

**City of Phoenix
Civic Improvement Corporation
Junior Lien Water System Revenue
Refunding Bonds, Series 2016**

Investor Presentation

Presented by the City of Phoenix
November 29, 2016

City of Phoenix



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Participants

City of Phoenix Finance Department

- Denise Olson, *Chief Financial Officer*

City of Phoenix Water Services Department

- Kathryn Sorensen, *Water Services Director*

Financial Advisor

Frasca & Associates

- Ken Cushine, *Principal*
- Jessica Soltz Rudd, *Senior Director*

Senior Manager

J.P. Morgan Securities LLC

- Shawn Dralle, *Executive Director*



Transaction Summary

Series	City of Phoenix Civic Improvement Corporation Junior Lien Water System Revenue Refunding Bonds, Series 2016
Par Amount*	Approximately \$381,215,000
Federal Tax Status	Tax-Exempt
Amortization*	Serial bonds maturing from 2017 through 2039
Security	The Bonds are special, limited obligations of the Corporation payable solely from payments received under the City Purchase Agreement. Payments by the City are to be made solely from Designated Revenues of the Water System, consisting of system revenues after payments of (a) all expenses of operations and (b) all payments required on any senior lien obligations payable from Net Operating Revenues
Uses of Funds*	(i) Refund a portion of the Corporation's outstanding Junior Lien Water System Revenue Bonds, Series 2009A; and (ii) Pay the costs of issuance of the Bonds
Optional Redemption*	July 1, 2026 at par
Ratings	S&P: AAA Stable; Moody's: Aa2 Stable
Expected Pricing Date*	Week of December 5, 2016
Settlement Date*	Tuesday, December 20, 2016
Senior Manager	J.P. Morgan Securities LLC

* Preliminary, subject to change

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City of Phoenix Overview

City of Phoenix



City of Phoenix Overview

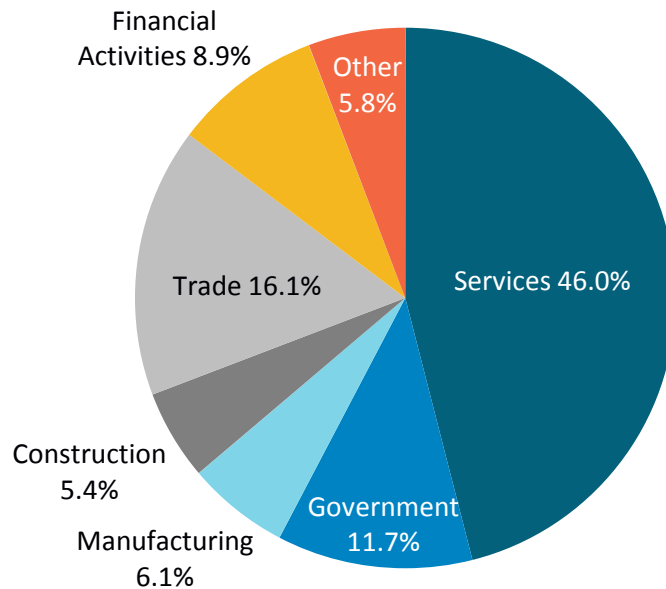
- The City of Phoenix operates under a Council-Manager form of government
 - The Phoenix City Council consists of a Mayor and eight Council members and is responsible for setting policy
 - The City Manager is responsible for executing Council policies and administering City operations
- 6th largest city in the U.S. based upon population – 1.57 million as of July 2016 – population has grown 59% since 1990
- Greater Phoenix accounts for approximately 72.6% of Arizona's jobs
- Phoenix unemployment rate of 4.8% is at its lowest since 2008, and is below the national rate of 4.9%



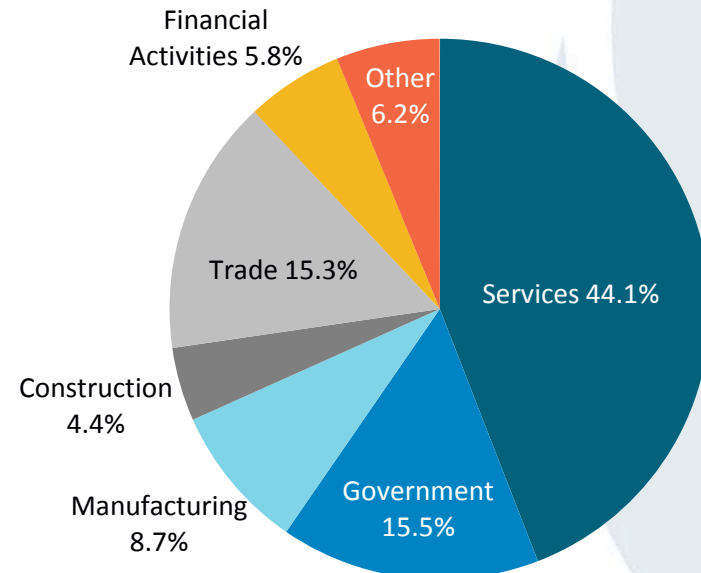
Employment Mix: Phoenix MSA and U.S.

- The Phoenix MSA is the largest economic center in the State with a healthy mix of employment across industry sectors and mirrors that of the U.S.
- Since the end of the recession, Phoenix MSA total job employment has increased 13.6% compared with 9.3% nationally (June 2009 to July 2016)
- Phoenix MSA employment was up 3.4% year-to-date through July 2016, compared to an increase of 1.8% nationally

2016 Phoenix MSA Non-Farm Wage & Employment by Sector



2016 U.S. Non-Farm Wage & Employment by Sector





Phoenix MSA Real Estate Market

- As of July 2016, median housing prices for new homes increased 2.5% compared to July 2015 and the median price for resale homes increased 7.5% over the same period
- As of the second quarter of 2016, the U.S. median sales price for an existing (resale) single-family home was \$240,700 and the median sales price for a similar home in Greater Phoenix was \$234,700
- The median housing price in Greater Phoenix continues to remain low relative to most major western cities such as Salt Lake City, Los Angeles, San Diego, Denver, Seattle and Austin

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Water System Overview

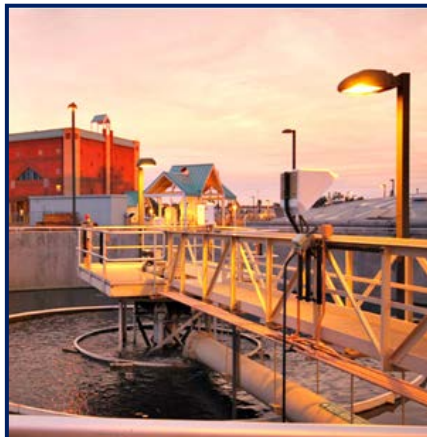
City of Phoenix



The Water System

Overview

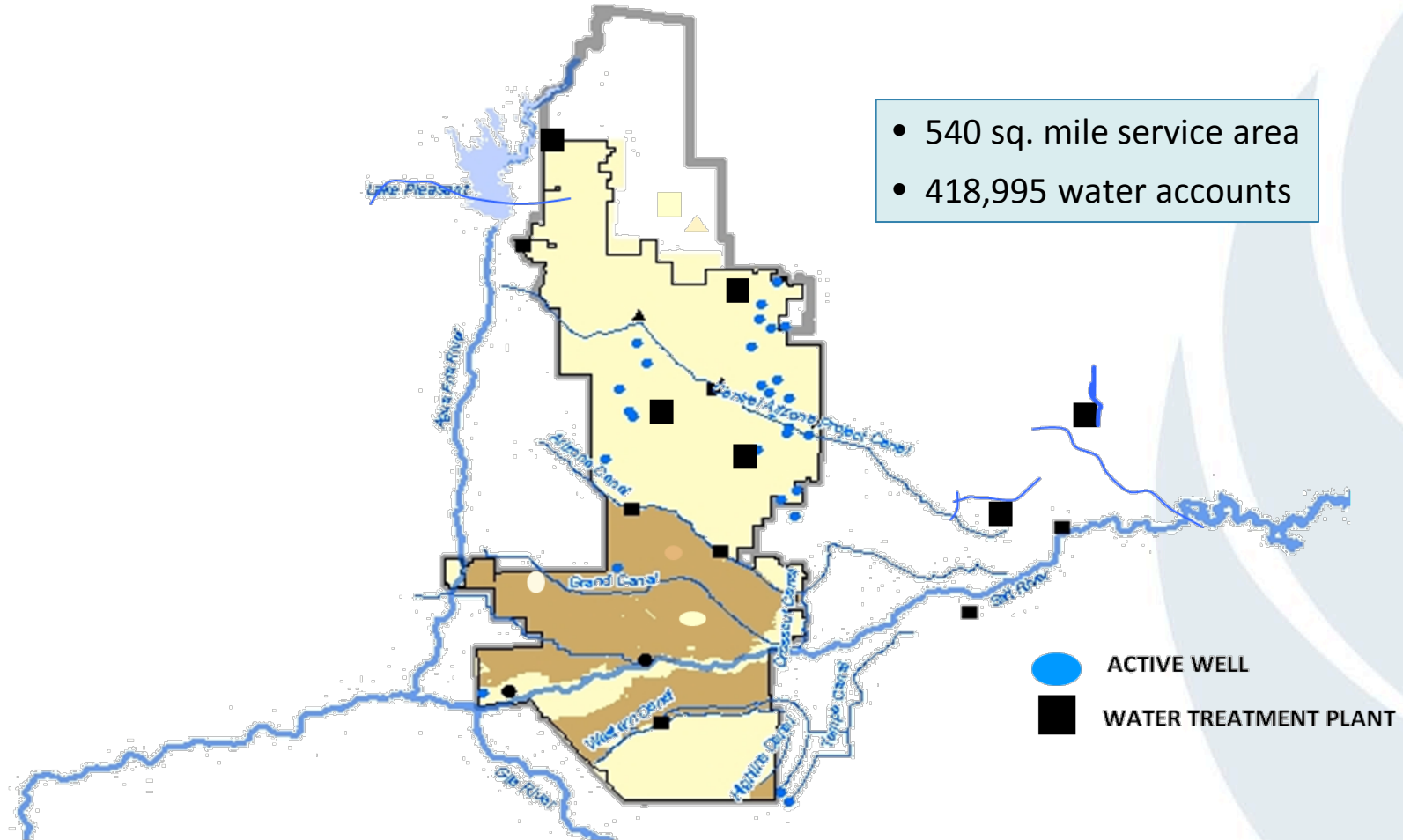
- Organized as a self-supporting enterprise fund within the Water Services Department of the City
- City Council sets rates, budgets and policy
- Water/Wastewater Rate Advisory Committee acts as an advisory body to the City Manager and City Council
- Rates are set to recover costs of service
- Water Services Department handles billing and collections
- The System currently meets or exceeds all regulatory mandates





Water System

City of Phoenix Water System



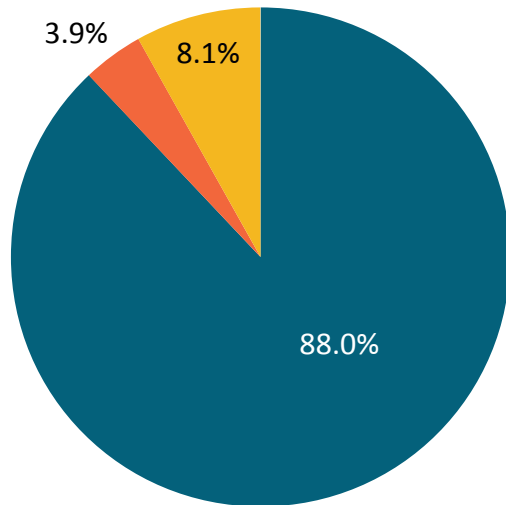
Water Supply Sources: Salt River, Verde River, Colorado River, Ground Water, and Reclaimed Water



FY 2014-15 Water User Account Characteristics

- The largest single water customer is the City of Phoenix, which accounted for 3.9% of retail water revenue
- The top ten customers accounted for 7.9% of total retail water revenue

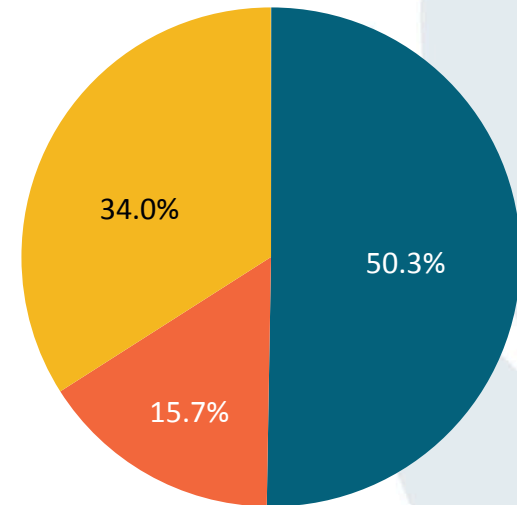
Accounts by User Group



418,995 Total Accounts

Billed Volume by User Group

■ Single-Family
■ Multi-Family
■ Non-Residential



Billed Volume – 112,446,004 ccf



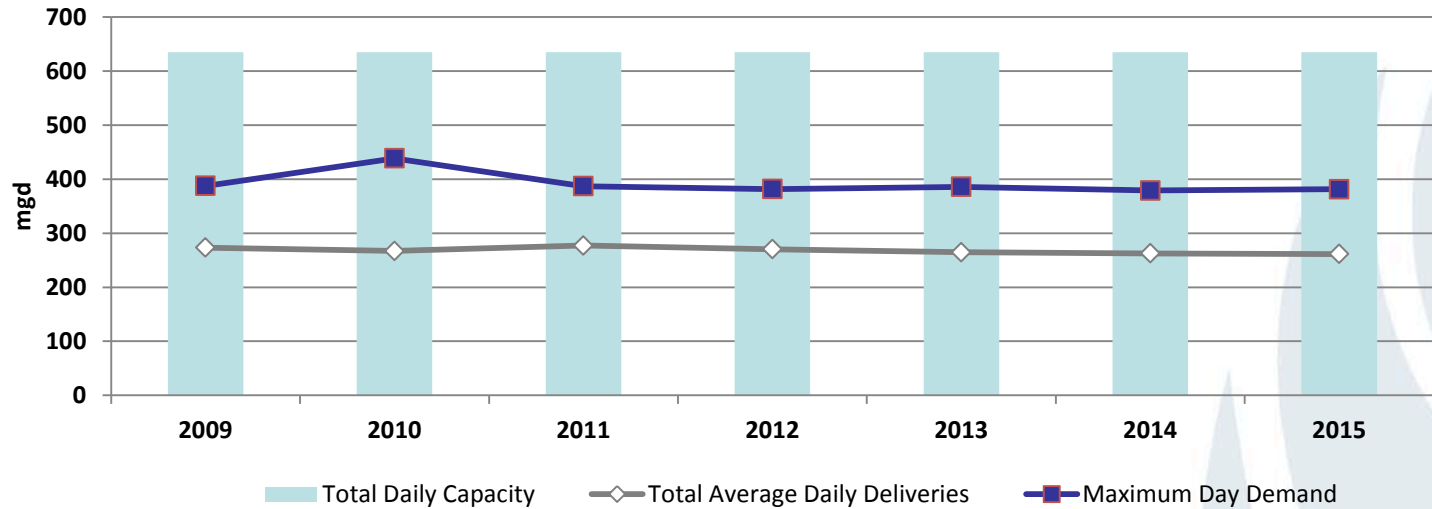
Supply - Water in the Desert

- Acutely aware of drought and climate change challenges, the City developed a diverse water supply portfolio, including:
 - Salt River Water
 - Verde River Water
 - Colorado River Water
 - Groundwater Resources
 - Reclaimed Wastewater for non-potable purposes
- Currently, the City uses 50% of its Salt & Verde River supplies and 67% of its Colorado River supplies, “Banking” the remaining Colorado River supplies
- The 100-year Assured Water Supply Plan:
 - ✓ Phoenix/Tucson Water Exchange
 - ✓ Watershed Protection
 - ✓ Colorado River Resiliency Fund



Supply: Excess Water Treatment Capacity

Consumption Statistics

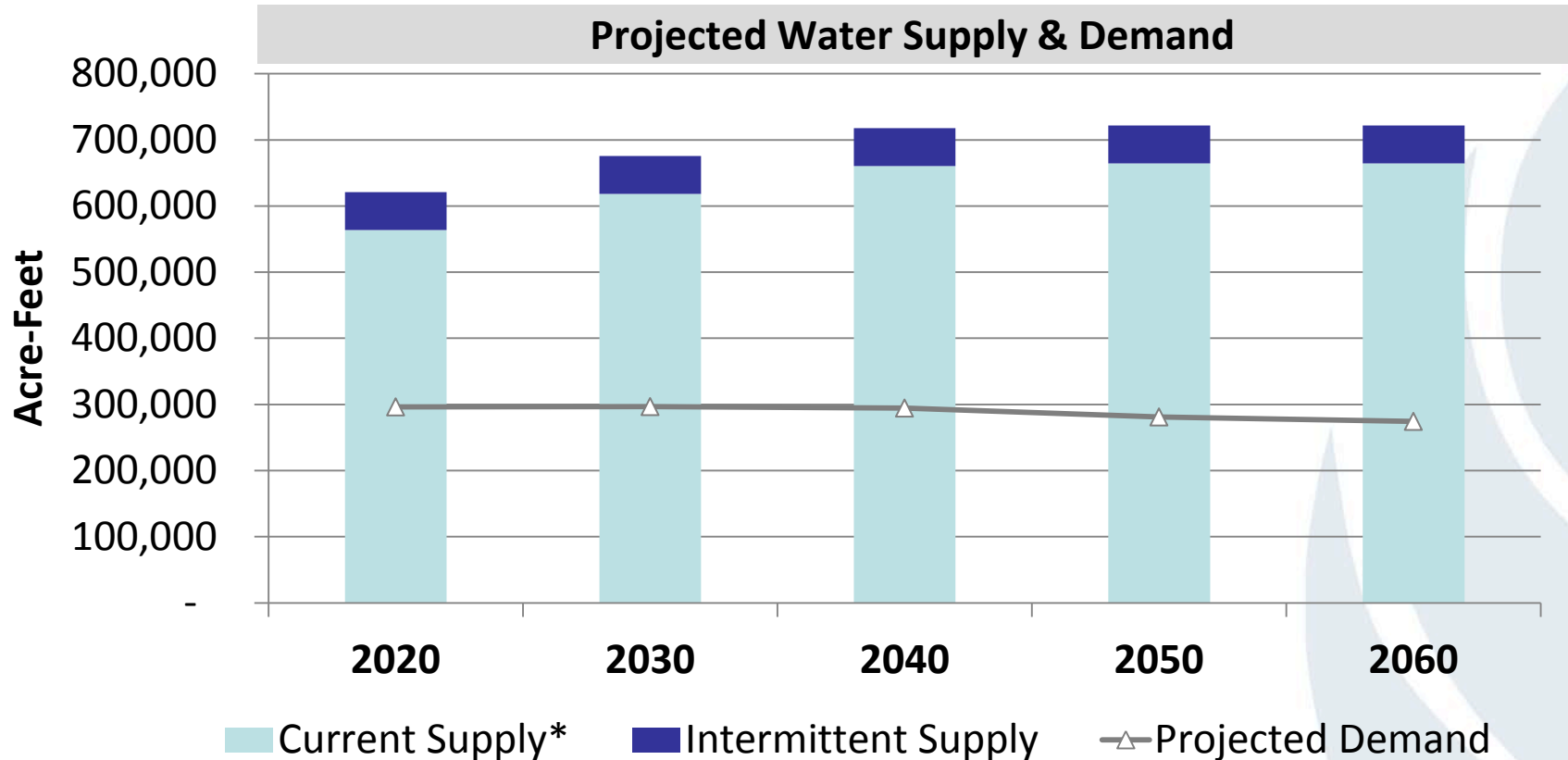


Year	2009	2010	2011	2012	2013	2014	2015
Total Daily Capacity	635	635	635	635	635	635	635
Total Average Daily Deliveries	273	267	277	270	265	263	261
Maximum Day Demand	388	438	387	382	386	379	381
Daily Capacity/Max Demand Ratio	1.64x	1.45x	1.64x	1.66x	1.65x	1.67x	1.66x

- Conservation measures result in lower average daily deliveries and plentiful future water treatment capacity



Supply - Plentiful Future Water



- Strong water planning results in excess supply, which is needed with drought conditions persisting in California
- Demand declining because of conservation practices and increased efficiencies

*Current supply derived from On-Project and Off-Project water sources and ground water supply

Source : City of Phoenix 2016 Continuing Disclosure

A large, stylized graphic of a water splash or wave, rendered in various shades of blue, occupies the left and center portions of the page. The splash is composed of several curved, overlapping shapes that create a sense of movement and depth. The background is a solid, medium-blue color.

Water Capital Improvement Plan

City of Phoenix



FY 2016 – FY 2021 CIP by Funding Source

(\$000)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	6 Year Total	% of Total
Operating Revenues	\$141,555	\$120,031	\$106,925	\$121,607	\$109,844	\$98,768	\$698,730	74%
Mesa Participation*	7,907	1,557	1,438	2,879	11,520	289	25,590	3%
Developer Contributions	425	13,314	500	500	500	500	15,739	2%
Commercial Paper	0	0	28,456	31,413	31,746	53,365	144,980	15%
Other Sources	8,290	41,220	725	3,824	3,688	0	57,747	6%
Total	\$158,177	\$176,122	\$138,044	\$160,223	\$157,298	\$152,922	\$942,786	

- Six-year CIP is primarily cash funded with low reliance on leverage (<20%)
- CIP focused on distribution related projects (58%), production (36%) and miscellaneous (6%)

Source: City of Phoenix 2016 Continuing Disclosure; *City of Mesa’s share of capital program costs related to Val Vista Water Treatment Plant which is a joint venture between the City and Mesa

A large, stylized, light blue Phoenix logo is positioned in the upper left quadrant of the slide. The logo is composed of several curved, overlapping shapes that form the bird's head and tail. The background of the slide is a solid, medium blue color.

Financial Overview

City of Phoenix



Financial Highlights

- The Water System has a stable history of producing strong financial results that provide bondholder protection
- Strong debt service coverage, with coverage consistently in excess of 2.00x on Junior Lien revenue bonds over the last five audited fiscal years, and coverage of 2.16x estimated for FY 2017
- Fund balance remains healthy
 - FY 2016 estimated available fund balance of \$166 million, 98% of FY 2016 total O&M expenditures and encumbrances
 - Strong financial position allows for primarily cash funded CIP with low reliance on leverage (<20%)
- Strong fiscal management has allowed O&M expenditures to remain relatively flat year-over-year
- City Council continues to approve rate increases, with most recent effective March 2016 and March 2017



Healthy Water Historical Financial Operations

(\$000)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016 ⁽³⁾
Rate Changes	4.5%	0.0%	0.0%	0.0%	3.0%
Revenues⁽¹⁾					
Metered Water Sales	\$281,861	\$294,389	\$297,475	\$274,367	\$299,767
Environmental Charges	50,585	45,090	45,494	42,613	40,105
Raw Water Charge	26,183	25,439	25,679	23,582	24,979
Wholesale Water Sales	5,113	4,015	3,904	3,848	3,596
Customer Service Fees	5,686	5,968	5,726	5,449	5,301
Development Occupational Fees	1,820	2,333	2,478	2,415	3,512
Water Resource Acquisition Fees	1,393	1,522	1,511	1,411	1,732
Connection Fees	3,120	3,178	3,338	3,661	4,225
Interest Income	1,918	1,868	2,259	2,774	2,490
Other ⁽²⁾	13,975	42,135	12,645	11,470	14,002
Total Revenues	\$391,654	\$425,937	\$400,509	\$371,590	\$399,709
Operation & Maintenance Expenditures and Encumbrances					
Administration	\$21,162	\$17,902	\$19,004	\$17,561	\$16,648
Customer Service	19,625	20,055	17,506	9,510	9,039
Production and Treatment	76,195	79,034	77,348	76,471	82,413
Distribution and Centralized Functions	46,061	47,146	52,135	55,964	60,204
Total O&M Expenditures and Encumbrances	\$163,043	\$164,137	\$165,993	\$159,506	\$168,304
Net Revenues Available for Revenue Bond Debt Service	\$228,611	\$261,800	\$234,516	\$212,084	\$231,404

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

(2) In 2012-13, the City sold the McMullen Valley Ranch land for \$29.7 million.

(3) FYE 2015-16 data is preliminary and unaudited.



Financial Results Provide Strong Bondholder Coverage

- Rate increases of 3.0% in March 2016 and 2.0% in March 2017 maintain strong coverage, fund pay-go additions and increase fund balance
- Historically, optional below-the-line, pay-go, plant additions and improvement expenditures are near or exceed debt service expenses

<i>(\$000 except coverage)</i>	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016*
Net Revenues Available for Revenue Bond Debt Service	\$228,611	\$261,800	\$234,516	\$212,084	\$231,404
Junior Lien Revenue Bond Debt Service	97,555	108,680	112,957	\$106,536	\$96,401
Junior Lien Debt Service Coverage (x)	2.34	2.41	2.08	1.99	2.40
Revenues Available After Debt Service Payments	\$131,056	\$153,120	\$121,559	\$105,548	\$135,003
Total Other Expenditures, Encumbrances, Transfers	89,947	132,407	166,333	144,483	127,219
Available Fund Balance (End of Year)**	\$232,389	\$275,366	\$228,553	\$162,854	\$165,736

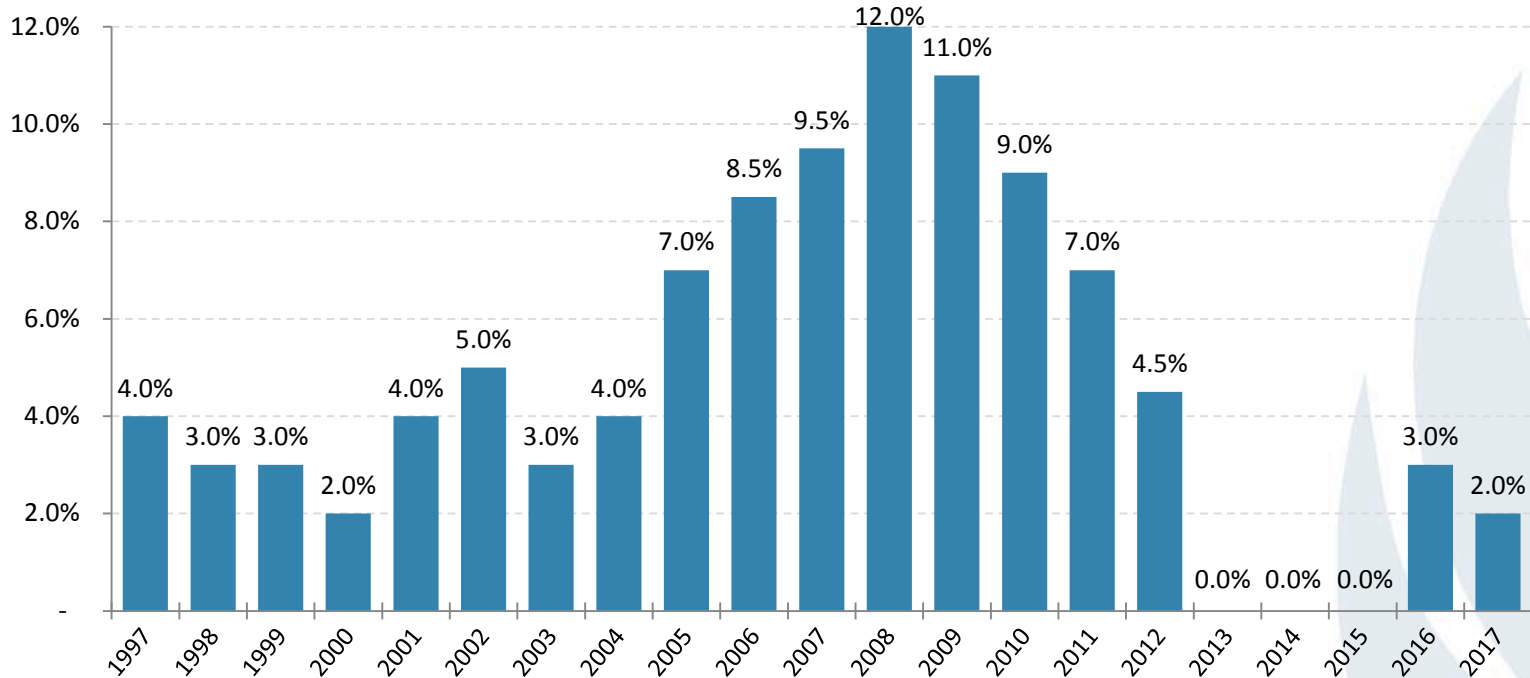
Source: City of Phoenix

*FY 2016 is unaudited estimated; ** Includes Water Reserve Fund



Strong Support for Rate Adjustments

Annual Water Rate Increases⁽¹⁾



Source: City of Phoenix

⁽¹⁾ There were no rate revenue adjustments in 2013 through 2015

- Ability and willingness to increase rates facilitates proactive resource development
- 5th lowest average single-family monthly water bill among 20 largest U.S. Cities



Plan of Finance

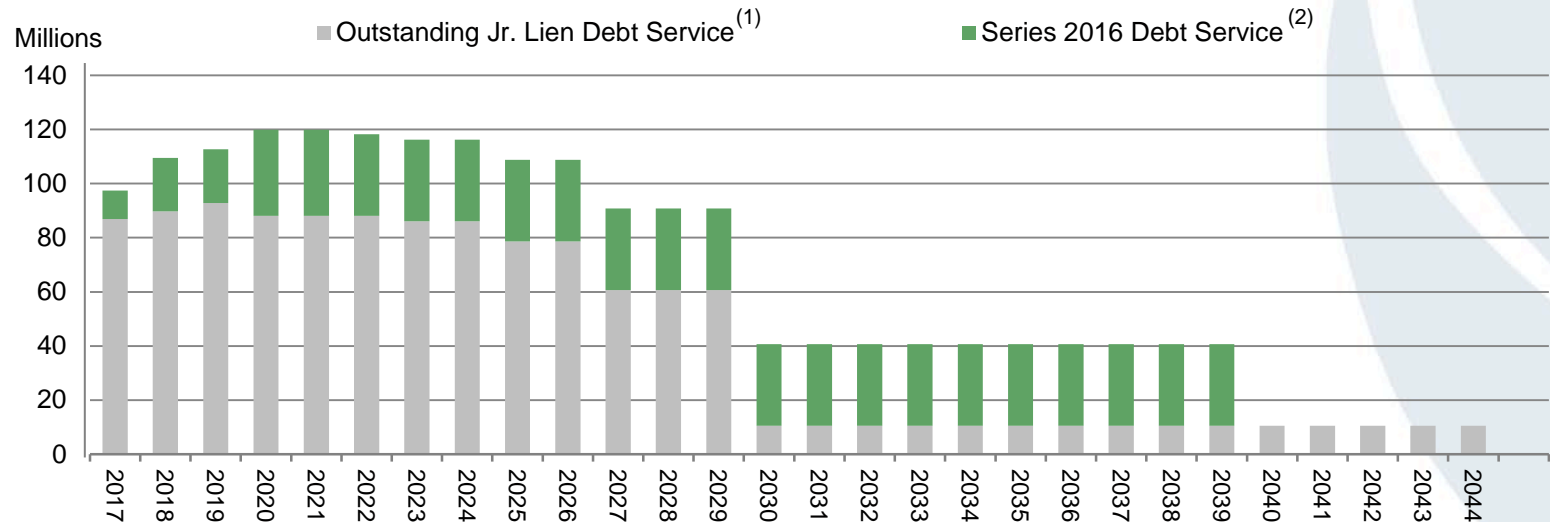
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Water System Debt Structure

- Advance refund the Series 2009A Junior Lien Water bonds for savings
- No Senior Lien Bonds outstanding and no plans to issue any Senior debt
- Pledge of Designated Revenues: Revenues after payment of operation and maintenance expenses and senior lien debt service requirements (if any)
- Additional Bonds Test: Net Revenues equal to 110% of all outstanding Obligations
- Rate Covenant: Net Revenues must equal at least 110% of all outstanding Obligations
- Maintain Water Capital Reserve Fund for unrestrictive use

Current and Projected Water Revenue Bond Debt Service (Dollars in Millions)



(1) Excludes the 2009A Bonds to be refunded; includes the debt service from the unrefunded 2009A Bonds

(2) Preliminary; subject to change



Summary

City of Phoenix



Credit Strengths

- Broad and diverse economic and customer base in a large and vibrant metropolitan area
- Strong and conservative fiscal management with no unmet regulatory mandates
- City Council annually approves updated CIP and financial plan, and considers appropriate rate adjustments
- 5th lowest average single-family monthly water bill out of the 20 largest cities in the U.S.
- Strong projected MADS coverage on Junior Lien debt of 1.92; no plans for Senior Lien debt
- Current CIP is distribution and production focused, with low leverage
- Healthy days cash on hand of 359 days for Fiscal Year 2016
- Strong Junior Lien ratings of AAA and Aa2 from S&P and Moody's, respectively



Investor Relations Website

<http://phoenix.gov/finance/investor>



City of Phoenix



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Investor Information

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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. Phoenix has been one of the most rapidly growing metropolitan areas in the country for several decades in terms of population, employment and personal income growth.

The sustained growth of Phoenix has contributed to the city's use of bonds as a major source of financing for its capital improvement programs. The city issues bonds to fund infrastructure and development through the following major debt categories: General Obligation; Excise Tax Revenue; Airport Revenue; Water Revenue; Wastewater Revenue; Downtown Phoenix Hotel Corporation Revenue; State of Arizona Distribution Revenue; Transit Excise Tax Revenue (Light Rail); and Rental Car Facility Charge Revenue.

(Note: Adobe Acrobat is required to view some of the following links)

- [Aviation Annual Financial Report](#)
- [Sky Harbor International Airport Statistics](#)
- [Budget Information](#)
- [Single Audit Reports](#)
- [Comprehensive Annual Financial Reports \(CAFR\) and Financial Condition Report](#)
- [Current FY Monthly Financial Reports](#)
- [Water and Wastewater Utility Bill Comparison](#)

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- [Debt Policy and Investment Policy](#)
- [Downtown Phoenix Hotel Corporation](#)
- [Independent Registered Municipal Advisors \(IRMA\) Notification](#)
- [Official Statements](#)
- [Pension Information: City and Public Safety](#)
- [Pension Reform](#)
- [Pension Reform - Summary of Voter Approved Changes](#)



Financing Schedule

Event	Date
Pricing	Week of December 5, 2016
Closing	Tuesday, December 20, 2016
2009 Bonds Redeemed	July 1, 2019

All dates preliminary, subject to change



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