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 have been proposed for consideration by the U.S. Congress. Many of these include significant cuts in defense spending. 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 Regarding Liquidity Facilities

As of the date of this Official Statement, the City has \$827,635,000 of outstanding Parity Bonds which are supported by liquidity facilities ("Support Facilities"). The Parity Bonds 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 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 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.”

Fire at Martin Drake Power Plant

[Note – this section will be updated just prior to posting] On May 5, 2014, a significant fire occurred at the Martin Drake Power Plant. As a result of the fire, all three generation units at the Martin Drake Power Plant went offline. Unit No. 5 is expected remain offline for approximately 12 months. Unit No. 6 was brought back online on June 25, 2014 and is operating at full capacity. Unit No. 7 is expected to be operational by the end of 2014.

Prior to the fire, the three generation units at the Martin Drake Power Plant had a combined net capability of 254 MW, and the cost to produce power from these units was among the lowest of the Utilities’ generation facilities. The Utilities expects to replace the power generated by these units with power generated at the Front Range Power Plant and, to the extent necessary, replacement power purchased on the open market. The Utilities estimates that the additional costs for power as a result of the fire will be approximately \$1.5 to 2.0 million per month for so long as Unit Nos. 5 and 7 at the Martin Drake Power Plant are offline. On May 27, 2014, the City Council voted to increase the Utilities’ electric cost adjustment from \$0.0013 to \$0.0102 in order to recover the increased power costs from all three units. On July 11, 2014, the City Council voted to decrease the Utilities’ electric cost adjustment from \$0.0102 to \$0.0074 to reflect Unit 6 at Martin Drake Power Plant coming back online.

The Utilities carries a \$500 million property all risk policy on the Martin Drake Power Plant, with a \$1 million deductible. The Utilities expects that this policy will cover the expenses to repair the plant.

DESCRIPTION OF THE BONDS

Security for the Bonds

The City’s Utilities System Improvement Revenue Bonds, Series 2014A-1 (the “Series 2014A-1 Bonds”) and Utilities System Improvement Revenue Bonds, Series 2014A-2 (the “Series 2014A-2 Bonds” and collectively with the Series 2014A-1 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 any securities previously or subsequently issued and payable from Net Pledged Revenues will be made solely from, and as security for such payment there are irrevocably (but not exclusively) pledged, the revenues (the “Gross Pledged Revenues”) derived from the operation and use of the municipal water system, the electric light and power system, the gas system, the wastewater system, the streetlight system, and other systems designated in accordance with the home rule charter of the City (collectively, the “System”), after provision is made only for the payment of all operation and maintenance expenses of the System (such remaining revenues are referred to as the “Net Pledged Revenues”). The City may not issue 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 a portion of the proceeds of the Bonds.

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). See “COLORADO SPRINGS UTILITIES—Outstanding Utilities Revenue Bonds and Other Obligations.” 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.”

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 to this Official Statement. Interest on the Bonds will be payable semiannually on May 15 and November 15 of each year, commencing on May 15, 2015.

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

* Preliminary; subject to change

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 draw interest at the rate applicable prior to maturity or prior redemption until paid in full.

Optional Redemption

The 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 Bonds redeemed, plus accrued interest to the redemption date.

Mandatory Sinking Fund Redemption

The Series 2014A-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 2014A-1 Bonds redeemed, plus accrued interest to the redemption date on the schedule set forth below:

Series 2014A-1 Bonds maturing November 15, 20__:

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

*

* Final maturity

Series 2014A-1 Bonds maturing November 15, 20__:

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

*

* Final maturity

The Series 2014A-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 2014A-2 Bonds redeemed, plus accrued interest to the redemption date on the schedule set forth below:

Series 2014A-2 Bonds maturing November 15, 20__:

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

*

* Final maturity

Series 2014A-2 Bonds maturing November 15, 20__:

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

*

* 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 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 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 Maturity-Rate specified by the City. If less than all of the Bonds of a single Maturity-Rate are to be redeemed, they shall be selected by lot within a 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 two exceptions, 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 following description of instances of noncompliance by the City with continuing disclosure undertakings should not be construed as an acknowledgement that any such instance was material. In August 2009, S&P downgraded its short term rating of the City’s Variable Rate Demand Utilities System Subordinate Lien Improvement Revenue Bonds, Series 2006B as a result of its downgrade of the short-term rating of Bayerische Landesbank, the liquidity provider for such bonds. A notice was not timely filed for this downgrade, though one was filed on August 22, 2013. In October 2009, Fitch downgraded the insured rating on certain maturities of the City’s Utilities System Subordinate Lien Refunding Revenue Bonds, Series 2004B and all of the Utilities System Subordinate Lien Improvement Revenue Bonds, Series 2005B and 2005C as a result of its downgrade of Financial Security Assurance, Inc., the insurer of such bonds. A notice was not timely filed for this downgrade, though one was filed on August 22, 2013.

The Utilities believes that its current continuing disclosure compliance processes are sufficient to ensure timely compliance with its continuing disclosure obligations in the future.

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 light and power 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 for some or all 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's general fund 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, 2013.

2013 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	\$417,778	49.8%	\$335,042	49.1%	\$ 82,736	\$2,136,045	41.3%
Gas ⁽²⁾	208,170	24.8	176,003	25.8	32,167	342,347	6.7
Water ⁽³⁾	143,378	17.1	118,338	17.3	25,040	1,909,491	34.7
Wastewater	65,431	7.8	48,623	7.1	16,808	836,206	16.4
Streetlight	4,251	0.5	4,511	0.7	(260)	45,545	0.9
Total	\$839,008	100.0%	\$682,517	100.0%	\$156,491	\$5,269,634	100.0%
Less: Interdepartmental Sales	(15,248)		(15,248)		--		
Net Total	\$823,760		\$667,269		\$156,491		

⁽¹⁾ Total Net Utilities Plant (excluding water component units) is \$3,388,200,458. This amount represents \$4,621,456,342 in Gross Utilities Plant plus \$648,177,720 in Construction Work in Progress, less Accumulated Depreciation and Amortization of \$1,881,433,604. See Note 4 in the 2013 Audited Financial Statements attached hereto as Appendix A.

⁽²⁾ The gas information excludes amounts attributable to the Public Authority for Colorado Energy (PACE) described in Note 17 in the 2013 Audited Financial Statements. For a description of PACE see page 55 in the 2013 Audited Financial Statements attached hereto as Appendix A.

⁽³⁾ The water information excludes amounts attributable to the water component units described in Note 17 in the 2013 Audited Financial Statements. For descriptions of the component units see page 55 in the 2013 Audited Financial Statements attached hereto as Appendix A.

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 \$31.6 million in 2011, \$30.6 million in 2012, and \$31.8 million in 2013.

In November 2009, the City's voters approved an initiated ordinance known as Issue 300, which would phase out "all enterprise payments" from the Utilities to the City over an eight year period. However, as noted above, the Charter provides that any surplus from the operation of the Utilities can be appropriated to the general fund. In August 2010, the City Council approved a resolution finding that the Utilities' payments to the City discussed in the preceding two paragraphs constitute a surplus and, as such, may be appropriated to the general fund in accordance with the Charter. The City has taken the position that this action is not in violation of the provisions of Issue 300. If, however, a declaratory judgment is brought and the court chooses to enforce the terms of Issue 300 against the City with regard to the Utilities' surplus payments and other enterprise payments, the City anticipates that it would result in a loss of revenue to the general fund of the City. The effect on the Utilities would be a reduction in expenses related to the surplus payments, which

would be passed on to Utilities’ customers. See “PENDING LEGAL PROCEEDINGS” for a description of a complaint recently filed against the City that alleges, among other things, a violation of Issue 300.

City Governance

The City is governed by a ‘strong mayor’ form of governance. Under this form of governance, the Mayor appoints all department directors except for the City Auditor 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 present 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 Term</u>
Merv Bennett (Chair)	Nonprofit CEO, Retired	April 2015
Andy Pico (Vice Chair)	Defense Contractor	April 2017
Helen Collins	U.S. Navy, Retired	April 2017
Jill Gaebler	Nonprofit/Education Leader	April 2017
Keith King	High School Administrator	April 2017
Don Knight	U.S. Air Force/Defense Contractor, Retired	April 2017
Jan Martin	Small Business Owner	April 2015
Joel Miller	Pilot/Engineer	April 2017
Val Snider	U.S. Air Force, Retired	April 2015

The Utilities Policy Advisory Committee (“UPAC”) is comprised of seven regular members appointed by the City Council. The Utilities Board directs UPAC to study specific issues or policies and provide recommendations to the Utilities Board or City Council, as appropriate. 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 Term</u>
Richard Kramer (Chair)	Business Professional	October 2015
Scott Harvey (Vice Chair)	Engineer/Business Professional	October 2015
Balu Bhayani	Engineer/Business Professional	October 2015
Anthony Elia	Financial/Business Professional	October 2017
Erik Honaker	Business Professional	October 2015
Jerry Novak	Business Professional	October 2017
Thomas Taylor	Business Professional	October 2017

Management Staff

The Utilities consists of the following six functional divisions: Water Services Division; Planning and Finance Division; Customer and Corporate Services Division; Energy Services Division; Environment, Health & Safety Division; and Strategy and External Affairs Division. Members of the officer team, their

recent positions with the Utilities, and the years in which they were first employed by the Utilities are as follows:

<u>Member</u>		<u>Recent Positions Held with the Utilities</u>	<u>Year Employed</u>
Jerome Forte, Jr.	1/06 to present	Chief Executive Officer	2002
	8/05 to 1/06	Interim Chief Executive Officer	
	1/02 to 8/05	Chief Operating Officer	
Gary Bostrom	2/11 to present	Chief Water Services Officer	1979
	5/06 to 2/11	General Manager Planning, Engineering and Resources Management	
	1/03 to 5/06 6/01 to 12/02	Manager, Regional Projects Manager, Project Planning and Design	
William J. Cherrier	1/09 to present	Chief Planning and Finance Officer	2005
	8/05 to 1/09	General Manager, Financial Services	
	7/05 to 8/05	General Accounting Manager	
Carl Cruz	2/09 to present	Chief Customer and Corporate Services Officer	2000
	4/08 to 2/09	General Manager, Field Service and System Quality Departments	
	7/01 to 4/08	Manager, Field Service Department	
George Luke	3/14 to present	Interim Chief Energy Services Officer	1986
	12/10 to 2/14	General Manager, Energy Supply	
	3/05 to 11/10	Manager, Nixon Power Plant	
	5/03 to 2/05 7/01 to 4/03	Business Operations Manager Corporate Risk Manager	
David Padgett	7/11 to present	Chief Environment, Health and Safety Officer	1985
	2/11 to 6/11	Environment, Health and Safety Manager	
	10/10 to 2/11	Interim Chief Water Services Officer	
	5/10 to 10/10	Environment, Health and Safety Manager	
	6/06 to 5/10 9/05 to 5/06	Environment Services Department Manager Interim Planning and Engineering General Manager	
Sherri Newell Wilkinson	6/01 to present	Chief Strategy and External Affairs Officer	1994
	11/94 to 6/01	Marketing Division Manager	

Employees

The Utilities employs approximately 1,800 full-time employees. The Utilities management believes that relations with its employees are satisfactory.

Retirement Plans

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 2011, 2012, and 2013 the Utilities contributed \$18,034,840, \$18,552,419, and \$18,701,657, 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 City believes its contribution in 2013 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 2014, the Utilities has budgeted a contribution to the PERA plan of \$18,992,021 million.

In addition, 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 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, 2013 (the "Report"), the Local Government Division Trust Fund had an unfunded actuarial accrued liability of \$1,210,984,000, and the ratio of the actuarial value of assets to the actuarial accrued liability was 73.1%. These amounts are based on the actuarial and other assumptions set forth in the Report, including an assumed investment rate of return of 7.5% 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 11 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 1300 Logan 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 \$1,263,850,000 as of the end of 2013, and the ratio of the actuarial value of assets to the actuarial accrued liability was 18.8%. These amounts are based on the actuarial and other assumptions set forth in the Report, including an assumed investment rate of return of 7.5% 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." No employee contributions are required. The Utilities' contributions to the Health Care Trust Fund for the years ended December 31, 2011, 2012, and 2013 were \$1,342,790, \$1,381,275, and \$1,392,386, respectively, equal to the required contributions for each year. The Utilities contribution to the PERA Health Care Trust Fund is included in the total contribution to the PERA plan.

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 13 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 1300 Logan 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.

The Utilities also makes contributions to a single-employer health care plan for retired employees hired prior to August 1, 1988. There are no assets dedicated to this post-retirement health care obligation, and, therefore, it is funded by the Utilities on a pay-as-you-go basis. During 2013, the Utilities paid \$1,277,278 in contributions to the plan. The single-employer plan had an unfunded actuarial accrued liability of \$18,000,000 as of January 1, 2013, the most recent actuarial valuation date. Because the plan has no dedicated assets, the actuarial value of assets to the actuarial accrued liability was 0%. These amounts are based on actuarial and other assumptions. For more information, see Note 13 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, 2009 to 2013 (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.

Information presented for the six-month periods ended June 30, 2013 and June 30, 2014 was derived from the Utilities' internally prepared financial statements. Such financial statements are unaudited, but, in the opinion of management of the Utilities, reflect all adjustments (none of which was other than a normal recurring adjustment (accrual) necessary for a fair presentation of the results of operations for such interim periods). The results of operations for an interim period should not be considered indicative of the results for a full fiscal year.

SUMMARY OF OPERATIONS

	<i>Year ended December 31</i>					<i>Six Months ended June 30</i>	
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>	<u>2014</u>
Operating Revenues ⁽¹⁾	\$ 743,780,026	\$ 797,545,616	\$ 830,521,895	\$ 849,746,643	\$ 823,759,529	\$ 421,220,389	\$ 434,810,176
Operating and Other Expenses:							
Operating Expenses ⁽¹⁾ :							
Production and Treatment	\$ 130,762,847	\$ 156,242,518	\$ 189,980,870	\$ 144,360,585	\$ 153,634,499	\$ 72,253,481	\$ 74,799,981
Purchased Power, Gas and Water for Resale	263,918,576	256,673,829	220,379,071	188,627,034	168,003,399	93,512,688	108,313,312
Transmission and Distribution	33,722,006	35,099,109	34,823,734	36,386,480	39,342,897	18,105,831	19,546,479
Maintenance	57,897,207	61,350,110	67,627,354	61,793,083	63,023,290	26,226,073	28,586,004
Administration and General ⁽⁵⁾	84,302,203	92,235,616	91,632,227	96,185,140	93,143,285	45,321,961	48,207,976
Customer Accounting and Collection	18,131,927	19,458,301	19,198,951	20,283,445	20,362,110	9,977,850	9,846,687
Customer Service and Information	4,624,938	4,949,290	6,032,878	10,308,869	11,027,005	4,251,008	4,595,132
Products and Services	55,218	57,620	102,260	61,831	12,105	6,104	4,872
Franchise Taxes	221,411	250,782	277,443	288,408	289,996	158,708	166,687
Depreciation and Amortization ⁽⁵⁾	93,673,550 ⁽⁵⁾	94,733,778	111,551,628	116,184,836	118,430,128	58,486,431	58,551,110
Total Operating Expenses	\$ 687,309,883	\$ 721,050,953	\$ 741,606,416	\$ 674,479,711	\$ 667,268,714	\$ 328,300,135	\$ 352,618,240
Operating Income ⁽⁵⁾	\$ 56,470,143 ⁽⁵⁾	\$ 76,494,663	\$ 88,915,479	\$ 175,266,932	\$ 156,490,815	\$ 92,920,254	\$ 82,191,936
Non-Operating Revenues (Expenses)							
Derivatives Instruments Gain/Loss ⁽²⁾⁽⁴⁾	\$ 35,242,749	\$ (12,115,109)	\$ (2,821,494)	\$ 6,176,646	\$ (67,935,921)	\$ 5,295,736	\$ (15,799,207)
Investment Income (Loss)	16,004,660	6,898,725	3,053,643	2,688,846	2,322,578	275,338	534,912
Other Revenues ⁽³⁾	3,635,424	11,013,242	23,916,913	13,052,546	16,679,905	6,143,311	5,280,295
Other Expenses ⁽⁴⁾⁽⁷⁾	(10,864,791)	(2,666,026)	(2,235,610)	(5,298,844)	(5,276,473)	(813,043)	(801,059)
Interest Expense ⁽⁷⁾	(65,021,501)	(73,073,683)	(95,011,373)	(88,871,887)	(81,468,977)	(41,894,700)	(39,254,208)
Total Non-Operating Revenues (Expenses) ⁽⁷⁾	\$ (21,003,459)	\$ (69,942,851)	\$ (73,097,921)	\$ (72,252,693)	\$ (135,678,888)	\$ (30,993,358)	\$ (50,039,267)
Income (Loss) before Contributions, Transfers, and Extraordinary Items ⁽⁵⁾⁽⁷⁾	\$ 35,466,684 ⁽⁵⁾	\$ 6,551,812	\$ 15,817,558	\$ 103,014,239	\$ 20,811,927	\$ 61,926,896	\$ 32,152,669
Contributions in Aid of Construction	28,927,156	35,431,425	33,634,753	47,142,662	44,490,038	23,499,555	24,129,484
Transfers - Surplus Payments to the City	(24,563,483)	(31,148,527)	(31,584,640)	(30,595,266)	(31,844,422)	(16,225,188)	(15,932,401)
Transfers - Other	(2,247)	(3,525)	(77,972)	(639,616)	(308,288)	(140,174)	(560,535)
Extraordinary Expense ⁽⁸⁾	--	--	--	--	(507,495)	--	--
Change in Net Position ⁽⁵⁾⁽⁷⁾	\$ 39,828,110 ⁽⁵⁾	\$ 10,831,185	\$ 17,789,699	\$ 118,922,019	\$ 32,641,760	\$ 69,061,089	\$ 39,789,217
Total Net Position, January 1 ⁽⁵⁾⁽⁶⁾	\$ 1,265,984,853 ⁽⁵⁾	\$ 1,305,812,963	\$ 1,316,644,148	\$ 1,334,433,847	\$ 1,453,355,866	\$ 1,453,355,866	\$ 1,485,997,626
Total Net Position, December 31 ⁽⁵⁾⁽⁷⁾	\$ 1,305,812,963 ⁽⁵⁾	\$ 1,316,644,148	\$ 1,334,433,847	\$ 1,453,355,866	\$ 1,485,997,626	\$ 1,522,416,955	\$ 1,525,786,843

⁽¹⁾ Operating Revenues and Operating Expenses are shown net of interdepartmental sales transactions in the following amounts: 2009 - \$19,947,531; 2010 - \$19,022,696; 2011 - \$68,943,110; 2012 - \$19,907,783; and 2013 - \$15,248,365. These revisions have no effect on Operating Income or Net Earnings for any period presented.

⁽²⁾ Includes the following unrealized gains or losses attributable to energy swaps: 2009 - \$1,020,545; 2010 - \$(11,829,251); 2011 - \$4,023,000; 2012 - \$6,786,466; and 2013 - \$0. The Utilities changed its treatment of derivative instruments for the period ended December 31, 2009 to reflect the implementation of GASB 53. For more information on this, see Note 5 in the 2013 Audited Financial Statements.

⁽³⁾ Includes accrued interest earnings subsidies from the United States Treasury for previously issued utilities system revenue bonds designated as "Build America Bonds": 2010 - \$3,259,882; 2011 - \$8,537,966; 2012 - \$8,469,392; and 2013 - \$7,870,848.

⁽⁴⁾ Includes the following unrealized gains or losses attributable to interest rate swap agreements: 2009 - \$34,222,204, 2010 - \$(285,858); 2011 - \$(6,844,000); 2012 - \$(609,820); and 2013 - \$(67,935,922). The Utilities changed its treatment of derivative instruments for the period ended December 31, 2009 to reflect the implementation of GASB 53. For more information on this, see Note 5 in the 2013 Audited Financial Statements.

⁽⁵⁾ Effective with Financial Statements for the period ended December 31, 2009, the Utilities implemented GASB 51, Accounting and Financial reporting for Intangible Assets, and GASB 53, Accounting and Financial Reporting for Derivative Instruments. The effects of this implementation were not previously reflected in the numbers above. The changes are as follows:

- Beginning year net position in 2009 has been adjusted from \$1,015,367,978 to \$1,265,984,853 to reflect \$242,726,441 in hedge derivatives moving to the balance sheet under GASB 53 and \$7,890,434 adjustment of Capital Assets, Depreciation and Administrative Expenses under GASB 51.
- Administrative and General Expenses changed from \$84,434,873 to \$84,302,203 to reflect a reclassification of \$132,670 under GASB 51.
- Depreciation and Amortization Expense changed from \$93,719,890 to \$93,673,550 to reflect a reclassification of \$46,340 under GASB 51.
- The aforementioned changes in expenses resulted in a \$179,010 increase in Operating Income, Income before Contributions and Transfers, and Change in Net Assets.

⁽⁶⁾ Beginning year net position for 2010 has been restated from \$1,297,743,519 to \$1,305,812,963 to reflect the implementation of GASB 51. For more information see Note C(8)(A) of the 2010 Audited Financial Statements.

⁽⁷⁾ On December 15, 2012, Utilities adopted GASB 65. Implementation of GASB 65 resulted in a revision of Other Expenses in the amount of \$(1,511,099) and Interest Expense in the amount of \$692,522 for the period ended December 31, 2012.

⁽⁸⁾ 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 No. 42, an extraordinary expense has been recognized. For more information see Note 19 in the 2013 Audited Financial Statements.

For the six month period ended June 30, 2014, Change in Net Assets increased \$2.6 million over the same period one year ago. Increased Operating Revenues were offset by increases in Production and Treatment Expense, Purchased Power, Gas and Water for Resale Expense, Transmission and Distribution Expense, Maintenance Expense and Administrative and General Expenses. In Non-Operating Revenues/(Expenses) a decrease in value of Derivative Instruments was partially offset by a decrease in Interest Expense.

The Change in Net Position was further affected by an increase In Contributions in Aid of Construction, decreased Surplus Payments to the City of Colorado Springs, and an increase in Transfers-Other.

For the six month period ended June 30, 2014, Operating Revenues increased \$13.6 million over the same period one year ago. Production and Treatment Expense increased by \$2.5 million, Purchased Power, Gas and Water for Resale Expense increased by \$14.8 million, Transmission and Distribution Expense increased by \$1.4 million, Maintenance Expense increased by \$2.4 million and Administrative and General Expenses increased by \$2.9 million. Total Operating Income decreased by \$10.7 million.

For the six month period ended June 30, 2014, Total Non-Operating Revenues/(Expenses) decreased by \$19.0 million compared to the same period one year ago. A Derivatives Instrument fair value loss of \$15.8 million was recognized as compared to a fair market value gain of \$5.3 million recognized during the first six months of 2013. The change in fair value of Derivative Instruments is a non-realized, non-cash expense recognized due to market conditions during the period. Interest Expense decreased by \$2.6 million. Income before Contributions & Transfers decreased by \$29.8 million.

The Change in Net Position also included a \$0.6 million increase in Contributions in Aid of Construction, a \$0.3 million decrease in Surplus Payments to the City of Colorado Springs, and an increase in Transfers-Other of \$0.4 million.

Financial Statements

The Utilities' Statements of Net Assets for the periods ended December 31, 2009 through December 31, 2011, Statement of Revenues, Expenses and Changes in Net Assets and Statements of Cash Flows for years ended December 31, 2009 through December 31, 2011, Statements of Net Positions for the periods ended December 31, 2012 and December 31, 2013 Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows for the years ended December 31, 2012 and December 31, 2013 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 December 31, 2013 are included as Appendix A to this Official Statement.

Liquidity/Support Facilities

As of the date of this Official Statement, the City has \$827,635,000 of outstanding Parity Bonds which are supported by Support Facilities. These Support Facilities are listed in the table below.

Support Facilities

<i>Name of Support Facility Provider</i>	<i>Series of Parity Bonds</i>	<i>Total Outstanding Amount of Associated Bonds</i>	<i>Ratings of Provider⁽¹⁾</i>	<i>Stated Termination Date(s) of Support Facility(ies)</i>
Bank of America N.A.	2004A	\$103,725,000	P-1 / A-1/ F1	8/1/16
U.S. Bank National Association	2008A	45,585,000	P-1 / A-1+/ F1+	9/1/17
Bayerische Landesbank	2000A, 2006B	181,925,000 ⁽²⁾	P-2 /NR/ F1+ ⁽³⁾	11/30/15; 9/14/16
JPMorgan Chase Bank, N.A.	2006A, 2010C	107,865,000 ⁽⁴⁾	P-1 / A-1/ F1	9/15/17; 10/25/17
Royal Bank of Canada	2009C	64,205,000	P-1 / A-1+/ F1+	9/18/17
Barclays Bank PLC	2007B	87,275,000	P-1 / A-1/ F1	9/15/16
Wells Fargo Bank, National Association	2007A	68,800,000	P-1 / A-1+/ F1+	9/22/17
U.S. Bank National Association	2012A	48,205,000	P-1 / A-1+/ F1+	3/13/15
The Bank of New York Mellon	2002C	27,055,000	P-1 / A-1/ F1+	9/15/15
Bank of Montreal	2005A	92,995,000	P-1 / A-1/ F1+	9/15/15

⁽¹⁾ Short-term ratings as of June 30, 2014 by Moody’s Investors Service Inc. (“Moody’s”), Standard and Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”), and Fitch Ratings, respectively.

⁽²⁾ \$110,000,000 associated with the 2000A Bonds and \$71,925,000 associated with the 2006B Bonds.

⁽³⁾ S&P withdrew its rating on Bayerische Landesbank on October 19, 2009.

⁽⁴⁾ \$60,625,000 associated with the 2006A Bonds and \$47,240,000 associated with the 2010C Bonds.

For a description 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 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).

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>Current Rating⁽¹⁾</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 6/30/2014⁽³⁾</u>
2004 SIFMA Swap	JPMorgan Chase Bank N.A.	Aa3/A+/ A+	\$103,725,000	4.1120%	SIFMA ⁽²⁾	2004A	8/18/04	11/1/23	(\$15,251,740)
2005 SIFMA Swap	Bank of America, N.A.	A2/A/A	70,068,750	4.7099	SIFMA	2005A	9/15/05	11/1/35	(16,966,325)
2005 SIFMA Swap	J. Aron & Company	Baa1/A/A	23,356,250	4.7099	SIFMA	2005A	9/15/05	11/1/35	(5,655,442)
2006 Refunding LIBOR Swap	JPMorgan Chase Bank N.A.	Aa3/A+/A+	60,625,000	4.4810	68% of LIBOR ⁽⁴⁾	2006A	8/24/06	11/1/25	(15,293,049)
2006 New Money LIBOR Swap	Morgan Stanley Capital Group Inc.	Baa2/A-/A	43,155,000	4.1185	68% of LIBOR	2006B	9/14/06	11/1/36	(10,691,799)
2006 New Money LIBOR Swap	JPMorgan Chase Bank N.A.	Aa3/A+/A+	28,770,000	4.1185	68% of LIBOR	2006B	9/14/06	11/1/36	(7,127,809)
2007 New Money LIBOR Swap	J. Aron & Company	Baa1/A/A	41,280,000	3.1980	68% of LIBOR	2007A	9/13/07	11/1/37	(5,926,551)
2007 New Money LIBOR Swap	Morgan Stanley Capital Group Inc.	Baa2/A-/A	27,520,000	3.1980	68% of LIBOR	2007A	9/13/07	11/1/37	(3,951,193)
2007 Refunding SIFMA Swap	The Bank of New York Mellon	Aa2/AA-/AA-	87,275,000	5.2950	SIFMA	2007B	10/01/07	11/1/26	(26,385,922)
2008 SIFMA Swap	Bank of America, N.A.	A2/A/A	45,585,000	4.2686	SIFMA	2008A	9/12/08	11/1/38	(9,139,378)
2009 LIBOR Swap	Wells Fargo Bank, N.A.	Aa3/AA-/AA-	61,475,000	5.4750	68% of LIBOR	2009C	10/01/09	11/1/28	(24,565,273)
2010 LIBOR Swap	Morgan Stanley Capital Group Inc.	Baa2/A-/A	47,240,000	3.8807	68% of LIBOR	2010C	10/26/10	11/1/40	(10,881,980)
2012 LIBOR Swap	Morgan Stanley Capital Group Inc.	Baa2/A-/A	48,205,000	4.0242	68% of LIBOR	2012A	3/15/12	11/1/41	(12,448,559)

⁽¹⁾ Ratings are as of 06/30/2014 for the individual counterparty company, and in certain cases, its respective parent company, by Moody's, S&P and Fitch, respectively.

⁽²⁾ SIFMA means the Securities Industry and Financial Markets Association Municipal Swap Index (published weekly by the Securities Industry and Financial Markets Association. If SIFMA averages more than 7% for 180 consecutive calendar days during the term of the 2004 SIFMA Swap, the 2004 SIFMA Swap will terminate by its terms and no payments by either party will be due.

⁽³⁾ Source: DerivActiv, Utilities' independent swap valuator. 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. See "—Priority of Interest Rate Swap Payment Obligations" below. None of 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.

⁽⁴⁾ LIBOR means the 1-month London Interbank Offering Rate.

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 June 30, 2014, the City had posted \$15.7 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 secured by a lien on the Net Pledged Revenues which is junior to the lien thereon of the Parity Bonds (including the Bonds).

Debt Service Reserve Surety Providers

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 \$18,177,740, and the total face amount of reserve fund surety policies provided by NPFGC is \$11,510,842. 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.

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 additionally entered into a (i) \$50.0 million revolving loan agreement with KeyBank National Association dated as of September 5, 2013 that currently expires on September 5, 2016, and (ii) a \$25.0 million revolving loan agreement with U.S. Bank National Association dated as of September 4, 2013, that currently expires on September 4, 2016 (collectively, the “Revolving Loan Agreements”). The City may receive advances up to the maximum amount of the respective 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 both Revolving Loan Agreements are 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.

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.

For the fiscal year ended December 31, 2013, the City made the following payments pursuant to these obligations: (a) \$5,621,573 to Fountain Valley Authority; and (b) \$6,195,223 to WAPA. The Utilities also estimates that it will pay \$6,053,919 and \$6,195,223 to Fountain Valley Authority and WAPA, respectively, in the fiscal year ending December 31, 2014. 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

* Preliminary; subject to change

the Front Range Power Plant. For the fiscal year ended December 31, 2013, the City paid \$9,030,510 under this contract. In 2014, such payments are estimated to total \$5,552,743.

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. On November 26, 2013, the Utilities Board approved policy changes to the Executive Limitations that increase adjusted debt service coverage requirements to at least 2.0 after any surplus payments are made to the City.

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 then current Average Annual Principal and Interest Requirements as of each year (as required for the Additional Bonds Coverage Ratio) and using the then current fiscal year debt service (as required for the Rate Coverage Ratio):

Debt Service Coverage

	<i>Fiscal Year Ended December 31</i>				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Operating Revenues	\$ 743,780,026	\$ 797,545,616	\$ 830,521,895	\$ 849,746,643	\$ 823,759,529
Operating Expense ⁽¹⁾	(687,309,883)	(721,050,953)	(741,606,417)	(674,479,711)	(667,268,714)
Project Write-off ⁽²⁾			27,341,543		
Depreciation and Amortization ⁽¹⁾	<u>93,673,550</u>	<u>94,733,778</u>	<u>111,551,628</u>	<u>116,184,836</u>	<u>118,430,128</u>
Operating Revenues Available For Debt Service	\$ 150,143,693	\$ 171,228,441	\$ 227,808,649	\$ 291,451,768	\$ 274,920,943
Interest Earnings ⁽³⁾ (excl. interest on bonds)	4,235,823	5,235,579	11,569,709	11,006,444	8,431,662
Development Fees ⁽⁴⁾	<u>21,119,512</u>	<u>31,869,226</u>	<u>29,696,163</u>	<u>35,343,372</u>	<u>30,766,658</u>
Net Pledged Revenues	<u>\$ 175,499,028</u>	<u>\$ 208,333,246</u>	<u>\$ 269,074,521</u>	<u>\$ 337,801,584</u>	<u>\$ 314,119,263</u>
Average Annual Principal and Interest Requirements ⁽⁵⁾	\$ 74,070,567	\$ 102,425,753	\$ 101,430,633	\$ 104,436,237	\$ 112,483,565
Additional Bonds Coverage Ratio	2.37	2.03 ⁽⁶⁾	2.65	3.23	2.79
Fiscal Year Debt Service Rate Coverage Ratio ⁽⁷⁾	2.06	2.22 ⁽⁶⁾	2.02	2.23	2.04

⁽¹⁾ Effective with Financial Statements issued beginning January 1, 2009, the Utilities implemented GASB 51, Accounting and Financial Reporting for Intangible Assets. The effects of this implementation were not previously reflected in the numbers presented above. The 2009 Operating Expenses have been changed from \$687,488,893 to \$687,309,883 and 2009 Depreciation has been changed from \$93,719,890 to \$93,673,550 to accurately reflect the implementation of GASB51, as presented in the Financial Statements for the period ended December 31, 2009.

⁽²⁾ For the period ended December 31, 2011, the accounting treatment of certain sulfur dioxide scrubbing technology at the Martin Drake Power Plant was reclassified from a Capital Expense to an Operating Expense. This decreased Operating Revenues available for debt service by \$27,341,543 for the period ended December 31, 2011. However, the true cash impact of this reclassification occurred prior to 2011. As a result, such revenues have been added back in to Operating Revenues for the period ended December 31, 2011 for purposes of this table. No other periods were impacted as a result of this classification.

⁽³⁾ Interest Earnings include Build America Bond cash payment subsidies received; 2010 - \$2,574,338; 2011 - \$8,644,061; 2012 - \$8,550,623; and 2013 - \$7,870,848.

⁽⁴⁾ 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.

⁽⁵⁾ These figures include the principal and interest due on outstanding utilities revenue bonds discussed above under “—Outstanding Utilities Revenue Bonds and Other Obligations” for the year shown.

⁽⁶⁾ The Additional Bonds Coverage Ratio was lower in 2010 than in prior years for a number of reasons. In 2010, the City issued bonds to acquire Front Range Power L.L.C. and the Front Range Power Plant. Due to the method set forth in the bond ordinances for calculating the Additional Bonds Coverage Ratio, both the new debt issued for the acquisition plus the 2010 Operation and Maintenance Expense of purchasing power from Front Range Power L.L.C. were counted in the Additional Bonds Coverage. Furthermore, the approved rate increase for 2011 was not able to be included in the calculation. By comparison, the Rate Coverage Ratio calculation included such rate increase and excluded the 2010 Operation and Maintenance Expense of purchasing power from Front Range Power L.L.C. As a result, the 2010 Rate Coverage Ratio was not impacted by the acquisition of Front Range Power L.L.C. and the Front Range Power Plant to the same degree as the Additional Bonds Coverage Ratio.

⁽⁷⁾ The determination of the rate coverage ratio calculation was revised to include moneys previously accumulated by the Utilities to make principal and interest payments on outstanding bonds that were subsequently refunded. These moneys were then transferred to escrow funds to cover principal and interest payments on refunded bonds. The amounts added to Fiscal Year Debt Service for 2009 - \$3,600,588; 2010 - \$2,225,916; 2011 - \$3,907,631; and 2012 - \$7,919,848.

The Utilities’ goal is a Rate Coverage Ratio of 2.0 or greater, after accounting for surplus payments to the City. 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 outstanding Parity Bonds following the issuance of the Bonds.

Year	Debt Service on Outstanding Parity Bonds ⁽¹⁾⁽²⁾	Series 2014A-1 Bonds		Series 2014A -2 Bonds		Total Debt Service Requirements
		Principal ⁽³⁾	Interest	Principal ⁽³⁾	Interest	
2014						
2015						
2016						
2017						
2018						
2019						
2020						
2021						
2022						
2023						
2024						
2025						
2026						
2027						
2028						
2029						
2030						
2031						
2032						
2033						
2034						
2035						
2036						
2037						
2038						
2039						
2040						
2041						
2042						
2043						
2044						
2045						
2046						
2047						
2048						
2049						
2050						

⁽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 4.112% for the 2004A Bonds, 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 \$63,250,000 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. 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 June 30, 2014, the Utilities had 6.0% of its total outstanding debt in a variable rate structure which is not hedged. This percentage does not include the Utilities' bonds that are hedged with a variable to fixed interest rate swap transaction. These bonds include the outstanding Variable Rate Demand Utilities System Subordinate Lien Refunding Revenue Bonds, Series 2004A, 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 the Variable Rate Demand Utilities System Improvement Revenue Bonds, Series 2012A.

As of June 30, 2014, the Utilities had 29.5% of its total outstanding debt in a variable rate structure which is 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 2014 Annual Budget approved by City Council on November 26, 2013 included total capital expenditures of approximately \$410 million. This is approximately \$90.8 million more than the budgeted amount for 2013. Electric projects account for 27.7% of the total major capital projects budget. Combined water and wastewater projects account for 64.2% of the total, which includes SDS.

Some of the major projects included as a part of the Utilities' capital improvement program are described under "THE ELECTRIC SYSTEM – Capital Improvements to the Electric System," "THE WATER SYSTEM – Capital Improvements to the Water System," and "THE WASTEWATER SYSTEM – Capital Improvements to the Wastewater System." Capital expenditures are currently estimated to total approximately \$1.3 billion through 2018. 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.

Military Privatization

The U.S. Department of Defense has initiated efforts to privatize all utilities distribution (and in some cases treatment) systems currently owned by the federal government on military bases, with some limited exceptions for security or where it is uneconomical to privatize. In the Colorado Springs area, there are four military bases: Fort Carson, Peterson, Cheyenne Mountain Air Force Station and the Academy. Peterson, Cheyenne Mountain Air Force Station, and Fort Carson have received an exemption from utilities privatization. The Academy and the Utilities have entered into an agreement to allow the Utilities to extend electric and gas services to the Academy. These line extensions will continue through 2014. The Academy is funding the full cost to install new infrastructure, and the Utilities will bill the Academy tariff rates for such services. The Utilities has completed its major extension of electric and gas facilities to the privatized housing development at Peterson. These privatization activities are now considered more of a routine process and are no longer an enterprise initiative of the Utilities.

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, loss tolerances are identified and insured through the provider, or are self-insured.

The Utilities has several 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. In May 2013, the Utilities purchased a Public Officers Liability policy which also covers employment practices liability.

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. The Colorado Governmental Immunity Act also provides that the City may, by resolution, increase any maximum amount that may be recovered from the City for the type of injury described in the Act. The City Council, on July 8, 1986, adopted a resolution waiving the statutory liability limits set forth in the Colorado Governmental Immunity Act, to the extent and to the limits of applicable liability policies. However, effective January 28, 2014, the City rescinded this resolution waiving the statutory limits set forth under the Colorado Governmental Immunity Act for the City and all of its Enterprises including Utilities, thus fully restoring its protections under the Colorado Governmental Immunity Act.

To cover 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 general and auto liability claims. As of December 31, 2013, the Utilities’ Statements of Net Position reflected an accrual of \$15,000.

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 \$3,154,751 as of December 31, 2013 under the City’s self-insurance fund. The City believes that any liability arising out of unforeseen losses will not materially impact the Utilities’ financial position. This balance is not reflected on the 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 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 as a result of Federal and State mandates, risk and vulnerability assessments, and the Utilities Governance Policy include security hardening, the addition and placement of security personnel to protect critical utilities infrastructure and cyber assets, 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. Overall, the Utilities' approach to security is one of balancing cyber security technology with a physical security control and response.

Emergency Management and Business Continuity programs for the Utilities centers on a new 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 new 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 (ECPs); 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 June 13, 2012. 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) of "A-" by at least one of the three major credit rating agencies (Moody's, Standard and Poor's and Fitch) shall be eligible to provide banking services to the Utilities. All eligible 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 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. Such franchise fee may be payable in cash or in-kind services; provided that the cash element of the franchise

fee payment may not be less than 2% of the gross revenues received from the electric service for any month during the franchise.

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 reflects the changes in the average costs of purchased power and unit fuel 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, 2014.

Electric Rates⁽¹⁾

Residential Service and Small Commercial (E1R/E1C)	Standard Option:	
Supply Charges	-- Per kWh.....	\$0.0269
Access and Facilities Charges	-- Per day.....	\$0.3835
	-- Per kWh.....	\$0.0711
Electric Cost Adjustment	-- Per kWh.....	\$0.0102 ¹
Electric Capacity Charge	-- Per kWh.....	\$0.0015
Commercial Service General (E2C)		
Supply Charges	-- Per kWh.....	\$0.0269
Access and Facilities Charges	-- Per day.....	\$0.6324
	-- Per kWh.....	\$0.0532
Electric Cost Adjustment	-- Per kWh.....	\$0.0074 ¹
Electric Capacity Charge	-- Per kWh.....	\$0.0010

⁽¹⁾ On June 1, 2014, the Electric Cost Adjust was increased to reflect the loss of all 3 generation units at the Martin Drake Power Plant. On July 11, 2014, the Electric Cost Adjustment was reduced as a result of Unit No. 6 at the Martin Drake Power Plant coming back online. See "INVESTMENT CONSIDERATIONS - Fire at Martin Drake Power Plant."

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 850 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

The ten largest customers of the Electric System during 2013, ranked by sales volume in megawatt hours (“MWh”), represented 759,776 MWh, or 17.4% of sales (excluding interdepartmental and miscellaneous sales), and \$43.6 million or 11.5% 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 187,732, 188,841 and 184,135 at the end of 2011, 2012 and 2013, respectively. The average annual use per residential customer was 7,904 kilowatt hours in 2011, 7,790 in 2012, and 7,910 in 2013.

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

<i>Customer Class</i>	<i>Electric Sales (MWh)</i>				
	<i>Fiscal Year Ended December 31</i>				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Residential	1,401,928	1,476,820	1,483,830	1,471,135	1,456,492
Commercial / Industrial-Small	650,812	681,830	681,335	679,095	715,267
Commercial / Industrial-Large ⁽¹⁾	1,785,568	1,808,441	1,818,285	1,861,948	1,858,543
Special Contract Service	368,937	391,196	375,718	371,603	335,555
Street Lighting	1,421	1,499	1,434	1,462	1,480
Traffic Signals (previously included in commercial/small)	1,997	1,892	1,792	1,784	1,793
Subtotal	4,210,663	4,361,678	4,362,394	4,387,027	4,369,131
Interdepartmental	172,902	146,697	183,495	164,867	129,642
Miscellaneous Sales	417,381	294,557	201,583	221,610	598,406
Total Electric Sales	4,800,946	4,802,932	4,747,472	4,773,504	5,097,180
Less Interdepartmental Sales	(172,902)	(146,697)	(183,495)	(164,867)	(129,642)
Net Electric Sales	4,628,044	4,656,235	4,563,977	4,608,637	4,967,537
Wheeled Power	35,872	31,370	33,181	31,020	31,902
Gross Peak Demand (MW)	795	823	878	904	878
Total Number of Active Electric Meters as of Year End	210,382	211,495	212,966	214,600	217,273

⁽¹⁾ Correction of classification of Miscellaneous Electric Sales from Commercial/Industrial Large to Miscellaneous; 2009 – (1,589,469) MWh; 2010 4,399 MWh; and 2011 – (626,188) MWh.

Electric Revenues
Fiscal Year Ended December 31

<i>Customer Class</i>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Residential	\$ 122,781,966	\$ 149,355,577	\$ 162,226,462	\$ 167,424,003	\$ 162,929,577
Commercial / Industrial – Small	44,215,167	52,970,803	57,279,519	60,276,603	62,696,849
Commercial / Industrial – Large	108,598,417	121,885,032	135,267,967	135,097,157	127,962,945
Special Contract Service	18,011,706	20,775,114	22,680,905	22,654,448	20,012,738
Streetlighting	4,426,914	3,830,902	4,588,554	4,211,152	4,544,770
Traffic Signals	235,585	303,588	281,238	264,629	262,895
Subtotal.....	<u>\$ 298,269,755</u>	<u>\$ 349,121,016</u>	<u>\$ 382,324,645</u>	<u>\$ 389,927,992</u>	<u>\$ 378,409,774</u>
Interdepartmental.....	<u>11,656,301</u>	<u>10,340,365</u>	<u>11,945,082</u>	<u>12,905,291</u>	<u>9,045,857</u>
Subtotal.....	<u>\$ 309,926,056</u>	<u>\$ 359,461,381</u>	<u>\$ 394,269,727</u>	<u>\$ 402,833,283</u>	<u>\$ 387,455,631</u>
Interchange Power (net).....	--	--	--	--	--
Miscellaneous Revenue ⁽¹⁾	<u>34,919,623</u>	<u>39,074,597</u>	<u>17,019,083</u>	<u>18,411,373</u>	<u>34,292,730</u>
Total Electric Revenue.....	<u>\$ 344,845,679</u>	<u>\$ 398,535,978</u>	<u>\$ 411,288,810</u>	<u>\$ 421,244,656</u>	<u>\$ 421,748,360</u>
Less: Interdepartmental Revenue....	<u>(11,656,301)</u>	<u>(10,340,365)</u>	<u>(11,945,082)</u>	<u>(12,905,291)</u>	<u>(9,045,857)</u>
Net Electric Revenue	<u>\$ 333,189,378</u>	<u>\$ 388,195,613</u>	<u>\$ 399,343,728</u>	<u>\$ 408,339,365</u>	<u>\$ 412,702,504</u>
Wheeled Power ⁽¹⁾	<u>\$ 1,104,497</u>	<u>\$ 648,109</u>	<u>\$ 318,342</u>	<u>\$ 281,570</u>	<u>\$ 281,099</u>

⁽¹⁾ 2009-2012 were restated removing Wheeled Power from Miscellaneous Revenue and placing it below the Net Electric Revenue line.

System Capability

The Electric System peak (net of auxiliary power used to operate the generating units) of 904 megawatts (“MW”) was established in July 2012. The following table sets forth information on the sources and amount of the present net capability of the Electric System. Currently, the Electric System’s non-coal fired units are used primarily for intermediate, peaking and standby service. **[To be updated prior to printing if Drake 7 is brought back up]**

Present Net Capability of Electric System

<i>Unit</i>	<i>Fuel</i>	<i>Year Unit Completed</i>	<i>2013-2014 Net Winter Capability (MW)</i>	<i>2014 Net Summer Capability (MW)</i>
Drake #5	Coal or Gas	1962	46	0
Drake #6	Coal or Gas	1968	77	77
Drake #7	Coal or Gas	1974	131	0
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	60	60
Front Range Power Plant	Gas	2003	480	460
Cascade, Tesla, Manitou, and Ruxton Hydro			<u>34</u>	<u>35</u>
Total Resources			1,091	895

Purchases:

U.S. Department of Energy, Western Area Power
Administrative Hydro Purchase:

Salt Lake City Integrated Area Projects

38 9

Loveland Area Projects

57 60

Summer Firm Purchase

100

Wind Purchases

12 12

Solar:

United States Air Force Academy Solar

5 5

Solar Gardens & Rooftop Solar

4 6

Total Purchases

116 192

Grand Total

1,207 1,087

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. **[To be updated prior to printing if Drake 7 is brought back up]**

Potential Summer 2014 Resources

	<i>Resources (MW)</i>	<i>Pct.</i>	<i>Purchases (MW)</i>	<i>Pct.</i>	<i>Total (MW)</i>	<i>Pct.</i>
Coal	285	32%			285	26%
Natural Gas and Oil	575	64%			575	53%
Hydro Generation	35	4%	69	36%	104	10%
Other Renewable Resources	0	0%	23	12%	23	2%
Summer Firm Purchase	<u>0</u>	<u>0%</u>	<u>100</u>	<u>52%</u>	<u>100</u>	<u>9%</u>
Total	<u>895</u>	<u>100%</u>	<u>192</u>	<u>100%</u>	<u>1,087</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 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 61.1 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 (“AHP”) based on prevailing water release conditions. To the extent that AHP does not meet WAPA’s firm obligations, WAPA has made arrangements to purchase Western Replacement Power (“WRP”) for its customers up to an amount not to exceed their firm allocations. The cost of WRP is on a pass-through-cost basis. The Utilities takes advantage of WRP as needed.

In October 2014 customer allocations of capacity and energy will be reduced by approximately three-tenths of 1 percent due to the 2014 new resource pool requirement in the LAP contract.

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 Utilities’ hydro and coal units are normally operated as base-load facilities, while its natural gas and oil units are utilized for intermediate and peaking loads. The purchase of a 480 MW natural gas fired combined cycle electric generation facility located south of the City (the “Front Range Power Plant”) in 2010 significantly increased the percentage of electricity generated using natural gas as a fuel. However, when economical, the Utilities will purchase market power to supplement existing generation resources.

The Utilities has about 1.2 billion cubic feet of gas storage capacity under the Cheyenne Market Center storage service provided by Tallgrass Interstate Gas Transmission. 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 100% of fuel requirements with the plants running at full capacity. This includes about 95,000 MMBTU/D to the Front Range Power Plant and 18,000 MMBTU/D to two gas fired turbines located near the Nixon coal plant.

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. Nearly 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, 2013 were within the 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 PUC has established a system under which a qualifying utility with extra eligible energy in the form of a “Renewable Energy Certificate” may sell its extra Renewable Energy Certificates to other qualifying utilities in need of additional renewable energy to satisfy the Colorado Renewable Energy Standard requirements.

The statute requires the PUC to establish a maximum retail rate impact for compliance with the CO RES 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 adopt 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 2014, the Utilities expects to have sufficient eligible energy resources to comply with the Colorado Renewable Energy Standard requirements through at least 2024. 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 through approximately 2021. 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.

To comply with the Colorado Renewable Energy Standard after 2021, the Utilities is considering the acquisition of additional eligible energy resources. The Utilities will update its Electric Integrated Resource Plan in 2014/2015. The updated Electric Integrated Resource Plan will identify potential new quality renewable energy resources to meet compliance after 2024.

Transmission and Distribution Facilities and Interconnections

The Electric System’s transmission system is interconnected with WAPA at the Midway substation south of the Nixon Plant and with Xcel Energy at the Fuller substation and Flying Horse substation 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.

Study of Martin Drake Power Plant

[To be updated] The Utilities Board has recently directed the Utilities to review the possible closing and de-commissioning of the Martin Drake Power Plant. This review is currently underway and will include a technical and environmental analysis, public input, and preparation of a forecast for potential economic development opportunities associated with removal of the plant from the downtown area. At this time, the outcome of this review is unclear. In the interim, the Utilities is evaluating the timing and prioritization for additional pollution control technology at the Martin Drake Power Plant and the Nixon plant. See “Environmental Regulation” below.

Environmental Regulation

[Currently under review] In operating the Electric System, the Utilities is subject to 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.

Drake Units 5, 6 and 7 (all coal-fired), Nixon Units 1 (coal-fired), 2 and 3 (both gas-fired), and Front Range Power Plant Units 1 and 2 (both gas-fired) are subject to the Clean Air Act Title IV Phase 2 Acid Rain Requirements. 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 EPA’s Regional Haze Rule requires that certain emission sources, such as power plants that may reasonably be anticipated to cause or contribute to visibility impairment in Class I areas to install Best Available Retrofit Technology (“BART”). Utilities is currently implementing its approved BART plan. The BART emission limits for nitrogen oxides (“NOx”) for Drake will be met by the installation of over fire air and ultra-low NOx burners on units 5, 6, and 7. The over fire air and ultra-low NOx burners project on Drake units 5, 6, and 7 began in 2013 and is partially complete. The BART emission limits for SO₂ for Drake will be met by scrubbers for units 6 and 7 and dry sorbent injection for unit 5. The scrubber project for Drake units 6 and 7 is also currently underway. The estimated remaining cost of these controls is \$75 million. These controls must achieve compliance with emission limits no later than January 30, 2018. The Utilities has sufficient emission allowances to satisfy its future sulfur dioxide (“SO₂”) allowance obligations.

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. The Utilities is currently implementing its approved Reasonable Progress plan. The Reasonable Progress emission limits for NOx for Nixon will be met by the installation of over fire air and ultra-low NOx burners and the Reasonable Progress emission limits for SO₂ will be met by the installation of a scrubber. The Nixon scrubber project began in late 2013. The estimated remaining cost of these controls is currently \$104 million. These controls must achieve compliance with the emission limits by December 31, 2017.

For particulate matter control, both Nixon and Drake have been equipped with fabric filter baghouses. Currently these baghouses achieve a removal efficiency of greater than 95%. Through its BART and Reasonable Progress analysis of Drake and Nixon, the state has determined that the existing baghouses represent the most stringent controls for particulate matter and will be sufficient to meet BART and Reasonable Progress limits. Drake and Nixon certified compliance with BART and Reasonable Progress particulate emission limits in May 2013.

The Regional Haze Rules requirements for Drake and Nixon were approved by the State legislature in May 2011. The EPA approval of the SIP had an effective date of January 30, 2013. The Utilities submitted its required proposed Compliance Schedule to the Air Pollution Control Division (“APCD”) of the Colorado Department of Public Health and Environment (“CDPHE”) on March 28, 2013. On November 4, 2013 Utilities was notified by the APCD that the compliance schedule proposed by Utilities was approved.

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. It is expected that the combination of planned scrubbers and existing baghouses will be adequate to meet these new standards. While additional monitoring, testing and reporting will be required (i.e., installation of continuous emissions monitoring systems for mercury) capital investment is estimated to be less than \$1 million for all coal-fired units combined.

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 2012 and 2013, the EPA proposed carbon pollution New Source Performance Standards for new coal- and natural gas-fired power plants. This rule has not been finalized. The proposed New Source Performance Standards for new sources establishes a preference for natural gas combined cycle over new coal-fired electric resources.

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. Additionally, the EPA has proposed a greenhouse gas New Source Performance Standards for existing power plants and expects to finalize such a rule by June 2015. Under the Clean Air Act's cooperative federalism structure, implementation of these rules will be heavily influenced by decisions in the State. Colorado adopted the Tailoring Rule, restricting upgrades to existing fossil fuel units. With regards to the greenhouse gas New Source Performance Standards for existing power plants, Colorado expects to submit an approvable state plan to EPA in mid-2016. The Utilities continues to report its greenhouse gas emissions to the EPA and voluntarily through the Climate Registry.

In June 2010, the EPA issued a proposed rule regarding "Coal Combustion Residuals," which are also referred to as "coal combustion byproducts" or "coal ash." The proposed rule considered two approaches for disposal of Coal Combustion Residuals, one to regulate Coal Combustion Residuals under subtitle C of the Resource Conservation and Recovery Act as a special waste and the second under subtitle D of the Resource Conservation and Recovery Act as a non-hazardous waste. Either approach will increase costs to the Utilities for the ongoing disposal of these materials. The most significant increase would result from Coal Combustion Residuals being regulated under subtitle C. It is estimated that this scenario could increase the Utilities' annual disposal costs from \$1 million to \$10 million. It is anticipated that the EPA will establish a final rule with regards to disposal of Coal Combustion Residuals in December 2014. 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 million to \$9 million for existing impoundments at Drake and Nixon may be required to meet these revisions in the 2015-2017 timeframe. The Utilities expects to receive clarity from the CDPHE in mid to late 2014 regarding the extent for impoundment related capital investment following their review of the Utilities' preliminary impoundment classification submittals. The revised regulation will require both Drake and Nixon to obtain a "Certificate of Designation" from the City and El Paso County, respectively, and require that financial assurance be maintained for any future closure of these impoundments.

In June 2013, the EPA proposed Effluent Limit Guidelines for electric power generating stations. EPA proposed eight regulatory options and identified a middle option as its preferred alternative. Nixon is a zero discharge facility and is unlikely to be affected by the final version of the rule, regardless of the alternative selected. Some of the EPA's most stringent proposals could result in additional capital expenditures for improvements to Drake. The probability and extent of such costs is being assessed by the Utilities. The proposed rule contemplates a compliance period between 2017 and 2022.

Capital Improvements to the Electric System

Except as described in the preceding 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. The Utilities also believes it has sufficient generation capacity in existing assets to meet its long-term power needs, once all units at the Martin Drake Power Plant are operational again.

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 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

Federal Energy Regulatory Commission (“FERC”) regulates interstate-related electric transmission services under the Federal Power Act, 16 USC § 791a, et seq. Though this regulation does not extend to the Utilities directly, the Utilities nonetheless maintains an Open Access Transmission Tariff (“OATT”) similar to the tariff maintained by FERC jurisdictional utilities, for the purpose of ensuring, under FERC regulation, that the Utilities cannot be denied reciprocal transmission service by investor-owned utilities.

FERC Order Nos. 888 and 889, issued in 1996, were designed to restructure the national wholesale power market. These orders: (1) opened access to the bulk transmission systems of FERC-jurisdictional utilities under approved open access electric transmission tariffs, (2) required the unbundling of transmission/reliability functions from the wholesale merchant functions of applicable utilities, and (3) required an internet-based “Open Access Same-time Information System” with real-time information concerning transmission availability. Order No. 888 adopted a pro forma OATT which FERC required FERC-jurisdictional transmission providers to adopt, with minor variations allowed after FERC review. In

February 2007, FERC issued Order No. 890 which revised certain of the regulations under which open access electric transmission service is provided. However, the basic tenets and framework of Order Nos. 888 and 889 were maintained. Included among these principles is FERC's ruling that FERC jurisdictional utilities may deny non-jurisdictional municipal utilities transmission service if they do not offer reciprocal transmission service themselves on similar terms and conditions.

Because FERC-jurisdictional utilities may deny transmission service to non-jurisdictional utilities that do not voluntarily conform to the existing Order Nos. 888 and 889 rules, the Utilities maintains a reciprocal tariff to ensure access to transmission from FERC-jurisdictional utilities (and thereby increases its flexibility in power purchases). That tariff is substantially similar to FERC's *pro forma* OATT, as modified by Order No. 890. The tariff disallows use of the Utilities' transmission facilities if such use would adversely affect the tax-exempt status of the Utilities' tax-exempt bonds.

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 has self-reported some violations of NERC reliability or critical infrastructure protections standards and paid the necessary fines. The Utilities has formal programs, processes, and policies in place to promote compliance with these 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 191,500 customers in 2013 in a 500 square mile service area. In addition to the City, the service area includes Manitou Springs, the Academy, the northerly portion of Fort Carson and 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 of 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.

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

The Gas System facilities consist of approximately 2,432 miles of natural gas pipe mains, approximately 156,558 service lines and various compressors. 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 extraordinary capital improvements to the Gas System.

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
(Effective January 1, 2014)**

**Residential and Small Commercial
Service: (G1R/G1CS)**

The bills are the sum of:

Supply Charges	-- Per 100 cubic feet	\$ 0.6034
Access and Facilities Charges	-- Per day	\$ 0.3930
	-- Per 100 cubic feet	\$ 0.1645
Gas Cost Adjustment	-- Per 100 cubic feet	\$(0.1566) ⁽¹⁾

Commercial Service Large: (G1CL)

The bills are the sum of:

Supply Charges	-- Per 100 cubic feet	\$ 0.6034
Access and Facilities Charges	-- Per day	\$ 0.7860
	-- Per 100 cubic feet	\$ 0.1480
Gas Cost Adjustment	-- Per 100 cubic feet	\$(0.1566) ⁽¹⁾

⁽¹⁾ Effective March 1, 2014

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

The ten largest customers of the Gas System during 2013, ranked by sales volume in CCF, represented 20,448,427 CCF, or 9.0% of sales (excluding interdepartmental and miscellaneous sales), and \$8.1 million or 4.4% of revenues during that period (excluding interdepartmental and miscellaneous revenues).

The number of active residential meters served by the Gas System was 173,208, 174,559 and 172,807 at the end of 2011, 2012 and 2013, respectively. The average annual use per residential customer was, 726 CCF in 2011, 631 CCF in 2012 and 748 CCF in 2013.

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 17 to the Audited Financial Statements included in Appendix A to this Official Statement):

Gas Throughput (Mcf @ 14.65 p.s.i.a.)
Fiscal Year Ended December 31

<i>Customer Class</i>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Firm Sales:					
Residential	12,768,472	12,060,995	12,580,291	11,022,650	12,932,320
Commercial	7,688,284	7,209,208	7,426,907	6,075,021	7,371,441
Special Contract Service	242,342	343,738	545,337	387,741	1,630,025
Interruptible Sales:					
Industrial Rate #2.....	208,134	216,895	91,213	61,494	74,051
Industrial Rate #3.....	<u>836,725</u>	<u>834,602</u>	<u>959,574</u>	<u>634,346</u>	<u>667,237</u>
Subtotal.....	21,743,957	20,665,438	21,603,322	18,181,252	22,675,074
Interdepartmental – Firm and					
Interruptible	220,543	283,484	204,595	396,003	257,717
Miscellaneous Sales.....	--	--	--	--	--
Total Gas Sales Volume.....	21,964,500	20,948,922	21,807,917	18,577,255	22,932,791
Gas Transportation Volume	<u>2,282,576</u>	<u>1,620,321</u>	<u>1,772,368</u>	<u>2,420,802</u>	<u>1,141,379</u>
Total Throughput Volume	24,247,076	22,569,243	23,580,285	20,998,057	24,074,170
Less: Interdepartmental Sales	<u>(220,543)</u>	<u>(283,484)</u>	<u>(204,595)</u>	<u>(396,003)</u>	<u>(257,717)</u>
Net Throughput Volume	<u>24,026,533</u>	<u>22,285,759</u>	<u>23,375,690</u>	<u>20,602,054</u>	<u>23,816,453</u>
Total Number of Active Gas Meters					
as of Year End	<u>186,363</u>	<u>187,532</u>	<u>189,111</u>	<u>190,489</u>	<u>192,872</u>

Gas Revenue
Fiscal Year Ended December 31

<i>Customer Class</i>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Firm Revenue:					
Residential	\$ 143,007,853	\$ 122,274,921	\$ 116,477,023	\$ 114,602,613	\$ 114,265,884
Commercial	74,514,730	60,636,964	57,825,367	53,432,626	56,112,429
Special Contract Service	2,640,844	11,330,470	12,147,374	8,561,732	10,236,661
Interruptible Revenue:					
Industrial Rate #2.....	1,735,481	1,661,995	490,557	393,769	393,803
Industrial Rate #3.....	<u>3,718,350</u>	<u>4,534,042</u>	<u>4,647,051</u>	<u>2,523,962</u>	<u>3,177,231</u>
Subtotal.....	\$ 225,617,258	\$ 200,438,392	\$ 191,587,372	\$ 179,514,702	\$ 184,186,008
Interdepartmental – Firm and					
Interruptible Revenue	4,538,400	3,549,373	52,176,001	2,036,054	1,591,784
Total Gas Sales Revenue	\$ 230,155,658	\$ 203,987,765	\$ 243,763,373	\$ 181,550,756	\$ 185,777,792
Gas Transportation Revenue.....	1,354,749	1,104,195	1,274,488	3,348,661	2,248,841
Miscellaneous Revenue	<u>15,661,943</u>	<u>25,155,124</u>	<u>27,878,503</u>	<u>22,618,002</u>	<u>20,143,236</u>
Total Gas Revenue.....	\$ 247,172,350	\$ 230,247,084	\$ 272,916,364	\$ 207,517,419	\$ 208,169,869
Less: Interdepartmental Revenue.....	<u>(4,538,400)</u>	<u>(3,549,373)</u>	<u>(52,176,001)</u>	<u>(2,036,054)</u>	<u>(1,591,784)</u>
Net Gas Revenue	<u>\$242,633,950</u>	<u>\$226,697,711</u>	<u>\$220,740,363</u>	<u>\$205,481,365</u>	<u>\$206,578,085</u>

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 will provide 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 defaulting on 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.

CIG transports the purchased natural gas supplies to the Gas System's distribution facilities pursuant to various firm, interruptible and "no notice" transportation agreements.

Supplementing the purchased gas is a propane-air plant (peak-shaving facility) and contract storage services, including the Young Storage Field, of which the Utilities is a 5% owner.

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 has 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 low price 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 Policy requires that the Utilities' counterparties to energy transactions be on an approved counterparty list. To be on this list, counterparties must have a minimum rating of BBB issued by S&P, a minimum rating of Baa2 issued by Moody's, a minimum rating of BBB issued by Fitch Ratings, or be specifically approved by the Utilities' Risk Management Committee. The Energy Risk Management Policy limits the amount of counterparty credit exposure according to the counterparty's credit rating.

THE WATER SYSTEM

In 2013, the Water System served an estimated population of 458,716 persons, including City residents and customers living in Ute Pass communities west of the City, military bases, and other suburban areas outside the City limits. In 2013, the Water System delivered 66,413 acre- feet (21.6 billion gallons) of potable water. This compares to water deliveries of 87,955 acre- feet (28.7 billion gallons) in 2012 and 85,352 acre-feet (27.8 billion gallons) in 2011. When fully developed as planned, the City’s potable and non-potable water resources will provide a dry-year firm yield of approximately 152,000 acre-feet. Presently, developed potable water supply sources, which consist of surface and ground water resources, provide a dry-year firm yield of roughly 100,000 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, 2014 are as follows:

Water Rates – Inside City

Single Family Residential Service (W-R)	
Service Charge—Per meter, per day	\$0.5200 ⁽¹⁾
Commodity Charge—Per cubic foot	
1 through 999 cubic feet.....	0.0349
1,000 through 2,499 cubic feet.....	0.0654
2,500 cubic feet and greater	0.0988
Non-Residential Service (W-G, W-M)	
Service Charge—Per meter, per day	1.3120 ⁽²⁾
Commodity Charge—Per cubic foot (Nov-April).....	0.0327
Commodity Charge—Per cubic foot (May-Oct)	0.0605

Water Rates – Outside City

Single Family Residential Service (W-R)	
Service Charge—Per meter, per day	\$0.7800 ⁽¹⁾
Commodity Charge—Per cubic foot	
1 through 999 cubic feet.....	0.0524
1,000 through 2,499 cubic feet.....	0.0981
2,500 cubic feet and greater	0.1482
Non-Residential Service (W-G, W-M)	
Service Charge—Per meter, per day	1.9680 ⁽²⁾
Commodity Charge—Per cubic foot (Nov-April).....	0.0498
Commodity Charge—Per cubic foot (May-Oct)	0.0909

⁽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 subsection 12.4.1305 B1 of 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. On April 8, 2014 City Council approved Stage II (Level A, B and C) water rates effective for May 1, 2014 should the Council elect to declare a Stage II water shortage.

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. Development charges for meters 6” and larger are calculated based upon a flow-based formula. For single family residential customers, the water development charge is based on lot size and varies from \$5,887 and \$8,830 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

During 2013, the Utilities’ ten largest water customers ranked by sales volume in cubic feet accounted for 383,977,417 cubic feet, or 15.0% of Utilities’ metered sales (excluding interdepartmental, irrigation and miscellaneous sales), which represented \$13.3 million, or 9.9% of revenues for metered sales (excluding interdepartmental irrigation and miscellaneous sales).

The number of active residential meters served by the Water System was 127,169, 127,761, and 129,403 at the end of 2011, 2012, and 2013, respectively. The average annual use per residential customer was 17,082 cubic feet in 2011, 17,872 in 2012, and 13,203 in 2013.

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 17 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>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
Residential (City) ⁽²⁾	19,079,220	20,451,510	21,602,234	22,710,977	16,989,813
Residential (Suburban).....	104,937	113,232	120,719	123,031	95,263
Commercial (City).....	6,883,049	7,323,647	7,821,828	8,651,291	6,569,462
Commercial (Suburban) ⁽³⁾	36,560	31,663	33,671	40,681	29,031
Contract Sales.....	2,015,430	2,221,501	2,366,159	2,448,431	1,923,949
Interdepartmental Sales ⁽⁴⁾	1,155,342	3,133,772	2,921,522	2,782,245	2,610,892
Irrigation and Miscellaneous Sales ⁽⁵⁾	993,652	12,402,381	13,443,864	6,863,857	2,777,419
Total Metered Sales.....	30,268,190	45,677,706	48,309,997	43,620,513	30,995,829
City Use and Losses (Est.).....	2,457,243	2,790,109	2,624,974	3,123,739	2,431,834
Total Water Delivered for Sales.....	32,725,433	48,467,815	50,934,971	46,744,252	33,427,663
Less Interdepartmental Sales ⁽⁴⁾	(1,155,342)	(3,133,772)	(2,921,522)	(2,782,245)	(2,610,892)
Net Water Delivered for Sales.....	31,570,091	45,334,043	48,013,449	43,962,007	30,816,771
Total Number of Active Water Meters as of Year End.....	133,463	134,151	135,019	135,901	137,619

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

(2) Correction of classification of Multi-Family Residential Suburban Sales from Residential City to Residential Suburban; 2008 – 3,696 CCF; 2009 – 4,504 CCF; 2010 – 8,404 CCF; and 2011 – 8,727 CCF

(3) Correction of classification for Parks and Recreation water sales from Commercial-Suburban to Commercial-City; 2010 – 156,697 CCF; and 2011 – 209,102 CCF.

(4) In 2007, the Utilities implemented a new billing system. It was subsequently discovered that the new system did not correctly count selected non-metered sales, which primarily impacted interdepartmental sales and off-system water sales. The Utilities believes that the issue was corrected in 2010. This issue has not impacted the Utilities’ revenue in any year.

(5) Raw water spot sales volumes excluded.

<i>Customer Class</i>	<i>Water Revenues</i>				
	<i>Fiscal Year Ended December 31</i>				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Residential (City)	\$ 68,614,059	\$ 79,072,571	\$ 93,114,165	\$ 110,366,550	\$ 92,910,645
Residential (Suburban)	636,568	735,594	852,272	974,112	888,155
Commercial (City).....	23,087,290	28,822,590	33,915,582	40,232,129	32,876,546
Commercial (Suburban) ⁽¹⁾	189,304	197,961	238,488	323,506	264,116
Contract Sales	4,610,212	5,809,160	6,617,527	8,220,260	6,320,595
Interdepartmental Sales	3,422,614	4,542,468	4,283,115	4,378,180	4,069,614
Irrigation and Miscellaneous Revenue ⁽²⁾	<u>2,751,692</u>	<u>4,809,882</u>	<u>6,086,280</u>	<u>7,893,268</u>	<u>4,876,710</u>
Subtotal Metered Revenues	\$ 103,311,739	\$ 123,990,226	\$ 145,107,429	\$ 172,388,005	\$ 142,206,381
Miscellaneous Revenues	<u>1,293,942</u>	<u>1,960,907</u>	<u>1,416,961</u>	<u>1,412,967</u>	<u>1,171,291</u>
Total Water Revenues.....	\$ 104,605,681	\$ 125,951,133	\$ 146,524,390	\$ 173,800,972	\$ 143,377,672
Less Interdepartmental Sales	<u>(3,422,614)</u>	<u>(4,542,468)</u>	<u>(4,283,115)</u>	<u>(4,378,180)</u>	<u>(4,069,614)</u>
Net Water Revenues	<u>\$ 101,183,067</u>	<u>\$ 121,408,665</u>	<u>\$ 142,241,275</u>	<u>\$ 169,422,792</u>	<u>\$ 139,308,059</u>

⁽¹⁾ Correction of classification for Parks and Recreation water revenue from Commercial-Suburban to Commercial-City; 2010 - \$1,273,344; and 2011 - \$1,491,880.

⁽²⁾ 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 2013, the total demand on the Water System of 19.8 billion gallons of potable water (total metered water sales) resulted in an estimated average metered per capita demand on the Water System of 129 gallons per day (“gpd”). This compares to estimated average metered per capita use of the Water System of 174 gpd in 2012, 171 in 2011, and 165 gpd in 2010.

The Utilities believes it will have sufficient water supply to meet the growing needs of the area served by the Water System until approximately the 2040 decade under present population and per capita demand projections, assuming retention of all present water resource entitlements and timely development of necessary additional facilities including, but not limited to, SDS 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 interim water supply shortages. See “—Water Supply and Raw Water Delivery” below.

Drought Conditions in the Region

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. The Utilities relies more heavily on storage to meet customer demands during periods of drought when water system inflows are below average. Colorado, along with most of the western United States, experiences recurring cycles of drought. The western United States has been experiencing drought conditions of varying degrees at different locations for the last fifteen years. The most recent severe drought cycle affecting the City developed in 2012 and lasted through 2013. A combination of below average snowpack during the winters of 2011-2012 and 2012-2013 and persistent hot and dry weather resulted in widespread drought conditions developing throughout Colorado, which in turn, resulted in below average runoff and water system yield for the Utilities’ water system in 2012 and 2013. In 2013, the Utilities implemented a Comprehensive Drought Response Plan to respond and adapt to drought conditions and minimize impacts on its customers. Using a combination of demand side and supply side water management strategies, Utilities was able to achieve significant water savings and minimize the decline in water storage levels in 2013.

While drought conditions continue to persist in some areas of Colorado, the Utilities’ water system benefited from above average snowpack accumulation in mountain watersheds and cooler, wetter conditions locally during the winter of 2013-2014. By the Spring of 2014, system-wide water storage had recovered to levels consistent with the long-term average, and current yield forecasts project that Utilities will recover system-wide storage to levels exceeding two years of customer demand in storage by the end of the spring

runoff period. 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 is closely monitoring 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.

Reliance on Colorado River Water Supply

The Utilities' water supply is heavily reliant on the Colorado River Basin. The Utilities, along with the other Colorado Front Range water providers including Denver, Aurora and certain others, serve approximately 80% of Colorado's population and economy. Approximately 72% of such Front Range water providers' water 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 population, 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 a certain amount of Colorado River water reaches the Lower Basin States over a ten-year rolling period. If shortage conditions were experienced (e.g., as a result of a prolonged drought and resulting low streamflows) and the Upper Basin States were not able to meet their obligations to the Lower Basin States, it is possible that the Utilities would be unable to utilize all of its Colorado River water rights due to their subordinate status in relation to the State's obligations under the Colorado River Compact. However, due to the potential severity of such an occurrence, the Utilities, along with other Front Range water providers, are actively working on adaptation strategies for this unlikely event.

Currently the Upper Basin States of the Colorado River Basin, of which Colorado represents 51%, is in excess of its ten-year rolling obligation to the Lower Basin States of 75 million acre-feet by having delivered 90 million acre-feet to the Lower Basin States over the past 10 years. The Upper Basin States are collectively well within their Colorado River Compact allocations and are at little risk of Colorado River curtailment in the foreseeable future.

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.

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 as available in the excess capacity in the Fryingpan-Arkansas water 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 216.8 million gallons per day ("mgd") and a peak capacity of 233.8 mgd. A new treatment plant, which is part of SDS, is scheduled to be on line in 2016. This new plant is expected to increase the Water System's sustained rated water treatment capacity by 50 mgd to 266.8 mgd and its peak capacity to 283.8 mgd. An additional increment of treatment capacity will be added under the a subsequent phase of SDS, increasing the sustained rated water treatment capacity to 316.8 mgd. 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 until additional SDS treatment capacity comes online in 2016. Upon full development of SDS Water Treatment Facilities, the Water System's treatment capacity is expected to be sufficient until at least the 2040 decade.

The Water System has 2,000 miles of water distribution system main, most of which have been constructed since 1954. The Water System’s level of unaccounted water is approximately 8% of water treated, including unmetered water such as fire flows and main breaks, and system leakage.

Water Supply and Raw Water Delivery

Approximately 60% of the City’s raw water supply originates from the headwaters of the Colorado River system and the remainder from the Arkansas and South Platte River systems.

In 2010, the Utilities undertook a study to estimate the firm yield of the Water System (the annual amount of demands that the Water System can meet reliably) by modeling the system’s major collection, storage, and delivery facilities, and simulating system operations and demands using a sophisticated computer model. This analysis considered both available water supply under the City’s water rights and the Water System’s delivery capacity. The analysis estimated 100,000 acre-feet of developed firm yield (dry year supply), and 28,000 acre-feet of actively developing firm yield, for a total of 128,000 acre-feet of firm yield. These firm yield numbers represent system firm yield, or the maximum amount of annual demand that can be met without shortage through a combination of water rights and delivery capacity.

The table below shows the current estimated system firm yield for developed, developing, and undeveloped system configurations. This data represents the contribution to the total firm yield by each delivery system.

	<i>Firm Yield</i>	
	<i>acre-feet/year</i>	<i>million gallons per day</i>
Developed System		
Local System	17,800	15.9
Blue River Pipeline	7,800	7.0
Otero Pipeline	64,400	57.4
Fountain Valley Conduit	<u>10,000</u>	<u>8.9</u>
Total Developed System	100,000	89.2
Developing		
Southern Delivery System Proposed Action	<u>28,000</u>	<u>25.0</u>
Total Developed and Developing System	128,000	114.2
Undeveloped		
Local system Improvements, Conditional Water Rights and Pueblo Enlargement or Similar Storage	<u>24,000</u>	<u>21.4</u>
Total Developed, Developing and Undeveloped System	152,000	135.6

The firm yield estimates presented above reflect the Utilities’ specific operational and risk tolerance assumptions included in its system yield computer model. The most significant of these assumptions is the amount of water the Utilities maintains in reservoirs as emergency storage (water not relied upon for normal operations but reserved for extraordinary and unexpected emergency circumstances such as extreme drought or system failure). Based on lessons learned during the recovery from the most recent drought cycle and continual advancement in the understanding of hydrologic risks, the Utilities has recognized that maintaining a reasonably conservative amount of emergency storage is appropriate to mitigate known and unknown water supply risks. Therefore, the firm yield estimates presented above assume an emergency storage requirement of 12 months of customer demand in reservoirs.

The Utilities operates four wells in the Denver Basin Aquifer formations that have an estimated production capacity of 2.0 million gallons per day (2,200 acre-feet per year). Two of these wells are equipped to store excess surface water underground as part of an Aquifer Storage and Recovery program. This program

supplements groundwater supplies, bolsters groundwater levels in the aquifers, and effectively turns a non-renewable supply (non-tributary groundwater) into a renewable supply through artificial recharge. The Utilities is currently operating this program and has stored over 1,900 acre feet of water underground to date. Over 1,100 acre feet of this stored water has been withdrawn and used for beneficial purposes within the Utilities' water supply system.

The Utilities believes its capacity for delivery of raw water from remote watersheds to local storage, including developing capacity additions and system improvements, will be adequate to meet demands until approximately the 2040 decade. Various alternatives are being considered to satisfy the service area's needs for water supply beyond 2040.

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 80,900 acre-feet per year when all of the Utilities' present sources are fully developed. 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 3,519 acre-feet in 2004 to a high of 5,536 acre-feet in 2006 with the difference being attributable primarily to variations in demand due to weather, increased customer base and the implementation of water saving practices by large non-potable water users.

The Utilities exchanged approximately 31,000, 29,000, and 32,500 acre feet of water during the 2011, 2012, and 2013 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 4,300 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, 2013, Fountain Valley Authority had approximately \$10.2 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 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 2011, 2012, and 2013 were \$7,877,066, \$8,522,487, and \$9,114,265, respectively. The payments made by the City to the Aurora-Colorado Springs Authority are nominal.

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 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 consistently notes 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 legislation often influences the Utilities’ water development activities. Such legislation and regulations promulgated by federal and state 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 of these are the National Environmental Policy Act (“NEPA”), the Federal Land Policy and Management Act, the Federal Wild and Scenic Rivers Act, the Clean Water Act, and the Endangered Species Act.

As part of the environmental assessment process under NEPA reasonable alternatives to the proposed project must also be evaluated and reviewed as part of the federal decision-making process. This requirement has 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.

In addition, the federal government has designated large parcels of federally owned mountain land as controlled land use areas pending an evaluation for possible inclusion within the national wilderness preservation system. The inclusion of land within a wilderness area can render a water source unusable due to access restrictions and federal reserved water rights claims, or force a change to a less desirable, more expensive alternative development or operation plan.

The Federal Wild and Scenic Rivers Act is designed to protect certain free-flowing rivers identified by federal agencies and Congress has authority to designate segments of a river as wild, scenic, or recreational depending upon the presence of valued characteristics, such as recreational access, and other detracting factors, such as the degree of existing encroachment. Designation of a segment requires federal agencies to manage the river and adjacent lands to protect the identified valued characteristics and provides legal support for the appropriation of a new federal water rights. Both of these effects present potential issues that could restrict the operations and development of the Water System.

The Clean Water Act creates some potential for additional constraints on water operations and development activities. For example, in a United States Supreme Court case the Court considered hydrologic modifications as “pollution” under the Federal Clean Water Act, and stated that instream flow requirements as special use permit conditions may be appropriate to protect designated stream uses. Similarly, recent federal courts of appeals decisions (outside the Utilities’ jurisdiction) raise the issue of whether a permit is necessary to transfer raw water from one water body to another. Such conditions, along with those 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 development of water resources. The EPA's emphasis on watershed planning and proposed modifications to the water quality standards program involve such issues as biological criteria, antidegradation review of permitted activities, and standards for clean sediment and nutrients, which could further impact water project construction and operation.

Lastly, the Endangered Species Act requires consultation with the U.S. Fish and Wildlife Service by a federal agency before the agency issues any authorization or permit for an activity. If the U.S. Fish and Wildlife Service determines that the proposed activity will have a detrimental impact on threatened or endangered species or their habitat, it must identify a reasonable and prudent alternative which would not jeopardize the species or result in the destruction of its habitat. This process can result in decreased project yields, increased project costs, or both. For example, in June 1998 the Preble's Meadow Jumping Mouse (PMJM), whose habitat includes some riparian areas in and around the City, was designated as a threatened species. This designation affects construction activities in those areas by requiring special permits, development of conservation plans, and consultation with the U.S. Fish and Wildlife Service. In response to this, the Utilities initiated a collaborative process, which includes other regional stakeholders, to develop an appropriate local conservation plan that will allow continued construction activities without unreasonable additional regulatory requirements. In 2010, the U.S. Fish and Wildlife Service designated critical habitat designation for the PMJM in a small portion of the Utilities' service area. This designation has not had a significant impact on the Utilities' projects or operations. In response to the PMJM presence, in 2012, Utilities requested, and was granted, a block clearance zone for the majority of Utilities' service area that eliminates the need for further permitting and compliance under the ESA for the PMJM.

In addition to these laws, the United States Forest Service is pursuing, or may pursue in the future, legal action in which it claims vested federal reserved water rights to water flowing in and through National Forests and other federally owned lands. Some of these claimed federal reserved water rights are or would be superior to some of the water rights owned by the City within Colorado's water allocation system. The areas of primary concern to the City are the Arapaho and White River National Forests, both of which were reserved in 1905. These forests, located within the Colorado River and Arkansas River drainages, encompass the sources of the City-owned rights and entitlements connected with the Homestake, Blue River, Twin Lakes and Fryingpan-Arkansas Projects.

Storm Water Concerns

Storm water in the region, particularly storm water that flows into Fountain Creek, is a significant issue and concern for the City, the Utilities, and other entities in the Pikes Peak region. The City and the Utilities agreed, as part of the Pueblo County 1041 permit for Southern Delivery System (the "SDS") (discussed below under "Capital Improvements to the Water System—Southern Delivery System—General"), 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." The Utilities understands this commitment to apply to new development actually served by SDS once the project is in place. Utilities is actively assisting in the preparation of an updated drainage criteria manual, to be adopted regionally, that will assist in ensuring that storm water permit conditions are met. Pueblo County has taken the public position that during the 1041 permit process, Pueblo County was assured that the backlog of storm water projects for the City would be addressed through a storm water funding structure.

Currently, there are discussions among El Paso County, the City, the Utilities, the City of Fountain, the Pikes Peak Water Authority, the Fountain Creek Flood Control and Greenway District, and other entities within the Fountain Creek watershed on the implementation of a regional drainage authority. The regional authority would collect fees from property owners within the El Paso County portion of the watershed based on impervious surface to fund the construction and maintenance of storm water projects within that portion of the Fountain Creek basin. Such funding would be available on a regional basis for work conducted within

each of the individual jurisdictions, based on the amount collected from each jurisdiction on a five-year rolling average. In 2013, both the City and El Paso County engaged CH2M HILL to reevaluate the cost estimates of priority storm water projects within each of those jurisdictions. CH2MHILL found storm water capital needs within the City to be approximately \$535 million, and capital needs within El Paso County's portion of the Fountain Creek watershed to be approximately \$90 million. CH2MHILL is currently reviewing costs for annual operations and maintenance efforts throughout the region and other related needs.

At this time, a draft intergovernmental agreement is being reviewed by representatives of the County, the City and others to establish a regional authority that would collect fee revenue for the purpose of addressing the identified needs. The parties are considering a plan to execute the intergovernmental agreement during the summer of 2014, and to place the item before voters at a November 4, 2014 election for approval.

The magnitude of the City's and the Utilities' future exposure to storm water capital and ongoing expenses is not clear at this time. However, the creation of a regional drainage authority with a sustained revenue source is expected to significantly reduce the exposure of the City and Utilities to storm water costs, and potentially assist the City, which holds the Clean Water Act MS4 permit and obligations.

Capital Improvements to the Water System

General. 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 deficiencies in structural conditions or spillway capacity. Additionally, Rampart Dam is regulated by the FERC due to its association with 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 2016 to remain in compliance with federal and state requirements.

The Homestake Dam rehabilitation project began in 2011 and is the most significant rehabilitation of this dam since original construction. When finished, the dam face rehabilitation will install new hydraulic asphalt with a 50 year life. The projected total cost of the three year project to the Utilities was \$19 million. This project has had, and continues to experience significant technical challenges. The delays and added scope will push the completion of the project into 2014. \$6.4 million has been included in the Utilities' 2014 capital budget to cover the Utilities' anticipated share of the costs for extending the duration and increasing the scope. While the Utilities expects this additional \$6.4 million to be sufficient to complete the project, additional technical challenges are possible. Any such additional challenges could significantly increase the cost of the project to the Utilities. The Utilities currently believes that there is not a dam safety concern related to this issue. Water will be re-routed to other available storage, as necessary, during this time to maintain project yield and take advantage of the Homestake Project's existing water rights entitlements.

Long term planning for the water supply system is an ongoing endeavor. The previous major planning effort was the Water Resource Plan, completed and approved by the City Council in 1996. This comprehensive water resource plan addressed water supply until the 2040 decade and included conservation, existing system improvements, non-potable water development, and a major delivery system, SDS, which is discussed below. 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 already been completed or are currently underway.

The next iteration of water supply planning is the Integrated Water Resource Plan, a Utilities initiative that was started in 2011 and is scheduled to be completed in 2015. The Integrated Water Resource Plan is to build on and enhance the previous Water Resource Plan, by assessing the water needs and water supply of the community with a risk based analysis approach and an extensive public process to help determine community risk tolerance levels and appropriate cost/benefit relationships for projects and programs to mitigate risks.

Southern Delivery System – General. The Utilities is constructing a major regional water delivery project from Pueblo Reservoir known as the Southern Delivery System (“SDS”).

In July 2009, the Utilities Board approved moving forward with implementation of Phase 1 of SDS to begin delivering water to the Utilities’ customers in 2016. In June 2010, the Utilities selected MWH Americas, Inc. to provide program and construction management support services for SDS. Phase 1 of SDS includes installation of approximately 50 miles of large-diameter underground water pipeline and the construction of three pump stations, a water treatment plant, and finished water distribution facilities. 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, and expansion of the water treatment plant and finished water pumping capacity to serve additional pressure zones within the distribution system. Phase 2 of SDS is anticipated to be constructed between 2020 and 2025, but could be accelerated or delayed, in whole or in part, depending upon future water demand and climate conditions (e.g. extended drought).

The first construction activity for Phase 1 began in September 2010, and through March 2014 approximately 88% of the raw and finished water pipeline has been installed. Additionally, the North Outlet Works connection at Pueblo Dam has been completed and successfully tested and a launch shaft has been constructed for a raw-water tunnel crossing under I-25, Burlington Northern and Union Pacific railroad right-of-ways, and Fountain Creek. Construction of the water treatment plant and raw water pump stations began in 2013. Much of the earthwork is complete, on-site pipe installation and concrete placement have advanced significantly, and specialty equipment manufacturing is under way for the water plant and pump stations.

Pipeline construction efforts will wind down with nearly all of the remaining pipeline scheduled for completion in 2014. For the remaining construction period through January 2016, construction efforts will be focused on three main project components: the raw water tunnel crossing described above (scheduled to be complete in the first quarter of 2015); the raw water pump stations (scheduled to be complete in the fourth quarter of 2015); and the water treatment plant and finished water pump station (scheduled to be complete in the first quarter of 2016).

The City of Fountain, Security Water District, and Pueblo West Metropolitan District are partners in SDS project pursuant to an intergovernmental agreement with the Utilities. As currently projected, the Utilities percentage of participation in capital costs of Phase 1 of SDS is 94.81%, the City of Fountain’s percentage is 3.37%, Security Water District’s percentage is 1.28%, and Pueblo West Metropolitan District’s percentage is 0.54%.

Phase 1 of SDS was originally estimated to cost approximately \$880 million (2009 dollars), of which the Utilities is responsible for approximately \$834 million (2009 dollars), which is expected to be funded with a combination of utilities revenue bond proceeds and cash on hand. As of March 2014, the forecasted project cost through completion of construction in 2016 and mitigation payments through 2021 is \$841 million, of which the Utilities is responsible for 94.81%. Of this amount, approximately \$338 million remains to be spent to complete the project.

Annual water rate increases started in 2010 to support Phase 1 of SDS. In May 2010, the City Council approved annual water rate increases of 12% per year for 2011 and 2012. In July 2012, the City Council approved 10% water rate increases for 2013 and 2014. Future rate increases beyond 2014, if necessary, will be brought to the City Council for approval at the appropriate time.

The Utilities remains in compliance with all of the listed permits and all other state and local land-use and permitting requirements applicable to SDS.

Because construction of SDS will include dredging and/or placement of fill materials in the waters of the United States, the City was required to obtain a dredge and fill permit from the Army Corps of Engineers under Section 404 of the Federal Clean Water Act. Section 401 of the Clean Water Act requires that applicants for a Section 404 permit provide the Army Corps of Engineers with a state certification providing that the proposed project will comply with applicable state water quality standards (a “401 Certification”).

In 2009, the City applied to the Colorado Water Quality Control Division (the “Division”) for a 401 Certification relating to SDS. On April 23, 2010, the Division issued its 401 Certification for SDS. The District Attorney for the Tenth Judicial District (the “Pueblo District Attorney”) and the Rocky Mountain Environmental Labor Coalition appealed the Division’s 401 Certification to the Colorado Water Quality Control Commission, which upheld the 401 Certification. The Pueblo District Attorney and the Rocky Mountain Environmental Labor Coalition subsequently appealed that decision to the District Court for Pueblo County, Colorado. On April 12, 2012, the District Court ruled in favor of the District Attorney and the Rocky Mountain Environmental Labor Coalition, set aside the 401 Certification, and remanded the 401 Certification back to the Division for further consideration. The Colorado Water Quality Control Commission and the City appealed this decision to the Colorado Court of Appeals. On July 18, 2013, the Colorado Court of Appeals overruled the Pueblo County District Court and upheld the Division’s original 401 certification. The Pueblo County District Attorney subsequently appealed the decision to the Colorado Supreme Court. On April 28, 2014, the Colorado Supreme Court unanimously denied the Pueblo County District Attorney’s petition for appeal of the Colorado Court of Appeals’ ruling.

Engineer’s Report on Feasibility of SDS. SDS requires a significant capital investment and therefore constitutes a Capital Addition under the Bond Ordinance. A Capital Addition is defined in the Bond Ordinance as a project with an estimated net book value in excess of 15% of the net utilities plant (without regard to the project) for the most recent fiscal year. The Bond Ordinance requires that the Utilities have a comprehensive engineer’s report prepared for any Capital Addition.

In 2003, the Utilities engaged CH2M HILL to prepare an engineer’s report relating to SDS in order to ensure compliance with the additional bonds test contained in the Bond Ordinance.

In 2009, CH2M HILL prepared an addendum to its 2003 report. As part of the 2003 report and the 2009 addendum, CH2M HILL reviewed the financial forecasts of the Utilities and prepared an independent financial forecast. With the critical assumptions that adequate debt service coverage will be maintained through forecasted annual rate increases, and that projected costs and expenses will be as forecasted by the Utilities, CH2M HILL certified that average annual debt service coverage will not be less than 130% for the 3 years (2017 to 2019) following commercial operability of SDS in 2016.

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 106 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 2013, the Utilities owned and operated over 1,600 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, 2012.

Wastewater Treatment Service Charges

	<i>Inside City</i>	<i>Outside City</i>
Residential (S-R)		
Service Charge — Per day	\$0.5092	\$0.7638
Quantity Charge — Each 100 cubic feet.....	\$2.4600	\$3.6900
 Commercial (S-C)		
Service Charge — Per day	\$0.9953	\$1.4930
Quantity Charge — Each 100 cubic feet.....	\$2.6200	\$3.9300

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 for customers outside the Jimmy Camp Creek service area. For customers inside the Jimmy Camp Creek service area, wastewater development charges for single family residential customers are \$445 inside the City limits and \$667 outside the City limits. The wastewater development charges for customers within the Jimmy Camp Creek service area cover only sludge conveyance and treatment. The liquid treatment plant for this area, if built, is expected to be funded by developers and those costs will be recovered directly from the developers for this area. 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, to \$77,977 and \$116,965 for 4” meters within and outside the City limits, respectively, for customers outside the Jimmy Camp Creek service area. Non-residential wastewater development charges within the Jimmy Camp Creek service area also vary based on water meter size, and range from \$445 and \$667 for ¾” and smaller meters within and outside the City limits, respectively, to \$13,316 and \$19,974 for 4” 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 for customers outside the Jimmy Camp Creek service area. Multi-family wastewater development charges for customers inside the Jimmy Camp Creek service area are \$289 inside the City limits and \$433 outside the City limits. Development Charges for meters 6” or larger will be determined based upon potential annual usage and peak requirements of that individual customer.

Wastewater Revenues

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

<i>Customer Class</i>	<i>Wastewater Revenues</i>				
	<i>Fiscal Year Ended December 31</i>				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Residential (City)	\$ 48,755,053	\$ 45,333,571	\$ 50,865,244	\$ 49,374,879	\$ 47,737,927
Residential (Suburban)	121,368	108,858	120,708	116,245	98,139
Commercial (City) ⁽¹⁾	14,617,552	13,342,657	14,980,926	14,852,780	15,126,309
Commercial (Suburban) ⁽¹⁾	88,641	68,971	73,111	83,267	85,962
Contract Service	918,682	850,874	938,585	839,809	873,048
Interdepartmental	634,264	590,490	538,911	588,259	541,110
Subtotal	\$ 65,135,560	\$ 60,295,421	\$ 67,517,485	\$ 65,855,239	\$ 64,462,495
Miscellaneous Revenues	863,792	890,586	899,613	954,571	968,398
Total Wastewater Revenues	\$ 65,999,352	\$ 61,186,007	\$ 68,417,098	\$ 66,809,810	\$ 65,430,892
Less Interdepartmental Sales	(634,264)	(590,490)	(538,911)	(588,259)	(541,110)
Net Wastewater Revenues	<u>\$ 65,365,088</u>	<u>\$ 60,595,517</u>	<u>\$ 67,878,187</u>	<u>\$ 66,221,551</u>	<u>\$ 64,889,782</u>
Total Number of Active Wastewater Accounts as of Year End	<u>129,962</u>	<u>130,716</u>	<u>131,588</u>	<u>132,271</u>	<u>134,007</u>

⁽¹⁾ Commercial revenue is significantly affected by atypical weather conditions because an irrigation adjustment applies to commercial customer billings, and the irrigation adjustment was developed on the basis of normalized weather conditions.

Wastewater Facilities

The Wastewater System operates two wastewater treatment facilities. The combined permitted capacity is 85 million gpd, with peak capacity during the summer of 95 million gpd. 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 Wastewater Treatment Plant, which discharges treated wastewater to Fountain Creek, and the J.D. Phillips Water Reclamation 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 are expected to be renewed in 2014. The Utilities continues to operate under administrative extension of the existing permits until such time that renewed permits are issued.

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 reach 80.0% of facility design capacity, the 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. Through December 31, 2013, annual organic and hydraulic throughputs for the Las Vegas Street Wastewater Treatment Plant reached 44.5% and 44.9%, respectively. Through December 31, 2013 peak monthly organic and hydraulic throughputs for the J.D. Phillips Water Reclamation Facility reached 45.8 % and 39.9%, respectively.

The Utilities is actively engaged in the State’s water quality regulatory rulemaking processes. A new ultraviolet disinfection system for the Las Vegas Street Wastewater Treatment Plant 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 expects to see the first impact of this change in the discharge permit renewal negotiations anticipated in 2014. 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 are currently limited by the CDPS permits may undergo an "antidegradation" review that could result in more restrictive effluent limits. Reduced or additional permitted effluent limits may necessitate additional wastewater treatment facility controls.

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 to meet these standards. Based on these regulations, approximately \$3.1 million in capital investment will be required at the Las Vegas Street Wastewater Treatment Plant between 2014 and 2022. In July 2013, the Utilities was awarded a \$1.0 million construction grant from the State's Nutrient Grant Program to offset these costs. Current plans are for design in 2014/2015 with construction of plant upgrades from 2015 to 2017. The J.D. Phillips Water Reclamation Facility will be able to meet the proposed standards with a \$1.5 million process improvement project which will be completed in 2014. However, some nutrient regulatory scenarios could result in much greater capital investment being required after 2022.

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 addresses capacity and condition evaluations, along with the systematic repair, rehabilitation, and replacement of portions of the wastewater collection system through the year 2012. The Consent Order was reviewed and approved by the EPA. The Consent Order was subsequently amended in 2005, 2006, and 2010 to resolve SSOs that occurred through December 2009. 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 Solids Handling and Disposal Facility, which processes sludge from the Las Vegas Street Wastewater Treatment Plant and the J.D. Phillips Water Reclamation Facility, is currently regulated under a federal sludge disposal permit, 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 May 2013, the EPA reauthorized the general permit for sludge disposal which expires on May 15, 2018. . The solid waste disposal Certificate of Designation has no expiration date.

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 Solids Handling and Disposal Facility may be required to meet these revisions in the 2015-2017 timeframe. The Utilities expects to receive clarity from the CDPHE in mid to late 2014 regarding the extent for impoundment-related capital investment following their review of the Utilities' preliminary impoundment classification submittals. The revisions may require that the site's Certificate of Designation be amended and will require that financial assurance be maintained for any future closure of the impoundments. Demonstration of adequate financial assurance will be likely in 2014.

In 2009, a “Wastewater Integrated Master Plan” was drafted and internally reviewed. This plan addresses the 10-year capital improvement projects needed for the wastewater collection system, wastewater treatment facilities and Clear Spring Ranch Solids Handling and Disposal Facility. It analyzes current capacity and future growth needs for wastewater system components. The plan also addresses the impacts of new regulations and plans for capital improvements necessary to keep the facilities in compliance with the new regulations.

Capital Improvements to the Wastewater System

The Utilities owns and operates over 1,600 miles of sanitary sewer pipelines throughout thirty separate basins in Colorado Springs. 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 Sanitary Sewer Evaluation and Rehabilitation Project was completed on December 31, 2012, meeting all of the requirements of the CDPHE’s Consent Order. Closure of the Consent Order was requested on January 29, 2013 and granted by CDPHE on March 8, 2013. Approximately 354,500 feet (67 miles) of Sanitary Sewer Evaluation and Rehabilitation Project pipe have been rehabilitated or replaced to date at a cost of approximately \$75.0 million. The successor Collection System Rehabilitation and Replacement Project contracts were put into place in 2009 to continue the rehabilitation and replacement of pipes identified from continuing evaluations.

The Sanitary Sewer Creek Crossing Project work consists of the inspection, evaluation, the repair and/or replacement of sanitary sewer pipes and the erosion protection of various creek crossings structures in order to reduce the risk of spills, stoppages, and SSOs on pipelines that cross minor and major drainages. There are approximately 370 sanitary sewer creek crossings in the major and minor drainages that have been evaluated and are on a re-inspection schedule. Since 2005 the Utilities stabilized, replaced or eliminated 114 sanitary sewer creek crossings and/or longitudinal pipelines at an approximate cost through 2013 of \$31.5 million. The 2014 budget for this project is approximately \$3.0 million

The Local Collectors Evaluation and Rehabilitation Project consists of the evaluation and rehabilitation of approximately 1,150 miles of sewer collection pipes less than 10-inch in diameter, which represent the majority of the Utilities’ wastewater collection system. Approximately 83% of the sewer mains in the City of Colorado Springs are considered local collectors. The Local Collectors Evaluation and Rehabilitation Project builds upon Sanitary Sewer Evaluation and Rehabilitation Project by expanding the effort to include all sizes of sewer pipe. The total cost through 2012 associated with the Local Collectors Evaluation and Rehabilitation Project since 2008 is approximately \$62.6 million. The 2014 budget for this project is approximately \$3.4 million.

The Manhole Evaluation and Rehabilitation Project has been developed as a comprehensive program to provide the rehabilitation of sanitary sewer manholes throughout the Utilities’ wastewater collection system and is designed to reduce the risk of spills, stoppages and SSOs, and to reduce infiltration and inflow at manholes throughout the collection system. There are about 33,000 manholes in the Utilities’ collection system, of which approximately 28,000 were installed prior to 1993, or are in excess of 20 years old. 2013 was the fifth year of this project with a total cumulative project cost of approximately \$3.3 million. The 2014 budget for this project is approximately \$500,000.

The Collection System Rehabilitation and Replacement Project is an ancillary project to Sanitary Sewer Evaluation and Rehabilitation Project to provide an ongoing means to rehabilitate large diameter (greater than 10-inch) sewer pipe. The Collection System Rehabilitation and Replacement Project includes rehabilitation or replacement of large diameter sewer pipe that was not part of the Consent Order (sewer pipe that was installed after January 1, 1994) and pipe that is entering into a systematic 15 year inspection cycle. The project will also provide some funding for sewer pipes that need to be upsized because of capacity considerations. 2013 was the sixth year of this project with a total cumulative project cost of approximately \$6.8 million. The 2014 budget for this project is approximately \$838,000.

PENDING LEGAL PROCEEDINGS

For a discussion of litigation regarding SDS, see “THE WATER SYSTEM—Capital Improvements to the Water System.”

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. It has three boilers (Units 5, 6, and 7), all of which are pulverized-coal, front-fired boilers. 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 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 (“NSR”) program and a subset of that program known as Prevention of Significant Deterioration (“PSD”). 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, 2013 reflected the accrual of \$15,000 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.”

On August 2, 2013, the City was served with a complaint from Mr. Douglas Bruce, a local citizen (“Citizen”), that alleges numerous causes of action, three of which involve the Utilities. The Citizen alleges that the City is violating Issue 300 by receiving monies from enterprises, including the surplus payment received from the Utilities, and that the surplus payments represent an unauthorized tax increase under the State constitution. As discussed in “COLORADO SPRINGS UTILITIES—Nature of the Utilities,” the City has taken the position that the payment of these surpluses is not in violation of the provisions of Issue 300. Likewise, the City does not believe the surplus payments represent unauthorized tax increases under the State constitution. The Citizen also alleges that the charges the Utilities imposes to reconnect abandoned water service lines and that the imposition of watering restrictions by the Utilities, are in each case, a taking, and a denial of due process and equal protection. The City believes that for a variety of reasons it will prevail on all of these claims, however, the outcome of the litigation is unclear at this time.

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, Reno, Nevada, 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 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.

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 has acted as Financial Advisor to the City and has assisted with structuring the Bonds.

UNDERWRITING

The Series 2014A-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 2014A-1 Bonds of \$_____, [less an original issue discount of \$_____], [plus an original issue premium of \$_____,] less an Underwriters' discount of \$_____.

The Series 2014A-2 Bonds will be purchased by the Underwriters at a price of \$_____ (representing the principal amount of the Series 2014A-2 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.

CERTAIN RELATIONSHIPS OF PARTIES

Barclays Capital Inc., one of the Underwriters of the Bonds, currently acts as remarketing agent for certain utilities revenue bonds issued by the City. Barclays Capital Inc. is an affiliate of Barclays Bank PLC, 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.”

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 swap counterparty to the City under certain of the swap agreements described in “COLORADO SPRINGS UTILITIES – Interest Rate Swap Agreements” and as liquidity provider related to certain utilities revenue bonds issued by the City as described in “COLORADO SPRINGS UTILITIES – Liquidity/Support Facilities.”

Bank of America Merrill Lynch, one of the Underwriters of the Bonds, currently acts as remarketing agent for certain utilities revenue bonds issued by the City. Bank of America Merrill Lynch is an affiliate of Bank of America, N.A., which currently acts as a swap counterparty to the City under certain of the swap agreements described in “COLORADO SPRINGS UTILITIES – Interest Rate Swap Agreements” and as liquidity provider related to certain utilities revenue bonds issued by the City as described in “COLORADO SPRINGS UTILITIES – Liquidity/Support Facilities.” Bank of America Merrill Lynch is an affiliate of Merrill Lynch & Co., Inc. and Merrill Lynch Commodities, Inc., which are counterparties to a prepaid gas supply agreement with the City described in “THE GAS SYSTEM – Gas Supply.”

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 One State Street Plaza, 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' 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: _____
Jerome Forte, Jr.,
Chief Executive Officer

By: _____
William J. Cherrier,
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.

Definitions

The following are definitions of certain terms as used in the Bond Ordinance:

“Average Annual Principal and Interest Requirements” means the sum of the principal of and interest on the Bonds and any other Outstanding Parity Bonds, excluding any securities the principal of which is payable within less than one year from the date on which issued, but including any proposed Parity Bonds in the computation of the City’s ability to issue additional Parity Bonds, to be paid during each Fiscal Year for the period beginning with the Fiscal Year in which such computation is made and ending with the Fiscal Year in which any Bond or other such security last becomes due at maturity or on a Redemption Date, whichever time is later (but excluding any reserve requirement to secure such payments unless otherwise expressly provided) divided by the number of full Fiscal Years during the period beginning with the Fiscal Year in which such computation is made and ending with the last Fiscal Year in which any Bond or other such security last becomes due at maturity or on a Redemption Date, whichever time is later. The word “principal,” as used in the preceding sentence, means for all purposes of this paragraph, the principal which must be paid to security Owners, whether on stated maturity dates or on mandatory redemption dates, or otherwise. Any such computation will be adjusted for all purposes in the same manner as is provided in the Bond Ordinance. For the purposes of this computation, it will be assumed that (a) Variable Rate Bonds Outstanding at the time of such determination will bear interest during any period (i) if the interest rate such Variable Rate Bonds bear or will bear during such period has not been determined, at the fixed interest rate estimated by the remarketing agent for such Variable Rate Bonds and approved by the Finance Director or, if there is no such remarketing agent, by the Finance Director that, having due regard for prevailing financial market conditions, is necessary, but does not exceed the interest rate necessary, to sell such Variable Rate Bonds at 100% of the principal amount thereof in an open market transaction, assuming the Variable Rate Bonds had a term equal to the then remaining term of the Variable Rate Bonds (taking into account any mandatory redemption for such Variable Rate Bonds) or (ii) if the interest rate such Variable Rate Bonds bear or will bear during such period has been determined and is not subject to fluctuation, at such interest rate thus determined, and (b) any Tender Bonds Outstanding at the time of such determination will mature on the stated maturity or mandatory Redemption Date or Dates thereof.

For purposes of this calculation, if a Parity Financial Products Agreement has been entered into by the City with respect to the Bonds or any Parity Bonds, interest on the Bonds or such Parity Bonds will be included in the calculation of such principal and interest by including for each Fiscal Year an amount equal to the amount of interest payable on the Bonds or such Parity Bonds in such Fiscal Year during such period determined as hereinabove provided plus any Financial Products Payments payable in any such Fiscal Year minus any Financial Products Receipts receivable in any such Fiscal Year; provided that in no event will any calculation made pursuant to this sentence result in a number less than zero being included in the calculation of such interest.

In determining the amount of any Financial Products Payments or Financial Products Receipts on any interest rate swaps or other similar Financial Products Agreement which Payments or Receipts are based on interest rates which are not fixed in percentage for the entire term of the Financial Products Agreement, such amount will be calculated by assuming such variable interest rate is a fixed interest rate equal to (a) if the Parity Financial Products Agreement relates to Variable Rate Bonds, the fixed rate of interest estimated for such Variable Rate Bonds as provided above or (b) if the Parity Financial Products Agreement relates to the

Bonds or Parity Bonds which bear interest at a fixed interest rate, the average daily interest rate for such Payments or Receipts under such Financial Products Agreement during the twelve months preceding the calculation or during the time the Financial Products Agreement has been in effect if less than twelve months and if such Financial Products Agreement is not then in effect, the variable interest rate will be deemed to be a fixed interest rate equal to the average daily interest rate for such Payments or Receipts which would have been applicable if such Financial Products Agreement had been in effect for the preceding twelve month period, which average daily interest rate will be set forth in a certificate of the Finance Director.

In determining the amount of any Financial Products Payments or Financial Products Receipts on any interest rate cap, floor, collar or other similar Financial Products Agreement with respect to Parity Bonds which are Variable Rate Bonds, such amount will be calculated by assuming the interest rate on the related Variable Rate Bonds will be a fixed interest rate equal to the average daily interest rate on such Variable Rate Bonds during the twelve months preceding the calculation or during the time the Variable Rate Bonds are Outstanding if less than twelve months and if such Variable Rate Bonds are not at the time of calculation Outstanding, the variable interest rate will be deemed to be a fixed interest rate equal to the average daily interest rate which such Bonds would have borne if they had been Outstanding for the preceding twelve month period as estimated by the Finance Director, all as set forth in a certificate of the Finance Director. In determining the amount of any Financial Products Payments or Financial Products Receipts on any interest rate cap, floor, collar or other similar Financial Products Agreement with respect to Parity Bonds bearing interest at a fixed rate, such amount will be the amount payable or receivable annually determined as of the date of issuance of the Parity Bonds as set forth in a certificate of the Finance Director.

For the purposes of this calculation, if Commercial Paper Notes are then Outstanding or are the Parity Bonds proposed to be issued, it will be assumed that (a) the principal amount of any Commercial Paper Notes Outstanding is that amount forecasted by the City as of the date of the calculation of Average Annual Principal and Interest Requirements to have been issued and be Outstanding at the expiration date of the program established for the Commercial Paper Notes, (b) only interest will be payable on the Commercial Paper Notes prior to the expiration date of the program established for the Commercial Paper Notes, and such amount will be calculated by assuming such interest rate is a fixed interest rate equal to the average daily interest rate for all Commercial Paper Notes issued as part of such program during the twelve months preceding the calculation or during the time the Commercial Paper Notes have been Outstanding if less than twelve months and if such Commercial Paper Notes are not then Outstanding, the interest rate will be deemed to be a fixed interest rate equal to the average daily interest rate which would have been applicable if such Commercial Paper Notes had been Outstanding for the preceding twelve month period as estimated by the Finance Director and (c) the Commercial Paper Notes so forecasted to have been issued and Outstanding will mature over 25 years from the expiration date of the program established for the Commercial Paper Notes, will bear interest on the unpaid principal amount thereof at the fixed rate of interest equal to the Bond Buyer 30 Year Revenue Index of 25 Revenue Bonds as published in the most recent issue of The Bond Buyer (or any successor thereto) preceding the date of such determination or if such Index is no longer published, of a comparable index selected by the Finance Director and will be payable on a level annual debt service basis over such 25 year period, all as set forth in a certificate of the Finance Director. For the purposes of this paragraph, the term “expiration date of the program established for the Commercial Paper Notes” will mean the earlier of (i) such expiration date as set forth in the ordinance of the City authorizing the issuance of the Commercial Paper Notes or (ii) 5 years from the initial date of issuance of any Commercial Paper Note under such program.

“BAB Credit” means the credit provided in Section 6431 of the Code in lieu of any credit otherwise available to the Owners under Section 54AA(a) of the Code.

“Balloon Bonds” means any securities payable from Net Pledged Revenues 25% or more of the original principal amount of which matures during any consecutive twelve month period if such maturing principal amount is not required to be amortized by mandatory redemption or prepayment prior to such period and if such twelve month period overlaps the Fiscal Year in which the Combined Maximum Annual Principal

and Interest Requirements occur (without regard to the assumptions contained in clause (c) of the first paragraph of the definition of Combined Maximum Annual Principal and Interest Requirements).

“Beneficial Owner” means each owner of Bonds whose ownership is recorded under the book-entry only system maintained by the Depository.

“Bond Fund” means the special account designated as the “City of Colorado Springs, Colorado, Utilities System Improvement Revenue Bonds, Series 2014A Bond Fund” created pursuant to the Bond Ordinance.

“Bond Requirements” means the principal of, any prior redemption premiums due in connection with, and the interest on any Bonds or other securities payable from the Net Pledged Revenues and heretofore or hereafter issued, if any, or such part of such securities as may be designated.

“Capital Additions” prior to the Effective Date means those properties and facilities which by their nature, and as incorporated into the System (a) will add additional capacity, or are to replace existing capacity, of the System, or substantially increase revenue-producing capabilities, or constitute new transmission facilities and (b) which upon completion will have an estimated net book value in excess of 15% of the net book value of the net utilities plant (without regard to such Capital Addition), as shown on the City’s most recent audited financial statements for the System.

On and after the Effective Date, this definition will be deleted and of no force or effect.

“Combined Maximum Annual Principal and Interest Requirements” means the largest sum of the principal of and interest on the Bonds, and any other Outstanding Parity Bonds, excluding any securities the principal of which is payable within less than one year from the date on which issued, to be paid during any one Fiscal Year for the period beginning with the Fiscal Year in which such computation is made and ending with the Fiscal Year in which any Bond or other such security last becomes due at maturity or on a Redemption Date, whichever time is later (but excluding any reserve requirement to secure such payments unless otherwise expressly provided). The word “principal,” as used in the preceding sentence, means for all purposes of this paragraph, the principal which must be paid to security Owners, whether on stated maturity dates or on mandatory Redemption Dates, or otherwise. Any such computation will be adjusted for all purposes in the same manner as is provided in the Bond Ordinance. For the purposes of this computation, it will be assumed that (a) Variable Rate Bonds Outstanding at the time of such determination will bear interest during any period (i) if the interest rate such Variable Rate Bonds bear or will bear during such period has not been determined, at the fixed interest rate estimated by the remarketing agent for such Variable Rate Bonds and approved by the Finance Director or, if there is no such remarketing agent, by the Finance Director that, having due regard for prevailing financial market conditions, is necessary, but does not exceed the interest rate necessary, to sell such Variable Rate Bonds at 100% of the principal amount thereof in an open market transaction, assuming the Variable Rate Bonds had a term equal to the then remaining term of the Variable Rate Bonds (taking into account any mandatory redemption for such Variable Rate Bonds) or (ii) if the interest rate such Variable Rate Bonds bear or will bear during such period has been determined and is not subject to fluctuation, at such interest rate thus determined, (b) any Tender Bonds Outstanding at the time of such determination will mature on the stated maturity or mandatory Redemption Date or Dates thereof and (c) any Balloon Bonds Outstanding at the time of such determination will mature over 30 years from the date of issuance of the Balloon Bonds, will bear interest on the unpaid principal amount thereof at the fixed rate of interest equal to the Bond Buyer 30 Year Revenue Index of 25 Revenue Bonds as published in the most recent issue of The Bond Buyer (or any successor thereto) preceding the date of such determination or if such Index is no longer published, of a comparable index selected by the Finance Director and will be payable on a level annual debt service basis over a thirty year period.

For purposes of this calculation, if a Parity Financial Products Agreement has been entered into by the City with respect to the Bonds or any Parity Bonds, interest on the Bonds or such Parity Bonds will be

included in the calculation of such principal and interest by including for each Fiscal Year an amount equal to the amount of interest payable on the Bonds or such Parity Bonds in such Fiscal Year during such period determined as hereinabove provided plus any Financial Products Payments payable in any such Fiscal Year minus any Financial Products Receipts receivable in any such Fiscal Year; provided that in no event will any calculation made pursuant to this sentence result in a number less than zero being included in the calculation of such interest.

In determining the amount of any Financial Products Payments or Financial Products Receipts on any interest rate swaps or other similar Financial Products Agreement which Payments or Receipts are based on interest rates which are not fixed in percentage for the entire term of the Financial Products Agreement, such amount will be calculated by assuming such variable interest rate is a fixed interest rate equal to (a) if the Parity Financial Products Agreement relates to Variable Rate Bonds, the fixed rate of interest estimated for such Variable Rate Bonds as provided above or (b) if the Parity Financial Products Agreement relates to the Bonds or Parity Bonds which bear interest at a fixed interest rate, the average daily interest rate for such Payments or Receipts under such Financial Products Agreement during the twelve months preceding the calculation or during the time the Financial Products Agreement has been in effect if less than twelve months and if such Financial Products Agreement is not then in effect, the variable interest rate for such Payments or Receipts will be deemed to be a fixed interest rate equal to the average daily interest rate which would have been applicable if such Financial Products Agreement had been in effect for the preceding twelve month period, which average daily interest rate will be set forth in a certificate of the Finance Director.

In determining the amount of any Financial Products Payments or Financial Products Receipts on any interest rate cap, floor, collar or other similar Financial Products Agreement with respect to Parity Bonds which are Variable Rate Bonds, such amount will be calculated by assuming the interest rate on the related Parity Bonds will be a fixed interest rate equal to the average daily interest rate on such Variable Rate Bonds during the twelve months preceding the calculation or during the time the Variable Rate Bonds are Outstanding if less than twelve months and if such Variable Rate Bonds are not at the time of calculation Outstanding, the variable interest rate will be deemed to be a fixed interest rate equal to the average daily interest rate which such Bonds would have borne if they had been Outstanding for the preceding twelve month period as estimated by the Finance Director, all as set forth in a certificate of the Finance Director. In determining the amount of any Financial Products Payments or Financial Products Receipts on any interest rate cap, floor, collar or other similar Financial Products Agreement with respect to Parity Bonds bearing interest at a fixed rate, such amount will be the amount payable or receivable annually determined as of the date of issuance of the Parity Bonds, as set forth in a certificate of the Finance Director.

For the purposes of this calculation, if Commercial Paper Notes are then Outstanding or are the Parity Bonds proposed to be issued, it will be assumed that (a) the principal amount of any Commercial Paper Notes Outstanding is that amount forecasted by the City as of the date of the calculation of Combined Maximum Annual Principal and Interest Requirements to have been issued and be Outstanding at the expiration date of the program established for the Commercial Paper Notes, (b) only interest will be payable on the Commercial Paper Notes prior to the expiration date of the program established for the Commercial Paper Notes, and such amount will be calculated by assuming such interest rate is a fixed interest rate equal to the average daily interest rate for all Commercial Paper Notes issued as part of such program during the twelve months preceding the calculation or during the time the Commercial Paper Notes have been Outstanding if less than twelve months and if such Commercial Paper Notes are not then Outstanding, the interest rate will be deemed to be a fixed interest rate equal to the average daily interest rate which would have been applicable if such Commercial Paper Notes had been Outstanding for the preceding twelve month period as estimated by the Finance Director and (c) the Commercial Paper Notes so forecasted to have been issued and Outstanding will mature over 25 years from the expiration date of the program established for the Commercial Paper Notes, will bear interest on the unpaid principal amount thereof at the fixed rate of interest equal to the Bond Buyer 30 Year Revenue Index of 25 Revenue Bonds as published in the most recent issue of The Bond Buyer (or any successor thereto) preceding the date of such determination or if such Index is no longer published, of a comparable index selected by the Finance Director and will be payable on a level annual debt service basis

over such 25 year period, all as set forth in a certificate of the Finance Director. For the purposes of this paragraph, the term “expiration date of the program established for the Commercial Paper Notes” will mean the earlier of (i) such expiration date as set forth in the ordinance of the City authorizing the issuance of the Commercial Paper Notes or (ii) 5 years from the initial date of issuance of any Commercial Paper Note under such program.

“Commercial Paper Notes” means any bonds or notes payable from and having an irrevocable lien upon Net Pledged Revenues on a parity with the Bonds (a) which have a stated maturity date which is not more than 365 days after the date of issuance thereof and (b) are designated as Commercial Paper Notes in the ordinance authorizing their issuance, but does not include any Credit Facility Obligations relating to such bonds or notes.

“Continuing Disclosure Undertaking” means the certificate to be dated the date of delivery of the Bonds delivered by the City, which constitutes an undertaking pursuant to Rule 15c2-12 promulgated by the Securities and Exchange Commission.

“Credit Facility” means any letter or line of credit, policy of bond insurance, surety bond or guarantee or similar instrument (other than a Reserve Fund Insurance Policy) issued by a financial, insurance or other institution and which specifically provides security and/or liquidity in respect of securities payable from Net Pledged Revenues.

“Credit Facility Obligations” means repayment or other obligations incurred by the City in respect of draws or other payments or disbursements made under a Credit Facility.

“Depository” means any securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a book-entry system to record ownership of book-entry interests in bonds, and to effect transfers of book-entry interests in bonds in book-entry form, and includes and means initially The Depository Trust Company (a limited purpose trust company), New York, New York.

“Effective Date” means the earlier of the date on which (a) none of the Series 2000A Bonds, the Series 2000B Bonds or the Series 2002C Bonds are Outstanding or (b) the holders of not less than 66% in aggregate principal amount of each of the Series 2000A Bonds, the Series 2000B Bonds and the Series 2002C Bonds then Outstanding, as well as any other entities whose consent is required therefor, have consented to the provisions contained in the Bond Ordinance pertaining to the Effective Date.

“Federal Securities” means bills, certificates of indebtedness, notes, or bonds which are direct obligations of, or the principal of and interest on which obligations are unconditionally guaranteed as to full and timely payment by, the United States of America.

“Finance Director” means the chief financial officer of the Utilities, presently the Chief Planning and Finance Officer, or his or her designate, or his or her successor in functions, if any.

“Financial Products Agreement” means an interest rate swap, cap, collar, floor, other hedging agreement, arrangement or security, however denominated, entered into by the City with a Provider not for investment purposes but with respect to the Bonds or specific Parity Bonds and providing that any payments by the City thereunder will be made only from Net Pledged Revenues and for the purpose of (a) reducing or otherwise managing the City’s risk of interest rate changes or (b) effectively converting the City’s interest rate exposure, in whole or in part, from a fixed rate exposure to a variable rate exposure, or from a variable rate exposure to a fixed rate exposure.

“Financial Products Payments” means payments periodically required to be paid to a Provider by the City pursuant to a Financial Products Agreement but specifically not including any termination, settlement or

similar payments required to be paid upon an early termination of the Financial Products Agreement or as a result of any event of default thereunder.

“Financial Products Receipts” means amounts periodically required to be paid to the City by a Provider pursuant to a Financial Products Agreement but specifically not including any termination, settlement or similar payments required to be paid upon an early termination of the Financial Products Agreement or as a result of any event of default thereunder.

“Gross Pledged Revenues” means all income, charges and revenues derived directly or indirectly by the City from or otherwise pertaining to the System, but excluding certain grants, moneys borrowed for Capital Additions or other capital improvements to the System (or for refunding of securities) and unrealized gains or losses on investments, and excluding income, charges, and revenues from Special Facilities that are not part of the System and Financial Products Receipts. In addition, Gross Pledged Revenues include all BAB Credits to the extent received by the City with respect to any securities payable from the Net Pledged Revenues.

“Independent Accountant” means any certified public accountant, or any firm of certified public accountants, duly licensed to practice and practicing as such under the laws of the State:

- (a) Who is, in fact, independent and not under the domination of the City;
- (b) Who does not have any substantial interest, direct or indirect, with the City, and
- (c) Who is not connected with the City as an officer or employee thereof, but who may be regularly retained to make annual or similar audits of any books or records of the City.

“Independent Engineer” prior to the Effective Date means an individual, firm or corporation engaged in the engineering profession of recognized good standing and having specific experience in respect of business and properties of a character similar to those of the System, which individual, firm or corporation has no substantial interest, direct or indirect, in the City and in the case of an individual, is not a member of the City Council, or an officer or employee of the City, and in the case of a firm or corporation, does not have a partner, director, officer or employee who is a member of the City Council or an officer or employee of the City.

On and after the Effective Date, the definition of “Independent Engineer” will be deleted and of no force and effect.

“Investment Securities” means any securities or other obligations permitted as investments of moneys of the City under the laws of the State.

“Maturity-Rate” means the Series 2014A-1 Bonds, or the Series 2014A-2 Bonds, as applicable, which are due on the same date and bear the same rate of interest.

“Net Pledged Revenues” means the Gross Pledged Revenues remaining after the payment of the Operation and Maintenance Expenses.

“Parity Bonds” means any securities heretofore or hereafter issued payable from and having an irrevocable lien upon the Net Pledged Revenues on a parity with the Bonds but does not include any Credit Facility Obligations relating to any such securities.

“Parity Credit Facility Obligations” means any Credit Facility obligations payable from the Net Pledged Revenues on a parity with the Bonds.

“Parity Financial Products Agreement” means any Financial Products Agreement pursuant to which Financial Products Payments are payable from Net Pledged Revenues on a parity with the Bonds.

“Paying Agent” means Wells Fargo Bank, National Association, in Denver, Colorado, and being an agent of the City for the payment of the Bond Requirements due in connection with the Bonds, the registrar for the Bonds and for other administration of moneys pertaining to the Bonds, and includes any successor Commercial Bank as paying agent.

“Provider” means any financial institution or insurance company which is a party to a Financial Products Agreement with the City.

“Reserve Fund” means the special account designated as the “City of Colorado Springs, Colorado, Utilities System Improvement Revenue Bonds, Series 2014A Reserve Fund” created pursuant to the Bond Ordinance.

“Reserve Fund Insurance Policy” means any insurance policy, surety bond or letter of credit deposited in or credited to the Reserve Fund as provided in the Bond Ordinance in lieu of or in partial substitution for cash or Investment Securities on deposit in the Reserve Fund or similarly credited to a reserve fund for Parity Bonds.

“Reserve Fund Requirement” means the sum of (a) an amount equal to the sum of the interest on the Series 2014A-1 Bonds then Outstanding to be paid during each Fiscal Year for the period beginning with the Fiscal Year in which the Series 2014A-1 Bonds are issued and ending with the Fiscal Year in which any Series 2014A-1 Bond last becomes due at maturity or on a mandatory Redemption Date divided by the number of full Fiscal Years during the period beginning with the first Fiscal Year in which interest on the Series 2014A-1 Bonds is paid and ending with the Fiscal Year in which any Series 2014A-1 Bond last becomes due at maturity or on a mandatory Redemption Date and (b) an amount equal to the sum of the interest on the Series 2014A-2 Bonds then Outstanding to be paid during each Fiscal Year for the period beginning with the Fiscal Year in which the Series 2014A-2 Bonds are issued and ending with the Fiscal Year in which any Series 2014A-2 Bond last becomes due at maturity or on a mandatory Redemption Date divided by the number of full Fiscal Years during the period beginning with the first Fiscal Year in which interest on the Series 2014A-2 Bonds is paid and ending with the Fiscal Year in which any Series 2014A-2 Bond last becomes due at maturity or on a mandatory Redemption Date.

“Series 2014A-1 Acquisition Fund” means the special account designated as the “City of Colorado Springs, Colorado, Utilities System Improvement Revenue Bonds, Series 2014A-1 Acquisition Fund” created pursuant to the Bond Ordinance.

“Series 2014A-2 Acquisition Fund” means the special account designated as the “City of Colorado Springs, Colorado, Utilities System Improvement Revenue Bonds, Series 2014A-2 Acquisition Fund” created pursuant to the Bond Ordinance.

“Special Facility” includes any construction or acquisition project undertaken by or on behalf of the City, or in which the City has an interest, for the generation or transmission of electricity, the supply, treatment or transmission of water, the treatment of sanitary waste, or the production or transmission of gas, which Special Facility is constructed or acquired in whole or in part by the City and is financed in whole or part by Special Facility Obligations.

“Special Facility Obligations” means bonds or other obligations issued by the City and payable solely or in part from, and secured by a pledge of, income, charges or revenue from or relating to designated Special Facilities, including without limitation income, charges and revenues from special rates and charges upon customers of the System to finance any Special Facilities.

“Subordinate Credit Facility Obligations” means any Credit Facility Obligations payable from Net Pledged Revenues subordinate and junior to the lien thereon of the Bonds.

“Subordinate Securities” means securities payable from the Net Pledged Revenues subordinate and junior to the lien thereon of the Bonds but does not include any Credit Facility Obligations relating to any such securities.

“Supplemental Public Securities Act Certificate” means the certificate of the City described in the Bond Ordinance.

“Surety Agreement” means any agreement hereafter entered into by the City and a Surety Provider with respect to a Reserve Fund Insurance Policy for the Bonds.

“Surety Provider” means any entity issuing a Reserve Fund Insurance Policy with respect to the Bonds, provided that such entity has a rating in one of the two highest rating categories assigned by each of Standard & Poor’s Rating Services, a Standard & Poor’s Financial Services LLC business, Moody’s Investors Service and Fitch, Inc. at the time such policy, bond or letter of credit is deposited in or credited to the Reserve Fund.

“Tax Compliance Certificate” means the Tax Compliance Certificate executed by the City in connection with the initial issuance and delivery of Bonds as it may from time to time be modified pursuant to its terms.

“Tender Bonds” means any securities payable from Net Pledged Revenues which by their terms may be required to be tendered for purchase or which may be tendered by and at the option of the Owner thereof for purchase, prior to the stated maturity thereof.

“Variable Rate Bonds” means any securities payable from Net Pledged Revenues issued with a variable, adjustable, convertible or other similar interest rate which is not fixed in percentage for the entire term at the date of issue.

Equality of Lien

The Bonds and any Parity Bonds previously, concurrently or subsequently issued and outstanding, including any Parity Credit Facility Obligations relating thereto and any Parity Financial Products Agreements heretofore or hereafter entered into, are equitably and ratably secured by a lien on the Net Pledged Revenues. The Bonds and any Parity Bonds previously, concurrently or subsequently issued will be ratably secured by a lien of the Net Pledged Revenues and will not be entitled to any priority to such Net Pledged Revenues one over the other regardless of the times of their issuance or maturity. See “DESCRIPTION OF THE BONDS—Security for the Bonds.”

The Bond Ordinance provides that the System does not and will not include the interest of the City in any Special Facility. One or more interests may be designated as Special Facilities. The power, water or gas produced by, or the treatment or transmission capability of a Special Facility either may be distributed by the City in its System or may be sold by the City to other utilities. Under the Bond Ordinance, the City reserves the right to impose special rates and charges upon customers of the System, in addition to the general rates and charges, to finance any Special Facility. If the City uses these provisions of the Bond Ordinance to acquire or construct any Special Facility while any of the Bonds or parity securities are outstanding, the revenues derived by the City from the operation of any Special Facility (including revenues which might be received from the imposition of any such special rates and charges upon customers of the System) will not be included in the Gross Pledged Revenues of the System and will not be available to make payments due on the Bonds or parity securities.

Any interest in facilities such as those which might constitute Special Facilities, which interest is owned by any entity in which the City participates, including without limitation, an entity having the attributes of a municipal corporation or political subdivision (such as a water or power authority), or which may issue federally tax-exempt obligations, may not be designated a Special Facility and also will not be a part of the System (except that payments made by the City to such an entity may constitute operation and maintenance costs of the System payable out of Gross Pledged Revenues).

Additional Securities Prior to Effective Date

The City may issue securities which have a lien on the Net Pledged Revenues which is subordinate to the lien of the Bonds at any time.

Additional securities having a lien against the Net Pledged Revenues on a parity with the lien of the Bonds may be issued under the terms and conditions described in the following paragraphs.

Additional Bonds for General Capital Improvements – Additional parity securities to finance capital improvements to the System may be issued only if the following conditions are satisfied:

(a) There is no default in making any payments described under “Flow of Funds” below;
and

(b) The Net Pledged Revenues derived in the fiscal year immediately preceding the date of the issuance of the Parity Bonds must have been not less than 130% of the Average Annual Principal and Interest Requirements of (i) the Outstanding Bonds, (ii) any Outstanding Parity Bonds, and (iii) the Parity Bonds proposed to be issued.

Additional Bonds for Major Capital Additions – In addition to meeting the requirements of (a) and (b) above, prior to the issuance of additional Parity Bonds to finance a Capital Addition, the City also must obtain:

(c) An Engineering Report for the Capital Addition to be financed which, (A) contains (i) detailed estimates of the cost of acquiring and constructing the Capital Addition, (ii) the estimated date the acquisition and construction of the Capital Addition will be completed and commercially operative, and (iii) a detailed analysis of the impact of the Capital Addition on the financial operations of the System during the construction and at least three fiscal years after the date the Capital Addition is estimated to become commercially operative, and (B) concludes that (i) the Capital Addition is necessary and will substantially increase the capacity, or is needed to replace existing facilities, or constitutes new transmission facilities to meet current and projected demands for the service or product to be provided, and (ii) the estimated cost of providing the service or product from the Capital Addition will be reasonable in comparison with projected costs for furnishing such service or product from other reasonably available sources; and

(d) A certificate of an Independent Engineer to the effect that, based on the Engineering Report prepared for the Capital Addition, the projected Net Pledged Revenues for each of the three fiscal years subsequent to the date the Capital Addition is estimated to become commercially operative (as estimated in the Engineering Report) will be not less than 130% of the Average Annual Principal and Interest Requirements of the Outstanding Bonds, Parity Bonds and the Parity Bonds proposed to be issued, and all Parity Bonds estimated to be issued, if any, during the period from the date the first series of Parity Bonds for the Capital Addition is to be delivered through the third fiscal year subsequent to the date the Capital Addition is estimated to become commercially operative, for all capital improvements and for all Capital Additions then in progress or then being initiated.

Completion Bonds for Capital Additions – The tests for issuance of additional Parity Bonds described above, other than the test referred to in (a) under “Additional Bonds for General Capital Improvements,” will

not apply in a situation involving issuance of parity completion bonds for a Capital Addition. Once a Capital Addition has been initiated by meeting the additional bonds tests described in the preceding paragraphs, and the initial Parity Bonds for the Capital Addition delivered, the City will be permitted to issue additional Parity Bonds to finance the costs of such Capital Addition in such amounts as may be necessary to complete its acquisition and construction and to make the Capital Addition commercially operative without satisfaction of any of the additional bonds tests described in the preceding paragraphs, but subject instead to satisfaction of the following conditions precedent:

(e) The City must make a forecast (the "Forecast") of the operations of the System demonstrating the System's ability to pay all obligations payable from the Net Pledged Revenues to be Outstanding after the issuance of the additional Parity Bonds then being issued for the period (the "Forecast Period") of each ensuing fiscal year through the third fiscal year subsequent to the latest estimated date the Capital Addition then being financed is expected to be commercially operative; and

(f) An Independent Engineer must review the Forecast and execute a certificate to the effect that (i) the Forecast is reasonable, (ii) the Capital Addition is necessary and will substantially increase the capacity, or is needed to replace existing facilities, or constitutes new transmission facilities to meet current and projected demands for the service or product to be provided, (iii) the estimated cost of providing the service or product from the Capital Addition will be reasonable in comparison with projected costs for furnishing the service or product from other reasonably available sources, and (iv) based on the Forecast (and such other factors deemed to be relevant), the Net Pledged Revenues will be adequate to pay all the obligations payable from the Net Pledged Revenues to be Outstanding after the issuance of the additional Parity Bonds then being issued for the Forecast Period.

In any computation of the earnings test for issuance of any additional Parity Bonds, the amount of Gross Pledged Revenues for the applicable period will be decreased (subject to certain exceptions) and may be increased by any gain or loss conservatively estimated by an Independent Accountant, Independent Engineer or the City, as the case may be, which results from any change in any schedule of fees, rates, and other charges constituting Gross Pledged Revenues made not less than 60 days prior to the last day of the period for which Gross Pledged Revenues are determined prior to the computation. In addition, consideration will be given to any probable net increase in the operation and maintenance expenses of the System, as estimated by the Director, that will result from the expenditure of the funds proposed to be derived from the issuance of the additional securities.

Additional Securities for Partial Refundings – The Bond Ordinance also includes restrictions that would apply to any partial refunding of outstanding securities in which the refunding securities would be on a parity with the unrefunded Bonds. Such a partial refunding may be done only if one or more of the following conditions are satisfied:

(a) The City receives the consent of the Owners of the unrefunded portion of the Bonds;
or

(b) The Combined Maximum Annual Principal and Interest Requirements for the Bonds and Parity Bonds Outstanding immediately after the refunding (calculated as specified and with the assumptions described in the Bond Ordinance) will not increase as a result of the refunding; or

(c) The refunding securities are issued in compliance with the requirements for additional securities generally (i.e., there is no default in making required payments and the 130% test is satisfied), as described above; or

(d) In the case of a partial refunding before commercial operation of a Capital Addition that refunds securities issued to finance that Capital Addition, if the refunding securities are issued in

compliance with the additional securities requirements applicable to parity completion bonds or securities, as described above.

Additional Securities On and After the Effective Date

The City may issue securities which have a lien on the Net Pledged Revenues which is subordinate to the lien of the Bonds at any time.

Additional securities having a lien against the Net Pledged Revenues on a parity with the lien of the Bonds may be issued only if the following conditions are satisfied:

(a) There is no default in making any payments described under “Flow of Funds” below;
and

(b) If the additional Parity Bonds are to be issued to finance capital improvements, the Net Pledged Revenues derived in the fiscal year immediately preceding the date of the issuance of the Parity Bonds must have been not less than 130% of the Average Annual Principal and Interest Requirements of (i) the Outstanding Bonds, (ii) any Outstanding Parity Bonds, and (iii) the Parity Bonds proposed to be issued.

In any computation of the earnings test for issuance of any additional Parity Bonds, the amount of Gross Pledged Revenues for the applicable period will be decreased (subject to certain exceptions) and may be increased by any gain or loss conservatively estimated by the City which results from any change in any schedule of fees, rates, and other charges constituting Gross Pledged Revenues made not less than 60 days prior to the last day of the period for which Gross Pledged Revenues are determined prior to the computation. In addition, consideration will be given to any probable net increase in the operation and maintenance expenses of the System, as estimated by the Director, that will result from the expenditure of the funds proposed to be derived from the issuance of the additional securities.

Additional Securities for Partial Refundings – The Bond Ordinance also includes restrictions that would apply to any partial refunding of outstanding securities in which the refunding securities would be on a parity with the unrefunded Bonds. Such a partial refunding may be done only if one or more of the following conditions are satisfied:

(a) The City receives the consent of the Owners of the unrefunded portion of the Bonds;
or

(b) The Combined Maximum Annual Principal and Interest Requirements for the Bonds and Parity Bonds Outstanding immediately after the refunding (calculated as specified and with the assumptions described in the Bond Ordinance) will not increase as a result of the refunding; or

(c) The refunding securities are issued in compliance with the requirements for additional securities generally (i.e., there is no default in making required payments and the 130% test is satisfied), as described above

Flow of Funds

The Gross Pledged Revenues will be deposited in an Income Fund, payments from which will be made in the following order of priority:

- (a) Operation and maintenance expenses of the System will be paid.
- (b) Monthly accumulation will be made in the Bond Fund, in equal monthly installments, of current principal (including principal which becomes payable under redemption provisions)

and interest payments due on or in connection with the Bonds and with respect to accumulation for principal and mandatory redemption, such accumulation need not commence until one year prior to the date on which such principal or mandatory redemption payment is due. Such credits will be made concurrently with similar payments to be made with respect to Parity Bonds under the applicable Parity Bond ordinances.

(c) Concurrently with the monthly payments into the Bond Fund required above, and concurrently with similar payments to be made with respect to Parity Bonds under the applicable Parity Bond ordinances, and concurrently with any repayment or similar obligations payable to the issuer of any Reserve Fund Insurance Policy with respect to any Parity Bonds, from any moneys remaining in the Income Fund there will be credited to the Reserve Fund, monthly, commencing on the first day of the month next succeeding each date on which the moneys accounted for in the Reserve Fund for any reason are less than the Reserve Fund Requirement (see “Reserve Fund” below), such amounts in substantially equal monthly payments on the first day of each month to reaccumulate the Reserve Fund Requirement by not more than 12 such monthly payments. If a Reserve Fund Insurance Policy is on deposit in the Reserve Fund to fund all or a part of the Reserve Fund Requirement, the amounts payable into the Reserve Fund pursuant to the immediately preceding sentence will be paid by the City first to the Surety Provider to reimburse it (in accordance with the provisions of the Surety Agreement) for amounts disbursed by it until the Reserve Fund Insurance Policy is reinstated in full, and second to replenish cash in the Reserve Fund. If there are insufficient Net Pledged Revenues to comply with the requirements of the first sentence in this subparagraph, available Net Pledged Revenues are to be credited or paid to the Reserve Fund, to reserve funds established by any Parity Bond Ordinances and to any entity issuing any Reserve Fund Insurance Policy with respect to the Bonds or any Parity Bonds pro rata, based upon the aggregate principal amount of the Bonds and any such Parity Bonds then Outstanding; provided, however, that compliance with the provisions of this sentence will not cure any event of default caused by non-compliance with the first sentence in this subparagraph.

(d) Subsequent to the payments summarized in (a) through (c) above, there will be deposited into the Rebate Fund moneys in the amounts and at the times specified in the Tax Compliance Certificate. Amounts on deposit in the Rebate Fund will not be subject to the lien and pledge of the Bond Ordinance to the extent that such amounts are required to be paid to the United States Treasury. The City will cause amounts on deposit in the Rebate Fund to be forwarded to the United States Treasury (at the address provided in the Tax Compliance Certificate) at the times and in the amounts set forth in the Tax Compliance Certificate.

If the moneys on deposit in the Rebate Fund are insufficient for the purposes thereof, the City will transfer moneys in the amount of the insufficiency to the Rebate Fund, to the extent permitted by the Bond Ordinance, from the Series 2014A-1 Acquisition Fund, the Series 2014A-2 Acquisition Fund, the Reserve Fund and the Bond Fund. Upon receipt by the City of an opinion of nationally recognized bond counsel acceptable to the City to the effect that the amount in the Rebate Fund is in excess of the amount required to be contained therein, such excess will be transferred to the Income Fund.

(e) Subsequent to the payments summarized in (a) through (d) above, there will be paid to any Surety Provider interest on amounts advanced under a Reserve Fund Insurance Policy pursuant to such Surety Agreement.

(f) Subsequent to the payments summarized in (a) through (e) above, there may be paid interest on, principal of, reasonable reserves for, and rebate payments to the United States Treasury for additional bonds or obligations previously or subsequently issued subordinate to the lien and pledge of the Bonds.

(g) The balance remaining in the Income Fund may be used first for any necessary purposes relating to the System, and then for any lawful purposes as determined by the City Council.

Rate Covenant

The Bond Ordinance provides that there will be charged to users of service pertaining to, and users of, the System, including the City (except as otherwise provided in the Bond Ordinance), such fees, rates and other charges so that the Gross Pledged Revenues will be adequate to pay in each fiscal year (i) the operation and maintenance expenses, (ii) an amount equal to 130% of both the principal of and the interest on (but excluding any reserves) the Bonds and any other Parity Bonds payable from the Net Pledged Revenues during that fiscal year, and (iii) any amounts required to pay amounts, if any, owed to the Surety Provider pursuant to the Surety Agreement and to meet then-existing deficiencies pertaining to any fund or account relating to the Gross Pledged Revenues or any securities payable from the Gross Pledged Revenues, and to satisfy its obligations under any Financial Products Agreements (other than Financial Products Payments and other than any termination, settlement or similar payments required to be paid upon an early termination of the Financial Products Agreement or as a result of any event of default thereunder). The Bond Ordinance specifies that the fees, rates and other charges to be paid by users of the System are to be reasonable. If any parity Variable Rate Bonds, parity Balloon Bonds, Commercial Paper Notes or Parity Credit Facility Obligations are Outstanding, the Bond Ordinance specifies that for purposes of the rate covenant, the amount of principal and interest or similar payments with respect to such parity Variable Rate Bonds, parity Balloon Bonds, Commercial Paper Notes, or Parity Credit Facility Obligations due in such fiscal year will be deemed to be the amount specified in the ordinance pursuant to which such parity Variable Rate Bonds or parity Balloon Bonds, Commercial Paper Notes or Parity Credit Facility Obligations are authorized, and for the purposes of the rate covenant, parity Tender Bonds will be assumed to mature on the stated maturity or mandatory Redemption Date or Dates thereof and Commercial Paper Notes will be assumed to mature 25 years after the earlier of (i) the expiration date of the program established for them as set forth in the ordinance of the City authorizing the issuance of the Commercial Paper Notes or (ii) 5 years from the initial date of issuance of any Commercial Paper Notes under such program.

For the purpose of subsection (ii) of the preceding paragraph, if a Parity Financial Products Agreement has been entered into by the City with respect to the Bonds or any Parity Bonds, interest on the Bonds or such Parity Bonds will be included in the calculation of such interest by including for that fiscal year an amount equal to the amount of interest payable on the Bonds or such Parity Bonds in that fiscal year determined as hereinabove provided plus any Financial Products Payments payable in that fiscal year minus any Financial Products Receipts receivable in that fiscal year; provided that in no event will any calculation made pursuant to this sentence result in a number less than zero being included in the calculation of such interest.

In determining the amount of any Financial Products Payments or Financial Products Receipts on any interest rate swaps or other similar Financial Products Agreement which Payments or Receipts are based on interest rates which are not fixed in percentage for such Fiscal Year, such amount will be calculated by assuming such variable interest rate is a fixed interest rate equal to (i) if the Parity Financial Products Agreement relates to Variable Rate Bonds, the fixed rate of interest estimated for such Variable Rate Bonds as provided above or (ii) if the Parity Financial Products Agreement relates to the Bonds or Parity Bonds which bear interest at a fixed interest rate, the average daily interest rate for such Payments or Receipts under such Financial Products Agreement during the immediately preceding fiscal year or during the time the Financial Products Agreement has been in effect if less than all of such immediately preceding fiscal year.

In determining the amount payable under any Financial Products Payments or Financial Products Receipts on any interest rate cap, floor, collar or other similar Financial Products Agreement with respect to Parity Bonds which are Variable Rate Bonds, such amount will be calculated by assuming the interest rate on the related Parity Bonds is the rate determined as provided in the first paragraph of this section. In determining the amount of any Financial Products Payments or Financial Products Receipts on any interest rate cap, floor, collar or other similar Financial Products Agreement with respect to Parity Bonds bearing interest at a fixed rate, such amount will be the amount payable or receivable annually determined as of the date of issuance of the Parity Bonds.

Reserve Fund

Proceeds of the Bonds will be used to fund the Reserve Fund. No payment need be made into the Reserve Fund at any time so long as the moneys and/or Reserve Fund Insurance Policy deposited in the Reserve Fund equal not less than the Reserve Fund Requirement. If moneys on deposit in the Reserve Fund exceed the Reserve Fund Requirement, the excess cash is to be transferred to the Rebate Fund or the Bond Fund as directed by the City.

Commencing the first month following the date on which the moneys and/or Reserve Fund Insurance Policy in the Reserve Fund for any reason are less than the Reserve Fund Requirement, the City is required to accumulate monthly, over a period of not more than 12 months, amounts necessary to reaccumulate the Reserve Fund Requirement, as described under "Flow of Funds" above.

The City may at any time substitute (i) cash or Investment Securities for a Reserve Fund Insurance Policy or (ii) a Reserve Fund Insurance Policy for cash or Investment Securities, so long as the amount on deposit in the Reserve Fund after such substitution is at least equal to the Reserve Fund Requirement. Any Reserve Fund Insurance Policy deposited to the credit of the Reserve Fund will be valued at the amount available to be drawn or otherwise paid

If both cash and a Reserve Fund Insurance Policy are on deposit in the Reserve Fund, the City is required to use all cash before drawing on the Reserve Fund Insurance Policy.

Investment of Funds

Moneys deposited in the accounts designated in the Bond Ordinance and not needed for immediate use are to be invested or reinvested by the Finance Director in Investment Securities. The Bond Ordinance provides that Investment Securities credited to the Reserve Fund will not mature later than the last maturity date of the Bonds.

Disposal of System Prohibited

Prior to the Effective Date. Except for the use of the System and services pertaining to the System in the normal course of business, neither all nor a substantial part of the System may be sold, leased, mortgaged, pledged, encumbered, alienated or otherwise disposed of, until all the Bonds have been paid in full, or unless provision for payment has been made. The City may not dispose of its title to the System or to any useful part of the System, including any property necessary to the operation and use of the System and the lands and interest in lands comprising the sites of the System, except that the City may sell, exchange, lease or otherwise dispose of any property constituting a part of the System which is not useful in construction, reconstruction, or operation of the System; which ceases to be necessary for the efficient operation of the System; or which is replaced by other property of at least equal value.

Any proceeds of any such sale, exchange or other disposition received and not used to replace such property so sold or so exchanged or otherwise so disposed of, will be deposited by the City in the Income Fund or into a special book account for the betterment, enlargement, extension, other improvement and equipment of the System, or any combination thereof, as the Council may determine, and any proceeds of any such lease received will be deposited by the City as Gross Pledged Revenues in the Income Fund.

On and After the Effective Date. Except for the use of the System and services pertaining thereto in the normal course of business, neither all nor substantially all of the System will be sold, leased, mortgaged, pledged, encumbered, alienated or otherwise disposed of, so long as any Bonds are Outstanding.

Except as otherwise provided by the Charter and in the Bond Ordinance, the City may sell, exchange or otherwise dispose of property, facilities and assets of the System at any time and from time to time and may

lease, contract or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights to the properties, facilities and assets of the System. Any proceeds of any such sale, exchange or other disposition received and not used to replace such property so sold or so exchanged or otherwise so disposed of, will be deposited by the City in the Income Fund or into a special book account for the betterment, enlargement, extension, other improvement and equipment of the System, or any combination thereof, as the Council may determine, and any proceeds of any such lease received will be deposited by the City as Gross Pledged Revenues in the Income Fund.

Insurance and Reconstruction

Except to the extent of any self-insurance, the City at all times will be required to maintain with responsible insurers fire and extended coverage insurance, workers compensation insurance, public liability insurance, and all other insurance customarily maintained with respect to utilities of like character against loss of or damage to the System and against loss of revenues and against public and other liability to the extent reasonably necessary to protect the interests of the City and of each Owner of the Bonds. See “COLORADO SPRINGS UTILITIES—Insurance.” If any useful part of the System is damaged or destroyed, the City will, as expeditiously as possible, commence the repair or replacement of the damaged property. If the costs of repair and replacement of the damaged property exceed the proceeds of any insurance, surplus moneys in the Income Fund will be used to the extent necessary, as permitted by the Bond Ordinance.

Events of Default and Remedies

Each of the following events is an “event of default” under the Bond Ordinance:

- (a) Payment of the principal of any of the Bonds is not made when the same becomes due and payable;
- (b) Payment of any installment of interest on any of the Bonds is not made when due and payable or within 30 days thereafter;
- (c) The occurrence and continuance of any “event of default” as defined in any bond ordinance governing Parity Bonds;
- (d) The City unreasonably delays or fails to carry out with reasonable dispatch the reconstruction of any part of the System which is destroyed or damaged and is not promptly repaired or replaced (unless such reconstruction is not essential to the efficient operation of the System);
- (e) An order or decree is entered by a court of competent jurisdiction with the consent or acquiescence of the City appointing a receiver or receivers for the System or for the Gross Pledged Revenues and any other moneys subject to the lien securing the Bonds then Outstanding, or such an order or decree is entered without the consent or acquiescence of the City and is not vacated, discharged, or stayed on appeal within 60 days after entry; or
- (f) The City defaults in the due and punctual performance of any representations, covenants, conditions, agreements, and other provisions contained in the Bonds or the Bond Ordinance (other than compliance with its continuing disclosure undertaking described under “DESCRIPTION OF THE BONDS—Continuing Disclosure Undertaking”), and such default continues for 60 days after written notice specifying such default and requiring the same to be remedied is given to the City by the Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding.

Upon the happening and continuance of any of the events of default, the Owners of not less than 25% of the aggregate principal amount of the Bonds then Outstanding, including, without limitation, a trustee or trustees therefor, may proceed against the City to protect and enforce the rights of any Owner of Bonds under

the Bond Ordinance by mandamus or other suit, action, or special proceedings in equity or at law, in any court of competent jurisdiction. All such proceedings will be instituted, had, and maintained for the equal benefit of all Owners of the Bonds and any other Parity Bonds and Parity Credit Facility Obligation relating thereto and the Providers of any Parity Financial Products Agreements.

The Bond Ordinance does not authorize a declaration that all principal and unpaid accrued interest on the Bonds are to become immediately due and payable upon occurrence or continuation of an event of default.

The ability of the Owners of Bonds to enforce their remedies may be limited by bankruptcy, insolvency, reorganization, moratorium, or other laws affecting the enforcement of creditors' rights generally or affecting the enforcement of creditors' rights against entities such as the City. In addition, the availability of equitable remedies or equitable defenses is subject to the discretion of the court before which any proceedings may be brought.

Defeasance

When all Bond Requirements of the Bonds have been duly paid, the pledge and lien and all obligations under the Bond Ordinance will be discharged and the Bonds no longer will be deemed to be Outstanding. A Bond will be deemed to be duly paid when the City has placed in escrow or in trust an amount sufficient (including the known minimum yield available for such purpose from Federal Securities) to meet all Bond Requirements of such Bond, as the same become due to the final maturity of such Bond or upon any Redemption Date.

Amendment

Prior to the Effective Date, the Bond Ordinance may be amended in certain circumstances without consent of the Owners and in certain other circumstances with the written consent of the Owners of not less than 66% of the aggregate principal amount of the Bonds then Outstanding, but no such amendment, without the unanimous consent of the Owners of the Bonds (or, with respect to clauses (ii), the consent of the Owner of the affected Bond), may (i) change the maturity, redemption, or payment of interest of the Bonds, (ii) reduce the principal amount of, or the interest payable on any Bond, (iii) create a lien or pledge of revenues superior to the lien or pledge created by the Bond Ordinance, (iv) otherwise affect the description of the Bonds or reduce the principal amount of the Bonds required to consent to any amendment, or (v) establish priorities as between the Bonds.

On and after the Effective Date, the Bond Ordinance may be amended in certain circumstances without the consent of the Owners and in certain other circumstances with the consent of the Owners of not less than a majority of aggregate principal amount of the Parity Bonds outstanding, but no such amendment may (i) change the maturity, redemption, or payment of interest on any Outstanding Parity Bond without the consent of the Owner of such Parity Bond, (ii) reduce the principal amount of, or the interest payable on any Parity Bond without the consent of the Owner of such Parity Bond, (iii) create a lien or pledge of revenues superior to the lien or pledge created by the Bond Ordinance, (iv) otherwise affect the description of the Parity Bonds or reduce the principal amount of the Parity Bonds required to consent to any amendment, or (v) establish priorities as between the Parity Bonds Outstanding.

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate is executed and delivered by the City of Colorado Springs, Colorado (the “City”) in connection with the issuance of \$_____ aggregate principal amount of the Utilities System Improvement Revenue Bonds, Series 2014A-1 and \$_____ aggregate principal amount of the Utilities System Improvement Revenue Bonds, Series 2014A-2 (collectively, the “Bonds”) being issued pursuant to an ordinance (the “Ordinance”) adopted by the City Council of the City on _____, 2014. The City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter (as defined in Section 2 hereof) in complying with Rule 15c2-12(b)(5), as amended, of the Securities and Exchange Commission.

Section 2. Definitions. In addition to the definitions set forth in the Ordinance, or parenthetically defined herein, which apply to any capitalized terms used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms will have the following meanings:

“Annual Financial Information” means the financial information or operating data with respect to the City and the Utilities of the type contained in the Official Statement in the following portions: under (i) “COLORADO SPRINGS UTILITIES” the sections entitled “Nature of the Utilities,” “Summary of Operations,” “Outstanding Utilities Revenue Bonds and Other Obligations,” “Interest Rate Swap Agreements—Summary of Current Swap Agreements” and “Debt Service Coverage”; (ii) “THE ELECTRIC SYSTEM,” the sections entitled “Electric Rates,” “Electric System Sales and Revenues” and “System Capability”; (iii) “THE WATER SYSTEM,” the sections entitled “Water Rates and Development Charges,” “Water Sales and Revenues” and “Water Supply and Raw Water Delivery”; (iv) “THE WASTEWATER SYSTEM,” the sections entitled “Wastewater Rates” and “Wastewater Revenues”; and (v) “THE GAS SYSTEM,” the sections entitled “Gas Rates,” “Gas Sales and Revenues” and “Gas Price Hedge Program.”

“Audited Financial Statements” means the City’s annual financial statements, prepared in accordance with Sections 827 and 828 of the Ordinance.

“Dissemination Agent” means, initially, the City, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

“Listed Events” means any of the events listed in Section 4 of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board. As of the date hereof, the MSRB’s required method of filing is electronically via its Electronic Municipal Market Access (EMMA) system available on the Internet at <http://emma.msrb.org>.

“Official Statement” means the Final Official Statement dated [_____], 2014 relating to the Bonds.

“Participating Underwriter” means the original underwriters of the Bonds required to comply with the Rule in connection with an offering of the Bonds.

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Financial Information and Audited Financial Statements.

(a) Commencing with respect to the fiscal year ended December 31, 2014 and annually thereafter, the City will, or will cause the Dissemination Agent to, provide the Annual Financial Information and the Audited Financial Statements to the MSRB. Such Annual Financial Information will be provided to the MSRB on or before May 1 of each year or, in the event of a change in the fiscal year of the City, on or before 120 days after the end of the fiscal year, and such Audited Financial Statements will be provided to the MSRB annually reasonably promptly after receipt by the City. Not later than five (5) business days prior to said dates, the City will provide the Annual Financial Information or Audited Financial Statements, as the case may be, to the Dissemination Agent (if other than the City).

(b) The City may provide Annual Financial Information and Audited Financial Statements by specific reference to documents which are available to the public on the MSRB’s Internet Web Site or filed with the Securities and Exchange Commission.

(c) If the City is unable to provide to the MSRB the Annual Financial Information and Audited Financial Statements by the dates required in subsection (a) of this Section, the City will send a notice to the MSRB, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent will:

(1) determine each year, prior to the dates for providing the Annual Financial Information and Audited Financial Statements, the electronic format prescribed by the MSRB;

(2) if the Dissemination Agent is other than the City, send written notice to the City at least 45 days prior to the dates the Annual Financial Information or the Audited Financial Statements, as the case may be, are due stating that the Annual Financial Information or the Audited Financial Statements, as the case may be, are due as provided in Section 3(a) hereof; and

(3) if the Dissemination Agent is other than the City, file a report with the City certifying the Annual Financial Information and Audited Financial Statements have been provided pursuant to this Disclosure Certificate, stating the dates they were provided and listing all the entities to which they were provided.

Section 4. Reporting of Significant Events. The City will provide or cause to be provided notice of any of the following events with respect to the Bonds in a timely manner to the MSRB not in excess of ten business days after the occurrence of the event:

- (a) Principal and interest payment delinquencies;
- (b) Non-payment related defaults, if material;
- (c) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) Substitution of credit or liquidity providers, or their failure to perform;

(f) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701- TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

(g) Modifications to rights of Bondholders, if material;

(h) Bond calls (other than mandatory sinking fund redemptions), if material, and tender offers;

(i) Defeasances;

(j) Release, substitution or sale of property securing repayment of the Bonds, if material;

(k) Rating changes;

(l) Bankruptcy, insolvency, receivership or similar event of the City;*

(m) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; or

(n) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

Section 5. Electronic Format and Identifying Information. All documents provided to the MSRB pursuant to this Disclosure Certificate shall be in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

Section 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate will terminate upon the earliest of: (i) the date of legal defeasance, prior redemption or payment in full of all of the Bonds; (ii) the date that the City will no longer constitute an "obligated person" within the meaning of the Rule; or (iii) the date on which those portions of the Rule which require this written undertaking are held to be invalid by a court of competent jurisdiction in a non-appealable action, have been repealed retroactively or otherwise do not apply to the Bonds.

Section 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist the City in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure

* For purposes of the event identified in Section 4(l), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

Certificate may be waived, without the consent of the holders of the Bonds, if such amendment or waiver does not, in and of itself, cause the undertakings herein (or action of any Participating Underwriter in reliance on the undertakings herein), in the opinion of the Utilities' bond counsel, to violate the Rule, but taking into account any subsequent change in or official interpretation of the Rule. The City will provide notice of such amendment or waiver to the MSRB.

Section 9. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate will not be deemed an event of default under the Ordinance, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate will be an action to compel performance.

Section 10. Beneficiaries. This Disclosure Certificate will inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and the holders and beneficial owners from time to time of the Bonds, and will create no rights in any other person or entity.

Dated as of _____, 2014.

CITY OF COLORADO SPRINGS, COLORADO

By _____
Chief Planning and Finance Officer,
Colorado Springs Utilities

EXHIBIT A

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE
ANNUAL FINANCIAL INFORMATION OR AUDITED FINANCIAL STATEMENTS**

Name of Issuer: City of Colorado Springs, Colorado

Name of Issue: Utilities System Improvement Revenue Bonds, Series 2014A-1 in the aggregate principal amount of \$_____.

Utilities System Improvement Revenue Bonds, Series 2014A-2 in the aggregate principal amount of \$_____.

Date of Issuance: _____, 2014.

NOTICE IS HEREBY GIVEN that the City has not provided the [Annual Financial Information/Audited Financial Statements] with respect to the above Bonds as required by Section 831 of the ordinance of the City authorizing the issuance of the above Bonds and the Continuing Disclosure Certificate dated _____, 2014 of the City. The City anticipates that the [Annual Financial Information/Audited Financial Statements] will be filed by _____.

Dated: _____, _____

CITY OF COLORADO SPRINGS, COLORADO

By _____
Chief Planning and Finance Officer,
Colorado Springs Utilities

APPENDIX D
FORM OF BOND COUNSEL OPINION

[To be inserted]

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 15.6%, El Paso County increased 20.4% and the State increased 16.9%.

Population						
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	58.7%	309,424	31.1%	2,889,733	30.8%
1990	281,140	30.7	397,014	28.3	3,294,394	14.0
2000	360,890	28.4	516,929	30.2	4,301,261	30.6
2010	417,335	15.6	622,263	20.4	5,029,196	16.9
2011	426,883	2.3	637,302	2.4	5,118,526	1.8
2012	431,710	1.1	646,160	1.4	5,188,683	1.4

Sources: United States Department of Commerce, Bureau of the Census (1970-2010), and Colorado State Demography Office (2011 and 2012 estimates).

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⁽³⁾	United States⁽³⁾
2008	\$22,968,329	212,243,112	\$12,429,284,000
2009	23,193,879	206,422,648	12,073,738,000
2010	24,123,028	210,607,673	12,423,332,000
2011	25,470,641	226,031,916	13,179,561,000
2012	26,374,299	237,461,494	13,729,063,000
2013	-- ⁽⁴⁾	245,556,232	14,081,242,380

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

⁽²⁾ Estimates for 2010-2012 reflect county population estimates available as of March 2013.

⁽³⁾ Estimates for 2010-2012 use state population estimates released in December 2012, while 2013 estimates reflect December 2013 release.

⁽⁴⁾ County figure for 2013 has not been posted.

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

Year⁽¹⁾	El Paso County⁽²⁾	Colorado⁽³⁾	United States⁽³⁾
2008	\$38,414	\$43,406	\$40,873
2009	38,144	41,515	39,357
2010	38,493	41,717	40,163
2011	40,019	44,179	42,298
2012	40,893	45,775	43,735
2013	-- ⁽⁴⁾	46,610	44,543

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

⁽²⁾ Estimates for 2010-2012 reflect county population estimates available as of March 2013.

⁽³⁾ Estimates for 2010-2012 use state population estimates released in December 2012, while 2013 estimates reflect December 2013 release.

⁽⁴⁾ County figure for 2013 has not been posted.

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

Year	El Paso County⁽¹⁾		Colorado⁽¹⁾		United States
	Labor Force	Percent Unemployed	Labor Force	Percent Unemployed	Percent Unemployed
2008	301,785	5.6% ⁽²⁾	2,731,053	4.8% ⁽²⁾	5.8%
2009	301,713	8.7	2,734,568	8.1	9.3
2010	301,801	9.8	2,722,913	9.0	9.6
2011	301,580	9.5	2,725,757	8.5	8.9
2012	301,488	9.2	2,746,210	7.8	8.1
2013	301,092	8.0	2,754,870	6.8	7.4
Month of January					
2013	301,347	9.2%	2,742,740	7.9%	%
2014	296,285	8.1	2,745,967	6.6	

⁽¹⁾ Figures for the County and the State are not seasonally adjusted.

⁽²⁾ Preliminary

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 2012 was health care and social assistance (comprising approximately 13.8% of the county's work force), followed, in order, by retail trade; educational services, accommodation and food services, and professional and technical services. For the 12-month period ended December 31, 2012, total average employment in the County increased 1.0% as compared to the same 12-month period ending December 31, 2011, and average weekly wages increased 2.1% during the same time period.

Average Number of Employees Within Selected Industries – El Paso County

Industry	2008	2009	2010	2011	2012
Accommodation & Food Services	24,956	23,963	23,991	25,169	25,552
Administrative & Waste Services	18,186	17,341	17,604	17,072	17,190
Agriculture, Forestry, Fishing, & Hunting	250	184	175	217	200
Arts, Entertainment & Recreation	4,386	4,058	4,073	4,395	4,599
Construction	15,334	12,966	11,452	11,035	11,415
Educational Services	24,620	25,213	25,604	25,718	25,595
Finance & Insurance	11,784	11,161	10,766	10,815	11,026
Health Care & Social Assistance	29,113	29,374	30,213	31,639	32,706
Information	8,124	7,426	7,487	7,699	7,678
Management of Companies & Enterprises	881	916	897	944	1,068
Manufacturing	15,582	13,361	12,498	12,571	12,824
Mining	133	126	143	156	183
Other Services, Ex. Public Admin	9,566	8,911	8,878	8,770	9,068
Professional & Technical Services	21,892	22,002	21,343	20,934	20,122
Public Administration	11,982	12,058	12,350	12,797	12,993
Real Estate & Rental and Leasing	4,362	4,066	4,006	4,005	3,992
Retail Trade	29,534	28,173	28,470	29,218	29,296
Transportation & Warehousing	5,501	5,107	4,856	4,789	4,814
Unclassified	17	15	9	14	24
Utilities	2,749	2,699	2,632	2,612	2,592
Wholesale Trade	<u>5,954</u>	<u>5,279</u>	<u>4,780</u>	<u>4,700</u>	<u>4,746</u>
Total ⁽¹⁾	<u>244,907</u>	<u>234,398</u>	<u>232,225</u>	<u>235,266</u>	<u>237,682</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 – April 2014
1,000 or more employees**

<i>Employer</i> ⁽¹⁾	<i>Product or Service</i>
Fort Carson	Military installation
Peterson Air Force Base	Military installation
United States Air Force Academy	Air Force base
Schriever Air Force Base	Military installation
Memorial Hospital - University of Colorado Health	Hospital / healthcare service provider
Penrose-St. Francis Health Services	Hospital / healthcare service provider
City of Colorado Springs	City government
Colorado Springs Utilities	Electric, gas, water and wastewater services
Lockheed Martin Corporation	Advanced technology systems integrator
Progressive Insurance Company	Personal and commercial auto insurance; data center
Security Service Federal Credit Union	Financial services
United States Automobile Association	Regional policy service, underwriting, and claims office
Atmel Corporation	Design and manufacture memory and other technologies
Verizon Enterprise Solutions	Software and security systems developer
University of Colorado Colorado Springs	Higher education
Beth-El College of Nursing & Health Sciences	Higher education
Northrop Grumman Corporation	Marketing for government contracts
Pikes Peak Community College	Two-year college

⁽¹⁾ Entities that employ 1,000 or more employees.
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	City of Colorado Springs⁽¹⁾	Percent Change	El Paso County⁽²⁾	Percent Change	Colorado⁽²⁾	Percent Change
2008	\$11,926,870	--	\$13,654,292	--	\$152,809,246	--
2009	11,135,614	(6.6)%	12,584,293	(7.8) %	134,166,797	(12.2) %
2010	11,052,856	(0.74)	13,106,961	5.9	144,847,313	7.2
2011	11,877,404	7.5	13,922,720	4.5	155,054,188	7.7
2012	12,177,690	2.5	14,495,983	1.7	163,551,628	3.1
2013	12,718,332	4.4	-- ⁽³⁾	--	-- ⁽³⁾	

⁽¹⁾ Fiscal year
⁽²⁾ Calendar year
⁽³⁾ Not available

Source: State of Colorado, Department of Revenue, Annual Reports, Sales and Use Tax, 2007-2013.

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
2008	1,223	\$ 261,700,154	762	\$ 94,804,836	319	\$333,205,071
2009	1,105	378,446,473	232	38,800,733	150	252,887,795
2010	1,404	465,349,499	311	48,074,978	110	59,133,507
2011	1,399	496,585,288	821	106,115,419	96	180,264,482
2012	2,216 ⁽⁴⁾	801,352,986	767	108,456,822	151	122,188,512
2013	2,688 ⁽⁵⁾	1,079,909,778	745	104,505,202	173	80,955,507
2014 ⁽⁶⁾	229 ⁽⁷⁾	96,058,622	303	38,492,036	12	21,970,778

⁽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 hotels, motels, amusement/recreation, manufacturing, offices, banks and professional buildings; and stores and other retail buildings.

⁽⁴⁾ Approximately 81 permits issued to replace residences destroyed by Waldo Canyon wildfire.

⁽⁵⁾ Approximately 271 permits issued to replace residences destroyed by Waldo Canyon and Black Forest wildfires.

⁽⁶⁾ As of March 31, 2014.

⁽⁷⁾ Approximately 74 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
2008	4,470	--
2009	5,288	18.3%
2010	4,657	(11.9)
2011	3,461	(25.7)
2012	3,364	(2.8)
2013	1,861	(44.7)
2014 ⁽¹⁾	584	--

⁽¹⁾ As of March 31, 2014

Sources: El Paso County Public Trustee's Office.