

Town of Cave Creek, Arizona

Financial Condition Analysis

Prepared by: Terry Zerkle

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This unsolicited financial condition analysis report was prepared in an effort to achieve a level of common understanding of the current financial crisis besetting Cave Creek Town Government; how it got to where it is; what course corrections and changes in policy and direction should be examined and considered; and what financial options the Town's elected leaders have.

This report is not intended to be the final word or end all in the discussion and analysis of the Town's finances; rather is offered as a management perspective and one person's view to be considered with other viewpoints to arrive at a common understanding and rational plan of action to be followed by responsible, accountable and fully transparent elected official actions to move the Town from financial crisis to financial recovery and stability.

Portions of the report are based on sketchy financial data, since to date the Town has chosen not to report or make available to its citizens financial data in a timely, summarized, easily obtainable manner. The Town's Certified Audited Financial Report (CAFR) for FY 2007-2008, ending June 30, 2008, was not yet available publicly at the time this report was prepared.

In preparing the report, the author relied on unaudited monthly financial revenue/expenditure reports (nevertheless revealing), newspaper accounts, elected and appointed official public statements, and prior written and verbal communications with the Mayor, Council and others.

Note: WIFA is an acronym used frequently in this report. WIFA stands for Water Infrastructure Finance Authority of Arizona. WIFA is an independent state agency that makes loans to municipalities for water and wastewater system purchases and improvements. WIFA has a close association with the Arizona Department of Environmental Quality, and that agency's Director serves as Chair of the WIFA Board.

Financial Condition Overview

The Town of Cave Creek is in financial crisis. According to recent newspaper reports as well as newspaper stories appearing over the past 2-3 months, information emanating from recent emergency meetings of the Town Water Advisory Committee, financial data from past monthly revenue/expenditure reports, and comments by Mayor Francia and Council Members at the January 5, 2009 Council Meeting and since, the Town of Cave Creek is upside down financially and in extreme financial crisis.

Budget Background

According to Town Accountant Marian Groeneveld as reported in the January 7, 2009 **Scottsdale Republic**¹, Cave Creek's budget faces a \$5.7M revenue shortfall this fiscal year.

That shortfall follows on the heels of a \$3.9M shortfall that occurred last fiscal year according to a report² provided to the Town Water Advisory Committee by member Gabe Royer on November 12, 2008.

To date Mayor Francia and the Council majority have not acknowledged last fiscal year's shortfall or that a problem existed. Even so, the shortfall was reported in the November 24, 2008 **Scottsdale Republic** and is summarized in the November 12, 2008 Water Advisory Committee Meeting minutes.

For a community of 4,500 residents, a \$3.9M budget shortfall is significant. The factors driving that shortfall should have been discovered, reported to the Council and citizens, addressed, and corrected during last fiscal year. The fact that no red flags were raised last year by Town staff or Council is troubling and a signal that something is amiss in the management and oversight of Town finances.

Of critical concern to the Mayor and Council and the Town Water Advisory Committee at this juncture in time is the dire financial condition of the Town's Water Enterprise Funds. Reportedly, revenues are (and have been for a prolonged period per an historical review of available Town revenue/expenditure reports) falling far below budget projections. Both water development fee revenue and water usage fee revenue are substantially under projections for the year. Those shortfalls continue a trend experienced the previous fiscal year.

Also of major concern to the Mayor and Council is the fiscal health of the Town's General Fund where virtually all major revenue categories have experienced sharp declines from what was budgeted for FY 2008-2009. Even after significant General Fund expenditure cuts including employee layoffs, salary cuts and reduction in employee work hours, recurring revenue remains insufficient to cover recurring expenses for the current budget year.

According to comments by Mayor Francia and Town staff, the Town's financial condition will dramatically worsen moving into FY 2009-2010 which begins July 1 unless the Council takes drastic action yet this fiscal year to increase revenue to the Water Enterprise Funds and the General Fund.

Town's Immediate Corrective Action

For Cave Creek citizens, the immediate corrective action Mayor Francia and the Council are contemplating to fix the revenue/expenditure imbalance is:

- Increase water rates for customers of the Cave Creek water system immediately by a minimum of 100%.
- Increase the local sales tax rate from 2.5% to 3%, making Cave Creek among the highest in the state.

Reportedly the tiered water rate structure the Council is contemplating enacting could produce monthly bill increases as high as 400% for some customers.

* A public hearing on the Council's intent to increase water rates is scheduled for Tuesday, February 17, 2009 at Town Hall. First reading of the ordinance to increase the Town sales tax rate to 3% occurred at the Council's January 5, 2009 meeting. Adoption of the sales tax increase occurred at the January 20, 2009 Council meeting and will take effect in late April.

Shortfall Summary: Water

Statements by some Town officials and others would have us believe the Town's fiscal crisis occurred in just the past 2-3 months. Their position is that this was a recent phenomenon brought on solely by the worsening national, state and regional economy. Such statements are clearly not born out by a review of the facts and meltdown timeline.

As evidenced above, the verity of last fiscal year's \$3.9M budget shortfall demonstrates the Town's financial meltdown didn't happen in just the past 2-3 months as claimed by Town officials. It happened over a longer period – closer to 2½ years.

While the worsening economy has adversely impacted Town finances, the roots of Cave Creek's financial meltdown rest in:

- Purchase of the Desert Hills and Cave Creek water companies.
- A structurally flawed financial business model used by the Town for purchase and improvement of the Cave Creek Water Company in March 2007
- Undisciplined, out-of-control borrowing and spending decisions engaged in by the Mayor and Council for the Cave Creek and Desert Hills water systems since purchased.

Beginning with the purchase of the Desert Hills Water Company in 2006 followed by the purchase of the Cave Creek Water Company, Town officials became immersed in incrementally digging an ever deepening financial hole for the Town while simultaneously claiming finances were in good shape and denying Town government was in financial stress. The Town was not being forthright with its citizens.

A review of the Town's FY 2007-2008 monthly revenue reports³ for the months of September 2007, December 2007, February 2008, and June 2008 and for the first quarter of FY 2008-2009 ending September 2008⁴, all of which were belatedly posted on the Town's website, clearly shows the Water Enterprise Funds were in arrears for virtually all FY 2007-2008 and for the first quarter of FY 2008-2009, not just since October 2008 as per comments by Town officials.

The Mayor belatedly revealed in January 2009 the Town was in financial crisis. The reality was the Town was in extreme fiscal stress and headed for a major financial meltdown for the better part of two years.

Shortfall Summary: Wastewater & Annexation

Add the following unknowns to the financial mix:

- Questionable financial health of the Town's Wastewater Enterprise Fund in terms of being able to service the debt repayment on the \$29.3M in WIFA loans incurred for the new wastewater treatment plant.
- Multimillion dollar financial obligations the Town will incur through the impending State Trust Land annexation.

Both are of near term significant financial consequence.

Both contain the potential to add exponentially to the Town's financial burden and woes.

This Financial Overview Section begs the following questions:

- Where have the Mayor and the Council's leadership been in all this?
- Have the actions of Town officials, inaction in some instances, and inattention to Town finances in others enabled and facilitated the Town's financial meltdown?
- What can be learned from what has already taken place?
- What corrective action is needed?
- Where does the Town go from here?

Meltdown Factors

Several closely interrelated factors combined to contribute to the Town's financial meltdown. These factors are listed as follows and remarked on in the Analysis and Commentary Section below:

- Purchase of the Desert Hills Water Company.
- Extraordinarily high price paid for the Cave Creek Water Company.
- A flawed financial business model from March 2007 used for purchase, operations and improvements to Cave Creek Water Company.
- No due diligence performed by the Town on the condition of the Cave Creek Water Company prior to purchase.
- No written integrated multi-year strategic financial management, resource, and infrastructure plan in place for operating, managing and funding the Town's utilities or for the Town itself. No Council approved multi-year Infrastructure Improvement Plan or 5 Year Capital Improvements Plan/Program.
- Failure to adhere to sound governmental and utility business practices.

- Undisciplined, out-of-control borrowing and spending engaged in by the Mayor and Council for the water and wastewater systems throughout the 2007-2008 and 2008-2009 Fiscal Years.
- Major multi-million dollar borrowing and expenditure decisions made time and again by the Mayor and Council with:
 - Little or no written financial back-up information or analysis.
 - No inquiry into debt and service implications.
 - No idea whether an adequate revenue stream was in place to support loan repayments.
- Absence of any on-going monitoring and oversight of Town finances by the Mayor and Council.
 - No substantive reporting to citizens of Town's financial condition.
 - No transparency into the Town's actual financial condition.
- Failure of Council to take charge of and perform its oversight, policy direction, leadership and policy-making role and responsibilities.
 - Deferring instead to staff and others.
 - Serving as a rubber stamp in ratifying policy decisions and actions taken by staff that are the Council's exclusive purview to make and provide direction, after staff has already taken the action.
- Misleading presentations of financial condition by Town staff to Council and citizens saying the Town's finances were okay even as the economy and the Town Government's fiscal well being worsened.
- Governmental arrogance, absence of forthrightness, mismanagement, and the nonexistence of transparency and accountability for the sake of expediency in the rush to purchase and make improvements to the water systems.
- Worsening economy.

Analysis & Commentary

Erratic Purchase Process, High Purchase Price, and Flawed Financial Business Model

The Town's financial meltdown is rooted in part in:

1. The imperfect, disjointed acquisition actions and processes that occurred prior to the March 5, 2007 water company purchase.
2. The unrivaled, extraordinarily high price of \$19.5+M the Town paid for the water company.
3. The flawed financial business model the Town relied on to underpin the purchase, operations and improvement costs to the water company including the faulty growth assumptions, policy considerations and financial projections contained in that model.

Erratic Purchase Process

Cave Creek voters authorized the Town to get into the water utility business at a September 2002 special election. Following voter authorization, the Town entered into purchase negotiations with the Cave Creek Water Company but failed to acquire the water company in a timely manner through either a negotiated purchase or eminent domain. That delay, along with the Town's irregular, unfocused purchase actions, provided the window of opportunity for Global Water Resources to enter the picture in March 2005 and purchase the CCWC out from under the Town, *while the Town was negotiating with then owner Jay George.*

The Town's disjointed actions also resulted in the purchase of the Desert Hills Water Company, which has not done well financially since being acquired by the Town and is costing Cave Creek big dollars to subsidize.

The Town's failure to acquire the CCWC in a timely, determined manner from the original owner subsequently resulted in the Town paying Global the exorbitant price of \$19.5+M in March 2007.

Unrivaled High Purchase Price

Following the September 2002 authorization vote, Cave Creek citizens were reportedly told over time various costs to purchase the water company, ranging from \$2M to \$6M.

Mayor Francia in a spring 2005 letter intended to dispel rumors and garner public support for passage of Proposition 402, a \$50M WIFA loan authorization – to be voted on May 17, 2005, wrote that an engineering firm hired by the Town to develop a preliminary estimate of the cost to purchase the water company estimated the cost at \$6M.

Former Vice Mayor Ralph Mozilo stated at the March 5, 2007 Council meeting there never was a \$2M purchase figure, and the Town had actually made a written purchase offer to Cave Creek Water Company for \$7M while he was on the Council.

According to the Mayor's spring 2005 letter noted above and statements by Town officials at Council meetings, Global, in a filing with the Arizona Corporation Commission in March 2005, reported it purchased the water company from Mr. George for \$2,462,504.

A spring 2005 campaign flyer titled Truths⁵, paid for by the Support for Prop 402 political action committee, stated that Global paid \$2.4M for the Cave Creek Water Company and that Cave Creek would offer what Global paid and if necessary so would the Court.

While the PAC was not an official extension of the Town nor was it authorized to serve as Town spokesperson, because of the close personal relationship between PAC committee members and Town officials, the clear implication and message to Cave Creek

citizens was the Town would be paying in the \$2.4+M range for the Cave Creek Water Company. At least that is what Cave Creek citizens were led to believe. That belief was reinforced by local media reporting.

Sonoran News Publisher/Editor Don Sorchych, who labels the paper the official newspaper of Cave Creek, wrote a 'My View' column in the run up to the May 17, 2005 Proposition 402 vote stating it would take an extremely corrupt court and judge to grant any more than \$2,462,504 to Global for Cave Creek's purchase of the water company.

Thus, it came as a complete surprise and shock to many citizens when Town officials announced in late December 2006 the Town was paying Global the exorbitant price of \$19.5+M for the water company. That amount subsequently grew to \$20.1M.

In an analysis report⁶ I prepared of the Cave Creek Water Company purchase and gave to the Town Manager on March 2, 2007 prior to the March 5 Council purchase vote and subsequently to the Mayor and Council by letter⁷ on March 6, 2007, I questioned the windfall profit the Town was paying Global to acquire the water company. Information I obtained from a consulting study done for the Town of Queen Creek showed Cave Creek was paying 4.2 xs (\$8,077 per account) the 5 year average (2000-2005) paid per customer account (\$1,922) for any private water utility in Arizona.

As an aside but nevertheless a relevant point, the Town of Queen Creek subsequently purchased the Queen Creek Water Company in July 2007 for approximately \$4,000 per account, less than half what Cave Creek paid. Unlike the Cave Creek system which was known to be fraught with operational problems, repair issues, and improvement needs, the Queen Creek system was in good shape according to Town officials there.

The exorbitant, unrivaled high price the Town paid for the CCWC is one of the major factors driving the Town's current financial meltdown.

Flawed Financial Business Model

The financial business model the Town used for the purchase, improvements and operations of the Cave Creek Water Company assumed only \$2M for system upgrades and improvements.

According to a Memorandum prepared by CH2MHill dated February 15, 2007 titled "Cave Creek Water System Financial Analysis"⁸ given to Town Council as part of the supporting documentation for the water company purchase, a mere \$2M was allotted for improvements to the system. The CH2MHill report stated it was assumed the Town had other funding available that could be used to fund improvements above that amount if needed.

The Town Manager confirmed in meetings I had with him prior to the water company purchase one of which was on March 2, 2007, \$2M was the amount included in the financial business model for improvements to the system. He also confirmed the financial assumptions underpinning the business model were predicated on only having to support \$2M in system improvements.

My analysis report of the water company purchase, (see endnote 6), which I reviewed with the Town Manager at our March 2 meeting, noted that \$2M wouldn't go very far toward improvements and that the costs could be driven dramatically upward once the Town had a system water plan.

The Town Manager assured me:

- All key upgrades needed for the system to function properly and safely had been identified and accounted for in the financial business model.
- The Town had the money in place to pay for them.
- The assessment of what needed to be done had been performed by engineers retained by the Town independent of not yet having a water system master plan or having performed due diligence on the system.

According to him, that included, among other upgrades, two new water storage tanks. He stated the General Fund unallocated fund balance (\$5M at the time) would cover any shortfall.

Fast forward to the January 7, 2009 **Scottsdale Republic** article, (see endnote 1 above), reporting on the \$5.7M shortfall facing Cave Creek for the current fiscal year. In that article the Town Manager said the cost to upgrade the water system in 2008 was \$20M. Presumably, while some of those expenditures were for the Desert Hills system, the bulk of those expenditures were for the Cave Creek system.

Thus, water system improvement expenditures in just the first two years of Town ownership far exceeded the March 2007 financial business model assumption used to underpin all improvement costs. There was no way, short of revenue vastly exceeding all expectations, the financial business model could or will in the future hold up with actual expenditures for improvements exceeding the model's assumptions by that magnitude.

The picture worsens:

- On the revenue side, not only have revenues not exceeded expectations, they have fallen far short of meeting budget projections.
- As demonstrated earlier, Water Enterprise Fund revenues (Development Fees and Usage Fees) were far under projections for FY 2007-2008 and have remained far under for all of FY 2008-2009.
- As a result the Town cannot make its July 2009 WIFA loan debt service payment for the water systems, according to Town Accountant Marian Groeneveld at the January 20, 2009 Council meeting.

Adding another hit to the Town's fiscal woes, the General Fund is totally upside down financially and no longer able to subsidize the water enterprise funds and cover enterprise fund shortfalls as was done in the past.

To compound the Town's fiscal problems further, water system improvements are not yet finished. Millions of dollars in unfunded water system improvement projects, undisclosed publicly, are pending in queue in a Water Master Plan that has never been adopted by the Council but which Town staff has submitted to other governmental agencies and represented as official Town policy.

Conservatively, that non-Council approved WMP⁹ contains \$75M - \$90+M in outstanding, unfunded water improvement projects.

Other Faulty Business Model Assumptions

There were numerous other faulty assumptions contained in the financial business model used to underpin the purchase, improvements and operations of the water company. They are as follows:

- a. **No water rate adjustments** necessary for either debt service or operations over the 20 year life of the Utility Financial Pro forma (financial business model) prepared for water company purchase. At time of purchase, citizens asked and were told by Council and Town staff no rate increases were envisioned or necessary to pay for the purchase, operations and improvements of the water company or to service debt.
- b. **Constant revenue growth** over the life of the model. Stability in servicing debt, paying operations costs, and making system improvements was tied to the assumption of constant growth in development fee revenue, system accounts (water usage fees), and excise taxes (first 5 years). That hasn't happened after just two years ownership experience.
- c. **Constancy in the availability of General Fund revenue** (general tax revenues) to subsidize water system acquisition, operations, and improvement costs. Flawed utility business practice to subsidize water enterprise operations costs and shortfalls with General Fund revenue. Town had no back-up plan if availability of General Fund revenue didn't remain constant.
- d. **Subsidizing water service to non-resident** water customers using Cave Creek General Fund tax revenues. Flawed practice, places unfair financial burden on Cave Creek residents. Should be a differential, fully burdened water rate for non-resident customers.
- e. **Not pressing to perform due diligence** on the physical and operating condition of the Cave Creek Water Company system prior to purchase. No due diligence was performed.

- f. **Assuming no duty or requirement to be fully transparent in providing citizens with well prepared, easily understood, clearly written, authoritative documentation explaining the case and providing the technical and financial basis for the purchase decision. Information provided was in bits and pieces, disjointed, at times contradictory, and simply not readily available to the public.**
- g. **No need for a back-up plan.**

In summary, the Town's reliance on faulty business model assumptions contributed immensely to the Town's financial crisis. Worsening the tragedy, it was assumed there was no need for a back-up plan if key financial assumptions in the model didn't hold true. Key assumptions did not hold true. There was no back-up plan; nor does one currently exist.

No Strategic Financial Management Plan

Another major factor contributing to the Town's financial meltdown is that it has no short or long term written Strategic Financial Management Plan guiding key policy and expenditure decisions.

Since purchasing the two water companies, the Town has not engaged in the process of developing a strategic financial management approach to operating and managing its utility operations.

Strategic operational and financial management involves integrating rigorous written technical, engineering and financial analyses with multi-year operations and capital improvements planning tied to reliable revenue and expenditure forecasts, short and long term. That information should be woven into a Council approved written Strategic Financial Management Plan for all to see, including citizens. The plan's value, among other things, is to guide and help elected officials make smart, informed expenditure and resource allocation decisions on a recurring basis. Staff's role is to assure key financial and operating assumptions underpinning the plan are reviewed continually for accuracy and relevancy, to update assumptions in a timely manner as conditions change, and to inform elected officials and citizens of the changes.

Municipal water and wastewater utilities are big business involving big dollars, as I wrote in a letter¹⁰ to the Mayor and Council dated August 14, 2007. I noted that responsible management of these assets requires that these activities be operated in accordance with sound business practices linked to a written integrated resource, financial, and infrastructure plan. I stated that failure to operate the utilities in that fashion is a certain prescription for financial and operational disaster.

In 2007 the Town prepared but to date the Mayor and Council have not adopted a multi-year Infrastructure Improvement Plan for large capital projects. Nor does the Town currently have a Council approved 5 Year Capital Improvements Plan/Program. One or

the other of those policy plans, properly approved by the Council, is the minimum tool necessary to have in place to help guide prudent, fiscally responsible decision-making for high-cost capital assets and to provide for public transparency.

Citizens have every reason to expect that expensive capital asset decisions are being made in conformance with a Council approved multi-year IIP or CIP. Such is necessary for responsible decision-making related to growth as well as to help safeguard the Town's fiscal health. The fact that the Town has neither a Council approved IIP or CIP in place and that the Council hasn't insisted that one be brought forward for formal approval is highly irregular and very disturbing from a financial management and smart growth perspective.

The Town has failed to employ or adhere to sound governmental and utility business practices and essentials.

Out-Of-Control Borrowing and Spending

Another major factor contributing to the Town's fiscal crisis was the undisciplined, out-of-control borrowing and spending over the past two fiscal years for the water systems, and more recently the wastewater system.

Borrowing and spending for the Cave Creek and Desert Hills water systems continued unabated even as the national, state and regional economy worsened and Town water usage fee and development fee revenues experienced sharp declines.

Through its undisciplined borrowing and spending, the Town behaved as though it were immune to the plummeting revenue phenomenon happening universally in other municipalities throughout the Valley and state. The Town Manager even made statements that implied the Town was impervious from the more serious financial challenges plaguing other Valley cities.

He stated in an October 13, 2008 **Scottsdale Republic** article that Town sales tax revenue for 2008-2009 was higher than in past years and that no Town layoffs were anticipated.

Less than a month later, the Town laid off seven employees, which equated to 14% of its workforce.

And, the Water Advisory Committee was engaging in emergency meetings to discuss how to stem the flow of red ink in the Town's water enterprise funds.

Compounding the borrowing and spending problem was the fact that time and again the Mayor and Council made multi-million dollar borrowing and expenditure decisions with little or no written financial back-up information or analysis. Nor did the Council, at the time of making those decisions, revisit the financial business model assumptions underpinning the water company purchase to ascertain whether those assumptions still

held true. Nor did the Council inquire into debt and potential adverse service impact implications when making those decisions and whether the revenue stream was in place and adequate to support loan repayments.

The Town continued to add to its growing debt without knowing and without asking where the revenue was coming from to service debt payments and cover the cost of on-going operations.

According to information presented by Utilities Manager Jessica Marlow at the September 15, 2008 Council meeting, Cave Creek had borrowed \$37,720,000 from WIFA for the purchase and improvements to both the Cave Creek and Desert Hills water systems.

That sum did not include a previous \$6.4M WIFA loan taken out for the new wastewater treatment plant.

At a Special Council meeting November 24, 2008, Mayor Francia and the Council majority approved entering into yet another \$22.9M WIFA loan for the construction of the new wastewater treatment plant off Carefree Highway. The Mayor and Council majority approved the loan without inquiring and without knowing whether the Town had a reasonably assured revenue stream to service the debt on that loan when it starts coming due in 2010. According to information presented at the November 24 meeting, interest payments alone on that loan start on January 1, 2010 at \$1.9M annually.

Also at that meeting, while acknowledging the need for a new wastewater treatment plant, certain Council persons voiced serious concern about the Town taking on more debt amidst a bad economy, having just recently learned of the seriously deteriorated condition of Town finances. They asked where the money was coming from to repay the loan and proffered that the Council consider a comprehensive budget review and discussion of Town finances before taking final action on the loan. Their concerns and questions were stonewalled by the Council majority and went unaddressed.

Adding this latest \$22.9M to the prior wastewater WIFA loan, the Town has borrowed approximately \$29.3M from WIFA for the new wastewater treatment facility and has committed to expend almost \$31M total for the project.

Overall, WIFA loans for the water and wastewater systems currently total \$67.0M. The Town's existing revenue stream is woefully insufficient to repay and service that debt.

Due to excessive borrowing and spending over the past two years, recurring expenses including debt service obligations have grown to exceed recurring revenue by a magnitude that moved the Town into crisis. The Town's borrowing and spending practices have created a fundamental structural imbalance in Town finances that now permeates all aspects of the Town's budget - effectively resulting in the Town engaging in deficit budgeting.

Because of the massive debt obligations taken on and the sharp decline in revenue from what was budgeted, the imbalance has moved beyond self correction. While having an impact, the faltering economy was **not** the root cause of the imbalance. Excessive borrowing and spending was. Correction requires draconian measures. Hence the Council's reasons for the massive increase in water rates and the local sales tax.

However, a major problem remains. In the absence of having a multi-year strategic financial management plan based on reliable data, assumptions, and forecasts, there is no assurance those actions will get the Town out of financial trouble and on the road to recovery and stability.

The written financial analysis report I prepared of the water company purchase and gave to the Council two years ago alluded to the possibility of the Town finding itself in financial trouble in the relatively near term because of the questionable financial assumptions underlying the business model used for the purchase. That analysis underscored the importance of having a back up plan. No financial back up plan was prepared.

No Council Financial Monitoring and Oversight

Another factor contributing to the Town's financial meltdown was the Mayor and Council's refusal, in spite of numerous and repeated citizen requests, to engage in on-going monitoring and oversight of Town finances as was the Council's fiduciary responsibility to do, and to take pre-emptive, corrective action in a timely manner.

For the past two fiscal years, the indicators of a major financial and economic downturn were everywhere – in the papers, on television, in trade and institutional publications and, as it turned out, in the Town's own monthly revenue/expenditure reports which as noted previously were belatedly placed on the Town website.

Those articles and reports spoke continually to the severe Valley wide slowdown in new housing starts, which Cave Creek was so dependent on for water development and usage fees to service the water system debt it was taking on.

Those same articles and reports spoke daily to the sharp decline, almost a freefall, in virtually all revenue sources that the state, county, and Valley cities and towns rely on to fund services to citizens.

The Town's own monthly revenue/expenditure reports for last fiscal year and for the first quarter of this fiscal year, (see endnotes 3, 4), vividly portrayed the declines in water development fee and usage fee revenue.

On several occasions over the past two years I wrote the Mayor and Council concerning Town finances, asking what was being done by the Council to monitor them. The first such letter was on August 14, 2007, (see endnote 10 above).

In a letter¹¹ to the Mayor and Council dated August 24, 2007, I cited an article in the **Desert Advocate** newspaper that placed the numbers in perspective. According to that article, Cave Creek had exceeded by \$15.9M the \$50M borrowing authority granted by town residents in May 2005 (Prop 402) to be used for the water and wastewater systems. I noted that cost increases of that magnitude with reportedly more to come had the potential to force the Mayor and Council to consider water rate increases that would make the 24% rate increase then under consideration in Carefree seem like a drop in the bucket. I asked:

- Where the money was coming from to repay those loans.
- What the repayment schedule was.
- What the assumptions were underpinning the repayment schedule.
- What kind of mechanism the Town had in place for monitoring those assumptions, making course corrections if necessary, and tracking revenue against projections.

I asked to see and review the Town's written financial plan covering the above. I received no reply to my letter.

In a December 3, 2007 letter¹² to the Mayor, Council and Town Clerk, I submitted a public records request for a copy of the Town's written mid-fiscal year financial condition report. If the Town did not have one, I suggested that in light of plunging sales tax revenue reported by the state and cities across the Valley, the Mayor and Council ask that a mid-year financial condition report be prepared and given to them and the public. Below are other points (paraphrased) from that December 3 letter:

- Receiving a written financial condition report and making it public is essential to responsible fiscal stewardship and oversight by the Council.
- Finances are at the heart of Town government. Nothing gets done without them.
- From a strictly policy perspective, nothing is more critical to the successful functioning of Town government and keeping it on course and out of trouble than the Council keeping its fingers on the Town's fiscal pulse.
- In terms of accountability to citizens, high level financial monitoring, while carried out in concert with staff, is a uniquely exclusive Council oversight and fiduciary responsibility which cannot be delegated in totality to others.
- If the Town's finances head south, it is the Council that is accountable to the public.
- Not knowing the Town's financial condition is not an excuse relieving the Council of accountability and responsibility for knowing. Simply stated, it is the Council's duty to know, to have systems in place for assuring that they do, and for making this information readily available to the public.

- The timeliness and need for a written mid-year financial condition report is especially compelling as Council considers at its December 3, 2007 meeting yet another \$5.5M loan request to WIFA for the water system.
- The Town's business model for repayment of WIFA loans and the operations of the water system is predicated on continued growth in all of the following:
 - Permit issuance
 - Impact and connection fees
 - System water fee revenues
 - Sales tax revenue
- The assumptions upon which this business model is based should be revisited and tested, if it hasn't already been done, to assure they remain relevant and valid, with the results reflected in the financial condition report and made known to the public.
- As the Town's elected leaders, it behooves you to assure yourselves and the public in these challenging economic times that the money is there and will continue to be there to:
 - Service this debt.
 - Continue day-today services to Cave Creek residents.
 - Cover the general cost of Town government.
- In summary, a mid-year financial condition report and the attendant actions outlined above are the minimum necessary and prudent to aid the Council perform its uniquely singular oversight role and to assure Cave Creek citizens the Town's elected leaders are exercising responsible fiscal stewardship and oversight of the Town's finances on their behalf.

In a December 11, 2007 letter¹³ responding to my December 3 request, Town Clerk Carrie Dyrek advised me a mid-year financial condition report does not exist and that the Town was not obligated to prepare one.

In a December 20, 2007 letter¹⁴ sent to Ms. Dyrek but primarily intended for the Mayor, Council and Town Manager, I reinforced the importance of providing a mid-year financial condition report. The following is both quoted and paraphrased from that letter:

- I respectfully suggest the issue here is not whether the Town is obligated under **A.R.S.** to prepare a written financial condition report. Rather, it is whether the Town and its elected officials are adhering to generally accepted, sound financial management and reporting practices, one of which is ongoing financial monitoring and periodic public reporting during the course of a city's fiscal year, as set forth by GFOA and practiced by other professionally managed cities across America.

- Continuous financial oversight is one of the Council's most important governmental functions. Some would go so far as to argue it is the singular most important Council function. Without question the Mayor and Council have a fiduciary responsibility to exercise responsible fiscal oversight and to demonstrate to the Town's citizens on a continuing basis that they are.
- While not stated explicitly in your December 11 letter, implicit is the notion that either the Cave Creek Mayor and Council do not know and do not care to know with some degree of specificity what the Town's financial condition is and therefore cannot make this information available to the public in report form, or, alternatively, if they do know, they choose not to share that information with the Town's citizens for whatever reasons. Otherwise, in the interest of openness, transparency, responsible fiscal management and good government, why would the Council not require a monthly or bi-monthly report summarizing the Town's financial situation and make that information readily available to the public? Especially in these economically challenging times with all the extraordinary financial obligations the Town has taken on during the current year. Since it's the Council's job to know, they have everything to gain and nothing to lose by doing that.

In concluding that letter I encouraged the Mayor and Council to revisit the issue and do the right thing, the fiscally responsible thing. And that was to require a monthly or bi-monthly financial report and make it available to the public. I said that in addition to the Council, citizens had a right to know and to be informed. And the Council had a duty to assure the information to become informed was provided the Town's citizens in a timely manner. I received no response to that letter.

In a December 7, 2007 e-mail¹⁵ to Council Members Dick Esser and Kim Brennan with a hard copy to Councilwoman Grace Meeth, I transmitted information on the on-line monthly financial report prepared by the City of Scottsdale in hopes that they could use that information to leverage action to produce something similar for Cave Creek. In that e-mail I stated:

- The Council needs this type of monthly update to help it properly discharge its financial oversight obligations. The public deserves the benefit of this update so that they can remain informed on the Town's overall financial condition and be assured the Council is fulfilling its governmental oversight responsibilities on their behalf in a responsible, prudent manner.
- The content of a Monthly Financial Report should be tailored to meet Cave Creek's unique needs and financial situation, with particular emphasis placed on the utilities. Once the monthly report is in place, it is just a matter of monitoring trends and updating the basic financial data monthly using the most recent revenue and expenditure figures.
- In addition to the Monthly Financial Report, there is a wealth of other valuable information on Scottsdale's website concerning City finances. For

example, in the right hand column under "Other Financial Information", click on "Financial Trends" then click on "October 2006 Annual Financial Trend Analysis".

- This report identifies and reports the major trends that are anticipated to impact Scottsdale's finances and fiscal well being throughout the fiscal year. Scottsdale's Finance Director told me this week this report was recently updated, and the will be posted on the City's website shortly. Again, this is the type of information the Cave Creek Council should be requiring for its fiscal monitoring and decision purposes.
- I hope you find this research of some value. I am sending it to the three of you in hopes you can use this information to leverage action that will provide you the basic minimum financial monitoring tools you as Council Members need to do your job, to make informed financial decisions, and to inform citizens.

With the exception of one Councilperson who expressed interest in pursuing a monthly financial condition report, talked with me about its importance and tried to get it done and one other who thanked me for the information, I heard from no one else on the Council or staff.

To date the Town does not have a monthly or bi-monthly financial condition report. Only recently, since the Town revealed it was in financial crisis, have the Mayor and Council begun to monitor the Town's financial condition. The problem is the horse is out of the barn. It's too late to shut the barn door; the Town is already in crisis.

The failure to keep the Council and citizens informed of the Town's financial condition has ethical connotations. Among members of the International City/County Management Association (ICMA), which most professional City Managers across America belong to, the ICMA Code of Ethics¹⁶ reigns paramount in providing tenets and guidelines for ethical behavior. Tenet 9 of the Ethics Code requires that City Managers:

Tenet 9

Keep the community informed on local government affairs; encourage communication between the citizens and all local government officers; emphasize friendly and courteous service to the public; and seek to improve the quality and image of public service.

A January 2009 ICMA Public Magazine article on Ethics¹⁷ focused on the significant challenges local government leaders face in delivering ethical, transparent democracy given limited financial resources in these difficult economic times. In the form of a question, the article underscored the importance of the following basic ethical concept:

"In the push for results and accountability, is it clear to all that how we achieve our goals is as critical as getting there?"

The article outlined several steps that managers should take for promoting an ethical culture. While all the steps listed add value, one in particular pertains to the Cave Creek situation quoted as follows:

“Transparency, transparency, transparency. Clear and regular communication, complete and accurate disclosure of the facts, taking responsibility for decisions and outcomes, and a focus on transparent processes all work to build trust with those we serve.”

Cave Creek’s upside down financial condition was not transparent to citizens nor was it made known by Town officials until the Mayor’s admission earlier this January the Town was in crisis. As late as November 24, 2008, Utilities Manager Jessica Marlow was quoted in the **Scottsdale Republic** saying water finances were on track, doing well for the year, and the Town expected to save money. Ms. Marlow’s quote appeared even after Mr. Royer had given his report at the November 12, 2008 Water Advisory Committee meeting revealing the \$3.9M shortfall for the prior fiscal year. It was also at the November 12 meeting, which Ms. Marlow attended, the WAC initiated discussions about the upside down financial condition of the Town’s water enterprise funds and the need to consider emergency water rate increases to stem the hemorrhaging.

Repeatedly over the past two fiscal years Town staff provided misleading financial presentations and information to Council and citizens saying Town finances were okay even as the economy and Town finances dramatically worsened.

Misinformation, obfuscation and concealment of information was allowed to happen because the Mayor and Council failed to take charge of and perform their oversight, policy direction, leadership and policy-making role and responsibilities, deferring instead to staff and others. The Council essentially served as a rubber stamp in ratifying policy decisions and financial actions that are the Council’s exclusively to make, *many times after the staff had already taken the action.*

Governmental Arrogance, Misinformation, and Mismanagement

Governmental arrogance, misinformation, and mismanagement contributed to the Town’s financial meltdown. While there are many examples, ten serve to make the case as follows:

1. The flawed business model used to underpin the purchase, operations and improvements to the CCWC. Failure to revisit faulty business model assumptions and take corrective action. Already covered in detail above.
2. Failure to perform due diligence on the condition of the CCWC prior to purchase.
3. Engaging in a pattern of undisciplined borrowing and spending for the water and wastewater systems over the past two years that could not be supported by the available revenue stream. Not living within the Town’s means. Engaging in deficit budgeting.

4. Failing to take note of the worsening economy and factor that into the Town's financial decisions.
5. Not having a strategic financial management plan or even a basic Council approved multi-year CIP to guide major revenue/expenditure decisions.
6. Not keeping citizens informed with facts and timely, accurate information. Providing misleading, deceptive information regarding the condition of Town finances.
7. Flawed, non-transparent process and timing used by Town management to relocate the site of the 2M gallon water storage tank from Spur Cross to Rockaway Hills in August 2007, even though the April 16, 2007 Council adopted Water Master Plan called for the tank to be built at Spur Cross in 2010. The adopted WMP still calls for the already constructed Rockaway Hills storage tank to be placed at Spur Cross.
8. Improper land taking for the Neary water tank that cost the Town an unbudgeted \$1.2 M.
9. As recently as November 24, 2008, entering into a \$22.9M WIFA loan for the new wastewater treatment plant without knowing and confirming whether there was an assured revenue stream in place for servicing the debt on that loan - it starts coming due in January 2010.
10. Staff entering into legal stipulation agreements with Maricopa County to satisfy violation notices issued against the Desert Hills water system without taking those agreements to Council for review and formal authorization at a public meeting as required by law. Those agreements potentially bind the Council and Town to millions of dollars in unbudgeted expenditures.

Legitimate financial questions and process concerns were voiced on multiple occasions by various citizens immediately prior to and since the purchase of the water company. Rather than check into the validity of those questions and concerns, the Mayor, Council and Manager dismissed them with such statements as:

- "...why anyone in this community would think seven otherwise normally sane people would put their reputations, their families, their homes, not to mention their own community on the line by rushing almost without loss of gravity in their cerebrum to bankrupt a Town, then perhaps there is some other motive behind the question..." (Mayor Francia, Council Meeting minutes, February 20, 2007 in response to a question raised about the proposed financing for the water company purchase by Cave Creek citizen Herb Natker).
- "So the storage tanks have to be completed by May of 2008. With that in mind, we have to proceed with the construction so we can't delay and face the next summer without the storage tanks." (Town Manager Usama Abujbarah,

Council meeting minutes, August 20, 2007 in response to a question by Councilman Esser whether more neighborhood residents could be contacted and involved in the Rockaway Hills tank plans)

- “Abujbarah said in the future he would attempt to include more residents in the neighborhood meetings, but that his staff was limited by time.” (Town Manager Usama Abujbarah, **Desert Advocate** newspaper, August 22, 2007 article inquiring whether he would involve more neighborhood residents in the Rockaway Hills tank location).
- “When residents don’t pay attention to the Council meetings... they don’t get informed about the Town business.” (Town Manager Usama Abujbarah, **Scottsdale Republic**, August 25, 2007 in response to a question about relocation of the Spur Cross tank to Rockaway Hills)

In an August 30, 2007 letter¹⁸ to the Mayor and Council concerning the Town Manager’s statements at the August 20 Council meeting and in subsequent newspaper articles, I asked whether those statements and position accurately depicted the Council’s thinking as well.

To paraphrase that letter, I wrote:

- The sheer arrogance and insensitivity the Manager’s statements project toward Town residents and legitimate neighborhood concerns is almost beyond comprehension. That those statements are apparently condoned by the Council would seem to mean it reflects the Council’s position as well.
- I said the duty to inform and educate is the Council’s and the Town’s. I asked how can residents be expected to know what’s going on and to participate in important Town decision and policy processes and actions if the Council did not reach out and inform them?
 - I wrote that this is so fundamentally basic in a democracy it defies understanding as to why the Town is so reticent to conduct public meetings to provide information to the public in the present instance.
 - Saying that information about the improvements was made public at meetings and in documents simply doesn’t make it so.
 - To the Council I asked, at what meetings and what was done proactively to get the word out?
- I wrote that neighborhoods are the backbone of the community. Protecting the residential integrity of existing established neighborhoods, keeping them free from undesirable, disruptive encroachments and destructive events, and informing and involving neighborhood residents in important Town actions and policy decisions is a fundamental responsibility of the Mayor and Town Council.

- I said hardly anything could be more disruptive to neighborhood integrity and tranquility than plunking down not one but two gargantuan 2.0 million gallon water tanks (one tank now, one in the future) in the middle of an established residential neighborhood and not informing or involving the many residents of that neighborhood in the decision and mitigation processes.

In conclusion to that letter, I offered this observation. Government exists to benefit and serve its citizens, not the other way around. It can only do that if it is operating in a fully transparent manner. I wrote that currently the Town is creating the appearance, unnecessarily I feel, it is intentionally withholding and concealing information from the Town's citizens as to its plans and intentions with respect to the tank project and about water system issues generally. Otherwise, why not, in the interest of transparency and public involvement, conduct public meetings to inform and educate. I wrote that the Town has everything to gain and nothing to lose by doing that.

I received no response to that letter.

As a sidebar, during public comment on the water contract items at the August 20, 2007 Council meeting, I commented that the Council was sacrificing transparency for expediency in refusing to notify other affected residents of the Town's water system plans for our neighborhood. I said that was not good public policy. I said there were many people who weren't aware the Town was proposing to build a major storage tank in their neighborhood...that's wrong. I asked that other neighborhood residents be notified. My comments were dismissed as were other citizens expressing concern at the meeting. The Council took no action to notify other neighborhood residents of the Town's tank and water system plans.

During Council questioning at the August 20, 2007 meeting, Council asked how the storage tank and associated improvements for the Rockaway Hills site fit into future plans. Utilities Manager Jessica Marlow responded that those improvements are the immediate improvements that were identified in the Water Master Plan prepared for the Town by CH2MHill. In point of fact, the WMP prepared by CH2MHill, adopted by Council on April 16, 2007, called for the tank to be placed at Spur Cross, not Rockaway Hills. The Town Manager did nothing then or since to correct Ms. Marlow's misrepresentation of what was called for in the adopted WMP. At least one Council Member relied on Ms. Marlow's representation that the Rockaway Hills tank was in the adopted WMP in voting for approval of the contracts that evening. Only later was it made known to the Council that the Rockaway Hills tank was not in the Council approved WMP. An attempt to correct the Council's misdeed through a reconsideration vote at a subsequent Council meeting was rebuffed by the Council majority.

As a result of the Council's refusal to involve more neighbors, ninety six neighborhood and community residents signed a September 6, 2007 letter petition¹⁹ to the Mayor and Council asking to be heard. The highlights of that letter are quoted as follows:

- We, the citizens of Cave Creek, feel it is necessary that we now be heard!
- Only recently did we learn of the Town's plans to construct two 2.0 million gallon concrete water tanks in our neighborhood (one now and one in the future). This is very disturbing to us.
- To date, the Town has taken no action to reach out and make us, its citizens, aware of plans for these major public works projects prior to awarding design and construction contracts other than contacting six property owners abutting the Rockaway Hills tank site.
- Even more disturbing is the Town's intention to extend the water system to supply water to new development on Continental Mountain. We understand that the Town is currently in negotiations with the developer.
- Please recall that during the election, the Council was very clear and told citizens that the primary reason we should purchase the water company was to protect the supply and prevent Global from doing exactly what the Council now intends to do.
- These actions have the potential for major adverse impact upon citizens in financial, ecological and aesthetic ways. You are elected officials in office to serve us, your constituents.
- We implore you to take on the responsibilities of office by making a commitment to the following in regard to the Cave Creek Water System:
 - 1) **FINANCIAL:** Full disclosure of all water project expenditures, debts, and repayment schedules and plans involving OUR money.
 - 2) **NEW DEVELOPMENT:** Guarantee that the Cave Creek Water System will not extend to Continental Mountain to serve future development there, nor extend outside the incorporated Town limits to serve other development not presently bound by written agreement.
 - 3) **OVERSIGHT:** Town Council to meet regularly with the neighborhood during the tank design process to assure that neighborhood concerns are successfully addressed and mitigated, and to provide monthly updates on the construction and financial status of the Cave Creek Water System projects.
 - 4) **VISUAL:** Provide for neighborhood and community involvement in the tank design and landscaping as well as burying the tanks so that no more than 1 foot is above grade.

- 5) **NOISE:** Mitigate noise emanating from all operating equipment during and after construction. In particular, eliminating noise generated by pumps, assuring the continuation of our pristine, quiet desert environment. No blasting.

In closing, the letter asked that the Mayor and Council halt further proceedings regarding the water tank projects until a meeting had occurred between residents and the Council to address residents concerns.

In response to that letter, at the September 24, 2007 Council meeting, Town staff made a lengthy presentation about water system improvements. Citizens asked questions and expressed concerns. Council provided assurances that communication with citizens about water system issues and finances would be improved. Also at that meeting, it was moved to reconsider the authorization to enter into a contract with RBF Consulting for design services for the tanks and other water system projects. Motion failed for a lack of a second.

In the end, nothing changed after the September 24 meeting. Commitments made to citizens at the meeting were broken. Communication failed to improve. The Council continued to add water and wastewater system debt without inquiring whether projected revenue was in place and adequate to service loan repayments. New housing starts on which the Town's debt service payments were dependent failed to materialize. Town revenues plunged. Town staff continued to paint a fiscal picture not based in reality. The Town continued its increasingly rapid journey to financial crisis.

Summary

It's true that none of us has a crystal ball for seeing into the future. At the same time certain outcomes are reasonably discernible and predicible based upon a review of the assumptions and information on which decisions are to be made, actions taken.

If the assumptions are flawed or the information upon which decisions are to be made and actions taken is faulty or not provided, there is a strong likelihood outcomes will be other than what was contemplated or expected, hence predictable to a degree.

Such was the situation leading up to the Town's financial meltdown as demonstrated in the listing of meltdown factors and commentary above.

The meltdown factors were clearly there for everyone to see. The Mayor and Council failed to heed obvious warning signs in the economy and flaws in the financial business model used for the water company purchase.

Given the worsening economy over the past two years, the Town would have faced an element of financial stress under any scenario. However, there wasn't a need for crisis. Through a combination of flawed financial planning, excessive out-of-control borrowing and spending, failure to heed obvious warning signs in the economy and in the Town's

financials in spite of citizen admonitions made in good faith to do so, failure to engage in financial monitoring and oversight, and inattention to fiscal reality, the Mayor and Council dug an ever deepening financial hole for the Town.

A modicum of prudent, proactive, preemptive, corrective action and oversight on the part of the Mayor and Council prior to the water company purchase and since would have substantially mitigated the potential for financial crisis. That wasn't done, and the reality of crisis has set in.

Next Steps

The following is offered as a suggested plan of action for the Council and others who have interest in moving the Town from financial crisis to recovery and stability:

1. No more debt.
2. Continue to cut costs to bare essentials in all funds.
3. Implement water rate adjustments sufficient to cover current recurring operations and imminent debt service costs. Hold off on rate adjustments above that until a rate study is performed by a qualified rate consultant.
4. Hire a qualified utility rate consultant to perform a comprehensive rate study and make rate recommendations.
5. Investigate possible debt consolidation to extend terms and reduce debt service costs.
6. Retain a recognized, qualified municipal financial consultant/expert to perform a comprehensive, independent written analysis of the Town's financial policies, practices and financial condition. The consultant's analysis to include options and recommendations to the Council for corrective action including an assessment of revenue alternatives and possible expenditure reductions. Consultant's analysis to also provide the basis for a multi-year Strategic Financial Management Plan for the Town.
7. Establish a Financial Task Force comprised of a broad cross section of Cave Creek citizens to assist the Council in developing recommendations to ensure the financial future of the Town and to work with the financial expert in conducting the independent analysis, in vetting options and recommendations, *and to give the initiative full public transparency. All meetings to be open to the public in accordance with Arizona open meeting law.*
8. Revisit and correct the faulty assumptions and policies underlying the financial business model used for the purchase, operations and improvements of the CCWC.
9. Discontinue the practice of subsidizing water service to non-Cave Creek residents, especially using Cave Creek General Fund tax revenues and reserves. Establish differential, fully burdened rates for non-resident customers.
10. Mayor and Council to immediately engage in on-going oversight and monitoring of Town finances including publishing regular financial condition reports to citizens. Council also to immediately take charge of its policy

- direction and policy-making responsibilities as required by law. Discontinue the practice of deferring that responsibility to Town staff and others.
11. Consider using ICMA's Financial Trend Monitoring System tailored to Cave Creek's specific needs as the tool for monitoring Town finances and on-going reporting to Council and citizens.
 12. Hire a qualified professional Chief Financial Officer to oversee and provide strategic direction to Town finances and to help avoid a recurrence of the current condition.
 13. Retain a recognized management consultant with expertise in utility operations, management, finances and best practices to conduct a management review of the Town's utilities with the goal of assuring sound business practices and policies are used in the operations, financing and management of those systems.
 14. Spin off ownership of the Desert Hills water system. Set it up as a free standing water district with its own elected governing board comprised of Desert Hills residents.
 15. Restore ethical, professional local government management to the day-to-day functioning and operations of Town government.

Footnotes

- ¹ **Scottsdale Republic:** "Cave Creek Ponders Hikes in Sales Tax, Water Rates" 01/07/2009.
- ² "Executive Summary Cave Creek and Desert Hills Water Systems Financial Results", Fiscal Year Ending June 30, 2008, Gabe Royer, 11/12/08.
- ³ Town of Cave Creek Revenue Reports for 09/07, 12/07, 02/08 and 06/08.
- ⁴ Town of Cave Creek Revenue Report for 09/08.
- ⁵ "Truths" paid for by support for PROP 402 and P.K. Development, LLP.
- ⁶ "Analysis of Cave Creek Water System Purchase: T. Zerkle, 03/02/07.
- ⁷ Letter to Mayor and Council re Water Company purchase, T. Zerkle, 03/06/07.
- ⁸ "Cave Creek Water System Financial Analysis", CH2MHill, February 15, 2007.
- ⁹ Letter to Mayor and Council re Water Master Plan – Cost Estimate Summary, T. Zerkle, 11/29/08.
- ¹⁰ Letter to Mayor and Council "Concerns about the Town's Financial Condition and Lack of Governmental Transparency", T. Zerkle, 08/14/2007.
- ¹¹ Letter to Mayor and Council "Water System Integration; WIFA Loan", T. Zerkle, 08/24/2007.
- ¹² Letter to Mayor, Council and Town Clerk "Public Records Request – Financial Condition Report" T. Zerkle, 12/03/2007.
- ¹³ "Letter Dated December 3, 2007; Request for Public Records" C. Dyrek, 12/11/2007.
- ¹⁴ Letter to Town Clerk and Town Council "Your Letter Dated December 11, 2007", T. Zerkle, 12/20/2007.
- ¹⁵ E-mail to Council Members Esser, Brennan, and Meeth "Monthly Financial Report", T. Zerkle, 12/07/2007.
- ¹⁶ **ICMA Code of Ethics**, ICMA, Washington, DC.
- ¹⁷ **Public Management Magazine**, "Ethics: Focus on the Fundamentals" Martha Perego, January 2009, Vol 91, No 1, ICMA, Washington, DC.
- ¹⁸ Letter to Mayor and Council: "Public Comments by Town Manager", T. Zerkle, 08/30/2007.
- ¹⁹ Letter Petition to Mayor and Council, "Cave Creek Water System Improvements" signed by 96 Cave Creek Residents, 09/06/2007.

POSTSCRIPT

After completing this report, I was provided a copy of the Town of Cave Creek Certified Audited Financial Report (CAFR) for FY 2007-2008 ending June 30, 2008.

I asked one of the top municipal finance experts in Arizona to review the CAFR and provide comments.

His comments are summarized as follows:

He noted first off the Town had an unrestricted General Fund balance of \$5.8M at the end of FY2008. Unfortunately, the Water Fund totally wipes that out with an unrestricted fund balance deficit of \$6.6M. He said the Water Fund lost \$2.7M in FY2008.

He said the CAFR shows \$8.7M in current liabilities in the Water Fund against \$1.3M in assets. In accounting terms, current liabilities are things that are payable within a year.

Of particular significance is the fact that \$4.1M of the \$5.8M General Fund balance is listed as a receivable from the Water Fund and also listed as a current liability in the Water Fund. Thus, \$4.1M of the \$5.8M exists on paper only. It is not a liquid asset, i.e., it is not cash.

The assumption is the Water Fund will pay back the \$4.1M to the General Fund by the end of FY2009 ending June 30, 2009. The problem is the Water Fund is broke.

In total, unrestricted fund balance for all funds of the Town is only \$806,907, reflecting little unrestricted reserves given the size of the Town's annual expenses.

He surmised the Town was drawing down its General Fund balance to offset an acute structural imbalance between revenue and expenses in the Water Fund brought about by the huge amount of debt taken on over the past two years and the weakened economy.

He opined that if not corrected in the relatively near term, the Town's financial future was in jeopardy. It appears the Town is literally going broke.

Source Documents for Endnotes

Cave Creek ponders hikes in sales tax, water rates

by Beth Duckett - Jan. 7, 2009 11:18 AM
The Arizona Republic

Cave Creek has turned to layoffs, wage-slashing and a possible tax hike to counteract its looming budget shortfall.

But the worst could be ahead, Town Manager Usama Abujbarah said.

The financially strapped town in the Northeast Valley faces a \$5.7 million shortfall this fiscal year, which ends June 30. That's about 12 percent of the total budget, said town accountant Marian Groeneveld.

Plummeting development fees account for \$3.7 million of the shortfall. The remainder is local fees, sales tax and state shared revenues.

With new development trading water, 2009 could be "the most difficult year" in Cave Creek, Abujbarah said. The town's largest planned subdivision, called Cahava Springs, was put on hold, he said. The 230-unit project is supposed to be built on 1,000 acres between Spur Cross Ranch Conservation Area and Maricopa County's Cave Creek Regional Park.

"Investors are trying to put the project back

together," Abujbarah said. "We anticipate it will take about six months."

If construction sales taxes, which are on a three- to six-month lag, fall sharply this year, the town could reach a point when there is "virtually no construction taxes anymore," Abujbarah said.

Sales tax increase?

Across the Valley, municipalities are managing the crunch in different ways. Scottsdale is considering offering retirement incentives to employees this month as the city looks to cut operating costs. Paradise Valley is examining a number of cost-cutting measures, including possible layoffs.

Cave Creek will likely raise its sales tax rate.

On Monday, the Town Council voted 6-1, with Vice Mayor Gilbert Lopez dissenting, to temporarily raise the local sales tax rate to 3 percent, from 2.5 percent. The new rate, which would last two years unless the council renews it, would be one of the Valley's highest.

Abujbarah said the increase would take effect 90 days after the next council vote on Jan. 20. Council members are expected to finalize it then.

Town officials hope the sales tax increase

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will generate \$500,000 a year.

In November, Cave Creek laid off seven of its employees, or 14 percent of its workforce. At the time, Abujbarah said development-related fees and applications had dropped 75 percent.

Soon after, the Town Council abolished the \$300 a month salaries of future council members, who take office in June, and reduced the wages of the town manager, prosecutor and magistrate by 10 percent.

Water bills could double

Another option for Cave Creek is to raise water rates.

The town bought two water companies - the Cave Creek and Desert Hills Cos. - which gives it authority to raise rates without consent of the Arizona Corporation Commission, a state agency that regulates utilities.

One scenario proposed by the Town Water Advisory Commission would nearly double the average water user's bill. It would employ a five-tiered system that charges a higher rate for customers who use more water.

Abujbarah said the last time rates were raised for the Cave Creek and Desert Hills systems was in 1986 and 1989, respectively.

Since then, "they were not raised or even adjusted for inflation," he said.

With the shortfall, Cave Creek has no funds to subsidize the system and pay for millions of dollars in improvements. The cost to upgrade the system in 2008 was \$20 million, he said, almost three times more than the town's operating budget.

"(We need it) for the water services to be self-sufficient," Abujbarah said.

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Executive Summary
Cave Creek and Desert Hills
Water Systems
Financial Results

A. Fiscal Year Ending June 30, 2008

For the Cave Creek Water System, total revenues were \$7,521,191, total expenses were \$9,991,970, for a total loss of \$2,470,779. These numbers included the use of WIFA funds on the revenue side and capital improvements in the expenses. Without WIFA and capital improvements, the revenues were \$2,071,539, expenses were \$2,923,848, and the loss was \$852,309. Additionally, Utility Management expenses of \$777,627 are not included in these numbers and should, raising the losses by the same amount.

For the Desert Hills Water System, total revenues were \$10,647,889, expenses were \$12,099,130, and the loss was \$1,451,241. Without WIFA and capital improvements the revenues were \$1,170,069, expenses were \$2,226,339, and the loss was \$1,056,270.

Combined the revenues were \$18,169,080, expenses were \$22,091,100, and losses were \$3,922,020, which had to come out of the Reserve Fund. Operating results without WIFA income or capital improvements were \$3,241,608, expenses were \$5,150,187, and losses were \$1,908,579.

The Town secures a WIFA loan for \$6.5 million to purchase the Desert Hills Water Company (\$2.5 for the purchase and \$4.0 for improvements), a WIFA loan of \$20.1 million to purchase the Cave Creek Water Company, a WIFA loan of \$5.5 million to improve the Cave Creek system and a WIFA loan of \$5.5 million to improve the Desert Hills system. All of the proceeds for all of these loans have been used, with \$17,352,977 used in FY 2008 for capital improvements. In needing to make ratios for the WIFA loans, we cannot borrow any more through WIFA and the credit crisis has made private loans impossible. In effect, the Town does not have the funds available to invest in any of the projects listed in the Infrastructure Improvement Plan. Any and all capital improvements must come from internally generated cash flow. Finally, most of the debt service currently being paid is on the original \$6.5 million loan, for Desert Hills., which in FY 2008 was \$812,817. Only \$362,202 was for Cave Creek.

The 2008 fiscal year was not considered normal because of the high capital improvement levels, and the use of the very expensive, and inefficient, Arizona American management contract. These are not issues in the current 2009 fiscal year.

B. Results for the Quarter Ending September 30

For the Cave Creek Water System, total quarterly revenues were \$873,380, expenses were \$390,325, and profit was \$483,055. Without capital improvements, the revenues were \$823,032, expenses were \$231,871, and profit was \$591,161. However, Utility Management costs of \$509,907, which are not included in these figures but should be, effectively eliminates the profit. There also was no debt service charged to Cave Creek in the first quarter.

For the Desert Hills Water System, total revenues were \$378,917, expenses were \$271,489, and profit was \$107,428. Without capital improvements, revenues were \$328,569, expenses were \$114,882 and profit was \$213,687. However, no debt service was charged during the first quarter.

REVENUE REPORT
SEPTEMBER 2007 CLOSE

TOWN OF CAVE CREEK

For the Period: 7/1/2007 to 9/30/2007	Original Bud.	Amended Bud.	YTD Actual	CURR MTH	Encumb. YTD	UnencBal	% Bud
Fund: 20 - GRANT FUNDS							
Revenues	1,707,500.00	1,707,500.00	0.00	0.00	0.00	1,707,500.00	0.0
Fund: 40 - WASTEWATER ENTERPRISE FUND							
Revenues							
Dept: 000.000							
9004 1/2 CENTS SALES TAX	625,000.00	625,000.00	123,197.90	37,426.68	0.00	501,802.10	19.7
9015 INTEREST INCOME	10,000.00	10,000.00	7,337.49	2,370.29	0.00	2,662.51	73.4
9039 DEVELOPMENT FEE-WASTEWATER	770,460.00	770,460.00	964,164.00	31,285.00	0.00	-193,704.00	125.1
9100 WASTEWATER CONNECTION FEE	100,000.00	100,000.00	507,280.00	8,300.00	0.00	-407,280.00	507.3
9101 SEWER TAP-IN FEE	4,000.00	4,000.00	17,550.00	300.00	0.00	-13,550.00	438.8
9102 SEWER USER FEES	250,000.00	250,000.00	55,779.71	24,360.32	0.00	194,220.29	22.3
9104 SEWER BILLING ADMIN FEE	10,000.00	10,000.00	0.00	0.00	0.00	10,000.00	0.0
9799 MISCELLANEOUS - OTHER	0.00	0.00	345.00	0.00	0.00	-345.00	0.0
9901 TRANSFER TO-GENERAL FUND	-451,275.00	-451,275.00	0.00	0.00	0.00	-451,275.00	0.0
9917 TRANS TO GENERAL FUND UTIL MGT	-544,007.00	-544,007.00	0.00	0.00	0.00	-544,007.00	0.0
Dept: 000.000	774,178.00	774,178.00	1,675,654.10	104,042.49	0.00	-901,476.10	216.4
Revenues	774,178.00	774,178.00	1,675,654.10	104,042.49	0.00	-901,476.10	216.4
Fund: 50 - WATER ENTERPRISE FUND							
Revenues							
Dept: 000.000							
9015 INTEREST INCOME	1,000.00	1,000.00	0.00	0.00	0.00	1,000.00	0.0
9044 DEVELOPMENT FEE - WATER	840,900.00	840,900.00	161,190.00	29,075.00	0.00	679,710.00	19.2
9150 WATER USEAGE FEE	2,036,000.00	2,036,000.00	557,462.84	178,627.87	0.00	1,468,537.16	27.9
9155 WATER ESTABLISHMENT FEE	0.00	0.00	12,515.58	938.60	0.00	-12,515.58	0.0
9160 WATER SERVICE FEE	0.00	0.00	69,270.00	55,255.00	0.00	-69,270.00	0.0
9165 WATER CONNECTION FEE	9,000.00	9,000.00	0.00	0.00	0.00	9,000.00	0.0
9500 BOND/COP SALE PROCEEDS	5,500,000.00	5,500,000.00	0.00	0.00	0.00	5,500,000.00	0.0
9917 TRANS TO GENERAL FUND UTIL MGT	-533,808.00	-533,808.00	0.00	0.00	0.00	-533,808.00	0.0
Dept: 000.000	7,853,092.00	7,853,092.00	810,438.42	263,896.47	0.00	7,042,653.58	10.3
Revenues	7,853,092.00	7,853,092.00	810,438.42	263,896.47	0.00	7,042,653.58	10.3
Fund: 55 - DESERT HILLS WATER COMPANY ENT							
Revenues							
Dept: 000.000							
9015 INTEREST INCOME	17,000.00	17,000.00	1,535.35	589.29	0.00	15,464.65	9.0
9150 WATER USEAGE FEE	1,304,961.00	1,304,961.00	300,303.03	112,374.85	0.00	1,004,557.97	23.0
9155 WATER ESTABLISHMENT FEE	0.00	0.00	1,725.80	180.00	0.00	-1,725.80	0.0
9160 WATER SERVICE FEE	428,896.00	428,896.00	300.00	0.00	0.00	428,596.00	0.1
9165 WATER CONNECTION FEE	13,000.00	13,000.00	0.00	0.00	0.00	13,000.00	0.0
9170 WATER HOOK UP FEE	54,600.00	54,600.00	0.00	0.00	0.00	54,600.00	0.0
9500 BOND/COP SALE PROCEEDS	4,000,000.00	4,000,000.00	0.00	0.00	0.00	4,000,000.00	0.0
9799 MISCELLANEOUS - OTHER	2,000.00	2,000.00	0.00	0.00	0.00	2,000.00	0.0
9917 TRANS TO GENERAL FUND UTIL MGT	-484,682.00	-484,682.00	0.00	0.00	0.00	-484,682.00	0.0
Dept: 000.000	5,335,775.00	5,335,775.00	303,864.18	113,144.14	0.00	5,031,910.82	5.7
Revenues	5,335,775.00	5,335,775.00	303,864.18	113,144.14	0.00	5,031,910.82	5.7
Fund: 60 - SABROSA WATER ENTERPRISE FUND							
Revenues							
Dept: 000.000							
9150 WATER USEAGE FEE	50,000.00	50,000.00	10,199.38	4,027.49	0.00	39,800.62	20.4
Dept: 000.000	50,000.00	50,000.00	10,199.38	4,027.49	0.00	39,800.62	20.4

REVENUE REPORT
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TOWN OF CAVE CREEK

For the Period: 7/1/2007 to 12/31/2007	Original Bud.	Amended Bud.	YTD Actual	CURR MTH	Encumb. YTD	UnencBal	% Bud
Fund: 20 - GRANT FUNDS							
Dept: 000.000	1,707,500.00	1,707,500.00	7,793.00	0.00	0.00	1,699,707.00	0.5
Revenues	1,707,500.00	1,707,500.00	7,793.00	0.00	0.00	1,699,707.00	0.5
Fund: 40 - WASTEWATER ENTERPRISE FUND							
Revenues							
Dept: 000.000							
9004 1/2 CENTS SALES TAX	625,000.00	625,000.00	244,893.93	39,037.86	0.00	380,106.07	39.2
9015 INTEREST INCOME	10,000.00	10,000.00	14,130.44	3,083.65	0.00	-4,130.44	141.3
9039 DEVELOPMENT FEE-WASTEWATER	770,460.00	770,460.00	959,337.00	20,004.00	0.00	-188,877.00	124.5
9100 WASTEWATER CONNECTION FEE	100,000.00	100,000.00	522,484.00	7,650.00	0.00	-422,484.00	522.5
9101 SEWER TAP-IN FEE	4,000.00	4,000.00	18,300.00	600.00	0.00	-14,300.00	457.5
9102 SEWER USER FEES	250,000.00	250,000.00	103,878.51	15,341.70	0.00	146,121.49	41.6
9104 SEWER BILLING ADMIN FEE	10,000.00	10,000.00	0.00	0.00	0.00	10,000.00	0.0
9500 BOND/COP SALE PROCEEDS	0.00	0.00	352,800.00	137,550.00	0.00	-352,800.00	0.0
9799 MISCELLANEOUS - OTHER	0.00	0.00	345.00	0.00	0.00	-345.00	0.0
9901 TRANSFER TO-GENERAL FUND	-451,275.00	-451,275.00	0.00	0.00	0.00	-451,275.00	0.0
9917 TRANS TO GENERAL FUND UTIL MGT	-544,007.00	-544,007.00	0.00	0.00	0.00	-544,007.00	0.0
Dept: 000.000	774,178.00	774,178.00	2,215,968.88	223,267.21	0.00	-1,441,790.88	286.2
Revenues	774,178.00	774,178.00	2,215,968.88	223,267.21	0.00	-1,441,790.88	286.2
Fund: 50 - WATER ENTERPRISE FUND							
Revenues							
Dept: 000.000							
9015 INTEREST INCOME	1,000.00	1,000.00	0.00	0.00	0.00	1,000.00	0.0
DEVELOPMENT FEE - WATER	840,900.00	840,900.00	244,475.00	32,992.00	0.00	596,425.00	29.1
9150 WATER USEAGE FEE	2,036,000.00	2,036,000.00	960,299.28	140,086.59	0.00	1,075,700.72	47.2
9155 WATER ESTABLISHMENT FEE	0.00	0.00	21,708.56	3,154.48	0.00	-21,708.56	0.0
9160 WATER SERVICE FEE	0.00	0.00	174,353.00	0.00	0.00	-174,353.00	0.0
9165 WATER CONNECTION FEE	9,000.00	9,000.00	0.00	0.00	0.00	9,000.00	0.0
9500 BOND/COP SALE PROCEEDS	5,500,000.00	5,500,000.00	0.00	0.00	0.00	5,500,000.00	0.0
9917 TRANS TO GENERAL FUND UTIL MGT	-533,808.00	-533,808.00	0.00	0.00	0.00	-533,808.00	0.0
Dept: 000.000	7,853,092.00	7,853,092.00	1,400,835.84	176,233.07	0.00	6,452,256.16	17.8
Revenues	7,853,092.00	7,853,092.00	1,400,835.84	176,233.07	0.00	6,452,256.16	17.8
Fund: 55 - DESERT HILLS WATER COMPANY ENT							
Revenues							
Dept: 000.000							
9015 INTEREST INCOME	17,000.00	17,000.00	7,980.13	2,462.40	0.00	9,019.87	46.9
9150 WATER USEAGE FEE	1,304,961.00	1,304,961.00	608,227.99	87,751.40	0.00	696,733.01	46.6
9155 WATER ESTABLISHMENT FEE	0.00	0.00	2,310.80	150.00	0.00	-2,310.80	0.0
9160 WATER SERVICE FEE	428,896.00	428,896.00	17,246.00	150.00	0.00	411,650.00	4.0
9185 WATER CONNECTION FEE	13,000.00	13,000.00	0.00	0.00	0.00	13,000.00	0.0
9170 WATER HOOK UP FEE	54,600.00	54,600.00	0.00	0.00	0.00	54,600.00	0.0
9500 BOND/COP SALE PROCEEDS	4,000,000.00	4,000,000.00	1,898,989.00	1,635,469.00	0.00	2,101,011.00	47.5
9799 MISCELLANEOUS - OTHER	2,000.00	2,000.00	1,298.12	98.12	0.00	701.88	64.9
9917 TRANS TO GENERAL FUND UTIL MGT	-484,682.00	-484,682.00	0.00	0.00	0.00	-484,682.00	0.0
Dept: 000.000	5,335,775.00	5,335,775.00	2,536,052.04	1,726,080.92	0.00	2,799,722.96	47.5
Revenues	5,335,775.00	5,335,775.00	2,536,052.04	1,726,080.92	0.00	2,799,722.96	47.5
Fund: 60 - SABROSA WATER ENTERPRISE FUND							
Revenues							
Dept: 000.000							
9150 WATER USEAGE FEE	50,000.00	50,000.00	19,658.40	3,103.18	0.00	30,341.60	39.3

REVENUE REPORT
FEBRUARY 08 CLOSE

TOWN OF CAVE CREEK

For the Period: 7/1/2007 to 2/29/2008

Fund: 20 - GRANT FUNDS

	Original Bud.	Amended Bud.	YTD Actual	CURR MTH	Encumb. YTD	UnencBal	% Bud
Revenues							
Dept: 000.000	1,707,500.00	1,707,500.00	7,793.00	0.00	0.00	1,699,707.00	0.5
Revenues	1,707,500.00	1,707,500.00	7,793.00	0.00	0.00	1,699,707.00	0.5

Fund: 40 - WASTEWATER ENTERPRISE FUND

	Original Bud.	Amended Bud.	YTD Actual	CURR MTH	Encumb. YTD	UnencBal	% Bud
Revenues							
Dept: 000.000							
9004 1/2 CENTS SALES TAX	625,000.00	625,000.00	331,774.57	36,799.35	0.00	293,225.43	53.1
9015 INTEREST INCOME	10,000.00	10,000.00	18,501.83	1,909.07	0.00	-8,501.63	185.0
9039 DEVELOPMENT FEE-WASTEWATER	770,460.00	770,460.00	965,235.00	0.00	0.00	-194,775.00	125.3
9100 WASTEWATER CONNECTION FEE	100,000.00	100,000.00	517,200.00	0.00	0.00	-417,200.00	517.2
9101 SEWER TAP-IN FEE	4,000.00	4,000.00	18,800.00	0.00	0.00	-14,800.00	465.0
9102 SEWER USER FEES	250,000.00	250,000.00	113,158.11	21,109.87	0.00	136,841.89	45.3
9104 SEWER BILLING ADMIN FEE	10,000.00	10,000.00	0.00	0.00	0.00	10,000.00	0.0
9500 BOND/COP SALE PROCEEDS	0.00	0.00	1,094,533.00	319,933.00	0.00	-1,094,533.00	0.0
9799 MISCELLANEOUS - OTHER	0.00	0.00	345.00	0.00	0.00	-345.00	0.0
9901 TRANSFER TO-GENERAL FUND	-451,275.00	-451,275.00	0.00	0.00	0.00	-451,275.00	0.0
9917 TRANS TO GENERAL FUND UTIL MGT	-544,007.00	-544,007.00	0.00	0.00	0.00	-544,007.00	0.0
Dept: 000.000	774,178.00	774,178.00	3,059,347.31	379,751.29	0.00	-2,285,169.31	395.2
Revenues	774,178.00	774,178.00	3,059,347.31	379,751.29	0.00	-2,285,169.31	395.2

Fund: 50 - WATER ENTERPRISE FUND

	Original Bud.	Amended Bud.	YTD Actual	CURR MTH	Encumb. YTD	UnencBal	% Bud
Revenues							
Dept: 000.000							
9015 INTEREST INCOME	1,000.00	1,000.00	0.00	0.00	0.00	1,000.00	0.0
9039 DEVELOPMENT FEE - WATER	840,900.00	840,900.00	260,971.00	0.00	0.00	579,929.00	31.0
9039 WATER USEAGE FEE	2,036,000.00	2,036,000.00	806,165.17	56,407.59	0.00	1,229,834.83	39.6
9155 WATER ESTABLISHMENT FEE	0.00	0.00	25,930.52	1,479.06	0.00	-25,930.52	0.0
9160 WATER SERVICE FEE	0.00	0.00	174,353.00	0.00	0.00	-174,353.00	0.0
9165 WATER CONNECTION FEE	9,000.00	9,000.00	0.00	0.00	0.00	9,000.00	0.0
9500 BOND/COP SALE PROCEEDS	5,500,000.00	5,500,000.00	0.00	0.00	0.00	5,500,000.00	0.0
9799 MISCELLANEOUS - OTHER	0.00	0.00	12,050.00	0.00	0.00	-12,050.00	0.0
9917 TRANS TO GENERAL FUND UTIL MGT	-533,808.00	-533,808.00	0.00	0.00	0.00	-533,808.00	0.0
Dept: 000.000	7,853,092.00	7,853,092.00	1,279,469.69	57,886.65	0.00	6,573,622.31	16.3
Revenues	7,853,092.00	7,853,092.00	1,279,469.69	57,886.65	0.00	6,573,622.31	16.3

Fund: 55 - DESERT HILLS WATER COMPANY ENT

	Original Bud.	Amended Bud.	YTD Actual	CURR MTH	Encumb. YTD	UnencBal	% Bud
Revenues							
Dept: 000.000							
9015 INTEREST INCOME	17,000.00	17,000.00	12,685.25	2,166.08	0.00	4,314.75	74.6
9150 WATER USEAGE FEE	1,304,961.00	1,304,961.00	767,090.89	75,481.49	0.00	537,870.11	58.8
9155 WATER ESTABLISHMENT FEE	0.00	0.00	2,895.80	315.00	0.00	-2,895.80	0.0
9160 WATER SERVICE FEE	428,896.00	428,896.00	72,501.00	41,240.00	0.00	356,395.00	16.9
9165 WATER CONNECTION FEE	13,000.00	13,000.00	0.00	0.00	0.00	13,000.00	0.0
9170 WATER HOOK UP FEE	54,600.00	54,600.00	0.00	0.00	0.00	54,600.00	0.0
9500 BOND/COP SALE PROCEEDS	4,000,000.00	4,000,000.00	4,028,168.13	963,481.15	0.00	-28,168.13	100.7
9799 MISCELLANEOUS - OTHER	2,000.00	2,000.00	1,298.12	0.00	0.00	701.88	64.9
9917 TRANS TO GENERAL FUND UTIL MGT	-484,682.00	-484,682.00	0.00	0.00	0.00	-484,682.00	0.0
Dept: 000.000	5,335,775.00	5,335,775.00	4,884,639.19	1,082,663.72	0.00	451,135.81	91.5
Revenues	5,335,775.00	5,335,775.00	4,884,639.19	1,082,663.72	0.00	451,135.81	91.5

Fund: 60 - SABROSA WATER ENTERPRISE FUND

Revenues
Dept: 000.000

TOWN OF CAVE CREEK

For the Period: 7/1/2007 to 6/30/2008	Original Bud.	Amended Bud.	YTD Actual	CURR MTH	Encumb. YTD	UnencBal	% Bud
Fund: 20 - GRANT FUNDS							
Revenues							
Dept 000.000	1,707,500.00	1,707,500.00	7,793.00	0.00	0.00	1,699,707.00	0.5
Revenues	1,707,500.00	1,707,500.00	7,793.00	0.00	0.00	1,699,707.00	0.5
Fund: 40 - WASTEWATER ENTERPRISE FUND							
Revenues							
Dept 000.000							
9004 1/2 CENTS SALES TAX	625,000.00	625,000.00	517,586.56	47,647.76	0.00	107,413.44	82.8
9015 INTEREST INCOME	10,000.00	10,000.00	25,350.00	1,325.14	0.00	-15,350.00	253.5
9039 DEVELOPMENT FEE-WASTEWATER	770,460.00	770,460.00	1,027,484.00	12,237.00	0.00	-257,024.00	133.4
9100 WASTEWATER CONNECTION FEE	100,000.00	100,000.00	526,260.00	7,300.00	0.00	-426,260.00	526.3
9101 SEWER TAP-IN FEE	4,000.00	4,000.00	19,050.00	300.00	0.00	-15,050.00	476.3
9102 SEWER USER FEES	250,000.00	250,000.00	193,161.28	24,340.11	0.00	56,838.72	77.3
9104 SEWER BILLING ADMIN FEE	10,000.00	10,000.00	0.00	0.00	0.00	10,000.00	0.0
9105 SEWER BOD / TSS FEES	0.00	0.00	6,396.22	2,303.02	0.00	-6,396.22	0.0
9500 BOND/COP SALE PROCEEDS	15,000,000.00	15,000,000.00	2,011,818.00	506,314.00	0.00	12,988,182.00	13.4
9799 MISCELLANEOUS - OTHER	0.00	0.00	345.00	0.00	0.00	-345.00	0.0
9901 TRANSFER TO-GENERAL FUND	-451,275.00	-451,275.00	0.00	0.00	0.00	-451,275.00	0.0
9917 TRANS TO GENERAL FUND UTIL MGT	-544,007.00	-544,007.00	0.00	0.00	0.00	-544,007.00	0.0
Dept 000.000	15,774,178.00	15,774,178.00	4,327,451.06	601,767.03	0.00	11,446,726.94	27.4
Revenues	15,774,178.00	15,774,178.00	4,327,451.06	601,767.03	0.00	11,446,726.94	27.4
Fund: 50 - WATER ENTERPRISE FUND							
Revenues							
Dept 000.000							
9015 INTEREST INCOME	1,000.00	1,000.00	0.00	0.00	0.00	1,000.00	0.0
9044 DEVELOPMENT FEE - WATER	840,900.00	840,900.00	349,565.00	22,263.00	0.00	491,315.00	41.6
9150 WATER USEAGE FEE	2,036,000.00	2,036,000.00	1,403,595.80	176,568.98	0.00	632,404.20	68.9
9152 WATER USEAGE CAREFREE	0.00	0.00	96,045.81	29,119.40	0.00	-96,045.81	0.0
9154 ADEQ WATER CONSUMPTION TAX	0.00	0.00	887.52	247.27	0.00	-887.52	0.0
9155 WATER ESTABLISHMENT FEE	0.00	0.00	35,858.22	1,795.00	0.00	-35,858.22	0.0
9156 WATER ESTABLISHMENT - CAREFREE	0.00	0.00	280.00	100.00	0.00	-280.00	0.0
9160 WATER SERVICE FEE	0.00	0.00	188,929.00	-1,920.00	0.00	-188,929.00	0.0
9165 WATER CONNECTION FEE	9,000.00	9,000.00	0.00	0.00	0.00	9,000.00	0.0
9500 BOND/COP SALE PROCEEDS	5,500,000.00	5,500,000.00	5,449,852.13	2,708,202.00	0.00	50,347.87	99.1
9799 MISCELLANEOUS - OTHER	0.00	0.00	12,168.51	98.51	0.00	-12,168.51	0.0
9917 TRANS TO GENERAL FUND UTIL MGT	-533,808.00	-533,808.00	0.00	0.00	0.00	-533,808.00	0.0
Dept 000.000	7,853,092.00	7,853,092.00	7,537,001.99	2,936,474.16	0.00	316,090.01	96.0
Revenues	7,853,092.00	7,853,092.00	7,537,001.99	2,936,474.16	0.00	316,090.01	96.0
Fund: 55 - DESERT HILLS WATER COMPANY ENT							
Revenues							
Dept 000.000							
9015 INTEREST INCOME	17,000.00	17,000.00	20,892.68	1,789.38	0.00	-3,892.68	122.9
9150 WATER USEAGE FEE	1,304,961.00	1,304,961.00	1,034,002.53	-3,967.47	0.00	270,958.47	79.2
9155 WATER ESTABLISHMENT FEE	0.00	0.00	3,660.80	300.00	0.00	-3,660.80	0.0
9160 WATER SERVICE FEE	428,896.00	428,896.00	60,749.00	0.00	0.00	348,147.00	18.8
9165 WATER CONNECTION FEE	13,000.00	13,000.00	0.00	0.00	0.00	13,000.00	0.0
9170 WATER HOOK UP FEE	54,800.00	54,600.00	0.00	0.00	0.00	54,600.00	0.0
9500 BOND/COP SALE PROCEEDS	4,000,000.00	4,000,000.00	9,477,820.27	2,708,202.00	0.00	-5,477,820.27	236.9
9712 INSURANCE RECOVERIES	0.00	0.00	20,750.00	20,750.00	0.00	-20,750.00	0.0
9799 MISCELLANEOUS - OTHER	2,000.00	2,000.00	20,215.13	0.00	0.00	-18,215.13	1010.8
9917 TRANS TO GENERAL FUND UTIL MGT	-484,682.00	-484,682.00	0.00	0.00	0.00	-484,682.00	0.0
Dept 000.000	5,335,775.00	5,335,775.00	10,658,090.41	2,727,053.91	0.00	-5,322,315.41	199.7

REVENUE REPORT
SEPTEMBER 2008 CLOSE

TOWN OF CAVE CREEK

For the Period: 7/1/2008 to 9/30/2008	Original Bud.	Amended Bud.	YTD Actual	CURR MTH	Encumb. YTD	UnencBal	% Bud
Fund: 20 - GRANT FUNDS							
Revenues	2,034,000.00	2,034,000.00	104,566.00	0.00	0.00	1,929,434.00	5.1
Fund: 40 - WASTEWATER ENTERPRISE FUND							
Revenues							
Dept: 000.000							
9004 1/2 CENTS SALES TAX	559,167.00	559,167.00	134,511.38	39,431.66	0.00	424,655.62	24.1
9015 INTEREST INCOME	15,000.00	15,000.00	-3,771.41	-5,579.72	0.00	18,771.41	-25.1
9039 DEVELOPMENT FEE-WASTEWATER	1,579,331.00	1,579,331.00	64,966.00	25,682.00	0.00	1,514,365.00	4.1
9100 WASTEWATER CONNECTION FEE	526,440.00	526,440.00	9,060.00	0.00	0.00	517,380.00	1.7
9101 SEWER TAP-IN FEE	18,450.00	18,450.00	450.00	0.00	0.00	18,000.00	2.4
9102 SEWER USER FEES	468,276.00	468,276.00	94,431.30	23,425.12	0.00	373,844.70	20.2
9104 SEWER BILLING ADMIN FEE	16,080.00	16,080.00	0.00	0.00	0.00	16,080.00	0.0
9105 SEWER BOD / TSS FEES	0.00	0.00	4,226.59	1,273.12	0.00	-4,226.59	0.0
9500 BOND/COP SALE PROCEEDS	20,203,113.00	20,203,113.00	401,772.00	226,200.00	0.00	19,801,341.00	2.0
9801 TRANSFER FROM - GENERAL FUND	1,350,000.00	1,350,000.00	0.00	0.00	0.00	1,350,000.00	0.0
9917 TRANS TO GENERAL FUND UTIL MGT	-100,000.00	-100,000.00	0.00	0.00	0.00	-100,000.00	0.0
Dept: 000.000	24,635,857.00	24,635,857.00	705,645.86	310,432.18	0.00	23,930,211.14	2.9
Revenues	24,635,857.00	24,635,857.00	705,645.86	310,432.18	0.00	23,930,211.14	2.9
Fund: 50 - WATER ENTERPRISE FUND							
Revenues							
Dept: 000.000							
9015 INTEREST INCOME	11,000.00	11,000.00	0.00	0.00	0.00	11,000.00	0.0
9044 DEVELOPMENT FEE - WATER	1,849,980.00	1,849,980.00	80,804.00	28,030.00	0.00	1,769,176.00	4.4
9150 WATER USEAGE FEE	2,050,000.00	2,050,000.00	573,536.52	172,495.26	0.00	1,476,463.48	28.0
9152 WATER USEAGE CAREFREE	0.00	0.00	155,506.24	39,537.72	0.00	-155,506.24	0.0
9154 ADEQ WATER CONSUMPTION TAX	0.00	0.00	1,189.30	290.58	0.00	-1,189.30	0.0
9155 WATER ESTABLISHMENT FEE	43,000.00	43,000.00	2,200.00	530.00	0.00	40,800.00	5.1
9156 WATER ESTABLISHMENT - CAREFREE	0.00	0.00	320.00	40.00	0.00	-320.00	0.0
9160 WATER SERVICE FEE	250,000.00	250,000.00	50.00	50.00	0.00	249,950.00	0.0
9165 WATER CONNECTION FEE	25,000.00	25,000.00	0.00	0.00	0.00	25,000.00	0.0
9500 BOND/COP SALE PROCEEDS	3,866,800.00	3,866,800.00	50,347.87	0.00	0.00	3,816,452.13	1.3
9712 INSURANCE RECOVERIES	0.00	0.00	9,291.12	0.00	0.00	-9,291.12	0.0
9799 MISCELLANEOUS - OTHER	0.00	0.00	135.00	80.00	0.00	-135.00	0.0
9917 TRANS TO GENERAL FUND UTIL MGT	-1,233,770.00	-1,233,770.00	0.00	0.00	0.00	-1,233,770.00	0.0
Dept: 000.000	6,862,010.00	6,862,010.00	873,380.05	241,053.56	0.00	5,988,629.95	12.7
Revenues	6,862,010.00	6,862,010.00	873,380.05	241,053.56	0.00	5,988,629.95	12.7
Fund: 55 - DESERT HILLS WATER COMPANY ENT							
Revenues							
Dept: 000.000							
9015 INTEREST INCOME	29,000.00	29,000.00	252.85	85.34	0.00	28,747.15	0.9
9150 WATER USEAGE FEE	1,344,461.00	1,344,461.00	326,050.70	119,577.52	0.00	1,018,410.30	24.3
9155 WATER ESTABLISHMENT FEE	5,000.00	5,000.00	735.00	105.00	0.00	4,265.00	14.7
9160 WATER SERVICE FEE	445,392.00	445,392.00	0.00	0.00	0.00	445,392.00	0.0
9165 WATER CONNECTION FEE	13,500.00	13,500.00	0.00	0.00	0.00	13,500.00	0.0
9500 BOND/COP SALE PROCEEDS	1,175,000.00	1,175,000.00	50,347.86	0.00	0.00	1,124,652.14	4.3
9799 MISCELLANEOUS - OTHER	2,000.00	2,000.00	1,530.20	0.00	0.00	469.80	76.5
9917 TRANS TO GENERAL FUND UTIL MGT	-500,000.00	-500,000.00	0.00	0.00	0.00	-500,000.00	0.0
Dept: 000.000	2,514,353.00	2,514,353.00	378,916.61	119,767.86	0.00	2,135,436.39	15.1
Revenues	2,514,353.00	2,514,353.00	378,916.61	119,767.86	0.00	2,135,436.39	15.1
Fund: 60 - SABROSA WATER ENTERPRISE FUND							
Revenues							
Dept: 000.000							

TRUTHS

- GLOBAL PAID \$2.4 MILLION FOR THE CAVE CREEK WATER COMPANY ACCORDING TO AZ CORPORATION COMMISSION RECORDS.
- THE TOWN OF CAVE CREEK IS BUYING THE WATER COMPANY. THE VOTERS APPROVED THIS IN SEPTEMBER 2002.
- CAVE CREEK WILL OFFER WHAT GLOBAL PAID FOR THE WATER COMPANY AND IF NECESSARY SO WILL THE COURT. GLOBAL IS TERRIFIED; THAT'S WHY THEY HAVE SPENT HUNDREDS OF THOUSANDS OF SLICK CAMPAIGN DOLLARS TO DISCREDIT CAVE CREEK.
- GLOBAL HAS ONLY TWO CHOICES: SELL CAVE CREEK THE WATER COMPANY OR THE COURT WILL GRANT THE SALE THROUGH EMINENT DOMAIN
- THE \$30 MILLION OR MORE NUMBER THAT GLOBAL TOUTS IS A FICTIONAL NUMBER.
- ANY CAPITAL IMPROVEMENT TO THE WATER COMPANY WILL CAUSE A RATE INCREASE IF GLOBAL OWNS THE WATER COMPANY.
- COSTS OF CAPITAL IMPROVEMENTS BY THE TOWN OF CAVE CREEK AS THE OWNER/OPERATOR WILL BE 51% LESS THAN GLOBAL.
- WATER RATES BY MUNICIPALY OWNED WATER COMPANIES ARE LESS THAN PRIVATELY OWNED COMPANIES BY A WHOPPING 40%.
- WHEN WAS THE LAST TIME YOU HAD INPUT AT AN ARIZONA CORPORATION COMMISSION MEETING? NEVER, THAT IS THE SAME AMOUNT OF INPUT YOU WOULD HAVE WITH GLOBAL.
- CAVE CREEK IS OPEN GOVERNMENT AT ITS FINEST.
- DO YOU WANT TO BUY IT WITH 3% MONEY OR 7% MONEY?
- VOTE YES ON PROP 402 AND WE ALL SAVE SOME MILLION/YEAR.
- VOTE FOR YOUR FUTURE, VOTE YES FOR PROP 402 ON MAY 17TH.

Paid for by Support for Prop 402 & P.K. Development, LLP

Ross + STAN Toal - Pac Leaders
P.K. Develop = Raweho
manawa owners

Analysis of Cave Creek Water System Purchase
Prepared by: Terry Zerkle

Basic facts:

- \$19.5 mil water system purchase price by Cave Creek
- 2,414 accounts currently
- \$8,077 per account Cave Creek is paying
- 4.2x the 5 year avg (\$1,922) paid per account for any private water utility (2000-2005) in Arizona
- 25% of customers (603) are non-residents of Cave Creek currently. [Does this include Desert Hills and Sabrosa?]
- Town already purchased Desert Hills Water Company- [How many customers now? How many future? Condition of system? Costs to upgrade? Who pays and how?]
- Town assuming Sabrosa Water Company in New River – [How many customers now. How many future? Condition of system? Costs to upgrade? Who pays and how?]
- Needed improvements to the Cave Creek water system and the cost are unknown at this time
- Town doesn't know what system improvements might be needed to provide additional water supplies to Desert Hills and Carefree. What about Sabrosa? [Analysis performed by CH2MHill assumes Town has other funding available to fund these improvements if needed. Where is the funding?]
- Unaddressed at this time but on the horizon – wastewater treatment plant and appurtenant facilities costs and funding. Actual cost is unknown. \$15.0 mil would seem to be on low side. [How might this obligation be impacted by the high and as yet unknown full cost of purchasing the water system and servicing resident and distant non-resident customers?]

Business model envisions:

- WIFA loan \$19.5 mil
- No rate adjustments for debt service or operations
- No property tax for debt service
- Debt service
 - Water system revenues
 - Water system connection charges and development fees
 - **Dedication of portion of Town's excise tax first 5 years and last 4 years of loan period.**
- Assumptions
 - Growth in connections and all fees derived therefrom
 - Growth in accounts
 - Growth in excise tax revenues
- Town to pledge entire excise tax revenues and combined water and wastewater development fee revenues for loan repayment over life of the loan. Pledge includes Town's 2.5 % sales tax, state shared sales tax, Town fines, Town license revenues, and interest earnings. Pretty much its entire General Fund revenue streams to back this singular acquisition.
- Town contracts with private company for operation and management of water system – **does not** have proposal for the cost of this service. Cost factored into model is hypothetical at this time

Conclusions and Analysis:

1. **Paying windfall profit for the system.** Based on 2,414 accounts, Town is paying \$8,077 per account to Global Water for the system. This is 4.2x the average (\$1,922 avg. per account) paid for the acquisition of any other water utility in Arizona for the time period 2000-2005. What makes this water system so much more valuable than any other in the state?
2. **True costs and extent of obligations unknown.** The true and actual costs of the Town acquiring the Cave Creek Water Company including providing service to Desert Hills, Carefree and New River and the legal and cost impact on Cave Creek residents are unknown at this time. Under any scenario once a system water plan is developed for the Town, the actual costs are likely to be considerably higher than is accounted for in the preliminary analysis report prepared for the Town by CH2MHill. The \$2.0 mil currently identified won't go very far. Some of these costs could be driven dramatically upward by system improvements and upgrades outside of Cave Creek needed to serve non-resident customers. The Town's financial business model for acquiring the water system doesn't address these exigencies. Assumes Town has other funds for any costs above \$2.0 mil.
3. **Dedicating part of Town's excise tax.** The plan to dedicate part of the Town's 2.5% excise tax is problematic even if for only 5 years up front and 4 years at the end of the WIFA loan term. A water system is a **business enterprise activity**, even if operated by the Town. It should be **self supporting and operated like a business**. This means that revenues from rates and other charges should be established so as to pay all recurring operating and capital improvement costs including the costs of acquisition, maintenance and upgrades. While I'm not advocating a rate increase neither am I supportive of a 5 year subsidy of the water system by the General Fund. Subsidizing water system costs from General Fund revenue is simply not a good business practice. Have the potential consequences of this action been adequately assessed and what is the anticipated impact on other General Fund services and needs? What happens to other General Fund supported services and needs if the money is not there to both cover water system costs and deliver General Fund services?
4. **Subsidizing water service to non Cave Creek residents.** The business model proposes to use Cave Creek General Fund tax revenues (excise tax) to acquire the Cave Creek Water Company and provide service to system customers. No differentiation is made in the model for in town customers and non-resident customers. Since 25% of the system's customers currently are non-resident of Cave Creek, this means the **Town is proposing to subsidize the cost of water service to non-residents**, about 603 accounts, with Cave Creek tax revenues. While I'm all for being a good neighbor, this makes absolutely no sense. The best case scenario is that this is a blatant misuse of the Town's scarce resources and tax dollars. At a minimum there should be a differential water rate for non-residents so that they pay their full and appropriate share of the financial burden of acquiring and operating the system. Cave Creek residents ought not to be obligated and saddled with the burden of subsidizing water service to non-residents. That's clearly what would happen under the business model as presented.
5. **Impact on Wastewater Treatment plant financing.** With the Town pledging essentially its entire revenue stream to back the WIFA loan, how is this likely to affect the financing of the wastewater treatment plant expansion and appurtenant facilities, which is coming soon? How is the pledge for the water system likely to

impact the interest rate for the wastewater treatment plant? Has this been assessed? There will most definitely be a potential impact.

6. **Assumptions.** There are several key assumptions in the business model most of which assume growth in revenues. What happens if these assumptions don't hold true? What is the back up plan? Has full legal diligence been given to how development fee revenues are proposed to be used in the financing formula for acquisition? There are definitive legal tests which are required by law to be met. Also, the business model does not account for improvements to the system that might exceed \$2.0 mil. Rather the business model assumes Cave Creek has other funding that could be used to fund these improvements. Where is this funding? When it comes to owning and operating a major utility, \$2.0 mil won't go very far. If these or other assumptions don't hold true or the Town encounters unforeseen circumstances that impact costs or revenues, the Town may well have to move forward in the relatively near term with rate increases. The Town should be up front with its citizens and acknowledge this possibility. The business model is sufficiently loose in its estimates, assumptions and unknowns that this is a distinct possibility. The caveat in the CH2MHill analysis says as much, "...changes in these or other assumptions described herein could have significant impact on the results of this analysis and should be carefully considered."
7. **Lack of transparency.** There is a troubling lack of public transparency into this process. As recent as last Sunday evening Feb 25, I was told by Town officials the business model for acquiring the system was not yet in place, important details were still being worked out. I still don't know that I know what they are even after reading the CH2MHill preliminary analysis. While informative, the analysis is soft in many key respects. Nor, in my opinion based on the information I have read, has there been sufficient due diligence performed on the system to determine its condition, what the potential costs are of bringing it up to standard and how this impacts me as a Town resident and rate payer.
8. **TZ note:** factor in other questions above.

Original given to Town Manager 3/2/2007

March 6, 2007

Honorable Vincent Francia, Mayor
and Members of the Town Council
37622 N. Cave Creek Road
Cave Creek, AZ 85331

Dear Mayor Francia and Council members:

Enclosed is an analysis I performed on the Town's proposed purchase of the Cave Creek Water Company. The basis for this analysis is the February 15, 2007 draft report prepared for the Town by CH2MHill titled "Cave Creek Water System Financial Analysis."

I provided Town Manager Usama Abujbara a copy of this analysis when I met with him on March 2, 2007 to discuss the Town's purchase of the water company. During our meeting then and again on March 5, 2007, Mr. Abujbarah graciously responded to my inquiries and provided helpful information in support of the purchase of the water company. For that, I am truly grateful. While I continue to have questions, I applaud and support the Town's purchase of the Water Company.

With that as a precursor, there remain several points that concern me about the business model the Town is using to support the purchase and about the acquisition process itself. I want to share them with you. Briefly they are as follows:

1. **Subsidizing the purchase and operations of the water utility with General Fund tax revenues.** One can make a good case that using General Fund tax revenues to help purchase a major capital asset, such as a water company, is a legitimate use of available, unencumbered General Fund monies. Where it becomes questionable is when General Fund revenues are used to subsidize the cost of operating the enterprise, i.e., the water system. Unfortunately, the Town's business model makes no distinction between the General Fund tax revenues that are being used for purchase of the water company from those that are being used for operations. The business model lumps all revenues together in one pot. This effectively means that General Fund tax revenues are being used to subsidize water system operating costs. As I stated at the Council meeting Monday night March 5, using General Fund tax revenues to subsidize the operations of a water utility is simply not a good business practice. It is a slippery slope, one that the Town would be better off not going down. Moreover, it sets a dangerous precedent for the future. I'm not asking you to take my word for this and would encourage you to seek independent advice on this point from a recognized outside authority such as the Government Finance Officers Association, which writes the books, provides the training and sets the standards nationally on these matters.

What I respectfully ask the Mayor and Council to consider doing is to go on record saying that as a matter of policy, if revenues from water development fees and new accounts exceed the estimates in the business model, the Town will use those excess revenues to replace the General Fund excise tax revenues currently envisioned in the business model financing scheme.

2. **Subsidizing non-resident customers with Cave Creek General Fund tax revenues.** It is one thing to subsidize resident customers of the water system by using General Fund tax revenues to help fund the utility's operating costs. It is quite another to subsidize upwards of 500+ non-resident customers using Cave Creek General Fund tax revenues. This makes no sense. Yet, this is precisely what's happening under the current business model. Under any scenario, non-resident customers should be paying the full cost of whatever it takes to provide them water, totally independent of the application of Cave Creek tax revenues. Two thoughts come to mind for how this might be accomplished: one is by charging non-resident customers rates sufficient to offset the cost of providing them water; the other is by asking the governmental jurisdiction in which these customers reside to make up the difference. There may well be other ways to accomplish this. The point is Cave Creek residents should not be saddled with subsidizing through the Town's General Fund the cost of providing non-residents with water. In the interest of fairness and equity to Cave Creek residents, this inequity should be addressed post haste and the business model reconfigured accordingly.
3. **Transparency.** It may be perfectly clear to the Mayor and Council how all the moving, constantly shifting parts related to the water system purchase and wastewater treatment plant expansion fit together. However, I can assure you from my perspective as a citizen and an outsider, it is not transparent at all. First, there is no singular document or information piece that pulls all the necessary and relevant information together in a concrete, understandable form for public consumption. The information is in bits and pieces and simply not readily available to the public. While I believe the Mayor, Council, and Town Manager intend to do the right thing and want to be responsive, this in and of itself does not take the place of providing the public with well prepared, clearly written, authoritative documentation explaining the case and providing the technical and financial basis for making such important public policy decisions. Yes, you are our elected representatives responsible for acting in our behalf in making such decisions. But this representative responsibility carries with it a duty to inform the public, not just verbally, but with clearly written and authoritative documentation of the basis for making important decisions. This is necessary for transparency into governmental activities and decision making and it is necessary for accountability – two of the hallmarks of democratic governance, in the absence of which there is no democracy.

The concerns expressed above are offered in the spirit of trying to be constructive, not finding fault. I hope they are received that way. You have a thankless job, and

I appreciate the contributions you make toward making Cave Creek a better place to live. I wish you the best as you continue to strive to do the right thing for our town and its residents.

Sincerely,

Terry Zerkle
41200 N. Echo Canyon Drive
Cave Creek, AZ 85331
Tel: 480-518-6138
E-mail: TerryLZerkle@aol.com

C: Usama Abujbarah, Town Manager
Carrie Dyrek, Town Clerk

MEMORANDUM

Cave Creek Water System Financial Analysis

To: Town of Cave Creek

FROM: Dave Green/DFB
Louis Munoz/DFB

DATE: February 15, 2007

Introduction

The Town of Cave Creek (the Town) has been negotiating with Global Water, the current owner of the Cave Creek Water Company, to purchase the Cave Creek Water System. The Town is seeking a State of Arizona Water Infrastructure Finance Authority (WIFA) loan to finance the acquisition costs as well as fund some initial improvements to the water system.

→ The Town is seeking a \$19.5 million loan from WIFA that will provide approximately \$17.5 Million for the acquisition of the Cave Creek Water Company, and \$2.0 Million for improvements to this system. The total acquisition cost of the Cave Creek Water Company is \$19.5 million, but the Town intends to use \$2.0 million of its available funds for this acquisition.

While this loan will be secured by a pledge of the City's excise tax and water and wastewater development fee revenues, the Town intends to use funds generated through the operation of the water system to repay the debt service on the proposed WIFA loan. The funds from operation of the water system are not expected to generate sufficient revenues under the current rates and charges to fully support the system with the proposed debt. Thus, excise tax and/or development fee revenues are anticipated to be used to help support the system during these early years. This technical memorandum describes the Cave Creek Water System and the projected system operating results and debt service coverage from operation of the water system, and the projected excise tax and development fee debt service coverage.

Service Area, System Growth, and Usage

→ The Cave Creek water system currently serves the Town of Cave Creek, part of the Town of Care Free, and a portion of unincorporated Maricopa County. Approximately 25% of the Cave Creek Water System customers are located outside the Town of Cave Creek. The Town encompasses approximately 31 square miles with an overall population under 4,700, according to the 2005 census. Exhibit 1 presents a map of the water system service area.

→ During the last 3 years, the number of water accounts served by the system has grown by an average of 6.2 percent annually, increasing from 2,017 accounts in FY 2002-03 to the current estimate of 2,414 accounts. A major assumption of this financial forecast is the forecast growth in the number of water customers. For most of the forecast period the number of new customers is projected to grow by 100 new connections annually. However in FY 2007-08 and in FY 2008-09, the Town expects approximately 60 units to be added to the system. With this forecast 100 new

DRAFT

accounts per year, the rate of system growth is forecast to decline over time from 3.8% in FY 2009-10 to 2.4% in FY 2026-27. The total number of accounts for the water system for FY 2006-07 is 2,492 and is forecast to reach 4,412 accounts by FY 2026-27. This forecast does not include potential annexations of new areas into the Town, or the conversion of lands within the Town that would require a change in zoning for their development. If the rate of growth exceeds the rates forecast herein, system financial results are expected to improve from those forecast herein.

The monthly retail water usage per account from FY 2002-03 through FY 2004-05 has averaged 14,505 gallons. For this analysis, it is assumed that this level of usage per account will continue throughout the study period. As a result, total billed retail water usage is forecast to increase at the same rate as the increase in number of customers. Bulk Treated Water Sales to Desert Hills and Carefree Water Systems is projected to increase from 117 million gallons in FY 2004-05 to 234 million gallons in FY 2007-08 and beyond. Bulk raw water sales to a local golf course are projected to amount to 73.0 million gallons annually throughout the study period. Total billed water usage is forecast to increase from 624.0 million gallons (MG) in FY 2006-07 to 901.2 MG in FY 2016-17, and 1,075.3 million gallons in FY 2026-27.

Projected System Revenues Under Current and Proposed Rates and Charges

The utility revenues that will be used to support the water system include rate revenues; revenues from connection and development fees; as well as interest income and revenues from miscellaneous fees and charges. Rate revenues are the largest source of revenue, followed by revenues from development fees. In addition, transfers of excise tax revenue are anticipated to be used to support the system in FY 2007-08 through FY 2012-13, and again beginning in FY 2022-23 through the remainder of the study period.

The water system's current water rates consist of a \$16.33 per month customer charge (which includes first 1,000 gallons of water usage per month), and a volume charge of \$2.46 per 1,000 gallons. For a customer consuming 14,000 gallons per month, these rates result in a \$48.31 monthly bill for water service. It was assumed for this analysis, that the Town would not adjust the rates for water service. Assuming the projected system growth discussed above, and assuming no changes in the water rates, projected rate revenue is forecast to increase from \$1.48 million in FY 2006-07 to \$2.03 million in FY 2016-2017, and to \$2.62 million in FY 2026-27.

Revenues from connection and development fees are dependent on system growth. The water system currently collects a connection fee of \$150 per new connection. This fee is assumed to be continued with the Town's ownership of the system. The Town has adopted a development fee of \$8,248 for a new user with a $\frac{1}{2}$ x $\frac{3}{4}$ -inch connection and a fee of \$14,015 for a 1" connection. Development fee revenues are projected to increase significantly to more than \$1.2 million annually beginning in FY 2009-10. Some of the new developments that are scheduled to come on line in FY 2007-08 and FY 2008-09 were approved under an old development fee schedule and thus do not generate the same revenue per new connection as the developments scheduled in subsequent periods. It was thus assumed for this analysis that the new connections in these two fiscal years would generate an average of \$10,000 in development fee revenue per new connection. Development fees are projected to escalate at a 3.5% annual rate after FY 2009-10. This escalation in these fees has not been considered by the Town Council.

Interest income has been projected assuming 3 percent interest on the system's operating fund beginning balance.

rate revenues

excise tax

increase
water
bill
of the
development

Excise tax revenues that are used to support the water system in FY 2007-08 through FY 2012-13 amount to \$300,000 in FY 2007-08, \$500,000 in FY 2008-09, and \$700,000 annually in FY 2009-10 through FY 2012-13. After this period the analysis does not require the use of excise taxes to meet the System's revenue requirements and other financial commitments until FY 2022-23. The reliance on excise tax revenues continues from FY 2022-23 through the remainder of the study period. Use of excise tax revenues increases from \$100,000 in FY 2022-23, to \$200,000 in FY 2024-25 and FY 2025-26, and \$300,000 in FY 2026-27.

System Expenditures

This section presents the determination of the water system revenue requirements or costs that need to be recovered through the utility's rates and other sources of revenue. Revenue requirements have been developed using the cash basis. Under this method, actual cash outlays are recognized as expenses of the utility. Non-cash expenses, such as depreciation, are not considered in developing the utility revenue requirements under the cash basis. For this analysis, the total system revenue requirements consist of operating expenditures, cash funded capital outlays, taxes or payments in lieu of taxes, and debt service requirements.

The cash basis method of determining the system revenue requirements differs from how the utility's revenue requirements were determined as a privately owned and operated utility, regulated by the Arizona Corporation Commission. The revenue requirements for the water system were determined using what is generally referred to as the "utility basis". Under the utility basis, a utility's revenue requirements consist of operating expenses, depreciation, taxes, and a normal return on the utility's rate base. Depreciation and return on the utility's rate base are not components of the system revenue requirements under the cash basis. In addition, as the system will be owned by the Town, the utility will not pay property or income taxes except in FY 2006-07, when it may be required to pay property and other taxes that have already been incorporated into the tax rolls. Once the Town purchases the utility, it will no longer be regulated by the Arizona Commerce Commission, and thus will not incur any regulatory commission expenses.

The Town plans to contract with a private company to operate and manage the water system. The Town intends to enter into negotiations with the American Water Operations and Maintenance, Inc. (American Water) for operation of this system. It was assumed for this analysis that this contract would start on or about May 15, 2007. The initial fee for this service has been estimated by CH2M HILL at \$163,000 for the remaining 4.5 months of FY 2006-07, and \$484,000 for all of FY 2007-08. This estimate is not based on a proposal from American Water for operation of the Cave Creek Water System, but rather was estimated by CH2M HILL by multiplying the forecast average number of accounts for FY 2006-07 and for FY 2007-08, that would be served by the water system by an annual charge of \$175 per account. The estimated annual cost per account of \$175 was estimated by taking the amount of the Town's contract with American Water for operation of the Desert Hills Water Company and dividing it by the number of accounts being served by the Desert Hill's water system. In addition to the compensation paid to the contract operator, the Town will continue to be directly responsible for many operating expenses. The Town will also continue to employ two staff to monitor and manage its contract with the system operator. The staff is assumed to have an average annual salary of \$35,000 per employee in FY 2006-07.

Basis for estimating operating costs

No proposal

What happens if American Water wants more than \$175 to service each account?

What happens if contract exceeds 4% increase annually?

Long

In FY 2007-08 interest expense of \$601,563 is included in the system operating expenses, as a interim loan from Global Water until the Town of Cave Creek receives long term financing for the purchase of system.

The expenditures associated with the Town's contract for operation of the water system with American Water are forecast to grow by 4 percent annually due to inflation. In addition, the American Water costs are also expected to increase because of system growth. It is assumed that the contract operating expenses would increase by 50 percent of the projected rate of system development, or by 1.5 percent annually, for a total of approximately 5.5 percent (4.0 percent inflation plus 1.5 percent system growth adjustment) annually. Purchased Water, Purchased Power and Chemical costs are forecast to increase by 3.0 percent due to inflation plus 3.0 percent due to system growth. All other system operating expenses were forecast to increase by 4.0 percent annually. Projected total system operating expenditures are projected to decline by 20.8% from \$2.1 Million in FY 2007-08 to \$1.6 million in FY 2008-09, and then increase at a fairly stable rate averaging 5.7% to \$2.5 million in FY 2016-17. The decline in these expenses in FY 2008-09 is due to the elimination of the interest expense on the interim loan for acquisition of the system from Global Water.

Projected debt service on the WIFA loan assumes that the debt is repaid over 20 years at an interest rate of 4.0%. Proceeds from the loan will be used to fund the acquisition of the Cave Creek Water System and provide some funding for planned improvements to the system. Annual principal and interest payments would amount to about \$0.78 million in FY 2007-08 and FY 2008-09. Payments would increase to \$1.54 Million in FY 2009-10 and remain at this level through FY 2026-27, when the loan is retired. In addition to the principal and interest payments, it is assumed that the City will establish a debt service reserve over a 5 year period with annual deposits into this fund of \$309,000 in FY 2007-08 through FY 2012-13.

The initial WIFA loan includes approximately \$2.0 million for funding of improvements to the Cave Creek Water System. The Town has contracted to have a master plan for the water system prepared, but as of yet, any needed improvements to the water system have not been identified. As such, the \$2.0 million in funding is an allowance for improvements that have not yet been planned or designed. As such, we do not know if this will provide sufficient funding for needed improvements to the system, or that will allow the Town to provide additional water supplies to Desert Hills and Care Free. It is assumed for this analysis, that the Town has other funding available that could be used to fund these improvements if needed. This analysis does not identify any additional major improvements to the water system besides the initial \$2.0 Million allotment. It is likely that additional capital improvements will be needed during the projection period, but these improvements and their required funding are unknown at this time, and thus have not been considered in this analysis. The analysis does assume annual expenditures for normal capital improvements such as line extensions and renewal and replacement expenditures amounting to approximately 5.0% of the system's annual gross revenues.

Total annual expenditures are projected to increase from \$2.8 million in FY 2007-08, to \$3.0 million in FY 2008-09, and to \$3.8 million in FY 2009-10, when the increase in annual debt service payments that begins that year. Annual expenditures increase each year amounting to \$4.0 million in FY 2016-17, and \$5.7 million in FY 2026-27.

Utility Net Revenues

*WIFA
loan
2007-08*

*WIFA
loan
2007-08
2009-10
2016-17
2026-27*

This is only a...

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System gross revenues less system operating expenses represent the projected net revenues of the system that are available to meet the annual debt service requirements on the utility's outstanding debt. With the excise tax revenues, the system net revenues are projected to amount to \$1.0 million in FY 2007-08, the first year of debt service on the WIFA loan, and \$1.8 million in FY 2008-09. In subsequent periods, net revenues increase annually, amounting to \$2.5-2.6 million annually through in FY 2012-13. The net revenues decline to about about \$1.9 million in FY 2013-14, when the Town quits relying on excise tax revenues, and remains at about this level through the remainder of the study period.

Water System Financial Results

Exhibit 1 presents the projected financial results for the water system. With the forecast excise tax revenues and assumed development and connection fee adjustments, debt service coverage ranges from a low of 1.21 in FY 2021-22 to a high of 1.43 in FY 2012-13.

Exhibit 1 also shows an annual cash flow ranging between \$83,000 in FY 2025-26 and \$273,000 in FY 2009-10. These available funds would be available to fund capital improvements, make debt service payments on additional capital outlays that may be needed in the future, or as a contingency against unanticipated future cost or revenue changes. The balance of the operating fund with these projected cash flows is projected to grow to \$2.1 million by FY 2016-17 without any additional capital outlays or demands on these funds, and to \$2.9 million in FY 2026-27.

Excise Tax Financial Results

The Town intends to dedicate a portion of its 2.5 percent local excise tax revenue and its water and wastewater system development fees to the Cave Creek water system. While the Town's goal is to to eventually have the water utility be self supporting, and thus not rely on the dedicated excise tax revenues and wastewater development fees to meet its debt covenants, for purposes of loan covenants to WIFA, it is anticipated that the Town will pledge the entire excise tax revenues and combined water and wastewater development fee revenues for these loan repayments. This pledge includes the Town's 2.5% sales tax revenues, intergovernmental revenues (state shared sales tax), Town fines, Town license revenues, and the Town's interest earnings. The Town will covenant that such revenues will be at least 200 percent of the highest scheduled annual WIFA debt payment. The analysis shown in Exhibit 2 shows that the Town has, and is expected to continue to, meet this target coverage ratio for its existing debt and proposed Cave Creek Water System loan.

It is not logical to dedicate revenue to the water system

The Town's sales tax revenues are assumed to grow by 3.0 percent annually. This projection is expected to be conservative during periods of rapid expansion, expected over most of the forecast period, but could be slightly aggressive during periods of occasional economic slowdown. The Town's wastewater development fees are forecast to remain constant at \$512,000 annually, while the water development fees are forecast to increase from \$600,000 in FY 2007-08 and FY 2008-09, to \$1.25 million in FY 2009-10 and \$1.30 million in FY 2010-11.

The Town is also anticipating applying for a WIFA loan in July of 2007 to fund the construction of a wastewater treatment plant and associated lines and facilities. It was assumed that the Town would be applying for a \$15 million loan for this facility. Bids for construction of this facility have not been received, so the actual cost of this facility is unknown. The Town's projected excise tax

Excise tax revenue
WIFA loan
Wastewater development fees
Water development fees
\$15.0 mil?

revenues are sufficient to support this additional debt on top of the Town's existing and proposed Cave Creek Water System WIFA loans.

Summary

The financial analysis for the Cave Creek water system presents the forecast financial results for the water system through FY 2026-27. Given the study assumptions described herein, the forecast shows that the target debt service coverage of 1.20 would be met through FY 2026-27. The analysis assumes that the Town will use excise tax revenues to support the system in FY 2007-08 FY 2012-13, and again beginning in FY 2022-23. These results are achieved without a revision in the rates for water service collected from the system users through FY 2016-17. The analysis assumes a 3.5 percent annual adjustment to the Development and Connection fees collected from new connections to the water system.

598
10/17

These financial results assumes 100 new accounts connecting to the water water system annually over most of the study period, which the Town considers to be conservative. A more rapid rate of growth would lead to improved financial performance. Other assumptions relate to the system's operating costs once the Town takes over ownership and operation of the facilities, the annual debt service on the WIFA loan issued to finance the acquisition and to provide funds for improvements to the system, and the need for additional improvements in future years. While CH2M HILL believes the assumptions of this analysis are reasonable, changes in these or other assumptions described herein could have a significant impact on the results of this analysis and should be carefully considered.

* #
MAY 2008
P. 10

DD new
work

Don't know what improvements might be needed to system and what they would cost

Scenarios:

- 1. Best case
- 2. Middle of the road
- 3. Worst case

It has, then then

Amount of money to be spent on the system

Requirement of loan predicted as growth
annual in development & connection fees
Growth in accounts
Growth in excise tax

Town is subsidizing water service to non residents through
the Town excise tax

Insert Exhibit 1

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Exhibit 2

Cave Creek Water System Financial Projections

Excise Tax Coverage Test

(To be Updated)

	2005	2006	2007	2008	2009	2010	2011
Excise Taxes							
General Fund 1.5 Cent	\$1,218,812	\$1,855,593	\$1,948,372	\$2,045,791	\$2,148,080	\$2,255,484	\$2,368,259
Construction Tax	\$870,580	\$1,106,809	\$1,162,149	\$1,220,257	\$1,281,269	\$1,345,333	\$1,412,600
Spur Cross .5 Cent	\$406,271	\$426,584	\$447,913	\$470,309	\$493,824	\$518,516	\$544,441
Wastewater Treatment Plant .5 Cent	\$406,271	\$618,532	\$618,532	\$618,532	\$618,532	\$618,532	\$618,532
Intergovernmental	\$799,826	\$792,293	\$792,293	\$792,293	\$792,293	\$792,293	\$792,293
Fines and Forfeitures	\$70,000	\$114,823	\$114,823	\$114,823	\$114,823	\$114,823	\$114,823
Licenses, Permits and Miscellaneous Fees	\$970,946	\$1,124,062	\$1,124,062	\$1,124,062	\$1,124,062	\$1,124,062	\$1,124,062
Interest	\$34,000	\$137,563	\$137,563	\$137,563	\$137,563	\$137,563	\$137,563
	\$4,776,706	\$6,176,259	\$6,345,707	\$6,523,630	\$6,710,446	\$6,906,606	\$7,112,573

1998 WIFA Loan Service	\$205,202	\$204,791	\$204,367	\$203,930	\$203,479	\$203,013	\$202,533
2007 WIFA Loan Service: 01/07			\$110,396	\$225,810	\$491,748	\$491,748	\$491,748
2007 WIFA Wtr Loan \$27,345,000			\$0	\$1,358,800	\$1,093,200	\$1,097,800	\$1,097,200
Subtotal: WIFA Debt Service	\$205,202	\$204,791	\$314,763	\$1,788,540	\$1,788,427	\$1,792,561	\$1,791,481

Annual Coverage Ratio	23.32	19.62	3.55	3.65	3.74	3.86	
Highest Debt Service Coverage Test		2.13					
2007 WIFA Loan Service: WY/TP + Collection Sys.	\$205,202	\$204,791	\$314,763	\$2,893,540	\$2,893,227	\$2,896,361	\$2,893,481
Subtotal: WIFA Debt Service				\$1,105,000	\$1,104,800	\$1,103,800	\$1,102,000
Annual Coverage Ratio	23.28	30.16	20.16	2.25	2.32	2.38	2.46
Highest Debt Service Coverage Test				2.19			

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- (b) Interest Rates Estimated at 3.5%.
- (c) Town will covenant to maintain coverage equal to 1.2x coverage.
- (d) The Town covenants and agrees that the aggregate amount of the Excise Tax Revenues for the last full fiscal year immediately preceding the issuance of such Excise Tax Parity Obligations have been at least equal to the sum not less than (2.0) times the highest year's debt service or comparable payments on all of the Excise Tax Parity Obligations then outstanding (including the current Loan Agreement) and on the Excise Tax Parity Obligations then to be issued.
- () Debt Service Coverage Calculation excludes payments to Debt Service Reserve Fund that are included in the debt service schedule as per conversation with Mark Reader of Stone & Youngberg LLC

November 29, 2008

Hon. Mayor and Town Council
Town of Cave Creek
37622 N. Cave Creek Road
Cave Creek, AZ 85331

Dear Mayor Francia and Council Members:

For your awareness, enclosed is the cost estimate summary page from the April 2008 Cave Creek Water Master Plan prepared for the Town by CH2MHill that has never been presented to the Council for review or adoption and which the Council apparently questions exists.

The WMP cost estimate summary reflects a range of \$50.5 million - \$108.3 million in estimated capital improvement project costs, calling \$72.2 million as the mid-range number for financial planning purposes. The \$72.2 million does not include Design, Engineering, Permitting, Legal fees, Land purchases, and Easement costs, which the plan notes is likely to add another 15-25% to the construction costs. Thus the \$72.2 million is closer to a range of \$83.0 million - \$90.2 million when these costs are factored in, could be less or more.

Even though it has never been presented to Council or been vetted at a public meeting before Council, the April 2008 WMP was submitted by Town staff to the Maricopa County Environmental Services Department on April 25, 2008 and represented as official policy of the Town of Cave Creek. It may have been presented to other governmental agencies and represented as official policy as well.

MCESD uses the plan for review and approval of water systems and subdivisions in Cave Creek and Desert Hills. MCESD was of the belief the Mayor and Council were fully aware of and have already committed to fund and construct the various projects contained in this plan as they become necessary. MCESD was also of the belief the projects contained in this plan are reflected in an existing Council approved Capital Improvements Program. Their approvals of development activity in Cave Creek and Desert Hills have been predicated on that being the case.

As you know, none of that is the case. The various policy expressions and capital projects contained in this plan have never been brought forward to Council for consideration and action, nor has the Council requested that they be brought forward. What's happening here is policy-making by administrative fiat, and it is going to get the Town in hot water, if in fact it hasn't done so already.

Consider this. At least one stipulation agreement to resolve a major water system violation was entered into between the Town and Maricopa County last year. One of the agreement stipulations called for the Town to provide Maricopa County an appropriately authorized Water Master Plan within fifteen days. The MWP version subsequently

submitted by Town staff to the County on August 20, 2007 to comply with the stipulation had never been presented to the Council for review or adoption. Nor had it been through a public hearing/public vetting process before Council. Moreover, it was materially different from the only Water Master Plan ever presented to and adopted by the Council on April 16, 2007.

There have been several iterations of that plan submitted to the County since, culminating in the version submitted on April 25, 2008. None of these were ever submitted to the Council or vetted at a public meeting before Council. For that matter, the Water Advisory Committee was closed out as well.

In view of these facts, I respectfully suggest you get off Council Member Meeth's case when she attempts to make you aware of the seriousness of the WMP issue and the financial and legal consequences at stake. They're enormous. Do your jobs. Take charge of your policy-making and oversight responsibilities, and get on top of the Town's finances and other critical issues.

Sincerely,

Terry Zerkle

Cave Creek and Desert Hills – Water Company

Master Plan – Cost Estimate

Cave Creek and Desert Hills, AZ

BASIS OF ESTIMATE



Estimate ID: 2008.0041
Project Name: Cave Creek and Desert Hills – Master Plan
Class Estimate: Class 4 – (+50% to -30%)
Requested By: Fair Yeager
Estimated By: Pete Bredehoeft
Estimator Phone: 770-604-9182 x54050
Estimate Date: Rev #2 March 23, 2008
CCI Index: 8,094.28 (March 2008)
Material Index: 2,578.50 (March 2008)

Pete Bredehoeft
ESTIMATOR

Purpose of Estimate

Master Plan – conceptual cost estimates for improvements in 2008, 2010 and 2030.

General Project Description

Water Pipelines – 8", 12", 16" and 24" dia, booster pump station, fire protection system, water storage tanks (250,000 to 2MG), pressure control valves. Water Treatment Plant capacity improvements. New Improvements for new pressure zones, and potential growth of the communities.

Overall Costs

The following is a summary breakdown of the costs. See attached breakdown for additional detailed information.

Low Range	ESTIMATE RANGE	High Range
-30%	Total \$72,241,000	50%
\$50,569,000	Construction Only	\$108,362,000

Note – These costs do not include Design, Engineering, Permitting and Services during construction costs, plus any additional owner costs, such as legal fee. Land purchase or easements costs are not included. These costs could add an additional 15% to 25% to these construction costs.

Markups

The following typical contractor markups were applied to the Cost Estimate:

Contractor Overhead	10%
Profit	5%
Mobilization/Bond/Insurance	5.7%
Estimate Contingency	30%
Escalation Rate	See Below
Market Adjustment Factor	5% (for 2008 cost only)

Escalation Rate

Escalation is based upon specific commodity, labor and equipment index information from Global Insight data. This was used to determine an overall index factor forecast, which ranged from 6.3% to 4.0%. Assumed a the average project would require a 10 month design period and 12 month construction period, with 6 months for Bid and

August 14, 2007

Honorable Vincent Francia, Mayor
and Members of Town Council
Town of Cave Creek
37622 N. Cave Creek Road
Cave Creek, AZ 85331

Hand Delivered to Town Hall

Re: Concerns about Town's Financial Condition and Lack of Governmental
Transparency

Dear Mayor Francia and Council members:

Purpose

The purpose of this letter is to inquire about the Town's long-term financial planning, to raise concerns about the Town's financial condition, and to decry the lack of public transparency into official actions and policy decisions being undertaken by the Town's elected and appointed officials.

Background

Last week I sent a letter dated August 8, 2007 to the Mayor and Town Council voicing concern and strong opposition to the Town's announced intentions of allowing a private developer to extend the Town's recently acquired water system into the unincorporated area to the Town's north and east to service and facilitate development on the tops and sides of the mountains in Gold Mine Estates, Continental Mountain and environs contrary to the Town's Council adopted and publicly ratified 2005 General Plan. In that letter I pointed out that, by any reckoning, this was a momentous policy decision having significant implications and potential ramifications for the Town's future, its residents, its resident water customers, and the Town's water system. I inquired as to when this policy decision was made by the Town Council and at what duly noticed and properly agendaed public meeting. I also inquired as to what had been done by the Town in advance of reaching this decision to inform Cave Creek residents the Town was contemplating this action and to involve them and solicit input into the decision process. I also posed the following questions: Is the Town so upside down and in such dire financial straights over the water company purchase, the unknown system maintenance and improvement costs at the time of purchase that are just now becoming known, and the escalating and what appear to be out-of-control estimated costs of the new Wastewater Treatment Plant, that it is now looking to engage in unholy financial and community interest defeating alliances with developers to bail the Town out? Is getting a few developer dollars into the Town's treasury worth selling out the community's future?

Since sending my August 8 letter, I've spoken with four of you. All four confirmed you are aware discussions are going on between Town officials and a developer concerning the extension of the Town's water system into the unincorporated area to the north to serve and facilitate development on the tops and sides of Continental Mountain, although three of you said you had no details. All four confirmed that *this matter has not been made public by the Mayor and Town Council*, although two of you stated you had tried to impress upon your colleagues that as a matter of law and in the interest of transparency it needed to be. During these discussions I learned from one of you that substantive negotiations leading to an actual development agreement are currently being conducted between the Town and the developer for the provision of the Town's water to this area.

I have since learned that the name of the developer is the Sienna Corporation. Two of you said you had tried to express concerns to the Mayor, your Council colleagues and the Town Manager about this issue, the fact that it wasn't being made public, and to get information about where this matter stood, and, as a result, you have essentially been closed out of the information loop for not being seen as supportive of this action. Two of you confirmed you are aware and understood this is a policy issue of momentous import over which the Council has exclusive authority and one which has significant implications for the Town, its residents, the Town's future, and the Town's water system not the least of which is the question of sustainability and where the Town is going to get water to meet community growth demands and to sustain such extraterritorial water service commitments for the long term. In response to my comment that as an outside observer with some knowledge of municipal finance it appears the Town is upside down and in financial straights over the purchase of the water company and the escalating increased cost of the new wastewater treatment plant and is looking for revenue from virtually any source including extensions of the water system to serve unincorporated areas as well as approval of high volume retail sales tax generating developments such as Wal-Mart to cover these unanticipated increased costs, two of you said this is precisely the situation. You stated further that the Town is "out of control" and being driven by a policy agenda promoted surreptitiously by the Town Manager and some members of the Council that is deliberately "chipping away" at the sanctity and integrity of the Town's long cherished, closely held rural character and lifestyle.

Town Finances

In a March 6, 2007 letter to the Mayor and City Council, sent the day after the Council's March 5 vote to purchase the water company, I voiced support for the purchase, but also wrote I had continuing concerns and questions about the financial business model the Town was using to support this acquisition and about the acquisition process itself. I pointed out there was a lack of transparency into the purchase details and that there simply was no clearly written, authoritative documentation available to the public explaining the case and providing the technical and financial analysis upon which to base and support a purchase decision. I wrote that such documentation is necessary for transparency into governmental decision making, and it is necessary for accountability – two of the hallmarks of democratic governance, in the absence of which there is no democracy. I will say more about the lack of transparency into the Town government's official actions and decisions later in this letter.

Accompanying my March 6 letter to the Council was a copy of an analysis report I had prepared on the Town's water company purchase based on the very limited, disjointed information then available to the public from the Town. This analysis was prepared prior to the Town's purchase of the water company. I gave a copy to the Town Manager in a meeting I had with him on March 2 at which Councilman McGuire sat in. In this analysis report, I note that the actual costs of the purchase of the water company as then proposed and the extent of the obligations to the Town and its residents were unknown because the Town had no water system plan upon which to base upgrade and maintenance costs. Nor had the Town performed due diligence on the water system to ascertain definitively what condition it was in and to determine what maintenance and replacements to the system might be necessary to get it into an acceptable operating condition, and what the costs would be. The reason given me by the Town Manager for the Town not undertaking a due diligence inspection was that Global would not permit an inspection prior to the Town's purchase of the water company. My analysis report noted that once the Town has a water system plan in hand, the costs for upgrading the system are likely to be considerably higher than the \$2.0 million identified in the preliminary analysis report prepared for the Town by its engineering consultant, CH2MHill. The Town Manager assured me that all key upgrades needed for the system to function properly and safely had been identified and accounted for in the

Town's financial business model, that the Town had the money in place to pay for them. He said the assessment of what needed to be done had been performed by engineers retained by the Town independent of not yet having a water system master plan or having performed due diligence on the system. According to the Town Manager, this included, among other upgrades, two new storage tanks. He stated the General Fund's fund balance (\$5.0 million at that time) would cover any shortfall. He also confirmed for me that the cost of the new wastewater treatment plant was estimated at \$15.0 million and provided me with a spreadsheet showing this number. My analysis report noted that \$15.0 million would seem to be on the low side (for my analysis I had picked up this number from the CH2MHill preliminary analysis report), and I expressed this to the Town Manager. The Town Manager assured me that \$15.0 million was a good number and was based on solid preliminary engineering analysis. Imagine my surprise when I read the *Desert Advocate* article on July 18 reporting the estimated cost of the new wastewater treatment plant had risen to \$31.1 million, more than double the amount I was told less than five months earlier. Moreover, I learned last week the \$31.1 million number is for a facility that has been substantially reduced in treatment capacity size from that recommended by the Ad Hoc Citizens Advisory Group tasked last year with making a recommendation to the Town on the new Plant. Ostensibly this was done unilaterally by Town staff to reduce the Plant's cost, meaning the actual cost to build the plant to the recommended size is considerably higher than \$31.1 million. While I'm not advocating spending additional money, has an engineering value analysis been performed on the efficacy of this decision and its long term implications for the Town? I'm told this is the kind of decision that got the Town in the box on its current plant.

My March analysis report posed the question: How might the wastewater treatment plant obligation be impacted by the high and as yet unknown full cost of purchasing the water system. A more appropriate line of questioning at this time is: What is the full cost of the purchase, improvements, and maintenance to the water system as well as the cost of the new wastewater treatment plant and appurtenant facilities? What is the actual and projected level of debt for the water and wastewater systems at this point in time given these increases in cost? \$60.0 million? \$70.0 million? \$80.0 million? More? Do the Mayor and Council even know? You should. It's part of your oversight, financial management and budget approval responsibilities. What is the Town's plan for paying for all of these increased costs? Where is the revenue coming from? What is the potential impact of these increases on the Town's General Fund and the services that are funded from this source for both the short and long term?

My March analysis report also questioned the windfall profit the Town was paying Global to purchase the water company, which at the time was 4.2x the 5 year average (\$1,922) paid per account for any private water utility (2000-2005) in Arizona, according to information I obtained from the Town of Queen Creek. Cave Creek paid Global approximately \$8,000 per account. Recently the Town of Queen Creek purchased the Queen Creek Water Company for approximately \$4,000 per account. Thus, Cave Creek paid double what Queen Creek subsequently paid. Why this much difference? What's the justification for paying this kind of windfall profit? Where's the Council's fiscal prudence in managing the financial affairs of the Town on behalf of its residents? I'm advised by Queen Creek officials the system they purchased is in relatively good shape unlike the Cave Creek system which as it turns out is apparently going to cost millions of dollars in unanticipated, unbudgeted, unfunded upgrades, maintenance costs and repairs.

From the perspective of an outsider looking at the Town's water and wastewater situation, it appears the Town has a tiger by the tail and it's eating the Town's lunch financially, thus the Town's willingness and rush to compromise the General Plan's Vision for the community and the

integrity of the General Plan itself in exchange for \$3.0 million in developer dollars to fund the construction of the water storage tank in north Cave Creek east of Echo Canyon Drive.

It also appears the Town doesn't have a strategic approach and plan for operating and managing its enterprise activities for either the short or long term, that it is making up its game plan as it goes along. Am I incorrect in this assessment? Does the Town have a written Long Term Financial and Operations Plan for managing its water and wastewater utility systems? If it has such a plan, is it predicated on sound sustainability planning which in turn is based on rigorous written technical, engineering and financial analyses? Is there an overarching financial strategy at the plan's base? Are the necessary financial assumptions and policies in place? Have service levels been defined? Have reliable revenue and expenditure forecasts been prepared? What about debt analysis and debt service models? Have they been formulated? Are all necessary capital infrastructure projects accounted for, funded or programmed to be funded, and reflected in the plan? I submit that the Mayor and Council have a duty, in fact, a fiduciary responsibility to its citizens to make sure such a plan and analyses are in place and are being used in a methodical, responsible manner to guide and help make smart, informed, well reasoned decisions about the Town's water and wastewater systems. Moreover, you have a responsibility and legal duty to make sure this information is transparent and available to the community and the media. You are the ones to be held accountable if it is not.

Municipal water and wastewater utilities are big business involving big dollars. Responsible management of these assets requires that these activities be operated in accordance with sound business practices linked to a written integrated resource, financial, and infrastructure plan. Failure to operate these utilities in this fashion is a certain prescription for financial and operational disaster.

Transparency

The actions and decisions of the Town government are not transparent to its citizens. I pointed this out to the Mayor and Town Council in the letter I sent on March 6 concerning the water company purchase. I pointed this out again to you in my August 8 letter concerning the water system extension to serve Continental Mountain. There appears to be a blatant disregard by the Mayor and Council for Arizona's Open Meeting Law and a pattern of conducting the Town government's official business outside the view of the Town's citizens and the media and to conceal information from them.

Consider the following. During conversations with the four of you since sending my August 8 letter, one of you told me the Mayor had polled the Council, prior to the Council's meeting to oust Bob Moore from the Cave Creek Planning Commission, to line up votes to remove him from the Commission. Mr. Moore was subsequently removed by vote of the Council. By law, telephonic polling by and among elected officials concerning official actions is illegal. By any accounting, this is an Arizona open meeting law violation sufficient enough in and of itself to warrant an investigation by the Arizona Attorney General's Office.

Consider also the following conversation I had with one of the incumbent Cave Creek Council members at the polls this past Election Day. This Councilmember approached me after I had voted and said they had read my March 6 letter which this person considered as lambasting the Council. I told this Councilmember this was not my intent. Rather, I wanted to be on record with the Council regarding what I thought were legitimate concerns about the business model the Town was using to finance the purchase and operations of the system and about the acquisition process itself. I said it was my hope the Council would consider taking some corrective action. I

explained to this person that subsidizing the water company particularly the operating costs with General Fund tax money was not a sound business practice and that subsidizing non-resident customers, who comprise 25% of the total customer base, using the Town's General Fund tax revenues simply made no sense. I told this Councilmember that while I appreciated the Town Manager meeting with me and providing me verbal information about the Town's business model and technical reasoning for purchasing the system, the process, in my opinion, was lacking overall transparency. The information a citizen could access as to why the Town was paying so much more for the system than was originally told the residents, the technical analyses that had been performed to determine the condition of the system, and the financial model being used to cover the acquisition and operations cost of the water system was in bits and pieces, disjointed, lacking consistency, often contradictory, in some instances non-existent, and simply not readily available to the public. I explained that governmental transparency and accountability are two hallmarks of the democratic process in the absence of which we don't have democracy. I said that in a democracy the government's business is the people's business and citizens have a right to be informed, in fact have a duty to become informed about important public policy issues and decisions, and that the government has the duty to provide all relevant information necessary for citizens to be fully informed.

This Councilperson's retort was that the Town needed to be selective on the information it provided to the public because if the Town provided all the information it had on a given issue, the citizens may not agree with the Council's position and reasoning for making certain decisions. This person said determining what information to make available to the public is a political decision. This Councilmember also said that the principle of governmental transparency is just a theoretical concept, that it is politics which determines what information to provide. This Council member said we don't have democracy in this country, we have capitalism (as though capitalism is a form of government) and there is no such thing as equality. Admittedly, I'm paraphrasing the conversation here, but this is pretty close to what was actually stated.

On Wednesday March 14, 2007, I sent this Councilperson copies of the **Arizona Republic's** March 11 editorial titled "Let the sunshine in" and March 13 My Turn column by David Bodney titled "Property of the people."

At the time I didn't feel a majority of the Cave Creek Council members believed as this particular member apparently does. However, the general lack of transparency involving the Water Company purchase, the proposal and action to extend the Cave Creek water system into the unincorporated area to serve Continental Mountain, the failure to inform Cave Creek residents of this action and to involve them in the decision process, the compromising of the Town's publicly ratified 2005 General Plan that will result from this action, the ramifications for the Town's water system and its Town resident water customers that will result from this action, the apparent condition of the Town's finances, the polling of the Council by the Mayor to line up votes to oust Bob Moore from the Planning Commission, when all combined, lead me to conclude something approaching a majority of the Mayor and Council are engaged in conducting the Town government's business outside the view of the public and media and concealing information from them.. This is not a healthy situation and does not bode well for the future of the community.

The fact that the above has gone on begs the question: How much more of the Town's official business is being and has been conducted outside the view of the public and the media that we know nothing about? It also causes me to re-examine my original support for the Town's purchase of the water company and to ask whether Cave Creek citizens, WIFA, and the Arizona Corporation Commission were all duped at the time of purchase. Are there perhaps even some members of the Council who were duped?

Summary and Conclusion

As a Town citizen and a water system customer, I find all of this very troubling and unsettling. We look to our elected and appointed Town leaders to act honorably, ethically and with integrity and to provide a steady, responsible, guiding hand in looking out for the community's best interests, making sure that the Town is operated in a fiscally prudent and responsible manner, and assuring that the Town's business, which, by law, is the public's business, is conducted transparently and in open view to the public and the media. That this is not happening is of great concern to me, and I'm sure to many others. Perhaps, to even some of you on the Council.

In conclusion I ask the Mayor and Council to do three things:

1. As requested in my August 8 letter, in the interest of transparency, full disclosure and public involvement, conduct a series of public meetings to clarify and explain what is proposed for the water tank construction in north Cave Creek and the extension of the system into the unincorporated area to serve and facilitate development on Continental Mountain.
2. Convene and empower a Citizens Finance Advisory Committee to conduct an independent, impartial assessment of the Town's financial condition and report back to the Mayor and Town Council. Fund the Committee so that they can retain at their initiative, subject to appropriate State procurement laws and safeguards, a recognized municipal finance expert to assist with this independent analysis, or, alternatively, ask the State's Auditor General to perform this analysis for the Town. Since a State agency loan is involved, the State may have an interest in seeing an independent financial analysis performed to confirm that all is as it should be and that the State's investment is properly secured and being attended to.
3. Ask the Arizona Attorney General to conduct an inquiry to determine whether any Town elected and appointed officials have engaged in possible open meeting and public information law violations.

I'm available to meet with any of you at any time to further discuss the issues raised in this letter.

Sincerely,

Terry Zerkle
41200 N. Echo Canyon Drive
Cave Creek, AZ 85331
Tel: 480-518-6138
E-mail: TerryLZerkle@aol.com

- c. Usama Abujbarah, Town Manager
Carrie Dyrek, Town Clerk
Terry Goddard, Arizona Attorney General
Mike Gleason, Chairman, Arizona Corporation Commission
Brian C. McNeil, Executive Director, Arizona Corporation Commission
Stephen Owens, Chair, Water and Infrastructure Finance Authority of Arizona
Judy Navarette, Executive Director, Water and Infrastructure Finance Authority
Debra K. Davenport, Arizona Auditor General
Don Sorchych, Publisher & Editor, Sonoran News

Tom Seemeyer, Editor, The Desert Advocate
Phil Boas, Editorial Page Editor, Arizona Republic
Jim Gold, Editor, Scottsdale Republic
Brian DiTullio, Reporter, The Desert Advocate
Beth Duckett, Reporter, Arizona Republic

August 24, 2007

Honorable Vincent Francia, Mayor
and Members of Town Council
Town of Cave Creek
37622 N. Cave Creek Road
Cave Creek, AZ 85331

Re: Water System Integration; WIFA Loans

Dear Mayor Francia and Council Members:

Water System Integration

Did I hear correctly this past Monday evening at the Cave Creek Council Meeting that the Town is planning on integrating the Cave Creek Water System with the Desert Hills Water System? My notes of the meeting reflect this is what the Town's engineering consultant said at the meeting.

In conversation I had with the Town Manager this past March prior to the Town's purchase of the Cave Creek Water Company, he told me the two systems were going to be operated independent of one another. This included acquisition, system improvements, operations, and operations costs. Each system was to pay its own way 100% and remain independent of the other.

If the systems are now to be "integrated" as stated at the meeting, will the Desert Hills company be making a recurring, on-going financial contribution to the Cave Creek Water Company to help pay for and offset the capital improvement and operations costs of the Cave Creek system from which the Desert Hills customers will benefit? The reason this is important, as I pointed out in previous correspondence to you at the time the Town purchased the CC water company, is because the Town has chosen to subsidize the purchase, improvements, and operations of its water system with General Fund tax revenues. Because there is currently no rate differentiation for charges to non Cave Creek resident customers for water service from what Cave Creek residents pay, the Town not only subsidizes its resident customers, it subsidizes non resident customers as well using Cave Creek tax revenues. Currently non resident customers comprise approximately 25% of the Cave Creek Water Company's customer base, according to the Town's numbers. Subsidizing these non resident Cave Creek customers using General Fund tax revenue is in and of itself an egregious practice.

However, unless the Town factors in the value of the benefit to Desert Hills water customers and charges that system some reasonable amount to help pay for and offset costs to the Cave Creek water system, the effect will be to extend Cave Creek's General Fund subsidy to Desert Hills water system customers as well. This would be a totally irrational and irresponsible addition to an already flawed financial practice and policy.

So again I ask, what is the Town's plan with respect to the subsidy matter? Do the Mayor and Council intend to subsidize Desert Hills water system customers in the same manner as they are subsidizing Carefree and other non Cave Creek resident water customers presently?

WIFA Loans

In 2005 Town residents approved borrowing up to \$50.0 million from the Water and Infrastructure Finance Authority of Arizona to be used for acquiring the Cave Creek Water Company and for wastewater system improvements.

By the most recent accounting as reported in an August 22 **Desert Advocate** article, the WIFA loans actually applied for by the Town at this time total approximately \$65.9 million. Is this a correct amount? If so, this exceeds by \$15.9 million the authority granted by a vote of the Town residents. By what authority or change in the law did the Mayor and Town Council exceed the \$50.0 million voted by Town residents? My personal experience with municipal bond elections is that a city can not exceed the bond borrowing authority granted by residents at an election. Assuming the Town has the authority, when did the Town plan on informing Town residents that costs had risen this much? Town Hall sources tell me there is more yet to come. Is this true? If so, how much more? As a sidebar, cost increases of this magnitude with more still yet to come carry the potential to force the Mayor and Town Council to consider water rate increases in the near future that would make the current 24% water rate hike proposal in Carefree seem like a drop in the bucket, no pun intended. Where is the money coming from to repay these loans? What's the repayment schedule? What are the assumptions underpinning the repayment schedule? What has been done to test and verify these assumptions? What is the back up plan if these financial assumptions don't hold true? What mechanism does the Town have in place for monitoring assumptions, making course corrections, and tracking revenue against projections? Where can I obtain the Town's written plan in which all of this is pulled together and spelled out? Is there a written plan? I'd really like to see and review it, and am requesting the opportunity to do so.

I respectfully request a reply to the questions raised in this letter.

Sincerely,

Terry Zerkle
41200 N. Echo Canyon Drive
Cave Creek, AZ 85331
Tel: 480-518-6138
E-mail: TerryLZerkle@aol.com

c. Usama Abujbarah, Town Manager
Carrie Dyrek, Town Clerk

Stephen Owens, Chair, Water and Infrastructure Finance Authority of Arizona
Judy Navarette, Executive Director, Water and Infrastructure Finance Authority
Debra K. Davenport, Arizona Auditor General
Tom Seemeyer, Editor, The Desert Advocate
Don Sorchych, Publisher & Editor, Sonoran News
Phil Boas, Editorial Page Editor, Arizona Republic
Jim Gold, Editor, Scottsdale Republic
Brian DiTullio, Reporter, The Desert Advocate
Beth Duckett, Reporter, Arizona Republic

December 3, 2007

Hon. Vincent Francia, Mayor
and Members of Town Council
Carrie Dyrek, Town Clerk
37622 N. Cave Creek Road
Cave Creek, AZ 85331

Re: Public Records Request – Financial Condition Report

Dear Mayor Francia, Council Members, and Ms. Dyrek:

Please consider this a public records request pursuant to Arizona Revised Statutes for a copy of the Town of Cave Creek's written mid-fiscal year financial condition report.

If the Town does not have one, I respectfully suggest that in light of plunging sales tax revenue at the state level and among cities across the valley as reported in numerous news articles over the past several weeks, the Mayor and Council ask that a mid-year financial condition report be prepared and be provided to them and to the public. Enclosed please find two recent **Arizona Republic** newspaper articles detailing the extent and seriousness of the statewide revenue plunge.

Receiving a written financial condition update report and making it available to the public is essential to responsible fiscal stewardship and oversight by the Town's elected leaders. Finances, after all, are at the heart of Town government. Nothing gets done without them. Moreover, from strictly a policy perspective, nothing is more critical to the successful functioning of Town government and keeping it on course and out of trouble than the Council keeping its fingers on the Town's fiscal pulse. In terms of accountability to citizens, high level financial monitoring, while carried out in concert with staff, is a uniquely exclusive Council oversight and fiduciary responsibility which cannot be delegated in totality to others. If the Town's finances head south, it is the Council that is accountable to the public. Not knowing the Town's financial condition is not an excuse relieving the Council of accountability and responsibility for knowing. Simply stated, it is the Council's duty to know, to have systems in place for assuring that they do, and for making this information readily available to the public.

The timeliness and need for a written mid-year financial condition report is especially compelling as Council considers at its December 3, 2007 meeting yet another \$5.5 million loan request to WIFA for the water system. The Town's business model for repayment of WIFA loans and the operations of the water system is predicated on continued growth in all of the following: permit issuance, impact and connection fees, system water fee revenues, and sales tax revenue. The assumptions upon which this business model is based should be revisited and tested, if it hasn't already been done, to assure they remain relevant and valid, with the results reflected in the financial condition report and made known to the public.

As the Town's elected leaders, it behooves you to assure not only yourselves, but equally and perhaps more importantly, the public in these challenging economic times that the money is there and will continue to be there to service this debt, continue day-today services to Cave Creek residents and cover the general cost of Town government. A mid-year financial condition report will help you do that.

Concerning the mid-year report, it should detail the Town's current financial condition and projected condition through the end of the fiscal year. It should be formatted in a way that clearly and easily shows and compares actual revenue and expenses by fund for all funds through December 2007 against that budgeted for this time period as reflected in the adopted FY 2007-2008 Budget, and then projected in the same format through year's end. In comparing revenue and expenses against budgeted, actual, and projected, there should be a column expressing variances, either over (+) or under (-), in percentages (%).

The report should reference the current status and projected status of the General Fund unencumbered balance at fiscal year's end.

The Town's auditing firm should be engaged in helping prepare this report and presenting the results at a regular Council meeting in January 2008. The report should be made available to the Council and to the public no later than January 11.

Thereafter, a written financial update report should be provided monthly to Council by staff and also be made available to the public.

In summary, a mid-year financial condition report and the attendant actions outlined above are the minimum necessary and prudent to aid the Council perform its uniquely singular oversight role and to assure Cave Creek citizens the Town's elected leaders are exercising responsible fiscal stewardship and oversight of the Town's finances on their behalf.

I look forward to receiving a copy the requested financial condition report.

Sincerely,

Terry Zerkle
41200 N. Echo Canyon Drive
Cave Creek, AZ 85331

c. Usama Abujbarah, Town Manager



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December 11, 2007

Mr. Terry Zerkle
41200 N. Echo Canyon Drive
Cave Creek, Arizona 85331

**Re: Letter Dated December 3, 2007
Request for Public Records**

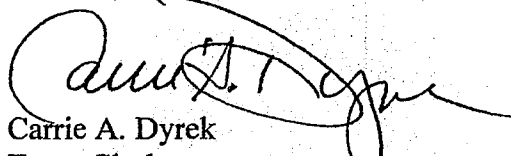
Dear Mr. Zerkle:

I am in receipt of your December 3, 2007 correspondence regarding a request for public records for a Financial Condition Report.

The document as you have described in your request does not exist. You are welcome to inspect public records related to the Town's budget or financial documents that are not confidential during regular business hours Monday through Friday. Should you request any copies of public records, there is a charge \$.50 per page.

The Town is not obligated to create new documents or convert documents into your requested format. We are also not obligated under Arizona Public Records law to follow certain procedures that you are requesting in your December 3, 2007 letter.

Sincerely,



Carrie A. Dyrek
Town Clerk

37622 NORTH CAVE CREEK ROAD ★ CAVE CREEK, ARIZONA 85331

ADMINISTRATION 480/488-1400
COURT 480/488-1409

BUILDING / SAFETY 480/488-1414
PLANNING & ZONING 480/595-1930

MARSHAL 480/488-6636

December 20, 2007

Carrie Dyrek, Town Clerk
Town of Cave Creek
37622 N. Cave Creek Road
Cave Creek, AZ 85331

Re: Your Letter Dated December 11, 2007

Dear Carrie:

While this letter is directed to your attention, the primary audience is the Mayor, Council, and Town Manager, so I've copied them as well.

Your December 11, 2007 letter, responding to my December 3 public records request to you and the Mayor and Council for a copy of the Town's Mid-Year Financial Condition Report, states that such a document does not exist and that the Town is not obligated by law to prepare that or any similar such documents.

I respectfully suggest the issue here is not whether the Town is obligated under A.R.S. to prepare a written financial condition report. Rather, it is whether the Town and its elected officials are adhering to generally accepted, sound financial management and reporting practices, one of which is ongoing financial monitoring and periodic public reporting during the course of a city's fiscal year, as set forth by GFOA and practiced by other professionally managed cities across America.

Continuous financial oversight is one of the Council's most important governmental functions. Some would go so far as to argue it is the singular most important Council function. Without question the Mayor and Council have a fiduciary responsibility to exercise responsible fiscal oversight and to demonstrate to the Town's citizens on a continuing basis that they are.

While not stated explicitly in your December 11 letter, implicit is the notion that either the Cave Creek Mayor and Council do not know and do not care to know with some degree of specificity what the Town's financial condition is and therefore cannot make this information available to the public in report form, or, alternatively, if they do know, they choose not to share that information with the Town's citizens for whatever reasons. Otherwise, in the interest of openness, transparency, responsible fiscal management and good government, why would the Council not require a monthly or bi-monthly report summarizing the Town's financial situation and make that information readily available to the public? Especially in these economically challenging times with all the extraordinary financial obligations the Town has taken on during the current year. Since it's the Council's job to know, they have everything to gain and nothing to lose by doing that.

To the Mayor and Council, I ask that you revisit this issue and do the right thing, the fiscally responsible thing. Require a monthly or bi-monthly financial report and make it available to the public. After all, in addition to yourselves, citizens have a right to know and to be informed. And the Council has a duty to assure the information to become informed is provided to the Town's citizens in a timely manner.

Sincerely,

Terry Zerkle
41200 N. Echo Canyon Drive
Cave Creek, AZ 85331

c. Mayor and Town Council
Usama Abjubarah, Town Manager

Monthly Financial Report

From: terryzkerle@aol.com

To: essergulch@msn.com; kimberlybrennan@msn.com

Bcc: TerryLZerkle@aol.com

Subject: Monthly Financial Report

Date: Fri, 7 Dec 2007 4:12 pm

Dear Dick, Kim, and Grace...

For your awareness, a representative sample of a decent Monthly Financial Report can be found on the City of Scottsdale's website.

Go to www.scottsdaleaz.gov. On their Home Page under "Browse by Topic", click on "Finance, Demographics & Economics". Next, click on "Budget and Finance". Then click on "Economic/Financial Update". Finally, click on "November 2007 Financial Update". Peruse the report. This is illustrative of the type of information the Cave Creek Council should be requiring of staff on a monthly basis, and, in turn, making available to Cave Creek residents.

The Council needs this type of monthly update to help it properly discharge its financial oversight obligations. And the public deserves the benefit of this update so that they can remain informed on the Town's overall financial condition and be assured the Council is fulfilling its governmental oversight responsibilities on their behalf in a responsible, prudent manner.

While the content of a Monthly Financial Report would have to be tailored to meet Cave Creek's unique needs and financial situation, with particular emphasis placed on the utilities, it isn't that difficult. Moreover, once the monthly report is in place, it is just a matter of monitoring trends and updating the basic financial data monthly using the most recent revenue and expenditure figures.

In addition to the Monthly Financial Report, there is a wealth of other valuable information on Scottsdale's website concerning City finances. For example, in the right hand column under "Other Financial Information", click on "Financial Trends". Then click on "October 2006 Annual Financial Trend Analysis".

This report identifies and reports the major trends that are anticipated to impact Scottsdale's finances and fiscal well being throughout the fiscal year. Scottsdale's Finance Director told me this week this report was recently updated, and the update will be posted on the City's website shortly. Again, this is the type of information the Cave Creek Council should be requiring for its fiscal monitoring and decision purposes.

Also under "Other Financial Information", click on "Adopted Financial Policies". These policies are reviewed and adopted annually by the Scottsdale Council. While each of these listed policies adds value to responsible, sensible municipal financial management, I'd like to focus your attention on the following.

Under "Operating Management Policies", read in particular numbers:

- 4. – citizen input
- 6. – current revenues to fund current expenditures
- 8. – Enterprise activities (i.e., utilities) to be self sustaining
- 10. – development impact fees
- 13. – Balanced revenue and expenditure forecasts

Under "Debt Management Policies", read in particular numbers:

- 25. – analysis on new debt issues
- 27. – Debt service costs as a not to exceed percentage of operating revenue
- 36. – Ratio of current assets to current liabilities

Under "Reserve Policies", read in particular:

- 37. – Reserves evaluated annually
- 38. – General Fund Stabilization Reserve
- 40. – Water and Sewer Fund Reserves, including a., b., c.

Under "Financial Reporting Policies", read in particular:

- 51. – Financial monitoring, internal controls, and reporting

I hope you find this research of some value. I'm sending it to the three of you in hopes you can use this information to leverage action that will provide you the basic minimum financial monitoring tools you as Council Members need to do your job, to make informed financial decisions, and to inform citizens. If you have questions, please feel free to contact me by phone or e-mail.

Sincerely,

Terry

Tel: 480-437-9103

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Leaders at the Core of Better Communities

ICMA > Ethics > Code of Ethics

ICMA Code of Ethics

ICMA members adhere to the principles of the ICMA Code of Ethics, developed in 1924, as a condition of membership and agree to submit to a peer-to-peer review of their conduct under established enforcement procedures. ICMA's Code of Ethics, most recently amended by the membership in 1998 to reflect changes in the profession, includes Guidelines to assist members in applying the principles outlined in the Code. The Guidelines were adopted by the ICMA Executive Board in 1972 and most recently revised in July 2004. Individuals seeking advice on ethics issues or enforcement are encouraged to contact Martha Perego, ICMA's director of ethics at 202/962-3668 or email mperego@icma.org.

For a version of the Code with guidelines, [click here](#), or visit the [Ethics Advice section](#).

The mission of ICMA is to create excellence in local governance by developing and fostering professional local government management worldwide. To further this mission, certain principles, as enforced by the Rules of Procedure, shall govern the conduct of every member of ICMA, who shall:

Tenet 1

Be dedicated to the concepts of effective and democratic local government by responsible elected officials and believe that professional general management is essential to the achievement of this objective.

Tenet 2

Affirm the dignity and worth of the services rendered by government and maintain a constructive, creative, and practical attitude toward local government affairs and a deep sense of social responsibility as a trusted public servant

Tenet 3

Be dedicated to the highest ideals of honor and integrity in all public and personal relationships in order that the member may merit the respect and confidence of the elected officials, of other officials and employees, and of the public.

Tenet 4

Recognize that the chief function of local government at all times is to serve the best interests of all people.

Tenet 5

Submit policy proposals to elected officials; provide them with facts and advice on matters of policy as a basis for making decisions and setting community goals; and uphold and implement local government policies adopted by elected officials.

Tenet 6

Recognize that elected representatives of the people are entitled to the credit for the establishment of local government policies; responsibility for policy execution rests with the members.

Tenet 7

<http://icma.org/main/bc.asp?bcid=40&hsid=1&ssid1=2530&ssid2=2531>

Refrain from all political activities which undermine public confidence in professional administrators. Refrain from participation in the election of the members of the employing legislative body.

Tenet 8

Make it a duty continually to improve the member's professional ability and to develop the competence of associates in the use of management techniques.

Tenet 9

Keep the community informed on local government affairs; encourage communication between the citizens and all local government officers; emphasize friendly and courteous service to the public; and seek to improve the quality and image of public service.

Tenet 10

Resist any encroachment on professional responsibilities, believing the member should be free to carry out official policies without interference, and handle each problem without discrimination on the basis of principle and justice.


Tenet 11

Handle all matters of personnel on the basis of merit so that fairness and impartiality govern a member's decisions, pertaining to appointments, pay adjustments, promotions, and discipline.

Tenet 12

Seek no favor; believe that personal aggrandizement or profit secured by confidential information or by misuse of public time is dishonest.

Downloads

 [ICMA Code of Ethics 2004](#) (Microsoft Word Document, 47 KB)

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ICMA is the leading organization for information on professional local government management. Its membership includes city managers, county managers, and other chief appointed officials and assistants in local governments throughout the world. ICMA's mission is to create excellence in local government by developing and fostering professional local government management worldwide.

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January · Volume 91 · Number 1

Departments

Ethics



FOCUS ON THE FUNDAMENTALS

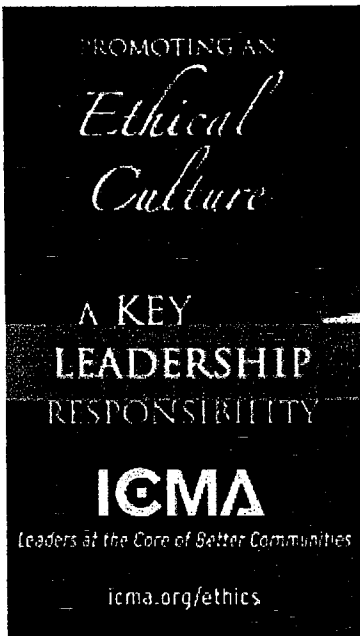
At the beginning of this new year, local government leaders may well face significant challenges in delivering ethical, transparent democracy. Limited financial resources at every level of government are likely to force difficult choices about services, commitments, and investments in the future.

Although opportunities and innovation may result as well, it will no doubt be a tough period. Successfully navigating staff, organizations, and communities through challenging times requires leaders to focus on the fundamentals, that is, on ethics. Building a strong ethical foundation is the key to success. During periods of uncertainty, it's prudent for managers to take steps to ensure that the foundation is rock solid.

Is there agreement about the core values that will drive decision making and policies? Do we demonstrate respect for the unique roles and responsibilities of elected officials, staff, and residents? In the push for results and accountability, is it clear to all that how we achieve our goals is as critical as getting there?

Consider these steps to promote an ethical culture:

- **Renew your commitment to the profession's values.** Commitment is more than hanging the ICMA Code of Ethics on the wall (although that isn't a bad idea). It is a dedication to the highest standards of honor and integrity in all public and personal matters in order to merit the respect and confidence of those we serve. It is unwavering integrity.
- **Engage elected officials.** Use council orientations and goal-setting sessions to encourage elected officials to understand how their conduct and commitment to public service values contribute to ethical government. Take the time to enlighten them about the ICMA Code of Ethics and the values that guide professional local government managers.
- **Set organizational values.** If the organization lacks a code of ethics or statement of values, implement a process that engages elected officials, staff, and residents in the definition of core values and acceptable conduct. If you have a code of ethics, is there clarity and agreement on the core values that drive critical decisions? Organizations or teams with shared values produce the best results.
- **Ethics training.** It's a myth that good people always make wise choices. Regular training builds awareness of common ethical issues, provides



tools and strategies for effective problem solving, and, yes, can even inspire someone to do the right thing when faced with a difficult ethical dilemma.

- **Welcome the dialogue and the dissenter.** Make sure that individuals have formal and informal opportunities to raise any ethical concerns they may have about conduct or decisions in the organization. Create a safe environment for those seeking advice or raising a warning.
- **Transparency, transparency, transparency.** Clear and regular communication, complete and accurate disclosure of the facts, taking responsibility for decisions and outcomes, and a focus on transparent processes all work to build trust with those we serve.

As Dave Childs, ICMA senior adviser and assistant county manager, Washoe County, Nevada, notes, "We are all experiencing a time of extreme stress in our organizations. A key result is that our employees are justifiably worried about the stability of their jobs, about their personal finances, and ultimately about their own future. In uncertain times, it is imperative that we provide our employees something solid to hold on to.

"And, to that end, what could be more important than having every employee be totally sure of the values and ethics of their workplace and their organization? As the leaders of our organizations, we need to redouble our efforts to bring that sense of stability and grounding to all of the dedicated employees who serve the public each and every day. Building a solid ethical foundation is one of the keys to providing that stability and restoring confidence. And now is the time to begin."

—Martha Perego
ICMA Ethics Director
Washington, D.C.
mperego@icma.org

Ethics advice is a popular service provided to ICMA members. The ICMA Executive Board members who serve on the Committee on Professional Conduct review the inquiries and advice published in PM magazine. ICMA members who have questions about their obligations under the ICMA Code of Ethics are encouraged to call Martha Perego at 202/962-3668 or Elizabeth Kellar at 202/962-3611.

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August 30, 2007

Honorable Vincent Francia, Mayor
and Members of Town Council
Town of Cave Creek
37622 N. Cave Creek Road
Cave Creek, AZ 85331

Re: Public Comments by Town Manager

Dear Mayor and Council Members:

Do the Town Manager's statements and position as reflected at the August 20 Council meeting and in subsequent newspaper articles last week also accurately depict the Mayor and Town Council's position as relates to discouraging public involvement, knowledge of, and participation in matters relating to upgrades of the community-owned water system?

At the August 20 Council meeting during which the Mayor and Council awarded contracts for the design and construction of two new water storage tanks, the Town Manager said, in response to a Councilperson's inquiry as to whether more residents could be contacted by Town staff and made aware of the Town's plans for the new tank in the Rockaway Hills area, this might be possible but that time was of the essence. He said the construction process could not be slowed down to accommodate neighborhood resident concerns about the impact on their neighborhood.

A subsequent article in the August 22 edition of *The Desert Advocate* states, "Abujbarah said in the future he would **attempt** to include more residents in the neighborhood meetings, but that **his staff was limited by time.**" (Emphasis added.)

An August 25 *Scottsdale Republic* article on the subject of the Rockaway Hills 2.0 million gallon storage tank quotes the Town Manager saying, "When (residents) don't pay attention to the Council meetings...they don't get informed about the Town business."

The sheer arrogance and insensitivity these statements project toward Town residents and legitimate neighborhood concerns is almost beyond comprehension. That these statements are apparently condoned by the Council would seem to mean it reflects the Council's position as well.

The sheer arrogance and insensitivity these statements project toward Town residents and legitimate neighborhood concerns is almost beyond comprehension. That these statements are apparently condoned by the Council would seem to mean it reflects the Council's position as well.

The duty to inform and educate is the Council's and the Town's. How can residents be expected to know what's going on and to participate in important Town decision and policy processes and actions if you do not reach out and inform them? This is so fundamentally basic in a democracy it defies understanding as to why the Town is so reticent to conduct public meetings to provide this information to the public in the present instance. Saying that information about the improvements was made public at meetings and in documents simply doesn't make it so, and it is pretty disingenuous. To you I ask, at what meetings and what was done proactively to get the word out?

This past weekend we had the opportunity to talk with a number of residents in our neighborhood as we handed out flyers about the storage tank(s) being built on the old well site off Echo Canyon Drive. Not a one, other than the seven property owners who received the Town Manager's July 26 notice, had a clue the Town was contemplating this action until reading the article in the Saturday newspaper. Several were stunned and in disbelief to learn that the Council had already awarded a construction contract for the 2.0 million gallon tank in our neighborhood without involving them.

Neighborhoods are the backbone of the community. Protecting the residential integrity of existing established neighborhoods, keeping them free from undesirable, disruptive encroachments and destructive events, and informing and involving neighborhood residents in important Town actions and policy decisions is a fundamental responsibility of the Mayor and Town Council. Personally, I can't think of anything more disruptive to neighborhood integrity and tranquility than plunking down not one but two gargantuan 2.0 million gallon water tanks (one tank now, one in the future) in the middle of an established residential neighborhood and not informing or involving the many residents of that neighborhood in the decision and mitigation processes.

The notion that somehow these monstrous structures would be an improvement over what is there now is simply untrue. In terms of scale, what is there now literally pales in comparison to what the Town has approved for design and construction. Without visual mitigation significantly better than what the Town has said is its intent for the new tanks, these structures will stick out like a proverbial sore thumb in the neighborhood, creating visual blight for people to see throughout north Cave Creek, and impacting negatively those who live in the more immediate vicinity of the tank(s). There is also the issue of noise that will result from the 24/7 operation of the pumps and attendant equipment at this site and the need to mitigate that.

In conclusion I offer this observation. Government exists to benefit and serve its citizens, not the other way around. It can only do this if it is operating in a fully transparent manner. Currently the Town is creating the appearance, unnecessarily I feel, it is intentionally withholding and concealing information from the Town's citizens as to its plans and intentions with respect to the tank project and about water system issues generally. Otherwise, why not, in the interest of transparency and public involvement, conduct the public meetings to inform and educate that I suggested to you in my August 8 letter? Assuming the Town has its ducks in a row and nothing to hide, you have everything to gain and nothing to lose by doing this.

Sincerely,

Terry Zerkle
41200 N. Echo Canyon Drive
Cave Creek, AZ 85331
Tel: 480-518-6138
E-mail: TerryLZerkle@aol.com

- c. **Usama Abujbarah, Town Manager**
Carrie Dyrek, Town Clerk
Terry Goddard, Arizona Attorney General
Stephen Owens, Chair, Water and Infrastructure Finance Authority of Arizona
Judy Navarette, Executive Director, Water and Infrastructure Finance Authority
Debra K. Davenport, Arizona Auditor General
Tom Seemeyer, Editor, The Desert Advocate
Don Sorchych, Publisher & Editor, Sonoran News
Phil Boas, Editorial Page Editor, Arizona Republic
Jim Gold, Editor, Scottsdale Republic
Brian DiTullio, Reporter, The Desert Advocate
Beth Duckette, Reporter, Arizona Republic

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September 6, 2007

Honorable Vincent Francia, Mayor
And Members of Town Council
37622 N. Cave Creek Road
Cave Creek, Arizona 85331

Re: Cave Creek Water System Improvements

Dear Mayor Francia and Members of Town Council:

We, the citizens of Cave Creek, feel it is necessary that we now be heard!

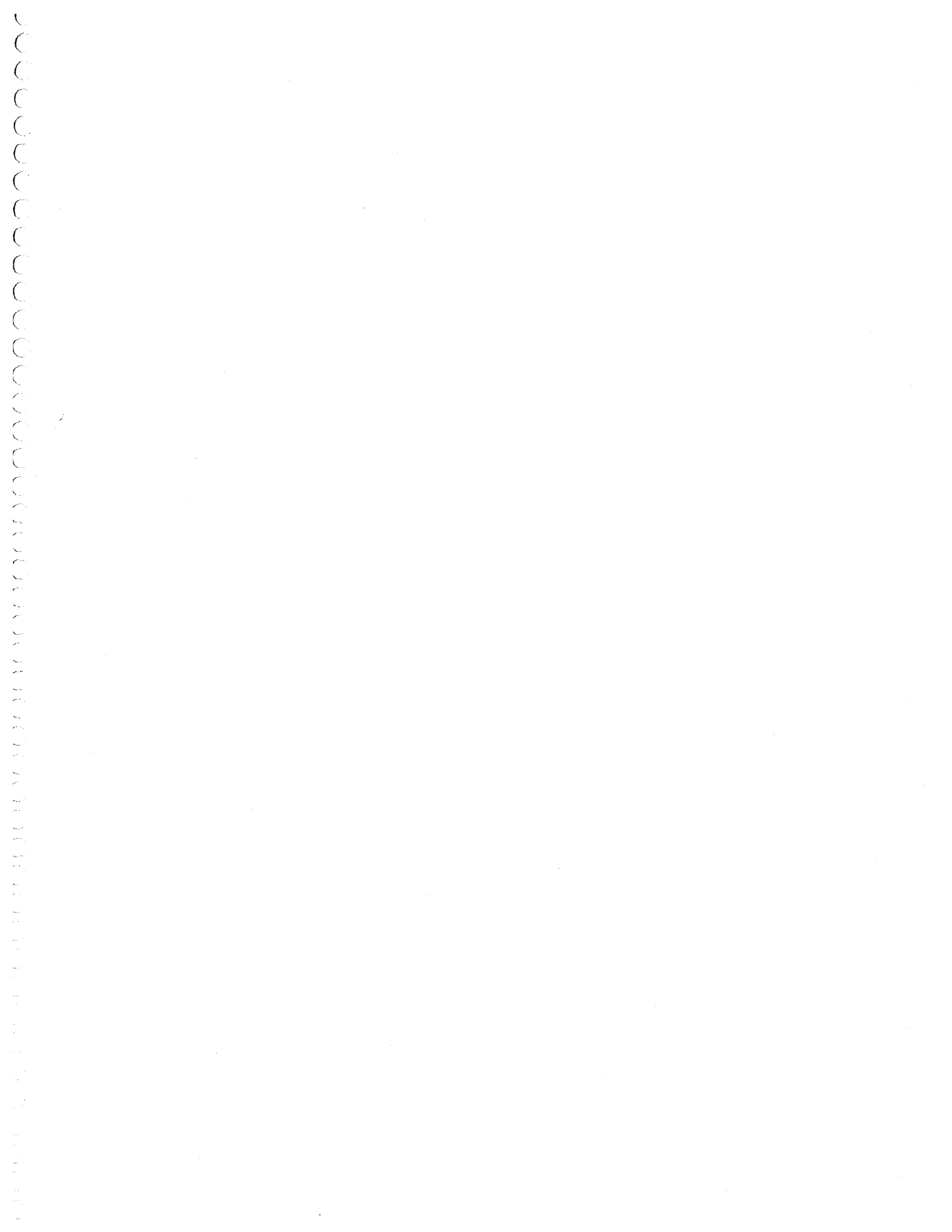
Only recently did we learn of the Town's plans to construct two 2.0 million gallon concrete water tanks in our neighborhood (one now and one in the future). This is very disturbing to us. To date, the Town has taken no action to reach out and make us, its citizens, aware of plans for these major public works projects prior to awarding design and construction contracts other than contacting six property owners abutting the Rockaway Hills tank site. Even more disturbing is the Town's intention to extend the water system to supply water to new development on Continental Mountain. We understand that the Town is currently in negotiations with the developer. Please recall that during the election, the Council was very clear and told citizens that the primary reason we should purchase the water company was to protect the supply and prevent Global from doing exactly what the Council now intends to do.

These actions have the potential for major adverse impact upon citizens in financial, ecological and aesthetic ways. You are elected officials in office to serve us, your constituents. We implore you to take on the responsibilities of office by making a commitment to the following in regard to the Cave Creek Water System:

- 1) **FINANCIAL:** Full disclosure of all water project expenditures, debts, and repayment schedules and plans involving OUR money.
- 2) **NEW DEVELOPMENT:** Guarantee that the Cave Creek Water System will not extend to Continental Mountain to serve future development there, nor extend outside the incorporated Town limits to serve other development not presently bound by written agreement.
- 3) **OVERSIGHT:** Town Council to meet regularly with the neighborhood during the tank design process to assure that neighborhood concerns are successfully addressed and mitigated, and to provide monthly updates on the construction and financial status of the Cave Creek Water System projects.
- 4) **VISUAL:** Provide for neighborhood and community involvement in the tank design and landscaping as well as burying the tanks so that no more than 1 foot is above grade.
- 5) **NOISE:** Mitigate noise emanating from all operating equipment during and after construction. In particular, eliminating noise generated by pumps, assuring the continuation of our pristine, quiet desert environment. No blasting.

In closing, We, the citizens of Cave Creek, request a HALT to further proceedings regarding the water tank projects until a meeting has occurred with members of the Town Council to address our concerns. This meeting should be held at a duly noticed public forum within thirty (30) days, and with public notification of date, time, and location at least one week prior to the meeting. Your immediate attention to this matter is appreciated.

Sincerely,



About the Author

Terry Zerkle is a Cave Creek resident. He is a retired City Manager and has 38 years combined experience in municipal management and local government consulting. Prior to becoming a consultant in 2003, he enjoyed a distinguished career in city management leading and managing innovative, high performance cities across America. In Arizona he served as City Manager of Tempe and Assistant City Manager in Glendale. He also worked as ICMA Senior Resident Advisor in Slovakia assisting with the transition to democratic local self-government.

Terry is a Life Member of the International City/County Management Association and a ICMA Credentialed Manager. Terry was voted Life Member of the Arizona City/County Management Association by the membership of that organization for distinguished service to Arizona local government and lasting contributions to the profession. Life Member is the highest award accorded a retired member of ACMA.

Terry received his BA and MPA from Eastern Kentucky University. He is a graduate of the Public Executive Institute at the University of Texas LBJ School of Public Affairs and the Executive Development Program at the National Fire Academy.

Contrary to what has been reported in the **Sonoran News**, Terry does not have interest in being Town Manager of Cave Creek. He does have interest in fiscally responsible, accountable, open, ethical, professionally managed Town government.

