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January 15, 2015

**VIA ELECTRONIC MAIL** ([MarkGebhart@elpasoco.com](mailto:MarkGebhart@elpasoco.com))  
**AND VIA OVERNIGHT MAIL**

Mr. Mark Gebhart  
El Paso County  
Development Services Department  
2880 International Circle, Suite 110  
Colorado Springs, Colorado 80910

**RE: Cascade Metropolitan District No. 1  
Service Plan Amendment Letter of Intent**

Dear Mr. Gebhart:

Our firm serves as general counsel to the Cascade Metropolitan District No. 1 (the "District"). Attached please find a First Amendment to the Consolidated Service Plan for the Cascade Metropolitan District Nos. 1 and 2 (as it relates to the Cascade Metropolitan District No. 1 Only) (the "Amendment") for consideration by the El Paso County Board of County Commissioners (the "Commissioners"). A check in the amount of \$500 made payable to El Paso County for the submittal fee and a check in the amount of \$2,000 made payable to El Paso County for the development review fee are being hand-delivered to your attention today by the District's manager, Leon Gomes. Ten original copies of this submittal are being overnighted to your attention for receipt by you tomorrow.

The Consolidated Service Plan for the Cascade Metropolitan District Nos. 1 and 2 (the "Original Service Plan") was originally approved by the Commissioners on September 2, 2004 by adoption of Resolution No. 04-367. Section C(3) of the Original Service Plan provides, *inter alia*, that the District "shall have a maximum authorized indebtedness of \$2,000,000.00". Further, "this debt will only be incurred should grant funds for all desired improvements be unavailable and said debt will not be general obligation debt of District No. 1 and no tax revenue

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from District No. 1 will be pledged to the retirement of this debt”. The Amendment requests an increase in the maximum authorized indebtedness from \$2,000,000 to \$5,000,000.

At the risk of oversimplifying a rather long and complicated history, it is necessary to set forth some background to establish the reason and justification for the District’s request for the Amendment. As the Commissioners may be aware, in 2013, the District’s Board of Directors (the “Board”) discovered that approximately \$800,000 in funds were embezzled from the District’s coffers. Upon discovery of the embezzlement, the Board contacted the County District Attorney’s Office for investigation, which continues these efforts today. A large portion of the funds involved, nearly \$500,000, are funds which were to be used to pay for the District’s treated water, which is provided by the Colorado Springs Utilities (“CSU”). While the District and CSU were already embroiled in litigation over the ownership of the water rights serving the District, this further complicated those negotiations. The Board was required to impose a monthly fee in the amount of \$25 upon its customers in an attempt to begin the repayment process of the outstanding amounts due to CSU.

Over the course of the next several months, the District, CSU, the City of Colorado Springs, RMG, several interested customers of the District (referred to as the “interveners”) and other interested parties already involved in the litigation entered into mediation which resulted in a Settlement Agreement for the litigation. The Settlement Agreement is currently a confidential agreement among the parties mentioned above but is expected to be finalized and executed by the parties by February 28, 2015. Without prematurely waiving confidentiality contained therein, among many things, the Settlement Agreement obligates the District to repay CSU its amounts outstanding by no later than June 1, 2015. Further, it contemplates CSU taking over the operation of the District’s water system if certain improvements can be made to the system to CSU’s satisfaction pursuant to certain terms contained in the Settlement Agreement.

The District’s engineer has provided a preliminary estimate of costs for the public improvements necessary to attain these requirements, which are attached to the Amendment as **Exhibit A**. It is currently estimated that it will cost an additional \$2,385,315 in funds to finance these improvements. It is important to note that it is possible that CSU will determine that additional improvements beyond those identified by the District’s engineer are necessary.

In addition to the new improvements, the District has existing obligations which can be refinanced at lower rates and extended over longer periods of time to lessen the burden on current rate payers. These obligations, which include DOLA loans, the CSU obligations and outstanding obligations to vendors, total \$1,280,645.

The District’s financial advisors, George K. Baum & Company, have prepared a financial plan illustrating the District’s ability to finance the public improvements and the refinanced obligations, which is attached to the Amendment as **Exhibit B**. The financial plan assumes the issuance of a 30 year revenue bond in the par amount of \$4,060,000 with interest rates varying between 4.250% and 5.250%. After payment of the costs of issuance, underwriter’s discount and

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a reserve fund, the project funds would be sufficient to pay for the refinanced obligations and the additional improvements discussed above.

The ultimate question which the Board asks is: What does this mean to our customers on a monthly basis? Currently, a residential rate payer with a ¾” tap pays \$41.09 per month. In asking this question, the Board has analyzed several options. (Please refer to **Attachment A** along with the following options).

**Option A** (Refinance Current Debt Only): Should the District refinance its current debt only, rate payers would realize a savings of \$17.27 per month. However, the continuing issues with the public infrastructure would remain, including the 45-48% water loss rate that the District currently realizes. Further, CSU will not take over the District’s system without any improvements.

**Option B** (Refinance Current Debt, Pay Outstanding Vendors and Make Approximately \$ 780,000 in Improvements): Should the District refinance its current debt and make approximately \$780,000 in improvements to the District’s system, rate payers would realize a savings of \$0 per month and a significant amount of improvements would be able to be made to the District’s system. It is estimated that a significant amount of water loss would be reduced. However, the improvements made would not be sufficient for CSU to consider taking over the District’s system.

**Option C** (Refinance Current Debt, Pay Outstanding Vendors and Make \$2.3 Million in Improvements): Should the District refinance its current debt and make approximately \$2.3 Million in improvements to the District’s system, rate payers would see an increase of approximately \$17.89 per month; however, it is anticipated that the improvements made to the District’s system would be sufficient for CSU to take over operation of the District’s system. Further, these improvements are estimated to reduce the District’s water loss by 30%, which will save the District approximately \$64,500 per year in operational costs, which is an average of \$14.93 per month per customer. Whether the Board passed this savings along to the customers in its monthly bills or developed operational reserves, etc., is unknown at this time. However, the savings remains significant.

Ultimately, in order to meet its obligations under the Settlement Agreement, the District’s Original Service Plan needs to be amended to allow the flexibility to refinance its current debt and to construct much needed improvements to the District’s aging infrastructure. The Amendment proposes an increase in the maximum authorized indebtedness from \$2,000,000 to \$5,000,000 in order to accomplish these goals.

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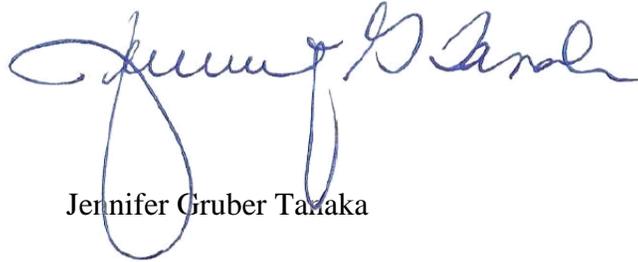
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We hereby respectfully request that the Commissioners set a public hearing for February 26, 2015, to consider approval of the Amendment. Should you or the Commissioners have any questions or desire any additional information, please do not hesitate to contact me.

Sincerely,

WHITE BEAR ANKELE TANAKA & WALDRON  
Attorneys at Law

A handwritten signature in blue ink, appearing to read "Jennifer Gruber Tanaka". The signature is fluid and cursive, with a large loop at the end of the last name.

Jennifer Gruber Tanaka

cc: Board of Directors, Cascade Metropolitan District No. 1  
Mr. Leon Gomes, District Manager

**Cascade Metro District No. 1**  
**Analysis of Fees Per Meter Billed to Cover the Debt**  
**(Using George K. Baum Preliminary Reports)**  
**As of January 14, 2015**

	<b>Option A</b>	<b>Option B</b>	<b>Option C</b>
	<b>Series 2014 - \$1,230,000</b>	<b>Series 2014 - \$1,230,000</b>	<b>Series 2015 - \$4,060,000</b>
	<b>21 year Maturity</b>	<b>25 year Maturity</b>	<b>30 year Maturity</b>
Total debt service over maturity of the bonds (principal and interest)	\$ 2,160,687.08	\$ 4,405,196.32	\$ 7,643,339.00
Total maturity (in years)	21	25	30
Average annual debt service requirement	102,889.86	176,207.85	254,777.97
Total meters being billed	360	360	360
Annual portion of debt service allocated to each meter billed	285.81	489.47	707.72
Total months billed annually	12	12	12
Monthly fee for debt for each meter (residential 3/4")	\$ 23.82	\$ 40.79	\$ 58.98

**Cascade Metropolitan District No. 1**  
**Current Fees Paid (debt only)**  
**As of January 14, 2015**

**Current monthly fees paid for each meter:**

<b>Residential</b>	<b><u>3/4" Single Family</u></b>	<b><u>1" Single Family</u></b>	<b><u>3/4" Multi-Family</u></b>
Pipeline Surcharge (portion for DOLA debt)	12.74	33.62	23.02
Water Provision Fee (CSU debt)	25.00	47.75	25.00
Portion of monthly fee for Turse Bond	3.35	3.35	3.35
<b>Total Fees</b>	<b><u>41.09</u></b>	<b><u>84.72</u></b>	<b><u>51.37</u></b>

<b>Non-Residential</b>	<b><u>3/4" Commercial</u></b>	<b><u>1" Commercial</u></b>	<b><u>3" Commercial</u></b>	<b><u>3/4" Public Authority</u></b>	<b><u>3/4" Public Authority - Holy Cross</u></b>
Pipeline Surcharge (portion for DOLA debt)	31.70	62.34	312.85	3.12	69.25
Water Provision Fee (CSU debt)	25.00	47.75	375.00	25.00	96.18
Portion of monthly fee for Turse Bond	3.35	3.35	3.35	3.35	3.35
<b>Total Fees</b>	<b><u>60.05</u></b>	<b><u>113.44</u></b>	<b><u>691.20</u></b>	<b><u>31.47</u></b>	<b><u>168.78</u></b>