# MAG 208

# Water Quality Management Plan Amendment

for

## Anthem at Sun Valley South
## and
## Tartesso East
## Water Reclamation Facilities

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## *List of Acronyms and Abbreviations*

| | |
|---|---|
| AAC | Arizona Administrative Code |
| ACC | Arizona Corporation Commission |
| ADEQ | Arizona Department of Environmental Quality |
| ADWR | Arizona Department of Water Resources |
| Amsl | Above mean sea level |
| APP | Aquifer Protection Permit |
| ASVS | Anthem at Sun Valley South |
| AZPDES | Arizona Pollutant Discharge Elimination System |
| BOD | Biological Oxygen Demand |
| CC&N | Certificate of Convenience and Necessity |
| CFD | Community Facilities District |
| CFR | Code of Federal Regulations |
| COM-BC | Commercial/Business Center |
| CWA | Clean Water Act |
| DMA | Designated Management Agency |
| DPA | Designated Planning Agency |
| du | Dwelling unit |
| du/ac | Dwelling units per acre |
| gpd/du | Gallons per day per dwelling unit |
| gpad | Gallons per acre per day |
| gpcd | Gallons per capita per day |
| gpd | Gallons per day |
| HDR | High Density Residential |
| LDR | Low Density Residential |
| MAG | Maricopa Association of Governments |
| MCAQD | Maricopa County Air Quality Department |
| MCEDS | Maricopa County Environmental Services Department |
| MDR | Medium Density Residential |
| MDR-AA | Mixed Density Residential – Active Adult |
| MGD | Million gallons per day |
| MLE | Modified Ludzak Ettinger |
| MPA | Municipal Planning Area |
| NPDES | National Pollutant Discharge Elimination System |
| POPTAC | Population Technical Advisory Committee |
| RAZ | Regional Analysis Zone |
| SBR | Sequencing Batch Reactor |
| SWPPP | Storm Water Pollution Prevention Plan |
| UV | Ultraviolet |
| WRF | Water Reclamation Facility |
| WWT | Wastewater Treatment |
| WWTP | Wastewater Treatment Plant |

## Executive Summary

In accordance with Section 208 of the Clean Water Act (CWA), the Maricopa Association of Governments (MAG) is the designated Regional Water Quality Management Planning Agency for Maricopa County, Arizona. This CWA 208 Amendment will incorporate the proposed Water Reclamation Facilities (WRFs) for the Anthem at Sun Valley South (ASVS) and Tartesso East developments into the MAG 208 Water Quality Management Plan. The proposed WRFs will generally serve the entire region between Sun Valley Parkway and the White Tank Mountains north of Interstate 10. Future planning will determine the exact service area boundary between the two plants.

The ASVS development is scheduled to begin construction approximately three years before the Tartesso East development. The ASVS WRF will be located at an elevation of approximately 1,310 feet above mean sea level (amsl); the Tartesso East WRF is located approximately 5 miles southeast of the ASVS WRF, and lies at an elevation of roughly 1,085 feet amsl. No infrastructure currently exists in the area. The difference in timing and distance between the two properties makes it cost prohibitive to incorporate the wastewater generated by both developments into a central location. Additionally, because the effluent from the WRFs will be reused for landscape and golf course irrigation, the capital, operation and maintenance costs to deliver the effluent will be reduced by having the effluent proximate to the reuse demands. In the future, the Town of Buckeye may elect to alter the configuration and/or service areas of the two WRFs to either combine or expand the capacity of each individual or both plants. An additional 28.5 acres of land will be reserved at the Tartesso East WRF location in the event the Town elects to make the Tartesso East WRF a regional facility with a total ultimate capacity of 14.1 million gallons per day (MGD). The Town will coordinate with MAG, as required, if such potential changes are pursued.

The northernmost portion of the Tartesso East development is adjacent to the ASVS development. Wastewater generated by this 1,120 acre part will be considered in the ASVS Wastewater Master Plan. Initially, however, the wastewater generated by this area is assumed to flow to the Tartesso East WRF. The ASVS WRF is not currently designed to accept these flows. The preliminary construction phasing for ASVS would postpone the installation of the wastewater collection truck line that would service the 1,120 acre parcel for a few years. With ongoing planning, the decision on which WRF will treat flows from the 1,120 acre parcel will be finalized prior to the design and installation of the trunk line through the ASVS development. When the 1,120 acre portion of Tartesso East is designed, a detailed evaluation of the most efficient method to provide sewer service will be conducted, and will consider the actual ASVS WRF flow and planned plant capacity. Ultimately, the final service areas and sewer designs for the region will be based on the topographic constraints, existing infrastructure, and development timing. The ultimate cost and implementation of the final decision, including both the truck line installation and WRF capacity will be appropriately shared on a pro rata basis by the two developers through a Joint Development Agreement, if necessary. This flexibility will not affect the proposed combined WRF capacity of 14.1 MGD, or the total of 4.5 MGD for the ASVS WRF and 9.6 MGD for the Tartesso East WRF.

This 208 Plan Amendment is divided into two parts: Part 1 addresses the ASVS WRF and Part 2 addresses the Tartesso East WRF.

## Anthem at Sun Valley South

The Anthem at Sun Valley South development and adjacent areas are expected to provide homes that support a population increase of over 36,000 people, generating a wastewater flow of approximately 4.5 MGD. The proposed ASVS WRF will be located in northern Buckeye near the intersection of the Sun Valley Parkway and Bethany Home Road.

The ASVS WRF will utilize a sequencing batch reactor (SBR) type activated sludge process and will handle flows up to 4.5 MGD at build-out. Effluent from this plant may be reused for golf course, open space and other turf irrigation. Effluent generated above landscape irrigation demands may be used for groundwater recharge. In addition, an Arizona Pollutant Discharge Elimination System (AZPDES) permit will be obtained for emergency discharges. The receiving stream of the AZDPES discharge will be an unnamed wash tributary to White Tanks wash, approximately 3 miles downstream. Flow from the White Tanks wash is retained in Flood Retardant Structure (FRS) No. 1 on the north side of Interstate 10. The FRS is operated and maintained by the Flood Control District of Maricopa County (FCDMC). This FRS is designed to retain flows from approximately the 100-year storm event; beyond this storm event, flow would discharge from the FRS into the Hassayampa River. Figure 2 depicts the AZPDES discharge point for the ASVS WRF. Additionally, Figure 6 depicts the layout of the drainage area in the vicinity of the project.

The Town of Buckeye has procured services for the design, construction and operation of the ASVS WRF. Pulte Home Corporation will fund the plant design, construction and initial operation, as detailed in the Development Agreement (Appendix D1) for this community. Upon completion, the plant ownership, operation and maintenance will be turned over to the Town of Buckeye.

## Tartesso East

The Tartesso East development and adjacent areas are expected to provide homes that support an estimated population increase of 82,000 people, generating wastewater flows of approximately 9.6 MGD at build-out. The proposed Tartesso East WRF will be located in northern Buckeye, north of I-10, south of the Van Buren Road alignment, and between the Wilson and Turner Road alignments.

The Tartesso East WRF will initially utilize a SBR activated sludge process, with the ability to incorporate the Modified Ludzak Ettinger (MLE) process with increased plant capacity. Effluent from this plant will be used for recharge, possible golf courses and potential lakes. In addition, an AZPDES permit will be obtained for emergency discharges. The receiving stream of the AZDPES discharge will be an unnamed wash. The flow from this wash is retained in FRS No. 1 on the north side of Interstate 10. The FRS is operated and maintained by the FCDMC. This FRS is designed to retain flows from approximately the 100-year storm event; beyond this storm event, flow would discharge from the FRS into the Hassayampa River. Figure 2 depicts the AZPDES discharge point for the Tartesso East WRF. Figure 6 depicts the layout of the drainage area in the vicinity of the project.

Stardust Foundation. Inc., a non-profit foundation that is not affiliated with Stardust Companies, owns a portion of the property. Stardust Companies owns the remainder of the property, and

will be responsible for obtaining the necessary permits in the name of the Town of Buckeye, and will coordinate the design and construction of the plant. Upon completion, the plant ownership, operation and maintenance will be turned over to the Town of Buckeye.

# *Part 1*

# *Anthem at Sun Valley South Water Reclamation Facility*

| Anthem at Sun Valley South Water Reclamation Facility | | |
|---|---|---|
| **Requirement** | **Summary of Compliance** | **See Page** |
| **Authority** | | |
| Proposed Designated Management Agency (DMA) shall self-certify that it has the authorities required by Section 208(c)(2) of the Clean Water Act to implement the plan for its proposed planning and service areas. Self-certification shall be in the form of a legal opinion by the DMA or entity attorney. | The Town of Buckeye is the Designated Management Agency for the Buckeye Municipal Planning Area. | Appendix C of the MAG 208 Water Quality Management Plan, October 2002 |
| **20-Year Needs** | | |
| Clearly describe the existing wastewater treatment (WWT) facilities: | | |
| Describe existing WWT facilities. | There are four existing wastewater treatment plants (WWTPs) within the Town of Buckeye, including the Town of Buckeye WWTP, the Lewis Prison Complex WWTP, Sundance WWTP and Verrado WRF. MAG has approved 208 Plan Amendments for the Tartesso West WRF, Festival Ranch WRF and Palo Verde Road WRF within the Town of Buckeye. The proposed developments have planned WRFs to serve limited areas. The Tartesso West WRF is currently under construction. Additionally, the Trillium West development has submitted a 208 Plan Amendment for approval of their WWTP. | Section 2.1, Existing Facilities page 11 |
| Show WWT certified and service areas for private utilities and sanitary district boundaries if appropriate. | There are no private utilities or sanitary districts within the proposed service area of this facility. | Figure 3 and Section 2.1, Existing Facilities Appendix A & page 11 |
| Clearly describe alternatives and the recommended WRF: | | |
| Provide POPTAC population estimates (or COG-approved estimates only where POPTAC are not available) over a 20-year period. | Population projections for the proposed service area are based on the planned development communities. | Section 2.2.2, Population Projections page 12 |
| Provide wastewater flow estimates over the 20-year planning period. | The wastewater generation rate for the proposed service area ranges from an average day of the maximum month of 1.125 MGD in Phase 1 to a build-out capacity of approximately 4.5 MGD. | Section 2.2.3, Flow Generation page 13 |

| Anthem at Sun Valley South Water Reclamation Facility | | |
|---|---|---|
| **Requirement** | **Summary of Compliance** | **See Page** |
| Illustrate the WWT planning and service areas | The planning and service area includes the portion of Sun Valley South east of Sun Valley Parkway and approximately 2,500 acres of Arizona State Land Department lands. | Figure 2 Appendix A |
| Describe the type and capacity of the recommended WWT plant | The wastewater treatment facility will have an ultimate capacity to treat up to 4.5 MGD of flow using a SBR process. The treatment train will include screening, biological oxygen demand (BOD) reduction, clarification, nitrification/denitrification, filtration and ultraviolet (UV) disinfection. The facility will also incorporate limited sludge storage, treatment and processing capabilities. The plant will be equipped with odor and noise control and other aesthetic measures in accordance with Title 18 of the Arizona Administrative Code (AAC). | Section 2.3.2, Wastewater Treatment page 15 |
| Identify water quality problems, consider alternative control measures, and recommend a solution for implementation. | Through compliance with AAC Title 18, no water quality issues are anticipated. The effluent quality will meet the A+ reclaimed water standards and will satisfy all the requirements for open space and golf course irrigation. In addition, effluent water quality will comply with standards established in an AZPDES permit and the Aquifer Water Quality Standards. | Section 2.3.3, Effluent Quality & Disposal page 17 |
| If private WWT utilities with certificated areas are within the proposed regional service area, define who (municipal or private utility) serves what area and when. Identify whose sewer lines can be approved in what areas and when. | There are presently no private utilities within the proposed service area of this facility. | Figure 3 and Section 2.1, Existing Facilities page 11 & Appendix A |

| Anthem at Sun Valley South Water Reclamation Facility | | |
|---|---|---|
| **Requirement** | **Summary of Compliance** | **See Page** |
| Describe method of effluent disposal and reuse sites (if appropriate). | The effluent will be used to fill and maintain storage lakes and irrigate golf courses and other turf managed facilities and landscaped areas within the community. Additionally, open space tracts along power line corridors and community parks may also utilize effluent for irrigation. Effluent generated above landscape irrigation demands may be used for recharge. In addition, an AZPDES permit will be obtained for emergency discharges. The receiving stream of the AZDPES discharge will be an unnamed wash tributary to White Tanks wash, approximately 3 miles downstream. Flow from the White Tanks wash is retained in FRS No. 1 on the north side of Interstate 10. The FRS is operated and maintained by the FCDMC. This FRS is designed to retain flows from approximately the 100-year storm event; beyond this storm event, flow would discharge from the FRS into the Hassayampa River. Figure 2 depicts the AZPDES discharge point for the ASVS WRF. Additionally, Figure 6 depicts the layout of the drainage area in the vicinity of the project. | Section 2.3.3, Effluent Quality & Disposal page 17 |
| If Sanitary Districts are within a proposed planning or service area, describe who serves the Sanitary Districts and when. | There are no Sanitary Districts within the proposed service area of this facility. | N/A |
| Describe ownership of land proposed for plant sites and reuse areas. | The land for these facilities is owned by Sun Valley Partners, LLC. Further, Pulte Home Corporation is under contract to purchase the land proposed for the WRF and reuse sites. | Section 2.2.1, Site Location & Property Ownership page 12 |

| Anthem at Sun Valley South Water Reclamation Facility | | |
|---|---|---|
| **Requirement** | **Summary of Compliance** | **See Page** |
| Address time frames in the development of the treatment works. | Phase I of the ASVS WRF is expected to commence construction in 2006 and be substantially complete in 2007. The Phase I facility will be designed to treat wastewater generated from the start-up of the facility, coincidental with the occupancy of the first dwelling units. Low flow treatment operations may include modification of the wet well for extended aeration and/or provisions for temporary equipment. In the event that the plant design and construction cannot accommodate low flow treatment, wastewater may be collected and transported to another facility for treatment (vault and haul scenario). If this alternative is employed, then the necessary capacity agreement will be obtained from the intended destination. At 320 gallons per day per dwelling unit (gpd/du), an initial 20,000 gallon per day (gpd) vault and haul scenario would serve approximately 50 homes in the maximum flow month. Therefore, the Phase I facilities must be operational in the same timeframe. The Phase I SBR will have an average day maximum month capacity of approximately 1.125 MGD. | Section 4.0, Construction page 18 |
| Address financial constraints in the development of the treatment works. | There are no financial constraints in the development of the treatment works, including design, construction and operation. | Section 5.0, Financing page 19 |
| Describe how discharges will comply with EPA municipal and industrial storm water discharge regulations (Section 405, CWA). | The collection system will be designed to prevent stormwater infiltration and the plant will treat wastewater only. The plant will not receive runoff from adjacent properties. During construction, storm water flows will be managed under an AZPDES temporary discharge permit. Storm water discharges from the site, if any, will be subject to AZPDES storm water permitting requirements and will be addressed through the development and implementation of a site Storm Water Pollution Prevention Plan. | Section 2.3.3, Effluent Quality & Disposal page 17 |

| Anthem at Sun Valley South Water Reclamation Facility | | |
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| **Requirement** | **Summary of Compliance** | **See Page** |
| Describe how open areas and recreational opportunities will result from improved water quality and how those will be used. | The effluent from this WRF will safely enhance golf course landscaping, lakes, and other turf managed facilities while reducing the demand of available groundwater and surface water supplies. | Section 2.3.3, Effluent Quality & Disposal page 17 |
| Describe potential use of lands associated with treatment works and increased access to water based recreation, if applicable. | Not applicable. | N/A |
| **Regulations** | | |
| Describe types of permits needed, including NPDES, APP and reuse. | The WRF will require an AZPDES permit, Aquifer Protection Permit (APP), permit for the Reuse of Reclaimed Wastewater and an Air Quality permit. Additionally, coordination with the Town of Buckeye and Maricopa County Environmental Services Department (MCESD) will be required to obtain an approval to construct, approval of construction, and architectural and building permits. A Clean Water Act Section 404 individual permit is being pursued for the project. | Section 3.0, Regulations page 18 |
| Describe restrictions on NPDES permits, if needed, for discharge and sludge disposal. | No restrictions are anticipated for an AZPDES permit. The effluent will be sufficient to meet the Class A+ water quality standards and sludge will meet the Class B pathogen reduction requirements as outlined in Title 18 of the AAC. | Sections 2.3.3, Effluent Quality & Disposal and 3.0, Regulations pages 17-18 |
| Provide documentation of communication with the Arizona Department of Environmental Quality (ADEQ) Permitting Section 30 to 60 days prior to public hearing regarding the need for specific permits. | Pulte will be responsible for obtaining the necessary permits from the ADEQ for the Town of Buckeye. A preapplication meeting is scheduled with ADEQ for March 1, 2006. | Section 3.0, Regulations page 18 |
| Describe pretreatment requirements and method of adherence to requirements (Section 208(b)(2)(D), CWA). | Significant industrial users are not anticipated in the service area outlined. In the event that an industrial user requests to discharge to this system, the ADEQ and the Town of Buckeye will review the industrial process and implement any local limits that may be required. Under no circumstance will an industrial user be permitted to cause a violation of a water quality standard as outlined in AAC Title 18. | Section 2.4, Pretreatment Requirements page 17 |

| Anthem at Sun Valley South Water Reclamation Facility | | |
|---|---|---|
| **Requirement** | **Summary of Compliance** | **See Page** |
| Identify, if appropriate, specific pollutants that will be produced from excavations and procedures that will protect ground and surface water quality (Section 208(b)(2)(K) and Section 304, CWA). | Not applicable. | N/A |
| Describe alternatives and recommendations in the disposition of sludge generated (Section 405 CWA). | Sludge will be pumped via belt filter press or other acceptable technology for dewatering. Aerobic digestion will be provided to meet Class B sludge quality requirements; additional storage space is not needed for dewatered sludge. Biosolids produced by the ASVS WRF will be of a sufficient quality to meet the applicable requirements for the selected final disposition. A licensed sludge hauler and sludge disposal permit will be obtained, as necessary. | Section 2.3.2.6, Sludge Treatment page 17 |
| Define any nonpoint issues related to the proposed facility and outline procedures to control them. | Not applicable; nonpoint discharges from the site are not anticipated. | N/A |
| Describe processes to handle all mining runoff, orphan sites and underground pollutants, if applicable. | Not applicable. | N/A |
| If mining related, define where collection of pollutants has occurred, and what procedures are going to be initiated to contain contaminated areas. | Not applicable. | N/A |
| If mining related, define what specialized procedures will be initiated for orphan sites, if applicable. | Not applicable. | N/A |
| **Construction** | | |
| Define construction priorities and time schedules for initiation and completion. | Construction of Phase I (1.125 MGD) of the ASVS WRF is proposed to commence in 2006 and be completed in 2007. | Section 4.0, Construction page 18 |
| Identify agencies that will construct, operate and maintain the facilities and otherwise carry out the plan. | Pulte will manage (with oversight from the Town of Buckeye) the construction of the initial phases of the WRF. The Town of Buckeye will maintain the ASVS WRF at the completion of Phase I. | Section 4.0, Construction page 18 |

| Anthem at Sun Valley South Water Reclamation Facility | | |
|---|---|---|
| **Requirement** | **Summary of Compliance** | **See Page** |
| Identify construction activity-related sources of pollution and set forth procedures and methods to control, to the extent feasible, such sources. | Pollutants associated with construction activities are anticipated to be limited to sediment, inert materials, and residual construction materials such as paint and adhesives. Construction activities will abide by all federal and state rules and regulations. Additionally, potential discharges during construction will be managed under a Storm Water Pollution Prevention Plan (SWPPP) under an AZPDES temporary discharge permit. The SWPPP will outline procedures to protect ground and surface water quality. | Sections 3.0, Regulations and 4.0, Construction page 18 |
| **Financing and Other Measures Necessary to Carry Out the Plan** | | |
| If plan proposes to take over certificated private utility, describe how, and when financing will be managed. | Not applicable. | N/A |
| Describe any significant measure necessary to carry out the plan, e.g., institutional, financial, economic, etc. | The phasing of the WRF expansion will be dependent upon population increases, growing commercial development in the service area and the resultant wastewater flows. The design and construction of the WRF is therefore tied to the success of the development. | Section 5.0, Financing page 19 |
| Describe proposed method(s) of community financing. | Presently, Pulte Home will finance the construction of the plant. A community facilities district will be evaluated as a possible finance mechanism. | Section 5.0, Financing page 19 |
| Provide financial information to assure DMA has financial capability to operate and maintain wastewater system over its useful life. | The Town of Buckeye is a municipality and has successfully owned and operated its existing WWTP. | Section 5.0, Financing page 19 |
| Provide a timeline outlining period of time necessary for carrying out plan implementation. | Construction of Phase I of the ASVS WRF is anticipated to commence in 2006 and be completed by 2007. Subsequent phasing of the facility will be completed as necessary as dictated by the wastewater generation rate of the service area and the plant capacity. Assuming build out of the service area, the estimated plant capacity will be 4.5 MGD in 2025. | Section 6.0, Implementation page 19 |

| Anthem at Sun Valley South Water Reclamation Facility | | |
|---|---|---|
| **Requirement** | **Summary of Compliance** | **See Page** |
| Provide financial information indicating the method and measures necessary to achieve project financing (Section 201 CWA or Section 604 may apply). | The project will be financed by Pulte Home Corporation. A community facilities district (CFD) may be employed as an alternative financing mechanism. In the event a CFD is utilized, it will be an acquisition type CFD, with Pulte fronting the costs until the WRF has been turned over to the Town of Buckeye. | Section 5.0, Financing page 19 |
| **Implementation** | | |
| Describe impacts and implementation requirements of the plan: | | |
| Describe impacts on existing wastewater facilities (e.g. Sanitary Districts, infrastructure/facilities, and certificated areas). | No wastewater infrastructure or facilities exist within the proposed service area. The Town of Buckeye will oversee the operation and maintenance of the plant. | Section 6.0, Implementation page 19 |
| Describe how and when existing package plants will be connected to a regional system. | Not applicable. | N/A |
| Describe the impact on communities and businesses affected by the plan. | Not applicable. | N/A |
| If a municipal WWT system is proposed, describe how WWT service will be provided until the municipal system is completed: i.e., will package plants and septic systems be allowed and under what circumstances (interim services). | Homes will not be occupied prior to the operational completion and approval of the ASVS WRF. Wastewater flow will not be generated until the WRF is operational in either its initial phase, or under a low flow treatment alternative. | Sections 2.3.2 Wastewater Treatment and 6.0, Implementation pages 15 and 19 |
| **Public Participation** | | |
| Submit copy of mailing list used to notify the public of the public hearing on the 208 amendment (40 CFR, Chapter 1, Part 25.5). | All public notifications will be coordinated through MAG. | Section 7.0, Public Participation page 20 |
| List location where documents are available for review at least 30 days before public hearing. | All public notifications will be coordinated through MAG. | Section 7.0, Public Participation page 20 |
| Submit copy of the public notice of the public hearing as well as an official affidavit of publication from the area newspaper. Clearly show the announcement appeared in the newspaper at least 45 days before the hearing. | All public notifications will be coordinated through MAG. | Section 7.0, Public Participation page 20 |

| Anthem at Sun Valley South Water Reclamation Facility | | |
|---|---|---|
| **Requirement** | **Summary of Compliance** | **See Page** |
| Submit affidavit of publication for official newspaper publication. | All public notifications will be coordinated through MAG. | Section 7.0, Public Participation page 20 |
| Submit responsiveness summary for public hearing. | All public notifications will be coordinated through MAG. | Section 7.0, Public Participation page 20 |

## 1.0 Authority

In accordance with Section 208 of the Clean Water Act (CWA), the Maricopa Association of Governments (MAG) is the designated Regional Water Quality Management Planning Agency for Maricopa County, Arizona. This CWA 208 Amendment will incorporate the proposed Water Reclamation Facilities (WRFs) for the Anthem at Sun Valley South (ASVS) and Tartesso East developments into the MAG 208 Water Quality Management Plan.

The proposed ASVS WRF will be located within the planning area of the Town of Buckeye and will serve an estimated 7,400 acres of residential and commercial development upon its completion. The service area is anticipated to generate approximately 4.5 MGD of flow at the ultimate build-out in 2025. The increase in population and corresponding wastewater flow generation will necessitate an addition to the existing wastewater collection and treatment system in the Town of Buckeye. The proposed ASVS WRF will accommodate these needs. The treated effluent from this facility will be used for turf irrigation, recharged, and/or reused in other ways. An AZPDES permit will also be pursued for emergency discharges from the WRF. The receiving stream of the AZDPES discharge will be an unnamed wash tributary to White Tanks wash, approximately 3 miles downstream. Flow from the White Tanks wash is retained in FRS No. 1 on the north side of Interstate 10. The FRS is operated and maintained by the FCDMC. This FRS is designed to retain flows from approximately the 100-year storm event; beyond this storm event, flow would discharge from the FRS into the Hassayampa River. Figure 2 depicts the AZPDES discharge point for the ASVS WRF. Additionally, Figure 6 depicts the layout of the drainage area in the vicinity of the project.

## 2.0 20-Year Needs

### 2.1 Existing Facilities

The Town of Buckeye operates a wastewater treatment plant (WWTP) that serves a portion of the Buckeye planning area generally south of Interstate 10 and east of State Route 85. Additionally, the Lewis Prison Complex has a WWTP that is designed to serve the needs of the prison complex. The Sundance and Verrado developments have constructed new WWTPs that will serve their respective areas. MAG has approved 208 Plan Amendments for the Tartesso West WRF, Festival Ranch WRF and Palo Verde Road WRF within the Town of Buckeye. These proposed developments have planned WRFs to serve limited areas. The Tartesso West WRF is currently under construction. Additionally, the Trillium West development has submitted a 208 Plan Amendment for approval of their WWTP. Figure 1 contains an exhibit showing the location of the various existing or approved WWTPs within the Town of Buckeye Municipal Planning Area (MPA).

The existing and planned WRFs within the Town's MPA do not address the service area of the proposed ASVS facility. No private utilities and/or sanitary districts serve the area of the proposed ASVS WRF. Figure 3 overlays the service area boundary for the ASVS WRF with the documented Certificate of Convenience and Necessity (CC&N) boundaries from the Arizona Corporation Commission (ACC) for private utilities.

## 2.2 Proposed Water Reclamation Facility

### 2.2.1 Site Location and Property Ownership

The ASVS WRF is proposed within the northwest quadrant of Section 16 of Township 2 North, Range 4 West of the Gila and Salt River Baseline and Meridian. The project resides west of the White Tank Mountains in the Town of Buckeye in Maricopa County, Arizona. The proposed service area includes Village 3 and parcel 40 of the Sun Valley South master planned community, encompassing the portion of the community that lies east of Sun Valley Parkway. Adjacent properties to the east, as depicted in Figure 2 are also included in the planned service area. The proposed service area is within the existing Buckeye Municipal Planning Area boundary.

Currently, the proposed service area includes land under several different ownerships. Approximately 4,000 acres of the proposed service area is owned by Sun Valley Partners, LLC. Pulte Home Corporation is under contract to purchase the land proposed for the WRF and reuse sites. Stardust and the Arizona State Land Department also own portions of the proposed service area.

### 2.2.2 Population Projections

According to the *Interim Projection of Population, Housing and Employment by Municipal Planning Area and Regional Analysis Zone* prepared by MAG (2003), the Buckeye MPA will experience the population growth projected in Table 1. Additionally, the Town of Buckeye is divided into Regional Analysis Zones (RAZ) for a more detailed view of population projections. The ASVS development is included in RAZ 340, and the projections for growth in this area are also presented in Table 1.

**TABLE 1**
**POPULATION PROJECTIONS BY YEAR**

| | 2000 | 2010 | 2020 | 2025 | 2030 |
|---|---|---|---|---|---|
| Buckeye MPA | 16,700 | 58,600 | 153,400 | 275,500 | 380,600 |
| RAZ 340 | 23 | 6,641 | 28,546 | 51,370 | 71,602 |

The ASVS development east of the Sun Valley Parkway will incorporate residential development with commercial and recreational opportunities. Single family residential is planned for the northern half of the area, and an active adult community is planned for the southern half. Up to three golf courses are planned along with both community and neighborhood parks. The WRF is planned for the very southwestern corner of the property. Parcels in the central portion of the property anticipate retail development and community centers. Trails are planned throughout the property. Given the proposed development and other developments in the project vicinity, population projections listed in Table 1 may be accelerated. Table 2 shows the projected population for the proposed WRF service area based on the proposed developments.

### 2.2.3 Flow Generation

The service area for the ASVS WRF provides a sewerage solution for approximately 7,400 acres of planned development. Figure 2 illustrates the location and type of the proposed developments within the proposed service area. The wastewater flow generation rate was calculated using conservative design factors.

The projected populations for high density residential (HDR), medium density (MDR), medium density – active adult (MDR-AA) and low density residential (LDR) units were calculated using 2.0, 3.2, 1.9 and 3.2 persons per dwelling unit, respectively. The residential and commercial wastewater flows were calculated using 100 gallons per capita per day (gpcd) and 1,500 gallons per acre per day (gpad), respectively.

The projected populations for these areas and the corresponding wastewater flow generation rates are listed in Table 2. At build-out in 2025, these developments are anticipated to generate an average flow of 4.5 MGD.

## 2.3 Wastewater Collection, Treatment and Reuse

The projected population increase and corresponding wastewater flow anticipated by the development within the service area of the proposed WRF produce a need to expand the Town of Buckeye's existing wastewater treatment system. To this end, a new WRF is proposed to service the area. The proposed WRF will have a capacity of 4.5 MGD and will provide effluent of sufficient quality to meet the appropriate regulations for reuse and/or discharge.

The wastewater generated by these developments will be treated and reused for a combination of turf and open space irrigation and/or groundwater recharge. In emergency situations, the effluent may be discharged to an ephemeral wash under an AZPDES Permit. The receiving stream of the AZDPES discharge will be an unnamed wash tributary to White Tanks wash, approximately 3 miles downstream. Flow from the White Tanks wash is retained in FRS No. 1 on the north side of Interstate 10. The FRS is operated and maintained by the FCDMC. This FRS is designed to retain flows from approximately the 100-year storm event; beyond this storm event, flow would discharge from the FRS into the Hassayampa River. Figure 2 depicts the AZPDES discharge point for the ASVS WRF.

### 2.3.1 Wastewater Collection

The proposed service area will be connected to the WRF through a series of gravity interceptor and collector sewers. Lift stations are not anticipated for the service area. If portions of Sections 13, 14 and 24 in Township 2 North, Range 4 West (currently shown within the service area of the Tartesso East WRF) are serviced at the ASVS WRF, a lift station may be required. Pipe systems will be designed in accordance with Town of Buckeye standards, and as agreed in the Wastewater Master Plan.

**TABLE 2**
**ANTHEM AT SUN VALLEY SOUTH POPULATION PROJECTIONS***

| Parcel | Land Use | Gross Area (acres) | Net Area (acres) | Proposed Density (du/ac) | Dwelling Units | Persons per du | Total Population | Average Day Flow Generation (gpd) |
|---|---|---|---|---|---|---|---|---|
| 14 | HDR | 97 | 83 | 9.0 | 747 | 2.0 | 1,494 | 149,400 |
| 15 | MDR - AA | 383 | 109 | 3.5 | 382 | 1.9 | 725 | 72,485 |
| 16 | MDR | 507 | 463 | 3.0 | 1,389 | 3.2 | 4,445 | 444,480 |
| 17 | MDR | 379 | 129 | 3.0 | 387 | 3.2 | 1,238 | 123,840 |
| 19 | MDR - AA | 555 | 507 | 3.5 | 1,775 | 1.9 | 3,372 | 337,155 |
| 20 | MDR | 412 | 330 | 3.0 | 990 | 3.2 | 3,168 | 316,800 |
| 21 | MDR | 535 | 398 | 3.0 | 1,194 | 3.2 | 3,821 | 382,080 |
| 23 | MDR - AA | 470 | 427 | 3.5 | 1,495 | 1.9 | 2,840 | 283,955 |
| 24 | LDR-Resort Comm. | 623 | 415 | 2.3 | 955 | 3.2 | 3,054 | 305,440 |
| 26 | C-Village Center | 49 | 49 | | | | | 73,500 |
| 31 | C-Neighborhood Center | 5 | 3 | | | | | 4,500 |
| 32 | C-Neighborhood Center (WRF) | 24 | 24 | | | | | 36,000 |
| 33 | C-Neighborhood Center | 7 | 7 | | | | | 10,500 |
| 34 | C-Neighborhood Center | 14 | 14 | | | | | 21,000 |
| 36 | C-Neighborhood Center | 4 | 4 | | | | | 6,000 |
| **Subtotal On-Site †** | | **4,064** | **2,962** | | **9,312** | | **24,156** | **2,567,135** |
| OFF 1 | LDR‡ | 319 | 123 | 2.0 | 638 | 3.2 | 2,042 | 204,160 |
| OFF 2 | LDR‡ | 628 | 509 | 2.0 | 1,256 | 3.2 | 4,019 | 401,920 |
| OFF 3 | LDR‡ | 1,440 | 1,035 | 1.0 | 1,440 | 3.2 | 4,608 | 460,800 |
| OFF 4 | LDR | 123 | 105 | 2.0 | 210 | 3.2 | 672 | 67,200 |
| OFF 24 | LDR | 322 | 184 | 2.0 | 368 | 3.2 | 1,178 | 117,760 |
| OFF 38 | COM-BC | 220 | 211 | | | | | 316,500 |
| OFF 40 | COM-BC | 269 | 256 | | | | | 384,000 |
| **Subtotal Off-Site†** | | **3,321** | **2,423** | | **3,912** | | **12,518** | **1,952,340** |
| **TOTAL** | | **7,385** | **5,385** | | **13,224** | | **36,675** | **4,519,475** |

Note:
†On-site refers to the property under contract for purchase by Pulte Home Corporation. Off-site refers to the property owned by others, but proposed to be served by this WRF.
‡ The off-site parcels indicated estimate population based on gross area.
* Due to rounding, calculations may not exactly match the data shown.

### 2.3.2 Wastewater Treatment

The recommended WRF will be a multi-phase SBR consisting of the following unit processes and other elements:

- Influent wet well and lift station including flow metering
- Fine screening
- Grit removal
- Secondary treatment with biological nitrogen removal
- Secondary equalization/clarification
- Tertiary filtration
- Ultraviolet disinfection
- Nitrification and denitrification
- Effluent pump station including flow metering
- Standby generator
- Laboratory and control building
- Effluent reuse
- Sludge treatment

The initial capacity of the plant will be 1.125 MGD, representing the average day of the maximum month flow, assuming an average day flow of 0.9 MGD and a peaking factor of 1.25. Hydraulically, the Phase I WRF will accommodate a peak flow of 4.05 MGD, corresponding to a peaking factor of 3.6. Further phasing is anticipated in approximately 1.125 MGD increments; Phase II will provide treatment for a total of 2.25 MGD, Phase III will provide 3.375 MGD, and the final phase will provide the ultimate 4.5 MGD capacity by 2025. The ultimate facility will be designed to hydraulically accommodate a peak flow of 14.4 MGD, assuming a peaking factor of 3.2. Facility sizing and phasing is designed to be both modular and flexible depending on the population growth rate within the service area. Figure 4 displays a preliminary layout of the WRF site in the ultimate and Phase I configurations. Design of subsequent phases will begin when the WRF reaches 70% of its design capacity. Construction of the subsequent phases will commence when the WRF reaches 80% of its designated capacity.

Phase I of the ASVS WRF is expected to commence construction in 2006 and be substantially complete in 2007. The Phase I facility will be designed to treat wastewater generated from the start-up of the facility, coincidental with the occupancy of the first dwelling units. Low flow treatment operations may include modification of the wet well for extended aeration and/or provisions for temporary equipment. In the event that the plant design and construction cannot accommodate low flow treatment, wastewater may be collected and transported to another facility for treatment (vault and haul scenario). If this alternative is employed, then the necessary capacity agreement will be obtained from the intended destination. At 320 gallons per day per dwelling unit (gpd/du), an initial 20,000 gpd vault and haul scenario would serve approximately 50 homes in the maximum month. Therefore, the Phase I facilities must be operational in the same timeframe.

As shown in Figure 4, the WRF will be designed to comply with the setback requirements listed in AAC R18-9-B201 for sewage treatment facilities with full noise and odor control.

#### 2.3.2.1 Preliminary Treatment

Preliminary treatment for the WRF will include screens to remove the coarse solids and wash, compact and dewater the captured screenings. Solids will be macerated, spray washed, compacted and dewatered. Dewatered screenings will be properly disposed at an approved landfill.

#### 2.3.2.2 Biological Treatment

The facility will utilize the concept of activated sludge treatment via sequencing batch reactors. The SBR process proposed for this facility will utilize multiple tanks with the influent flow distributed among them by motorized influent control valves, the SBR facilities will utilize positive displacement aeration blowers, air piping and fine bubble tube-type diffusers, floating misers, motorized influent and air control valves, effluent decanting mechanisms, and waste sludge pumps.

Two SBR basins will be provided under Phase 1. If one of the SBR basins needs to be removed from service for maintenance, the remaining basin can be used to meet the treatment requirements. Under this mode of operation, the sludge holding basing will be utilized as a pre-equalization basin to receive the incoming wastewater flows when the single SBR basin is operating in its decant and settle phases.

#### 2.3.2.3 Tertiary Treatment

Treated water will be decanted from the SBR basins into an equalization basin. The equalization basin will provide a steady inflow to the downstream unit processes. The secondary treated wastewater will be discharged from the equalization basin to a tertiary filtration system with redundant capacity.

A chemical feed and containment area will be provided for the purpose of adding polymer to promote flocculation. Polymer will be used to promote flocculation of the solids remaining in the clarified effluent. The polymer feed system will consist of a polymer-blending unit that will inject polymer upstream of the disc filter system. Sufficient detention time will be provided in the pipe to promote flocculation, thereby meeting the Class A+ water quality requirements (AAC Title 18, Chapter 11, Article 3).

#### 2.3.2.4 Disinfection

The filtered effluent will be treated with UV radiation to disinfect the water for reuse and recharge. The UV system will disinfect the water to the standards required by AAC Title 18, Chapter 11, Article 3 for Class A+ effluent. An effluent pump station will transmit the treated water to a golf course or other irrigation facilities.

#### 2.3.2.5 Odor and Noise Control

For all phases of the proposed WRF, odor control facilities will be provided to treat off-gases from the influent pump station, screenings facility, SBRs, sludge holding tanks and solids handling facility. Basins will be covered to reduce emissions, and the ventilation system will

provide a negative pressure to draw off gases from the reactors and be directed to an odor control scrubbing system.

#### 2.3.2.6 Sludge Treatment

Sludge will be pumped via belt filter press or other acceptable technology for dewatering. Aerobic digestion will be provided to meet Class B sludge quality requirements; additional storage space is not needed for dewatered sludge. Biosolids produced by the ASVS WRF will be of a sufficient quality to meet the applicable requirements for the selected final disposition. A licensed sludge hauler and sludge disposal permit will be obtained, as necessary.

### 2.3.3 Effluent Quality and Disposal

Reuse of the effluent for irrigation of turf areas will reduce the amount of potable water demand for the property. The reclaimed water to be directly reused will comply with the applicable requirements and standards listed in the Reclaimed Wastewater Reuse Permit, AAC Title 18, Chapter 9. Direct reuse of the effluent will provide recreational opportunities and aesthetic benefits to the Town of Buckeye without the additional demands on groundwater. Reuse sites may include parks, golf courses, landscape irrigation and other turf managed facilities. The feasibility of these options, however, will need to be developed through communications with the Town of Buckeye and other regulatory agencies, as appropriate.

When the seasonal demand for the reuse of effluent is less than the effluent generated by the WRF, water will be recharged into the aquifer. Preliminarily, 9 acres of recharge basin bottom area are envisioned, based on an infiltration rate of 1 foot per day, an excess amount of effluent in the average maximum month of 6 acre-feet per day, and 50 percent redundancy. Detailed calculations for the projected seasonal effluent demand are presented in the *Master Reclaimed Water Report for Village 3 of Sun Valley South* (CMX, 2005). The infiltration rate is assumed, and will be verified through field testing. The ultimate size and configuration of the groundwater recharge facilities will be developed through more detailed studies and design, in coordination with the Arizona Department of Water Resources (ADWR) and ADEQ through the Underground Storage Facility permit program.

In emergency situations, the effluent may be discharged to an ephemeral wash under an AZPDES Permit. The receiving stream of the AZDPES discharge will be an unnamed wash tributary to White Tanks wash, approximately 3 miles downstream. Flow from the White Tanks wash is retained in FRS No. 1 on the north side of Interstate 10. The FRS is operated and maintained by the FCDMC. This FRS is designed to retain flows from approximately the 100-year storm event; beyond this storm event, flow would discharge from the FRS into the Hassayampa River. Figure 2 depicts the AZPDES discharge point for the ASVS WRF.

## *2.4 Pretreatment Requirements*

Industrial sites and/or uses are not anticipated within the proposed service area for the ASVS WRF. Correspondingly, no pretreatment program is necessary at this time, in accordance with 40 CFR 403.8. In the event that an industrial user should apply to discharge to the system, the Town of Buckeye would review the processes involved and establish guidelines to govern the waste discharges from the site in concert with ADEQ. The Town of Buckeye is in the process of developing a pretreatment program.

## 3.0 Regulations

Pulte Home Corporation will be responsible for obtaining the necessary permits from the MCESD, Maricopa County Air Quality Department (MCAQD), the Town of Buckeye, ADEQ and ADWR. A preapplication meeting is scheduled with ADEQ for March 1, 2006. A partial listing of required permits and approvals is displayed in Table 3.

**TABLE 3**
**ANTICIPATED PERMIT REQUIREMENTS**

| Requirement | Regulatory Agency |
|---|---|
| Approval to Construct | MCESD |
| Approval of Construction | MCESD |
| Aquifer Protection Permit | ADEQ |
| Underground Storage Facility and Water Storage Permits | ADWR/ADEQ |
| Reclaimed Wastewater Reuse Permit | ADEQ |
| Arizona Pollutant Discharge Elimination (AZPDES) Permit | ADEQ |
| Air Quality Permit | MCAQD |
| Hazardous Materials Management Plan | Town of Buckeye |
| Site Plan Approval | Town of Buckeye |
| Grading and Drainage Permit | Town of Buckeye |
| Architectural Approval | Town of Buckeye |
| Building Permit | Town of Buckeye |
| Certificate of Occupancy | Town of Buckeye |

Storm water discharges during construction will be managed in accordance with Best Management Practices as outlined in a SWPPP under a Construction AZPDES permit.

Following construction, site storm water discharges will also be managed under an AZPDES permit and SWPPP.

## 4.0 Construction

Pulte Home Corporation will be responsible for the design and construction of the ASVS WRF. Pulte will also obtain the necessary permits for the construction and operation of the facility. Upon completion of construction, the plant ownership, operation and maintenance will be turned over to the Town.
Phase I of the ASVS WRF is expected to commence construction in the first quarter of 2006 and be substantially complete in the first quarter of 2007. Phasing of the plant will correspond to the anticipated development growth, and is projected as follows:

**TABLE 4**
**ANTHEM AT SUN VALLEY SOUTH WRF PLANT PHASING**

| Phase | Year | Projected Population | Total WRF Capacity*, MGD |
|---|---|---|---|
| I | 2007 | 10,000 | 1.125 |
| II | 2010 | 20,000 | 2.250 |
| III | 2015 | 30,000 | 3.375 |
| IV | 2025 | 36,000 | 4.500 |

* Reflects the average day of the maximum month flow rate, including a peaking factor of 1.25.

Construction of the WRF is not anticipated to have the potential to generate significant pollutants. Fugitive dust, construction related solid waste, inert materials, and residual construction materials (such as paint, adhesives and fuels) will be managed appropriately in accordance with a temporary construction general AZPDES permit and Best Management Practices, as outlined in a SWPPP. Wastes generated during construction will be properly managed and disposed in permitted facilities, as needed.

## 5.0 Financing

Pulte Home Corporation (NYSE: PHM) will provide the initial capital investment needed for the design and construction of the WRF. Pulte, based in Bloomfield Hills, Michigan, is a FORTUNE 200 company with operations in 54 markets and 28 states. In 2004, the company closed 38,612 domestic home sales and generated total revenues of $11.7 billion. As a publicly traded company, the Security Exchange Commission requires that Pulte to submit detailed financial statements both quarterly and annually (Appendix C2). These complete reports are available upon request. Pulte Home Corporation will be responsible for financing their proportional share of the project.

Pulte may pursue establishing a CFD in partnership with the Town of Buckeye as a possible financing mechanism for construction of the WRF. In this scenario, Pulte would enter into a Development Agreement with the Town for creation of a CFD. General Obligation bonds would be sold, and the proceeds would be used for funding of the WRF. As establishment of the CFD and bond sales would likely not be completed prior to the anticipated completion of construction of Phase 1 of the WRF (first quarter 2007), the Phase I facility would be completed as an acquisition project. As soon as possible after bond sale and delivery, Pulte will provide project price documentation in accordance with the Development Agreement. Once that information is determined to be complete, Pulte will be compensated for the project price. It is anticipated that the CFD would be established and GO Bonds sold by 2008. Based on this schedule, future phases of the WRF would be completed as construction projects under the established CFD, and therefore contracted project costs would be paid directly from the CFD fund.

Upon completion, the plant ownership will be transferred to the Town of Buckeye. The Town will oversee the operation and maintenance of the plant. The Town may opt to publicly bid the operation services or may hire qualified and licensed operators directly. User fees will be collected by the Town of Buckeye to fund the operation and maintenance of the WRF over the life of the facility. Further expansion of the WRF will be financed by the Town of Buckeye in conjunction with other developers.

## 6.0 Implementation

Phase I of the ASVS WRF is scheduled to commence in 2006 and expected to be substantially complete in 2007. Phase I will have an anticipated capacity of 1.125 MGD to meet the average day flow of the maximum month (considering a peaking factor of 1.25). A detailed start up plan will be developed for the facility during the design phase and may include the options for the treatment of low flows as discussed in Section 2.3.2. Subsequent expansions to the WRF will be dependant upon the rate of population increase within the proposed service area and the

resultant wastewater flow rates. The final build-out capacity will not exceed 4.5 MGD, and is anticipated in 2025.

The proposed WRF is not anticipated to impact the operation of any adjacent municipalities, businesses, communities, sanitary districts or private service providers with certificated areas. A map of the private utility service areas from the Arizona Corporation Commission within the project vicinity is provided in Figure 3. The effluent from the WRF will be used primarily for landscape irrigation, thereby reducing the demand for surface and/or groundwater. The high quality effluent will have very little organic content, and will therefore be unlikely to produce odors or encourage vectors. A letter of no objection is required from Maricopa County for this 208 Plan Amendment (Appendix B2) because the proposed development will be located within three miles of County lands. The development, proposed service area and plant location are entirely within the Town of Buckeye MPA.

Pulte will manage the construction of the WRF and the Town will maintain the plant. The design and approval of reuse sites will need to be completed before Approval of Construction of the WRF is granted.

## 7.0 Public Participation

MAG and the Town of Buckeye will follow the applicable procedures for public notification in processing this 208 Plan amendment, including:

1. Submittal of a mailing list used to notify the public of the hearing on this 208 Plan Amendment.
2. Thirty-day public notice of the availability of the documents for review prior to the public hearing.
3. Publication of a public notice posting the date, time, subject and location of the public hearing on this 208 Plan Amendment at least 45 days prior to the public hearing.
4. Submittal of an affidavit of the publication of the public notice.
5. Submittal of a responsiveness summary for the public hearing.

# *Part 2*

# *Tartesso East Water Reclamation Facility*

| Tartesso East Water Reclamation Facility | | |
|---|---|---|
| **Requirement** | **Summary of Compliance** | **See Page** |
| **Authority** | | |
| Proposed Designated Management Agency (DMA) shall self-certify that it has the authorities required by Section 208(c)(2) of the Clean Water Act to implement the plan for its proposed planning and service areas. Self-certification shall be in the form of a legal opinion by the DMA or entity attorney. | The Town of Buckeye is the Designated Management Agency for the Buckeye Municipal Planning Area. | Refer to Appendix C of the MAG 208 Water Quality Management Plan, 2002 |
| **20-Year Needs** | | |
| Clearly describe the existing wastewater treatment (WWT) facilities: | | |
| Describe existing WWT facilities. | There are four existing WWTPs within the Town of Buckeye, including the Town of Buckeye WWTP, the Lewis Prison Complex WWTP, Sundance WWTP and Verrado WRF. MAG has approved 208 Plan Amendments for the Tartesso West WRF, Festival Ranch WRF and Palo Verde Road WRF within the Town of Buckeye. The proposed developments have planned WRFs to serve limited areas. The Tartesso West WRF is currently under construction. Additionally, the Trillium West development has submitted a 208 Plan Amendment for approval of their WWTP. | Section 9.1, Existing Facilities page 30 |
| Show WWT certified and service areas for private utilities and sanitary district boundaries if appropriate. | There are no private utilities or sanitary districts within the proposed service area of this facility. | Figure 3 and Section 9.1, Existing Facilities page 30 |
| Clearly describe alternatives and the recommended WRF: | | |
| Provide POPTAC population estimates (or COG-approved estimates only where POPTAC are not available) over a 20-year period. | Population projections for the proposed service area are based on the planned development communities. | Section 9.2.2, Population Projections page 31 |
| Provide wastewater flow estimates over the 20-year planning period. | The wastewater generation rate for the proposed service area ranges from 1.2 MGD in Phase 1 to an estimated build-out capacity of approximately 9.6 MGD. | Section 9.2.3, Flow Generation page 32 |

| Tartesso East Water Reclamation Facility | | |
|---|---|---|
| **Requirement** | **Summary of Compliance** | **See Page** |
| Illustrate the WWT planning and service areas | The proposed planning and service area includes the Tartesso East master-planned community, as amended, approximately 1,120 acres of acquired from the Sun Valley South development and 3,400 acres of surrounding property. | Figure 2 Appendix A |
| Describe the type and capacity of the recommended WWT plant | The wastewater treatment facility will have an ultimate capacity to treat up to 9.6 MGD of flow using an SBR activated sludge treatment system with advanced tertiary treatment compatible with ADEQ Title 18 Class A+ effluent standards, with the ability to incorporate the MLE process to increase capacity in later phases. The treatment train will ultimately include screening, grit removal, biological nutrient removal through anoxic and aerobic zones, clarification, nitrification/ denitrification, filtration and UV disinfection. The facility will also incorporate sludge storage, treatment and processing capabilities. The plant will be equipped with odor and noise control and other aesthetic measures in accordance with Title 18 of the AAC. | Section 9.3.2, Wastewater Treatment page 33 |
| Identify water quality problems, consider alternative control measures, and recommend a solution for implementation. | Through compliance with AAC Title 18, no water quality issues are anticipated. The effluent quality will meet the A+ reclaimed water standards and will satisfy all the requirements for unrestricted use. In addition, effluent water quality will comply with standards established in an AZPDES permit and the Aquifer Water Quality Standards. | Section 9.3.3, Effluent Quality & Disposal page 35 |
| If private WWT utilities with certificated areas are within the proposed regional service area, define who (municipal or private utility) serves what area and when. Identify whose sewer lines can be approved in what areas and when. | There are presently no private utilities within the proposed service area of this facility. Figure 3 displays the private utilities in the project vicinity. | Figure 3 and Section 9.1, Existing Facilities page 30 |

| Tartesso East Water Reclamation Facility | | |
|---|---|---|
| **Requirement** | **Summary of Compliance** | **See Page** |
| Describe method of effluent disposal and reuse sites (if appropriate). | The effluent from this WRF will be unrestricted, and will be used for recharge, possible golf course irrigation and/or lakes. The effluent will increase groundwater recharge and reduce the groundwater demand for the possible golf courses and lakes. In addition, an AZPDES permit will be obtained for emergency discharges. The receiving stream of the AZDPES discharge will be an unnamed wash. The flow from this wash is retained in FRS No. 1 on the north side of Interstate 10. The FRS is operated and maintained by the FCDMC. This FRS is designed to retain flows from approximately the 100-year storm event; beyond this storm event, flow would discharge from the FRS into the Hassayampa River. Figure 2 depicts the AZPDES discharge point for the Tartesso East WRF. Additionally, Figure 6 depicts the layout of the drainage area in the vicinity of the project. | Section 9.3.3, Effluent Quality & Disposal page 35 |
| If Sanitary Districts are within a proposed planning or service area, describe who serves the Sanitary Districts and when. | There are no Sanitary Districts within the proposed service area of this facility. | Figure 3 |
| Describe ownership of land proposed for plant sites and reuse areas. | Stardust Foundation, Inc., a non-profit foundation that is not affiliated with Stardust Companies, owns a portion of the property. Stardust Companies owns the remainder of the property.. | Section 9.2.1, Site Location & Property Ownership page 31 |

| Tartesso East Water Reclamation Facility | | |
|---|---|---|
| **Requirement** | **Summary of Compliance** | **See Page** |
| Address time frames in the development of the treatment works. | Phase I of the Tartesso East WRF is expected to commence construction in 2009 and be substantially complete in 2010. The Phase I facility will be designed to treat wastewater generated from the start-up of the facility, coincidental with the occupancy of the first dwelling units. Low flow treatment operations may include modification of the wet well for extended aeration and/or provisions for temporary equipment. In the event that the plant design and construction cannot accommodate low flow treatment, wastewater may be collected and transported to another facility for treatment (vault and haul scenario). If this alternative is employed, then the necessary capacity agreement will be obtained from the intended destination. At 320 gpd/du, an initial 20,000 gpd vault and haul scenario would serve approximately 50 homes in the maximum flow month. Therefore, the Phase I facilities must be operational in the same timeframe. | Section 11.0, Construction page 36 |
| Address financial constraints in the development of the treatment works. | There are no financial constraints in the development of the treatment works, including design, construction and operation. | Section 12.0, Financing page 37 |
| Describe how discharges will comply with EPA municipal and industrial storm water discharge regulations (Section 405, CWA). | The collection system will be designed to prevent stormwater infiltration and the plant will treat wastewater only. The plant will not receive runoff from adjacent properties. During construction, storm water flows will be managed under an AZPDES temporary discharge permit. Storm water discharges from the site, if any, will be subject to AZPDES storm water permitting requirements and will be addressed through the development and implementation of a site Storm Water Pollution Prevention Plan. | Sections 9.3.3, Effluent Quality & Disposal and 11.0, Construction, pages 35-36 |
| Describe how open areas and recreational opportunities will result from improved water quality and how those will be used. | The effluent from this WRF will be unrestricted, and will be used for recharge, possible golf course irrigation and/or lakes. The effluent will increase groundwater recharge and reduce the groundwater demand for the possible golf courses and lakes. | Section 9.3.3, Effluent Quality & Disposal page 35 |

| Tartesso East Water Reclamation Facility | | |
|---|---|---|
| **Requirement** | **Summary of Compliance** | **See Page** |
| Describe potential use of lands associated with treatment works and increased access to water based recreation, if applicable. | Not applicable. | N/A |
| **Regulations** | | |
| Describe types of permits needed, including NPDES, APP and reuse. | The WRF will require an AZPDES permit, APP, permit for the Reuse of Reclaimed Wastewater and an Air Quality permit. Additionally, coordination with the Town of Buckeye and Maricopa County Environmental Services Department will be required to obtain an approval to construct, approval of construction, and architectural and building permits. A Clean Water Act Section 404 individual permit is being pursued for the project. | Section 10.0, Regulations page 36 |
| Describe restrictions on NPDES permits, if needed, for discharge and sludge disposal. | No restrictions are anticipated for an AZPDES permit. The effluent will be sufficient to meet the Class A+ water quality standards and sludge will meet the Class B pathogen reduction requirements as outlined in Title 18 of the AAC. | Section 9.3.3, Effluent Quality & Disposal and 10.0, Regulations pages 35-36 |
| Provide documentation of communication with the Arizona Department of Environmental Quality (ADEQ) Permitting Section 30 to 60 days prior to public hearing regarding the need for specific permits. | Stardust Companies will be responsible for obtaining the necessary permits from the ADEQ for the Town of Buckeye. Plans for the Tartesso East WRF were discussed with ADEQ on February 23, 2006. | Section 10.0, Regulations page 36 |
| Describe pretreatment requirements and method of adherence to requirements (Section 208(b)(2)(D), CWA). | Significant industrial users are not anticipated in the service area outlined. In the event that an industrial user requests to discharge to this system, the ADEQ and the Town of Buckeye will review the industrial process and implement any local limits that may be required. Under no circumstance will an industrial user be permitted to cause a violation of a water quality standard as outlined in AAC Title 18. | Section 9.4, Pretreatment Requirements page 36 |
| Identify, if appropriate, specific pollutants that will be produced from excavations and procedures that will protect ground and surface water quality (Section 208(b)(2)(K) and Section 304, CWA). | Not applicable. | N/A |

| Tartesso East Water Reclamation Facility | | |
|---|---|---|
| **Requirement** | **Summary of Compliance** | **See Page** |
| Describe alternatives and recommendations in the disposition of sludge generated (Section 405 CWA). | It is anticipated that sludge will be treated to meet Class B pathogen reduction requirements and will meet the applicable specifications for the selected final disposition. A valid sludge hauler and sludge disposal permit will be obtained, as necessary. | Section 9.3.2.6, Sludge Treatment page 35 |
| Define any nonpoint issues related to the proposed facility and outline procedures to control them. | Not applicable; nonpoint discharges from the site are not anticipated. | N/A |
| Describe processes to handle all mining runoff, orphan sites and underground pollutants, if applicable. | Not applicable. | N/A |
| If mining related, define where collection of pollutants has occurred, and what procedures are going to be initiated to contain contaminated areas. | Not applicable. | N/A |
| If mining related, define what specialized procedures will be initiated for orphan sites, if applicable. | Not applicable. | N/A |
| **Construction** | | |
| Define construction priorities and time schedules for initiation and completion. | Phase 1 of the Tartesso East WRF is estimated to begin construction in 2009. Assuming a 12-14 month construction period, substantial completion will be achieved in 2010. | Section 11.0, Construction page 36 |
| Identify agencies that will construct, operate and maintain the facilities and otherwise carry out the plan. | Stardust will manage (with oversight from the Town of Buckeye) the construction of the initial phases of the WRF. The Town of Buckeye will own and maintain the WRF at the completion of Phase I construction. | Section 11.0, Construction page 36 |
| Identify construction activity-related sources of pollution and set forth procedures and methods to control, to the extent feasible, such sources. | Pollutants associated with construction activities are anticipated to be limited to solid waste, inert materials, and residual construction materials such as paint and adhesives. Construction activities will abide by all federal and state rules and regulations. Additionally, potential discharges during construction will be managed under a SWPPP through the AZPDES temporary discharge permit. The SWPPP will outline procedures to protect ground and surface water quality. | Sections 10.0, Regulations and 11.0, Construction page 36 |

| Tartesso East Water Reclamation Facility | | |
|---|---|---|
| **Requirement** | **Summary of Compliance** | **See Page** |
| **Financing and Other Measures Necessary to Carry Out the Plan** | | |
| If plan proposes to take over certificated private utility, describe how, and when financing will be managed. | Not applicable. | N/A |
| Describe any significant measure necessary to carry out the plan, e.g., institutional, financial, economic, etc. | The phasing of the WRF expansion will be dependent upon population increases, growing commercial development in the service area and the resultant wastewater flows. The design and construction of the WRF is therefore tied to the success of the development. | Section 12.0, Financing page 37 |
| Describe proposed method(s) of community financing. | Presently, Stardust will finance the construction of the WRF. A community facilities district will be evaluated as a possible financing mechanism. | Section 12.0, Financing page 37 |
| Provide financial information to assure DMA has financial capability to operate and maintain wastewater system over its useful life. | The Town of Buckeye is a municipality and has successfully owned and operated its existing WWTP. | Section 12.0, Financing page 37 |
| Provide a timeline outlining period of time necessary for carrying out plan implementation. | Phase 1 of the Tartesso East WRF is estimated to begin construction in 2009. Assuming a 12-14 month construction period, substantial completion will be achieved in 2010. Subsequent phasing of the facility will be completed as necessary to accommodate wastewater generation for the project. The ultimate planned capacity of the WRF is 9.6 MGD in 2025. | Section 13.0, Implementation page 38 |
| Provide financial information indicating the method and measures necessary to achieve project financing (Section 201 CWA or Section 604 may apply). | Stardust will initially finance the Tartesso East WRF. As discussed previously, a CFD will be evaluated as a possible financing mechanism. In the event a CFD is utilized, it will be an acquisition type CFD, with Stardust fronting the costs until the WRF has been turned over to the Town of Buckeye. | Section 12.0, Financing page 37 |
| **Implementation** | | |
| Describe impacts and implementation requirements of the plan: | | |
| Describe impacts on existing wastewater facilities (e.g. Sanitary Districts, infrastructure/facilities, and certificated areas). | No wastewater infrastructure or facilities exist within the proposed service area. The Town of Buckeye will oversee the operation and maintenance of the plant. | Section 13.0, Implementation page 38 |

| Tartesso East Water Reclamation Facility | | |
|---|---|---|
| **Requirement** | **Summary of Compliance** | **See Page** |
| Describe how and when existing package plants will be connected to a regional system. | Not applicable. | N/A |
| Describe the impact on communities and businesses affected by the plan. | Not applicable. | N/A |
| If a municipal WWT system is proposed, describe how WWT service will be provided until the municipal system is completed: i.e., will package plants and septic systems be allowed and under what circumstances (interim services). | Homes will not be occupied prior to the operational completion and approval of the WRF. Wastewater flow will not be generated until the WRF is operational in either its initial phase, or under a low flow treatment alternative. | Sections 9.3.2, Wastewater Treatment and 13.0, Implementation pages 33 & 38 |
| **Public Participation** | | |
| Submit copy of mailing list used to notify the public of the public hearing on the 208 amendment (40 CFR, Chapter 1, Part 25.5). | All public notifications will be coordinated through MAG. | Section 14.0, Public Participation page 38 |
| List location where documents are available for review at least 30 days before public hearing. | All public notifications will be coordinated through MAG. | Section 14.0, Public Participation page 38 |
| Submit copy of the public notice of the public hearing as well as an official affidavit of publication from the area newspaper. Clearly show the announcement appeared in the newspaper at least 45 days before the hearing. | All public notifications will be coordinated through MAG. | Section 14.0, Public Participation page 38 |
| Submit affidavit of publication for official newspaper publication. | All public notifications will be coordinated through MAG. | Section 14.0, Public Participation page 38 |
| Submit responsiveness summary for public hearing. | All public notifications will be coordinated through MAG. | Section 14.0, Public Participation page 38 |

## 8.0 Authority

In accordance with Section 208 of the CWA, MAG is the designated Regional Water Quality Management Planning Agency for Maricopa County, Arizona. This CWA Section 208 Amendment will incorporate the proposed WRFs for the Anthem at Sun Valley South and Tartesso East developments into the MAG 208 Water Quality Management Plan.

The proposed Tartesso East WRF will be located within the planning area of the Town of Buckeye and will serve an estimated 10,300 acres of residential and commercial development upon its completion. The service area is anticipated to generate approximately 9.6 MGD of flow at the ultimate build-out in 2025–2030. The increase in population and corresponding wastewater flow generation will necessitate an addition to the existing wastewater collection and treatment system in the Town of Buckeye. The proposed Tartesso East WRF will accommodate these needs. The treated effluent from this facility will be used for recharge, possible golf courses and/or lakes, and/or reused in other ways. An AZPDES permit will also be pursued for emergency discharges from the WRF. The receiving stream of the AZDPES discharge will be an unnamed wash. The flow from this wash is retained in FRS No. 1 on the north side of Interstate 10. The FRS is operated and maintained by the FCDMC. This FRS is designed to retain flows from approximately the 100-year storm event; beyond this storm event, flow would discharge from the FRS into the Hassayampa River. Figure 2 depicts the AZPDES discharge point for the Tartesso East WRF. Figure 6 depicts the layout of the drainage area in the vicinity of the project.

## 9.0 20-Year Needs

### 9.1 Existing Facilities

The Town of Buckeye operates a WWTP that serves a portion of the Buckeye planning area generally south of Interstate 10 and east of State Route 85. Additionally, the Lewis Prison Complex has a WWTP that is designed to serve the needs of the prison complex. The Sundance and Verrado developments have constructed new WWTPs that will serve their respective areas. MAG has approved 208 Plan Amendments for the Tartesso West WRF, Festival Ranch WRF, and Palo Verde Road WRF within the Town of Buckeye. These proposed developments have planned WRFs to serve limited areas. Phase 1 of the Tartesso West WRF is now under construction. Additionally, the Trillium West development has submitted a 208 Plan Amendment for approval of their WWTP. Figure 1 contains an exhibit showing the location of the various existing or approved WWTPs within the Town of Buckeye MPA.

The existing and planned WRFs within the Town's MPA do not address the service area of the proposed Tartesso East facility. No private utilities and/or sanitary districts serve the area of the proposed Tartesso East WRF. Figure 3 overlays the service area boundary for the Tartesso East WRF with the documented CC&N boundaries from the Arizona Corporation Commission for private utilities. Limited portions of the project area are included within private water company service areas, but no sewer service provider is documented. The proposed service area for the Tartesso East WRF does not overlap the service area for the private utility which serves Verrado.

## 9.2 Proposed Water Reclamation Facility

### 9.2.1 Site Location and Property Ownership

The Tartesso East WRF is proposed within the south half of Section 10, Township 1 North, Range 4 West of the Gila and Salt River Baseline and Meridian. The project will be located west of the White Tank Mountains in the Town of Buckeye in Maricopa County, Arizona. The proposed service area includes the Tartesso master-planned community (as amended), a portion of the Sun Valley South master planned community, and other surrounding properties as depicted in Figure 1. The proposed service area is within the existing Buckeye Municipal Planning Area boundary.

Currently, a portion of the proposed service area is owned by Stardust Foundation, Inc., a non-profit foundation that is not affiliated with Stardust Companies. Stardust Companies owns the remainder of the property, except the surrounding property owned by others.

### 9.2.2 Population Projections

According to the *Interim Projection of Population, Housing and Employment by Municipal Planning Area and Regional Analysis Zone* prepared by MAG (2003), the Buckeye MPA will experience the population growth projected in Table 5. Additionally, the Town of Buckeye is divided into Regional Analysis Zones for a more detailed view of population projections. The ASVS and Tartesso East developments are included in RAZ 340, and the projections for growth in this area are also presented in Table 5.

**TABLE 5**
**POPULATION PROJECTIONS BY YEAR**

| | 2000 | 2010 | 2020 | 2025 | 2030 |
|---|---|---|---|---|---|
| Buckeye MPA | 16,700 | 58,600 | 153,400 | 275,500 | 380,600 |
| RAZ 340 | 23 | 6,641 | 28,546 | 51,370 | 71,602 |

The Tartesso East master-planned community will incorporate residential, commercial and mixed-use land uses, with associated open space, schools, etc. The WRF is planned in the southern portion of the community, north of I-10 and adjacent to the more intense mixed-use parcels. Given the proposed development and other developments in the project vicinity, population projections listed in Table 5 may be accelerated. Table 6 shows the projected population for the proposed Tartesso East WRF service area based on the proposed developments.

| TABLE 6<br>TARTESSO EAST POPULATION PROJECTIONS | | | | | | | |
|---|---|---|---|---|---|---|---|
| Property | Land Use | Area (acres) | Proposed Density (du/ac) | Dwelling Units | Persons per du | Total Population | Average Day Flow (MGD) |
| Tartesso | High Density Residential | 116.5 | 25.0 | 2,912 | 2 | 5,894 | 0.589 |
| Tartesso | Medium High Density Residential | 460.4 | 10.0 | 4,604 | 2 | 9,208 | 0.921 |
| Tartesso | Medium Density Residential | 2201.1 | 4.6 | 10,276 | 3.2 | 32,883 | 3.288 |
| Tartesso | Low Density Residential | 548.3 | 2.0 | 1,097 | 3.2 | 3,510 | 0.351 |
| Tartesso | Mixed Use—Residential (10% High Density) | 24.2 | 25.0 | 606 | 2 | 1,212 | 0.121 |
| Tartesso | Mixed Use--Commercial (3000 gpad) | 218.1 | | | | | 0.654 |
| Tartesso | Commercial (3000 gpad) | 110.4 | | | | | 0.331 |
| Tartesso | High School (x2) | 87.3 | | | | | 0.150 |
| Tartesso | Elementary School (x9) | 99.7 | | | | | 0.180 |
| Tartesso | Open Space/Parks/Other | 1502.9 | | | | | |
| Tartesso | Rights-of-Way | 411.2 | | | | | |
| **Tartesso Subtotal** | | **5780.1** | | **19,495** | | **52,707** | **6.585** |
| 1121 | Low Density Residential | 1121.2 | 2.0 | 2,242 | 3.2 | 7,174 | 0.717 |
| **1121 Subtotal** | | **1121.2** | | **2,242** | | **7,174** | **0.717** |
| Offsite Properties | Low Density Residential | 3390.0 | 2.0 | 6,780 | 3.2 | 21,696 | 2.170 |
| **Offsite Properties Subtotal** | | **3390.0** | | **6,780** | | **21,696** | **2.170** |
| **TOTAL** | | **10,291.3** | | **28,517** | | **81,577** | **9.472** |

†On-site refers to the property owned by: (i) Stardust Foundation, Inc., a non-profit foundation that is not affiliated with Stardust Companies; and (ii) Stardust Companies. Off-site refers to the property owned by others, but proposed to be served by this WRF.
‡Tartesso subtotal excludes school populations.

### 9.2.3 Flow Generation

The service area for the Tartesso East WRF provides a sewer solution for approximately 10,300 acres. Figure 2 illustrates the service area. The projected populations for these areas and the corresponding wastewater flow generation rates are listed in Table 6. At build-out in 2025–2030, these developments are anticipated to generate an average day flow of 9.6 MGD.

The projected population was calculated using 3.2 persons per dwelling unit for densities of less than or equal to 5 du/ac, and 2.0 person per dwelling unit for densities greater than 5 du/ac. The unit flow rate of 100 gpcd was used for residential parcels to calculate the average daily flow.

The average daily flow for commercial parcels assumes a wastewater generation rate of 3,000 gpad. It was assumed that the high schools and elementary schools will have 3,000 and 800 students per school, respectively. A unit flow rate of 25 gallons per student per day was used to calculate the average daily flow for the school sites.

## 9.3 Wastewater Collection, Treatment and Reuse

The projected population increase and corresponding wastewater flow anticipated by the development within the service area of the proposed WRF produce a need to expand the Town of Buckeye's existing wastewater treatment system. To this end, a new WRF is proposed to service the area. The proposed WRF will have an estimated capacity at build-out of 9.6 MGD and will provide effluent of sufficient quality to meet the appropriate regulations for reuse and/or discharge.

The wastewater generated by these developments will be treated and used for recharge, possible golf courses, and/or lakes. In emergency situations, the effluent may be discharged to an ephemeral wash under an AZPDES Permit. The receiving stream of the AZDPES discharge will be an unnamed wash. The flow from this wash is retained in FRS No. 1 on the north side of Interstate 10. The FRS is operated and maintained by the FCDMC. This FRS is designed to retain flows from approximately the 100-year storm event; beyond this storm event, flow would discharge from the FRS into the Hassayampa River. Figure 2 depicts the AZPDES discharge point for the Tartesso East WRF.

### 9.3.1 Wastewater Collection

The proposed service area will be connected to the WRF through a series of gravity interceptor and collector sewers. Lift stations may be utilized to serve parts of the service area where needed due to topographic conditions. Pipe systems will be designed in accordance with Town of Buckeye standards, and as agreed in the Wastewater Master Plan.

### 9.3.2 Wastewater Treatment

The recommended WRF will be a multi-phase SBR with the capability to transition to a Modified Ludzack Ettinger (MLE) process consisting of the following unit processes and other elements:

- Influent wet well and lift station including flow metering
- Fine screening
- Grit removal
- Secondary treatment with biological nitrogen removal
- Secondary equalization/clarification
- Tertiary filtration
- Ultraviolet disinfection
- Nitrification and denitrification
- Effluent pump station including flow metering
- Standby generator
- Laboratory and control building
- Effluent recharge/reuse
- Sludge treatment

The initial capacity of the plant will be 1.2 MGD, representing the average day of the maximum month flow, assuming a peaking factor of 1.25. Hydraulically, the Phase I WRF will accommodate the peak flow rate anticipated at the facility. Further phasing is anticipated in approximately 1.2 or 2.4 MGD increments. Facility sizing and phasing is designed to be both modular and flexible depending on the population growth rate within the service area. A

preliminary layout for the WRF site in the ultimate configurations is presented in Figure 5. The more detailed layout and phasing plan will be presented to the Town of Buckeye and MCESD once design of the plant proceeds. Design of subsequent phases will begin when the WRF reaches 70% of its design capacity. Construction of the subsequent phases will commence when the WRF reaches 80% of its designated capacity.

Phase I of the Tartesso East WRF is expected to commence construction in 2009 and be substantially complete in 2010. The Phase I facility will be designed to treat wastewater generated from the start-up of the facility, coincidental with the occupancy of the first dwelling units. Low flow treatment operations may include modification of the wet well for extended aeration and/or provisions for temporary equipment. In the event that the plant design and construction cannot accommodate low flow treatment, wastewater may be collected and transported to another facility for treatment (vault and haul scenario). If this alternative is employed, then the necessary capacity agreement will be obtained from the intended destination. At 320 gpd/du, an initial 20,000 gpd vault and haul scenario would serve approximately 50 homes in the maximum flow month. Therefore, the Phase I facilities must be operational in the same timeframe.

The WRF will be designed to comply with the setback requirements listed in AAC R18-9-B201 for sewage treatment facilities with full noise and odor control.

#### 9.3.2.1 Preliminary Treatment

Preliminary treatment for the WRF will include screens to remove the coarse solids and wash, compact and dewater the captured screenings. Solids will be macerated, spray washed, compacted and dewatered. Dewatered screenings will be properly disposed at an approved landfill.

Phase I of the plant may not need grit removal. If so, considerations for grit removal in later phases will be addressed in the site plan.

#### 9.3.2.2 Biological Treatment

The Tartesso East WRF may use a SBR configuration for early phases of the treatment plant design and construction to optimize the wastewater loading and treatment alternatives. Using the concept of activated sludge treatment via SBRs, the Phase I facility may utilize multiple tanks with the influent flow distributed among them by motorized influent control valves. The SBR facilities may employ positive displacement aeration blowers, air piping and fine bubble tube-type diffusers, floating misers, motorized influent and air control valves, effluent decanting mechanisms, and waste sludge pumps. Process design for this WRF has not been initiated, but will be coordinated with the MCESD and Town of Buckeye, as required.

Two SBR basins would be provided under the Phase I scenario. If one of the SBR basins needs to be removed from service for maintenance, the remaining basin can be used to meet the treatment requirements. Under this mode of operation, the sludge holding basing would be utilized as a pre-equalization basin to receive the incoming wastewater flows when the single SBR basin is operating in its decant and settle phases.

When the plant capacity is expanded above approximately 5 MGD, the treatment train would be converted to the MLE process. The MLE process uses an anoxic-aerobic operating sequence for biological nitrogen removal. An internal recycle feeds nitrate to the anoxic zone. The treatment facilities proposed for this WRF may include the anoxic tanks, aeration blowers, mixing and recycle pumps, influent and air control valves, and return activated sludge and waste sludge pumps. Basins constructed for SBR treatment would be designed for conversion into the MLE treatment train.

#### 9.3.2.3 Tertiary Treatment

The secondary treated wastewater will be discharged from the equalization basin to a tertiary filtration system with redundant capacity. A chemical feed and containment area would be provided for the purpose of adding polymer to promote flocculation. Polymer will be used to promote flocculation of the solids remaining in the clarified effluent. The polymer feed system will consist of a polymer-blending unit that will inject polymer upstream of the disc filter system. Sufficient detention time will be provided in the pipe to promote flocculation, thereby meeting the Class A+ water quality requirements (AAC Title 18, Chapter 11, Article 3).

#### 9.3.2.4 Disinfection

The filtered effluent will be treated with UV radiation to disinfect the water for reuse and recharge. The UV system will disinfect the water to the standards required by AAC Title 18, Chapter 11, Article 3 for Class A+ effluent. An effluent pump station will transmit the treated water to the recharge facility, possible golf courses and/or possible lakes.

#### 9.3.2.5 Odor and Noise Control

For all phases of the proposed WRF, odor control facilities will be provided to treat off-gases from the influent pump station, screenings facility, SBRs and treatment basins, sludge holding tanks and solids handling facility. Basins will be covered to reduce emissions, and the ventilation system will provide a negative pressure to draw off gases from the reactors and be directed to an odor control scrubbing system.

#### 9.3.2.6 Sludge Treatment

Biosolids produced by the Tartesso East WRF will be of a sufficient quality to meet the applicable requirements for the selected final disposition. At a minimum, the sludge will be treated to meet the Class B sludge quality requirements a licensed sludge hauler and sludge disposal permit will be obtained as necessary.

### 9.3.3 Effluent Quality and Disposal

The effluent will be used for recharge, possible golf courses and/or lakes. These proposed uses will provide groundwater recharge and reduce the amount of demand on the groundwater. The reclaimed water to be directly reused will comply with the applicable requirements and standards listed in the Reclaimed Wastewater Reuse Permit, AAC Title 18, Chapter 9. Design and approval of reuse sites will need to be completed before Approval of Construction of the WRF is granted. The AZDPES discharge point will be an unnamed wash. The flow from this wash is retained in FRS No. 1 on the north side of Interstate 10. The FRS is operated and

maintained by the FCDMC. This FRS is designed to retain flows from approximately the 100-year storm event; beyond this storm event, flow would discharge from the FRS into the Hassayampa River. Figure 2 depicts the AZPDES discharge point for the Tartesso East WRF.

### *9.4 Pretreatment Requirements*

Industrial sites and/or uses are not anticipated within the proposed service area for the Tartesso East WRF. Correspondingly, no pretreatment program is necessary at this time, in accordance with 40 CFR 403.8. In the event that an industrial user should apply to discharge to the system, the Town of Buckeye would review the processes involved and establish guidelines to govern the waste discharges from the site in concert with the ADEQ. The Town of Buckeye is in the process of developing a pretreatment program.

## 10.0 Regulations

Stardust Companies will be responsible for obtaining the necessary permits from the MCESD, MCAQD, the Town of Buckeye, ADEQ and ADWR. Plans for the Tartesso East WRF were discussed with ADEQ on February 23, 2006. A partial listing of required permits and approvals is displayed in Table 7.

**TABLE 7**
**ANTICIPATED PERMIT REQUIREMENTS**

| Requirement | Regulatory Agency |
|---|---|
| Approval to Construct | MCESD |
| Approval of Construction | MCESD |
| Aquifer Protection Permit | ADEQ |
| Underground Storage Facility and Water Storage Permits | ADWR/ADEQ |
| Reclaimed Wastewater Reuse Permit | ADEQ |
| Arizona Pollutant Discharge Elimination (AZPDES) Permit | ADEQ |
| Site Plan Approval | Town of Buckeye |
| Air Quality Permit | MCAQD |
| Hazardous Materials Management Plan | Town of Buckeye |
| Grading and Drainage Permit | Town of Buckeye |
| Architectural Approval | Town of Buckeye |
| Building Permit | Town of Buckeye |
| Certificate of Occupancy | Town of Buckeye |

Storm water discharges during construction will be managed in accordance with Best Management Practices as outlined in a SWPPP under a Construction AZPDES permit.

Following construction, site storm water discharges will also be managed under an AZPDES permit and SWPPP.

## 11.0 Construction

Stardust Companies will be responsible for the design and construction of the Tartesso East WRF. Stardust Companies will also obtain the necessary permits for the construction and operation of the facility. Upon completion of construction, the plant ownership, operation and maintenance will be turned over to the Town.

Phase I of the Tartesso East WRF is expected to commence construction in 2009 and be substantially complete in 2010. Phasing of the plant will correspond to the anticipated development growth, and is projected as follows:

**TABLE 8**
**TARTESSO EAST WRF PLANT PHASING**

| Phase | Year | Projected Population | Total WRF Capacity*, MGD |
|---|---|---|---|
| I | 2009 | 12,000 | 1.2 |
| II | 2013 | 24,000 | 2.4 |
| III | 2017 | 48,000 | 4.8 |
| IV | 2021 | 60,000 | 6.0 |
| V | 2024 | 72,000 | 7.2 |
| VI | 2028 | 82,000 | 9.6 |

Note:
* Reflects the average day maximum month flow rate, including a peaking factor of 1.25.

Construction of the WRF is not anticipated to have the potential to generate significant pollutants. Fugitive dust, construction related solid waste, inert materials and residual construction materials (such as paint, adhesives and fuels) will be managed appropriately in accordance with a temporary construction general AZPDES permit and Best Management Practices, as outlined in a SWPPP. Wastes generated during construction will be properly managed and disposed in permitted facilities, as needed.

## 12.0 Financing

Stardust Companies will be responsible for financing the project. Further expansion of the WRF will be financed by the Town of Buckeye in conjunction with other developers.

Stardust Companies will provide the initial capital investment needed for the design and construction of the WRF. Stardust Companies may pursue establishing a CFD in partnership with the Town of Buckeye as a possible financing mechanism for construction of the WRF. In this scenario, Stardust Companies would enter into a Development Agreement with the Town for creation of a CFD. General Obligation bonds would be sold, and the proceeds would be used for funding of the WRF. As establishment of the CFD and bond sales would likely not be completed prior to the anticipated completion of construction of Phase I of the WRF (2009), it would be completed as an acquisition project. As soon as possible after bond sale and delivery, Stardust Companies would provide project price documentation in accordance with the Development Agreement. Once that information is determined to be complete, Stardust Companies would be compensated for the project price. Future phases of the WRF may be completed as construction projects under the established CFD, and therefore contracted project costs would be paid directly from the CFD fund.

Upon completion, the plant ownership will be transferred to the Town of Buckeye. The Town will oversee the operation and maintenance of the plant. The Town may opt to publicly bid the operation services or may hire qualified and licensed operators directly. User fees will be collected by the Town of Buckeye to fund the operation and maintenance of the WRF over the life of the facility. Further expansion of the WRF will be financed by the Town of Buckeye in conjunction with other developers.

## 13.0 Implementation

Phase I of the Tartesso East WRF is scheduled to commence in 2009 and expected to be substantially complete in 2010. Phase I will have an anticipated capacity of 1.2 MGD to meet the average day flow of the maximum month (considering a peaking factor of 1.25). A detailed start up plan will be developed for the facility during the design phase and may include the options for the treatment of low flows as discussed in Section 9.3.2. Subsequent expansions to the WRF will be dependant upon the rate of population increase within the proposed service area and the resultant wastewater flow rates. The final build-out capacity will not exceed 9.6 MGD, and is anticipated in 2025–2030.

The proposed WRF is not anticipated to impact the operation of any adjacent municipalities, businesses, communities, sanitary districts or private service providers with certificated areas. A map of the private utility service areas from the Arizona Corporation Commission within the project vicinity is provided in Figure 3. The effluent from the WRF will be used primarily for recharge, possible golf courses and/or lakes, thereby reducing the demand for surface and/or groundwater. The high quality effluent will have very little organic content, and will therefore be unlikely to produce odors or encourage vectors.

A letter of no objection is required from Maricopa County for this 208 Plan Amendment (Appendix B2) because the proposed development will be located within three miles of County lands. The development, proposed service area and plant location are entirely within the Town of Buckeye MPA.

Stardust Companies will manage the construction of the WRF and the Town will maintain the plant. The design and approval of reuse sites will need to be completed before Approval of Construction of the WRF is granted.

## 14.0 Public Participation

MAG and the Town of Buckeye will follow the applicable procedures for public notification in processing this 208 Plan amendment, including:

1. Submittal of a mailing list used to notify the public of the hearing on this 208 Plan Amendment.
2. Thirty-day public notice of the availability of the documents for review prior to the public hearing.
3. Publication of a public notice posting the date, time, subject and location of the public hearing on this 208 Plan Amendment at least 45 days prior to the public hearing.
4. Submittal of an affidavit of the publication of the public notice.
5. Submittal of a responsiveness summary for the public hearing.

## 15.0 References


Carollo Engineers. *208 Water Quality Management Plan Update, Maricopa Association of Governments.* October 2002, Phoenix, Arizona.

CMX, LLC. *Reclaimed Water Master Plan for Village 3 of Sun Valley South.* 2005. Phoenix, Arizona.

CMX, LLC. *Wastewater Master Plan for Village 3 of Sun Valley South and Planning Unit 1 of Anthem at Sun Valley South.* 2005. Phoenix, Arizona.

Coe and Van Loo Consultants Inc. Clean Water Act Plan 208 Amendment for the Town of Buckeye, Festival Ranch Water Reclamation Facility. June 2003, Phoenix, Arizona.

Maricopa Association of Governments. *Interim Projections of Population, Housing and Employment by Municipal Planning Area and Regional Analysis Zone.* July 2003, Phoenix, Arizona.

Pacific Advanced Civil Engineers. *Clean Water Act 208 Amendment Application for the Tartesso Water Reclamation Facility and Town of Buckeye.* May 2003, Phoenix, Arizona.

RBF Consulting. *MAG 208 Water Quality Management Plan Amendment Application for the Palo Verde Road Wastewater Treatment Plant.* May 2004, Phoenix, Arizona.

# Appendix A

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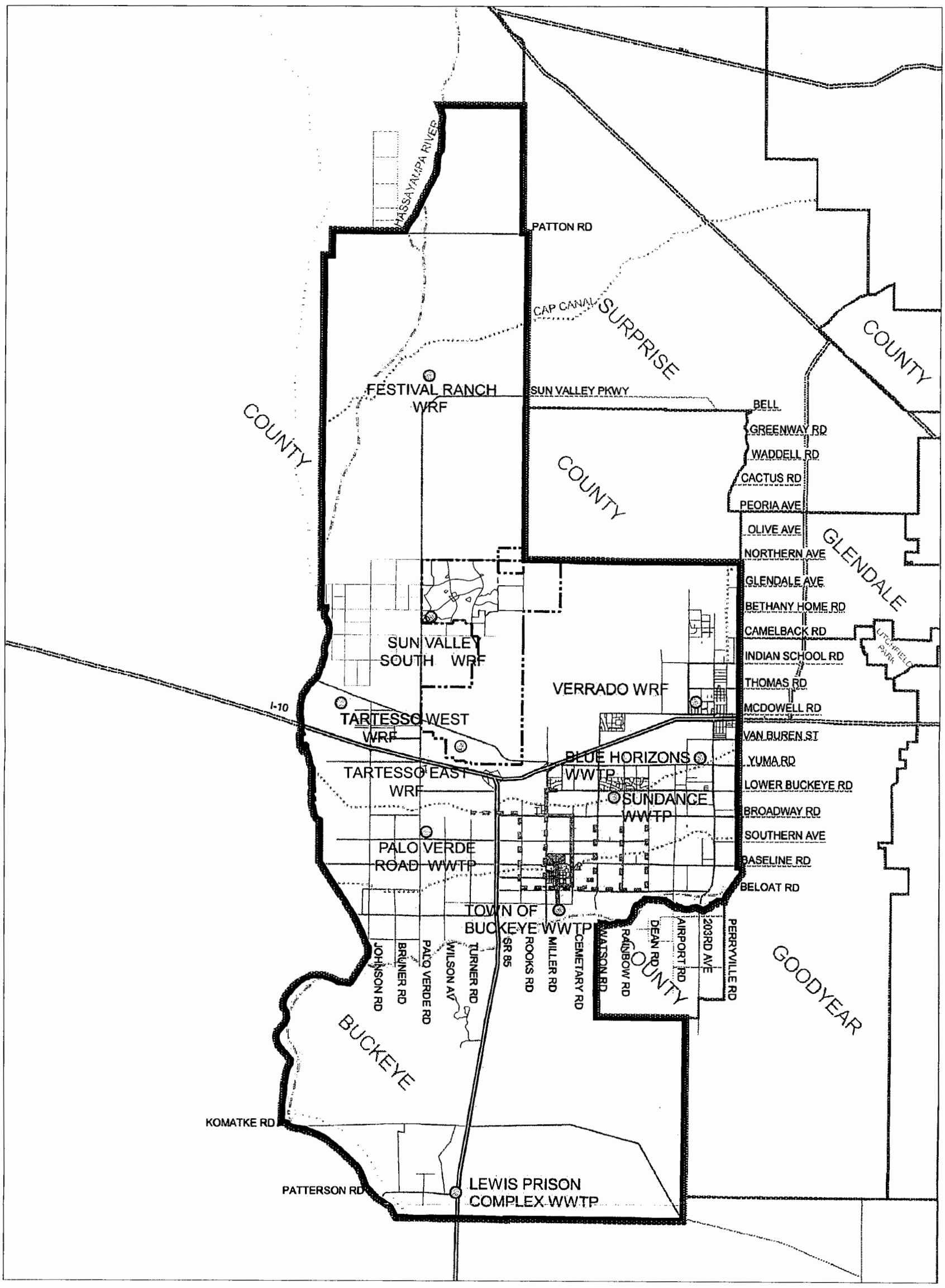


LEGEND

- Proposed Service Area Boundary
- Wastewater Treatment Plant Location
- Buckeye Municipal Planning Area Boundary

N

Figure 1

| DWG. NO. | CMX PROJ: 6359.62 | DATE: OCT. 2005 | SCALE: N.T.S. |
|---|---|---|---|
| 1 | DESIGNED: CMX | DRAWN: TD | APPROVED: SAL |
| SHT. 1 OF 1 | REV. | | |

**ANTHEM AT SUN VALLEY SOUTH & TARTESSO EAST 208 PLAN**

BUCKEYE, ARIZONA

FIGURE 1 : MUNICIPAL PLANNING AREA AND WASTEWATER TREATMENT FACILITIES

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PHONE: (602) 567-1900
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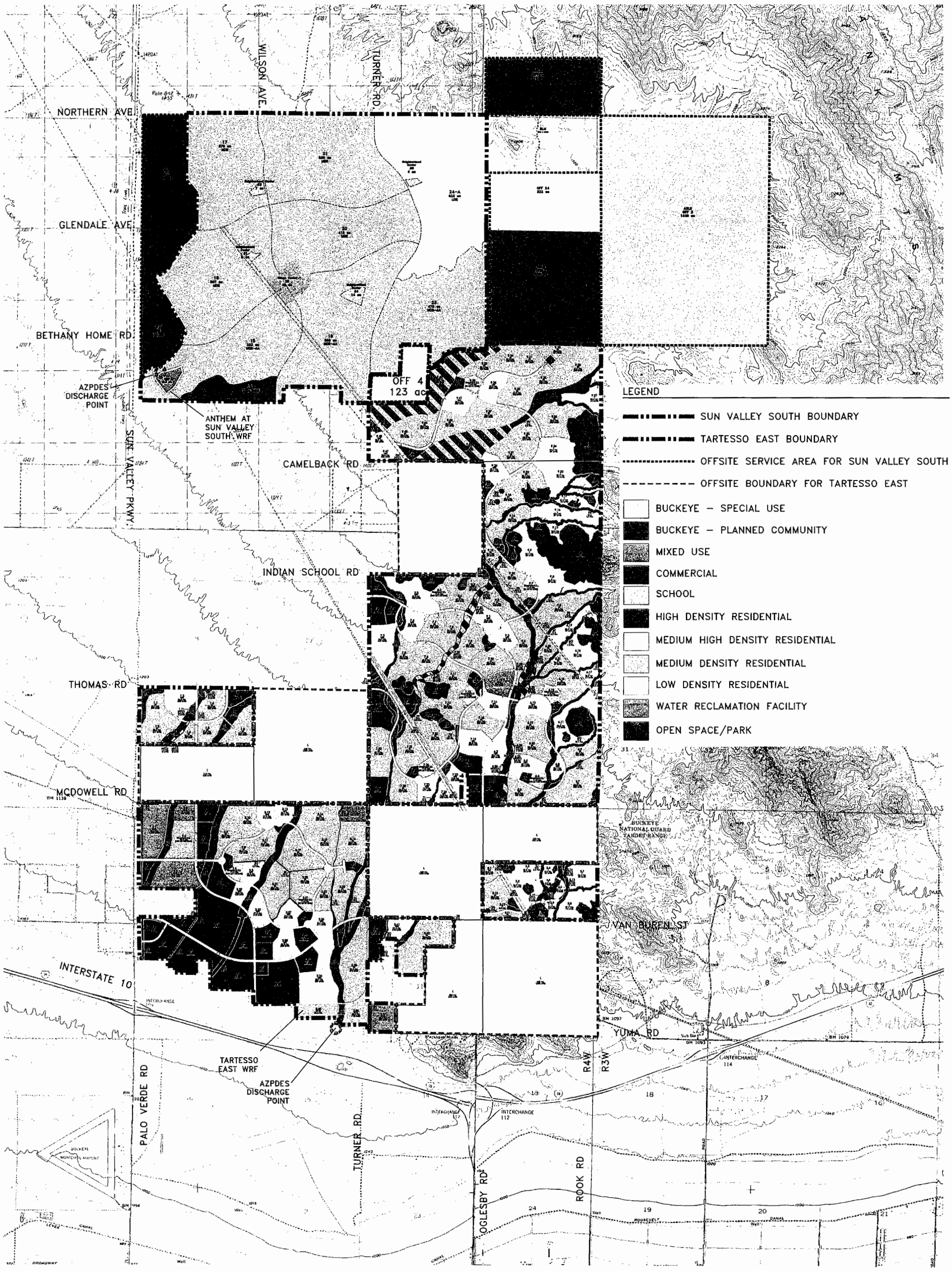
www.cmxinc.com

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| | DESIGNED: SMG | DRAWN: DD | APPROVED: SAL |
| | REV. | | |
| SHT. 1 OF 1 | | | |

**ANTHEM AT SUN VALLEY SOUTH & TARTESSO EAST 208 PLAN**

BUCKEYE, ARIZONA

FIGURE 2: PROPOSED WRF SERVICE AREAS

CMX
7740 N. 16TH ST. STE. 100
PHOENIX, AZ 85020
PHONE: (602) 567-1900
FAX: (602) 567-1901
www.cmxinc.com
ENGINEERS • PLANNERS • LANDSCAPE ARCHITECTS • SURVEYORS • CONSTRUCTION MANAGERS

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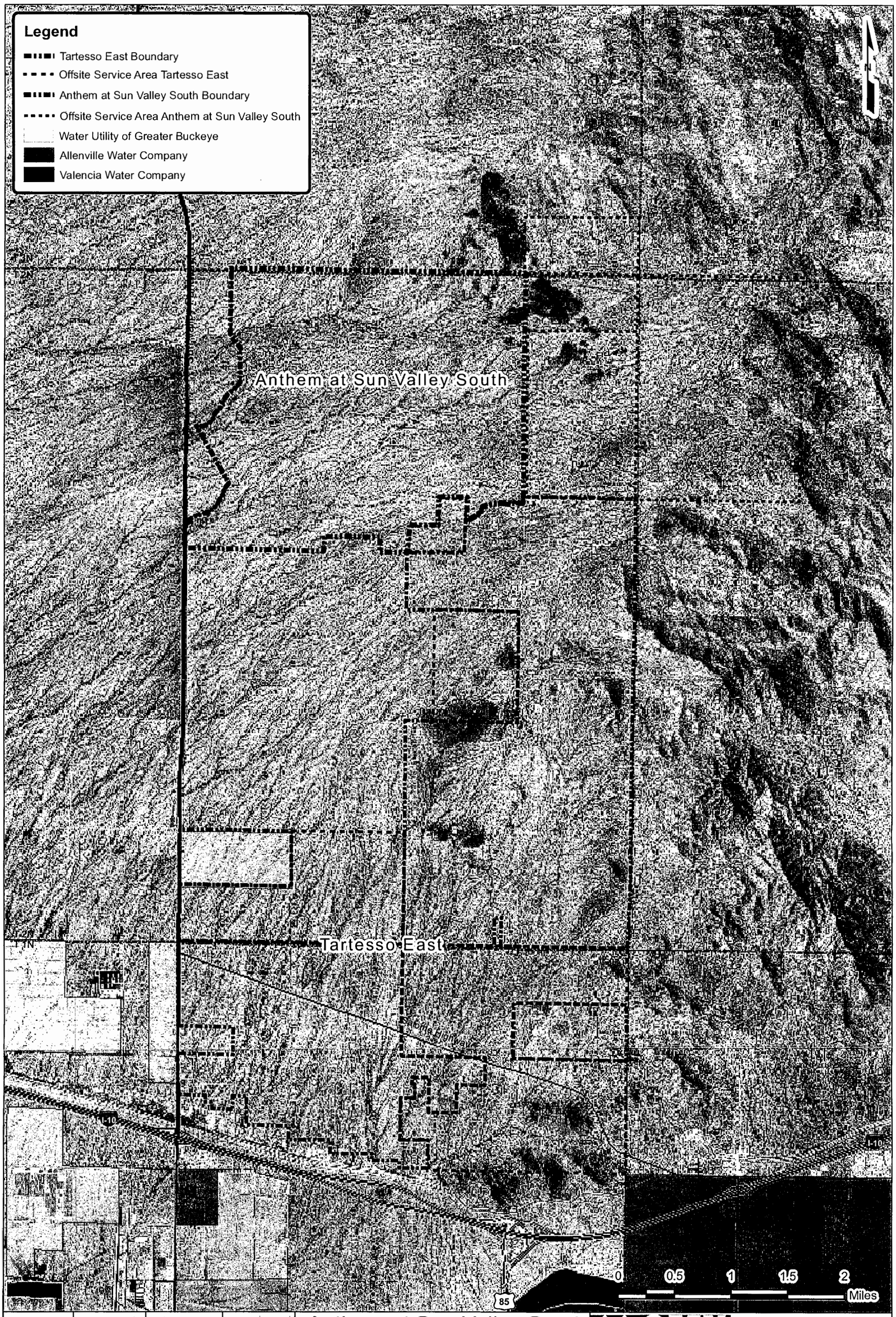


3

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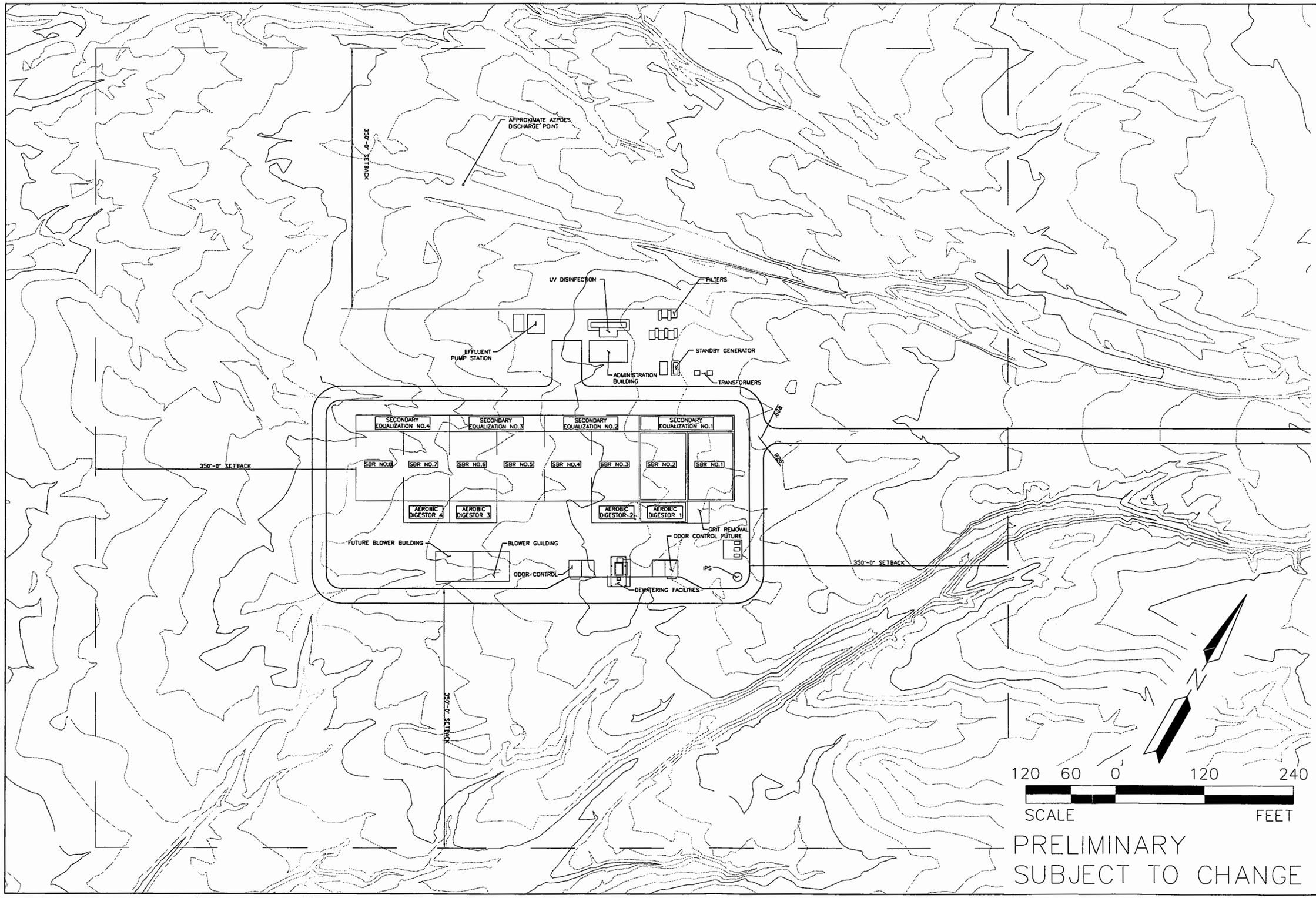
**Anthem at Sun Valley South and Tartesso East 208 Plan**

Buckeye, Arizona

**Private Utility Service Areas (CC&N)**

CMX

ENGINEERS - PLANNERS - LANDSCAPE - ARCHITECTS - SURVEYORS - CONSTRUCTION MANAGERS




7740 N. 16TH ST. STE.100
PHOENIX, AZ 85020
PH (602) 567-1900
FAX (602) 567-1901
www.cmxinc.com

ANTHEM AT SUN VALLEY SOUTH

BUCKEYE, AZ

**WATER RECLAMATION FACILITY PRELIMINARY LAYOUT**

| | |
|---|---|
| CMX PROJ: | 7262 |
| DATE: | NOV. 2005 |
| SCALE: | 1"=120' |
| DRAWN BY: | RCB |
| CHECKED BY: | SAL |

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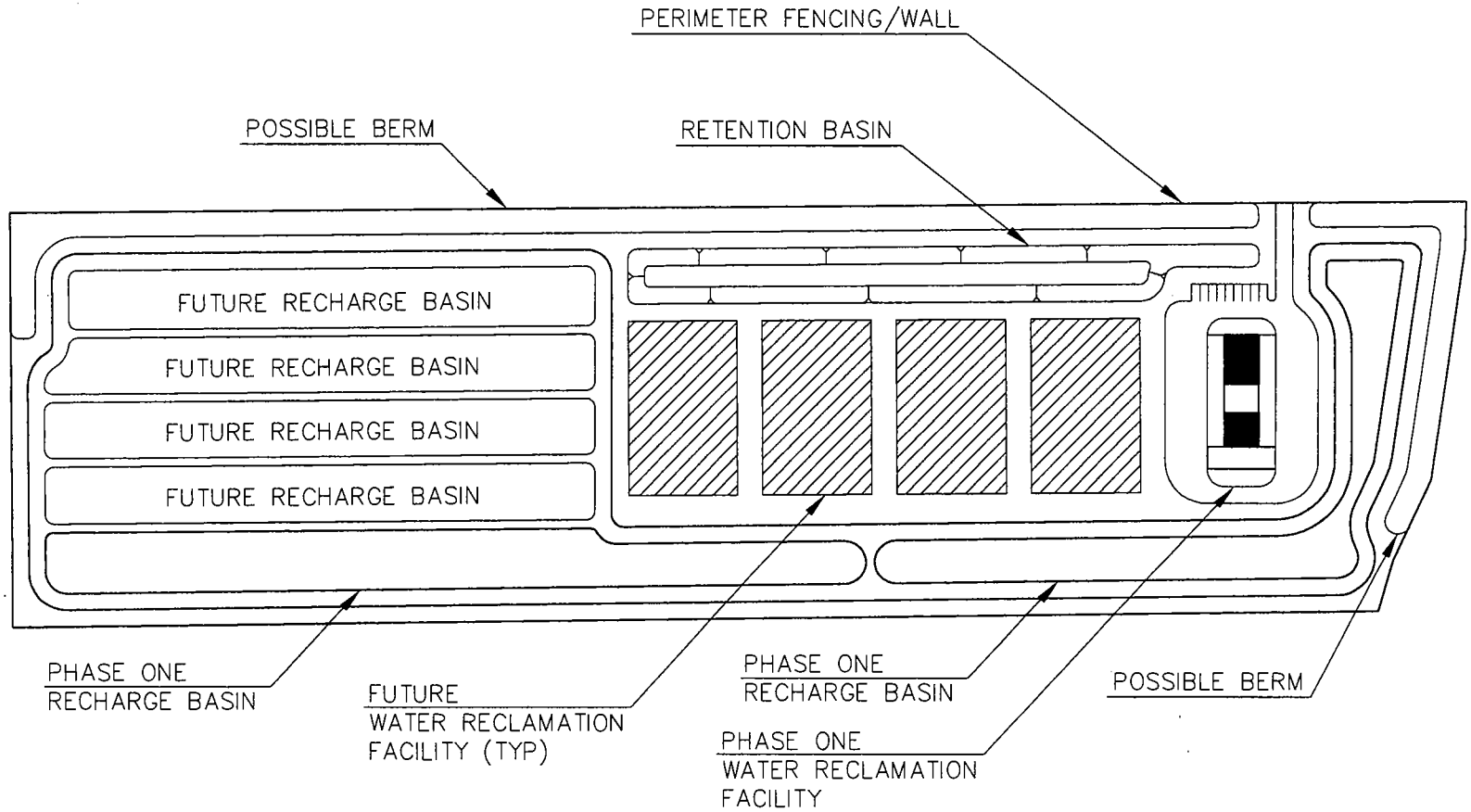


DRAWN BY: ROF

CHECKED BY: WDR

DATE: 11/05

DAVID EVANS AND ASSOCIATES INC.
2141 East Highland Avenue, Suite 200
Phoenix Arizona 85016
Phone: 602.678.5151

# TARTESSO EAST WATER RECLAMATION FACILITY SITE EXHIBIT

SCALE: 1"=200'

SHEET 1 OF 1

JOB NO.: STAR0112

N:\S\Star0000-0119\Engineering\STAR0119-2\WW\Tartesso East Amendment #1-MAG\WRF Phase.dwg ROF Nov 01, 2005 4:12:04pm

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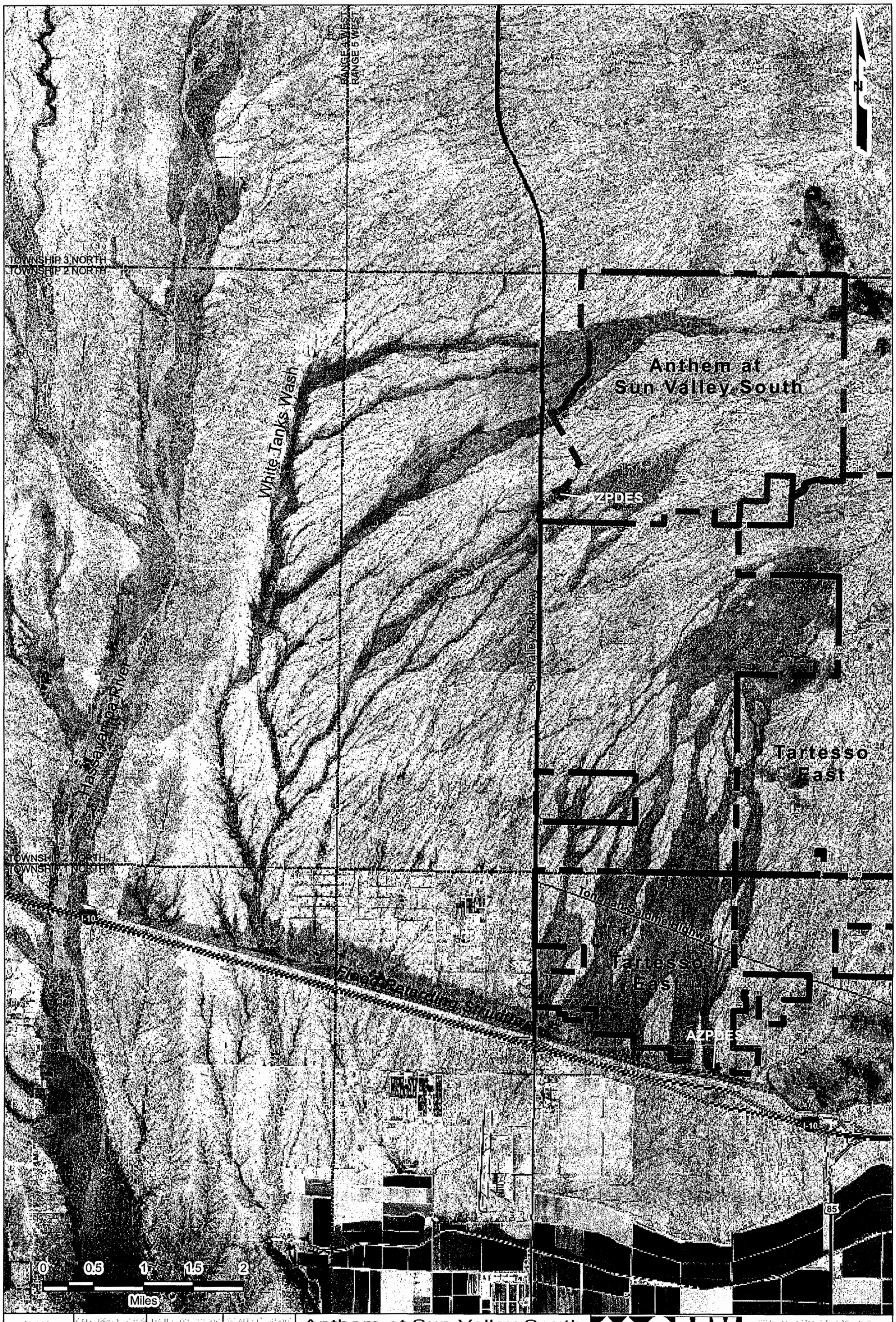


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| | DESIGNED: CAL | DRAWN: RHM | APPROVED: CAL |
| | NO. | | |

**Anthem at Sun Valley South**
**Tartesso East**
Buckeye, Arizona

AZPDES Discharge and Drainage Corridor

CMX
ENGINEERS - PLANNERS - LANDSCAPE - ARCHITECTS - SURVEYORS - CONSTRUCTION MANAGERS

X:\63006359-62\Water Resources\W-GIS\MXDs\208Plan.mxd

# Appendix B

# B1: Letter from Town of Buckeye to MAG

TOWN OF BUCKEYE

August 17, 2005

Ms. Julie Hoffman
Maricopa Association of Governments
302 North 1st Avenue, Suite 300
Phoenix, Arizona 85003

**Subject:** **SUN VALLEY SOUTH AND TARTESSO EAST MAG 208 AMENDMENT – BUCKEYE, ARIZONA**

Dear Ms. Hoffman:

The Town of Buckeye is submitting a 208 Amendment for the Buckeye Planning Area. In accordance with the MAG 208 Water Quality Management Plan, we are officially requesting that you initiate the amendment process to consider incorporating the proposed Water Reclamation Facilities for Sun Valley South and Tartesso East into the Water Quality Management Plan for the Buckeye Planning Area.

We look forward to working with you and appreciate your assistance to facilitate the MAG approval process for this 208 Amendment.

Sincerely,
Town of Buckeye

C. Lucky Roberts
Environmental/Regulatory Manager

Enclosures

Cc: Josh Hartmann, Pulte Homes Corporation
Bob Speirs, Stardust Development
Carroll E. Reynolds, Town Manager

100 North Apache• Buckeye, Arizona 85326• (623) 386-4691• FAX (623) 386-7832

# B2: MCESD – Letter of No Objection

# Maricopa County

Environmental Services
Water and Waste Management Division

1001 N. Central Ave., Suite 150
Phoenix, AZ 85004
Phone: (602) 506-6666
Fax: (602) 506-6925
TDD: 602 506 6704
www.maricopa.gov/envsvc


January 31, 2006

Maricopa Association of Governments
302 North 1st Avenue, Suite 300
Phoenix, AZ 85003

Attention: Ms. Lindy Bauer, Environmental Program Coordinator

Re: Anthem at Sun Valley South and Tartesso East Water Reclamation Facilities
**Clean Water Act, MAG 208 Amendment**

Dear Ms. Bauer:

CMX, LLC, has submitted a proposed 208 Amendment for the Anthem at Sun Valley South and Tartesso East Water Reclamation Facilities, third submittal, December 2005, to Maricopa County Environmental Services Department (Department). The Anthem at Sun Valley South facility is located in the northwest quadrant of Sec 16, T2N, R4W, and the Tartesso East facility is located in the south half of Section 10, T1N, R4W. The service areas of the two facilities are surrounded by developments that have already received MAG 208 approval (i.e. Tartesso West, Festival Ranch, Palo Verde Road).

The two facilities are located in the Town of Buckeye Municipal Planning Area. The document was submitted to the Department because it is located within three miles of unincorporated areas of Maricopa County.

The Anthem at Sun Valley South facility, to be built by Pulte, is planned to handle wastewater flows up to 4.5 MGD at buildout. The Tartesso East facility, to be built by Stardust, is planned to handle wastewater flows up to 9.6 MGD at buildout. Two separate plants are proposed because the Anthem at Sun Valley South development is scheduled to begin construction approximately three years before the Tartesso East development. However, an additional 28.5 acres of land will be reserved at the Tartesso East WRF location in the event the Town elects to make the Tartesso East WRF a regional facility with a total ultimate capacity of up to 14.1 million gallons per day.

Based on a review of the proposed 208 MAG 208 Amendment, dated 29 September 2005, the Department has determined that the proposed plant does not conflict with Maricopa County plans for the area.

Please note that the Department has not reviewed, nor approved, the design of the facilities as part of the 208 review. Any technical issues that remain will need to be resolved during the design phase of the project. Approval to Construct (ATC) and Approval of Construction (AOC) must be obtained from this Department prior to start of construction and startup, respectively, of all treatment, discharge, recharge, and reuse facilities, including all conveyance facilities and final end user facilities.

If you have any questions or comments, please feel free to contact Mr. Kenneth James, PE, or myself at 506-6666.

Sincerely,

Kenneth R. James P.E. for

Dale Bodiya, P.E.
Acting Manager, Water and Waste Management Division

cc: C. Lucky Roberts, Environmental/Regulatory Manager, Town of Buckeye
100 N. Apache, Buckeye, AZ 85326
Sheila Logan, CMX, LLC, 7740 N. 16th Street, Suite 100, Phoenix, AZ 85020
File

# Appendix C

# C1: Financial Capability – Town of Buckeye

# TOWN OF BUCKEYE, ARIZONA

# ANNUAL FINANCIAL REPORT

# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

TOWN OF BUCKEYE, ARIZONA
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FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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# FINANCIAL SECTION

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CRONSTROM & TRBOVICH
CERTIFIED PUBLIC ACCOUNTANTS

# INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and the Town Council of the
Town of Buckeye, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Buckeye, Arizona (Town), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial reports contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Buckeye, Arizona, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 - 14 and the Public Safety Personnel Retirement System Schedule of Funding Progress on page 54 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



8706 EAST MANZANITA DRIVE, SUITE 100 ▪ SCOTTSDALE, ARIZONA 85258 ▪ (480) 348-1102 ▪ FAX (480) 348-1104
A PROFESSIONAL CORPORATION

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 19, 2004 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Cronstrom & Trbovich, P.C.

Cronstrom & Trbovich, P.C.

November 19, 2004

## Management's Discussion and Analysis

We (the Town of Buckeye, Arizona (Town)) are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2004. The intended purpose of Management's Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements and notes, that provides an objective and easy to read analysis of our financial activities based on currently known facts, decisions, and conditions, by providing an easily readable summary of operating results and reasons for changes, which will help to determine if our financial position improved or deteriorated over the past year. This report addresses current operational activities, the sources, uses, and changes in resources, adherence to budget, service levels, limitations, significant economic factors, and the status of infrastructure and its impacts on our debt and operation. When referring to prior year data in this analysis we will be drawing upon information from last years' audited financial reports.

### Financial Highlights

- The assets of the Town of Buckeye, Arizona exceeded its liabilities at the close of the most recent fiscal year by $43,100,458 (net assets). Of this amount $31,573,515 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the Town of Buckeye, Arizona's governmental funds reported combined ending fund balances of $18,849,309, a decrease of $(16,053,342) in comparison with the prior year. This decrease was due to the Town expending bond proceeds that had been carried forward.
- At the end of the current fiscal year, unreserved fund balance for the general fund was $7,543,808 or 49 percent of total general fund expenditures.
- General fund revenues (on a budgetary basis) exceeded budgeted revenues by $4,224,415 for fiscal year ending June 30, 2004. Additionally, budgetary basis expenditures were only 92% ($1,410,288 (8%) in savings) of the final budget in the General Fund.
- General Fund revenues exceeded expenditures by $3,042,903; a positive variance of $5,634,703 from the original budget.
- The Town includes one type of separate legal entity in its report - Community Facilities Districts. Although legally separate, these "component units" are important because the Town is financially accountable for them. A description of these component units is available in Note 1 on page 31. Separate Financial Statements are not available for these entities.

### Overview of the Financial Statements

The financial section of the Annual Financial Report (AFR) for the Town of Buckeye, Arizona consists of this discussion and analysis, the basic financial statements and the required supplementary schedules presented after the basic financial statements. The basic financial statements include the government-wide financial statements, fund financial statements, including the budgetary statements for the general fund, and notes to the basic financial statements.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Town of Buckeye, Arizona's finances, in a manner similar to private-sector business.

The statement of net assets presents information on all of the Town of Buckeye, Arizona's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of the Town of Buckeye, Arizona is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town of Buckeye, Arizona that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town of Buckeye, Arizona include general government, public safety, highways and streets, culture and recreation, community development, economic development, and health and welfare. The business-type activities include the Town's water and sewer operations.

The government-wide financial statements can be found on pages 16 - 17 of this report.

**Fund financial statements.** Also presented are the traditional fund financial statements for governmental funds. The fund financial statements now focus on major funds of the Town, rather than fund type used in the old model. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Buckeye, Arizona, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Buckeye, Arizona can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Since the governmental fund financial statements focus on near-term spendable resources, while the governmental activities on the government-wide financial statements have a longer term focus, a reconciliation of the differences between the two is provided with the fund financial statements.

The basic governmental fund financial statements can be found on pages 18 - 23 of this report.

**Proprietary funds.** The Town of Buckeye, Arizona maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town of Buckeye, Arizona uses enterprise funds to account for its water and sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Sewer Funds of the Town of Buckeye, Arizona.

The basic proprietary fund financial statements can be found on pages 24 - 27 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Town of Buckeye, Arizona's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 28 - 29 of this report.

**Notes to the Basic financial statements.** The notes to the basic financial statements (pages 31 - 52) provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements and should be read with the financial statements.

**Required supplementary information other than MD&A.** Governments have an option of including the budgetary comparison statements for the general fund and major special revenue funds as either part of the fund financial statements within the basic financial statements, or as required supplementary information after the footnotes. The Town has chosen to present these budgetary statements as part of the basic financial statements. Additionally, governments are required to disclose certain information about employee pension funds. The Town has disclosed this information in Note 4.E. to the financial statements and required supplementary information on page 54.

**Government-Wide Financial Analysis**

Net assets may serve over time as a useful indicator of a government's financial position. The following table reflects the condensed Statement of Net Assets of the Town for June 30, 2004 showing that assets exceeded liabilities by $43,100,458.

Town of Buckeye, Arizona
Condensed Statement of Net Assets
June 30, 2004

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| ASSETS | | | | | | |
| Current and other assets | $ 45,383,632 | $ 62,031,978 | $ 2,437,123 | $ 1,250,957 | $ 47,820,755 | $ 63,282,935 |
| Capital assets | | | | | | |
| Non-depreciable | 24,032,790 | 4,370,104 | 497,939 | 25,148 | 24,530,729 | 4,395,252 |
| Depreciable (net) | 7,232,022 | 5,743,744 | 18,629,109 | 18,853,958 | 25,861,131 | 24,597,702 |
| Total assets | 76,648,444 | 72,145,826 | 21,564,171 | 20,130,063 | 98,212,615 | 92,275,889 |
| LIABILITIES | | | | | | |
| Other liabilities | 3,911,624 | 3,891,835 | 851,589 | 254,932 | 4,763,213 | 4,146,767 |
| Non-current liabilities | | | | | | |
| Due within one year | 1,303,453 | 1,002,646 | 157,917 | 174,050 | 1,461,370 | 1,176,696 |
| Due in more than one year | 46,398,306 | 47,552,766 | 2,489,268 | 2,607,923 | 48,887,574 | 50,160,689 |
| Total liabilities | 51,613,383 | 52,447,247 | 3,498,774 | 3,036,905 | 55,112,157 | 55,484,152 |
| NET ASSETS | | | | | | |
| Invested in capital assets, net of related debt | (16,304,504) | (38,203,688) | 16,525,946 | 16,138,836 | 221,442 | (22,064,852) |
| Restricted | 11,305,501 | 24,983,401 | - | 58,518 | 11,305,501 | 25,041,919 |
| Unrestricted | 30,034,064 | 32,918,866 | 1,539,451 | 895,804 | 31,573,515 | 33,814,670 |
| Total net assets | $ 25,035,061 | $ 19,698,579 | $ 18,065,397 | $ 17,093,158 | $ 43,100,458 | $ 36,791,737 |

The net assets of the Town are $43,100,458 in fiscal year 2004 for both governmental and business-type activities.

The Town of Buckeye, Arizona is reporting a negative investment in capital assets in its governmental activities due to the large amount of community facilities district bonds outstanding for which capital assets have yet to be purchased or constructed. A large portion of the restricted net assets represents the monies held for the future purchase or construction of these assets.

An additional portion of the Town of Buckeye, Arizona's net assets (26%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets ($31,573,515) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town of Buckeye, Arizona is able to report positive balances in all three categories of net assets for the government as a whole.

Town of Buckeye, Arizona
Changes in Net Assets
For the Fiscal Year Ended June 30, 2004

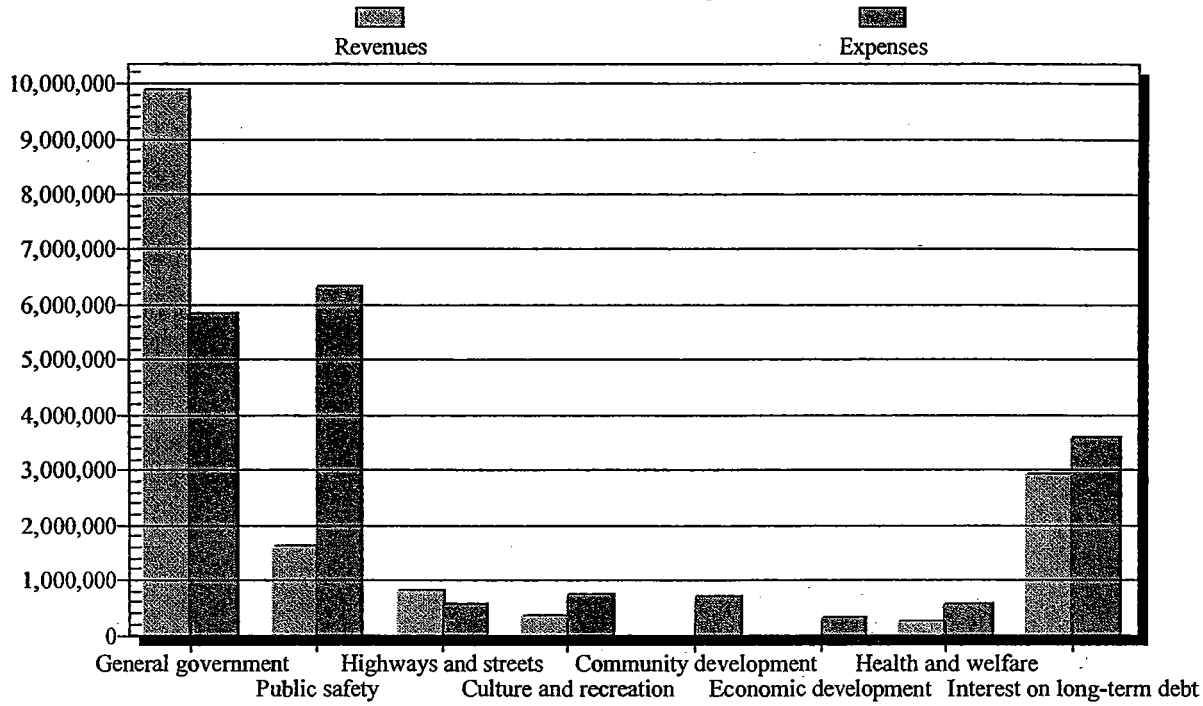
| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Revenues | | | | | | |
| Program revenues | | | | | | |
| Fees, fines and charges for services | $ 13,351,648 | $ 26,771,734 | $ 3,608,404 | $ 1,509,961 | $ 16,960,052 | $ 28,281,695 |
| Operating grants and contributions | 1,446,335 | 1,147,417 | - | - | 1,446,335 | 1,147,417 |
| Capital grants and contributions | 890,283 | 216,663 | - | 9,486,923 | 890,283 | 9,703,586 |
| General revenues | | | | | | |
| Sales taxes | 4,648,570 | 2,776,931 | - | - | 4,648,570 | 2,776,931 |
| Property taxes | 933,693 | 767,963 | - | - | 933,693 | 767,963 |
| Franchise taxes | 213,753 | 194,001 | - | - | 213,753 | 194,001 |
| State shared revenues | 1,825,704 | 1,981,996 | - | - | 1,825,704 | 1,981,996 |
| Investment earnings | 231,127 | 2,240 | 832 | - | 231,959 | 2,240 |
| Other | 275,592 | 714,413 | - | (41,600) | 275,592 | 672,813 |
| Total revenues | 23,816,705 | 34,573,358 | 3,609,236 | 10,955,284 | 27,425,941 | 45,528,642 |
| Expenses | | | | | | |
| General government | 5,807,491 | 13,168,857 | - | - | 5,807,491 | 13,168,857 |
| Public safety | 6,307,496 | 4,302,109 | - | - | 6,307,496 | 4,302,109 |
| Highways and streets | 547,656 | 190,359 | - | - | 547,656 | 190,359 |
| Culture and recreation | 719,905 | 655,082 | - | - | 719,905 | 655,082 |
| Community development | 690,513 | 500,983 | - | - | 690,513 | 500,983 |
| Economic development | 296,372 | 201,178 | - | - | 296,372 | 201,178 |
| Health and welfare | 528,061 | 475,126 | - | - | 528,061 | 475,126 |
| Interest on long-term debt | 3,582,729 | 980,188 | - | - | 3,582,729 | 980,188 |
| Sewer | - | - | 997,805 | 763,657 | 997,805 | 763,657 |
| Water | - | - | 1,639,192 | 1,032,111 | 1,639,192 | 1,032,111 |
| Total expenses | 18,480,223 | 20,473,882 | 2,636,997 | 1,795,768 | 21,117,220 | 22,269,650 |
| Change in net assets before transfers | 5,336,482 | 14,099,476 | 972,239 | 9,159,516 | 6,308,721 | 23,258,992 |
| Transfers | - | (371,603) | - | 371,603 | - | - |
| Change in net assets | 5,336,482 | 13,727,873 | 972,239 | 9,531,119 | 6,308,721 | 23,258,992 |
| Net assets at beginning of year | 19,698,579 | 5,970,706 | 17,093,158 | 7,562,039 | 36,791,737 | 13,532,745 |
| Total net assets | $ 25,035,061 | $ 19,698,579 | $ 18,065,397 | $ 17,093,158 | $ 43,100,458 | $ 36,791,737 |

**Governmental activities.** Governmental activities increased the City's net assets by $5,336,482 . Key factors of this increase are as follows:

- Construction of community facilities district assets using existing funds.
- General fund revenues exceeded budgeted revenues by $4,224,415.
- General fund expenditures were only 92% of the final budget.

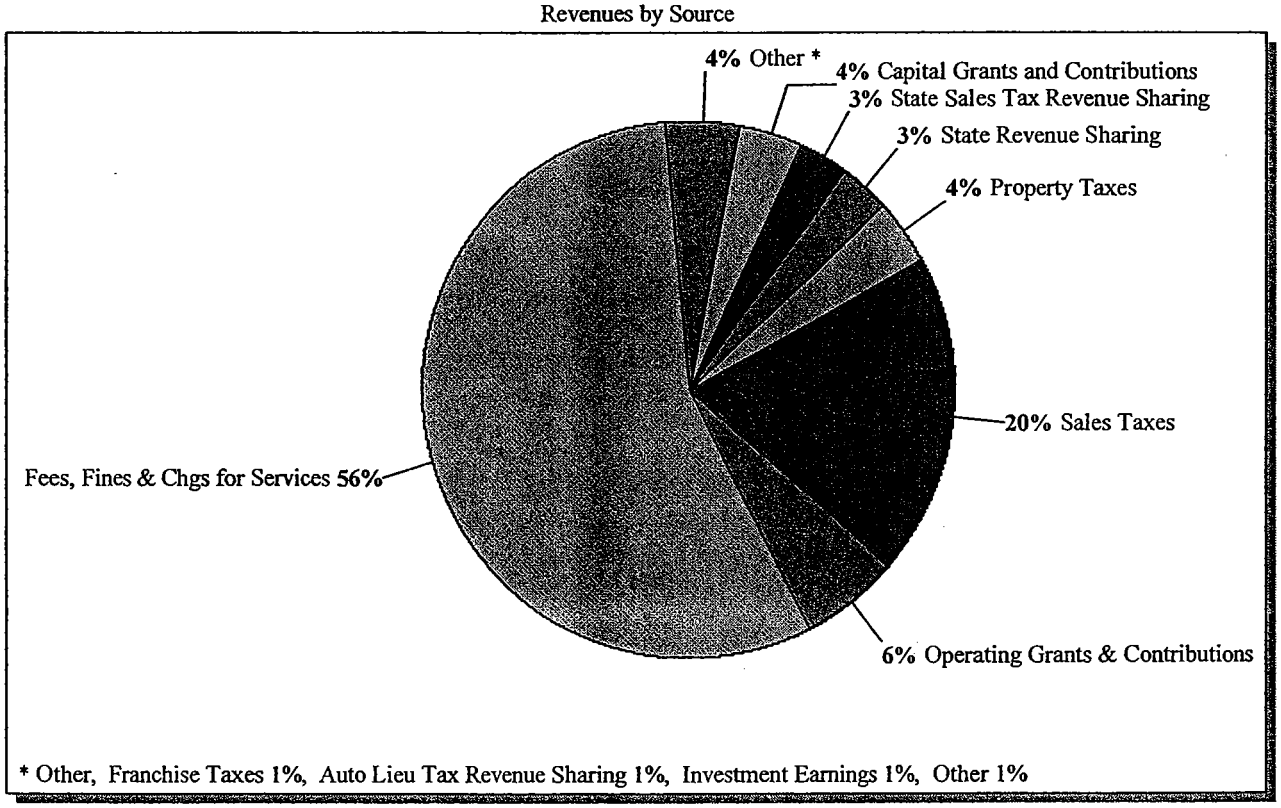
## Governmental Activities

Program Revenues and Expenses



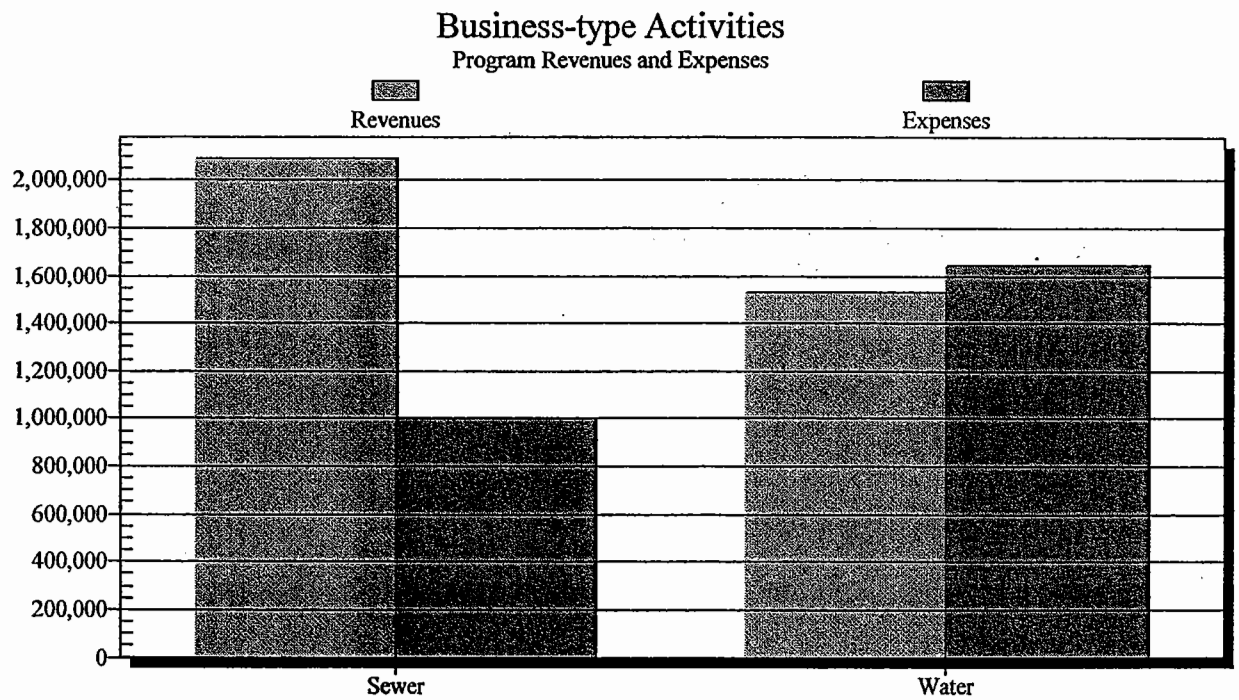

## Governmental Activities

Revenues by Source

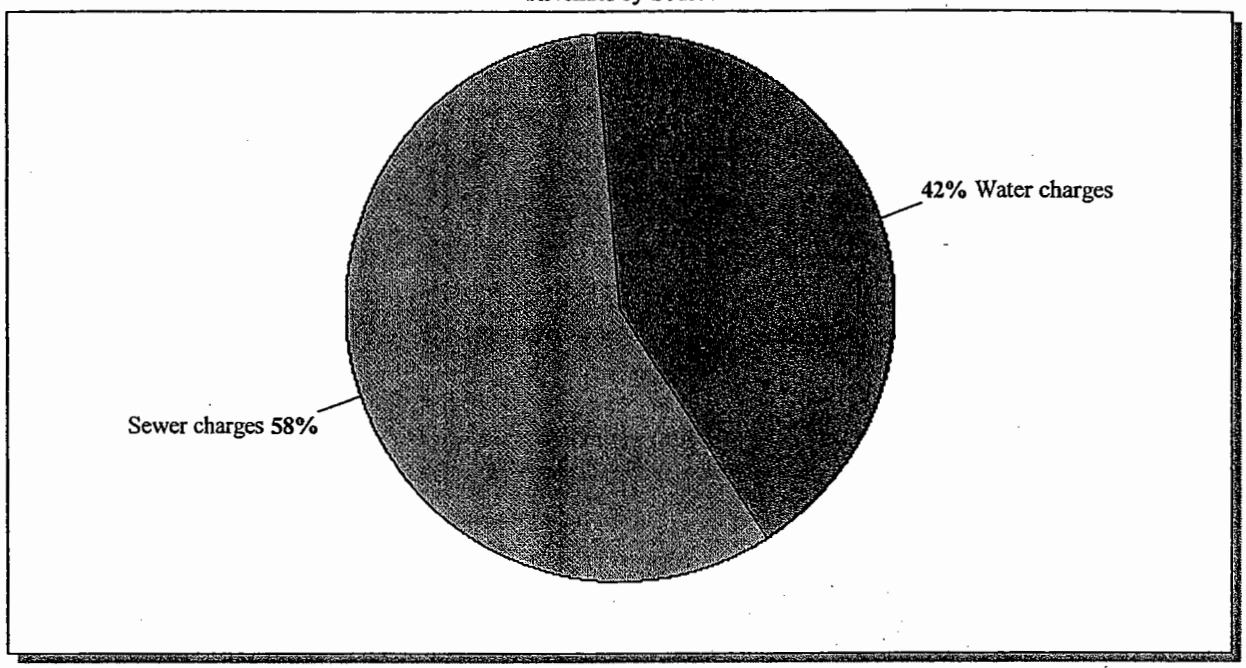


The charts on the previous page illustrate the Town's governmental expenses and revenues by function and its revenues by source. As shown, Public safety (police, fire, and emergency medical services) is the largest function in expenses, followed by General government, Interest on long-term debt, Culture and recreation, Community development, Highways and streets, Health and welfare, and Economic development. General revenues such as sales taxes are not shown by program but are effectively used to support program activities town-wide. Property taxes are primarily used for general operations and for the repayment of long-term debt. For governmental activities as a whole, fees, fines and charges for services are by far the largest source of funds (56%) followed by sales tax revenues (20%).

**Business-type activities.** Business-type activities increased the Town's net assets by $972,239. The primary reason for the increase was the operating income of the Town's Sewer Fund.



Business-type Activities
Revenues by Source




As shown by the charts above, the largest of the Town's business-type activities is its sewer operations. Sewer Fund expenses were just under $1.0 million with charges for services of approximately $1.8 million during the fiscal year. The Water Fund expenses were approximately $1.6 million with charges for services of approximately $1.5 million during the fiscal year.

**Financial Analysis of the Town's Funds**

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal compliance. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the Town include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds.

As of the end of the current fiscal year the Town's governmental funds reported combined ending fund balances of $18,849,309, a decrease of $(16,053,342) in comparison with the prior year. Approximately 40% of this total amount ($7,543,808) constitutes general fund balance, which is available for contribution to the designated, undesignated and reserved fund balances. At fiscal year ended June 30, 2004 fund balances were as follows:

| Fund | Balance | Increase (Decrease) From 2002-03 |
|---|---|---|
| General Fund | $ 7,543,808 | $ 2,971,503 |
| Debt Service Fund | 418,991 | (4,119) |
| CFD Debt Service Fund | 3,146,738 | (453,708) |
| CFD Capital Projects Fund | 7,450,890 | (18,475,819) |
| Nonmajor Governmental Funds | 288,882 | (91,199) |

The General Fund is the chief operating fund of the Town of Buckeye, Arizona. At the end of the current fiscal year, the fund balance of the general fund was $7,543,808, while total fund balance reached $18,849,309. As a measure of the general fund's liquidity, it may be useful to compare both general fund balance and total fund balance to total fund expenditures. General Fund balance represents 49 percent of total general fund expenditures, while total fund balance represents 123 percent of that same amount.

The fund balance of the Town of Buckeye, Arizona's General Fund increased by $2,971,503 during the current fiscal year. Key factors in this change are as follows:

- Revenues collected exceeded expectations due to the Town's rapid growth.
- Expenditure budget was underspent.

The Debt Service Fund's fund balance decreased by $4,119 during the fiscal year. This change was not significant.

The CFD Debt Service Fund's fund balance decreased by $453,708 during the fiscal year. The change was due mainly to the Town calling $379,000 of bonds early.

The CFD Capital Projects Fund fund balance decreased by $18,475,819 during the fiscal year. The change was due mainly to the Town expending bond proceeds from prior year for current year construction projects.

The Nonmajor Governmental Funds fund balance decreased by $91,199 during the fiscal year. The change was due mainly to the Town expending carryover funds for street projects. All nonmajor governmental funds of the Town are combined into one column on the governmental fund statements.

**Proprietary Funds.** The Town of Buckeye, Arizona's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets at the end of the year amounted to $858,320 in the Sewer Fund and $681,131 in the Water Fund.

**Budgetary Highlights**

The Town's annual budget is the legally adopted expenditure control document of the Town. Budgetary comparison statements are required for the General Fund and all major special revenue funds and may be found on pages 22 - 23. These statements compare the original adopted budget, the budget if amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis.

General Fund revenues of $18,367,515, on a budgetary basis, exceeded budgeted revenues of $14,143,100 by $4,224,415 while budgetary basis expenditures of $15,324,612 were only 92% of budgeted expenditures (savings of $1,410,288). The excess of revenues over budgeted revenues is primarily due to licenses and permits and charges for services exceeding projected expectations.

**Capital Asset and Debt Administration**

The Town's capital assets for its governmental activities as of June 30, 2004 amount to $31,264,812 (net of accumulated depreciation), an increase of 209.1%. For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. See Note 3.A.4 for further information regarding capital assets.

Governmental capital assets include land and improvements, buildings and improvements, and furniture, machinery and equipment. During fiscal year 2003-04 the annual depreciation expense was $574,309. Additions to capital assets during the fiscal year totaled $22,436,543.

The major capital asset event during the current fiscal year was the construction of community facilities district assets using bond carryover funds. The Town also acquired a number of furniture, machinery and equipment items during the fiscal year.

The following table provides a breakdown of the capital assets of the Town at June 30, 2004 and 2003.

Town of Buckeye, Arizona
Capital Assets at June 30, 2004
(Net of depreciation)

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Land | $ 812,176 | $ 812,176 | $ 25,148 | $ 25,148 | $ 837,324 | $ 837,324 |
| Construction in progress | 23,220,614 | 3,557,928 | 472,791 | - | 23,693,405 | 3,557,928 |
| Land improvements | 259,657 | 285,300 | - | - | 259,657 | 285,300 |
| Buildings and improvements | 1,452,332 | 1,479,128 | 2,992,940 | - | 4,445,272 | 1,479,128 |
| Infrastructure | 3,834,434 | 2,324,679 | - | - | 3,834,434 | 2,324,679 |
| Furniture, machinery and equipment | 1,685,599 | 1,654,637 | 114,098 | 3,082,962 | 1,799,697 | 4,737,599 |
| Wastewater system | - | - | 7,644,616 | 7,857,187 | 7,644,616 | 7,857,187 |
| Water system | - | - | 7,877,455 | 7,777,861 | 7,877,455 | 7,777,861 |
| Machinery, equipment and vehicles | - | - | - | 135,948 | - | 135,948 |
| | $31,264,812 | $10,113,848 | $19,127,048 | $18,879,106 | $50,391,860 | $28,992,954 |

## Long-term Debt

At the end of the current fiscal year, the Town of Buckeye, Arizona had total long-term obligations outstanding of $50,348,944, including two new leases. Of the outstanding debt, $1,145,000 is general obligation bonds backed by the full faith and credit of the Town. An additional $4,025,000 are improvement bonds that are backed by the property owners within the District. An additional $42,062,000 are community facilities district bonds backed by property owners within the District areas. The remaining $2,560,000 of outstanding debt is secured by pledges of specific revenue sources of the Town.

The following schedule shows the outstanding debt of the Town (both current and long-term) as of June 30, 2004 and 2003. Further detail on the Town's outstanding debt may be found in Note 3.D. on pages 45 - 47.

Town of Buckeye, Arizona
Long-term Obligations at June 30, 2004

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| General obligation bonds | $ 1,145,000 | $ 1,405,000 | $ - | $ - | $ 1,145,000 | $ 1,405,000 |
| Improvement bonds | 4,025,000 | 4,235,000 | - | - | 4,025,000 | 4,235,000 |
| Revenue bonds | 90,000 | 170,000 | 2,560,000 | 2,660,000 | 2,650,000 | 2,830,000 |
| Community facilities district bonds | 42,062,000 | 42,441,000 | - | - | 42,062,000 | 42,441,000 |
| Deferred amount for discount | (1,035,371) | (1,084,103) | - | - | (1,035,371) | (1,084,103) |
| Capital leases | 942,687 | 1,020,639 | 41,102 | 80,270 | 983,789 | 1,100,909 |
| Compensated absences | 472,443 | 367,876 | 46,083 | 41,703 | 518,526 | 409,579 |
| | $47,701,759 | $48,555,412 | $ 2,647,185 | $ 2,781,973 | $50,348,944 | $51,337,385 |

**Economic Factors and Next Year's Budgets and Rates**

- The State of Arizona is projecting significant budget deficits that may result in cuts in State Shared Revenues and Arizona State Sales Tax.
- State Shared Revenue and Arizona State Sales Tax makes up 11% of the Town's general revenues.
- Town Sales Tax Revenue and Property Tax Revenue makes up 36% of the general fund revenue and is predicted to increase by 37%, which will compensate for any State level cuts.
- The Town's population is expected to increase by 16%, with construction of two new master planned communities and several other master planned communities in the approval process.

**Financial contact**

This financial report is designed to provide a general overview of the Town's finances for all of those with an interest in the government's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to:

Town of Buckeye, Arizona
Accounting Department
100 N. Apache, Suite A
Buckeye, AZ 85326
623-386-4691

Or visit our website at:

www.buckeyeaz.org

# Basic Financial Statements

# TOWN OF BUCKEYE, ARIZONA
## STATEMENT OF NET ASSETS
## JUNE 30, 2004

| | Governmental Activities | Business-type Activities | Totals |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | $ 20,725,730 | $ 1,608,761 | $ 22,334,491 |
| Receivables, net | | | |
| Accounts receivable | 1,035,688 | 348,947 | 1,384,635 |
| Taxes receivable | 10,763 | - | 10,763 |
| Intergovernmental receivable | 988,752 | - | 988,752 |
| Special assessments receivable | 22,087,000 | - | 22,087,000 |
| Inventories | - | 14,159 | 14,159 |
| Deferred charges | 535,699 | 136,223 | 671,922 |
| Restricted assets | - | 329,033 | 329,033 |
| Capital assets | | | |
| Non-depreciable | 24,032,790 | 497,939 | 24,530,729 |
| Depreciable (net) | 7,232,022 | 18,629,109 | 25,861,131 |
| Total assets | 76,648,444 | 21,564,171 | 98,212,615 |
| **Liabilities** | | | |
| Accounts payable | 1,786,995 | 21,977 | 1,808,972 |
| Accrued wages and benefits | 222,940 | 13,651 | 236,591 |
| Interest payable | 1,554,833 | - | 1,554,833 |
| Developer agreements payable | - | 697,728 | 697,728 |
| Customer deposits payable | 6,856 | 118,233 | 125,089 |
| Matured debt principal payable | 340,000 | - | 340,000 |
| Noncurrent liabilities | | | |
| Due within one year | 1,303,453 | 157,917 | 1,461,370 |
| Due in more than one year | 46,398,306 | 2,489,268 | 48,887,574 |
| Total liabilities | 51,613,383 | 3,498,774 | 55,112,157 |
| **Net assets** | | | |
| Invested in capital assets, net of related debt | (16,304,504) | 16,525,946 | 221,442 |
| Restricted for | | | |
| Highways and streets | 14,259 | - | 14,259 |
| Debt service | 3,565,729 | - | 3,565,729 |
| Capital outlay | 7,584,399 | - | 7,584,399 |
| Other | 141,114 | - | 141,114 |
| Unrestricted | 30,034,064 | 1,539,451 | 31,573,515 |
| Total net assets | $ 25,035,061 | $ 18,065,397 | $ 43,100,458 |

The notes to the basic financial statements are an integral part of this statement.

# TOWN OF BUCKEYE, ARIZONA
## STATEMENT OF ACTIVITIES
## FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | | Program Revenues | | | Net (Expenses) Revenue and Changes in Net Assets | | |
|---|---|---|---|---|---|---|---|
| | Expenses | Fees, Fines and Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Totals |
| **Functions/Programs** | | | | | | | |
| Governmental activities | | | | | | | |
| General government | $ 5,807,491 | $ 8,945,002 | $ 45,833 | $ 890,283 | $ 4,073,627 | $ - | $ 4,073,627 |
| Public safety | 6,307,496 | 1,446,479 | 150,976 | - | (4,710,041) | - | (4,710,041) |
| Highways and streets | 547,656 | - | 779,623 | - | 231,967 | - | 231,967 |
| Culture and recreation | 719,905 | 64,862 | 252,362 | - | (402,681) | - | (402,681) |
| Community development | 690,513 | - | - | - | (690,513) | - | (690,513) |
| Economic development | 296,372 | - | - | - | (296,372) | - | (296,372) |
| Health and welfare | 528,061 | - | 217,541 | - | (310,520) | - | (310,520) |
| Interest on long-term debt | 3,582,729 | 2,895,305 | - | - | (687,424) | - | (687,424) |
| Total governmental activities | 18,480,223 | 13,351,648 | 1,446,335 | 890,283 | (2,791,957) | - | (2,791,957) |
| Business-type activities | | | | | | | |
| Sewer | 997,805 | 2,081,298 | - | - | - | $ 1,083,493 | 1,083,493 |
| Water | 1,639,192 | 1,527,106 | - | - | - | (112,086) | (112,086) |
| Total business-type activities | 2,636,997 | 3,608,404 | - | - | - | 971,407 | 971,407 |
| Totals | $ 21,117,220 | $ 16,960,052 | $ 1,446,335 | $ 890,283 | (2,791,957) | 971,407 | (1,820,550) |
| General revenues | | | | | | | |
| Taxes | | | | | | | |
| Sales taxes | | | | | 4,648,570 | - | 4,648,570 |
| Property taxes | | | | | 933,693 | - | 933,693 |
| Franchise taxes | | | | | 213,753 | - | 213,753 |
| State revenue sharing | | | | | 766,169 | - | 766,169 |
| State sales tax revenue sharing | | | | | 714,854 | - | 714,854 |
| Auto lieu tax revenue sharing | | | | | 344,681 | - | 344,681 |
| Investment earnings | | | | | 231,127 | 832 | 231,959 |
| Other | | | | | 275,592 | - | 275,592 |
| Total general revenues | | | | | 8,128,439 | 832 | 8,129,271 |
| Change in net assets | | | | | 5,336,482 | 972,239 | 6,308,721 |
| Net assets, beginning of year | | | | | 19,698,579 | 17,093,158 | 36,791,737 |
| Net assets, end of year | | | | | $ 25,035,061 | $ 18,065,397 | $ 43,100,458 |

The notes to the basic financial statements are an integral part of this statement.

TOWN OF BUCKEYE, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

| | General | Debt Service | CFD Debt Service | CFD Capital Projects | Nonmajor Governmental Funds | Totals |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | $ 7,349,096 | $ 902,716 | $ 4,551,073 | $ 7,731,303 | $ 191,542 | $ 20,725,730 |
| Receivables, net | | | | | | |
| Accounts receivable | 1,003,430 | - | 1,907 | 29,589 | 762 | 1,035,688 |
| Taxes receivable | 5,897 | 4,504 | 362 | - | - | 10,763 |
| Intergovernmental receivable | 695,602 | - | - | - | 293,150 | 988,752 |
| Special assessments receivable | - | 4,025,000 | 18,062,000 | - | - | 22,087,000 |
| Due from other funds | 190,821 | - | - | - | - | 190,821 |
| Total assets | $ 9,244,846 | $ 4,932,220 | $ 22,615,342 | $ 7,760,892 | $ 485,454 | $ 45,038,754 |
| **Liabilities and Fund Balances** | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | $ 1,476,993 | $ - | $ - | $ 310,002 | $ - | $ 1,786,995 |
| Accrued wages and benefits | 217,189 | - | - | - | 5,751 | 222,940 |
| Interest payable | - | 148,229 | 1,406,604 | - | - | 1,554,833 |
| Due to other funds | - | - | - | - | 190,821 | 190,821 |
| Deferred revenue | - | 4,025,000 | 18,062,000 | - | - | 22,087,000 |
| Customer deposits payable | 6,856 | - | - | - | - | 6,856 |
| Matured debt principal payable | - | 340,000 | - | - | - | 340,000 |
| Total liabilities | 1,701,038 | 4,513,229 | 19,468,604 | 310,002 | 196,572 | 26,189,445 |
| Fund balances | | | | | | |
| Unreserved | 7,543,808 | 418,991 | 3,146,738 | 7,450,890 | - | 18,560,427 |
| Unreserved, reported in nonmajor: | | | | | | |
| Special revenue funds | - | - | - | - | 155,373 | 155,373 |
| Capital projects funds | - | - | - | - | 133,509 | 133,509 |
| Total fund balances | 7,543,808 | 418,991 | 3,146,738 | 7,450,890 | 288,882 | 18,849,309 |
| Total liabilities and fund balances | $ 9,244,846 | $ 4,932,220 | $ 22,615,342 | $ 7,760,892 | $ 485,454 | $ 45,038,754 |

The notes to the basic financial statements are an integral part of this statement.

# TOWN OF BUCKEYE, ARIZONA
## RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
## JUNE 30, 2004

| | |
|---|---|
| Fund balances - total governmental funds | $ 18,849,309 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Special assessment revenue not available for current financial resources | 22,087,000 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. | |
| Governmental capital assets | 36,155,824 |
| Less accumulated depreciation | (4,891,012) |
| Capital assets used in governmental activities | 31,264,812 |
| Other long-term assets are not available to pay for current-period expenditures: | |
| Deferred charges | 535,699 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds. | |
| General obligation bonds | (1,145,000) |
| Improvement bonds | (4,025,000) |
| Revenue bonds | (90,000) |
| Community facilities district bonds | (42,062,000) |
| Deferred amount on discount | 1,035,371 |
| Capital leases payable | (942,687) |
| Compensated absences | (472,443) |
| Net assets of governmental activities | $ 25,035,061 |

The notes to the basic financial statements are an integral part of this statement.

TOWN OF BUCKEYE, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

| | General | Debt Service | CFD Debt Service | CFD Capital Projects | Nonmajor Governmental Funds | Totals |
|---|---|---|---|---|---|---|
| Revenues | | | | | | |
| Taxes | | | | | | |
| Sales taxes | $ 4,648,570 | $ - | $ - | $ - | $ - | $ 4,648,570 |
| Property taxes | 495,022 | 332,270 | 106,401 | - | - | 933,693 |
| Franchise taxes | 213,753 | - | - | - | - | 213,753 |
| Intergovernmental | 2,715,987 | - | - | - | 1,438,199 | 4,154,186 |
| Fines and forfeitures | 208,125 | - | - | - | - | 208,125 |
| Licenses and permits | 3,476,794 | - | - | - | - | 3,476,794 |
| Charges for services | 5,665,620 | - | - | - | - | 5,665,620 |
| Contributions and donations | 8,136 | - | - | - | - | 8,136 |
| Impact fees | 557,453 | - | - | - | - | 557,453 |
| Special assessments | - | 432,604 | 3,051,701 | - | - | 3,484,305 |
| Investment earnings | 96,482 | - | 22,881 | 108,364 | 3,400 | 231,127 |
| Other | 281,573 | 3,053 | 102,107 | 425,245 | 11,965 | 823,943 |
| Total Revenues | 18,367,515 | 767,927 | 3,283,090 | 533,609 | 1,453,564 | 24,405,705 |
| Expenditures | | | | | | |
| Current | | | | | | |
| General government | 6,259,753 | 10,849 | 78,591 | 153,090 | 84,417 | 6,586,700 |
| Public safety | 6,109,677 | - | - | - | 151,838 | 6,261,515 |
| Highways and streets | - | - | - | - | 1,109,492 | 1,109,492 |
| Culture and recreation | 713,546 | - | - | - | 174,749 | 888,295 |
| Community development | 742,719 | - | - | - | - | 742,719 |
| Economic development | 238,342 | - | - | - | - | 238,342 |
| Health and welfare | 317,894 | - | - | - | 205,811 | 523,705 |
| Debt Service | | | | | | |
| Principal retirement | - | 550,000 | 379,000 | - | - | 929,000 |
| Interest on long-term debt | - | 303,522 | 3,279,207 | - | - | 3,582,729 |
| Capital outlay | 974,588 | - | - | 18,856,338 | - | 19,830,926 |
| Total Expenditures | 15,356,519 | 864,371 | 3,736,798 | 19,009,428 | 1,726,307 | 40,693,423 |
| Excess (deficiency) of revenues over expenditures | 3,010,996 | (96,444) | (453,708) | (18,475,819) | (272,743) | (16,287,718) |
| Other financing sources (uses) | | | | | | |
| Transfers in | - | 92,325 | - | - | 71,400 | 163,725 |
| Transfers out | (71,400) | - | - | - | (92,325) | (163,725) |
| Proceeds from capital leases | 31,907 | - | - | - | 202,469 | 234,376 |
| Total other financing sources (uses) | (39,493) | 92,325 | - | - | 181,544 | 234,376 |
| Net change in fund balances | 2,971,503 | (4,119) | (453,708) | (18,475,819) | (91,199) | (16,053,342) |
| Fund balances, beginning of year | 4,572,305 | 423,110 | 3,600,446 | 25,926,709 | 380,081 | 34,902,651 |
| Fund balances, end of year | $ 7,543,808 | $ 418,991 | $ 3,146,738 | $ 7,450,890 | $ 288,882 | $ 18,849,309 |

The notes to the basic financial statements are an integral part of this statement.

# TOWN OF BUCKEYE, ARIZONA
## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
## FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | |
|---|---|
| Net change in fund balances - total governmental funds | $ (16,053,342) |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. | |
| Expenditures for capital assets | 22,436,543 |
| Less current year depreciation | (574,309) |
| Excess capital expenditures over depreciation | 21,862,234 |
| The statement of activities reports losses arising from the disposal of existing capital assets. Conversely, governmental funds do not report any gain or loss on disposals of capital assets. | (711,270) |
| Some revenues reported in the governmental funds that did not provide current financial resources in prior years have been recognized previously in the statement of activities and therefore are not reported as revenues in the statement of activities. | |
| Special assessments | (589,000) |
| The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The issuance of long-term debt increases long-term liabilities on the statement of net assets and the repayment of principal on long-term debt reduces long-term debt on the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when the debt is first issued, whereas these items are deferred and amortized over the term of the long-term debt in the statement of activities. | |
| Principal payments on long-term debt | 929,000 |
| Principal payments on capital leases | 312,328 |
| Proceeds of capital leases | (234,376) |
| Amortization of issue discount | (48,732) |
| Amortization of issuance costs | (25,793) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. | |
| Net increase in compensated absences | (104,567) |
| Change in net assets of governmental activities | $ 5,336,482 |

The notes to the basic financial statements are an integral part of this statement.

TOWN OF BUCKEYE, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|---|---|---|---|---|
| Revenues | | | | |
| Taxes | | | | |
| Sales taxes | $ 4,344,404 | $ 4,344,404 | $ 4,648,570 | $ 304,166 |
| Property taxes | 505,686 | 505,686 | 495,022 | (10,664) |
| Franchise taxes | 257,000 | 257,000 | 213,753 | (43,247) |
| Intergovernmental | 2,068,619 | 2,068,619 | 2,715,987 | 647,368 |
| Fines and forfeitures | 163,800 | 163,800 | 208,125 | 44,325 |
| Licenses and permits | 1,744,000 | 1,744,000 | 3,476,794 | 1,732,794 |
| Charges for services | 3,717,825 | 3,717,825 | 5,665,620 | 1,947,795 |
| Contributions and donations | 37,000 | 37,000 | 8,136 | (28,864) |
| Impact fees | 403,016 | 403,016 | 557,453 | 154,437 |
| Investment earnings | 117,150 | 117,150 | 96,482 | (20,668) |
| Other | 784,600 | 784,600 | 281,573 | (503,027) |
| Total Revenues | 14,143,100 | 14,143,100 | 18,367,515 | 4,224,415 |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Mayor and council | 31,790 | 31,790 | 21,681 | 10,109 |
| Administration | 460,313 | 460,313 | 688,250 | (227,937) |
| Finance department | 404,156 | 404,156 | 346,408 | 57,748 |
| Magistrate | 257,043 | 257,043 | 235,479 | 21,564 |
| Vehicle maintenance | 366,986 | 366,986 | 405,458 | (38,472) |
| Irrigation | 237,612 | 237,612 | 177,533 | 60,079 |
| Cemetery | 59,165 | 59,165 | 63,608 | (4,443) |
| Non-Departmental | 2,319,300 | 2,319,300 | 3,614,801 | (1,295,501) |
| Airport | 271,293 | 271,293 | 275,405 | (4,112) |
| Public works - admin | 330,602 | 330,602 | 431,130 | (100,528) |
| Contingencies | 25,000 | 25,000 | - | 25,000 |
| Total general government | 4,763,260 | 4,763,260 | 6,259,753 | (1,496,493) |
| Public safety | | | | |
| Police | 3,398,018 | 3,398,018 | 3,241,348 | 156,670 |
| Fire | 3,262,045 | 3,262,045 | 2,868,329 | 393,716 |
| Total public safety | 6,660,063 | 6,660,063 | 6,109,677 | 550,386 |
| Culture and recreation | | | | |
| Parks, recreation and library | 660,147 | 732,166 | 713,546 | 18,620 |
| Total culture and recreation | 660,147 | 732,166 | 713,546 | 18,620 |
| Community development | | | | |
| Community development | 892,260 | 748,841 | 710,812 | 38,029 |
| Total community development | 892,260 | 748,841 | 710,812 | 38,029 |
| Economic development | | | | |
| Economic development | 246,690 | 246,690 | 238,342 | 8,348 |
| Total economic development | 246,690 | 246,690 | 238,342 | 8,348 |
| Health and welfare | | | | |
| Social services | 270,880 | 270,880 | 317,894 | (47,014) |
| Total health and welfare | 270,880 | 270,880 | 317,894 | (47,014) |
| Capital outlay | 3,313,000 | 3,313,000 | 974,588 | 2,338,412 |
| Total Expenditures | 16,806,300 | 16,734,900 | 15,324,612 | 1,410,288 |
| Excess (deficiency) of revenues over expenditures | (2,663,200) | (2,591,800) | 3,042,903 | 5,634,703 |

(Continued)

The notes to the basic financial statements are an integral part of this statement.

TOWN OF BUCKEYE, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

(Concluded)

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|---|---|---|---|---|
| Other financing sources (uses) | | | | |
| Transfers out | $ (80,000) | $ (151,400) | $ (71,400) | $ 80,000 |
| Total other financing sources (uses) | (80,000) | (151,400) | (71,400) | 80,000 |
| Net change in fund balances | (2,743,200) | (2,743,200) | 2,971,503 | 5,714,703 |
| Fund balances, beginning of year | 2,743,200 | 2,743,200 | 4,572,305 | 1,829,105 |
| Fund balances, end of year | $ - | $ - | $ 7,543,808 | $ 7,543,808 |

The notes to the basic financial statements are an integral part of this statement.

# TOWN OF BUCKEYE, ARIZONA
# STATEMENT OF NET ASSETS
# PROPRIETARY FUNDS
# JUNE 30, 2004

| | Business-type Activities - Enterprise Funds | | |
|---|---|---|---|
| | Sewer | Water | Totals |
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | $ 1,253,354 | $ 355,407 | $ 1,608,761 |
| Receivables, net | | | |
| Accounts receivable | 133,967 | 214,980 | 348,947 |
| Inventories | - | 14,159 | 14,159 |
| Deferred charges | - | 136,223 | 136,223 |
| Restricted assets | 210,800 | 118,233 | 329,033 |
| Noncurrent assets | | | |
| Capital assets | | | |
| Non-depreciable | 486,120 | 11,819 | 497,939 |
| Depreciable (net) | 10,056,688 | 8,572,421 | 18,629,109 |
| Total assets | 12,140,929 | 9,423,242 | 21,564,171 |
| **Liabilities** | | | |
| Current liabilities | | | |
| Accounts payable | 21,919 | 58 | 21,977 |
| Accrued wages and benefits | - | 13,651 | 13,651 |
| Developer agreements payable | 697,728 | - | 697,728 |
| Customer deposits payable | - | 118,233 | 118,233 |
| Compensated absences | 7,522 | 9,293 | 16,815 |
| Capital leases payable | 21,896 | 19,206 | 41,102 |
| Bonds, notes and loans payable | - | 100,000 | 100,000 |
| Noncurrent liabilities | | | |
| Compensated absences | 12,632 | 16,636 | 29,268 |
| Bonds, notes and loans payable | - | 2,460,000 | 2,460,000 |
| Total liabilities | 761,697 | 2,737,077 | 3,498,774 |
| **Net assets** | | | |
| Invested in capital assets, net of related debt | 10,520,912 | 6,005,034 | 16,525,946 |
| Unrestricted | 858,320 | 681,131 | 1,539,451 |
| Total net assets | $ 11,379,232 | $ 6,686,165 | $ 18,065,397 |

The notes to the basic financial statements are an integral part of this statement

TOWN OF BUCKEYE, ARIZONA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | Business-type Activities - Enterprise Funds | | |
|---|---|---|---|
| | Sewer | Water | Totals |
| Operating revenues | | | |
| Charges for services | $ 1,828,422 | $ 1,527,106 | $ 3,355,528 |
| Total operating revenues | 1,828,422 | 1,527,106 | 3,355,528 |
| Operating expenses | | | |
| Costs of sales and services | 783,312 | 1,196,454 | 1,979,766 |
| Depreciation | 212,571 | 288,601 | 501,172 |
| Total operating expenses | 995,883 | 1,485,055 | 2,480,938 |
| Operating income | 832,539 | 42,051 | 874,590 |
| Nonoperating revenues (expenses) | | | |
| Investment earnings | 832 | - | 832 |
| Interest expense | (1,922) | (146,124) | (148,046) |
| Issuance costs | - | (8,013) | (8,013) |
| Miscellaneous revenues | 252,876 | - | 252,876 |
| Total nonoperating revenues (expenses) | 251,786 | (154,137) | 97,649 |
| Change in net assets | 1,084,325 | (112,086) | 972,239 |
| Total net assets, beginning of year | 10,294,907 | 6,798,251 | 17,093,158 |
| Total net assets, end of year | $ 11,379,232 | $ 6,686,165 | $ 18,065,397 |

The notes to the basic financial statements are an integral part of this statement.

# TOWN OF BUCKEYE, ARIZONA
## STATEMENT OF CASH FLOWS
## PROPRIETARY FUNDS
## FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | Business-type Activities - Enterprise Funds | | |
|---|---|---|---|
| | Sewer | Water | Totals |
| Cash flows from operating activities | | | |
| Receipts from customers | $ 1,783,524 | $ 1,482,853 | $ 3,266,377 |
| Payments to employees | (235,010) | (316,049) | (551,059) |
| Payments to suppliers | (573,846) | (998,669) | (1,572,515) |
| Developer agreements | 697,728 | - | 697,728 |
| Customer deposits received | - | 51,839 | 51,839 |
| Other receipts | 252,876 | - | 252,876 |
| Net cash flows from operating activities | 1,925,272 | 219,974 | 2,145,246 |
| Cash flows from noncapital financing activities | | | |
| Cash flows from capital and financing activities | | | |
| Purchases of capital assets | (472,790) | (276,324) | (749,114) |
| Principal paid on capital debt | (20,979) | (118,189) | (139,168) |
| Interest paid on capital debt | (1,922) | (146,124) | (148,046) |
| Net cash flows from capital and financing activities | (495,691) | (540,637) | (1,036,328) |
| Cash flows from investing activities | | | |
| Investment earnings | 832 | - | 832 |
| Net cash flows from investing activities | 832 | - | 832 |
| Net change in cash and cash equivalents | 1,430,413 | (320,663) | 1,109,750 |
| Cash and cash equivalents, beginning of year | 33,741 | 794,303 | 828,044 |
| Cash and cash equivalents, end of year | $ 1,464,154 | $ 473,640 | $ 1,937,794 |
| Reconciliation of cash and cash equivalents to the statement of net assets | | | |
| Cash and investments | $ 1,253,354 | $ 355,407 | $ 1,608,761 |
| Restricted assets | 210,800 | 118,233 | 329,033 |
| Total cash and cash equivalents | $ 1,464,154 | $ 473,640 | $ 1,937,794 |

The notes to the basic financial statements are an integral part of this statement

# TOWN OF BUCKEYE, ARIZONA
# STATEMENT OF CASH FLOWS
# PROPRIETARY FUNDS
# FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | Business-type Activities - Enterprise Funds | | |
|---|---|---|---|
| | Sewer | Water | Totals |
| (Concluded) | | | |
| Reconciliation of operating income to net cash provided by operating activities | | | |
| Operating income | $ 832,539 | $ 42,051 | $ 874,590 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | |
| Depreciation expense | 212,571 | 288,601 | 501,172 |
| Other receipts | 252,876 | - | 252,876 |
| Change in assets/liabilities: | | | |
| Accounts receivable, net | (44,898) | (39,531) | (84,429) |
| Accounts payable | (28,120) | (126,495) | (154,615) |
| Accrued wages and benefits | (1,156) | 7,583 | 6,427 |
| Intergovernmental payable | - | (4,722) | (4,722) |
| Compensated absences | 3,732 | 648 | 4,380 |
| Developer agreements payable | 697,728 | - | 697,728 |
| Customer deposits payable | - | 51,839 | 51,839 |
| Net cash provided by operating activities | $ 1,925,272 | $ 219,974 | $ 2,145,246 |

**Noncash Investing, Capital and Financing Activities:**

Bond issuance costs of $8,013 were amortized in the Water Fund during the year.

The notes to the basic financial statements are an integral part of this statement

TOWN OF BUCKEYE, ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

| | Pension Trust |
|---|---|
| **Assets** | |
| Cash and cash equivalents | $ 209,091 |
| Total assets | $ 209,091 |
| **Net Assets** | |
| Held in trust | $ 209,091 |

The notes to the basic financial statements are an integral part of this statement

# TOWN OF BUCKEYE, ARIZONA
## STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
## FIDUCIARY FUNDS
## FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | Pension Trust |
|---|---|
| Additions | |
| Investment earnings | |
| Net increase in fair value of investments | $ 25,154 |
| Other | 522 |
| Total additions | 25,676 |
| Deductions | |
| Benefits | 12,510 |
| Total deductions | 12,510 |
| Change in net assets | 13,166 |
| Net assets, beginning of year | 195,925 |
| Net assets, end of year | $ 209,091 |

The notes to the basic financial statements are an integral part of this statement

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## *NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

The accompanying financial statements of the Town of Buckeye, Arizona (Town) have been prepared in conformity with U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Town's more significant accounting policies follows.

### A. Reporting Entity

The Town is a municipal government that is governed by a separately elected governing body. It is legally separate from and fiscally independent of other state and local governments. The accompanying financial statements present the Town and its component units, entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Town's operations.

Included within the reporting entity:

The Verrado Community Facilities District No. 1 (formerly Whitestone District No. 1), Sundance Community Facilities District No. 1 and Sundance Community Facilities District No. 2 were formed for the purpose of acquiring and improving public infrastructure in specified land areas. As special purpose districts and separate political subdivisions under the Arizona Constitution, the Districts can levy taxes and issue bonds independently of the Town. Property owners in the designated areas are assessed for District taxes and thus for the costs of operating the Districts. The Town Council serves as the Board of Directors; however, the Town has no liability for the Districts' debt. For financial reporting purposes, transactions of the Districts are combined together and included as if they were part of the Town's operations.

Separate financial statements of the Districts are not prepared.

### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues.*

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to compensated absences and claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Funds.

Property taxes, intergovernmental grants and aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental funds:

The *General Fund* is the Town's primary operating fund. It accounts for all financial resources of the Town, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The *CFD Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term debt of community facilities districts.

The *CFD Capital Projects Fund* accounts for the resources to be used for the acquisition or construction of major capital facilities of the community facilities districts.

The Town reports the following major proprietary funds:

The *Sewer* Fund accounts for the activities of the Town's sewer operations.

The *Water* Fund accounts for the activities of the Town's water operations.

Additionally, the government reports the following fund types:

The *Pension Trust Fund* accounts for the activities of the Volunteer Firefighters' Relief and Pension Fund, which accumulates resources for pension benefit payments to qualified firemen.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for the business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, for governmental activities it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed. For business-type activities, the use of restricted resources is governed by the applicable bond covenants.

**D. Assets, Liabilities, and Net Assets or Equity**

**1. Deposits and Investments**

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

Cash and investments are pooled except for funds required to be held by fiscal agents or restricted under provisions of bond indentures. Interest earned from investments purchased with such pooled monies is allocated to each of the funds based on the average daily cash balances. State statutes authorize the Town to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, towns or duly organized school districts, improvement districts in this state and the State Treasurer's Local Government Investment Pool. Investments are stated at fair value.

**2. Receivables**

All trade receivables are shown net of an allowance for uncollectibles.

Maricopa County levies real property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May. However, a lien against real and personal property assessed attaches on the first day of January preceding assessment and levy thereof.

### 3. Short-term Interfund Receivables/Payables

During the course of operations, individual funds within the Town's pooled cash accounts may borrow money from the other funds within the pool on a short-term basis. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet of the fund financial statements and are eliminated in the preparation of the government-wide financial statements.

### 4. Inventories

Inventories consist of expendable supplies held for consumption. Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

### 5. Restricted Assets

Customer deposits and renewal and replacement funds are classified as restricted assets because their use is limited.

### 6. Capital Assets

Capital assets, which include property, plant, furniture, equipment and vehicles are reported in the governmental and business-type activities column in the government-wide financial statements as applicable and in the proprietary fund statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year.

Property, plant, furniture, equipment and vehicles purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

General infrastructure assets acquired prior to July 1, 2002 are not reported in the basic financial statements. Those assets will be transitioned in over the next three fiscal years in accordance with GASB Statement No. 34.

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

| | |
|---|---|
| Land improvements | 10-20 years |
| Buildings and improvements | 50 years |
| Wastewater system | 50 years |
| Water system | 50 years |
| Improvements other than buildings | 40 years |
| Infrastructure | 50 years |
| Furniture, machinery and equipment | 3-10 years |
| Vehicles | 5-10 years |

## 7. Compensated Absences

The liability for compensated absences reported in the fund financial statements and the government-wide statements consists of unpaid, accumulated leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

## 8. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### 9. Net Assets

In the government-wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt is separately reported because capital assets make up a significant portion of total net assets. Restricted net assets account for the portion of net assets restricted by parties outside the Town. Unrestricted net assets are the remaining net assets not included in the previous two categories.

### 10. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

## *NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY*

### A. Budgetary Information

The Town Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Arizona Revised Statutes, the Town Manager submits a proposed budget for the fiscal year commencing the following July 1 to the Town Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.

2. Public hearings are conducted to obtain taxpayer comment.

3. Prior to the third Monday in August, the expenditure limitation for the Town is legally enacted through passage of an ordinance. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total Town expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).

4. By Arizona Constitution, expenditures may not legally exceed the expenditure limitation described below of all fund types as a whole. For management purposes, the Town adopts a budget by department for the General Fund and in total by fund for other funds. The Town Manager, subject to Town Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity. The adopted budget cannot be amended in any way without Town Council approval.

5. Formal budgetary integration is employed as a management control device during the year for all funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures. See Note 4.C. for exception.

The Town is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the Town to spend more than budgeted revenues plus the carry-over unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The Town complied with this law during the year.

No supplementary budgetary appropriations were necessary during the year.

**B. Excess of Expenditures Over Appropriations**

Expenditures exceeded appropriations in the following funds:

| | Amount of Overexpenditure |
|---|---|
| General Fund: | |
| Administration | $ 227,937 |
| Vehicle maintenance | 38,472 |
| Cemetery | 4,443 |
| Non-departmental | 1,295,501 |
| Airport | 4,112 |
| Public works - administration | 100,528 |
| Social services | 47,014 |
| Cemetary Improvement Fund | 11,230 |

Cash was available to meet all of the overexpenditures above.

*NOTE 3 - DETAILED NOTES ON ALL FUNDS*

**A. Assets**

**1. Deposits and Investments**

Deposits and investments at June 30, 2004 consist of the following:

| | |
|---|---|
| Deposits | |
| Cash on hand | $ 550 |
| Cash in bank | 1,433,221 |
| Cash on deposit with paying agent | 1,133,708 |
| Investments | |
| Cash on deposit with trustee | 9,066,122 |
| Pension Trust Mutual Funds | 211,893 |
| State Treasurer's Investment Pool | 11,027,121 |
| Total deposits and investments | 22,872,615 |
| Restricted assets | (329,033) |
| Fiduciary funds | (209,091) |
| Total cash and equivalents | $ 22,334,491 |

**Deposits** - The Town's deposits at June 30, 2004, were entirely covered by federal depository insurance or by collateral held by the Town's custodial bank in the Town's name.

**Investments** - The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. The shares are not identified with specific investments and are not subject to custodial credit risk. In addition, the pension trust mutual fund is not subject to custodial credit risk. All other investments of the Town are uninsured and unregistered with the securities held by the counterparty's trust department or agent in the Town's name.

**2. Restricted Assets**

Restricted assets in the Enterprise Funds at June 30, 2004 consisted of the following:

| | |
|---|---|
| Renewal and replacement | $ 210,800 |
| Customer deposits | 118,233 |
| | $ 329,033 |

## 3. Receivables

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

| | Unavailable |
|---|---|
| Special assessments not yet due (debt service fund) | $ 4,025,000 |
| Special assessments not yet due (CFD debt service) | 18,062,000 |
| Total deferred revenue | $ 22,087,000 |

## 4. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

| | Beginning Balances | Increases | Decreases | Ending Balances |
|---|---|---|---|---|
| **Governmental Activities:** | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 812,176 | $ - | $ - | $ 812,176 |
| Construction in progress | 3,557,928 | 20,360,076 | (697,390) | 23,220,614 |
| **Total capital assets, not being depreciated** | **4,370,104** | **20,360,076** | **(697,390)** | **24,032,790** |
| Capital assets being depreciated: | | | | |
| Land improvements | 1,366,330 | - | - | 1,366,330 |
| Buildings and improvements | 2,422,564 | 64,279 | - | 2,486,843 |
| Infrastructure | 2,405,943 | 1,663,298 | - | 4,069,241 |
| Furniture, machinery and equipment | 3,886,430 | 348,890 | (34,700) | 4,200,620 |
| Total capital assets being depreciated | 10,081,267 | 2,076,467 | (34,700) | 12,123,034 |
| Less accumulated depreciation for: | | | | |
| Land improvements | (1,081,030) | (25,643) | - | (1,106,673) |
| Buildings and improvements | (943,436) | (91,075) | - | (1,034,511) |
| Infrastructure | (81,264) | (153,543) | - | (234,807) |
| Furniture, machinery and equipment | (2,231,793) | (304,048) | 20,820 | (2,515,021) |
| Total accumulated depreciation | (4,337,523) | (574,309) | 20,820 | (4,891,012) |
| **Total capital assets, being depreciated, net** | **5,743,744** | **1,502,158** | **(13,880)** | **7,232,022** |
| **Governmental activities capital assets, net** | **$ 10,113,848** | **$ 21,862,234** | **$ (711,270)** | **$ 31,264,812** |

| | Beginning Balances | Increases | Decreases | Ending Balances |
|---|---|---|---|---|
| **Business-type Activities:** | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 25,148 | $ - | $ - | $ 25,148 |
| Construction in progress | - | 472,791 | - | 472,791 |
| **Total capital assets, not being depreciated** | **25,148** | **472,791** | **-** | **497,939** |
| Capital assets being depreciated: | | | | |
| Wastewater system | 8,254,999 | - | - | 8,254,999 |
| Water system | 8,509,948 | 254,160 | - | 8,764,108 |
| Buildings and improvements | 4,246,735 | - | - | 4,246,735 |
| Machinery, equipment and vehicles | 307,391 | 22,163 | - | 329,554 |
| Total capital assets being depreciated | 21,319,073 | 276,323 | - | 21,595,396 |
| Less accumulated depreciation for: | | | | |
| Wastewater system | (397,812) | (212,571) | - | (610,383) |
| Water system | (732,087) | (154,566) | - | (886,653) |
| Buildings and improvements | (1,163,773) | (90,022) | - | (1,253,795) |
| Machinery, equipment and vehicles | (171,443) | (44,013) | - | (215,456) |
| Total accumulated depreciation | (2,465,115) | (501,172) | - | (2,966,287) |
| **Total capital assets, being depreciated, net** | **18,853,958** | **(224,849)** | **-** | **18,629,109** |
| **Business-type activities capital assets, net** | **$ 18,879,106** | **$ 247,942** | **$ -** | **$ 19,127,048** |

Depreciation expense was charged to functions/programs as follows:

| | |
|---|---|
| Governmental activities: | |
| General government | $ 32,157 |
| Public safety | 209,152 |
| Highways and streets | 169,388 |
| Culture and recreation | 100,990 |
| Community development | 6,820 |
| Economic development | 55,802 |
| Total depreciation expense-governmental activities | $ 574,309 |
| | |
| Business-type activities: | |
| Sewer | $ 212,571 |
| Water | 288,601 |
| | |
| Total depreciation expense-business-type activities | $ 501,172 |

## 5. Construction Commitments

The Town has active construction projects at June 30, 2004. The projects include street improvements, airport improvements, construction of a fire station, and wastewater treatment plant improvements. At fiscal year end the Town's commitments with contractors were as follows:

Governmental Activities

| Project | Spent-to-date | Remaining Commitment |
|---|---|---|
| Street improvements | $ 22,292,646 | $ 42,191 |
| Airport improvements | 847,566 | 584,434 |
| Fire station | 80,402 | 444,598 |
| | $ 23,220,614 | $ 1,071,223 |

Business-type Activities

| Project | Spent-to-date | Remaining Commitment |
|---|---|---|
| Wastewater treatment plant improvements | $ 472,791 | $ 22,127,209 |

## B. Interfund Receivables, Payables and Transfers

As of June 30, 2004 interfund receivable and payables were as follows:

| | Due From |
|---|---|
| Due To | Nonmajor |
| General Fund | $ 190,821 |
| Total | $ 190,821 |

The above interfund receivables and payables are due to short-term cash borrowings.

Interfund transfers for the year ended June 30, 2004 consisted of the following:

| | Transfers From | | |
|---|---|---|---|
| Transfers To | General Fund | Nonmajor | Total |
| Debt Service Fund | $ - | $ 92,325 | $ 92,325 |
| Nonmajor | 71,400 | - | 71,400 |
| Totals | $ 71,400 | $ 92,325 | $163,725 |

Transfers were made for operations in the applicable fund.

## C. Obligations Under Leases

Capital Leases

The Town has entered into lease agreements as a lessee for financing the acquisition of various furniture, machinery and equipment items for its governmental activities. The Town has also entered into lease agreements as a lessee for financing the acquisition of trucks and a sewer rotator jet for its business-type activities. These lease agreements qualify as capital leases for accounting purposes and; therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

| | Governmental Activities | Business-type Activities |
|---|---|---|
| Asset: | | |
| Furniture, equipment and vehicles | $ 1,823,251 | $ 151,441 |
| Less: accumulated depreciation | (450,000) | (45,000) |
| Total | $ 1,373,251 | $ 106,441 |

Amortization expense has been included in depreciation expense.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2004, were as follows:

| Year Ending June 30, | Governmental Activities | Business-type Activities |
|---|---|---|
| 2005 | $ 291,710 | $ 43,074 |
| 2006 | 227,653 | - |
| 2007 | 130,134 | - |
| 2008 | 130,134 | - |
| 2009 | 130,134 | - |
| 2010-2014 | 184,032 | - |
| Total minimum lease payments | 1,093,797 | 43,074 |
| Less: amount representing interest | (151,110) | (1,972) |
| Present value of minimum lease payments | $ 942,687 | $ 41,102 |

## D. Long-term Obligations

The Town has long-term bonds issued to provide funds for the acquisition and construction of major capital facilities. The Town has also issued debt to refund earlier obligations with higher interest rates. The debt is being repaid by various debt service funds. Compensated absences are paid by the applicable fund where each employee is regularly paid, primarily the General Fund.

Special Assessment districts are created only by petition of the Town Council by property owners within the district areas. The Miller Road Improvement was created so the Town could fund the improvements. Each of the 24 property owners within the District has been assessed taxes by the Town for repayment of the bond. In case of default, the Town has the responsibility to cover delinquencies of special assessment bonds with other sources until foreclosure proceeds are received.

Community facilities districts (CFDs) are created only by petition to the Town Council by property owners within the District areas. As the board of directors for the District, the Town Council has adopted a formal policy that CFD debt will be permitted only when the ratio of full cash value of the District property (prior to improvements being installed), when compared to proposed District debt, is a minimum of 3 to 1 prior to issuance of debt and 5 to 1 or higher after construction of improvements. These ratios are verified by an appraisal paid for by the District and administered by the Town. In addition, cumulative debt of all CFDs cannot exceed 5 percent of the Town's secondary assessed valuation.

Bonds currently outstanding are as follows:

| Purpose | Interest Rates (%) | Amount |
|---|---|---|
| General Obligation Refunding Bonds, Series 1994 | 3.1-5.8 | $ 1,145,000 |
| Miller Road Improvement Bonds | 5.45 | 4,025,000 |
| Street and Highway User Revenue Bonds, Project of 1990, Series A | 6.9-8.75 | 90,000 |
| *Community Facilities District Bonds:* | | |
| Special Assessment Revenue Bonds, Series 2002 | 5.25-7.75 | 11,073,000 |
| Special Assessment Revenue Bonds, Series 2003 | 5.00-7.125 | 6,989,000 |
| Verrado District No. 1, General Obligation Bonds, Series 2003 | 6.0-6.5 | 24,000,000 |
| Total Community Facilities District Bonds | | 42,062,000 |
| Excise Tax Revenue Bonds, Series 2000 | 4.4-5.9 | 2,560,000 |
| Total bonds payable | | $ 49,882,000 |

Changes in long-term obligations for the year ended June 30, 2004 are as follows:

| | July 1, 2003 | Increases | Decreases | June 30, 2004 | Due Within One Year |
|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | |
| Bonds payable: | | | | | |
| General obligation bonds | $ 1,405,000 | $ - | $ (260,000) | $ 1,145,000 | $ 265,000 |
| Improvement bonds | 4,235,000 | - | (210,000) | 4,025,000 | 220,000 |
| Revenue bonds | 170,000 | - | (80,000) | 90,000 | 90,000 |
| Community facilities district bonds | 42,441,000 | - | (379,000) | 42,062,000 | 350,000 |
| Deferred amount for discount | (1,084,103) | - | 48,732 | (1,035,371) | - |
| Total bonds payable | 47,166,897 | - | (880,268) | 46,286,629 | 925,000 |
| Other liabilities: | | | | | |
| Capital leases | 1,020,639 | 234,376 | (312,328) | 942,687 | 240,816 |
| Compensated absences | 367,876 | 242,313 | (137,746) | 472,443 | 137,637 |
| Total other liabilities | 1,388,515 | 476,689 | (450,074) | 1,415,130 | 378,453 |
| Governmental activities long-term liabilities | $ 48,555,412 | $ 476,689 | $ (1,330,342) | $ 47,701,759 | $ 1,303,453 |
| **Business-type Activities:** | | | | | |
| Bonds payable: | | | | | |
| Revenue bonds | $ 2,660,000 | $ - | $ (100,000) | $ 2,560,000 | $ 100,000 |
| Total bonds payable | 2,660,000 | - | (100,000) | 2,560,000 | 100,000 |
| Other liabilities: | | | | | |
| Capital leases | 80,270 | - | (39,168) | 41,102 | 41,102 |
| Compensated absences | 41,703 | 23,523 | (19,143) | 46,083 | 16,815 |
| Total other liabilities | 121,973 | 23,523 | (58,311) | 87,185 | 57,917 |
| Business-type activities long-term liabilities | $ 2,781,973 | $ 23,523 | $ (158,311) | $ 2,647,185 | $ 157,917 |

Debt service requirements on long-term debt at June 30, 2004 are as follows:

| | Governmental Activities | | Business-type Activities | |
|---|---|---|---|---|
| Year Ending June 30 | Principal | Interest | Principal | Interest |
| 2005 | $ 1,262,000 | $ 3,109,938 | $ 100,000 | $ 141,694 |
| 2006 | 1,015,000 | 3,058,064 | 100,000 | 136,894 |
| 2007 | 1,068,000 | 3,000,521 | 100,000 | 131,894 |
| 2008 | 1,722,000 | 2,938,695 | 110,000 | 126,794 |
| 2009 | 1,551,000 | 2,836,386 | 125,000 | 121,156 |
| 2010-2014 | 9,381,000 | 12,616,876 | 690,000 | 502,371 |
| 2015-2019 | 11,949,000 | 9,143,341 | 900,000 | 291,540 |
| 2020-2024 | 12,358,000 | 4,820,313 | 435,000 | 38,940 |
| 2025-2029 | 7,016,000 | 962,594 | - | - |
| | $ 47,322,000 | $ 42,486,728 | $ 2,560,000 | $ 1,491,283 |

## *NOTE 4 - OTHER INFORMATION*

### A. Risk Management

The Town of Buckeye, Arizona, is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member. The limit for basic coverage is for $3,000,000 per occurrence on a claims made basis. Excess coverage is for an additional $3,000,000 per occurrence on a follow form, claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

The Arizona Municipal Risk Retention Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the pool to meet its expected financial obligations. The pool has the authority to assess its members additional premiums should reserves and annual premiums be insufficient to meet the pool's obligations.

The Town is also insured by Arizona Municipal Workers Compensation Fund for potential worker related accidents.

### B. Contingent Liabilities

**Accumulated Sick Leave** - Sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees and, therefore, are not accrued. Unvested accumulated sick leave of Town employees at June 30, 2004, totaled $241,000.

**Lawsuits** - The Town is a defendant in various lawsuits. In the opinion of the Town's attorney the resolution of these matters will not have a material adverse effect on the financial condition of the Town.

## C. Budgetary Basis of Accounting

The adopted budget of the Town was prepared on a basis consistent with U.S. generally accepted accounting principles, with one exception. The present value of net minimum capital lease payments was not budgeted as General and HURF Fund expenditures and other financing sources. Consequently, the following adjustments are necessary to present actual expenditures and other financing sources on a budgetary basis in order to provide a meaningful comparison.

| | General Fund | |
|---|---|---|
| | Total Expenditures | Total Other Financing Sources |
| Combined Statement of Revenues, Expenditures and Changes in Fund Balance | $ 15,356,519 | $ (39,493) |
| Present value of net minimum capital lease payments | (31,907) | (31,907) |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual | $ 15,324,612 | $ (71,400) |

| | HURF Fund | |
|---|---|---|
| | Total Expenditures | Total Other Financing Sources |
| Combined Statement of Revenues, Expenditures and Changes in Fund Balance | $ 910,302 | $ 181,544 |
| Present value of net minimum capital lease payments | (202,469) | (202,469) |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual | $ 707,833 | $ (20,925) |

## D. Subsequent Events

Subsequent to June 30, 2004, the Sundance Community Facilities District issued $5,000,000 of General Obligation Bonds and $2,050,000 of Special Assessment Revenue Bonds.

## E. Retirement Plans

### Arizona State Retirement System

**Plan Description** - The Town contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The system is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

**Funding Policy** - The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rate. For the year ended June 30, 2004, active plan members and the Town were each required by statute to contribute at the actuarially determined rate of 5.70 percent (5.20 percent retirement and .50 percent long-term disability) of the members' annual covered payroll. The Town's contributions to the System for the years ended June 30, 2004, 2003, and 2002 were $172,955, $55,283, and $44,360, respectively, which were equal to the required contributions for the year.

### Public Safety Personnel Retirement System (PSPRS)

**Plan Description** - The Town contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer, public employee retirement system that acts as a common investment and administrative agent to provide retirement and death and disability benefits for public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. All benefit provisions and other requirements are established by State statute. The Public Safety Personnel Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. That report may be obtained by writing to Public Safety Personnel, 1020 E. Missouri Ave., Phoenix, AZ 85014 or by calling (602) 255-5575.

**Funding Policy** - Covered employees are required to contribute 7.65 percent of their annual salary to the PSPRS. The Town is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The current rate is 8.06 percent for police of annual covered payroll.

**Annual Pension Cost** - During the year ended June 30, 2003 (the date of the latest available information), the Town of Buckeye, Arizona's annual pension cost of $104,796 for police was equal to the Town of Buckeye, Arizona's required and actual contributions.

The required contribution was determined as part of the June 30, 2003 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 9.0% per year compounded annually, (b) projected salary increases of 6.5% (including inflation at 5.5%) per year compounded annually, and (c) additional projected salary increases of 0.0% to 3.0% per year attributable to seniority/merit.

The actuarial value of the Town of Buckeye, Arizona's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The Town of Buckeye, Arizona's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2003, was 20 years.
The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board.

**Three-Year Trend Information**

**Police**

| Fiscal Year Ended June 30, | Annual Pension Cost (APC) | Percent Contributed | Net Pension Obligation |
|---|---|---|---|
| 2001 | $ 75,466 | 100.0 % | $ - |
| 2002 | 78,965 | 100.0 | - |
| 2003 | 104,796 | 100.0 | - |

Additional historical trend information for the Town's PSPRS is disclosed on page 54.

Historical trend information is presented in order for a reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

**Firefighters' Relief and Pension Fund**

The Town of Buckeye Volunteer Firefighters' Relief and Pension Fund is a defined contribution pension plan administered by the Town and a board of trustees for the Town's volunteer firefighters.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. According to state statute, a volunteer firefighter who has served for 25 years or more or has reached 60 years of age and has served 20 years or more shall be eligible to receive a monthly retirement not to exceed $150 per month, as determined by the board of trustees. Such pension, if paid, may be increased or decreased in amount, or discontinued at the discretion of the board of trustees. Pension and relief benefits may only be paid from the income of the trust fund. However, a firefighter who leaves the service without being eligible for retirement benefits is entitled to all previous deductions from his salary plus interest at a rate determined by the board of trustees. As established by state statute, in lieu of another acceptable pension plan, all volunteer firefighters must participate in the pension plan from the date they enter service.

The State of Arizona is required by statute to contribute a portion of the annual tax received on fire insurance premiums. During the fiscal year ended June 30, 2004, the Town's required and actual contributions amounted to $-0-, the firefighters' contributions amounted to $-0-; and the State's contributions totaled $-0-.

No pension provision changes occurred during the year that affected the required contributions to be made by the Town or its volunteer firefighters.

The Firefighters' Relief and Pension Fund held no securities of the Town or other related parties during the fiscal years or as of the close of the fiscal year.

# Required Supplementary Information

TOWN OF BUCKEYE, ARIZONA
**REQUIRED SUPPLEMENTARY INFORMATION**
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS

**Police**

| Valuation Date June 30, | Actuarial Value of Assets | Entry Age Actuarial Accrued Liability (AAL) | Percent Funded | Over(Under) funded AAL | Annual Covered Payroll | Over(Under) funded AAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| 1997 | $ 884,699 | $ 907,792 | 97.5 % | $ (23,093) | $ 517,852 | (4.5)% |
| 1998 | 992,748 | 941,256 | 105.5 % | 51,492 | 552,191 | 9.3 % |
| 1999 | 1,236,113 | 1,158,543 | 106.7 % | 77,570 | 547,478 | 14.2 % |
| 2000 | 1,519,082 | 1,332,004 | 114.0 % | 187,078 | 712,162 | 26.3 % |
| 2001 | 1,724,416 | 1,640,004 | 105.1 % | 84,412 | 909,523 | 9.3 % |
| 2002 | 1,852,130 | 1,945,201 | 95.2 % | (93,071) | 970,155 | (9.6)% |
| 2003 | 2,099,097 | 2,053,973 | 102.2 % | 45,124 | 1,299,752 | 3.5 % |

* Information prior to 1997 is not available.

# Combining and Individual Fund Statements and Schedules

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## NONMAJOR GOVERNMENTAL FUNDS

### SPECIAL REVENUE FUNDS

*Highway User Revenue Fund (HURF)* - accounts for the Town's share of motor fuel tax revenues and lottery proceeds.

*Grant Programs Fund* - accounts for the activities of various grants and contributions received by the Town.

*Cemetery Improvement Fund* - accounts for the perpetual care of the Town's cemetery.

### CAPITAL PROJECTS FUND

*Street Improvement Fund* - accounts for the Town's street improvements.

TOWN OF BUCKEYE, ARIZONA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2004

| | Special Revenue | | | Capital Projects | |
|---|---|---|---|---|---|
| | HURF | Grant Programs | Cemetery Improvement | Street Improvement | Total Nonmajor Governmental Funds |
| **Assets** | | | | | |
| Cash and cash equivalents | $ - | $ - | $ 58,357 | $ 133,185 | $ 191,542 |
| Receivables, net | | | | | |
| Accounts receivable | - | - | 438 | 324 | 762 |
| Intergovernmental receivable | 50,803 | 242,347 | - | - | 293,150 |
| Total assets | $ 50,803 | $ 242,347 | $ 58,795 | $ 133,509 | $ 485,454 |
| **Liabilities and Fund Balances** | | | | | |
| Liabilities | | | | | |
| Accrued wages and benefits | $ 4,306 | $ 1,445 | $ - | $ - | $ 5,751 |
| Due to other funds | 32,238 | 158,583 | - | - | 190,821 |
| Total liabilities | 36,544 | 160,028 | - | - | 196,572 |
| Fund balances | | | | | |
| Unreserved | 14,259 | 82,319 | 58,795 | 133,509 | 288,882 |
| Total fund balances | 14,259 | 82,319 | 58,795 | 133,509 | 288,882 |
| Total liabilities and fund balances | $ 50,803 | $ 242,347 | $ 58,795 | $ 133,509 | $ 485,454 |

TOWN OF BUCKEYE, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | Special Revenue | | | Capital Projects | |
|---|---|---|---|---|---|
| | HURF | Grant Programs | Cemetery Improvement | Street Improvement | Total Nonmajor Governmental Funds |
| Revenues | | | | | |
| Intergovernmental | $ 668,203 | $ 769,996 | $ - | $ - | $ 1,438,199 |
| Investment earnings | - | - | 1,728 | 1,672 | 3,400 |
| Other | - | - | 11,965 | - | 11,965 |
| Total Revenues | 668,203 | 769,996 | 13,693 | 1,672 | 1,453,564 |
| Expenditures | | | | | |
| Current | | | | | |
| General government | - | 33,187 | 51,230 | - | 84,417 |
| Public safety | - | 151,838 | - | - | 151,838 |
| Highways and streets | 910,302 | 119,190 | - | 80,000 | 1,109,492 |
| Culture and recreation | - | 174,749 | - | - | 174,749 |
| Health and welfare | - | 205,811 | - | - | 205,811 |
| Total Expenditures | 910,302 | 684,775 | 51,230 | 80,000 | 1,726,307 |
| Excess (deficiency) of revenues over expenditures | (242,099) | 85,221 | (37,537) | (78,328) | (272,743) |
| Other financing sources (uses) | | | | | |
| Transfers in | 71,400 | - | - | - | 71,400 |
| Transfers out | (92,325) | - | - | - | (92,325) |
| Proceeds from capital leases | 202,469 | - | - | - | 202,469 |
| Total other financing sources (uses) | 181,544 | - | - | - | 181,544 |
| Net change in fund balances | (60,555) | 85,221 | (37,537) | (78,328) | (91,199) |
| Fund balances, beginning of year | 74,814 | (2,902) | 96,332 | 211,837 | 380,081 |
| Fund balances, end of year | $ 14,259 | $ 82,319 | $ 58,795 | $ 133,509 | $ 288,882 |

TOWN OF BUCKEYE, ARIZONA
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | Original and Final Budget | Actual | Variance with Final Budget |
|---|---|---|---|
| Revenues | | | |
| Taxes | | | |
| Property taxes | $ 324,770 | $ 332,270 | $ 7,500 |
| Special assessments | 435,085 | 432,604 | (2,481) |
| Other | 21,799 | 3,053 | (18,746) |
| Total Revenues | 781,654 | 767,927 | (13,727) |
| Expenditures | | | |
| Current | | | |
| General government | 20,000 | 10,849 | 9,151 |
| Debt Service | | | |
| Principal retirement | 550,000 | 550,000 | - |
| Interest on long-term debt | 303,979 | 303,522 | 457 |
| Total Expenditures | 873,979 | 864,371 | 9,608 |
| Excess (deficiency) of revenues over expenditures | (92,325) | (96,444) | (4,119) |
| Other financing sources (uses) | | | |
| Transfers in | 92,325 | 92,325 | - |
| Total other financing sources (uses) | 92,325 | 92,325 | - |
| Net change in fund balances | - | (4,119) | (4,119) |
| Fund balances, beginning of year | - | 423,110 | 423,110 |
| Fund balances, end of year | $ - | $ 418,991 | $ 418,991 |

TOWN OF BUCKEYE, ARIZONA
CFD DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | Original and Final Budget | Actual | Variance with Final Budget |
|---|---|---|---|
| Revenues | | | |
| Taxes | | | |
| Property taxes | $ 111,741 | $ 106,401 | $ (5,340) |
| Special assessments | 3,355,448 | 3,051,701 | (303,747) |
| Investment earnings | 25,000 | 22,881 | (2,119) |
| Other | 211,117 | 102,107 | (109,010) |
| Total Revenues | 3,703,306 | 3,283,090 | (420,216) |
| Expenditures | | | |
| Current | | | |
| General government | 231,001 | 78,591 | 152,410 |
| Debt Service | | | |
| Principal retirement | 1,600,000 | 379,000 | 1,221,000 |
| Interest on long-term debt | 3,813,253 | 3,279,207 | 534,046 |
| Total Expenditures | 5,644,254 | 3,736,798 | 1,907,456 |
| Excess (deficiency) of revenues over expenditures | (1,940,948) | (453,708) | 1,487,240 |
| Fund balances, beginning of year | 1,940,948 | 3,600,446 | 1,659,498 |
| Fund balances, end of year | $ - | $ 3,146,738 | $ 3,146,738 |

TOWN OF BUCKEYE, ARIZONA
CFD CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|---|---|---|---|---|
| Revenues | | | | |
| Investment earnings | $ 155,150 | $ 228,150 | $ 108,364 | $ (119,786) |
| Other | 608,590 | 914,288 | 425,245 | (489,043) |
| Total Revenues | 763,740 | 1,142,438 | 533,609 | (608,829) |
| Expenditures | | | | |
| Current | | | | |
| General government | 18,583,740 | 15,138,438 | 153,090 | 14,985,348 |
| Debt Service | | | | |
| Principal retirement | 60,000 | 60,000 | - | 60,000 |
| Capital outlay | 33,316,000 | 39,400,000 | 18,856,338 | 20,543,662 |
| Total Expenditures | 51,959,740 | 54,598,438 | 19,009,428 | 35,589,010 |
| Excess (deficiency) of revenues over expenditures | (51,196,000) | (53,456,000) | (18,475,819) | 34,980,181 |
| Other financing sources (uses) | | | | |
| Proceeds of long-term debt issuance | 51,196,000 | 53,456,000 | - | (53,456,000) |
| Total other financing sources (uses) | 51,196,000 | 53,456,000 | - | (53,456,000) |
| Net change in fund balances | - | - | (18,475,819) | (18,475,819) |
| Fund balances, beginning of year | - | - | 25,926,709 | 25,926,709 |
| Fund balances, end of year | $ - | $ - | $ 7,450,890 | $ 7,450,890 |

TOWN OF BUCKEYE, ARIZONA
HURF FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|---|---|---|---|---|
| Revenues | | | | |
| Intergovernmental | $ 651,918 | $ 651,918 | $ 668,203 | $ 16,285 |
| Total Revenues | 651,918 | 651,918 | 668,203 | 16,285 |
| Expenditures | | | | |
| Current | | | | |
| Highways and streets | 674,593 | 745,993 | 707,833 | 38,160 |
| Total Expenditures | 674,593 | 745,993 | 707,833 | 38,160 |
| Excess (deficiency) of revenues over expenditures | (22,675) | (94,075) | (39,630) | 54,445 |
| Other financing sources (uses) | | | | |
| Transfers in | - | 71,400 | 71,400 | - |
| Transfers out | (92,325) | (92,325) | (92,325) | - |
| Total other financing sources (uses) | (92,325) | (20,925) | (20,925) | - |
| Net change in fund balances | (115,000) | (115,000) | (60,555) | 54,445 |
| Fund balances, beginning of year | 115,000 | 115,000 | 74,814 | (40,186) |
| Fund balances, end of year | $ - | $ - | $ 14,259 | $ 14,259 |

TOWN OF BUCKEYE, ARIZONA
GRANT PROGRAMS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|---|---|---|---|---|
| Revenues | | | | |
| Intergovernmental | $ 1,940,905 | $ 1,192,091 | $ 769,996 | $ (422,095) |
| Other | 50,000 | 50,000 | - | (50,000) |
| Total Revenues | 1,990,905 | 1,242,091 | 769,996 | (472,095) |
| Expenditures | | | | |
| Current | | | | |
| General government | 151,743 | 151,743 | 33,187 | 118,556 |
| Public safety | 1,103,449 | 354,635 | 151,838 | 202,797 |
| Highways and streets | 119,191 | 119,191 | 119,190 | 1 |
| Culture and recreation | 403,617 | 403,617 | 174,749 | 228,868 |
| Health and welfare | 212,905 | 212,905 | 205,811 | 7,094 |
| Total Expenditures | 1,990,905 | 1,242,091 | 684,775 | 557,316 |
| Excess (deficiency) of revenues over expenditures | - | - | 85,221 | 85,221 |
| Fund balances, beginning of year | - | - | (2,902) | (2,902) |
| Fund balances, end of year | $ - | $ - | $ 82,319 | $ 82,319 |

TOWN OF BUCKEYE, ARIZONA
CEMETERY IMPROVEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | Original and Final Budget | Actual | Variance with Final Budget |
|---|---|---|---|
| Revenues | | | |
| Investment earnings | $ 3,300 | $ 1,728 | $ (1,572) |
| Other | 15,000 | 11,965 | (3,035) |
| Total Revenues | 18,300 | 13,693 | (4,607) |
| Expenditures | | | |
| Current | | | |
| General government | 40,000 | 51,230 | (11,230) |
| Total Expenditures | 40,000 | 51,230 | (11,230) |
| Excess (deficiency) of revenues over expenditures | (21,700) | (37,537) | (15,837) |
| Other financing sources (uses) | | | |
| Transfers in | 21,700 | - | (21,700) |
| Total other financing sources (uses) | 21,700 | - | (21,700) |
| Net change in fund balances | - | (37,537) | (37,537) |
| Fund balances, beginning of year | - | 96,332 | 96,332 |
| Fund balances, end of year | $ - | $ 58,795 | $ 58,795 |

TOWN OF BUCKEYE, ARIZONA
STREET IMPROVEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

| | Original and Final Budget | Actual | Variance with Final Budget |
|---|---|---|---|
| Revenues | | | |
| Investment earnings | $ - | $ 1,672 | $ 1,672 |
| Total Revenues | - | 1,672 | 1,672 |
| Expenditures | | | |
| Current | | | |
| Highways and streets | 80,000 | 80,000 | - |
| Total Expenditures | 80,000 | 80,000 | - |
| Excess (deficiency) of revenues over expenditures | (80,000) | (78,328) | 1,672 |
| Fund balances, beginning of year | 80,000 | 211,837 | 131,837 |
| Fund balances, end of year | $ - | $ 133,509 | $ 133,509 |

# C2: Financial Capability – Pulte Home Corporation

10kWIZARD
SEC POWER SEARCH

# FORM 10–Q

## PULTE HOMES INC/MI/ – PHM

**Filed: August 04, 2005 (period: June 30, 2005)**

Quarterly report which provides a continuing view of a company's financial position

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## PART I.

FINANCIAL INFORMATION

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**Item 2.** Management s Discussion And Analysis Of Financial Condition And Results Of Operations

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OTHER INFORMATION

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EX-31.(A)

EX-31.(B)

EX-32 (Certifications required under Section 906 of the Sarbanes-Oxley Act of 2002)

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10–Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2005**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission File Number 1–9804**

# PULTE HOMES, INC.

(Exact name of registrant as specified in its charter)

| **MICHIGAN** | **38–2766606** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**100 Bloomfield Hills Parkway, Suite 300**
**Bloomfield Hills, Michigan 48304**

(Address of principal executive offices) (Zip Code)

**Registrant's telephone number, including area code (248) 647–2750**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days.

YES ☑ NO ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12–b2 of the Exchange Act).

YES ☑ NO ☐

Number of shares of common stock outstanding as of July 31, 2005: 129,232,820

**Website Access to Company Reports, Codes and Charters**

Our internet website address is *www.pulte.com*. Our annual reports on Form 10–K, quarterly reports on Form 10–Q, current reports on Form 8–K and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act are available free of charge through our website as soon as reasonably practicable after we electronically file with or furnish them to the Securities and Exchange Commission. Our code of ethics for principal officers, our corporate governance guidelines and the charters of the Audit, Compensation, and Nominating and Governance committees of our Board of Directors, are also posted on our website and are available in print upon request.

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Rule 13a–14(a) Certification by Richard J. Dugas, Jr. President and CEO
Rule 13a–14(a) Certification by Roger A. Cregg, VP and CFO
Certification Pursuant to 18 United States Code Section 1350

## PART I. FINANCIAL INFORMATION

**Item 1. Financial Statements**

### PULTE HOMES, INC.
### CONDENSED CONSOLIDATED BALANCE SHEETS
### ($000's omitted)

| | June 30, 2005 (Unaudited) | December 31, 2004 (Note) |
|---|---|---|
| **ASSETS** | | |
| Cash and equivalents | $ 450,772 | $ 314,634 |
| Unfunded settlements | 70,427 | 118,471 |
| House and land inventory | 8,703,503 | 7,390,791 |
| Land held for sale | 182,882 | 230,743 |
| Land, not owned, under option agreements | 109,473 | 106,380 |
| Residential mortgage loans available–for–sale | 519,550 | 697,077 |
| Investments in unconsolidated entities | 242,080 | 258,868 |
| Goodwill | 312,975 | 307,693 |
| Intangible assets, net | 131,329 | 135,454 |
| Other assets | 908,082 | 846,786 |
| Total assets | $11,631,073 | $10,406,897 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Liabilities: | | |
| Accounts payable, accrued and other liabilities, including book overdrafts of $377,284 and $304,394 in 2005 and 2004, respectively | $ 1,941,984 | $ 1,862,051 |
| Customer deposits | 480,447 | 341,050 |
| Collateralized short–term debt, recourse solely to applicable non–guarantor subsidiary assets | 455,837 | 617,415 |
| Income taxes | 157,506 | 202,557 |
| Senior notes and unsubordinated notes | 3,510,813 | 2,861,550 |
| Total liabilities | 6,546,587 | 5,884,623 |
| Shareholders' equity | 5,084,486 | 4,522,274 |
| Total liabilities and shareholders' equity | $11,631,073 | $10,406,897 |

Note: The condensed consolidated balance sheet at December 31, 2004, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

See accompanying Notes to Condensed Consolidated Financial Statements.

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# PULTE HOMES, INC.
## CONSOLIDATED STATEMENTS OF OPERATIONS
**(000's omitted, except per share data)**
**(Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| **Revenues:** | | | | |
| Homebuilding | $3,253,456 | $2,490,722 | $5,776,526 | $4,496,985 |
| Financial services | 36,258 | 23,874 | 66,534 | 48,446 |
| Corporate | 1,257 | 562 | 2,505 | 1,459 |
| Total revenues | 3,290,971 | 2,515,158 | 5,845,565 | 4,546,890 |
| **Expenses:** | | | | |
| Homebuilding, principally cost of sales | 2,778,830 | 2,181,021 | 4,954,527 | 3,970,095 |
| Financial services | 21,174 | 16,131 | 42,692 | 31,714 |
| Corporate, net | 30,363 | 24,430 | 54,367 | 45,555 |
| Total expenses | 2,830,367 | 2,221,582 | 5,051,586 | 4,047,364 |
| **Other income:** | | | | |
| Equity income | 23,841 | 10,383 | 38,636 | 17,606 |
| Income from continuing operations before income taxes | 484,445 | 303,959 | 832,615 | 517,132 |
| Income taxes | 180,680 | 115,489 | 310,530 | 196,485 |
| Income from continuing operations | 303,765 | 188,470 | 522,085 | 320,647 |
| Loss from discontinued operations | (54) | (867) | (132) | (1,415) |
| Net income | $ 303,711 | $ 187,603 | $ 521,953 | $ 319,232 |
| **Per share data:** | | | | |
| Basic: | | | | |
| Income from continuing operations | $ 2.37 | $ 1.49 | $ 4.09 | $ 2.55 |
| Loss from discontinued operations | — | (.01) | — | (.01) |
| Net income | $ 2.37 | $ 1.49 | $ 4.09 | $ 2.54 |
| Assuming dilution: | | | | |
| Income from continuing operations | $ 2.30 | $ 1.46 | $ 3.97 | $ 2.49 |
| Loss from discontinued operations | — | (.01) | — | (.01) |
| Net income | $ 2.30 | $ 1.45 | $ 3.97 | $ 2.48 |
| Cash dividends declared | $ .05 | $ .05 | $ .10 | $ .10 |
| Number of shares used in calculation: | | | | |
| Basic: | | | | |
| Weighted–average common shares outstanding | 127,937 | 126,254 | 127,686 | 125,538 |
| Assuming dilution: | | | | |
| Effect of dilutive securities | 3,902 | 3,102 | 3,940 | 3,287 |

| | | | | |
|---|---|---|---|---|
| Adjusted weighted–average common shares and effect of dilutive securities | 131,839 | 129,356 | 131,626 | 128,825 |

See accompanying Notes to Condensed Consolidated Financial Statements.

**PULTE HOMES, INC.**
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**
**($000's omitted)**
**(Unaudited)**

| | Common Stock | Additional Paid-in Capital | Unearned Compensation | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total |
|---|---|---|---|---|---|---|
| **Shareholders' Equity, December 31, 2004** | $1,279 | $1,116,018 | $ (44) | $(14,380) | $3,419,401 | $4,522,274 |
| Stock option exercise, including tax benefit of $24,143 | 12 | 47,302 | | — | — | 47,314 |
| Stock–based compensation | — | 23,144 | — | — | — | 23,144 |
| Restricted stock award | 4 | (4) | — | — | — | — |
| Restricted stock award amortization | — | — | 44 | — | — | 44 |
| Cash dividends declared | — | — | — | — | (12,963) | (12,963) |
| Stock repurchases | (3) | (2,518) | — | — | (18,598) | (21,119) |
| Comprehensive income (loss): | | | | | | |
| Net income | — | — | — | — | 521,953 | 521,953 |
| Change in fair value of derivatives | — | — | — | (324) | — | (324) |
| Foreign currency translation adjustments | — | — | — | 4,163 | — | 4,163 |
| Total comprehensive income | | | | | | 525,792 |
| **Shareholders' Equity, June 30, 2005** | $1,292 | $1,183,942 | $ — | $(10,541) | $3,909,793 | $5,084,486 |
| **Shareholders' Equity, December 31, 2003** | $1,252 | $1,015,991 | $(656) | $(39,142) | $2,470,678 | $3,448,123 |
| Stock option exercise, including tax benefit of $21,505 | 15 | 47,435 | — | — | — | 47,450 |
| Stock–based compensation | — | 10,923 | — | — | — | 10,923 |
| Restricted stock award | 2 | (2) | — | — | — | — |
| Restricted stock award amortization | — | — | 347 | — | — | 347 |
| Cash dividends declared | — | — | — | — | (12,679) | (12,679) |
| Comprehensive income: | | | | | | |
| Net income | — | — | — | — | 319,232 | 319,232 |
| Change in fair value of derivatives | — | — | — | (230) | — | (230) |
| Foreign currency translation adjustments | — | — | — | (1,817) | — | (1,817) |
| Total comprehensive income | | | | | | 317,185 |
| **Shareholders' Equity, June 30, 2004** | $1,269 | $1,074,347 | $(309) | $(41,189) | $2,777,231 | $3,811,349 |

See accompanying Notes to Condensed Consolidated Financial Statements.

**PULTE HOMES, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**($000's omitted)**
**(Unaudited)**

| | For The Six Months Ended June 30, | |
|---|---|---|
| | 2005 | 2004 |
| Cash flows from operating activities: | | |
| Net income | $ 521,953 | $ 319,232 |
| Adjustments to reconcile net income to net cash flows used in operating activities: | | |
| Amortization and depreciation | 28,698 | 22,026 |
| Stock–based compensation expense | 23,188 | 11,270 |
| Deferred income taxes | 34,785 | 18,410 |
| Other, net | (2,113) | (16,631) |
| Increase (decrease) in cash due to: | | |
| Inventories | (1,324,967) | (1,307,949) |
| Residential mortgage loans available–for–sale | 177,527 | 205,646 |
| Other assets | 28,333 | 85,198 |
| Accounts payable, accrued and other liabilities | 193,024 | 117,617 |
| Income taxes | (20,909) | 56,880 |
| Net cash used in operating activities | (340,481) | (488,301) |
| Cash flows from investing activities: | | |
| Investment in subsidiary | (31,172) | — |
| Distributions from unconsolidated entities | 123,180 | 29,846 |
| Investments in unconsolidated entities | (92,042) | (142,290) |
| Proceeds from sales of subsidiaries | 11,366 | — |
| Proceeds from sales of property and equipment | 3,251 | 5,159 |
| Capital expenditures | (37,666) | (38,586) |
| Other, net | — | 503 |
| Net cash used in investing activities | (23,083) | (145,368) |
| Cash flows from financing activities: | | |
| Proceeds from borrowings | 672,011 | 629,747 |
| Repayment of borrowings | (161,608) | (322,744) |
| Issuance of common stock | 23,171 | 25,945 |
| Common stock repurchases | (21,119) | — |
| Dividends paid | (12,963) | (12,679) |
| Net cash provided by financing activities | 499,492 | 320,269 |
| Effect of exchange rate changes on cash and equivalents | 210 | 968 |
| Net increase (decrease) in cash and equivalents | 136,138 | (312,432) |
| Cash and equivalents at beginning of period | 314,634 | 401,883 |
| Cash and equivalents at end of period | $ 450,772 | $ 89,451 |
| Supplemental disclosure of cash flow information—cash paid during the period for: | | |
| Interest, net of amounts capitalized | $ 18,308 | $ 15,220 |
| Income taxes | $ 301,903 | $ 119,994 |

See accompanying Notes to Condensed Consolidated Financial Statements.

**PULTE HOMES, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**

**1. Basis of presentation and significant accounting policies**

The consolidated financial statements include the accounts of Pulte Homes, Inc. and all of its direct and indirect subsidiaries (the "Company") and variable interest entities in which the Company is deemed to be the primary beneficiary. The direct subsidiaries of Pulte Homes, Inc. include Pulte Diversified Companies, Inc., Del Webb Corporation ("Del Webb") and other subsidiaries that are engaged in the homebuilding business. Pulte Diversified Companies, Inc.'s operating subsidiaries include Pulte Home Corporation, Pulte International Corporation ("International") and other subsidiaries that are engaged in the homebuilding business. Pulte Diversified Companies, Inc.'s non–operating thrift subsidiary, First Heights Bank, fsb ("First Heights"), is classified as a discontinued operation. The Company also has a mortgage banking company, Pulte Mortgage LLC ("Pulte Mortgage"), which is a subsidiary of Pulte Home Corporation.

In January 2005, the Company sold all of its Argentina operations. At December 31, 2004, the Argentina operations were classified as held for sale and presented as discontinued operations in the consolidated financial statements.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the instructions to Form 10–Q and Article 10 of Regulation S–X. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six–month periods ended June 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. These financial statements should be read in conjunction with the Company's consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10–K for the year ended December 31, 2004.

Certain amounts previously reported in the 2004 financial statements and notes thereto were reclassified to conform to the 2005 presentation.

*Allowance for warranties*

Home purchasers are provided with warranties against certain building defects. The specific terms and conditions of those warranties vary geographically. Most warranties cover different aspects of the home's construction and operating systems for a period of up to ten years. The Company estimates the costs to be incurred under these warranties and records a liability for the amount of such costs at the time product revenue is recognized. Factors that affect the Company's warranty liability include the number of homes sold, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Changes to the Company's allowance for warranties are as follows ($000's omitted):

| | Six Months Ended June 30, | |
|---|---|---|
| | 2005 | 2004 |
| Allowance for warranties at beginning of period | $ 83,652 | $ 62,091 |
| Warranty reserves provided | 59,825 | 45,217 |
| Payments and other adjustments | (59,676) | (44,400) |
| Allowance for warranties at end of period | $ 83,801 | $ 62,908 |

PULTE HOMES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

**1. Basis of presentation and significant accounting policies (continued)**

*Stock–based compensation*

The Company currently has several stock–based employee compensation plans. Effective January 1, 2003, the Company adopted the preferable fair value recognition provisions of SFAS No. 123, "Accounting for Stock Issued to Employees." The Company selected the prospective method of adoption as permitted by SFAS No. 148, "Accounting for Stock–Based Compensation – Transition and Disclosure." Under the prospective method, the Company recognizes compensation expense on an accelerated basis over the vesting period based on the fair value provisions of SFAS No. 123. Grants made prior to January 1, 2003 continue to be accounted for under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. With the exception of certain variable stock option grants, no stock–based employee compensation cost is reflected in net income for grants made prior to January 1, 2003, as all options granted in those years had an exercise price equal to the market value of the underlying common stock on the date of grant.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to all stock based employee compensation. The fair value of each option grant is estimated on the date of grant using the Black–Scholes option pricing model.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Net income, as reported ($000's omitted) | $303,711 | $187,603 | $521,953 | $319,232 |
| Add: Stock–based employee compensation expense included in reported net income, net of related tax effects ($000's omitted) | 2,761 | 2,306 | 8,016 | 4,918 |
| Deduct: Total stock–based employee compensation expense determined under fair value based method for all awards, net of related tax effects ($000's omitted) | (2,930) | (4,492) | (8,313) | (8,083) |
| Pro forma net income ($000's omitted) | $303,542 | $185,417 | $521,656 | $316,067 |
| Earnings per share: | | | | |
| Basic — as reported | $ 2.37 | $ 1.49 | $ 4.09 | $ 2.54 |
| Basic — pro forma | $ 2.37 | $ 1.47 | $ 4.09 | $ 2.52 |
| Diluted — as reported | $ 2.30 | $ 1.45 | $ 3.97 | $ 2.48 |
| Diluted — pro forma | $ 2.30 | $ 1.43 | $ 3.96 | $ 2.45 |

The Company also recorded compensation expense for restricted stock awards, net of related tax effects, of $3.9 million and $6.5 million for the three and six months ended June 30, 2005, compared with $1.0 million and $2.1 million for the three and six months ended June 30, 2004. These amounts have been excluded from the reconciliation above, as they would have no impact on pro forma net income as presented.

**PULTE HOMES, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
**(Unaudited)**

**1. Basis of presentation and significant accounting policies (continued)**

*Land, not owned, under option agreements*

In the ordinary course of business, the Company enters into land option agreements in order to procure land for the construction of homes in the future. Pursuant to these land option agreements, the Company will provide a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices. Under FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," as amended by FIN 46–R issued in December 2003 (collectively referred to as "FIN 46"), if the entity holding the land under option is a variable interest entity, the Company's deposit represents a variable interest in that entity. Creditors of the variable interest entities have no recourse against the Company.

In applying the provisions of FIN 46, the Company evaluated all land option agreements and determined that the Company was subject to a majority of the expected losses or entitled to receive a majority of the expected residual returns under a limited number of these agreements. As the primary beneficiary under these agreements, the Company is required to consolidate variable interest entities at fair value. At June 30, 2005 and December 31, 2004, the Company classified $109.5 and $106.4 million, respectively, as land, not owned, under option agreements on the balance sheet, representing the fair value of land under contract, including deposits of $15.2 million and $18.9 million, respectively. The corresponding liability has been classified within accounts payable, accrued and other liabilities on the balance sheet.

Land option agreements that did not require consolidation under FIN 46 at June 30, 2005 and December 31, 2004, had a total purchase price of $7.2 billion and $6.3 billion, respectively. In connection with these agreements, the Company had deposits and advanced costs of $375.7 million and $311.7 million, included in other assets, as well as letters of credit and surety bonds posted in lieu of cash deposits at June 30, 2005 and December 31, 2004, respectively.

*New accounting pronouncements*

On December 15, 2004, the Financial Accounting Standards Board issued SFAS No. 123(R), Share–Based Payment, which amends SFAS No. 123, Accounting for Stock–Based Compensation. SFAS No. 123(R) requires that all share–based payments to employees, including grants of employee stock options, be accounted for at fair value. The pro forma disclosures previously permitted under SFAS No. 123 no longer will be an alternative to financial statement recognition. Under SFAS No. 123(R), the Company must determine the appropriate fair value model to be used for valuing share–based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The Company previously adopted the fair–value–based method of accounting for share–based payments under SFAS No. 123 effective January 1, 2003 using the prospective method described in SFAS No. 148, Accounting for Stock–Based Compensation—Transition and Disclosure. Currently, the Company uses the Black–Scholes option pricing model to estimate the value of stock options granted to employees and is considering the lattice model. Because SFAS No. 123(R) must be applied not only to new awards but to previously granted awards that are not fully vested on the effective date, and the Company adopted SFAS No. 123 using the prospective transition method (which applied only to awards granted, modified or settled after the adoption date), compensation cost for some previously granted awards that was not recognized under SFAS No. 123 will be recognized under SFAS No. 123(R). SFAS No. 123(R) also amends SFAS No. 95, Statement of Cash Flows, to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. As originally issued, SFAS No. 95 required all income tax payments to be classified as operating cash outflows. This statement is effective for fiscal periods beginning after December 15, 2005. The Company is still evaluating the impact of adopting SFAS No. 123(R).

**PULTE HOMES, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
**(Unaudited)**

**1. Basis of presentation and significant accounting policies (continued)**

*New accounting pronouncements (continued)*

In March 2005, the SEC released Staff Accounting Bulletin ("SAB") No. 107, Share–Based Payment. SAB No. 107 provides the SEC staff position regarding the application of SFAS No. 123(R) and contains interpretive guidance related to the interaction between SFAS No. 123(R) and certain SEC rules and regulations, as well as provides the staff's views regarding the valuation of share–based payment arrangements for public companies. Additionally, SAB No. 107 highlights the importance of disclosures made related to the accounting for share–based payment transactions. The Company is currently reviewing the effect of SAB No. 107 on its consolidated financial statements.

**2. Segment information**

The Company's operations are classified into two reportable business segments, Homebuilding and Financial Services, and one non–operating segment, Corporate.

The Homebuilding segment consists of the following operations:

- Domestic Homebuilding, the Company's core business, is engaged in the acquisition and development of land primarily for residential purposes within the continental United States and the construction of housing on such land targeted for the first–time, first and second move–up, and active adult home buyers.
- International Homebuilding is primarily engaged in the acquisition and development of land principally for residential purposes, and the construction of housing on such land in Mexico and Puerto Rico.

The Financial Services segment consists principally of mortgage banking and title operations conducted through Pulte Mortgage and other subsidiaries.

Corporate is a non–operating segment that supports the operations of the Company's subsidiaries by acting as the internal source of financing, developing and implementing strategic initiatives centered on new business development and operating efficiencies, and providing the administrative support associated with being a publicly traded entity listed on the New York Stock Exchange.

**PULTE HOMES, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
**(Unaudited)**

**2. Segment information (continued)**

| | Operating Data by Segment ($000's omitted) | | | |
|---|---|---|---|---|
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2005 | 2004 | 2005 | 2004 |
| Revenues: | | | | |
| Homebuilding | $3,253,456 | $2,490,722 | $5,776,526 | $4,496,985 |
| Financial services | 36,258 | 23,874 | 66,534 | 48,446 |
| Corporate | 1,257 | 562 | 2,505 | 1,459 |
| Total revenues | 3,290,971 | 2,515,158 | 5,845,565 | 4,546,890 |
| Cost of sales *(a)*: | | | | |
| Homebuilding | 2,494,195 | 1,940,411 | 4,399,624 | 3,509,245 |
| Selling, general and administrative: | | | | |
| Homebuilding | 274,714 | 230,741 | 537,373 | 443,041 |
| Financial services | 17,905 | 14,655 | 36,622 | 28,740 |
| Corporate | 14,249 | 11,761 | 23,283 | 20,325 |
| Total selling, general and administrative | 306,868 | 257,157 | 597,278 | 492,106 |
| Interest: | | | | |
| Financial services | 3,269 | 1,476 | 6,070 | 2,974 |
| Corporate | 16,160 | 12,673 | 31,155 | 25,205 |
| Total interest | 19,429 | 14,149 | 37,225 | 28,179 |
| Other (income) expense, net: | | | | |
| Homebuilding | 9,921 | 9,869 | 17,530 | 17,809 |
| Corporate | (46) | (4) | (71) | 25 |
| Total other (income) expense, net | 9,875 | 9,865 | 17,459 | 17,834 |
| Total costs and expenses | 2,830,367 | 2,221,582 | 5,051,586 | 4,047,364 |
| Equity income: | | | | |
| Homebuilding | 23,399 | 9,757 | 36,868 | 15,880 |
| Financial services | 442 | 626 | 1,768 | 1,726 |
| Total equity income | 23,841 | 10,383 | 38,636 | 17,606 |
| Income (loss) before income taxes: | | | | |
| Homebuilding | 498,025 | 319,458 | 858,867 | 542,770 |
| Financial services | 15,526 | 8,369 | 25,610 | 18,458 |
| Corporate | (29,106) | (23,868) | (51,862) | (44,096) |
| Total income from continuing operations before income taxes | $ 484,445 | $ 303,959 | $ 832,615 | $ 517,132 |

*(a)*

*Domestic homebuilding interest expense, which represents the amortization of capitalized interest, of $41.1 million and $29.5 million for the three months ended June 30, 2005 and 2004 and $71.6 million and $51.1 million for the six months ended June 30, 2005 and 2004, has been included as part of homebuilding cost of sales.*

PULTE HOMES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

**2. Segment information (continued)**

| | *Asset Data by Segment ($000's omitted)* | | | |
|---|---|---|---|---|
| | Homebuilding | Financial Services | Corporate | Total |
| **At June 30, 2005:** | | | | |
| Inventory | $ 8,703,503 | $ — | $ — | $ 8,703,503 |
| Total assets | 10,994,731 | 564,878 | 71,464 | $11,631,073 |
| **At December 31, 2004:** | | | | |
| Inventory | $ 7,390,791 | $ — | $ — | $ 7,390,791 |
| Total assets | 9,448,050 | 719,505 | 239,342 | $10,406,897 |

**3. Inventory**

Major components of the Company's inventory were as follows ($000's omitted):

| | June 30, 2005 | December 31, 2004 |
|---|---|---|
| Homes under construction | $3,495,754 | $2,616,027 |
| Land under development | 4,302,964 | 4,089,878 |
| Land held for future development | 904,785 | 684,886 |
| Total | $8,703,503 | $7,390,791 |

**4. Investments in unconsolidated entities**

The Company's investments in unconsolidated entities totaled $242.1 million at June 30, 2005 and $258.9 million at December 31, 2004. All of these investments are accounted for under the equity method, except for the Company's ownership interest in a Mexican mortgage banking company, as described below.

During February 2005, 25% of the Company's investment in the capital stock of a mortgage banking company in Mexico was redeemed for a gain of approximately $620 thousand. The remaining ownership interest of 16.66% is accounted for under the cost method.

**5. Acquisition**

During January 2005, the minority shareholders of Pulte Mexico S. de R.L. de C.V. ("Pulte Mexico") exercised a put option under the terms of a reorganization agreement dated as of December 31, 2001, to sell their shares to the Company, the consummation of which has resulted in the Company owning 100% of Pulte Mexico. In March 2005, the Company purchased 60% of the minority interest of Pulte Mexico for approximately $18.7 million in cash. In June 2005, the Company purchased the remaining 40% of the minority interest of Pulte Mexico for approximately $12.5 million in cash. The Company has assigned approximately $17.6 million of the purchase price premium to house and land inventory, which will be amortized through cost of sales as homes are sold. The excess of the purchase price over the estimated fair values of the underlying assets acquired and liabilities assumed, of $5.3 million, was recorded as goodwill.

**PULTE HOMES, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
**(Unaudited)**

**6. Senior notes and unsubordinated notes**

The Company's $125 million, 7.3% unsecured senior notes are due in October 2005. The Company anticipates repaying these notes by using its revolving credit facility and/or cash provided by operations.

In February 2005, the Company sold $350 million of 5.2% senior notes, which mature on February 15, 2015, and $300 million of 6% senior notes, which mature on February 15, 2035, which are guaranteed by Pulte Homes, Inc. and certain of its 100%–owned subsidiaries. These notes are unsecured and rank equally with all of the Company's other unsecured and unsubordinated indebtedness. Proceeds from the sale were used to repay the indebtedness of the Company's revolving credit facility and for general corporate purposes, including continued investment in the Company's business.

In connection with the sale of the $300 million unsecured senior notes, as noted above, $250 million in securities were available for sale under the Company's shelf registration statement on Form S–3. As permitted by the rules of the Securities and Exchange Commission (the "SEC"), the additional $50 million of securities were to be registered through a supplemental registration statement filed at the time of sale pursuant to Rule 462(b) of the Securities Act of 1933 (the "Securities Act"). Due to an administrative error, the supplemental registration statement was not filed with the SEC. Consequently, $50 million of the notes were sold without registration under the Securities Act, which may give rise to certain claims by purchasers of the notes under Section 12(a)(1) of the Securities Act. The Company would vigorously defend against any such claims and believes that the aggregate impact of any such claims, if successful, would be immaterial. The Company further believes it would be impossible to determine which notes have been affected by its administrative error.

During April 2005, the Company amended its credit agreement to increase its committed unsecured revolving credit facility from $1.31 billion to $1.345 billion. During May 2005, the Company amended its credit agreement to increase its committed unsecured revolving credit facility from $1.345 billion to $1.38 billion.

**7. Shareholders' equity**

Pursuant to the $100 million stock repurchase program authorized by the Company's Board of Directors in October 2002, the Company repurchased 115,000 shares and 285,000 shares of Pulte Homes, Inc. common stock in open–market transactions or otherwise, for a total of $9.5 million and $21.1 million, for the three and six months ended June 30, 2005, respectively. As of June 30, 2005, the Company had remaining authorization to purchase common stock aggregating $41.6 million.

On July 27, 2005 the Company's Board of Directors declared a two–for–one stock split of the common stock which will be distributed on September 1, 2005, to shareholders of record as of August 15, 2005.

*Accumulated other comprehensive income (loss)*

The accumulated balances related to each component of other comprehensive income (loss) are as follows ($000's omitted):

| | June 30, 2005 | December 31, 2004 |
|---|---|---|
| Foreign currency translation adjustments: | | |
| Mexico | $(10,355) | $(14,518) |
| Fair value of derivatives, net of income taxes of $(114) in 2005 and $84 in 2004 | (186) | 138 |
| | $(10,541) | $(14,380) |

**PULTE HOMES, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
**(Unaudited)**

## 8. Supplemental Guarantor information

At June 30, 2005, Pulte Homes, Inc. had the following outstanding senior note obligations: (1) $125 million, 7.3%, due 2005, (2) $400 million, 4.875%, due 2009, (3) $200 million, 8.125%, due 2011, (4) $499 million, 7.875%, due 2011, (5) $300 million, 6.25%, due 2013, (6) $500 million, 5.25%, due 2014, (7) $350 million, 5.2%, due 2015, (8) $150 million, 7.625%, due 2017, (9) $300 million, 7.875%, due 2032, (10) $400 million, 6.375%, due 2033, and (11) $300 million, 6%, due 2035. Such obligations to pay principal, premium, if any, and interest are guaranteed jointly and severally on a senior basis by Pulte Homes, Inc.'s 100%–owned Domestic Homebuilding subsidiaries (collectively, the Guarantors). Such guarantees are full and unconditional.

Supplemental consolidating financial information of the Company, specifically including such information for the Guarantors, is presented below. Investments in subsidiaries are presented using the equity method of accounting, except as described in Note 4. Separate financial statements of the Guarantors are not provided as the consolidating financial information contained herein provides a more meaningful disclosure to allow investors to determine the nature of the assets held by and the operations of the combined groups.

PULTE HOMES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

**8. Supplemental Guarantor information (continued)**

CONDENSED CONSOLIDATING BALANCE SHEET
June 30, 2005
($000's omitted)

| | Unconsolidated | | | | |
|---|---|---|---|---|---|
| | Pulte Homes, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminating Entries | Consolidated Pulte Homes, Inc. |
| **ASSETS** | | | | | |
| Cash and equivalents | $ — | $ 416,789 | $ 33,983 | $ — | $ 450,772 |
| Unfunded settlements | — | 95,871 | (25,444) | — | 70,427 |
| House and land inventory | — | 8,499,144 | 204,359 | — | 8,703,503 |
| Land held for sale | — | 182,141 | 741 | — | 182,882 |
| Land, not owned, under option agreements | — | 109,473 | — | — | 109,473 |
| Residential mortgage loans available-for-sale | — | — | 519,550 | — | 519,550 |
| Investments in unconsolidated entities | 1,448 | 207,749 | 32,883 | — | 242,080 |
| Goodwill | — | 306,993 | 5,982 | — | 312,975 |
| Intangible assets, net | — | 131,329 | — | — | 131,329 |
| Other assets | 43,887 | 780,981 | 83,214 | — | 908,082 |
| Investment in subsidiaries | 9,388,760 | 69,569 | 1,345,871 | (10,804,200) | — |
| | $9,434,095 | $10,800,039 | $2,201,139 | $(10,804,200) | $11,631,073 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | |
| Liabilities: | | | | | |
| Accounts payable, accrued and other liabilities | $ 173,047 | $ 1,973,097 | $ 276,287 | $ — | $ 2,422,431 |
| Collateralized short-term debt, recourse solely to applicable non-guarantor subsidiary assets | — | — | 455,837 | — | 455,837 |
| Income taxes | 158,087 | — | (581) | — | 157,506 |
| Senior notes and unsubordinated notes | 3,510,813 | — | — | — | 3,510,813 |
| Advances (receivable) payable — subsidiaries | 507,662 | (589,186) | 81,524 | — | — |
| Total liabilities | 4,349,609 | 1,383,911 | 813,067 | — | 6,546,587 |
| Shareholders' equity | 5,084,486 | 9,416,128 | 1,388,072 | (10,804,200) | 5,084,486 |
| | $9,434,095 | $10,800,039 | $2,201,139 | $(10,804,200) | $11,631,073 |

PULTE HOMES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

**8. Supplemental Guarantor information (continued)**

CONDENSED CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2004
($000's omitted)

| | Unconsolidated | | | | |
|---|---|---|---|---|---|
| | Pulte Homes, Inc. | Guarantor Subsidiaries | Non–Guarantor Subsidiaries | Eliminating Entries | Consolidated Pulte Homes, Inc. |
| **ASSETS** | | | | | |
| Cash and equivalents | $ | $ 185,375 | $ 129,259 | $ — | $ 314,634 |
| Unfunded settlements | — | 158,795 | (40,324) | — | 118,471 |
| House and land inventory | — | 7,224,777 | 166,014 | — | 7,390,791 |
| Land held for sale | — | 230,086 | 657 | — | 230,743 |
| Land, not owned, under option agreements | — | 106,380 | — | — | 106,380 |
| Residential mortgage loans available–for–sale | — | — | 697,077 | — | 697,077 |
| Investments in unconsolidated entities | 44 | 222,358 | 36,466 | — | 258,868 |
| Goodwill | — | 306,993 | 700 | — | 307,693 |
| Intangible assets, net | — | 135,454 | — | — | 135,454 |
| Other assets | 64,807 | 663,967 | 118,012 | — | 846,786 |
| Investment in subsidiaries | 8,725,758 | 75,162 | 2,201,365 | (11,002,285) | — |
| | $8,790,609 | $ 9,309,347 | $3,309,226 | $(11,002,285) | $10,406,897 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | |
| Liabilities: | | | | | |
| Accounts payable, accrued and other liabilities | $ 154,958 | $ 1,758,644 | $ 289,499 | $ — | $ 2,203,101 |
| Collateralized short–term debt, recourse solely to applicable non–guarantor subsidiary assets | — | — | 617,415 | — | 617,415 |
| Income taxes | 203,806 | — | (1,249) | — | 202,557 |
| Senior notes and unsubordinated notes | 2,861,550 | — | — | — | 2,861,550 |
| Advances (receivable) payable — subsidiaries | 1,048,021 | (1,239,413) | 191,392 | — | — |
| Total liabilities | 4,268,335 | 519,231 | 1,097,057 | — | 5,884,623 |
| Shareholders' equity | 4,522,274 | 8,790,116 | 2,212,169 | (11,002,285) | 4,522,274 |
| | $8,790,609 | $ 9,309,347 | $3,309,226 | $(11,002,285) | $10,406,897 |

PULTE HOMES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

**8. Supplemental Guarantor information (continued)**

CONSOLIDATING STATEMENT OF OPERATIONS
For the three months ended June 30, 2005
($000's omitted)

| | Unconsolidated | | | | |
|---|---|---|---|---|---|
| | Pulte Homes, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminating Entries | Consolidated Pulte Homes, Inc. |
| **Revenues:** | | | | | |
| Homebuilding | $ — | $3,213,430 | $ 40,026 | $ — | $3,253,456 |
| Financial services | — | 6,404 | 29,854 | — | 36,258 |
| Corporate | 12 | 1,198 | 47 | — | 1,257 |
| Total revenues | 12 | 3,221,032 | 69,927 | — | 3,290,971 |
| **Expenses:** | | | | | |
| Homebuilding: | | | | | |
| Cost of sales | — | 2,458,880 | 35,315 | — | 2,494,195 |
| Selling, general and administrative and other expense | 4,660 | 275,278 | 4,697 | — | 284,635 |
| Financial services | (258) | 2,251 | 19,181 | — | 21,174 |
| Corporate, net | 35,208 | (2,128) | (2,717) | — | 30,363 |
| Intercompany interest | 44,499 | (44,499) | — | | — |
| Total expenses | 84,109 | 2,689,782 | 56,476 | — | 2,830,367 |
| **Other Income:** | | | | | |
| Equity income | — | 21,999 | 1,842 | — | 23,841 |
| Income (loss) from continuing operations before income taxes and equity in income of subsidiaries | (84,097) | 553,249 | 15,293 | — | 484,445 |
| Income taxes (benefit) | (31,811) | 207,143 | 5,348 | — | 180,680 |
| Income (loss) from continuing operations before equity in income of subsidiaries | (52,286) | 346,106 | 9,945 | — | 303,765 |
| Income (loss) from discontinued operations | (42) | — | (12) | — | (54) |
| Income (loss) before equity in income of subsidiaries | (52,328) | 346,106 | 9,933 | — | 303,711 |
| Equity in income (loss) of subsidiaries: | | | | | |
| Continuing operations | 356,051 | 7,244 | 110,609 | (473,904) | — |
| Discontinued operations | (12) | — | — | 12 | — |
| | 356,039 | 7,244 | 110,609 | (473,892) | — |
| Net income | $303,711 | $ 353,350 | $120,542 | $(473,892) | $ 303,711 |

**PULTE HOMES, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
**(Unaudited)**

**8. Supplemental Guarantor information (continued)**

**CONSOLIDATING STATEMENT OF OPERATIONS**
**For the six months ended June 30, 2005**
**($000's omitted)**

| | Unconsolidated | | | | |
|---|---|---|---|---|---|
| | Pulte Homes, Inc. | Guarantor Subsidiaries | Non–Guarantor Subsidiaries | Eliminating Entries | Consolidated Pulte Homes, Inc. |
| **Revenues:** | | | | | |
| Homebuilding | $ — | $5,699,724 | $ 76,802 | $ — | $5,776,526 |
| Financial services | — | 12,143 | 54,391 | — | 66,534 |
| Corporate | 70 | 2,255 | 180 | — | 2,505 |
| Total revenues | 70 | 5,714,122 | 131,373 | — | 5,845,565 |
| **Expenses:** | | | | | |
| Homebuilding: | | | | | |
| Cost of sales | — | 4,336,107 | 63,517 | — | 4,399,624 |
| Selling, general and administrative and other expense | 8,843 | 533,258 | 12,802 | — | 554,903 |
| Financial services | 1,039 | 4,185 | 37,468 | — | 42,692 |
| Corporate, net | 66,275 | (7,044) | (4,864) | — | 54,367 |
| Intercompany interest | 87,289 | (87,289) | — | — | — |
| Total expenses | 163,446 | 4,779,217 | 108,923 | — | 5,051,586 |
| **Other Income:** | | | | | |
| Equity income | — | 34,651 | 3,985 | — | 38,636 |
| Income (loss) from continuing operations before income taxes and equity in income of subsidiaries | (163,376) | 969,556 | 26,435 | — | 832,615 |
| Income taxes (benefit) | (61,129) | 361,676 | 9,983 | — | 310,530 |
| Income (loss) from continuing operations before equity in income of subsidiaries | (102,247) | 607,880 | 16,452 | — | 522,085 |
| Income (loss) from discontinued operations | (106) | — | (26) | — | (132) |
| Income (loss) before equity in income of subsidiaries | (102,353) | 607,880 | 16,426 | — | 521,953 |
| Equity in income (loss) of subsidiaries: | | | | | |
| Continuing operations | 624,332 | 11,025 | 161,291 | (796,648) | — |
| Discontinued operations | (26) | — | — | 26 | — |
| | 624,306 | 11,025 | 161,291 | (796,622) | — |
| Net income | $ 521,953 | $ 618,905 | $177,717 | $(796,622) | $ 521,953 |

PULTE HOMES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

**8. Supplemental Guarantor information (continued)**

CONSOLIDATING STATEMENT OF OPERATIONS
For the three months ended June 30, 2004
($000's omitted)

| | Unconsolidated | | | | |
|---|---|---|---|---|---|
| | Pulte Homes, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminating Entries | Consolidated Pulte Homes, Inc. |
| **Revenues:** | | | | | |
| Homebuilding | $ — | $2,450,473 | $40,249 | $ — | $2,490,722 |
| Financial services | — | 4,523 | 19,351 | — | 23,874 |
| Corporate | 89 | 301 | 172 | — | 562 |
| Total revenues | 89 | 2,455,297 | 59,772 | — | 2,515,158 |
| **Expenses:** | | | | | |
| Homebuilding: | | | | | |
| Cost of sales | — | 1,907,839 | 32,572 | — | 1,940,411 |
| Selling, general and administrative and other expense | 3,761 | 222,822 | 14,027 | — | 240,610 |
| Financial services | 245 | 1,364 | 14,522 | — | 16,131 |
| Corporate, net | 23,134 | 1,377 | (81) | — | 24,430 |
| Intercompany interest | 26,290 | (26,290) | — | — | — |
| Total expenses | 53,430 | 2,107,112 | 61,040 | — | 2,221,582 |
| **Other Income:** | | | | | |
| Equity income | — | 8,346 | 2,037 | — | 10,383 |
| Income (loss) from continuing operations before income taxes and equity in income of subsidiaries | (53,341) | 356,531 | 769 | — | 303,959 |
| Income taxes (benefit) | (20,359) | 135,678 | 170 | — | 115,489 |
| Income (loss) from continuing operations before equity in income of subsidiaries | (32,982) | 220,853 | 599 | — | 8,470 |
| Income (loss) from discontinued operations | (106) | — | (761) | — | (867) |
| Income (loss) before equity in income of subsidiaries | (33,088) | 220,853 | (162) | — | 187,603 |
| Equity in income of subsidiaries: | | | | | |
| Continuing operations | 221,452 | 3,144 | 59,880 | (284,476) | — |
| Discontinued operations | (761) | — | — | 761 | — |
| | 220,691 | 3,144 | 59,880 | (283,715) | — |
| Net income | $187,603 | $ 223,997 | $59,718 | $(283,715) | $ 187,603 |

PULTE HOMES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

**8. Supplemental Guarantor information (continued)**

CONSOLIDATING STATEMENT OF OPERATIONS
For the six months ended June 30, 2004
($000's omitted)

| | Unconsolidated | | | | |
|---|---|---|---|---|---|
| | Pulte Homes, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminating Entries | Consolidated Pulte Homes, Inc. |
| **Revenues:** | | | | | |
| Homebuilding | $ — | $4,416,155 | $ 80,830 | $ — | $4,496,985 |
| Financial services | — | 8,771 | 39,675 | — | 48,446 |
| Corporate | 89 | 1,078 | 292 | — | 1,459 |
| Total revenues | 89 | 4,426,004 | 120,797 | — | 4,546,890 |
| **Expenses:** | | | | | |
| Homebuilding: | | | | | |
| Cost of sales | — | 3,443,775 | 65,470 | — | 3,509,245 |
| Selling, general and administrative and other expense | 7,586 | 431,310 | 21,954 | — | 460,850 |
| Financial services | 497 | 2,595 | 28,622 | — | 31,714 |
| Corporate, net | 42,899 | 2,741 | (85) | — | 45,555 |
| Intercompany interest | 53,752 | (53,752) | — | — | — |
| Total expenses | 104,734 | 3,826,669 | 115,961 | — | 4,047,364 |
| **Other Income:** | | | | | |
| Equity income | — | 13,927 | 3,679 | — | 17,606 |
| Income (loss) from continuing operations before income taxes and equity in income of subsidiaries | (104,645) | 613,262 | 8,515 | — | 517,132 |
| Income taxes (benefit) | (40,133) | 233,193 | 3,425 | — | 196,485 |
| Income (loss) from continuing operations before equity in income of subsidiaries | (64,512) | 380,069 | 5,090 | — | 320,647 |
| Income (loss) from discontinued operations | (314) | — | (1,101) | — | (1,415) |
| Income (loss) before equity in income of subsidiaries | (64,826) | 380,069 | 3,989 | — | 319,232 |
| Equity in income of subsidiaries: | | | | | |
| Continuing operations | 385,159 | 7,515 | 110,153 | (502,827) | — |
| Discontinued operations | (1,101) | — | — | 1,101 | — |
| | 384,058 | 7,515 | 110,153 | (501,726) | — |
| Net income | $ 319,232 | $ 387,584 | $114,142 | $(501,726) | $ 319,232 |

PULTE HOMES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

**8. Supplemental Guarantor information (continued)**

CONSOLIDATING STATEMENT OF CASH FLOWS
For the six months ended June 30, 2005
($000's omitted)

| | Unconsolidated | | | | |
|---|---|---|---|---|---|
| | Pulte Homes, Inc. | Guarantor Subsidiaries | Non–Guarantor Subsidiaries | Eliminating Entries | Consolidated Pulte Homes, Inc. |
| Cash flows from operating activities: | | | | | |
| Net income | $ 521,953 | $ 618,905 | $ 177,717 | $(796,622) | $ 521,953 |
| Adjustments to reconcile net income to net cash flows provided by (used in) operating activities: | | | | | |
| Equity in income of subsidiaries | (624,306) | (11,025) | (161,291) | 796,622 | — |
| Amortization and depreciation | — | 24,469 | 4,229 | — | 28,698 |
| Stock–based compensation expense | 23,188 | — | — | — | 23,188 |
| Deferred income taxes | 34,028 | (3) | 760 | | 34,785 |
| Other, net | 705 | 387 | (3,205) | — | (2,113) |
| Increase (decrease) in cash due to: | | | | | |
| Inventory | — | (1,309,491) | (15,476) | | (1,324,967) |
| Residential mortgage loans available–for–sale | — | — | 177,527 | — | 177,527 |
| Other assets | (11,522) | 21,302 | 18,553 | — | 28,333 |
| Accounts payable, accrued and other liabilities | 15,098 | 189,974 | (12,048) | — | 193,024 |
| Income taxes | (235,578) | 207,279 | 7,390 | — | (20,909) |
| Net cash provided by (used in) operating activities | (276,434) | (258,203) | 194,156 | — | (340,481) |
| Cash flows from investing activities: | | | | | |
| Dividends received from subsidiaries | 1,362 | 18,000 | — | (19,362) | — |
| Investment in subsidiary | (36,217) | (1,106) | (31,172) | 37,323 | (31,172) |
| Distributions from unconsolidated subsidiaries | — | 122,480 | 700 | — | 123,180 |
| Investments in unconsolidated subsidiaries | — | (92,042) | — | — | (92,042) |
| Proceeds from sales of subsidiaries | — | — | 11,366 | — | 11,366 |
| Proceeds from sales of property and equipment | — | 3,033 | 218 | — | 3,251 |
| Capital expenditures | — | (32,037) | (5,629) | — | (37,666) |
| Net cash provided by (used in) investing activities | (34,855) | 18,328 | (24,517) | 17,961 | (23,083) |

PULTE HOMES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

**8. Supplemental Guarantor information (continued)**

CONSOLIDATING STATEMENT OF CASH FLOWS (continued)
For the six months ended June 30, 2005
($000's omitted)

| | Unconsolidated | | | | |
|---|---|---|---|---|---|
| | Pulte Homes, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminating Entries | Consolidated Pulte Homes, Inc. |
| Cash flows from financing activities: | | | | | |
| Proceeds from borrowings | 648,557 | 23,454 | — | — | 672,011 |
| Repayment of borrowings | — | — | (161,608) | — | (161,608) |
| Capital contributions from parent | — | 7,943 | 29,380 | (37,323) | — |
| Advances (to) from affiliates | (326,357) | 441,254 | (114,897) | — | — |
| Issuance of common stock | 23,171 | — | — | — | 23,171 |
| Common stock repurchases | (21,119) | — | — | — | (21,119) |
| Dividends paid | (12,963) | (1,362) | (18,000) | 19,362 | (12,963) |
| Net cash provided by (used in) financing activities | 311,289 | 471,289 | (265,125) | (17,961) | 499,492 |
| Effect of exchange rate changes on cash and equivalents | — | — | 210 | — | 210 |
| Net increase (decrease) in cash and equivalents | — | 231,414 | (95,276) | — | 136,138 |
| Cash and equivalents at beginning of period | — | 185,375 | 129,259 | — | 314,634 |
| Cash and equivalents at end of period | $ — | $416,789 | $ 33,983 | $ — | $ 450,772 |

PULTE HOMES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

**8. Supplemental Guarantor information (continued)**

CONSOLIDATING STATEMENT OF CASH FLOWS
For the six months ended June 30, 2004
($000's omitted)

| | Unconsolidated | | | | |
|---|---|---|---|---|---|
| | Pulte Homes, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminating Entries | Consolidated Pulte Homes, Inc. |
| Cash flows from operating activities: | | | | | |
| Net income | $ 319,232 | $ 387,584 | $ 114,142 | $(501,726) | $ 319,232 |
| Adjustments to reconcile net income to net cash flows provided by (used in) operating activities: | | | | | |
| Equity in income of subsidiaries | (384,058) | (7,515) | (110,153) | 501,726 | — |
| Amortization and depreciation | — | 18,939 | 3,087 | — | 22,026 |
| Stock-based compensation expense | 11,270 | — | — | — | 11,270 |
| Deferred income taxes | 23,146 | — | (4,736) | — | 18,410 |
| Other, net | 580 | (13,716) | (3,495) | — | (16,631) |
| Increase (decrease) in cash due to: | | | | | |
| Inventory | — | (1,295,263) | (12,686) | — | (1,307,949) |
| Residential mortgage loans available-for-sale | — | — | 205,646 | — | 205,646 |
| Other assets | 49,411 | 15,585 | 20,202 | — | 85,198 |
| Accounts payable, accrued and other liabilities | 1,170 | 119,160 | (2,713) | — | 117,617 |
| Income taxes | (82,849) | 135,678 | 4,051 | — | 56,880 |
| Net cash provided by (used in) operating activities | (62,098) | (639,548) | 213,345 | — | (488,301) |
| Cash flows from investing activities: | | | | | |
| Dividends received from subsidiaries | 8,526 | 11,000 | — | (19,526) | — |
| Investment in subsidiary | (103,000) | (836) | (128,274) | 232,110 | — |
| Distributions from unconsolidated subsidiaries | — | 27,558 | 2,288 | — | 29,846 |
| Investments in unconsolidated subsidiaries | — | (141,889) | (401) | — | (142,290) |
| Proceeds from sales of property and equipment | — | 5,109 | 50 | — | 5,159 |
| Capital expenditures | — | (31,042) | (7,544) | — | (38,586) |
| Other, net | — | — | 503 | — | 503 |
| Net cash provided by (used in) investing activities | (94,474) | (130,100) | (133,378) | 212,584 | (145,368) |

PULTE HOMES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

**8. Supplemental Guarantor information (continued)**

CONSOLIDATING STATEMENT OF CASH FLOWS (continued)
For the six months ended June 30, 2004
($000's omitted)

| | Unconsolidated | | | | |
|---|---|---|---|---|---|
| | Pulte Homes, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminating Entries | Consolidated Pulte Homes, Inc. |
| Cash flows from financing activities: | | | | | |
| Proceeds from borrowings | 626,655 | — | 3,092 | — | 629,747 |
| Repayment of borrowings | — | (133,518) | (189,226) | — | (322,744) |
| Capital contributions from parent | — | 128,273 | 103,837 | (232,110) | — |
| Advances (to) from affiliates | (486,298) | 547,149 | (60,851) | — | — |
| Issuance of common stock | 25,945 | — | — | — | 25,945 |
| Dividends paid | (12,679) | (8,526) | (11,000) | 19,526 | (12,679) |
| Net cash provided by (used in) financing activities | 153,623 | 533,378 | (154,148) | (212,584) | 320,269 |
| Effect of exchange rate changes on cash and equivalents | — | — | 968 | — | 968 |
| Net decrease in cash and equivalents | (2,949) | (236,270) | (73,213) | — | (312,432) |
| Cash and equivalents at beginning of period | 2,949 | 305,356 | 93,578 | — | 401,883 |
| Cash and equivalents at end of period | $ — | $ 69,086 | $ 20,365 | $ — | $ 89,451 |

**Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations**

**Overview**

A summary of our operating results by business segment for the three and six months ended June 30, 2005 and 2004 is as follows ($000's omitted):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Pre–tax income (loss): | | | | |
| Homebuilding operations | $498,025 | $319,458 | $858,867 | $542,770 |
| Financial services operations | 15,526 | 8,369 | 25,610 | 18,458 |
| Corporate | (29,106) | (23,868) | (51,862) | (44,096) |
| Income from continuing operations before income taxes | 484,445 | 303,959 | 832,615 | 517,132 |
| Income taxes | 180,680 | 115,489 | 310,530 | 196,485 |
| Income from continuing operations | 303,765 | 188,470 | 522,085 | 320,647 |
| Loss from discontinued operations | (54) | (867) | (132) | (1,415) |
| Net income | $303,711 | $187,603 | $521,953 | $319,232 |
| Per share data — assuming dilution: | | | | |
| Income from continuing operations | $ 2.30 | $ 1.46 | $ 3.97 | $ 2.49 |
| Loss from discontinued operations | — | (.01) | — | (.01) |
| Net income | $ 2.30 | $ 1.45 | $ 3.97 | $ 2.48 |

A comparison of pre–tax income for the three and six months ended June 30, 2005 and 2004 is as follows:

- Continued strong demand for new homes in many of our markets, market share gains, geographic and product mix shifts, average unit selling price increases and benefits from leveraging construction costs throughout the operations drove pre–tax income of our homebuilding business segment to increase 56% and 58% for the three and six months ended June 30, 2005, respectively. Domestic unit settlements increased 20% and 17%, respectively, for the three and six months ended June 30, 2005, and domestic average unit selling prices increased 10% for both the three and six months ended June 30, 2005. Domestic homebuilding settlement gross margin percentages increased 170 basis points to 23.8% for the three months ended June 30, 2005 and 210 basis points to 24.1% for the six months ended June 30, 2005.

- Pre–tax income of our financial services business segment increased 86% and 39% for the three and six months ended June 30, 2005, respectively, as a result of increased volume originations and the favorable interest rate environment experienced during the second quarter of 2005. The capture rates were 88.0% and 88.4% for the quarters ended June 30, 2005 and 2004, respectively, and 88.3% and 87.4% for the six months ended June 30, 2005 and 2004, respectively.

- Higher net interest expense associated with increased debt funding to support business growth in 2005 and beyond, along with higher compensation related expenses, resulted in an increase in the pre–tax loss of our non–operating Corporate segment of 22% and 18% for the three and six months ended June 30, 2005, respectively.

**Homebuilding Operations**

Our Homebuilding segment consists of the following operations:

- Domestic Homebuilding — We conduct our Domestic Homebuilding operations in 54 markets located throughout 28 states. Domestic Homebuilding offers a broad product line to meet the needs of the first–time, first and second move–up, and active adult homebuyers.
- International Homebuilding — We conduct our International Homebuilding operations through subsidiaries of Pulte International Corporation (International) in Mexico and Puerto Rico. International operations focus on meeting the demand of first–time buyers and middle–to–upper income consumer groups. We are currently in the process of evaluating various long–term strategic alternatives with regard to our International operations.

Certain operating data relating to our homebuilding operations are as follows ($000's omitted):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Homebuilding settlement revenues: | | | | |
| Domestic | $3,155,898 | $2,394,778 | $5,618,007 | $4,337,319 |
| International | 40,026 | 40,249 | 76,802 | 80,830 |
| Total | $3,195,924 | $2,435,027 | $5,694,809 | $4,418,149 |
| Homebuilding settlements units: | | | | |
| Domestic | 10,194 | 8,480 | 18,213 | 15,519 |
| International | 1,542 | 1,533 | 2,805 | 3,080 |
| Total | 11,736 | 10,013 | 21,018 | 18,599 |

*Note: Homebuilding settlement revenues of affiliates, not included in the table above, for the three months ended June 30, 2005 and 2004 were $22,302 and $21,616, respectively; for the six months ended June 30, 2005 and 2004, were $37,116 and $30,166, respectively. Homebuilding unit settlements of affiliates not included in the table above, for the three months ended June 30, 2005 and 2004 were 61 and 78, respectively; for the six months ended June 30, 2005 and 2004 were 111 and 114, respectively.*

*Domestic Homebuilding*

The Domestic Homebuilding business unit represents our core business. Our operations are conducted in 54 markets located throughout 28 states, presented geographically as follows:

*Northeast:* Connecticut, Delaware, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Virginia

*Southeast:* Florida, Georgia, North Carolina, South Carolina, Tennessee

*Midwest:* Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri, Ohio

*Central:* Colorado, New Mexico, Texas

*West:* Arizona, California, Nevada

**Homebuilding Operations (continued)**

*Domestic Homebuilding (continued)*

The following table presents selected unit information for our Domestic Homebuilding operations:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Unit settlements: | | | | |
| Northeast | 868 | 695 | 1,406 | 1,214 |
| Southeast | 2,952 | 2,058 | 5,283 | 3,763 |
| Midwest | 1,147 | 1,163 | 2,048 | 1,936 |
| Central | 1,538 | 1,214 | 2,464 | 2,188 |
| West | 3,689 | 3,350 | 7,012 | 6,418 |
| | 10,194 | 8,480 | 18,213 | 15,519 |
| Net new orders – units: | | | | |
| Northeast | 1,228 | 856 | 2,256 | 1,570 |
| Southeast | 3,717 | 2,426 | 7,434 | 5,195 |
| Midwest | 1,710 | 1,449 | 3,229 | 2,936 |
| Central | 2,291 | 1,605 | 3,911 | 3,181 |
| West | 4,635 | 4,440 | 8,818 | 8,645 |
| | 13,581 | 10,776 | 25,648 | 21,527 |
| Net new orders – dollars ($000's omitted) | $4,406,000 | $3,303,000 | $8,239,000 | $6,456,000 |
| Unit backlog: | | | | |
| Northeast | | | 2,333 | 1,891 |
| Southeast | | | 7,456 | 5,158 |
| Midwest | | | 2,458 | 2,401 |
| Central | | | 2,524 | 2,149 |
| West | | | 8,580 | 8,361 |
| | | | 23,351 | 19,960 |
| Backlog at June 30 – dollars ($000's omitted) | | | $7,775,000 | $6,266,000 |

Continued strong demand for new homes, an increase in the number of active selling communities, and market share expansion drove increases in net new orders, unit settlements and unit backlog, particularly in the Northeast, Southeast and Central regions. For the three and six months ended June 30, 2005, unit net new orders increased 26% and 19% to a record 13,581 and 25,648 units, respectively, compared with the same periods in 2004. The dollar value of net new orders increased 33% and 28%, respectively, for the three and six months ended June 30, 2005, compared with the same periods in 2004. For the quarter ended June 30, 2005, we had 649 active selling communities, an increase of 17% from the same period in the prior year. Unit settlements also set a record for the respective three and six months ended June 30, 2005, at 10,194 and 18,213 units, representing an increase of 20% and 17% over the same periods in 2004. The average selling price for homes closed increased 10% to $310,000 and $308,000 for the respective three and six months ended June 30, 2005 compared with the same periods in 2004. Changes in average selling price reflect a number of factors, including changes in market selling prices, and the mix of product closed during each period. Ending backlog, which represents orders for homes that have not yet closed, grew to a record 23,351 units at June 30, 2005. The dollar value of backlog was up 24% to $7.8 billion.

**Homebuilding Operations (continued)**

*Domestic Homebuilding (continued)*

The following table presents markets that represent 10% or more of total Domestic Homebuilding unit new orders, unit settlements, and settlement revenues for the three and six months ended June 30, 2005 and 2004:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| *Unit net new orders:* | | | | |
| Phoenix | * | 17.9% | 11.2% | 16.2% |
| *Unit settlements:* | | | | |
| Phoenix | 14.0% | 15.6% | 14.9% | 16.1% |
| Las Vegas | * | 10.2% | * | 10.7% |
| *Settlement revenues:* | | | | |
| Phoenix | 13.5% | 13.1% | 13.9% | 13.2% |
| Las Vegas | * | 13.3% | * | 13.9% |

* *Represents less than 10%.*

At June 30, 2005 and December 31, 2004, our Domestic Homebuilding operations controlled approximately 365,700 and 343,400 lots, respectively. Approximately 166,600 and 158,000 lots were owned, and approximately 144,100 and 125,800 lots were under option agreements approved for purchase at June 30, 2005 and December 31, 2004, respectively. In addition, there were approximately 55,000 and 59,600 lots under option agreements, pending approval, at June 30, 2005 and December 31, 2004, respectively. We believe that the strength of our land supply, and our entitlement expertise, will enable us to continue opening new communities during the course of 2005 and beyond.

The total purchase price related to approved land under option for use by our homebuilding operations at future dates approximated $5.3 billion at June 30, 2005. In addition, total purchase price related to land under option pending approval was valued at $2.0 billion at June 30, 2005. Land option agreements, which may be cancelled at our discretion, may extend over several years and are secured by deposits and advanced costs totaling $387.2 million, which are generally non–refundable.

The following table presents a summary of pre–tax income for our Domestic Homebuilding operations for the three and six months ended June 30, 2005 and 2004 ($000's omitted):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Home sale revenue (settlements) | $ 3,155,898 | $ 2,394,778 | $ 5,618,007 | $ 4,337,319 |
| Land sale revenue | 57,532 | 55,695 | 81,717 | 78,836 |
| Home cost of sales *(a)* | (2,405,353) | (1,865,771) | (4,261,821) | (3,382,095) |
| Land cost of sales | (53,527) | (42,068) | (74,286) | (61,680) |
| Selling, general and administrative expense | (267,327) | (223,651) | (521,758) | (429,252) |
| Equity income | 21,557 | 7,908 | 33,609 | 13,212 |
| Other income (expense), net | (10,277) | (8,809) | (17,383) | (15,733) |
| Pre–tax income | $ 498,503 | $ 318,082 | $ 858,085 | $ 540,607 |
| Average sales price | $ 310 | $ 282 | $ 308 | $ 279 |

*(a) Domestic homebuilding interest expense, which represents the amortization of capitalized interest, of $41.1 million and $29.5 million for the three months ended June 30, 2005 and 2004 and $71.6 million and $51.1 million for the six months ended June 30, 2005 and 2004, has been included as*

*part of*
*homebuilding cost*
*of sales.*

**Homebuilding Operations (continued)**

*International Homebuilding*

Our International Homebuilding operations are primarily conducted through subsidiaries of International in Mexico and Puerto Rico. We are currently in the process of evaluating various long–term strategic alternatives with regard to our International operations.

The following table presents selected financial data for our International Homebuilding operations for the three and six months ended June 30, 2005 and 2004 ($000's omitted):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Revenues | $ 40,026 | $ 40,249 | $ 76,802 | $ 80,830 |
| Cost of sales | (35,315) | (32,572) | (63,517) | (65,470) |
| Selling, general and administrative expense | (7,387) | (7,090) | (15,615) | (13,789) |
| Other income (expense), net | 114 | (796) | (188) | (1,415) |
| Minority interest | 242 | (264) | 41 | (661) |
| Equity in income of joint ventures | 1,842 | 1,849 | 3,259 | 2,668 |
| Pre–tax income (loss) | $ (478) | $ 1,376 | $ 782 | $ 2,163 |
| Unit settlements | 1,542 | 1,533 | 2,805 | 3,080 |

*Note: Homebuilding settlement revenues of affiliates, not included in the table above, for the three months ended June 30, 2005 and 2004 were $22,302 and $21,616, respectively; for the six months ended June 30, 2005 and 2004, were $37,116 and $30,166, respectively. Homebuilding unit settlements of affiliates not included in the table above, for the three months ended June 30, 2005 and 2004 were 61 and 78, respectively; for the six months ended June 30, 2005 and 2004 were 111 and 114, respectively.*

During January 2005, the minority shareholders of Pulte Mexico S. de R.L. de C.V. ("Pulte Mexico") exercised a put option under the terms of a reorganization agreement dated as of December 31, 2001, to sell their shares to us, the consummation of which would result in our owning 100% of Pulte Mexico. In March 2005, we purchased 60% of the minority interest of Pulte Mexico for approximately $18.7 million in cash. In June 2005, we purchased the remaining 40% minority interest, for approximately $12.5 million in cash. We assigned approximately $17.6 million of the purchase price premium to house and land inventory, which will be amortized through cost of sales as homes are sold. During the three and six months ended June 30, 2005 approximately $2.7 million of purchase price premium was amortized through cost of sales. The excess of the purchase price over the estimated fair values of the underlying assets acquired and liabilities assumed, of $5.3 million, was recorded as goodwill.

International revenues and unit settlements for the three months ended June 30, 2005 were comparable with the second quarter of 2004. For the six months ended June 30, 2005, international revenues and unit settlements decreased 5% and 8.9%, respectively, compared with the six months ended June 30, 2004. Gross margins decreased approximately 730 basis points to 11.8% for the three months ended June 30, 2005 and 170 basis points to 17.3% for the six months ended June 30, 2005, as compared with the prior year periods, due to the amortization of premium resulting from the purchase of the minority interest in Pulte Mexico discussed above. Selling, general and administrative expenses as a percent of revenues increased to 18.5% from 17.6% for the three–month period and to 20.3% from 17.1% for the six–month period due to increased marketing expenses, new community start–up expenses, and non–recurring administrative costs.

Our operations in Mexico are affected by fluctuations in currency rates for those countries. Transaction gains and losses for the three and six months ended June 30, 2005 and 2004, included in other income (expense), net, were not significant. During the three and six months ended June 30, 2005, we recorded foreign currency translation gains of $2.4 million and $3.5 million, respectively, as a component of accumulated other comprehensive income on the balance sheet. At June 30, 2005, our investments in Puerto Rico and Mexico, net of accumulated foreign currency translation adjustments, approximated $29.6 million and $116 million, respectively. At December 31, 2004, our investment in Puerto Rico and Mexico, net of accumulated foreign currency translation adjustments, approximated $28.8 million, and $72.2 million, respectively.

**Financial Services Operations**

We conduct our financial services business, which includes mortgage and title operations, through Pulte Mortgage and other subsidiaries. Pre–tax income of our financial services operations for the three and six months ended June 30, 2005 was $15.5 million and $25.6 million, respectively, compared with $8.4 million and $18.5 million, respectively, for the prior year periods. Loan originations for the three and six months ended June 30, 2005 increased 19% and 21% to 9,445 and 17,037 mortgages, respectively, compared with the prior year periods.

The following table presents mortgage origination data for our Financial Services operations:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Total originations: | | | | |
| Loans | 9,445 | 7,957 | 17,037 | 14,070 |
| Principal ($000's omitted) | $1,829,200 | $1,495,800 | $3,318,600 | $2,648,500 |
| Originations for Pulte customers: | | | | |
| Loans | 9,235 | 7,037 | 16,450 | 12,472 |
| Principal ($000's omitted) | $1,790,700 | $1,348,400 | $3,218,600 | $2,393,000 |

Mortgage origination unit and principal volume for the three months ended June 30, 2005 increased 19% and 22%, respectively, over the same period in 2004. For the six months ended June 30, 2005, mortgage origination unit and principal volume increased 21% and 25%, respectively, over the same period in 2004. The growth is attributable to volume increases experienced in our homebuilding business and an increase in the average loan size. Our Domestic Homebuilding customers continue to account for the majority of total loan production, representing 98% and 97% of total Pulte Mortgage unit production for the three and six months ended June 30, 2005, respectively, compared with 88% and 89% for the same periods in 2004. Refinancings accounted for approximately 1.1% and 1.6% of total unit originations for the three and six months ended June 30, 2005, respectively, compared with 3.4% and 3.7% for the same periods in the prior year. At June 30, 2005, loan application backlog increased to $5.2 billion as compared with $3.8 billion at June 30, 2004.

Adjustable rate mortgages (ARMs), which generally have a lower profit per loan than fixed rate products, represented 48% of total funded origination dollars and 43% of total funded origination units for the three months ended June 30, 2005, compared with 42% and 40% in the prior year period, respectively. For the six months ended June 30, 2005, ARMs represented 50% of total funded origination dollars and 45% of total funded origination units compared with 37% and 35% in the prior year period, respectively. Interest only mortgages, a component of ARMs, represented 63% of ARMs origination dollars and 52% of ARMs origination units for the three months ended June 30, 2005, compared with 35% and 26% in the prior year period, respectively. For the six months ended June 30, 2005, interest only mortgages represented 63% of ARMs origination dollars and 51% of ARMs origination units, compared with 29% and 21% in the prior year period, respectively.

Income from our title operations increased to $4.5 million and $8.7 million for the three and six months ended June 30, 2005, respectively, from $3.5 million and $6.8 million for the same periods in 2004, respectively. Our minority interest in Su Casita, a Mexican mortgage banking company, contributed income from operations of approximately $700 thousand for the six months ended June 30, 2005. During February 2005, 25% of our investment in the capital stock of Su Casita was redeemed for a gain of approximately $620 thousand. Our remaining interest of 16.66% is accounted for under the cost method of accounting and therefore no income was recorded for the three months ended June 30, 2005. Income for the three and six months ended June 2004, was $200 thousand and $1 million, respectively.

We hedge portions of our forecasted cash flow from sales of closed mortgage loans with derivative financial instruments to minimize the impact of changes in interest rates. We do not use derivative financial instruments for trading purposes.

**Corporate**

Corporate is a non–operating segment that supports the operations of our subsidiaries by acting as the internal source of financing, developing and implementing strategic initiatives centered on new business development and operating efficiencies, and providing the administrative support associated with being a publicly traded entity listed on the New York Stock Exchange. As a result, the corporate segment's operating results will vary from quarter to quarter as these strategic initiatives evolve.

The following table presents results of operations for this segment for the three and six months ended June 30, 2005 and 2004 ($000's omitted):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Net interest expense | $14,903 | $12,111 | $28,650 | $23,746 |
| Other corporate expenses, net | 14,203 | 11,757 | 23,212 | 20,350 |
| Loss before income taxes | $29,106 | $23,868 | $51,862 | $44,096 |

Interest expense, net of interest capitalized into inventory, increased $2.8 million in the three months ended June 30, 2005 and $4.9 million for the six months ended June 30. This is a result of the continued increase in debt levels necessary to support our growth. Interest incurred for the three months ended June 30, 2005 and 2004, excluding interest incurred by our financial services operations, was approximately $60 million and $50.4 million, respectively, and $115.6 million and $99.2 million for the six months ended June 30, 2005 and 2004, respectively.

The increase in other corporate expenses, net for the three and six months ended June 30, 2005 is due primarily to increased compensation–related expense.

Interest capitalized into inventory is charged to home cost of sales based on the cyclical timing of our unit settlements, over a period that approximates the average life cycle of our communities. Interest in inventory has increased primarily as a result of higher levels of indebtedness. Information related to Corporate interest capitalized into inventory is as follows ($000's omitted):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Interest in inventory at beginning of period | $233,711 | $215,253 | $223,591 | $200,584 |
| Interest capitalized | 43,810 | 37,737 | 84,474 | 74,018 |
| Interest expensed | (41,103) | (29,508) | (71,647) | (51,120) |
| Interest in inventory at end of period | $236,418 | $223,482 | $236,418 | $223,482 |

**Liquidity and Capital Resources**

We finance our homebuilding land acquisitions, development and construction activities from internally generated funds and existing credit agreements.

At June 30, 2005, we had cash and equivalents of $450.8 million and $3.5 billion of senior and unsubordinated notes outstanding. Other financing included limited recourse collateralized financing totaling $71.3 million. Sources of our working capital include our cash and equivalents, our $1.38 billion committed unsecured revolving credit facility and Pulte Mortgage's $940 million committed credit arrangements.

During April 2005, we amended our credit agreement to increase our committed unsecured revolving credit facility from $1.31 billion to $1.345 billion. During May 2005, we amended the credit agreement to increase our committed unsecured revolving credit facility from $1.345 billion to $1.38 billion. We had no outstanding borrowings under this unsecured revolving credit facility at June 30, 2005.

Our debt–to–total capitalization, excluding our collateralized debt, was approximately 40.8% at June 30, 2005, and approximately 37.6% net of cash and equivalents. We routinely monitor current operational requirements and financial market conditions to evaluate the use of available financing sources, including securities offerings.

Pulte Mortgage provides mortgage financing for many of our home sales and uses its own funds and borrowings made available pursuant to various committed and uncommitted credit arrangements. At June 30, 2005, Pulte Mortgage had committed credit arrangements of $940 million comprised of a $390 million bank revolving credit facility and a $550 million annual asset–backed commercial paper program.

On July 27, 2005, our Board of Directors declared a two–for–one stock split to be effected in the form of a 100 percent stock dividend. The additional shares of common stock will be distributed on September 1, 2005, to the shareholders of record as of August 15, 2005. We also announced a $.03 per share increase in our quarterly dividend, from $.05 to $.08 on a pre–split basis, an increase of 60%. The quarterly dividend of $.04 per share on a post–split basis will be payable October 3, 2005 to shareholders of record as of September 26, 2005.

Our income tax liability and related effective tax rate are affected by a number of factors. At June 30, 2005, our effective tax rate was 37.3% compared to 38% at June 30, 2004. The reduction in the effective tax rate for 2005 was principally due to the new manufacturing deduction established by the American Jobs Creation Act of 2004. We anticipate that our effective tax rate for 2005 will be approximately 37.3%.

Our net cash used in operating activities for the six months ended June 30, 2005 was $340.5 million, compared with $488.3 million for the six months ended June 30, 2004. Net income for both years was offset primarily by significant investments in land necessary to support the continued growth of the business.

Cash used in investing activities was $23.1 million for the six months ended June 30, 2005, compared with $145.4 million for the six months ended June 30, 2004. During the six months ended June 30, 2005, we invested approximately $31.2 million to purchase our minority shareholders' interest in Pulte Mexico. In addition, we invested approximately $12.5 million in new joint ventures that develop and/or sell land within the United States. Also, we made $79.5 million of additional capital contributions to and received $123.2 million in distributions from our unconsolidated joint ventures for the six months ended June 30, 2005. Further, we incurred approximately $37.7 million in capital expenditures to support the growth of our business.

Net cash provided by financing activities totaled $499.5 million for the six months ended June 30, 2005. Cash inflows from financing activities for the six months ended June 30, 2005 are primarily attributed to the issuance of senior notes. Cash outflows from financing activities for the six months ended June 30, 2005 primarily relate to net repayment of debt from Pulte Mortgage's committed credit arrangements, dividends paid and stock repurchases.

We anticipate repaying our $125 million, 7.3% unsecured senior notes, due in 2005, using our revolving credit facility and/or using cash provided by operations.

During January 2005, the minority shareholders of Pulte Mexico exercised a put option under the terms of a reorganization agreement dated as of December 31, 2001, to sell their shares to us, the consummation of which would result in our owning 100% of Pulte Mexico. In March 2005, we purchased 60% of the minority interest of Pulte Mexico for approximately $18.7 million in cash. In June 2005, we purchased the remaining 40% minority interest, for approximately $12.5 million in cash.

**Liquidity and Capital Resources (continued)**

In February 2005, we sold $350 million of 5.2% senior notes, which mature on February 15, 2015, and $300 million of 6% senior notes, which mature on February 15, 2035, which are guaranteed by Pulte Homes, Inc. and certain of its 100%–owned subsidiaries. These notes are unsecured and rank equally with all of our other unsecured and unsubordinated indebtedness. Proceeds from the sale were used to repay the indebtedness of our revolving credit facility and for general corporate purposes, including continued investment in our business.

In connection with the sale of the $300 million unsecured senior notes, as discussed above, $250 million in securities were available for sale under our shelf registration statement on Form S–3. As permitted by the rules of the Securities and Exchange Commission (the "SEC"), the additional $50 million of securities were to be registered through a supplemental registration statement filed at the time of sale pursuant to Rule 462(b) of the Securities Act of 1933 (the "Securities Act"). Due to an administrative error, the supplemental registration statement was not filed with the SEC. Consequently, $50 million of the notes were sold without registration under the Securities Act, which may give rise to certain claims by purchasers of the notes under Section 12(a)(1) of the Securities Act. We would vigorously defend against any such claims and believe that the aggregate impact of such claims, if successful, would be immaterial. We also believe it would be impossible to determine which notes have been affected by our administrative error.

*Inflation*

We, and the homebuilding industry in general, may be adversely affected during periods of high inflation because of higher land and construction costs. Inflation also increases our financing, labor and material costs. In addition, higher mortgage interest rates significantly affect the affordability of permanent mortgage financing to prospective homebuyers. We attempt to pass to our customers any increases in our costs through increased sales prices. To date, inflation has not had a material adverse effect on our results of operations. However, there is no assurance that inflation will not have a material adverse impact on our future results of operations.

**New Accounting Pronouncements**

On December 15, 2004, the Financial Accounting Standards Board issued SFAS No. 123(R), Share–Based Payment, which amends SFAS No. 123, Accounting for Stock–Based Compensation. SFAS No. 123(R) requires that all share–based payments to employees, including grants of employee stock options, be accounted for at fair value. The pro forma disclosures previously permitted under SFAS No. 123 no longer will be an alternative to financial statement recognition. Under SFAS No. 123(R), we must determine the appropriate fair value model to be used for valuing share–based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. We previously adopted the fair–value–based method of accounting for share–based payments under SFAS No. 123 effective January 1, 2003 using the prospective method described in SFAS No. 148, Accounting for Stock–Based Compensation—Transition and Disclosure. Currently, we use the Black–Scholes model to estimate the value of stock options granted to employees and we are considering the lattice model. Because SFAS No. 123(R) must be applied not only to new awards but to previously granted awards that are not fully vested on the effective date, and because we adopted SFAS No. 123 using the prospective transition method (which applied only to awards granted, modified or settled after the adoption date), compensation cost for some previously granted awards that was not recognized under SFAS No. 123 will be recognized under SFAS No. 123(R). SFAS No. 123(R) also amends SFAS No. 95, Statement of Cash Flows, to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. As originally issued, SFAS No. 95 required all income tax payments to be classified as operating cash outflows. This statement is effective for fiscal periods beginning after December 15, 2005. We are still evaluating the impact of adopting SFAS No. 123(R).

In March 2005, the SEC released Staff Accounting Bulletin ("SAB") No. 107, Share–Based Payment. SAB No. 107 provides the SEC staff position regarding the application of SFAS No. 123(R) and contains interpretive guidance related to the interaction between SFAS No. 123(R) and certain SEC rules and regulations, as well as provides the staff's views regarding the valuation of share–based payment arrangements for public companies. Additionally, SAB No. 107 highlights the importance of disclosures made related to the accounting for share–based payment transactions. The Company is currently reviewing the effect of SAB No. 107 on its consolidated financial statements.

**Critical Accounting Policies and Estimates**

There have been no significant changes to our critical accounting policies and estimates during the six months ended June 30, 2005 compared with those disclosed in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* included in our annual report on Form 10–K for the year ended December 31, 2004.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

*Quantitative disclosure:*

We are subject to interest rate risk on our rate–sensitive financing to the extent long–term rates decline. The following table sets forth, as of June 30, 2005, our rate–sensitive financing obligations, principal cash flows by scheduled maturity, weighted–average interest rates and estimated fair market values ($000's omitted).

| | As of June 30, 2005 for the years ended December 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 | There–after | Total | Fair Value |
| **Rate sensitive liabilities:** | | | | | | | | |
| *Fixed interest rate debt:* | | | | | | | | |
| Senior notes | $125,000 | $ — | $ — | $ — | $400,000 | $2,998,563 | $3,523,563 | $3,752,554 |
| Average interest rate | 7.3% | — | — | — | 4.88% | 6.58% | 6.41% | |
| Limited recourse collateralized financing | $ 42,022 | $ 20,960 | $ 4,642 | $ 2,741 | $ 934 | $ — | $ 71,299 | $ 71,299 |
| Average interest rate | 2.93% | 2.33% | 1.99% | 3.07% | 7.25% | — | 3.05% | |

*Qualitative disclosure:*

This information can be found in Item 7A., *Quantitative and Qualitative Disclosures about Market Risk,* of our Annual Report on Form 10–K for the fiscal year ended December 31, 2004, and is incorporated herein by reference.

**Special Notes Concerning Forward–Looking Statements**

As a cautionary note, except for the historical information contained herein, certain matters discussed in Item 2., *Management's Discussion and Analysis of Financial Condition and Results of Operations* and Item 3., *Quantitative and Qualitative Disclosures About Market Risk*, are "forward–looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward–looking statements involve known risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward–looking statements. Such factors include, among other things, (1) general economic and business conditions; (2) interest rate changes and the availability of mortgage financing; (3) the relative stability of debt and equity markets; (4) competition; (5) the availability and cost of land and other raw materials used in our homebuilding operations; (6) the availability and cost of insurance covering risks associated with our business; (7) shortages and the cost of labor; (8) weather related slowdowns; (9) slow growth initiatives and/or local building moratoria; (10) governmental regulation, including the interpretation of tax, labor and environmental laws; (11) changes in consumer confidence and preferences; (12) required accounting changes; (13) terrorist acts and other acts of war; and (14) other factors over which we have little or no control.

**Item 4. Controls and Procedures**

Management, including our President & Chief Executive Officer and Executive Vice President & Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2005. Based upon, and as of the date of that evaluation, our President & Chief Executive Officer and Executive Vice President & Chief Financial Officer concluded that the disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required.

There has been no change in our internal control over financial reporting during the quarter ended June 30, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

**Issuer Purchases of Equity Securities (1)**

| | (a) Total Number of shares purchased | (b) Average price paid per share | (c) Total number of shares purchased as part of publicly announced plans or programs | (d) Approximate dollar value of shares that may yet be purchased under the plans or programs ($000's omitted) |
|---|---|---|---|---|
| June 1, 2005 through June 30, 2005 | 115,000 | $83.09 | 115,000 | $41,646 |
| Total | 115,000 (2) | $83.09 | 115,000 | |

(1) In October 2002 our Board of Directors authorized the repurchase of $100 million of Pulte Homes, Inc. common stock in open–market transactions or otherwise.

(2) All shares were purchased pursuant to the publicly announced programs.

**Item 4. Submission of Matters to a Vote of Security Holders**

Our Annual Meeting of Shareholders was held on May 12, 2005. The following matters were considered and acted upon, with the results indicated below.

| | Shares Voted For | Shares Withheld |
|---|---|---|
| **Election of Directors – Nominees to Serve a Three Year Term Expiring at the 2008 Annual Meeting:** | | |
| D. Kent Anderson | 113,498,878 | 3,666,824 |
| John J. Shea | 113,332,026 | 3,833,676 |
| William B. Smith | 113,497,961 | 3,667,741 |

**Item 4. Submission of Matters to a Vote of Security Holders (continued)**

| | Shares Voted For | Shares Voted Against | Shares Abstaining |
|---|---|---|---|
| **Ratification of the appointment of the Company's independent accountants by shareholders** | 114,925,662 | 1,530,595 | 709,445 |
| **Amendment to our Articles of Incorporation to increase our authorized shares of common stock to 400,000,000 shares** | 107,847,969 | 8,650,991 | 666,742 |
| **Reapproval of the performance criteria under Pulte's Long Term Incentive Plan** | 111,160,126 | 5,205,935 | 799,641 |

| | Shares Voted For | Shares Voted Against | Shares Abstaining | Broker Non-Votes |
|---|---|---|---|---|
| **Election of Directors by a majority, rather than plurality, vote** | 47,327,463 | 47,785,577 | 8,292,320 | 13,760,342 |

**Item 6. Exhibits**
**(a) Exhibits**
**Exhibit Number and Description**

31(a) Rule 13a–14(a) Certification by Richard J. Dugas, Jr., President and Chief Executive Officer

31(b) Rule 13a–14(a) Certification by Roger A. Cregg, Executive Vice President and Chief Financial Officer

32 Certification Pursuant to 18 United States Code § 1350 and Rule 13a–14(b) of the Securities Exchange Act of 1934

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**PULTE HOMES, INC.**

/s/ Roger A. Cregg
Roger A. Cregg
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

/s/ Vincent J. Frees
Vincent J. Frees
Vice President and Controller
(Principal Accounting Officer)

Date: August 4, 2005

## EXHIBIT INDEX

| Exhibit Number | Description |
|---|---|
| 31(a) | Rule 13a–14(a) Certification by Richard J. Dugas, Jr., President and Chief Executive Officer |
| 31(b) | Rule 13a–14(a) Certification by Roger A. Cregg, Executive Vice President and Chief Financial Officer |
| 32 | Certification Pursuant to 18 United States Code § 1350 and Rule 13a–14(b) of the Securities Exchange Act of 1934 |

EXHIBIT 31(a)

## CHIEF EXECUTIVE OFFICER'S CERTIFICATION

I, Richard J. Dugas, Jr., certify that:

1. I have reviewed this quarterly report on Form 10–Q of Pulte Homes, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and we have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2005

/s/ Richard J. Dugas, Jr.

Richard J. Dugas, Jr.
President and Chief Executive Officer

**EXHIBIT 31(b)**

## CHIEF FINANCIAL OFFICER'S CERTIFICATION

I, Roger A. Cregg, certify that:

1. I have reviewed this quarterly report on Form 10–Q of Pulte Homes, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and we have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2005

/s/ Roger A. Cregg

Roger A. Cregg
Executive Vice President and
Chief Financial Officer

**EXHIBIT 32**

**Certification**
**Pursuant to 18 United States Code § 1350 and**
**Rule 13a–14(b) of the Securities Exchange Act of 1934**

In connection with the Quarterly Report of Pulte Homes, Inc. (the "Company") on Form 10–Q for the period ended June 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned herby certifies that to his knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 4, 2005

/s/ Richard J. Dugas, Jr.
Richard J. Dugas, Jr.
President and Chief Executive
Officer

/s/ Roger A. Cregg
Roger A. Cregg
Executive Vice President and
Chief Financial Officer



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# C3: Financial Capability – Stardust Companies

**Stardust Real Estate Holdings, LLC**
**Consolidated Financial Statements**
**Nine months Ending 9/30/05**

| | |
|---|---|
| **BALANCE SHEET** | |
| **Assets** | |
| Cash | 3,882.29 |
| Letters of Credit | 6,513,447.00 |
| Accounts Receivable | 1,026,257.30 |
| Other Current Assets | 970,323.96 |
| Notes Receivable | 185,160.41 |
| Refundable Deposits | 1,100,000.00 |
| Total Land Held for Resale | 62,939,133.50 |
| Total Land Held for Investment | 39,975,187.20 |
| Investment in Cortessa, LLC | 99,424.83 |
| Investment in Cortessa II, LLC | 213,068.14 |
| Investment in SC Sun Valley, L.L.C. | 6,044,840.81 |
| Investment in SLF Auto Mall Associates, L.L.C. | 1,869,842.25 |
| Property and Equipment Net of Depreciation | 430,648.40 |
| **Total Assets** | 121,371,216.09 |
| **Liabilities** | |
| Accrued expenses | 3,882,874.96 |
| Notes Payable Secured By Real Estate | |
| Wells Fargo Bank $55MM Base | 21,104,090.59 |
| Arizona Business Bank $6.8MM Loan | 1,275,391.44 |
| Arizona Business Bank $4.0MM Loan | 4,000,000.00 |
| Wells Fargo Bank $20MM Base | 1,519,945.99 |
| Alliance Bank $5.40MM Loan | 5,540,000.00 |
| Total Notes Payable Secured by Real Estate | 33,439,428.02 |
| Notes Payable Unsecured | |
| Other | 5,280,925.02 |
| Stockholder Loans | 451,057.22 |
| Total Notes Payable Unsecured | 5,731,982.24 |
| Refundable Option Deposits | 18,981,141.48 |
| **Total Liabilities** | 62,035,426.70 |
| **Equity** | |
| Contributed Capital | |
| Balance Beginning of Year | 50,000,000.00 |
| Capital Contributed Current Year | |
| Capital Withdrawn Current Year | |
| Total Contributed Capital | 50,000,000.00 |
| Retained Earnings | |
| Prior Period Retained Earnings | 4,662,481.96 |
| Distribution of Prior Year's Earnings to Member | (4,662,481.96) |
| Current Year Earnings (Loss) | 20,008,263.35 |
| Current Year Earnings Distributed to Member | (11,300,000.00) |
| Total Retained Earnings | 8,708,263.35 |
| Minority Interest | 627,526.04 |
| **Total Equity** | 59,335,789.39 |
| **Total Liabilities & Equity** | 121,371,216.09 |

# Appendix D

# D1: Anthem at Sun Valley South Development Agreement

OFFICE COPY

When recorded return to:

Town Clerk
Town of Buckeye
100 North Apache
Buckeye, Arizona 85326

**ORDINANCE NO. 85-00**

**AN ORDINANCE APPROVING A COMMUNITY MASTER PLAN FOR THE DEVELOPMENT CURRENTLY KNOWN AS SUN VALLEY SOUTH COMPRISED OF APPROXIMATELY 11,200 ACRES; APPROVING A DEVELOPMENT AGREEMENT RELATED THERETO AND AUTHORIZING EXECUTION OF SUCH DEVELOPMENT AGREEMENT.**

**WHEREAS**, the Town of Buckeye ("Buckeye") is authorized pursuant to A.R.S. § 9-500.05 to enter into development agreements and generally is authorized to enter into contracts; and

**WHEREAS**, Sun Valley Clearing Account, L.L.C. and WRB-H, L.L.C. (together, the "Developers") are the developers and Sun Valley I Limited Partnership, Sun Valley II Limited Partnership, Land Ventures, L.L.C., Western Settlement I L.L.C., Puerto DeCielo, L.L.C., SV 1350 Limited Partnership, Western Settlement II, L.L.C., Sun Valley-Camelback Limited Partnership, Roamin-Korp, Inc., TJB Family Trust, ALST Western Lands, Inc., Eastern Half Section #8, L.L.C. and WRB-H, L.L.C. are the owners (the "Owners") of approximately 10,880 acres of land bounded generally by the Hassayampa River on the west, the White Tank Mountains on the east, the Northern Avenue alignment on the north and the Camelback Road alignment on the south, as legally described on Exhibit "A" attached hereto (the "Property"); and

**WHEREAS**, the proposed development of the Property as described in the Community Master Plan submitted to the Town by the Developer conforms to the Town of Buckeye General Plan applicable to the Property as of the date of this Ordinance; and

**WHEREAS**, the Development Agreement on file with the Clerk of the Town and the various documents comprising the Community Master Plan provide for various matters relating to the development of the Property, including the duration of the Agreement, the conditions, terms, and requirements applicable to public services and infrastructure and the financing of

same, the permitted uses of the Property and the density and intensity of such uses, the phasing over time of construction and development on the Property, and other matters related to development of the Property; and

**WHEREAS**, the Community Master Plan addresses approximately 320 acres located at the northwest corner of the Thomas and Johnson Road alignments, which property is not currently zoned Planned Community. Developer and the Town desire that such property be included in the Community Master Plan upon rezoning of the property to the Planned Community Zoning District.

**NOW THEREFORE BE IT ORDAINED**, by the Mayor and Town Council of the Town of Buckeye, Arizona, that:

1. The Development Agreement between the Town of Buckeye and the Developers and consented to by the Owners, and the Community Master Plan for the Property, are hereby approved, adopted, and made a part hereof as if fully set out in this Ordinance.

2. Upon rezoning of the approximate 320 acres located at the northwest corner of the alignments of Thomas and Johnson Roads to the Planned Community Zoning District, the Town shall take such actions as necessary to recognize the incorporation of such property in the Community Master Plan adopted as part of this Ordinance.

3. All ordinances and parts of ordinances in conflict with this Ordinance are hereby superceded to the extent of any conflict.

4. The Mayor or Town Manager of Buckeye is authorized to and shall execute the Development Agreement, provided, however, such Agreement may contain such additional nonmaterial insertions, omissions and changes as shall be approved by the party executing the Agreement.

**PASSED AND ADOPTED** by the Mayor and Town Council of the Town of Buckeye, Arizona this 4th day of October, 2000.

Alan Newberry, Vice Mayor

ATTEST:

Town Clerk

APPROVED AS TO FORM:

Scott Ruby, Special Counsel

Attachment: Exhibit A – Legal Description



SWR:gmh 363212.03 10/04/00

## SUN VALLEY SOUTH
## OVERALL LEGAL DESCRIPTION

The south half of Section1;
All of Sections 2, 3, 4, 5, 6 and 7;
The east half of Section 8;
All of Sections 9, 10, 11 and 13;
Lots 1, 2, 4 and 7 through 16, inclusive, of Section 14;
Lots 1 through 8, inclusive, of Section 15, except any portion thereof lying within the south half of Lots 6 and 7;
The north half of Section 16;
Lots 6 through 20, inclusive, of Section 19;

All in Township 2 North, Range 4 West of the Gila and Salt River Meridian, Maricopa County, Arizona, and;

The east half and the east half of the west half of Section 11;
All of Section12;
The south half of Section 13;
The east half of Section 14;
The east half of Section 24;

All in Township 2 North, Range 5 West of the Gila and Salt River Meridian; Maricopa County, Arizona.

Total Area= 476,500,756.9065 square feet
10,938.9522 acres

Prepared by: CMX GROUP INC.
Project No. 6359
July 7, 2000

EXHIBIT A

Hold for P/U

OFFICIAL RECORDS OF
MARICOPA COUNTY RECORDER
HELEN PURCELL
2000-0787997 10/13/2000 01:58
RAQUEL 1 OF 1

When Recorded, Return to:

Joseph A. Blanton, Manager
100 North Apache
Suite A
Buckeye, Arizona 85326

# DEVELOPMENT AGREEMENT

**DATED October 4, 2000**

**BETWEEN THE TOWN OF BUCKEYE,**

**SUN VALLEY CLEARING ACCOUNT, L.L.C.,**

**AND**

**WRB-H, L.LC.**

SWR:jmp 364112.02 10/04/00

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Exhibits:

Exhibit A Legal Description of Land

Exhibit B Depiction of Land

# DEVELOPMENT AGREEMENT

1. **Date.** The date of this Development Agreement ("Agreement") is Oct. 4, 2000.

2. **Parties.** The parties to this Agreement are:

(a) TOWN OF BUCKEYE, ARIZONA
Attention: Joseph A. Blanton, Manager
100 North Apache
Buckeye, Arizona 85326
Facsimile Number: 623.386.7832 ("Town")

(b) SUN VALLEY CLEARING ACCOUNT, L.L.C., an Arizona limited liability company
Attention: Bill Bliss
Mike Musulin
SDI Inc.
15770 North Greenway/Hayden Loop, Suite 104
Scottsdale, Arizona 85260
Facsimile Number: 480.348.7459 ("Sun Valley")

(c) WRB-H, L.L.C.., an Arizona limited liability company
limited liability company
Attention: Bill Bliss
Mike Musulin
SDI Inc.
15770 North Greenway/Hayden Loop, Suite 104
Scottsdale, Arizona 85260
Facsimile Number: 480.348.7459 ("WRB")

(Collectively, Sun Valley and WRB are referred to as "Developer" or "Developers")

3. **Background.** The following is the background to this Agreement:

(a) Developers plan to develop approximately 11,200 acres of land currently located in the Town of Buckeye, Arizona, which land is more particularly described in the attached Exhibit A (the "Land") and depicted in the attached Exhibit B. The current owners of the Land are set forth on the signature pages of this Agreement and designated as Owners (the "Owners"). Owners have consented to Developers entering into this Agreement.

(b) Developers intend to develop the Land as a phased master planned development and such phasing plan has been described in the Master Plan (as defined hereafter) and accepted by the Town.

(c) On and before September 26, 2000 the Developers submitted for approval the following documents pertaining to the Land a Traffic Report, Master Potable Water System Study and Plan, Master Wastewater System Study and Plan and Master Drainage Plan and Study, which documents are intended by the Developers to collectively constitute a Community Master Plan (the "Master Plan") pursuant to Section 7-3-3 of the Town of Buckeye Development Code (the "Development Code").

(d) Town and Developers desire to enter into this Agreement pursuant to A.R.S. § 9-500.05 and the Development Code to approve the Master Plan for the Land.

(e) On October 4, 2000 by Ordinance No. 85-00, (the "Ordinance") Town approved this Agreement and the Master Plan.

4. **Agreement.**

For good and valuable consideration, including the benefits to Town and Developers as described above, Town and Developers agree as is more specifically set forth in this Agreement.

5. **Community Master Plan.**

(a) Developers have submitted and the Town has approved the Master Plan pertaining to the Land for development of the Land. The Master Plan is consistent with the Town's General Plan for the Land and the Area Plan for the Land. Master Plan contains the information required by the Laws and Regulations (as defined in this Agreement). The Master Plan shall constitute an amendment to the Area Plan to the extent the Area Plan is modified by the Master Plan. Subject to the amendments and changes to the Laws and Regulations (as defined herein) pursuant to Section 6 of this Agreement, the Master Plan shall control if there is any inconsistency between this Agreement, the General Plan, the Area Plan, the existing Development Code, and the Master Plan.

(b) The types of uses, together with the densities, and intensities of such uses for each development parcel located on the Land as shown on the Master Plan are hereby established.

(c) Town shall permit and Developers shall have the right to develop the Land consistent with this Agreement and the Master Plan, subject to: (i) the submission and approval of a more detailed plan for, (1) each phase of development, if phases are contemplated and required by the Master Plan, (2) each plat, and (3) each site plan, and (ii) compliance with the Laws and Regulations. Subject to the foregoing, the right to develop the Land as provided in the Master Plan is hereby vested and shall not be changed, provided, however, the Town reserves the right to modify, terminate or otherwise change the Master Plan including the right to develop in accordance with the uses, densities, intensities and other standards established by the Master Plan and terminate this Agreement, if material progress has not been made by the Developers or such other persons developing the Land in the construction of the elements of the public

infrastructure required by the Master Plan (such as and primarily the elements relating to water, sewer and streets) within 5 years or has not completed construction of at least: (i). 4% of the residential units shown on the Master Plan within 10 years; (ii) 16% of the residential units shown on the Master Plan within 15 years; (iii) 30% of the residential units shown on the Master Plan within 20 years; (iv) 50% of the residential units and 25% of the commercial uses, which commercial uses shall include any business use generating employment and golf courses, as shown on the Master Plan within 25 years; and (v) 95% of all end product uses shown on the Master Plan within 40 years.

**(d)** The Land may be planned and developed in phases (individually "Phase" and collectively "Phases"). Developers shall have the right to plan and develop more than one Phase at a time, with the location, rate, timing and sequencing to be determined by Developers, provided, however the Town may require a different development phasing plan if such location or sequencing determinations by the Developers materially adversely affect the Town's ability to provide municipal services to the Phase. Notwithstanding the modification or termination deadlines for the Master Plan set forth in paragraph (c) above, any one Phase may be developed pursuant to the Master Plan without change by the Town if the Town Manager determines that the public infrastructure and the end product uses for such Phase have been constructed or have been built, as applicable, in accordance with the time periods set forth in paragraph (c) above.

**(e)** The Town reserves the right to require dedications of part of the Land for schools (in the event school sites are not required to be dedicated by the Master Plan), open space and other public purposes as part of Town's final development approvals in addition to those areas shown on the Master Plan, subject to Developers' rights under applicable United States and Arizona statutory and case law.

**6.** **Laws and Regulations.** The Town of Buckeye Development Code shall govern the development of the Land pursuant to the Master Plan. The Town must be able to regulate the planning and development of the Land and the construction and installation of improvements on the Land in order to serve the best interests of the Town. Consequently, Town reserves the right to amend existing or to adopt new laws, rules, regulations and standards of development for the Town, including resolutions, official policies and procedures and the Development Code (collectively, as amended or adopted from time to time, the "Laws and Regulations"), and subject to the provisions in Section 12 of this Agreement, the Laws and Regulations shall apply to the Land. Notwithstanding the provisions of Section 12 of this Agreement, future Laws and Regulations shall apply to the Land, regardless of the impact on the development of the Land, if such future Laws and Regulations are required or mandated by federal, state or county law or regulation; required or imposed by judicial or regulatory action, or necessary to alleviate or otherwise contain threats to public health or safety.

Any change to the Laws and Regulations as allowed in this section shall not discriminate against Developers and the Land, and any change shall be uniformly applied to all land and landowners at such time such land is within the boundaries of Town. Developers reserve their right to object to and redress the Town as to any amendments or additions to the Laws and Regulations based upon applicable United States and Arizona statutory and case law.

7. **Infrastructure.**

(a) The construction and installation of the water and wastewater facilities, public streets, curbs, gutters, sidewalks and traffic control, directional signs and other public infrastructure and public facilities on the Land as required by the Master Plan and the Laws and Regulations (collectively, the "Infrastructure") shall be subject to and in compliance with the Laws and Regulations. Developers shall cause all the Infrastructure required by the Master Plan to constructed and installed at no cost to the Town. Such Infrastructure may be constructed in segments that correspond to the Phases, if any set forth in the Master Plan. All Infrastructure shall be installed in a workmanlike manner in conformity with the plans and specifications that are submitted to and approved by the Town in connection with the Master Plan or each Phase.

(b) Promptly upon request of the Town, Developers, at no cost to the Town, shall dedicate any Infrastructure that is requested by Town to be dedicated to Town or any other appropriate governmental entity. Developers, at no cost to Town, shall dedicate rights-of-ways or convey public easements necessary for the construction, installation, operation and maintenance of the Infrastructure as required by Town, which rights-of-ways or easements may be located adjacent to or in other public and private rights-of-ways or easements.

(c) Developers shall give to Town a one year warranty for all Infrastructure, which warranty shall begin on the date that Town accepts the Infrastructure as provided in this section. Any material deficiencies in material or workmanship identified by Town's staff during the one-year warranty period shall be brought to the attention of Developer(s), who shall promptly remedy or cause to be remedied such deficiencies to the reasonable satisfaction of Town's staff. Continuing material deficiencies in a particular portion of the Infrastructure shall be sufficient grounds for Town to require (i) an extension of the warranty for a second one year period or, (ii) the proper repair of, or (iii) the removal and reinstallation of, that portion of the Infrastructure that is subject to such continuing deficiencies. Regardless of whether the one year warranty period has expired, the Developers agree to repair any damage to the Infrastructure caused by Developers' construction activities on the Land. Nothing contained herein shall prevent the Town or Developers from seeking recourse against any other third party for damage to the Infrastructure caused by such third party.

Developers shall maintain and repair all Infrastructure comprised of streets, parkways and alleys and all appurtenances thereto at its expense, for a period of two (2) years from the date the Town accepts the Infrastructure. Such maintenance shall consist of all maintenance and repair actions reasonably required by customary engineering industry standards for each item of Infrastructure. Notwithstanding the foregoing, the Developers agree to forever maintain all landscaping located within the public easements and rights-of-way located on the Land and such obligation shall survive the termination or expiration of this Agreement; provided, however, Developers may assign this obligation to one or more home owners associations ("HOA") provided such HOA is legally bound to such landscaping maintenance obligation and has adequate financial ability, acceptable to the Town, to bear such obligation. Once the Town has consented to the assignment of this obligation to an HOA, Developers shall be relieved of any further obligation to maintain the landscaping.

(d) So long as such Infrastructure is constructed in accordance with the approved plans and the requirements of Section 7(a), as verified by the inspection of the completed improvements by the Town Engineer; all punch list items have been completed; and acceptance and service agreement required by Section 11(b) (the "Service Agreement") has been executed and delivered by the Developers with respect to water, sewer, parks, police and fire facilities and any other matters set forth in the Service Agreement, the Town shall promptly thereafter accept such dedication(s) of Infrastructure, and, in the case of streets, parkways and alleys, after the expiration of the two (2) year Developers' maintenance period described in paragraph 7(c) above, shall, at its own cost, maintain, repair and operate such Infrastructure, excepting areas of landscaping, in accordance with reasonable and customary municipal management and operational standards.

8. **Flood Control.** Flood control measures for the Land shall comply with the requirements of the United States Corp of Engineers, and the Laws and Regulations, and, to the extent they are not superceded by the United States Army Corp of Engineers or the Laws and Regulations, the requirements of the Maricopa County Flood Control District.

9. **Community Facilities District.** The Town in accordance with its adopted Community Facilities Guidelines, will consider any requests by Developers of Town to form a community facilities district comprised of the Land in order to aid in financing the cost of the Infrastructure. Nothing contained herein shall be construed to compel the Town to form a community facilities district or for the community facilities district, if formed, to finance any Infrastructure.

10. **Fees and Credits.**

(a) Promptly after the Town submits invoices to Developers, Developers shall pay Town's costs and expenses in connection with the negotiation and preparation of this Agreement.

(b) As the Land is developed, Developers shall pay to Town what are commonly referred to as development, or impact, and hookup fees (collectively, "Development Fees") that are imposed by Town as of or after the date of this Agreement, subject to offsets and credits, as allowed by law.

(c) It is the intent of the parties to allow for a credit to be given against any Development Fee imposed if the Infrastructure or land, if any, is constructed or dedicated by a party other than the Town. No credit will be given for dedication of rights-of-way, easements or other land normally required for public Infrastructure; rather a credit for land dedication is intended for dedications such as regional park sites and municipal buildings.

11. **Services.**

(a) The Town shall, to the extent permitted by current law, include the Land in Town's municipal service area, and, upon construction and installation of the necessary Infrastructure by Developers as provided in or as required by the Laws and Regulations or the Master Plan and with respect to water, provide the Town with an adequate source and supply of water capable of serving the Land for 100 years with potable water, the Town shall provide to the Land such utility and other services in a manner that is similar to that by which Town

provides such utilities and services generally to the residents of Town, including sewer, water, garbage, fire and police. To the extent a court of final jurisdiction determines the Town shall not provide one or more municipal services to all or part of the Land, the Town shall not be liable for any damages, costs or expenses incurred or suffered by the Developers as a result of the Town's inability to serve.

(b) Notwithstanding the foregoing, if the Town determines, utilizing reasonable and customary municipal management, accounting and operational practices, that the Land or portion thereof that is being included in the Town's service area generates insufficient revenues to pay the costs and expenses of providing the water system, water treatment system, wastewater system, police and fire service or other Infrastructure, such as a regional park, to or for such area of the Land, the Developers shall pay to the Town promptly upon receipt of an invoice from the Town, the amount set forth by the Town as the operational deficit to be incurred by the Town in connection with providing municipal services to such area of the Land. The parties agree that the Developers' obligation to pay any operating deficit shall be evidenced by an acceptance and service agreement. The acceptance and service agreement shall, in addition to Developers' obligations, require the Town to assess and collect user fees or rates for each municipal service provided by the Town consisted with the fees or rates established by the Town and uniformly applied for other areas of the Town receiving similar municipal services. Failure by the Developers to promptly pay the amount owed will constitute a breach of this Agreement and the Town may collect such amounts owing by any remedy of law or equity and further may withhold the issuance of building permits for improvements on the Land until such amount is paid.

(c) Since Town does not have a current source of capital to offset the capital expenditures related to police and fire service, the Developers shall do the following in connection with the development of the Land:

i) Dedicate real property parcels of the Land (exclusive of streets and other publicly dedicated parts of the Land) for each police substation and fire station required by the Master Plan or Town when reasonably requested by the Town to serve the Land.

ii) Construct, when required by the Town, a building for each police substation and fire station reasonably required by the Town to serve the Land, or pay funds to the Town sufficient to allow the Town to build such building. The building shall be of a standard design adopted by the Town to adequately serve the Land. At its election and expense, Developers shall have the right to provide temporary police and fire facilities for Town until Town has issued certificates of occupancy for 150 homes on that part of the Land that will be served by the facilities.

12. **Restrictions**. Provided the Developers have met the deadlines set forth in Section 5 (c) of this Agreement and only with respect to any development on that part of the Land for which the major components of the public Infrastructure required to be built by the Master Plan and necessary to serve such development (such major Infrastructure shall consist of water and sewer system improvements and street improvements) has been constructed or material progress has been made in the construction of such major Infrastructure, the Town shall not (i) impose a moratorium, (ii) enforce any Laws or Regulations that directly impose material limitations on the rate, timing or sequencing (other than the Town's ability to require different sequencing pursuant

to Section 5(d) of this Agreement), or (iii) impose any Laws or Regulations which are for anti-growth purposes or as applied to the Land significantly and materially frustrate the density of uses contemplated by the Master Plan for such particular development. This prohibition shall not apply to the extent that a limitation may be (a) required or mandated by County, state or federal laws; (b) required or imposed by judicial or regulatory action; (c) necessary to alleviate or otherwise contain threats to public health or safety. Notwithstanding anything contained in this Section 12, the Town reserves the right to impose a moratorium on any part of the Land for which the major Infrastructure (as described above) has not been constructed or material progress in the construction of such major Infrastructure has not been made, provided, however, the Developers shall have the right to construct such major infrastructure and cause the removal of the moratorium from the Land if the Developers construct the Infrastructure required by Section 5(c) of this Agreement, before the end of the time period relating to construction of public infrastructure set forth in Section 5(c) of this Agreement. Unless Town imposes a moratorium as permitted in this section and subject to all Laws and Regulations, Developers shall be allowed to apply for and receive approvals from Town for development on the Land that is consistent with this Agreement and the Master Plan. Nothing in this Section 12 shall preclude the Developers from exercising their rights under applicable United States and Arizona statutory and case law to object to or redress the Town as to any such moratorium or change in Laws or Regulations.

13. **Growth Boundaries.** The Town, to the extent allowed by applicable law, shall use its reasonable efforts to take such action legally and reasonably available to it to include and keep the Land (for development consistent with this Agreement and the Master Plan) within any boundaries that are established by Town or that Town is required to establish by any current or future law that prohibits or limits the development of land outside of the boundaries. Developers shall reimburse Town for any legal fees and costs paid by Town in connection with any legal action to include or keep the Land within such boundaries. The Developers acknowledge and agree that the Town has included this same language in numerous other development agreements pertaining to other land in the Town and as a result the Town may not be able to accommodate any or all of the Land within any boundaries established by the Town and, accordingly, the Town shall not be liable to the Developers for, from or against any claims, costs or damages of any kind or amount for the Town's failure to include the Land within any such boundaries.

14. **Agriculture Use.** Subject to the consequences described in Section 5 (c) of this Agreement, Developers shall have the right to use or grant rights to use the undeveloped part of the Land for agriculture purposes, including livestock grazing, until such time as development begins on that part of the Land. However, Developers shall use fences, setbacks and other physical buffers to adequately separate the agricultural uses from other uses, and Developers shall utilize agricultural practices to control dust, water runoff and other resulting conditions from the agricultural uses to ensure that such agricultural uses comply with the Laws and Regulations that apply to such agricultural uses.

15. **Covenants, Conditions and Restrictions.** Developers shall have the right to record one or more declaration of covenants, conditions and restrictions ("CC&Rs") for the area of the Master Plan and each phase to govern the private development and use of the Land. The CC&Rs shall be consistent with this Agreement and the Master Plan and all applicable Laws and Regulations, and each of the CC&Rs shall be subject to the prior review and approval of Town to confirm its compliance with this Agreement and the Master Plan.

16. **Representations and Warranties**. As of the date of the execution of this Agreement, the parties represent and warrant to each other as follows ("Representations and Warranties"):

(a) By Developers respectively for themselves only:

i) Developers are Arizona limited liability companies, duly formed and in good standing and duly qualified to do business in Arizona.

ii) Developers have the authority, including the person signing for each Developer, and the right to enter into this Agreement as authorized by the members of the Developers at duly noticed meetings at which quorums were present.

iii) Developers are not prohibited from executing this Agreement by any law, rule, regulation, instrument, agreement, order or judgment.

iv) Developers have not relied on any representations or warranties of Town other than those expressly set forth in this Agreement.

(b) By Town:

i) The Ordinance was approved and enacted at a duly noticed and held public meeting by the Town Council, at which a quorum was present and the execution of this Agreement was authorized.

17. **Cooperation**.

(a) Town and Developers shall each designate a representative to act as a liaison between Town and its various departments and Developers ("Representatives"). The Representatives shall be available at all reasonable times to assist with the performance of the parties under this Agreement. The initial representative for Town ("Town Representative") shall be Joseph A. Blanton, and the initial representative for Developers ("Developers' Representative") shall be Dennis Krahn. Town Representative and Developers' Representative may be changed by the applicable party by giving notice to the other party of the name, title, address and telephone number of the replacement.

(b) Town does and will from time to time, at the election of Town use the assistance of private independent attorneys, accountants, architects, engineers, inspectors and other outside professionals and consultants to assist Town in the process of administering the development of land within the boundaries of Town, including the Land. If Developers desire to have the Town retain additional outside professionals and consultants in connection with the Land, and if Town is willing to do so, Developers shall reimburse Town for all reasonable fees and costs of the professionals and consultants. Although Town shall have the right to retain and control the professionals and consultants, Town shall consider Developers' recommendation in connection with the selection of the additional professionals and consultants.

18. **Conflicts of Interest**. The parties acknowledge that this Agreement is subject to cancellation pursuant to Section 38-511, Arizona Revised Statutes, as amended.

19. **Covenants Running with the Land.** The provisions of this Agreement shall be for the benefit of, and shall be a burden upon, the Land, and the provisions of this Agreement shall be covenants running with the Land, without the necessity of an assignment of this Agreement with the conveyance of any part of the Land. However, the provisions of this Agreement shall terminate as to any Lot (as defined in this Agreement) as provided in the section of this Agreement titled "Duration."

20. **Defaults and Remedies.** Any party to this Agreement shall be in default under this Agreement ("Default") if it fails to pay a fixed amount of money as required under this Agreement within ten (10) days following notice from the other party, or if it fails to satisfy any other term or provision of this Agreement within thirty (30) days following notice from the other party. If a non-monetary Default may not reasonably be cured within the thirty (30) day period, the other party shall not be in Default if it, in good faith, commences with such thirty (30) day period, and proceeds with due diligence, to fully cure the Default. In the event of a Default by Town or Developers, after the mediation process as allowed in this Agreement, the other party shall be entitled to exercise such remedies in law or equity, provided however Developers shall not be entitled to receive or collect any type or amount of consequential damages from the Town. Each part shall use good faith efforts to agree upon and participate in mediation as provided in this Agreement, if mediation is requested by either party. In addition to the remedy of specific performance against Developers, Town shall have the right to withhold the issuance of building permits for improvements on the land affected by such default until the Default is cured by Developers. Nothing contained in this section shall prevent Town from using any remedies or imposing any fines available to it under the Laws and Regulations for a violation or breach by Developers of any Laws and Regulations.

21. **Mediation.**

(a) Any Default of a party or disagreement between the parties ("Disagreement") shall be subject to mediation at the election of either party. The proceeding must be held in the offices of Town. A meeting shall be held promptly between the Town Representative and the Developers' Representative to attempt in good faith to negotiate a resolution of the Default or Disagreement. If within ten (10) days after such meeting the parties have not succeeded in resolving the Default or Disagreement, they shall, within ten (10) days thereafter submit the Default or Disagreement to a mutually acceptable third-party mediator who is acquainted with dispute resolution methods. The mediator shall issue a written decision within thirty (30) days after a Default or Disagreement is submitted to the mediator. The parties shall participate in good faith in the mediation and the mediation process. The mediation shall be non-binding.

(b) The obligation to mediate shall not prevent either party from exercising self-help remedies, such as setoff, or obtaining provisional remedies from a court of competent jurisdiction before, during or after the pendency of any mediation proceeding.

(c) A mediation proceeding shall not delay the implementation by any part of this Agreement that is not the subject of or affected by the mediation.

(d) The costs of mediation, including any mediator's fee, shall be borne equally by the parties. Each party's other costs and expenses shall be borne by the party

incurring them. Reasonable attorney's fees may be awarded, at the discretion of the mediator, to the prevailing party (provided such a party can clearly be determined from the proceedings).

22. **Duration.**

(a) Unless terminated earlier pursuant to Section 5(c) of this Agreement, this Agreement shall automatically terminate as to the Land without the necessity of any notice, agreement or recording by and between the parties forty (40) years after the date of this Agreement. However, unless terminated by the Town pursuant to Section 5(c) of this Agreement, if less than twenty-five percent (25%) of the Land is still subject to this Agreement forty (40) years after the date of this Agreement, this Agreement shall automatically extend without the necessity of any notice, agreement or recording by or between the parties for an additional ten (10) years, for a total of fifty (50) years, at which time this Agreement shall automatically terminate as to the Land without the necessity of any notice, agreement or recording by or between the parties. Upon the termination of this Agreement, neither party shall have any further obligations under this Agreement. However, such termination shall not affect any approval, permit, subdivision map or site plan that has been given, issued or approved by Town for any part of the Land as of the date of such termination. Town is willing to have this Agreement be effective for the period of time set forth in this Agreement because of the large number of acres owned by Developers.

(b) This Agreement shall automatically terminate as to any Lot without the necessity of any notice, agreement or recording by or between the parties anytime the required certificates of occupancy are issued by Town for all buildings on a Lot. A "Lot" (collectively "Lots") shall be any part of the Land, including common areas, that is identified in a recorded residential subdivision plat or site plan that has been approved by Town. This Agreement shall automatically terminate as to any part of the Land that is dedicated by deed, map of dedication or otherwise for Infrastructure and other public or governmental facilities and uses. Nothing contained in this section shall affect any obligation, tax, charge, assessment, encumbrance or other lien imposed on any Lot by the Town or a community facilities district.

23. **Assignment.** Developers shall have the right to sell, transfer or assign ("Transfer") part or all of the Land to any person or entity ("Transferee") at any time during the duration of this Agreement. Developers shall be released from the obligations under this Agreement with respect to the part of the Land that is transferred ("Transferred Land"), subject to the following:

(a) Developers have given Town notice of the Transfer, which shall include a legal description of the Transferred Land and the name, address and facsimile number for notice purposes, of the Transferee; and

(b) The Transferee has agreed in writing to be subject to all of the provisions of this Agreement as to the Transferred Land.

Any amendment to this Agreement in connection with the Transferred Land shall affect only the Transferred Land and shall not be an amendment of this Agreement as to the part of the Land that is not transferred. Any Default of this Agreement in connection with the Transferred Land shall affect only the Transferred Land and shall not be a Default under this Agreement as to the part of the Land that is not the subject of a Transfer.

24. **Lien Financing.** Developers shall have the right at any time, and as often as it desires, to finance the Land and to secure the financing with a lien or liens against the Land. Nothing contained in this section or this Agreement shall constitute a subordination of this Agreement to any voluntary or involuntary obligation, tax, charge, assessment, encumbrance or other lien against the Land.

25. **Compliance Confirmation.** When requested by either Town or Developers, which request can be made from time to time, the other shall use its best efforts to confirm the following in writing to the requesting party within thirty (30) days from the date of the request:

(a) This Agreement is unmodified and in full force and effect (or reasons why it is not); and

(b) Based upon knowledge, there are not any uncured Defaults under this Agreement (or reasons why there are).

26. **No Agency or Partnership.** Neither Town nor Developers are acting as the agent of the other with respect to this Agreement, and this Agreement shall not be deemed to create a partnership, joint venture or other business relationship between Town and Developers.

27. **No Third Party Beneficiary.** This Agreement shall not create any third party beneficiary rights to any person or entity who is not a party to this Agreement, including any lender to the Developers, unless expressly provided to the contrary in this Agreement (and then only to the extent so provided).

28. **Construction.** The provisions and exhibits of this Agreement shall be construed as a whole consistent with their plain meaning and intent, and they shall not be construed against one party or the other based upon which party prepared or influenced the drafting of any provision or exhibit of this Agreement.

29. **Recording.** Town shall record this Agreement with the County Recorder no later than ten (10) days after the execution of this Agreement.

30. **Time of Essence.** Time is of the essence of this Agreement.

31. **Benefit and Binding Effect.** This Agreement shall be for the benefit of and binding upon the parties hereto and their successors and assigns.

32. **Counterparts.** This Agreement, which may be executed in counterpart, shall constitute the entire agreement between the parties regarding the subject of this Agreement.

33. **Amendment.** Any amendment to this Agreement shall be in writing.

34. **Section Titles.** The section titles in this Agreement are not part of this Agreement and are for convenience only.

35. **Notices.** All notices, requests, waivers, approvals, acceptances or other communications under this Agreement shall be in writing and shall be deemed given when personally delivered or transmitted by facsimile or two days after mailing by certified mail,

return receipt requested and postage prepaid, to the addresses or facsimile numbers set forth in the section of this Agreement titled "Parties," with copies to the following:

| | | |
|---|---|---|
| (a) | For Town: | Joseph A. Blanton, Manager<br>Town of Buckeye<br>100 North Apache, Suite A<br>Buckeye, Arizona 85326 |
| | With a copy to: | Scott W. Ruby, Esq.<br>Gust Rosenfeld PLC<br>201 N. Central Avenue, Suite 3300<br>Phoenix, Arizona 85073-3300<br>Facsimile Number: 602.340.1538 |
| (b) | Developers: | Sun Valley Clearing Account, L.L.C.<br>Attention: Bill Bliss<br>Mike Musulin<br>SDI Inc.<br>15770 North Greenway/Hayden Loop, Suite 104<br>Scottsdale, Arizona 85260<br><br>WRB-H, L.L.C.<br>Attention: Bill Bliss<br>Mike Musulin<br>SDI Inc.<br>15770 North Greenway/Hayden Loop, Suite 104<br>Scottsdale, Arizona 85260 |
| | With a copy to: | Dana Belknap, Esq.<br>Gallagher & Kennedy<br>2575 E. Camelback Road<br>Phoenix, AZ 85016-9225<br>Facsimile Number: 602.530.8500 |

36. **Force Majeure.** The performance of either party and the duration of this Agreement shall be extended by any causes that are beyond the control of the party required to perform, such as an act of God, civil or military disturbance and labor or material shortage.

37. **Governing Law.** This Agreement shall be governed by and construed under the laws of the state of Arizona, and any litigation shall take place only in Maricopa County, Arizona.

38. **Attorneys Fees.** The prevailing party in any litigation in connection with this Agreement shall be entitled to its attorneys' fees and costs.

39. **Signature.** The parties have executed this Agreement on the date first above written.

**TOWN:**

**TOWN OF BUCKEYE, ARIZONA**

By:_____
Alan Newberry, Vice Mayor

Attest:

By:_____
Joseph A. Blanton, Town Manager

Approved as to Form:

By:_____
Scott W. Ruby, Special Legal Counsel

**DEVELOPERS:**

**SUN VALLEY CLEARING ACCOUNT, L.L.C.**

By: William R. Blust
Managing Member

**WRB-H, L.L.C.**

Michael S. Musalin
By: Managing Member

**CONSENTED TO BY OWNERS:**

**The undersigned owners consent to the recording of this Agreement against the Land.**

**SUN VALLEY I LIMITED PARTNERSHIP**

William R. Bliss

By: MANAGING GENERAL PARTNER

**SUN VALLEY II LIMITED PARTNERSHIP**

William R. Bliss

By: MANAGING GENERAL PARTNER

**LAND VENTURES, L.L.C.**

Michael S. Musulin

By: Managing Member

**WESTERN SETTLEMENT I, L.L.C.**

William R. Bliss

By: MANAGING MEMBER

**PUERTO DE CIELO, L.L.C.**

Powell B. Gilenwater

By: Trustee for Powell B. Gilenwater Restated Money Purchase Pension Plan

**SV 1350 LIMITED PARTNERSHIP**

By:

**WESTERN SETTLEMENT II, L.L.C.**

By: MANAGING MEMBER

**SUN VALLEY-CAMELBACK LIMITED PARTNERSHIP**

By: Gilleaswater Properties, LLC

**ROAMIN-KORP, INC.**

By: Pres / C.O.O.

**TJB FAMILY TRUST**

By: Berge Lauren Bliss, As Trustee

**ALST WESTERN LANDS, INC.**

By:

20001181027

**SV 1350 LIMITED PARTNERSHIP**

By: Michael B. Musallam

**WESTERN SETTLEMENT II, L.L.C.**

By: William R. Pennington
MANAGING MEMBER

**SUN VALLEY-CAMELBACK LIMITED PARTNERSHIP**

By: Powell B. Gilkenson
Gilkenson Properties, LLC

**ROAMIN-KORP, INC.**

By: Robert A. Kilo
Pres/C.O.O.

**TJB FAMILY TRUST**

By:

**ALST WESTERN LANDS, INC.**

By:

**SV 1350 LIMITED PARTNERSHIP**

By: Managing Member

**WESTERN SETTLEMENT II, L.L.C.**

By: MANAGING MEMBER

**SUN VALLEY-CAMELBACK LIMITED PARTNERSHIP**

By: Gilleaweather Properties, LLC
Managing Partner

**ROAMIN-KORP, INC.**

By: Pres / C.O.O.

**TJB FAMILY TRUST**

By:

**ALST WESTERN LANDS, INC.**

By:

EASTERN HALF SECTION #8, L.L.C.

By:

WRB-II, L.L.C.

By: Managing Member

**EASTERN HALF SECTION #8, L.L.C.**

By:

**WRB-H, L.L.C.**

By: Michael S Muenchen
Managing Member

STATE OF ARIZONA )
: ss.
County of Maricopa )

The foregoing Agreement was acknowledged before me this 4th day of October 2000, by Alan Newberry, in his capacity as Vice Mayor, on behalf of the Mayor of Buckeye, Arizona.

Linda Garrison
Notary Public

My Commission Expires:

OFFICIAL SEAL
LINDA A. GARRISON
NOTARY PUBLIC - ARIZONA
MARICOPA COUNTY
My Comm. Expires 3-31-2001

STATE OF ARIZONA )
: ss.
County of Maricopa )

The foregoing Agreement was acknowledged before me this ___ day of _____ 2000, by _____, in his capacity as _____, on behalf of Sun Valley Clearing Account, L.L.C., an Arizona limited liability company.

_____
Notary Public

My Commission Expires:

STATE OF ARIZONA )
: ss.
County of Maricopa )

The foregoing Agreement was acknowledged before me this ___ day of _____ 2000, by _____, in his capacity as _____, on behalf WRB-H, L.L.C., an Arizona limited liability company.

_____
Notary Public

My Commission Expires:

STATE OF ARIZONA )
: ss.
County of Maricopa )

The foregoing Agreement was acknowledged before me this ___ day of _____ 2000, by _____, in his capacity as _____, on behalf of the Mayor of Buckeye, Arizona.

Notary Public

My Commission Expires:

STATE OF ARIZONA )
: ss.
County of Maricopa )

The foregoing Agreement was acknowledged before me this 9th day of October 2000, by William R Bliss in his capacity as Managing Member, on behalf of Sun Valley Clearing Account, L.L.C., an Arizona limited liability company.

OFFICIAL SEAL
EDYIE VALE
Notary Public - State of Arizona
MARICOPA COUNTY
My Comm. Expires Aug. 11, 2004

Notary Public Edyie Vale

My Commission Expires:

STATE OF ARIZONA )
: ss.
County of Maricopa )

The foregoing Agreement was acknowledged before me this 9th day of October 2000, by Michael S. Miller, in his capacity as Managing Member, on behalf WRB-H, L.L.C., an Arizona limited liability company.

OFFICIAL SEAL
EDYIE VALE
Notary Public - State of Arizona
MARICOPA COUNTY
My Comm. Expires Aug. 11, 2004

Notary Public Edyie Vale

My Commission Expires:

STATE OF ARIZONA )
: ss.
County of Maricopa )

The foregoing Agreement was acknowledged before me this 9th day of October 2000, by William R Blair in his capacity as Managing General Partner, on behalf of Sun Valley I, Limited Partnership, an Arizona limited partnership.

OFFICIAL SEAL
EDYIE VALE
Notary Public - State of Arizona
MARICOPA COUNTY
My Comm. Expires Aug. 11, 2004

My Commission Expires

Notary Public Edyie Vale

STATE OF ARIZONA )
: ss.
County of Maricopa )

The foregoing Agreement was acknowledged before me this 9th day of October 2000, by William R. Blair, in his capacity as Managing General Partner, on behalf Sun Valley II Limited Partnership, an Arizona limited Partnership.

OFFICIAL SEAL
EDYIE VALE
Notary Public - State of Arizona
MARICOPA COUNTY
My Comm. Expires Aug. 11, 2004

My Commission Expires

Notary Public Edyie Vale

STATE OF ARIZONA )
): ss.
County of Maricopa )

The foregoing Agreement was acknowledged before me this 9th day of October 2000, by Michael S. Miguel, in his capacity as Managing Member, on behalf of Land Ventures, L.L.C., an Arizona limited liability company.

Notary Public Edyie Vale

OFFICIAL SEAL
EDYIE VALE
Notary Public - State of Arizona
MARICOPA COUNTY
My Comm. Expires Aug. 11, 2004

My Commission Expires

STATE OF ARIZONA )
): ss.
County of Maricopa )

The foregoing Agreement was acknowledged before me this 9th day of October 2000, by William R. Bliss, in his capacity as Managing Member, on behalf of Western Settlement I, L.L.C., an Arizona limited liability company.

OFFICIAL SEAL
EDYIE VALE
Notary Public - State of Arizona
MARICOPA COUNTY
My Comm. Expires Aug. 11, 2004

My Commission Expires:

Notary Public Edyie Vale

STATE OF ARIZONA )
): ss.
County of Maricopa )

The foregoing Agreement was acknowledged before me this 9th day of October 2000, by Powell B. Gillenwater, in his capacity as Trustee for Powell B. Gillenwater Restated Money Purchase Pension Plan, on behalf of Puerto De Cielo, L.L.C., an Arizona limited liability company.

OFFICIAL SEAL
EDYIE VALE
Notary Public - State of Arizona
MARICOPA COUNTY
My Comm. Expires Aug. 11, 2004

My Commission Expires:

Notary Public Edyie Vale

STATE OF ARIZONA )
): ss.
County of Maricopa )

The foregoing Agreement was acknowledged before me this 9th day of October 2000, by Michael S. Musick, in his capacity as Managing Member, on behalf of SV 1350 Limited Partnership, an Arizona limited partnership.

Notary Public Edyie Vale

OFFICIAL SEAL
EDYIE VALE
Notary Public - State of Arizona
MARICOPA COUNTY
My Comm. Expires Aug. 11, 2004

My Commission Expires:

STATE OF ARIZONA )
: ss.
County of Maricopa )

The foregoing Agreement was acknowledged before me this 9th day of October 2000, by William R. Bates, in his capacity as Managing Member, on behalf of Western Settlement II, L.L.C., an Arizona limited liability company.

OFFICIAL SEAL
EDYIE VALE
Notary Public - State of Arizona
MARICOPA COUNTY
My Comm. Expires Aug. 11, 2004

My Commission Expires:

Notary Public Edyie Vale

STATE OF ARIZONA )
: ss.
County of Maricopa )

The foregoing Agreement was acknowledged before me this 9th day of October 2000, by Powell B. Gillenwater, in his capacity as Managing Partner, on behalf Sun Valley-Camelback Limited Partnership, an Arizona limited partnership.

OFFICIAL SEAL
EDYIE VALE
Notary Public - State of Arizona
MARICOPA COUNTY
My Comm. Expires Aug. 11, 2004

My Commission Expires:

Notary Public Edyie Vale

STATE OF ARIZONA )
: ss.
County of Maricopa )

The foregoing Agreement was acknowledged before me this 9th day of October 2000, by Robert H. Kite, in his capacity as President / C.O.O., on behalf of Roamin-Korp, Inc., an Arizona corporation/Powell B. Gillenwater, III.

Notary Public Edyie Vale

OFFICIAL SEAL
EDYIE VALE
Notary Public - State of Arizona
MARICOPA COUNTY
My Comm. Expires Aug. 11, 2004

My Commission Expires:

STATE OF ILLINOIS )
) ss
County of Will )

The foregoing Agreement was acknowledged before me this 10TH day of OCT. 2000,

By GEORGE LAWRENCE BLISS, in his capacity as TRUSTEE, on behalf of

TJB Family Trust.

OFFICIAL SEAL
ANTHONY P TORREON
NOTARY PUBLIC, STATE OF ILLINOIS
MY COMMISSION EXPIRES:04/06/02

Notory Public

My Commission Expires: 4/6/02

STATE OF ARIZONA )
: ss.
County of Maricopa )

The foregoing Agreement was acknowledged before me this ___ day of _____ 2000, by _____, in his capacity as _____, on behalf of TJB Family Trust.

Notary Public

My Commission Expires:

STATE OF ARIZONA )
): ss.
County of Maricopa )

The foregoing Agreement was acknowledged before me this 9th day of Oct 2000, by Michael Stark, in his capacity as an Officer, on behalf of ALST Western Lands, Inc. an Arizona corporation.

Notary Public

Lori J. Squires

My Commission Expires:

OFFICIAL SEAL
LORI J. SQUIRES
NOTARY PUBLIC - STATE OF ARIZONA
MARICOPA COUNTY
My Comm. Expires 07-15-02

STATE OF ARIZONA )
): ss.
County of Maricopa )

The foregoing Agreement was acknowledged before me this 9th day of Oct 2000, by Michael Stark in his capacity as an Officer, on behalf of Eastern Half Section #8, L.L.C., an Arizona limited liability company.

Notary Public

Lori J. Squires

OFFICIAL SEAL
LORI J. SQUIRES
NOTARY PUBLIC - STATE OF ARIZONA
MARICOPA COUNTY
My Comm. Expires 07-15-02

STATE OF ARIZONA )
: ss.
County of Maricopa )

The foregoing Agreement was acknowledged before me this 7th day of October 2000, by Michael A. Musselli, in his capacity as Managing Member, on behalf WRB-H, L.L.C., an Arizona limited liability company.

Notary Public Edyie Vale

My Commission Expires:

OFFICIAL SEAL
EDYIE VALE
Notary Public - State of Arizona
MARICOPA COUNTY
My Comm. Expires Aug. 11, 2004

# EXHIBIT A

## (Legal Description of Land)

# EXHIBIT "A"

TO ORDINANCE NO._____

OVERALL LEGAL DESCRIPTION
FOR
SUN VALLEY SOUTH - COMMUNITY MASTER PLAN

The south half of Section1;
All of Sections 2, 3, 4, 5, 6 and 7;
The east half of Section 8;
All of Sections 9, 10, 11 and 13;
Lots 1, 2, 4 and 7 through 16, inclusive, of Section 14;
Lots 1 through 8, inclusive, of Section 15, except any portion thereof lying within the south half of Lots 6 and 7;
The north half of Section 16;
Lots 6 through 20, inclusive, of Section 19;

All in Township 2 North, Range 4 West of the Gila and Salt River Meridian, Maricopa County, Arizona, and;

The east half and the east half of the west half of Section 11;
All of Section12;
The south half of Section 13;
The east half of Section 14;
The east half of Section 24;

All in Township 2 North, Range 5 West of the Gila and Salt River Meridian; Maricopa County, Arizona.

Total Area= 476,500,756.9065 square feet
10,938.9522 acres

Prepared by: CMX GROUP INC.
Project No. 6359
July 7, 2000

EXHIBIT A

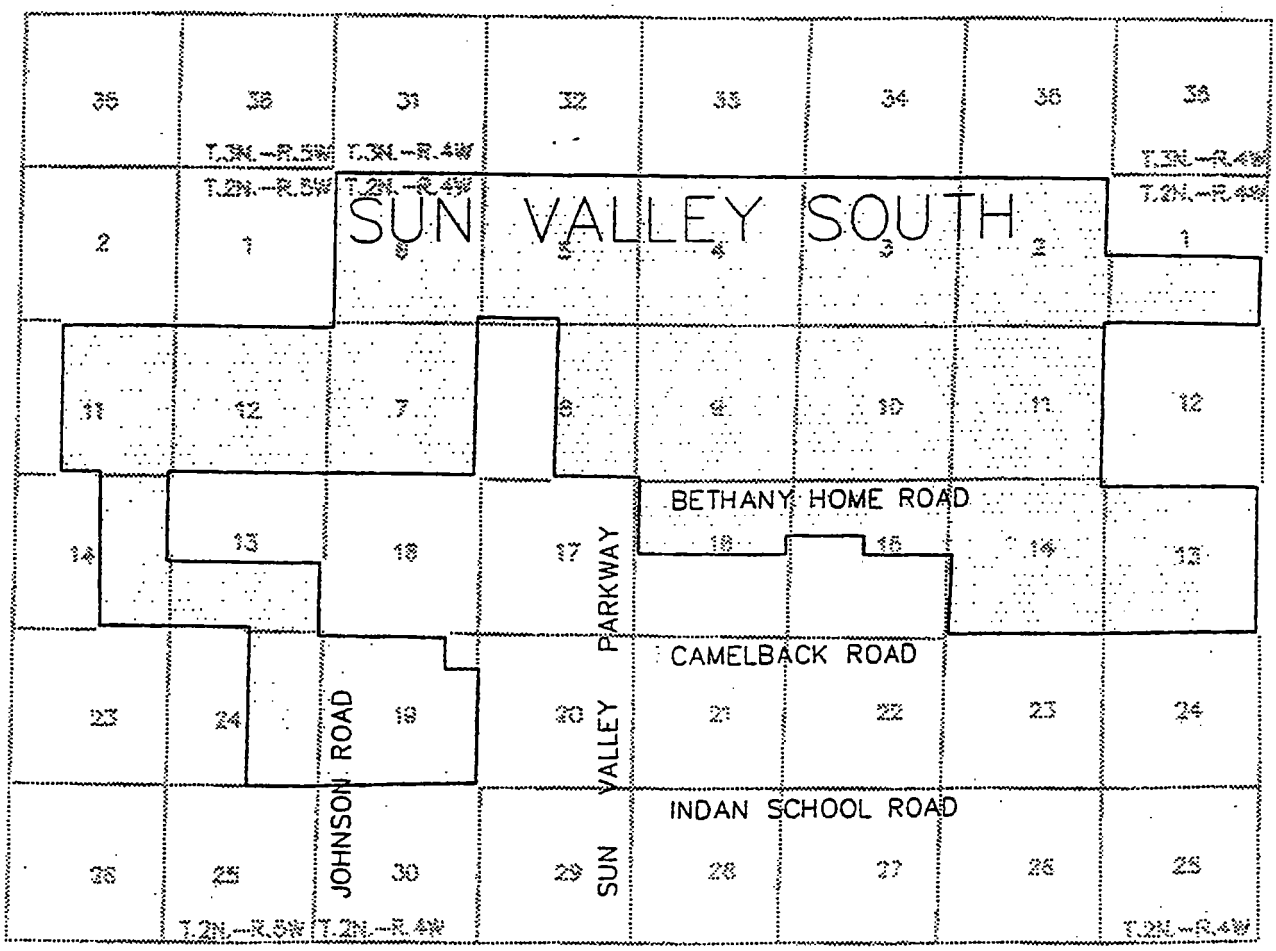
# EXHIBIT B

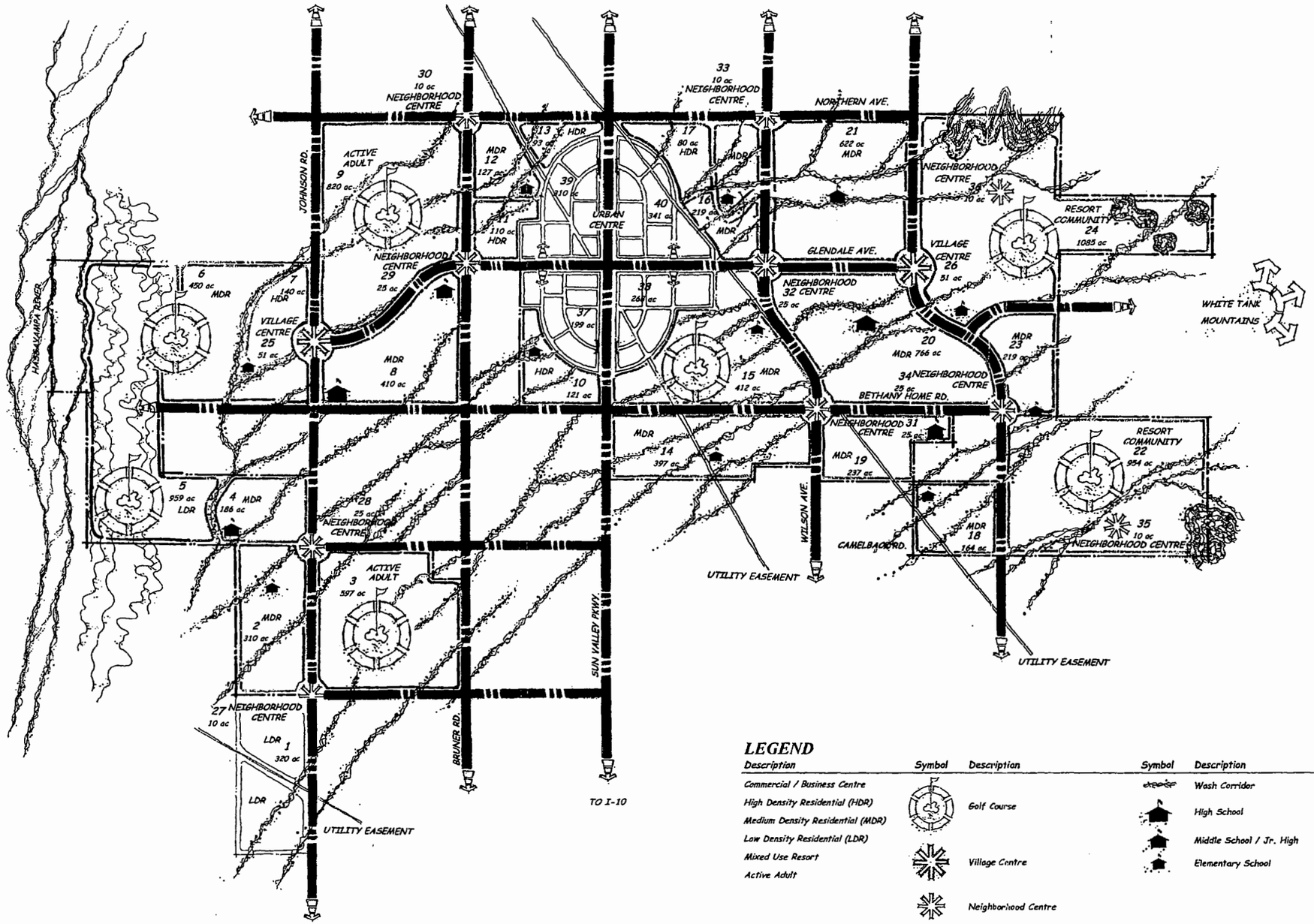
(Depiction of Land)

# EXHIBIT B

## TOWN OF BUCKEYE

EXHIBIT "B"
TO ORDINANCE NO. _____
SUN VALLEY SOUTH
SEE EXHIBIT "A" FOR LEGAL DESCRIPTION






## LEGEND

| Description | Symbol | Description | Symbol | Description |
|---|---|---|---|---|
| Commercial / Business Centre | | | | Wash Corridor |
| High Density Residential (HDR) | | Golf Course | | High School |
| Medium Density Residential (MDR) | | | | Middle School / Jr. High |
| Low Density Residential (LDR) | | | | Elementary School |
| Mixed Use Resort | | Village Centre | | |
| Active Adult | | | | |
| | | Neighborhood Centre | | |

SCALE = 1:1200
NORTH

# SUN VALLEY SOUTH

## CONCEPTUAL LAND USE BUDGET PLAN

Exhibit J-2

CMX Group Inc
Date July 8, 2000

# EXHIBIT J-3
## *SUN VALLEY SOUTH*
## LAND USE BUDGET - ACREAGE AND DENSITY TABLE[1]

| PARCEL | LAND USE | APPROXIMATE GROSS ACRES[2] | ESTIMATED OPEN SPACE[3] | NON-RESIDENTIAL | | RESIDENTIAL | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | DENSITY RANGE[4] ALLOWED | | | TARGET DENSITY[5] ALLOWED WITHOUT TRANSFERS | | |
| | | | | COMMERCIAL CENTERS NET ACRES[2] | COMMERCIAL/ BUSINESS CENTER NET ACRES[2] | SINGLE-FAMILY (Single Residence) NET ACRES[2] | MULTI-FAMILY (Multiple Residence) NET ACRES[2] | DENSITY RANGE (du/ac) | MINIMUM DWELLING UNITS ALLOWED | MAXAIMUM DWELLING UNITS ALLOWED | TARGET DENSITY (du/ac) | SINGLE-FAMILY (Single Residence) DWELLING UNITS ALLOWED W/OUT TRANSFERS | MULTI-FAMILY (Multiple Residence) DWELLING UNITS ALLOWED W/OUT TRANSFERS |
| 1[6] | LDR | 320 | 48 | | | 272 | | 1 to 3 | 272 | 816 | 2.0 | 544 | |
| 2 | MDR | 310 | 57 | | | 254 | | 3 to 6 | 761 | 1521 | 4.5 | 1141 | |
| 3[7] | MDR - Active Adult | 597 | 265 | | | 332 | | 3 to 6 | 997 | 1995 | 4.5 | 1496 | |
| 4 | MDR | 186 | 42 | | | 144 | | 3 to 6 | 432 | 865 | 4.5 | 648 | |
| 5[7 & 8] | LDR | 959 | 479 | | | 480 | | 1 to 3 | 480 | 1440 | 2.0 | 960 | |
| 6[7] | MDR | 450 | 253 | | | 198 | | 3 to 6 | 593 | 1185 | 4.5 | 889 | |
| 7 | HDR | 140 | 21 | | | | 119 | 6 to 20 | 714 | 2380 | 15.0 | | 1785 |
| 8 | MDR | 410 | 111 | | | 300 | | 3 to 6 | 899 | 1797 | 4.5 | 1348 | |
| 9[7] | MDR - Active Adult | 820 | 298 | | | 522 | | 3 to 6 | 1566 | 3132 | 4.5 | 2349 | |
| 10 | HDR | 121 | 28 | | | | 93 | 6 to 20 | 560 | 1866 | 15.0 | | 1400 |
| 11 | HDR | 110 | 17 | | | | 94 | 6 to 20 | 561 | 1870 | 15.0 | | 1403 |
| 12 | MDR | 127 | 29 | | | 98 | | 3 to 6 | 294 | 588 | 4.5 | 441 | |
| 13 | HDR | 93 | 25 | | | | 68 | 6 to 20 | 408 | 1361 | 15.0 | | 1021 |
| 14 | MDR | 397 | 83 | | | 314 | | 3 to 6 | 943 | 1887 | 4.5 | 1415 | |
| 15[7] | MDR | 412 | 266 | | | 146 | | 3 to 6 | 439 | 877 | 4.5 | 658 | |
| 16 | MDR | 219 | 43 | | | 176 | | 3 to 6 | 528 | 1057 | 4.5 | 793 | |
| 17 | HDR | 80 | 12 | | | | 68 | 6 to 20 | 408 | 1360 | 15.0 | | 1020 |
| 18 | MDR | 164 | 46 | | | 118 | | 3 to 6 | 355 | 710 | 4.5 | 533 | |
| 19 | MDR | 237 | 62 | | | 175 | | 3 to 6 | 526 | 1053 | 4.5 | 790 | |
| 20 | MDR | 766 | 157 | | | 609 | | 3 to 6 | 1827 | 3655 | 4.5 | 2741 | |
| 21 | MDR | 622 | 107 | | | 515 | | 3 to 6 | 1544 | 3088 | 4.5 | 2316 | |
| 22[7] | LDR - Resort Comm. | 954 | 323 | | | 631 | | 1 to 3 | 631 | 1893 | 2.0 | 1262 | |
| 23 | MDR | 219 | 43 | | | 176 | | 3 to 6 | 528 | 1057 | 4.5 | 793 | |
| 24[7] | LDR - Resort Comm. | 1085 | 348 | | | 737 | | 1 to 3 | 737 | 2212 | 2.0 | 1475 | |
| 25 | C- Village Center | 51 | | 51 | | | | | | | | | |
| 26 | C - Village Center | 51 | | 51 | | | | | | | | | |
| 27 | C- Neighborhood | 10 | | 10 | | | | | | | | | |
| 28 | C - Neighborhood | 25 | | 25 | | | | | | | | | |
| 29 | C - Neighborhood | 25 | | 25 | | | | | | | | | |
| 30 | C - Neighborhood | 10 | | 10 | | | | | | | | | |
| 31 | C - Neighborhood | 25 | | 25 | | | | | | | | | |
| 32 | C - Neighborhood | 25 | | 25 | | | | | | | | | |
| 33 | C - Neighborhood | 10 | | 10 | | | | | | | | | |
| 34 | C - Neighborhood | 25 | | 25 | | | | | | | | | |
| 35 | C - Neighborhood | 10 | | 10 | | | | | | | | | |
| 36 | C - Neighborhood | 10 | | 10 | | | | | | | | | |
| 37 | Comm/Bus Center | 199 | 51 | | 148 | | | | | | | | |
| 38 | Comm/Bus Center | 268 | 10 | | 258 | | | | | | | | |
| 39 | Comm/Bus Center | 310 | 51 | | 259 | | | | | | | | |
| 40 | Comm/Bus Center | 341 | 18 | | 323 | | | | | | | | |
| | | | | | | | | | | | | | |
| TOTALS | | 11,193 | 3,288 | 277 | 988 | 6,198 | 442 | | | | | 22,590 | 6,628 |

**ACREAGE & DENSITY SUMMARY - INCLUDING PARCEL 1**

Gross Acres = 11,193 — Open Space Acres = 3,288
Net Acres = 7,905 — (Single-family, Multi-family, Commercial, Business Center Uses)
Max. Dwelling Units = 29,218 — Net Acreage x Target Density for Single-family & Multi-family)

**ACREAGE SUMMARY & DENSITY WITHOUT PARCEL 1**

CMP Gross Acres = 10,873 — CMP Open Space = 3,240
CMP Net Acres = 7,633 — (Single-Family, Multi-Family, Commercial, Business Center Uses)
Max. Dwelling Units = 28,674 — (Net Acreage x Target Density for Single-Family & Multi-Family)

**NOTES**

(1) CONCEPTUAL INFORMATION
The information provided in this Table is for conceptual planning purposes only and is not to be construed as the actual site-specific location, acreage and density of the various Parcels and Land Uses approved for the CMP. The actual site-specific information will be identified, once the drainageway delineations are completed and provided on the Master Phasing Plan and then will be field verified and updated with the Phasing Unit Plans pursuant to SECTION III., Master Phasing Plan and SECTION IV., Phasing Unit Plans.

(2) ESTIMATED GROSS AND NET ACREAGE
The acreage for all categories is approximate. More accurate acreage will be determined after drainageways are delineated and parcel acreages are field verified. Actual acreage will be established with the Phasing Unit final plats and site plans.
Residential densities are based on approximate acreage net of estimated open space acreage. Commercial - Village/Neighborhood Center acreage is based on approximate gross acreage and Commercial/BusinessCenter acreage is based on approximate acreage net of estimated electrical easement acreage.

(3) ESTIMATED OPEN SPACE
Open Space is estimated at 15% of gross acreage which includes drainageways, floodplain, steep hillsides, active and passive parks and pathways and trails. In addition, the estimated Open Space includes Schools estimated at 226 acres, Golf Courses estimated at 175 acres each and Electrical easements estimated for Parcel 37 @ 51 ac., Parcel 38 @ 10 ac., Parcel 39 @ 51 ac. and Parcel 40 @ 18 ac. Actual Open Space may range from 20 to 30% of gross acreage, but in no event will be less than 20%. For the residential parcels, if the actual Open Space acreage is less than the estimated Open Space acreage, the difference may be used to increase the residential lot sizes. However, in no event shall the Overall Maximum Density granted for the Property of 2.66 units per gross acre be exceeded.

(4) DENSITY RANGE
Density Range is the minimum and maximum density (dwelling units per acre) allowed within each residential land use designation. In no case will the density (number of dwelling units per acre) for any residential Parcel identified in this Table drop below the range minimum or exceed the range maximum. (For further explanation see SECTION II. A., Land Use Designations and EXHIBIT H., Definitions.)

(5) TARGET DENSITY
Target Density is the maximum number of dwelling units per acre allowed for a residential parcel (identified in this Table), without transferring dwelling units from another parcel. (See SECTION II. B., Land Use Budget for density transfer explanation and procedures and EXHIBIT H. for Definitions.) The Target Density can be achieved on a residential parcel by using either the Conventional Residential Development option, the Planned Residential Development Option or a combination of both.

(6) Parcel 1 ( 320 ac.) will be added to CMP at later date, this was included in Area Plan, but is not part of PC District. This property will be rezoned before being added to CMP boundary. Infrastructure is sized to include this Parcel 1.

(7) Designates Parcels with golf courses, estimated at 175 acres each. (175 @ 7 golf courses = 1,225 acres)

(8) Parcel 5 - Open Space calculations include golf course and 160 acres for the Hasssayampa River floodplain.

# D2: Tartesso East Development Agreement

OFFICIAL RECORDS OF
MARICOPA COUNTY RECORDER
HELEN PURCELL
2003-1177938 08/25/03 16:14
6 OF 6
REITZD

When Recorded, Return to:

Scott W. Ruby, Esq.
Gust Rosenfeld PLC
201 East Washington
Suite 800
Phoenix, AZ 85004-2327

# TARTESSO

# AMENDED AND RESTATED

# DEVELOPMENT AGREEMENT

**DATED** August 25, 2003

**BETWEEN THE TOWN OF BUCKEYE**

**AND**

**STARDUST STRUCTURED INVESTMENTS NO. 2, L.L.C.**

**AND**

**STARDUST STRUCTURED INVESTMENTS NO. 3, L.L.C.**

**AND**

**STARDUST STRUCTURED INVESTMENTS NO. 5, L.L.C.**

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Exhibits:

Exhibit A Legal Description of Original Land
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Exhibit D Depiction of Both Additional Land and Original Land
Exhibit E Dispute Resolution/Remedies

# TARTESSO
# AMENDED AND RESTATED
# DEVELOPMENT AGREEMENT

1. **Date.** The date of this Amended and Restated Development Agreement ("Agreement") is August 25, 2003.

2. **Parties.** The parties to this Restated Agreement are:

(a) TOWN OF BUCKEYE, ARIZONA
Attention: Joseph A. Blanton, Manager
100 North Apache
Buckeye, Arizona 85326
Facsimile Number: 623.386.7832 ("Town")

(b) STARDUST STRUCTURED INVESMENTS NO. 2, L.L.C.
STARDUST STRUCTURED INVESMENTS NO. 3, L.L.C.
STARDUST STRUCTURED INVESMENTS NO. 5, L.L.C.
c/o Stardust Development
Attention: Chris Heeter
6730 N. Scottsdale Road, Suite 230
Scottsdale, Arizona 85253
Facsimile Number: 480-607-5801 ("Owner")

3. **Background.** The following is the background to this Restated Agreement:

(a) Owner is the owner of approximately 3,186 acres of land located in the Town, which land is more particularly described in the attached Exhibit A (the "Original Land") and depicted in the attached Exhibit B. Approximately 1,386 acres of this property was already zoned Planned Community.

On August 1, 2000, by Resolution No. 18-00 and Ordinance 35-00, the Town adopted amendments to the General Plan and Land Use District Map on approximately 1,800 of the 3,186 acres of the Original Land thereby establishing Planned Community zoning on the entire Original Land.

On October 4, 2000, by Ordinance No. 71-00 the Town approved the Development Agreement and the Community Master Plan (utilizing the Planned Community zoning) pertaining to the Original Land (3,186 acres), commonly referred to as Tartesso. This Development Agreement for Tartesso was executed by the Parties and recorded on October 10, 2000 in Document No. 2000-0776005, Records of Maricopa County, Arizona.

(b) On September 21, 2001, the Stardust Charitable Fund ("SCF") executed separate Assignments of Development Agreement approved by the Town Manager to release Stardust Charitable Fund ("SCF") from all obligations under the Development Agreement and

assign Stardust Structured Investments No. 2, L.L.C. and Stardust Structures Investments No. 3, L.L.C. (referred to hereinafter collectively either SSI or as Owner) all of the rights and obligations under the Development Agreement pertaining to the Original Land.

**(c)** Owner then acquired Ownership of an additional 2,593 acres located in the Town that were contiguous to the Original Land that is the subject of the Development Agreement referenced above. This additional acreage is more particularly described in Exhibit C and will hereafter be referenced as the "Additional Land." The Additional Land is depicted in Exhibit D. Pursuant to the General Plan and Land Use District Map of the Town, the Additional Land is located in a Planned Community Land Use District. The Town adopted General Plan and Land Use District Map amendments on approximately 1,940 acres (Ordinance 44-02) thereby establishing Planned Community zoning on the entire 2,593 acres of Additional Land and approved the Community Amended Master Plan (Ordinance 45-02) for the Additional Land (2,593 acres) making the Additional Land a fully functional part of the Original Land. The Owner and the Town desire to amend the Tartesso Development Agreement approved by Ordinance 71-00 and bring said Additional Land under the umbrella of the Development Agreement applicable to the Original Land. Hereinafter, the Original Land and the Additional Land will be referred to collectively as the Land. (The Additional Land and Original Land are depicted together on Exhibit D.) The approved Community Master Plan for the Original Land and the approved Community Master Plan for the Additional Land were designed to fully integrate with each other as a single seemless master plan. Hereafter, these two approved and integrated Community Master Plans will together constitute and be referred to as the Amended Master Plan (the "Amended Master Plan"), pursuant to Section 7.3.3 of the Town of Buckeye Development Code (the "Development Code").

**(d)** For proper sequencing of infrastructure construction and development, it has become necessary that affiliates of the Owner proceed first with development on the land (approximately 5,124 acres) west of Sun Valley Parkway (known as "Tartesso West"). The Community Master Plan for Tartesso West has been submitted to the Town for review on September 19, 2002. This change in the sequence of providing public infrastructure will delay commencement of development on the land east of Sun Valley Parkway known as Tartesso for approximately five (5) years, which in turn created the need to amend Paragraph 5(c) of the original Development Agreement to add five (5) years to the various development milestones set forth in that provision.

**(e)** Owner desires to enable development of the Land as a phased master planned development and such phasing plan has been described in the Amended Master Plan and accepted by the Town.

**(f)** Town and Owner desire to enter into this Restated Agreement pursuant to A.R.S. § 9-500.05 and the Development Code to approve the Amended Master Plan for the Land.

**(g)** On August 19, 2003, by Ordinance No. 41-03, (the "Ordinance") Town approved this Agreement and the Amended Master Plan.

4. **Agreement.** For good and valuable consideration, including the benefits to Town and Owner as described above, Town and Owner agree as is more specifically set forth in this Agreement, which Restated Agreement shall in all respects supercede and replace the original Development Agreement approved under Ordinance No. 71-00 and this Restated Agreement shall hereafter be the controlling agreement pertaining to the consolidated Land. (Hereinafter this Restated Development Agreement shall be referred to as "Agreement".)

5. **Amended Community Master Plan.**

(a) Owner has submitted and the Town has approved the two community Amended Master Plans which together compromise the Amended Master Plan pertaining to the Land for development of the Land. The Amended Master Plan is consistent with the Town's General Plan for the Land and the Area Plan for the Land. The Amended Master Plan contains the information required by the Laws and Regulations (as defined in this Agreement). The Amended Master Plan shall constitute an amendment to the Area Plan to the extent the Area Plan is modified by the Amended Master Plan. Subject to the amendments and changes to the Laws and Regulations (as defined herein) pursuant to Section 6 of this Agreement, the Amended Master Plan shall control if there is any inconsistency between the General Plan, the Area Plan, the existing Development Code, and the Amended Master Plan. However, this Agreement shall control as to any inconsistency between the Amended Master Plan and this Agreement. This Agreement satisfies Section 7-3-3 of the Town Development Code that requires that a community master plan be adopted with a development agreement.

(b) The types of uses, together with the densities, and intensities of such uses for each development parcel located on the Land as shown on the Amended Master Plan are hereby established.

(c) Town shall permit and Owner shall have the right to develop the Land consistent with this Agreement and the Amended Master Plan, subject to: (i) the submission and approval of a more detailed plan for, (1) each phase of development, if phases are contemplated and required by the Amended Master Plan, (2) each plat, and (3) each site plan, and (ii) compliance with the Laws and Regulations. Subject to the foregoing, the right to develop the Land as provided in the Amended Master Plan is hereby vested and shall not be materially changed, provided, however, the Town reserves the right to materially modify, terminate or otherwise change the Amended Master Plan including the right to develop in accordance with the uses, densities, intensities and other standards established by the Amended Master Plan, and terminate this Agreement, if: (1) material progress has not been made by the Owner in the construction of the elements of the public infrastructure required by the Amended Master Plan (such as and primarily the elements relating to water, sewer and streets) within ten (10) years or (2) the Owner has not built or caused to be built the end product uses (such as houses, buildings, improved parks or commercial/industrial buildings): (i) on at least thirty six percent (36%) of the Land within eighteen (18) years, or (ii) on at least sixty two percent (62%) of the Land within twenty-five (25) years, or (iii) one hundred percent (100%) of the Land within thirty-five (35) years. These timeframes for development shall be tolled (i.e., expanded) for the length of time necessary to reach final resolution of any disputes filed under Section 20. At the request of the Town Manager, Owner shall meet with Town Manager and provide the Town with annual status reports.

(d) The Land may be planned and developed in phases (individually "Phase" and collectively "Phases"). Owner shall have the right to plan and develop more than one Phase at a time, with the location, rate, timing and sequencing to be determined by Owner. Owner shall consult with the Town Manager or his authorized representative regarding phasing determinations and the potential fiscal impacts upon municipal services. The Amended Master Plan identifies Village I (to be platted as Unit 1) as the first development phase. If the Owner's phasing plan results in adverse impacts on the Town's ability to maintain its reasonable standard of service for any municipal service, the Town may require the Owner to construct temporary or permanent facilities or provide additional temporary subsidies necessary to maintain such reasonable standard of service pursuant to the terms of any subsidy provisions contained in the Service Agreement, as defined hereinafter, for municipal services. Development of the Land is contemplated to progress in Phases that may be non-contiguous. The phasing determinations shall be subject to modification by Owner based upon changing real estate market conditions, industry factors, and/or business considerations. Any such modification shall not necessitate an amendment to this Agreement, but shall be retained in the Town's official file for the Land. Notwithstanding the modification or termination deadlines for the Amended Master Plan set forth in paragraph (c) above, any one Phase may be developed pursuant to the Amended Master Plan without change by the Town if the Town Manager determines that the necessary public infrastructure has been constructed and significant progress has been made regarding the development of the residential units for such Phase.

(e) The Town reserves the right to require dedications of part of the Land as contemplated by the entire Amended Master Plan for schools (in the event school sites are not required to be dedicated by the Amended Master Plan), open space and other public purposes as part of Town's final development approvals in addition to those areas shown on the Amended Master Plan, subject to Owner's rights under applicable United States and Arizona statutory and case law. If any governmental entity adopts a school impact fee that Owner is obligated to pay which covers the dedication of land and which fee is paid to either the Town or the applicable local district, the imposition of that impact fee shall supercede and render void and of no effect any reference in this section to schools.

6. **Laws and Regulations.** The Town of Buckeye Development Code as amended from time to time shall govern the development of the Land pursuant to the Amended Master Plan. The Town must be able to regulate the planning and development of the Land and the construction and installation of improvements on the Land in order to serve the best interests of the Town. Consequently, Town reserves the right to amend existing or to adopt new laws, rules, regulations and standards of development for the Town, including resolutions, official policies and procedures and the Development Code (collectively, as amended or adopted from time to time, the "Laws and Regulations"), and subject to the provisions in Section 12 of this Agreement, the Laws and Regulations shall apply to the Land. Notwithstanding the provisions of Section 12 of this Agreement, future Laws and Regulations shall apply to the Land, regardless of the impact on the development of the Land, if such future Laws and Regulations are required or mandated by federal, state or county law or regulation; required or imposed by judicial or regulatory action, or necessary to alleviate or otherwise contain threats to public health or safety.

Any change to the Laws and Regulations as allowed in this section shall not discriminate against Owner and the Land, and any change shall be uniformly applied to all similarly situated

land and landowners at such time such land is within the boundaries of Town. Owner reserves its right to object to and redress the Town as to any amendments or additions to the Laws and Regulations based upon applicable United States and Arizona statutory and case law.

7. **Infrastructure.**

(a) The construction and installation of the water and wastewater facilities, public streets, curbs, gutters, sidewalks and traffic control, directional signs and other public infrastructure and public facilities on the Land as required by the Amended Master Plan and the Laws and Regulations (collectively, the "Infrastructure") shall be subject to and in compliance with the Laws and Regulations. Owner shall cause all the Infrastructure required by the Amended Master Plan to be constructed and installed at no cost to the Town, such Infrastructure may be constructed in segments that correspond to the Phases, if any set forth in the Amended Amended Master Plan. In the event the Town requires infrastructure to be sized or constructed to serve and benefit other off-site property or projects, Owner shall be reimbursed through repayment agreements with other users or such other reimbursement mechanisms acceptable to the Town which the Town shall assist Owner in establishing and enforcing. All infrastructure shall be installed in a workmanlike manner in conformity with the plans and specifications that are submitted to and approved by the Town in connection with the Amended Master Plan or each Phase.

(b) Following completion and promptly upon request of the Town, Owner, at no cost to the Town, shall dedicate any Infrastructure that is requested by Town to be dedicated to Town or any other appropriate governmental entity. Owner, at no cost to Town, shall dedicate rights-of-ways or convey public easements necessary for the construction, installation, operation and maintenance of the Infrastructure as required by Town, which rights-of-ways or easements may be located adjacent to or in other public and private rights-of-ways or easements.

(c) Owner shall give to Town a one year warranty for all Infrastructure, which warranty shall begin on the date that Town accepts the Infrastructure as provided in this section. Any material deficiencies in material or workmanship identified by Town's staff during the one-year warranty period shall be brought to the attention of Owner, who shall promptly remedy or cause to be remedied such deficiencies to the reasonable satisfaction of Town's staff. Continuing material deficiencies in a particular portion of the Infrastructure shall be sufficient grounds for Town to require (i) an extension of the warranty for a second one year period or, (ii) the proper repair of, or (iii) the removal and reinstallation of, that portion of the Infrastructure that is subject to such continuing deficiencies. Regardless of whether the one year warranty period has expired, the Owner agrees to repair any damage to the Infrastructure caused by Owner's construction activities on the Land. Nothing contained herein shall prevent the Town or Owner from seeking recourse against any other third party for damage to the Infrastructure caused by such third party.

Owner shall maintain and repair all Infrastructure comprised of streets, parkways and alleys and all appurtenances thereto at its expense, for a period of two (2) years from the date the Town accepts the Infrastructure. Such maintenance shall consist of all maintenance and repair actions reasonably required by customary engineering industry standards for each item of Infrastructure. Notwithstanding the foregoing, the Owner agrees to forever maintain all landscaping located within the public easements and rights-of-way located on the Land and such

obligation shall survive the termination or expiration of this Agreement; provided, however, Owner may assign this obligation to one or more home owners associations ("HOA") provided such HOA is legally bound to such landscaping maintenance obligation and has adequate financial ability, acceptable to the Town, to bear such obligation. Once the Town has consented to the assignment of this obligation to an HOA, Owner shall be relieved of any further obligation to maintain the landscaping.

(d) So long as such Infrastructure is constructed in accordance with the approved plans and the requirements of Section 7(a), as verified by the inspection of the completed improvements by the Town Engineer; all punch list items have been completed; and the acceptance and service agreement required by Section 11(b) (the "Service Agreement') has been executed and delivered by the Owner with respect to water, sewer, parks, police and fire facilities and any other matters set forth in the Service Agreement, the Town shall promptly thereafter accept such dedication(s) of Infrastructure, and, in the case of streets, parkways and alleys, after the expiration of the two (2) year Owner maintenance period described in paragraph 7(c) above, shall, at its own cost, maintain, repair and operate such Infrastructure, excepting areas of landscaping, in accordance with reasonable and customary municipal management and operational standards.

8. **Flood Control.** Flood control measures for the Land shall comply with the requirements of the United States Army Corp of Engineers, and the Laws and Regulations, and, to the extent they are not superceded by the United States Army Corp of Engineers or the Laws and Regulations, the requirements of the Maricopa County Flood Control District.

9. **Community Facilities District.** The Town in accordance with its adopted Community Facilities Guidelines, will consider any requests by Owner of Town to form a community facilities district comprised of the Land in order to aid in financing the cost of the Infrastructure. Nothing contained herein shall be construed to compel the Town to form a community facilities district or for the community facilities district, if formed, to finance any Infrastructure.

10. **Fees and Credits.**

(a) Promptly after the Town submits invoices to Owner, Owner shall pay Town's costs and expenses in connection with the negotiation and preparation of this Agreement.

(b) As the Land is developed, Owner shall pay to Town what are commonly referred to as development, or impact, and hookup fees (collectively, "Development Fees") that are imposed by Town as of or after the date of this Agreement, subject to offsets and credits, as allowed by law.

(c) It is the intent of the parties to allow for a credit to be given against any Development Fee imposed if the Infrastructure or land, if any, is constructed or dedicated by a party other than the Town. The owner of the credit may freely assign any credits to any person or entity developing the Land. No credit will be given for dedication of rights-of-way, easements or other land normally required for public Infrastructure (unless the Town charges a

development/impact fee that includes land acquisition costs); rather a credit for land dedication is intended for dedications such as regional park sites and municipal buildings.

11. Services.

(a) The Town shall, to the extent permitted by current law, include the Land in the Town's municipal service area, and, upon construction and installation of the necessary Infrastructure by Owner as provided in or as required by the Laws and Regulations or the Amended Master Plan and with respect to water, provide the Town with an adequate source and supply of water capable of serving the Land for 100 years with potable water; the Town shall provide to the Land such utility and other services in a manner that is similar to that by which Town provides such utilities and services generally to the residents of Town, including sewer, water, garbage, fire and police. To the extent a court of final jurisdiction determines the Town shall not provide one or more municipal services to all or part of the Land, the Town shall not be liable for any damages, costs or expenses incurred or suffered by the Owner as a result of the Town's inability to serve.

(b) Notwithstanding the foregoing, if the Town determines, utilizing reasonable and customary municipal management, accounting, auditing and operational practices, that the Land or portion thereof that is being included in the Town's service area generates insufficient revenues to pay the costs and expenses of providing the water system, water treatment system, wastewater system, police and fire service or other Infrastructure, such as a regional park, to or for such area of the Land, the Owner (together with any other owner of a portion of the Land who benefits from the service) or "Transferee" as defined in section 23 shall pay to the Town promptly upon receipt of an invoice from the Town, the amount set forth by the Town as the operational deficit to be incurred by the Town in connection with providing municipal services to such area of the Land. The parties agree that the Owner's obligation to pay any operating deficit shall be evidenced by an acceptance and Service Agreement ("Service Agreement"). The Service Agreement shall contain provisions for the proportionate, fair and equitable partial or periodic release of the Owner from the obligation to pay the deficit based upon the level of development activity in the area benefited by the Infrastructure. In no event shall the Owner be obligated to pay any portion of the operating costs once the benefited area of the Land has reached 95% build-out. The Service Agreement shall, in addition to Owner's obligations, require the Town to assess and collect user fees or rates for each municipal service provided by the Town consistent with the fees or rates established by the Town and uniformly applied for other similarly situated areas of the Town receiving similar municipal services. Failure by the Owner to promptly pay the amount owed will constitute a breach of this Agreement and the Town may collect such amounts owing by any remedy of law or equity and further may withhold the issuance of building permits for improvements on the Land until such amount is paid.

(c) Since the Town does not have a current source of capital to offset the capital expenditures related to police and fire service, the Owner shall do the following in connection with the development of the Land:

i) Dedicate real property parcels of the Land (exclusive of streets and other publicly dedicated parts of the Land) for each fire station required by the Amended Master

Plan or Town when reasonably requested by the Town to serve the Land to provide fire suppression according to NFPA standards. The size, location and configuration of the first fire station shall be resolved by Town and Owner prior to the approval of the first preliminary plat.

ii) Construct, equip and furnish when required by the Town, a building for each fire station (which will include a community office for police or other municipal use) reasonably required by the Amended Master Plan or Town to serve development on the Land, or pay funds, such as development fees, to the Town sufficient to allow the Town to build such building. The building shall be of a standard design adopted by the Town to adequately serve development on the Land. At its election and expense, Owner shall have the right to provide temporary fire facilities for Town as soon as Town has issued certificates of occupancy for 500 homes on that part of the Land that will be served by the facilities, but must start construction of the permanent fire station when the Town has issued 1,500 certificates of occupancy. The permanent fire station must be completed and ready for use by the time the Town has issued 2,000 certificates of occupancy.

12. **Restrictions.** Provided the Owner has met the deadlines set forth in Section 5 (c) of this Agreement and only with respect to any development on that part of the Land for which the major components of the public Infrastructure required to be built by the Amended Master Plan and necessary to serve such development (such major Infrastructure shall consist of water and sewer system improvements and street improvements) has been constructed or material progress has been made in the construction of such major Infrastructure, the Town shall not (i) impose a moratorium, (ii) enforce any Laws or Regulations that directly impose material limitations on the rate, timing or sequencing (other than the Town's ability to require different sequencing pursuant to Section 5(d) of this Agreement), or (iii) impose any Laws or Regulations which are for anti-growth purposes or as applied to the Land significantly and materially frustrate the density or uses contemplated by the Amended Master Plan for such particular development. This prohibition shall not apply to the extent that a limitation may be (a) required or mandated by County, state or federal laws; (b) required or imposed by judicial or regulatory action; or (c) necessary to alleviate or otherwise contain threats to public health or safety. Notwithstanding anything contained in this Section 12, the Town reserves the right to impose a moratorium on any part of the Land for which the major Infrastructure (as described above) has not been constructed or material progress in the construction of such major Infrastructure has not been made, provided, however, the Owner shall have the right to construct such major infrastructure and cause the removal of the moratorium from the Land if the Owner constructs the Infrastructure required by Section 5(c) of this Agreement, before the end of the time period relating to construction of public infrastructure set forth in Section 5(c) of this Agreement. Unless Town imposes a moratorium as permitted in this section and subject to all Laws and Regulations, Owner shall be allowed to apply for and receive approvals from Town for development on the Land that is consistent with this Agreement and the Amended Master Plan. Nothing in this Section 12 shall preclude the Owner from exercising its rights under applicable United States and Arizona statutory and case law to object to or redress the Town as to any such moratorium or change in Laws or Regulations.

13. **Growth Boundaries.** The Town, to the extent allowed by applicable law, shall use its reasonable efforts to take such action legally and reasonably available to it to include and keep the Land (for development consistent with this Agreement and the Amended Master Plan)

within any boundaries that are established by Town or that Town is required to establish by any current or future law that prohibits or limits the development of land outside of the boundaries. Owner shall reimburse Town for any legal fees and costs paid by Town in connection with any legal action to include or keep the Land within such boundaries. The Owner acknowledges and agrees that the Town has included this same language in numerous other development agreements pertaining to other land in the Town and as a result the Town may not be able to accommodate any or all of the Land within any boundaries established by the Town and, accordingly, the Town shall not be liable to the Owner for, from or against any claims, costs or damages of any kind or amount for the Town's failure to include the Land within any such boundaries.

14. **Agriculture Use.** Subject to the consequences described in Section 5 (c) of this Agreement, Owner shall have the right to use or grant rights to use the undeveloped part of the Land for agriculture purposes, including livestock grazing, until such time as development begins on that part of the Land. However, Owner shall use fences, setbacks and other physical buffers to adequately separate the agricultural uses from other uses, and Owner shall utilize agricultural practices to control dust, water runoff, odor control and other resulting conditions from the agricultural uses to ensure that such agricultural uses comply with the Laws and Regulations that apply to such agricultural uses.

15. **Covenants, Conditions and Restrictions.** Owner shall have the right to record one or more declaration of covenants, conditions and restrictions ("CC&Rs") for the area of the Amended Master Plan and each phase to govern the private development and use of the Land. The CC&Rs shall be consistent with this Agreement and the Amended Master Plan and all applicable Laws and Regulations, and each of the CC&Rs shall be subject to the prior review and approval of Town to confirm its compliance with this Agreement and the Amended Master Plan.

16. **Representations and Warranties.** As of the date of the execution of this Agreement, the parties represent and warrant to each other as follows ("Representations and Warranties"):

(a) By Owner:

i) Owner is the owner of the Land.

ii) Stardust Structured Investments No. 2, L.L.C., Stardust Structured Investments No. 3, L.L.C., and Stardust Structured Investments No. 5, L.L.C. are limited liability companies, duly formed and in good standing in the State of Arizona.

iii) Owner has the authority, including the persons signing for Owner, and the right to enter into this Agreement as authorized by the members of Owner at duly noticed meetings at which quorums were present.

iv) Owner is not prohibited from executing this Agreement by any law, rule, regulation, instrument, agreement, order or judgment.

v) Owner has not relied on any representations or warranties of Town other than those expressly set forth in this Agreement.

(b) By Town:

i) The Ordinance was approved and enacted at a duly noticed and held public meeting by the Town Council, at which a quorum was present and the execution of this Agreement was authorized.

17. **Cooperation.**

(a) Town and Owner shall each designate a representative to act as a liaison between Town and its various departments and Owner ("Representatives"). The Representatives shall be available at all reasonable times to assist with the performance of the parties under this Agreement. The initial representative for Town ("Town Representative") shall be Joseph A. Blanton, and the initial representative for Owner ("Owner Representative") shall be Chris B. Heeter. Town Representative and Owner Representative may be changed by the applicable party by giving notice to the other party of the name, title, address and telephone number of the replacement.

(b) Town does and will from time to time, at the election of Town use the assistance of private independent attorneys, accountants, architects, engineers, inspectors and other outside professionals and consultants to assist Town in the process of administering the development of land within the boundaries of Town, including the Land. If Owner desires to have the Town retain additional outside professionals and consultants in connection with the Land, and if Town is willing to do so, Owner shall reimburse Town for all reasonable fees and costs of the professionals and consultants. Although Town shall have the right to retain and control the professionals and consultants, Town shall consider Owner's recommendation in connection with the selection of the additional professionals and consultants.

18. **Conflicts of Interest.** The parties acknowledge that this Agreement is subject to cancellation pursuant to Section 38-511, Arizona Revised Statutes, as amended.

19. **Covenants Running with the Land.** The provisions of this Agreement shall be for the benefit of, and shall be a burden upon, the Land, and the provisions of this Agreement shall be covenants running with the Land, without the necessity of an assignment of this Agreement with the conveyance of any part of the Land. However, the provisions of this Agreement shall terminate as to any Lot (as defined in this Agreement) as provided in the section of this Agreement titled "Duration."

20. **Defaults.** Failure or unreasonable delay by either party to perform or otherwise act in accordance with any term or provision of this Agreement for a period of thirty (30) days after written notice thereof from the other party ("Cure Period"), shall constitute a default under this Agreement; provided, however, that if the failure or delay is such that more than thirty (30) days would reasonably be required to perform such action or comply with any term or provision hereof, then such party shall have such additional time as may be necessary to perform or

comply so long as such party commences performance or compliance within said thirty (30) day period and diligently proceeds to complete such performance or fulfill such obligation. Said notice shall specify the nature of the alleged default and the manner in which said default may be satisfactorily cured, if possible. In the event such default is not cured within the Cure Period, the non-defaulting party shall have all rights and remedies that are set forth in Section 21 of this Agreement. In addition to the dispute resolution process and remedies set forth in Section 21 of this Agreement and Exhibit E hereto, Town shall have the right to withhold the issuance of building permits for improvements on the land affected by such default until the Default is cured by Owner. Nothing contained in this section shall prevent Town from using any remedies or imposing any fines available to it under the Laws and Regulations for a violation or breach by Owner of any Laws and Regulations.

21. **Dispute Resolution/Remedies.** The parties shall be limited to the remedies and dispute resolution process set forth in Exhibit E and in this Section. Any dispute, controversy, claim, or cause of action arising out of or relating to this Agreement shall be governed by Arizona law. The Owner and Town agree that any award rendered by the arbitrator (as defined in Exhibit E) pursuant to the provisions of Exhibit E shall be binding on both parties, and if either party does not abide by the award rendered by the arbitrator, the provisions of Exhibit E shall apply.

22. **Duration.**

(a) Unless terminated earlier pursuant to Section 5(c) of this Agreement, this Agreement shall automatically terminate as to the Land without the necessity of any notice, agreement or recording by and between the parties twenty-five (25) years after the date of this Agreement. However, unless terminated by the Town pursuant to Section 5(c) of this Agreement, if less than sixty two percent (62%) of the Land is still subject to this Agreement twenty-five (25) years after the date of this Agreement, this Agreement shall automatically extend without the necessity of any notice, agreement or recording by or between the parties for an additional ten (10) years, for a total of thirty-five (35) years, at which time this Agreement shall automatically terminate as to the Land without the necessity of any notice, agreement or recording by or between the parties. Upon the termination of this Agreement, neither party shall have any further obligations under this Agreement. However, such termination shall not affect any executed and delivered Service Agreement or any approval, permit, subdivision map or site plan that has been given, issued or approved by Town for any part of the Land as of the date of such termination. Town is willing to have this Agreement be effective for the period of time set forth in this Agreement because of the large number of acres owned by Owner.

(b) This Agreement shall automatically terminate as to any Lot without the necessity of any notice, agreement or recording by or between the parties anytime the required certificates of occupancy are issued by Town for all buildings on a Lot. A "Lot" (collectively "Lots") shall be any part of the Land, including common areas, that is identified in a recorded residential subdivision plat or site plan that has been approved by Town. This Agreement shall automatically terminate as to any part of the Land that is dedicated by deed, map of dedication or otherwise for Infrastructure and other public or governmental facilities and uses. Nothing contained in this section shall affect any obligation, tax, charge, assessment, encumbrance or other lien imposed on any Lot by the Town or a community facilities district.

23. **Assignment.** Owner shall have the right to sell, transfer or assign ("Transfer") part or all of the Land to any person or entity ("Transferee") at any time during the duration of this Agreement. Owner shall be released from the obligations under this Agreement with respect to the part of the Land that is transferred ("Transferred Land"), subject to the following:

(a) Owner has given Town notice of the Transfer, which shall include a legal description of the Transferred Land and the name, address and facsimile number for notice purposes, of the Transferee; and

(b) The Transferee has agreed in writing to be subject to all of the provisions of this Agreement and any applicable Service Agreement as to the Transferred Land.

Any amendment to this Agreement in connection with the Transferred Land shall affect only the Transferred Land and shall not be an amendment of this Agreement as to the part of the Land that is not transferred. Any Default of this Agreement in connection with the Transferred Land shall affect only the Transferred Land and shall not be a Default under this Agreement as to the part of the Land that is not the subject of a Transfer.

24. **Lien Financing.** Owner shall have the right at any time, and as often as it desires, to finance the Land and to secure the financing with a lien or liens against the Land. Nothing contained in this section or this Agreement shall constitute a subordination of this Agreement to any voluntary or involuntary obligation, tax, charge, assessment, encumbrance or other lien against the Land.

25. **Compliance Confirmation.** When requested by either Town or Owner, which request can be made from time to time, the other shall use its best efforts to confirm the following in writing to the requesting party within thirty (30) days from the date of the request:

(a) This Agreement is unmodified and in full force and effect (or reasons why it is not); and

(b) Based upon knowledge, there are not any uncured Defaults under this Agreement (or reasons why there are).

26. **No Agency or Partnership.** Neither Town nor Owner is acting as the agent of the other with respect to this Agreement, and this Agreement shall not be deemed to create a partnership, joint venture or other business relationship between Town and Owner.

27. **No Third Party Beneficiary.** This Agreement shall not create any third party beneficiary rights to any person or entity who is not a party to this Agreement, including any lender to the Owner, unless expressly provided to the contrary in this Agreement (and then only to the extent so provided).

28. **Construction.** The provisions and exhibits of this Agreement shall be construed as a whole consistent with their plain meaning and intent, and they shall not be construed against one party or the other based upon which party prepared or influenced the drafting of any provision or exhibit of this Agreement.

29. **Recording.** Town shall record this Agreement with the County Recorder no later than ten (10) days after the execution of this Agreement.

30. **Time of Essence.** Time is of the essence of this Agreement.

31. **Benefit and Binding Effect.** This Agreement shall be for the benefit of and binding upon the parties hereto and their successors and assigns.

32. **Counterparts.** This Agreement, which may be executed in counterpart, shall constitute the entire agreement between the parties regarding the subject of this Agreement.

33. **Amendment.** Any amendment to this Agreement shall be in writing.

34. **Section Titles.** The section titles in this Agreement are not part of this Agreement and are for convenience only.

35. **Notices.** All notices, requests, waivers, approvals, acceptances or other communications under this Agreement shall be in writing and shall be deemed given when personally delivered or transmitted by facsimile or two days after mailing by certified mail, return receipt requested and postage prepaid, to the addresses or facsimile numbers set forth in the section of this Agreement titled "Parties," with copies to the following:

(a) For Town:

Joseph A. Blanton, Manager
Town of Buckeye
100 North Apache, Suite A
Buckeye, Arizona 85326

With a copy to:

Scott W. Ruby, Esq.
Gust Rosenfeld PLC
201 E. Washington, Suite 800
Phoenix, AZ 85004-2327
Facsimile Number: 602.340.1538

(b) Owner:

Stardust Structured Investments No. 2, L.L.C.,
Stardust Structured Investments No. 3, L.L.C.,
Stardust Structured Investments No. 5, L.L.C.,

C/o Stardust Companies
Attention: Chris Heeter
6730 N. Scottsdale Road, Suite 230
Scottsdale, Arizona 85253
Facsimile Number: 480.607.5801

With a copy to:

Stephen C. Earl
Earl, Curley & Lagarde, P.C.

3101 N. Central Avenue, Suite 1000
Phoenix, Arizona 85012-2641
Facsimile Number: 602.265.2195

36. **Force Majeure.** The performance of either party and the duration of this Agreement shall be extended by any causes that are beyond the control of the party required to perform, such as an act of God, civil or military disturbance and labor or material shortage.

37. **Governing Law.** This Agreement shall be governed by and construed under the laws of the state of Arizona, and any litigation shall take place only in Maricopa County, Arizona.

38. **Attorneys Fees.** The prevailing party in any litigation in connection with this Agreement shall be entitled to its attorneys' fees and costs.

39. **No Waiver.** No delay in exercising any right or remedy shall constitute a waiver thereof, and no waiver by the Town or Owner of the breach of any covenant of this Agreement shall be construed as a waiver of any preceding or succeeding breach of the same or any other covenant or condition of this Agreement.

40. **Severability.** If any provision of this Agreement is declared void or unenforceable by a court of competent jurisdiction, such provision shall be severed from this Agreement, which shall otherwise remain in full force and effect if the remaining provisions permit the parties to achieve the practical and proportional benefits and obligations of the arrangements contemplated by this Agreement. Otherwise, either party may terminate this Agreement.

41. **Signature.** The parties have executed this Agreement on the date first above written.

**TOWN:**

**TOWN OF BUCKEYE, ARIZONA**

By: _____
Mayor Dustin Hull

**OWNER:**

**STARDUST STRUCTURED INVESTMENTS NO. 2, L.L.C.**

By: _____

Its: Manager

Attest:

By: Linda Garrison
Linda Garrison, Town Clerk

**STARDUST STRUCTURED INVESTMENTS NO. 3, L.L.C.**

By: C.H. Hutto

Its: Manager

**STARDUST STRUCTURED INVESTMENTS NO. 5, L.L.C.**

By: C.H. Hutto

Its: Manager

Approved as to Form:

By: Scott W. Ruby
Scott W. Ruby, Town Attorney

STATE OF ARIZONA )
: ss.
County of Maricopa )

The foregoing Agreement was acknowledged before me this 25th day of August 2003, by Dustin Hull, in his capacity as Mayor, on behalf of the Town of Buckeye, Arizona.

Linda Garrison
Notary Public

My Commission Expires: March 31, 2005

OFFICIAL SEAL
LINDA A. GARRISON
NOTARY PUBLIC – ARIZONA
MARICOPA COUNTY
My Comm. Expires 3-31-2005

STATE OF ARIZONA )
: ss.
County of Maricopa )

The foregoing Agreement was acknowledged before me this 21 day of Aug 2003, by Chris Heeter, in his capacity as Manager, on behalf of Stardust Structured Investments No. 2, L.L.C.

OFFICIAL SEAL
RHONDA RIGG
NOTARY PUBLIC - STATE OF ARIZONA
MARICOPA COUNTY
My Commission Expires Nov. 7, 2006

Rhonda Rigg
Notary Public

My Commission Expires:
NOV. 7, 2006

STATE OF ARIZONA )
: ss.
County of Maricopa )

The foregoing Agreement was acknowledged before me this 21 day of Aug 2003, by Chris Heeter, in his capacity as Manager, on behalf of Stardust Structured Investments No. 3, L.L.C.

OFFICIAL SEAL
RHONDA RIGG
NOTARY PUBLIC - STATE OF ARIZONA
MARICOPA COUNTY
My Commission Expires Nov. 7, 2006

Rhonda Rigg
Notary Public

My Commission Expires:
NOV. 7, 2006

STATE OF ARIZONA )
: ss.
County of Maricopa )

The foregoing Agreement was acknowledged before me this 21 day of Aug 2003, by Chris Heeter, in his capacity as Manager, on behalf of Stardust Structured Investments No. 5, L.L.C.

OFFICIAL SEAL
RHONDA RIGG
NOTARY PUBLIC - STATE OF ARIZONA
MARICOPA COUNTY
My Commission Expires Nov. 7, 2006

Rhonda Rigg
Notary Public

My Commission Expires:
NOV. 7, 2006

## EXHIBIT A

## (Legal Description of Original Land)

TOWNSHIP 1 NORTH – RANGE 4 WEST

SECTION 1

The South half of Section 1, Township 1 North, Range 4 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

SECTION 3

All of Section 3, Township 1 North, Range 4 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

SECTION 4

All of Section 4, except the South half of the Southwest quarter, Township 1 North, Range 4 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

SECTION 10

The North half of Section 10, Township 1 North, Range 4 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

The North half of the Southwest quarter of Section 10, Township 1 North, Range 4 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

The Northeast quarter of the Southeast quarter of the Southwest quarter of Section 10, Township 1 North, Range 4 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

The North half of the Southeast quarter of Section 10, Township 1 North, Range 4 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

The North half of the Southwest quarter of the Southeast quarter of Section 10, Township 1 North, Range 4 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

The North half of the Southeast quarter of the Southeast quarter of Section 10, Township 1 North, Range 4 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

The North half of the South half of the Southeast quarter of the Southeast quarter of Section 10, Township 1 North, Range 4 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

EXHIBIT A (cont'd)

SECTION 11

The Southwest quarter of the Southwest quarter of Section 11, Township 1 North, Range 4 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

The Northwest quarter of the Northeast quarter of Section 11, Township 1 North, Range 4 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

The Northeast quarter of the Northwest quarter of Section 11, Township 1 North, Range 4 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

The North half of the Northwest quarter of the Northwest quarter of Section 11, Township 1 North, Range 4 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

The North half of the South half of the Northwest quarter of the Northwest quarter of Section 11, Township 1 North, Range 4 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

The westernmost 3.94 acres of the South half of the South half of the Northwest quarter of the Northwest quarter of Section 11, Township 1 North, Range 4 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

The Northwest quarter of the Southwest quarter of the Northwest quarter of Section 11, Township 1 North, Range 4 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

The North half of the Southeast quarter of the Northwest quarter of Section 11, Township 1 North, Range 4 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

TOWNSHIP 2 NORTH – RANGE 4 WEST

SECTION 33

The North half of Section 33, Township 2 North, Range 4 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

SECTION 35

All of Section 35, except the East half of the West half of the Southeast quarter of the Southeast quarter, Township 2 North, Range 4 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

## EXHIBIT C

**(Legal Description of Additional Land)**

TOWNSHIP 2 NORTH – RANGE 4 WEST

SECTION 24

All of Section 24, Township 2 North, Range 4 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

SECTION 25

All of Section 25, Township 2 North, Range 4 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

SECTION 26

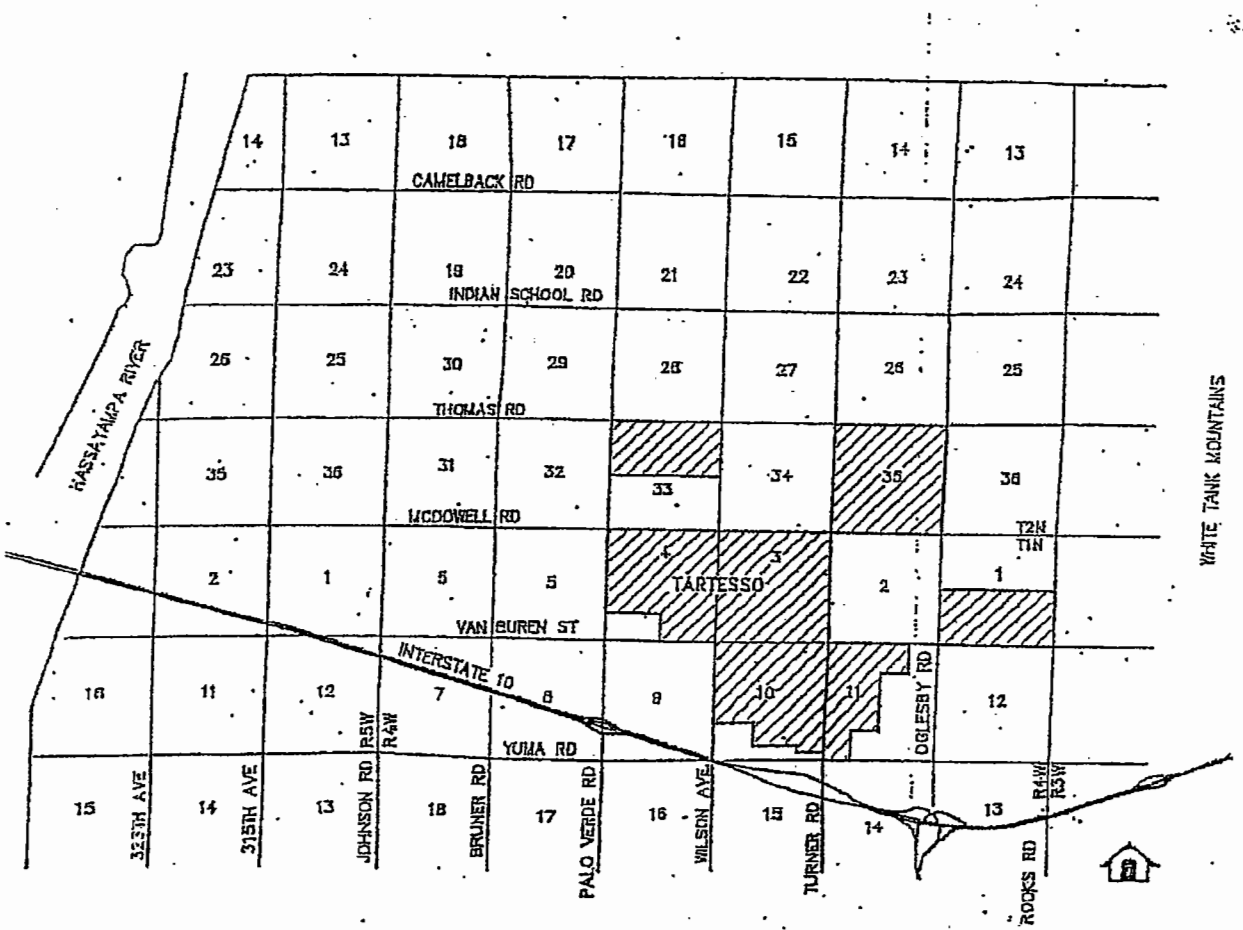
All of Section 26, Township 2 North, Range 4 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

SECTION 36

All of Section 36, Township 2 North, Range 4 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona.

# EXHIBIT B

## (Depiction of Original Land)

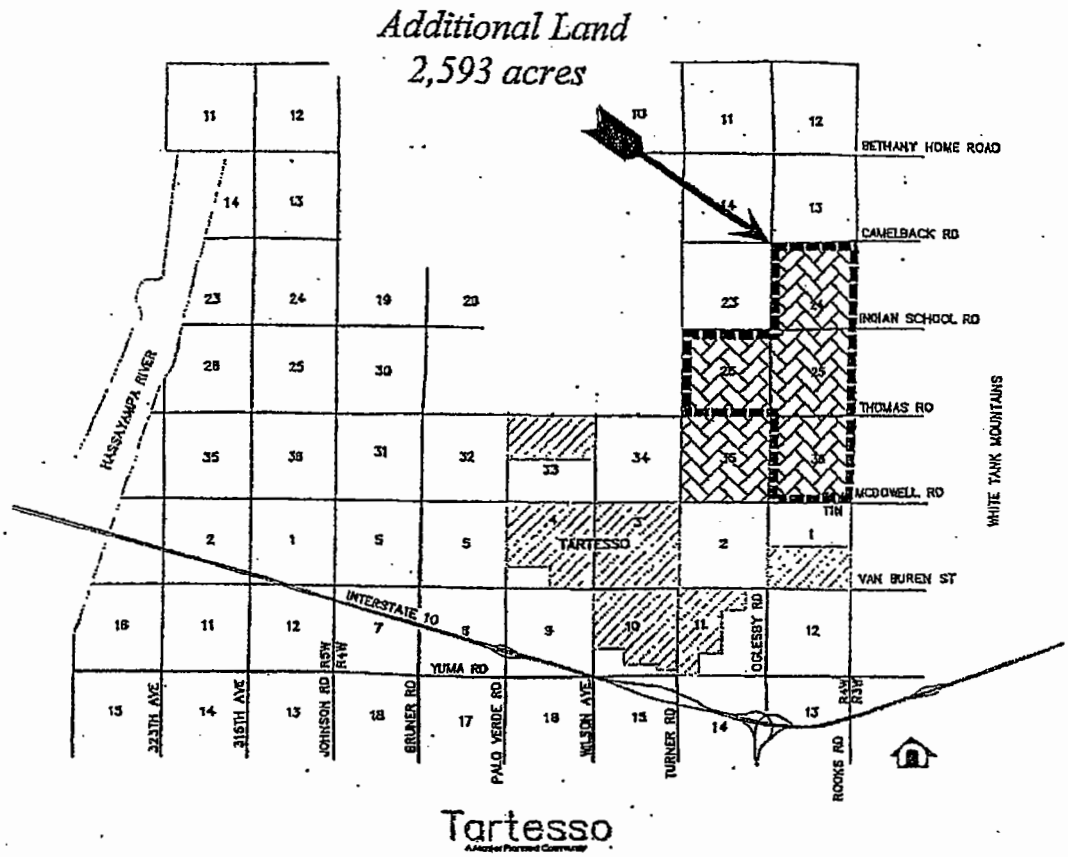



Tartesso

**DEPICTION OF ORIGINAL LAND**

**EXHIBIT D**

**(Depiction of Additional Land)**




**DEPICTION OF ADDITIONAL LAND AND ORIGINAL LAND**

TARTESSO – Property in CMP Amendment No. 1

TARTESSO

BOUNDARY OF ADDITIONAL PROPERTY
BEING INCORPORATED INTO DEVELOPMENT AGREEMENT

## EXHIBIT E

## DISPUTE RESOLUTION/REMEDIES

A. The dispute resolution process ("Process") and remedies set forth herein shall not apply to an action by the Town to condemn or acquire by inverse condemnation all or any portion of the Property, and in the event of any such action by the Town, Owner shall have all rights and remedies available to it at law or in equity.

B. If an event of default is not cured within the Cure Period, as defined at Section 20 of this Agreement, the non-defaulting party may institute the Process, pursuant to Paragraph C below.

C. Any controversy or claim subject to the Process shall be settled by an arbitration administered by the American Arbitration Association ("AAA") in accordance with its Commercial Arbitration Rules ("Rules") (except that the terms of this Agreement and this Exhibit shall control over conflicting rules), and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

D. The dispute shall be heard by a single arbitrator from a panel of qualified arbitrators located within the Phoenix metropolitan area.

E. The place of arbitration shall be Phoenix, Arizona.

F. The parties agree that the remedies available for the award by the arbitrator shall be limited to specific performance and declaratory relief and that under no circumstances shall the arbitrator issue an award of monetary damages, whether characterized as actual, consequential or otherwise, provided, however, the arbitrator may award the payment of an amount owed, or enjoin the withholding of amounts due, pursuant to Sections 7, 10 and 11(b) of this Agreement.

G. The parties have structured this Process with the goal of providing for the prompt and efficient resolution of all disputes falling within the purview of this Process. The hearing of any dispute shall be expedited and will commence as soon as practicable, but no later than forty-five (45) days after selection of the arbitrator. This deadline can be extended only with the consent of both parties to the dispute, or by decision of the arbitrator upon a showing of emergency circumstances.

H. The arbitrator shall determine the nature and scope of discovery, if any, and the manner of presentation of relevant evidence consistent with the deadlines provided herein, and the parties' objective that the disputes be resolved in a prompt and efficient manner. No discovery may be had of privileged materials or information. The arbitrator, upon proper application, shall issue such orders as may be necessary and permissible under law to protect confidential, proprietary, or sensitive materials or information from public disclosure or other misuse.

I. In order to effectuate the parties' goals, the hearing, once commenced, will proceed from business day to business day until concluded, absent a showing of good cause.

J. The arbitrator shall, within thirty (30) days from the conclusion of the hearing, issue the award.

K. The arbitrator may determine how the costs and expenses of the arbitration shall be allocated between the parties, and may award attorneys' fees to either party.

L. The award of the arbitrator shall be accompanied by a reasoned opinion.

M. The award of the arbitrator shall be final and binding. Except as otherwise provided in this Agreement, this Exhibit and the Commercial Arbitration Rules of the AAA, the Process shall be subject to the provisions of the Arizona Arbitration Act (A.R.S. §§ 12-1501–1518). In the event a party seeks confirmation of an award, or if there is a failure to abide by any award, either party may seek any remedy at law or equity for failure to comply with the award, but in no event shall the award be reviewed *de novo* or consequential monetary damages be ordered by the court.

**PUBLIC HEARING ON THE DRAFT MAG 208 WATER QUALITY MANAGEMENT PLAN AMENDMENTS FOR THE SERVICE AREA EXPANSION OF THE LITCHFIELD PARK SERVICE COMPANY PALM VALLEY AND SARIVAL WATER RECLAMATION FACILITIES AND THE TOWN OF BUCKEYE ANTHEM AT SUN VALLEY SOUTH AND TARTESSO EAST WATER RECLAMATION FACILITIES**

Tuesday, April 25, 2006 at 3:00 p.m.

MAG Office, Suite 200 - Saguaro Room 302 North 1st Avenue Phoenix, Arizona 85003

The Maricopa Association of Governments (MAG) will conduct a public hearing on the Draft MAG 208 Plan Amendments for the Service Area Expansion of the Litchfield Park Service Company Palm Valley and Sarival Water Reclamation Facilities and the Town of Buckeye Anthem at Sun Valley South and Tartesso East Water Reclamation Facilities. The purpose of the hearing is to receive public comment on the draft amendments.

As described in the first draft amendment, the Town of Buckeye, City of Glendale, and Maricopa County have expressed interest in the provision of sewer service by the Litchfield Park Service Company Palm Valley and Sarival Water Reclamation Facilities located in the Goodyear Municipal Planning Area to developments within their planning areas. The facilities are identified in the current MAG 208 Plan with reserve capacity to accommodate the sewer service needs of these developments.

As described in the second draft amendment, the proposed Buckeye Anthem at Sun Valley South Water Reclamation Facility would have an ultimate capacity of 4.5 million gallons per day (mgd) and reclaimed water would be disposed of through reuse, recharge, and an Arizona Pollutant Discharge Elimination System (AZPDES) Permit discharge. The receiving stream for the AZPDES Permit discharge would be an unnamed wash tributary to the White Tanks Wash. Flow from the White Tanks Wash would be retained in the Flood Retardant Structure (FRS) No. 1 on the north side of Interstate 10. The FRS No. 1 is designed to retain flows from approximately the 100-year storm event. Beyond this storm event, flow would be discharged from the FRS No. 1 into the Hassayampa River.

The proposed Buckeye Tartesso East Water Reclamation Facility would have an ultimate capacity of 9.6 mgd and reclaimed water would be disposed of through reuse, recharge, and an AZPDES Permit discharge. The receiving stream for the AZPDES Permit discharge would be an unnamed wash. Flow from the wash would be retained in the FRS No. 1 on the north side of Interstate 10. Beyond the 100-year storm event, flow would be discharged from the FRS No. 1 into the Hassayampa River.

Following consideration of comments received, it is anticipated that the MAG Water Quality Advisory Committee will make a recommendation to the MAG Management Committee. On May 10, 2006, the MAG Management Committee is anticipated to make a recommendation to the MAG Regional Council. It is anticipated that the MAG Regional Council will take action of the draft plan amendments on May 24, 2006.

The draft documents will be available for public review at the MAG Office from 8:00 a.m. to 5:00 p.m. Monday through Friday beginning March 13, 2006. Copies will also be available for review at the Glendale Public Library, 5959 W. Brown Street; City of Mesa Library, 64 E. First Street; and Phoenix Central Public Library, 1221 N. Central Avenue. Public comments are welcome at the hearing, or may be submitted in writing by 3:00 p.m. on April 25, 2006 to MAG staff at the address below.

Contact Person: Julie Hoffman
302 North 1st Avenue, Suite 300 Phoenix, Arizona 85003
Fax: (602) 254-6490
06152-March 11, 2006

AFFIDAVIT OF PUBLICATION

# THE ARIZONA REPUBLIC

STATE OF ARIZONA
COUNTY OF MARICOPA } SS.

Ondrea Sheppard, being first duly sworn, upon oath deposes and says: That she is the marketing/sales lead of the Arizona Business Gazette, a newspaper of general circulation in the county of Maricopa, State of Arizona, published at Phoenix, Arizona, by Phoenix Newspapers Inc., which also publishes The Arizona Republic, and that the copy hereto attached is a true copy of the advertisement published in the said paper on the dates as indicated.

**The Arizona Republic**

**March 11, 2006**

Ondrea Sheppard

Sworn to before me this
13TH day of
March A.D. 2006

OFFICIAL SEAL
MARILYN GREENWOOD
NOTARY PUBLIC-ARIZONA
MARICOPA COUNTY
My Comm. Expires May 23, 2007

Marilyn Greenwood
Notary Public

MARICOPA ASSOCIATION of GOVERNMENTS

302 North 1st Avenue, Suite 300 ▲ Phoenix, Arizona 85003
Phone (602) 254-6300 ▲ Fax (602) 254-6490
E-mail: mag@mag.maricopa.gov ▲ Web site: www.mag.maricopa.gov

March 15, 2006

TO: Interested Parties for Water Quality

FROM: Julie Hoffman, Environmental Planner

SUBJECT: PUBLIC HEARING ON THE DRAFT MAG 208 WATER QUALITY MANAGEMENT PLAN AMENDMENTS FOR THE SERVICE AREA EXPANSION OF THE LITCHFIELD PARK SERVICE COMPANY PALM VALLEY AND SARIVAL WATER RECLAMATION FACILITIES AND THE TOWN OF BUCKEYE ANTHEM AT SUN VALLEY SOUTH AND TARTESSO EAST WATER RECLAMATION FACILITIES

Public Hearing
April 25, 2006 at 3:00 p.m.
MAG Office, Saguaro Room
302 North 1st Avenue, Second Floor
Phoenix, Arizona 85003

The Maricopa Association of Governments (MAG) will conduct a public hearing on the Draft MAG 208 Water Quality Management Plan Amendments for the Service Area Expansion of the Litchfield Park Service Company Palm Valley and Sarival Water Reclamation Facilities and the Town of Buckeye Anthem at Sun Valley South and Tartesso East Water Reclamation Facilities. The purpose of the hearing is to receive public comment on the draft plan amendments.

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For your information and convenience, a copy of the public hearing notice is enclosed. The draft documents are available for public review at the MAG Office, third floor from 8:00 a.m. to 5:00 p.m. Monday through Friday. Copies are also available for review at the Glendale Public Library, 5959 West Brown Street; City of Mesa Library, 64 East First Street; and Phoenix Central Public Library, 1221 North Central Avenue. For further information or to submit written comments on the draft amendments prior to the hearing, please contact me at (602) 254-6300.

**PUBLIC HEARING ON THE DRAFT MAG 208 WATER QUALITY MANAGEMENT PLAN AMENDMENTS FOR THE SERVICE AREA EXPANSION OF THE LITCHFIELD PARK SERVICE COMPANY PALM VALLEY AND SARIVAL WATER RECLAMATION FACILITIES AND THE TOWN OF BUCKEYE ANTHEM AT SUN VALLEY SOUTH AND TARTESSO EAST WATER RECLAMATION FACILITIES**

Tuesday, April 25, 2006 at 3:00 p.m.
MAG Office, Suite 200 - Saguaro Room
302 North 1st Avenue
Phoenix, Arizona 85003

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Following consideration of comments received, it is anticipated that the MAG Water Quality Advisory Committee will make a recommendation to the MAG Management Committee. On May 10, 2006, the MAG Management Committee is anticipated to make a recommendation to the MAG Regional Council. It is anticipated that the MAG Regional Council will take action of the draft plan amendments on May 24, 2006.

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Public Library, 5959 W. Brown Street; City of Mesa Library, 64 E. First Street; and Phoenix Central Public Library, 1221 N. Central Avenue. Public comments are welcome at the hearing, or may be submitted in writing by 3:00 p.m. on April 25, 2006 to MAG staff at the address below.

Contact Person: Julie Hoffman
302 North 1st Avenue, Suite 300
Phoenix, Arizona 85003
Fax: (602) 254-6490

PUBLIC HEARING ON THE DRAFT MAG 208 WATER QUALITY MANAGEMENT PLAN AMENDMENTS FOR THE SERVICE AREA EXPANSION OF THE LITCHFIELD PARK SERVICE COMPANY PALM VALLEY AND SARIVAL WATER RECLAMATION FACILITIES AND THE TOWN OF BUCKEYE ANTHEM AT SUN VALLEY SOUTH AND TARTESSO EAST WATER RECLAMATION FACILITIES

Phoenix, Arizona
April 25, 2006
3:15 p.m.

Glennie
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Prepared by:
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Reporter Number 50522

Prepared for:
Maricopa Association of
Governments

(Original)

1 The Public Hearing was taken on April 25,
2 2006, commencing at 3:15 p.m., at the offices of the
3 Maricopa Association of Governments, 302 North 1st
4 Avenue, Suite 200, Phoenix, Arizona, before
5 JANET HAUCK, RPR, a Certified Reporter, Certificate
6 No. 50522, for the State of Arizona.
7
8 **Committee Members Present:**
9 Roger Klingler, City of Scottsdale, Chair
Scott Lowe for Lucky Roberts, Town of Buckeye
10 Lawrence Brotman for Chris Ochs, City of Glendale
David Iwanski, City of Goodyear
11 Robert Hollander, City of Phoenix
Rich Williams, Sr., City of Surprise
12 David McNeil, City of Tempe
Ken James for John Power, Maricopa County
13
**Committee Members Attending**
14 **by Telephone Conference Call:**
15 Robert Goff for Jacqueline Strong, City of Chandler
Bill Haney, City of Mesa
16 Kris Budak for Stephen Bontrager, City of Peoria
17
**Others Present:**
18
Ken Reedy, City of Glendale
19 Damon Dequenne, Town of Buckeye
Steven Borst, Town of Buckeye
20 Julie Finke, Arizona Dept. of Environmental Quality
Edwina Vogan, Arizona Dept. of Environmental Quality
21 Paul Gilbert, Beus Gilbert
Felipe Zubia, Beus Gilbert
22 Doug Kobrick, CDM
Sheila Logan, CMX
23 John Tyldesley, CSA Engineering
Michael Cronin, Element Homes
24 Mike Kocourek, Element Homes
Jim Condit, JF Properties
25 Keith Watkins, JF Properties

1 Others Present, Continuing:

2 Duong Do, PACE
Steven Owen, PERC
3 Jerry Copeland, Wood Patel
Julie Hoffman, Maricopa Association of Governments
4 Ann Wimmer, Maricopa Association of Governments

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2 MR. KLINGLER: What I would like to do is
3 open the public hearing on our Draft MAG 208 Plan
4 Amendments for the Service Area Expansion of Litchfield
5 Park Service Company, Palm Valley and Sarival Water
6 Reclamation Facilities and the Town of Buckeye Anthem
7 at Sun Valley South and Tartesso East Water Reclamation
8 Facilities.

9 So, we'll begin with a briefing on each draft
10 amendment. Then following the briefings, the hearing
11 participants are invited to make comments for the
12 public record.

13 A court reporter is present to provide an
14 official record of the hearing. Written comments are
15 also welcome. For those wishing to speak on the draft
16 amendments, please fill out a yellow card and hand it
17 to MAG staff.

18 First, I believe we're going to have Jerry
19 Copeland from Wood Patel give us a briefing on the
20 LPSCo service area expansion; is that correct, Jerry?

21 MR. COPELAND: Yes. This is a photograph of
22 the Palm Valley Water Reclamation Facility. It's a
23 beautiful facility, odorless and much appreciated by
24 the community.

25 This slide is to orient you geographically to

1 the proposed expansion area. The northern part of it
2 is a small area of Maricopa County, a sliver of the
3 Buckeye metropolitan planning area, and a small corner
4 of the Glendale planning area.
5 This is the Buckeye metropolitan area map.
6 And again, you can see there's a little sliver of the
7 upper northeast corner of the Buckeye planning area
8 being included. This is the part that's in the county,
9 and this is the area that's in the City of Glendale.
10 This is a map of the current Litchfield Park
11 Service Company service area. The Palm Valley
12 reclamation plant is in existence here. The Sarival
13 water reclamation plant that is proposed is located
14 right in this area.
15 This is a map that shows the proposed
16 expansion area in green, a regional sanitary sewer line
17 in the dashed green and black, and the existing service
18 area shown in red.
19 The need for this expansion is primarily
20 because properties in this area found themselves on the
21 fringe of the metropolitan planning areas some distance
22 from any existing sewer and faced with either acre lots
23 and septic tanks or individual packaged wastewater
24 treatment plants.
25 As a group of developers, they were

encouraged by the county to do something regional, that is, to not piecemeal the development of that area. And the coordination and the consortium formed by these developers resulted in the acreages that you're seeing in green plus a regional sanitary trunk sewer to serve the area to the existing Palm Valley water reclamation plant.

The original plant was constructed at 4.1 MGD and was built with an excess capacity of 38 percent. That excess capacity is far more than is needed by the proposed expansion. Therefore, there are no proposed changes to the wastewater treatment facility at all.

This is a slide showing the individual properties that form the consortium that will be served by this expansion.

With that, I'll open it up to questions.

MR. KLINGLER: Thank you, Jerry. Just to follow up a couple questions I noticed we had last time. One was concerning the discussion with the Corporation Commission. I think a meeting or a hearing was scheduled. Is that still underway, or has that already taken place?

MR. COPELAND: That is still underway. The meetings have taken place. The hearing has been conducted, and there are some details being ironed out.

1 MR. KLINGLER: Okay. Then there was also a
2 question about the discussion with Arizona American
3 Water Company, I think, for some of the service area,
4 that there was going to be some discussion. Has that
5 taken place or that is underway, also?
6 MR. COPELAND: Discussions have taken place.
7 And I don't believe there's a resolution yet, but that
8 will be an ongoing process between the water company
9 and LPSCo.
10 MR. KLINGLER: Are there any other questions
11 at this time from the members of the committee?
12 MR. HOLLANDER: Let me ask kind of a
13 procedural question. If this amendment is for
14 expansion of Litchfield Park service area, the
15 committee can recommend that to go through despite the
16 status of the meetings that are currently between
17 Arizona American and Litchfield Park Service Company?
18 MR. KLINGLER: Yeah, the committee has that
19 ability, if you choose not to --
20 MR. HOLLANDER: -- for that process to have
21 to work that out. We're just approving this part of
22 it.
23 MR. KLINGLER: Right.
24 MR. COPELAND: I might remind you that the
25 agreement between LPSCo and the water company is not a

1 requirement of the county. And as a matter of fact,
2 both entities enjoy a CC&N for their service area. So,
3 they both have a right to operate as they currently do.
4 However, it's been recognized by Maricopa County and
5 everyone involved that it would be a good idea to
6 eliminate that small treatment facility at what's
7 called Russell Ranch Phase 6.
8 The county has requested and the applicant
9 has agreed to pursue negotiations with the water
10 company with that objective in mind until they can
11 serve it. Capacity for the Russell Ranch area is in
12 the pipeline. It can easily be served. It's just a
13 matter of the water company and LPSCo coming to an
14 agreement over the water company giving up their CC&N
15 and expanding the CC&N of LPSCo to take care of it.
16 MR. KLINGLER: Thank you, Jerry. Now we'll
17 have Sheila Logan of CMX provide a briefing on the
18 Buckeye Anthem at Sun Valley South and Tartesso East
19 water reclamation facilities.
20 MS. LOGAN: Thank you. Knowing that you've
21 seen this all before, we'll go pretty fast. The Town
22 of Buckeye municipal planning area shown on the right
23 and then zoomed into the left is the area that shows
24 their existing plants or proposed plants that have been
25 through the 208 process including the two that I'm here

1 to talk about today, the Anthem at Sun Valley South
2 water reclamation facility with a proposed capacity of
3 4.5 million gallons per day and the Tartesso East water
4 reclamation facility with a proposed capacity of
5 9.6 million gallons a day.
6 The Town of Buckeye, of course, is growing
7 quite rapidly. And this just shows the RAZ, the region
8 analysis zone boundaries, that correspond to the
9 population projections on the previous slide.
10 The proposed service area for the Anthem and
11 Sun Valley South plant includes the 4,000 acre Anthem
12 at Sun Valley South project and an additional
13 approximately 3,300 acres. The Tartesso East water
14 reclamation facility includes the service area for the
15 6,000 acre Tartesso East project and an additional
16 approximately 4,500 acres.
17 There's no private wastewater utilities in
18 either of the service areas. There are some private
19 water utilities. The Anthem at Sun Valley South
20 project will include a number of gravity collector
21 sewers, and this proposed plant services this area and
22 the additional off-site areas by gravity.
23 The project ultimately, including the
24 off-site areas, would include about 13,000 dwelling
25 units and 37,000 people. The plant would be phased

1 according to the proposed build-out of the development
2 meeting the average day of the maximum month in the
3 early phases.
4 The treatment technology is proposed --
5 again, we're talking about the Anthem at Sun Valley
6 South plant. The treatment technology proposed is the
7 multiphase sequencing batch reactor. It would have
8 tertiary treatment and meets class A+ quality effluent
9 and class B biosolids. Everyone is familiar with the
10 A+ quality standards.
11 Effluent would be proposed for reuse through
12 turf irrigation and open space irrigation, and they
13 would also propose a groundwater recharge facility
14 adjacent to the plant site.
15 The plant would also have an emergency
16 discharge option or apply for a AZPDES permit for
17 emergency discharge into an unnamed wash adjacent to
18 the plant site that's tributary to White Tanks Wash and
19 tributary to FRS Number 1 operated by the Flood Control
20 District of Maricopa County. That flood retarding
21 structure has a limited hydrologic connection to the
22 Hassayampa River. I think over the last 20 years it
23 discharged maybe 13 times. And there's a culvert or a
24 pipe that drains that facility.
25 Of course, the plant would require a number

of other permits, approvals through Maricopa County, ADEQ and the Town of Buckeye, to name a few. The plant is contemplating or should have design complete this summer, construction beginning in the fall, late fall or over the winter next year, and look at startup and operation in the spring or summer of next year.

The plant construction design-build and initial operation will be financed by Pulte Homes with the contract for that to be taken over by the Town of Buckeye.

Before I go on, are there any questions on the Anthem at Sun Valley South plant?

MR. KLINGLER: Go ahead.

MS. LOGAN: The second plant is the Tartesso East water reclamation facility. The Tartesso East plant proposes to serve a total of approximately 10,000 acres including ultimately approximately $29,000 dwelling units or 82,000 people for an ultimate capacity, again, of 9.6 million gallons per day. The plant would be phased in accordance with the projected build-out of the development.

The treatment technology would initially be the sequencing batch reactor. When it reaches the approximate capacity around 4 1/2 or 5 MGD, the plant would be converted over to an MLE process in concert

with the Town of Buckeye's standard, if you will.

Again, the plant would produce A+ quality effluent, have full odor and noise control, produce class B biosolids. Skip this one.

Effluent from this plant would also be used for potential golf course and turf irrigation. There's a potential for a lake community, and they would also provide groundwater recharge.

Similar to the Anthem at Sun Valley South plant, a AZPDES permit would be pursued for emergency discharge. This point would be to an unnamed wash that's tributary almost directly to the flood retarding structure. Again, there's a number of other permits and approvals that would be required along the way.

The project scheduled for this plant design is anticipated in 2008, construction in 2009 or 2010, and startup in 2010. The financing of this plant would be through the ~~startup~~ Stardust communities with a contract for ultimate operation and management by the Town of Buckeye.

MR. KLINGLER: Any questions at this point? Okay, thank you. At this time, we invite any public comments. Julie, did we get any cards? Nobody from the public commenting at this point.

Okay, then at this time, I'd like to close

1 the public hearing and ask the court reporter to end
2 the transcription. Thank you.
3 (The public hearing portion of the
4 proceedings concluded at 3:31 p.m.)
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STATE OF ARIZONA )
)
COUNTY OF MARICOPA )

I, JANET HAUCK, a Certified Reporter, Certificate No. 50522, in the State of Arizona, do hereby certify that the foregoing pages constitute a full, true, and accurate transcript of all proceedings had in the foregoing matter, all done to the best of my skill and ability.

I FURTHER CERTIFY that I am not related to nor employed by any of the parties hereto, and have no interest in the outcome hereof.

WITNESS my hand this 10th day of May, 2006.

Janet Hauck

Janet Hauck, RPR
Arizona Certified
Reporter No. 50522