NEW ISSUE — BOOK-ENTRY-ONLY **RATINGS: Moody's: Aa2**
Standard & Poor's: AAA

OFFICIAL STATEMENT DATED NOVEMBER 1, 2011

In the opinion of Bond Counsel, assuming compliance with certain tax covenants, interest on the Bonds is excludable from gross income for federal income tax purposes under existing statutes, regulations, rulings and court decisions. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, see "TAX EXEMPTION" herein for a description of certain federal tax consequences of ownership of the Bonds. Bond Counsel is further of the opinion that assuming interest is so excludable for federal income tax purposes, the interest on the Bonds is exempt from income taxation under the laws of the State of Arizona. See also "BOND PREMIUM" herein.

$167,510,000
CITY OF PHOENIX CIVIC IMPROVEMENT CORPORATION
Junior Lien Water System Revenue Refunding Bonds,
Series 2011

Dated: Date of Delivery **Due: July 1, as shown on inside front cover**

Principal of, and premium, if any, on the Junior Lien Water System Revenue Refunding Bonds, Series 2011 (the *"Bonds"*) are payable at the designated corporate trust office of U.S. Bank National Association, Phoenix, Arizona, as trustee (the *"Trustee").* The Bonds will be issued as fully registered bonds in the denominations of $5,000 each or any integral multiple thereof. The Bonds, when issued, will be registered in the name of The Depository Trust Company *("DTC"*) or its nominee and will be available to purchasers initially only through the book-entry-only system maintained by DTC. So long as the book-entry-only system is maintained, no physical delivery of the Bonds will be made to the ultimate purchasers thereof and all payments of principal of and premium, if any, and interest on the Bonds will be made to such purchasers through DTC. Interest on the Bonds is payable semiannually on January 1 and July 1 of each year, commencing July 1, 2012, by the Trustee. The Bonds are being issued pursuant to a Bond Indenture dated as of November 1, 2011, by and between the City of Phoenix Civic Improvement Corporation (the *"Corporation"*) and the Trustee.

The Bonds are subject to redemption prior to maturity as described herein.

The Bonds are special revenue obligations of the Corporation and are payable solely from payments required to be paid by the City of Phoenix, Arizona (the *"City"*) to the Corporation pursuant to the City Purchase Agreement dated as of November 1, 2011 (the *"City Purchase Agreement"*), by and between the City and the Corporation. The obligations of the City to make the payments and any other obligations of the City under the City Purchase Agreement are payable from a pledge of Designated Revenues (as defined herein) received from the City's water system and do not constitute a pledge of the full faith and credit or the ad valorem taxing power of the City. The Bonds are issued on a parity basis with certain other outstanding junior lien water system revenue obligations of the City and the Corporation. See "SECURITY AND SOURCE OF PAYMENT" herein.

This cover page contains only a brief description of the Bonds and the security therefor, and is designed for quick reference only. The cover page is not a summary of all material information with respect to the Bonds, and investors are advised to read the entire Official Statement in order to obtain information essential to making an informed investment decision.

The Bonds are offered when, as and if issued and received by the Underwriters, and subject to the legal opinion of Greenberg Traurig, LLP, Bond Counsel, as to validity and tax exemption. Certain legal matters will be passed upon for the Underwriters by Squire, Sanders & Dempsey (US) L.L.P., Counsel to the Underwriters. It is expected that the Bonds will be available for delivery in book-entry-only form through the facilities of DTC on or about November 22, 2011.

Morgan Stanley

Citigroup **Goldman, Sachs & Co.**
Rice Financial Products Company **Siebert Brandford Shank & Co., L.L.C.**

Fidelity Capital Markets **Hutchinson, Shockey, Erley & Co.** **Raymond James & Associates, Inc.**

MATURITY SCHEDULE

$167,510,000
Junior Lien Water System Revenue Refunding Bonds, Series 2011

Maturity July 1	Principal Amount	Interest Rate	Yield	Maturity July 1	Principal Amount	Interest Rate	Yield
2014	$ 7,620,000	4.00%	0.84%	2020	$ 4,845,000	3.00%	2.68%
2015	1,100,000	2.00	1.22	2020	7,975,000	5.00	2.68
2015	9,195,000	4.00	1.22	2021	13,360,000	5.00	2.81
2016	10,685,000	5.00	1.56	2022	1,560,000	4.00	2.91*
2017	11,215,000	5.00	1.83	2022	12,470,000	5.00	2.91*
2018	3,405,000	2.50	2.13	2023	14,715,000	5.00	3.05*
2018	8,370,000	5.00	2.13	2024	15,450,000	5.00	3.21*
2019	4,060,000	3.00	2.43	2025	16,225,000	5.00	3.33*
2019	8,225,000	5.00	2.43	2026	705,000	4.00	3.44*
				2026	16,330,000	5.00	3.44*

* Yield to July 1, 2021, the first optional call date.

CITY OF PHOENIX, ARIZONA

CITY OF PHOENIX CIVIC IMPROVEMENT CORPORATION

Wallace Estfan
President and Director

Michael R. Davis
Vice President and Director

James H. Lundy
Secretary-Treasurer and Director

Barbara Barone
Director

Bruce Covill
Director

Karlene Keogh
Director

CITY OF PHOENIX, ARIZONA CITY COUNCIL

Phil Gordon, *Mayor*

Thelda Williams, *Vice Mayor*
District 1

Bill Gates, *Member*
District 3

Claude Mattox, *Member*
District 5

Tom Simplot, *Member*
District 4

Sal DiCiccio, *Member*
District 6

Michael Johnson, *Member*
District 8

Michael Nowakowski, *Member*
District 7

Jim Waring, *Member*
District 2

ADMINISTRATIVE OFFICIALS

David Cavazos
City Manager

Ed Zuercher
Assistant City Manager

Jerome Miller
Deputy City Manager

Jeff DeWitt
Finance Director

Gary Verburg
City Attorney

Neil Mann
Acting Water Services Director

Cris Meyer
City Clerk

SPECIAL SERVICES

GREENBERG TRAURIG, LLP
Phoenix, Arizona
Bond Counsel

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New York, New York
Pricing Advisor

PUBLIC FINANCIAL MANAGEMENT, INC.
Austin, Texas
Financial Advisor

U.S. BANK
NATIONAL ASSOCIATION
Phoenix, Arizona
Trustee, Bond Registrar, Paying Agent and Depository Trustee

GRANT THORNTON LLP
Minneapolis, Minnesota
Escrow Verification Agent

This Official Statement does not constitute an offering of any security other than the original offering of the Bonds of the Corporation identified on the cover page hereof. No person has been authorized by the Corporation, the City, the Financial Advisor or the Underwriters to give any information or to make any representation other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by the Corporation, the City, the Financial Advisor or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, and there shall not be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the Corporation or the City since the date hereof. There is no obligation on the part of the City or the Corporation to provide any continuing secondary market disclosure other than as described herein under the heading "CONTINUING DISCLOSURE."

Upon issuance, the Bonds will not be registered by the Corporation, the City or the Underwriters under the Securities Act of 1933, as amended, or any state securities law, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency will have passed upon the accuracy or adequacy of this Official Statement or approved the Bonds for sale.

IN CONNECTION WITH THE OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT
Relating to

$167,510,000
CITY OF PHOENIX CIVIC IMPROVEMENT CORPORATION

Junior Lien Water System Revenue Refunding Bonds, Series 2011

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and the appendices attached hereto, is to set forth certain information concerning the City of Phoenix Civic Improvement Corporation (the *"Corporation"*), the City of Phoenix, Arizona (the *"City"*), and the captioned bonds (the *"Bonds"*). The offering of the Bonds is made only by way of this Official Statement, which supersedes any other information or materials used in connection with the offer or sale of the Bonds. Accordingly, prospective Bond purchasers should read this entire Official Statement before making their investment decision.

All financial and other information presented in this Official Statement has been provided by the City from its records, except for information expressly attributed to other sources. The Corporation and the City warrant that this Official Statement contains no untrue statements of a material fact and does not omit any material fact necessary to make such statements, in light of the circumstances under which this Official Statement is made, not misleading. The presentation of financial and other information, including tables of receipts from taxes and other sources, is intended to show recent historical information and, except as expressly stated otherwise, is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as is shown by the financial and other information, will necessarily continue or be repeated in the future.

References to provisions of Arizona law, whether codified in the Arizona Revised Statutes (A.R.S.) or uncodified, or to the Arizona Constitution, are references to current provisions. Those provisions may be amended, repealed or supplemented.

For certain provisions of the City Purchase Agreement dated as of November 1, 2011 (the *"City Purchase Agreement"*), between the Corporation and the City and for the definitions of certain capitalized terms used in this Official Statement and for certain provisions of the Bond Indenture dated as of November 1, 2011 (the "*Indenture"*), between the Corporation and U.S. Bank National Association, as trustee (the *"Trustee,"* also referred to herein as the *"Registrar," "Paying Agent"* and *"Authenticating Agent"*), pursuant to which the Bonds are being issued, see "APPENDIX G — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS."

THE BONDS

Authorization and Purpose

The Bonds are being issued by the Corporation under the terms of the Indenture (i) for the purpose of refunding a portion of the Corporation's outstanding Junior Lien Water System Revenue Bonds, Series 2002 identified below (the *"Bonds Being Refunded"*) and (ii) paying the costs of issuance of the Bonds as described herein. The payments to be made by the City pursuant to the City Purchase Agreement are scheduled to be sufficient to make payments on the Bonds. The City has made a pledge of the Designated Revenues of the System (each as defined herein) to secure amounts due under the City Purchase Agreement. See "SECURITY AND SOURCE OF PAYMENT."

Plan of Refunding

The proceeds of the sale of the Bonds remaining after deduction of issuance costs will be placed in an irrevocable trust account (the *"Trust Account"*) with U.S. Bank National Association, as depository trustee and as bond registrar and paying agent and bond trustee for the Bonds Being Refunded (the *"Depository Trustee"*), to be applied to the redemption of the Bonds Being Refunded. The Bonds Being Refunded will be paid at their respective maturity or redemption date as shown in the following table:

SCHEDULE OF MATURITIES AND REDEMPTION DATES OF BONDS BEING REFUNDED

Issue Series	Maturity Date July 1	Principal Amount Outstanding	Principal Amount Being Refunded	Redemption Date (July 1)	Redemption Premium (as a Percentage of Principal)
2002	2012	$ 8,360,000	$ 8,360,000	N/A	N/A
2002	2013	8,735,000	8,735,000	2012	0.0%
2002	2014	9,215,000	9,215,000	2012	0.0
2002	2015	9,725,000	9,725,000	2012	0.0
2002	2016	10,260,000	10,260,000	2012	0.0
2002	2017	10,820,000	10,820,000	2012	0.0
2002	2018	11,415,000	11,415,000	2012	0.0
2002	2019	11,990,000	11,990,000	2012	0.0
2002	2020	12,650,000	12,650,000	2012	0.0
2002	2022**	27,355,000	27,355,000	2012	0.0
2002	2026**	63,405,000	63,405,000	2012	0.0

** Term Bond

The trust funds held by the Depository Trustee in the Trust Account will be used to acquire obligations issued by the United States government, or one of its agencies or obligations fully guaranteed by the United States government as to principal and interest (collectively, the *"Government Obligations"*), the principal of and interest on which, when due, are calculated to be sufficient, together with any initial cash balance in the Trust Account to provide moneys to pay the principal and interest to become due on the Bonds Being Refunded, whether at maturity or early redemption. (See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein). Such Government Obligations will be held by the Depository Trustee irrevocably in trust for the payment of such principal of, premium and interest on the Bonds Being Refunded pursuant to the terms of a Depository Trust Agreement, dated as of November 1, 2011, by and between the Corporation and the Depository Trustee. Upon the deposit of funds with the Depository Trustee, the Bonds Being Refunded will no longer be outstanding within the meaning of the indenture under which they were issued and will no longer be secured by Designated Revenues of the System.

General Description

The Bonds will be issued as fully registered bonds, without coupons, in book-entry-only form and will be registered to Cede & Co. as described below under "Book-Entry-Only System." AS LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF THE DEPOSITORY TRUST COMPANY ("DTC"), REFERENCES HEREIN TO THE OWNERS OF THE BONDS (OTHER THAN UNDER THE CAPTIONS "TAX EXEMPTION," AND "BOND PREMIUM") WILL MEAN CEDE & CO. AND WILL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS. PRINCIPAL, PREMIUM, IF ANY, AND INTEREST PAYMENTS ON THE BONDS ARE TO BE MADE TO DTC AND ALL SUCH PAYMENTS WILL BE VALID AND EFFECTIVE TO SATISFY FULLY AND TO DISCHARGE THE OBLIGATIONS OF THE CORPORATION AND THE CITY WITH RESPECT TO, AND TO THE EXTENT OF, THE AMOUNTS SO PAID.

The Bonds will be dated the date of initial authentication and delivery thereof, will bear interest payable semiannually on January 1 and July 1 of each year (each an *"Interest Payment Date"*), commencing July 1, 2012. The Bonds will bear interest at the rates and will mature on the dates and in the amounts set forth on the inside front cover of this Official Statement. The Bonds will be delivered in fully registered form in the denomination of $5,000 each or any whole multiple thereof (but no Bond may represent installments of principal maturing on more than one date).

Subject to the provisions contained under the heading "Book-Entry-Only System" below, the principal of and premium, if any, and interest at maturity or redemption on each Bond will be payable upon presentation and surrender of such Bond at the designated corporate trust office of the Registrar. Interest on each Bond, other than that due at maturity or redemption, will be paid on each Interest Payment Date by check of said Registrar, mailed to the person shown on the bond register of the Corporation maintained by the Registrar as being the registered owner of such Bond (the *"Owner"*) as of the fifteenth day of the month immediately preceding such Interest Payment Date (the *"Regular Record Date"*) at the address appearing on said bond register or at such other address as is furnished to the Trustee in writing by such Owner before the fifteenth day of the month prior to such Interest Payment Date.

The Indenture also provides that, with the approval of the Corporation, the Trustee may enter into an agreement with any Owner of $1,000,000 or more in aggregate principal amount of Bonds providing for making all payments to that Owner of principal of and interest and any premium on those Bonds or any part thereof (other than any payment of the entire unpaid principal amount thereof) at a place and in a manner other than as described above, without presentation or surrender of the Bond, upon any conditions which shall be satisfactory to the Trustee and the Corporation; provided that without a special agreement or consent of the Corporation, payment of interest on the Bonds may be made by wire transfer to any Owner of $1,000,000 aggregate principal of Bonds upon two days prior written notice to the Trustee specifying a wire transfer address of a bank or trust company in the United States.

If the Corporation fails to pay the interest due on any Interest Payment Date, that interest shall cease to be payable to the person who was the Owner as of the Regular Record Date. When moneys become available for payment of the interest, the Registrar will establish a special record date (the *"Special Record Date"*) for such payment which will be not more than 15 nor fewer than 10 days prior to the date of the proposed payment and the interest will be payable to the persons who are Owners on the Special Record Date. The Registrar will mail notice of the proposed payment and of the Special Record Date to each Owner.

Book-Entry-Only System

The following information about the book-entry-only system applicable to the Bonds has been supplied by DTC. None of the Corporation, the City, the Trustee, the Underwriters or the Financial Advisor makes any representations, warranties or guarantees with respect to its accuracy or completeness.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants *("Direct Participants"*) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation *("DTCC"*). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly *("Indirect Participants"* and together with Direct Participants, *"Participants"*). DTC has a Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at **www.dtcc.com and www.dtc.org**.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond *("Beneficial Owner"*) is in turn to be recorded on the Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct Participants and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Corporation or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Corporation or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Corporation or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Corporation may decide to discontinue the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

SO LONG AS CEDE & CO., AS NOMINEE FOR DTC, IS THE SOLE REGISTERED OWNER, THE CORPORATION AND THE TRUSTEE WILL TREAT CEDE & CO. AS THE ONLY OWNER OF THE BONDS FOR ALL PURPOSES UNDER THE INDENTURE, INCLUDING RECEIPT OF ALL PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, AND INTEREST ON THE BONDS, RECEIPT OF NOTICES, VOTING AND REQUESTING OR DIRECTING THE CORPORATION AND THE TRUSTEE TO TAKE OR NOT TO TAKE, OR CONSENTING TO, CERTAIN ACTIONS UNDER SUCH INDENTURE. THE CORPORATION AND THE TRUSTEE HAVE NO RESPONSIBILITY OR OBLIGATION TO THE PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT; (B) THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER WITH RESPECT TO THE PRINCIPAL OF AND INTEREST ON THE BONDS; (C) THE DELIVERY OR TIMELINESS OF DELIVERY BY DTC OR ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO BONDHOLDERS; (D) THE SELECTION BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY BENEFICIAL OWNER TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; (E) CONSENTS OR OTHER ACTION TAKEN BY DTC OR CEDE & CO., AS REGISTERED OWNER OR (F) ANY OTHER MATTER.

Redemption Provisions

Optional Redemption. Bonds maturing on or prior to July 1, 2021 are not subject to optional redemption prior to maturity. Bonds maturing on and after July 1, 2022 are subject to redemption at the option of the Corporation, as directed by the City, on July 1, 2021 and thereafter, in whole or in part at any time, in increments of $5,000, in any order of maturity, as directed by the City, and by lot within a maturity, by payment of the redemption price of each Bond called for redemption (expressed as a percentage of the principal amount thereof) plus accrued interest to the date fixed for redemption, but without premium.

Notice of Redemption. When redemption is authorized or required, the Trustee will give the Owners of the Bonds to be redeemed notice of the redemption of the Bonds. Such notice will specify (a) that the whole or part of the Bonds are to be redeemed and, if in part, the part to be redeemed; (b) the date of redemption; (c) the place or places where the redemption will be made; and (d) the redemption price to be paid. Any redemption of Bonds in part will be from such maturities as directed by the City and by lot within a maturity in any manner the Paying Agent deems fair. Notwithstanding the foregoing, no notice of redemption shall be sent unless (i) the Trustee has on deposit sufficient funds to effect such redemption or (ii) the redemption notice states that redemption is contingent upon receipt of such funds prior to the redemption date.

Notice of such redemption will be given by mailing a copy of the redemption notice not more than 60 days nor less than 30 days prior to such redemption date, to the Owner of each Bond subject to redemption in whole or in part at the Owner’s address shown on the Register on the fifteenth day preceding that mailing. Neither failure to receive any such notice nor any defect therein will affect the sufficiency of the proceedings for the redemption of the Bonds with respect to which there is no such defect.

Notice having been given in the manner provided above, the Bonds or portions thereof called for redemption will become due and payable on the redemption date and if an amount of money sufficient to redeem all the Bonds and portions thereof called for redemption is held by the Trustee or any paying agent on the redemption date, then the Bonds or portions thereof to be redeemed will not be considered outstanding under the Indenture and will cease to bear interest from and after such redemption date.

SOURCES AND APPLICATIONS OF FUNDS

Sources:	
Par Amount of the Bonds	$167,510,000.00
Original Issue Premium	23,483,435.00
City Contribution	3,729,322.71
Total	$194,722,757.71
Applications:	
Trust Account for Bonds Being Refunded	$193,383,607.67
Costs of Issuance	577,129.07
Underwriters' Discount	762,020.97
Total	$194,722,757.71

CITY OF PHOENIX WATER SYSTEM

The City's system of water treatment plants and distribution facilities (the *"System"*) is operated as a financially self-supporting municipal utility service. The System's facilities currently supply drinking water to an approximately 540 square mile service area and bills more than 404,647 water accounts. Water production facilities include six surface water treatment plants and 20 active groundwater wells. The water treatment plants are supplied raw water through Salt River Project (SRP) Canals, the Central Arizona Project (CAP) Hayden-Rhodes Aqueduct and directly from the Salt and Verde Rivers. The System's water treatment facilities' design capacity is currently 735 million gallons per day (mgd). For additional information about the System, see "APPENDIX A — SUMMARY INFORMATION OF THE CITY OF PHOENIX WATER SYSTEM."

SECURITY AND SOURCE OF PAYMENT

General

The Bonds are special, limited obligations of the Corporation payable solely from payments received under the City Purchase Agreement. Under the terms of the City Purchase Agreement, the City is to make payments (the *"Purchase Payments"*) to the Trustee in amounts sufficient to pay when due the principal of and interest on the Bonds, fees of the Trustee and all other expenses enumerated in the City Purchase Agreement.

Purchase Payments by the City are to be made solely from designated revenues of the System (the *"Designated Revenues"*), which are described below. During the term of the City Purchase Agreement, payments are to be made regardless of damage to the System or commercial frustration of purpose, without right of set-off or counterclaim, regardless of any contingencies and whether or not the City possesses or uses the System. The City's obligation to make Purchase Payments will continue until all Purchase Payments and all other amounts due under the City Purchase Agreement have been paid.

The Purchase Payments required by the City under the City Purchase Agreement are secured by a pledge of the "Designated Revenues" of the System, which consist of the "Operating Revenues" of the System, after provision for payment of (a) all "Expenses of Operation and Maintenance" and (b) all payments required on any senior lien obligations payable from "Net Operating Revenues" (the *"Senior Lien Obligations"*) (the Operating Revenues, net of Expenses of Operation and Maintenance, are referred to as the *"Net Operating Revenues"*). The term Operating Revenues generally includes all income and revenue received by the City from the operation of the System and the term Expenses of Operation and Maintenance generally includes all expenses reasonably incurred in connection with the operation of the System. For a complete description of the definitions of

Operating Revenues, Net Operating Revenues and Expenses of Operations and Maintenance, see "APPENDIX G — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — CERTAIN DEFINITIONS." The Purchase Payments to be made under the City Purchase Agreement will be on a parity with certain other outstanding obligations of the City and any other parity obligations issued in the future (collectively, *"Junior Lien Obligations"* or *"Junior Lien Parity Obligations"*), subject to any payments required to be made for the benefit of any Senior Lien Obligations issued or incurred in the future as described below under "Issuance of Senior Lien Obligations and Additional Junior Lien Obligations."

The obligation of the City under the City Purchase Agreement does not constitute a debt or a pledge of the full faith and credit of the City, the State of Arizona or any other political subdivision thereof. The City has not pledged any form of ad valorem taxes to the payment of the Bonds. The Bonds are special, limited obligations of the Corporation secured only by the Purchase Payments which are to be paid from a pledge of the Designated Revenues of the System. No security interest is held by the Trustee for the benefit of the Owners of the Bonds in any portion of the System. Remedies available to the Trustee upon a failure of the City to make Purchase Payments when due are generally limited to specific performance against the City to make payment from Designated Revenues. For a description of events of default and remedies under the City Purchase Agreement, see "APPENDIX G — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS." The City may, but is not required to, pay amounts due under the City Purchase Agreement from any other money legally available for such purposes. For a discussion of the System, see "APPENDIX A — SUMMARY INFORMATION OF THE CITY OF PHOENIX WATER SYSTEM." For a discussion of certain covenants which the City has entered into with respect to the System, see "APPENDIX G — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS."

Outstanding Senior Lien and Junior Lien Obligations

There are presently no Senior Lien Obligations outstanding.

As of October 1, 2011, there were $1,371,377,740 principal amount of Junior Lien Parity Obligations outstanding, which were issued in order to acquire the water rights to land in the McMullen Valley area of Arizona and to make numerous other improvements to the System, including modifications and/or expansions at the Deer Valley, Union Hills, 24th Street, Val Vista, Verde and Lake Pleasant Water Treatment Plants. Payments on the Bonds will be made on a parity with such Junior Lien Parity Obligations.

The following issues of Junior Lien Parity Obligations are outstanding:

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 10-1-11
08-01-01	$ 99,980,000	Water System Refunding	7-1-02/24	5.24%	$ 68,660,000
04-01-02	220,000,000	Water System Improvements	7-1-07/26	5.14	183,930,000(1)
10-01-03	11,325,000	Water System Refunding	7-1-05/22	4.29	10,805,000
07-01-04	27,775,000	McMullen Valley & Water Rights Refunding	8-1-06/17	4.06	16,450,000
06-01-05	600,000,000	Water System Improvements	7-1-10/29	4.90	563,165,000
06-02-09	450,000,000	Water System Improvements	7-1-14/39	4.99	450,000,000
06-02-09	90,295,000	Water System Refunding	7-1-10/19	4.47	73,940,000
11-12-10	1,022,104(2)(3)	Water System Improvements	7-1-10/16	2.97	837,567
04-12-11	2,093,436(2)	Water System Improvements	7-1-16/24	2.97	2,093,436
09-14-11	1,496,737(2)	Water System Improvements	7-1-24/29	2.97	1,496,737
Total Junior Lien Water Revenue Bonded Debt					$1,371,377,740

(1) Represents the Bonds Being Refunded.

(2) Represents a loan agreement between the City and the Water Infrastructure Finance Authority of Arizona (WIFA) pursuant to the American Recovery and Reinvestment Act of 2009 (the "Recovery Act").

(3) Amount does not include $3,200,000 loaned to the City but not required to be repaid pursuant to the Recovery Act (the "*Forgivable Principal*"). Failure by the City to comply with all requirements of the loan agreement may result in a default under the loan agreement and cause the Forgivable Principal to be repaid by the City.

Issuance of Senior Lien Obligations and Additional Junior Lien Parity Obligations

General. The City Purchase Agreement sets forth the tests for issuing Senior Lien Obligations and additional Junior Lien Parity Obligations (collectively, "*Revenue Obligations*").

Senior Lien Obligations. In order to issue Senior Lien Obligations, payments in support of which would be senior to payments to be made under the City Purchase Agreement, the City Purchase Agreement requires that the City file a statement by an Independent Certified Public Accountant or a Consultant to the effect that Net Operating Revenues of the System for the most recently completed Fiscal Year for which audited financial statements are available were equal to at least 110% of Junior Lien Parity Test Debt Service for all outstanding Revenue Obligations, including the Senior Lien Obligations proposed to be issued. The City Purchase Agreement permits, and any Senior Lien Obligation Documents will permit, certain adjustments to Net Operating Revenues in the report of the Independent Certified Public Accountant or the Consultant as described below under "Certain Adjustments; Refunding Bonds."

Additional Junior Lien Parity Obligations. In order to issue additional Junior Lien Parity Obligations, the City Purchase Agreement requires that the City comply with the same requirements as set forth above for Senior Obligations. Specifically, the City Purchase Agreement requires that the City file a statement by an Independent Certified Public Accountant or a Consultant to the effect that Net Operating Revenues of the System for the most recently completed Fiscal Year for which audited financial statements are available were equal to at least 110% of Junior Lien Parity Test Debt Service for all outstanding Revenue Obligations, including the Junior Lien Parity Obligations proposed to be issued. The City Purchase Agreement permits certain adjustments to Net Operating Revenues in the report of the Independent Certified Public Accountant or the Consultant as described below under "Certain Adjustments; Refunding Bonds."

Certain Adjustments; Refunding Bonds. For purposes of the tests described above, the City Purchase Agreement permits certain adjustments to Net Operating Revenues in the report of the Independent Certified Public Accountant or the Consultant, including adjustments to Net Operating Revenues attributable to or resulting from revisions in the schedule of rates and charges, new connections, additions, extensions and improvements to the System. In determining debt service on a series of Revenue Obligations to which a Derivative Product with a Qualified Counterparty relates, the net amount owed by the City (exclusive of any termination payment) is to be used for purposes of determining Junior Lien Parity Test Debt Service. See "Derivative Products" below. The City Purchase Agreement also permits the issuance of Revenue Obligations for refunding purposes without compliance with the foregoing financial tests if certain other conditions are met. See "APPENDIX G — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — CITY PURCHASE AGREEMENT."

Derivative Products. The City reserves the right to enter into arrangements involving Derivative Products including swap agreements, forward agreements, interest rate agreements, and other similar agreements, to the extent permitted by law, and make payments on such agreements from Net Operating Revenues or Designated Revenues, provided that payments under such agreements may not be made on a basis which is senior to the payment of any Senior Lien Obligations and do not permit extraordinary payments such as termination payments to be made on a basis other than subordinate to payment of the Principal Requirement and the interest requirement on Revenue Obligations. To the extent the City enters into such agreements, such agreements may only be entered into if the City satisfies the tests for additional Revenue Obligations set forth in the Senior Lien Obligation Documents and the Junior Lien Obligation Documents, as applicable, subject to the provisions set forth below. In determining whether the additional Revenue Obligations tests are satisfied in connection with any such agreements, the City is permitted to treat the amount or rate of interest on those agreements or on the Revenue Obligations to which the applicable agreement applies as the amount or rate of interest payable after giving effect to the agreements involving Derivative Products, provided that any agreement is with a Qualified Counterparty, thus the City is permitted to include the net payment due under such agreements in calculating the additional Revenue Obligations test. Further, the City is permitted to disregard the notional principal amount of any such agreement provided that such agreement is with a Qualified Counterparty. The City currently has no Derivative Products outstanding secured by Net Operating Revenues or Designated Revenues. See "APPENDIX G — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — CITY PURCHASE AGREEMENT."

Rate Covenant; Other Covenants

Pursuant to the City Purchase Agreement, the City has covenanted to continuously own, control, operate and maintain the System in an efficient and economical manner and on a revenue producing basis and will at all times, establish, fix, maintain and collect rates, fees and other charges for all water and services furnished by the System fully sufficient at all times:

(1) To provide for 100% of the Expenses of Operation and Maintenance;

(2) To produce Net Operating Revenues in each bond year which will equal at least 110% of the interest and principal requirement for the then current bond year on all Revenue Obligations then outstanding;

(3) To produce Designated Revenues sufficient to remedy any deficiencies in payments from prior years for the Bonds and other Junior Lien Parity Obligations; and

(4) To produce "Junior Subordinate Lien Revenues," consisting of Designated Revenues after provision for payment of the Bonds and any Junior Lien Parity Obligations, sufficient to meet the principal and interest requirements on any obligations subordinate to the Bonds and other Junior Lien Parity Obligations.

In determining debt service on a series of Revenue Obligations to which a Derivative Product with a Qualified Counterparty relates, the net amount owed by the City (exclusive of any early termination payment) is to be used for purposes of the rate covenant.

Water System Revenues

The revenues and expenses of the System for fiscal years 2006-07 through 2010-11 are set forth on page A-17.

Water System Financial Forecast

Included in Appendix B is the City's forecast of System revenues, expenditures, debt service, debt service coverage and changes in fund balance through the fiscal year ending June 30, 2016.

SCHEDULE OF ANNUALIZED PAYMENTS UNDER THE CITY PURCHASE AGREEMENT WITH RESPECT TO THE BONDS

The City Purchase Agreement requires annual Purchase Payments by the City to the Corporation in an amount equal to the principal of and interest on the Bonds, which payments have been assigned to the Trustee. The Purchase Payments are due in immediately available funds on December 31 and June 30 commencing June 30, 2012 and ending June 30, 2026. The Indenture requires that the Trustee receive and apply Purchase Payments to pay the principal of and interest on the Bonds due on the following day. Set forth below is a schedule of the annual Purchase Payments required under the City Purchase Agreement with respect to the Bonds:

Fiscal Year	Principal	Interest	Total
2012	$ —	$ 4,798,822	$ 4,798,822
2013	—	7,888,475	7,888,475
2014	7,620,000	7,888,475	15,508,475
2015	10,295,000	7,583,675	17,878,675
2016	10,685,000	7,193,875	17,878,875
2017	11,215,000	6,659,625	17,874,625
2018	11,775,000	6,098,875	17,873,875
2019	12,285,000	5,595,250	17,880,250
2020	12,820,000	5,062,200	17,882,200
2021	13,360,000	4,518,100	17,878,100
2022	14,030,000	3,850,100	17,880,100
2023	14,715,000	3,164,200	17,879,200
2024	15,450,000	2,428,450	17,878,450
2025	16,225,000	1,655,950	17,880,950
2026	17,035,000	844,700	17,879,700
	$167,510,000	$75,230,772	$242,740,772

SCHEDULE OF FORECASTED DESIGNATED REVENUES, WATER REVENUE BONDS DEBT SERVICE REQUIREMENTS AND JUNIOR LIEN DEBT SERVICE COVERAGE

Fiscal Year	Forecasted Designated Revenues Available for Junior Lien Debt Service Obligations(1)	Debt Service on Outstanding Junior Lien Obligations(2)	Debt Service on the Bonds	Total Junior Lien Debt Service Obligations(3)	Forecasted Coverage of Total Junior Lien Debt Service Obligations(3)
2012	$199,642,000	$ 92,753,642	$ 4,798,822	$ 97,552,464	2.05
2013	213,247,000	89,040,135	7,888,475	96,928,610	2.20
2014	238,643,000	100,880,110	15,508,475	116,388,585	2.05
2015	260,987,000	100,877,004	17,878,675	118,755,679	2.20
2016	286,167,000	90,461,629	17,878,875	108,340,504	2.64
2017		100,884,066	17,874,625	118,758,691	
2018		100,881,379	17,873,875	118,755,254	
2019		100,875,573	17,880,250	118,755,823	
2020		91,889,685	17,882,200	109,771,885	
2021		91,893,329	17,878,100	109,771,429	
2022		91,895,067	17,880,100	109,775,167	
2023		89,895,766	17,879,200	107,774,966	
2024		89,897,417	17,878,450	107,775,867	
2025		82,410,791	17,880,950	100,291,741	
2026		82,415,842	17,879,700	100,295,542	
2027		82,412,854	—	82,412,854	
2028		82,416,042	—	82,416,042	
2029		82,326,286	—	82,326,286	
2030		31,890,238	—	31,890,238	
2031		31,885,737	—	31,885,737	
2032		31,887,488	—	31,887,488	
2033		31,887,737	—	31,887,737	
2034		31,888,988	—	31,888,988	
2035		31,888,487	—	31,888,487	
2036		31,886,538	—	31,886,538	
2037		31,887,487	—	31,887,487	
2038		31,888,075	—	31,888,075	
2039		31,890,075	—	31,890,075	
		$1,962,987,467	$242,740,772	$2,205,728,239	

(1) Forecasted Designated Revenues are set forth in the Forecasted Schedule of Revenues, Expenditures, Debt Service, Debt Service Coverage, and Changes in Fund Balance which appears in "APPENDIX B — CITY OF PHOENIX WATER SYSTEM FINANCIAL FORECAST."

(2) Net of Bonds Being Refunded. For a description of certain assumptions related to the loan agreement with WIFA, see footnotes (2) and (3) under the caption "SECURITY AND SOURCE OF PAYMENT — Outstanding Senior Lien and Junior Lien Obligations."

(3) Does not include estimated debt service on $200,000,000 of commercial paper notes projected to be sold over the forecast period or $200,000,000 of junior lien water system revenue bonds expected to be sold during the forecast period to retire the commercial paper notes. These sales are included in the Water System Financial Forecast provided in "APPENDIX B — CITY OF PHOENIX WATER SYSTEM FINANCIAL FORECAST."

THE CITY

The City is a municipal corporation organized and existing under the laws of the State of Arizona. Pursuant to the City Purchase Agreement, the City will agree to make payments sufficient to pay amounts due on the Bonds. Detailed information on the City and the System is set forth in Appendices A through F.

THE CORPORATION

The Corporation is a nonprofit corporation organized under the laws of the State of Arizona for the purpose of assisting the City in the acquisition and financing of municipal property and equipment.

The Corporation will enter into the City Purchase Agreement and the Indenture to facilitate the refunding of the Bonds Being Refunded. The Corporation is not financially liable for the payment of the principal of or interest on the Bonds and the Owners will have no right to look to the Corporation for payment of the Bonds except to the extent of the payments received from the City under the City Purchase Agreement.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Grant Thornton LLP, a firm of independent public accountants will deliver to the City, on or before the settlement date of the Bonds, its attestation report indicating that it has examined, in accordance with standards established by the American Institute of Certified Public Accountants, the information and assertions provided by the Underwriters on behalf of the City. Included in the scope of its examination will be a verification of the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on, the Government Obligations to pay, when due, the principal and interest requirements of the Bonds Being Refunded, whether at maturity or earlier redemption; and (b) the mathematical computations supporting the conclusion of Bond Counsel that the Bonds are not "arbitrage bonds" under the Internal Revenue Code of 1986, as amended (the "Code") and the regulations promulgated thereunder.

The examination performed by Grant Thornton LLP will be solely based upon data, information and documents provided to Grant Thornton LLP by the Underwriters on behalf of the City. The Grant Thornton LLP report of its examination will state that Grant Thornton LLP has no obligation to update the report because of events occurring, or data or information coming to their attention, subsequent to the date of the report.

LITIGATION

The City is contingently liable in respect to lawsuits and other claims incidental to the ordinary course of its operations. The City Attorney has advised City management of the nature and extent of pending and threatened claims against the City. In the opinion of City management such matters will not have a materially adverse effect on the City's ability to comply with the requirements of the City Purchase Agreement.

To the knowledge of the City Attorney, no pending or threatened litigation or administrative action or proceeding has (i) restrained or enjoined the City from entering into the City Purchase Agreement or approving the issuance and delivery of the Bonds or (ii) contested or questioned the validity of the Bonds or the proceedings and authority under which the Bonds have been authorized and are to be issued, secured, sold, executed or delivered. Certificates of the City to that effect will be delivered at the time of delivery of the Bonds.

TAX EXEMPTION

The Internal Revenue Code of 1986, as amended (the *"Code"*), includes requirements which the City and the Corporation must continue to meet with respect to the Bonds after the issuance thereof in order that interest on the Bonds be excludable from gross income for federal income tax purposes. The City and the Corporation's failure to meet these requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to their date of issuance. The City and the Corporation have covenanted to take the actions required by the Code in order to maintain the excludability from federal gross income of interest on the Bonds.

In the opinion of Bond Counsel, rendered with respect to the Bonds on the date of issuance of the Bonds, assuming continuing compliance by the City and the Corporation with the tax covenants referred to above, under existing statutes, regulations, rulings and court decisions, interest on the Bonds is excludable from gross income for federal income tax purposes. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Bonds is taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax imposed on certain corporations. Bond Counsel is further of the opinion upon the date of issuance of the Bonds that assuming interest is excludable from gross income for federal income tax purposes, the interest thereon is exempt from income taxation under the laws of the State of Arizona.

Except as described above, Bond Counsel will express no opinion regarding the federal income tax consequences resulting from the ownership of, receipt or accrual of interest on, or disposition of the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of the Bonds may result in other collateral federal tax consequences, including (i) the denial of a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of an owner's interest expense allocable to interest on a Bond; (ii) the reduction of the loss reserve deduction for property and casualty insurance companies by fifteen percent (15%) of certain items, including the interest on the Bonds; (iii) the inclusion of interest on the Bonds in the earnings of certain foreign corporations doing business in the United States for purposes of the branch profits tax; (iv) the inclusion of interest on the Bonds in passive investment income subject to federal income taxation of certain Subchapter S corporations with Subchapter C earnings and profits at the close of the taxable year; and (v) the inclusion of interest of the Bonds in the determination of taxability of certain Social Security and Railroad Retirement benefits to certain recipients of such benefits.

From time to time, there are legislative proposals pending in Congress that, if enacted into law, could alter or amend one or more of the federal tax matters described above including, without limitation, the excludability from gross income of interest on the Bonds, adversely affect the market price or marketability of the Bonds, or otherwise prevent the holders from realizing the full current benefit of the status of the interest thereon. The President of the United States has recently proposed two pieces of legislation (the American Jobs Act of 2011 and the Debt Reduction Act of 2011) which include provisions that would potentially subject a portion of the interest on tax-exempt bonds (including the Bonds) held by certain taxpayers to taxation in future years. It cannot be predicted whether or in what form any such proposal may be enacted, or whether, if enacted, any such proposal would apply to the Bonds. If enacted into law, this legislation could affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their tax advisors as to the impact of any pending or proposed legislation.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to Bond Counsel as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention, or to reflect any changes in law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of a particular result, and are not binding on the Internal Revenue

Service or the courts; rather, such opinions represent Bond Counsel's professional judgment based on its review of existing law, and in reliance on the representations and covenants that it deems relevant to such opinion.

BOND PREMIUM

The difference between the principal amount of the Bonds of each maturity (referred to in this section as the *"Premium Bonds"*), and the initial offering price to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of the Premium Bonds of the same maturity was sold constitutes to an initial purchaser amortizable bond premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Premium Bond. For purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser who acquires such obligation in the initial offering to the public at the initial offering price is required to decrease such purchaser's adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Premium Bonds. Owners of the Premium Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning the Premium Bonds.

LEGAL MATTERS

Legal matters incident to the issuance of the Bonds and with regard to the tax-exempt status of the interest thereon (see "TAX EXEMPTION") are subject to the legal opinion of Greenberg Traurig, LLP, Phoenix, Arizona, Bond Counsel, who has been retained by, and acts as Bond Counsel to the Corporation and the City. Signed copies of the opinion, dated and speaking only as of the date of delivery of the Bonds, will be delivered to the Underwriters.

The text of the proposed legal opinion is set forth as Appendix H. The actual legal opinion to be delivered may vary from that text if necessary to reflect facts and law on the date of delivery. The opinion will speak only as of its date, and subsequent distribution of it by recirculation of the Official Statement or otherwise shall create no implication that Bond Counsel has reviewed or expresses any opinion concerning any of the matters referred to in the opinion subsequent to its date.

Certain legal matters will be passed upon for the Underwriters by Squire, Sanders & Dempsey (US) L.L.P., as Counsel to the Underwriters.

RATINGS

Moody's Investors Service *("Moody's")* has assigned a rating of "Aa2" to the Bonds and Standard & Poor's Ratings Group, a division of the McGraw-Hill Companies, Inc. *("S&P")* has assigned a rating of "AAA" to the Bonds. No application has been made to any other rating service for the purpose of obtaining ratings on the Bonds. The City furnished these rating agencies with certain information and materials with respect to the Bonds. The ratings will reflect only the views of the rating services. An explanation of the significance of the ratings may be obtained from Moody's at 7 World Trade Center, 250 Greenwich Street, 23rd Floor, New York, New York 10007 and from S&P at 55 Water Street, New York, New York 10041. There is no assurance that such ratings will continue for any given period of time or that the ratings will not be revised downward or withdrawn entirely by Moody's or S&P if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings by Moody's or S&P may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds are being purchased for reoffering by Morgan Stanley & Co. LLC and the other underwriters shown on the cover (the *"Underwriters"*). The Underwriters have agreed to purchase the Bonds, subject to certain conditions, at an aggregate purchase price of $190,231,414.03. If the Bonds are sold to produce the yields shown on the inside front cover hereof, the underwriters' compensation will be $762,020.97.

The Underwriters are committed to purchase all of the Bonds if any are purchased. The Bonds are offered for sale initially at the approximate yields set forth on the inside front cover of this Official Statement, which yields may be changed, from time to time, by the Underwriters. The Bonds may be sold to certain dealers (including underwriters and dealers depositing the Bonds into investment trusts) at prices lower than the public offering price.

Morgan Stanley and Citigroup Inc., the respective parent companies of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc., each an underwriter of the Bonds, have entered into a retail brokerage joint venture. As part of the joint venture, each of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC. for its selling efforts in connection with their respective allocations of Bonds.

Goldman, Sachs & Co. ("Goldman Sachs"), one of the Underwriters of the Bonds, has entered into a master dealer agreement with Incapital LLC ("Incapital") for the distribution of certain municipal securities offerings, including the Bonds, to Incapital's retail distribution network at the initial public offering prices. Pursuant to the master dealer agreement, Incapital will purchase the Bonds from Goldman Sachs at the initial public offering price less a negotiated portion of the selling concession applicable to any Bonds that Incapital sells.

CONTINUING DISCLOSURE

The City will enter into a Continuing Disclosure Undertaking (the *"Undertaking"*) with respect to the Bonds for the benefit of the beneficial owners of such Bonds to send certain information annually and to provide notice of certain events to the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access ("EMMA") system pursuant to the requirements of Section (b)(5) of Rule 15c2-12 (the *"Rule"*) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934. The specific nature of the information to be provided on an annual basis, the events which will be noticed on an occurrence basis and other terms of the Undertaking, are set forth in "APPENDIX I — FORM OF CONTINUING DISCLOSURE UNDERTAKING."

The City has represented that it is in compliance with each and every undertaking previously entered into by it pursuant to the Rule. A failure by the City to comply with the Undertaking will not constitute a default under the City Purchase Agreement or the Indenture and beneficial owners of the Bonds are limited to the remedies described in the Undertaking. See "APPENDIX I — FORM OF CONTINUING DISCLOSURE UNDERTAKING." A failure by the City to comply with the Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

INDEPENDENT AUDITORS AND INCORPORATION BY REFERENCE OF CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT

The financial statements of the City as of June 30, 2010 for its fiscal year then ended have been audited by Clifton Gunderson LLP, independent auditors, as stated in their report. The financial statements and auditor's report are part of the City's comprehensive annual financial report (the *"CAFR"*), which may be obtained from EMMA, free of charge at http://emma.msrb.org or from the City, free of charge, at the following location: 251 West Washington Street, 9th Floor, Phoenix, Arizona 85003, Attention: Finance Department, Telephone: (602) 262-7166. The CAFR may also be downloaded from the City's website at www.phoenix.gov under City Government-Financial Information-Financial Planning-Comprehensive Annual Financial Report. The CAFR so filed with EMMA as part of the City's continuing disclosure undertakings pursuant to the Rule is hereby incorporated by reference.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Corporation, the City or the Underwriters and the purchasers or holders of any of the Bonds.

This Official Statement has been approved, executed and delivered by the Corporation and the City.

CITY OF PHOENIX CIVIC IMPROVEMENT CORPORATION

By /s/ WALLACE ESTFAN
President

CITY OF PHOENIX, ARIZONA

By /s/ JEFF DEWITT
Finance Director

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APPENDIX A

SUMMARY INFORMATION OF THE CITY OF PHOENIX WATER SYSTEM

ORGANIZATION AND ADMINISTRATION

The City's Water System (the *"System"*) is operated as a financially self-supporting municipal utility service. It is organized as a functional division of the City's Water Services Department (the *"Department"*). The Department also contains the Wastewater System as a separate functional division that also acts as a completely self-supporting utility service. The Department's authority and responsibility is derived from the Phoenix City Charter and City Council adopted ordinances and resolutions. The Department is required to prepare and submit an annual budget for the Water and Wastewater Systems to the City Council prior to the beginning of each fiscal year. The City Council is required to hold a public hearing on the proposed budget and a specified notice of this hearing must be given to any bondholder who requests such notice in writing. If for any reason a budget is not adopted, the budget of the preceding fiscal year shall apply. The City Council adopts both the water and wastewater budgets, establishes water and wastewater rate structures and sets overall policy for the Department.

The Acting Water Services Director currently reports to the Deputy City Manager. The three Assistant Water Services Directors for: Administration, Wastewater and Water report to the Acting Water Services Director.

Jerome E. Miller, Deputy City Manager, was appointed to this position in August 2010 after having served as Interim Deputy City Manager since December 2009. Mr. Miller has over 27 years of professional and management experience, working in both state and local government. Along with the Water Services Department, he oversees the Equal Opportunity, Housing and Neighborhood Services Departments. Before joining the City Manager's team, Mr. Miller served as the Neighborhood Services Director since March 2007. During his 15 years in the Neighborhood Services Department at the City of Phoenix, he served as Assistant Director, Deputy Director of Administrative Services and Management Assistant. He also served as the Acting Special Assistant Water Services Director. Prior to joining the City, he worked eleven years for the Arizona State Legislature as a staff member and a team leader for the Office of the Auditor General. Mr. Miller holds a Bachelor of Science degree in Criminal Justice with a minor in Political Science and a Master's degree in Public Administration from Arizona State University.

Neil Mann, Acting Water Services Director, was appointed to this position in May 2011. Mr. Mann has over 35 years of professional and management experience in the public sector. Prior to joining the Water Services Department, he served as Public Works/Engineering & Architectural Services Director at the City of Phoenix. He was previously Public Works Director for the City of Reno, Nevada, the City of Corvallis, Oregon as well as the City of Peoria, Arizona. Mr. Mann holds a Bachelor of Science degree in Civil Engineering from Montana State University and is a licensed professional civil engineer in the state of Arizona.

Maria Hyatt, Assistant Water Services Director — Administration, was appointed to this position in June 2010. Ms. Hyatt has over 20 years of professional and management experience at the City of Phoenix. Prior to joining the Water Services Department, she served as Assistant to the City Manager for 9 years and managed the City's role in designing, constructing and building the $1.4 billion light rail project. Ms. Hyatt holds a Bachelor of Science degree in Business Administration from Northern Arizona University and a Master's degree in Public Administration from Arizona State University.

Carlos Padilla, Assistant Water Services Director — Water, was appointed to this position in August 2000. Mr. Padilla has over 29 years of engineering experience. He began his career with the City of Phoenix in October 1987 as the operations engineer in the Water Production Division. In March 1990, he was appointed Engineering Superintendent in charge of planning and design of water and wastewater facilities and implementation of the Capital Improvement Programs. Before joining the City, Mr. Padilla was a design and construction engineer for Bechtel Power Corporation in Norwalk, California. He holds a Bachelor of Science degree in Civil Engineering from the University of New Mexico and a Master's degree in Engineering from Arizona State University. He is a licensed professional engineer in the states of Arizona and California, and holds state operator certifications in water treatment, water distribution and wastewater treatment in Arizona.

Ron Serio, Assistant Water Services Director — Wastewater, was appointed to this position in June 2010. Mr. Serio has over 25 years of civil engineering and management experience. Prior to joining the Water Services Department, he served as a Deputy Public Works Director for the City of Phoenix. He also has civil engineering experience in both the private and public sectors in the areas of wastewater, solid waste and transportation. He holds a Bachelor of Science degree in Civil Engineering from Arizona State University and is a licensed professional civil engineer in the state of Arizona.

FINANCIAL PLANNING AND RATE DEVELOPMENT

Financial planning and water rate development services are provided by the Finance Department in coordination with the Water Services Department. In addition, the Finance Department reviews the timeliness and accuracy of the billing services, provides all financial reporting and financial information, establishes financial policies and recommends water rates and fees. Water rates are set to recover the direct and indirect costs of service.

ACCOUNTING AND BILLING

The Water Services Department is responsible for a combined municipal services bill for water, sanitary sewer, and solid waste services along with a jail tax and storm water management program tax. Water meters are read and all accounts are billed monthly. Payment of a regular bill is due 21 days after the bill issuance date. If payment is not received within three days after the due date, a late payment charge is assessed to the outstanding account balance. A first delinquent letter is sent 38 days from the issuance date of the original bill. If payment still has not been received, a second letter is sent 44 days from the issuance date of the original bill. If the total amount due is not received within ten days from the date of the second letter, a notice of turnoff is sent. If payment is not received within three days after the date of the notice of turnoff, water service is discontinued to the premises and a turn-off fee of $55.00 is charged to the customer's account. The total amount of the bill, including all fees, is collected before water service is restored. A customer with a poor payment history receives a shortened credit and collections process; receiving only one delinquent letter and a quicker notice of turnoff to the premises. Accounting and other financial services, including collection of delinquent closed accounts, are provided by the City's Finance Department.

The System bills more than 404,647 water accounts in a 540 square mile service area. The service area includes accounts both inside and outside the corporate limits of the City. Approximately 357,687 (88.4%) of the accounts are single-family residential, 15,836 (3.9%) are multi-family residential, and 31,124 (7.7%) are non-residential. For fiscal year 2010-11, the System billed 117,194,000 hundred cubic feet (ccf) of retail water sales of which 59,660,000 ccf (51.0%) was delivered to single-family residential accounts, 17,864,000 ccf (15.2%) to multi-family residential accounts, and 39,670,000 ccf (33.8%) to non-residential accounts. The largest single customer is the City of Phoenix, which accounted for 4.6% of total retail water revenue. The top ten customers accounted for 8.3% of total retail water revenue. Of the top ten customers, five are governmental entities, and no private entity accounted for more than 0.5 percent of total revenue.

WATER RATE STRUCTURE

Water rate schedules are adopted by the Mayor and City Council by ordinance, subject to certain statutory restrictions on rates charged to non-residents. Since 1974, water rates have been reviewed annually, in accordance with the Council's adopted policy. The City's principal consideration in adjusting water rates is to maintain the System's operations as a completely self-supporting enterprise. Within the last twenty years, the City has approved twenty general rate increases, with the most recent increase effective on April 1, 2011.

The following table summarizes the effective dates of these increases and the corresponding annualized percentage increase in water rate revenue:

Annualized Increase in Water Rate Revenues

Effective Date	Annualized % Increase in Water Rate Revenues
June 1, 1992	6.00
December 1, 1992	4.00
June 4, 1994	8.30
June 1, 1995	3.80
March 1, 1996	4.50
March 1, 1997	4.00
March 3, 1998	3.00
March 4, 1999	3.00
April 1, 2000	2.00
April 1, 2001	4.00
March 4, 2002	5.00
March 3, 2003	3.00
March 3, 2004	4.00
March 2, 2005	7.00
March 2, 2006	8.50
March 2, 2007	9.50
March 3, 2008	12.00
March 3, 2009	11.00
March 1, 2010	9.00
April 1, 2011	7.00

WATER SERVICES CHARGES

The City's current water rate structure, implemented in June 1990, is a seasonal uniform rate structure with a fixed monthly service charge that varies by the size of the meter. Included in the service charge to all accounts is 600 cubic feet (4,488 gallons of water) for the months of October through May and 1,000 cubic feet (7,480 gallons of water) for June through September. The seasonal rates charged for usage above that are split into three distinct seasons. The summer months of June through September have the highest rate with the lowest rate charged in the December through March period. The spring and fall months of April, May, October, and November have intermediate rates that transition customers between the high and low rate seasons. The high summer rates are designed to encourage water conservation in the peak demand period. Under this rate structure, excluding those customers with very low water consumption, customers will pay more during the summer months when rates are higher and less during the winter, spring and fall months when rates are lower. Of the top twenty cities in the nation, Phoenix's water rates are the eighth lowest.

ENVIRONMENTAL CHARGE

An environmental charge, which is assessed to recover the annual cost of complying with new environmental standards, was implemented on December 1, 1992. The current fee of $0.42 per ccf was effective on April 1, 2011. The charge is indicated as a separate line item on the customer's bill. Revenues from this charge are used to cover all operation, maintenance, replacement, administrative and capital expense necessary for water treatment processes and facilities to meet federal, state and county environmental regulations.

RAW WATER CHARGE

In June 1994, a raw water charge was implemented to recover the costs associated with obtaining untreated water resources. The current fee of $0.29 per ccf was effective on April 1, 2011. This charge is not indicated separately on the customer's bill.

DEVELOPMENT OCCUPATIONAL FEE

The Development Occupational Fee was established in May 1982 to be applied to new water and wastewater service connections. The fee is currently $600 for each single-family service connection and varies by meter size for other types of connections. The use of revenues from this fee is restricted to the funding of growth related water capital improvement projects or debt service on outstanding water obligations issued for growth related purposes.

WATER RESOURCE ACQUISITION FEE

In November 1989, the City Council adopted a Water Resource Acquisition Fee to be applied to all new service connections. The fee is based on the residential use, meter size and location of the development within the City. Revenue from this fee is restricted to recover costs for the acquisition of new water supplies to support growth and projects that reduce water demand. The fee had been capped at 70% of full recovery since January 1996. The City Council removed the 70% cap and set the fees at full cost recovery in April 2001.

CONNECTION FEE

The City Code states that the City shall assess a fee to new services to recover the cost of meter and service line installations. The fee charged varies depending upon meter size and the extent of installation work required.

UTILITY REPAYMENT AGREEMENTS

The City may enter into a utility repayment agreement with a developer in instances where a developer pays for major water facilities in order to expedite the completion of these facilities. The funding source for current repayment agreements is development occupational fees described previously. These agreements typically have a limited number of years for repayment and are based upon the availability of development occupational fee revenues.

WATER RESOURCES PLAN

In 1980, the Arizona Groundwater Act (the *"Act"*) was enacted by the State Legislature. The Act designates the Phoenix area as one of four Active Management Areas. Regulations under the Act required a 6% reduction in per capita water consumption from 1980 levels to 251 gallons per capita per day (gpcd) by 1987, and maintenance of that level through 1990 under what is termed the first management plan. The second management plan required by the Act mandated further reductions to 237 gpcd by 1995 and 224 gpcd by 2000. Additionally, the Act requires a gradual elimination of groundwater use in excess of that recharged by 2025. The Arizona Department of Water Resources (ADWR) published a third management plan in 1999, which established a water use target of 218 gpcd for the City in the year 2010. For 2010, the City's water usage was down to 177 gpcd.

In addition, the Act requires the ADWR to designate the adequacy of each municipality or water provider's water supply to support proposed development. On September 28, 2010, ADWR approved the City's application for a Designation of Assured Water Supply for the next 100 years. The designation must be reviewed and updated every 10 years. The City is in compliance with the Act.

In response to the Act's requirements, the City has maintained a Water Resources Plan (the "*Plan*") that was first completed in 1985. The Plan provides guidance for water acquisition, water management and infrastructure actions necessary to ensure sustainable water availability for current customers and anticipated growth over the next 50 years. The Plan outlines the water conservation and water resource development actions necessary during normal and drought conditions. The Plan was updated in 1987, 1990, 1995, 2000 and 2005. The City is in the final review of the 2010 update and plans to issue the update in 2011.

The following table presents forecasted 2020 through 2060 estimated water supply and demand and was prepared in connection with the 2005 Water Resources Plan. Current and future forecasted water supply exceed forecasted demand throughout the forecast period. Figures are in acre-feet.

FORECASTED WATER SYSTEM SUPPLY AND DEMAND

	2020	2030	2040	2050	2060
Current Supply	456,000	461,000	471,000	491,000	491,000
Future Supply	45,000	92,000	131,000	135,000	135,000
Total Estimated Supply	501,000	553,000	602,000	626,000	626,000
Estimated Water Demand	320,000	360,000	400,000	430,000	440,000

WATER CONSERVATION PROGRAM

In 1986, the City Council approved a comprehensive Water Conservation Plan, which identified conservation programs that are effective in saving water, cost beneficial, and publicly supported. The City Council approved an update of the plan in January 1999. Under the annual Water Conservation Plan, conservation activities are focused around five program areas: education and public awareness; technical assistance; regulation; planning and research; and interagency and intra-City coordination.

(1) Education and public awareness programs consist of school and general public education efforts. These efforts involve the distribution of classroom materials, water issue training, advertising and providing books for schools and public libraries. The City also distributes literature on conservation and conducts seminars regarding desert landscaping and irrigation practices.

(2) Technical assistance includes retrofitting houses and apartments with low flow plumbing, water use audits of commercial property and conducting design review for new facilities.

(3) Regulation involves monitoring peak summer water demand on large turf facilities to assure compliance with water allotments. The conservation program also monitors compliance with the City plumbing code.

(4) Planning and research is an ongoing element of the program to determine more effective technologies and program elements to save water in a cost-effective way.

(5) Interagency and intra-City coordination involves working with national and local efforts to define how water is currently used, and the development of effective conservation measures for use in the City.

DROUGHT MANAGEMENT PLAN

The City first adopted a Drought Management Plan in January 1991 to provide measures that would be taken in the event of water supply shortages during a drought. This Drought Management Plan was updated in December 2000 through amendments to the City Code. The 2000 update to the Drought Management Plan allows for the unrestricted use of recycled water during a water shortage, the implementation of the Drought Management Plan on a non-citywide basis to address localized shortages and appeals on water restrictions for best practices in commercial and industrial water use.

The Drought Management Plan provides for four stages of voluntary and involuntary demand reduction activities. The main focus of the Drought Management Plan is the use of a surcharge on water rates. The Water Services Director can institute this surcharge in a declared drought to cover costs for more expensive alternative water supplies, to provide a demand reduction incentive to customers, and to offset revenue lost during periods when water consumption is declining.

A stage one alert requires the City to provide public information on the drought and requests voluntary demand reductions from water users. Stages two through four call for increased public information, mandatory water demand reductions, and an increasing drought surcharge to reduce water demands to meet supply levels and maintain the revenue base. Since the implementation of the Drought Management Plan, a stage one alert was required in 1991 and in January 2003, when the Salt River Project reduced deliveries of raw water to the City by one-third. In January 2005, Salt River Project restored deliveries back to normal levels due to winter rains that filled the Salt and Verde Rivers' reservoirs. On April 15, 2005, the City lifted the stage one alert.

WATER SYSTEM — FACILITIES

Treated water is presently processed at six treatment facilities located adjacent to the Central Arizona Project (CAP) Hayden-Rhodes Aqueduct, various Salt River Project canals downstream of the Granite Reef Dam, and at the confluence of the Verde and Salt Rivers. The capacity in million gallons per day (mgd) of the plants, including active well capacity, is indicated below:

Water System Facilities	Total Treatment Capacity (mgd)
Union Hills Plant	160
Lake Pleasant Plant	80
24th Street Plant	140
Deer Valley Plant(1)	150
Val Vista Plant(2)	130
Verde Plant(3)	50
Groundwater(4)	25
Total	735

(1) The Deer Valley Water Treatment Plant capacity rating was temporarily reduced while structural facilities and equipment in four sedimentation basins were rehabilitated. The rehabilitation was completed summer of 2011 and the plant now has a treatment capacity of 150 mgd.

(2) The Val Vista Water Treatment Plant is jointly owned by the cities of Phoenix and Mesa with a capacity of 220 mgd of which Phoenix owns 130 mgd.

(3) The Salt River Pima Maricopa Indian Community land lease for the Verde Water Treatment Plant expires in 2015 and will not be renewed. Plans are to retire the Verde Plant in the near future.

(4) Out of 42 wells, there are 20 active wells that are in compliance with the Federal standards which took effect in 2006. The inactive wells will be returned to service as new treatment systems are completed.

The System also includes the Cave Creek Water Reclamation Plant (WRP) that became operational in December 2001 and has an initial capacity of 8 mgd. The plant provides additional water resources through the use of recycled wastewater for irrigation of turf facilities larger than five acres in the service area and groundwater recharge in the northeast area of Phoenix. However, due to lower wastewater flows resulting from current economic conditions, the plant will be temporarily shut down for a period of two to three years. The plant treatment process is not operationally efficient at these lower flows. Flows will be bypassed to the 91st Avenue WWTP, where sufficient capacity exists to process the additional load. During the temporary shutdown of the plant, turf facilities previously using reclaimed water from the Cave Creek WRP will be delivered potable water. This temporary change results in more efficient operation of the wastewater system.

The System maintains other facilities. Storage capacity for treated water in ground reservoirs and elevated tanks total over 504 million gallons to meet peak-day demand. Over 6,962 miles of water mains make up the transmission and distribution system. These mains range in size from 2 inches to 108 inches in diameter. Public fire protection inside the water utility service area is provided by approximately 53,522 fire hydrants. In addition, the system has over 8,000 active fire connections to commercial, governmental and industrial customers. Lost and unaccounted for water is 8.5 percent, well below the industry standard of 10 percent.

REGULATORY REQUIREMENTS

The quality of treated water produced by the System meets all chemical, radiological and bacteriological standards set by the Federal Government and the State of Arizona. The Federal regulations are the responsibility of the U.S. Environmental Protection Agency and serve as guidelines for the State agencies to use as minimum drinking water quality standards. State water quality standards are promulgated by the Arizona Department of Environmental Quality and must be at least as stringent as the Federal regulations. The System is in compliance with all current regulations. Many future regulatory guidelines that are currently proposed but not finalized will require additional studies, design efforts and construction of new facilities. The Department has planned adequately to monitor and develop a means to comply with these future regulations.

SOURCES OF WATER SUPPLY

The existing sources of water supply for the System include surface water from the Salt River and Verde River, groundwater from wells located within the System's service area and Colorado River water from the Central Arizona Project (the *"CAP"*). Additional supply sources include supplies from the Salt River Project through the Plan Six Funding Agreement (as hereinafter described); CAP water rights from the Hohokam Irrigation District, and an agreement with several parties to exchange wastewater treatment plant effluent for surface water supplies. The City operates the System to maximize the use of the least expensive supply sources. Future sources include the groundwater rights purchased at McMullen Valley in La Paz County, Arizona.

SURFACE SUPPLY FROM THE SALT RIVER PROJECT (SRP)

The Salt River Project Agricultural Improvement and Power District (the *"Salt River Project"*) was organized in 1903 to supply irrigation water to approximately 240,000 acres of farmland in and around Phoenix. Water supply is obtained from the runoff of 13,000 square miles of mountain watershed, the collection and storage of which is provided for by six major reservoirs having a combined capacity of over 2,300,000 acre-feet (749 billion gallons). The reservoirs are contained behind the Theodore Roosevelt, Horse Mesa, Mormon Flat and Stewart Mountain Dams on the Salt River and the Bartlett and Horseshoe Dams on the Verde River.

Under the Kent Decree of 1910, lands located within the area of the Salt River Project, designated as "On Project," have rights to the surface flow water of the Salt and Verde Rivers. Arizona water rights within the Salt River Project area are held to be appurtenant to such lands. As a result, landholders in Phoenix and the surrounding areas that are located within the boundaries of the Salt River Project are provided with a stable water supply from this source.

The City presently obtains approximately 57% of its water supply through agreements with the Salt River Project. These agreements provide for delivery to the City of water rights for land converted from agricultural to urban uses. As land located both in the System's service area and the area of the Salt River Project is converted to urban use, the water supply formerly used for agricultural irrigation of the converted land becomes available to the City to supply domestic and industrial uses. The City pays the Salt River Project for water assessments of urbanized lands and takes delivery of the water at its water treatment plants. The Salt River Valley Water Users' Association determines rates for all types of water supplied to the City by the Salt River Project. The original contract was signed in 1952 for a 25-year term and a second 25-year term was negotiated in 1977. A new 100-year contract that provides substantially the same provisions as the previous contract was approved by City Council in 2001.

During periods when the dams cannot contain flows from the Salt and Verde Rivers, "spill water" results. Spill water is free to the City. Spillway gates installed on Horseshoe Dam and financed by the City, in accordance with an agreement with the Salt River Project, resulted in additional storage water in the Horseshoe Reservoir.

The water stored behind these gates is known as “gate water” and provides an additional supply of water to the City at nominal cost. Both gate water and spill water can be used in the “Off Project” areas resulting in significant cost savings over the more expensive supply alternatives. The City also participated in financing modifications to Roosevelt Dam, which were completed in 1995. As a result of these modifications, the City receives a supply of water that can also be used “Off Project”. Historically, the amount of gate water and spill water available to the City of Phoenix has varied considerably from year to year.

The following table shows acre-feet and payments for Salt River Project water obtained for the ten-year period ending December 31, 2010:

Year	Total Water Obtained From Salt River Project (Acre-Feet)	Amount Paid	Paid Per Acre-Foot
2001	213,618	$2,230,920	$10.44
2002	232,656	2,616,224	11.25
2003	211,772	2,575,330	12.16
2004	210,785	2,381,525	11.30
2005	203,357	2,492,074	12.25
2006	195,689	3,031,831	15.49
2007	189,000	3,288,971	17.40
2008	163,368	3,474,533	21.27
2009	157,085	3,210,850	20.44
2010	146,513	3,248,164	22.17

SURFACE SUPPLY FROM CENTRAL ARIZONA PROJECT (CAP)

Beginning in fiscal year 1986-87, water became available from the CAP. This was the result of construction of the CAP following the June 1963 United States Supreme Court decision which ended 11 years of litigation among the states of Arizona, California and Nevada over Colorado River water rights; and the passage of the Colorado River Basin Project Act of September 30, 1968 authorizing the construction of the CAP. In the late 1970’s the City requested an allocation of CAP water from the Secretary of Interior to provide a reliable water supply for “Off Project” lands that did not have Salt River Project water rights other than gate water and spill water. The CAP water is delivered from Lake Havasu through the Hayden-Rhodes Aqueduct section of the CAP, a distance of approximately 190 miles. The City’s allocation of CAP water is used primarily for its “Off Project” service area.

The City’s current long-term subcontract for CAP Municipal and Industrial (M&I) water is 122,120 acre-feet per year (AF/Y). The City has access to additional CAP water through 100-year leases with several Indian Communities. Beginning in 2000, the Salt River Pima Maricopa Indian Community (SRPMIC) Water Rights Settlement provided the City with access to 3,023 AF/Y of leased CAP water. The Fort McDowell Indian Community Water Rights Settlement lease, effective in 2001, grants the City access to 4,300 AF/Y of CAP water, and the Gila River Indian Community (GRIC) Water Rights Settlement Agreement provides access to an additional 15,000 AF/Y beginning in 2009. The SRPMIC settlement also provides the City with 1,136 AF/Y of agricultural-priority CAP water and 5,000 AF/Y of high-priority “main stem” Colorado River water delivered through the CAP system. Lastly, the City has access to an additional 36,144 acre-feet of agricultural priority CAP water which was transferred from the Hohokam Irrigation District in place of water the City would have received from Cliff Dam, which was not constructed. Under the 2004 Arizona Water Rights Settlement Act, this water is converted to the higher “municipal and industrial” priority status in 2044 and beyond.

On February 11, 2009, the City Council authorized the City Manager to enter into the White Mountain Apache Tribe Water Quantification Agreement (the *“Quantification Agreement”*). Under the terms of the Quantification Agreement, the City will lease 3,505 AF/Y of the White Mountain Apache Tribe’s CAP water for a 100-year term. The one-time cost to the City will be approximately $10.9 million and due at the enforceability date of the lease, which is not expected within the forecast period from 2012-2016. The City will pay CAP the annual delivery rate at the time of delivery of the water.

CAP water is treated primarily at the Union Hills Water Treatment Plant, which was completed in June 1986. The initial maximum capacity of 80 mgd was expanded to 160 mgd in 1992. The City has since completed construction on the Lake Pleasant Water Treatment Plant. In April 2007, the facility started treating CAP water at an initial maximum capacity of 80 mgd. CAP water also can be treated at other water treatment plants through the Interconnect Facility. The Interconnect Facility connects the CAP canal with the Salt River Project canals, which allows the City to use more CAP water during Salt River Project shortages.

The Central Arizona Water Conservation District (CAWCD), the controlling agent for the CAP water in Arizona, sets the rates, collects the revenue from the users and pays the expenses. All M&I users pay for operation and maintenance, and replacement costs on the water ordered each year. In addition, users pay an energy component on all CAP water received. The M&I rate increased from $118/AF for 2010 to $122/AF for 2011. The rate is projected to gradually increase to $141/AF by 2016.

The CAWCD has an obligation to the United States of America, Department of the Interior for repayment of capital costs of construction of the Central Arizona Project (CAP). The CAWCD repayment obligation is $1.65 billion and will take place over a period of 50 years with the final payment in 2046. The repayment amount is offset by revenue collected from power generation before calculating the net capital charge rate to the users, such as the City of Phoenix. In both 2009 and 2010, the charge to the City of Phoenix was $1.8 million per year. The charge to the City of Phoenix is expected to continue to be approximately $1.8 million per year in 2011, 2012 and 2013. The charge is estimated to decrease to $1.2 million in 2014, $0.6 million in 2015 and zero in 2016 and beyond, as it is assumed that power generation revenue will fully offset the repayment amount.

The following table shows the acre-feet and payments for Central Arizona Project water obtained for the ten-year period ending December 31, 2010:

Year	Total Water Obtained From CAP (Acre-Feet)	Amount Paid	Paid Per Acre-Foot
2001	120,013	$12,843,580	$107.02
2002	120,424	12,409,008	103.04
2003	151,567	15,514,803	102.36
2004	143,881	14,455,308	100.47
2005	135,336	14,073,660	103.99
2006	138,645	12,944,221	93.36
2007	154,066	16,088,336	104.42
2008	142,030	15,629,971	110.05
2009	141,581	17,785,611	125.62
2010	144,613	17,367,258	120.09

GROUNDWATER SUPPLY

The City utilizes groundwater from 42 wells located throughout the service area. In 2010, water delivered to the distribution system from the well supply totaled 1.8 billion gallons. With the Federal standards, which took effect on January 1, 2006, there are currently 20 active wells meeting the standards. As new treatment systems are added to an inactive well site, the well will be returned to service.

The following table provides a comparison by source of the average daily delivery to the distribution system since 2004 to the daily production capacity of the System. The maximum daily peak demand made on the System each year is compared to total capacity available. All units are in million gallons per day (mgd).

Source of Supply	2004	2005	2006	2007	2008	2009	2010	Daily Treatment Capacity
Surface Water:								
Salt River Project:								
Verde Plant(1)	16.35	12.60	20.57	20.85	19.96	23.21	16.57	50
24th Street Plant	56.17	48.83	51.69	51.91	48.42	45.92	47.43	140
Deer Valley Plant(2)	52.43	48.64	47.26	39.14	31.34	42.21	21.54	150
Val Vista Plant(3)	50.57	56.71	48.02	49.53	39.21	28.90	44.84	130
Central Arizona Project:								
Union Hills Plant	109.07	106.90	117.32	105.21	86.11	86.92	89.66	160
Lake Pleasant Plant(4)	0.00	0.00	0.00	26.57	42.59	39.62	41.93	80
Total Surface Water	284.59	273.68	284.86	293.21	267.63	266.78	261.97	710
Groundwater	3.54	6.12	13.18	6.54	7.79	6.96	4.98	25
Total Average Daily Deliveries	288.13	279.80	298.04	299.75	275.42	273.74	266.95	
Total Daily Capacity								735
Total Maximum Day Demand(5)	421.14	421.80	429.56	426.75	389.21	387.65	438.49	

(1) The Salt River Pima Maricopa Indian Community land lease for the Verde Water Treatment Plant expires in 2015 and will not be renewed. Plans are to retire the Verde Plant in the near future.

(2) The Deer Valley Water Treatment Plant capacity was temporarily reduced while structural facilities and equipment in four sedimentation basins were rehabilitated. The rehabilitation was completed in the summer of 2011 and the plant now has a treatment capacity of 150 mgd.

(3) The Val Vista Water Treatment Plant is jointly owned by the cities of Phoenix and Mesa with a total capacity of 220 mgd of which Phoenix owns 130 mgd.

(4) The Lake Pleasant WTP began treating water in the spring of 2007.

(5) Maximum day demand is defined as the water delivered during the highest water demand day in a given year. Maximum day demand is a critical consideration in designing many water facilities.

PLAN SIX FUNDING AGREEMENT

The Plan Six Funding Agreement provides for a cost-sharing arrangement for the Plan Six facilities of the CAP, to ensure their timely completion. The parties to the Plan Six Funding Agreement include the United States Government, the State of Arizona, the CAWCD, the Maricopa County Flood Control District, the Salt River Project, the City and the cities of Chandler, Glendale, Mesa, Scottsdale, Tempe and Tucson.

The main elements of Plan Six include the new Waddell Dam on the Agua Fria River, modifications to Roosevelt Dam and Stewart Mountain Dam on the Salt River and the transfer of certain Hohokam Irrigation District water rights. The transfer of the Hohokam Irrigation District water rights was made to replace the Cliff Dam project, which was removed from the plan in 1987.

Since 1986, the City has contributed a total of $34.7 million for improvement to the facilities. As of December 31, 2009, all City funds have been disbursed for the Plan Six Projects except for a balance of $2.9 million. This balance was earmarked for the U.S. Bureau of Reclamation to implement mitigation measures it had designed to lessen the possible impact on the Southwestern Willow Flycatcher. The Southwestern Willow Flycatcher is a bird on the endangered species list whose habitat may be threatened by higher lake levels created by the modified Roosevelt Dam. A lawsuit, filed by an environmental group and certain individuals to prohibit the storage of additional water in modified Roosevelt Lake, claimed that higher lake levels violate both the National Environmental Policy Act and the Federal Endangered Species Act. Following the presentation of oral arguments for Motion of Summary Judgment, the U.S. Circuit Court of Appeals for the Ninth Circuit granted Summary Judgment to the City and all other defendants on March 16, 2000. The Plaintiff did not appeal and a permit has been granted to fill the reservoir behind the modified Roosevelt Dam when there is enough snow pack and subsequent runoff. On April 9, 2010 the State of Arizona returned $2,708,714 of unused funds to the City, net of Plan Six administrative expenses.

AGRICULTURAL EXCHANGE OF WATER

In 1995, the City began to take advantage of an additional water supply, which is the result of an agricultural exchange of treated wastewater for surface water. The exchange is among the City, the Roosevelt Irrigation District (RID), the Salt River Project and the Salt River Pima Maricopa Indian Community (SRPMIC).

The 23rd Avenue Wastewater Treatment Plant treats wastewater to standards suitable for use on edible crops and delivers it to the nearby RID canal. In turn, RID delivers groundwater to the Salt River Project, which then provides surface water to the City for use anywhere within the System. Additional exchanges occur with SRPMIC as part of a water rights settlement. This additional water supply resulting from the agricultural exchange of treated wastewater for surface water is dependent on the annual Salt River Project surface water allocated deliveries to the City. The net result of all of the exchange agreements is an increase in the City's water supply of up to 28,545 AF/Y.

MCMULLEN VALLEY GROUNDWATER SUPPLY

In July 1987, the City of Phoenix Civic Improvement Corporation issued bonds on behalf of the City in order to assist the City in the acquisition of farmland and associated water rights located in the southern portion of the McMullen Valley, including the McMullen Valley Irrigation District. The McMullen Valley, located approximately 80 miles northwest of Phoenix in southeast La Paz County, is primarily an agricultural area with fewer than 1,200 residents. The City plans to gradually retire the land from agricultural production converting the associated water rights to municipal use.

A consultant's study of the McMullen Valley prepared for the City in December 1992 determined that the area has in excess of six million acre-feet of groundwater in storage. The study found that the groundwater basin could serve as a municipal supply and that an extended extraction program is feasible. The McMullen Valley can support exportation of 38,000 AF/Y to the City for at least 100 years. In drought years, when some of Phoenix's other water supplies are reduced, up to 50,000 AF/Y can be exported. The City's Water Resources Plan — 2005 Update does not anticipate a need for this water before the year 2020.

OUTSTANDING WATER SYSTEM OBLIGATIONS

The City entered into a loan agreement with the Water Infrastructure Finance Authority of Arizona (WIFA) to finance certain improvements to the water distribution system and to install automated meters in certain areas of the City. WIFA loaned funds derived in whole or in part from the United States Environmental Protection Agency pursuant to the federal American Recovery and Reinvestment Act of 2009 (the "*Recovery Act*"). The City made a junior lien pledge of the net operating revenues of the water system for the payment of principal and interest on the loan. Amounts due on the loan pursuant to the loan agreement are as follows:

City of Phoenix
Junior Lien Water System Revenue Debt Outstanding

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Amount Outstanding As of 10-01-11
11-12-10	$1,022,104(1)	Water System Improvements	7-1-10/16	2.97%	$ 837,567
04-12-11	2,093,436	Water System Improvements	7-1-16/24	2.97	2,093,436
10-01-11	1,496,737	Water System Improvements	7-1-24/29	2.97	1,496,737
Total Junior Lien Water Revenue Bonded Debt					$4,427,740

(1) Amount does not include $3,200,000 loaned to the City but not required to be repaid pursuant to the Recovery Act (the "*Forgivable Principal*"). Failure by the City to comply with all requirements of the loan agreement may result in a default under the loan agreement and cause the Forgivable Principal to be owed by the City.

City of Phoenix
Schedule of Annual Debt Service Requirements
Junior Lien Water System Revenue Debt Outstanding

Fiscal Year	Principal	Interest	Total
2011-12	$ 190,014	$ 120,311	$ 310,325
2012-13	195,654	125,775	321,429
2013-14	201,461	119,968	321,429
2014-15	207,440	113,989	321,429
2015-16	213,597	107,832	321,429
2016-17	219,936	101,493	321,429
2017-18	226,464	94,965	321,429
2018-19	233,185	88,244	321,429
2019-20	240,106	81,323	321,429
2020-21	247,233	74,196	321,429
2021-22	254,570	66,859	321,429
2022-23	262,126	59,303	321,429
2023-24	269,906	51,523	321,429
2024-25	277,917	43,512	321,429
2025-26	286,165	35,264	321,429
2026-27	294,659	26,770	321,429
2027-28	303,404	18,025	321,429
2028-29	303,903	9,021	312,924
	$4,427,740	$1,338,373	$5,766,113

The City entered into city purchase agreements with the City of Phoenix Civic Improvement Corporation for the acquisition of approximately 13,000 acres of agricultural land and associated water rights in McMullen Valley, as well as for certain modifications and expansions at various water treatment plants throughout the City. The City of Phoenix Civic Improvement Corporation issued bonds for the acquisition of the property and the water treatment plant modifications and expansions, and the City made a junior lien pledge of net operating revenues of the water system for the payment of principal and interest on the bonds. Amounts due on the bonds and pursuant to the city purchase agreements are as follows:

City of Phoenix Civic Improvement Corporation
Junior Lien Water System Revenue Debt Outstanding(1)

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 10-31-11
08-01-01	$ 99,980,000	Water System Refunding	7-1-02/24	5.24%	$ 68,660,000
10-01-03	11,325,000	Water System Refunding	7-1-05/22	4.29	10,805,000
07-01-04	27,775,000	McMullen Valley & Water Rights Refunding	8-1-06/17	4.06	16,450,000
06-01-05	600,000,000	Water System Improvements	7-1-10/29	4.90	563,165,000
06-02-09	450,000,000	Water System Improvements	7-1-14/39	4.99	450,000,000
06-02-09	90,295,000	Water System Refunding	7-1-10/19	4.47	73,940,000
11-22-11	167,510,000	Water System Refunding	7-1-14/26	4.81	167,510,000(2)
Total Junior Lien Water Revenue Bonded Debt					$1,350,530,000

(1) Does not include the Bonds Being Refunded.
(2) Represents the Bonds offered herein.

City of Phoenix Civic Improvement Corporation
Schedule of Annual Debt Service Requirements
Junior Lien Water System Revenue Debt Outstanding (1)

Fiscal Year	Principal	Interest	Total
2011-12	$ 30,585,000	$ 66,657,139	$ 97,242,139
2012-13	31,970,000	64,637,181	96,607,181
2013-14	52,980,000	63,087,156	116,067,156
2014-15	57,790,000	60,644,250	118,434,250
2015-16	50,085,000	57,934,075	108,019,075
2016-17	62,915,000	55,522,262	118,437,262
2017-18	66,030,000	52,403,825	118,433,825
2018-19	69,210,000	49,224,394	118,434,394
2019-20	63,555,000	45,895,456	109,450,456
2020-21	66,635,000	42,815,000	109,450,000
2021-22	69,990,000	39,463,738	109,453,738
2022-23	71,410,000	36,043,537	107,453,537
2023-24	75,015,000	32,439,438	107,454,438
2024-25	71,205,000	28,765,312	99,970,312
2025-26	74,670,000	25,304,113	99,974,113
2026-27	60,410,000	21,681,425	82,091,425
2027-28	63,325,000	18,769,613	82,094,613
2028-29	66,410,000	15,603,362	82,013,362
2029-30	19,590,000	12,300,238	31,890,238
2030-31	20,565,000	11,320,737	31,885,737
2031-32	21,595,000	10,292,488	31,887,488
2032-33	22,675,000	9,212,737	31,887,737
2033-34	23,810,000	8,078,988	31,888,988
2034-35	25,000,000	6,888,487	31,888,487
2035-36	26,245,000	5,641,538	31,886,538
2036-37	27,555,000	4,332,487	31,887,487
2037-38	28,930,000	2,958,075	31,888,075
2038-39	30,375,000	1,515,075	31,890,075
	$1,350,530,000	$849,432,126	$2,199,962,126

(1) Schedule does not include debt service on the Bonds Being Refunded, but does include debt service on the Bonds offered herein.

WATER FINANCIAL PLANNING PROCESS AND CAPITAL IMPROVEMENT PROGRAM

In 2011, the Water Services and Finance Departments conducted an analysis of the impact of the five-year Water System Capital Improvement Program (the *"Water CIP"*) for fiscal years 2011-12 through 2015-16 on the financial condition of the System, including the impact on City water rates. The City has a long standing practice of updating the five-year Water CIP and financial forecast each year for review by the City Council prior to official approval of the five-year Water CIP.

The most recent water rate forecast indicates that following the 7.0% rate increase implemented in April 2011, future increases of 4.0% in fiscal year 2011-12, 6.25% in fiscal year 2012-13, 5.5% in fiscal year 2013-14, 5.0% in fiscal year 2014-15 and 3.0% in fiscal year 2015-16 will support the financial needs of the Water System. This forecast reflects the most recent financial information and is consistent with the prior year's forecast. The financial forecast and water rates will be reviewed by a citizens water advisory panel and the City Council in early calendar year 2012.

The Water CIP for fiscal years 2011-12 through 2015-16 totals $678.7 million. In addition, $246.9 million was programmed in fiscal year 2010-11. The current 2010-11 through 2015-16 CIP totals $925.6 million and is significantly lower than the 2007-08 through 2012-13 CIP, which totaled $1,795 million. The lower CIP is due to the completion of regulatory-related projects and the deferral of growth-related projects. In general, the Water CIP includes projects for improvements to the water treatment plants' processes; improvements to storage facilities; rehabilitation and replacement of water mains and other water infrastructure; modifications to meet regulatory mandates; and upgrades to automation and environmental systems. The total Water CIP for fiscal years 2010-11 through 2015-16 is shown on the following page.

City of Phoenix Water System
Capital Improvement Program Summary

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	6-year Total
Uses of Funds							
Water Production:							
Deer Valley Treatment Plant	$ 23,420,221	$ 539,038	$ 300,000	$ 50,000	$ —	$ 1,450,000	$ 25,759,259
Lake Pleasant Treatment Plant	—	460,000	—	—	—	—	460,000
24th Street Treatment Plant	19,481,159	7,147,527	430,000	1,470,000	9,420,000	450,000	38,398,686
Union Hills Treatment Plant	18,779,640	1,793,661	2,575,000	215,800	24,795,500	737,000	48,896,601
Val Vista Treatment Plant	52,299,591	12,362,750	5,631,000	300,000	2,230,000	15,310,000	88,133,341
Wells	1,761,029	8,242,885	2,880,000	3,975,000	3,755,000	5,350,000	25,963,914
Water Reclamation Plants	—	320,000	—	760,000	2,255,000	100,000	3,435,000
Production Replacement	14,286,141	12,078,258	12,554,981	11,894,896	12,599,240	13,478,167	76,891,683
Water Resource Acquisition	—	7,670,390	—	—	—	—	7,670,390
Subtotal Production	130,027,781	50,614,509	24,370,981	18,665,696	55,054,740	36,875,167	315,608,874
Water Distribution:							
East Phoenix Mains	38,580,031	3,100,132	2,922,050	6,440,000	—	—	51,042,213
West Phoenix Mains	9,217,132	10,483,700	6,752,000	275,000	—	—	26,727,832
North Phoenix Mains	5,848,897	14,284,810	8,516,000	2,274,150	11,767,500	20,370,000	63,061,357
South Phoenix Mains	4,879,788	20,401,213	23,675,813	412,800	—	—	49,369,614
Mains/Valves Replacement	10,556,642	20,590,746	20,658,260	54,312,000	42,592,265	53,865,125	202,575,038
Water Storage	26,211,281	25,445,288	4,342,000	5,040,500	6,659,750	8,472,255	76,171,074
Booster Stations and PRV	1,353,502	4,574,613	720,000	19,062,882	6,695,000	10,636,000	43,041,997
Fire Hydrants New/Replace	3,694,319	3,120,000	2,650,000	2,650,000	2,650,000	2,650,000	17,414,319
Service Connect/Replace	4,999,293	5,505,000	5,550,000	5,750,000	5,950,000	6,150,000	33,904,293
Subtotal Distribution	105,340,885	107,505,502	75,786,123	96,217,332	76,314,515	102,143,380	563,307,737
Automation	8,649,835	8,826,367	5,779,966	226,286	421,015	—	23,903,469
Percent for Arts	2,862,021	2,382,700	1,873,437	2,000,000	2,000,000	2,000,000	13,118,158
Security	—	1,270,000	680,000	—	1,350,000	—	3,300,000
Water System Studies	—	290,000	200,000	200,000	200,000	5,500,000	6,390,000
Total Uses	$246,880,522	$170,889,078	$108,690,507	$117,309,314	$135,340,270	$146,518,547	$925,628,238
Sources of Funds							
Operating Funds:							
Development Occupation Fees	$ 6,566,947	$ 11,314,620	$ 6,811,638	$ 4,122,800	$ 4,391,000	$ 2,662,255	$ 35,869,260
Water Revenue(1)	95,284,198	78,407,990	90,371,362	106,475,200	106,877,000	116,879,745	594,295,495
Water Resource Acquisition	187,818	10,605,390	1,650,000	100,000	—	—	12,543,208
Subtotal Operating Funds	102,038,963	100,328,000	98,833,000	110,698,000	111,268,000	119,542,000	642,707,963
Non-Profit Corporation Financing:							
CIC — Water Bonds	17,083,064	6,979,228	—	—	—	—	24,062,292
Unsold Water Bonds(2)	123,961,303	29,151,505	8,094,526	4,780,463	21,593,737	19,218,964	206,800,498
Subtotal Non-Profit Financing	141,044,367	36,130,733	8,094,526	4,780,463	21,593,737	19,218,964	230,862,790
Other Financing:							
Mesa Participation(3)	462,680	1,758,168	1,762,981	1,830,851	2,478,533	7,757,583	16,050,796
Developer Contributions	3,334,512	32,672,177	—	—	—	—	36,006,689
Subtotal Other Financing	3,797,192	34,430,345	1,762,981	1,830,851	2,478,533	7,757,583	52,057,485
Total Sources	$246,880,522	$170,889,078	$108,690,507	$117,309,314	$135,340,270	$146,518,547	$925,628,238

(1) Includes revenue from water service charges as well as other miscellaneous fees and charges not included in other categories.

(2) City Council has approved bond authorizations equal to or greater than the 6-year total.

(3) Represents the city of Mesa's share of costs for capital projects related to the Val Vista Water Treatment Plant which is a joint venture between the City and Mesa.

City of Phoenix Water System
Comparative Statement of Revenues, Expenditures, Encumbrances, Debt Service, Debt Service Coverage and Changes in Fund Balance (Non-GAAP Budgetary Basis)

	2006-07	2007-08	2008-09	2009-10	2010-11(5)
Revenues: (1)					
Metered Water Sales	$206,990,165	$229,550,990	$234,486,102	$248,980,108	$252,743,525
Environmental Charge	31,337,190	35,976,951	41,015,381	45,851,638	47,293,433
Raw Water Charge	16,080,462	15,956,840	15,942,965	19,065,829	22,025,877
Wholesale Water Sales	3,305,047	3,501,166	3,257,090	3,193,073	3,468,902
Customer Service Fees	4,746,593	5,834,392	6,670,166	5,652,538	6,012,214
Development Occupational Fees	8,712,157	4,772,418	1,858,680	1,606,280	1,217,640
Water Resource Acquisition Fees	6,934,809	3,325,415	1,393,031	1,283,809	729,911
Connection Fees	7,625,908	6,399,149	3,045,085	2,426,718	2,550,427
Interest Income	15,930,702	14,099,446	8,463,853	6,344,658	3,465,636
Other	12,083,744	14,025,914	15,728,696	13,186,702	14,803,128
Total Revenues	313,746,777	333,442,681	331,861,049	347,591,353	354,310,693
Operation & Maintenance Expenditures and Encumbrances:					
Administration and Engineering(2)	18,030,587	18,796,719	18,130,724	18,915,845	22,376,242
Customer Service	17,957,035	19,292,824	20,907,941	23,632,665	24,238,493
Production and Treatment(3)	64,787,320	77,427,387	80,990,473	81,064,321	78,530,773
Distribution and Centralized Functions	41,964,816	42,078,534	40,785,418	42,718,689	43,341,462
Total O&M Expenditures and Encumbrances	142,739,758	157,595,464	160,814,556	166,331,520	168,486,970
Net Revenues Available for Junior Lien Revenue Bond Debt Service (Designated Revenues)	171,007,019	175,847,217	171,046,493	181,259,833	185,823,723
Junior Lien Revenue Bond Debt Service	70,224,311	71,261,386	68,910,103	111,829,767	111,832,079
Junior Lien Debt Service Coverage	2.44	2.47	2.48	1.62	1.66
Revenues Available After Junior Lien Revenue Bond Debt Service	100,782,708	104,585,831	102,136,390	69,430,066	73,991,644
Other Expenditures and Encumbrances:					
Bond Anticipation Note Interest	1,254,178	2,892,065	3,527,208	—	—
Capital Outlay	3,288,913	5,367,404	1,536,975	1,208,861	2,797,821
Plant Additions and Improvements	46,075,476	95,723,328	86,828,718	58,754,178	99,240,963
G.O. Bond Debt Service(4)	14,697,281	2,594,212	—	—	—
Transfers:					
Transfer from Other Funds					
Water Capital Project Fund	(12,628,013)	—	—	(19,884,822)	—
Long Term Disability Trust Fund	—	(589,000)	—	—	—
Self-Insurance Reserve Trust Fund	—	—	(1,009,383)	—	—
Impact Fees Fund	—	—	(12,000,000)	(5,000,000)	(20,000,000)
Transfer to Other Funds					
Staff and Administrative Charges	7,331,000	7,419,000	6,548,000	5,906,000	5,293,494
In-Lieu Property Tax Payments	9,362,581	9,084,562	10,421,957	11,238,673	11,657,218
Water Capital Fund	20,000,000	—	—	—	—
General Fund Reserve(4)	—	11,124,606	9,166,462	15,923,079	2,049,910
Other	78,000	190,000	11,167	—	25,323
Total Other Expenditures, Encumbrances and Transfers	89,459,416	133,806,177	105,031,104	68,145,969	101,064,729
Net Increase (Decrease) in Fund Balance	11,323,292	(29,220,346)	(2,894,714)	1,284,097	(27,073,085)
Fund Balance, Beginning of Year	166,154,877	177,478,169	148,257,823	145,363,109	146,647,206
Fund Balance, End of Year	177,478,169	148,257,823	145,363,109	146,647,206	119,574,121
Reserved for:					
Water Resource Acquisition Fees	41,841,326	11,357,193	11,574,574	12,469,377	13,219,963
Development Occupational Fees	34,999,883	37,513,950	37,128,241	28,149,958	19,137,696
Reserved Fund Balance, End of Year	76,841,209	48,871,143	48,702,815	40,619,335	32,357,659
Unreserved Fund Balance, End of Year	100,636,960	99,386,680	96,660,294	106,027,871	87,216,462
Water Reserve Fund	100,794,368	100,794,368	100,794,368	100,794,368	100,794,368
Total Available Fund Balance, End of Year	$201,431,328	$200,181,048	$197,454,662	$206,822,239	$188,010,830

(1) Revenues and related expenditures include the city of Mesa's share of the Val Vista Water Treatment Plant.

(2) The increase in 2010-11 of certain Administration and Engineering expenditures reflects a shift in personnel costs and functions as a result of resource and development planning and reorganization within the Water Services Department.

(3) Production and Treatment expenses increased 20% in fiscal year 2007-08 primarily due to Lake Pleasant Water Treatment Plant becoming operational. The reduction in Production and Treatment expenses in fiscal year 2010-11 was primarily due to a decrease in water production at the Val Vista Water Treatment Plant.

(4) In fiscal years 2007-08, 2008-09, 2009-10, and 2010-11, the July 1, 2008, January 1, 2009, July 1, 2009 , January 1, 2010 , July 1, 2010, January 1, 2011 and July 1, 2011 G.O. debt service payments for water projects were paid from the secondary property tax fund. An amount equal to approximately one-half of the payment was transferred to the General Fund Reserve.

(5) Fiscal year 2010-11 is estimated.

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APPENDIX B

CITY OF PHOENIX WATER SYSTEM FINANCIAL FORECAST

City of Phoenix Water System
Forecasted Schedule of Revenues, Expenditures, Debt Service, Debt Service Coverage and Changes in Fund Balance

	2010-11 Preliminary	2011-12 Forecast	2012-13 Forecast	2013-14 Forecast	2014-15 Forecast	2015-16 Forecast
Sources of Financial Resources						
Revenues:						
Metered Water Sales	$252,744,000	$268,032,000	$269,857,000	$277,281,000	$283,319,000	$292,378,000
Environmental Charge	47,293,000	49,469,000	49,952,000	50,451,000	51,208,000	51,976,000
Raw Water Charge	22,026,000	25,049,000	25,251,000	25,504,000	25,886,000	26,275,000
Forecasted Revenue Increases:						
Scheduled for May, 2012	—	2,920,000	13,802,000	14,129,000	14,417,000	14,825,000
Scheduled for March, 2013	—	—	7,628,000	22,960,000	23,427,000	24,091,000
Scheduled for March, 2014	—	—	—	7,288,000	21,864,000	22,484,000
Scheduled for March, 2015	—	—	—	—	7,130,000	21,558,000
Scheduled for March, 2016	—	—	—	—	—	4,597,000
Total Forecasted Revenue Increases	—	2,920,000	21,430,000	44,377,000	66,838,000	87,555,000
Total Metered Water Sales, Environmental and Raw Water Charge Revenues	**322,063,000**	**345,470,000**	**366,490,000**	**397,613,000**	**427,251,000**	**458,184,000**
Wholesale Water Sales	3,469,000	3,000,000	3,000,000	3,000,000	2,000,000	2,000,000
Customer Service Fees	6,012,000	6,000,000	6,000,000	6,090,000	6,181,000	6,274,000
Development Occupational Fees	1,218,000	1,300,000	2,000,000	3,000,000	3,500,000	4,000,000
Water Resource Acquisition Fees	730,000	800,000	1,000,000	1,500,000	2,000,000	3,000,000
Connection Fees	2,550,000	2,600,000	2,800,000	2,842,000	2,885,000	2,928,000
Interest Income — Operating	3,374,000	2,342,000	2,701,000	2,106,000	2,218,000	2,239,000
Interest Income — CIC Bonds Proceeds	92,000	—	13,000	1,099,000	663,000	473,000
Other	14,803,000	12,853,000	13,507,000	13,538,000	13,243,000	13,561,000
Total Revenues	**354,311,000**	**374,365,000**	**397,511,000**	**430,788,000**	**459,941,000**	**492,659,000**
Uses of Financial Resources						
Operation and Maintenance:						
Administration and Engineering	22,376,000	22,632,000	20,403,000	21,220,000	22,041,000	22,904,000
Customer Service	24,238,000	21,512,000	22,756,000	23,666,000	24,612,000	25,597,000
Production and Treatment	78,531,000	86,117,000	94,300,000	98,575,000	101,675,000	105,340,000
Distribution and Centralized Functions	43,342,000	44,462,000	46,805,000	48,677,000	50,624,000	52,649,000
Total Operation and Maintenance Expenditures	**168,487,000**	**174,723,000**	**184,264,000**	**192,138,000**	**198,952,000**	**206,490,000**
Net Operating Revenues Available for Junior Lien Revenue Bond Debt Service (Designated Revenues)	**185,824,000**	**199,642,000**	**213,247,000**	**238,650,000**	**260,989,000**	**286,169,000**
Existing Junior Lien Revenue Bond Debt Service(1)	111,832,000	92,754,000	89,040,000	100,880,000	100,877,000	90,462,000
Jr Lien Revenue Refunding Bond Debt Service (Series 2011)	—	4,799,000	7,889,000	15,508,000	17,879,000	17,879,000
Revenue Bond Anticipation Notes	—	1,333,000	4,000,000	—	—	—
Authorized Revenue Bond Debt Service (Series 2013)	—	—	—	11,000,000	11,000,000	11,000,000
Total Junior Lien Revenue Bond Debt Service	**111,832,000**	**98,886,000**	**100,929,000**	**127,388,000**	**129,756,000**	**119,341,000**
Junior Lien Revenue Bond Debt Service Coverage	1.66	2.02	2.11	1.87	2.01	2.40
Revenues Available after Revenue Bond Debt Service	73,992,000	100,756,000	112,318,000	111,262,000	131,233,000	166,828,000
Other Expenditures:						
Plant Additions and Improvements	102,039,000	100,328,000	98,833,000	110,698,000	111,268,000	119,542,000
Existing G.O. Bond Debt Service	—	6,990,000	7,016,000	6,876,000	6,953,000	16,980,000
Staff and Administrative Charges	5,319,000	8,960,000	9,319,000	9,692,000	10,079,000	10,483,000
In-Lieu Property Tax Payments	11,657,000	12,131,000	12,475,000	12,837,000	13,336,000	13,904,000
Transfers to (from) Other Funds	(17,950,000)	(4,000,000)	—	—	—	—
Total Other Expenditures	101,065,000	124,409,000	127,643,000	140,103,000	141,636,000	160,909,000
Total Expenditures	**381,384,000**	**398,018,000**	**412,836,000**	**459,629,000**	**470,344,000**	**486,740,000**
Net Increase (Decrease) in Fund Balance	(27,073,000)	(23,653,000)	(15,325,000)	(28,841,000)	(10,403,000)	5,919,000
Fund Balance, Beginning of Year	146,647,000	119,574,000	95,921,000	80,596,000	51,755,000	41,352,000
Fund Balance, End of Year	119,574,000	95,921,000	80,596,000	51,755,000	41,352,000	47,271,000
Reserved Fund Balance, End of Year	32,358,000	10,165,000	3,622,000	3,982,000	6,924,000	10,361,000
Unreserved Fund Balance, End of Year	87,216,000	85,756,000	76,974,000	47,773,000	34,428,000	36,910,000
Water Reserve	100,795,000	100,795,000	100,795,000	100,795,000	100,795,000	100,795,000
Total Available Fund Balance, End of Year	**$188,011,000**	**$186,551,000**	**$177,769,000**	**$148,568,000**	**$135,223,000**	**$137,705,000**
Projected Annual (Fiscal) Increase in Water	7.00%	4.00%	6.25%	5.50%	5.00%	3.00%
Month of Increase	Apr	May	Mar	Mar	Mar	Mar

(1) Net of the Bonds Being Refunded.

CITY OF PHOENIX WATER SYSTEM
SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS
For the six years ending June 30, 2011 through 2016

1. Basis of Presentation

The City of Phoenix (the "*City*") Water System (the "*System*"), a division of the City's Water Services Department (the "*Department*"), is operated as a financially self-supporting municipal utility. The Department derives its authority and responsibility from the Phoenix City Charter, and ordinances and resolutions adopted by the City Council.

The accompanying financial forecast presents, to the best of the City's knowledge and belief based upon available information, the expected revenues, expenditures, debt service, debt service coverage and changes in fund balance of the System. Accordingly, the Forecasted Schedule of Revenues, Expenditures, Debt Service, Debt Service Coverage and Changes in Fund Balance reflects the City's judgment as of the date of this Official Statement. The forecast is for the period ending June 30, 2016. The forecast includes estimated debt service on the Bonds offered herein, but does not include debt service on the bonds expected to be refunded by such Bonds. The forecast is prepared on the modified accrual basis to correspond to the City's budget practices and is not intended to present results of operation in accordance with generally accepted accounting principles. The assumptions disclosed herein are those that the City believes are significant to the forecast. There will usually be differences between forecast and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

2. City of Phoenix Civic Improvement Corporation Financings and Agreements

The City has entered into certain agreements (the "*City Purchase Agreements*") with the City of Phoenix Civic Improvement Corporation (the "*Corporation*"), a nonprofit corporation, for the construction and acquisition of certain facilities and equipment. Under the terms of the City Purchase Agreements, the Corporation issues bonds or certificates of participation ("*Water Revenue Bonds*") to finance the facilities, and the City makes lease and purchase payments to the Corporation, sufficient to pay the principal and interest on the outstanding obligations. The City also pays all operation and maintenance expenditures associated with these facilities and equipment. The Junior Lien Revenue Bond Debt Service amounts in the forecast represent the payments to be made to the Corporation to meet outstanding bond obligations.

The Water Revenue Bonds of the Corporation are and will be special revenue obligations payable solely from payments received under the City Purchase Agreements. Payments by the City are to be made solely from revenues of the System. During the term of the City Purchase Agreements, payments are to be made regardless of damage to the System or commercial frustration of purpose, without right of set-off or counterclaim, regardless of any contingencies and whether or not the City possesses or uses the System. The City's obligation to make payments will continue until all payments under the City Purchase Agreements have been paid.

The obligation of the City under the City Purchase Agreements does not and will not constitute a debt or a pledge of the full faith and credit of the City, the State of Arizona or any other political subdivision thereof. The City has not pledged and will not pledge any form of ad valorem taxes to the payments. The Water Revenue Bonds are and will be special revenue obligations of the Corporation secured by a pledge of the net operating revenues of the System after the payment of operation and maintenance expenditures from such revenues and less payments required on any senior lien obligations (the "*Designated Revenues*"). The City may, but is not required to, pay amounts due under the City Purchase Agreements from any other money legally available for such purposes.

3. Water Infrastructure Finance Authority of Arizona (WIFA)

The City entered into loan agreements with the Water Infrastructure Finance Authority of Arizona (WIFA) to finance certain improvements to the water distribution system and to install automated meters in certain areas of the City. WIFA loaned funds derived in whole or in part from the United States Environmental Protection Agency pursuant to the federal American Recovery and Reinvestment Act of 2009 (the "*Recovery Act*"). The City made a pledge of Designated Revenues of the Water System for the payment of principal and interest on the loans.

4. Scope of Operation

The System is responsible for the delivery of water services to more than 404,647 customer accounts over a service territory encompassing 540 square miles. The System consists of over 6,962 miles of water mains, six treatment facilities and a water reclamation plant. Certain amounts of wholesale water are provided to the city of Tolleson and large turf areas. Estimated Total Average Daily Delivery of the System in 2011 is 274 mgd and the estimated Total Maximum Day Demand is 385 mgd. These estimates are based on six months of actual data.

5. Capital Improvements and Related Funding

As summarized in Appendix A of the Official Statement, the City has developed a five-year Water System Capital Improvement Program (the "*Water CIP*") which is an integral part of its plans to meet its commitment of providing quality water service to its customers. It is intended that the Water CIP will not be significantly altered and the program will be implemented substantially as scheduled. The planned capital improvements are intended to be funded using a combination of System revenues, development occupational fees, water resource acquisition fees, connection fees, existing and proposed junior lien revenue bond funds, federal funding and bond anticipation notes. Estimated debt service payments on bonds forecasted to be issued to pay for the identified capital improvements are included in the accompanying forecast.

6. Operating Revenues

Metered Water Sales, Environmental Charge and Raw Water Charge

The revenue from metered water sales includes the base and volume charges. The environmental charge recovers costs related to federal and state environmental mandates. The raw water charge recovers costs associated with obtaining untreated water resources. Total metered water sales, environmental charge and raw water charge revenues for fiscal year ended June 30, 2011 were $322,063,000. The forecast revenue from metered water sales, the environmental charge and the raw water charge for fiscal year ending June 30, 2012 are based on estimated revenues for the fiscal year. The forecast for fiscal year ending June 30, 2012 assumes no account growth but includes the revenue increase due to a 7.0% rate increase implemented April 1, 2011. Account growth is estimated at 0.5% for the fiscal year ending June 30, 2013, 1.0% for June 30, 2014 and 1.5% annually for the remainder of the forecast. Beginning in fiscal year ending June 30, 2014 the forecast reflects a slow recovery in the economy. Normal weather is assumed for the demand projections throughout the forecast period.

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For the six years ending June 30, 2011 through 2016

It is assumed that the City Council will continue to have full control over establishment of rates for water service. Assumed increases in rate revenues for future years are presented below and reflect the overall increases in metered water sales revenues, environmental charge revenues and raw water charge revenues. The forecast rate increases are subject to approval in each year by the City Council and the forecast assumes such approval will be received.

Forecast Rate Increase Effective Dates	Forecast Revenue Increase
May 1, 2012	4.00%
March 1, 2013	6.25%
March 1, 2014	5.50%
March 1, 2015	5.00%
March 1, 2016	3.00%

These overall rate increases reflect the amounts that the City believes will be necessary to cover operation and maintenance expenditures and to pay annual debt service on all bonds issued to fund the capital improvement projects as described in Appendix A. The City's intent in the forecast is to target Total Revenue Bond Debt Service Coverage of 2.0 times over the forecast period and a Total Available Fund Balance at least equal to total junior and senior lien revenue bond debt service.

Bad debt expense for the fiscal year ended June 30, 2011 was 1.63% of revenues. The increase in bad debt expense from the prior years is due to an increase in the number of real estate foreclosures and the continuing poor economy. The Water Department has recently engaged an outside collection agency to assist the City with collecting past due accounts, resulting in projected bad debt expense dropping to 1.0% for the fiscal years ending June 30, 2012 and June 30, 2013. The forecasted bad debt expense decreases to a long-term average of 0.70% through the remainder of the forecast period.

Wholesale Water Sales

Wholesale water sales consist of sales to the city of Tolleson and large turf customers. Revenues for fiscal year ended June 30, 2011 were $3,469,000 and are forecast to be $3,000,000 for fiscal years ending June 30, 2012 through June 30, 2014. Wholesale water sales decrease to $2,000,000 in fiscal years ending June 30, 2015 and June 30, 2016 due to a forecasted decrease in consumption by large turf users.

Customer Service Fees

Customer service fees represent miscellaneous and special charges such as new account activation, meter relocations, temporary shut-downs and turn-offs. Revenues from customer service fees for fiscal year ended June 30, 2011 were $6,012,000. The projected revenues are $6,000,000 in fiscal years ending June 30, 2012 and June 30, 2013. Beginning in fiscal year ending June 30, 2014, customer service fees are forecasted to increase 1.5% annually throughout the remainder of the forecast period.

Development Occupational Fees

The development occupational fee was established in May 1982 for water and wastewater connections for new construction. The fee is currently $600 for single family homes and varies by meter size for other types of connections. The use of revenues from this fee is restricted to the funding of growth related water capital improvement projects or debt service on outstanding water obligations issued for growth related purposes. Revenues from these fees for fiscal year ended June 30, 2011 were $1,218,000. The projected revenues increase to $1,300,000 in fiscal year ending June 30, 2012 and $2,000,000 in fiscal year ending June 30, 2013, reflecting minimal recovery in the economy. Beginning in fiscal year ending June 30, 2014, development occupational fees are projected to increase to $3,000,000 and then to $3,500,000 in fiscal year ending June 30, 2015. The projected revenues increase to $4,000,000 in fiscal year ending June 30, 2016, reflecting a return to development activity more consistent with the long-term average for the service area.

Water Resource Acquisition Fees

In November 1989, the Phoenix City Council adopted a water resource acquisition fee to be applied to all new service connections. The fee is designed to recover costs for the acquisition of new water supplies to support growth. Fees vary depending upon the service location and meter size. Revenues from this fee are restricted to pay for new water rights acquisitions or water conservation, both of which contribute to meeting future water supply needs due to growth. Fees for the fiscal year ended June 30, 2011 were $730,000. The projected revenues increase to $800,000 in fiscal year ending June 30, 2012, reflecting a minimal recovery in the economy. The projected revenues increase in fiscal years ending June 30, 2013, June 30, 2014 and June 30, 2015 to $1,000,000, $1,500,000 and $2,000,000, respectively. The projected revenues increase to $3,000,000 in fiscal year ending June 30, 2016, reflecting the long-term average development activity level.

Connection Fees

Connection fees recover the cost of meter and service line installation for new customers joining the System. Revenues from these fees for fiscal year ended June 30, 2011 were $2,550,000. The projected revenues increase to $2,600,000 ending June 30, 2012 and $2,800,000 in fiscal year ending June 30, 2013 reflecting a minimal recovery in the economy. Beginning in fiscal year ending June 30, 2014, connection fees are forecasted to increase 1.5% annually throughout the remainder of the forecast period.

Interest Income

Interest income on available operating funds is estimated at rates that vary from 1.0% to 1.5% through fiscal year ending June 30, 2014 and 2.0% throughout the remainder of the forecast. The yield on the temporary investment of existing and future bond proceeds is forecasted between 0.5% and 1.0%.

Other

Other income includes revenues from sources such as rental of property, sale of fixed assets, sale of excess land, water plan review fees, late payment fees, reimbursement by the city of Mesa for a portion of operation and maintenance costs for the jointly owned Val Vista water treatment plant and recovery of prior year expenditures. The revenue received from these various sources was $14,803,000 for fiscal year ended June 30, 2011. Other income in fiscal year ended June 30, 2011 included revenue from the sale of excess land and new late payment fees implemented on June 1, 2010. Other income is forecasted at $12,853,000 in fiscal year ending June 30, 2012. The revenues are forecast to increase to $13,507,000 in fiscal year ending June 30, 2013 due to increases in the reimbursement by the city of Mesa for a portion of the increase to operation and maintenance costs at Val Vista water treatment plant. Other revenue is forecast to increase minimally throughout the remainder of the forecast period, reflecting a return to long-term activity levels.

7. Operation and Maintenance Expenditures

The forecast of Operation and Maintenance (O&M) Expenditures are based on a combination of historical expenditure patterns and expected changes in operation. The city of Mesa's share of O&M costs of the jointly owned Val Vista water treatment plant is included. Total O&M expenditures were $168,487,000 for fiscal year ended June 30, 2011. O&M expenditures are forecasted at $174,723,000 for fiscal year ending June 30, 2012 and $184,264,000 for fiscal year ending June 30, 2013. The amounts are based on estimates provided by the Water Services Department.

Administration and Engineering costs are forecast to increase slightly from $22,376,000 for fiscal year ended June 30, 2011 to $22,632,000 for fiscal year ending June 30, 2012. There is a decrease to $20,403,000 for fiscal year ending June 30, 2013 related to allocating a portion of infrastructure records services from the Water System to the Wastewater System to properly reflect the usage of each respective enterprise fund. Forecasted costs increase slightly in fiscal year ending June 30, 2014 through the end of the forecast period.

Customer Services costs are forecast to decrease from $24,238,000 for fiscal year ended June 30, 2011 to $21,512,000 for fiscal year ending June 30, 2012 due to a change in how the City's Information Technology Department charges for services. Information Technology Department costs will be charged to Staff and Administrative Charges for all City departments beginning in fiscal year ending June 30, 2012.

Production and Treatment costs are forecast to increase from $78,531,000 for fiscal year ended June 30, 2011 to $86,117,000 for fiscal year ending June 30, 2012 and $94,300,000 for fiscal year ending June 30, 2013. The increases in Production and Treatment through the end of the forecast period are largely due to implementation of new treatment processes at the treatment plants to meet the Federal Safe Drinking Water Act standards required by April 2012.

Distribution and Centralized Functions costs are forecast to increase from $43,342,000 for fiscal year ended June 30, 2011 to $44,462,000 for fiscal year ending June 30, 2012 and $46,805,000 for fiscal year ending June 30, 2013.

For fiscal years ending June 30, 2014 through June 30, 2016, for functions other than Production and Treatment, O&M expenditures are expected to grow at a compounded annual rate of approximately 4.0%, reflecting increases due to inflation and system growth. The forecast also reflects additional operating expenditures as a result of facility modifications to improve efficiency and to meet future Federal Safe Drinking Water Act requirements.

CITY OF PHOENIX WATER SYSTEM
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For the six years ending June 30, 2011 through 2016

8. Revenue Bond Debt Service

Junior Lien Water System Revenue Bonds

Following the issuance of the Bonds offered herein, there will be outstanding Junior Lien Water System Revenue Bonds as follows:

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 11-22-11(1)
08-01-01	$ 99,980,000	Water System Refunding	7-1-02/24	5.24%	$ 68,660,000
10-01-03	11,325,000	Water System Refunding	7-1-05/22	4.29	10,805,000
07-01-04	27,775,000	McMullen Valley & Water Rights Refunding	8-1-06/17	4.06	16,450,000
06-01-05	600,000,000	Water System Improvements	7-1-10/29	4.90	563,165,000
06-02-09	450,000,000	Water System Improvements	7-1-14/39	4.99	450,000,000
06-02-09	90,295,000	Water System Refunding	7-1-10/19	4.47	73,940,000
11-12-10	1,022,104(3)(4)	Water System Improvements	7-1-10/16	2.97	837,567
04-12-11	2,093,436(3)	Water System Improvements	7-1-16/24	2.97	2,093,436
09-14-11	1,496,737(3)	Water System Improvements	7-1-24/29	2.97	1,496,737
11-22-11	167,510,000	Water System Refunding	7-1-14/26	4.81	167,510,000(2)
Total Junior Lien Water System Revenue Bond Debt					$1,354,957,740

(1) Net of bonds expected to be refunded by the Bonds offered herein (the "*Bonds Being Refunded*"). See "*Bonds to be Refunded*" below.

(2) Represents the Bonds offered herein.

(3) Represents a loan agreement between the City and the Water Infrastructure Finance Authority of Arizona (WIFA) pursuant to the American Recovery and Reinvestment Act of 2009 (the "*Recovery Act*").

(4) Amount does not include $3,200,000 loaned to the City but not required to be repaid pursuant to the Recovery Act (the "*Forgivable Principal*"). Failure by the City to comply with all requirements of the loan agreement may result in a default under the loan agreement and cause the Forgivable Principal to be repaid by the City.

The obligation of the City and the Corporation to make payments on these Junior Lien Water System Revenue Bonds is secured solely by a pledge of the Designated Revenues of the System. The payment amounts to be made by the City from Designated Revenues of the System during the forecast period, not including debt service on the Bonds Being Refunded, are summarized below:

Fiscal Year Ending June 30	Principal	Interest	Total
2011(1)	$ 42,094,000	$ 69,738,000	$111,832,000
2012	30,775,000	66,778,000	97,553,000
2013	32,166,000	64,763,000	96,929,000
2014	53,181,000	63,207,000	116,388,000
2015	57,997,000	60,759,000	118,756,000
2016	50,299,000	58,042,000	108,341,000
Total	$266,512,000	$383,287,000	$649,799,000

(1) The debt service reflected in the forecast for fiscal year 2011 was paid on July 1, 2011.

CITY OF PHOENIX WATER SYSTEM
SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS
For the six years ending June 30, 2011 through 2016

Water System Revenue Commercial Paper Notes

The Corporation is currently authorized to issue up to an aggregate principal amount of $200,000,000 of its Water System Revenue Commercial Paper Notes. The Notes may be issued as commercial paper in varying maturities up to 270 days. There are currently no outstanding Notes. When issued, the Notes are secured by irrevocable, direct pay letters of credit issued by Dexia Credit Local, acting through its New York Agency or such alternate bank as the City may select (the "*Bank*"), and the proceeds of the Notes under a city purchase agreement dated as of April 1, 2003, as amended or such alternate agreement into which the City may enter (the "*CP Purchase Agreement*"). The City is currently in the process of selecting bank(s) to replace the Dexia Credit Local letter of credit. While the City does not grant any lien on Net Operating Revenues of the System to the owners of the Notes, under the CP Purchase Agreement, the City grants the Bank a lien on certain Designated Revenues, after payment of debt service on Junior Lien Obligations ("*Junior Subordinate Lien Revenues*") to secure its obligation to satisfy the Corporation's payment obligations to the Bank under a reimbursement agreement. For purposes of the forecast only, debt service on the Notes are included in the junior lien revenue bond debt service coverage calculation. The CP Purchase Agreement sets forth conditions of the issuance of long-term obligations on either a senior or junior lien basis to retire the Notes.

The forecast assumes that $100,000,000 of Notes will be issued in November 2011 and an additional $100,000,000 will be issued mid-summer 2012, each at an average interest rate of 2.0%. The forecast also assumes interest-only payments and that the Notes will be refunded with a portion of bonds expected to be issued on July 1, 2013. See "*Authorized Junior Lien Water System Revenue Bonds*" herein. Under the CP Purchase Agreement, the estimated payment amounts to be made by the City to the Corporation from Junior Subordinate Lien Revenues during the forecast period are summarized below:

Fiscal Year Ending June 30	Principal	Interest	Total
2011	$ —	$ —	$ —
2012	—	1,333,000	1,333,000
2013	—	4,000,000	4,000,000
2014	—	—	—
2015	—	—	—
2016	—	—	—
Total	$ —	$5,333,000	$5,333,000

Authorized Junior Lien Water System Revenue Bonds

The issuance of $200,000,000 forecasted for July 1, 2013 (the *"Series 2013 Bonds"*) will be used to refund $200,000,000 of outstanding commercial paper notes discussed previously. Debt service payments in the forecast are based on an average estimated interest rate of 5.5% on the Series 2013 Bonds. The Series 2013 Bonds are scheduled to pay interest-only for the first four years with a final maturity of 24 years. Principal amortization will begin in fiscal year ending June 30, 2017 and continue through fiscal year ending June 30, 2037.

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For the six years ending June 30, 2011 through 2016

Estimated payment amounts to be made by the City from Designated Revenues on future obligations during the forecast period are summarized below:

Fiscal Year Ending June 30	Principal	Interest	Total
2011	$ —	$ —	$ —
2012	—	—	—
2013	—	—	—
2014	—	11,000,000	11,000,000
2015	—	11,000,000	11,000,000
2016	—	11,000,000	11,000,000
Total	$ —	$33,000,000	$33,000,000

Junior Lien Revenue Bond Debt Service Coverage

The Junior Lien Revenue Bond Debt Service Coverage calculated in the forecast is Designated Revenues divided by the Junior Lien Revenue Bond Debt Service. The rate covenant pursuant to the City Purchase Agreement requires Net Operating Revenues to equal at least 110% of the current year's senior lien and junior lien debt service. There are presently no senior lien obligations outstanding. As mentioned previously, the financial planning and rate setting process targets long term Junior Lien Bond Debt Service Coverage of 2.0 times or greater throughout the forecast period, but is not legally obligated to do so. This is part of the long-range financial planning process, which includes the setting of water rates and determining the capacity of the Water CIP. This practice is in addition to maintaining available fund balance levels, which are discussed later.

9. Other Expenditures

General Obligation Bonds

As of October 1, 2011, there were outstanding City of Phoenix General Obligation Bonds issued for water purposes (the "*Water G.O. Bonds*") in the principal amount of $48,466,816. The debt service on the outstanding Water G.O. Bonds reflects principal and interest payments on Water G.O. Bonds sold from the 1988 voter authorization. Forecasted debt service amounts on Water G.O. Bonds during the forecast period are summarized below:

Fiscal Year Ending June 30	Principal	Interest	Total
2011(1)	$ —	$ —	$ —
2012	5,180,000	1,810,000	6,990,000
2013	5,310,000	1,706,000	7,016,000
2014	4,347,000	2,529,000	6,876,000
2015	5,515,000	1,438,000	6,953,000
2016	15,680,000	1,300,000	16,980,000
Total	$36,032,000	$8,783,000	$44,815,000

(1) In fiscal year ending June 30, 2011, debt service on Water G.O. Bonds was paid with secondary property tax revenue instead of water revenues and is therefore not reflected in the forecast.

CITY OF PHOENIX WATER SYSTEM
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Plant Additions and Improvements

Plant additions and improvements for the fiscal year ended June 30, 2011 were $102,039,000. These additions and improvements include the capitalized cost of the service line and meter installation for new customers, a portion of the costs of renewal and replacement of existing water infrastructure and certain improvements to the City's water production and distribution facilities. Plant additions and improvements increase to $111,268,000 in fiscal year ending June 30, 2015 and $119,542,000 in fiscal year ending June 30, 2016. These plant additions and improvements are funded on an annual basis from the combination of recurring revenues from metered water sales, connection fees, development occupational fees and water resource acquisition fees and are in addition to those funded from bond proceeds as discussed in the City of Phoenix Water System Capital Improvement Program Summary in Appendix A.

Staff and Administrative Charges

Staff and administrative charges are the allocated costs for central services provided by various City departments or offices such as the City Clerk, City Manager, City Attorney, Human Resources, Information Technology and others. These intergovernmental charges are allocated to departments based upon various allocation methods. The staff and administrative charges were $5,319,000 for the fiscal year ended June 30, 2011 and are forecast to be $8,960,000 for the fiscal year ending June 30, 2012. The increase from fiscal year ended June 30, 2011 is due to Information Technology Department costs now being allocated to City departments through Staff and Administrative Charges. These costs are forecast to increase at a compounded annual rate of 4.0% for fiscal years ending June 30, 2013 through June 30, 2016.

In-Lieu Property Tax Payments

In-lieu property tax payments are the annual assessments paid to the City's General Fund for the value of the fixed assets owned by the System. In-lieu property tax payments were $11,657,000 for the fiscal year ended June 30, 2011 and are forecast to be $12,131,000 for the fiscal year ending June 30, 2012. These payments are expected to increase to $13,904,000 by fiscal year ending June 30, 2016 based upon net changes in the value of the System's property, plant and equipment.

Transfers to and from the Operating Fund

Transfers either to or from the operating fund for the forecast period reflect the transfers for the purpose of using funds for capital purposes or for maintaining sufficient fund balances as additional bonds are sold in the future. For fiscal year ended June 30, 2011, $20,000,000 was transferred from Development Impact Fees to pay a portion of growth-related debt service and $2,050,000 was transferred to the General Fund Reserve. This reflects the use of secondary property taxes to pay for water related General Obligation debt. For fiscal year ending June 30, 2012, an additional $4,000,000 is forecast to be transferred from Development Impact Fees.

10. Fund Balances

The fund balance consists of a restricted portion (reserved fund balance) and an unrestricted portion (unreserved fund balance). The reserved fund balance includes development occupational fees and water resource acquisition fees. Development occupational fees are designated for future growth related capital improvement program projects, outstanding water obligations issued for growth related purposes and repayment agreements. Water resource acquisition fees are designated for new water acquisitions or water conservation. The unreserved fund balance is calculated by subtracting the reserved fund balance from the fund balance, end of year. The water reserve of $100,795,000 is used to meet the available fund balance requirement discussed below and is added to the unreserved fund balance to produce the available fund balance, end of year.

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SUMMARY OF SIGNIFICANT FORECAST ASSUMPTIONS
For the six years ending June 30, 2011 through 2016

As a matter of policy, the long-term financial and rate planning process targets the available fund balance to be at least equal to the total Revenue Bond Debt Service required over the forecast period. Further, the available fund balance should not be below the minimum level of 12.5% of annual total expenditures. The available fund balance is not projected to fall below either level during the forecast period. For the fiscal year ending June 30, 2011, the available fund balance is $188,011,000 which includes the $100,795,000 in the water reserve. Over the forecast period, the fund balance decreases to $137,705,000 for fiscal year ending June 30, 2016.

APPENDIX C

CITY OF PHOENIX, ARIZONA — DESCRIPTION

OVERVIEW

Phoenix is the sixth largest city in the United States, the state capital of Arizona and the center of the metropolitan area encompassed by Maricopa County. This metropolitan area also includes the cities of Mesa, Glendale, Tempe, Scottsdale, Chandler, Peoria, Goodyear, Tolleson, El Mirage, Surprise, Litchfield Park and Avondale; the towns of Buckeye and Gilbert as well as all unincorporated areas of the County. It is situated 1,117 feet above sea level in the semi-arid Salt River Valley. The area is well known for its mild, sunny winters and hot summers and receives average rainfall of 8.30 inches annually.

Phoenix was founded in 1870 as an agricultural community. In 1881, it was incorporated as a city. The City Charter under which it is presently governed was adopted in 1913 and has been amended from time to time. The City has grown steadily since its inception and has shown especially strong growth since 1950. The 1900 census recorded Phoenix's population at 5,544. In 1950, the City occupied 17 square miles with a population of almost 107,000 ranking it 99th among American cities. The 1990 census recorded Phoenix's population at 983,403 and the 2010 census recorded Phoenix's population at 1,445,632. As of February 1, 2011 the City encompasses 519.12 square miles.

Population Statistics
Phoenix, Maricopa County and Arizona

								Percent Change	
Area	**1950**	**1960**	**1970**	**1980**	**1990**	**2000**	**2010**	**1950-10**	**1990-10**
Phoenix	106,818	439,170	584,303	789,704	983,403	1,321,045	1,445,632	1,253.4%	47.0%
Maricopa County	331,770	663,510	971,228	1,509,175	2,122,101	3,072,149	3,817,117	1,050.5	79.9
State of Arizona	749,587	1,301,161	1,775,399	2,716,546	3,665,228	5,130,632	6,392,017	752.7	74.4

Source: Population figures are from the U.S. Department of Commerce, Census Bureau.

Phoenix is served by main lines of the Union Pacific and Burlington Northern Santa Fe Railroads, a transcontinental busline (Greyhound Trailways), and 10 transcontinental, 34 interstate and 39 intrastate truck lines. Phoenix Sky Harbor International Airport, located approximately 4 miles from downtown Phoenix, is served by the following scheduled airlines: Aeromexico, Air Canada, AirTran, Alaska, American, British Airways, Continental, Delta, ExpressJet (dba Continental Express), Frontier, Great Lakes, Hawaiian, JetBlue, Mesa (dba US Airways Express), Mesaba (dba Delta Connection), Midwest, SkyWest (dba Delta Connection and United Express), Southwest, Sun Country, United, US Airways and WestJet. Interstate 10, Interstate 17, U.S. Highways 60, 70, 80, 89, State Highways 51, 85, 93 and State Routes 101, 202, and 303 all traverse the City.

The metropolitan area is presently served by 33 elementary school districts, 6 high school districts, 17 unified school districts and 2 technical institutes, operating over 700 schools. Education is also provided by private and parochial schools located throughout the metropolitan area. Maricopa County Community College District serves the educational needs of the Phoenix area through ten institutions. Arizona State University (ASU) houses 20 colleges, schools and institutes and has a total enrollment of more than 73,000 undergraduate, graduate, and professional students on four campuses in Metro Phoenix. ASU's main campus is located just east of Phoenix in the city of Tempe. The Arizona State University West campus opened in 1991, is located in northwest Phoenix, and has an enrollment of nearly 12,000 students. The Arizona State University Polytechnic campus opened in 1996, is located in southeast Metro Phoenix in the city of Mesa, and has an enrollment of more than 9,700 students. The Arizona State University Downtown Phoenix campus opened August 21, 2006 and has an enrollment of more than 13,000 students. The City also contains a private graduate school and a number of private universities, colleges, and technical institutions. The 2000 Census indicated that 59% of the adult residents of Maricopa County are college educated.

SIGNIFICANT DEVELOPMENTS

Downtown Development

In 1979, the City adopted the Downtown Redevelopment Area plan for a 1.5 square mile area of downtown to revitalize the urban center of the City. Redevelopment efforts to date have resulted in the construction of residential units as well as numerous public and private redevelopment projects that have produced several amenities and services for employers, residents and visitors.

In 1984, a group of downtown business leaders founded the Phoenix Community Alliance. The group's express purpose is to work with government and other development interests to accomplish the highest quality downtown revitalization possible. They have been involved in a program of cooperative planning between government and private interests and have been focusing their attention on bringing increased housing, especially ownership housing, to downtown. In the Phoenix Community Alliance's 2011-2016 Action Plan, they have identified three goals including, facilitating quality land development in Downtown Phoenix, attracting investment to Downtown Phoenix, and sharpening Downtown Phoenix's competitive advantage.

In December 2004, the Phoenix City Council adopted a ten-year plan for downtown entitled "Downtown Phoenix: A Strategic Vision and Blueprint for the Future" (the "Downtown Strategic Plan"). The plan was developed by the combined efforts of the City, Phoenix Community Alliance, Downtown Phoenix Partnership, and Arizona State University. The plan serves as a framework for the City to pursue the comprehensive revitalization of Downtown Phoenix and serves as a guide for decision-making as specific plans and projects are pursued.

The Downtown Phoenix Urban Form Project (the "Project") is a collaborative planning process to shape future growth and to help realize the Downtown Strategic Plan of a livelier, more integrated and sustainable downtown. The City has embarked on this project due to heightened development interest.

General Plan

In 1985, the Phoenix City Council adopted the General Plan, a long-range plan based on the Urban Village Concept. The overall goal of the Urban Village Concept (now referred to as the Urban Village Model) is to offer Phoenix residents a choice of lifestyles in which residents may live, work and enjoy leisure time activities within the same urban village. The Urban Village Model also gives residents the opportunity to play a major role in shaping these choices. It is a unique concept that has provided a high degree of citizen participation in local land use planning processes.

The General Plan guides future development in Phoenix through the establishment of fifteen urban villages, each with an approximate population of 125,000. Each village has its own village planning committee. The committees, guided by and responsible to the Planning Commission, are comprised of 15-21 citizens, most of whom live in their respective villages. Planning activities include identifying the attitudes, problems, and issues impacting their village; formulating goals and policies that reflect the unique needs of their planning area; developing land use plans that will guide future growth in their village, and reviewing rezoning applications and development proposals.

As required by the State of Arizona Growing Smarter Legislation passed in 1998, and the Growing Smarter Plus Legislation passed in 2000, the City undertook a rewrite of the existing 11 elements in the General Plan and preparation of 5 new elements as required by the two new laws. The updated General Plan was adopted by the City Council on December 5, 2001 and was approved by voters on March 12, 2002.

In the opinion of management, the Growing Smarter legislation provides processes and tools that can contribute to better planned, coordinated and balanced future development.

As required by State law, the General Plan must be updated at least every ten years. On July 1, 2009, the Phoenix City Council approved plans to implement a public participation process in developing the Phoenix General Plan 2020. The updated General Plan will focus on promoting a healthy, sustainable future and providing clear direction for that future and is expected to be presented to voters in 2013.

Phoenix Convention Center

Redevelopment of the downtown Phoenix area has accompanied the construction and expansion of the Phoenix Convention Center (previously Phoenix Civic Plaza). Opened in 1972, the original convention and cultural center facility encompassed eight city-blocks in downtown Phoenix, having a capacity of 10,000 persons and containing a variety of meeting and exhibition halls in addition to Symphony Hall.

In 1980, the Phoenix City Council authorized the first expansion of the Phoenix Convention Center, adding a new structure connected directly to the existing facility. The additional space expanded the total convention space to 306,000 square feet. Construction of the $55 million addition commenced in late 1982 and was completed in June 1985, effectively doubling the size of the facility. In November 1995, the City completed a $31.5 million modernization and refurbishing program for the Phoenix Convention Center.

In 1998, construction began on the Civic Plaza East Garage, a 2,891-space parking facility to serve Phoenix Convention Center patrons and other downtown visitors. Included within the garage is approximately 25,000 square feet of commercial space. The garage was completed in the fall of 1999.

On June 22, 2001, the Arizona Legislature appointed the Ad Hoc Study Committee on Phoenix Civic Plaza/Convention Facility Expansion (the “Committee”) to make recommendations on several issues regarding Phoenix Convention Center expansion, including potential funding sources and State involvement. The membership included four State Senators, four State Representatives and nine public members. The Committee recognized the significant statewide benefit of convention business and unanimously recommended that the State develop a program to provide matching funds for major convention center improvements.

On November 6, 2001, City of Phoenix voters approved a ballot proposition authorizing the City to incur debt and expend public funds in an amount up to $300 million from City funding sources and in an amount up to $300 million in State or other non-City funding sources for the construction, expansion, modification and improvement of the Phoenix Convention Center. In June 2003, the Arizona Legislature approved spending up to $300 million in State money to match the City’s contribution. Combined, the $600 million expansion project effectively tripled the size of the current facility by adding approximately 600,000 square feet of meeting and exhibition space.

In 2001, Phoenix voters approved an additional $18.5 million in general obligation bonds for the renovation of the adjacent Symphony Hall. In order to minimize disruption to event activity, the construction schedule for Symphony Hall was aligned with the first phase of the Phoenix Convention Center expansion. In June 2003, the City Council approved the final development concept and selected the design team and the construction management team for the Phoenix Convention Center expansion and Symphony Hall renovation.

Construction of phase one of the Phoenix Convention Center expansion and the Symphony Hall renovation began in June 2004. Symphony Hall re-opened September 3, 2005 after renovations were completed during phase one. Significant improvements included a new entrance, plaza facing, wall paneling, carpeting, seating, roofing and an upgraded lobby. Phase one of the Phoenix Convention Center expansion, known as the West Building, was completed in July 2006. The four-level West Building includes a 45,000 square foot ballroom, an Executive Conference Center, 64,000 square feet of exhibition hall space and 27,000 square feet of meeting space.

Phase two construction on the new Phoenix Convention Center North Building was completed in December 2008. The four-level North Building features amenities such as a 46,000 square foot street-level ballroom, 56 meeting rooms, over 300,000 square feet of exhibition hall space on the lower level, 190,000 square feet of exhibition hall space on the upper level and a food court with six themed eateries. The North Building is connected to the West Building via a pedestrian bridge on the third level and below ground through the lower level exhibition hall. The fully expanded Phoenix Convention Center, which welcomed its first convention in January 2009, now offers approximately 900,000 square feet of rentable convention space and is one of the top 20 facilities in the country in terms of size.

The Phoenix Convention Center expansion had a significant impact on Arizona during the five-year construction period. From December 18, 2003 through November 30, 2008, 95 percent of the work was performed by Arizona residents, 11,684 people were employed on the project, $89.0 million was paid in wages and $26.9 million was paid in state construction taxes.

The Phoenix Convention Center surpassed its projected goals for 2009, hosting 69 conventions with 309,729 delegates, which equates to an economic impact of approximately $449 million in direct spending. In 2010, the convention center hosted a total of 62 conventions with an estimated 237,974 delegates equating to approximately $345 million in direct spending.

Business Development

The Greater Phoenix Economic Council (GPEC) was formed in 1989 as a partnership between Maricopa County and municipal governments, business and industry, and educational institutions in the metropolitan Phoenix area to serve as the marketing, business development and imaging and promotional arm for all of its members. GPEC’s mission is to market the region globally to attract quality businesses and champion foundational efforts to improve the region’s competitiveness.

The City of Phoenix has been a GPEC member since its inception. The City’s Community and Economic Development Department (CEDD) works closely with GPEC to attract new wealth-generating employers to Phoenix. GPEC’s collaborative fiscal year 2010-11 regional economic development model, “Back to Basics”, includes several initiatives aimed at creating and maintaining high quality jobs and capital investment through industry diversification, while pursuing projects that meet community and regional objectives. The model also establishes sound economic development programs that enhance regional and statewide competitiveness, while communicating, educating and informing stakeholders, policy-makers, citizens and media of key economic development issues.

Since 2000, CEDD has directly assisted in the attraction of 191 new employers to the City of Phoenix by working with GPEC and many other economic development partners. These companies represent more than 37,500 new jobs and approximately $2.6 billion in new capital investment.

Arts, Cultural and Sports Facilities

The City purchased the Orpheum Theatre building in 1984. In 1985, the building was placed on the National Register of Historic Places. Citizens approved partial funding of a $14 million renovation in 1988. The Orpheum Theatre Foundation provided the balance of the funding. The theatre has been returned to its original splendor and was reopened on January 28, 1997.

The Herberger Theater Center, a performing arts facility, opened in October 1989 adjacent to the Phoenix Convention Center. Located on a one-block site immediately north of the original Phoenix Convention Center, the Herberger Theater Center was financed with $18 million in public and private funds. Renovations to the Herberger Theater were performed during the summer of 2010 and included refurbishment of seating, platforms, lighting, carpet and paint on the 801-seat Center Stage and 343-seat Stage West. The renovations included the addition of exterior public space, upgraded outdoor signage and a new private second floor lounge and balcony for theater VIPs. The renovations were completed in October 2010 at a cost of approximately $16 million.

The Phoenix Art Museum, located at Central Avenue and McDowell Street began an expansion in December 2004. The $50 million project added nearly 30,000 square feet to the museum complex, most of which is utilized for exhibition space to benefit the museum's 290,000 annual visitors. $18.2 million of the total project cost was financed with bond funds approved by Phoenix voters in 2001. The remaining funds were raised from individuals and philanthropic organizations. The expansion was completed in November 2006.

The Arizona Science Center is located in Heritage and Science Park, a multi-block downtown cultural center, and received City funding from general obligation bonds approved by the voters in 1988. The Arizona Science Center, which cost $47 million, encompasses nearly 127,000 square feet including a 200-seat planetarium and a 285-seat Iwerks Theater. The City contributed land and $20 million to the project, with the balance funded by private contributions. The Arizona Science Center opened in April 1997. In addition, an 800-space parking garage was developed. The parking garage was completed in November 1995.

An agreement between the City and a private company was reached for development of a 4,800-seat entertainment facility on a City owned site at the northwest corner of Washington Street and Fourth Avenue. The Comerica Theatre (formerly Dodge Theatre) totals 165,000 square feet and cost approximately $39 million. Construction began in September 2000 and was completed in April 2002.

In November 1988, the City entered into negotiations with the Phoenix Suns Limited Partnership (the "Suns") for the development and operation of a 20,000-seat downtown sports arena to be located immediately south of the Phoenix Convention Center. Final agreements between the City and the Suns were approved by the City Council in July 1989. The construction cost of the arena and adjacent garage was $100 million. The City acquired and cleared the land for the project at a cost of $12.8 million and contributed $35 million toward construction. The Suns contributed an additional $515,000 for land acquisition and were responsible for the balance of the construction costs (approximately $52 million). Construction began in November 1990 and America West Arena (currently US Airways Center) opened in June 1992.

A multi-phased renovation of US Airways Center began in the spring of 2001 and was completed in early 2005. Exterior renovations included the addition of a 15,000 square foot climate controlled pavilion on the main entrance plaza, expansion of the north façade to accommodate street level restaurants along Jefferson Street and the construction of a pedestrian passageway from Jefferson Street to Jackson Street. The interior renovations consisted of concourse improvements, seating enhancements and additional restrooms. The second phase of renovations brought significant technology improvements including a new scoreboard and wrap around LED boards, as well as expansion of the Platinum Club, and other core building improvements, all of which ensure the Center's continued state of the art status. The renovations were completed at a total cost of approximately $57 million funded jointly by the City and the Suns.

Major League Baseball owners awarded a Phoenix-based ownership group a major league baseball franchise in March 1995. The team, the Arizona Diamondbacks, began play in March 1998. A $354 million, 48,500-seat, natural grass baseball stadium was constructed at the southwest corner of Jefferson Street and Seventh Street in downtown Phoenix through a public/private partnership. Public participation was authorized in early 1994, when the Maricopa County Stadium District approved the expenditure of $238 million for the development of the stadium. The balance of the construction costs were financed by the team ownership group.

In April 2009, the City completed construction on the Civic Space Park. The 2.77-acre park in the heart of Downtown Phoenix, bounded by First and Central Avenues and Van Buren and Fillmore Streets, offers residents, workers, students and visitors a unique urban design. The park contains sustainable features such as solar panel shade structures, which generate power for the park's lighting and electrical needs and pervious concrete and pavers to reduce heat reflection and allow rainfall to seep through to the ground. The park also includes interactive water and light features, green spaces and a 100-foot aerial art sculpture. The historic 1926 A.E. England Building is located inside Civic Space Park and hosts an auditorium as well as office, meeting and retail space.

Commercial Development

In the 1970's, Arizona's three major commercial banks (at that time The Valley National Bank of Arizona, First Interstate Bank, and The Arizona Bank) located their high-rise headquarters buildings in the downtown area. In addition, the Citibank building (now Compass Bancshares), consisting of 113,000 square feet of space situated on the northwest corner of Van Buren Street and First Avenue, was opened on August 1, 1989.

The 1970's also saw the development of two downtown high-rise hotels. The Hyatt and Wyndham properties combine to provide 1,242 hotel rooms in downtown Phoenix. As an outgrowth of the many downtown development and redevelopment projects, there was a rapid increase in hotel room demand from business, leisure and convention travelers visiting the area. To meet this demand, the City of Phoenix constructed a new 1,000-room hotel on the northwest corner of Third Street and Van Buren Street. Adjacent to the Arizona Center and several office and entertainment venues, the hotel contains approximately 10,000 square feet of retail space, including a coffee shop, lounge, restaurant, and fitness facilities; a 30,000 square foot ballroom; and additional meeting space. Starwood Hotels and Resorts was selected as the hotel's operator under the company's Sheraton flag. Design of the hotel began in early 2005 and construction began in March 2006. The Sheraton Phoenix Downtown Hotel opened September 2008 to support the additional hotel demand generated by the recently completed expansion of the Phoenix Convention Center. The opening of the hotel increased the number of hotel rooms in downtown Phoenix to 2,850.

The Trammell Crow Company completed construction of an $80 million, 26-story, 450,000 square foot high-rise office building, including 40,000 square feet of retail, in the center of downtown Phoenix in 1988. In conjunction with this project, the City constructed a 1,456 space underground public parking garage to support the parking needs generated by the Trammell Crow building and other downtown projects. This $15 million project was dedicated in December 1988. In response to a successful leasing effort, Trammell Crow Company constructed a second office building which opened in January 1990 on the half-block immediately north of their first building, consisting of 475,000 square feet including 15,000 square feet of retail.

Culminating an effort initiated by the Phoenix Community Alliance, the City entered into an agreement with The Rouse Company in September 1987 to develop a $515 million mixed-use development project to the north of the Phoenix Convention Center known as the Arizona Center. The development includes office and retail use as well as a three-acre public plaza. Arizona Public Service occupies a 450,000 square foot office tower, which was completed in March 1989. In March 1998, a 5,000-seat 24-screen movie theater opened.

The Barron Collier Company and Opus West initiated a mixed-use downtown development project in 1998. The plans for Collier Center included three high-rise towers with 1.5 million square feet of office space, 200,000 square feet of retail shops and restaurants, and parking for 2,400 vehicles. The project is located on a 7.2-acre site bounded by Washington, Jefferson, First and Third Streets. Collier Center's Phase I, a $500 million, 23-story office tower, was completed in September 2000 and is the Arizona headquarters for Bank of America. The tower contains over 500,000 square feet of office space, 85,000 square feet of retail space and a 1,500-space underground parking garage.

Construction of the 20-story, 410,000 square foot One North Central Building (formerly the Phelps Dodge Building), including 10,000 square feet of retail and 975 on-site parking spaces, began in February 2000. The building is located on the northeast corner of Washington Street and Central Avenue in downtown Phoenix. Construction was completed in November 2001.

In 2005, the City exchanged the City-owned historic Hanny's Building located at First and Adams Streets for the historic A.E. England Building located next to the ASU Downtown Phoenix campus at 424 North Central. The A.E. England Building, owned and operated by the City of Phoenix Parks and Recreation Department, was renovated for mixed retail and community use. The 30,000 square foot Hanny's Building was renovated into a restaurant that opened in December 2008. The Historic Preservation Commission and the City assisted with approximately $400,000 of the estimated $4 million renovation costs.

The City entered into an agreement with One Central Park East Associates LLC to develop a $185 million 26-story office tower at the northwest corner of First and Van Buren streets. The Freeport McMoRan Center houses the world headquarters for Freeport-McMoRan Copper & Gold Inc. (formerly Phelps Dodge Corporation) and the Westin Hotel. The City provided property tax assistance and abandonment of right-of-way for the 485,700 square foot building of Class A office space, 8,500 square feet of ground level retail space and 590 parking spaces. Construction began in October 2007 and was completed in November 2009. The Westin, which opened in March 2011, occupies nine floors of the Freeport McMoRan Center and includes 242 over sized guest rooms averaging 550 square feet.

CityScape is an approximately 5-acre, mixed-use development that blends urban living with work, shopping and entertainment and will include restaurants, a grocery store, hotel, offices and outdoor event space. The project encompasses two blocks in downtown Phoenix and is one block from the US Airways Center and within two blocks of Chase Field. Construction on CityScape began in the fall of 2007 and the first phase opened in March 2010. The first phase includes 660,000 square feet of Class A office space, 200,000 square feet of retail, 1,300 parking spaces and redevelopment of Patriot's Square. The next phase includes construction of the 242 room Palomar Hotel that commenced construction in February 2011 and is expected to be completed February 2012. The final phases of the project will be built out over several years based on market demand.

Biotechnology and Education

In spring of 2002, the City of Phoenix and the State of Arizona, in partnership with Maricopa County, Arizona's three State universities, various foundations and the private sector, formalized two proposals to the International Genomics Consortium (IGC) and the Translational Genomics Research Institute (TGen) to locate their new headquarters in downtown Phoenix. The City agreed to construct a six-story, 170,000 square foot research facility for IGC and TGen located at Fifth and Van Buren Streets. Construction began in late July 2003 with occupancy occurring in December 2004. The Phoenix Biomedical Center is expected to employ approximately 350 employees earning average salaries of $70,000 annually. Build-out of the 28-acre biotechnology campus is expected to provide approximately six million square feet of research and academic space.

In August 2004, the Arizona Board of Regents, the University of Arizona (U of A) and Arizona State University (ASU) (collectively, the Arizona Biomedical Collaborative) entered into a Memorandum of Understanding outlining a combined vision to expand the U of A's colleges of medicine and pharmacy in downtown Phoenix, perform complementary research and develop facilities at the Phoenix Biomedical Campus (PBC) located on Van Buren Street between Fifth and Seventh Streets. The U of A College of Medicine has renovated three historic former Phoenix Union High School buildings located on the PBC for the first phase of the medical school. The $27 million renovation project began in March 2005 and was completed in September 2006. The first Arizona Biomedical Collaborative building (ABC I) is a four-story, 85,000 square foot building located just north of the historic Phoenix Union High School buildings along Fifth Street. Research within ABC I will focus on several areas including cancer, diabetes, neurological and cardiovascular diseases. The $30 million facility includes academic space for the ASU Department of Biomedical Informatics on floors one and two and wet lab space for the U of A College of Medicine on floors three and four. Construction began in September 2005 and was completed July 2007. The next phase of development on the PBC is underway as the Health Sciences Education Building (HSEB) is currently under construction. This approximately $140 million, 260,000 square foot, six-story academic facility allows for the expansion of the U of A College of Medicine and will house the U of A College of Pharmacy and Northern Arizona University's Allied Healthcare Programs. Completion of HSEB is scheduled for summer 2012. The U of A is also the recipient of a $15 million American Recovery and Reinvestment Act stimulus grant for the development of a below-grade research core. Construction of this facility is anticipated to begin spring 2012, with completion scheduled for summer 2013. At build-out, the 28-acre PBC is expected to include more than six million square feet of research, academic and clinical development.

In 2004, ASU announced plans to expand its downtown Phoenix campus. Development of the ASU Downtown Phoenix campus is expected to occur over the next 10-12 years and include three million square feet of development.

The first phase of the ASU Downtown Phoenix campus expansion, which opened in August 2006, offers a wide range of undergraduate and graduate programs from the College of Public Programs and the University College. The second phase, which remains ongoing, currently offers programs from the state-of-the-art Walter Cronkite School of Journalism and Mass Communications, KAET/Channel 8 and the College of Nursing & Healthcare Innovation.

As part of the second phase of the ASU Downtown Phoenix campus expansion, construction was completed on the 82,000 square foot ASU College of Nursing and Healthcare Innovation facility. The innovative design creates a sense of arrival for the northeast corner of the campus and downtown. With over a third of the materials utilized for this project containing recycled content, the new facility achieved the Leadership in Energy and Environmental Design (LEED) certified Gold status and has received 14 awards including Best Education Facility in America and the LEED Building of the Year.

The U.S. Post Office building at Central Avenue and Fillmore Street houses the student union for the ASU Downtown Phoenix campus. Retail postal services remain in the building, and a veranda was added along the south side of the building to be used for concerts, outdoor films and other activities. The conversion of the U.S. Post Office building was completed in March 2010.

The ASU Downtown Phoenix campus began its fifth year of operation on August 19, 2010. For fall 2010, approximately 11,000 students were enrolled downtown and more than 1,000 students lived on the campus, which employs approximately 1,250 people. The campus also includes two restored historic structures, the adaptive reuse of two former office buildings and two new academic LEED facilities, as well as significant public art projects and the densest concentration of residential development in downtown Phoenix.

Campus build-out projections call for 15,000 students, 4,000 student housing beds, 1.5 million square feet of academic and support space, 900,000 square feet of private development, at least 1,800 faculty and staff and 100,000 visitors annually.

The City and ASU are working together to develop the State’s workforce through education and generating additional academic and intellectual capital. The anticipated economic impact is estimated to be $570 million including the creation of 7,700 jobs.

Neighborhood Revitalization and Downtown Housing

The City’s downtown redevelopment program is complemented by the Neighborhood Services Department’s (NSD) programs through which NSD works to preserve and improve the physical, social and economic health of Phoenix neighborhoods. NSD has created programs to assist neighborhoods citywide and supports and aggressively works to revitalize targeted neighborhoods. City projects are complemented by neighborhood-based programs such as clean-ups, blight elimination and graffiti prevention that are often led by neighborhood stakeholders, including businesses, residents and schools.

Targeted neighborhood strategies are more comprehensive and concentrated in approach, involving redevelopment of blighted or under-used properties, proactive code enforcement, housing rehabilitation, infill housing development, infrastructure improvements, neighborhood capacity building and economic development. Targeted neighborhoods include Neighborhood Initiative Areas, Redevelopment Areas, West Phoenix Revitalization Area, Rental Renaissance Neighborhoods and designated Neighborhood Renewal Task Force Areas.

Through initiatives and partnerships, NSD is developing new homes, selling and rehabbing foreclosed properties, building several commercial projects, completing a neighborhood learning center, has boarded up or cleared more than 150 blighted properties and constructed neighborhood sidewalks, street improvements and lighting, trails and safe paths, loop streets and other critical projects that sustain neighborhood health and vitality.

Construction of The Metropolitan Apartments, a project sponsored by the City and the Phoenix Community Alliance constituting the first new market rate rental housing in downtown Phoenix in nearly a decade, was completed in January 1997. The complex has 140 units with a pool and a clubhouse, all set in a contemporary urban design. The complex is located northwest of the Arizona Center between Fillmore and McKinley Streets and Second and Third Streets.

In November 1997, the City reached an agreement with Post Properties, Inc. (formerly Columbus Realty Trust) for the construction of 400 urban residential rental units in downtown Phoenix. The project was built on an approximately seven-acre site bounded by First Avenue, Third Avenue, Portland Street and Roosevelt Street. Total project cost was $68 million. The development is characterized by a high-density urban design with extensive streetscape treatments, street level retail, private courtyards, structured parking and extensive landscape improvements to historic Portland Parkway. The project included $1.6 million in direct City financial assistance plus property tax abatement and the inclusion of 45,000 square feet of City-owned land.

In 1999, Camden Property Trust began construction of a 332 unit multi-family, urban-gated community featuring three-story residential buildings, a two-story clubhouse, landscaped interior courtyards and structured parking. The project is located in downtown Phoenix on Van Buren Street east of Seventh Street and began leasing in November 1999.

In July 2000, the City Council approved the selection of The Tom Hom Group to build Campaige Place, a 300-unit workforce housing project located at Jackson Street and Second Avenue. Construction on the $12 million project began in January 2002 and was ready for occupancy in March 2003.

In October 2000, the City Council approved the selection of Artisan Homes to build approximately 35 condominium units on 69,000 square feet of City-owned property located on the northeast corner of Seventh Street and Washington Street. The units vary in size from 1,000 to 1,750 square feet with original prices ranging from $135,000 to $235,000. Construction began in summer of 2002 and was completed in November 2003.

In an effort to assist ownership housing projects in the downtown area, in June 2001 the City approved reimbursing Artisan Homes, Inc. up to $100,000 for public infrastructure and offsite improvements in connection with a 75-unit loft style condominium project called Artisan on Central, located on Central Avenue and Willetta Street. Construction began in early 2002 and the condominiums were available for occupancy in the winter of 2003.

In November 2001, the City entered into an agreement for the development of 31 loft-style homes ranging in size from 1,300 to 1,900 square feet with sale prices starting at $285,000. The Stadium Lofts at Copper Square are located at the northwest corner of Second and Buchanan Streets. Construction began in December 2001 and the homes were ready for occupancy in October 2004.

On July 3, 2002, the City Council approved a disposition and development agreement with TASB, L.L.C. to provide for the restoration of 114 West Adams Street, the historic Title and Trust Building, for the development of Orpheum Lofts, including 90 luxury lofts, associated parking and ancillary commercial space. The City assisted with the historic rehabilitation of the building and upgrades to the public infrastructure and off-site improvements. The renovations began in 2002, and the work was completed in the spring of 2005.

In the summer of 2003, Post Properties and Desert Viking Properties, LLC completed a rehabilitation project of a 12,300 square foot retail structure located at Roosevelt Street and Third Avenue. The Gold Spot Market was reopened on July 17, 2003.

In August 2003, Artisan Homes began building 105 ownership housing units on a 5.5 acre site bounded by Fifth and Seventh Streets and Roosevelt and Portland Streets. Artisan Village is an urban, mixed-use row house and townhouse residential project featuring ownership and unique live/work units with 3,000 square feet of street level retail opportunities, streetscapes, green belts, open spaces and 1,200 square feet dedicated for cultural use. The total project cost approximately $18 million and was completed in March 2006.

In March 2004, the City entered into an agreement with Portland Place Partners to develop vacant land on Portland Street between Third Avenue and Central Avenue. Portland Place is an urban residential development that consists of 54 units in a six-story condominium tower and brownstones. Construction of Portland Place was completed in July 2007.

On July 1, 2004, the City Council authorized staff to enter into a disposition and development agreement with Urban Form Development, LLC for a mixed-use residential project on City-owned property located at 215/217 East McKinley Street. Named 215 East McKinley, the development includes 14 residential units. Construction began in March 2006 and was completed in the fall of 2007.

WP South Acquisitions, LLC began construction in the spring of 2005 of a mixed-use residential project on a City-owned parcel and adjacent privately-owned property at the northwest corner of Fourth and Fillmore Streets. Alta Phoenix Lofts consists of approximately 325 market-rate rental residential units in an eight-story building with up to 10,000 square feet of street level commercial space and live/work units and a six-story parking structure with 450 parking spaces. The project is valued at approximately $32 million. Occupancy began in March 2009.

The Summit at Copper Square, a $32 million project adjacent to Chase Field, was completed in late 2007. The 22-story residential project on the southwest corner of Fourth Street and Jackson Street, consists of 167 ownership loft, studio, and luxury condominium units.

Grace Communities completed demolition of an office building located at the northeast corner of First Avenue and Monroe Street in June 2005 and constructed the tallest residential tower in Arizona. 44 Monroe consists of a 34-story mixed-use high-rise with 196 ownership condominium units, a recreation area, fitness center, theater, parking and approximately 3,300 square feet of commercial development. The $140 million project was completed in August 2008. In June 2010, ST Residential purchased 44 Monroe and has converted the condos into rental units due to the soft real estate market.

The City of Phoenix obtained a HOPE VI (Home Ownership Opportunities for People Everywhere) grant from the U.S. Department of Housing and Urban Development (HUD) to fund the revitalization of the Matthew Henson public housing site and surrounding community. The overall goals of HOPE VI are to assist public housing authorities in replacing severely distressed housing, increasing resident self-sufficiency and home ownership opportunities, creating incentives to encourage investment, and lessening concentrations of poverty by promoting mixed-income communities. The HOPE VI Special Redevelopment Area encompasses the area between Seventh and Fifteenth Avenues and Grant and Pima Streets. The project is a concentrated, mixed-income development of 611 affordable housing units with a community resource center, youth activity center, public parks, community gardens and swimming pools. Demolition and reconstruction began in December 2003. Eligible residents began to return to the communities in December 2005 and final occupancy occurred in the fall of 2008.

Government Facilities

A 601,000 square-foot Phoenix City Hall was built on Washington Street between Second and Third Avenues, immediately north of the existing Calvin C. Goode Municipal Building. The project, completed in 1994, includes a 1,500-space parking structure that contains 43,000 square feet of office and retail space and is located between Washington and Jefferson Streets and Third and Fourth Avenues.

The Burton Barr Central Library celebrated its grand opening in May 1995. The five-story, 284,000 square-foot library accommodates more than 1 million volumes and has seating for up to 800 patrons. The facility was designed to meet the needs of library patrons well into the 21st century.

Construction of the Phoenix Municipal Court Valdemar A. Cordova Building, a nine-story, 375,000 square-foot City criminal justice facility, was completed in the fall of 1999. The building is located on the northwest corner of Washington Street and Third Avenue, directly west of Phoenix City Hall. The project cost $79 million. It is estimated that between 3,000 and 4,000 customers per day visit this facility, making it the largest volume court in the State.

The Federal government completed construction of a 550,000 square-foot federal courthouse in September 2000. The Sandra Day O'Connor U.S. Courthouse is located on two blocks bounded by Jefferson and Washington Streets and Fourth and Sixth Avenues in downtown Phoenix. The project cost approximately $110 million and includes courtrooms and related office space.

Maricopa County is currently constructing a new courthouse in downtown Phoenix at First Avenue and Madison Street. Once completed, the new 16-story courthouse will provide 683,000 square feet of space and will include 32 criminal courtrooms. Construction of the $340 million courthouse is expected to be completed in late 2011 with move-in scheduled for early 2012.

Downtown Streetscape

Construction on an $8.9 million streetscape project in downtown Phoenix was completed in February 1995. The project added pedestrian lighting, landscaping and street furniture to pedestrian-oriented streets in the downtown area. The improvements are concentrated along Adams Street between Second Avenue and Second Street, Monroe Street between Third Avenue and Seventh Street, Second Street from Van Buren to Jefferson Streets, and Third Street between Van Buren and Monroe Streets. Project boundaries were chosen to create a pedestrian link between Phoenix City Hall, the Orpheum Theater, US Airways Center, the Arizona Center and the Heritage and Science Park.

In the fall of 2000, the City of Phoenix and Maricopa County reached an agreement wherein the County would be responsible for funding the streetscape build out of Jackson Street from First Avenue to Ninth Avenue and the City would be responsible for its maintenance. The $3.2 million project included a three-month community input process to identify the parameters of the street layout, landscape, sidewalk, lighting and design elements. Construction began March 2004 and was completed in November 2004.

In the fall of 2006, the City of Phoenix began construction of two streetscape projects on the ASU Downtown Phoenix campus. The projects, which included Taylor Mall and First Street, were completed in January 2009. Taylor Mall is a tree-lined, pedestrian-friendly sidewalk and street between the Civic Space Park and Arizona Center that contains public art, inviting benches, and sustainable water features. A traffic signal and crosswalk allows pedestrians to cross Central Avenue and light rail tracks to enter the Civic Space Park safely from Taylor Mall. In addition, the west side of First Street from Polk Street to Fillmore Street has been improved with lighting, shade and landscaping.

Transit/Light Rail

Central Station, the City's downtown transit center located on the northeast corner of Central Avenue and Van Buren Street was constructed in 1997. The 2.7-acre site includes a 4,000 square-foot passenger services building for ticket sales, security, and restrooms; a 16,000 square-foot passenger plaza that includes passenger information, seating and shade; and bus loading and circulation areas for 15 bus routes, Dial-a-Ride and DASH (Downtown Area Shuttle). The total cost of the project was approximately $9.3 million, with the Federal Transit Administration funding 80% and the City funding 20% of the project. Central Station received a $3.7 million renovation, completed in July 2011, to modernize the facility, improve security, and incorporate sustainable elements. The transit center improvements were one of five major transit capital projects funded by the American Recovery and Reinvestment Act (ARRA). The other four projects include a $1.4 million expansion of the 40th Street and Pecos Road park-and-ride that was completed in June 2010, the construction of a new $3.4 million park-and-ride at the southwest corner of Interstate 17 and Happy Valley Road that was completed in January 2011, the construction of a new $2.7 million park-and-ride at the southwest corner of 27th Avenue and Baseline Road that is scheduled for completion in January 2012 and a $4.0 million project to make Americans with Disabilities Act (ADA) related improvements to 400 bus stops in Phoenix that is scheduled for completion in December 2012.

On March 14, 2000, City of Phoenix voters approved a 0.4% sales tax increase to be levied for a period of twenty years to provide funding for a light rail system as well as mass transit, including expanded bus service and other transportation improvements. Construction of an approximately $1.4 billion, 20-mile light rail starter segment connecting north central Phoenix (19th Avenue and Bethany Home Road) with Tempe and Mesa (Main and Sycamore Road) began in the fall of 2004 and opened for operations in December 2008. The total cost of the project was funded with Federal grant funds and City sales tax revenues.

In March 2008, the City entered into an intergovernmental agreement with Valley Metro Rail, Inc. (METRO) to design, build, operate and maintain a 3.2-mile extension to the initial light rail system. The Northwest Extension as initially planned would extend the original light rail system 4.6 miles northwest from 19th Avenue and Montebello (just south of Bethany Home Road) to 25th Avenue and Mountain View Road. The project will be completed in two phases. Phase I will extend the light rail system 3.2 miles from 19th Avenue and Montebello to 19th Avenue and Dunlap. Phase II will extend the light rail system another 1.4 miles from 19th Avenue and Dunlap to 25th Avenue and Mountain View Road. Design, land acquisition and neighborhood mitigation projects for 3.2-miles of the extension are scheduled to be completed by spring 2012. Construction of the 3.2-mile extension as well as the 1.4-mile extension will occur as funding becomes available.

In the last few years, the City has also made major renovations to two of its bus transit centers. Renovations to the Sunnyslope Transit Center were completed in June 2007, and the Paradise Valley Mall Transit Center renovations were completed in June 2009. The renovations provided much needed improvements to the facilities, including security upgrades.

The City has also made substantial improvements to its bus operating and maintenance facilities. These facilities are the backbone of the transit system, as they provide fueling, cleaning, and maintenance for the City's bus fleet, as well as administrative space for the bus operations contract service providers. In November 2007, a new $50 million West Transit Facility was completed and opened for operations. This facility provides additional capacity to operate and maintain buses for the Phoenix transit system. The facility was designed to accommodate 250 buses and replace a rented facility, which could only accommodate 75 buses. The additional capacity will help address future expansion of the Phoenix bus system.

Major renovation projects are also in the initial stages for the City's other two bus operating and maintenance facilities, the North Transit Facility and the South Transit Facility. Upgrades to these facilities will focus on improvements to life safety, security, building code upgrades, roofing replacements, HVAC equipment replacement, and fueling system upgrades. The North Transit Facility renovation is scheduled for completion in late 2012, while work at the South Transit Facility is slated for completion in late 2013.

Phoenix Sky Harbor Center

The creation of Phoenix Sky Harbor Center was approved by the City Council in 1984, and in 1985, $19,150,000 in City bonds were issued for the development of 550 City-owned acres located immediately to the west of Phoenix Sky Harbor International Airport into a business/commerce park. The acquisition phase and the second phase of infrastructure development was completed in 1993. Sky Chefs Inc. (formerly Cater Air

International) occupies over 120,000 square feet on the site. In the third quarter of 1990, Honeywell Inc. (formerly AlliedSignal, Inc.) began development of a 545,000 square-foot facility on a 28-acre site with the project completed in July 1991.

Bank of America established its credit card operations at Sky Harbor Center in 1991. The Bank of America Credit Card Center has approximately 2,000 employees and includes a 400,000 square-foot complex on 30 acres. In November 1995, Bank of America completed construction of an additional 150,000 square-foot structure for credit card operations, which employs approximately 1,100 employees. The leasehold interest in the property was acquired by First States Investors LLC on June 30, 2003.

Miller Brands of Phoenix, a beverage distributor, developed a 300,000 square-foot facility on 22 acres in Sky Harbor Center. The facility consists of 172,000 square feet of distribution space and 128,000 square feet of office and building space.

In July 1993, the City received approval for the relocation and expansion of Foreign Trade Zone (FTZ) No. 75 to a 375-acre site at Sky Harbor Center. The FTZ was established to allow companies who import large amounts of foreign products to defer paying duties on these products until they are shipped to retail outlets. The FTZ boundaries were modified to include air cargo operations at the Airport.

In November 1995, construction was completed on Arrow Electronics' (formerly Wyle Laboratories) 200,000 square-foot facility on 12 acres. The facility employs approximately 250 individuals.

In April 2002, America West Airlines (now US Airways) completed construction of a $35 million, 15,000 square-foot flight training center and systems operation control facility on a 17-acre site at Sky Harbor Center.

In December 2005, Bank One (now JPMorgan Chase) completed a $70 million, 400,000 square-foot regional processing center to support its banking and financial operations. As of September 2008, the facility accommodates 2,874 employees. JP Morgan Chase added a fourth level (330 parking spaces) to the existing parking garage on the facility to accommodate the hiring of additional employees. The leasehold interest was acquired by Brookfield Asset Management in late 2008.

Other sizeable tenants at Phoenix Sky Harbor Center include Greyhound Lines, Community Tire (formerly Knudson Tire), Level 3 Communications, Lincoln Sky Harbor LLC, the City of Phoenix, Horseheads Industrial Capital II, LLC and Walton CWAZ Phoenix, LLC.

In July 2001, the Phoenix City Council approved the concept of a consolidated rental car center (RCC) for Phoenix Sky Harbor International Airport. On June 1, 2002, the City initiated a $3.50 daily customer facility charge (CFC) on all car rentals to be used to fund the construction, operation and maintenance of the RCC. The CFC was subsequently increased to $4.50 on September 1, 2003 and to $6.00 effective January 1, 2009. The RCC is located on approximately 143 acres within Sky Harbor Center and opened on January 19, 2006. The development includes a customer service building, car service facility, a 5,651 space parking garage, bus fleet, bus maintenance facility, and associated site improvements, infrastructure, roadways, landscaping and signage. The project was funded with CFC revenues and bond funds and cost approximately $285 million.

Phoenix Sky Harbor International Airport

In November 1990, construction was completed on Terminal 4 at Phoenix Sky Harbor International Airport at a cost of $276 million. The original facility included 4 domestic concourses housing 44 gates, one international concourse with 4 gates, and a 3,400-space parking facility. In July 1994, the City Council approved expansion of Terminal 4 to add 10 domestic gates to the international concourse. Construction of the new facilities was completed in February 1996. In September 1995, America West Airlines (now US Airways) announced plans to expand its Phoenix operations over the next several years. In March 1998, the City Council approved an airport capital expansion program funded primarily by passenger facility charges and airport revenue bonds. Approved projects included rebuilding runways in concrete, construction of two new airport fire stations, a new Terminal 4 concourse to provide more capacity for US Airways, and additional parking facilities at Terminal 4. All of these projects have been completed.

In April 2000, the City Council approved a $640 million airport expansion program funded by airport revenue bonds. This program included funds to design a new terminal complex at the west end of the airport and to construct the infrastructure necessary to support the terminal. Also included were funds for land acquisition, a residential sound assistance program, an airport automated train system, additional public parking garages, and improvements for the reliever airports. Many of the projects in this program were postponed due to the reduction of airline travel after the events of September 11, 2001, but moved forward as passenger traffic at Phoenix Sky Harbor International Airport began to recover to pre-September 2001 levels.

In February 2007, the City Council approved a $2.9 billion, ten-year Airport Development Program (ADP), which updated and replaced the 2000 airport expansion program. The ADP includes the design and construction of the PHX SkyTrain at Phoenix Sky Harbor International Airport, development of additional gates at Phoenix Sky Harbor International Airport and facility rehabilitation and maintenance. The recent national economic recession negatively impacted the airline industry and resulted in reductions to passenger traffic at Phoenix Sky Harbor International Airport. As a result of traffic and revenue declines, Phoenix Sky Harbor International Airport management reduced operating expenditures and deferred some non-essential capital projects. These reductions and deferrals allowed management to continue design and construction of phase one of the PHX SkyTrain project and other vital facility projects at Phoenix Sky Harbor International Airport. More recently, air passenger traffic at Sky Harbor International Airport has begun to recover following the downturn in passenger traffic that occurred as a result of the most recent national economic recession.

The PHX SkyTrain is an automated people mover designed to carry over 35 million riders annually through five stations at Sky Harbor along a guide way spanning approximately 5 miles. Stage one of the PHX SkyTrain will connect Phoenix's light rail system, Sky Harbor's east economy parking garages and Terminal 4. Stage one has a budget of approximately $644 million and is expected to be completed in early 2013. Stage 1a, Terminal 3 Line Extension will run from Terminal 4 to Terminal 3 with a walkway to Terminal 2. Stage 1a has a budget of approximately $240 million and is expected to be completed in 2015. Future stages will extend the PHX Sky Train to the rental car center.

Property Tax Supported Bond Program

In order to help meet the City's future capital financing needs, a comprehensive property tax supported general obligation bond program was initiated in the summer of 2005. A citizens bond committee consisting of approximately 700 private citizens was appointed by the Mayor and City Council to review the City's capital requirements and recommend a total bond program to the voters. This is the traditional approach used by the City for bond elections since 1950. The program culminated in a special bond election on March 14, 2006 when the voters approved all seven propositions totaling $878.5 million in new general obligation bond authorizations. The propositions and the amount of bonds authorized are shown in the following table.

2006 Bond Program	Amount Authorized
Police, Fire and Homeland Security	$177,000,000
Education Facilities	198,700,000
Library and Youth, Senior and Cultural Facilities	133,800,000
Parks, Open Space and Recreational Facilities	120,500,000
Streets, Storm Sewers and Flood Protection	147,400,000
Affordable Housing and Neighborhood Revitalization	85,000,000
Computer Technology	16,100,000
Total	$878,500,000

PHOENIX CITY GOVERNMENT

Phoenix operates under a Council-Manager form of government as provided by its Charter which was adopted in 1913. The Phoenix City Council consists of a Mayor and eight Council members, elected by the people on a non-partisan ballot. At a special election held on October 3, 1989, the Phoenix voters passed Proposition 105 which amended the City Charter to provide for four year staggered terms and a limit of two such terms for the Mayor and Council members. On November 6, 2001, the Phoenix voters passed Proposition 101 which amended the City Charter to allow Council members to serve up to three consecutive four-year terms, with no limit on the number of terms that could be served over a lifetime. The Mayor is elected at-large, while Council members are elected by voters in each of eight separate districts they represent. The Mayor and each Council member have equal voting power.

The Council is responsible for policy making. It appoints advisory boards, commissions and committees and also appoints Municipal Court Judges and the City Manager.

The City Manager is responsible for executing Council policies and administering City operations. Reporting to the City Manager is an Assistant City Manager, two Executive Assistants to the City Manager, the City Auditor, the Finance Director, the Human Resources Director, the Government Relations Director, the City Attorney and three Deputy City Managers, each responsible for directing a set of City departments and functions.

The City government is responsible for furnishing basic municipal services. Primary services delivered by the City's 24 departments, 14 functions and 15,090 employees include police, Municipal Court, fire protection, parks, recreation, libraries, sanitation, water, sewer, transportation (including streets and public transit), airports, building safety, public works, neighborhood improvement and housing, community and economic development and convention and cultural services. These services are being provided in fiscal year 2010-11 through an adopted operating budget of $3,526.0 million. Of this, the general purpose funds budget totals $1,013.8 million, which is for general municipal services and excludes enterprise activities such as water, sewer, refuse and airports and special revenue funds such as grants, secondary property taxes, Arizona Highway User Revenues, impact fees and voter-approved dedicated sales taxes.

Elected Officials

PHIL GORDON, MAYOR

Mayor Gordon began his second term as Mayor in January 2008. Prior to being elected mayor, Mr. Gordon served since 1998 as the Councilmember representing District 4. Mr. Gordon has served as a member of the Madison School Board and chairman of the Phoenix Planning Commission, Neighborhood Block Watch Committee and Downtown Village Planning Committee. Mr. Gordon holds a bachelor's degree in education from the University of Arizona and a law degree from Arizona State University.

THELDA WILLIAMS, VICE MAYOR, DISTRICT 1

Vice Mayor Williams rejoined the City Council in January 2008, having previously served on the Council from 1989 to 1996 and as interim mayor in 1994. Before rejoining the City Council, Ms. Williams served on the Maricopa County Animal Care and Control Agency, the Governor's Commission to Prevent Violence Against Women and the Phoenix Sky Harbor International Airport Master Plan Committee.

SAL DICICCIO, COUNCILMEMBER, DISTRICT 6

Councilmember DiCiccio began his most recent term on the City Council in January 2010. Mr. DiCiccio previously served on the City Council from 1994 to 2000. Mr. DiCiccio currently works with state, tribal, county and municipal governments as well as national business entities to develop business opportunities in Arizona.

Mr. DiCiccio has served on several boards and committees including the Arizona Municipal Tax Code Commission, the State Land Conservation Task Force, the Arizona Growing Smarter Working Advisory Committee, the Maricopa County Planning Commission and the Arizona FARE Committee. Mr. DiCiccio is also a member of the Fiesta Bowl Committee, the South East Valley Regional Association of Realtors, the National Association of Realtors and the Board of Directors for the Arizona Center for the Blind. Mr. DiCiccio is a small business professional and holds a bachelor's degree in business from Arizona State University.

BILL GATES, COUNCILMEMBER, DISTRICT 3

Councilmember Gates began his first term on the City Council in January 2010. Mr. Gates has served in a variety of capacities with several nonprofit and community organizations, including the Wounded Warriors Project, Valley Leadership, INROADS, American Legion Boys State and the Young Lawyers Division of the State Bar. Mr. Gates was appointed to the Board of Trustees for the Christopher Columbus Fellowship Foundation in 2006, and he was awarded the Mark J. Santana Award by the Arizona Foundation for Legal Services and Education for exceptional service in law-related education. Mr. Gates is a lawyer for PING, a local golf equipment manufacturer. Mr. Gates received his bachelor's degree in Political Science and Economics from Drake University and earned his law degree from Harvard Law School.

MICHAEL JOHNSON, COUNCILMEMBER, DISTRICT 8

Councilmember Johnson began his third consecutive term on the City Council in January 2010. Mr. Johnson has served on the South Mountain Village Planning Committee and the Rio Salado Advisory Committee. Mr. Johnson is president and CEO of Nkosi Inc., a security service. Mr. Johnson retired from the Police Department in 1995 after serving 21 years as a police officer, community relations officer and detective.

CLAUDE MATTOX, COUNCILMEMBER, DISTRICT 5

Councilmember Mattox began his third consecutive term on the City Council in January 2008. Mr. Mattox has been active in the community for many years and has served as chairman of the Maryvale Village Planning Committee, Desert West Park Planning Committee, West Phoenix Cactus League Spring Baseball Coalition, Phoenix Surface Transportation Advisory Committee and Maricopa Neighbors Airport Noise and Safety Committee. Mr. Mattox is vice president and associate broker for National Western Real Estate.

MICHAEL NOWAKOWSKI, COUNCILMEMBER, DISTRICT 7

Councilmember Nowakowski began his first term on the City Council in January 2008. Mr. Nowakowski is currently the Vice President of Communications of a non-profit radio station, coming from previous work with the Catholic Diocese of Phoenix where he served as Assistant Director of the Office of Youth and Young Adult Ministry. Mr. Nowakowski has served on several boards and committees including co-chairman of the 2006 City of Phoenix Historic Preservation Bond Committee, member of the City of Phoenix Police Chief's Advisory Board, founding member of the Mayor's Anti-Graffiti Task Force, City of Phoenix Census 2000 Committee, Phoenix Union High School Superintendent's Advisory Board, chairman of Santa Rosa Neighborhood Council and in 2008 was appointed commissioner for the Western Maricopa Enterprise Zone. Mr. Nowakowski holds a bachelor's degree in liberal arts in religious studies from Arizona State University.

TOM SIMPLOT, COUNCILMEMBER, DISTRICT 4

Councilmember Simplot began his second consecutive term on the City Council in January 2010. Mr. Simplot has been active in the community for many years, serving as the past-president of the Maricopa County Board of Health, former chairman of the Phoenix Historic Preservation Commission, and former vice chairman of the Phoenix Encanto Village Planning Committee. Mr. Simplot is also the founding president of the Arizona State University Dean's Board of Excellence; is a former member of the Phoenix Housing Commission, and has served on the Maricopa County Downtown Advisory Committee and is a past president of the Maricopa County Industrial Development Authority. Additionally, Mr. Simplot has been an active member of the state and county bar associations and served on the board of directors of the Arizona Bar Foundation. Mr. Simplot holds a bachelor's degree in political science from Arizona State University and a law degree from the University of Iowa College of Law.

JIM WARING, COUNCILMEMBER, DISTRICT 2

Councilmember Waring began his term on the City Council in September 2011. Mr. Waring has been an active member of the community for many years and has volunteered on many City and charitable organizations, including the Paradise Valley Village Planning Committee, Phoenix Planning Commission and Neighborhood Block Watch Committee. For his contributions, he has earned awards from the Arizona Federation of Taxpayers (Champion of the Taxpayer), National Federation of Independent Business (Guardian of Small Business), and the Arizona Chamber of Commerce (Senator of the Year). In addition, he was recognized for his work fighting domestic violence by the Arizona Coalition Against Domestic Violence (Legislator of the Year twice) and the Men's Anti Violence Network (Man of the Year). Councilmember Waring was awarded the Arizona Veterans Hall of Fame Copper Shield Award and the National Guard Association of the United States Medal of Merit. Mr. Waring has served on the staffs at Arizona State University, the Arizona Board of Regents and Northern Arizona University. Mr. Waring received his PhD in Public Administration from Arizona State University's School of Public Affairs and his undergraduate degree from Northern Illinois University.

Administrative Staff

DAVID CAVAZOS
City Manager

Mr. Cavazos was appointed City Manager in November 2009. Prior to his appointment as City Manager, Mr. Cavazos served as a Deputy City Manager since January 2005. Before working in the City Manager's Office, Mr. Cavazos served as the Acting Aviation Director at Phoenix Sky Harbor International Airport and the Economic Development Administrator with the City's Community and Economic Development Department. Originally from Chicago, he relocated to Phoenix in 1987 to participate in the nationally recognized City of Phoenix Management Intern Program. He has earned four City Manager Excellence Awards and received numerous business development advocacy awards, including Arizona SBA Minority and Small Business Advocate of the Year. Mr. Cavazos currently serves on the board of directors for the Downtown Phoenix Partnership, Phoenix Children's Hospital and the Executive Board of the Arizona-Mexico Commission. He has a master's degree in Management and Public Policy from Carnegie Mellon University.

ED ZUERCHER
Assistant City Manager

Mr. Zuercher was appointed Assistant City Manager in November 2009. Prior to his appointment as Assistant City Manager, Mr. Zuercher served as a Deputy City Manager since November 2007. Before working in the City Manager's Office, Mr. Zuercher served as Co-Chief of Staff to the Mayor, Executive Assistant to the City Manager, Public Transit Director and Assistant to the City Manager and Management Assistant in the City Manager's Office and Budget & Research Department. Originally from Kansas, he participated in the City of Phoenix Management Intern Program from 1993 to 1994. Mr. Zuercher served as chairperson of the Public Safety Pension Retirement System from 2005-2009 and currently serves on the Greater Phoenix Convention and Visitors Bureau board. He has a master's degree from the University of Kansas.

JEROME E. MILLER
Deputy City Manager

Mr. Miller was appointed Deputy City Manager in August 2010 after having served as Interim Deputy City Manager since December 2009. Mr. Miller has over 27 years of professional and management experience, working in both state and local government. Along with the Water Services Department, he oversees the Equal Opportunity, Housing and Neighborhood Services Departments. Before joining the City Manager's team, Mr. Miller served as the Neighborhood Services Director since March 2007. During his 15 years in the Neighborhood Services Department at the City of Phoenix, he served as Assistant Director, Deputy Director of Administrative Services and Management Assistant. He also served as the Acting Special Assistant Water Services Director. Prior to joining the City, he worked eleven years for the Arizona State Legislature as a staff member and a team leader for the Office of the Auditor General. Mr. Miller holds a Bachelor of Science degree in Criminal Justice with a minor in Political Science and a Master's degree in Public Administration from Arizona State University.

GARY VERBURG
City Attorney

Mr. Verburg was appointed City Attorney in August 2005. Previously he worked nearly twenty years in private practice specializing in negotiations, litigation and prosecutions for Tribal Governments and municipalities. From 1997 to 2000, he was Deputy City Attorney, Assistant City Attorney, and City Attorney for the city of Glendale, Arizona. He began working for the City of Phoenix as the Chief Assistant City Attorney in 2000. He received his bachelor's degree in political science and economics from the University of Utah and his law degree from the Antioch School of Law in Washington, D.C.

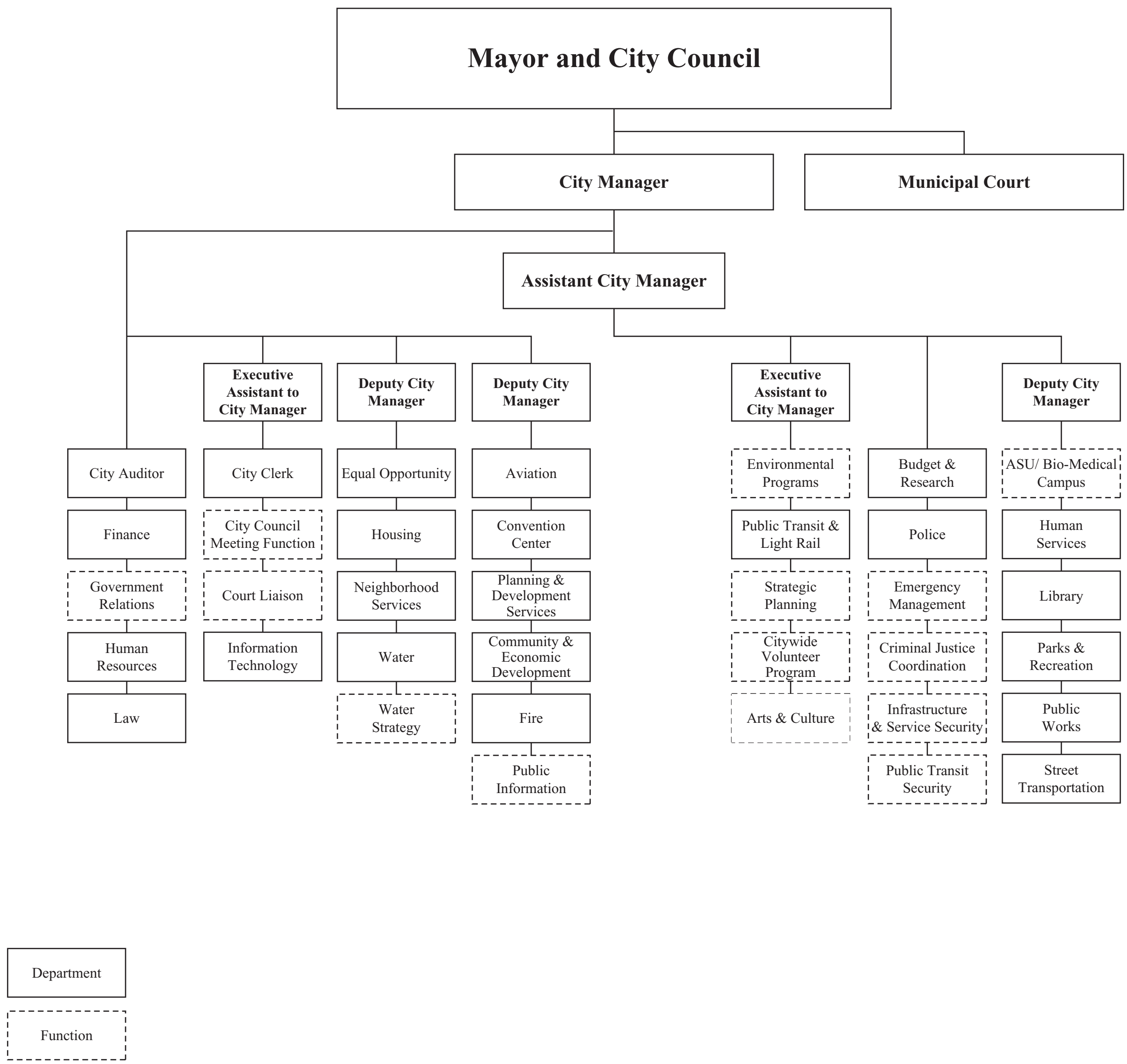
NEIL MANN
Acting Water Services Director

Mr. Mann was appointed Acting Water Services Director in May 2011. Mr. Mann has over 35 years of professional and management experience in the public sector. Prior to joining the Water Services Department, he served as Public Works/Engineering & Architectural Services Director at the City of Phoenix. He was previously Public Works Director for the City of Reno, Nevada, the City of Corvallis, Oregon as well as the City of Peoria, Arizona. Mr. Mann holds a Bachelor of Science degree in Civil Engineering from Montana State University and is a licensed professional civil engineer in the state of Arizona.

JEFF DEWITT
Finance Director

Mr. DeWitt was appointed Finance Director in February 2010 after having served as Interim Finance Director since March 2009. He is responsible for the management of over $7 billion in assets. Mr. DeWitt served as Assistant Finance Director since 2002 where he was responsible for the oversight of several areas including debt management, investments and cash management, water and wastewater financial planning and rate development, financial systems applications and support and financial accounting and reporting. Throughout his career in the Finance Department, Mr. DeWitt has been involved in the planning and issuance of more than $4 billion of debt to fund capital expenditures. Mr. DeWitt holds a bachelor's degree from Eastern Illinois University and a master's degree from Southern Illinois University at Carbondale. He is a member of the Government Finance Officers Association and has served on the American Water Works Association Rates and Charges Committee for eight years where he has taught national seminars on financial planning and water rate development.

CITY OF PHOENIX



Effective April 15, 2011

Awards

The City of Phoenix and its employees have been recognized professionally for numerous awards including the following accomplishments:

- **2009 All-America City Award**

The City of Phoenix was the recipient of the National Civic League's All-America City award, the fifth time the City has earned the recognition, for its collaborative projects that involve the community and address critical issues. The City highlighted the newly developed urban education campuses (Arizona State University Downtown Phoenix Campus and Phoenix Biomedical Campus), the Phoenix Parks and Preserve Initiative and the innovative library teen spaces.

- **Carl Bertelsmann Prize**

Awarded in 1993 to the City of Phoenix and Christchurch, New Zealand, recognizing each as being the best managed city governments in the world. The international competition for the most efficiently operated city was sponsored by the Bertelsmann Foundation, a research and philanthropic arm of Bertelsmann AG, the second largest media organization in the world. Cities were judged on several categories including customer service, decentralized management, planning and financial controls, employee empowerment and administrative innovation.

- **ASPA National Public Service Award**

In April 2005, then City Manager Frank Fairbanks was awarded the National Public Service Award, the highest public service award given by the American Society for Public Administration and the National Public Academy of Public Administration for distinction in public service. Mr. Fairbanks was recognized for his work in developing e-government, achieving a "AAA" excise tax revenue bond rating from Standard & Poor's and his membership on local business and community boards.

- **2003 Presidential Citation of Merit**

In May 2003, then City Manager Frank Fairbanks was awarded the Presidential Citation of Merit from the Arizona Chapter of the American Society for Public Administration at its 33rd Annual Superior Service Award ceremony. Part of the award citation noted that his achievements as city manager "are nothing short of remarkable, and they have been realized by focusing on the belief that excellence is not an end, but a dynamic process in which both citizens and employees have vital roles."

- **Government Performance Project**

In January 2000, the Maxwell School of Citizenship and Public Affairs at Syracuse University announced the results of a year long, in-depth study of management efficiency among the nations 35 largest urban centers. The City of Phoenix earned the highest grade with an overall grade of "A". The study looked at five key areas of municipal management: capital management, financial management, information technology management, human resource management and managing for results.

- **Certificate of Achievement for Excellence in Financial Reporting**

Awarded to the City of Phoenix by the Government Finance Officers Association each year since 1976. This award (formerly the Certificate of Conformance in Financial Reporting) recognizes the completeness, accuracy and understandability of the City's Comprehensive Annual Financial Reports.

- **Employees' Retirement Plan Certificate of Achievement for Excellence in Financial Reporting**

Awarded to the City of Phoenix by the Government Finance Officers Association for its component unit financial report each year since 1985. The Certificate of Achievement is the highest form of recognition in the area of public employee retirement system accounting and financial reporting.

- **Distinguished Budget Presentation Award**

Awarded to the City of Phoenix Budget and Research Department each year since 1990 by the Government Finance Officers Association for the completeness and understandability of its budget document.

- **2007-2008 Technology Achievement Awards**

The City of Phoenix was the recipient of two Public Technology, Inc. awards. The Aviation Department received an achievement award for its disaster recovery system to maintain uninterrupted airport operations. The project used site server clustering and disk mirroring technology to consolidate many diverse airport systems. The Neighborhood Services Department received an achievement award for its mobile data access system. This system allows field staff to access permitting, utility and property information systems by using laptops, docking ports and wireless printers. This use of mobile technology allows field staff to work more efficiently and effectively to improve conditions of existing housing stock.

- **2006-2007 Technology Achievement Awards**

The City of Phoenix was the recipient of four Public Technology, Inc. awards. The Neighborhood Services Department received an achievement award for its use of an on-line system to track graffiti occurrences and to collect restitution from perpetrators. This system works with a mobile technology system that the Neighborhood Services Department established to fight graffiti, which also received an award in 2005. The Fire Department received an achievement award for implementing an interface between the City Fire Department's CAD system and the State Department of Transportation traffic management center. The Information Technology Department received an achievement award for implementing a standards-based, site-wide text resizing tool that makes the City website more accessible to users with impaired vision. The City also received an achievement award for implementing a wireless system that facilitates scalehouse transactions for residential collection commercial vehicles.

- **2005-2006 Technology Achievement Awards**

The City of Phoenix was the recipient of three Public Technology, Inc. awards. The Neighborhood Services Department received an achievement award for its use of a mobile technology system that allows code enforcement inspectors to use laptops to access databases via wireless connection from anywhere in the City of Phoenix. Implementation of the mobile technology improves customer service and increases employee efficiency. An achievement award was also received by the Aviation Department for implementing a "Stage 'n Go" Waiting Lot. A software-driven system combines airline flight arrival information from twenty-four airlines serving three terminals into a single data stream. The data is transferred via the airport's new gigabit fiber-optic data communications system to a parking lot established near the airport entrance, where flight information is presented on a large electronic display board. An honorable mention was received by the Water Services Department for using a web-based system for monitoring, tracking and reporting Joint Exercise of Powers Agreement (JEPA) regulations.

- **2004 Technology Achievement Awards**

The City of Phoenix was the recipient of four Public Technology, Inc. awards. The Police Department received an achievement award for its use of a programmable, motion or voice activated camera as a graffiti deterrent and an honorable mention for the internet posting of calibration records for the City's Intoxylizer breath testing instruments. An honorable mention was received for the use of Personal Digital Assistants (PDA) in a housing conditions study partnership with Arizona State University. Use of PDAs increase data collection accuracy, productivity and efficiency. An achievement award was also received for "Master Plan Park/Cross-Country Track" which demonstrated the collaborative process between city agencies in the creation of a 688 acre park.

- **NBC-LEO 2002 City Cultural Diversity Award**

In April 2002, the City of Phoenix was recognized by the National Black Caucus of Local Elected Officials (NBC-LEO) of the National League of Cities for its Minority, Woman and Small Business Enterprise Participation Program.

- **National Association of Housing and Redevelopment Officials (NAHRO) Awards**

In July 2007, the City received three Awards of Merit for its efforts at removing neighborhood blight, building infill housing and removing health and safety hazards from homes in the community. The award represents community development efforts that addressed more than 1,200 blighted properties in central Phoenix, built 17 affordable infill homes, rehabilitated more than 100 homes, created approximately 200 jobs for low-and moderate-income residents, designed and created a Neighborhood Resource Center and remedied child health and safety hazards in 120 housing units.

In October 2005, the City received an Award of Excellence for the Housing Department's "Bringing Information/Technology to Seniors" program to help residents learn basic to advanced computer and internet skills. In order to provide accessibility, computer labs were installed in most of the City's senior and disabled-designated housing communities, complete with classroom instruction on using the internet, employment assistance, printshop training, photo restoration, resume writing and general computer assistance.

In July 2004, the City received the Award of Merit for its redevelopment accomplishments achieved in the North Village Center Neighborhood Initiative Area. The award represents the culmination of numerous projects including the Sunnyslope Village Shopping Center, three in-fill developments, two revitalization projects, public art and comprehensive streetscape improvements.

- **2002 EPA Clean Water Act Recognition Award**

The City of Phoenix and the Subregional Operating Group (SROG) were awarded the Environmental Protection Agency's (EPA) 2002 Clean Water Act Recognition Award in the Pretreatment Category, signifying outstanding industrial pretreatment programs and a commitment to protecting and improving waters of our nation.

- **AMWA Gold Award for Competitiveness**

Awarded in March 2001 to the City of Phoenix Water Services Department by the Association of Metropolitan Water Agencies for its internationally hailed re-engineering program. The program resulted in a reduction of annual operating costs, improved customer service, water quality, and environmental protection as well as water and sewer service charges that are among the lowest in the country.

- **Sister Cities Innovation Award for Education**

In July 2004, the Phoenix Sister Cities Commission received an award from Sister Cities International in recognition for its long-term and comprehensive efforts and programs in the area of education. Specifically cited were the Commission's annual youth ambassador exchange program, short and long-term teacher exchanges, the Global Connections World Technology Conference and the Chengdu management training program.

- **Sister Cities Best Overall Sister City Program Award**

In July 2008, the Phoenix Sister Cities Commission received the Sister Cities International Best Overall Sister City Program in the U.S. for cities with a population of 500,000 or more award, its highest honor. This is the seventh time in the past 13 years that Phoenix has won this award. Phoenix Sister Cities highlights include a new and improved Youth Ambassador Exchange Program; a significant increase in arts and culture projects including the second annual WorldFEST celebration promoting its 10 sister cities; the Vincenzo Bellini Opera project with Catania, Italy; a police training program for Hermosillo, Mexico; and economic development projects with Chengdu, China; Catania, Italy; and Calgary, Canada as well as trade missions with Calgary and Catania.

- **CIO Magazine Awards**

In August 2005, the City of Phoenix was one of 100 organizations worldwide awarded the CIO-100 award. The award recognizes companies and organizations around the world that exemplify the highest level of operational and strategic excellence in the use of technology. The 2005 award theme was the Bold 100, which recognized those executives and organizations that embrace risk for the sake of reward. The City was recognized for its leadership in developing the Phoenix Regional Wireless Network, a wide-area digital radio network that will be used primarily by public safety personnel. The system is designed to allow communication between emergency personnel both within the City of Phoenix as well as among the seventeen surrounding cities and towns.

In August 2003, the City of Phoenix was selected as one of 100 organizations worldwide to receive the 2003 CIO-100 award. The 2003 award focused on proven excellence in the resourceful use of IT Systems, staff and budgets in a tough economic climate.

In October 2002, then Phoenix City Manager Frank Fairbanks was awarded *CIO Magazine's* 2002 CIO 20/20 Vision award. The 20/20 Vision award honors leaders whose vision and execution of technology have made important changes for business and society. Mr. Fairbanks joins business leaders such as Bill Gates, Microsoft Corp., Jeff Bezos, Amazon.com Inc. and Michael Dell, Dell Computer Corp. in earning this award.

In August 2002, Phoenix was selected as one of 100 organizations worldwide to receive the 2002 CIO-100 award. This prestigious award was presented to the City for demonstrating excellence in integrated technologies and procedures to improve customer services.

- **ASA Award of Excellence**

In November 2006, the City of Phoenix Parks and Recreation Department received an award from the Amateur Softball Association (ASA) for conducting two of the highest-rated national championships in 2006. The City of Phoenix hosted the 2006 ASA Coed Major National Championship and the 18 and under 2006 Girls Western National Championship.

- **Air Carrier Airport Safety Award**

In July 2006, the City of Phoenix Aviation Department received an award from the Federal Aviation Administration Western Pacific Airports District Office for its innovative solutions and partnerships that have resulted in enhanced airport safety.

- **2007 Top Ten Digital Cities Award**

The City of Phoenix was the recipient of a Center for Digital Government award for excellence in information technology policies and best practices in state and local government.

- **2008 Pro Patria Award**

The City of Phoenix was the recipient of an Employer Support of the Guard and Reserve (ESGR) award for supporting employees deployed in Operation Enduring/Iraqi Freedom. The Pro Patria award is presented annually to employers who demonstrate exceptional support for U.S. national defense by adopting personnel policies that make it easier for employees to participate in the National Guard and Reserve.

- **2010 LEED Platinum Certification Award**

In June 2010, the City of Phoenix Nina Mason Pulliam Rio Salado Audubon Center was the recipient of the U.S. Green Building Council's award for its use of the Leadership in Energy and Environmental Design (LEED) rating system. Located in the heart of the Rio Salado Habitat Restoration Area, the center received the award for the environmental friendliness and sustainability of the facility. The center is a gateway to a lush Sonoran riparian habitat used by more than 200 species of birds and other wildlife.

- **2008 LEED Silver Certification Award**

The City of Phoenix Convention Center was the recipient of the U.S. Green Building Council's award for its use of the Leadership in Energy and Environmental Design (LEED) rating system. The Convention Center's West Building was designed to achieve LEED certification for energy use, lighting, water and material use as well as incorporating a variety of other sustainable strategies.

- **2010 Certificate of Excellence for Performance Measurement**

In July 2010, the City of Phoenix received an award from the International City/County Management Association (ICMA) for its commitment to continuous learning and improvement based on criteria of effective, results-oriented management practices.

- **2010 Desert Peaks Award**

In June 2010, the City of Phoenix received an award from Maricopa Association of Governments for its Urban Education Initiatives, on which it collaborated with Arizona State University and the University of Arizona to create the ASU Downtown Phoenix Campus and the Phoenix Biomedical Campus. The award recognizes excellence in regionalism.

ECONOMY & DEMOGRAPHICS[1]

Overview

Since the end of World War II, one of the major economic and demographic trends in the United States has been the sustained growth of population and employment in the Sunbelt in excess of national levels. Phoenix has been a consistent example of this trend as the Phoenix area has been one of the most rapidly growing metropolitan statistical areas (MSA)[2] in the country in recent decades in terms of population, employment and personal income growth.

There are numerous reasons why one area of the country outperforms others. Some reasons why Greater Phoenix grows are subjective. Greater Phoenix is a desirable place to work, live, and raise a family. The southwestern lifestyle is attractive with low-density population and a climate conducive to outdoor recreation.

There are also objective reasons why Greater Phoenix grows. The median housing price of an existing single-family home in the Greater Phoenix area increased significantly between 2003 and mid-2005; however, prices plateaued in mid-2005 and 2006 and declined by 5.1% in 2007 and 26.3% in 2008. According to data released by Arizona State University, from the peak in second quarter 2006 to the trough in second quarter 2009, median housing prices for both new and resale homes had declined 50.4%. From the trough in second quarter 2009 to third quarter 2010, median housing prices for both new and resale homes had increased 3.6% but decreased again in fourth quarter 2010. From fourth quarter 2009 to fourth quarter 2010, median housing prices for both new and resale decreased 7.1%. While the decrease in home values has negative repercussions, the decline increased affordability of housing and again made the median housing price in Greater Phoenix low relative to most major western cities such as Los Angeles, San Diego, Denver, Albuquerque and Seattle. According to the National Association of Realtors, as of the first quarter of 2011, the U.S. median sales price for an existing (resale) single-family home decreased to $158,700 and the median sales price for a similar home in Greater Phoenix decreased to $126,700. The Greater Phoenix labor force is relatively young and well-educated. According to the 2010 Census, the median age in Maricopa County is 34.6 years compared to 37.2 years for the U.S. as a whole.

As of year-end 2010, the Phoenix-Mesa-Glendale MSA accounts for approximately 65.6% of Arizona's population, 71.0% of Arizona's employment and 68.6% of Arizona's personal income. Over the last five years from 2005 through 2010, the Phoenix-Mesa-Glendale MSA has accounted for approximately 78.2% of the increase in Arizona's population and approximately 77.1% of the state's employment decline. From 1950 to 2010, U.S. population grew 103.0% while Greater Phoenix grew 1,020.2% from 374,961 in 1950 to approximately 4,200,428 people in 2010. From 1999 to 2010, population growth was 28.2% in Greater Phoenix compared to 9.5% for the U.S. as a whole. According to the U.S. Census Bureau, as of 2010 the Greater Phoenix area was the 14th largest metropolitan statistical area in the nation. According to the University of Arizona, the population of Greater Phoenix is expected to grow to 4.5 million by 2015 and 5.1 million by 2020. The table on the following page shows historical population and growth information for Greater Phoenix in comparison to peer MSAs.

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(1) The economic information contained herein has been taken from a report prepared for the City of Phoenix by Elliott D. Pollack & Company.

(2) In 1994, the U.S. Office of Management and Budget (OMB) redefined the Phoenix Metropolitan Statistical Area (MSA) to include both Maricopa and Pinal Counties. The Arizona Department of Economic Security released historical employment data on this redefined Phoenix-Mesa-Scottsdale MSA from 1990 through November 2009. Prior to 1990, detailed industry sub-sector employment data is not available for the Phoenix-Mesa-Scottsdale MSA. In December 2009, the OMB renamed the Phoenix-Mesa-Scottsdale MSA to the Phoenix-Mesa-Glendale MSA. When historical data for the Phoenix-Mesa-Glendale MSA is not available, Maricopa County data is used, and all references to "Maricopa County only" data are so noted. Maricopa County accounts for 97% of the Phoenix-Mesa-Glendale MSA employment and 95% of the MSA's population. "Greater Phoenix" refers to the Phoenix-Mesa-Glendale MSA, unless otherwise noted.

POPULATION
Metropolitan Statistical Areas
(in thousands)

	1980	1990	2000	2010	Percent Growth 1980-90	Percent Growth 1990-00	Percent Growth 2000-10
Phoenix-Mesa-Glendale, AZ(1)	1,600.1	2,238.5	3,251.9	4,192.9	39.9%	45.3%	28.9%
Albuquerque, NM	485.4	589.1	729.6	887.1	21.4	23.8	21.6
Atlanta, GA	2,233.2	2,960.0	4,248.0	5,268.9	32.5	43.5	24.0
Austin — San Marcos, TX	585.1	846.2	1,249.8	1,716.3	44.6	47.7	37.3
Dallas, TX	2,055.3	2,676.3	3,451.2	6,371.8	30.2	29.0	23.4
Denver — Boulder, CO	1,618.5	1,848.3	2,179.2	2,543.5	14.2	17.9	16.7
El Paso, TX	479.9	591.6	679.6	800.6	23.3	14.9	17.8
Fort Worth — Arlington, TX	990.9	1,361.0	1,710.3	2,121.2	37.3	25.7	24.0
Houston, TX	2,753.2	3,322.0	4,715.4	5,946.8	20.7	41.9	26.1
Jacksonville, FL	737.5	906.7	1,122.8	1,345.6	22.9	23.8	19.8
Las Vegas, NV	528.0	852.7	1,375.8	1,951.3	61.5	61.3	41.8
Los Angeles — Long Beach, CA	7,477.2	8,863.2	9,519.3	12,828.8	18.5	7.4	3.7
Oakland, CA	1,761.7	2,082.9	2,392.6	2,532.8	18.2	14.9	5.9
Orange County, CA	1,932.9	2,410.6	2,846.3	3,026.8	24.7	18.1	6.3
Orlando, FL	700.1	1,224.8	1,644.6	2,134.4	74.9	34.3	29.8
Riverside — San Bernardino, CA	1,558.2	2,588.8	3,254.8	4,224.9	66.1	25.7	29.8
Sacramento, CA	986.4	1,340.0	1,796.9	2,149.1	35.8	34.1	19.6
Salt Lake City — Ogden, UT(2)	910.2	1,072.2	972.5	1,124.2	17.8	–9.3	16.0
San Antonio, TX	1,088.9	1,324.7	1,711.7	2,142.5	21.7	29.2	25.2
San Diego, CA	1,861.8	2,498.0	2,813.8	3,095.3	34.2	12.6	10.0
San Francisco, CA	1,488.9	1,603.7	1,731.2	4,335.4	7.7	8.0	5.1
San Jose, CA	1,295.1	1,497.6	1,735.8	1,836.9	15.6	15.9	5.8
Seattle — Bellevue — Everett, WA	1,651.7	2,033.2	2,343.1	2,644.6	23.1	15.2	12.9
Tampa, FL	1,569.1	2,067.9	2,396.0	2,783.3	31.8	15.9	16.2
Tucson, AZ	531.4	666.9	843.7	980.3	25.5	26.5	16.2

(1) In 1994, the U.S. Office of Management and Budget (OMB) redefined the Phoenix Metropolitan Statistical Area (MSA) to include both Maricopa and Pinal counties.

(2) In 2006, the U.S. Office of Management and Budget redefined the Salt Lake City — Ogden Metropolitan Statistical Area (MSA) into two separate areas, the Salt Lake City MSA and the Ogden — Clearfield MSA. Data prior to 2000 reflects the Salt Lake City — Ogden MSA. Data for 2000 and later reflects the Salt Lake City MSA only.

Source: U.S. Department of Commerce, Census Bureau.

The rapid population growth has been accompanied by even greater employment growth. Non-agriculture wage and salary employment from 1950 through December 2010 in the Phoenix-Mesa-Glendale MSA was up 2,241.0% to 1,741,700 jobs, while the U.S. as a whole grew 190.0%.

Employment growth has also yielded gains in personal income. In 1999, personal income increased by 7.0%, while in 2000, 2001, 2002, 2003, 2004, 2005, 2006 and 2007, personal income increased 10.9%, 4.5%, 4.4%, 5.5%, 9.1%, 10.8%, 10.6% and 5.2%, respectively. However, due to continued decreases in employment, increases in personal income slowed to 1.2% in 2008. According to advanced estimates by the Bureau of Economic Analysis, personal income is projected to decrease 3.5% in 2009. The Greater Phoenix Blue Chip Economic Forecast, a consensus forecast of a number of local economists, estimates personal income to increase by 1.9% in 2010 and 3.5% in 2011.

Business Climate

The Greater Phoenix area enjoys a very positive business climate as evidenced by statistics from the U.S. Census Bureau on the number of business establishments in Maricopa County. From 1982 to 2008, the latest available data, total business establishments increased 160.4%. Growth was strong in all categories: firms with employees of 100 to 499 increased 230.1% over the twenty-six year period; while employers with 500 or more employees increased 309.1% and employers with fewer than 100 employees increased 158.6%.

Employment

Historically, during periods of national economic expansion, Phoenix-Mesa-Glendale MSA employment has grown much more rapidly than the United States as a whole. During periods of slowing in the U.S. economy, the Phoenix-Mesa-Glendale MSA has usually continued to grow, albeit slowly. It has taken a national recession for the Phoenix-Mesa-Glendale MSA to experience employment declines. The National Bureau of Economic Research (NBER) maintains the chronology of the national business cycles and identifies the dates of expansion and recession. On December 1, 2008, the NBER declared that the nation was in a recession and that the recession began in December 2007. In September 2010, the NBER declared that the most recent recession ended in June 2009. This recent recession lasted 18 months and was the longest recession since the end of World War II.

Over the last several decades, Greater Phoenix has become economically healthier and more diversified. During the March 1975 to January 1980 expansion, Phoenix-Mesa-Glendale MSA employment increased 47.1% versus an increase of 18.2% nationally. This exceeded the expansion in other growth areas such as San Diego, Denver and Houston. During the expansion period that began in November 1982, Phoenix-Mesa-Glendale MSA employment growth again outpaced that of comparable fast growth areas. During the November 1982 to July 1990 expansion, Phoenix-Mesa-Glendale MSA employment increased 49.4% versus an increase of 22.4% nationally. During the March 1991 to March 2001 expansion, Phoenix-Mesa-Glendale MSA employment increased 58.4% versus an increase of 22.3% nationally. During the November 2001 to December 2007 expansion, employment in the Phoenix-Mesa-Glendale MSA increased 21.3% versus an increase of 5.3% nationally. Since the most recent expansion began in June 2009 through December 2010, Phoenix-Mesa-Glendale MSA employment increased 3.1% versus a decrease of 0.3% nationally. During the 1980 to 1982 recession, Phoenix-Mesa-Glendale MSA employment increased 6.0% versus a decrease of 0.2% nationally. During the July 1990 to March 1991 recession, Phoenix-Mesa-Glendale MSA employment increased 3.0% versus a decrease of 1.7% nationally. During the March 2001 through November 2001 recession, Phoenix-Mesa-Glendale MSA employment declined 1.0% versus an increase of 0.1% nationally. During the most recent recession from December 2007 to June 2009, Phoenix-Mesa-Glendale MSA employment decreased 13.1% versus a decrease of 5.3% nationally. The underperformance of Greater Phoenix employment during the last recession compared to most peer cities can be attributed to the fact that each of Greater Phoenix's major employment sectors were the most negatively impacted by the national recession all at the same time. These sectors include construction, tourism, financial services, and high-tech manufacturing. See the table on the following page for historical percentage changes in wage and salary growth for Greater Phoenix and other peer MSAs during recessionary and expansion periods.

The 1987 through 1992 period in Maricopa County was a period of modest growth by historic standards. This was due to a number of factors including a slowdown in the national economy, cutbacks in national defense spending and a severe downturn in the commercial real estate market in the metropolitan area. This situation began turning around in 1992 due to a series of events that were quite positive. These included reasonably strong growth in the national economy, an increase in international trade, strength in Greater Phoenix's manufacturing sector, especially the high-tech manufacturing sector, a sustained expansion in single-family housing within Greater Phoenix, strong retail sales within Greater Phoenix, and an end to defense cutbacks by the Federal government.

The years 1993 through early 2001 were strong growth years for the Greater Phoenix economy. Employment in 2001 increased 1.2% following increases of 3.5%, 4.6%, 5.4%, 5.4% and 7.2% in 2000, 1999, 1998, 1997 and 1996, respectively. Several of the economic sectors that usually hold Greater Phoenix in good stead in an economic slowdown were especially hard hit by the events of September 11, 2001, including semiconductor and aerospace manufacturing and tourism. In addition, although an end to the national recession was declared in November 2001, many national economists have suggested that this date ignores that employment levels were especially slow to recover and as a lagging indicator may more accurately describe the state of the economy. In October 2001, employment growth in Greater Phoenix turned negative for the first time since the 1991 recession and remained negative until July 2002. Overall, employment decreased 0.1% in 2002. The Phoenix economy began to rebound in 2003 and employment grew 1.5%, once again exceeding growth in the U.S. as a whole. Greater Phoenix employment was up 3.9% in 2004, 6.2% in 2005 and 6.0% in 2006. In response to the slowing economy related to problems in the subprime mortgage market and tight credit, Greater Phoenix employment began to slow in 2007. In 2007, employment increased only 1.6%. In 2008 and 2009, as the national and Greater Phoenix economies were impacted by the deep recession, employment in Greater Phoenix decreased 2.5% and 7.9% while the U.S. as a whole decreased 0.6% and 4.3%, respectively. During 2010, employment began to grow again in Greater Phoenix, but not enough to turn the average for the year positive. In 2010, employment decreased only 0.8% in Greater Phoenix and in the U.S. as a whole. Employment in Greater Phoenix will continue to be under severe pressure until a trough is reached in the local housing and commercial real estate markets, credit markets stabilize and the national economic recovery strengthens.

NON-AGRICULTURAL WAGE & SALARY EMPLOYMENT
Metropolitan Statistical Areas
Not Seasonally Adjusted

	RECESSION PERIODS					EXPANSION PERIODS				
	Nov. 1973 to Mar. 1975	Jan. 1980 to Nov. 1982	July 1990 to Mar. 1991	Mar. 2001 to Nov. 2001	Dec. 2007 to June 2009	Mar. 1975 to Jan. 1980	Nov. 1982 to July 1990	Mar. 1991 to Mar. 2001	Nov. 2001 to Dec. 2007	June 2009 to Dec. 2010
U.S. Average	(3.7)%	(0.2)%	(1.7)%	0.1%	(5.3)%	18.2%	22.4%	22.3%	5.3%	(0.3)%
Phoenix, AZ(1)	(5.6)	6.0	3.0	(1.0)	(13.1)	47.1	49.4	58.4	21.3	3.1
Tucson, AZ	0.7	6.4	8.0	(0.7)	(9.9)	27.1	24.3	35.3	11.8	3.1
Albuquerque, NM(2)	(3.0)	4.6	(1.1)	0.2	(5.5)	30.2	43.7	34.9	10.0	(0.6)
Atlanta, GA(2)	(7.3)	7.7	(2.7)	(0.1)	(7.5)	35.3	52.7	46.5	7.7	(1.2)
Austin, TX	6.1	18.3	4.4	(2.0)	(1.3)	31.9	37.8	70.4	15.3	1.7
Dallas, TX(2)	N/A	9.6	(1.0)	(2.1)	(4.9)	32.7	28.1	43.1	8.4	1.8
Denver-Boulder, CO(2)	(2.7)	8.9	0.7	(1.5)	(4.3)	30.6	11.5	44.6	5.3	(0.9)
El Paso, TX	1.2	3.7	(0.9)	(1.1)	(3.2)	21.9	27.5	23.9	10.4	0.9
Houston, TX	3.7	10.3	0.6	0.7	(2.4)	39.7	19.7	28.1	13.0	(0.1)
Los Angeles-Long Beach, CA	(3.1)	(2.6)	(2.5)	(1.4)	(8.0)	20.5	17.4	2.8	2.9	(1.2)
Oakland, CA	(1.5)	0.7	0.0	(1.7)	(8.3)	16.9	29.6	21.2	1.2	(3.4)
Portland, OR(2)	(2.0)	(5.6)	(0.9)	(1.4)	(7.3)	27.6	39.6	35.2	10.0	(1.4)
Salt Lake City, UT	1.6	3.4	2.0	(0.8)	(7.0)	23.2	(6.1)	51.1	14.4	0.4
San Antonio, TX(2)	0.1	8.9	1.3	(0.3)	(1.2)	25.6	26.3	38.3	13.5	(0.4)
San Diego, CA	1.7	2.8	0.3	1.4	(6.4)	37.0	44.9	25.7	7.4	(1.0)
San Francisco, CA(3)	0.5	1.5	(1.4)	(6.1)	(6.4)	17.0	8.8	16.2	(1.3)	(2.7)
San Jose, CA(2)	(0.7)	7.4	(1.5)	(8.8)	(7.1)	44.3	17.6	30.0	(4.5)	(0.4)
Seattle, WA(2)	2.6	(1.1)	(1.2)	(1.6)	(3.5)	37.1	45.6	26.9	8.4	(2.5)

— = Data not available.

(1) In 1994, the U.S. Office of Management and Budget (OMB) redefined the Phoenix Metropolitan Statistical Area (MSA) to include both Maricopa and Pinal counties. Data prior to 1974 reflects Maricopa County data only.

(2) In 2003, the U.S. Office of Management and Budget redefined these areas to reflect data from the 2000 Census. Data for the redefined areas has been recalculated to reflect the change back to 1990 only.

(3) Prior to 1982, the San Francisco MSA included Oakland, CA.

Source: Labor Market Information from various states.

NON-FARM WAGE & SALARY EMPLOYMENT
Percent Distribution
Annual Averages through December 2010

Sector	Phoenix-Mesa-Glendale MSA	United States
Manufacturing	6.4%	8.9%
Natural Resources & Mining	0.2	0.5
Construction	5.1	4.3
Total Goods Producing	11.7	13.7
Transportation, Warehousing, Utilities	3.6	3.6
Trade	17.5	15.3
Information	1.6	2.1
Financial Activities	7.9	5.9
Services	44.0	42.1
Government	13.7	17.3
Total Service Producing	88.3	86.3
Non-Farm Wage & Salary	100.0%	100.0%

Note: Annual averages may not add due to rounding.

Source: Arizona Department of Economic Security, U.S. Department of Labor.

The diversity of the employment mix is the primary reason why one sector alone has typically not caused the Phoenix metropolitan area economy as a whole to deteriorate as rapidly as other areas of the U.S. during recessionary periods. The employment mix of the Phoenix-Mesa-Glendale MSA is well diversified and mirrors that of the United States in many respects. However, it is somewhat over-represented in construction and financial employment when compared to the U.S. as a whole, due to the rapid population and employment growth. It is under-represented in manufacturing, but its manufacturing mix is much more concentrated in high technology than that of the United States. As of December 2010, high technology manufacturing represents 44.2% of the manufacturing jobs in Greater Phoenix versus 13.7% nationally. This is a significant, positive factor in the long run because these high-technology manufacturing sectors are likely to grow at rates greater than that of non-high-tech manufacturing. However, these industries tend to be cyclical in nature and therefore, during periods of slower national economic growth, Greater Phoenix manufacturing will likely be negatively affected. In addition, manufacturing employment in the U.S. has been affected by the movement of manufacturing jobs to less expensive labor markets abroad.

Arizona's manufacturing industry is concentrated in the Phoenix-Mesa-Glendale MSA. According to the Arizona Department of Commerce, Research Administration, the Phoenix-Mesa-Glendale MSA has approximately 3,368 manufacturing firms employing approximately 109,307 workers as of the first quarter of 2010 (latest available data). This represents 74.1% of the State's total manufacturing employment. Major manufacturers located in Greater Phoenix include Honeywell, Intel, On Semiconductor, Freeport-McMoRan Copper & Gold, Boeing, General Dynamics, IBM, Freescale, Avnet, Sonora Quest Laboratories and Shamrock Foods. As of December 2010, employment in manufacturing accounted for 6.4% of total non-agricultural wage and salary employment in the Phoenix-Mesa-Glendale MSA. In 2006, manufacturing employment in Greater Phoenix grew 2.4% compared to a 0.5% decrease nationally. In 2007, manufacturing employment in Greater Phoenix declined 1.9%, compared to a 2.0% decrease nationally. In 2008, manufacturing employment in Greater Phoenix declined 5.5% compared to a 3.4% decrease nationally. In 2009, manufacturing employment in Greater Phoenix declined 12.1%, compared to an 11.4% decrease nationally. In 2010, manufacturing employment in

Greater Phoenix declined 3.9%, compared to a 2.7% decrease nationally. The Greater Phoenix Blue Chip Economic Forecast estimates that total manufacturing employment in Greater Phoenix will increase 2.2% in 2011.

NON-FARM WAGE AND SALARY EMPLOYMENT
Phoenix-Mesa-Glendale
Metropolitan Statistical Area

(Yearly Average in thousands)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
National Resources and Mining	2.4	2.2	2.0	2.1	2.2	2.7	3.2	3.8	3.0	2.9
Construction	128.3	126.1	129.3	141.6	163.9	180.1	169.4	139.4	96.1	87.0
Manufacturing	153.2	137.5	130.9	131.9	136.5	139.9	137.2	129.7	114.0	109.6
Trade, Transportation, and Utilities										
Wholesale Trade	79.6	78.4	77.5	79.2	82.9	87.1	89.8	89.3	84.2	86.4
Retail Trade	186.2	188.0	192.1	201.0	216.5	227.5	234.5	227.4	209.0	212.6
Transp., Warehousing, and Utilities	58.6	59.1	59.3	60.5	62.6	65.0	67.5	67.0	62.5	61.8
Information	41.6	39.4	37.4	34.6	33.3	32.4	31.2	31.2	29.3	27.2
Financial Activities	129.6	131.2	134.5	138.7	147.0	153.4	153.6	147.3	139.3	134.0
Professional and Business Services	259.4	253.5	258.6	273.8	296.8	319.1	325.3	309.5	275.7	276.7
Education and Health Services	143.7	153.0	163.3	173.6	184.1	196.3	206.2	217.9	224.1	231.8
Leisure and Hospitality	152.5	153.5	156.0	161.9	170.4	180.5	186.2	184.6	174.6	174.7
Other Services	59.3	61.6	62.5	64.2	66.0	71.0	72.1	73.4	68.6	66.7
Government	203.4	212.7	216.5	220.8	225.5	229.2	238.7	246.0	239.1	234.4
Total	1,597.7	1,596.1	1,619.8	1,683.8	1,787.8	1,884.1	1,914.8	1,866.3	1,719.6	1,705.9

Note: Annual averages may not add due to rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics; Arizona Department of Commerce, Research Administration.

Greater Phoenix trade employment was up 5.1% in 2006 and 3.1% in 2007. Greater Phoenix trade employment declined 2.3% in 2008 and 7.4% in 2009, but increased 2.0% in 2010. Employment in trade, accounting for 17.5% of total non-agricultural wage and salary employment in the Phoenix-Mesa-Glendale MSA, is affected by retail sales. Trade employment increases as retail sales rise, and trade employment decreases as retail sales fall. According to the Arizona Department of Revenue, retail sales were up 7.9% in 2006 and 0.1% in 2007, but declined 10.3% in 2008 and 10.6% in 2009. For the first eleven months of 2010, retail sales were flat (0.0% growth) over the similar period in 2009. The Greater Phoenix Blue Chip Economic Forecast estimates an increase in retail sales of 6.0% in 2011.

The expansion of the Greater Phoenix economy in the past has generated employment in the financial activities category. This sector includes finance, insurance and real estate employment and rental and leasing employment. Employment in financial activities accounts for 7.9% of total non-agricultural wage and salary employment in the Phoenix-Mesa-Glendale MSA. Employment in this sector increased 4.4% in 2006 and 0.1% in 2007, but declined 4.1% in 2008, 5.4% in 2009 and 3.8% in 2010. The slowdown of the Greater Phoenix economy has caused the slowdown in finance and insurance employment. Similarly, the slowdown in housing has contributed to the decline in real estate employment.

The services industry, particularly business services, has also contributed to the sustained historical growth in Greater Phoenix. The services employment category has four sub-categories including professional and business, educational & health, leisure & hospitality and other services. In total, services account for 44.0% of total non-agricultural wage and salary employment in the Phoenix-Mesa-Glendale MSA. Employment in this sector increased 6.9% in 2006 and 3.0% in 2007, but declined 0.6% in 2008 and 5.4% in 2009. In 2010, Greater Phoenix services employment increased 0.9%.

Professional and business services employment, 37.4% of total services industry employment, is a strong contributor to services growth. Employment in this service industry sub-category increased 7.5% in 2006 and 1.9% in 2007. The slowdown in the national economy since the current recession began has affected professional and business services in the Phoenix-Mesa-Glendale MSA. Employment in this service industry sub-category decreased 4.9% in 2008 and 10.9% in 2009, but increased 0.4% in 2010.

A significant portion of services industry employment is related to tourism. Leisure and hospitality employment, 22.9% of total services employment, has slowed due to the slowdown in the national economy. Construction of three resorts within Greater Phoenix was completed in 2002. The Westin Kierland Resort, Marriott Desert Ridge and the Sheraton Wild Horse Pass added a total of 2,200 hotel rooms. A number of hotels within Greater Phoenix were completed in 2007 and early 2008. The Marriott Renaissance at Westgate, Marriott Residence Inn, Hampton Inn at Westgate, Spring Hill Suites, Holiday Inn Express and the Comfort Inn all opened in Glendale adding a total of 917 hotel rooms. Three notable hotels within Greater Phoenix were completed in the second half of 2008. The Phoenix Downtown Sheraton Hotel (1,000 rooms), The W Hotel Scottsdale (224 rooms), and the Intercontinental Montelucia Resort and Spa in Paradise Valley (293 rooms) opened adding a total of 1,517 hotel rooms. In addition, 13 select-service hotels opened throughout Greater Phoenix totaling approximately 1,500 rooms. Overall market conditions and the continued pressure on the capital markets have dramatically slowed hotel development throughout Greater Phoenix. The Hilton Phoenix Chandler and the aloft Hotel Tempe opened in the first half of 2009 adding 333 hotel rooms. In addition to a limited number of select-service hotels, the most notable hotel that opened in the second half of 2009 was Gila River Casino Hotel (260 rooms). The Talking Stick Resort at Casino Arizona (500 rooms) and a few limited service hotels such as Holiday Inn Phoenix, Legado Inn in Gilbert and Residence Inn in Surprise opened in 2010. The Westin Phoenix downtown (242 rooms) opened in March 2011 and the Radisson Hotel Glendale (120 rooms), along with four other limited service hotels in Phoenix, Maricopa and Tempe, are expected to open later in 2011. With the exception of the these few hotels, new hotel openings in Greater Phoenix will be limited to a moderate number of select-service properties, with no other notable hotels likely to open until the 2013-2014 timeframe. Employment in this services industry sub-category increased 5.9% in 2006 and 3.2% in 2007, but declined 0.9% in 2008 and 5.4% in 2009. In 2010, Greater Phoenix leisure and hospitality services employment increased 0.1%. Employment in this sub-sector is expected to remain slow as the national economy slowly recovers.

Educational and health services employment is related to population flows and the aging of the population and should continue to grow in Greater Phoenix. Employment in this services industry sub-category increased 6.6% in 2006, 5.0% in 2007 and 5.7% in 2008. Educational and health services employment began to slow in 2009 due to the slowing economy, the slowing population flows and reduced school district budgets. Employment growth in this services industry sub-category slowed to 2.8% in 2009 and 3.4% in 2010.

The government sector includes employment in federal, state and local governments. Employment in government accounts for 13.7% of total non-agricultural wage and salary employment in the Phoenix-Mesa-Glendale MSA. Total government sector employment advanced 1.6% in 2006 and 4.1% in 2007. In 2008, total government sector employment advanced 3.1%, but decreased 2.8% in 2009 and 2.0% in 2010.

The table on the following page lists the major private-sector employers in Arizona within each main employment sector.

2010 GREATER PHOENIX MAJOR EMPLOYERS

SERVICES
(Excluding Resorts and Health Services)

Diversified Human Resources Inc.	42,600
National PEO, LLC	27,000
AmCheck Payroll HR Benefits	26,400
US Airways (formerly America West Airlines)	9,300
Wells Fargo & Company	9,200*
ADP TotalSource	8,000
Consolidated Personnel Services Inc.	7,800
Apollo Group Inc.	7,500*
Bank of America	6,500*
Creative Business Resources	6,500
JPMorgan Chase & Co.	6,100*
ManageStaff Inc.	5,000
Salt River Project	4,800
American Express	4,400
HEALTH SERVICES	
Banner Health (Merged with Sun Health)	20,200
Catholic Healthcare West	7,400
Scottsdale Health Care	6,700
St. Joseph's Hospital	4,400
Vanguard Health System	3,800
Mayo Clinic	3,800
Maricopa Integrated Health Systems	3,800
Caremark	3,700*
John C. Lincoln Health Network	3,500
RESORTS	
Pointe Hilton	1,600
JW Marriott Desert Ridge Resort	1,300
The Phoenician	1,200
Arizona Biltmore Resort	1,200
Fairmount Scottsdale Princess	1,200
RETAIL TRADE	
Wal-Mart Stores Inc.	20,700*
Target	6,300*
Basha's	6,000*
Safeway, Inc.	5,300*
Home Depot	5,000*
Walgreens	4,100*
Fry's Food and Drug Stores	3,100*
Sprouts Farmers Market	2,500
PetSmart Inc.	1,800
MANUFACTURING	
Honeywell	10,000
Intel Corporation	10,000
Freeport-McMoRan Copper & Gold, Inc. (Formerly Phelps Dodge)	6,100
Boeing	4,700
General Dynamics	3,500
IBM	3,000
Freescale	3,000
GOVERNMENT/SCHOOLS	
State of Arizona	34,400*
City of Phoenix	15,090
Maricopa County	13,000
Arizona State University	12,000
Mesa Public Schools	9,200
Luke Air Force Base	8,000
U. S. Postal Service	5,700*
Maricopa County Community College District	4,800
City of Mesa	3,500

* Estimate based on total employees in the State of Arizona.
Source: Elliott D. Pollack & Co.

Unemployment

The Phoenix-Mesa-Glendale MSA average unemployment rate has generally been consistently below the State and national average. In 2007, the average unemployment rate in the Phoenix-Mesa-Glendale MSA was 3.3% compared to 3.8% for Arizona and 4.6% for the U.S. In 2008, the average unemployment rate in the Phoenix-Mesa-Glendale MSA was 4.9% compared to 5.9% for Arizona and 5.8% for the U.S. The unemployment rates began to increase rapidly in mid-2008. In 2009, the average unemployment rate for the Phoenix-Mesa-Glendale MSA was 8.5% compared to 9.0% for Arizona and 9.3% for the U.S. In 2010, the average unemployment rate for the Phoenix-Mesa-Glendale MSA was 8.8% compared to 9.5% for Arizona and 9.6% for the U.S. As of June 2011, the unemployment rate for the Phoenix-Mesa-Glendale MSA was 9.0% compared to 9.3% for Arizona and 9.2% for the U.S. The table below shows annual average unemployment statistics for Greater Phoenix in comparison to Arizona and the nation.

COMPARATIVE UNEMPLOYMENT STATISTICS
Phoenix-Mesa-Glendale
Metropolitan Statistical Area
(Annual Average, Seasonally Adjusted)

			Unemployment Rate		
Year	Employed Phoenix-Mesa-Glendale MSA	Unemployed Phoenix-Mesa-Glendale MSA	Phoenix-Mesa-Glendale MSA	Arizona	U.S.
2010	1,938,200	187,400	8.8%	9.5%	9.6%
2009	1,925,300	178,100	8.5	9.0	9.3
2008	2,011,000	103,700	4.9	5.9	5.8
2007	1,984,600	67,600	3.3	3.8	4.6
2006	1,937,800	70,900	3.5	4.1	4.6
2005	1,853,100	78,900	4.1	4.6	5.1
2004	1,783,600	82,600	4.4	4.9	5.5
2003	1,727,300	95,600	5.2	5.7	6.0
2002	1,686,600	100,650	5.6	6.0	5.8
2001	1,648,600	72,300	4.2	4.7	4.8
2000	1,609,100	55,700	3.3	4.0	4.0
1999	1,591,100	51,200	3.1	4.5	4.2
1998	1,534,500	45,100	2.9	4.3	4.5
1997	1,465,800	45,500	3.0	4.6	4.9

Source: U.S. Department of Labor, Bureau of Labor Statistics

Construction/Real Estate Market

During the 1990s, the construction/real estate market in Maricopa County fully recovered from the recession of the late 1980s, when the State faced a national recession, a severe real estate recession and defense cutbacks. Using Arizona State University data, which includes Maricopa County and part of Pinal County (the Apache Junction area), single-family permits declined annually from 1986 through 1990; however, single-family permit activity was up 27% in 1991, 36% in 1992, 19% in 1993, 22% in 1994, 0.7% in 1995, 5.0% in 1996, 3.4% in 1997 and 16.1% in 1998. There were 26,824 single-family permits issued in Maricopa County in 1995, 28,157 issued in 1996, 29,109 issued in 1997 and a record 33,811 issued in 1998. Indeed, 1998 was the eighth consecutive year of increased single-family permit activity. In 1999 and 2000, the number of single-family permits issued declined modestly by 1.7% and 2.3%, respectively, to 33,252 permits in 1999 and 32,511 permits in 2000.

In addition to a decline in single-family permits, the City of Phoenix had also experienced a decline in market share for residential permits within the Greater Phoenix area in the late-1990s and early-2000s. This was a result of the final build-out of certain major master planned communities within the City of Phoenix and the opening or expansion of new planned communities outside of the City's boundary. However, this trend reversed itself in the mid-2000s with strong growth in a number of new communities within the City of Phoenix. Likewise, many communities outside the City's boundary had reached build-out. The City of Phoenix captured 23.5% of the market in 2003, 28.3% of the market in 2004, 27.0% of the market in 2005, 30.8% of the market in 2006, 37.4% of the market in 2007, 27.5% of the market in 2008 and 25.8% of the market in 2009. As of third quarter 2010, the City of Phoenix captured 24.5% of the market. The long term average capture rate for the City of Phoenix is 25.6%.

Similar to market share, single-family permits issued in Greater Phoenix increased 7.2% to 38,745 permits in 2002. Both 2003 and 2004 were record years for single-family construction with permit issuance up 19.7% and 28.6% to 46,382 and 59,731 permits, respectively. In 2005, single-family permits issued increased 3.0% to 61,447 permits. In an over response to high demand for single-family homes between 2003 and mid-2005 and increasing home prices, an excess number of single-family housing units were built during this period, even as demand began to slow by late 2005. This excess housing inventory resulted in a reduction in the number of single-family housing permits issued in Greater Phoenix of 36.9% to 38,764 permits in 2006. In 2006, the number of single-family units built was more consistent with the demographic demand and for the first time in several years, completions (closings) exceeded new permits. This indicated that builders were beginning to work off their existing inventory. Despite the reduction in the number of single-family housing permits, 2006 was still the fourth strongest housing year on record, which appears to indicate that 2004 and 2005 were extremely robust years and that the market began to return to a more sustainable level. As further evidence of the market's return to a more sustainable level, permits were down 22.5% to 30,029 permits in 2007, down 52.1% to 14,375 permits in 2008, down 41.0% to 8,487 permits in 2009 and down another 16.2% to 7,112 permits in 2010.

Single-family housing prices in Greater Phoenix increased significantly between mid-2004 and mid-2005. According to the Multiple Listing Service (MLS), housing listing prices jumped 96.8% to a median listed price of $359,900 in May 2005. This record increase in listing prices appears to have been the result of a transitory supply/demand imbalance caused by strong population flows, a large number of homes purchased for investment purposes, a jump in demand for second homes and vacation homes, the movement of people from apartments into single-family homes, easy credit, and excess liquidity in the financial markets. In addition, during that period from mid-2004 to mid-2005, there was a substantial decline in the number of units in the MLS and an increase in the delivery time of new homes by homebuilders due to factors such as the inability of cities to process entitlements in a timely manner due to high workloads and labor bottlenecks.

Housing price increases began to level in 2006 as a result of slowing demand, which increased the number of units listed in the MLS, and lessened investor activity. In fact, housing prices began declining in 2007 in Greater Phoenix as they did nationally. According to the S&P/Case-Shiller Home Price Index (a series that tracks changes in existing single-family home prices given a constant level of quality), Greater Phoenix housing prices increased only 0.3% in 2006, declined 15.3% in 2007, declined 18.4% in 2008 and were down another 9.2% in 2009. Downward pressure on prices continued through the first half of 2009, but prices appeared to have bottomed in May 2009. However, home prices once again started to decrease in late 2010 and Greater Phoenix housing prices ended 2010 down 4.3%. As of December 2010, existing single-family home prices were down 54.7% from their peak in June 2006. As a result of the sharp decline in single-family home prices over the last few years, Greater Phoenix is once again more affordable than many major metropolitan areas in the west. As of third quarter 2010, the median price of an existing single-family home in Greater Phoenix was $138,000, compared to $177,900 nationally.

As the economy remains weak both nationally and locally, the current excess supply of single-family houses along with the number of foreclosures has increased, thus adding additional inventory to an already oversupplied market. In addition, tighter credit standards, continued declines in employment and significant slowdowns in population growth have reduced the size of the buyer pool. These problems appear to be slowly abating. There has been a recent upturn in the sale of existing single-family homes due to dramatic increases in affordability. The considerable decrease in home prices has attracted buyers that normally would not be in the market and investors that want to take advantage of the low prices. A full recovery could be three to five years away.

In the past, multi-family housing has been hit harder by recession than single-family housing. Permits declined from 1984 through 1990, but a recovery in multi-family housing began in 1991. The number of permits issued increased each year from 1991 through 1996. In 1997 the number of permits issued declined 7.1% to 7,930 units and remained just under 8,000 per year for 1998 and 1999. In 2000, 2001, 2002, 2003, 2004, 2005 and 2006 there were 8,009, 7,201, 5,134, 4,682, 4,997, 3,250 and 3,922 units permitted, respectively. Multi-family housing construction was hit hard during those years by low interest rates that made single-family housing more affordable. As a result, demand for single-family homes increased while demand for multi-family homes subsided. Permits increased to 6,676 in 2007, decreased slightly to 6,365 in 2008, decreased to 637 in 2009 and decreased to 408 in 2010. The Greater Phoenix Blue Chip Economic Forecast projects multi-family permits to increase to 1,600 in 2011. Despite the fluctuation in demand, multi-family housing has enjoyed low levels of vacancy since 1993 due to modest levels of construction. More recently, vacancy rates were 5.0% in 2005 and 5.3% in 2006, but increased to 8.5% at year-end 2007, 10.8% at year-end 2008 and 14.2% at year-end 2009. The low vacancy rates, in 2005 and 2006, despite the fact that absorption was relatively modest in those years, was due to a decrease in the number of apartments in Greater Phoenix in 2005 and again in 2006. According to the Arizona State University Real Estate Center, more than 18,500 multi-family units were converted into condominiums in 2005 and 2006. Because of this tighter market, rents for apartments increased in 2005 and 2006 and continued to increase in 2007. This trend has reversed as condominiums are being converted back to apartments, apartments experience substantial competition from single-family rental homes and population inflows slow. In 2010, multi-family vacancy rates were 10.3%. The Greater Phoenix Blue Chip Economic Forecast projects multi-family vacancy rates to increase slightly to 11.0% in 2011.

The commercial real estate market is currently experiencing the same supply and demand imbalance that exerted downward pressure on single-family housing prices and new housing permits from 2007 through 2009. The imbalance in the commercial market has lagged the residential market due to the commercial market's long lead times between project conceptualization and project completion. Most of the commercial buildings that were completed in 2009 were conceptualized and started when the market was still strong. The decrease in demand is a result of declines in employment growth, the general economic downturn and the inability of investors to access the credit markets due to the severe credit crunch. Other factors affecting commercial real estate include increasing delinquency rates on outstanding commercial loans, an increasing number of balloon payments coming due at a time when the underlying commercial real estate collateral is worth substantially less than the amount of the outstanding loan amount and higher vacancy rates translating into poor cash flows deterring investors from buying the financially distressed properties.

The year 1996 was the first since 1991 that new office construction took place. Vacancy rates peaked in 1986 at just over 30%, but declined to 7.5% in 1997. In 2005, a total of 857,900 square feet of office space was added to the market, while 3.1 million square feet was absorbed. In addition, nearly 1.2 million square feet of office space was converted to office condominiums and residential condominiums. As a result, the office vacancy rate in 2005 declined to 12.6%. In 2006, a total of 2.2 million square feet of office space was added to the market, while 3.2 million square feet was absorbed. As of year-end 2006, the office vacancy rate declined to 11.1%. In 2007, a total of 4.9 million square feet of office space was added to the market, while 1.5 million square feet was absorbed. As of year-end 2007, the office vacancy rate increased to 13.9%. In 2008, 3.4 million square feet of office space was added to the market, while a net 603,000 square feet was vacated. As of year-end 2008, the office vacancy rate increased to 19.1%. In 2009, office vacancies began to approach levels not seen since the late-80s. In 2009, 1.8 million square feet of office space was added to the market, while absorption was a negative 2.4 million square feet. In 2009, the office vacancy rate increased to 24.5%. In 2010, 2.0 million square feet of office space was added to the market, while 849,955 square feet was absorbed. In 2010, the office vacancy rate increased to 26.2%. Due to the high vacancy rate, office construction has virtually halted.

According to the Greater Phoenix Blue Chip Economic Forecast, office space absorption is expected to be approximately 700,000 square feet in 2011 and 1.5 million square feet in 2012. Greater Phoenix new office construction is expected to decline to 200,000 square feet in 2011 and 360,000 square feet in 2012. Due to the high level of vacancy rates, it is likely to be several years before any significant new office space is required.

Along with the rapid growth in single-family housing over the last decade, the corresponding demand for retail space was relatively strong. More recently, additional supply has slowed due to the slowdown in overall retail sales. Retail vacancy rates were 7.4% in 1997 but declined to 6.3%, 5.5% and 5.3% in 1998, 1999 and 2000, respectively. According to CB Richard Ellis, the retail vacancy rates rose to 6.6% in 2001, 7.3% in 2002 and 7.4% in 2003, but dropped to 6.1% in 2004, 5.3% in 2005 and 5.1% in 2006 in response to the strengthening economy. In 2007, 11.1 million square feet of inventory was added, while 9.4 million square feet was absorbed. Therefore, the retail vacancy rate increased in 2007 to 6.2%. In 2008, 6.2 million square feet of inventory was added, while 3.4 million square feet was absorbed, increasing the retail vacancy rate to 7.5%. In 2009, 4.4 million square feet of inventory was added, while absorption was a negative 1.0 million square feet, increasing the retail vacancy rate to 11.4%. In 2010, 902,380 square feet of inventory was added, while absorption was a negative 1.6 million square feet, increasing the vacancy rate to 12.2%. The significant slowdown in new residential construction suggests a negative outlook for the retail market. According to the Greater Phoenix Blue Chip Economic Forecast, retail vacancy rates are projected to be 12.4% at year-end 2011, the highest since 1991.

The industrial space market experienced healthy absorption from 1991 through 2000. Vacancy rates declined from a peak of 14.8% in 1991 to 7.4% by the end of 2000. New construction increased in response to the low vacancy rates. According to CB Richard Ellis, approximately 5.1 million square feet of new industrial space was built in 2002, while only 3.4 million square feet was absorbed. Therefore, the vacancy rate increased to 10.3% in 2002 compared to 9.8% in 2001. In 2003, 3.4 million square feet was added and 4.4 million square feet was absorbed, pushing the vacancy rate down to 9.7%. In 2004, 4.5 million square feet was added while 6.3 million square feet was absorbed, reducing the vacancy rate to 8.5%. In 2005, 6.3 million square feet of industrial space was built and 12.3 million square feet was absorbed, reducing the vacancy rate to 5.6%. In 2006, 7.0 million square feet of industrial space was built and 6.0 million square feet was absorbed, increasing the vacancy rate to 6.7%. In 2007, 13.9 million square feet of industrial space was built and 8.4 million square feet was absorbed, increasing the vacancy rate to 8.4%. In 2008, 13.5 million square feet of industrial space was built and 2.3 million square feet was absorbed, increasing the vacancy rate to 12.5%. In 2009, 4.8 million square feet of industrial space was built and absorption was a negative 12.8 million square feet, increasing the vacancy rate to 16.1%. In 2010, 2.5 million square feet of industrial space was built and 7.5 million square feet was absorbed, decreasing the vacancy rate to 14.7%. According to the Greater Phoenix Blue Chip Economic Forecast, industrial vacancy rates are projected to decrease to a 13.0% or 14.0% range in 2011.

The long-term demographics of Greater Phoenix suggest that the housing market will perform well over time and that the current slowdown is cyclical in nature. Nonetheless, the slowdown is a near-term problem and as construction continues to slow, the economy as a whole is affected. Commercial construction has weakened in response to employment declines, a slowdown in population growth and higher vacancy rates. After growing by 4.2% in 2000 and 4.1% in 2001, construction employment declined 1.7% in 2002, but increased 2.5% in 2003, 9.5% in 2004, 15.7% in 2005 and 9.9% in 2006. Construction employment declined 5.9% in 2007, declined 17.7% in 2008, declined 31.1% in 2009 and was down another 9.4% in 2010. According to the Greater Phoenix Blue Chip Economic Forecast, construction employment will increase 1.0% in 2011. The projected increase in 2011 is likely to be optimistic due to continued weakness in new residential construction combined with declines in commercial construction. The residential and commercial construction markets are not likely to return to normal until 2014 or 2015.

VALUE OF BUILDING PERMITS
CITY OF PHOENIX
($ in thousands)

Year	Residential	Commercial	Industrial	Other	Total
2010	$ 488,646	$ 337,777	$110,689	$1,574,862	$2,511,974
2009	608,734	189,887	114,331	1,083,857	1,996,809
2008	706,043	1,343,712	175,831	1,596,875	3,822,461
2007	1,376,263	1,226,910	150,945	1,356,322	4,110,440
2006	1,958,189	1,105,289	145,799	1,061,248	4,270,525
2005	2,613,500	841,115	151,348	740,718	4,346,681
2004	2,424,526	521,307	47,951	898,179	3,891,963
2003	1,633,586	401,306	41,803	692,690	2,769,385
2002	1,233,033	429,049	47,250	526,263	2,235,595
2001	931,463	1,105,088	50,292	946,859	3,033,702

Source: Center for Real Estate Research and Practice, College of Business Administration, Arizona State University.

VALUE OF BUILDING PERMITS
MARICOPA COUNTY
($ in thousands)

Year	Residential	Commercial	Industrial	Other	Total
2010	$1,801,895	$1,014,790	$138,344	$1,960,951	$ 4,915,980
2009	1,879,028	1,184,110	189,970	1,482,834	4,735,942
2008	2,648,031	3,877,594	315,845	2,408,825	9,250,295
2007	5,022,311	4,375,147	321,195	2,257,246	11,975,899
2006	6,512,139	3,397,828	286,877	2,085,842	12,282,686
2005	9,125,736	3,143,475	267,259	1,470,131	14,006,601
2004	9,165,871	2,057,732	139,029	1,622,472	12,985,104
2003	7,039,184	1,541,602	87,682	1,399,822	10,068,290
2002	5,750,850	1,620,722	86,044	1,231,003	8,688,619
2001	5,088,241	2,256,850	345,985	1,641,521	9,332,597

Source: Center for Real Estate Research and Practice, College of Business Administration, Arizona State University.

NEW HOUSING STARTS(1)

Year	City of Phoenix	Maricopa County
2010	2,401	7,335
2009	1,971	7,638
2008	5,046	18,366
2007	13,277	35,465
2006	12,413	40,294
2005	15,148	56,018
2004	16,664	58,822
2003	11,257	47,808
2002	9,154	43,737
2001	9,754	43,732

(1) Reflects housing units authorized, including single-family, multi-family and mobile homes.

Source: Center for Real Estate Research and Practice, College of Business Administration, Arizona State University.

Outlook/Conclusion

According to the National Bureau of Economic Research, the recession ended June 2009. Signs that the national economy is stabilizing are beginning to emerge and the economic stimulus programs by the federal government, though not expected to change the underlying dynamics of the national economy, are expected to continue to add an additional boost to the economy. The City has been awarded more than $429 million in federal stimulus funding with the majority of the funds earmarked for capital projects throughout the City. According to the National Blue Chip Economic Indicators panel, real Gross Domestic Product (GDP) growth is expected to increase by 3.2% in 2011 and 3.3% in 2012.

The economic downturn severely affected Greater Phoenix. The local economy is very dependent on growth and the recession has caused a significant decline in both population growth and jobs. In 2010, employment growth was down 0.8%. According to the Greater Phoenix Blue Chip Economic Indicators panel, the rate of employment growth is expected to increase 1.8% in 2011. According to the Greater Phoenix Blue Chip Economic Forecast, retail sales, which declined 10.6% in 2009 and are expected to be flat (0.0%) in 2010, are projected to increase by 6.0% in 2011. According to advanced estimates by the Bureau of Economic Analysis, personal income is expected to increase 1.2% in 2008, decrease 3.5% in 2009, increase 1.9% in 2010 and increase 3.5% in 2011.

Overall, the Greater Phoenix economy will take several years to recover. Nevertheless, Phoenix continues to be an attractive place to live and work and it is expected to continue to grow at a rate greater than the U.S. as a whole. The City of Phoenix along with the Greater Phoenix Economic Council are working together to attract wealth-generating companies from outside the region to Phoenix. These high-wage industries include aerospace and aviation, advanced business services, bioscience, high tech and sustainability. Employers that have recently relocated their headquarters or major operations to Phoenix include Dunn Edwards, First American Home Warranty, Amazon, Power One, Assa Abloy, Gap Incorporated Direct and Visiongate.

The recent drop in home prices has made Phoenix housing very affordable compared to most other western cities. Affordable housing is expected to be another key reason why Phoenix will emerge from the recent recession stronger than many other areas of the country.

MARICOPA COUNTY RETAIL SALES
($ in millions)

Year	Amount	Percentage Change
2010	$35,260	0.7%
2009	35,028	–10.6
2008	39,199	–10.3
2007	43,712	0.1
2006	43,686	7.9
2005	40,500	14.2
2004	35,466	9.6
2003	32,371	5.5
2002	30,690	0.3
2001	30,606	1.5
2000	30,168	8.4
1999	27,825	10.4
1998	25,207	7.9
1997	23,360	7.8

Source: Arizona Department of Revenue.

SCHEDULED AIRLINES SERVING PHOENIX SKY HARBOR INTERNATIONAL AIRPORT

Aeromexico
Air Canada
AirTran Airways(1)
Alaska Airlines
American Airlines
British Airways
Continental Airlines(2)
Delta Airlines
Frontier Airlines(3)
Great Lakes Airlines
Hawaiian Airlines
JetBlue Airways
Mesa Airlines (dba US Airways Express)
Mesaba (dba Delta Connection)
Midwest Airlines(3)
SkyWest Airlines (dba Delta Connection and United Express)
Southwest Airlines(1)
Sun Country
United Airlines(2)
US Airways
WestJet

(1) In September 2010, Southwest Airlines announced its intent to purchase AirTran Airways, subject to regulatory approval.

(2) In early May 2010, United Airlines and Continental Airlines announced their intent to merge.

(3) In April 2010, Republic Airways Holdings announced that Midwest Airlines and Frontier Airlines would merge under the Frontier brand.

Source: City of Phoenix Aviation Department.

PHOENIX SKY HARBOR INTERNATIONAL AIRPORT TRAFFIC

AIR PASSENGER ARRIVALS

	2010-11	% Change Year Ago	2009-10	% Change Year Ago	2008-09	% Change Year Ago
July	1,671,530	–0.8%	1,684,927	–4.5%	1,764,788	–6.8%
August	1,591,477	–1.3	1,612,836	–3.9	1,677,806	–8.1
September	1,465,897	2.2	1,433,994	–1.1	1,449,305	–12.1
October	1,645,246	1.8	1,616,310	1.2	1,596,478	–9.8
November	1,595,950	3.9	1,535,721	3.1	1,489,505	–12.7
December	1,683,329	3.0	1,634,551	2.7	1,591,010	–2.3
January	1,641,569	7.0	1,534,535	1.5	1,511,668	–10.4
February	1,508,387	2.8	1,467,374	2.6	1,429,892	–14.4
March	1,893,997	4.5	1,813,268	3.5	1,751,706	–10.2
April	1,706,380	6.0	1,610,533	–0.6	1,620,257	–8.3
May	1,723,534	7.0	1,610,201	3.5	1,555,673	–9.8
June	1,751,167	6.8	1,639,182	3.5	1,584,073	–7.3
Total	19,878,463	3.6%	19,193,432	0.9%	19,022,161	–9.3%

AIR PASSENGER DEPARTURES

	2010-11	% Change Year Ago	2009-10	% Change Year Ago	2008-09	% Change Year Ago
July	1,648,171	–0.7%	1,659,848	–3.6%	1,722,176	–6.0%
August	1,541,016	–1.3	1,561,173	–4.7	1,638,304	–7.8
September	1,442,439	2.7	1,404,465	–0.5	1,412,132	–11.6
October	1,611,060	2.4	1,573,013	0.2	1,569,288	–9.4
November	1,579,913	2.8	1,537,113	4.2	1,475,675	–12.8
December	1,645,700	2.6	1,604,166	1.5	1,580,604	–2.3
January	1,611,235	5.3	1,530,672	2.9	1,487,884	–9.0
February	1,471,030	2.4	1,437,078	3.0	1,394,933	–14.4
March	1,869,971	5.6	1,771,135	1.4	1,746,691	–9.2
April	1,737,608	2.5	1,694,468	1.3	1,672,307	–4.3
May	1,760,434	6.2	1,658,410	3.1	1,608,064	–8.7
June	1,763,559	6.0	1,663,825	3.6	1,605,749	–6.8
Total	19,682,136	3.1%	19,095,366	1.0%	18,913,807	–8.5%

TOTAL AIR TRAFFIC

	2010-11	% Change Year Ago	2009-10	% Change Year Ago	2008-09	% Change Year Ago
July	3,319,701	–0.7%	3,344,775	–4.1%	3,486,964	–6.4%
August	3,132,493	–1.3	3,174,009	–4.3	3,316,110	–8.0
September	2,908,336	2.5	2,838,459	–0.8	2,861,437	–11.9
October	3,256,306	2.1	3,189,323	0.7	3,165,766	–9.6
November	3,175,863	3.4	3,072,834	3.6	2,965,180	–12.8
December	3,329,029	2.8	3,238,717	2.1	3,171,614	–2.3
January	3,252,804	6.1	3,065,207	2.2	2,999,552	–9.7
February	2,979,417	2.6	2,904,452	2.8	2,824,825	–14.4
March	3,763,968	5.0	3,584,403	2.5	3,498,397	–9.7
April	3,443,988	4.2	3,305,001	0.4	3,292,564	–6.3
May	3,483,968	6.6	3,268,611	3.3	3,163,737	–9.2
June	3,514,726	6.4	3,303,007	3.5	3,189,822	–7.1
Total	39,560,599	3.3%	38,288,798	0.9%	37,935,968	–8.9%

Source: Monthly statistical reports provided by individual airlines and compiled by the City of Phoenix Aviation Department.

FINANCIAL INSTITUTIONS SERVING METRO PHOENIX
TOTAL ASSETS OVER $20 MILLION

Banks
JPMorgan Chase, N.A.
Bank of America, N.A.
Wells Fargo Bank of Arizona, N.A.
Alliance Bank of Arizona
Meridian Bank, N.A.
BNC National Bank
The Harris Bank, N.A.
Sunrise Bank of Arizona
Bank of Arizona, N.A.
The Biltmore Bank of Arizona
Arizona Bank & Trust
Western National Bank
Goldwater Bank, N.A.
National Bank of Arizona
Country Bank
Heritage Bank, N.A.
First Bank of Arizona
UMB Bank Arizona, N.A.
Bank 1440
Summit Bank
Pinnacle Bank
SunBank, N.A.
Metro Phoenix Bank
Gateway Commercial Bank
First Western Trust Bank
Republic Bank AZ, N.A.
First National Bank of Scottsdale
Sonoran Bank
West Valley National Bank

Savings Institutions
Nordstrom FSB

Source: Federal Deposit Insurance Corporation.

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APPENDIX D
STATE EXPENDITURE LIMITATION

Since fiscal year 1982-83, the City has been subject to an annual expenditure limitation imposed by the Arizona Constitution. This limitation is based upon the City's actual 1979-80 expenditures adjusted annually for subsequent growth in population and inflation. The 2009-10 expenditure limit supplied by the Economic Estimates Commission was $1,335,225,471. The City increased this limit to $6,865,156,000 to adjust for additional voter-approved modifications, as described below.

The Constitution exempts certain expenditures from the limitation. The principal exemptions for the City of Phoenix are payments for debt service and other long-term obligations, as well as expenditures of federal funds and certain state-shared revenues. Exemptions associated with revenues not expended in the year of receipt may be carried forward and used in later years. The 1979-80 expenditure base may also be adjusted for the transfer of functions between governmental jurisdictions.

The Constitution provides four processes, all requiring voter approval, to modify the expenditure limitation:

1. A four-year home rule option.
2. A permanent adjustment to the 1979-80 base.
3. A one-time override for the following fiscal year.
4. An accumulation for pay-as-you-go capital expenditures.

Phoenix voters have approved four-year home rule options on a regular basis since the implementation of the expenditure limitation. The current home rule option which was approved in 2007 allows the City Council, after hearings are held for each council district, to establish the annual budget as the limit. This four-year home rule option is in effect through 2011-12. Previously established exclusions for pay-as-you-go capital projects continue to apply. In August 2011, Phoenix voters approved an extension to the four-year home rule option to be effective 2012-13 through 2015-16.

On November 3, 1981, Phoenix voters approved four propositions that allow the City to accumulate and expend local revenues for "pay-as-you-go" capital improvements without being subject to the State spending limit. These capital improvement exclusions include annual amounts of up to $5,000,000 for Aviation, $6,000,000 for Sanitary Sewers, $2,000,000 for Streets and $6,000,000 for Water. These exclusions were approved on a permanent basis and do not require voter reapproval except to raise or lower the annual amounts.

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APPENDIX E

RETIREMENT AND PENSION PLANS

Substantially all full-time employees and elected officials of the City are covered by one of three pension plans: the City of Phoenix Employees' Retirement System, the State of Arizona Public Safety Personnel Retirement System or the Elected Officials' Retirement Plan.

City of Phoenix Employees' Retirement System

The City of Phoenix Employees' Retirement System, a single-employer defined benefit pension plan, covers all full-time general employees of the City, with the exception of sworn City police and fire personnel. Periodic employer contributions to the pension plan are determined on an actuarial basis using the "individual entry age normal cost method." Normal cost is funded on a current basis. The unfunded actuarial accrued liability is amortized over an open twenty-year period from June 30, 2011. Periodic contributions for both normal cost and the amortization of the actuarial accrued liability are based on the level percentage of payroll method. The funding strategy for normal cost and the actuarial liability should provide sufficient resources to pay employee pension benefits on a timely basis.

The general employees contribute 5% of their compensation to the plan. City of Phoenix contributions for 2010-11 were $92,145,262, equivalent to 16.04% of the estimated annual active member payroll, compared with 14.35% in 2009-10. The City's contribution rate for fiscal year 2011-12 is increasing to 18.18% and Rodwan Consulting Company, Actuaries & Consultants (the "*Actuary*") recommended increasing the rate to 20.15% for fiscal year 2012-13. The most recent report of the Actuary and annual financial reports are available at http://phoenix.gov/AGENCY/PHXCOPER/gcmenu.html. The annual active member covered payroll for the year ended June 30, 2010 was $550,175,000 and for the year ended June 30, 2011 was $513,322,000.

Accrued liabilities of the Retirement Plan as of June 30, 2011 were computed to be $2,752,909,000. The funding value of assets was $1,834,620,284. The ratio of the funding value of assets to accrued liabilities was 66.7%. The market value of the assets was $1,824,207,000. The ratio of the market value of assets to accrued liabilities was 66.3%.

Significant actuarial assumptions used to compute the pension contribution requirements are as follows: The rate of return on investments is assumed to be 8.0%. Mortality rates equal the RP 2000 Mortality Table Combined Healthy Annuitants. Salaries are expected to rise 4.5% due to inflation, 0.5% for other across-the-board factors, and from 0.0% to 3.8%, based on age, for merit and longevity. Probabilities of retirement at specific ages are based on past experience. Assumptions for separation from active employment and for disability are according to a table based on past experience.

The actuarial accrued liability of the Plan is measured in accordance with the requirements of Governmental Accounting Standards Board Statement No. 25 and No. 27. As of June 30, 2011, net assets available for benefits were less than the actuarial accrued liability by $918,289,000, compared with a lack of $829,195,000 at June 30, 2010, and $622,946,000 at June 30, 2009. The total actuarial accrued liability increased $206,249,000 from 2009 to 2010 and $89,094,000 from 2010 to 2011.

The Actuary commented in its June 30, 2011 valuation report of the Plan:

The overall experience of the Retirement Plan during the year ended June 30, 2011 was less favorable than expected based on long-term assumptions. The recognized rate of return on the smoothed funding value of assets was less than the long-term assumed rate and was the primary source of the unfavorable experience. The smoothed funding value of assets includes the phase-in of experience losses/gains over a four year period. Salary increases which were lower than assumed partially offset the unfavorable experience.

State of Arizona Public Safety Personnel Retirement System

The City of Phoenix also contributes to an agent multiple-employer defined benefit pension and health insurance premium subsidy plan, the Arizona Public Safety Personnel Retirement System (APSPRS), for sworn police officers and fire fighters. The APSPRS functions as an investment and administrative agent for the City of Phoenix with respect to the plans for police officers and fire fighters.

Periodic employer contributions to the pension and health insurance premium subsidy plans are determined on an actuarial basis using the projected unit credit cost method. Normal cost is funded on a current basis. The unfunded actuarial accrued liability is funded over a closed period of 30 years, 26 years remaining as of June 30, 2010. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the projected unit credit method. The funding strategy for normal cost and the unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis.

Significant actuarial assumptions used to compute the pension contribution requirements are as follows: The rate of return on investments is assumed to be 8.5%. Non-disability mortality rates equal the RP2000 Healthy Annuitant Mortality Table, male table with no adjustment, female table with one-year set-forward. Salaries are expected to rise 5.5% due to inflation and from 0% to 3%, based on age, for merit and longevity. Probabilities of retirement at specific ages are based on past experience. Assumptions for separation from active employment and for disability are according to a table based on past experience.

In fiscal year 2010-11, members contributed 7.65% of compensation. However, on April 29, 2011, the Governor signed into law Senate Bill 1609 ("SB 1609") which gradually increases the member contribution rate from 8.65% in fiscal year 2011-12 to 11.65% in fiscal year 2015-16 and thereafter. The City contributes normal cost less a credit (spread over an open period of twenty years) for the amount by which valuation assets exceed the actuarial accrued liability or plus a debit (spread over a closed period of twenty-seven years) for the amount by which the actuarial accrued liability exceeds the valuation assets. In 2009-10 the City's contribution amounted to 24.31% for police and 24.41% for fire. The City's expected contribution rate for fiscal year 2010-11 is decreasing to 23.51% for police and 23.49% for fire, and the Actuary recommended increasing the rate to 25.63% for police and 25.76% for fire for fiscal year 2011-12.

For the year ended June 30, 2010, covered payroll was $261,335,000 for police and $129,802,000 for fire.

The market value of plan assets for police and fire as of June 30, 2010 is $961,462,000 and $549,342,000, respectively, and the smoothed valuation of assets used to compute funded ratios is $1,229,977,000 for police and $702,762,000 for fire.

The actuarial accrued liability of the Plan is measured in accordance with the requirements of Governmental Accounting Standards Board Statement No. 25 and No. 27. For police, net assets available for benefits were less than the actuarial accrued liability as of June 30, 2010 and June 30, 2009 by $655,426,000 and $547,250,000, respectively.

For fire, net assets available for benefits were less than the actuarial accrued liability as of June 30, 2010 and June 30, 2009 by $340,623,000 and $280,029,000, respectively.

Elected Officials' Retirement Plan

This is a cost sharing multiple-employer defined benefit pension plan of which the City of Phoenix is a contributing employer and covers the Mayor and City Council, effective January 4, 1988. As a condition of coverage, members are required to contribute 7% of compensation. SB 1609 will gradually increase the member contribution rate from 10% in fiscal year 2011-12 to 13% in fiscal year 2013-14 and thereafter.

The City contributes an actuarially determined rate, 26.25% for the year ended June 30, 2010, to fully fund benefits for active members. Total contributions for the fiscal year ended June 30, 2010 were $172,000, which consisted of $136,000 from the City and $36,000 from members.

Additional Information

Additional information regarding the City's Retirement and Pension Plans, including the Funding Value of Assets, Actuarial Accrued Liability (AAL), Unfunded Actuarial Accrued Liability (UAAL), Percent Funded, and Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll, including trend information, is available in the City's Comprehensive Annual Financial Report (CAFR) under the headings "Pension Plans" and "Required Supplementary Information". The CAFR is available at http://emma.msrb.org or www.phoenix.gov under City Government-Financial Information-Financial Planning-Comprehensive Annual Financial Report or by calling the City at (602) 262-7166.

Additional information regarding the APSPRS, including annual financial reports, actuary reports and trend information is available at http://www.psprs.com/sys_psprs/AnnualReports/cato_annual_rpts_psprs.htm.

Additional information regarding the Elected Officials Retirement Plan, including annual financial reports, actuary reports and trend information is available at http://www.psprs.com/sys_eorp/AnnualReports/cato_annual_rpts_EORP.htm.

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APPENDIX F

HEALTH CARE BENEFITS FOR RETIRED EMPLOYEES

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45 (GASB 45) which addresses how state and local governments should account for and report costs and obligations related to post-employment health care and other post-employment non-pension benefits (OPEB). GASB 45 generally requires that the annual cost of OPEB and the outstanding obligations and commitments related to OPEB be accounted for and reported in essentially the same manner as pensions. Annual OPEB costs typically will be based on actuarially determined amounts that, if paid on an ongoing basis, would provide sufficient resources to pay benefits as they come due. The provisions of GASB 45 do not require governments to fund their OPEB plans. GASB 45 establishes accounting standards, including disclosure requirements for the post employment plans, the funding policies, the actuarial valuation process and assumptions, and the extent to which the plans have been funded over time.

The City provides certain post-employment health care benefits for its retired employees. Retired employees meeting certain qualifications are eligible to participate in the City's health insurance program along with the City's active employees. Employees eligible to retire in 15 years or less from August 1, 2007, will receive a monthly subsidy from the City's Medical Expense Reimbursement Plan (MERP) when they retire. Contributions by the City (plus earnings thereon) are the sole source of funding for the MERP.

The monthly subsidy reimburses retirees for qualified medical expenses, including hospital, doctor and prescription drug charges. The City's contribution varies with length of service or bargaining unit, from \$117 to \$202 per month for each retiree. Retirees may be eligible for additional City contributions depending on their bargaining unit, retirement date, or enrollment in the City's medical insurance program.

Benefit eligible employees with more than 15 years until retirement eligibility, as of August 1, 2007, receive \$150 per month while employed by the City as a defined contribution to the Post Employment Health Plan (PEHP). This is a 100% employer-paid benefit. The program provides employees who have a payroll deduction for City medical insurance coverage (single or family) with a PEHP account. This account is to be used by the employee when he/she retires or separates employment with the City for qualified medical expenses (including health insurance premiums).

The City implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions, effective July 1, 2007, and is implementing these requirements prospectively. The City's annual OPEB expense is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

An updated actuarial study was completed as of August 1, 2009, the most recent actuarial evaluation date, to value this post-employment benefit. Results of the valuation are as follows:

Actuarial Accrued Liability (AAL)	**\$425 million**
Annual Required Contribution (ARC)	**\$39 million**
Amortization Period	**24 years**

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The City has established a trust for the MERP benefits and contributes the ARC each year to fund the OPEB liability. The City has developed an investment policy for the trust with the objective of achieving a long-term return on assets contributed to the trust of 7.0 percent. The City's Comprehensive Annual Financial Report (CAFR) reflects proper treatment and note disclosure of Health Care Benefits for Retired Employees in accordance with GASB 45 beginning with the fiscal year ended June 30, 2008.

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APPENDIX G

SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS

The following information summarizes or paraphrases certain provisions of the City Purchase Agreement and the Indenture. Such information is not a full statement of the terms of such documents and, accordingly, is qualified by reference to the full text thereof.

CERTAIN DEFINITIONS

The following are definitions in summary form of certain terms used in the City Purchase Agreement and the Indenture:

"Bond Fund" means the fund of that name created pursuant to the Indenture.

"Bond Payment Date" means each date on which interest or both principal and interest shall be payable on any of the Bonds.

"Bond Trustee" or *"Trustee"* means U.S. Bank National Association in its capacity as trustee under the Indenture or any successor thereto.

"Bond Year" means a twelve month period beginning July 2 of the calendar year and ending on the next succeeding July 1.

"Bonds" means the City of Phoenix Civic Improvement Corporation Junior Lien Water System Revenue Refunding Bonds, Series 2011.

"Bonds Being Refunded" means the portion of the 2002 Bonds being refunded by the Bonds.

"City" means the City of Phoenix, Arizona.

"City Purchase Agreement" or *"Agreement"* means, the City Purchase Agreement dated as of November 1, 2011 between the City and the Corporation, as it may be supplemented or amended from time to time.

"Commercial Paper" means Revenue Obligations with a maturity of not more than 270 days from the date of issuance and which are issued and reissued from time to time.

"Consultant" means (a) when used in the City Purchase Agreement, a firm of utility consultants experienced in the financing and operation of water systems and having a nationally recognized reputation for such work, and (b) when used in the Indenture a professional consulting or banking firm selected by the City, having the skill and experience necessary to render the particular report required.

"Credit Facility" means a bank, financial institution, insurance company or indemnity company which is employed by or on behalf of the City to perform one or more of the following tasks: (a) the enhancement of the City's credit by assuring holders of any Revenue Obligations that principal of and interest on said Revenue Obligations will be paid promptly when due (including the issuance of an insurance policy, surety bond or other form of security for a bond reserve), or (b) providing liquidity for the holders of Revenue Obligations through undertaking to cause Revenue Obligations to be bought from the holders thereof when submitted pursuant to an arrangement prescribed by Junior Lien Obligation Documents or Senior Lien Obligation Documents.

"Defeasance Obligations" shall mean money and any of the following:

(1) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series — "SLGs").

(2) Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities.

(3) Resolution Funding Corp. (REFCORP). Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable.

(4) Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P. If however, the bonds are only rated by S&P (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.

(5) Obligations issued by the following agencies which are backed by the full faith and credit of the U.S.

(a) U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership;

(b) Farmers Home Administration (FmHA)
Certificates of beneficial ownership;

(c) Federal Financing Bank;

(d) General Services Administration
Participation certificates;

(e) U.S. Maritime Administration
Guaranteed Title XI financing;

(f) U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds
New Communities Debentures — U.S. government guaranteed debentures
U.S. Public Housing Notes and Bonds — U.S. government guaranteed public housing notes and bonds.

"Depository Trust Agreement" means the Depository Trust Agreement dated as of November 1, 2011 between the Corporation and the Depository Trustee.

"Depository Trustee" means U.S. Bank National Association as depository trustee and as bond registrar, paying agent and trustee for the Bonds Being Refunded.

"Derivative Product" means a swap, forward or other interest rate agreement of the City entered into in accordance with Section 4.6 of the City Purchase Agreement.

"Designated Revenues" means Net Operating Revenues of the System after provision for payment of all Expenses of Operation and Maintenance and after making all payments required by the Senior Lien Obligation Documents for the benefit of the Senior Lien Obligations.

"Event of Default" means one of the events defined as such in the City Purchase Agreement or the Indenture, as the case may be.

"Expenses of Operation and Maintenance" means all expenses reasonably incurred in connection with the operation and maintenance of the System, including salaries, wages, the cost of materials and supplies, rentals of leased property, if any, payments to others for the purchase of water, if any (but excluding payments to others for the construction of facilities to provide additional capacity for the System, including payments to be made under the "Plan Six" program), the cost of audits, paying agent's, registrar's fees and payment of premiums for insurance required under the 1986 Ordinance and other insurance which the City deems prudent to carry on the System and its operations and personnel, and generally, all expenses, exclusive of depreciation and interest on the water system revenue refunding bonds authorized under the 1986 Ordinance and on all other obligations issued to improve or extend the System or to refund obligations issued for such purposes or such refunding

purposes, which under accounting principles generally accepted for municipal utility purposes are properly allocable to operation and maintenance; however, only such expenses as are reasonably and properly necessary or desirable to the proper operation and maintenance of the System shall be included. *"Expenses of Operation and Maintenance"* also includes the City's obligations under any contract relating to the System, with any other political subdivision or agency of one or more political subdivisions, pursuant to which the City undertakes to make payments measured by the expenses of operating and maintaining any facility which relates to the System owned or operated in part by the City and in part by others or wholly by others.

"Fiscal Year" means the 12-month period used by the City for its general accounting purposes as the same may be changed from time to time, said fiscal year currently extending from July 1 to June 30.

"Indenture" means the Bond Indenture dated as of November 1, 2011 between the Corporation and the Trustee, as the same may be amended from time to time.

"Independent Certified Public Accountant" means a firm of certified public accountants which is not in the regular employ of the City on a salary basis.

"Interest Account" means the account of the Bond Fund by that name created under the Indenture.

"Investment Earnings" means all interest received on and profits derived from investments made with any money in the Bond Fund under Junior Lien Obligation Documents or Senior Lien Obligation Documents.

"Junior Lien Obligation Documents" means any ordinance, indenture, contract or agreement of the City constituting Junior Lien Parity Obligations.

"Junior Lien Obligations" or *"Junior Lien Parity Obligations"* means obligations issued or the payment of which is on a parity with the Bonds.

"Junior Lien Parity Test Debt Service" or *"Parity Test Debt Service"* means with respect to the Bonds and Revenue Obligations, an amount of money equal to the highest aggregate Principal Requirement and interest requirement of all outstanding Bonds and other Revenue Obligations to fall due and payable in the current or any future Bond Year, as adjusted pursuant to any Derivative Product with a Qualified Counterparty in accordance with the City Purchase Agreement. For purposes of determining Junior Lien Parity Test Debt Service for any Bond Year, the interest requirement on the Revenue Obligations shall be determined based on interest on all outstanding Revenue Obligations to their stated maturity dates unless the City shall have given the Corporation irrevocable instructions to redeem some or all outstanding Revenue Obligations pursuant to the Indenture, in which case the interest requirement on the applicable Revenue Obligations shall be determined based on interest on all outstanding Revenue Obligations to their stated maturity or, with respect to Revenue Obligations for which such irrevocable redemption instructions have been given, the dates selected for redemption prior to maturity. In case any Revenue Obligations outstanding or proposed to be issued shall bear interest at a variable rate, the interest requirement for such Revenue Obligations in each Bond Year during which such variable rate applies shall be computed at the lesser of (i) the maximum rate which such Revenue Obligations may bear under the terms of their issuance or (ii) the rate of interest established for long-term bonds by the 20-year bond index most recently published by THE BOND BUYER of New York, New York, prior to the date of computation (or in the absence of such published index, some other index selected in good faith by the Finance Director of the City after consultation with one or more reputable, experienced investment bankers as being equivalent thereto) (the *"Variable Rate Assumption")*. With respect to any Commercial Paper issued or proposed to be issued, the Principal Requirement shall be calculated as if the entire amount of Commercial Paper authorized to be issued were to be amortized over a term of 30 years commencing in the year in which such Commercial Paper is issued or proposed to be issued and with substantially level annual debt service payments and the interest requirement shall be computed using the Variable Rate Assumption.

"Junior Subordinate Lien Revenues" means Designated Revenues, after making all payments required by the Junior Lien Obligation Documents for the benefit of the Junior Lien Obligations.

"Net Operating Revenues" means Operating Revenues of the System, after provision for payment of all Expenses of Operation and Maintenance.

"1986 Ordinance" means Ordinance No. S-16438, adopted by the Mayor and Council of the City on May 7, 1986, as supplemented and amended.

"Operating Revenues" means all income and revenue of any nature derived from the ownership, use or operation of the System including monthly water billings, service charges, connection fees (including development occupational fees), other charges for water service and the availability thereof, hydrant rentals and Investment Earnings, but excluding proceeds of special assessments, local, state or federal grants, capital improvement contract payments or other money received for capital improvements to the System.

"Permitted Investments" shall mean and include:

(1) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America;

(2) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

(a) U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership;

(b) Farmers Home Administration (FmHA)
Certificates of beneficial ownership;

(c) Federal Financing Bank;

(d) Federal Housing Administration Debentures (FHA);

(e) General Services Administration
Participation certificates;

(f) Government National Mortgage Association (GNMA or "Ginnie Mae")
GNMA — guaranteed mortgage-backed bonds
GNMA — guaranteed pass-through obligations (participating certificates)
(not acceptable for certain cash-flow sensitive issues);

(g) U.S. Maritime Administration
Guaranteed Title XI financing; and

(h) U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds
New Communities Debentures — U.S. government guaranteed debentures, and
U.S. Public Housing Notes and Bonds — U.S. government guaranteed public housing notes and bonds;

(3) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

(a) Federal Home Loan Bank System
Senior debt obligations;

(b) Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")
Participation Certificates (Mortgaged-backed securities) Senior debt obligations;

(c) Federal National Mortgage Association (FNMA or “Fannie Mae”)
Mortgage-backed securities Senior debt obligations;

(d) Student Loan Marketing Association (SLMA or “Sallie Mae”)
Senior debt obligations;

(e) Resolution Funding Corp. (REFCORP) obligations;

(f) Farm Credit System Consolidated system-wide bonds and notes;

(4) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of “AAAm-G”; “AAA-m”; or “AA-m” or have a rating by Moody’s of “Aaa”, “Aal” or “Aa2”;

(5) Certificates of deposit fully insured by FDIC or secured at all times by collateral described in (1) and/or (2) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. Any collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral;

(6) Savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF;

(7) Investment Agreements, including guaranteed investment contracts, Forward Purchase Agreements and Reserve Fund Put Agreements;

(8) Commercial paper rated, at the time of purchase, “Prime — 1” by Moody’s and “A-1” or better by S&P;

(9) Bonds or notes issued by any state or municipality which are rated by Moody’s and S&P in one of the two highest rating categories assigned by such agencies;

(10) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of “Prime — 1” or “A3” or better by Moody’s and “A-1” or “A” or better by S&P;

(11) Repurchase agreements that provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date and which satisfy the following criteria:

(a) Repos must be between the municipal entity and a dealer bank or securities firm;

(i) Primary dealers on the Federal Reserve reporting dealer list which are rated “A” or better by S&P and Moody’s, or

(ii) Banks rated “A” or above by S&P and Moody’s;

(b) The written repo contract must include the following:

(i) Securities which are acceptable for transfer are:

(A) Direct U.S. governments, or

(B) Federal agencies backed by the full faith and credit of the U.S. government (and FHLB, FNMA & FHLMC);

(ii) The term of the repo may be up to 180 days;

(iii) The collateral must be delivered to the municipal entity, trustee (if trustee is not supplying the collateral) or third party acting as agent for the trustee (if the trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities);

(iv) The trustee has a perfected first priority security interest in the collateral;

(v) Collateral is free and clear of third-party liens and in the case of SIPC broker was not acquired pursuant to a repurchase agreement or reverse repurchase agreement;

(vi) Failure to maintain the requisite collateral percentage, after a two-day restoration period, will require the trustee to liquidate collateral; and

(vii) Valuation of Collateral;

(A) The securities must be valued at least weekly, marked-to-market at current market price plus accrued interest; and

(B) The value of collateral must be equal to 102% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repurchase agreement plus accrued interest; if the value of securities held as collateral slips below 102% of the value of the cash transferred by the municipality, then additional cash and/or acceptable securities must be transferred; and

(12) Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P; if however, the issue is only rated by S&P (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or "AAA" rated pre-refunded municipals to satisfy this condition;

provided that any investment or deposit described above is not prohibited by applicable law.

"Principal Requirement" means (a) with respect to the Bonds, as of any date of calculation, the principal amount of the Bonds maturing or subject to mandatory sinking fund redemption pursuant to the Indenture during the then current Bond Year, and (b) with respect to any other Revenue Obligations, as of any date of calculation, the amount required to be paid by the City during the then current Bond Year with respect to principal of Revenue Obligations. In computing the Principal Requirement for Revenue Obligations, an amount of Revenue Obligations required to be redeemed pursuant to mandatory redemption in each year shall be deemed to fall due in that year and (except in case of default in observing a mandatory redemption requirement) shall be deducted from the amount of Revenue Obligations maturing on the scheduled maturity date. In the case of Revenue Obligations supported by a Credit Facility, the Principal Requirements for such Revenue Obligations shall be determined in accordance with the principal retirement schedule specified in the Junior Lien Obligation Documents or Senior Lien Obligation Documents authorizing the issuance of such Revenue Obligations, rather than any amortization schedule set forth in such Credit Facility unless payments under such Revenue Obligations shall be in default at the time of the determination, in which case the Principal Requirements for such Revenue Obligations shall be determined in accordance with the amortization schedule set forth in such Credit Facility.

"Purchase Price" means the sum of the payments required by the City Purchase Agreement to be paid by the City to the Corporation.

"Qualified Counterparty" means a counterparty to a Derivative Product which at the time such agreement is executed, (i) is a bank, insurance company, indemnity company, financial institution or any similar or related company with a credit rating in one of the two highest Rating Categories of the Rating Agency, (ii) the obligations of such counterparty are guaranteed by an entity described in clause (i), or (iii) the obligations of which are fully secured by obligations described in items (a) or (b) of the definition of Permitted Investment which are (A) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 105% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (B) held by the Trustee (who shall not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee, (C) subject to a perfected first lien on behalf of the Trustee, and (D) free and clear from all third-party liens.

"Refinanced Property" means the portions of the prior projects financed or refinanced with proceeds of the Bonds Being Refunded.

"Revenue Obligations" means, collectively, Junior Lien Parity Obligations and the Senior Lien Obligations.

"Senior Lien Obligation Documents" means any ordinance, indenture, contract or agreement of the City constituting or authorizing Senior Lien Obligations.

"Senior Lien Obligations" means any obligations of the City which are issued under Senior Lien Obligation Documents which are payable from Net Operating Revenues.

"System" means the complete waterworks plants and distribution system of the City, including such system as it now exists and as it may be improved and extended, comprising all treatment, transmission and distribution facilities and all real and personal property of every nature owned or operated by the City and used or to be used or useful in the operation thereof, including, but not limited to, the Refinanced Property, whether within or without the boundaries of the City and including all licenses, franchises, easements, leases, right of ways, choices in action and other tangible and intangible property and rights therein. The City may own a partial interest in any water facility, the remaining interest in which may be owned by Maricopa County or any other political subdivision of the State of Arizona for any agency of any of them. In case of such ownership, the rights and interests possessed by the City in such facility shall be part of the System.

"Tax Exemption Certificate" means the Tax Exemption Certificate of the Corporation and the City executed in connection with the issuance and delivery of the Bonds.

"2002 Bonds" means the City of Phoenix Civic Improvement Corporation Water System Revenue Bonds, Series 2002.

THE CITY PURCHASE AGREEMENT

Section 2.1. Agreement to Issue Bonds; Application of Bond Proceeds. In order to provide funds for (i) the refunding of the Bonds Being Refunded and (ii) payment of the costs of issuance of the Bonds, the Corporation will cause to be issued under the Indenture $167,510,000 aggregate principal amount of Bonds, maturing and bearing interest as provided in the Indenture, as executed and delivered on the date of issuance of the Bonds. $189,654,284.96 of the proceeds of the Bonds, together with $3,729,322.71 of other funds of the City, shall be deposited with the Depository Trustee pursuant to the Depository Trust Agreement.

The City will pay the reasonable expenses of the Corporation and the Trustee, if any, including, but not limited to, out-of-pocket expenses and charges, fees and disbursements of counsel, including bond counsel, if any, all printing expenses, and all other expenses reasonably incurred by the Corporation and the Trustee, if any, by reason of the execution of the City Purchase Agreement.

* * *

Section 3.1. Agreement of Sale. The Corporation has sold to the City certain property, including the Refinanced Property. In consideration for the reduction in purchase payments resulting from the refunding of the Bonds Being Refunded, the City will pay to the Corporation at the designated office of the Trustee the Purchase Price of the Refinanced Property, but only from Designated Revenues as prescribed in Section 3.5 of the City Purchase Agreement.

* * *

Section 3.3. Amounts of Purchase Price Payable Upon Issuance of Bonds. The City agrees that it will pay as the Purchase Price of the Refinanced Property, the aggregate of the amounts for which provision is made in the City Purchase Agreement. The payments under the City Purchase Agreement shall be payable solely from Designated Revenues. The payments under the City Purchase Agreement include the following amounts:

(a) A sum equal to the interest on the Bonds falling due on the next succeeding interest payment date.

(b) A sum equal to the principal payments due for the then current Bond Year.

(c) A sum equal to the Trustee's fees and expenses under the Indenture.

* * *

Section 3.5. Limitation on Source of City Payments. Except to the extent the City determines to make payments from moneys other than Designated Revenues which are legally available, all amounts to be paid by the City under any section of the City Purchase Agreement shall be payable solely from the Designated Revenues as provided in Article IV thereof. Under no circumstances shall amounts paid under the City Purchase Agreement from Other Moneys constitute a pledge of such Other Moneys and amounts payable by the City hereunder shall never constitute a general obligation of the City or a pledge of ad valorem taxes by the City.

Section 3.6. Obligations of City Unconditional. The obligations of the City to make the payments required in Section 3.3 and to perform and observe the other agreements on its part contained in the City Purchase Agreement shall be absolute and unconditional, regardless of the continued existence of the Refinanced Property in physical condition satisfactory to the City.

* * *

Section 4.2. Rate Covenant. The City shall continuously own, control, operate and maintain the System in an efficient and economical manner and on a revenue producing basis and shall at all times establish, fix, maintain and collect rates, fees and other charges for all water and services furnished by the System fully sufficient at all times:

(a) To provide for 100% of the Expenses of Operation and Maintenance;

(b) To produce Net Operating Revenues in each Bond Year which will equal at least 110% of the interest and Principal Requirement for the then current Bond Year on all Revenue Obligations then outstanding; and

(c) To produce Designated Revenues in each Bond Year which will remedy all deficiencies in payments into any of the funds and accounts required from prior Bond Years for the payment of principal of and interest on the Bonds and Junior Lien Parity Obligations and meet all requirements for principal of and interest on any subordinated obligations payable from such Designated Revenues.

(d) To produce Junior Subordinate Lien Revenues sufficient to meet all requirements on any subordinated obligations payable from the Junior Subordinate Lien Revenues.

For purposes of this Section, the Principal Requirement and interest requirement for a series of Revenue Obligations to which a Derivative Product with a Qualified Counterparty applies may be determined after giving effect to the netting provisions of the City Purchase Agreement, exclusive of any payment which may be owed by the City upon termination prior to maturity of such Derivative Product.

The City shall cause an amount of Operating Revenues to be included in the annual budget and appropriation for every Fiscal Year commencing with the Fiscal Year immediately following the issuance of the Bonds sufficient to meet all requirements of the City Purchase Agreement.

Section 4.3. Prior Lien Obligations; Junior Lien Parity Obligations for Refunding Purposes. The City shall not incur any obligations payable from the Designated Revenues ranking prior to the obligations of the City under the City Purchase Agreement except for (a) additional Revenue Obligations issued for the purpose of refunding other Revenue Obligations upon meeting the conditions specified in the Senior Lien Obligation Documents and (b) additional Senior Lien Obligations issued for other than refunding purposes upon meeting the conditions specified in the Senior Lien Obligation Documents and upon meeting the conditions specified in Section 4.5 of the City Purchase Agreement.

The City shall not incur Junior Lien Parity Obligations payable from the Designated Revenues except for (i) additional Junior Lien Parity Obligations issued for the purpose of refunding the Bonds or Junior Lien Parity Obligations if the conditions specified in Section 4.4 of the City Purchase Agreement are met, or (ii) additional Junior Lien Parity Obligations issued for purposes other than refunding the Bonds or other Junior Lien Parity Obligations if the conditions specified in Section 4.5 of the City Purchase Agreement are met.

Section 4.4. Junior Lien Parity Obligations for Refunding Purposes. Any or all of the Bonds or other Revenue Obligations may be refunded at maturity, upon redemption in accordance with their terms or with the consent of the holders thereof, and the refunding Junior Lien Parity Obligations so entered into or issued shall constitute Junior Lien Parity Obligations; provided, however, that:

(a) The City Clerk shall have received the certificate of an Independent Certified Public Accountant (i) setting forth the aggregate amount of interest and Principal Requirement becoming due and payable from the date of such determination to maturity or earlier redemption (A) with respect to the Bonds or other Revenue Obligations of all series outstanding immediately prior to the date of authentication and delivery of such refunding bonds or Junior Lien Parity Obligations, and (B) with respect to the Bonds or other Revenue Obligations of all series to be outstanding immediately thereafter, and (ii) demonstrating that the amount set forth pursuant to (B) above is not greater than 105% of the amount set forth pursuant to (A) above; or

(b) All outstanding Bonds and other Revenue Obligations are being refunded under arrangements which immediately result in making provision for the payment of the refunded Bonds and other Revenue Obligations.

Section 4.5. Additional Senior Lien Obligations and Junior Lien Parity Obligations Generally. Additional Revenue Obligations may also be issued for other than refunding purposes as described above in Sections 4.3 and 4.4 if, prior to the issuance thereof, there shall have been procured and filed with the City Clerk and the Trustee a statement by an Independent Certified Public Accountant or a report of a Consultant to the effect that the Net Operating Revenues of the System for the most recently completed Fiscal Year for which audited financial statements are available were equal to at least 110% of Junior Lien Parity Test Debt Service for all outstanding Bonds and other Revenue Obligations, including the obligations proposed to be issued.

Any statement of an Independent Certified Public Accountant or Consultant's report required pursuant to this Section 4.5 may contain the following adjustments to Net Operating Revenues for such most recently completed Fiscal Year:

(a) An adjustment equal to 100% of the increased annual amount attributable to any revision in the schedule of rates and charges imposed not less than 3 months prior to the date of delivery of such additional Revenue Obligations and not fully reflected in the audited Net Operating Revenues actually received during said Fiscal Year. Such adjustment shall be based upon certification by the Consultant as to the amount of Net Operating Revenues which would have been received during said Fiscal Year had the new rates been in effect throughout said Fiscal Year.

(b) An adjustment equal to 100% of additional new Net Operating Revenues estimated to be received in the first Fiscal Year after delivery of said additional Revenue Obligations or the assumption of such additional obligations from connections to the System estimated in writing by the Consultant to be made during and after such 12-month period to the extent that such new Net Operating Revenues are not taken into account under subsection (a) above.

(c) If (i) the additional Revenue Obligations are issued for the purpose of paying the cost of acquiring other existing water utilities or (ii) additional obligations payable from the Net Operating Revenues are being assumed by the City in connection with the acquisition of other existing water utilities, said statement or report may also contain an adjustment of said Net Operating Revenues to reflect 80% of the additional estimated Net Operating Revenues which in the written opinion of the Consultant will be derived from the acquired utility during the first complete Fiscal Year after the issuance of such additional Revenue Obligations or the assumption of such obligations payable from Net Operating Revenues. The Consultant's report shall be based on the actual operating revenues of the acquired utility for a recent 12-month period adjusted to reflect the City's ownership and the City's rate structure in effect with respect to the System at the time of the issuance of the additional Revenue Obligations or the assumption of such obligations payable from Net Operating Revenues.

(d) If the additional Revenue Obligations are issued for the purpose of paying the cost of construction of additions, extensions or improvements to the System, and if money to pay interest on said additional Revenue Obligations has been provided from proceeds of Revenue Obligations or funds on hand in an amount sufficient to pay interest falling due on such Revenue Obligations for the period from the date of issuance thereof until the anticipated completion of the construction of such extensions and improvements, said statement may also contain an adjustment of said Net Operating Revenues to reflect 80% of the additional estimated annual Net Operating Revenues which in the written opinion of the Consultant will be derived during the first complete Fiscal Year after the completion of such construction from connections to the proposed additions, extensions or improvements.

For purposes of determining Junior Lien Parity Test Debt Service for this Section, the Principal Requirement and interest requirement for a series of Revenue Obligations to which a Derivative Product with a Qualified Counterparty applies may be determined after giving effect to the netting provisions of the City Purchase Agreement, exclusive of any payment which may be owed by the City upon termination prior to maturity of such Derivative Product.

Section 4.6. Derivative Products. The City reserves the right to enter into arrangements involving Derivative Products including swap agreements, forward agreements, interest rate agreements, and other similar agreements, to the extent permitted by law, and make payments on such agreements from Net Operating Revenues or Designated Revenues, provided that payments under such agreements may not be made on a basis which is senior to the payment of any Senior Lien Obligations and do not permit extraordinary payments such as termination payments to be made on a basis other than subordinate to payment of the Principal Requirement and the interest requirement on Revenue Obligations. To the extent the City enters into such agreements, such agreements may only be incurred if the City satisfies the tests for additional Revenue Obligations set forth in the Senior Lien Obligation Documents and the Junior Lien Obligation Documents, as applicable, subject to the provisions set forth below. In determining whether the additional Revenue Obligations tests are satisfied in connection with any such agreements, the City is permitted to treat the amount or rate of interest on those agreements or on the Revenue Obligations to which the applicable agreement applies as the amount or rate of interest payable after giving effect to the agreements, provided that any agreement is with a Qualified Counterparty, thus the City is permitted to include the net payment due under such agreements in calculating the additional Revenue Obligations test. Further, the City is permitted to disregard the notional principal amount of any such agreement provided that such agreement is with a Qualified Counterparty. The City agrees to give written notice to the Rating Agency not less than thirty (30) days prior to entering into a Derivative Product payable from Net Operating Revenues or Designated Revenues.

* * *

Section 5.1. Covenants Regarding the System. The City agrees that, so long as any of the Bonds remain outstanding under the Indenture, it will observe all covenants regarding the System contained in Article VI of the 1986 Ordinance as in effect on the date of execution of the City Purchase Agreement, notwithstanding any termination, amendment, supplement or modification of the 1986 Ordinance. Under Article VI of the 1986 Ordinance, the City covenants to maintain the System in good condition, to maintain insurance on the System, to sell, lease, encumber or dispose of property comprising a part of the System only after satisfying certain requirements, to keep proper books, records and accounts of the System, to adopt a budget for the System for each Fiscal Year, and not to grant a franchise or permit the operation of any competing water system in the City.

Section 5.2. Maintenance and Utilities. All maintenance and repair of the Refinanced Property and utilities therefor shall be the responsibility of the City. In exchange for the payment of the Purchase Price hereunder, the Corporation agrees to provide nothing more than Refinanced Property.

* * *

Section 7.1. Events of Default. Any one or more of the following events shall constitute a default under the City Purchase Agreement:

(a) The City shall fail to make any payment of the Purchase Price sufficient to pay amounts due on the Bonds when due; or

(b) The City shall fail to make any other payment of the Purchase Price for a period of 30 days after notice of such failure shall have been given in writing to the City by the Corporation or by the Trustee; or

(c) The City shall fail to perform any other covenant in the City Purchase Agreement for a period of 30 days after written notice specifying such default, provided that if such failure cannot be remedied within such 30 day period, it shall not be deemed an Event of Default so long as the City diligently tries to remedy the same; or

(d) The filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment or attachment, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of the Federal Bankruptcy statutes, as amended, or under any similar acts which may hereafter be enacted.

Section 7.2. Remedies on Default by City. Upon the occurrence of an Event of Default as above defined, the Corporation shall, but only if requested to do so by the Trustee, without further demand or notice, exercise any of the available remedies at law or in equity, including, but not limited to, specific performance. The obligations of the City under the City Purchase Agreement may not be accelerated. The Corporation may assign any or all of its rights and privileges under this section to the Trustee, and upon furnishing evidence of such assignment to the City, the Trustee may exercise any or all of such rights or privileges as it may deem advisable.

* * *

Section 9.3. Amendments. The City Purchase Agreement may only be amended with the express written consent of the Trustee and in accordance with the provisions of the Indenture.

INDENTURE

The information set forth below summarizes or paraphrases certain substantially similar provisions of the Indenture.

Section 1.3. Bonds Not General Obligations of the Corporation. The Bonds authorized and the payments to be made by the Corporation thereon and into the various funds established under the Indenture are not general obligations of the Corporation but are limited obligations payable solely from payments under the City Purchase Agreement.

* * *

Section 5.3. Flow of Funds. So long as any Bonds are Outstanding, in each Bond Year, payments received by the Trustee shall be applied in the following manner and order of priority:

(a) *Interest Account.* The Trustee shall deposit to the Interest Account, on or before the last Business Day of each December and June an amount equal to the amount of interest to be paid on Outstanding Bonds on the next Bond Payment Date. Moneys in the Interest Account shall be used to pay interest on the Bonds as it becomes due.

(b) *Principal Account.* The Trustee shall deposit to the Principal Account on or before the last Business Day of each June (in each Bond Year ending on a date on which Bonds mature), an amount equal to the principal amount at maturity plus an amount equal to any mandatory sinking fund redemption requirement of Section 3.2(b) of the Indenture of Bonds Outstanding which will mature or be subject to mandatory redemption on the last day of such Bond Year. Moneys in the Principal Account shall be used to retire Bonds by payment at their scheduled maturity or their mandatory sinking fund retirement date.

* * *

Section 7.1. Events of Default. Each of the following is hereby declared an "Event of Default" under the Indenture:

(a) If payment of any installment of interest on any Bond shall not be made in full when the same becomes due and payable;

(b) If payment of the principal or redemption premium, if any, on any Bond shall not be made in full when the same becomes due and payable;

(c) If, under the provisions of any law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of all or any part of the interests pledged hereunder and such custody or control shall continue for more than 60 days;

(d) If the Corporation shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions on its part to be performed as provided herein or in the Bonds and such default shall continue for 30 days after written notice specifying such default and requiring the same to be remedied shall have been given to the Corporation and the City by the Trustee, unless within such 30 days the Corporation shall have commenced and be diligently pursuing in good faith appropriate corrective action to the satisfaction of the Trustee; the Trustee may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than 25% in principal amount of the Bonds then Outstanding;

(e) Any "Event of Default" under the City Purchase Agreement; or

(f) The City fails to comply with any applicable provision of the Tax Exemption Certificate with the result that interest on any of the Bonds becomes includible in gross income for purposes of federal income taxes.

Section 7.2. Remedies and Enforcement of Remedies.

(a) Upon the occurrence and continuance of any Event of Default and in accordance with Article VII of the Indenture and Article VII of the City Purchase Agreement, the Trustee may, and upon the written request of the Holders of not less than a majority in principal amount of the Bonds Outstanding, together with indemnification of the Trustee to their satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Bondholders hereunder and the Bonds by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem expedient, including but not limited to, an action for the recovery of any amounts due hereunder or for damages for the breach of the Indenture, and the Trustee may pursue any other remedy which the law affords, including the remedy of specific performance. The Trustee shall also have those remedies which the Corporation is provided pursuant to Article VII of the City Purchase Agreement, subject to any limitations on such remedies set forth therein.

(b) Regardless of the happening of an Event of Default and subject to Section 7.7 of the Indenture, the Trustee, if requested in writing by the Holders of not less than a majority in principal amount of the Bonds then Outstanding shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security hereunder by any acts which may be unlawful or in violation hereof, or (ii) to preserve or protect the interests of the Holders, provided that such request is in accordance with law and the provisions hereof and, in the sole judgment of the Trustee, is not unduly prejudicial to the interest of the Holders of Bonds not making such request.

Section 7.3. No Acceleration. In no event shall the Trustee have the right to accelerate or cause to become immediately due and payable or payable in advance of their scheduled maturity dates, amounts due hereunder.

Section 7.4. Application of Revenues and Other Moneys After Default. During the continuance of an Event of Default all moneys received by the Trustee pursuant to any right given or action taken under the provisions of this Article, shall, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the fees, expenses and advances incurred or made by the Trustee with respect thereto, be deposited in the Bond Fund, and all amounts held by the Trustee hereunder shall be applied as follows:

First: To the payment of amounts, if any, payable pursuant to the Tax Exemption Certificate;

Second: To the payment to the Persons entitled thereto of all installments of interest (including interest on amounts unpaid when due on the Bonds) then due, and, if the amount available shall not be sufficient to pay in full any installment or installments then due, then to the payment thereof ratably in a manner consistent with the second sentence of Section 5.3(a) of the Indenture, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference; and

Third: To the payment to the Persons entitled thereto of the unpaid Principal Installments of any Bonds which shall have become due, in the order of their due dates, and of the amounts available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably in a manner consistent with the second sentence of Section 5.3(b) of the Indenture, according to the amounts of Principal Installments due on such date, to the Persons entitled thereto, without any discrimination or preference.

Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys shall be applied by it at such times, and from time to time, as the Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal of the Bonds to be paid on such dates shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of any unpaid Bond until such Bond shall be presented to the Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all principal of and interest on the Bonds which has become due has been paid under the provisions of this Section and all expenses and charges of the Trustee have been paid and the Bond Fund contains the amounts then required to be credited thereto, any balance remaining shall be paid to the City.

* * *

Section 7.7. Individual Bondholder Action Restricted.

(a) No Holder of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement hereof or for the execution of any trust hereunder or for any remedy hereunder except for the right to institute any suit, action or proceeding in equity or at law for the enforcement of the Trustee's duties and powers hereunder upon the occurrence of all of the following events:

(i) The Holders of at least a majority in principal amount Bonds Outstanding, shall have made written request to the Trustee to proceed to exercise the powers granted herein; and

(ii) Such Bondholders shall have offered the Trustee indemnity as provided in Section 8.2(e) of the Indenture; and

(iii) The Trustee shall have failed or refused to exercise the duties or powers herein granted for a period of 60 days after receipt by it of such request and offer of indemnity; and

(iv) During such 60 day period no direction inconsistent with such written request has been delivered to the Trustee by the Holders of a greater majority in principal amount of Bonds then Outstanding.

(b) No one or more Holders of Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the security hereof or to enforce any right hereunder except in the manner herein provided and for the equal benefit of the Holders of all Bonds Outstanding.

(c) Nothing contained herein shall affect or impair, or be construed to affect or impair, the right of the Holder of any Bond (i) to receive payment of the principal of or interest on such Bond, as the case may be, on or after the due date thereof or (ii) to institute suit for. the enforcement of any such payment on or after such due date; provided, however, no Holder of any Bond may institute or prosecute any such suit or enter judgment therein if, and to the extent that, the institution or prosecution of such suit or the entry of judgment therein would, under applicable law, result in the surrender, impairment, waiver or loss of the lien hereof on the moneys, funds and properties pledged hereunder for the equal and ratable benefit of all Holders of Bonds.

* * *

Section 7.9. Waiver of Event of Default.

(a) No delay or omission of the Trustee or of any Holder of the Bonds to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given by this Article may be exercised from time to time and as often as may be deemed expedient.

(b) The Trustee may waive any Event of Default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under, the provisions hereof, or before the completion of the enforcement of any other remedy hereunder.

(c) In case of any waiver by the Trustee of an Event of Default hereunder, the Corporation, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon. The Trustee shall not be responsible to anyone for waiving or refraining from waiving any Event of Default in accordance with this Section.

* * *

Section 9.1. Supplements not Requiring Consent of Bondholders. The Corporation acting through the Corporation Representative and the Trustee may, but without the consent of or notice to any of the Holders, enter into one or more supplements to the Indenture for one or more of the following purposes:

(a) To cure any ambiguity or formal defect or omission herein or to correct or supplement any provision herein which may be inconsistent with any other provision herein, or, to make any other provisions with respect to matters or questions arising hereunder provided such action shall, in the opinion of the Trustee, not materially adversely affect the interests of the Holders;

(b) To grant or confer upon the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them;

(c) To secure additional revenues or provide additional security or reserves for payment of the Bonds;

(d) To comply with the requirements of any state or federal securities laws or the Trust Indenture Act of 1939, as from time to time amended, if required by law or regulation lawfully issued thereunder;

(e) To provide for the appointment of a successor trustee or co-trustee pursuant to the terms of Section 8.6 and Section 8.11 of the Indenture;

(f) To permit Bonds in bearer form if, in the opinion of Bond Counsel received by the Corporation and the Trustee, such action will not cause the interest on any Bonds to become includible in gross income for purposes of federal income taxes;

(g) To preserve the exclusion of the interest on the Bonds from gross income for purposes of federal or State income taxes and to preserve the power of the Corporation to continue to issue bonds or other obligations (specifically not limited to the Bonds authorized hereby) the interest on which is likewise exempt from federal and State income taxes; and

(h) To adopt procedures for the disclosure of information to Bondholders and to others in accordance with any guidelines for such purpose promulgated by the American Bankers Association or some other similar national organization, as such guidelines may be made applicable to the Indenture by agreement of the Trustee, the Corporation and the City.

Section 9.2. Supplements Requiring Consent of Bondholders.

(a) Other than supplements to the Indenture referred to in Section 9.1 of the Indenture and subject to the terms and provisions and limitations contained in this Article and not otherwise, the Holders of not less than a majority in principal amount of the Bonds then Outstanding, shall have the right, from time to time, anything contained herein to the contrary notwithstanding, to consent to and approve the execution by the Corporation acting through the Corporation Representative and the Trustee of such Supplement as shall be deemed necessary and desirable by the Corporation and the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained herein; provided, however, nothing in this Section or Section 9.1 of the Indenture shall permit or be construed as permitting a supplement to the Indenture which would:

(i) extend the stated maturity of or time for paying interest on any Bond or reduce the principal amount of or the redemption premium, if any or rate of interest payable on any Bond without the consent of the Holder of such Bond;

(ii) prefer or give a priority to any Bond over any other Bond without the consent of the Holder of each Bond then Outstanding not receiving such preference or priority;

(iii) reduce the principal amount of Bonds then Outstanding the consent of the Holders of which is required to authorize such Supplement without the consent of the Holders of all Bonds then Outstanding;

(iv) increase the principal amount of Bonds then Outstanding, the request of the Holders of which is required by Section 7.1(d) of the Indenture, without the consent of the Holders of all Bonds then Outstanding; or

(v) reduce the redemption price of any Bond upon optional redemption or reduce any period of time prior to commencement of any optional redemption period set forth in Section 3.2 without the consent of the Holder of such Bond.

(b) If at any time the Corporation shall request the Trustee to enter into a Supplement pursuant to this Section, the Trustee shall, upon being satisfactorily and specifically indemnified by the City with respect to expenses with respect to such Supplement, cause notice of the proposed execution of such Supplement to be mailed by first class mail, postage pre-paid, to all registered Holders of Bonds then Outstanding at their addresses as they appear on the registration books herein provided for. The Trustee shall not, however, be subject to any liability to any Bondholder by reason of its failure to mail, or the failure of such Bondholder to receive, the notice required by this Section, and any such failure shall not affect the validity of such Supplement when consented to and approved as provided in this Section. Such notice shall briefly set forth the nature of the proposed Supplement and shall state that copies thereof are on file at the office of the Trustee for inspection by all Bondholders.

* * *

Section 9.4. Amendments to City Purchase Agreement Not Requiring Consent of Bondholders. The Corporation and the Trustee may, without the consent of or notice to any of the holders consent to and join with the City in the execution and delivery of any amendment, change or modification of the City Purchase Agreement as may be required (i) by the provisions thereof; (ii) to cure any ambiguity or formal defect or omission therein or to correct or supplement any provision therein which may be inconsistent with any other provision therein, or to make any other provisions with respect to matters or questions arising thereunder provided such action shall, in the opinion of the Trustee, not materially adversely affect the interests of the holders; (iii) to preserve the exclusion of the interest on the Bonds from gross income for purposes of federal or State income taxes and to preserve the power of the Corporation to continue to issue bonds or other obligations (specifically not limited to the Bonds authorized hereby) the interest on which is likewise exempt from federal and State income taxes in connection with any other change therein which in the opinion of the Trustee will not materially adversely affect the interests of the holders or the Trustee.

Section 9.5. Amendments to City Purchase Agreement Requiring Consent of Bondholders.

(a) Except for amendments, changes or modification to the City Purchase Agreement referred to in Section 9.4 above and subject to the terms and provisions and limitations contained in Article IX of the Indenture and not otherwise, the Trustee may consent to and join with the City in the execution and delivery of any amendment, change or modification to the City Purchase Agreement only upon the consent of not less than a majority in principal amount of Bonds then outstanding, given as provided in this Section, provided, however, no such amendment, change or modification may affect the obligation of the City to make payments under the City Purchase Agreement or reduce the amount of or extend the time for making such payments without the consent of the Holders of all Bonds then outstanding.

(b) If at any time the Corporation and the City shall request the consent of the Trustee to any such amendment, change or modification to the City Purchase Agreement the Trustee shall, upon being satisfactorily indemnified by the City with respect to expenses, cause notice of the proposed amendment, change or modification to be given in the same manner as provided in Section 9.2 hereof with respect to Supplements hereto. Such notice shall briefly set forth the nature of the proposed amendment, change or modification and shall state that copies thereof are on file at the office of the Trustee for inspection by all Bondholders.

(c) If the consent to and approval of the execution of such amendment, change or modification is given by the Holders of not less than the aggregate principal amount or number of Bonds specified in subsection (a) within the time and in the manner provided by Section 9.2 of the Indenture with respect to Supplements hereto, but not otherwise, such amendment, change or modification may be consented to, executed and delivered upon the terms and conditions and with like binding effect upon the Holders as provided in Sections 9.2 and 9.3 of the Indenture with respect to Supplements to the Indenture.

Section 10.1. Discharge. If payment of all principal of, premium, if any, and interest on all of the Bonds in accordance with their terms and as provided herein is made, or is provided for in accordance with this Article, and if all other sums, if any, payable by the Corporation shall be paid, then the liens, estates and security interests granted by the Indenture shall cease. Thereupon, upon the request of the Corporation, and upon receipt by the Trustee of an opinion of counsel addressed to the Corporation and Trustee stating that all conditions precedent to the satisfaction and discharge of the lien hereof have been satisfied, the Trustee shall execute and deliver proper instruments acknowledging such satisfaction and discharging the lien hereof and the Trustee shall transfer all property held by it hereunder, other than moneys or obligations held by the Trustee for payment of amounts due or to become due on the Bonds, to the Corporation, the City or such other Person as may be entitled thereto as their respective interests may appear. Such satisfaction and discharge shall be without prejudice to the rights of the Trustee thereafter to charge and be compensated or reimbursed for services rendered and expenditures incurred in connection herewith.

The Corporation or the City may at any time surrender to the Trustee for cancellation any Bonds previously authenticated and delivered which the Corporation or the City may have acquired in any manner whatsoever and such Bonds upon such surrender and cancellation shall be deemed to be paid and retired.

Section 10.2. Providing for Payment of Bonds. Payment of all or any part of the Bonds in authorized denominations may be provided for by the deposit with the Trustee or any financial institution meeting the requirements as a successor Trustee under Section 8.6 of the Indenture which may be designated by the City and acceptable to the Trustee to serve as its agent (the *"Depository Trustee")* of moneys or Defeasance Obligations which are not redeemable in advance of their maturity dates. The moneys and the maturing principal and interest income on such Defeasance Obligations, if any, shall be sufficient, as evidenced by a certificate of an independent nationally recognized certified public accountant or firm of such accountants acceptable to the Trustee and the Depository Trustee, to pay when due the principal of and interest on such Bonds (a *"Verification Report").* The moneys and Defeasance Obligations shall be held by the Trustee or the Depository Trustee irrevocably in trust for the Holders of such Bonds solely for the purpose of paying the principal and interest on such Bonds as the same shall mature or come due.

If payment of Bonds is so provided for, the Trustee or the Depository Trustee shall mail a notice so stating to each Holder of a Bond so provided for.

Bonds, the payment of which has been provided for in accordance with this Section, shall no longer be deemed Outstanding under the applicable Indenture. The obligation of the Corporation in respect of such Bonds shall nevertheless continue but the Holders thereof shall thereafter be entitled to payment only from the moneys or Defeasance Obligations deposited with the Bond Trustee or the Depository Trustee to provide for the payment of such Bonds.

* * *

APPENDIX H

PROPOSED FORM OF LEGAL OPINION OF BOND COUNSEL

[LETTERHEAD OF GREENBERG TRAURIG, LLP]

[TO BE DATED CLOSING DATE]

We hereby certify that we have examined certified copy of the proceedings of the City of Phoenix Civic Improvement Corporation (the *"Corporation"*) passed preliminary to the issue of its Junior Lien Water System Revenue Refunding Bonds, Series 2011 (the *"Bonds"*) in the amount of $167,510,000 in fully registered form, dated the date of initial authentication and delivery thereof. The Bonds are being issued to refund certain obligations (the *"Bonds Being Refunded"*) previously issued to finance or refinance improvements to the water system (the *"System"*) of the City of Phoenix, Arizona (the *"City"*).

We have examined the law and such documents and matters as we have deemed necessary to render this opinion, including, without limitation, the original or a copy identified to our satisfaction as being a true copy of the Indenture (as defined herein).

As to questions of fact material to the opinions expressed herein, we have relied upon, and have assumed due compliance with the provisions of, the proceedings and other documents, and have relied upon certifications and representations furnished to us without undertaking to verify the same by independent investigation, including, without limitation, the use to be made of the proceeds of the Bonds. Reference is made to certifications of and opinions of counsel to parties other than the Corporation with respect to the existence and powers of such parties to enter into and perform the instruments referred to, the authorization, execution and delivery of such instruments by such parties and such instruments being binding upon and enforceable against such parties; we express no opinion as to such matters.

The Bonds are being issued pursuant to a Bond Indenture, dated as of November 1, 2011 (the *"Indenture"*) between the Corporation and U.S. Bank National Association, as trustee (the *"Trustee"*). The Bonds are payable solely, as to both principal and interest, from payments made by the City under the City Purchase Agreement, dated as of November 1, 2011 (the *"City Purchase Agreement"*) between the Corporation and the City.

Based upon the foregoing, we are of the opinion as of this date, which is the date of initial delivery of the Bonds against payment therefor, that:

1. The Indenture, the City Purchase Agreement and the Bonds have been duly authorized, executed and delivered by the Corporation and are valid and binding upon and enforceable against the Corporation.

2. The Bonds constitute special obligations of the Corporation, and the principal of and interest and any premium on the Bonds (collectively, *"debt service"*), unless paid from other sources, are payable solely from the revenues and other moneys pledged and assigned by the Indenture to secure that payment. Those revenues and other moneys include payments required to be made by the City under the City Purchase Agreement, and the City's obligation to make those payments is secured by a pledge of Designated Revenues (as defined in the City Purchase Agreement) received from the System. The Indenture creates the pledge which it purports to create in the pledged revenues and of other moneys in the funds and accounts created by the Indenture (other than the Rebate Fund), which pledge will be perfected only as to the revenue and other moneys on deposit in the funds and accounts created by the Indenture and held by the Trustee. The Bonds and the payment of debt service are not secured by an obligation or pledge of any moneys raised by taxation; the Bonds do not represent or constitute a debt or pledge of the general credit of the Corporation, the City or the State of Arizona; and the City Purchase Agreement, including the City's obligation to make the payments required thereunder, does not represent or constitute a debt or pledge of the general credit of the City.

3. The Internal Revenue Code of 1986, as amended (the *"Code"*), includes requirements which the City and the Corporation must continue to meet after the issuance of the Bonds in order that interest on the

Bonds be excludable gross income for federal income tax purposes. The failure of the City and the Corporation to meet these requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to their date of issuance. The City and the Corporation have covenanted to take the actions required by the Code in order to maintain the excludability from gross income for federal income tax purposes of interest on the Bonds. (Subject to the limitations in the last paragraph hereof, the City and the Corporation have full legal power and authority to comply with such covenants.) Under existing statutes, regulations, rulings and court decisions, subject to the assumption stated in the last sentence of this paragraph, interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes, and, if the foregoing is the case, the interest on the Bonds is exempt from income taxation under the laws of the State of Arizona. Furthermore, interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the Bonds is taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax imposed on certain corporations. We express no opinion regarding other federal tax consequences resulting from the ownership, receipt or accrual of interest on, or disposition of, the Bonds. In rendering the opinion expressed above, we have assumed continuing compliance with the tax covenants referred to above that must be met after the issuance of the Bonds in order that interest on the Bonds not be included in gross income for federal tax purposes.

In rendering the foregoing opinions, we have assumed and relied upon compliance with the City's and the Corporation's covenants and the accuracy, which we have not independently verified, of the City's and the Corporation's representations and certifications contained in the transcript. The accuracy of those representations and certifications, and the City's and the Corporation's compliance with those covenants, may be necessary for the interest on the Bonds to be and remain excluded from gross income for federal and State income tax purposes and for certain of the other tax effects stated above. Failure to comply with certain requirements subsequent to issuance of the Bonds could cause interest on the Bonds to be included in gross income for federal and State income tax purposes retroactively to the date of issuance of the Bonds. We have also relied upon (i) the report of Grant Thornton LLP as to the ratio of aggregate debt service on all obligations on a parity with the Bonds immediately prior to the issuance thereof to such aggregate debt service immediately thereafter, including the Bonds and (ii) the Verification Report of Grant Thornton LLP certified public accountants, as to the adequacy of the obligations issued or guaranteed by the United States Government in which proceeds of the Bonds have been invested to provide for retirement of the Bonds Being Refunded and as to the yield on such investments and the yield on the Bonds.

Our opinion represents our legal judgment based upon our review of the law and the facts we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to review or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

The rights of the owners of the Bonds and the enforceability of those rights under the Bonds and the documents referred to above may be subject to bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and the enforcement of those rights may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully submitted,

APPENDIX I

FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the *"Undertaking"* or the *"Agreement"*) dated as of November 22, 2011 is executed and delivered by the City of Phoenix, Arizona (the *"City"*) in connection with the issuance of $167,510,000 City of Phoenix Civic Improvement Corporation Junior Lien Water System Revenue Refunding Bonds, Series 2011 (the *"Bonds"*). The Bonds are being issued pursuant to a Bond Indenture dated as of November 1, 2011 (the *"Indenture"*) by and between the City of Phoenix Civic Improvement Corporation (the *"Corporation"*) and U.S. Bank National Association, as trustee (the *"Trustee"*). The City covenants and agrees as follows:

1. *Purpose of this Undertaking.* This Undertaking is executed and delivered by the City as of the date set forth below, for the benefit of the beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with the requirements of the Rule (as defined below). The City represents that it will be the only obligated person with respect to the Bonds at the time the Bonds are delivered to the Participating Underwriters and that no other person is expected to become so committed at any time after issuance of the Bonds.

2. *Definitions.* The terms set forth below shall have the following meanings in this Undertaking, unless the context clearly otherwise requires.

Annual Financial Information means the financial information and operating data set forth in *Exhibit I*.

Annual Financial Information Disclosure means the dissemination of disclosure concerning Annual Financial Information and the dissemination of the Audited Financial Statements as set forth in Section 4.

Audited Financial Statements means the audited financial statements of the City prepared pursuant to the standards and as described in *Exhibit I*.

City Purchase Agreement means the City Purchase Agreement dated as of November 1, 2011.

Commission means the Securities and Exchange Commission.

Dissemination Agent means any agent designated as such in writing by the City and which has filed with the City a written acceptance of such designation, and such agent's successors and assigns.

EMMA means the Electronic Municipal Market Access system of the MSRB. As of the date of this Disclosure Undertaking, information regarding submissions to EMMA is available at http://emma.msrb.org/submission.

Event means the occurrence of any of the events set forth in *Exhibit II*.

Exchange Act means the Securities Exchange Act of 1934, as amended.

Listed Event means the occurrence of events set forth in *Exhibit II*, provided that with respect to any Event qualified by the phrase "if material," materially shall be interpreted under the Exchange Act. If an Event is not qualified by the phrase "if material," such Event shall in all cases be material.

Listed Events Disclosure means dissemination of disclosure concerning a Material Event as set forth in Section 5.

MSRB means the Municipal Securities Rulemaking Board.

Participating Underwriter means each broker, dealer or municipal securities dealer acting as an underwriter in the primary offering of the Bonds.

Rule means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

State means the State of Arizona.

Undertaking means the obligations of the City pursuant to Sections 4 and 5 hereof.

3. *CUSIP Number/Final Official Statement.* The CUSIP Numbers of the Bonds are as follows:

Maturity Date	CUSIP No.	Coupon	Maturity Date	CUSIP No.	Coupon
07/01/14	71883RLJ0	4.00%	07/01/20	71883RLP6	3.00%
07/01/15	71883RLK7	2.00	07/01/20	71883RMA8	5.00
07/01/15	71883RLW1	4.00	07/01/21	71883RLQ4	5.00
07/01/16	71883RLL5	5.00	07/01/22	71883RLR2	4.00
07/01/17	71883RLX9	5.00	07/01/22	71883RMB6	5.00
07/01/18	71883RLM3	2.50	07/01/23	71883RLS0	5.00
07/01/18	71883RLY7	5.00	07/01/24	71883RLT8	5.00
07/01/19	71883RLN1	3.00	07/01/25	71883RLU5	5.00
07/01/19	71883RLZ4	5.00	07/01/26	71883RLV3	4.00
			07/01/26	71883RMC4	5.00

The Final Official Statement relating to the Bonds is dated November 1, 2011 (the *"Final Official Statement"*).

4. *Annual Financial Information Disclosure.* Subject to Section 9 of this Undertaking, the City shall disseminate its Annual Financial Information and its Audited Financial Statements, if any, (in the form and by the dates set forth in *Exhibit I*) to the MSRB through EMMA in an electronic format as prescribed by the MSRB. The City is required to deliver such information in such manner and by such time so that such entities receive the information by the dates specified.

If any part of the Annual Financial Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the City will disseminate a statement to such effect as part of its Annual Financial Information for the year in which such event first occurs.

If any amendment is made to this Agreement, the Annual Financial Information for the year in which such amendment is made shall contain a narrative description of the reasons for such amendment and its impact on the type of information being provided.

5. *Listed Events Disclosure.* Subject to Section 9 of this Undertaking, the City hereby covenants that it will disseminate in a timely manner not in excess of ten business days after the occurrence of the event, Listed Events Disclosure to the MSRB through EMMA in an electronic format as prescribed by the MSRB. Notwithstanding the foregoing, notice of optional or unscheduled redemption of any of the Bonds or defeasance of any Bonds need not be given under this Agreement any earlier than the notice (if any) of such redemption or defeasance is given to the Bondholders pursuant to the Indenture.

6. *Duty to Update.* The City shall determine, in the manner it deems appropriate, the address of EMMA or such alternate repository specified by the MSRB each time it is required to file information with such entities.

7. *Consequences of Failure of the City to Provide Information.* The City shall give notice in a timely manner to the MSRB through EMMA, of any failure to provide Annual Financial Information Disclosure in the manner and at the time required.

In the event of a failure of the City to comply with any provision of this Undertaking, the beneficial owner of any Bond may seek mandamus or specific performance by court order, to cause the City to comply with its obligations under this Undertaking. A default under this Undertaking shall not be deemed an event of default under the City Purchase Agreement or the Indenture, and the sole remedy available to Bondholders under this Undertaking in the event of any failure of the City to comply with this Undertaking shall be an action to compel performance.

8. *Amendments; Waiver.* Notwithstanding any other provision of this Agreement, the City by certified resolution or ordinance authorizing such amendment or waiver, may amend this Undertaking, and any provision of this Undertaking may be waived only if:

(a) The amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the City, or type of business conducted;

(b) This Undertaking, as amended or affected by such waiver, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not materially impair the interests of the beneficial owners of the Bonds, as determined by parties unaffiliated with the City (such as the Trustee) or by approving vote of the Bondholders pursuant to the Indenture at the time of the amendment.

The Annual Financial Information containing amended operating data or financial information resulting from such amendment or waiver, if any, shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of operating data or financial information being provided. If an amendment or waiver is made specifying the generally accepted accounting principles *("GAAP")* to be followed in preparing financial statements and such changes are material, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles. Such comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles in the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, such comparison also shall be quantitative. If the accounting principles of the City change or the Fiscal Year of the City changes, the City shall file a notice of such change in the same manner as for a notice of material event.

9. *Termination of Undertaking.* The Undertaking of the City shall be terminated hereunder if the City shall no longer have liability for any obligation on or relating to repayment of the Bonds under the City Purchase Agreement. The City shall give notice in a timely manner if such event occurs to the MSRB and through EMMA in an electronic format as prescribed by the MSRB.

10. *Dissemination Agent.* The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Undertaking, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

11. *Additional Information.* Nothing in this Undertaking shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Financial Information Disclosure or Listed Events Disclosure, in addition to that which is required by this Undertaking. If the City chooses to include any information from any document or Listed Events Disclosure in addition to that which is specifically required by this Undertaking, the City shall have no obligation under this Undertaking to update such information or include it in any future Annual Financial Information Disclosure or Listed Events Disclosure.

12. *Beneficiaries.* This Undertaking has been executed in order to assist the Participating Underwriters in complying with the Rule; however, this Undertaking shall inure solely to the benefit of the City, the Dissemination Agent, if any, and the beneficial owners of the Bonds, and shall create no rights in any other person or entity.

13. *Recordkeeping.* The City shall maintain records of all Annual Financial Information Disclosure and Listed Events Disclosure including the content of such disclosure, the names of the entities with whom such disclosure was filed and the date of filing such disclosure.

14. *Assignment.* The City shall not transfer obligations under the City Purchase Agreement unless the transferee agrees to assume all obligations of the City under this Agreement or to execute an Undertaking meeting the requirements of the Rule.

15. *Governing Law.* This Undertaking shall be governed by the laws of the State.

CITY OF PHOENIX, ARIZONA

By David Cavazos
Its City Manager

By: ______________________________
Jeff DeWitt
Finance Director

ATTEST:

By: ______________________________
City Clerk

APPROVED AS TO FORM:

By: ______________________________
City Attorney

EXHIBIT I

ANNUAL FINANCIAL INFORMATION AND TIMING AND AUDITED FINANCIAL STATEMENTS

"Annual Financial Information" means financial information and operating data of the type contained in the Final Official Statement under the following captions: "SECURITY AND SOURCE OF PAYMENT — "Outstanding Senior Lien and Junior Lien Obligations," and "SCHEDULE OF FORECASTED NET OPERATING REVENUES, WATER REVENUE BONDS DEBT SERVICE REQUIREMENTS AND JUNIOR LIEN DEBT SERVICE COVERAGE (actual results for most recently completed fiscal year only)," and "APPENDIX A-SUMMARY INFORMATION OF THE CITY OF PHOENIX WATER SYSTEM".

All or a portion of the Annual Financial Information and the Audited Financial Statements as set forth below may be included by reference to other documents which have been submitted to the MSRB through EMMA. If the information included by reference is contained in a Final Official Statement, the Final Official Statement must be available from the MSRB through EMMA or the Commission. The City shall clearly identify each such item of information included by reference.

Annual Financial Information exclusive of Audited Financial Statements will be provided to the MSRB through EMMA, by February 1 of each year, commencing February 1, 2012, 210 days after the last day of the City's fiscal year. Audited Financial Statements as described below should be filed at the same time as the Annual Financial Information. If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements shall be included, to be followed up by Audited Financial Statements when available.

Audited Financial Statements will be prepared according to GAAP, as applied to governmental units as modified by State law. Audited Financial Statements will be provided to the MSRB through EMMA within 30 days after availability to the City.

If any change is made to the Annual Financial Information as permitted by Section 4 of the Agreement, the City will disseminate a notice of such change as required by Section 4, including changes in Fiscal Year or GAAP.

EXHIBIT II

EVENTS FOR WHICH LISTED EVENTS DISCLOSURE IS REQUIRED

1. Principal and interest payment delinquencies
2. Non-payment related defaults, if material
3. Unscheduled draws on debt service reserves reflecting financial difficulties
4. Unscheduled draws on credit enhancements reflecting financial difficulties
5. Substitution of credit or liquidity providers, or their failure to perform
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds
7. Modifications to the rights of Bondholders, if material
8. Bond calls, if material, and tender offers
9. Defeasances
10. Release, substitution or sale of property securing repayment of the Bonds, if material
11. Rating changes
12. Bankruptcy, insolvency, receivership or similar event of the City*
13. The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material

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* The event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plant of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

City of Phoenix Civic Improvement Corporation | Junior Lien Water System Revenue Refunding Bonds, Series 2011 | F.O.S. Dated November 1, 2011