

Cave Creek Citizens for the Future



White Paper (Rev B 6/1/09)

March 31, 2009

Table of Contents

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|--|----|
| Table of Contents..... | 2 |
| The Committee | 3 |
| The Members..... | 3 |
| Disclaimer | 3 |
| Executive Summary | 4 |
| Introduction..... | 6 |
| Town Financial Profile..... | 6 |
| Town Demographic Profile..... | 7 |
| Expense Reduction..... | 9 |
| Revenue Generation and Financial Management | 11 |
| Financial Planning..... | 11 |
| Short Term Recommendations..... | 12 |
| Mid Term Recommendations | 15 |
| Economic Development | 16 |
| Town Commercial Property Profile..... | 16 |
| Town Core | 16 |
| Cave Creek Road/Carefree Highway | 17 |
| Recommendations | 18 |
| Summary of Recommendations | 24 |
| Expense Reduction..... | 24 |
| Revenue Generation and Financial Management..... | 24 |
| Economic Development | 24 |
| Appendices | 26 |
| Appendix 1 - Expense Reductions Already Initiated By Town Manager..... | 27 |
| Appendix 2 - Expense Reduction/Cash Generation Recommendations | 28 |
| Appendix 3 - Subdivision Plat Application and Approval Process | 29 |
| Appendix 4 - Savings Due to Subdivision Process Change..... | 33 |
| Appendix 5 - Cash Flow Forecasts..... | 34 |
| Appendix 6 - Water Rate Change and Prepay Calculations - Cave Creek Water Utility - Residential | 44 |
| Appendix 7 - Water Rate Change and Prepay Calculations - Cave Creek Water Utility - Commercial..... | 45 |
| Appendix 8 - Water Rate Change and Prepay Calculations - Desert Hills Water Utility - Residential | 46 |
| Appendix 9 - Water Rate Change and Prepay Calculations - Desert Hills Water Utility - Commercial..... | 47 |
| Appendix 10 - Water Rate Change and Prepay Calculations - Combined | 48 |
| Appendix 11 - Sewer Rate Change and Prepay Calculations..... | 49 |
| Appendix 12 - Items To Be Considered For Sale/Leaseback..... | 50 |
| Appendix 13 - Items To Be Sold..... | 51 |
| Appendix 14 - Development Sites Map | 52 |

The Committee

On January 7, 2009, Mayor Vince Francia held a meeting with twelve residents of Cave Creek, Arizona. Mayor Francia asked the group of residents for their ideas on how each would approach the current financial condition of the Town. He then asked if the group would be willing to review the current financial condition of the Town, make recommendations that could rectify or ameliorate its short term needs as well as create a new economic model for the development and growth of the Town. The group of citizens agreed and immediately made two decisions:

1. To remain an informal Committee as opposed to a formal Town Committee and;
2. To prepare its recommendations by March 31, 2009 to ensure that the recommendations could be implemented to improve short term financial issues by fiscal year end (June 30, 2009).

This document is the “White Paper” created by the current ten members of the Committee known as the Cave Creek Citizens for the Future and herein contains its work product.

The Members

Kathryn Bosco, Chair
Bruce Biemeck
Ted Bryda
Scott Dahne
Patrick Grady
Mike Kaus
Ralph Mozilo
George Ross
Gabe Royer
Bob Williams
Dan Baxley

Disclaimer

This document has been prepared by the above named group of citizens who have no official mandate. The information presented in this document is based upon information gathered from public documents and interviews with Cave Creek Town Staff. The group makes no representations or warranties regarding the accuracy of any of the original data or information. Any omission of information may impact the analysis or recommendations contained in this report.

Executive Summary

The Committee was tasked with reviewing the current financial condition of the Town to make recommendations that could rectify or ameliorate its short term needs as well as create a new economic model for the development and growth of the Town. The Committee began its work in early January 2009 with the goal of submitting its findings and recommendations by March 31, 2009 to ensure that recommendations to improve short term financial issues could be implemented before the end of the fiscal year June 30, 2009. The Committee created three subcommittees that researched and evaluated three areas simultaneously – expense reduction, revenue generation and financial management as well as economic development.

It is important to understand that at the time of Cave Creek's incorporation (1986), sales tax revenue generated by the saloons, restaurants, galleries and specialty shops in the Town Core provided sufficient revenue to provide basic municipal services once described as "principally road maintenance and police protection". However, during the past 23 years, our population has tripled as well as increasing the need for various municipal services. During the last few years, our sales tax revenues alone have failed to meet the financial requirements of the Town. We have relied on the revenues generated by construction and real estate development taxes and fees to augment sales tax revenues. These taxes and fees have provided us with the ability to invest in infrastructure and to create a 'rainy day fund' while at the same time meeting routine customer service and regulatory obligations. However, the unprecedented national economic collapse and virtual halt of local business development in Cave Creek combined with the increased financial obligations on the Town have virtually emptied the Town coffers. Therefore, a new approach and economic model are necessary for the maintenance and growth of Cave Creek.

The paradigm shift necessary to put the Town on a sound financial basis is constrained by the methods that a municipality has available to generate revenue. These methods are limited to property taxes, sales taxes, utility fees, developmental fees, zoning fees, building permit fees, engineering fees and state revenue sharing. The fact that Cave Creek is a low density community further constrains revenue generation potential due to economy of scale issues. In recent years, the Town's operational budget without the water company and without capital improvements has been about \$7 million. Although all sales tax revenues have averaged about \$4.1 million (60% of Budget), the sales tax contribution by Town Core restaurants, which are largely supported by tourism, have been about \$650,000 or less than 10% of the budget. Town Core retail sales tax revenues contribute another 10%-11%. The balance of the budget has been supported primarily by construction and real estate taxes and development fees. The water utility adds another \$4 million to \$5 million to the budget without any capital improvements such as the Waste Water Treatment Plant. When the Waste Water Treatment Plant costs are added and the national and local economic collapse is factored in, it is easy to understand that at one point, the Town projected a shortage of \$700,000 to meet this

year's financial obligations at fiscal year end, June 30, 2009. The deficit figure has been reduced as the Town continues to slash budgets and improve revenue collections, but it still remains a major concern.

Our analysis revealed that even if most residents shopped locally, and all existing Town Core business structures were occupied with viable businesses, the total restaurant and retail sales tax revenue would likely not exceed 20% of the revenues required by the current and future needs of the Town. The construction related taxes and fees, which significantly augmented the budget in recent years, will return to healthier levels in the future however, we suggest that they should never be considered a stable revenue source due to the of the normal dynamics of the economy.

Clearly, significant change must occur. The Town needs to:

- Continue to reduce expenses.
- Improve the efficiency of its current operations.
- Bring in a senior finance person to manage the Town's finances.
- Make the water utility financially self supporting as quickly as possible.
- Construct the new Waste Water Treatment Plant now with the goal of making it financially self-supporting as quickly as practical.
- Develop a Strategic Plan for the Town Core.
- Research the possibility of bringing in a communications/events business development coordinator.
- Change its approach, processes and posture with regard to larger scale commercial and retail development outside the Town Core.

Twenty-nine recommendations are provided in this document to assist the Town during this difficult economic downturn and to put the changes in place that are necessary for the Town to prosper in the future.

Today, the Town stands at a fiscal crossroad and its choices are simple: increase the sources of sales tax revenue well beyond the development limitation of the Town Core or institute a property tax (or both).

The time to act is now!

Introduction

The community of Cave Creek traces its historic roots to the early 1870s when the Army and a few prospectors explored the area, followed almost immediately by gold miners, ranchers and associated businesses. It remained a small community in Maricopa County with the birth of the Town Core occurring around 1900. Cave Creek has always been a distinctive place and its residents have always been fiercely independent, putting a high value on the importance of the natural environment, low density residential development and preserving open space. For those reasons and others, the Town incorporated in 1986 proudly preserving its independence and grabbing the reins of opportunity and responsibility.

At incorporation, the population was some 1800 residents; by 2000 the population had more than doubled to over 3700 residents; today the population is estimated to be 5000. Not only has the population grown substantially and with it the routine municipal responsibilities, but so have the obligations placed on the Town by various regulatory agencies for water quality, waste water treatment, air quality, land use, construction code enforcement and others. Today, its residents remain independent minded and committed to sustain their unique community, but recent decisions have significantly restrained commercial enterprise and its attendant tax revenue.

At the outset, the sales tax generated by the saloons, restaurants, galleries and specialty shops in the Town Core provided sufficient revenue for basic municipal services described historically as 'road maintenance and police protection'. However, during the last few years, sales tax revenues failed to meet even the minimum requirements of the Town. Fortunately, robust revenues generated by development augmented the sales tax revenue, providing some discretionary investments in the arts, infrastructure and a 'rainy day fund' in addition to meeting routine customer service and regulatory obligations. However, these obligations, combined with limited successful business development and the recent unprecedented national economic recession, have virtually emptied the Town coffers and clearly suggest that a new approach and economic model is necessary.

Town Financial Profile

As a low density residential land use community with an average of one dwelling unit per 2.5 acres, the cost of services per capita is higher than other communities without the same land use luxury.

The primary revenue sources for the Town are:

- Sales Taxes (currently at 3.0%)
- Water and Waste Water Services
- Property Taxes (reserved for Spur Cross bond retirement)

- Development Fees and Construction Taxes
- State Revenue Sharing
- Other Fees

Primary expenditures for the town are:

- Water and Waste Water Services
- Right-of-Way improvements and maintenance
- Code enforcement
- Customer/development services.

In recent years, the Town's operational budget without the water utility and without capital improvements has been about \$7 million. Although all sales tax revenues have averaged about \$4.1 million (60% of Budget), the sales tax contribution by Town Core restaurants, which are largely supported by tourism, have been about \$650,000 or less than 10% of the budget. Town Core retail sales tax revenues contribute another 10%-11%. The balance of the budget has been supported primarily by construction and real estate taxes and development fees. The water utility adds another \$4 million to \$5 million of expenses to the budget without any capital improvements such as the Waste Water Treatment Plant. When we add the expense of the Waste Water Treatment Plant and factor in the impact of the economic recession, it is easy to understand that at mid fiscal year the Town projected a shortage of \$700,000 to meet this year's financial obligations due by June 30, 2009. That deficit figure is improving as the Town continues to cut expenses and improve revenue collections; however, it still remains a major concern. Even if most residents shopped locally, and all existing Town Core business structures were occupied with viable businesses, the total restaurant and retail sales tax revenue would likely not exceed 20% of the revenues required by the current needs of the Town. The construction related taxes and fees, which significantly augmented the budget in recent years, should return to healthier levels in the future but should not be considered a stable revenue source due to the cyclical dynamics of the economy.

Constructive actions are being taken to improve revenue and reduce expenditures in all areas; however, without a fundamental change in our economic strategies, these actions will not allow the Town to operate beyond the next fiscal year without significant deficits. Municipalities are precluded by state law from maintaining annual operating deficits.

Town Demographic Profile

Cave Creek is a low density community. Average residential property ownership size is approximately 2.5 acres. Town residents and their government are committed to maintaining considerable open space throughout the community. The Town, with annexation, is 38 square miles which equates to 24,320 acres. With the current population of 5,000 residents, that equals 1 resident per 5 acres. If the population were to double at build-out that might equal 1 resident per 2.5 acres, still a very low population density. Therefore, due to the limited number of residences, costs per citizen

for Town services are and will continue to be high compared to other higher density communities.

With the rapid increase in residential property values over the last decade, new home sales have brought new residents to the Town with different levels of tolerance for historic commercial activities. Noise and traffic complaints are common among citizens now living near the historic Town Core. This is compounded by an increase (now and in the future) of special event and tourist traffic. The identity and perception of the Town, as reflected in the Town's General Plan, is one of low density residential, open space and inclusion of an equestrian-friendly lifestyle. The Town is changing, both demographically and commercially. How we adapt to and influence that change will determine the type of Town in which we wish to live.

Today, the Town stands at a fiscal crossroad and its choices are simple: increase the sales tax base well beyond the capacity of the Town Core or institute a property tax (or both).

This paper recommends components of an economic model that insures short term financial viability and permits the Town to move forward on a sound fiscal basis. It looks at expense reduction and short term revenue generation to address the immediate tactical cash flow issues; addresses mid and long term strategic cash flow issues; discusses financial management concerns; and proposes economic development alternatives.

Expense Reduction

The Expense Reduction Subcommittee approached its task of assisting the Town in reducing expenses in several ways. First, in meetings with the Town Manager and Staff, it was determined what actions had already been taken to reduce expenses. Those actions are summarized in Appendix 1, page 27 and include reduction of staff, reduction of hours worked, reduced salary levels, re-negotiated health benefit packages, as well as reductions in the expenses for legal consulting, operation of Spur Cross, street service, janitorial, and travel. These actions, and others, have resulted in estimated monthly savings in excess of \$300,000. The current goal of the Town Manager is to reduce current monthly spending levels to under \$800,000 (which includes debt service).

Second, the Committee developed its own set of recommended expense reduction actions that could be implemented to help reach the above stated goal. These recommended actions are summarized in Appendix 2, page 28. They include putting the Town on a permanent four day work schedule, reducing liability insurance coverage, disposal of vehicles and equipment, implementation of energy audit recommendations where practicable, reducing paper reports and publications and further staff reductions.

While the immediate goal of the Committee was expense reductions, there are benefits in implementing recommendations that cannot be easily quantified but exist nonetheless. For example, the proposal to put the Town on a permanent four day work schedule has both efficiency and customer service benefits over the current system. The Town is currently on a five day work schedule but recent reductions in Staff have created a situation where the Town is operating with less than full coverage in every department every day. The reduction of work schedule for hourly employees from 40 to 32 hours per week exacerbates this situation. As a result, the Staff has difficulty coordinating with other departments due to absenteeism; and customer service to the public suffers because the Staff members needed to make decisions or complete tasks are often not available.

By going to a four day work week, the Town will have full staff coverage each day, which will improve internal coordination and customer service. It is therefore recommended that the work week be Monday through Thursday. In the future, when the economic conditions improve and workloads increase to justify it, the hourly employee workday should be increased from eight to ten hours, resulting in a four day, ten hour per day schedule. Employee salaries should be reviewed to ensure that they are competitive with market rates.

Third, the Committee reviewed systems and processes that could be made more efficient, specifically to simplify the planning process for subdivisions, non-conforming use and site plan review and approval. The current Planning process for Subdivision Site Plan Approval, Preliminary and Final Plat Approval and non-conforming use is

costly and time-consuming for the applicant, Town Staff, Planning Commission and Town Council. The public interest can be met with a simplified process that reduces time and expense for both the applicant and the Town staff. Interestingly, the February 2009 issue of the American Planning Associations contained an article entitled “*Looking up in a Downturn*” noted that Planning Staffs across the country are finding that “The level of detail that we’ve gotten used to requiring – in both the planning and the regulatory processes – is so high that maybe it will become apparent that it’s too much”....”We are finding that we need to shift from a regulatory stance to a more facilitative role”.

Recommended changes to the process include once the Preliminary Plat is recommended for approval by the Planning Commission and approved by the Town Council, it would return to Staff for Final Plat compliance and ultimately to Council for consent agenda approval. Flowcharts of the recommended process changes are found in Appendix 3, pages 29 – 32. The implementation of these subdivision process changes will result in annual staff “savings” of \$149,100 see Appendix 4, page 33.

Fourth, the Committee recommends adoption of a new accounting system. The current system is outdated, difficult to use, does not permit centralized billing and does not produce the information necessary for good fiscal management. This is not the time to purchase and install such a software system, but as the economy improves, such a system is essential.

Fifth, the Committee recommends the Town sell several unused parcels of land that appear to have no immediate or long term use when the real estate market is favorable. Currently, the Town owns 51 parcels comprising 35,210,092 square feet, the vast majority of which are necessary to the Town. However, there are several parcels that could be sold when conditions are appropriate. For example, there are three parcels located in Rancho Manana that could be sold once the current Waste Water Treatment Plant is closed and removed.

Sixth, the Committee recommends that the Town consider an early retirement program. Such programs vary considerably in terms and conditions making it difficult to determine the cost and benefits, but savings are indicated. These programs typically have an upfront cost and should not be considered immediately due to cash flow shortage concerns. However, these programs do respond well to situations where long term contraction occurs in an entity or where technical/professional needs are changing due to changing conditions. Long term contraction can result from an extended economic downturn or a shift in market conditions, and in these cases, organizations often find themselves in a condition of over-employment where the expense incurred does not justify the benefit received. Subscription to an early retirement program may result in new hiring but new hires would theoretically be added at lower salaries than the longer service employees subscribing to the program.

A recommendation regarding General Plan Amendments is contained in the Economic Development section of this White Paper.

Revenue Generation and Financial Management

Financial Planning

One of the key reasons that businesses or municipalities get into financial trouble is due to the lack of appropriate financial planning. Rather than developing short term (tactical) and long term (strategic) plans, an entity lives and plans day-to-day. Additionally, financial accounting is not properly married with management accounting to allow for operational decisions to be made in a timely manner. Appropriate management accounting and related reporting must be implemented based upon operational requirements of each department and the Town Council.

Based upon specific underlying statutory and municipal plans and processes, the timing of tactical and strategic must be defined for the Town. If strategic actions were identified as those that require voter approval and tactical actions as those that can be accomplished by action at the Council level or below, planning should be done in those two categories.

The hiring of a Town Finance Officer becomes a critical factor at a certain point in the Town's life cycle. Handling budgets, cash flow, financing activities, as well as ensuring that proper financial and managerial accounting functions are in place becomes critical to financial health of the Town. Oversight of ongoing municipal operations from a control standpoint, as well as audit and coordination of financial obligations with other governmental agencies becomes a full-time position and should no longer be handled solely by a Town Manager. At a certain point in the life cycle of an ongoing concern, it becomes necessary to bring in the appropriate personnel to move to the next level.

The cash flow forecasts presented in Appendix 5, pages 34-43 represent the Committee's analysis of cash flow month by month through January 2010 and by quarter for calendar years 2010 and 2011. The forecasts confirm that actions are necessary to meet the obligations of the Town during the remainder of 2009 and subsequent periods.

The forecasts were prepared with the assumption the recommendations included herein are incorporated. If any of the recommendations are not adopted or other changes are made, a new cash flow forecast will be necessary. The Committee recommends adoption of the cash flow forecasting tool by Town Staff for better planning and for review by Town Council and the Mayor. Due to current cash concerns this analysis should be updated monthly and distributed to Town Council and the Mayor.

The cash flow forecasts prepared indicate the Town will meet its obligations including debt payments through January 2010. Due to the additional debt payment for the Waste Water Treatment Plant (WWTP) in 2010 a cash shortage will be encountered. The cash

flow forecasts and notes include recommendations for bridging this gap and immediate planning for this shortfall is imperative. Assuming the recommendations are followed, the Town will be able to meet its obligations in 2010 and 2011.

Short Term Recommendations

Some basic assumptions were made to meet the goal of closing the gap on a \$700,000 shortfall in servicing the \$2 million debt plus the \$343,000 reserve due July 1, 2009. To meet this shortfall, we assumed that the proposed water system rate increase would be approved (see Appendices 6-10, pages 44-48). We further assumed that, due to the statutory requirements, the first rate increase would occur mid April 2009 with payment due June 1, 2009. The annual planned increase in revenue would be \$3,082,896. The Town would be collecting only one month at the new rate to meet the July 1, 2009 deadline. That increase would amount to \$256,908 if spread evenly across 12 months. This will be \$443,092 short of the target goal of \$700,000. The Committee looked at the possibility of customers prepaying their water bills on a one year or six month basis with a discount used as an incentive to prepay. The customers prior year usage would determine the prepay amount. At the end of the year, the customer would either be rebated if water usage was less or billed if water usage was greater. With a customer base of 3,780 we estimated that 764 customers would choose to prepay for either one year with a discount rate of 12% or six months with a discount rate of 8%. We believe that this was a very conservative estimate.

Using the average bill, in the June 1, 2009 payment the Town would receive \$767,180 up front (see Appendix 10, page 48). The Town would still be in receipt of the remaining 3,016 customers for one month at the new rate which equates to \$222,411 (seasonally adjusted). The shortfall of \$700,000 would be covered for the July 1, 2009 debt service. However, there is still a shortage for the required reserve. The debt service of \$950,000 due January 1, 2010 would be covered by the increased water utility rates (see Appendices 6-10, pages 44-48). The Town would now have some breathing room to concentrate on the mid and long term solutions. The prepay concept would require a major marketing campaign commencing in early April 2009 to afford the customer base an opportunity to make a logical financial decision. Further exploration is necessary to determine the possibility of continuing the prepay concept or just making it a one time proposal. We have not extrapolated the data to view the long term effect of such a policy.

The next source for short term revenue that the Committee considered was a 15% increase in the base rate for waste water (sewer rate). Since there are only 450 customers on the sewer system, we believe that there could only be a modest increase in rates. This would increase annual revenues to \$298,100 from \$269,029. The 15% increase would generate \$29,071 additional dollars annually (see Appendix 11, page 49). It is important to realize that the town subsidizes the waste water operation with ½% of the Town's 3% sales tax. The dollar amount varies from year to year based on sales tax revenue and the required additional dollars to equate expenses to revenues.

Over the past three years that amount was a \$360,000 subsidy per year. The committee again looked at a prepay option identical to the proposal applied to the water system. This would provide \$39,945 upon commencement of the option, based on the assumption that 90 of the 450 customers chose to prepay either for one year or six months (see Appendix 11, page 49). Just as with the water system, further study is necessary to determine the possibility of continuing the prepay option or just making it a one time proposal. We have not extrapolated the data to view the long term effects of such a policy.

The third area studied by the Committee for short term revenue generation was the sale of excess equipment and vehicles and a sale and leaseback option on equipment (see Appendices 12-13, pages 50-51). The revenue generation from a sale leaseback is difficult to determine without further examination. There are companies who operate in this arena and can provide the information necessary to make an intelligent decision. This option is worth pursuing but, due to the time constraints placed on Cave Creek Citizens for the Future, our Committee recommends investigating this possibility over the next few months.

We have identified 11 vehicles that should be sold immediately (see Appendix 13, page 51). Though the revenue generated will be a one time event, the savings in operational costs and insurance will continue. The Expense Reduction Committee has the data concerning these savings. The sale of the 11 vehicles could net between \$80,000 and \$100,000. The excess equipment recommended for sale is not being used. In discussions with the individual department heads, we concluded that they did not anticipate using this equipment. The value of this equipment is minimal but the storage and maintenance of these items is a fiscal burden to the Town. All equipment and vehicles not being used should be sold. Due to the difficulty we had in acquiring an accurate inventory, it is recommended that an annual physical inventory be conducted as a routine requirement. This inventory should then be reviewed to determine whether it is being utilized. This will ensure that the Town does not maintain under utilized equipment and vehicles and that an accurate list of equipment and vehicles can be provided for insurance purposes.

The fourth and final area studied by the Committee was construction sales taxes. Construction in Cave Creek requires payment of sales tax of which a portion is remitted by the State to the Town of Cave Creek. Few speculative buildings are built in this economy and most construction projects in Cave Creek are either custom builds or remodeling projects. Custom buildings require a permit whereas remodeling project permits are not always obtained as required. When permits are issued an audit trail is created whereby sales tax compliance can be tested and compliance enforced. Absent permits, the liability for sales tax can be avoided or misdirected to the improper municipality. The Town currently uses an independent consultant to provide enforcement of sales tax collection based on a review and audit process.

Cave Creek is entitled to collect its share of sales tax based on a State mandated formula for speculative buildings. With custom buildings and remodel projects, the

contractor typically purchases materials on a tax exempt basis and later remits the tax by filing a sales and use tax return with the State. The State remits the local portion to Cave Creek once it processes the return and payment. The contractor can invoice the customer by breaking out labor (not taxable) and materials or by invoicing a lump sum in which case the total invoice is taxable and Cave Creek is entitled to its portion. The contractor can also purchase materials and pay the tax at the source but this means Cave Creek does not receive the share of sales tax to which it is entitled.

In the case of building or remodeling without a permit, there are many variations of dealing with sales tax, many of which evade the tax liability altogether. An additional consideration is that when construction is performed without a permit, the improvement is not added to the assessed valuation of the property and real estate taxes are not collected including the portion Cave Creek receives for the Spur Cross bonds.

Cave Creek should develop a written procedure for construction permit and sales tax compliance including an audit program to test and ensure compliance as follows:

1. Speculative building adherence to permit and sales tax compliance – 100% audit requirement by requiring a copy of the sales tax form is sent to Cave Creek by the contractor selling the building.
2. Owner/Custom buildings – Form to be designed which will be filed with Town of Cave Creek prior to issuance of final inspection sign off.
3. Remodeling projects with permit – Form to be designed which will be filed with Town of Cave Creek prior to issuance of final inspection sign off.
4. Construction performed without permit – Adopt a procedure identifying projects performed without a permit. Once identified, the property owner would be required to apply for a permit and await final approval pending a sales tax verification form. In addition, punitive fines assessed to property owner and sanctions against contractor.

There are a number of ways to identify projects which are performed without permit application some of which are more invasive than others. Ideas to consider are:

1. Currently the Cave Creek building inspectors observe construction activity when performing their duties and report activity if they are not familiar with a permit for the project observed. Each week a printout could be provided to inspectors as a cross check if they see construction activity. In addition the Town Marshal could receive the same report and observe activity when performing his duties as well as dedicating time each week to specifically look for violations.
2. Develop a more aggressive audit program for testing compliance. This could include an annual comparison of GIS flyover maps to ensure where property improvements are noted, building permits have been issued.
3. Offer a moratorium period from punitive fines for property owners to submit permit applications for improvements performed without permits. If improvements were performed prior to current ownership, waive fees for fines and permit costs but

require inspections to assure conformity with building codes as a step to address public safety issues and correct future payment of real estate taxes.

Once initiated, a comprehensive program will result in self compliance to avoid penalties and sanctions.

Mid Term Recommendations

The basic assumptions made for the mid term recommendations were that the proposed new sewer plant construction would commence in April 2009 and would be completed and operational within 2 years. The first year revenue from that operation will net an estimated \$2.0 million. This will be necessary to help cover the increased debt service for the waste water system. The new sewer system must be able to reach self sustaining operations. This will require increasing the customer base. To accomplish this, all current subdivisions with incorporated dry lines must be placed on the system. All future subdivisions and multi-family dwellings must be required to connect to the system. Additionally, all future residential units within 300 feet of an existing sewer line must be on the system. The goal must be to increase the customer base to a level that will make all utility systems self sustaining.

In addition, we are proposing that the Town begin the process of securing one service provider for trash collection and recycling. Currently, each resident and business must individually contract with a service provider. This does not provide a cost break/benefit to the residents along with additional wear and tear to our roads, increased noise and pollution. A contract with one provider could provide the benefits listed below:

- Possible reduced cost to our residents for trash collection
- Licensing fee revenue generation for the Town
- Reduced traffic on our streets improving quality of life with only one or two days of trash collection
- Less wear and tear on our roadways
- Reduced air pollution from truck emissions

Some of the challenges facing the Town of Cave Creek in requiring and contracting with one trash provider are:

- Number of horse properties requiring bins and manure pickup
- Number of hillside properties
- Number of properties difficult to access due to private drives and streets
- How to handle additional pickups and increased container size

The Committee recommends the Town consider issuing an RFP to begin the selection process. Communities such as Queen Creek and Fountain Hills have recently completed this task and have utilized a consultant during the process. The Committee recommends evaluating whether to utilize a consultant or to look to other communities for their guidance.

Economic Development

Town Commercial Property Profile

If property taxes are not to be used to support general Town services, then expanded commercial development has to occur. While there is a large amount of available land in the Town Core, the actual sales tax revenue potential is limited. The Town must therefore look to the Cave Creek Road/Carefree Highway area for significant sales tax growth. Following is a discussion of each of the two commercial sub-markets.

Town Core

The Town Core and its concentration of businesses has been the sole sales tax revenue generator for the Town budget. And yet, we see some challenges in 2009 and beyond.

The gross inventory of commercial space is 314,000 sq. ft., comprised of 58,000 sq. ft. of office and 232,000 sq. ft. of retail. There are 17,000 sq. ft. of vacant office, or 30% of the inventory in Stagecoach Village. The situation with retail is similar. More than 67,000 sq. ft. of the 232,000 sq. ft. is vacant or about 29%. While there are small vacant retail spaces along the Town Core, the vacant Spur Cross Station (10,384 sq. ft.) and the high vacancy rate at Stagecoach Village (47,000 sq. ft.), the Hammerhead Jack's site and the Cracked Crab property, constitute the vast majority of the problem. Hence, with an improvement in the over-all national economy, we might expect to generate some increased retail sales tax revenues as commercial retail space is naturally absorbed in the market, particularly if those sites are able to attract quality restaurants. Should the current retail vacancy rate simply be reduced to a 10% figure over time, then the additional 40,000 sq. ft. of Town Core retail space could generate an additional \$12 million of sales (@ \$300 per sq. ft.), yielding an additional \$360,000 of new sales tax to the Town.

For the longer-term future, there is a large amount of undeveloped land in the Town Core. There are nearly 2.5 million square feet of undeveloped "commercial core" zoned property, representing 34 different parcels, with several parcels of significant size (see Appendix 14, page 52). "Commercial core" zoning provides for mixed-use development. Both this and the "buffer" zoning described below provide for a range of business uses prescribed in Appendix A of the Zoning Ordinance.

In addition, there is 388,000 sq. ft. of undeveloped "commercial buffer"-zoned property in 18 different parcels. This type of zoning allows for smaller shops and services, also described in Appendix A of the Zoning Ordinance, as well as single-family and multi-family. Just outside the Town Core is the Rancho Manana site. This site is included

because the condo/hotel portion of the property is currently vacant and there are development parcels within that area currently allowed for hotel and more condo/hotel development. Revenue formulas are characterized within an existing Development Agreement between the Town and the Rancho Manana developer and several private property owners. Just south of Rancho Manana is another commercial district, running from Town Hall to the Black Mountain Body Shop at Long Rifle Road (See Appendix 14, pages 52-53). Nearly 20 acres are developed. Another 12 acres comprised of 24 parcels, remains to be developed.

One of the key problems with this inventory is that it is difficult to accurately predict potential sales tax revenues. Several current proposals do not contain any retail space in their proposed development. And while residential development will certainly bring new disposable income to the Town, it will reduce the long-term potential for significant new retail sales tax potential. Given current market conditions, it is unclear whether the market will “dictate” more residential, more retail, or possibly a better mixed-use development that will better serve the financial interests of the Town.

Cave Creek Road/Carefree Highway

The greater opportunity for retail sales tax revenue lies in the Cave Creek Road/Carefree Highway market area. There are three potential development sites at the southeast and southwest intersection of Carefree Highway and Cave Creek Road. (See Appendix 14, pages 52-53)

1. The 25 acres on the southwest corner of Cave Creek Road and Carefree Highway (behind the Chevron gas station), that are currently zoned residential.
2. On the southeast side, across Cave Creek Road, there is a 20-acre site proposed for a Wal-Mart store. This site could potentially generate \$3.0 million dollars of new, annual net sales tax to the Town. Most importantly, this site can be developed by June 2010.
3. Immediately to the north, at the corner, a 13-acre site is currently zoned “commercial core“, with the potential for “general commercial“ zoning.

Along Carefree Highway, there are four development/revenue opportunity sites (See Appendix 14, pages 52-53). These four sites have the potential to create significant retail sales tax revenue for the Town in the longer-term, say 2015-2020.

1. Immediately west of the CVS Pharmacy, there are approximately 75 acres that allows for some level of multi-family and retail. Property owner cooperation along this section of Carefree Highway will be required to move forward.
2. Farther west to the 28th Street - 36th Street area, there are two outstanding development parcels currently within the Town. A 120-acre site zoned “general commercial” and another 120 acres to the north zoned “commercial buffer”.

3. A future 100-acre resort site, north of Carefree Highway, is tucked away behind the Cave Creek Regional Park. With a 7% hotel occupancy tax on such projects, this could be a revenue-generator in the future. From a retail sales tax generation perspective, this site will be a significant financial asset to the Town for years to come. 100-acre commercial sites in the Valley (such as Desert Ridge) yield over 1 million square feet of retail. Our State Lands property is significantly larger, but there will be strong competition within the trade area for future retail, with an excellent, well-positioned site at Carefree Highway and Interstate 17. Accordingly, to be on the conservative side, Site #5 could be developed with a minimum of 500,000 square feet of retail. At full build-out (15% vacancy rate; \$300 per square foot gross sales), the project would generate \$127 million in gross sales revenues. With a Town sales tax rate of 3%, this could yield \$3.8 million dollars of annual, new sales tax revenues to the Town. For example, a 100 room hotel, with a \$160 average daily rate and a 65% occupancy would result in \$3.8 million of gross hotel revenues. The Town hotel occupancy tax would yield \$265,000 a year in new revenue.

Recommendations

Absent the imposition of a property tax, the overriding strategic consideration for the Town's future economic health is the manner in which the Town can improve its competitive market position in the North Valley, thereby generating increased retail sales taxes. Status quo is not an acceptable option, for it will lead to a local economy that cannot sustain Town services and will not support additional Town growth. The ability of the Town to adapt to a changing economy and create opportunity for private sector business investment and growth is critical.

As the Town moves towards build-out over the next 20 years, it must do so with a vision of what it desires to achieve for its residents, its business community and its overall economy and fiscal health. It must identify those unique assets and characteristics that will define and distinguish its position in the North Valley market. From there, a framework of targeted economic strategies can guide the Town in its pursuit of both a flourishing retail environment as well as a robust commercial/office sector.

Changes are necessary in the Town's plans, processes and ordinances, as well as its posture, to attract the retail and commercial business necessary to secure the Town's future. Businesses looking to relocate or expand into new areas are generally unwilling to invest time and resources in a multi-year process where the Town appears hostile and the outcome can seem arbitrary and unpredictable.

Accordingly, the Town needs a bold agenda to move forward with a prudent and committed fiscal/development strategy. Commercial opportunities exist as described in some detail above. Now, a blueprint is needed to take the steps required to attract development to the community. Recommend the following action agenda:

1. Develop a Strategic Plan for the Town Core.
2. Change the definition of Major and Minor General Plan Amendment to “greater than 25 acres” and “25 acres or less” respectively.
3. Amend Appendix A in Zoning Ordinance.
4. Amend General Plan and implement Planned Development Overlay for the Town Core.
5. Amend the General Plan and implement Planned Development Overlay zoning for Carefree Highway sites.
6. Vigorously pursue Wal-Mart to locate a retail center on Cave Creek Road South of Carefree Highway.
7. Complete the Waste Water Treatment Plant no later than June, 2010 to accommodate Wal-Mart and associated commercial development.
8. Identify/attract Specific Businesses/Developers.
9. Create a non-profit corporation whose role will be to pursue developmental strategies and open space acquisition.
10. Creation and coordination of event calendar and communication of business development.

RECOMMENDATION ONE: “*Develop a Strategic Plan for the Town Core.*”

The Town currently has a “Town Core Plan and Implementation Program”, adopted in March of 2000. In addition, there is a 2005 General Plan, ratified by Town citizens in a May 17, 2005 Election, that contains numerous references to the Town Core. The “Town Core Plan” document is a traditional land-use plan, with a focus on desired uses, circulation, parking, open space and streetscape. Nearly a decade has passed since the “Town Core Plan”. These plans should be reviewed and assessed for possible integration and new directions.

The Town Core needs a strategic blueprint for the next ten years. The blueprint needs to be one that includes land use but goes well beyond. Clearly, the blueprint must start with a vision. Both the Town’s current General Plan and the 2000 Town Core Plan have done a quality job of outlining a vision for the Town Core. The blueprint should look more closely at the types of desired businesses to attract to the Core as well as strategies to retain existing, successful businesses. This economic development perspective will enhance the potential for a sustainable market niche in the long-term future. The blueprint should also examine the potential for “branding” of the Core, to give it a distinctive, unique marketing niche in the North Valley. The blueprint should provide guidance on the integration of residential into the Town Core. The eclectic nature of the Town Core should be balanced with quality urban design and architecture that may include some elements of design guidelines. The Town Core has a unique and colorful history that warrants both preservation and marketing. The Cave Creek Museum can be central to that objective. The Town should re-examine the arts district concept and explore linkages to the performing arts as well as public spaces, shading and pedestrian connectivity.

A successful blueprint is a flexible document but it must contain a detailed implementation program that Town Council endorses each year. It would include key initiatives and projects with timelines. Town management should prepare an Annual Report detailing progress on the blueprint. And, a successful implementation program requires a strong public/private partnership. Roles and responsibilities of various organization/institutions need to be delineated, with roles ranging from business recruitment to promotions/marketing/event coordination to streetscape work to business retention. Perhaps the partnership needs to look at the success small towns around Arizona and across American have had with the Main Street Program.

In summary, a new Town Core strategic plan can serve as a flexible blueprint or road map to enhance the market viability of the Core. It will provide a framework for the growth and development within the Town Core from this point to 2020. It will provide the Town with an action plan to realize the community's vision for the Core. With active community involvement, the foundation can be laid for a renewed vibrancy within the Town Core that not only serves as a tourism draw but also creates a wonderful sense of place for shopping, gathering places and living opportunities for our residents.

RECOMMENDATION TWO: “*Change the definition of Major and Minor General Plan Amendment to ‘greater than 25 acres’and’25 acres or less’ respectively.*”

At present, The Town has defined a Minor General Plan Amendment as involving 1 acre or less and a Major General Plan Amendment involving more than 1 acre. Applications for a Major General Plan Amendment must be received not later than April 1st each year. This definition alone can cause a year delay. The Major General Plan Amendment and request for rezoning can be processed simultaneously and, given no significant issues, can be processed through the Planning Commission and Town Council and completed by the end of the calendar year in which initiated. Both the Amendment and rezoning are referable, and would likely be resolved at the next election, meaning that it could take up to two years to accomplish the amendment and rezoning and the applicant is absolutely uncertain as to the outcome through the entire process. This must change.

RECOMMENDATION THREE: “*Amend Appendix A in the Zoning Ordinance.*”

Appendix A (Land Use Descriptions in the Commercial Zoning Districts) of the zoning ordinance defines the permitted uses in each of the three commercial zoning districts. The existing Appendix A was developed and approved in 1994 and does not reflect the General Plan amended in 2005 or the political commitments made by the Town to the west side residents during annexation discussions. Appendix A was updated in 2006, but after it was approved it was caught up in Arizona Proposition 207, Private Property Rights Protection and approval was rescinded by Town Council. Proposition 207 limited the use of eminent domain to specific public uses and provided that property owners be compensated if the value of a property is reduced by a land use action. Given the legal implications, resolution of this issue and revision of Appendix A may take considerable time. Land Use Amendment requests and requests for changes in zoning are

frequently denied by the Town because “we don’t know what is going in there”. Planned Development Overlays represent an alternative process whereby acceptable uses are specified and the Town and the applicant negotiate the exact facility that best meets both parties’ requirements.

RECOMMENDATION FOUR: “Amend General Plan and Implement Planned Development Overlay for the Town Core.”

The Town Core is a special area and one of the most important defining images of the Town. Most areas in the Town Core have the appropriate land use designation and are properly zoned. But the process of late has not been particularly smooth or predictable. In the Town Core, the General Plan should be amended and rezoned, as necessary based on Planned Development Overlay zoning applications.

Planned Development Overlay zoning process represents an alternative process to Appendix A whereby acceptable uses are specified and the Town and the applicant negotiate the development site characteristics that best meet both parties’ requirement. This would involve public meetings, conducted to achieve consensus on acceptable uses.

RECOMMENDATION FIVE: “Amend the General Plan and Implement Planned Development Overlay Zoning for the Cave Creek Road/Carefree Highway Area.”

Develop a strategic vision and master plan for the Cave Creek Road/Carefree Highway and amend the General Plan and initiate rezoning where appropriate, based on a Town-initiated Planned Development Overlay zoning. Public hearings should be convened to determine resident desires and needs in order to achieve consensus on acceptable uses. The State Land Department will need to be involved in these discussions with respect to several of the Carefree Highway sites.

RECOMMENDATION SIX: “Vigorously pursue Wal-Mart.”

Wal-Mart has purchased a 20-acre site on the east side of Cave Creek Road, south of the Bullington property. The Town must aggressively pursue Wal-Mart to locate a retail center on that site, resulting in some \$3.0 million dollars of annual, net new retail sales taxes to the Town. Specifically, the Town should facilitate submission of appropriate applications by April, 2009. Additionally, the Town should expedite processing of their applications through the Planning Commission and the Town Council and schedule all actions to result in Town Council approval in July, 2009. Spearhead a benefits of Wal-Mart education campaign.

RECOMMENDATION SEVEN: “Complete the Waste Water Treatment Plant by June, 2010.”

Any meaningful development in the Cave Creek Road/Carefree Highway market area requires the completion of the Plan. The development of the Wal-Mart facility,

specifically, is also dependent upon the completion of the new Waste Water Treatment Plant. In order for Wal-Mart to open in the fall of 2010, this Treatment Plant must be completed by June of 2010. To accomplish this goal, the WIFA loan must be signed on or near the end of April, 2009, the WWTP construction contract signed by April 15, 2009 and construction started no later than April 30, 2009. Secondly, use the construction of the new sewer treatment as an opportunity to connect to residential sewer customers who are experiencing septic system problems. Those who desire sewer services, those subdivisions that have dry lines incorporated and all residents within 300 feet of an existing sewer line.

RECOMMENDATION EIGHT: “*Identify/Attract Specific Businesses/Developers.*”

It is vital that the Town have a targeted recruitment plan in place for the Town Core as well as the Cave Creek Road/Carefree Highway market clusters. In general, this would consist of:

1. The identification of specific types of businesses that would enhance the Town’s market position in the North Valley, with a focus on retail sales tax-generating businesses. This could also include types of office-users that might create a particular employment niche for the Town.
2. The identification of developers that have the experience and track-record to implement “quality” projects within our community. Considerable conversation should be held to better characterize or define our mutual perceptions of “quality” (for example, green practices or urban architecture or landscaping features).
3. The development of marketing or promotional material for this recruitment process.
4. The development of a strategic contact list, call plan, and schedule.
5. The creation of a master file on each prospect, for tracking and follow-up.
6. Periodic review and evaluation.

RECOMMENDATION NINE: “*Create a Non-Profit Corporation*”

To pursue the development strategies noted above, it is vital for the Town to have at its service an adjunct 501(c)(3) to promote business development. An active business/developer recruitment strategy, implemented in tandem with Town staff, requires a strong volunteer-based corporation that will bring the time, expertise and commitment to advance this agenda. The initial business plan for this organization would be all-volunteer, evolving into a multi-faceted and staffed development corporation in the future. The ambitious development plans for this community will require such a proven, pro-active implementation organizational model.

The 501(c)(3) should be able to assist several different mission statements. For example, currently there is a need to pursue open space acquisition. This need could be supported with the charitable status/potential tax deductibility of the entity for donors as well as the ability to utilize the Open Space Committee as volunteers for the open space

acquisition portion of this process.

RECOMMENDATION TEN: “*Create and Manage Events and Communication*”

Coordination, management and promotion of an event calendar by a Town Staff person. The initial use of a volunteer as an events/communications specialist would be appropriate. As the economic situation improves this position can be conducted by a consultant or with a permanent staff member as the ultimate goal. The Town needs someone to coordinate events to maximize number of visitors and minimize overlap of events so that greater exposure to the Town is obtained.

Summary of Recommendations

Expense Reduction

1. Implement a 4 day work week.
 - Initially maintain the 32 and 40 hour work hour assignments.
 - As financial conditions improve, transition to four 10 hour days at competitive salaries.
2. Reduce liability insurance coverage from \$10 million to \$2 million.
3. Dispose of selected vehicles and equipment.
4. Conduct an energy audit and implement resulting recommendations where practical.
5. Reduce paper reports and publications by using electronic media only for all Town agendas, minutes and reports.
6. Simplify the subdivision approval process.
 - Eliminate Final Plat review by the Planning Commission.
 - Final Plat approvals and Site Plan reviews on Town Council Consent Agenda.
7. Make additional staff reductions.
8. Replace the current accounting system with a new central accounting system.
9. Sell several parcels of excess land owned by the Town that have no immediate or long term use.
10. Consider an early retirement program.

Revenue Generation and Financial Management

11. Approve proposed water rate increase without modification with the first payment due June 1, 2009.
12. Implement a water prepayment program on a 6 month or 1 year basis with a discount incentive of 8% and 12% respectively.
13. Increase waste water rates by 15% and consider a prepay incentive program similar to water.
14. Sell excess equipment and vehicles and consider sale/leaseback program on other equipment.
15. Conduct an annual inventory of town assets.
16. Develop a written procedure for construction permit and sales tax compliance, including an audit to test and ensure compliance.
17. Make the new Waste Water Treatment Plant self sustaining.
 - Connect all existing subdivisions that have dry sewer lines.
 - Require all new subdivisions to connect.
 - Require all future residential dwellings within 300 feet of existing sewer lines to connect.
18. Continue study of providing centralized trash service for the Town.
19. Generate monthly cash flow forecasts by Town Staff for review by the Mayor and Town Council.

Economic Development

20. Develop a Strategic Plan for the Town Core.
21. Amend the General Plan for the Town Core and rezone as necessary based on Planned Development Overlay zoning applications.

- Conduct public meetings as needed in order to achieve consensus on acceptable uses.
22. Change the definition of Major and Minor General Plan Amendments to 'greater than 25 acres' and '25 acres or less' respectively.
 23. Amend the General Plan and rezone now in Areas #1, #2 and #3 based on town initiated Planned Development Overlay zoning.
 - Hold public meetings in each area to determine the resident's desires and needs and achieve consensus on acceptable uses.
 - Include the State Land Department in all discussions with regard to Area #3.
 24. Begin now to amend Appendix A understanding it may take considerable time to revise and approve it.
 25. Vigorously pursue Wal-Mart to locate in the Twenty acres of residential property south of the Bullington property bounded on the west by Cave Creek Road, on the east by 56th street and on the south by Oleson Road.
 - Facilitate submission of appropriate applications (General Plan Amendment, Zoning and Site Plan by March 31/April 1, 2009.
 - Expedite processing of their applications through the Planning Commission and Town Council.
 - Schedule all actions to result in Town Council approval in July, 2009.
 - Any potential referendum will go to the voters in November.
 - Building permits can be issued for a January 2010 construction start.
 - Completion can occur by October 2010.
 26. Complete the new Waste Water Treatment Plant no later than June 2010 to accommodate Wal-Mart's opening and associated development.
 - Enter in to and sign the WIFFA loan agreement before the end of April 2009.
 - Sign the WWTP construction contract by April 15, 2009 and start construction not later than April 30, 2009.
 - Connect as quickly as possible all residential sewer customers reasonably available or necessary due to existing septic system problems.
 - Connect the existing dry sewer systems in Estada de Cholla 1 & 2 and Canyon Ridge Estates 1, 2, & 3.
 - Connect all lots that apply and particularly those that abut the main waste water line easement including those in Las Ventanas.
 - Consider a Sewer Improvement District to connect those lots on the west side of Black Mountain where septic systems are beginning to fail.
 - In the longer term, work with other residential neighborhoods along the main waste water line to connect to the waste water system.
 27. Identify / attract specific business developers.
 28. Create a special non-profit economic development corporation.
 29. Coordination, management and promotion of an event calendar by a Town Staff person.

Appendices

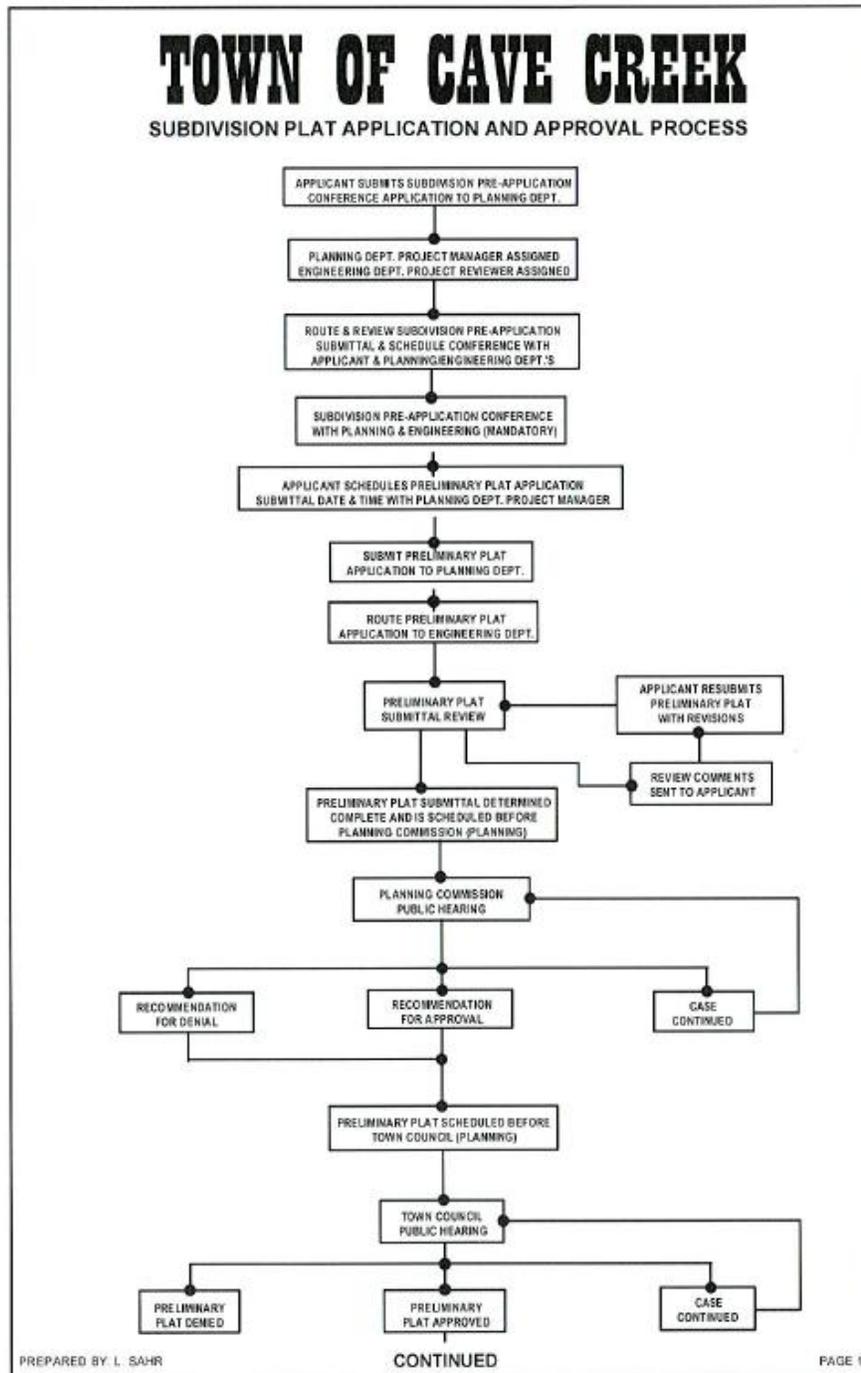
Appendix 1 - Expense Reductions Already Initiated By Town Manager

1. Reduced staff from 51 to 40
2. Changed health insurance carriers, reduced premium from \$100,000 to \$30,000 per month
3. Reduced hours for many hourly staff members from 40 hours to 32 hours per week
4. Reduced salaries of many staff members by 6% to 18%
5. Reduced Spur Cross Park expenses from \$35,000 to \$20,000 per month
6. Reduced legal expenses from \$30,000 per month to \$7,500 per month
7. Cancelled street service contracts
8. Reduced janitorial services to one day per week
9. Withdrew all gasoline credit cards
10. Collected most cell phones from staff members
11. Mandated that he approve and sign all purchase orders
12. Began charging and collecting Right of Way fees from Qwest
13. Cancelled all leases for storage, such as the American Legion and the rental unit
14. Changed modular rental from \$150-\$200 per month to purchase at \$2,000 per unit
15. Closed the Desert Hills Water offices and moved to Cave Creek offices
16. Cancelled sewer operation contract with AZ American and saved \$20,000 per month

Appendix 2 - Expense Reduction/Cash Generation Recommendations

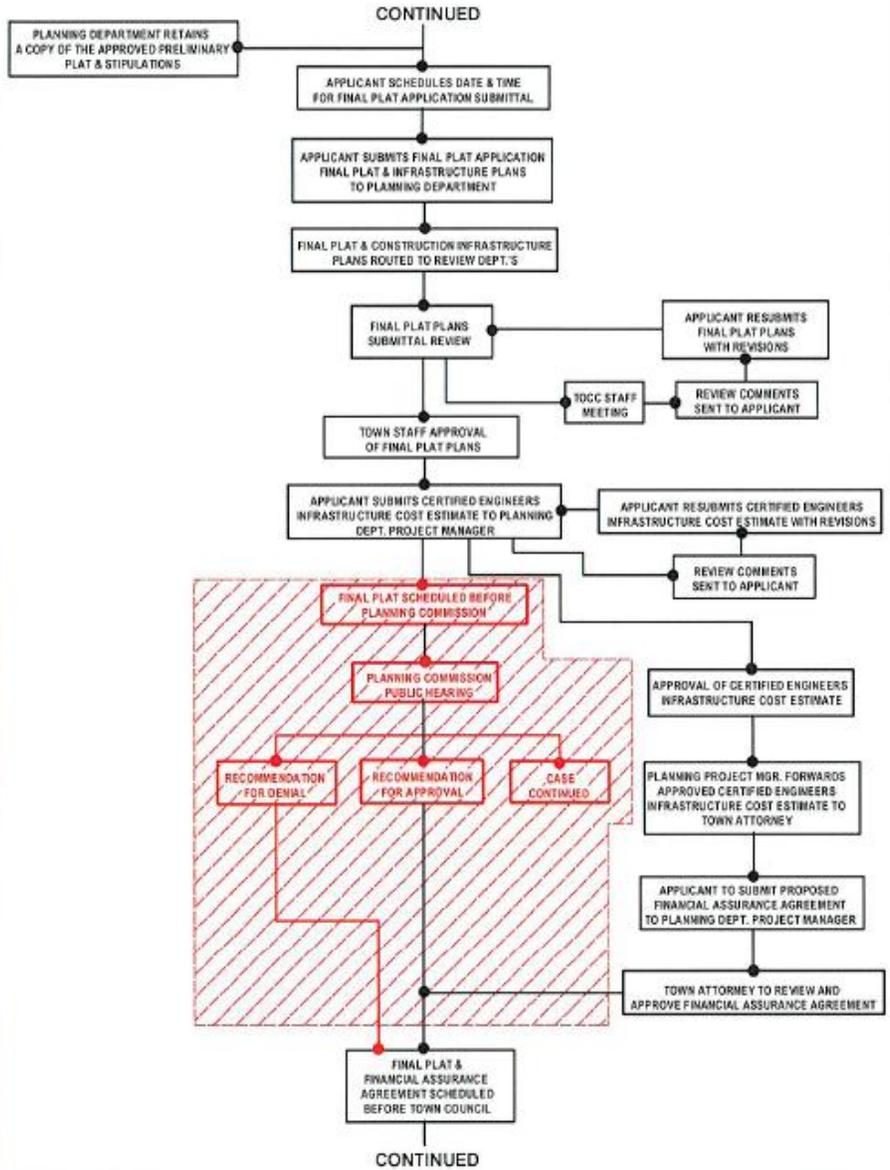
| Short Term (before June 30, 2009) | | | | | | | Projected Savings/Cash | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| Put the Town on a permanent four day work schedule of Monday through Thursday and, over the three day weekend, turn off copiers, computers (except server), adjust thermostats | | | | | | | \$ 8,000.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Reduce liability insurance coverage from \$10,000,000 to \$2,000,000 (former level) | | | | | | | \$ 18,000.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <table border="0" style="width: 100%;"> <thead> <tr> <th colspan="2"></th> <th>Year</th> <th>VIN</th> <th>Operating Costs</th> <th>Annual Premium</th> <th>Vehicle Disposal</th> <th></th> </tr> </thead> <tbody> <tr> <td>Dispose of Town Vehicles</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>Administration</td> <td>2000</td> <td>6646</td> <td>\$ 1,900.00</td> <td>\$ 599.00</td> <td>\$ 2,000.00</td> <td></td> </tr> <tr> <td></td> <td>Administration</td> <td>2007</td> <td>8381</td> <td>\$ 1,900.00</td> <td>\$ 657.00</td> <td>\$ 12,000.00</td> <td></td> </tr> <tr> <td></td> <td>Marshal</td> <td>2001</td> <td>5077</td> <td>\$ 1,900.00</td> <td>\$ 873.00</td> <td>\$ 5,000.00</td> <td></td> </tr> <tr> <td></td> <td>Marshal</td> <td>2006</td> <td>7392</td> <td>\$ 1,900.00</td> <td>\$ 873.00</td> <td>\$ 12,000.00</td> <td></td> </tr> <tr> <td></td> <td>Engineering</td> <td>1998</td> <td>2247</td> <td>\$ 1,900.00</td> <td>\$ 600.00</td> <td>\$ 1,000.00</td> <td></td> </tr> <tr> <td></td> <td>Public Works</td> <td>2004</td> <td>7534</td> <td>\$ 1,900.00</td> <td>\$ 712.00</td> <td>\$ 8,000.00</td> <td></td> </tr> <tr> <td></td> <td>Planning and Zoning</td> <td>1998</td> <td>7065</td> <td>\$ 1,900.00</td> <td>\$ 600.00</td> <td>\$ 1,000.00</td> <td></td> </tr> <tr> <td></td> <td>Utilities</td> <td>2007</td> <td>7738</td> <td>\$ 1,900.00</td> <td>\$ 626.00</td> <td>\$ 10,000.00</td> <td></td> </tr> <tr> <td></td> <td>Utilities</td> <td></td> <td></td> <td>\$ 5,700.00</td> <td>\$ 2,071.00</td> <td>\$ 36,000.00</td> <td></td> </tr> <tr> <td colspan="7">Yearly operating costs assume \$700 for gas and \$1,200 for maintenance</td> <td></td> </tr> <tr> <td colspan="4">Total Savings and Sales Proceeds</td> <td>\$ 20,900.00</td> <td>\$ 7,611.00</td> <td>\$ 87,000.00</td> <td>\$ 115,511.00</td> </tr> </tbody> </table> | | | | | | | | | Year | VIN | Operating Costs | Annual Premium | Vehicle Disposal | | Dispose of Town Vehicles | | | | | | | | | Administration | 2000 | 6646 | \$ 1,900.00 | \$ 599.00 | \$ 2,000.00 | | | Administration | 2007 | 8381 | \$ 1,900.00 | \$ 657.00 | \$ 12,000.00 | | | Marshal | 2001 | 5077 | \$ 1,900.00 | \$ 873.00 | \$ 5,000.00 | | | Marshal | 2006 | 7392 | \$ 1,900.00 | \$ 873.00 | \$ 12,000.00 | | | Engineering | 1998 | 2247 | \$ 1,900.00 | \$ 600.00 | \$ 1,000.00 | | | Public Works | 2004 | 7534 | \$ 1,900.00 | \$ 712.00 | \$ 8,000.00 | | | Planning and Zoning | 1998 | 7065 | \$ 1,900.00 | \$ 600.00 | \$ 1,000.00 | | | Utilities | 2007 | 7738 | \$ 1,900.00 | \$ 626.00 | \$ 10,000.00 | | | Utilities | | | \$ 5,700.00 | \$ 2,071.00 | \$ 36,000.00 | | Yearly operating costs assume \$700 for gas and \$1,200 for maintenance | | | | | | | | Total Savings and Sales Proceeds | | | | \$ 20,900.00 | \$ 7,611.00 | \$ 87,000.00 | \$ 115,511.00 |
| | | Year | VIN | Operating Costs | Annual Premium | Vehicle Disposal | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Dispose of Town Vehicles | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Administration | 2000 | 6646 | \$ 1,900.00 | \$ 599.00 | \$ 2,000.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Administration | 2007 | 8381 | \$ 1,900.00 | \$ 657.00 | \$ 12,000.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Marshal | 2001 | 5077 | \$ 1,900.00 | \$ 873.00 | \$ 5,000.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Marshal | 2006 | 7392 | \$ 1,900.00 | \$ 873.00 | \$ 12,000.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Engineering | 1998 | 2247 | \$ 1,900.00 | \$ 600.00 | \$ 1,000.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Public Works | 2004 | 7534 | \$ 1,900.00 | \$ 712.00 | \$ 8,000.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Planning and Zoning | 1998 | 7065 | \$ 1,900.00 | \$ 600.00 | \$ 1,000.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Utilities | 2007 | 7738 | \$ 1,900.00 | \$ 626.00 | \$ 10,000.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Utilities | | | \$ 5,700.00 | \$ 2,071.00 | \$ 36,000.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Yearly operating costs assume \$700 for gas and \$1,200 for maintenance | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Savings and Sales Proceeds | | | | \$ 20,900.00 | \$ 7,611.00 | \$ 87,000.00 | \$ 115,511.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Dispose of Town Equipment | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Public Works | | | Drill Press | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Public Works | | | Allied Asphalt Cutter | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Public Works | | | Lincoln 250 Wirematic Welder | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Public Works | | | Laser Tripod | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Utilities | | | Backhoe | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Marshal | | | Police Radio Equipment | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Marshal | | | Lanier 5622 Digital Copier | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Marshal | | | Speed Trailers (3) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Planning and Zoning | | | Work Station | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Planning and Zoning | | | Computer | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Planning and Zoning | | | Telephone | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Estimated Sales Proceeds | | | | | | | \$ 5,000.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Eliminate office cleaning service | | | | | | | \$ 8,400.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Do an energy audit of the Administrative building's HVAC; implement recommendations if practicable | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <table border="0" style="width: 100%;"> <tr> <td>paper sheets</td> <td>cost</td> <td></td> </tr> <tr> <td>180000</td> <td>0.05</td> <td></td> </tr> <tr> <td colspan="3">72 boxes per year, 50% to meetings</td> </tr> </table> | | | | | | | paper sheets | cost | | 180000 | 0.05 | | 72 boxes per year, 50% to meetings | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| paper sheets | cost | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 180000 | 0.05 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 72 boxes per year, 50% to meetings | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Make all Town Agendas, Minutes, and Reports electronic to eliminate copying/pape | | | | | | | \$ 9,000.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Staff Reductions | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | position identified by committee | | | \$ 48,000.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | position identified by committee | | | \$ 48,000.00 | | | \$ 96,000.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Intermediate Term (FY 2010 July 1, 2009 through June 30, 2010) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Simplify the Planning & Zoning permit/plat approval process to reduce staff time and improve efficiency | | | | | | | \$ 149,100.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Long Term (After June 30, 2010) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sell the three Rancho Manana properties after the new wastewater treatment plant is operational and the current plant is dismantled | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Upgrade the current accounting software to make it more efficient and user friendly, reduce manhours, improve reporting and reduce departmental duplication | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| GRAND TOTAL | | | | | | | \$ 409,011.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Appendix 3 - Subdivision Plat Application and Approval Process



TOWN OF CAVE CREEK

SUBDIVISION PLAT APPLICATION AND APPROVAL PROCESS



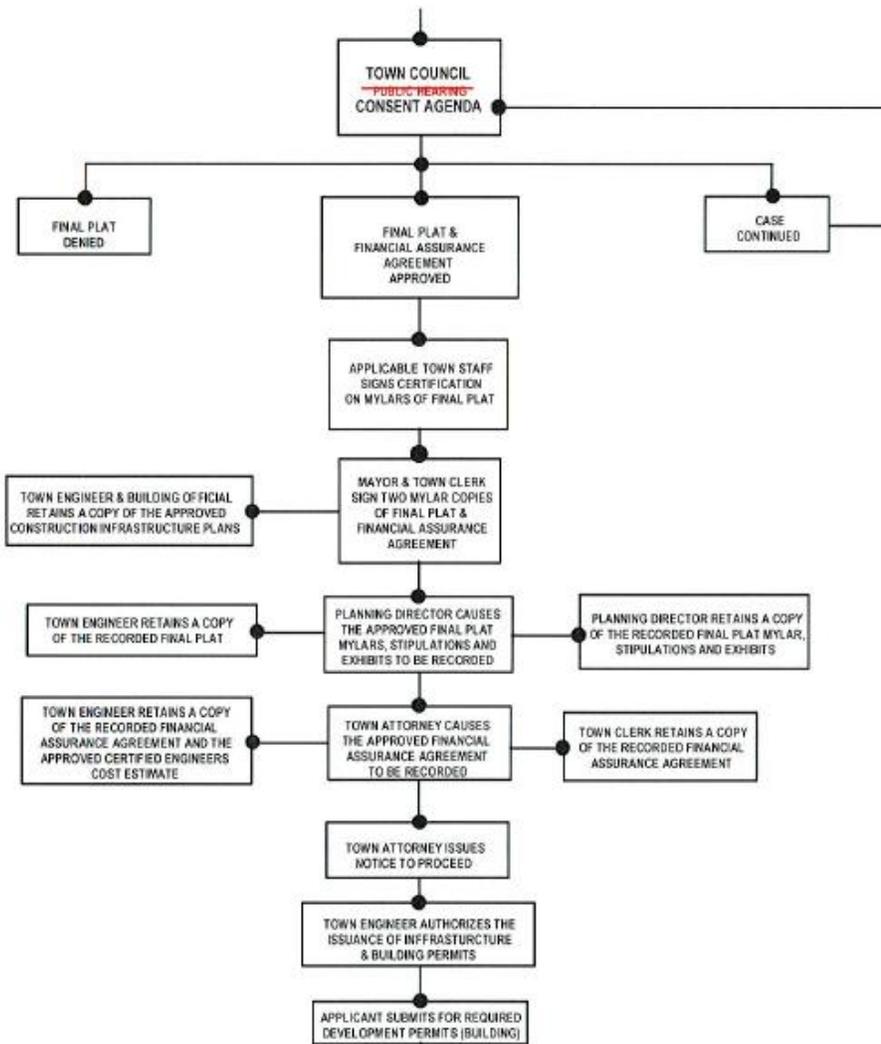
PREPARED BY L. SAHR

PAGE 2

TOWN OF CAVE CREEK

SUBDIVISION PLAT APPLICATION AND APPROVAL PROCESS

CONTINUED



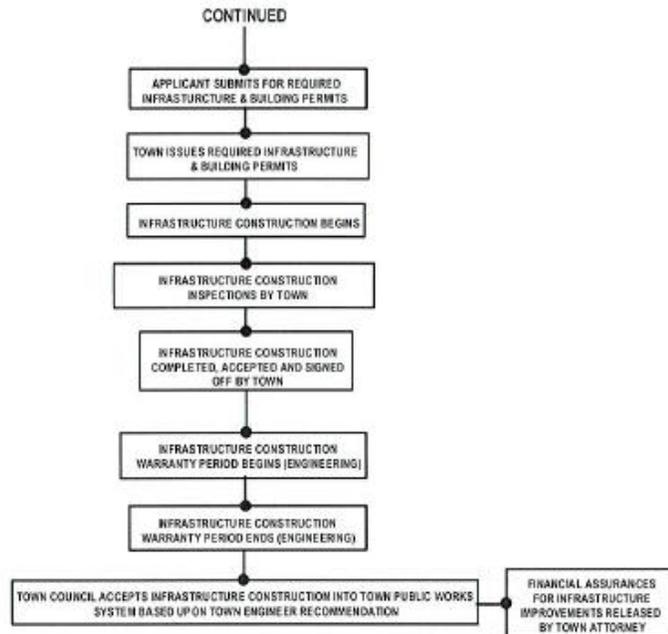
PREPARED BY: L. SAHR

CONTINUED

PAGE 3

TOWN OF CAVE CREEK

SUBDIVISION PLAT APPLICATION AND APPROVAL PROCESS



Appendix 4 - Savings Due to Subdivision Process Change

| | Savings per Case | Savings per Year Based on 3 Cases |
|---|------------------|--------------------------------------|
| Savings if the subdivision process changes are adopted: | | |
| 1. Savings from staff time preparing for meetings | \$48,000 | \$144,000 |
| 2. Eliminate two meetings involving six staff members and legal counsel | \$1,200 | \$3,600 |
| 3. Eliminate two legal notices | \$200 | \$600 |
| 4. Eliminate the need to develop and publish the minutes | \$300 | \$900 |
| | \$49,700 | \$149,100 |

Notes:

1. Staff savings estimated at 80 hours of staff time at \$600/hour. \$600/ hour based on aggregate of department employees (consulting only)
2. Savings based on 2 hours per meeting at \$600/hour
3. Savings based on 2 legal notices of \$100 each
4. Savings based on engineering rate of \$30/hour for 10 hours
5. Staff "Savings" are not really cash saved, but staff time to be devoted to other activities

Appendix 5 - Cash Flow Forecasts

The cash flow forecasts represent an important tool in projecting whether the Town will be able to meet its obligations as they become due. The basic financial statements present historical information regarding the financial performance of the Town of Cave Creek. The forecast is based on a series of assumptions and accordingly require constant updating as actual events deviate from those projected. The Committee recommends that a five year cash flow forecast becomes a new tool for use by Town Management, Council and the Mayor. It should in the normal course be updated quarterly but due to the current cash flow issues facing the Town, should include a monthly forecast to include the next twelve month period followed by a quarterly forecast for subsequent periods.

The forecasts in this report have been prepared on the basis of incorporating the recommendations submitted in this report. If any recommendations are not adopted or if additional plans are added, the forecast should be adjusted accordingly. The study by the Committee concluded that cash flow issues will indeed present a challenge during the next three years further demonstrating the importance of this tool.

Based upon the cash flow forecasts prepared by the Committee, we have concluded that subject to adopting the recommendations in the report, the Town will be able to meet its obligations through January 2010 which includes the next two debt payment periods and required cash reserves. An important aspect of the forecasting includes consideration of the restricted cash reserves required by the debt agreements. The reserves represent cash on hand which cannot be used for operating purposes or debt payments.

The forecast for calendar year 2010 presents a cash flow issue with respect to payment of the debt payments due July 1, 2010. Due to an additional debt payment for the WWTP which will not be functional and not generating new revenue until 2011, the burden of this additional debt payment will leave the Town short of sufficient funds to meet its obligations. The WWTP must be built in order to attract retail opportunities in the Carefree Highway corridor but present loan terms require debt service payments prior to revenue generation. As outlined in the notes several possibilities exist to bridge this gap and the Committee feels some combination of the possibilities will be required. The opportunities are:

1. Continue the water and sewer prepayment programs recommended for 2009
2. Negotiate upfront infrastructure improvement payments from retailers
3. Negotiate modifications to the terms proposed in the loan agreement for the WWTP such that interest only payments can be made in 2010 and 2011
4. Implementation of Cave Creek property taxes

The cash flow forecast for calendar year 2011 assumes the Town will be successful in attracting sufficient funds and modifications in order to bridge this shortfall. The alternative would be to postpone construction of the new plant and develop a new model and forecast.

The cash flow forecast for 2011 assumes the WWTP plant was constructed and operating in 2010 and new retail opportunities begin to produce revenues in 2011. Initially the revenues generated are forecast at an annual rate of \$1.4 million but increase each quarter thereafter with an annualized rate of \$2.0 million by the fourth quarter of 2011. Based on this assumption and again the continuation of the recommendations included in this report, cash flow will be sufficient to meet all obligations in 2011.

When reviewing the cash flow forecasts it is important to remember that cash flows do not agree with income statements due to timing differences. It is also very important to read the notes to the forecasts in conjunction with analysis of the cash flows incorporated in the forecasts. Finally, forecasts are based on assumptions and continuing updating of the forecasts is imperative.

CASH FLOW QUARTERLY FORECAST FEBRUARY 2009 THROUGH JANUARY 2010

| | FEBRUARY 2009 | MARCH 2009 | APRIL 2009 | MAY 2009 | JUNE 2009 | JULY 2009 |
|---|---------------|------------|--------------|--------------|--------------|--------------|
| Cash on Hand Beginning of the Month | \$ 1,138,000 | (1) | \$ 1,474,000 | \$ 1,675,460 | \$ 1,769,443 | \$ 2,034,366 |
| Less Cash Reserve Requirements Per Debt Agreement | (433,666) | | (642,070) | (696,277) | (650,484) | (64,207) |
| Net Unrestricted Cash on Hand | \$ 704,344 | \$ 750,137 | \$ 931,930 | \$ 1,079,173 | \$ 1,138,959 | \$ 1,980,159 |
| | | | | | | |
| Cash Receipts for the Month from Operations (2) | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Cash Receipts from Sales Tax Increase (3) | | | | | 36,823 | 31,473 |
| Cash Receipts from Water Rate Increase (Monthly Payers) | | | | | 222,411 | 266,893 |
| Cash Receipts from Water Rate Increase from Prepayments | | | | | 767,180 | |
| Cash Receipts from Sewer Rate Increase | | | | | | |
| Cash Receipts from Sewer Rate Increase Prepayments | | | | | | |
| Cash Receipts from Contracted Waste Collection | | | | | | |
| Cash Receipts from Rancho Manana for Water | | 136,000 | | | | |
| Cash Receipts from New Retail (Core) | | | | | | |
| Cash Receipts from New Retail (Carefree Hwy) | | | | | | |
| Cash Receipts from Permit & Other Fees from New Retail Sources | | | | | | |
| Total Expected Cash Receipts for the Month from operations | 1,000,000 | 1,136,000 | 1,000,000 | 1,000,000 | 2,026,414 | 1,296,366 |
| | | | | | | |
| Cash Expenditures for the Month from Operations (2) | (900,000) | (900,000) | (900,000) | (900,000) | (900,000) | (900,000) |
| Upgrade Desert Hills Water Treatment Plant (Mandated) | | | | | | |
| Implement Four Day Work Week | | | | | | |
| Reduce Liability Insurance | | | | | | |
| Reduce Vehicle Maintenance & Fuel | | | | | | |
| Reduce Vehicle Fleet (Insurance) | | | | | | |
| Eliminate Cleaning Services | | | | | | |
| Reduce Headcount by Two Employees | | | | | | |
| Reduce Copying Costs | | | | | | |
| Expense Resulting from Early Retirement Program | | | | | | |
| Incremental Expense to Produce New Retail Revenue | | | | | | |
| Modify Subdivision Approval Process | | | | | | |
| Total Expected Cash Expenditures for the Month from Operations | (900,000) | (900,000) | (900,000) | (900,000) | (1,131,007) | (886,007) |
| | | | | | | |
| Cash Flow from Non-Operating Activities: | | | | | | |
| Debt Payments | | | | | | |
| Harris Line of Credit Borrowings | | | | | | |
| Harris Line of Credit Repayments | | | | | | |
| Proceeds from Sale Lease Back Agreements | | | | | | |
| Proceeds from Sale of Excess Assets (Vehicles & Equipment) | | | 92,000 | | | |
| Total Cash Flow from Non-Operating Activities | | | 92,000 | | | (2,002,693) |
| | | | | | | |
| Projected Restricted Cash Surplus (Deficit) at End of Month | \$ 804,344 | \$ 986,137 | \$ 1,133,930 | \$ 1,193,166 | \$ 2,034,366 | \$ 389,925 |

| | AUGUST 2009 | SEPTEMBER 2009 | OCTOBER 2009 | NOVEMBER 2009 | DECEMBER 2009 | JANUARY 2010 |
|---|-------------|----------------|--------------|---------------|---------------|--------------|
| Cash on Hand Beginning of the Month | \$ 444,132 | \$ 815,349 | \$ 1,197,078 | \$ 1,558,627 | \$ 1,864,431 | \$ 2,140,737 |
| Less Cash Reserve Requirements Per Debt Agreement | (108,414) | (162,621) | (216,928) | (271,035) | (325,242) | (379,449) |
| Net Unrestricted Cash on Hand | \$ 335,718 | \$ 652,728 | \$ 980,150 | \$ 1,287,592 | \$ 1,539,189 | \$ 1,761,288 |
| | | | | | | |
| Cash Receipts for the Month from Operations (2) | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Cash Receipts from Sales Tax Increase (3) | 34,813 | 28,925 | 26,449 | 37,427 | 30,170 | 38,704 |
| Cash Receipts from Water Rate Increase (Monthly Payers) | 222,411 | 200,170 | 222,411 | 155,698 | 133,447 | 133,447 |
| Cash Receipts from Water Rate Increase from Prepayments | | | | | | |
| Cash Receipts from Sewer Rate Increase | | | | | | |
| Cash Receipts from Sewer Rate Increase Prepayments | (1,304) | (1,304) | (1,304) | (1,304) | (1,304) | 500 |
| Cash Receipts from Contracted Waste Collection | 39,946 | | | | | |
| Cash Receipt from Rancho Manana for Water | | | | | | |
| Cash Receipts from New Retail (Core) | | | | | | 74,000 |
| Cash Receipts from New Retail (Carefree Hwy) | | | | | | |
| Cash Receipts from Permit & Other Fees from New Retail Sources | | | | | | |
| Total Expected Cash Receipts for the Month from operations | 1,257,224 | 1,267,736 | 1,247,556 | 1,191,811 | 1,162,313 | 1,246,651 |
| | | | | | | |
| Cash Expenditures for the Month from Operations (2) | (900,000) | (900,000) | (900,000) | (900,000) | (900,000) | (900,000) |
| Upgrade Desert Hills Water Treatment Plant (Mandated) | 667 | 667 | 667 | 667 | 667 | 667 |
| Implement Four Day Work Week | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 |
| Reduce Liability Insurance | 1,742 | 1,742 | 1,742 | 1,742 | 1,742 | 1,742 |
| Reduce Vehicle Fleet (Maintenance & Fuel) | 634 | 634 | 634 | 634 | 634 | 634 |
| Eliminate Cleaning Service | 700 | 700 | 700 | 700 | 700 | 700 |
| Reduce Headcount by Two Employees | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 |
| Reduce Copying Costs | 750 | 750 | 750 | 750 | 750 | 750 |
| Expense Resulting from Early Retirement Program | | | | | | |
| Incremental Expense to Produce New Retail Revenue | | | | | | |
| Modify Subdivision Approval Process | | | | | | |
| Total Expected Cash Expenditures for the Month from Operations | (886,007) | (886,007) | (886,007) | (886,007) | (886,007) | (886,007) |
| | | | | | | |
| Cash Flow from Non-Operating Activities: | | | | | | |
| Debt Payments | | | | | | (950,029) |
| Harris Line of Credit Borrowings | | | | | | |
| Harris Line of Credit Repayments | | | | | | |
| Proceeds from Sale Lease Back Agreements | | | | | | |
| Proceeds from Sale of Excess Assets (Vehicles & Equipment) | | | | | | |
| Total Cash Flow from Non-Operating Activities | | | | | | (850,029) |
| Projected Restricted Cash Surplus (Deficit) at End of Month | \$ 706,935 | \$ 1,034,457 | \$ 1,341,799 | \$ 1,593,396 | \$ 1,815,495 | \$ 1,171,903 |

NOTES FOR CASH FLOW FORECAST FEBRUARY 2009 THROUGH JANUARY 2010:

CASH INFLOWS AND OUTFLOWS DO NOT MATCH REVENUE AND EXPENSE RECOGNIZED ON THE INCOME STATEMENT DUE TO TIMING DIFFERENCES

1. REFLECTS ACTUAL CASH BALANCE AT FEBRUARY 1, 2009
2. DEBT AGREEMENTS REQUIRE RESERVE BALANCE (RESTRICTED CASH) AT EACH MONTH END
3. REFLECTS ACTUAL OPERATING LEVEL AT FEBRUARY 1, 2009
4. REFLECTS 2 MONTH LAG IN COLLECTION OF SALES TAX
5. SEE APPENDICES 6-10, PAGES 44-48 FOR CALCULATIONS OF WATER RATE REVENUE
6. SEE APPENDIX 11, PAGE 49 FOR CALCULATION OF SEWER RATE REVENUE
7. RANCHO MANANA IS REQUIRED TO PREPAY PORTIONS OF WATER
8. SEE APPENDIX 2, PAGE 28 FOR CALCULATIONS OF 4 DAY WEEK SAVINGS
9. PER QUOTE FROM CARRIER
10. SEE APPENDIX 2, PAGE 28 and APPENDICES 12-13, PAGES 50-51 FOR CALCULATIONS OF FLEET REDUCTION SAVINGS
11. CURRENT MONTHLY CLEANING SERVICE FEE
12. SEE APPENDIX 2, PAGE 28 FOR ASSUMPTION OF ADDITIONAL STAFF REDUCTIONS
13. SEE APPENDIX 2, PAGE 28 FOR ASSUMPTIONS OF REDUCING COPYING/PAPER COSTS
14. SEE APPENDIX 2, PAGE 28 and APPENDICES 12-13, PAGES 50-51 FOR CALCULATIONS OF FLEET REDUCTION SAVINGS

CASH FLOW QUARTERLY FORECAST JANUARY THROUGH DECEMBER 2010

| | JAN TO MAR 2010 | APR TO JUN 2010 | JUL TO SEP 2010 | OCT TO DEC 2010 |
|--|---------------------|---------------------|---------------------|---------------------|
| Cash on Hand Beginning of the Quarter | \$ 2,076,860 | \$ 1,753,943 | \$ 2,569,538 | \$ 1,341,742 |
| Less Debt agreement Cash Reserves Excluding WWTP (2) | (379,449) | (650,484) | (162,621) | (325,242) |
| Less Debt agreement Cash Reserves WWTP (2) | (284,440) | (379,253) | (94,813) | (189,627) |
| Net Unrestricted Cash on Hand | <u>\$ 1,412,971</u> | <u>\$ 724,206</u> | <u>\$ 2,312,104</u> | <u>\$ 826,873</u> |
| | | | | |
| Cash Receipts for the Month from Operations (3) | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 |
| Cash Receipts from Sales Tax Increase (4) | 99,869 | 110,876 | 95,211 | 95,046 |
| Cash Receipts from Water Rate Increase (Monthly Payers) (5) | 400,341 | 708,630 | 955,698 | 709,066 |
| Cash Receipts from Water Rate Increase from Prepayments (6) | 0 | 0 | 0 | 0 |
| Cash Receipts from Sewer Rate Increase (5) | (3,912) | (3,912) | (185) | 7,268 |
| Cash Receipts from Sewer Rate Increase Prepayments (6) | 0 | 0 | 0 | 0 |
| Cash Receipts from Contracted Waste Collection (No Benefit until 2010) (7) | 36,000 | 0 | 45,000 | 45,000 |
| Cash Receipt from Rancho Manana for Water (8) | | | | |
| Cash Receipts from New Retail (Core) (9) | | | | |
| Cash Receipts from New Retail (Carefree Hwy) (9) | | | | |
| Cash Receipts from Permit & Other Fees from New Retail Sources (9) | | | | |
| Total Expected Cash Receipts for the Quarter from operations | <u>3,532,298</u> | <u>3,815,594</u> | <u>4,095,723</u> | <u>3,856,380</u> |
| | | | | |
| Cash Expenditures for the Month from Operations (3) | (2,700,000) | (2,700,000) | (2,700,000) | (2,700,000) |
| Implement Four Day Work Week (10) | 2,001 | 2,001 | 2,001 | 2,001 |
| Reduce Liability Insurance (11) | 4,500 | 4,500 | 4,500 | 4,500 |
| Reduce Vehicle Fleet (Maintenance & Fuel) (12) | 5,226 | 5,226 | 5,226 | 5,226 |
| Reduce Vehicle Fleet (Insurance) (12) | 1,902 | 1,902 | 1,902 | 1,902 |
| Eliminate Cleaning Service (13) | 2,100 | 2,100 | 2,100 | 2,100 |
| Reduce Headcount by Two Employees (14) | 24,000 | 24,000 | 24,000 | 24,000 |
| Reduce Copying Costs (15) | 2,250 | 2,250 | 2,250 | 2,250 |
| Expense Resulting from Early Retirement Program | | | | |
| Incremental Expense to Produce New Retail Revenue (9) | | | | |
| Modify Subdivision Approval Process (16) | | | | |
| Total Expected Cash Expenditures for the Quarter from Operations | <u>(2,620,746)</u> | <u>(2,620,746)</u> | <u>(2,620,746)</u> | <u>(2,620,746)</u> |
| | | | | |
| Cash Flow from Non-Operating Activities: | | | | |
| Debt Payments Excluding Water Treatment Plant | | | | |
| Debt Payment for water Treatment Plant | (950,029) | | (2,828,710) | |
| Harris Line of Credit Borrowings (17) | | | (1,779,250) | |
| Proceeds from Credit Repayments (17) | | | 500,000 | |
| Proceeds from Sale Lease Back Agreements | | | (500,000) | |
| Other Sources - See Note (18) | | | | |
| Total Cash Flow from Non-Operating Activities | <u>(950,029)</u> | | <u>(2,607,960)</u> | <u>-</u> |
| | | | | |
| Projected Restricted Cash Surplus (Deficit) at End of Quarter | <u>\$ 1,374,494</u> | <u>\$ 1,919,054</u> | <u>\$ 1,179,121</u> | <u>\$ 2,062,507</u> |

NOTES FOR CASH FLOW FORECAST JANUARY THROUGH DECEMBER 2010

CASH INFLOWS AND OUTFLOWS DO NOT MATCH REVENUE AND EXPENSE RECOGNIZED ON THE INCOME STATEMENT DUE TO TIMING DIFFERENCES

1. CASH BALANCE CARRIED OVER FROM 2009 CASH FLOW FORECAST
2. DEBT AGREEMENTS REQUIRE RESERVE BALANCE (RESTRICTED CASH) AT EACH MONTH END
3. REFLECTS ACTUAL OPERATING LEVEL FROM 2009
4. REFLECTS 2 MONTH LAG IN COLLECTION OF SALES TAX AND NO INCREASE FROM 2009
5. REFLECTS 2009 INCREMENTAL RATE REVENUE WITH REDUCED 1ST HALF RECEIPTS IN 2010 DUE TO PREVIOUS YEARS PREPAYMENTS
6. ASSUMES NO PREPAYMENT PLAN OFFERED IN 2010
7. ASSUMES CONTRACTED WASTE COLLECTION BEGINS JULY 2010
8. RANCHO MANANA IS REQUIRED TO PREPAY PORTION OF WATER
9. SEE APPENDIX 2, Page 28 FOR CALCULATIONS OF 4 DAY WEEK SAVINGS
10. PER QUOTE FROM CARRIER
11. SEE APPENDIX 2, PAGE 28 and APPENDICES 12-13, PAGES 50-51 FOR CALCULATION OF FLEET REDUCTION SAVINGS
12. SEE APPENDIX 2, PAGE 28 FOR CLEANING SERVICE ELIMINATION SAVINGS
13. SEE APPENDIX 2, PAGE 28 FOR CALCULATION OF ADDITIONAL STAFF REDUCTION SAVINGS
14. SEE APPENDIX 2, PAGE 28 FOR CALCULATION OF COPYING/PAPER REDUCTION SAVINGS
15. DUE TO ADDITIONAL DEBT SERVICE FROM WWTP CONSTRUCTION, LINE OF CREDIT BORROWINGS WILL BE REQUIRED IN THE 3RD QUARTER
16. DUE TO ADDITIONAL DEBT SERVICE FROM WWTP CONSTRUCTION, ADDITIONAL SOURCES OF FUNDS WILL BE REQUIRED.

ONE OR MORE OF THE FOLLOWING SOURCES CAN ADDRESS THE PROJECTED SHORTFALL:

- A. CONTINUING THE WATER AND SEWER PREPAYMENT PROGRAMS RECOMMENDED IN 2009
- B. NEGOTIATING UPFRONT INFRASTRUCTURE IMPROVEMENT PAYMENTS FROM WAL-MART AT INCEPTION OF CONSTRUCTION
- C. NEGOTIATING MODIFICATIONS TO THE WIFA WWTP LOAN TO ALLOW INTEREST ONLY PAYMENTS
- D. IMPLEMENTATION OF TOWN OF CAVE CREEK PROPERTY TAXES

CASH FLOW QUARTERLY FORECAST JANUARY THROUGH DECEMBER 2011

| | JAN TO MAR 2011 | APR TO JUN 2011 | JUL TO SEP 2011 | OCT TO DEC 2011 |
|--|---------------------|---------------------|---------------------|---------------------|
| Cash on Hand Beginning of the Quarter | \$ 1,924,081 | \$ 2,224,528 | \$ 3,650,884 | \$ 726,363 |
| Less Debt agreement Cash Reserves Excluding WWTP (2) | (487,863) | (650,484) | (162,621) | (325,242) |
| Less Debt agreement Cash Reserves WWTP (2) | (284,440) | (379,253) | (94,813) | (189,627) |
| Net Unrestricted Cash on Hand | <u>\$ 1,151,778</u> | <u>\$ 1,194,791</u> | <u>\$ 3,393,450</u> | <u>\$ 211,494</u> |
| Cash Receipts for the Month from Operations (3) | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 |
| Cash Receipts from Sales Tax Increase (4) | 99,869 | 110,876 | 95,211 | 95,046 |
| Cash Receipts from Water Rate Increase (Monthly Payers) (5) | 854,921 | 863,211 | 955,698 | 709,066 |
| Cash Receipts from Water Rate Increase from Prepayments (6) | 0 | 0 | 0 | 0 |
| Cash Receipts from Sewer Rate Increase (5) | 7,268 | 7,268 | 7,268 | 7,268 |
| Cash Receipts from Sewer Rate Increase Prepayments (6) | 0 | 0 | 0 | 0 |
| Cash Receipts from Contracted Waste Collection (No Benefit until 2010) (7) | 45,000 | 45,000 | 45,000 | 45,000 |
| Cash Receipt from Rancho Manana for Water (8) | 36,000 | | | |
| Cash Receipts from New Retail (Core) (9) | 350,000 | 400,000 | 450,000 | 500,000 |
| Cash Receipts from Permit & Other Fees from New Retail Sources (9) | | | | |
| Total Expected Cash Receipts for the Quarter from operations | <u>4,093,058</u> | <u>4,426,355</u> | <u>4,553,176</u> | <u>4,356,380</u> |
| Cash Expenditures for the Month from Operations (10) | (2,620,746) | (2,620,746) | (2,620,746) | (2,620,746) |
| Incremental Expense to Produce New Retail Revenue (9) | | | | |
| Total Expected Cash Expenditures for the Quarter from Operations | <u>(2,620,746)</u> | <u>(2,620,746)</u> | <u>(2,620,746)</u> | <u>(2,620,746)</u> |
| Cash Flow from Non-Operating Activities: | | | | |
| Debt Payments Excluding Water Treatment Plant | (887,425) | | (2,865,871) | |
| Debt Payment for water Treatment Plant | - | | (1,896,267) | |
| Harris Line of Credit Borrowings | | | | |
| Harris Line of Credit Repayments | | | | |
| Proceeds from Sale Lease Back Agreements | | | | |
| Other Sources | | | | |
| Total Cash Flow from Non-Operating Activities | <u>(887,425)</u> | | <u>(4,762,138)</u> | <u>-</u> |
| Projected Restricted Cash Surplus (Deficit) at End of Quarter | <u>\$ 1,736,665</u> | <u>\$ 3,000,400</u> | <u>\$ 563,742</u> | <u>\$ 1,947,128</u> |

NOTES FOR CASH FLOW FORECAST JANUARY THROUGH DECEMBER 2011

CASH INFLOWS AND OUTFLOWS DO NOT MATCH REVENUE AND EXPENSE RECOGNIZED ON THE INCOME STATEMENT DUE TO TIMING DIFFERENCES

1. CASH BALANCE CARRIED OVER FROM 2010 CASH FLOW FORECAST
2. DEBT AGREEMENTS REQUIRE RESERVE BALANCE (RESTRICTED CASH) AT EACH MONTH END
3. REFLECTS ACTUAL OPERATING LEVEL FROM 2009
4. REFLECTS 2 MONTH LAG IN COLLECTION OF SALES TAX AND NO INCREASE FROM 2009
5. REFLECTS 2009 INCREMENTAL RATE REVENUE FROM RATE INCREASE
6. ASSUMES NO PREPAYMENT PLAN OFFERED IN 2011
7. ASSUMES CONTRACTED WASTE COLLECTION BEGINS JULY 2010
8. RANCHO MANANA IS REQUIRED TO PREPAY PORTION OF WATER
9. ASSUMES WAL-MART BECOMES FULLY OPERATIONAL IN JANUARY 2011 WITH SALES TAX REVENUES STARTING AT \$1.7M (\$3.0M IN 2013) BUT ASSUMES NO OTHER NEW RETAIL FROM 2009 LEVEL AS ADDITIONAL STUDY IS NEEDED. FURTHER ASSUMES ALL UPFRONT COSTS ASSOCIATED WITH WAL-MART ADDITION ARE COVERED BY NEGOTIATED PREPAYMENTS FROM WAL-MART
10. COST SAVINGS RECOMMENDED BY COMMITTEE HAVE BEEN COMBINED WITH ONGOING CASH EXPENDITURES FOR THIS ANALYSIS. REVENUE ENHANCEMENT RECOMMENDATIONS REMAIN IN ANALYSIS AS PREPAYMENTS CONTINUE AS AN OPTION

Appendix 6 - Water Rate Change and Prepay Calculations - Cave Creek Water Utility - Residential

| | | | | | |
|---------------------------------------|----------------|---------------------------|---|------------------------|------------------------|
| Residential Customers (Base) 1/09 | 2239 | | | | |
| Residential Customers (Usage) 1/09 | 1960 | | | | |
| Average Usage based on 6/08 and 12/08 | 16,786 | | | | |
| Rates | Current | New | | Current | New |
| Base 1" residential + 1000 gals | \$ 18.00 | \$ 50.00 | | \$ 18.00 | \$ 50.00 |
| Over 1,000 gallons | \$ 2.46 | \$ - per 1,000 gallons | | \$ 38.83 | |
| Tier 1 (0-10,000 gals) | \$ - | \$ 3.25 per 1,000 gallons | | | \$ 32.50 |
| Tier 2 (10,001-20,000 gals) | \$ - | \$ 4.50 per 1,000 gallons | | | \$ 30.54 |
| Tier 3 (20,001-30,000 gals) | \$ - | \$ 5.75 per 1,000 gallons | | | |
| Tier 4 (30,001-50,000 gals) | \$ - | \$ 7.50 per 1,000 gallons | | | |
| Tier 5 (over 50,000 gals) | \$ - | \$ 9.25 per 1,000 gallons | | | |
| | | | Average Bill Total (incl 9.4% tax) | \$ 62.18 | \$ 123.66 |
| | | | Annual Revenues | \$ 1,462,377.51 | \$ 3,322,563.46 |

| Prepay Calculations | |
|---------------------------------|---------------|
| Prepay 12 Months | |
| 10% | |
| 196 | |
| 12% | |
| Total Dollars Prepaid | \$ 255,951.65 |
| Lost Revenues (due to Discount) | \$ 34,902.50 |
| Prepay 6 Months | |
| 10% | |
| 196 | |
| 8% | |
| Total Dollars Prepaid | \$ 133,792.91 |
| Lost Revenues (due to Discount) | \$ 11,634.17 |

Appendix 7 - Water Rate Change and Prepay Calculations - Cave Creek Water Utility - Commercial

| | | | | | |
|---|--------|------|-------|---------------------|----------------------|
| Commercial Customers (Base) | 110 | | | | |
| Commercial Customers (Usage) | 61 | | | | |
| Average Usage based on 8/08 and 1/09 | 29,455 | | | | |
| Base 1" commercial + 1000 gals | | \$ | 78.00 | \$ | 18.00 \$ 224.00 |
| Over 1,000 gallons | \$ | 2.46 | \$ | - per 1,000 gallons | \$ 72.46 |
| Tier 1 (0-10,000 gals) | | \$ | 3.25 | per 1,000 gallons | \$ 32.50 |
| Tier 2 (10,001-20,000 gals) | | \$ | 4.50 | per 1,000 gallons | \$ 45.00 |
| Tier 3 (20,001-30,000 gals) | | \$ | 5.75 | per 1,000 gallons | \$ 54.37 |
| Tier 4 (30,001-50,000 gals) | | \$ | 7.50 | per 1,000 gallons | |
| Tier 5 (over 50,000 gals) | | \$ | 9.25 | per 1,000 gallons | |
| Average Bill Total (incl 9.4% tax) | | | | \$ 98.96 | \$ 389.32 |
| Annual Revenues | | | | \$ 72,440.53 | \$ 513,899.33 |

| Prepay Calculations | | | |
|---------------------------------|-----|----|-----------|
| Prepay 12 Months | | | |
| % | 10% | | |
| # | 11 | | |
| P | 12% | | |
| Total Dollars Prepaid | | \$ | 45,223.14 |
| Lost Revenues (due to Discount) | | \$ | 6,166.79 |
| Prepay 6 Months | | | |
| % | 10% | | |
| # | 11 | | |
| P | 8% | | |
| Total Dollars Prepaid | | \$ | 23,639.37 |
| Lost Revenues (due to Discount) | | \$ | 2,055.60 |

Total Revenues Cave Creek Water Company \$ 1,534,818.04 \$ 3,836,462.79

Appendix 8 - Water Rate Change and Prepay Calculations - Desert Hills Water Utility - Residential

| | | | | |
|-----------------------------|---|----------|------------------------|------------------------|
| Residential Customers | 1740 | | | |
| Average Usage | 12,065 | | | |
| Rates | Current | New | | |
| Base 1" residential | \$ 35.00 | \$ 50.00 | \$ 35.00 | \$ 50.00 |
| Over 0 gallons | \$ 2.61 | \$ - | \$ 28.88 | |
| Tier 1 (0-10,000 gals) | \$ - | \$ 3.25 | | \$ 32.50 |
| Tier 2 (10,001-20,000 gals) | \$ - | \$ 4.50 | | \$ 9.29 |
| Tier 3 (20,001-30,000 gals) | \$ - | \$ 5.75 | | |
| Tier 4 (30,001-50,000 gals) | \$ - | \$ 7.50 | | |
| Tier 5 (over 50,000 gals) | \$ - | \$ 9.25 | | |
| | Average Bill Total (incl 9.4% tax) | | \$ 69.88 | \$ 100.42 |
| | Annual Revenues | | \$ 1,459,184.96 | \$ 2,096,790.38 |

| Prepay Calculations | |
|---------------------------------|---------------|
| Prepay 12 Months | |
| ‘ | 10% |
| ; | 174 |
| | 12% |
| Total Dollars Prepaid | \$ 184,517.55 |
| Lost Revenues (due to Discount) | \$ 25,161.48 |
| Prepay 6 Months | |
| ‘ | 10% |
| ; | 174 |
| | 8% |
| Total Dollars Prepaid | \$ 96,452.36 |
| Lost Revenues (due to Discount) | \$ 8,387.16 |

Appendix 9 - Water Rate Change and Prepay Calculations - Desert Hills Water Utility - Commercial

| | | | | | | |
|---|----|--------|----|-------|-----------|--------------------------------|
| Commercial Customers | | 19 | | | | |
| Average Usage | | 82,363 | | | | |
| Base 1" commercial + 1000 gals | \$ | 35.00 | \$ | 78.00 | \$ | 35.00 \$ 224.00 |
| Over 1,000 gallons | \$ | 2.61 | \$ | - | \$ | 214.97 |
| Tier 1 (0-10,000 gals) | \$ | - | \$ | 3.25 | \$ | 32.50 |
| Tier 2 (10,001-20,000 gals) | \$ | - | \$ | 4.50 | \$ | 45.00 |
| Tier 3 (20,001-30,000 gals) | \$ | - | \$ | 5.75 | \$ | 57.50 |
| Tier 4 (30,001-50,000 gals) | \$ | - | \$ | 7.50 | \$ | 75.00 |
| Tier 5 (over 50,000 gals) | \$ | - | \$ | 9.25 | \$ | 391.86 |
| Average Bill Total (incl 9.4% tax) | | | | | \$ | 273.46 \$ 903.49 |
| Annual Revenues | | | | | \$ | 62,349.88 \$ 205,995.35 |

| Prepay Calculations | | | |
|---------------------------------|-----|----|-----------|
| Prepay 12 Months | | | |
| % | 10% | | |
| # | 2 | | |
| P | 12% | | |
| Total Dollars Prepaid | | \$ | 18,127.59 |
| Lost Revenues (due to Discount) | | \$ | 2,471.94 |
| Prepay 6 Months | | | |
| % | 10% | | |
| # | - | | |
| P | 8% | | |
| Total Dollars Prepaid | | \$ | 9,475.79 |
| Lost Revenues (due to Discount) | | \$ | 823.98 |

| | | | | |
|--|-----------|---------------------|-----------|---------------------|
| Total Revenues Desert Hills Water Company | \$ | 1,521,534.83 | \$ | 2,302,785.73 |
|--|-----------|---------------------|-----------|---------------------|

Appendix 10 - Water Rate Change and Prepay Calculations - Combined

| | | |
|--|------------------------|------------------------|
| Total Revenues Combined Water Companies | \$ 3,056,352.88 | \$ 6,139,248.52 |
| Delta Between New and Old Rate Structures | | \$ 3,082,895.64 |
| Total Dollars Prepaid | | \$ 767,180.36 |
| Total Lost Revenues Due to Discount | | \$ 91,603.62 |
| Remaining Delta to be Spread Across 12 Months | | \$ 2,224,111.66 |
| Remaining Delta per Month | | \$ 185,342.64 |
| Total Customers | Base | 4,108 |
| | Usage | 3,780 |
| Total Customers Prepaying | 12 months | 383 |
| | 6 months | 381 |
| | Total | 764 |

Appendix 11 - Sewer Rate Change and Prepay Calculations

Cave Creek Sewer

| | |
|-------------------------------|-----|
| Residential Customers (Base) | 364 |
| Residential Customers (Usage) | 1 |
| Commercial Customers (Base) | 81 |
| Commercial Customers (Usage) | 17 |

| | Customers | Average Monthly Bill | Monthly Revenue | Annual Revenue |
|------------|-----------|----------------------|-----------------|----------------|
| Now | 445 | \$ 50.38 | \$ 22,419.08 | \$ 269,029.00 |
| Planned | 445 | \$ 55.82 | \$ 24,841.65 | \$ 298,099.75 |
| Difference | | | | \$ 29,070.75 |

| Prepay Calculations | | | |
|---------------------------------|-----|----|-----------|
| Prepay 12 Months | | | |
| % | 10% | | |
| # | 45 | | |
| F | 12% | | |
| Total Dollars Prepaid | | \$ | 26,232.78 |
| Lost Revenues (due to Discount) | | \$ | 3,577.20 |
| Prepay 6 Months | | | |
| % | 10% | | |
| # | 45 | | |
| F | 8% | | |
| Total Dollars Prepaid | | \$ | 13,712.59 |
| Lost Revenues (due to Discount) | | \$ | 1,192.40 |

| | | |
|--|-----------|--------------------|
| Total Dollars Prepaid | \$ | 39,945.37 |
| Total Lost Revenues Due to Discount | \$ | 4,769.60 |
| Remaining Delta to be Spread Across 12 Months | \$ | (15,644.21) |
| Remaining Delta per Month | \$ | (1,303.68) |

| | | |
|----------------------------------|------------------|-----------|
| Total customers prepaying | 12 months | 45 |
| | 6 months | 45 |
| | Total | 90 |

Appendix 12 - Items To Be Considered For Sale/Leaseback

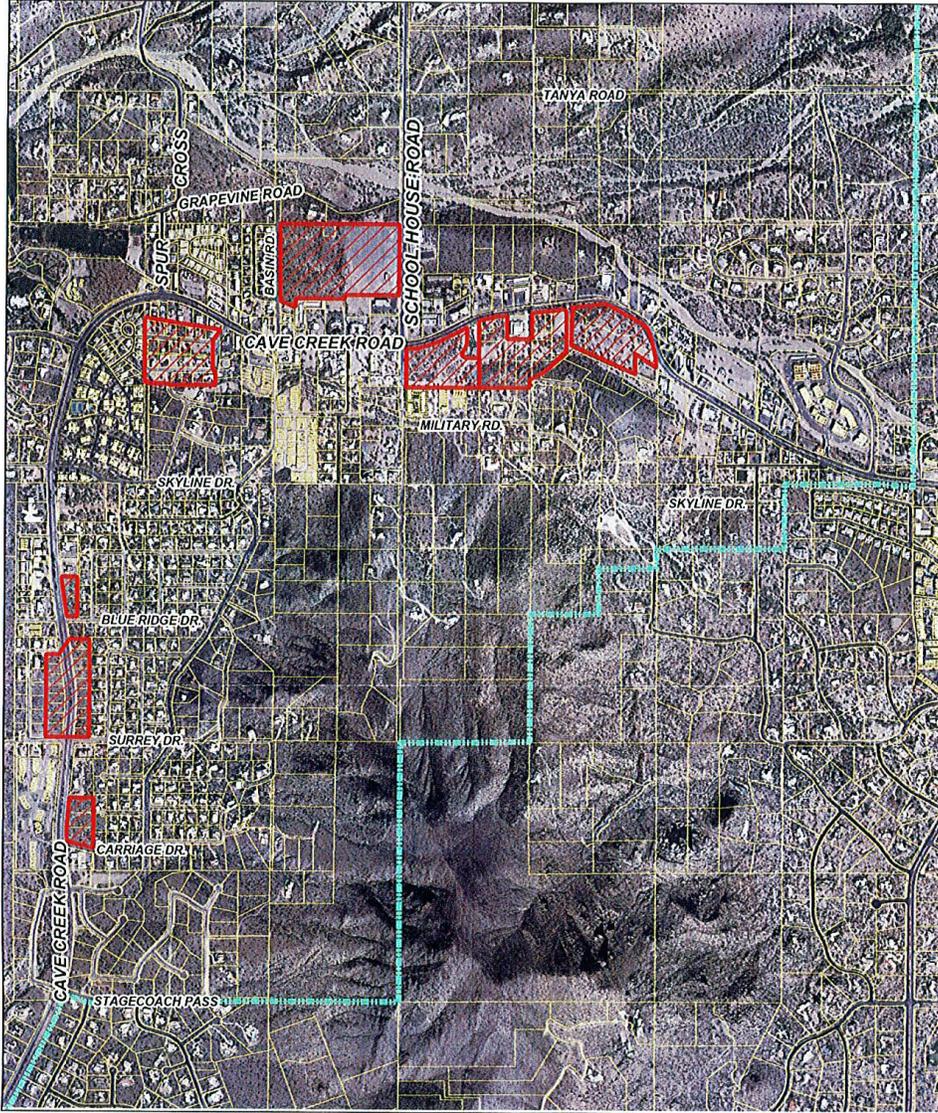
| Asset ID | Description | Acq Date | Quantity | Asset Cost | Depreciation | Net Amount | |
|----------------|------------------------------------|------------|----------|------------|---------------------|-------------------|-------------------|
| 000002000-0004 | BACKHOE | 1/1/1993 | 1 | 95,500.00 | 95,500.00 | 0 | |
| 000002000-0009 | MOTOR GRADER | 1/1/1993 | 1 | 96,314.00 | 96,314.00 | 0 | |
| 000002000-0013 | ZIEMAN LOWBOY | 2/1/2000 | 1 | 18,014.00 | 15,311.90 | 2,702.10 | |
| 000002000-0015 | '98 INT'L CHASSIS W/SWAPLOADE | 11/1/1998 | 1 | 58,884.00 | 55,939.80 | 2,944.20 | |
| 000002000-0016 | 2000 INTERNATIONAL WATER TRUCK | 2/17/2000 | 1 | 107,103.00 | 91,037.55 | 16,065.45 | |
| 000002000-0021 | PNEUMATIC TIRE ROLLER | 12/1/2003 | 1 | 45,699.00 | 20,564.55 | 25,134.45 | |
| 000002000-0023 | LOADER LANDSCAPER | 10/1/2003 | 1 | 37,774.00 | 16,998.30 | 20,775.70 | |
| 000002000-0040 | 2007 M2 FREIGHTLINER/ELGIN BROOM | 2/9/2007 | 1 | 182,087.96 | 27,313.19 | 154,774.77 | |
| 000002000-0041 | BANDIT M250 CHIPPER | 1/12/2007 | 1 | 29,615.50 | 4,442.33 | 25,173.18 | |
| 000002000-0872 | AIR COMPRESSOR/STARTUP KIT | 12/6/2000 | 1 | 22,266.00 | 22,266.00 | 0 | |
| 000002000-1002 | 2008 SKID STEER LOADER/BOBCAT | 11/27/2007 | 1 | 69,056.44 | 3,452.82 | 65,603.62 | |
| 000002000-1003 | AMERICAN ROLLOFF HOOK ALL HOOKLIFT | 6/27/2008 | 1 | 37,122.18 | 1,856.11 | 35,266.07 | |
| 000007000-0009 | 2003 SUPER CREW FORD PICKUP | 9/9/2002 | 1 | 26,173.95 | 14,395.67 | 11,778.28 | |
| 000007000-0017 | 2005 FORD RANGER | 9/4/2004 | 1 | 17,860.40 | 0 | 17,860.40 | |
| 000007000-0018 | 2005 FORD RANGER | 9/4/2004 | 1 | 17,860.40 | 0 | 17,860.40 | |
| 000007000-0019 | 2004 DODGE DURANGO | 8/20/2004 | 1 | 22,100.00 | 0 | 22,100.00 | |
| 000007000-0020 | FORD F350 PICKUP 2005 | 5/16/2005 | 1 | 33,385.97 | 11,685.09 | 21,700.88 | |
| 000007000-0021 | 2006 DODGE DURANGO SUV | 5/19/2006 | 1 | 13,995.31 | 3,498.83 | 10,496.48 | |
| 000007000-0022 | 2006 FORD F350 CREW CAB TRUCK | 5/9/2006 | 1 | 29,601.45 | 7,400.37 | 22,201.09 | |
| 000007000-0023 | ALL TERRAIN VEHICLE/ GATOR | 5/5/2006 | 1 | 10,709.71 | 2,677.43 | 8,032.28 | |
| 000007000-0027 | 2007 DODGE DURANGO SXT 4X4 | 9/11/2007 | 1 | 23,711.33 | 1,693.67 | 22,017.66 | |
| 000007000-0028 | 1997 INTERNAT'L 4700 LP AMBULANCE | 6/18/2008 | 1 | 19,000.00 | 1,357.14 | 17,642.86 | |
| 000007000-0029 | 2009 INTERNATIONAL 4400 | 6/26/2008 | 1 | 65,502.15 | 4,678.73 | 60,823.43 | |
| 000007000-0033 | 2007 DODGE DURANGO TRUCK | 7/1/2007 | 1 | 23,711.33 | 1,693.67 | 22,017.66 | |
| | | | | 24 | \$ 1,103,048 | \$ 500,077 | \$ 602,971 |

Appendix 13 - Items To Be Sold

| Asset ID | Description | Acq Date | Quantity | Unit Cost | Asset Cost | Depreciation | Net Amount |
|-----------------|------------------------------|-----------------|-----------------|-------------------|-------------------|---------------------|-------------------|
| 000000100-0013 | DRILL PRESS | 6/1/1998 | 1 | 2,242.00 | 2,242.00 | 0 | 2,242.00 |
| 000000100-0015 | ALLIED ASPHALT CUTTER | 6/15/1995 | 1 | 1,284.00 | 1,284.00 | 0 | 1,284.00 |
| 000000100-0016 | LINCOLN 250 WIREMATIC WELDER | 4/27/1995 | 1 | 1,908.90 | 1,908.90 | 0 | 1,908.90 |
| 000002000-0014 | SPRAY MASTER W/MAXI-AIR | 2/1/2000 | 1 | 21,330.00 | 21,330.00 | 18,130.50 | 3,199.50 |
| 000004000-1003 | LANIER 5622 DIGITAL COPIER | 4/2/2002 | 1 | 6,851.00 | 6,851.00 | 4,453.15 | 2,397.85 |
| 000007000-0005 | 2001 CHEVROLET TAHOE | 5/31/2001 | 1 | 35,003.71 | 35,003.71 | 26,252.78 | 8,750.93 |
| 000007000-0008 | WHITE FORD RANGER | 2/9/1998 | 1 | 16,990.00 | 16,990.00 | 16,990.00 | 0 |
| 000007000-0016 | 1998 DODGE DAKOTA PICKUP | 9/1/1998 | 1 | 13,430.57 | 13,430.57 | 12,759.04 | 671.53 |
| 000008701-0003 | 2007 JEEP LIBERTY | 6/30/2007 | 1 | 19,298.68 | 19,298.68 | 4,135.43 | 15,163.25 |
| | | | 9 | \$ 118,339 | \$ 118,339 | \$ 82,721 | \$ 35,618 |

Appendix 14 - Development Sites Map

CAVE CREEK - TOWN CORE



LEGEND

- - - - - Town Boundary
- - - - - Parcel Boundary
- Undeveloped Commercial Parcels

SCALE



Printing Date: March 10th, 2009
 File: TOCC - TOWN CORE - UNDEVELOPED LAND -
 B - AERIAL - 31009.mxd
 Prepared By: L. Sahr
 Coordinate System: NAD 1983 StatePlane Arizona Central
 FIPS 0202 Feet
 Title: Cave Creek - Town Core
 "Seabee's Can Do!"



OFFICE
OF THE
MAYOR

SETTLED 1870 · INCORPORATED 1986

April 29, 2009

Scott Dahne
P O Box 4668
Cave Creek, AZ 85327

Dear Scott:

At my request, a few weeks ago, I met with Kathryn Bosco, Chairwoman of the Cave Creek Citizens for the Future Task Force. The purpose of the meeting was to become acquainted with the White Paper. To say that I am impressed with your work would be an understatement.

The comprehensive recommendations of the White Paper will be instrumental in guiding a new economic vision for the Town's future well being. On behalf of the community I serve I sincerely thank you for your hard work, dedication and finished product.

Your assignment began by addressing a singular question: What should be the new economic model for the Town? The recommendations found in the White Paper serve as guidelines and inspiration in answering that question. The White Paper is now a public document and will be posted in its entirety on the Town's web site. This completes the mission of the Task Force. It will now be the responsibility of new Council and staff to implement these recommendations into action.

The White Paper is scheduled to be presented to the community at the special Council meeting on June 8th. I hope you will be able to attend this meeting since I want to acknowledge you and your fellow Task Force members' volunteerism, work and service to this community.

Sincerely,

Mayor Vincent Francia

VF:ba