



# TOWN OF CAVE CREEK

*Press Release*

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## *\$17.1 Million Purchase Price Facing the Town of Carefree*

CAVE CREEK – Today in a Special Zoom Town Council Meeting, the Town’s water attorney, Joe Conner Esq., presented the Valuation Report for the Cave Creek Water System assets located within the Town of Carefree that serves 544 customers. The expert reports determined the fair market value and damages resulting from physically separating the assets in Carefree from the core Cave Creek System totaled \$17.1 million.

The \$17.1 million cost includes the value of the Cave Creek System assets taken at approximately \$9.3 million, plus severance damages of nearly **\$7.8 million to separate the system, pay for stranded assets and new infrastructure to maintain the integrity of the remaining Cave Creek System.**

### Total Compensation and Damages Owed to Cave Creek

Source	Amount
Value of Cave Creek System	\$9,328,000
Severance Damages	<u>\$7,792,600</u>
Total Amount Due to Cave Creek from Carefree	\$17,120,600

*(continued)*



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Appraisers determined the value of Carefree Service Area System based on four value indications: adjusted total compensation paid by Cave Creek in 2007 for the entire system; discounted cash flow analysis; direct capitalization of cash flow; and replacement cost new less depreciation (RCNLD).

The severance damages were determined by totaling the cost resulting from disconnecting the Carefree Service Area from the Cave Creek System, including the cost of stranded assets and new infrastructure required to keep serving Cave Creek customers impacted from the disconnection. It also included costs associated with excess treatment capacity at the Cave Creek Water Treatment Plant (WTP) resulting from the loss of customers in the Carefree Service Area.

“Carefree customers are very important to the Town and the system,” said Conner at the meeting while explaining the damages the Town will incur if the separation of the integrated system happens. “This is a very unusual transaction. It’s a strain on both communities, both administrations and on finances.”

### **Background**

In 2005, the towns of Carefree and Cave Creek entered into an agreement in which Carefree consented to Cave Creek acquiring the portion of the private water system that served almost 500 residents in Carefree.

In 2005, Cave Creek filed a condemnation action to acquire the entire private water system at a substantial cost. In 2018, the Town of Carefree embarked on a campaign to break off a portion of the Cave Creek system that is physically located within the Town limits of Carefree.

### **Next Steps**

The arbitration hearing to determine the total compensation and severance damages that Carefree must pay for the Cave Creek assets located within the Carefree city limits is scheduled to begin on July 17, 2020 in Phoenix.