NEW ISSUE — BOOK-ENTRY-ONLY

RATINGS: Moody's: Aaa
Standard & Poor's: AAA
Insured by: Ambac

OFFICIAL STATEMENT DATED DECEMBER 7, 2004

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (ii) interest on the Bonds is exempt from Arizona state income tax so long as that interest is excluded from gross income for federal income tax purposes. Interest on the Bonds may be subject to certain federal taxes imposed only on certain corporations, including the corporate alternative minimum tax on a portion of that interest. (For a more complete discussion of tax aspects, see "TAX MATTERS" herein.)

CITY OF PHOENIX CIVIC IMPROVEMENT CORPORATION

$500,000,000
Transit Excise Tax Revenue Bonds, Series 2004
(Light Rail Project)

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

The Transit Excise Tax Revenue Bonds, Series 2004 (Light Rail Project) (the "*2004 Bonds*" or the *"Bonds"*), are being issued by the City of Phoenix Civic Improvement Corporation (the *"Corporation"*) only in fully registered form without coupons and, 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 and interest on the Bonds will be made to such purchasers through DTC. Payment of principal of and interest on the bonds will be paid by U.S. Bank National Association or any successor thereto as trustee (the *"Trustee,"*also referred to herein as the *"Registrar," "Paying Agent"* and *"Authenticating Agent"*). The Bonds are being issued pursuant to a Master Trust Indenture and Series 2004 Supplemental Indenture, both dated as of December 1, 2004, between the Corporation and the Trustee.

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

The Bonds are special obligations of the Corporation and the principal of, premium, if any, and interest on the Bonds are payable solely from payments to be made by the City of Phoenix, Arizona (the *"City"*), to the Corporation pursuant to a Series 2004 Loan Agreement, dated as of December 1, 2004 (the *"Series 2004 Loan Agreement"*), between the City and the Corporation. Except to the extent the City appropriates other lawfully available funds for such payments, the City's payments are payable solely from and secured by a first priority pledge of funds received by the City from a 0.4 percent increment to the City's privilege license (sales) tax, which increment was approved at a special election held in and for the City on March 14, 2000 and subsequently adopted pursuant to Ordinance No. G-4254, enacted April 5, 2000, by the City Council of the City. **The obligation of the City to make payments under the Series 2004 Loan Agreement is absolute and unconditional but does not constitute a pledge of the full faith and credit or the ad valorem taxing power of the City.** See "SECURITY AND SOURCE OF PAYMENT" herein. Payment of principal of and interest on the Bonds when due will be guaranteed by a financial guaranty insurance policy to be issued simultaneously with the delivery of the Bonds by Ambac Assurance Corporation.

Proceeds of the Bonds will be used to pay a portion of the costs of the design, acquisition, equipping and construction of the City's light rail transit system. See "LIGHT RAIL TRANSIT SYSTEM" 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, including the information under the caption "TRANSIT EXCISE TAXES AND COVERAGE," 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 Squire, Sanders & Dempsey L.L.P., Bond Counsel, as to validity and tax exemption. Certain legal matters will be passed upon for the Underwriters by Greenberg Traurig, LLP, 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 December 10, 2004.

Lehman Brothers

RBC Dain Rauscher **Stone & Youngberg LLC**

Banc of America Securities LLC **Merrill Lynch & Co.** **Piper Jaffray**

Siebert Brandford Shank & Co., LLC **UBS Financial Services Inc.**

Hutchinson, Shockey, Erley & Co. **Peacock, Hislop, Staley & Given, Inc.**

Zions First National Bank

MATURITY SCHEDULE

$500,000,000
Transit Excise Tax Revenue Bonds, Series 2004
(Light Rail Project)

Maturity July 1	Principal Amount	Interest Rate	Yield
2006	$ 1,570,000	5.00%	2.14%
2007	12,420,000	5.00	2.32
2008	14,910,000	5.00	2.56
2009	17,620,000	5.00	2.83
2010	20,560,000	5.00	3.07
2011	23,755,000	5.00	3.26
2012	27,215,000	5.25	3.42
2013	31,035,000	5.00	3.56
2014	$35,090,000	5.00%	3.66%
2015	39,480,000	5.00	3.78*
2016	44,215,000	5.00	3.87*
2017	49,330,000	5.00	3.95*
2018	54,840,000	5.00	4.01*
2019	60,780,000	5.00	4.07*
2020	67,180,000	5.00	4.13*

* Priced to the July 1, 2014 optional call date.

CITY OF PHOENIX, ARIZONA

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 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 must not be relied upon as having been given or authorized by the Corporation, the City, or the Underwriters. This Official Statement shall not constitute an offer to sell or the solicitation of any offer to buy, and there shall be no sale of any of the Bonds by any person, in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The information set forth herein has been obtained from the City and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters. 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
$500,000,000
CITY OF PHOENIX CIVIC IMPROVEMENT CORPORATION
Transit Excise Tax Revenue Bonds, Series 2004
(Light Rail Project)

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 Corporation, the City and the captioned bonds (the "2004 Bonds" or 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 they are 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 that 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, to the Code of the City of Phoenix or to the Arizona Constitution, are references to current provisions. Those provisions may be amended, repealed or supplemented.

For the definition of certain capitalized terms used in this Official Statement, see "Certain Definitions" which appears in "APPENDIX G — SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE LOAN AGREEMENT." For a summary of certain provisions of the Series 2004 Loan Agreement, dated as of December 1, 2004 (the "Series 2004 Loan Agreement") between the City and the Corporation, the Master Trust Indenture, dated as of December 1, 2004 (the "Master Indenture") between the Corporation and U.S. Bank National Association, St. Paul, Minnesota (which, together with any successor, is referred to herein as "Trustee", "Registrar", "Paying Agent" and "Authenticating Agent"), and the Series 2004 Supplemental Indenture, dated as of December 1, 2004 (the "Series 2004 Supplemental Indenture" and, collectively with the Master Indenture, the "Indenture"), see "APPENDIX G — SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE LOAN AGREEMENT."

THE BONDS

Authorization and Purpose

The Bonds are being issued by the Corporation pursuant to the terms of the Indenture for the purpose of financing a portion of the design, acquisition, equipping and construction of the City's light rail transit system (the "Project"). Additional series of bonds may be issued under the Master Indenture to pay additional portions of said costs until the City's light rail system is completed. See "LIGHT RAIL TRANSIT SYSTEM" herein. Costs of issuance of the Bonds will be paid from a portion of the proceeds of the Bonds.

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 CAPTION "TAX MATTERS") 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 as of their date of delivery, will bear interest payable semiannually on January 1 and July 1 of each year (each an "Interest Payment Date"), commencing July 1, 2005. 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, principal of and premium, if any, will be payable upon presentation and surrender of such Bond at the designated corporate trust office of the Registrar. Interest on each Bond will be paid on each Interest Payment Date by check or draft 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, premium, if any, and interest on that Bond 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") preceding payment which Special Record Date 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 or the Underwriters makes any representations, warranties or guarantees with respect to its accuracy or completeness.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities 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 2.2 million issues of U.S. and non-U.S. equity issues, 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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"). DTC has Standard & Poor's highest rating: AAA. 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 the 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 Direct and Indirect 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 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 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 DTC 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 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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

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

Payments of redemption proceeds 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, the Trustee or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds 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 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 use of 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.

Redemption Provisions

Optional Redemption. Bonds maturing on or prior to July 1, 2014 are not subject to optional redemption prior to maturity. Bonds maturing on and after July 1, 2015 are subject to redemption at the option of the Corporation, as directed by the City, on July 1, 2014 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 principal amount thereof and accrued interest to the date fixed for redemption.

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) by letters, numbers or other distinguishing marks, the Bonds or portions thereof to be redeemed; (b) the redemption price to be paid; (c) the date fixed for redemption; and (d) the place or places where the amounts due upon redemption are payable. 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.

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.

SECURITY AND SOURCE OF PAYMENT

General

The Bonds are special obligations of the Corporation. The Bonds are payable as to both principal and interest solely from payments required under the Series 2004 Loan Agreement. Under the terms of the Series 2004 Loan Agreement, the City is required to make Loan Payments to the Trustee for the account of the Corporation in amounts sufficient to pay the principal of, premium, if any, and interest on the Bonds when due. See "APPENDIX G — SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE LOAN AGREEMENT".

The City pledges for these Loan Payments 100% of the proceeds received from a 0.4 percent increment to the City's privilege license (sales) tax (the "Transit Excise Taxes"), which increment was approved at a special election held in and for the City on March 14, 2000 and subsequently adopted by the City Council of the City pursuant to Ordinance No. G-4254, enacted April 5, 2000. The Loan Payments also may be made from Other Available Moneys of the City; such Other Available Moneys are not pledged as security for the Bonds. For a definition of "Other Available Moneys" see "APPENDIX G — SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE LOAN AGREEMENT — Certain Definitions".

The City has covenanted in the Series 2004 Loan Agreement that it will not diminish or reduce the types or nature of businesses to which the Transit Excise Taxes (which, together with any additional sources of revenue which the City may from time to time pledge, the "Pledged Revenues") apply in any manner that would materially diminish the proceeds derived from the 0.4 percent levy. See "APPENDIX G — SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND LOAN AGREEMENT".

The City has established the Transit 2000 Fund into which are deposited the Transit Excise Taxes as collected. See "TRANSIT EXCISE TAXES AND COVERAGE" herein. After paying Administrative Costs, as defined in the Indenture (See "APPENDIX G — SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE LOAN AGREEMENT — Certain Definitions"), the City has agreed in the Series 2004 Loan Agreement that on or before the last Business Day of each month, commencing January 2005, the City shall transfer from the Transit 2000 Fund to the City Improvement Fund — Light Rail an amount equal to one-fifth of the interest coming due on the Bonds on the next succeeding 2004 Bond Payment Date, until such transfers have been made in an amount sufficient to make such next succeeding interest payment. If funds in the Transit 2000 Fund are insufficient to make a transfer when required, such deficiency shall be remedied on the next succeeding transfer date. The City has further agreed that on or before the last Business Day of each month during each Bond Year, with the Bond Year commencing July 2, 2005, the City shall transfer from the Transit 2000 Fund to the City Improvement Fund — Light Rail an amount equal to one-tenth of the Principal Requirement for the Bonds for the then current Bond Year, until such transfers have been made in an amount sufficient to make such next succeeding principal payment. If funds in the Transit 2000 Funds are insufficient to make a transfer when required, such deficiency shall be remedied on the next succeeding transfer date.

Regardless of the amount which has been transferred from the Transit 2000 Fund to the City Improvement Fund — Light Rail, on or before the Business Day immediately preceding each 2004 Bond Payment Date, until principal of and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, the City shall pay to the Trustee from the City Improvement Fund — Light Rail (or the Transit 2000 Fund if there is a shortfall in the City Improvement Fund — Light Rail) an amount equal to the principal of and/or interest on the Bonds falling due on such 2004 Bond Payment Date for deposit by the Trustee into the 2004 Principal Subaccount or the 2004 Interest Subaccount, as applicable.

The obligation of the City to make payments under the Series 2004 Loan Agreement is absolute and unconditional but does not constitute a pledge of the full faith and credit of the City and does not constitute an indebtedness of the City, the Corporation, the State of Arizona or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction, nor shall the City be liable for such payments from ad valorem taxes. The Corporation has no taxing power.

Flow of Funds

Pursuant to the Indenture, the Trustee will deposit Loan Payments upon receipt into the following subaccounts in the Bond Fund in the order listed:

(a) To the 2004 Interest Subaccount of the Bond Fund on or before the Business Day immediately preceding each 2004 Bond Payment Date, the Interest Requirement.

(b) To the 2004 Principal Subaccount on or before the Business Day immediately preceding a principal payment on the Bonds, the Principal Requirement.

For a more complete discussion of the general flow of funds see "APPENDIX G — SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE LOAN AGREEMENT".

Bond Fund

Pursuant to the Indenture, the Trustee will create the Bond Fund which will contain the Principal Account, the Interest Account and the Redemption Account. In addition, the Trustee shall create and maintain separate subaccounts under each of the Principal Account, the Interest Account and the Redemption Account for each series of Bonds issued.

So long as any Bonds are outstanding, the Trustee will deposit the Loan Payments transferred to it by the City under the Series 2004 Loan Agreement into the 2004 Interest Subaccount and the 2004 Principal Subaccount, respectively, as above set forth. The portion of the Loan Payments deposited in the 2004 Interest Subaccount will be used by the Trustee to pay the next succeeding interest payment on the Bonds and the portion of the Loan Payments deposited into the 2004 Principal Subaccount will be used by the Trustee to pay the next succeeding principal payment on the Bonds.

If the City makes an optional prepayment of Loan Payments to be used to purchase or redeem Bonds, such prepayment must be deposited in the 2004 Redemption Subaccount and promptly applied by the Trustee, first, to cause the amounts credited to the 2004 Interest Subaccount or the 2004 Principal Subaccount, in that order, to be not less than the amounts required to be credited thereto, and second, to retire Bonds by purchase, redemption or both in accordance with the City's direction. Any balance remaining in the 2004 Redemption Subaccount after the purchase or redemption of the Bonds in accordance with the City's direction must be transferred to the 2004 Interest Subaccount.

For a more complete description of the Bond Fund and the use thereof see "APPENDIX G — SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE LOAN AGREEMENT".

2004 Reserve Fund

Pursuant to the Indenture, the Trustee will create the 2004 Reserve Fund, which will be available to make payments on the 2004 Bonds and will not be available to make payments on any other additional bonds issued pursuant to the Indenture. Proceeds of the 2004 Bonds in the amount of $35,269,500.00 will be deposited in the 2004 Reserve Fund on the date of issuance of the 2004 Bonds. If on any 2004 Bond Payment Date, moneys in the 2004 Principal Subaccount and the 2004 Interest Subaccount are insufficient to pay principal or interest, respectively, on the 2004 Bonds, the Trustee shall draw upon the 2004 Reserve Fund to make up such deficiency.

Monies in the 2004 Reserve Fund shall be invested in accordance with the Indenture. On the first day of each Bond Year, the Trustee shall transfer any gain realized on the moneys held in the 2004 Reserve Fund during the previous Bond Year, at the direction of the City, either (i) to the 2004 Principal Subaccount or the 2004 Interest Subaccount or (ii) to the City to be used to pay costs of the Project.

No replenishment of any moneys withdrawn from the 2004 Reserve Fund to make up any deposit deficiencies is required.

Upon receipt of a certification by the City Representative, countersigned by the Corporation Representative, to the effect that either the Pledged Revenues for the most recently completed Fiscal Year for which audited financial statements are available or the Pledged Revenues for 12 consecutive months out of the most recent 18 calendar months would have been at least equal to Administrative Costs for the last complete Bond Year and 175% of the Maximum Annual Loan Payments for all Parity Obligations Outstanding, any balance remaining in the 2004 Reserve Fund shall be paid to the City to be used to pay costs of the Project and the 2004 Reserve Fund shall be terminated as of the date of such transfer of funds.

Additional Parity Bonds

The 2004 Bonds are the first series of bonds to be issued that are to be secured by Loan Payments that are, in turn, payable from and secured by a first priority pledge of the Transit Excise Taxes. As of the date of this Official Statement, there are no other obligations of the Corporation secured by obligations of the City on a parity with the obligations of the City under the Series 2004 Loan Agreement. In order to provide additional funds for financing the design, acquisition, equipping and construction of the Project, the Master Indenture authorizes the Corporation to issue additional bonds on a parity basis with the 2004 Bonds and to issue obligations of the Corporation subordinate and junior to the 2004 Bonds. In order to provide a source of payment for said additional bonds, the Series 2004 Loan Agreement authorizes the City to enter into obligations payable from the Pledged Revenues on a parity with the Series 2004 Loan Agreement or subordinate and junior to the Series 2004 Loan Agreement, as described below.

Additional Parity Obligations under the Loan Agreement

The Series 2004 Loan Agreement provides that additional Parity Obligations may be issued for other than refunding purposes if (a) an officer of the Corporation shall certify that, upon issuance or delivery of the Parity Obligations, neither the Corporation nor the City will be in default under any term or provision of the Indenture or the Series 2004 Loan Agreement, and (b) an officer of the City shall certify that either the Pledged Revenues for the most recently completed Fiscal Year for which audited financial statements are available or the Pledged Revenues for 12 consecutive months out of the most recent 18 calendar months would have been at least equal to Administrative Costs for the last complete Bond Year and 175% of the Maximum Annual Loan Payments for all Parity Obligations Outstanding, including the Parity Obligations proposed to be delivered. See "APPENDIX G — SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE LOAN AGREEMENT".

In addition, the Series 2004 Loan Agreement provides that additional Parity Obligations may be issued for refunding purposes if (a) an officer of the City shall certify that the Maximum Annual Loan Payments becoming due and payable from the date of such determination to maturity or earlier redemption on the Parity Obligations to be Outstanding immediately after the date of execution and delivery of such refunding obligations is not greater than the Maximum Annual Loan Payments becoming due and payable from the date of such determination to maturity or earlier redemption on the Parity Obligations Outstanding immediately prior to the execution and delivery of such refunding obligations, and (b) the Parity Obligations being refunded will no longer be Outstanding upon the issuance of the refunding obligations.

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 Pledged Revenues, and reserves the right to establish funds, accounts and subaccounts to make payment on such agreements provided that such revisions do not result in payments under such agreements being made on a basis which is senior to the payment of any 2004 Bonds. To the extent the City enters into such agreements and pledges Pledged Revenues to the payment of such agreements on parity with the 2004 Bonds, such agreements may only be incurred if the City satisfies the relevant Parity Obligations test set forth in the Series 2004 Loan Agreement. In determining whether the Parity Obligations test is 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 Parity 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 Parity Obligations test set forth in the Series 2004 Loan Agreement.

SCHEDULE OF ANNUAL PAYMENTS UNDER THE LOAN AGREEMENT WITH RESPECT TO THE BONDS

The Series 2004 Loan Agreement requires monthly payments by the City to the Corporation which Loan Payments have been assigned to the Trustee. The Loan Payments are due from Transit Excise Taxes in immediately available funds, commencing June 30, 2005 and ending June 30, 2020. The Indenture requires that the Trustee deposit the Loan Payments with respect to the Bonds in the Bond Fund and apply such amounts in accordance with the provisions in "SECURITY AND SOURCE OF PAYMENT — Flow of Funds". The annual Loan Payments required under the Series 2004 Loan Agreement with respect to the Bonds are as follows:

Fiscal Year	Principal	Interest	Total
2005	$ —	$ 13,996,321	$ 13,996,321
2006	1,570,000	25,068,037	26,638,037
2007	12,420,000	24,989,538	37,409,538
2008	14,910,000	24,368,537	39,278,537
2009	17,620,000	23,623,038	41,243,038
2010	20,560,000	22,742,037	43,302,037
2011	23,755,000	21,714,038	45,469,038
2012	27,215,000	20,526,287	47,741,287
2013	31,035,000	19,097,500	50,132,500
2014	35,090,000	17,545,750	52,635,750
2015	39,480,000	15,791,250	55,271,250
2016	44,215,000	13,817,250	58,032,250
2017	49,330,000	11,606,500	60,936,500
2018	54,840,000	9,140,000	63,980,000
2019	60,780,000	6,398,000	67,178,000
2020	67,180,000	3,359,000	70,539,000
Total	$500,000,000	$273,783,083	$773,783,083

TRANSIT EXCISE TAXES AND COVERAGE

City's Privilege License (Sales) Taxes

The City's privilege license tax, also known as the sales tax, is levied by the City pursuant to Chapter 14 of the Code of the City of Phoenix, 1969, as amended (the "City Code"), upon persons on account of their business activities within the City. The amount of the City's privilege license tax due is calculated by applying the tax rate against the gross proceeds of sales or gross income derived from the business activities subject to the tax pursuant to Chapter 14 of the City Code. Transaction privilege (sales) taxes are generally collected by the City on a monthly basis.

Incremental Tax on City's Privilege License (Sales) Taxes

At a special election held in and for the City on March 14, 2000, the City's qualified electors approved Proposition 2000 directing the City Council of the City to amend the City Code to increase the City's privilege license tax by 0.4 percent for 20 years to fund transportation improvements and to help reduce air pollution. By Ordinance No. G-4254, adopted on April 5, 2000 by the City Council, the City amended Chapter 14 of the City Code in accordance with Proposition 2000 to allow for the imposition and collection of the Transit Excise Tax on the business activities described within such sections.

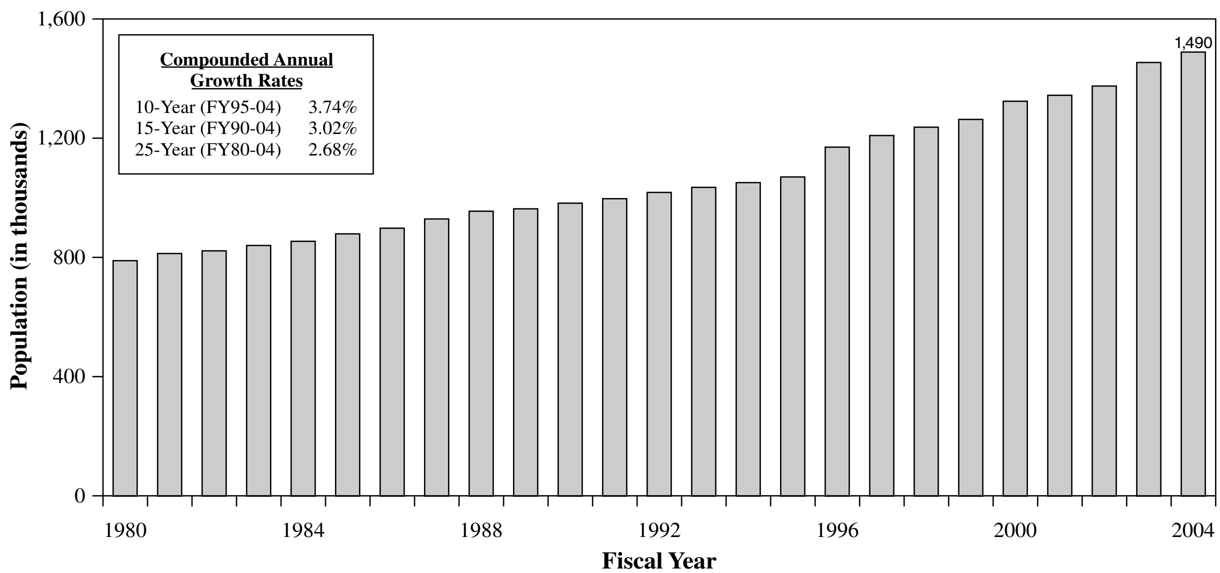
Funds from the Transit Excise Tax are to be applied by the City for the following purposes: (i) for capital improvements to the proposed light rail transit system, including operating and capital costs such as rail cars, tracks, park-and-ride lots and stations; (ii) to purchase clean-burning fuel buses; (iii) to expand bus service routes, hours and frequency of operation; (iv) to provide transportation services for seniors and persons with disabilities; and (iv) to provide neighborhood mini-bus service, limited stop service and bus stop shelters.

The City's Privilege License (Sales) Tax Base

The City has collected a privilege license (sales) tax since 1949 on a tax base which is nearly identical to the tax base subject to the Transit Excise Tax with the exception of business activities in advertising, mining, jet fuel, telecommunications and utilities as to which the Transit Excise Tax is not levied.

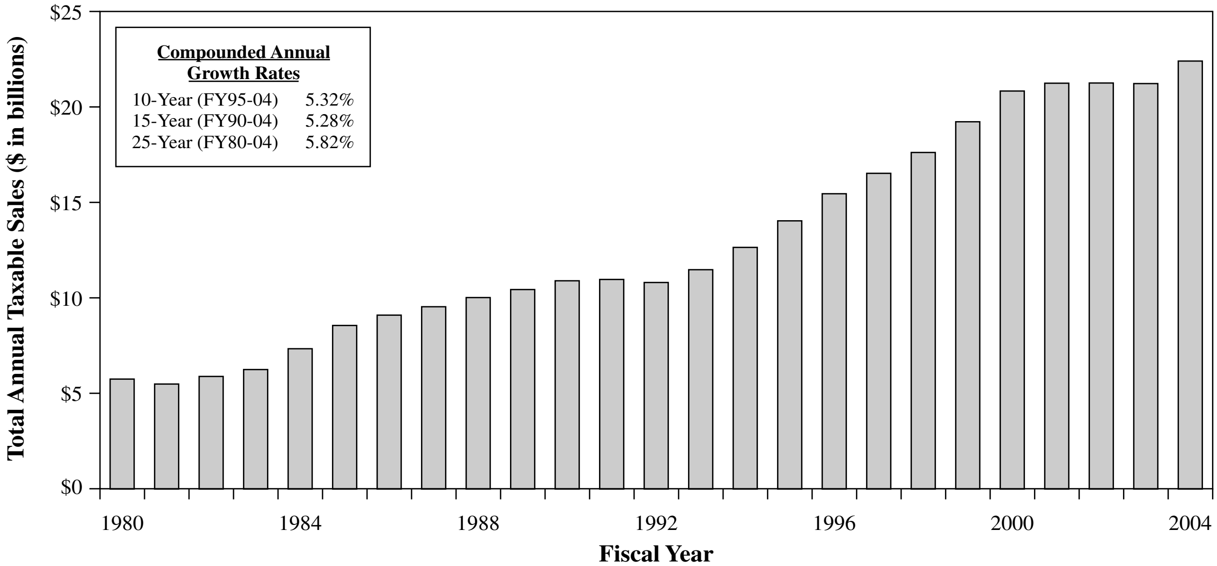
Generally, the City's sales taxes have increased as the City's population has increased. The tables below compare the population growth of the City and the taxable sales growth from fiscal year 1980 to fiscal year 2004. Historically, increases in the City's privilege license (sales) tax rates have never led to declines in taxable sales.

CITY OF PHOENIX POPULATION



Source: City of Phoenix Planning Department

25 YEAR HISTORY OF TAXABLE SALES*



* *Excluding categories not subject to the Transit Excise Tax pursuant to Proposition 2000.*
Source: City of Phoenix

In addition to consistent growth, the City's monthly taxable sales also show minimal seasonality. In fiscal year 2004, monthly taxable sales subject to the Transit Excise Tax ranged from 9.6% in January to 7.8% in August and September. As a result, taxable sales showed minimal intra-year fluctuations. Over the past ten years, taxable sales in the first half of the City's fiscal year (July-December) have averaged 48% of total annual taxable sales and taxable sales in the second half of the City's fiscal year (January-June) have averaged 52% of total annual taxable sales.

The combined sales tax rate of 8.1% in Phoenix, including the State sales taxes, Maricopa County sales taxes and the City sales taxes, falls below the median combined sales tax rate for the communities surrounding Phoenix, which range from a low of 7.5% to a high of 9.3%.

City Sales Tax Collection Procedures

The City has been collecting its own municipal sales taxes since 1949. Under the City's sales tax program, businesses are required to register with the City. Following the processing of a business's application for a license, tax returns are mailed to the licensee each month. A staff of seven is responsible for processing the applications and a staff of eight for enforcing the licensing process by identifying non-licensed businesses.

After six months of reporting history, a taxpayer can request quarterly reporting if annual taxable income is under $50,000 or annual reporting if annual taxable income is under $15,000. In fiscal year 2004, 88% of taxpayers were monthly filers and accounted for 99.6% of all City sales taxes. Taxes are due by the twentieth day of the month following the reporting period and are delinquent and subject to penalties if the filing and payment are not received by the last business day of the month following the reporting period.

City sales tax revenues are distributed monthly to all funds, including the Transit 2000 Fund.

The City has a staff of 21 auditors and supervisors who conduct sales tax audits and other reviews of tax returns to determine additional sales tax liability. Each month the City's tax system bills for outstanding balances and unfiled tax returns. To enforce sales tax payments, a staff of nine collectors works on a daily basis to collect any deficiencies. In the event of non-payment, the City files tax liens and may obtain civil judgments in court for delinquent taxes.

Transit Excise Tax Collections and Coverage

The City has provided actual Transit Excise Tax receipts for fiscal years 2000 through 2004, and has provided a forecast of revenue to be generated over the next four fiscal years from the Transit Excise Taxes. These figures are reflected on the following schedules. The schedule on page 12 shows the calculations of the available coverage against the annual debt service requirements for the 2004 Bonds, all of which are secured by the pledge of Transit Excise Tax receipts.

ACTUAL TRANSIT EXCISE TAX RECEIPTS

Fiscal Year	Actual Receipts
2000(1)	$ 7,089,000
2001	85,553,339
2002	88,028,242
2003	87,091,831
2004	92,348,606

(1) The 0.4% Transit Excise Tax became effective June 1, 2000.

PROJECTED TRANSIT EXCISE TAX RECEIPTS

Fiscal Year	Projected Receipts
2005	$ 99,800,000
2006	104,790,000
2007	110,030,000
2008	115,531,000

SCHEDULE OF PROJECTED TRANSIT EXCISE TAX REVENUES, DEBT SERVICE REQUIREMENTS AND DEBT SERVICE COVERAGE

Fiscal Year	Projected Transit Excise Taxes Pledged	Debt Service Requirements on the Bonds	Coverage of Debt Service Requirements
2005	$ 99,800,000	$ 13,996,321	7.13
2006	104,790,000	26,638,037	3.93
2007	110,030,000	37,409,538	2.94
2008	115,531,000	39,278,537	2.94
2009		41,243,038	
2010		43,302,037	
2011		45,469,038	
2012		47,741,287	
2013		50,132,500	
2014		52,635,750	
2015		55,271,250	
2016		58,032,250	
2017		60,936,500	
2018		63,980,000	
2019		67,178,000	
2020		70,539,000	
		$773,783,083	

BOND INSURANCE

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance Corporation (the "Bond Insurer") has made a commitment to issue a financial guaranty insurance policy (the "Bond Insurance Policy") relating to the 2004 Bonds effective as of the date of issuance of the 2004 Bonds. Under the terms of the Bond Insurance Policy, the Bond Insurer will pay to The Bank of New York, New York, New York, or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the 2004 Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Corporation (as such terms are defined in the Bond Insurance Policy). The Bond Insurer will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which the Bond Insurer shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the 2004 Bonds and, once issued, cannot be canceled by the Bond Insurer.

The Bond Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the 2004 Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding 2004 Bonds, the Bond Insurer will remain obligated to pay principal of and interest on outstanding 2004 Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates.

In the event the Trustee has notice that any payment of principal of or interest on a 2004 Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Corporation has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from the Bond Insurer to the extent of such recovery if sufficient funds are not otherwise available.

The Bond Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Bond Insurance Policy. Specifically, the Bond Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;

2. payment of any redemption, prepayment or acceleration premium; or

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Bond Insurance Policy, payment of principal requires surrender of 2004 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such 2004 Bonds to be registered in the name of the Bond Insurer to the extent of the payment under the Bond Insurance Policy. Payment of interest pursuant to the Bond Insurance Policy requires proof of Owner entitlement to interest payments and an appropriate assignment of the Owner's right to payment to the Bond Insurer.

Upon payment of the insurance benefits, the Bond Insurer will become the owner of the 2004 Bond, appurtenant coupon, if any, or right to payment of principal or interest on such 2004 Bond and will be fully subrogated to the surrendering Owner's rights to payment.

Ambac Assurance Corporation

The Bond Insurer is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately **$8,069,000,000** (unaudited) and statutory capital of **$5,015,000,000** (unaudited) as of **September 30, 2004.** Statutory capital consists of the Bond Insurer's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to the Bond Insurer.

The Bond Insurer has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by the Bond Insurer will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by the Bond Insurer under policy provisions substantially identical to those contained in its Bond Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Corporation.

The Bond Insurer makes no representation regarding the 2004 Bonds or the advisability of investing in the 2004 Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE."

Available Information

The parent company of the Bond Insurer, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at *http://www.sec.gov* that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of the Bond Insurer's financial statements prepared in accordance with statutory accounting standards are available from the Bond Insurer. The address of the Bond Insurer's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and filed on March 15, 2004;

2. The Company's Current Report on Form 8-K dated April 21, 2004 and filed on April 22, 2004;

3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2004 and filed on May 10, 2004;

4. The Company's Current Report on Form 8-K dated July 21, 2004 and filed on July 22, 2004;

5. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2004 and filed on August 9, 2004;

6. The Company's Current Report on Form 8-K dated August 19, 2004 and filed on August 20, 2004;

7. The Company's Current Report on Form 8-K dated October 20, 2004 and filed on October 20, 2004; and

8. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2004 and filed on November 9, 2004.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in **"Available Information".**

LIGHT RAIL TRANSIT SYSTEM

The light rail transit system of the cities of Phoenix, Tempe, Mesa and Glendale (the "System") will be a dual track, above-ground transit system, powered by electrical overhead power lines and will operate in the center or at the side of existing streets. The 13.8 mile Phoenix portion (the "Project") of the 20-mile initial segment of the System will begin at 19th Avenue and Bethany Home Road in Phoenix. It will continue south from 19th Avenue and Bethany Home Road on to Camelback Road where it will then turn east to continue to Central Avenue. At Central Avenue, the track will run south to the location between Portland and Roosevelt Streets, where Central Avenue and 1st Avenue turn into a one-way traffic couplet. At this location, the double track alignment transitions onto the existing 1st Avenue and Central Avenue one-way couplet, with one track operating with traffic flow on both streets. The one-way light rail transit couplet will continue south to Washington and Jefferson Streets where one track will continue east on each street through downtown Phoenix to just east of 24th Street, where the eastbound and westbound tracks converge to form a double track alignment on the two-way Washington Street. The track will run east on Washington Street to a point near Mill Avenue where it will turn off Washington Street to run in a generally south direction to cross the Tempe Town Lake on a light rail transit only bridge.

The System will initially consist of 27 stations, a maintenance facility and storage yard for the light rail vehicles, park and ride facilities at eight of the stations, off-street bus transit transfer facilities at five of the stations, an operations control center, traction power substations and other operating systems and structures. Also included are trackwork for the guideway; 36 light rail vehicles; real property; overhead catenary wire, electrical substations and signaling and communications systems; and ticket vending machines, information kiosks, lighting and other amenities at each of the light rail transit stations.

Proceeds from the Bonds will not be the only source of funds for the construction of and equipping of the Project; but such additional funds shall not be pledged as collateral for the payment of debt service on the Bonds. No part of the Project or the System will be pledged for or secure the payment of debt service on the Bonds. The only source of payment for the Bonds shall be the funds the City collects from the Transit Excise Tax. The City will not be obligated to use revenues from the operation of the Project to fund the Loan Payments.

The System will be owned and operated by Valley Metro Rail, Inc. ("VMR"), a non-profit corporation organized and existing under the laws of the State, for the purpose of jointly exercising the powers of its members with respect to the System pursuant to a Joint Powers Agreement (the "JPA") entered into pursuant to A.R.S. § 4-1152. The current members of VMR are the City, the City of Tempe, the City of Mesa and the City of Glendale. Additional members can be added in accordance with the by-laws of VMR. Due to the weighted voting established in the JPA, the City has 50 of the 100 votes which can be cast by the Representatives on the Board of Directors. The number of weighted votes to be cast by each member during each fiscal year is predetermined at the beginning of each fiscal year in accordance with a formula set forth in the by-laws of VMR. Under the terms of the JPA it is not expected that the City's weighted voting percentage will be less than 50% during the term of the bonds because 13.8 miles of the initial 20-mile segment of the System will be within the City, and all of the City's miles will be planned or committed under the formula established. In the event of a 50/50 tie vote with respect to an issue presented to the Board of Directors, the issue is submitted to arbitration for decision.

SOURCES AND USES OF FUNDS

Sources:	
Par Amount of the Bonds	$500,000,000.00
Original Issue Premium	43,671,259.55
Total	$543,671,259.55
Uses:	
2004 Project Fund	$504,221,903.77
2004 Reserve Fund	35,269,500.00
Costs of Issuance (including bond insurance)	1,926,591.89
Underwriters' Compensation	2,253,263.89
Total	$543,671,259.55

THE CITY

The City is a municipal corporation organized and existing under the laws of the State of Arizona. Pursuant to the Series 2004 Loan Agreement, the City will agree to make payments sufficient to pay amounts due on the Bonds. Detailed information on the City 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 Series 2004 Loan Agreement and the Indenture to facilitate the design, acquisition, construction and equipping of the Project. The Corporation is not financially liable for the payment of principal of or premium, if any, 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 Loan Payments received from the City under the Series 2004 Loan Agreement.

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 Series 2004 Loan Agreement.

To the knowledge of the City Attorney, no litigation or administrative action or proceeding has (i) restrained or enjoined, or seeks to restrain or enjoin, the issuance and delivery of the Bonds or the execution of the Series 2004 Loan Agreement by the City, 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.

GROWING SMARTER LEGISLATION

In 1998, the Arizona Legislature passed and the Governor signed into law legislation known as the Growing Smarter Act. The Legislation creates a framework for growth management by strengthening local and state planning processes, providing for the acquisition and preservation of open space areas through planning requirements as well as a funding mechanism, and establishing a Growing Smarter Commission to make recommendations regarding long-term growth issues.

The Growing Smarter Act calls for cities to update their general and comprehensive plans every 10 years; requires rezoning conform with the general/comprehensive plans; that plan amendments pass with a two-thirds super majority of the governing body; provides that general/comprehensive plans and plan amendments may be referred by petition to the voters; that the elements of open space, environmental and growth areas be part of the plans; and that new development be required to pay its fair share toward the cost of additional public facility or service needs.

The Act requires the State Land Department to develop conceptual land use plans coordinated with general and comprehensive plans. It provided potential funding for the acquisition of state trust land for conservation purposes, resulting in the approval of Proposition 303 by Arizona voters in November 1998, which approved the appropriation of $20 million a year for eleven years to be matched by local governmental or private funds. The monies are to be used to purchase, lease or buy the development rights of conservation quality state trust land.

In 2000, the Arizona Legislature enacted legislation called Growing Smarter Plus which significantly expands on the 1998 Growing Smarter Act, including a number of the recommendations of the Growing Smarter Commission. Growing Smarter Plus establishes a process for conserving state trust lands designated as Arizona Conservation Reserve lands for the purpose of protecting state trust land with cultural, historical, paleontological, natural resources or geological features. A proposed amendment to the Arizona Constitution relating to the reserve was defeated by the voters in November 2000.

Aside from the Arizona Conservation Reserve provisions, Growing Smarter Plus contained a number of statutory changes that built on the 1998 Growing Smarter Act, and that became effective in late May of 2000. Key provisions potentially affecting the City of Phoenix are as follows:

- Adds a water resource element to the required elements of general plans for fast growing small municipalities and municipalities with a population over 10,000, and the comprehensive plans of counties with a population of 125,000 or more. Requires the water resources element to include an inventory of currently available water supplies and an analysis of how growth will be adequately served.

- Requires the governing bodies of municipalities and counties to provide an opportunity for review and further comment by involved parties when adopting a general or comprehensive plan or a major amendment to the general or comprehensive plan.
- Requires the legislative body of a municipality and the board of supervisors of a county to present all major amendments that may be proposed to the general plan at a single public meeting held during the calendar year.
- Requires the legislative body of a municipality with a population between 2,500 and 10,000 with an annual population growth rate of more than 2% over a 10 year period and municipalities with a population over 10,000 to submit each newly adopted general plan to the voters at the next regularly scheduled municipal election. If approved, the plan is effective. If not approved, the current plan remains in place until a new or revised plan is submitted to the voters and approved.
- Allows a municipality to include within their general plan a plan or regulations determining the boundaries, consistent with the growth elements of their general plan, beyond which the municipality may limit or prescribe conditions on publicly financed extensions of water, sewer and street improvements.
- Requires prior to adopting an ordinance to annex territory, the governing body of a municipality to approve a plan, policy or procedure to provide the territory to be annexed with appropriate levels of infrastructure and services to serve anticipated new development within 10 years after the date of annexation becomes final.
- Allows the governing body of a municipality to create an infill incentive district if certain minimum conditions are met; requires the governing body to adopt an infill incentive plan; specifies possible incentive elements.

As required by and in accordance with the Growing Smarter legislation, the City updated its General Plan. The updated General Plan was adopted by the City Council on December 5, 2001 and was approved by the voters on March 12, 2002.

In the opinion of management, the Growing Smarter legislation will not adversely affect development in the City in the future, and provides processes and tools that can contribute to better planned, coordinated and balanced future development.

TAX MATTERS

General

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law (i) interest on the 2004 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (ii) interest on the 2004 Bonds is exempt from Arizona state income tax so long as that interest is excluded from gross income for federal income tax purposes. Bond Counsel will express no opinion as to any other tax consequences regarding the 2004 Bonds.

The opinion on federal tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Corporation and the City to be contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the 2004 Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of those certifications and representations or that compliance.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations in order for the interest to be and to continue to be so excluded from the date of issuance. Noncompliance with these requirements by the Corporation or the City may cause the interest on the 2004 Bonds to be included in gross income for federal income tax purposes and thus to be subject to federal income tax retroactively to the date of issuance of the 2004 Bonds. The Corporation and the City have each covenanted in the Series 2004 Loan Agreement to take the actions required of it for the interest on the 2004 Bonds to be and to remain excluded from gross income for federal income tax purposes and not to take any action that would adversely affect that exclusion.

A portion of the interest on the 2004 Bonds earned by certain corporations may be subject to a federal corporate alternative minimum tax. In addition, interest on the 2004 Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations.

Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Bonds. Bond Counsel will express no opinion regarding those consequences.

Purchasers of the Bonds at other than their original issuance at the respective prices indicated on the inside front cover of this Official Statement should consult their own tax advisers regarding other tax considerations such as the consequences of market discount.

Original Issue Premium

Certain of the 2004 Bonds ("Premium Bonds") as indicated on the inside front cover of this Official Statement were offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity. That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of bond premium that accrues during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by that owner for that Premium Bond. A purchaser of a Premium Bond in the initial public offering at the price for that Premium Bond stated on the inside front cover of this Official Statement who holds that Premium Bond to maturity (or, in the case of a callable Premium Bond, its earlier call date that results in the lowest yield on that Premium Bond) will realize no gain or loss upon the retirement of that Premium Bond.

Owners of Premium Bonds should consult their own tax advisors as to the determination for federal income tax purposes of the amount of bond premium properly accruable in any period with respect to the Premium Bonds and as to other federal tax consequences and the treatment of bond premium for purposes of state and local taxes on, or based on, income.

LEGAL MATTERS

Legal matters incident to the issuance of the 2004 Bonds and with regard to the tax-exempt status of the interest thereon (see "TAX MATTERS — General") are subject to the legal opinion of Squire, Sanders & Dempsey L.L.P., 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 2004 Bonds, will be delivered to the Underwriters.

The text of the proposed legal opinion is set forth in 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 Greenberg Traurig, LLP, as Counsel to the Underwriters.

RATINGS

Standard & Poor's Ratings Services ("S&P") has assigned to the Bonds a rating of "AAA", and Moody's Investors Service ("Moody's") has assigned to the Bonds a rating of "Aaa", each with the understanding that the Bond Insurance Policy will be issued by the Bond Insurer upon delivery of the Bonds. No application was made to any other rating service for the purpose of obtaining ratings on the Bonds. The ratings reflect only the view of S&P and Moody's, respectively. An explanation of the significance of such ratings may be obtained from S&P at 55 Water Street, New York, New York 10041, and from Moody's at 99 Church Street, New York, New York 10007. Generally, a rating agency bases its ratings on the information and material furnished to it and on investigations, studies and assumptions of its own. There is no assurance that the ratings will continue for any given period of time or that the ratings will not be revised downward or withdrawn entirely by S&P or Moody's if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds are being purchased for reoffering by Lehman Brothers Inc. 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 $541,417,995.66, which is net of an underwriting discount of $2,253,263.89.

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 offered and sold to certain dealers (including underwriters and dealers depositing the Bonds into investment trusts) at prices lower than the public offering price.

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 certain information repositories 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 accrual 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 Series 2004 Loan 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

The financial statements of the City as of June 30, 2003 and for the fiscal year then ended included in Appendix F to this Official Statement have been audited by KPMG LLP, independent auditors, as stated in their report which appears in Appendix F.

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/ KEVIN KEOGH
Chief Financial Officer

APPENDIX A

CITY OF PHOENIX, ARIZONA — DESCRIPTION

OVERVIEW

Phoenix is the fifth 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, Gilbert, Goodyear, Tolleson, El Mirage and Avondale 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 7.66 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 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 population at 983,403 and the 2000 census recorded Phoenix population at 1,321,045. As of November 1, 2004 the City encompasses 514.83 square miles, with the City of Phoenix Planning Department estimating the City's population at 1,499,165.

Population Statistics
Phoenix, Maricopa County and Arizona

Area	1950	1960	1970	1980	1990	2000	2003(1)	Percent Change 1950-03	Percent Change 1990-03
Phoenix	106,818	439,170	584,303	789,704	983,403	1,321,045	1,499,165	1,303.5%	52.4%
Maricopa County	331,770	663,510	971,228	1,509,175	2,122,101	3,072,149	3,396,875	923.9	60.1
State of Arizona	749,587	1,301,161	1,775,399	2,716,546	3,665,228	5,130,632	5,629,870	651.1	53.6

(1) Population figures for Maricopa County and the State of Arizona are as of July 1, 2003. Population figures for the City of Phoenix are as of November 1, 2004.

Source: Population figures prior to 2003 are from the U.S. Department of Commerce, Bureau of Census. The 2003 estimated population figures for Maricopa County and the State of Arizona are from the Arizona Department of Economic Security. The November 1, 2004 estimated population figure for the City of Phoenix is from the City of Phoenix Planning Department.

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, Alaska, Aloha, America West, American, American Trans Air, Arizona Express, British Airways, Continental, Delta, Frontier, Great Lakes, Hawaiian, Mesa (dba America West Express), JetBlue Airways, Midwest Express, Northwest/KLM, Skywest, Southwest, Sun Country, United, and USAirways. Interstate 10, Interstate 17, U.S. Highways 60, 70, 80, 89 and State Highways 51, 85 and 93 all traverse the City.

The metropolitan area is presently served by 38 elementary school districts, 6 high school districts and 11 unified school districts, operating over 400 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 11 colleges and has a total enrollment of more than 57,000 undergraduate, graduate, and professional students on three 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 more than 6,500 students. The Arizona State University East campus opened in 1996, is located in southeast Metro Phoenix in the city of Mesa, and has an enrollment of more than 3,500 students. In addition, ASU offers academic programs and professional certificate programs at its Downtown Phoenix extended campus. The City also contains a private graduate school and a number of private universities, colleges, and technical institutions. The 2000 Census indicated that 58% of the adult residents of Maricopa County are college educated.

SIGNIFICANT DEVELOPMENTS

Downtown Development

In 1979 the City formally initiated a comprehensive downtown redevelopment program which is administered by the Downtown Development Office. Redevelopment efforts have resulted in the construction of numerous public/private development projects.

In 1984 a group of leading 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 are currently focusing their attention on bringing increased housing, especially ownership housing, to downtown.

General Plan

In 1985 the Phoenix City Council adopted the General Plan, a long-range plan whose unifying concept is urban villages. The overall goal of the Urban Village Model is to offer Phoenix residents a choice of lifestyles in which the residents may live, work and enjoy leisure time activities within close proximity, and to give residents a role in shaping these choices. It is a unique concept that has provided a high degree of citizen participation in local land use planning.

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 citizen planning committee. The committees, guided by and responsible to the Planning Commission, are comprised of 15-21 citizens, most of whom live in the village. Their planning activities include identifying the attitudes, problems, and issues affecting 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.

Phoenix Civic Plaza

Redevelopment of the downtown Phoenix area has accompanied the construction and expansion of the Phoenix Civic Plaza convention center. In 1972 the Phoenix Civic Plaza, a convention and cultural center, was formally opened. The original 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 a symphony hall. In 1980, the Phoenix City Council authorized expansion of the Phoenix Civic Plaza, with approximately 306,000 square feet of additional space in a new structure connected directly to the existing facility. Construction of the $55 million addition commenced in late 1982 and was completed in June 1985. In November 1995, the City completed a $31.5 million modernization and refurbishing program for the Phoenix Civic Plaza.

In 1998, construction began on the Civic Plaza East Garage, a 2,891-space parking facility to serve Civic Plaza 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 membership included four State Senators, four State Representatives and nine public members. The Committee's charge was to make recommendations on several issues regarding Phoenix Civic Plaza expansion, including potential funding sources and State involvement. 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 from State or other non-City funding sources for the construction, expansion, modification and improvement of the Phoenix Civic Plaza. In June 2003, the Arizona Legislature approved spending up to $300 million in State money to match the City's contribution. With the passage of the $600 million expansion program, the Phoenix Civic Plaza will undergo a three-fold increase in size by 2008. This expansion includes 500,000 square feet of additional exhibition space and 150,000 square feet of new meeting space, contributing to a total of close to one million square feet of rentable convention space.

The City retained Conventional Wisdom Corporation to prepare a Development Master Plan for the Phoenix Civic Plaza expansion which identified and analyzed development alternatives for the expansion project and recommended a development concept. In September 2002, the Phoenix City Council approved the development concept and authorized Conventional Wisdom Corporation to prepare a detailed Architectural Facility Program that will be used as the basis for design.

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 at Symphony Hall, the construction schedule for Symphony Hall was aligned with the first phase of the Civic Plaza Expansion.

In June 2003 the City Council approved the final development concept and selected the design team and the construction management team for the Civic Plaza Expansion/Symphony Hall Renovation. Construction began in June 2004 and is expected to be completed by the end of 2008.

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 and business image promotion arm for all of its participants. The City of Phoenix has 7 appointments to the GPEC Board with no other city having more than two appointments. GPEC strives to adapt to continually changing needs of business decision makers and stay abreast of U.S. and world competitors; expand its marketing activities into the international arena, with a clear, effective focus that will have a beneficial impact on the region's economy; and advocate the development of the infrastructure necessary for the continued economic growth of the region.

The City's Community and Economic Development Department works closely with GPEC to attract new wealth-generating employers to Phoenix. Since 1999, the Department has attracted 53 new employers to the City of Phoenix. These new companies are projected to employ 9,861 individuals and invest nearly $700 million in new capital.

Arts, Cultural and Sports Facilities

The Herberger Theater Center, a performing arts facility, opened in October 1989 adjacent to the Phoenix Civic Plaza. Located on a one-block site immediately north of the original Phoenix Civic Plaza, the Herberger Theater Center was financed with $18 million in public and private funds.

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 Civic Plaza. 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 $87 million. The City acquired and cleared the land for the project at a cost of $12.8 million and contributed $35 million for construction costs. The Suns were responsible for the balance of the construction costs and in addition contributed $515,000 for land acquisition. Construction began in November 1990 and the America West Arena celebrated a grand opening in June 1992.

Renovations to America West Arena began in spring 2001. Interior renovations included concourse improvements, seating enhancements and the construction of additional women's restrooms. These improvements were completed in spring 2003 at a total cost of $13.4 million, $9.9 million funded by the City and $3.5 million funded by the Suns. Exterior renovations, estimated at $28 million, were also recently completed and were fully funded by the Suns. These improvements include a 15,000 square foot climate controlled pavilion constructed on the main entrance plaza, expansion of the north wall of the Arena which will facilitate the addition of street level restaurants along Jefferson Street and the construction of a pedestrian passageway from Jefferson Street to Jackson Street.

A second phase of improvements to America West Arena is currently underway. These improvements include the expansion of the upper concourse; technology improvements, including improvements to scoreboards, LED boards, and the sound system; expansion of the Platinum Club restaurant and bar; core building improvements; and additional exterior lighting. The cost of the second phase of improvements is estimated at $17.5 million and will be funded by $12.0 million from the City and $5.5 million from the Suns. These renovations are expected to be completed by the end of 2004.

The Phoenix Museum of History and the Arizona Science Center are 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 120,000 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 Phoenix Museum of History is approximately 20,000 square feet and cost $3.5 million. In addition to the museums, an 800-space parking garage was also developed. The parking garage was completed in November 1995, the Phoenix Museum of History opened to the public in January 1996 and the Arizona Science Center opened in April 1997.

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.

An agreement between the City and a private company was reached for development of a 4,801 seat entertainment facility on a City owned site at the northwest corner of Washington Street and Fourth Avenue. The Dodge Theatre totals 165,000 square feet and cost an estimated $39 million. Construction began in September 2000 and was completed in April 2002.

The Phoenix Art Museum, located at Central Avenue and McDowell Street will undergo an expansion beginning in December 2004. The $33.2 million project will add nearly 40,000 square feet to the museum complex, most of which will be utilized for exhibition space to benefit the museum's 290,000 annual visitors. $18.2 million of the total project cost will be paid for with bond funds approved by Phoenix voters in 2001. The remaining funds will be raised from individuals and philanthropic organizations. Completion is expected in May 2006.

Commercial Development

In the 1970s Arizona's three major commercial banks (at that time Valley National Bank, 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 hi-rise hotels. The Hyatt and Wyndham properties combine to provide 1,242 of the 1,850 hotel rooms in downtown Phoenix. As an outgrowth of the many downtown development and redevelopment projects, there has been a rapid increase in hotel room demand from business, leisure, and convention travelers visiting the area. To meet this demand, the City of Phoenix is constructing a new 1,000-room hotel on the northwest corner of 3rd Street and Van Buren. Adjacent to the Arizona Center and several office and entertainment uses, the hotel will contain approximately 35,000 square feet of retail space, including a coffee shop, lounge, two restaurants, 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 is scheduled to begin in early 2005, with construction beginning in mid-2006. The Phoenix Sheraton is expected to open in late 2008 to coincide with the completion of the second phase of construction at the Phoenix Civic Plaza convention center.

The French Quarter, a mixed-use development project northwest of the Phoenix Civic Plaza, completed an 80,000 square foot office building in July 1984.

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, opposite Patriots Square Park in the center of downtown Phoenix in 1988. In conjunction with this project, the City constructed a 1,456 space underground public parking garage beneath Patriots Square Park 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 Civic Plaza known as The Arizona Center (also known as Superblock). Ultimate development will include 1.5 million square feet of office space, 240,000 square feet of retail space, a hotel and a three acre public plaza. Arizona Public Service now occupies the first office building of 450,000 square feet which was completed in March 1989. The balance of Phase I including the public plaza and a garden, a second office building of 300,000 square feet and 150,000 square feet of retail and entertainment space celebrated its grand opening in November 1990. 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. The plans for Collier Center include a 700-room hotel, 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 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. Half of the building houses the world headquarters for the Phelps Dodge Corporation. Construction was completed in November 2001.

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 with 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 170,000 square foot research facility for IGC and TGen to be located at Fifth and Van Buren Streets. Construction began in late July 2003 with occupancy expected in January 2005. Once the research organizations are operating in their headquarters they are expected to employ approximately 350 employees earning average salaries of $70,000 annually.

Neighborhood Revitalization and Downtown Housing

The City's downtown redevelopment program is complemented by the Neighborhood Services Department's (NSD) programs through which the department works to preserve and improve the physical, social and economic health of Phoenix neighborhoods. NSD has created programs to assist neighborhoods citywide as well as support and aggressively work to revitalize targeted neighborhoods.

Phoenix has identified five targeted neighborhoods called Neighborhood Initiative Areas (NIAs). The NIAs are the focus of concentrated and comprehensive revitalization. The five currently targeted neighborhoods are Garfield (adjacent to downtown); Roosevelt (in downtown); Isaac; South Phoenix Village; and Sunnyslope/Desert View. Cross functional teams from NSD code enforcement, neighborhood coordination, housing rehabilitation and development, neighborhood economic development, and graffiti busters as well as members of other departments work together with these neighborhoods to address problems identified by the neighborhoods. NSD uses its federal and local funds to leverage other public and private funding. Many partnerships with private and nonprofit agencies are developed to revitalize these communities. Since 1995 NSD has realized the development of over 100 affordable and market rate homes, closed nearly 10,000 code enforcement cases and rehabilitated more than 600 owner and rental housing units.

Renaissance Park, a 170 unit condominium complex east of the Phoenix Civic Plaza, was completed in the fall of 1986.

In November 1988 the French Quarter, a mixed-use development completed construction of 60 condominium units.

Construction of The Metropolitan Apartments, a project sponsored by the City and the 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 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 11-acre site bounded by First Avenue, Third Avenue, Margaret T. Hance Park 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 1000 to 1750 square feet with prices ranging from $135,000 to $235,000. Construction began in Summer of 2002 and was complete 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 on the first 40 units which were available for occupancy in the winter of 2003. Construction of an additional 35 units is scheduled to be completed by January 2006.

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 was 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 approximately 90 luxury lofts, associated parking and ancillary commercial space. The City will assist with the historic rehabilitation of the building and upgrades to the public infrastructure and off-site improvements. Renovation began in 2002 and is expected to be completed by December 2004.

In the summer of 2003 Post Properties and Desert Viking, 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 will be 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 is estimated at $18 million and is expected to be completed by summer of 2005.

Government Facilities

A new 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 includes a 1,500-space parking structure, located between Washington and Jefferson Streets and Third and Fourth Avenues, which also contains 43,000 square feet of office and retail space. Construction began in mid-January 1992 with occupancy completed in January 1994.

The Burton Barr Central Library celebrated its grand opening in May 1995. The five-story, 284,000 square-foot library will accommodate 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, began in the summer of 1997. 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 and was completed in the fall of 1999. 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 began construction of a 550,000 square-foot federal courthouse in the summer of 1997. 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. The project was completed in September 2000.

Downtown Streetscape

Construction on an $8.9 million streetscape project in downtown Phoenix was completed in February 1995. This 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, America West Arena, 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 buildout 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 in March 2004 with completion expected by the beginning of 2005.

Transit/Light Rail

Construction of Central Station, a new downtown transit center located on the northeast corner of Central Avenue and Van Buren Street was completed in May 1997. The 2.6-acre site includes a 4,000 square-foot passenger services building for ticket sales, security, and restrooms; a 16,000 square-foot passenger plaza which includes passenger information, a children's area, push cart vending, seating and shade; and bus loading and circulation areas for 12 bus routes, Dial-a-Ride and DASH (Downtown Area Shuttle). The total cost of the project was approximately $7.5 million, with the Federal Transit Administration funding 80% and the City funding 20% of the project.

Final design of an approximately $1.3 billion, 20-mile light rail starter segment connecting central Phoenix with Tempe and Mesa has begun. The cost of the project will be funded with Federal grant funds and City sales tax revenues. 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 the light rail system as well as mass transit, including expanded bus service and other transportation improvements. Construction of the 20-mile starter segment of the light rail system is planned to be completed in December 2008.

Central Avenue

The Papago Freeway, which is the portion of Interstate 10 built through the City of Phoenix, opened in August 1990. A $95 million, 29-acre Deck Park was constructed over the below ground level segment of the freeway running through downtown Phoenix. Construction began in October 1987 and the park formally opened April 25, 1992. Deck Park was formally named the Margaret T. Hance Park in honor of Phoenix's first woman Mayor. Ms. Hance, who died April 29, 1990, was Mayor from 1976 to 1983. Funding for the park was provided by the Federal government, the State and the City.

As a result of a Central Avenue Image Study, the Central Avenue Improvement District was formed to finance the design and construction of improvements to transform a portion of Central Avenue, including the segment that passes over the Margaret T. Hance Park, into a boulevard lined with palm and shade trees and wide granite sidewalks in Southwestern colors and designs. The plan also called for the installation of distinctive street lights, hedge planters, bus shelters and benches along the sidewalks. The project was completed in the fall of 1990 and the total project cost was $7.7 million, with the City contributing $1.7 million.

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 22 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.

In December 1991, the Hertz Corporation completed construction of two buildings on 13 acres with a total of 25,657 square feet of office space. In January 1996 Hertz completed construction of a 15 acre expansion of its facility. 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 was given 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.

In March 2000, America West Airlines announced that it would construct a new $35 million, 15,000 square-foot flight training center and systems operation control facility on a 13-acre site at Sky Harbor Center. America West began construction in early 2001 and occupied the facility in April 2002.

In June 2002, Bank One broke ground on a $70 million, 400,000 square foot regional processing center which will support its banking and financial operations. The first phase was completed in October 2003 and approximately 500 employees relocated to the new center. The second phase of the project is scheduled to be completed in April 2005 and will house 1,500 additional employees.

Other sizeable tenants at Phoenix Sky Harbor Center include National Car Rental, Budget Rent-a-Car, Avis Corporation, Greyhound, Allred, Level 3 Communications, and the City of Phoenix.

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. The RCC will be located on approximately 143 acres located within Sky Harbor Center and will include 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 will be funded with CFC proceeds and bond funds and is estimated to cost $270 million. Construction is underway and is expected to reach completion in November 2005.

Phoenix Sky Harbor International Airport

In November 1990 construction was completed on the Barry M. Goldwater 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 announced plans to expand its Phoenix operations over the next several years by increasing total jet departures. In March 1998 the City Council approved an airport capital expansion program funded primarily by passenger facility charges and airport revenue bonds. Approved projects include rebuilding runways in concrete, construction of a new airport fire station, a new Terminal 4 concourse to provide more capacity for America West, and additional parking facilities at Terminal 4. Nearly all of the projects approved in March 1998 by City Council 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 are funds for land acquisition, a residential sound assistance program, an airport people mover 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. Passenger traffic at Phoenix Sky Harbor International Airport has recovered to pre-September 2001 levels. As a result, all projects have been resumed with the exception of the West Terminal which is pending the results of an environmental impact study.

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 2000. A citizens bond committee consisting of nearly 300 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 13, 2001 when the voters approved twelve propositions totaling $753.9 million in new General Obligation bond authorizations. The propositions and the amount of bonds authorized are shown in the following table.

2001 Bond Program	Amount Authorized
Library Facilities	$ 33,000,000
Historic Preservation	12,000,000
Pollution Cleanup	24,800,000
Police Protection	78,800,000
Community Educational & Cultural Facilities	66,300,000
Fire Protection	61,500,000
Street and Highway Improvement	91,500,000
Parks, Open Space and Recreational Facilities	77,000,000
Neighborhood Protection and Senior Centers	74,000,000
Storm Sewer and Flood Protection	66,000,000
Affordable Housing and Service Facilities	43,700,000
Computer Technology	125,300,000
Total	$753,900,000

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 is comprised 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 are two Assistant City Managers, two Executive Assistants to the City Manager, City Auditor, City Attorney, Budget & Research, and four 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 26 departments, 18 functions and 14,795 employees include police, City courts, 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 2004-05 through an adopted operating budget of $2,631.2 million. Of this, the general purpose funds budget totals $930.1 million, which is for general municipal services and excludes enterprise activities such as water, sewer, refuse and airports.

Elected Officials

Phil Gordon, Mayor

Mayor Gordon was elected to his first term as Mayor in 2003. 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 the 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.

Peggy Bilsten, Vice Mayor, District 3

Vice Mayor Bilsten began her third term on the City Council in January 2004. Ms. Bilsten is a health and fitness teacher at Valley Lutheran High School and has been actively involved in the community for many years. She has served as chairwoman of the North Phoenix Block Watch Alliance and the "Fun in the Sun Days" celebration, coordinator of the John Jacobs Block Watch Association and a member of the Neighborhood Block Watch Oversight Committee and the Phoenix Block Watch Advisory Board. Ms. Bilsten holds a bachelor of arts degree from Northwestern College in Orange City, Iowa.

Michael Johnson, Councilmember, District 8

Councilmember Johnson began his first term on the City Council in January 2002. 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.

Doug Lingner, Councilmember, District 7

Councilmember Lingner began his third term on the City Council in January 2004. Mr. Lingner is a former employee of Bank of America, where he worked in the bank-card and check processing department. Mr. Lingner has served as chairman of the Housing and Neighborhoods Subcommittee and as a member of the Downtown, Arts, Tourism and Sports, and Transportation and Technology subcommittees. Prior to being elected to the City Council, Mr. Lingner formed a Block Watch organization in his neighborhood and was active on the Maryvale Village Block Watch Alliance, Maryvale Village Planning Committee and West Phoenix Human Services Center Advisory Committee. His education includes an apprenticeship in the construction industry.

Claude Mattox, Councilmember, District 5

Councilmember Mattox began his second term on the City Council in January 2004. 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 and also is owner of Desert Sun Enterprises, a community relations consulting firm.

Peggy Neely, Councilmember, District 2

Councilmember Neely began her first term on the City Council in January 2002. Ms. Neely is a real estate broker and is affiliated with the Phoenix Association of Realtors, Arizona Association of Realtors, National Association of Realtors and the Women's Council of Realtors. She has been active in the community for many years and has served as chair of the Paradise Valley Planning Committee and the Phoenix Water and Sewer Rate Advisory Committee.

Dave Siebert, Councilmember, District 1

Councilmember Siebert began his third term on the City Council in January 2004. Mr. Siebert has served as chairman of the Public Safety Subcommittee, vice-chairman of the Phoenix Parks and Recreation Board, chairman of the Deer Valley Planning Committee and as a member of the Natural Resources and Transportation and Technology subcommittees. Mr. Siebert holds a bachelor's degree in criminal justice from Arizona State University.

Tom Simplot, Councilmember, District 4

Councilmember Simplot was elected to the City Council in September 2003 to serve the remaining term left vacant upon the resignation of Phil Gordon, who announced his candidacy for the Mayor of Phoenix. 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.

Greg Stanton, Councilmember, District 6

Councilmember Stanton began his first full term on the City Council in January 2002. Mr. Stanton has been active in the community and has served on the Camelback East and Ahwatukee Foothills village planning committees. Mr. Stanton is an attorney and holds a bachelor's degree in political science and history from Marquette University and a law degree from the University of Michigan Law School.

Administrative Staff

FRANK A. FAIRBANKS
City Manager

Mr. Fairbanks was appointed City Manager in April 1990. Prior to his appointment as City Manager, Mr. Fairbanks served as Assistant City Manager. He joined the City in 1972 as a Management Assistant and subsequently was appointed to the positions of Assistant to the City Manager and Executive Assistant to the City Manager before being appointed Assistant City Manager in 1988. Prior to joining the City he served as Assistant Disaster Branch Manager for the Small Business Administration and as a consultant to the Peace Corps in Costa Rica. In October 1994 he was named the nation's top local government official by *American City & County* magazine. Mr. Fairbanks graduated from Loyola University of Los Angeles with a degree in finance and holds a master's degree in business administration from the University of California Los Angeles.

SHERYL L. SCULLEY
Assistant City Manager

Ms. Sculley was appointed Assistant City Manager in May 1990 after serving as Deputy City Manager since January 1989. In her current capacity, she has several departments reporting directly to her, as well as overseeing two Deputy City Managers and their respective departments. Prior to joining the City of Phoenix, Ms. Sculley was the City Manager of Kalamazoo, Michigan from 1984 to 1989. From 1974 to 1984 she served the city of Kalamazoo as Deputy City Manager, Assistant to the City Manager, Planner and Research Writer. She holds a bachelor of science degree in journalism and political science from Ball State University and a master's degree in public administration from Western Michigan University. Ms. Sculley is also a graduate of Harvard University's John F. Kennedy Program for Senior Executives in State and Local Government.

ALTON WASHINGTON
Special Assistant City Manager

Mr. Washington was promoted to Special Assistant City Manager in December 2001 after having served as Deputy City Manager for more than three years. In his current capacity, Mr. Washington has several departments reporting directly to him, as well as overseeing a Deputy City Manager and an Executive Assistant and their respective departments. During his tenure as Deputy City Manager, he managed strategies and activities for various City departments, including Parks, Recreation and Library, Planning, Development Services and Environmental Programs. Prior to being named Deputy City Manager, Mr. Washington served as director of Human Services and deputy director of Public Works. Prior to joining the City, he worked for the State of Arizona in several director and deputy director capacities. He holds a master's degree in public administration and a bachelor's degree in political science from Arizona State University.

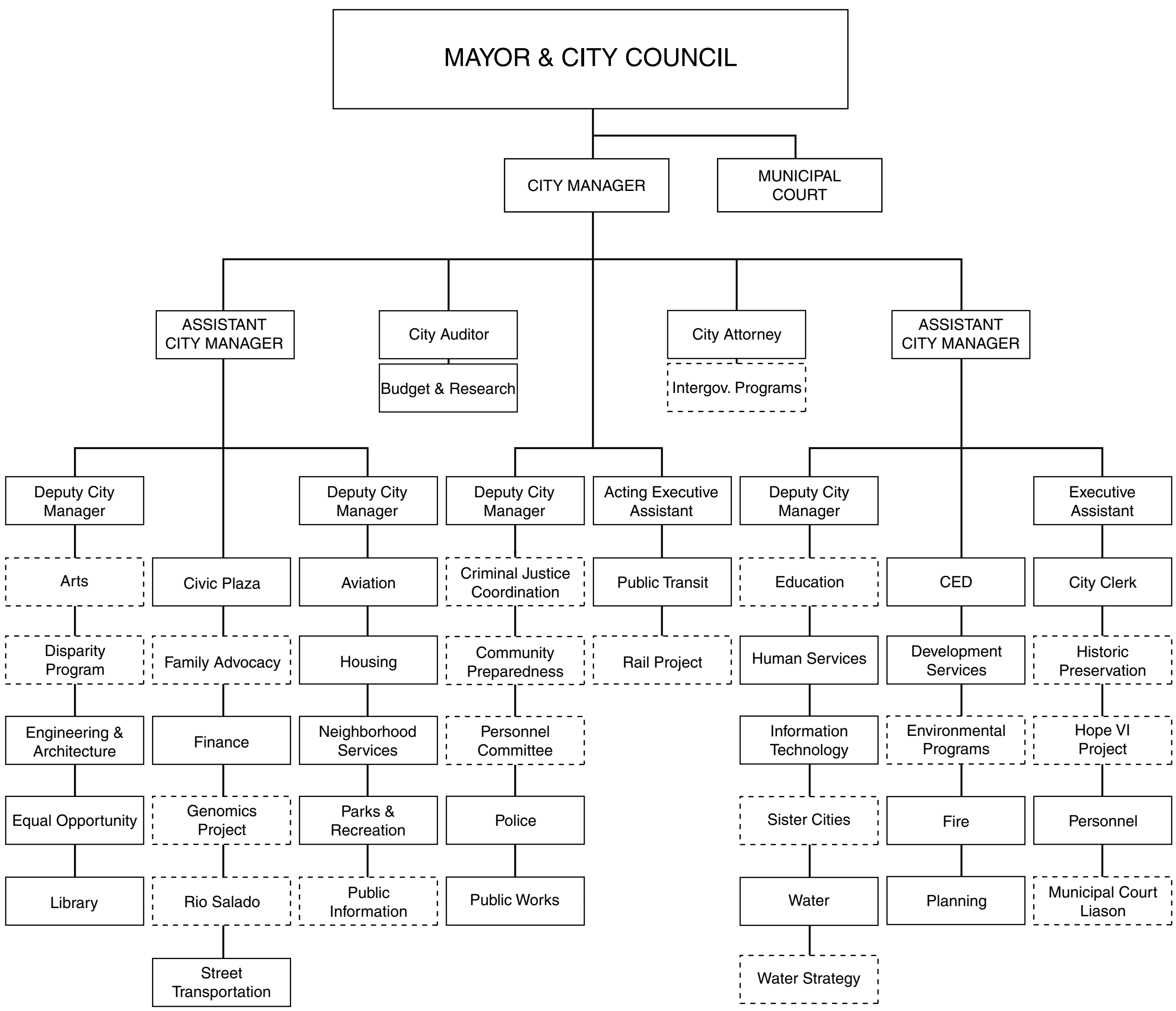
PETER VAN HAREN
City Attorney

Mr. Van Haren was appointed City Attorney in June 2000. Previously he served for sixteen years as City Attorney for the city of Glendale, Arizona. From 1978 to 1984 he was the City Attorney for the city of Prescott, Arizona, and from 1976-1978 he was an Assistant City Attorney for the City of Phoenix. He received his bachelor's and law degrees from the University of Arizona.

KEVIN KEOGH
Chief Financial Officer

Mr. Keogh was appointed Chief Financial Officer in December 2003. From 1986 through 2003 he served as Finance Director of the City and from 1985-1986 he served as the Assistant Finance Director. He began his career with the City in 1976 as an intern in the City's Management and Budget Department, and later worked as a Management Assistant in the City Manager's Office, where he worked primarily in the City's capital improvement and bond programs. In 1987 he was named the nation's top Finance Director by *City and State*, a national publication of public business and finance. He is a graduate of Iona College in New Rochelle, New York, and holds a master's degree in public administration from Syracuse University.

CITY OF PHOENIX



Revised April 2004

Awards

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

- **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.

- **2003 Presidential Citation of Merit**

  In May 2003, 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 a 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 nation's 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.

- **1994 Municipal Leader of the Year Award**

  Awarded to Frank Fairbanks, City Manager, by *American* City *& County* magazine in October 1994 naming him the nation's top local government official. Mr. Fairbanks was the first city manager to win the honor.

- **Center City Starr Award**

  Awarded to Kevin Keogh, Finance Director, by the Phoenix Community Alliance in January 1998. The award recognized Mr. Keogh's dedicated efforts in the development of many Central City projects including, One and Two Renaissance, Arizona Center, America West Arena, Burton Barr Central Library and the Post Properties Housing Project.

- **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.

- **All-America City**

  Presented to the City of Phoenix in 1980 and 1989 by the National Municipal League for citizen action, effective organization and community improvement.

- **1998 Technology Leadership Award**

  Awarded to Frank Fairbanks, City Manager, by Public Technology, Inc. Mr. Fairbanks was recognized for the City's creative use of technology including, "Phoenix at Your Fingertips" a system that links the citizenry with information about the City and allows access to government functions through the internet; the City's use of computers to manage electric lights, cooling systems, and traffic lights; the training of firefighters with interactive videos; and putting remote control computers in the laps of police officers.

- **2003 Technology Achievement Award**

  The City of Phoenix was the recipient of a Public Technology, Inc. award for the City Clerk Department's "Automated Petition Signature Verification" solution. The automated system eliminated a cumbersome manual process that previously had taken over 400 staff hours to verify the validity of signatures contained on petition sheets which resulted in a streamlined, more efficient process.

- **2000 Technology Achievement Award**

  The City of Phoenix was the recipient of a Public Technology, Inc. award for the Public Works Department's "Alternative Daily Landfill Cover". The department's Solid Waste Disposal Management division proposed that shredded yard and wood waste, specialty foam and tarps be used in place of soil for daily landfill cover material. The use of alternative cover saves 160,000 cubic yards of landfill space per year, recycles yard and wood waste, thereby reducing the waste stream, and delays the cost of transporting waste to other landfills.

- **1997 Technology Achievement Awards**

  The City of Phoenix was the recipient of four Public Technology, Inc. awards. The Public Transit Department won the Technology award for its "Student ID/BUS Card Program." Transit officials proposed an encoding program that would electronically encode special bus pass information on student identification cards at the time of production. The program allows discount-eligible students to use school issued ID cards to board buses in place of traditional fare instruments. This created an accurate and efficient verification system. The City also received three honorable mention awards for Personnel's "Internet Recruiting" program, Parks, Recreation, and Library's "Expanded Access to an Exploding World of Electronic Information to Meet Citizen Demand" program, and Human Services' "Paratransit Technology Integration" program.

- **1996 Technology Achievement Awards**

  The City of Phoenix was the recipient of two Public Technology, Inc. awards. The Street Transportation and Water Services Departments shared an honorable mention award for their "Computerized Landscape Water Management System", which reduced water consumption and labor costs and improved landscape appearance on more than 100 acres along 40 miles of freeway. The Information Technology Department earned an honorable mention award for their "Year 2000 Century Date Change", a three-phase process to solve the "Y2K" computer problem.

- **1995 Technology Achievement Awards**

  The City of Phoenix was the recipient of three Public Technology, Inc. awards. An achievement award was received by the Community and Economic Development Department for its submission "Neighborhood Based Conservation Program." The program was established to provide support for a neighborhood based non-profit revitalization agency and also provides hands-on classroom training for plumbing apprentice students at a local vocational high school. The City also received two honorable mention awards for its "Electronic Information Services at the Phoenix Public Library" and "Mastercard and Visa Credit Cards on Buses" programs.

- **Financial World Magazine Award**

  Financial World Magazine named the City of Phoenix "Best-Managed" of America's 30 largest cities for 1994. The City previously won top honors in 1991 and was ranked second in 1993 and 1992. Judging was based on financial management, use of information technology, infrastructure management, and performance measurement and program evaluation.

- **3CMA Savvy Award**

  In October 1998, the City of Phoenix was presented with the City-County Communications and Marketing Association's (3CMA) Savvy Award. 3CMA's Savvy Awards recognize how local government professionals are responding to the challenges of local government with creative tools and processes which bridge the gap between residents and government. The City received the award for the production of a newspaper tabloid that presents and explains the trial budget. It is designed for citizens and includes charts and photos, easy-to-understand stories about the trial budget, the budgeting process and the City's capital improvement program. The trial budget was delivered to approximately 202,000 households in English and Spanish through three newspapers.

- **IABC Silver Quill Award of Excellence**

  Awarded to the City of Phoenix in September 1998 by the International Association of Business Communicators (IABC). The award recognizes outstanding programs and work in communications. The City received the award for its Vote-by-Mail Program. The Program allows all citizens to request and submit an absentee ballot for City elections. The Program generated more than 49,000 absentee ballots in the 1997 City elections and was greatly responsible for an increase in voter turnout in excess of 30%.

- **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.

- **Disability Friendly City Award**

  Awarded to the City of Phoenix in October 1996 by Disabled Peoples' International (DPI). The City was chosen for this award for its outstanding progress and continuing efforts to make Phoenix accessible to all people. DPI recognizes cities which further its philosophy that people with disabilities are equal citizens and have full participation and equality with their fellow citizens.

- **Arizona Disadvantaged Business Enterprise (DBE) Certification Award**

  In August 1996, the City of Phoenix was presented with the DBE Certification Award sponsored by the U.S. Department of Transportation. The award is given to honor individuals or organizations for outstanding accomplishments and dedication to civil rights. The City received the award for its partnership with other Arizona governmental entities in researching the feasibility of a one-stop certification program for minority and woman-owned businesses. The overall objective of the project was to enhance customer service delivery and standardize paperwork in the certification process. As a result of the partnership, the City has entered into an intergovernmental agreement which sets the parameters for limited reciprocity in the certification of minority-owned and woman-owned firms.

- **Valley Forward Environmental Award**

  The City of Phoenix was a top award recipient at the 1996 Valley Forward Environmental Excellence Awards Program. The awards program was created to recognize outstanding contributions to the environment. The City received the President's Award For Special Achievement In Environmental Excellence, the most prestigious award given by Valley Forward, for the Tres Rios Constructed Wetlands Demonstration Project of the Water Services Department.

- **Housing and Urban Development (HUD) Sustained Performance Award**

  Awarded to the City of Phoenix Housing Department in November 1996. The award is in recognition of the Housing Department's excellence in overall management performance in the Public Housing Program for fiscal years 1993 through 1995. In reference to the City's Housing Department, HUD stated "this public housing agency is one of the best in the United States".

- **Award of Merit in Housing and Community Development**

  Awarded to the City of Phoenix Neighborhood Services Department by the National Association of Housing and Redevelopment Officials (NAHRO) in July 2004. The award program recognizes outstanding efforts in housing and community development. The City received the award 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.

In September 1997 the City received the award for its Longview Neighborhood Initiative Area due to the positive economic impact on the neighborhood and City, including Neighborhood preservation activities, creative financing, public/private partnerships, and economic development.

- **National Academy of Cable Programming Award**

In 1997, the City's television station, Phoenix 11, won the CableACE award for "best overall commitment to local programming" in the more-than-80,000-subscribers category and was named the "top local cable television station in the country." The CableACE award is the cable television industry's highest honor for local programming. Phoenix 11 also received top honors in the single program/talk show category, for the monthly news program "CityWatch".

In 1993, the Phoenix Channel won the CableACE award for best local series talk show for "City Watch." The award was presented by the National Academy of Cable Programming and is the highest award given to local cable television by the academy.

- **National Recreation and Parks Association Awards**

In October 1994, James A. Colley was named the recipient of the National Recreation and Parks Association's prestigious Ralph C. Wilson Memorial Award for outstanding, lifetime service to the Association.

The Distinguished Professional Award was presented in October 1991 to James A. Colley, Parks, Recreation and Library Director, by the National Recreation and Parks Association Congress for his leadership and devotion to the parks and recreation field. This is the professional society's highest award.

- **1995 Technology Award of Excellence**

Awarded to the City of Phoenix City Clerk Department in June 1995 by the International Institute of Municipal Clerks (IIMC). This award recognizes the creative and innovative ways the City Clerk Department has provided efficient and cost-effective delivery of service and technological advances that have benefited the City.

- **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 Program Award**

Awarded in 1996 and 1994 by Sister Cities International (SCI) to the Phoenix Sister Cities Commission for its outstanding contribution to international understanding. In selecting award winners, SCI looks for cities that demonstrate ongoing activity with all of its sister city partners and have organizational structures that permit program management. Some of Phoenix's award winning programs include cultural weeks, international youth exchanges, coordination of trade missions to Phoenix sister cities and the City's efforts to foster international business exchanges and joint ventures.

- **Promoting the Common Good: Excellence in the Public Sector Recognition**

In August 1989 Phoenix was the only municipality chosen to represent excellence in government as part of a film documentary by Tom Peters, author of the best-selling book *In Search of Excellence,* on a nationwide PBS television broadcast. Phoenix was selected because of its emergency medical service, innovations in street paving, its cost-saving Employee Suggestion Program, lowering of costs for garbage collection through direct competition with private companies and its Public Works partnership teams to improve service and boost morale.

- **National *City & State Magazine* All-Pro Awards**

Awarded in 1988 to former Mayor Terry Goddard, naming him as one of the nation's three outstanding mayors by a panel of two hundred judges.

Awarded in 1987 to Kevin Keogh, Finance Director, naming him as the nation's top Finance Director.

Awarded in 1986 to Marvin Andrews, City Manager, naming him as the nation's top City Manager in a survey of one hundred municipal management experts.

- **CIO Magazine Award**

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

In October 2002, 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.

In September 2000, Phoenix was selected as one of 100 organizations worldwide to receive the 2000 CIO-100 award. This prestigious award was presented to the City for achieving excellence in the fast-moving and competitive arena of using technology to improve customer service. Of the 100 companies selected for this honor, Phoenix was the only state or local government to be recognized.

In August 1992, *CIO Magazine*, a magazine for chief information officers, selected the City of Phoenix as the top state or local government for information technology and services.

PHOENIX ECONOMY(1)

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 and in recent decades the Phoenix area has been one of the most rapidly growing metropolitan statistical areas (MSA) in the country in terms of population, employment and personal income growth. As of year-end 2003, the Phoenix-Mesa MSA accounts for approximately 63.9% of Arizona's population, an estimated 71.0% of personal income, and approximately 70.6% of the State's employment. Over the last five years, the Phoenix-Mesa MSA has accounted for approximately 70.9% of the increase in Arizona's population and 73.9% of the State's employment growth.

From 1950 to 2003, U.S. population grew 91% while Metro Phoenix grew 860% from 374,961 in 1950 to approximately 3,598,440 people in 2003. According to the U.S. Bureau of the Census, as of 2000 the Metro Phoenix area was the 14th largest metropolitan statistical area. Since the Census Bureau's previous 1996 estimates, Metro Phoenix surpassed Cleveland-Akron and Minneapolis-St. Paul in terms of population. According to the Maricopa Association of Governments, Maricopa County's population is expected to grow to 4.13 million by 2010.

The rapid population growth has been accompanied by even greater employment growth. Nonagriculture wage and salary employment from 1950 through June 2004 in the Phoenix-Mesa MSA was up over 2,105.1% to 1,640,600 jobs, while the U.S. as a whole grew 192.8%. Historically, the unemployment rate in the Phoenix-Mesa MSA has been well below that of the U.S. as a whole. The seasonally adjusted unemployment rate in the Phoenix-Mesa MSA as of June 2004 registered 4.2% versus 4.7% for Arizona and 5.6% nationally.

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(1) Beginning in 1994, the Office of Management and Budget redefined the Phoenix Metropolitan Statistical Area (MSA) to include both Maricopa and Pinal Counties. The Arizona Department of Economic Security has released historical employment data on the new Phoenix-Mesa MSA from 1990 forward. Prior to 1990, detailed industry sub-sector employment data is not available for the Phoenix-Mesa MSA. When historical data for the Phoenix-Mesa 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 metro area employment and 95% of the area's population. "Metro Phoenix" refers to the Phoenix-Mesa MSA, unless otherwise noted.

Population
Metropolitan Statistical Areas
(in thousands)

	1970	1980	1990	2000	Percentage Growth 1970-80	1980-90	1990-00
PHOENIX-MESA, AZ(1)	967.5	1,600.1	2,238.5	3,251.9	65.4%	39.9%	45.3%
Albuquerque, NM	315.8	485.4	589.1	712.7	53.7	21.4	21.0
Atlanta, GA	1,390.2	2,233.2	2,960.0	4,112.2	60.6	32.5	38.9
Austin — San Marcos, TX	295.5	585.1	846.2	1,249.8	98.0	44.6	47.7
Dallas, TX	1,556.0	2,055.3	2,676.3	3,519.2	32.1	30.2	31.5
Denver — Boulder, CO	1,227.5	1,618.5	1,848.3	2,400.6	31.9	14.2	29.9
El Paso, TX	359.3	479.9	591.6	679.6	33.6	23.3	14.9
Fort Worth — Arlington, TX	762.1	990.9	1,361.0	1,702.6	30.0	37.4	25.1
Fresno, CA	413.1	577.7	755.6	922.5	39.8	30.8	22.1
Houston, TX	1,985.0	2,753.2	3,322.0	4,177.6	38.7	20.7	25.8
Las Vegas, NV	273.3	528.0	852.7	1,563.3	93.2	61.5	83.3
Los Angeles — Long Beach, CA	7,032.1	7,477.2	8,863.2	9,519.3	6.3	18.5	7.4
Oakland, CA	1,627.6	1,761.7	2,082.9	2,392.6	8.2	18.2	14.9
Orange County, CA	1,420.4	1,932.9	2,410.6	2,846.3	36.1	24.7	18.1
Raleigh — Durham — Chapel Hill, NC	418.8	664.8	855.5	1,187.9	58.7	28.7	38.9
Riverside — San Bernardino, CA	1,143.1	1,558.2	2,588.8	3,254.8	36.3	66.1	25.7
Sacramento, CA	800.6	986.4	1,340.0	1,628.2	23.2	35.8	21.5
Salt Lake City — Ogden, UT	683.9	910.2	1,072.2	1,333.9	33.1	17.8	24.4
San Antonio, TX	864.0	1,088.9	1,324.7	1,592.4	26.0	21.7	20.2
San Diego, CA	1,357.9	1,861.8	2,498.0	2,813.8	37.1	34.2	12.6
San Francisco, CA	1,482.0	1,488.9	1,603.7	1,731.2	0.5	7.7	8.0
San Jose, CA	1,064.7	1,295.1	1,497.6	1,682.6	21.6	15.6	12.4
Seattle — Bellevue — Everett, WA	1,421.9	1,651.7	2,033.2	2,414.6	16.2	23.1	18.8
Tucson, AZ	351.7	531.4	666.9	843.7	51.1	25.5	26.5

(1) In 1994, the Office of Management and Budget redefined the Phoenix Metropolitan Statistical Area (MSA) to include both Maricopa and Pinal counties. Historical data for the new Phoenix-Mesa MSA is unavailable prior to 1974. Data prior to 1974 reflects Maricopa County data only.

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

WHY PHOENIX GROWS

There are numerous reasons why one area of the country outperforms others. Some reasons why Phoenix grows are subjective. 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 Phoenix grows. According to the National Association of Realtors, as of first quarter 2004, the U.S. median housing price for an existing single family home was $170,800 and the median price for a similar home in Phoenix was $155,800. The Phoenix labor force is relatively young and well-educated. The median age in Metro Phoenix is 33.0 years compared to 35.3 years for the U.S. as a whole. According to the 2000 census, 82.5% of the adults in Maricopa County are high school graduates compared to the U.S. average of 80.4%. More than 59% of the high school graduates in Maricopa County have gone on to college, compared with 52% nationally. The average education attained is 12.7 years in Maricopa County versus 12.5 years for the U.S. as a whole according to the 1990 Census (the latest available data).

The Phoenix area enjoys a very positive business climate as evidenced by statistics from the U.S. Bureau of the Census on the number of business establishments in Maricopa County. From 1982 to 2001, total business establishments increased by 112.8%. Growth was strong in all categories: firms with employees of 100 to 499 increased 181.5% over the nineteen year period, while employers with 500 or more employees increased 300.0% and small employers (under 100 employees) increased 111.0%.

Historically, during periods of national economic expansion, Phoenix-Mesa 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 MSA has usually continued to grow, albeit slowly. It has taken a national recession for the Phoenix-Mesa MSA to experience employment declines. The phenomenon where one sector of the economy has pulled an entire area into recession has occurred in other metro areas in the country, but has not occurred in the Phoenix metropolitan area. The diversity of the employment mix is the primary reason why one sector alone has 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 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 which were quite positive. These included reasonably strong growth in the national economy, an increase in international trade, strength in Metro Phoenix's manufacturing sector, especially the high-tech manufacturing sector, a sustained expansion in single family housing within Metro Phoenix, strong retail sales within Metro Phoenix, and an end to defense cutbacks by the Federal government.

The years 1993 through early 2001 were strong growth years for the Metro 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. Since March 2001, the Phoenix economy has been impacted by the national economic recession, the September 11, 2001 terrorist attacks and the Iraqi War. Several of the economic sectors that usually hold Metro 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, but are now improving. 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 have been especially slow to recover and as a lagging indicator may more accurately describe the state of the economy. In October 2001, employment growth in Metro Phoenix turned negative for the first time since the 1991 recession and remained negative until July 2002. Overall, employment decreased 0.1% in 2002. Employment on a year-to-year basis is increasing, but is still considered slow. Employment growth in Metro Phoenix was 1.3% in 2003, making Phoenix third in terms of employment growth out of 28 major employment markets, and has increased 2.5% year-to-date through June 2004 over the same period in 2003 making Phoenix second in the nation in employment growth. Economic forecasts call for employment to increase by 3.5% in 2004 and 4.2% in 2005.

EMPLOYMENT MIX

The employment mix of the Phoenix-Mesa MSA is well diversified and mirrors that of the United States in many respects. However, it is somewhat over-represented in construction employment when compared to the U.S. as a whole, due to the rapid population growth. It is under-represented in manufacturing, but its manufacturing mix is much more concentrated in high technology than that of the United States. High technology manufacturing represents 38.9% of the manufacturing jobs in Metro Phoenix versus 12.3% nationally. This is a significant, positive factor in the long run because these high technology manufacturing sectors are in the early stage of their life cycles.

A breakdown of Metro Phoenix's manufacturing employment is reflective of the area's high-technology base: 27.6% of total manufacturing employment is in computers and electronic components, 11.4% is in aerospace products and the remainder is in other durable or non-durable manufacturing.

NON-FARM WAGE & SALARY EMPLOYMENT
Percent Distribution
Annual Averages through June 2004

Sector	Phoenix-Mesa MSA	United States
Manufacturing	7.8%	10.9%
Natural Resources & Mining	0.1	0.5
Construction	8.8	5.4
Total Goods Producing	16.7	16.8
Transportation, Warehousing, Utilities	3.6	3.7
Trade	16.5	15.7
Information	2.2	2.4
Financial Activities	8.3	6.1
Services	40.0	39.1
Government	12.7	16.3
Total Service Producing	83.3	83.2
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.

Over the last twenty-eight years, the Phoenix metropolitan area has become economically healthier and less cyclical in nature. During the 1975 to 1980 recovery, the Phoenix-Mesa MSA grew 47.1% in employment. This exceeded the expansion in other growth areas such as San Diego, Denver and Houston. During the expansion which began in November 1982, Phoenix-Mesa MSA growth again outpaced that of comparable fast growth areas. From November 1982 to July 1990, Phoenix-Mesa MSA employment was up 49.4% compared to 22.4% nationally. During the recovery from March 1991 to March 2001, employment in the Phoenix-Mesa MSA grew 58.4% versus 22.3% nationally. Employment in the Phoenix-Mesa MSA has grown 2.4% since the most recent recession ended in November 2001 compared to 0.4% nationally. During the recession of March 2001 through November 2001, employment in the Phoenix-Mesa MSA declined 1.0% versus a national decline of 0.1%. During the recession between July 1990 and March 1991, Phoenix-Mesa MSA employment increased 3.0% compared to a decrease of 1.7% nationally. During the 1980 to 1982 recession, employment increased 6.0% in the Phoenix-Mesa MSA and declined 0.2% nationally, as compared to the 1973 to 1975 recession where U.S. employment declined 3.7%, while the Phoenix-Mesa MSA dropped 5.6%.

NON-AGRICULTURAL WAGE & SALARY EMPLOYMENT
METROPOLITAN STATISTICAL AREAS
NOT SEASONALLY ADJUSTED

	RECESSION PERIODS					GROWTH PERIODS				
	Jan. 1970 to Nov. 1970	Nov. 1973 to Mar. 1975	Jan. 1980 to Nov. 1982	July 1990 to Mar. 1991	Mar. 2001 to Nov. 2001	Nov. 1970 to Nov. 1973	Mar. 1975 to Jan. 1980	Nov. 1982 to July 1990	Mar. 1991 to Mar. 2001	Nov. 2001 to June 2004
U.S. Average	1.1%	(3.7)%	(0.2)%	(1.7)%	(0.1)%	10.9%	18.2%	22.4%	22.3%	0.4%
Phoenix, AZ(1)	2.1	(5.6)	6.0	3.0	(1.0)	35.3	47.1	49.4	58.4	2.4
Tucson, AZ	4.6	0.7	6.4	8.0	(0.7)	33.0	27.1	24.3	35.3	(1.3)
Albuquerque, NM	6.5	(3.0)	4.6	(0.9)	0.2	26.0	30.2	40.6	36.5	2.5
Atlanta, GA	2.1	(7.3)	7.7	(2.6)	(0.5)	19.2	35.3	45.2	47.1	(0.4)
Austin, TX	5.9	6.1	18.3	4.4	(2.0)	26.4	31.9	37.8	70.4	(2.1)
Dallas, TX	(1.6)	(29.9)	9.6	(0.9)	(2.0)	16.4	32.7	29.4	42.4	(2.7)
Denver-Boulder, CO	6.5	(2.7)	8.9	0.0	(1.4)	22.5	30.6	12.8	43.2	(3.1)
El Paso, TX	4.4	1.2	3.7	(0.7)	(1.1)	19.7	21.9	27.2	23.9	(0.2)
Houston, TX	2.2	3.7	10.3	0.5	0.7	19.9	39.7	9.2	29.7	(0.7)
Los Angeles-Long Beach, CA	(2.6)	(3.1)	(2.6)	(2.5)	(1.4)	9.5	20.5	17.4	2.8	(1.2)
Oakland, CA	—	—	0.7	0.0	(1.7)	—	16.9	29.6	21.2	(1.7)
Portland, OR	0.5	(2.0)	(5.6)	(1.0)	(1.5)	15.0	27.6	39.3	34.6	(2.4)
Salt Lake City-Ogden, UT	3.3	1.6	3.4	1.1	0.0	15.9	23.2	24.1	44.1	(0.4)
San Antonio, TX	2.1	0.1	8.9	1.2	(0.4)	14.3	25.6	22.6	37.8	1.5
San Diego, CA	2.1	1.7	2.8	(0.3)	1.4	18.7	37.0	44.9	25.7	3.0
San Francisco, CA(2)	(0.4)	0.5	1.5	(1.4)	(6.1)	6.1	17.0	8.8	16.2	(6.7)
San Jose, CA	0.6	(0.7)	7.4	(1.3)	(8.9)	22.6	44.3	16.3	29.7	(11.1)
Seattle, WA	(8.1)	2.6	(1.1)	(1.1)	(1.6)	10.3	37.1	47.1	26.8	(1.4)

— = Data not available.

(1) In 1994, the Office of Management and Budget redefined the Phoenix Metropolitan Statistical Area (MSA) to include both Maricopa and Pinal counties. Historical data for the new Phoenix-Mesa MSA is unavailable prior to 1974. Data prior to 1974 reflects Maricopa County data only.

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

Source: Labor Market Information from Various States

Arizona's manufacturing industry is concentrated in the Phoenix metropolitan area. According to the Arizona Department of Economic Security, the Phoenix-Mesa MSA has approximately 3,300 manufacturing firms employing approximately 127,600 workers as of June 2004. This represents 74.4% of the State's total manufacturing employment. Major manufacturers located in the Phoenix-Mesa MSA include Honeywell, Intel, Boeing, Phelps Dodge, Freescale, General Dynamics and Motorola. During the expansion from March 1991 to March 2001, manufacturing employment in the Phoenix-Mesa MSA increased 19.1% compared to a decline of 0.8% nationally. During the last recession from March 2001 to November 2001, manufacturing employment in the Phoenix-Mesa MSA decreased 8.4% compared to a 6.1% decrease nationally. As of June 2004, Phoenix-Mesa MSA manufacturing employment has decreased 12.2% since November 2001, compared to an 8.6% decrease nationally. Much of the local decline in the manufacturing industry can be traced to the decline in semiconductor manufacturing. Historically, the purchase of durable goods containing semiconductors has often been postponed in times of economic uncertainty. The pickup in the overall economy, however, as well as increased capacity utilization in the semiconductor category, greatly improves the outlook for this segment. Arizona's major aerospace contractors are specialized in aircraft production and design, missile development, guidance systems and other areas that, while adversely affected by the terrorist attacks of September 11, 2001, are expected to recover strongly.

The services industry, particularly business services, has also contributed to the sustained growth in Phoenix. In the expansionary period from November 1982 to July 1990, services employment in the Phoenix-Mesa MSA increased 81.4%. During the recession from July 1990 to March 1991, services employment in the

Phoenix-Mesa MSA increased 4.8%. During the recovery from March 1991 to March 2001, services employment increased 77.6% versus 38.8% in the U.S. From March 2001 to November 2001, services employment in the Phoenix-Mesa MSA decreased by 3.0% while nationally, services employment increased by 0.5%. Since the recession ended in November 2001, services employment has increased 7.7% in the Phoenix-Mesa MSA and 5.0% nationally through June 2004.

Professional and business services employment is a strong contributor to services growth. The number of jobs within this sector in the Phoenix-Mesa MSA increased 92.6% during the growth period between November 1982 and July 1990.[1] During the recession from July 1990 through March 1991, professional and business services employment increased 1.7%. During the recovery from March 1991 to March 2001, professional and business services employment increased 136.8%. Employment in this sector declined 6.6% in the Phoenix-Mesa MSA during the recession from March 2001 through November 2001 and has experienced growth of 6.4% between November 2001 and June 2004.

A significant portion of services employment is related to tourism. Leisure and hospitality employment, 23.9% of total services employment, was up 57.7% within the Phoenix-Mesa MSA between November 1982 and July 1990.[1] During the July 1990 to March 1991 recession, leisure and hospitality employment increased 9.2%. Between March 1991 and March 2001, employment in this sector increased 48.3%. During the latest recession from March 2001 through November 2001, leisure and hospitality employment decreased 3.7%. This services employment sector has increased 2.7% since the end of the recession in November 2001 through June 2004. Construction of three new resorts within Metro 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. The opening of these three resorts is expected to continue to have a positive impact on the Metro Phoenix tourism market.

Educational and health services employment in Maricopa County increased 5.0% during the recession from July 1990 to March 1991.[1] During the March 1991 to March 2001 expansion, educational and health services employment increased 50.8%. From March 2001 through November 2001, educational and health services employment increased 3.0% and has increased 16.0% during the recent recovery from November 2001 through June 2004.

(1) Detailed employment data for industry sub-sectors is not available for Pinal County prior to 1990. Information reflects Maricopa County data only. Maricopa County services employment is 98% of the Phoenix-Mesa MSA services employment.

2004 METROPOLITAN PHOENIX MAJOR EMPLOYERS

SERVICES
(Excluding Resorts and Health Services)

Employer	Number of Employees
America West Airlines	7,100
American Express Co.	6,700
Qwest (formerly U.S. West)	6,600*
Bank One Arizona	5,900
Bank of America	5,400
Southwest Airlines	4,600
Discover Financial Services	4,000
Charles Schwab	3,500
Salt River Project	3,400
Pinnacle West Capital Corporation	2,700
Central Newspapers, Inc.	2,600
Avnet	2,500
Cox Communications	2,200
Arizona Republic	2,200
AT&T	2,000
HEALTH SERVICES	
Banner Health Arizona	4,000
Sun Health	3,700
Mayo Health Plan Arizona	3,600
Scottsdale Healthcare	3,400
St. Joseph's Hospital	2,700
Advance PCS	2,400
John C. Lincoln Health Network	2,400
Cigna Health Care of Arizona	2,400
RESORTS	
The Pointe Hilton Resorts	1,300
The Phoenician	1,300
J.W. Marriott Desert Ridge	1,300
Hyatt Regency Hotels	1,300
RETAIL TRADE	
Wal-Mart	11,000
Dayton Hudson Corp./Target	7,900
Albertsons-Osco	6,000
Fry's Food and Drug Stores	6,000
Walgreens	5,700*
Bashas' Markets Inc.	4,500
Conoco Phillips 66 (formerly Tosco)	4,000
Home Depot	2,800
Safeway, Inc.	2,600
Costco	2,200
MANUFACTURING	
Honeywell	11,300
Intel Corporation	9,500
Boeing	4,500
Phelps Dodge	4,000
Freescale	3,400
General Dynamics	3,000
Motorola, Inc.	2,100
GOVERNMENT/SCHOOLS	
State of Arizona	35,400
City of Phoenix	14,795
Maricopa County	13,500
Arizona State University	10,000
U.S. Postal Service	9,500
Mesa Public Schools	8,300
Luke Airforce Base	7,800
City of Mesa	3,700

* Total Arizona employees. Metro Phoenix-only not available.

Source: Elliott D. Pollack & Co.

SKY HARBOR INTERNATIONAL AIRPORT TRAFFIC(1)

AIR PASSENGER ARRIVALS

	2003/2004	% Change Year Ago	2002/2003	% Change Year Ago	2001/2002	% Change Year Ago
September	1,398,438	7.2	1,304,097	29.9	1,004,270	-26.1
October	1,609,241	5.5	1,525,311	12.2	1,360,054	-12.5
November	1,497,979	3.1	1,453,451	8.7	1,336,736	-14.6
December	1,590,817	-0.4	1,597,209	17.4	1,360,910	-11.5
January	1,485,579	4.3	1,424,638	10.6	1,288,431	-12.0
February	1,507,092	6.4	1,416,932	10.4	1,283,852	-11.6
March	1,804,414	5.4	1,711,437	-0.2	1,714,390	-5.2
April	1,664,390	7.0	1,554,874	7.2	1,450,815	-8.1
May	1,625,766	2.0	1,593,369	4.2	1,529,438	-2.4
June	1,718,147	4.4	1,646,074	4.0	1,582,440	-0.7
July	1,819,697	4.9	1,735,290	7.6	1,613,140	-4.0
August	1,725,201	4.1	1,656,936	4.1	1,591,173	-4.5
Total	19,446,761	4.4	18,619,618	8.8	17,115,649	-9.1

AIR PASSENGER DEPARTURES

	2003/2004	% Change Year Ago	2002/2003	% Change Year Ago	2001/2002	% Change Year Ago
September	1,359,778	8.8	1,249,762	30.1	960,541	-24.5
October	1,538,654	4.1	1,478,513	12.8	1,310,253	-6.1
November	1,492,810	4.7	1,426,324	9.0	1,308,417	-9.0
December	1,538,828	-1.5	1,561,556	19.1	1,310,830	-12.5
January	1,446,346	2.6	1,410,170	11.5	1,265,195	-12.1
February	1,478,750	7.9	1,370,790	10.4	1,241,916	-12.4
March	1,772,092	3.1	1,718,895	5.8	1,624,625	-8.2
April	1,680,407	6.7	1,574,320	3.5	1,521,047	-5.8
May	1,632,270	0.4	1,625,009	5.3	1,543,474	-3.3
June	1,712,167	3.4	1,655,396	4.2	1,588,369	-0.2
July	1,772,080	4.0	1,703,907	8.0	1,577,115	-4.1
August	1,648,337	3.1	1,598,875	4.1	1,535,524	-4.2
Total	19,072,519	3.8	18,373,517	9.4	16,787,306	-8.2

TOTAL AIR TRAFFIC

	2003/2004	% Change Year Ago	2002/2003	% Change Year Ago	2001/2002	% Change Year Ago
September	2,758,216	8.0	2,553,859	30.0	1,964,811	-25.3
October	3,147,895	4.8	3,003,824	12.5	2,670,307	-9.5
November	2,990,789	3.9	2,879,775	8.9	2,645,153	-11.9
December	3,129,645	-0.9	3,158,765	18.2	2,671,740	-12.0
January	2,931,925	3.4	2,834,808	11.0	2,553,626	-12.0
February	2,985,842	7.1	2,787,722	10.4	2,525,768	-12.0
March	3,576,506	4.3	3,430,332	2.7	3,339,015	-6.7
April	3,344,797	6.9	3,129,194	5.3	2,971,862	-6.9
May	3,258,036	1.2	3,218,378	4.7	3,072,912	-2.9
June	3,430,314	3.9	3,301,470	4.1	3,170,809	-0.5
July	3,591,777	4.4	3,439,197	7.8	3,190,255	-4.1
August	3,373,538	3.6	3,255,811	4.1	3,126,697	-4.3
Total	38,519,280	4.1	36,993,135	9.1	33,902,955	-8.6

(1) Significant reductions in airport traffic beginning in September 2001 are the result of the effects of the terrorist attacks on September 11, 2001.

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

SCHEDULED AIRLINES SERVING SKY HARBOR INTERNATIONAL AIRPORT

Aeromexico Airlines
Air Canada
Alaska Airlines
Aloha Airlines
America West Airlines
American Airlines
American Trans Air
Arizona Express
British Airways
Continental Airlines
Delta Air Lines
Frontier Airlines
Great Lakes Airlines
Hawaiian Airlines
JetBlue Airways
Mesa Airlines (dba America West Express)
Midwest Express
Northwest/KLM Airlines
Skywest Airlines (dba Delta Connection)
Southwest Airlines
Sun Country
United
USAirways

Source: City of Phoenix Aviation Department.

PHOENIX-MESA
METROPOLITAN STATISTICAL AREA
NON-FARM WAGE AND SALARY EMPLOYMENT
(Yearly Average in thousands)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004*
Natural Resources and Mining	5.3	6.2	5.9	5.1	3.6	2.4	2.4	2.2	2.0	2.0
Construction	88.0	95.4	100.6	110.1	118.3	123.3	128.3	126.1	130.0	139.5
Manufacturing	147.4	154.5	160.3	165.7	161.4	161.1	153.2	137.5	129.4	128.3
Trade, Transportation, and Utilities										
Wholesale Trade	59.9	65.4	69.7	73.3	75.9	78.5	79.6	78.4	77.6	76.4
Retail Trade	147.3	155.3	163.4	170.2	177.7	185.5	186.2	188.0	191.1	195.3
Transp., Warehousing, and Utilities	46.4	49.2	51.0	53.4	57.2	57.4	58.6	59.1	59.4	59.4
Information	25.0	27.0	29.8	31.7	35.2	42.0	41.6	39.4	37.3	35.9
Financial Activities	88.4	98.0	110.3	118.5	124.3	126.3	129.6	131.2	134.4	135.8
Professional and Business Services	169.3	194.8	213.4	226.0	248.0	264.1	259.4	253.5	258.1	262.2
Educational and Health Services	112.4	119.9	125.1	130.3	135.3	137.5	143.7	153.0	163.0	169.8
Leisure and Hospitality	126.2	131.4	136.1	143.1	146.8	149.7	152.5	153.5	155.9	159.3
Other Services	43.7	45.6	45.5	48.2	52.1	54.9	59.3	61.6	61.5	62.3
Government	165.6	170.1	171.9	182.7	189.3	195.7	203.4	212.7	217.1	221.7
Total	1,224.8	1,312.5	1,383.0	1,458.1	1,525.0	1,578.4	1,597.7	1,596.1	1,616.7	1,647.6

* 6 months average.

Note: Annual averages may not add due to rounding.

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

The Phoenix-Mesa MSA unemployment rate has generally been consistently below the State and national average. In 2003, the seasonally adjusted unemployment rate for the Phoenix-Mesa MSA was 5.0% compared to 5.6% and 6.0% for Arizona and the United States, respectively. As of June 2004, the unemployment rate in the Phoenix-Mesa MSA was 4.2% compared to 4.7% for Arizona and 5.6% for the United States.

Job growth has also yielded gains in personal income. In 1999, personal income increased by 7.0%, while in 2000, 2001 and 2002 (the latest available data), personal income increased 10.9%, 3.8% and 3.0% respectively. The Greater Phoenix Blue Chip Economic Forecast, a consensus forecast of a number of local economists, estimates personal income increases of 5.3%, 6.7% and 7.3% in 2003, 2004 and 2005, respectively.

PHOENIX-MESA
METROPOLITAN STATISTICAL AREA
COMPARATIVE EMPLOYMENT STATISTICS
(Yearly Average)

Year	Employed Phoenix-Mesa MSA	Unemployed Phoenix-Mesa MSA	Unemployment Rate Phoenix-Mesa MSA	Unemployment Rate Arizona	Unemployment Rate U.S.
2004*	1,762,300	79,000	4.3%	4.9%	5.6%
2003	1,716,300	90,200	5.0	5.6	6.0
2002	1,688,300	101,500	5.7	6.2	5.8
2001	1,660,500	68,500	3.9	4.7	4.7
2000	1,610,900	45,400	2.7	4.0	4.0
1999	1,610,900	50,700	3.1	4.4	4.2
1998	1,531,500	42,900	2.7	4.1	4.5
1997	1,454,000	45,600	3.0	4.6	4.9
1996	1,441,100	55,700	3.7	5.5	5.4
1995	1,401,200	50,200	3.5	5.1	5.6
1994	1,270,900	63,100	4.7	6.4	6.1
1993	1,152,100	61,200	5.0	6.3	6.9
1992	1,110,100	78,600	6.6	7.6	7.5

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

* 6 months average

CONSTRUCTION/REAL ESTATE MARKET

During the 1990s, the construction/real estate market in Maricopa County fully recovered from the recession of the late 1980s. Today, the overall economic environment appears considerably healthier than in the late 1980s when the State faced a national recession, a severe real estate recession and defense cutbacks. The result is that vacancy rates in this cycle are not expected to reach the high level that they reached in the late 1980s and any downturn will be shorter in duration. In fact, according to the Greater Phoenix Blue Chip Economic Forecast, it now appears that vacancy rates in virtually all commercial real estate sectors have peaked and that annual new supply has slowed and is no longer exceeding absorption in most commercial markets. 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. Single family permits issued in 2001 increased 1.1% to 32,869 permits, increased 4.4% in 2002 to 34,315 permits and increased 15.6% in 2003 to a record 39,652 permits. For the first quarter of 2004, single family permits are up 25.1% over the first quarter of 2003. The Greater Phoenix Blue Chip Economic Forecast calls for a slight decrease in permits in 2004 to 38,900 permits and a decrease in 2005 to 37,500 permits.

The City of Phoenix had recently been experiencing a declining market share of residential permits within the Metro Phoenix area. This was a result of the recent 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. This trend appears to be reversing itself, however. In 2003, the City of Phoenix captured 23.5% of the market and has captured 27.3% of the market in this first quarter of 2004. This is the highest percentage the City has attained since 1995.

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 and 2003 there were 8,009, 7,201, 5,607 and 4,836 units permitted, respectively. Multi-family housing construction has been hit hard by low interest rates that have made single-family housing more affordable. As a result, demand for single-family homes has increased while demand for multi-family homes has slowed. In the first quarter of 2004, there were 1,089 multi-family permits issued. It is anticipated that approximately 4,682 permits will be issued in 2004 and 4,927 issued in 2005. Despite the decreased demand, multi-family housing has enjoyed low levels of vacancy since 1993 due to modest levels of construction. Vacancy rates peaked in second quarter 1988 at 14.1% but backed down to 4.5% by the end of 1996. The vacancy rate was 9.4% in 2002, 9.6% in 2003 and 8.9% for the first quarter 2004. The Greater Phoenix Blue Chip Economic Forecast estimates that the multi-family vacancy rate will remain in the 9% to 10% range during 2004 and 2005.

1996 was the first year since 1991 that new office construction took place. Vacancy rates peaked in 1986 at just over 30%, but declined to 9.1% in 1996. According to CB Richard Ellis, in 1996 only six buildings were built, but in 1997 twenty-four were built, in 1998 thirty-six were built, in 1999 fifty-four were built, in 2000 forty-nine were built, in 2001 sixty-two were built, in 2002 forty-seven were built and in 2003 fifteen were built. The vacancy rate at year-end 2002 increased to 18.8% from 16.0% at year-end 2001. In 2003, approximately 389,000 square feet of office space was added to the market, while approximately 1.2 million square feet was absorbed. Thus, as of year-end 2003, the vacancy rate declined to 18.3% versus 18.8 at year-end 2002. In the first quarter of 2004, vacancy rates dropped slightly to 17.6% after absorption of 379,000 square feet and the addition of only 41,000 square to the market. The Greater Phoenix Blue Chip Economic Forecast estimates that the vacancy rate will be 18.5% and 17.0% in 2004 and 2005, respectively.

Given the rapid growth in single family housing over the last decade, the corresponding demand for retail space has remained relatively strong. More recently, additional supply has slowed due to the slowdown in overall retail sales. 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, vacancy rates rose to 6.6% in 2001, 7.3% in 2002 and 7.4% in 2003. In the first quarter of 2004, vacancy rates remained fairly steady at 7.2%. The near term outlook is not as favorable for the retail space market as it has been in the recent past. Vacancy rates are expected to increase to 9.0% in 2004 and to 9.2% in 2005.

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 with just over 6 million square-feet of industrial space built in 1995, 7.3 million square-feet built in 1996, 8.1 million square feet built in 1997, 7.0 million square feet built in 1998, 8.7 million square feet built in 1999, 6.5 million square feet built in 2000 and 8.1 million square feet built in 2001. 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 the first quarter of 2004, 2.1 million square feet was absorbed while only 767,000 square feet was added, reducing the vacancy rate to just under 9%. According to the Greater Phoenix Blue Chip Economic Forecast, vacancy rates are expected to be 9.3% in 2004 and 8.7% in 2005.

Overall, most commercial sectors have passed the trough for this cycle, but the recovery will be slow. The decline from the peak was considerably milder than the last recession because of the lower level of vacancy rates from which the decline started. As the economy accelerates the balance between absorption and new construction should improve. Construction employment is expected to experience a decline, but less than the cyclical norm. After growing by 4.2% in 2000 and 4.1% in 2001, construction employment declined 1.7% in 2002, but increased 3.1% in 2003. In the first half of 2004, construction employment was up 10.8% over the same period in 2003. Construction employment is expected to increase by 1.8% in 2004 and 0.8% in 2005 according to the Greater Phoenix Blue Chip Economic Forecast. These are relatively modest fluctuations in an industry that has historically been quite cyclical.

OUTLOOK/CONCLUSION

Total non-agricultural wage and salary employment, after climbing by 3.5% in 2000 and 1.2% in 2001, declined by 0.1% in 2002 and increased by 1.3% in 2003. Employment in the Metro Phoenix economy has increased by 2.5% through June 2004, over the same period in 2003. According to the Greater Phoenix Blue Chip Economic Forecast, the economy, as measured by employment growth, is expected to increase by 3.5% in 2004 and 4.2% in 2005.

The outlook for the Phoenix metropolitan area still calls for continued but slow growth according to the Greater Phoenix Blue Chip Economic Forecast. Population is expected to increase by 2.9% in both 2004 and 2005. Retail sales, which increased 10.4% in 1999, 8.4% in 2000, 1.5% in 2001, 0.3% in 2002 and 5.5% in 2003, are expected to increase 6.4% in 2004 and 6.8% in 2005. Personal income is expected to have grown by 5.3% in 2003 and is forecast to grow by 6.7% in 2004 and 7.3% in 2005. The long-term forecast for the Phoenix metropolitan area continues to be positive.

MARICOPA COUNTY RETAIL SALES
($ in millions)

Year	Amount	Percentage Change
2004*	$22,796	9.0%
2003	32,371	5.5
2002	30,690	0.3
2001	30,606	1.5
2000	30,167	8.4
1999	27,825	10.4
1998	25,207	7.9
1997	23,360	7.8
1996	21,664	8.2
1995	20,017	9.9

*Year-to-date through August 2004.

Source: Arizona Department of Revenue.

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

Year	Residential	Commercial	Industrial	Other	Total
2004*	$1,023,957	$ 267,308	$ 25,091	$406,609	$1,722,965
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
2000	752,495	967,373	157,826	580,794	2,458,488
1999	803,018	829,901	92,881	401,848	2,127,648
1998	801,955	816,664	124,313	479,879	2,222,811
1997	799,148	594,355	98,989	508,898	2,001,390
1996	742,743	550,152	205,329	635,751	2,133,975
1995	731,454	394,319	56,229	328,668	1,510,670

*Year-to-date through June 2004.

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

VALUE OF BUILDING PERMITS
MARICOPA COUNTY
($ in thousands)

Year	Residential	Commercial	Industrial	Other	Total
2004*	$4,429,348	$1,006,085	$ 67,483	$ 800,834	$ 6,303,750
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
2000	4,774,188	2,144,767	253,472	1,493,186	8,665,613
1999	5,142,869	1,878,629	210,676	1,092,337	8,324,511
1998	4,778,571	2,230,445	378,141	1,101,269	8,488,426
1997	3,903,540	1,840,324	233,598	1,133,849	7,111,311
1996	3,508,416	1,422,384	788,083	1,079,458	6,798,341
1995	3,199,942	1,043,978	413,835	782,609	5,440,364

*Year-to-date through June 2004.

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

NEW HOUSING STARTS(1)

Year	City of Phoenix	Maricopa County
2004*	7,582	28,700
2003	11,257	47,808
2002	9,154	43,826
2001	9,754	43,732
2000	8,052	43,908
1999	9,836	47,406
1998	11,212	47,801
1997	8,253	42,568
1996	10,548	39,628
1995	10,774	37,091

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

*Year-to-date through June 2004.

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

FINANCIAL INSTITUTIONS SERVING METRO PHOENIX
TOTAL ASSETS OVER $20 MILLION

Banks
Bank One, Arizona, NA
Bank of America, NA
Wells Fargo Bank of Arizona NA
First National Bank of Arizona
Northern Trust Bank of Arizona
BNC National Bank
Meridian Bank, N.A.
Harris Trust Bank
Johnson Bank of Arizona NA
Direct Merchants Credit Card Bank, N.A.
Alliance Bank of Arizona
Western Security Bank
Valley Commerce Bank
Sunstate Bank
Sunrise Bank of Arizona
Desert Hills Bank
Copper Star Community Bank
Stearns Bank Arizona
Marine Bank
Camelback Community Bank
Bank of the Southwest
Mesa Bank
The Biltmore Bank of Arizona
Arrowhead Community Bank
Union Bank of Arizona, N.A.
Valley First Community Bank
Arizona Bank & Trust
East Valley Community Bank
Choice Bank
Dillard National Bank
United Arizona Bank, N.A.
Home National Bank

Savings Institutions
First Arizona Savings FSB
Bank USA FSB
Nordstrom FSB

Source: Federal Deposit Insurance Corporation.

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APPENDIX B

CITY OF PHOENIX, ARIZONA
FINANCIAL DATA

VALUATIONS

2004-05 Fiscal Year

Secondary Assessed Valuation	$10,489,921,645(1)
Primary Assessed Valuation	9,800,420,933(2)
Full Cash Value	83,439,807,440(3)

(1) This assessed valuation represents the amount used in determining property tax levies for the payment of principal and interest on bonds, and the calculation of the maximum permissible bonded indebtedness.

(2) This assessed valuation represents the amount used in determining property tax levies for the payment of current operation and maintenance expenses.

(3) Full cash value represents total market value and is calculated by the Maricopa County Assessor's Office, and the Arizona Department of Revenue, Division of Property and Special Taxes.

Arizona Property Tax System

Arizona's property tax system was substantially revised by 1980 amendments to the Arizona Constitution and implementing legislation. Two separate tax systems were created: a Primary system for taxes levied to pay current operation and maintenance expenses; and a Secondary system for taxes levied to pay principal and interest on bonded indebtedness, special district assessments and tax overrides, as well as for the determination of the maximum permissible bonded indebtedness. There are specific provisions under each system governing determination of the Primary limited property value, the Secondary full cash value of property, the basis of assessment and the maximum annual tax levies on certain types of property and by certain taxing authorities.

Under the Primary system, the limited property value is the basis for determining primary property taxes of locally assessed real property (residential, commercial, industrial, agricultural and unimproved property) and may increase by more than 10% per year only under certain circumstances. This limitation does not apply to mines, utilities and railroads which are assessed by the State. Under the Secondary system, there is no limitation on annual increases in full cash value of any property. This is comparable to Arizona's prior system of property taxation.

The basis of assessment for all property classifications is shown below. The percentage assessment factor for each property classification is applied to the Primary limited property value and Secondary full cash value of each property to determine Primary and Secondary assessed valuation for tax levy purposes.

Basis of Property Assessments (1)

Tax Years	Mines	Utilities	Railroads	Commercial and Industrial	Residential (2)	Agriculture
1980-82	52%	44%	34%	25%	10%	16%
1983	38	38	30	25	10	16
1984	36	36	23	25	10	16
1985	34	34	(3)	25	10	16
1986	32	32	(3)	25	10	16
1987-94	30	30	(3)	25	10	16
1995	29(4)	29(4)	(3)	25(5)	10	16(5)
1996	28(4)	28(4)	(3)	25(5)	10	16(5)
1997	27(4)	27(4)	(3)	25(5)	10	16(5)
1998	26(4)	26(4)	(3)	25(5)	10	16(5)
1999-04	25(4)	25(4)	(3)	25(5)	10	16(5)

(1) Additional classes of property exist, but do not amount to a significant portion of total valuation for the City of Phoenix. These classes consist of historic property; aerospace manufacturing property in a reuse zone; property in a foreign trade zone; environmental technology property for the first twenty years from the date placed in service and leasehold or other possessory interest in certain public property.

(2) Does not include residential properties leased or rented. The assessment factor for these properties was 18% in tax year 1984 and was to be reduced 1% per year until 1992. Legislation passed in 1988, however, froze the assessment factor for leased or rented residential properties for 1988 and 1989 at the 1987 level of 15%. Legislation passed in 1990 set the assessment ratio for these properties at 14% for 1990, 13% for 1991 and 12% for 1992. Legislation passed in 1993 set the assessment ratio at 11% for 1993, and 10% for 1994 and each year thereafter.

(3) For years after 1984, the percentage assessment factor for Primary tax purposes is to be determined annually equal to the ratio of the total assessed valuation for Primary tax purposes of mining, utilities, commercial and industrial properties to the total limited property value of such properties. The percentage assessment factor for Secondary tax purposes is to equal the ratio of the total assessed valuation for Secondary tax purposes of such properties to the total full cash value of such properties.

(4) Legislation passed in 1994 reduced the assessment factor to 29% in 1995, 28% in 1996, 27% in 1997, 26% in 1998 and 25% in 1999 and each year thereafter.

(5) Legislation authorized by an amendment to the Constitution of Arizona by vote at the November 5, 1996 general election provided for a reduced assessment ratio of 1% on commercial and industrial and agricultural personal property for full cash values up to $3,000 in tax year 1995 and $50,000 in tax year 1996. Thereafter, up to $50,000 shall be exempt from taxation. The exemption amount shall be adjusted annually for inflation by the Arizona Department of Revenue. Any portion of the full cash value in excess of those amounts will be assessed at 25% or 16%, as applicable.

Under the Primary system, annual tax levies are limited based on the nature of the property being taxed, and the nature of the taxing authority. Taxes levied for Primary purposes on residential property only are limited to 1% of the full cash value of such property. In addition, taxes levied for Primary purposes on all types of property by counties, cities, towns and community college districts are limited to a maximum increase of 2% over the prior year's levy, plus any amount directly attributable to new construction and annexation and involuntary tort judgments. The 2% limitation does not apply to taxes levied for Primary purposes on behalf of local school districts. Under the Secondary system, annual tax levies for bonded indebtedness and special district assessments are unlimited.

Tax Procedures

The Arizona Legislature revised the property tax valuation system effective with the tax year beginning January 1, 1997. Under the new system, a valuation date was established as January 1 of the year preceding the tax year, or January 1, 1997 for tax year 1998. A new, simplified system for sending notices of valuation, correction of errors and filing of appeals for locally assessed property was implemented. To ease implementation, real property on the tax rolls in 1995 remained at the 1995 values for tax year 1996. In July 1996, the Legislature revised the property valuation and appeal processes of centrally valued properties to conform to the changes made for locally assessed property. To allow for the change to the new system, the legislation provided that for the 1998 tax year, centrally valued property remained at 1997 values.

The new valuation system was intended to improve upon prior law by simplifying and streamlining the appeals process and increasing the length of time for preparing the assessment roll while still taking into account any corrections made as a result of appeals.

Legislation passed in 1997 permits county assessors, upon meeting certain conditions, to assess residential, agricultural and vacant land at the same assessed valuation for up to three consecutive tax years. The Maricopa County Assessor began reassessing existing properties within these classes on a two-year cycle, with assessments for tax year 2000 the same as tax year 1999. As a result, existing properties within these classes were reassessed for tax year 2001, remained the same for tax year 2002, were reassessed for tax year 2003 and will be reassessed every other year thereafter.

Legislation passed in 2001 calls for each county assessor to complete the assessment roll by the December 20 preceding the beginning of the tax year. As under prior law, a tax lien attaches to the property on January 1 of the tax year (January 1, 2001 for tax year 2001) and the County Board of Supervisors sets the tax rates on the third Monday in August each year.

Additional legislation passed in 2001 established a joint legislative oversight committee to monitor the current property tax assessment and appeals systems. The committee will meet periodically to review the administrative structure and procedures utilized for assessing taxes and handling appeals, and identify and suggest solutions to potential problems.

Delinquent Tax Procedures

The property taxes due the City, along with State and other property taxes, are billed by Maricopa County in September of the calendar tax year and are due and payable in two installments on October 1 and March 1 and become delinquent on November 1 and May 1. Delinquent taxes are subject to an interest penalty of 16% per annum prorated monthly as of the first day of the month. (Delinquent interest is waived if a taxpayer, delinquent as to the November 1 payment, pays the entire year's tax bill by December 31.) After the close of the tax collection period, the treasurer of the county prepares a delinquent property tax list and the property so listed is subject to a tax lien sale in February of the succeeding year. In the event that there is no purchaser for the tax lien at the sale, the tax lien is assigned to the State, and the property is reoffered for sale from time to time until such time as it is sold, subject to redemption, for an amount sufficient to cover all delinquent taxes.

After three years from the sale of the tax lien, the tax lien certificate holder may bring an action in a court of competent jurisdiction to foreclose the right of redemption and, if the delinquent taxes plus accrued interest are not paid by the owner of record or any entity having a right to redeem, a judgment is entered ordering the treasurer of the county to deliver a Treasurer's Deed to the certificate holder as prescribed by law.

It should be noted that in the event of bankruptcy of a taxpayer pursuant to the United States Bankruptcy Code, the law is currently unsettled as to whether a lien can attach against the taxpayer's property for property taxes levied during the pendency of bankruptcy. Such taxes might constitute an unsecured and possibly noninterest bearing administrative expense payable only to the extent that the secured creditors of a taxpayer are oversecured and then possibly only on the prorated basis with other allowed administrative claims. It cannot be determined, therefore, what adverse impact bankruptcy might have on the ability to collect ad valorem taxes on property of a taxpayer within the City. Proceeds to pay such taxes come only from the taxpayer or from a sale of the tax lien on the property.

When a debtor files or is forced into bankruptcy, any act to obtain possession of the debtor's estate, any act to create or perfect any lien against the property of the debtor or any act to collect, assess or recover a claim against the debtor that arose before the commencement of the bankruptcy would be stayed pursuant to the Bankruptcy Code. While the stay of a bankruptcy court may not prevent the sale of tax liens against the real property of a bankrupt taxpayer, the judicial or administrative foreclosure of a tax lien against the real property of a debtor would be subject to the stay of bankruptcy court. It is reasonable to conclude that "tax sale investors" may be reluctant to purchase tax liens under such circumstances, and, therefore, the timeliness of post bankruptcy petition tax collections becomes uncertain.

Full Cash Value History

Fiscal Year	City of Phoenix	Maricopa County	State of Arizona
2004-05	$83,439,807,440	$245,835,671,707	$346,671,753,858
2003-04	79,124,594,645	226,293,568,605	335,149,188,693
2002-03	67,638,014,420	194,235,322,146	294,684,679,137
2001-02	63,269,038,936	180,653,045,937	273,788,719,647
2000-01	56,520,869,237	149,395,798,645	249,615,904,375
1999-00	51,170,108,692	134,709,854,002	218,663,627,946
1998-99	46,338,897,513	128,171,304,453	210,603,641,756
1997-98	44,606,566,775	120,276,555,947	198,556,280,715
1996-97	40,536,950,475	107,933,711,838	179,907,770,879
1995-96	39,971,562,865	105,326,279,588	175,683,516,736

Source: Arizona Department of Revenue, Division of Property and Special Taxes and Maricopa County Finance Department.

Secondary Assessed Valuation History

Fiscal Year	City of Phoenix	Maricopa County	State of Arizona
2004-05	$10,489,921,645	$30,066,986,670	$44,480,893,202
2003-04	9,792,188,415	27,477,987,528	40,861,415,479
2002-03	8,802,883,478	24,457,047,282	36,825,660,973
2001-02	8,232,133,776	22,913,134,480	34,468,574,240
2000-01	7,573,211,016	20,877,715,546	32,071,738,214
1999-00	6,915,960,312	18,676,830,848	28,184,077,278
1998-99	6,202,274,718	16,813,017,261	26,793,103,101
1997-98	5,894,963,462	15,723,498,194	25,384,679,197
1996-97	5,400,221,498	14,343,156,861	23,333,708,811
1995-96	5,348,425,323	14,119,434,946	23,022,330,962

Source: Arizona Department of Revenue, Division of Property and Special Taxes and Maricopa County Finance Department.

Comparative Secondary Assessed Valuation by Classification, City of Phoenix(1)

Fiscal Year	Real Estate	Improvements	Secured & Unsecured Personal	Utilities Rails & Wires	Gross Assessed Valuation	Exemptions	Net Secondary Assessed Valuation
2004-05	$3,336,937,158	$7,526,757,349	$649,572,337	$823,832,402	$12,337,099,246	$1,847,177,601	$10,489,921,645
2003-04	2,974,456,188	7,169,077,063	594,164,050	830,478,168	11,568,175,469	1,775,987,054	9,792,188,415
2002-03	2,488,650,102	6,284,297,650	612,065,590	747,923,082	10,132,936,424	1,330,052,946	8,802,883,478
2001-02	2,163,560,680	5,868,320,490	618,533,930	684,402,671	9,334,817,771	1,102,683,995	8,232,133,776
2000-01	1,933,926,600	5,198,083,457	579,897,990	631,039,395	8,342,947,442	769,736,426	7,573,211,016
1999-00	1,883,458,451	4,608,310,408	520,095,915	603,225,851	7,615,090,625	699,130,313	6,915,960,312
1998-99	1,745,639,548	4,024,090,552	513,240,900	560,079,571	6,843,050,571	640,775,853	6,202,274,718
1997-98	1,707,648,601	3,775,667,800	508,147,650	575,580,845	6,567,044,896	672,081,434	5,894,963,462
1996-97	1,763,247,205	3,293,925,357	465,657,755	575,195,555	6,098,025,872	697,804,374	5,400,221,498
1995-96	1,452,272,969	2,924,578,560	480,605,530	499,209,889	5,356,666,948	8,241,625	5,348,425,323

Source: Arizona Department of Revenue, Division of Property and Special Taxes.

(1) The Maricopa County Finance Department reports that exemptions for 1996-97 through 2004-05 include organizational exemptions such as churches, whereas in prior years exemptions only included personal exemptions, such as widows and disabled persons. In years prior to 1996-97, secondary assessed valuation in each classification was reported net of organizational exemptions. As a result, secondary assessed valuation by classification in 1996-97 through 2004-05 is not comparable to previous years secondary assessed valuation by classification. However, net secondary assessed valuation is comparable for all years.

Primary Assessed Valuation History

Fiscal Year	City of Phoenix	Maricopa County	State of Arizona
2004-05	$9,800,420,933	$28,070,870,413	$41,886,818,760
2003-04	9,048,850,849	25,447,850,971	38,311,495,654
2002-03	8,268,924,766	22,955,864,882	34,868,616,692
2001-02	7,689,379,400	21,355,326,477	32,518,431,391
2000-01	7,024,054,018	19,362,298,255	30,144,285,019
1999-00	6,425,131,594	17,463,875,533	26,593,673,070
1998-99	5,899,905,701	16,017,265,623	25,682,910,177
1997-98	5,614,496,354	15,006,270,531	24,284,338,991
1996-97	5,233,427,802	13,975,668,204	22,820,491,792
1995-96	5,067,237,371	13,493,736,826	22,109,868,588

Source: Arizona Department of Revenue, Division of Property and Special Taxes and Maricopa County Finance Department.

City of Phoenix, Arizona
Major Taxpayers
2003-04

Taxpayer	2003-04 Secondary Assessed Valuation	As % of City Total Secondary Assessed Valuation
Qwest	$ 254,718,087	2.60%
Arizona Public Service Co.	232,363,765	2.37
Southwest Gas Corporation	65,206,308	0.67
AT&T Corporation	65,176,651	0.67
Honeywell International Inc.	45,300,608	0.46
Starwood Hotels and Resorts	42,728,758	0.44
Cox Communications	42,357,509	0.43
Westcor Malls	34,889,159	0.36
MCI Worldcom	31,361,400	0.32
American Express Companies	31,220,494	0.32
MONY/Pointe Resorts Partnerships	31,101,020	0.32
Safeway Inc.	30,639,851	0.31
Alltel Communications	30,504,077	0.31
Bank One	30,140,534	0.31
Paradise Village Investment Co.	28,763,799	0.29
SRI Phoenix Plaza Venture LLC	26,951,227	0.28
Target Corporation	24,520,770	0.25
Teachers Insurance & Annuity Association of America	24,079,095	0.25
East Camelback Road Inc.	23,962,887	0.24
Wells Fargo Bank	22,743,605	0.23
Total	$1,118,729,604	11.43

Source: Maricopa County Assessor's Office and the City of Phoenix Finance Department.

TAX DATA

Maricopa County assesses and collects all City property taxes. Property taxes are payable in two installments. The first installment is due on the first business day of October and becomes delinquent on the first business day of November. The second installment is due on the first business day of March and becomes delinquent on the first business day of May. Interest at the rate of 16% per annum attaches on first and second installments following delinquent dates. The following table sets forth the City's tax levy for 2004-05 and for the past ten fiscal years, as well as the tax collection record of the City's levy for the 2004-05 fiscal year and for the previous ten fiscal years. It should be noted that the total collection figures for each fiscal year reflect amounts collected on such year's levy and amounts collected during such year on prior years' levies, but do not include penalties for delinquent payments.

Fiscal Year	Tax Rate Per $100 Assessed	Tax Levy	Current Collection(1)		Total Collection(2)	
			Amount	% of Levy	Amount	% of Levy
2004-05	$1.82	$185,055,818	$ 8,682,557	4.7%	$ 9,861,252	5.3%
2003-04	1.82	171,899,460	167,281,374	97.3	170,593,456	99.2
2002-03	1.82	155,950,420	151,011,797	96.8	153,599,250	98.5
2001-02	1.82	145,395,416	140,187,238	96.4	142,896,627	98.3
2000-01	1.82	133,109,691	129,187,927	97.1	130,917,435	98.4
1999-00	1.82	121,581,798	118,826,076	97.7	121,038,518	99.6
1998-99	1.82	110,130,882	108,068,788	98.1	110,291,021	100.1
1997-98	1.82	104,716,452	102,552,294	97.9	104,373,897	99.7
1996-97	1.82	96,718,505	95,342,617	98.6	97,574,122	100.9
1995-96	1.82	94,702,111	93,688,948	98.9	95,427,243	100.8

(1) Reflects amounts collected on each year's levy through June 30, the end of the fiscal year, and the current fiscal year through October, 2004.

(2) Reflects amounts collected on each year's levy and amounts collected during such year on prior years' levies.

Source: Maricopa County Treasurer's Office.

Total Direct And Overlapping Tax Rates
Per $100 Assessed Valuation(1)
For Fiscal Year 2004-05

Overlapping Municipality	Total Tax Rate Inside City of Phoenix
Inside Agua Fria Union High School District No. 216	
Inside Litchfield Elementary School District No. 79	$12.8315
Inside Glendale Union High School District No. 205	
Inside Washington Elementary School District No. 6	13.1655
Inside Glendale Elementary School District No. 40	14.5423
Inside Phoenix Union High School District No. 210	
Inside Phoenix Elementary School District No. 1	15.2970
Inside Riverside Elementary School District No. 2	10.1732
Inside Isaac Elementary School District No. 5	17.1804
Inside Wilson Elementary School District No. 7	14.8453
Inside Osborn Elementary School District No. 8	11.8567
Inside Creighton Elementary School District No. 14	13.3120
Inside Murphy Elementary School District No. 21	14.5337
Inside Balsz Elementary School District No. 31	12.3860
Inside Madison Elementary School District No. 38	11.9689
Inside Laveen Elementary School District No. 59	11.2554
Inside Roosevelt Elementary School District No. 66	15.5740
Inside Alhambra Elementary School District No. 68	15.2407
Inside Cartwright Elementary School District No. 83	14.9177
Inside Tempe Union High School District No. 213	
Inside Tempe Elementary School District No. 3(2)	12.0267
Inside Kyrene Elementary School District No. 28(2)	11.9519
Inside Tolleson Union High School District No. 214	
Inside Tolleson Elementary School District No. 17	14.8558
Inside Fowler Elementary School District No. 45	13.3947
Inside Union Elementary School District No. 62	10.5408
Inside Littleton Elementary School District No. 65	12.2849
Inside Pendergast Elementary School District No. 92	14.9229
Inside Scottsdale Unified School District No. 48(2)	9.9396
Inside Paradise Valley Unified School District No. 69	11.4099
Inside Cave Creek Unified School District No. 93	8.3676
Inside Deer Valley Unified School District No. 97	11.7841

(1) Included in the computation for each of the overlapping municipalities is the Maricopa County tax rate of $1.2108, the Maricopa County Community College tax rate of $1.0372, the City of Phoenix tax rate of $1.8200, the Maricopa County Education Equalization tax rate of $0.4560, the Maricopa County Flood Control District tax rate of $0.2119, the Central Arizona Water Conservation District tax rate of $0.12, the Volunteer Fire District Assistance tax rate of $0.0069 and the County Library District tax rate of $0.0521.

(2) Includes the East Valley Institute of Technology tax rate of $0.0976.

Source: Maricopa County Finance Department.

STATEMENT OF BONDED INDEBTEDNESS(1)

Purpose	General Obligation Bonds: Non-Enterprise General Obligation Bonds	Revenue Supported General Obligation Bonds(2)	Total General Obligation Bonds	Revenue Bonds	Total Bonds
Various	$842,593,637	$ —	$ 842,593,637	$ —	$ 842,593,637
Airport	—	27,605,000	27,605,000	41,240,000	68,845,000
Sanitary Sewer	—	73,730,828	73,730,828	—	73,730,828
Solid Waste	—	44,595,000	44,595,000	—	44,595,000
Water	—	130,968,673	130,968,673	—	130,968,673
Public Housing	—	—	—	2,145,000	2,145,000
Street & Highway	—	—	—	188,510,920	188,510,920
Subtotal	842,593,637	276,899,501	1,119,493,138	231,895,920	1,351,389,058
Less: Restricted Funds	284,058,631	—	284,058,631	—	284,058,631
Direct Debt	558,535,006	276,899,501	835,434,507	231,895,920	1,067,330,427
Less: Revenue Supported	—	276,899,501	276,899,501	231,895,920	508,795,421
Net Debt	$558,535,006	$ —	$ 558,535,006	$ —	$ 558,535,006

(1) Represents bonds outstanding as of November 1, 2004. Such figures do not include the outstanding principal amounts of certain general obligation bonds, certain water revenue bonds and street and highway user revenue bonds which have been refunded or the payment of which has been provided for in advance of maturity. The payment of the debt service requirements on such bonds (including redemption premiums where applicable) is secured by federal securities which were purchased with proceeds of the refunding issues and other available moneys and are held in irrevocable trusts and special investment funds held by the City.

(2) Revenues remaining after payment of operation and maintenance expenses and revenue bond debt service requirements of the Phoenix aviation operations since 1967 and the Phoenix water system since 1942 have been paying the general obligation bond debt service requirements of each respective system. In addition, the debt service requirements on the City's sanitary sewer general obligation bonds are supported from revenues of the City's sanitary sewer system. This enterprise system was established in the 1980-81 fiscal year through the City's imposition of a sewer user charge beginning June 1, 1980. Also, beginning in 1990-91, all solid waste bonds are being paid from the revenues of the solid waste enterprise fund.

Annual Debt Service Requirements
General Obligation Bonded Debt Outstanding

Fiscal Year Ending June 30,	Total Debt Service Requirements(1)	Enterprise Supported	Net Debt Service Requirements
2005	$ 113,118,140	$ 39,685,763	$ 73,432,377
2006	110,426,902	36,771,578	73,655,324
2007	109,691,831	33,976,911	75,714,920
2008	118,310,371	44,107,512	74,202,859
2009	114,174,105	34,974,422	79,199,683
2010	115,084,697	35,661,456	79,423,241
2011	109,948,788	32,848,748	77,100,040
2012	92,368,180	15,329,700	77,038,480
2013	84,448,616	15,328,434	69,120,182
2014	72,112,297	10,747,956	61,364,341
2015	70,663,476	14,558,157	56,105,319
2016	89,261,785	29,638,159	59,623,626
2017	63,903,314	9,312,109	54,591,205
2018	64,150,115	9,381,008	54,769,107
2019	55,384,276	3,462,033	51,922,243
2020	51,357,614	2,943,270	48,414,344
2021	37,504,176	1,552,945	35,951,231
2022	36,776,957	715,700	36,061,257
2023	30,534,981	—	30,534,981
2024	26,814,037	—	26,814,037
2025	26,828,112	—	26,828,112
2026	23,210,500	—	23,210,500
2027	23,213,900	—	23,213,900
2028	15,161,600	—	15,161,600
Totals	$1,654,448,770	$370,995,861	$1,283,452,909

(1) Represents debt service requirements on bonds outstanding as of November 1, 2004. Schedule does not include debt service requirements of previously refunded general obligation bonds. The payment of the refunded debt service requirements is secured by obligations issued or fully guaranteed by the United States of America which are held in irrevocable trusts and are scheduled to mature at such times and in sufficient amounts to pay when due all principal, interest and redemption premiums where applicable, on the refunded bonds.

Direct General Obligation Bonded Debt Outstanding

Issue Date	Original Issuance	Purpose	Maturity Dates	Bonds Outstanding As of 11-1-04(1)
12-01-89	$ 12,241,589	Various Improvements — Minibonds	7-1-00/10	$ 2,456,204
12-06-91	30,000,000	Sanitary Sewer Improvements	7-1-95/11	17,844,651
04-01-92	237,945,000	Refunding	7-1-95/06	19,030,000
04-15-93	335,165,000	Refunding	7-1-95/12	127,820,000
09-15-93	70,550,000	Refunding	7-1-94/09	10,975,000
12-01-93	17,229,249	Various Improvements — Minibonds	7-1-04/14	8,712,762
01-01-95	30,000,000	Various Improvements	7-1-97/05	1,920,000
07-01-95	85,000,000	Refunding	7-1-10/19	34,520,000
11-01-95	60,000,000	Various Improvements	7-1-01/20	23,160,000
02-01-96	35,280,000	Refunding	7-1-96/14	20,425,000
01-15-97	32,000,000	Various Improvements	7-1-99/20	13,655,000
01-15-98	75,000,000	Various Improvements	7-1-01/22	57,020,000
01-15-99	163,820,000	Refunding	7-1-99/20	152,040,000
02-01-99	58,000,000	Various Improvements	7-1-01/23	38,920,000
07-15-00	50,000,000	Various Improvements	7-1-03/25	30,955,000
12-12-01	6,075,000	Sanitary Sewer Improvements	7-1-03/21	5,614,521
06-01-02	10,000,000	Various Improvements (Taxable)	7-1-08/10	10,000,000
06-01-02	89,970,000	Various Improvements	7-1-11/27	83,120,000
06-01-02	144,495,000	Refunding	7-1-03/18	118,590,000
06-01-02	14,680,000	Refunding	7-1-14/15	8,525,000
06-01-03	83,320,000	Refunding	7-1-05/16	83,320,000
03-01-04	200,000,000	Various Improvements	7-1-09/28	200,000,000
03-01-04	50,870,000	Refunding	7-1-11/19	50,870,000
Total Direct General Obligation Debt Outstanding				1,119,493,138
Less: Principal Redemption Funds held in Restricted Fund				284,058,631
Total Direct General Obligation Debt Outstanding				835,434,507
Less: General Obligation Bonded Debt Supported from Enterprise Revenues				276,899,501(2)
Net Direct General Obligation Bonded Debt Outstanding				$ 558,535,006

(1) Represents general obligation bonds outstanding as of November 1, 2004.

(2) Revenues remaining after payment of operation and maintenance expenses and revenue bond debt service requirements of the Phoenix aviation operations since 1967 and the Phoenix water system since 1942 have been paying the general obligation bond debt service requirements of each respective system. In addition, the debt service requirements on the City's sanitary sewer general obligation bonds are supported from revenues of the City's sanitary sewer system. This enterprise system was established in the 1980–81 fiscal year through the City's imposition of a sewer user charge beginning June 1, 1980. Also, beginning in 1990–91, all solid waste bonds are being paid from refuse user fee revenues. In the event the revenues of any of these systems should prove insufficient to pay the general obligation bond debt service requirements, or should the City decide not to pay the debt service from revenues of the systems, this debt service would then be paid from ad valorem taxes or other available sources.

City of Phoenix
Airport Revenue Bonds Outstanding(1)

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 11-1-04
5-1-94	$63,990,000	Airport Refunding	7-1-95/12	5.97%	$14,665,000
5-1-94	31,500,000	Airport Improvements	7-1-03/12	6.44	26,575,000
Total Airport Revenue Bonds Outstanding					$41,240,000

(1) Schedule does not include the City of Phoenix Civic Improvement Corporation Senior Lien Airport Revenue Bonds which are on a parity with the bonds shown above. See page B-24 for a schedule of outstanding City of Phoenix Civic Improvement Corporation Senior Lien Airport Revenue Bonds.

City of Phoenix
Street and Highway User Revenue Bonds Outstanding

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 11-1-04
2-1-92	$ 55,490,000	Street & Highway Improvement	7-1-07	6.55%	$ 5,815,000
3-15-92	117,880,000	Street & Highway Refunding (Junior Lien)	7-1-93/11	6.50	10,060,000
12-15-92	58,225,920	Street & Highway Refunding (Junior Lien)	7-1-94/13	7.96	16,660,920
1-1-99	10,375,000	Street & Highway Refunding (Junior Lien)	7-1-99/11	4.36	9,200,000
5-1-02	123,125,000	Street & Highway Refunding (Junior Lien)	7-1-03/11	4.77	99,415,000
6-1-03	47,360,000	Street & Highway Refunding	7-1-05/11	4.59	47,360,000
Total Street & Highway User Revenue Bonds Outstanding					$188,510,920

City of Phoenix
Municipal Housing Revenue Bonds Outstanding(1)

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 11-1-04
8-1-95	$4,960,000	Public Housing Refunding	12-1-95/09	6.06%	$2,145,000
Total Municipal Housing Revenue Bonds Outstanding					$2,145,000

(1) The housing bonds are secured primarily by payments received by the City from the U.S. Department of Housing and Urban Development in accordance with contracts entered into pursuant to Sections 8 and 23 of the United States Housing Act of 1937, as amended. In addition, these bonds are also secured by a first lien on and pledge of the gross tenant rental revenues derived from the projects financed with the proceeds of the refunded issues.

DEBT LIMITATION

Under the provisions of the Arizona Constitution, outstanding general obligation bonded debt for combined water, sewer, light, parks, open space preserves, playgrounds and recreational facilities may not exceed 20% of a city's net secondary assessed valuation, nor may outstanding general obligation bonded debt for all other purposes exceed 6% of a city's net secondary assessed valuation. Unused borrowing capacity as of November 1, 2004 is shown below, based upon 2004-05 assessed valuation.

Water, Sewer, Light, Parks, Open Space and Recreational Purpose Bonds

20% Constitutional Limitation	$2,097,984,329
Direct General Obligation Bonds Outstanding	743,253,138(1)
Unused 20% Limitation Borrowing Capacity	$1,354,731,191

All Other General Obligation Bonds

6% Constitutional Limitation		$629,395,299
Direct General Obligation Bonds Outstanding	$376,240,000(1)	
Less: Principal Redemption Funds held in Restricted Fund as of November 1, 2004	284,058,631	
Direct General Obligation Bonds Outstanding		92,181,369
Unused 6% Limitation Borrowing Capacity		$537,213,930

(1) Represents general obligation bonds outstanding as of November 1, 2004.

NET DIRECT AND OVERLAPPING GENERAL OBLIGATION BONDED DEBT AND DEBT RATIOS

	As of November 1, 2004(1)
City of Phoenix	$ 558,535,006
Maricopa County	47,558,000
Maricopa County Community College District	99,680,000
East Valley Institute of Technology	698,000
Various Elementary School Districts	436,013,000
Various High School Districts	301,462,000
Various Unified School Districts	370,277,000
Net Direct and Overlapping General Obligation Bonded Debt	$1,814,223,006

(1) Represents the net direct debt of the City of Phoenix as of November 1, 2004. The direct debt for Maricopa County and the various school districts is as of July 1, 2004, the latest available data.

Excludes $4,610,000 principal amount of City Improvement Districts' bonded debt. This indebtedness is presently being paid from special assessments levied against property owners residing within the improvement districts. Excludes $5,680,000 principal of Tatum Ranch Community Facilities District bonded debt. This indebtedness is presently being paid from Special Taxing District property tax revenues.

Also does not include the obligation of the Central Arizona Water Conservation District (CAWCD) to the United States of America, Department of the Interior for repayment of capital costs for construction of the Central Arizona Project (CAP), a major reclamation project constructed by the Department of the Interior. The obligation is evidenced by a master contract between the CAWCD and the Department of the Interior. The repayment will take place over a period of 50 years. Interest will be payable at the rate of 3.342% per annum on the unpaid balance. The City of Phoenix portion is estimated to be $178.4 million, including interest, and will be paid over a fifty year period. The cost for 1997 was $4.4 million, decreasing to $3.4 million in the year 2005 and remaining constant through the final payment in 2044. The United States and CAWCD recently announced an agreement to settle litigation over the amount of the construction cost repayment obligation, the amount of the respective obligations for payments of the operation, maintenance and replacement costs and the application of certain revenues and credits for amounts paid by CAWCD to the United States against such obligations and costs. Under the agreement, CAWCD's obligation for substantially all of the CAP features that have been constructed so far will be set at $1.65 billion, which amount assumes (but does not mandate) that the United States will acquire a total of 665,224 acre feet of CAP water for federal purposes. The United States will complete unfinished CAP construction work related to the water supply system and regulatory storage stages of the CAP at no additional cost to CAWCD. Of the $1.65 billion repayment obligation, 73% will be interest bearing and the remaining 27% will be non-interest bearing. These percentages will be fixed for the entire 50 year repayment period, which commenced October 1, 1993. Effectiveness of the agreement is subject to a number of conditions including settlement of certain Indian community water claims and other water claims and will require certain State of Arizona and Federal legislation. The U.S. Congress recently passed legislation, that the President is expected to sign, which would settle the competing claims. If the conditions are not met by May 9, 2012, the parties could extend such deadline or the agreement will terminate and either party may petition U.S. District Court to resume litigation. It is not possible to predict whether the agreement will be effective or if the litigation will be resumed or the outcome of any such litigation.

The CAWCD is a water conservation district having boundaries coterminous with the exterior boundaries of Maricopa, Pima and Pinal Counties. It was formed for the express purpose of paying administrative costs and expenses of the District and to assist in repayment of the Central Arizona Project capital costs to the United States. Repayment will be made from a combination of power revenues, subcontract revenues (i.e., agreements with municipal, industrial and agricultural water users for delivery of Central Arizona Project water) and a tax levy against all taxable property in the District. Currently, the tax levy is limited by Arizona Revised Statutes to fourteen cents per $100 of assessed valuation. There can be no assurance that such levy limit will not be increased or removed at any time during the life of the contract. The CAWCD has levied a tax of $0.08 per $100 of assessed valuation for the 2004-05 fiscal year.

Net Direct And Overlapping General Obligation Bonded Debt Ratios

	Per Capita Debt (Pop. Est. @ 11-1-04 1,499,165)	As Percent of City's 2004-05 Secondary Assessed Valuation	As Percent of City's 2004-05 Full Cash Valuation
Direct General Obligation Bonded Debt Outstanding as of November 1, 2004	$ 557.27	7.96%	1.00%
Net Direct General Obligation Bonded Debt Outstanding as of November 1, 2004	372.56	5.32	0.67
Net Direct and Overlapping General Obligation Bonded Debt Outstanding as of November 1, 2004	1,210.16	17.29	2.17

Overlapping General Obligation Bonded Debt, Net Assessed Valuations and Tax Rates
As of July 1, 2004
(in thousands)

Overlapping Municipality	2004-05 Net Secondary Assessed Valuation	Net Bonded Debt	Approximate Applicable Percent	Net Overlapping Bonded Debt	2004-05 Tax Rate Per $100 Assessed
State of Arizona	$44,480,893	$ —	23.6%	$ —	$ —
Maricopa County	30,066,987	136,270	34.9	47,558	1.2108
Maricopa County Community College District	30,066,987	285,615	34.9	99,680	1.0372
East Valley Institute of Technology	13,339,130	6,235	11.2	698	0.1032
Elementary School Districts:					
Phoenix S.D. No. 1	682,687	54,655	100.0	54,655	6.5166
Riverside S.D. No. 2	273,126	10,015	97.0	9,715	1.3928
Tempe S.D. No. 3	1,461,503	63,350	16.6	10,516	3.9832
Isaac S.D. No. 5	178,991	7,060	100.0	7,060	8.4000
Washington S.D. No. 6	1,353,212	140,330	97.1	136,260	4.9229
Wilson S.D. No. 7	136,467	6,970	100.0	6,970	6.0649
Osborn S.D. No. 8	497,213	28,145	100.0	28,145	3.0763
Creighton S.D. No. 14	388,061	17,590	90.1	15,849	4.5316
Tolleson S.D. No. 17	104,620	6,415	19.5	1,251	6.1189
Murphy S.D. No. 21	108,747	5,025	100.0	5,025	5.7533
Kyrene S.D. No. 28	1,768,674	56,370	38.2	21,533	3.9084
Balsz S.D. No. 31	315,304	17,215	95.3	16,406	3.6056
Madison S.D. No. 38	929,995	47,085	99.9	47,038	3.1885
Glendale S.D. No. 40	321,652	38,440	—	—	6.2997
Fowler S.D. No. 45	155,941	9,170	83.5	7,657	4.6578
Laveen S.D. No. 59	80,948	3,685	52.8	1,946	2.4750
Union S.D. No. 62	20,294	—	85.6	—	0.0000
Littleton S.D. No. 65	136,872	1,330	7.8	104	3.5480
Roosevelt S.D. No. 66	505,548	25,240	98.7	24,912	6.7936
Alhambra S.D. No. 68	391,942	35,955	81.5	29,303	6.4603
Litchfield S.D. No. 79	362,978	19,570	0.6	117	3.8615
Cartwright S.D. No. 83	328,893	980	100.0	980	6.1373
Pendergast S.D. No. 92	241,165	22,115	47.8	10,571	6.1860
High School Districts:					
Glendale Union No. 205	1,674,865	110,005	78.4	86,244	3.3277
Phoenix Union No. 210	4,817,922	151,860	96.3	146,241	3.8655
Tempe Union No. 213	3,230,178	167,730	28.4	47,635	3.0310
Tolleson Union No. 214	658,893	47,435	44.6	21,156	3.8220
Agua Fria Union No. 216	571,063	46,490	0.4	186	4.0551
Unified School Districts:					
Scottsdale No. 48	3,746,387	243,605	15.2	37,028	4.9271
Paradise Valley No. 69	2,461,948	311,790	68.3	212,953	6.4950
Cave Creek No. 93	1,188,446	43,340	12.7	5,504	3.4527
Deer Valley No. 97	1,661,861	209,475	54.8	114,792	6.8692
				$1,255,688	

Source: Maricopa County Finance Department.

Authorized and Unissued Bonds of Overlapping Municipalities

The following municipalities which overlap the City of Phoenix have unissued bond authorizations as indicated:

Municipality	Authorized and Unissued Bonds
Maricopa County Community College District	$951,004,000
Cave Creek Elementary School District No. 93	22,315,000
Deer Valley Unified Elementary School District No. 97	90,000,000
Fowler Elementary School District No. 45	6,800,000
Glendale Elementary School District No. 40	6,335,000
Glendale Union High School District No. 205	30,000,000
Paradise Valley Unified Elementary School District No. 69	10,235,000
Phoenix Union High School District No. 210	155,000,000
Riverside Elementary School District No. 2	3,000,000
Tolleson Union High School District No. 214	29,000,000
Washington Elementary School District No. 6	11,640,000

OTHER LONG-TERM OBLIGATIONS

The City entered into lease agreements with the Phoenix Civic Plaza Building Corporation for the construction of the Jefferson Street Parking Garage, a marshalling yard for its convention center and to finance a portion of the construction of the Herberger Theater. The bonds issued for these projects were refunded by senior lien excise tax revenue refunding bonds issued in August 1994. The City also entered into a lease agreement and a loan agreement for the renovation of the convention center and symphony hall, for the construction of streetscape improvements on streets adjacent to the Civic Plaza, and for the renovation of the Orpheum Theatre.

In order to make the lease payments on the Phoenix Civic Plaza, the City has earmarked one-half of 1% (.5%) of its excise tax on contracting, printing, publishing, towing, restaurants and bars; 2% of its excise tax on hotel/motel/apartments/rooming homes/trailer courts occupied under thirty days; and all of its .5% excise tax on advertising.

The City executed purchase and lease agreements with the City of Phoenix Civic Improvement Corporation for the construction of a new municipal building, airport terminal facilities at Sky Harbor International Airport, a new Phoenix municipal courthouse building and a new city parking garage. In keeping with the City's policy of maintaining Sky Harbor International Airport as a self-supporting enterprise, airport revenues are used to pay the debt service on bonds issued by the Corporation for airport improvements.

Under the terms of these agreements, the City has agreed to make lease and purchase payments in amounts sufficient to pay principal and interest on bonds issued by the corporations to finance the facilities, and has pledged its excise tax collections for these payments. The City's excise tax collections in 1999-00 totaled $604,783,000, in 2000-01 totaled $626,416,000, in 2001-02 totaled $626,212,000 and in 2002-03 totaled $630,418,000. The preliminary unaudited total for 2003-04 is $638,598,000. These amounts do not include revenues from three privilege license (sales) tax rate increases approved by voters and which are not part of the pledge for lease and purchase payments on the senior lien or subordinated junior lien bonds of the corporations. These three excluded voter approved tax rate increases are as follows: on October 5, 1993, voters approved a 0.1% increase in the City's privilege license tax rate. The revenues produced by the increase must be used to add police officers and firefighters and to expand neighborhood programs designed to deter crime. On September 7, 1999, voters approved a 0.1% increase in the City's privilege license tax rate to be levied for a 10-year period. The revenues produced by the increase will be used for the acquisition of desert preserve open space and the development and improvement of regional and neighborhood parks located within the City. On March 14, 2000, voters approved a 0.4% increase in the City's privilege license tax rate to be levied for a period of 20 years. The revenues produced by the increase will be used for expanded bus service, the construction of a light rail system and other transportation improvements.

Phoenix Civic Plaza Building Corporation and
City of Phoenix Civic Improvement Corporation
Senior Lien Debt Outstanding

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 11-1-04
5-01-94	$33,705,000	Airport Improvements Refunding(1)	7-1-95/14	6.09%	$ 21,360,000
8-01-94	24,395,000	Civic Plaza Refunding	7-1-96/05	5.09	765,000
8-01-94	43,250,000	Civic Plaza Improvements	7-1-05/14	5.98	43,250,000
2-01-98	38,355,000	Airport Terminal 4 Refunding(1)	7-1-98/14	4.92	26,415,000
6-01-99	79,000,000	Phoenix Municipal Courthouse	7-1-05/29	5.34	79,000,000
6-01-99	15,000,000	Adams Street Garage	7-1-05/29	5.35	15,000,000
5-01-03	47,600,000	New City Hall Refunding	7-1-04/29	4.73	46,480,000
Total Civic Plaza and Civic Improvement Senior Lien Debt Outstanding					$232,270,000

(1) Debt service requirements on these obligations are supported by airport revenues.

Phoenix Civic Plaza Building Corporation and City of Phoenix Civic Improvement Corporation

Schedule of Annual Debt Service Requirements Senior Lien Debt Outstanding

Fiscal Year	Phoenix Civic Plaza Building Corporation			City of Phoenix Civic Improvement Corporation			Combined Annual Debt Service Requirements		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2004-05	$ 3,340,000	$ 2,632,065	$ 5,972,065	$ 8,525,000	$ 9,711,938	$ 18,236,938	$ 11,865,000	$ 12,344,003	$ 24,209,003
2005-06	3,545,000	2,425,834	5,970,834	8,945,000	9,295,138	18,240,138	12,490,000	11,720,972	24,210,972
2006-07	3,770,000	2,199,840	5,969,840	9,400,000	8,846,389	18,246,389	13,170,000	11,046,229	24,216,229
2007-08	3,985,000	1,984,950	5,969,950	9,880,000	8,363,050	18,243,050	13,865,000	10,348,000	24,213,000
2008-09	4,215,000	1,753,820	5,968,820	10,385,000	7,847,664	18,232,664	14,600,000	9,601,484	24,201,484
2009-10	4,465,000	1,505,135	5,970,135	6,860,000	7,286,375	14,146,375	11,325,000	8,791,510	20,116,510
2010-11	4,730,000	1,241,700	5,971,700	7,210,000	6,940,978	14,150,978	11,940,000	8,182,678	20,122,678
2011-12	5,015,000	957,900	5,972,900	7,575,000	6,571,055	14,146,055	12,590,000	7,528,955	20,118,955
2012-13	5,315,000	657,000	5,972,000	7,960,000	6,181,851	14,141,851	13,275,000	6,838,851	20,113,851
2013-14	5,635,000	338,100	5,973,100	8,380,000	5,767,878	14,147,878	14,015,000	6,105,978	20,120,978
2014-15	—	—	—	4,825,000	5,344,497	10,169,497	4,825,000	5,344,497	10,169,497
2015-16	—	—	—	5,070,000	5,098,873	10,168,873	5,070,000	5,098,873	10,168,873
2016-17	—	—	—	5,350,000	4,822,760	10,172,760	5,350,000	4,822,760	10,172,760
2017-18	—	—	—	5,625,000	4,542,991	10,167,991	5,625,000	4,542,991	10,167,991
2018-19	—	—	—	5,925,000	4,248,822	10,173,822	5,925,000	4,248,822	10,173,822
2019-20	—	—	—	6,225,000	3,942,500	10,167,500	6,225,000	3,942,500	10,167,500
2020-21	—	—	—	6,550,000	3,620,648	10,170,648	6,550,000	3,620,648	10,170,648
2021-22	—	—	—	6,885,000	3,281,632	10,166,632	6,885,000	3,281,632	10,166,632
2022-23	—	—	—	7,245,000	2,925,270	10,170,270	7,245,000	2,925,270	10,170,270
2023-24	—	—	—	7,610,000	2,562,518	10,172,518	7,610,000	2,562,518	10,172,518
2024-25	—	—	—	8,005,000	2,168,587	10,173,587	8,005,000	2,168,587	10,173,587
2025-26	—	—	—	8,420,000	1,748,406	10,168,406	8,420,000	1,748,406	10,168,406
2026-27	—	—	—	8,870,000	1,306,406	10,176,406	8,870,000	1,306,406	10,176,406
2027-28	—	—	—	9,315,000	855,588	10,170,588	9,315,000	855,588	10,170,588
2028-29	—	—	—	7,215,000	381,988	7,596,988	7,215,000	381,988	7,596,988
	$44,015,000	$15,696,344	$59,711,344	$188,255,000	$123,663,802	$311,918,802	$232,270,000	$139,360,146	$371,630,146

The City also entered into an installment purchase agreement with the City of Phoenix Civic Improvement Corporation for the construction of Patriot's Square Park and Parking Garage in downtown Phoenix. The City of Phoenix Civic Improvement Corporation issued bonds for the construction of the park and garage, and the City pledged its excise tax collections to make installment purchase payments sufficient to pay principal and interest on the bonds. This pledge is on a parity with all other outstanding subordinated excise tax obligations and is subordinate to the pledge on all outstanding senior lien and junior lien excise tax obligations.

The City also entered into leases with the City of Phoenix Civic Improvement Corporation to finance the acquisition of certain municipal facilities, consisting of real property and equipment. The Corporation issued bonds for payment of the acquisition costs, and the City pledged its excise tax collections to make lease payments sufficient to pay principal and interest on the bonds. This pledge is on a parity with all other outstanding subordinated excise tax obligations and is subordinate to the pledge on all outstanding senior lien and junior lien excise tax obligations.

The City entered into lease and leaseback agreements with the City of Phoenix Civic Improvement Corporation for the purpose of acquiring and constructing a downtown multipurpose arena. The Corporation issued bonds for the payment of the City's portion of land acquisition and construction costs and the City pledged its excise tax collections to make lease payments sufficient to pay principal and interest on the bonds. This pledge is on a parity with all other outstanding subordinated excise tax obligations and is subordinate to the pledge on all outstanding senior lien and junior lien excise tax obligations.

The City entered into a lease agreement with the City of Phoenix Civic Improvement Corporation for the purpose of financing the acquisition and construction of improvements to Terminal 4 at Sky Harbor International Airport. The Corporation issued bonds for the payment of acquisition and construction costs, and the City pledged its excise tax collections to make lease payments sufficient to pay principal and interest on the bonds. This pledge is on a parity with all other outstanding subordinated excise tax obligations and is subordinate to the pledge on all outstanding senior lien and junior lien excise tax obligations. In keeping with the City's policy of maintaining Sky Harbor International Airport as a self-supporting enterprise, airport revenues are used to pay the debt service on bonds issued by the Corporation for airport improvements.

The City entered into a leaseback agreement with the Phoenix Civic Plaza Building Corporation for the purpose of acquiring the site for and constructing and equipping a multi-level parking structure to serve the downtown area of the City. The Corporation issued bonds for the payment of acquisition and construction costs and the City pledged its excise tax collections to make lease payments sufficient to pay principal and interest on the bonds. This pledge is on a parity with all other outstanding subordinated excise tax obligations and is subordinate to the pledge on all outstanding senior lien and junior lien excise tax obligations.

The City entered into a leaseback agreement with the City of Phoenix Civic Improvement Corporation for the purpose of financing the acquisition of certain real property as well as the construction of certain improvements to the City's solid waste system. The Corporation issued bonds for the payment of acquisition and construction costs and the City pledged its excise tax collections to make lease payments sufficient to pay principal and interest on the bonds. This pledge is on a parity with all other outstanding subordinated excise tax obligations and is subordinate to the pledge on all outstanding senior lien and junior lien excise tax obligations. In keeping with the City's policy of maintaining the City's solid waste system as a self-supporting enterprise, solid waste revenues are used to pay the debt service on bonds issued by the Corporation for solid waste improvements.

Phoenix Civic Plaza Building Corporation and
City of Phoenix Civic Improvement Corporation
Subordinated Junior Lien Debt Outstanding(1)

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 11-1-04
6-01-93	$14,350,000	Patriot's Square Park and Parking Garage Refunding	7-1-96/09	5.25%	$ 6,395,000
11-01-94	33,410,000	Municipal Facilities	7-1-95/05	6.40	630,000
4-25-95	31,000,000	Airport Improvements(2)	6-1-10/20	Variable	31,000,000
1-15-97	9,935,000	Municipal Facilities Refunding	7-1-99/21	5.19	9,455,000
1-01-98	43,000,000	Civic Plaza East Garage (Taxable)	7-1-00/22	6.52	38,150,000
1-15-98	48,740,000	Municipal Multipurpose Arena Refunding (Taxable)	7-1-98/19	6.12	42,320,000
8-01-00	65,000,000	Municipal Facilities(3)	7-1-01/20	5.35	41,990,000
5-01-03	80,000,000	Solid Waste Improvements(4)	7-1-04/23	4.93	77,925,000
5-01-03	25,000,000	Municipal Facilities	7-1-05/25	4.37	25,000,000
5-01-03	25,000,000	Municipal Facilities (Taxable)	7-1-09/33	5.59	25,000,000
5-01-03	10,000,000	Municipal Facilities (Taxable)	7-1-09/33	5.60	10,000,000
6-01-04	5,700,000	Municipal Facilities Refunding	7-1-15/25	5.00	5,700,000
6-01-04	22,000,000	Municipal Facilities	7-1-06/25	5.09	22,000,000
Total Phoenix Civic Plaza Building Corporation and City of Phoenix Civic Improvement Corporation Subordinated Junior Lien Debt Outstanding					$335,565,000

(1) Schedule includes subordinated junior lien debt issued by the City of Phoenix Civic Improvement Corporation and the Phoenix Civic Plaza Building Corporation, but does not include subordinated junior lien debt incurred by the City of Phoenix. See page B-22 for a schedule of outstanding subordinated junior lien debt issued by the City of Phoenix.

(2) Debt service requirements on these obligations are supported by airport revenues.

(3) Debt service requirements on $6,824,000 of these obligations are supported by solid waste revenues.

(4) Debt service requirements on these obligations are supported by solid waste revenues.

Phoenix Civic Plaza Building Corporation and City of Phoenix Civic Improvement Corporation

Schedule of Annual Debt Service Requirements Subordinated Junior Lien Debt Outstanding(1)

	Phoenix Civic Plaza Building Corporation			City of Phoenix Civic Improvement Corporation			Combined Annual Debt Service Requirements		
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2004-05	$ 1,175,000	$ 2,483,799	$ 3,658,799	$ 11,340,000	$ 15,523,015	$ 26,863,015	$ 12,515,000	$ 18,006,814	$ 30,521,814
2005-06	1,255,000	2,404,486	3,659,486	13,575,000	15,061,582	28,636,582	14,830,000	17,466,068	32,296,068
2006-07	1,340,000	2,319,774	3,659,774	14,270,000	14,515,980	28,785,980	15,610,000	16,835,754	32,445,754
2007-08	1,430,000	2,229,324	3,659,324	12,885,000	13,905,616	26,790,616	14,315,000	16,134,940	30,449,940
2008-09	1,520,000	2,140,664	3,660,664	14,095,000	13,276,158	27,371,158	15,615,000	15,416,822	31,031,822
2009-10	1,615,000	2,045,664	3,660,664	13,815,000	12,513,529	26,328,529	15,430,000	14,559,193	29,989,193
2010-11	1,715,000	1,944,726	3,659,726	14,540,000	11,756,756	26,296,756	16,255,000	13,701,482	29,956,482
2011-12	1,825,000	1,836,681	3,661,681	15,320,000	10,955,500	26,275,500	17,145,000	12,792,181	29,937,181
2012-13	1,940,000	1,721,706	3,661,706	15,870,000	10,107,641	25,977,641	17,810,000	11,829,347	29,639,347
2013-14	2,065,000	1,593,181	3,658,181	16,180,000	9,235,571	25,415,571	18,245,000	10,828,752	29,073,752
2014-15	2,205,000	1,456,375	3,661,375	18,895,000	8,378,277	27,273,277	21,100,000	9,834,652	30,934,652
2015-16	2,350,000	1,310,294	3,660,294	18,780,000	7,350,227	26,130,227	21,130,000	8,660,521	29,790,521
2016-17	2,505,000	1,154,606	3,659,606	16,725,000	6,322,261	23,047,261	19,230,000	7,476,867	26,706,867
2017-18	2,670,000	988,650	3,658,650	17,465,000	5,412,826	22,877,826	20,135,000	6,401,476	26,536,476
2018-19	2,845,000	815,100	3,660,100	18,425,000	4,460,658	22,885,658	21,270,000	5,275,758	26,545,758
2019-20	3,030,000	630,175	3,660,175	14,580,000	3,452,513	18,032,513	17,610,000	4,082,688	21,692,688
2020-21	3,230,000	433,225	3,663,225	8,955,000	2,674,263	11,629,263	12,185,000	3,107,488	15,292,488
2021-22	3,435,000	223,275	3,658,275	9,180,000	2,226,848	11,406,848	12,615,000	2,450,123	15,065,123
2022-23	—	—	—	9,650,000	1,767,423	11,417,423	9,650,000	1,767,423	11,417,423
2023-24	—	—	—	3,710,000	1,284,398	4,994,398	3,710,000	1,284,398	4,994,398
2024-25	—	—	—	2,625,000	1,093,149	3,718,149	2,625,000	1,093,149	3,718,149
2025-26	—	—	—	1,685,000	950,763	2,635,763	1,685,000	950,763	2,635,763
2026-27	—	—	—	1,780,000	853,875	2,633,875	1,780,000	853,875	2,633,875
2027-28	—	—	—	1,885,000	751,525	2,636,525	1,885,000	751,525	2,636,525
2028-29	—	—	—	1,995,000	643,137	2,638,137	1,995,000	643,137	2,638,137
2029-30	—	—	—	2,110,000	528,425	2,638,425	2,110,000	528,425	2,638,425
2030-31	—	—	—	2,225,000	407,100	2,632,100	2,225,000	407,100	2,632,100
2031-32	—	—	—	2,360,000	279,162	2,639,162	2,360,000	279,162	2,639,162
2032-33	—	—	—	2,495,000	143,462	2,638,462	2,495,000	143,462	2,638,462
	$38,150,000	$27,731,705	$65,881,705	$297,415,000	$175,831,640	$473,246,640	$335,565,000	$203,563,345	$539,128,345

(1) Schedule includes debt service on subordinated junior lien debt issued by the City of Phoenix Civic Improvement Corporation and the Phoenix Civic Plaza Building Corporation, but does not include subordinated junior lien debt incurred by the City of Phoenix. See page B-22 for a schedule of subordinated junior lien debt issued by the City of Phoenix.

The City entered into a financing agreement to be used for refinancing the costs of acquiring property for the Arizona Center (Superblock), an 8-block mixed use development in downtown Phoenix, acquiring land and constructing an amphitheater, purchasing a multifamily housing facility and various other City projects. The City pledged excise taxes for payments which are due under the financing agreement. The pledge for payments under this agreement is on a parity with the pledge of such taxes for Phoenix Civic Plaza Building Corporation and City of Phoenix Civic Improvement Corporation subordinated junior lien debt outstanding, and is subordinate to the pledge on all outstanding senior lien and junior lien excise tax obligations.

City of Phoenix
Subordinated Junior Lien Debt Outstanding

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 11-1-04
7-1-04	$35,465,000	Refunding	8-1-05/24	4.68%	$35,465,000
Total Subordinated Junior Lien Debt Outstanding					$35,465,000

City of Phoenix
Schedule of Annual Debt Service Requirements
Subordinated Junior Lien Debt Outstanding

Fiscal Year	Principal	Interest	Total
2004-05	$ 480,000	$ 1,695,812.09	$ 2,175,812.09
2005-06	1,040,000	1,555,765.02	2,595,765.02
2006-07	1,075,000	1,529,765.02	2,604,765.02
2007-08	1,110,000	1,500,202.52	2,610,202.52
2008-09	1,135,000	1,465,515.00	2,600,515.00
2009-10	1,175,000	1,425,790.00	2,600,790.00
2010-11	1,230,000	1,381,727.50	2,611,727.50
2011-12	1,275,000	1,332,527.50	2,607,527.50
2012-13	1,315,000	1,281,527.50	2,596,527.50
2013-14	1,365,000	1,228,927.50	2,593,927.50
2014-15	1,420,000	1,174,327.50	2,594,327.50
2015-16	1,230,000	1,114,687.50	2,344,687.50
2016-17	1,295,000	1,053,187.50	2,348,187.50
2017-18	1,355,000	988,437.50	2,343,437.50
2018-19	1,420,000	920,687.50	2,340,687.50
2019-20	3,180,000	849,687.50	4,029,687.50
2020-21	3,340,000	690,687.50	4,030,687.50
2021-22	3,505,000	523,687.50	4,028,687.50
2022-23	3,675,000	357,200.00	4,032,200.00
2023-24	3,845,000	182,637.50	4,027,637.50
	$35,465,000	$22,252,787.15	$57,717,787.15

The City entered into a loan agreement with the City of Phoenix Civic Improvement Corporation to finance a portion of the costs of designing, acquiring, constructing and equipping the City's light rail transit system. The Corporation issued bonds to provide the funds for the loan to the City, and the City pledged its excise tax collections from the 0.4% increase in the City's privilege license tax rate approved by City voters on March 14, 2000, to make loan payments sufficient to pay principal and interest on the bonds. This pledge secures only the loan agreement and the corresponding payment of debt service on the bonds.

City of Phoenix Civic Improvement Corporation
Transit Excise Tax Revenue Bonded Debt Outstanding

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 12-10-04
12-10-04	$500,000,000	Light Rail Project	7-1-06/20	5.01	$500,000,000
Total Transit Excise Tax Revenue Bonded Debt					$500,000,000

City of Phoenix Civic Improvement Corporation
Schedule of Annual Debt Service Requirements
Transit Excise Tax Revenue Bonded Debt Outstanding

Fiscal Year	Principal	Interest	Total
2005-06	$ —	$ 13,996,321	$ 13,996,321
2006-07	1,570,000	25,068,037	26,638,037
2007-08	12,420,000	24,989,538	37,409,538
2008-09	14,910,000	24,368,537	39,278,537
2009-10	17,620,000	23,623,038	41,243,038
2010-11	20,560,000	22,742,037	43,302,037
2011-12	23,755,000	21,714,038	45,469,038
2012-13	27,215,000	20,526,287	47,741,287
2013-14	31,035,000	19,097,500	50,132,500
2014-15	35,090,000	17,545,750	52,635,750
2015-16	39,480,000	15,791,250	55,271,250
2016-17	44,215,000	13,817,250	58,032,250
2017-18	49,330,000	11,606,500	60,936,500
2018-19	54,840,000	9,140,000	63,980,000
2019-20	60,780,000	6,398,000	67,178,000
2020-21	67,180,000	3,359,000	70,539,000
	$500,000,000	$273,783,083	$773,783,083

The City entered into a loan agreement with the City of Phoenix Civic Improvement Corporation for the purpose of reimbursing the City for the acquisition costs of 55 passenger buses. The City of Phoenix Civic Improvement Corporation issued bonds for the payment of the reimbursement and the City is making loan payments sufficient to pay principal and interest on the bonds. Loan payments of the City are payable solely from certain federal grants received from the Federal Transit Administration pursuant to 49 U.S.C. Section 5307 and the Fixed Guideway Modernization program under 49 U.S.C. Section 5309 as well as matching funds of the City.

City of Phoenix Civic Improvement Corporation
Bus Acquisition Special Revenue Bonded Debt

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 11-1-04
2-1-00	$18,320,000	Bus Acquisition	7-1-00/12	5.34%	$12,230,000
Total Bus Acquisition Special Revenue Bonded Debt					$12,230,000

City of Phoenix Civic Improvement Corporation
Schedule of Annual Debt Service Requirements
Bus Acquisition Special Revenue Bonded Debt

Fiscal Year	Principal	Interest	Total
2004-05	$ 1,260,000	$ 657,892	$ 1,917,892
2005-06	1,330,000	591,743	1,921,743
2006-07	1,400,000	518,592	1,918,592
2007-08	1,475,000	441,593	1,916,593
2008-09	1,560,000	360,467	1,920,467
2009-10	1,640,000	278,568	1,918,568
2010-11	1,725,000	191,647	1,916,647
2011-12	1,840,000	99,360	1,939,360
	$12,230,000	$3,139,862	$15,369,862

The City entered into city purchase agreements with the City of Phoenix Civic Improvement Corporation for the purchase of certain improvements and expansion projects at the City's airports. The City of Phoenix Civic Improvement Corporation issued bonds for the improvements and expansion projects and the City has made a senior lien pledge of net airport revenues to make payments sufficient to pay principal of 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
Senior Lien Airport Revenue Bonded Debt Outstanding

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 11-1-04
08-01-98	$165,000,000	Airport Improvements	7-1-03/25	5.14%	$155,245,000
05-01-02	23,225,000	Airport Improvements	7-1-08/13	5.54	23,225,000
05-01-02	231,390,000	Airport Improvements	7-1-14/32	5.32	231,390,000
Total Senior Lien Airport Revenue Bonded Debt Outstanding					$409,860,000

City of Phoenix Civic Improvement Corporation
Schedule of Annual Debt Service Requirements
Senior Lien Airport Revenue Bonded Debt Outstanding

Fiscal Year	Principal	Interest	Total
2004-05	$ 5,245,000	$ 21,563,077	$ 26,808,077
2005-06	4,165,000	21,300,828	25,465,828
2006-07	4,380,000	21,082,164	25,462,164
2007-08	4,715,000	20,874,116	25,589,116
2008-09	6,925,000	20,627,837	27,552,837
2009-10	8,025,000	20,269,501	28,294,501
2010-11	9,970,000	19,837,087	29,807,087
2011-12	10,785,000	19,301,263	30,086,263
2012-13	12,730,000	18,721,262	31,451,262
2013-14	14,175,000	18,022,438	32,197,438
2014-15	14,960,000	17,242,249	32,202,249
2015-16	15,785,000	16,418,775	32,203,775
2016-17	16,630,000	15,569,113	32,199,113
2017-18	17,525,000	14,673,750	32,198,750
2018-19	18,470,000	13,729,962	32,199,962
2019-20	19,465,000	12,735,025	32,200,025
2020-21	20,480,000	11,724,013	32,204,013
2021-22	21,525,000	10,673,475	32,198,475
2022-23	22,630,000	9,569,300	32,199,300
2023-24	23,795,000	8,408,412	32,203,412
2024-25	25,015,000	7,187,725	32,202,725
2025-26	13,710,000	5,904,413	19,614,413
2026-27	14,430,000	5,184,637	19,614,637
2027-28	15,185,000	4,427,063	19,612,063
2028-29	15,980,000	3,629,850	19,609,850
2029-30	16,820,000	2,790,900	19,610,900
2030-31	17,705,000	1,907,850	19,612,850
2031-32	18,635,000	978,338	19,613,338
	$409,860,000	$364,354,423	$774,214,423

The City entered into a city purchase agreement with the City of Phoenix Civic Improvement Corporation for the purchase of certain improvements and expansion projects at the City's airports. The City of Phoenix Civic Improvement Corporation issued bonds for the improvements and expansion projects and the City has made a junior lien pledge of net airport revenues to make payments sufficient to pay principal of and interest on the bonds. Amounts due on the bonds and pursuant to the city purchase agreement are as follows:

City of Phoenix Civic Improvement Corporation
Junior Lien Airport Revenue Bonded Debt Outstanding

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 11-1-04
05-01-02	$159,565,000	Airport Improvements	7-1-05/29	5.46%	$159,565,000
Total Junior Lien Airport Revenue Bonded Debt Outstanding					$159,565,000

City of Phoenix Civic Improvement Corporation
Schedule of Annual Debt Service Requirements
Junior Lien Airport Revenue Bonded Debt

Fiscal Year	Principal	Interest	Total
2004-05	$ 3,145,000	$ 8,717,731	$ 11,862,731
2005-06	3,300,000	8,560,481	11,860,481
2006-07	3,465,000	8,395,481	11,860,481
2007-08	3,640,000	8,222,231	11,862,231
2008-09	3,820,000	8,040,231	11,860,231
2009-10	4,030,000	7,830,131	11,860,131
2010-11	4,255,000	7,608,481	11,863,481
2011-12	4,490,000	7,374,456	11,864,456
2012-13	4,735,000	7,127,506	11,862,506
2013-14	5,000,000	6,861,163	11,861,163
2014-15	5,290,000	6,573,663	11,863,663
2015-16	5,595,000	6,269,488	11,864,488
2016-17	5,915,000	5,947,775	11,862,775
2017-18	6,260,000	5,600,269	11,860,269
2018-19	6,630,000	5,232,494	11,862,494
2019-20	7,020,000	4,842,981	11,862,981
2020-21	7,430,000	4,430,556	11,860,556
2021-22	7,820,000	4,040,481	11,860,481
2022-23	8,230,000	3,629,931	11,859,931
2023-24	8,665,000	3,197,856	11,862,856
2024-25	9,130,000	2,732,113	11,862,113
2025-26	9,620,000	2,241,375	11,861,375
2026-27	10,140,000	1,724,300	11,864,300
2027-28	10,685,000	1,179,275	11,864,275
2028-29	11,255,000	604,957	11,859,957
	$159,565,000	$136,985,406	$296,550,406

The City entered into a city purchase agreement with the City of Phoenix Civic Improvement Corporation to design, acquire, construct, and equip certain facilities, infrastructure, site development, and equipment necessary for the operation of a consolidated rental car center at Phoenix Sky Harbor International Airport. The City of Phoenix Civic Improvement Corporation issued bonds to fund a portion of the costs of the rental car center and the City has made a first priority pledge of pledged revenues to be derived primarily from daily usage fees to be paid by rental car customers arriving at the Airport.

City of Phoenix Civic Improvement Corporation
Rental Car Facility Charge Bonded Debt

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 11-1-04
06-02-04	$260,000,000	Rental Car Facility	7-01-05/29	6.08%	$260,000,000
Total Rental Car Facility Charge Bonded Debt Outstanding					$260,000,000

City of Phoenix Civic Improvement Corporation
Schedule of Annual Debt Service Requirements
Rental Car Facility Charge Revenue Bonded Debt Outstanding

Fiscal Year	Principal	Interest	Total
2005-06	$ —	$ 15,318,130.50	$ 15,318,130.50
2006-07	5,960,000	15,318,130.50	21,278,130.50
2007-08	6,180,000	15,098,206.50	21,278,206.50
2008-09	6,440,000	14,838,028.50	21,278,028.50
2009-10	6,735,000	14,541,788.50	21,276,788.50
2010-11	7,065,000	14,209,079.50	21,274,079.50
2011-12	7,435,000	13,838,167.00	21,273,167.00
2012-13	7,845,000	13,431,472.50	21,276,472.50
2013-14	8,285,000	12,992,152.50	21,277,152.50
2014-15	8,750,000	12,526,535.50	21,276,535.50
2015-16	9,255,000	12,021,660.50	21,276,660.50
2016-17	9,795,000	11,478,392.00	21,273,392.00
2017-18	10,370,000	10,903,425.50	21,273,425.50
2018-19	10,990,000	10,284,336.50	21,274,336.50
2019-20	11,645,000	9,628,233.50	21,273,233.50
2020-21	12,365,000	8,909,737.00	21,274,737.00
2021-22	13,130,000	8,146,816.50	21,276,816.50
2022-23	13,940,000	7,336,695.50	21,276,695.50
2023-24	14,800,000	6,476,597.50	21,276,597.50
2024-25	15,710,000	5,563,437.50	21,273,437.50
2025-26	16,695,000	4,581,562.50	21,276,562.50
2026-27	17,740,000	3,538,125.00	21,278,125.00
2027-28	18,845,000	2,429,375.00	21,274,375.00
2028-29	20,025,000	1,251,562.50	21,276,562.50
	$260,000,000	$241,661,648.50	$504,661,648.50

The City entered into a city purchase agreement with the City of Phoenix Civic Improvement Corporation for the acquisition, installation and/or relocation of baggage screening equipment at Sky Harbor International Airport. The Corporation is currently authorized to issue up to an aggregate principal amount of $122,000,000 of its Airport Revenue Bond Anticipation Notes, Series 2004. The notes are issued as commercial paper in varying maturities up to 270 days and are currently outstanding in an aggregate principal amount of $4,000,000. The notes are secured by an irrevocable, direct pay letter of credit issued by Bank of America N.A. While the City has not granted any lien on Revenues of the airport to the owners of the notes, under the purchase agreement, the City has granted the bank a lien of Junior Subordinate Lien Revenues of the Airport to secure its obligation to satisfy the Corporation's payment obligations under a reimbursement agreement.

City of Phoenix Civic Improvement Corporation
Airport Revenue Bond Anticipation Notes Outstanding

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Notes Outstanding As of 11-1-04
8-23-04	$4,000,000	Airport Improvements	Up to 270 days	Various	$4,000,000
Total Junior Subordinate Airport Revenue Debt Outstanding					$4,000,000

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 pledged designated Water System Revenues to make payments sufficient to pay principal and interest on the bonds. This pledge is junior to the pledge of the Net Operating Revenues of the Water System for the payment of any City water revenue bonds, of which there are none currently outstanding. 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

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 11-1-04
01-01-94	$110,000,000	Water System Improvements	7-01-95/05	5.45%	$ 2,635,000
06-15-96	150,000,000	Water System Improvements	7-01-00/06	5.79	11,340,000
05-01-98	109,155,000	Water System Refunding	7-01-99/19	4.94	106,280,000
08-01-01	99,980,000	Water System Refunding	7-01-02/24	5.24	97,970,000
04-01-02	220,000,000	Water System Improvements	7-01-07/26	5.14	220,000,000
10-01-03	11,325,000	Water System Refunding	7-01-05/22	4.29	11,325,000
07-01-04	27,775,000	McMullen Valley & Water Rights Refunding	8-01-06/17	4.06	27,775,000
Total Junior Lien Water Revenue Bonded Debt					$477,325,000

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

Fiscal Year	Principal	Interest	Total
2004-05	$ 8,815,000	$ 24,025,983	$ 32,840,983
2005-06	9,720,000	23,429,721	33,149,721
2006-07	17,815,000	22,901,361	40,716,361
2007-08	19,580,000	22,173,438	41,753,438
2008-09	18,310,000	21,308,874	39,618,874
2009-10	20,035,000	20,441,322	40,476,322
2010-11	20,115,000	19,469,996	39,584,996
2011-12	23,230,000	18,464,472	41,694,472
2012-13	24,910,000	17,377,043	42,287,043
2013-14	26,070,000	16,118,295	42,188,295
2014-15	27,190,000	14,794,062	41,984,062
2015-16	28,380,000	13,400,812	41,780,812
2016-17	31,075,000	11,940,650	43,015,650
2017-18	29,865,000	10,342,725	40,207,725
2018-19	31,360,000	8,850,668	40,210,668
2019-20	20,135,000	7,221,706	27,356,706
2020-21	21,210,000	6,148,350	27,358,350
2021-22	22,295,000	5,066,825	27,361,825
2022-23	21,430,000	3,929,800	25,359,800
2023-24	22,535,000	2,824,700	25,359,700
2024-25	16,220,000	1,662,500	17,882,500
2025-26	17,030,000	851,500	17,881,500
	$477,325,000	$292,744,803	$770,069,803

The City entered into a city purchase agreement with the City of Phoenix Civic Improvement Corporation for the acquisition and construction of improvements to the water system of the City. The Corporation is currently authorized to issue up to an aggregate principal amount of $100,000,000 of its Water System Revenue Bond Anticipation Notes, Series 2003A and $100,000,000 of its Water System Revenue Bond Anticipation Notes, Series 2003B. The notes are issued as commercial paper in varying maturities up to 270 days and are currently outstanding in an aggregate principal amount of $200,000,000. The notes are secured by irrevocable, direct pay letters of credit issued by Dexia Crédit Local, acting through its New York Agency. While the City has not granted any lien on Net Operating Revenues of the water system to the owners of the notes, under the purchase agreement, the City has granted the bank a lien of Junior Subordinate Lien Revenues to secure its obligation to satisfy the Corporation's payment obligations under a reimbursement agreement.

City of Phoenix Civic Improvement Corporation
Water System Revenue Bond Anticipation Notes Outstanding

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Notes Outstanding As of 11-1-04
4-09-03	$200,000,000	Water System Improvements	Up to 270 days	Various	$200,000,000
Total Junior Subordinate Water Revenue Debt Outstanding					$200,000,000

The City entered into lease and leaseback agreements with the City of Phoenix Civic Improvement Corporation for the purpose of acquiring and constructing additional wastewater treatment facilities at the 23rd Avenue Wastewater Treatment Plant and wastewater system improvements at various locations in the City. The City pledged wastewater revenues, subject to annual appropriation, to the payment of amounts due under the leaseback agreements.

City of Phoenix Civic Improvement Corporation
Wastewater System Lease Revenue Debt Outstanding

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 11-1-04
01-01-93	$250,000,000	Wastewater System Improvements	7-1-97/05	6.24%	$ 6,240,000
10-01-93	235,735,000	Wastewater System Refunding	7-1-99/23	4.87	228,860,000
Total Wastewater System Lease Revenue Bonded Debt					$235,100,000

City of Phoenix Civic Improvement Corporation
Schedule of Annual Debt Service Requirements
Wastewater System Lease Revenue Debt Outstanding

Fiscal Year	Principal	Interest	Total
2004-05	$ 7,685,000	$ 11,556,511	$ 19,241,511
2005-06	8,115,000	11,123,080	19,238,080
2006-07	8,505,000	10,733,560	19,238,560
2007-08	8,995,000	10,321,067	19,316,067
2008-09	9,490,000	9,880,313	19,370,313
2009-10	9,830,000	9,405,812	19,235,812
2010-11	10,325,000	8,914,313	19,239,313
2011-12	10,845,000	8,398,062	19,243,062
2012-13	11,385,000	7,855,813	19,240,813
2013-14	11,955,000	7,286,562	19,241,562
2014-15	12,550,000	6,688,813	19,238,813
2015-16	13,180,000	6,061,312	19,241,312
2016-17	13,835,000	5,402,313	19,237,313
2017-18	14,530,000	4,710,562	19,240,562
2018-19	15,255,000	3,984,062	19,239,062
2019-20	15,980,000	3,259,450	19,239,450
2020-21	16,740,000	2,500,400	19,240,400
2021-22	17,535,000	1,705,250	19,240,250
2022-23	18,365,000	872,337	19,237,337
	$235,100,000	$130,659,592	$365,759,592

The City has entered into purchase agreements with the City of Phoenix Civic Improvement Corporation for improvements to the City's wastewater system. The City of Phoenix Civic Improvement Corporation issued the bonds for odor control facilities, process improvements and capacity expansions of the 91st Avenue Wastewater Treatment Plant, laboratory building improvements at the 23rd Avenue Wastewater Treatment Plant, purchase of land and construction of water reclamation facilities in the northern service area, new sewers and lift stations in growth areas and rehabilitation and replacement of sewers throughout the wastewater system. The City has made a junior lien pledge of designated revenues of the wastewater system to make payments sufficient to pay principal of and interest on the bonds. Amounts due on the bonds are as follows:

City of Phoenix Civic Improvement Corporation
Junior Lien Wastewater System Revenue Debt Outstanding

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 12-1-04
07-01-97	$ 75,000,000	Wastewater System Improvements	7-1-03/17	5.33%	$ 22,170,000
06-01-00	135,000,000	Wastewater System Improvements	7-1-05/10	6.01	25,690,000
07-01-01	166,260,000	Wastewater System Refunding	7-1-02/24	5.14	164,315,000
12-01-04	180,000,000	Wastewater System Improvements	7-1-10/29	4.97	180,000,000(1)
Total Junior Lien Wastewater System Revenue Bonded Debt					$392,175,000

(1) Represents bonds expected to be delivered December 16, 2004.

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

Fiscal Year	Principal	Interest	Total
2004-05	$ 6,810,000	$ 16,354,082	$ 23,164,082
2005-06	7,200,000	19,681,757	26,881,757
2006-07	4,600,000	19,275,576	23,875,576
2007-08	6,460,000	19,012,010	25,472,010
2008-09	8,225,000	18,653,152	26,878,152
2009-10	14,185,000	18,200,503	32,385,503
2010-11	14,940,000	17,445,079	32,385,079
2011-12	15,710,000	16,675,178	32,385,178
2012-13	16,435,000	15,950,551	32,385,551
2013-14	17,305,000	15,075,013	32,380,013
2014-15	18,225,000	14,157,976	32,382,976
2015-16	19,170,000	13,209,549	32,379,549
2016-17	20,170,000	12,211,893	32,381,893
2017-18	21,220,000	11,162,137	32,382,137
2018-19	22,300,000	10,081,551	32,381,551
2019-20	23,415,000	8,966,550	32,381,550
2020-21	24,590,000	7,795,800	32,385,800
2021-22	25,840,000	6,547,188	32,387,188
2022-23	20,940,000	5,255,188	26,195,188
2023-24	21,985,000	4,208,188	26,193,188
2024-25	11,300,000	3,108,938	14,408,938
2025-26	11,865,000	2,543,938	14,408,938
2026-27	12,460,000	1,950,688	14,410,688
2027-28	13,085,000	1,327,688	14,412,688
2028-29	13,740,000	673,438	14,413,438
	$392,175,000	$279,523,607	$671,698,607

(1) Includes debt service on $180,000,000 Wastewater System Improvement bonds expected to be delivered December 16, 2004.

The City entered into a city purchase agreement with the City of Phoenix Civic Improvement Corporation for the acquisition and construction of improvements to the wastewater system of the City. The Corporation is currently authorized to issue up to an aggregate principal amount of $100,000,000 of its Wastewater System Revenue Bond Anticipation Notes, Series 2003. The notes are issued as commercial paper in varying maturities up to 270 days and are currently outstanding in an aggregate principal amount of $100,000,000. The notes are secured by irrevocable, direct pay letters of credit issued by Bank of America N.A. While the City has not granted any lien on Net Operating Revenues of the wastewater system to the owners of the notes, under the purchase agreement, the City has granted the bank a lien of Junior Subordinate Lien Revenues to secure its obligation to satisfy the Corporation's payment obligations under a reimbursement agreement.

City of Phoenix Civic Improvement Corporation
Wastewater System Revenue Bond Anticipation Notes Outstanding

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Notes Outstanding As of 11-1-04
3-26-03	$100,000,000	Wastewater System Improvements	Up to 270 days	Various	$100,000,000
Total Junior Subordinate Wastewater System Revenue Debt Outstanding					$100,000,000

SHORT-TERM DEBT

The City has no short-term indebtedness outstanding other than that normally occurring such as accounts payable, accrued payroll and other related expenses which have current revenues for their payment.

CONTRACTUAL COMMITMENTS

The City provides public transit service through contracts with ATC Management Services Inc, Arnett Transportation Services, MV Transportation, Laidlaw Transit Services and the Regional Public Transportation Authority. The estimated liability for all five contracts through June 30, 2004 is $92,550,000, of which approximately 9.8% is to be reimbursed by other local governmental entities who have contracted for service.

The City annually applies for a Federal Transit Formula Grant from the Department of Transportation, Federal Transit Administration. The grant provides from 80% to 94.3% federal funding for capital projects in the approved program of projects. The City has been the recipient of Federal Transit grants since 1975. The City has also been receiving State of Arizona aid since 1981-82 for transportation projects under the provisions of the Local Transportation Assistance Fund (LTAF) funded from a portion of the State lottery receipts. Continuation of the State lottery through July 2012 was approved by the voters in November 2002. The State aid, along with the City's general revenues and transit sales tax, will be the source of required local funds to match the awarded grants.

In addition, on August 31, 1998 former Governor Jane Hull signed into law a transit funding bill. The bill provided state funding for public transit through fiscal year 2003. The bill also changed the distribution of Power Ball lottery funding from the Regional Public Transportation Authority directly to the cities and towns in Maricopa County based on population.

On March 14, 2000 City of Phoenix residents approved a 0.4% 20-year sales tax dedicated to transit improvements. Transit improvements include expanded local bus and Dial-A-Ride service, bus rapid transit service, neighborhood circulators, and the construction and operation of a light rail line. In addition, the tax will provide funding for 500 bus pull-outs, 100 miles of bike lanes and left-turn arrows at all major intersections. Voters approved the tax by a 2 to 1 margin providing an estimated $2.9 billion in funding through May 31, 2020.

SUMMARY OF AUTHORIZED, ISSUED AND UNISSUED BONDS

Purpose	Original Authorization(1)	Bonds Issued	Remaining Authorization
GENERAL OBLIGATION BONDS:			
Affordable Housing and Service Facilities	$ 43,700,000	$ 15,000,000	$ 28,700,000
Education, Youth and Family Cultural Facilities	66,300,000	30,300,000	36,000,000
Computer Technology	125,300,000	84,500,000	40,800,000
Environmental Cleanup	24,800,000	9,300,000	15,500,000
Fire Protection	61,500,000	26,000,000	35,500,000
Freeway Mitigation, Neighborhood Stabilization and Slum and Blight Elimination	29,285,000	25,985,000	3,300,000
Historic Preservation	12,000,000	5,700,000	6,300,000
Library Facilities	33,000,000	7,700,000	25,300,000
Neighborhood Protection and Senior Centers	74,000,000	32,140,000	41,860,000
Parks, Open Space and Recreational Facilities	77,000,000	30,500,000	46,500,000
Police Protection	123,140,000	56,860,000	66,280,000
Street Improvements	114,335,000	41,725,000	72,610,000
Storm Sewer Systems and Flood Protection	201,000,000	155,543,000	45,457,000
Total General Obligation Bonds	$985,360,000	$521,253,000	$464,107,000

(1) This is the original authorization of those 1984, 1988 and 2001 authorizations which still have a portion unissued.

2004-09 CAPITAL IMPROVEMENT PROGRAM SUMMARY

The City Charter requires a Capital Improvement Program (CIP) be prepared in conjunction with the annual budget. The CIP is a multi-year plan for capital expenditures needed to replace and expand public infrastructure. The program is updated annually to reflect the latest priorities, cost estimates, and funding sources. The first year of the multi-year plan is appropriated as the annual capital budget.

Formal City Council adoption of the Capital Improvement Program indicates the City's commitment to the five-year plan, but does not in itself authorize expenditures. The necessary funding mechanisms must be adopted each year to pay for the improvements. The City Council authorized two sets of appropriations for the 2004-05 capital budget, which is the first year of the CIP: (1) authorization for the 2004-05 capital projects financed with bonds and bond-related funds; and (2) authorization for all 2004-05 pay-as-you-go projects financed with operating funds.

The 2004-09 CIP, which is summarized on pages B-36 and B-37, totals $4.88 billion, and will be funded by 1988, 1989 and 2001 bond authorizations, operating funds, Federal aid and other long-term financings. The CIP was adopted by the Phoenix City Council in June of 2004.

Summary of 2004-09 Capital Improvement Program
All Sources of Funds

Program	2004-05	2005-06	2006-07	2007-08	2008-09	Total
Arts and Cultural Facilities	$ 23,161,000	$ 797,000	$ —	$ —	$ —	$ 23,958,000
Aviation	521,111,000	117,715,000	41,585,000	35,385,000	5,165,000	720,961,000
Civic Plaza	326,590,000	112,491,000	23,000,000	18,020,000	13,000,000	493,101,000
Economic Development	33,300,000	2,063,000	2,050,000	1,050,000	900,000	39,363,000
Energy Conservation	2,061,000	1,450,000	1,450,000	1,450,000	1,450,000	7,861,000
Facilities Management	11,778,000	5,609,000	4,800,000	4,865,000	3,750,000	30,802,000
Fire Protection	28,071,000	20,444,000	—	—	—	48,515,000
Freeway Mitigation	3,628,000	2,371,000	1,848,000	—	—	7,847,000
Historic Preservation	5,344,000	1,969,000	—	—	—	7,313,000
HOPE	13,626,000	4,559,000	4,626,000	6,724,000	—	29,535,000
Housing	35,169,000	16,328,000	8,307,000	6,826,000	5,676,000	72,306,000
Human Services	13,119,000	10,102,000	—	—	—	23,221,000
Information Technology	25,311,000	8,264,000	—	—	—	33,575,000
Libraries	15,919,000	11,166,000	200,000	200,000	200,000	27,685,000
Neighborhood Services	15,057,000	5,840,000	988,000	503,000	503,000	22,891,000
Parks, Recreation and Mountain Preserves	130,888,000	52,280,000	31,593,000	22,060,000	—	236,821,000
Police Protection	50,050,000	27,100,000	—	—	—	77,150,000
Public Transit	380,731,000	283,320,000	153,123,000	43,524,000	36,553,000	897,251,000
Solid Waste Disposal	67,924,000	19,241,000	6,309,000	17,274,000	15,086,000	125,834,000
Storm Sewers	54,421,000	21,197,000	4,798,000	1,500,000	1,500,000	83,416,000
Streets — Major Streets	95,101,000	64,035,000	36,425,000	31,041,000	30,555,000	257,157,000
Streets — Other Streets	38,593,000	31,516,000	30,423,000	30,577,000	31,758,000	162,867,000
Streets — Traffic Improvements	17,816,000	13,650,000	10,488,000	12,155,000	10,606,000	64,715,000
Wastewater	118,007,000	77,711,000	114,892,000	118,376,000	98,384,000	527,370,000
Water	392,749,000	104,474,000	112,584,000	104,409,000	140,334,000	854,550,000
Total CIP Costs	$2,419,525,000	$1,015,692,000	$589,489,000	$455,939,000	$395,420,000	$4,876,065,000

Source of Funds	2004-05	2005-06	2006-07	2007-08	2008-09	Total
Operating Funds:						
General Purpose Funds	$ 4,517,000	$ 3,726,000	$ 5,353,000	$ 5,938,000	$ 4,803,000	$ 24,337,000
Parks and Preserves	40,162,000	38,643,000	31,393,000	22,060,000	—	132,258,000
Transit 2000	76,503,000	157,012,000	135,293,000	19,680,000	20,987,000	409,475,000
Capital Construction	28,223,000	19,881,000	20,545,000	20,700,000	19,885,000	109,234,000
Sports Facilities	1,500,000	—	—	—	—	1,500,000
Parks Monopole Revenue	255,000	—	—	—	—	255,000
Arizona Highway Users	73,257,000	54,011,000	55,312,000	54,063,000	54,080,000	290,723,000
Enterprise Funds:						
Aviation	26,422,000	7,385,000	3,285,000	185,000	165,000	37,442,000
Civic Plaza	3,923,000	3,575,000	3,200,000	3,200,000	3,200,000	17,098,000
Solid Waste	6,400,000	2,250,000	2,500,000	2,750,000	3,000,000	16,900,000
Wastewater	20,983,000	23,005,000	22,586,000	23,339,000	22,831,000	112,744,000
Water	55,076,000	35,885,000	47,810,000	47,489,000	60,949,000	247,209,000
Community Development Block Grants (CDBG)	3,371,000	600,000	600,000	600,000	600,000	5,771,000
Community Reinvestment	3,876,000	1,050,000	1,050,000	1,050,000	900,000	7,926,000
HOPE Grant	13,578,000	4,559,000	4,626,000	6,724,000	—	29,487,000
Federal and State Grants	5,164,000	—	—	—	—	5,164,000
Total Operating Funds	$ 363,210,000	$ 351,582,000	$333,553,000	$207,778,000	$191,400,000	$1,447,523,000
Bond Funds:						
Property Tax Supported:						
1988 Various Purpose	$ 4,029,000	$ 1,088,000	$ 828,000	$ —	$ —	$ 5,945,000
1989 Historic Preservation	431,000	—	—	—	—	431,000
2001 Various Purpose	317,008,000	160,602,000	5,503,000	—	—	483,113,000
Revenue Supported:						
1981 Various Purpose	200,000	—	—	—	—	200,000
Non-Profit Corporation Bonds:						
Aviation	207,336,000	36,450,000	8,300,000	5,200,000	5,000,000	262,286,000
Civic Plaza	313,216,000	102,681,000	20,000,000	15,000,000	10,000,000	460,897,000
Wastewater	56,231,000	40,446,000	69,441,000	65,338,000	42,231,000	273,687,000
Water	335,039,000	63,237,000	58,943,000	54,625,000	75,817,000	587,661,000
Total Bond Funds	$1,223,490,000	$ 404,504,000	$163,015,000	$140,163,000	$133,048,000	$2,074,220,000
Other Capital Sources:						
Development Impact Fees	$ 46,633,000	$ 2,670,000	$ 960,000	$ 260,000	$ 170,000	$ 50,693,000
Lease Purchase	360,399,000	126,980,000	3,869,000	13,544,000	10,869,000	515,661,000
Passenger Facility Charge	132,788,000	47,711,000	20,000,000	30,000,000	—	230,499,000
Other Cities' Share:						
SROG and Val Vista	46,871,000	18,853,000	28,936,000	32,234,000	37,220,000	164,114,000
Solid Waste Remediation	2,344,000	1,073,000	940,000	980,000	1,217,000	6,554,000
Capital Grants	206,235,000	53,336,000	33,937,000	28,470,000	21,042,000	343,020,000
Federal, State & Other Participation	27,520,000	8,983,000	4,279,000	2,510,000	454,000	43,746,000
Capital Reserves	35,000	—	—	—	—	35,000
Total Other Capital Funds	$ 822,825,000	$ 259,606,000	$ 92,921,000	$107,998,000	$ 70,972,000	$1,354,322,000
Total CIP Source of Funds	$2,419,525,000	$1,015,692,000	$589,489,000	$455,939,000	$395,420,000	$4,876,065,000

COMBINED SCHEDULES OF REVENUES, EXPENDITURES AND ENCUMBRANCES, FUND BALANCES AND TRANSFERS — ALL OPERATING FUNDS

City of Phoenix, Arizona
Schedules of Revenues, Expenditures and Encumbrances
All Operating Funds
(Unaudited, Non-GAAP Budgetary Basis)
Fiscal Years Ended June 30
(in thousands)

	Actual			Preliminary Unaudited
	2001	2002	2003	2004
REVENUES				
City Taxes				
Sales, Use and Franchise	$ 514,522	$ 516,011	$ 514,570	$ 543,709
Property-Primary-Operating	59,586	61,818	65,107	76,392
-Secondary-Debt Service	71,342	81,559	88,425	94,263
Other City Taxes	2,025	2,377	2,642	2,587
Other				
Licenses and Permits	12,988	13,522	13,088	13,275
Charges for Services	109,662	119,529	137,162	154,136
Fines and Forfeitures	15,323	13,825	16,646	16,906
Parks, Recreation and Library	4,458	5,351	7,198	7,422
Dwelling Rentals	6,794	6,818	6,429	6,382
Interest	25,583	22,533	18,231	16,850
Community Reinvestment	1,740	2,777	2,171	2,081
Other	27,788	24,339	27,670	29,152
State-Shared Revenues				
Highway User Tax	102,598	100,405	104,597	111,757
State Sales Tax	105,331	102,211	103,408	111,594
State Income Tax	133,684	137,787	140,600	119,118
Vehicle License Tax	43,221	45,844	47,757	53,522
Local Transportation Assistance	7,336	7,499	7,343	7,246
Federal Revenues				
Human Resources Federal Trust	35,871	38,771	44,141	46,237
Federal Transit Administration	10,280	9,781	7,300	9,243
Community Development	16,821	17,692	16,281	18,536
Public Housing Grants	43,337	49,066	55,800	58,906
HOPE VI Grants	—	—	1,312	4,780
Other Grants	24,505	21,918	23,512	22,908
Federal Administrative Cost Recovery	94	69	75	75
Enterprise Funds				
Aviation	193,318	196,603	213,359	219,275
Phoenix Civic Plaza	10,553	11,005	11,483	11,126
Water System and Val Vista	227,822	236,084	250,321	250,045
Wastewater and SROG	125,918	126,098	132,733	146,806
Solid Waste	85,630	88,221	95,046	100,109
Golf Courses	7,430	7,450	6,675	6,117
Total Revenues	2,025,560	2,066,963	2,161,082	2,260,555
RECOVERIES				
Prior Year Expenditures	12,066	7,280	9,709	24,341
TRANSFERS (TO) FROM OTHER FUNDS				
Self Insurance Trust Funds	—	156	5,351	—
Expendable Trust Funds	—	1,240	2,456	—
Capital Projects Funds	(2,533)	(31,476)	(1,788)	(422)
Sick Leave Trust Fund	(1,700)	(1,362)	—	—
Early Redemption Fund	(5,740)	(17,320)	(6,979)	(2,480)
Street and Highway Debt Service Fund	—	—	(537)	
Developers Assistance Fund	(1,500)	5,750	(3,300)	—
GO Arbitrage Rebate Debt Service Fund	—	61	—	—
Net Deposit to Refunding Escrow	—	(5,262)	485	—
FUND BALANCES, BEGINNING OF YEAR	454,044	566,145	590,400	643,180
Total Resources Available for Expenditures	2,480,197	2,592,175	2,756,879	2,925,174

City of Phoenix, Arizona
Schedules of Revenues, Expenditures and Encumbrances
All Operating Funds
(Unaudited, Non-GAAP Budgetary Basis)
Fiscal Years Ended June 30
(in thousands)
(Continued)

	Actual			Preliminary Unaudited
	2001	2002	2003	2004
EXPENDITURES AND ENCUMBRANCES				
Current Operating				
General Government	$ 86,338	$ 86,438	$ 82,668	$ 85,762
Criminal Justice	28,146	29,475	30,736	31,355
Public Safety	447,288	463,008	489,394	521,042
Transportation				
Streets and Traffic	50,451	48,257	53,309	53,945
Transit	85,260	99,123	111,665	119,067
Community and Economic Development				
Development Services	27,918	30,405	31,725	36,897
Neighborhood Services and Housing	76,748	82,602	88,854	95,213
Other Economic Development	15,822	17,100	16,679	16,833
Community Enrichment				
Parks and Recreation	78,545	79,409	80,544	85,146
Libraries	25,893	26,863	27,488	28,670
Other Community Enrichment	4,214	8,945	8,589	9,025
Human Services	56,119	60,356	65,662	70,005
Environmental Services	19,544	16,329	18,471	19,157
Total Governmental Expenditures	1,002,286	1,048,310	1,105,784	1,172,117
Enterprise Funds				
Aviation	99,298	119,222	127,909	133,932
Phoenix Civic Plaza	30,143	24,247	24,730	24,633
Water System and Val Vista	100,164	110,914	115,832	118,261
Wastewater and SROG	52,077	54,424	56,622	65,837
Solid Waste	59,289	69,332	70,190	69,252
Golf Courses	6,950	6,567	5,706	5,401
Total Operating Expenditures	1,350,207	1,433,016	1,506,773	1,589,433
Capital Improvement				
Governmental Funds				
General Government	3,481	506	107	189
Public Safety	3,106	863	976	388
Transportation	92,010	135,399	122,267	84,198
Public Works	3,806	1,517	2,214	2,743
Community and Economic Development	6,375	3,290	18,018	14,991
Community Enrichment	26,623	24,662	29,262	16,683
Enterprise Funds				
Aviation	43,734	33,578	25,101	21,872
Phoenix Civic Plaza	4,474	2,943	2,614	352
Water System and Val Vista	44,703	52,564	64,674	56,667
Wastewater and SROG	19,356	26,801	20,156	24,926
Solid Waste	2,019	2,687	4,611	4,356
Golf Courses	62	9	2	—
Total Capital Expenditures	249,749	284,819	290,002	227,365

City of Phoenix, Arizona
Schedules of Revenues, Expenditures and Encumbrances
All Operating Funds
(Unaudited, Non-GAAP Budgetary Basis)
Fiscal Years Ended June 30
(in thousands)
(Continued)

	Actual			Preliminary Unaudited
	2001	2002	2003	2004
Debt Service				
General Obligation Bonds				
Various Purpose				
Principal	$ 28,070	$ 27,799	$ 25,515	$ 31,965
Interest	33,705	30,161	33,765	35,386
Early Redemption	10,507	4,082	25,807	28,647
Arbitrage Rebate and Fees	2	162	153	351
Airport				
Principal	3,270	—	3,200	3,250
Interest	2,430	1,898	1,929	1,726
Water				
Principal	14,525	12,655	12,240	18,386
Interest	9,620	8,786	8,181	8,775
Solid Waste				
Principal	5,380	6,325	5,890	4,875
Interest	3,962	2,860	3,407	2,450
Sanitary Sewer				
Principal	9,310	5,650	6,338	6,765
Interest	4,656	4,200	4,115	3,741
Revenue Bonds				
Street & Highway User				
Principal	17,775	18,615	10,965	21,605
Interest	15,223	13,270	10,644	9,526
Public Housing				
Principal	335	345	370	395
Interest	215	195	174	151
Airport				
Principal	15,380	—	8,270	8,705
Interest	13,101	14,271	25,030	24,592
Water				
Principal	13,410	15,030	15,190	9,235
Interest	16,304	16,386	25,851	23,910
Sanitary Sewer				
Principal	—	620	2,840	2,960
Interest	12,607	11,232	11,419	11,291
Total Debt Service	221,427	184,166	214,482	258,687
Lease-Purchase Payments	84,309	89,398	75,631	86,835
Total Expenditures and Encumbrances	1,914,052	2,001,775	2,113,699	2,162,320
FUND BALANCES, END OF YEAR	$ 566,145	$ 590,400	$ 643,180	$ 762,854

City of Phoenix, Arizona
Fund Balances
All Operating Funds
(Unaudited, Non-GAAP Budgetary Basis)
Fiscal Years Ended June 30
(in thousands)

Funds	Actual 2001	Actual 2002	Actual 2003	Preliminary Unaudited 2004
GENERAL FUND	$ 46,478	$ 52,688	$ 63,166	$ 53,204
SPECIAL REVENUE FUND				
Highway User Revenue	41,861	38,062	32,416	30,065
Parks and Recreation	14,200	20,011	17,158	31,117
Development Services	13,190	15,346	16,505	21,227
Development Fees and Participations	35,023	54,366	76,614	107,885
Local Transportation Assistance	—	236	316	—
Transit	64,685	83,288	90,001	144,427
Public Housing	25,009	25,949	34,895	30,581
Court Awards	3,080	4,001	530	23
Sports Facilities	5,662	8,416	9,163	11,224
Capital Construction	19,453	19,770	17,186	12,908
Other Restricted	—	1,240	9,248	10,788
DEBT SERVICE FUNDS				
Secondary Property Tax	100	100	100	100
City Improvement	—	—	175	—
ENTERPRISE FUNDS				
Aviation	50,372	45,545	48,355	46,854
Phoenix Civic Plaza	21,300	24,814	29,955	44,549
Water System and Val Vista	149,073	126,634	124,978	132,432
Wastewater and SROG	57,695	51,598	52,752	59,061
Solid Waste	18,749	18,247	20,006	26,504
Golf Courses	215	89	(339)	(95)
Total Operating Funds	$566,145	$590,400	$643,180	$762,854

The fund balances shown above are net of interfund transfers, which include transfers to the General Fund of staff and administrative costs from the Aviation, Civic Plaza, Water System, Wastewater and Solid Waste Enterprise Funds and in-lieu taxes from the Water System, Wastewater and Solid Waste Enterprise Funds and the Public Housing Special Revenue Fund. A schedule detailing all operating fund transfers is shown on the following pages.

City of Phoenix, Arizona
Transfers
All Operating Funds
(Unaudited, Non-GAAP Budgetary Basis)
Fiscal Years Ended June 30
(in thousands)

	Actual			Preliminary Unaudited
	2001	2002	2003	2004
GENERAL FUND				
Transfers From				
Excise Tax	$561,244	$563,156	$566,137	$574,322
Cable Communications	2,850	1,354	2,982	3,265
Development Services	6,379	3,079	3,584	3,538
Public Housing	278	270	266	246
Sports Facilities	150	153	224	182
Aviation	3,541	3,605	4,840	—
Transit	988	—	—	5,180
Phoenix Civic Plaza	2,155	2,281	2,052	2,118
Water System and Val Vista	11,579	12,432	13,480	14,443
Wastewater and SROG	6,983	7,560	7,752	8,028
Solid Waste	4,490	4,643	4,542	4,637
Industrial Insurance	—	156	5,351	—
Total	600,637	598,689	611,210	615,959
Transfers To				
Library	25,216	25,403	25,947	27,370
Parks and Recreation	69,318	67,263	65,785	69,581
Capital Projects	—	—	202	96
Sick Leave Trust	1,336	972	—	—
Total	95,870	93,638	91,934	97,047
LIBRARY				
Transfers From				
General	25,216	25,403	25,947	27,370
HIGHWAY USER REVENUE				
Transfers To				
Streets and Highways Debt Service	—	—	537	—
PARKS AND RECREATION				
Transfers From				
General	69,318	67,263	65,785	69,581
Excise Tax	21,986	22,081	21,808	23,074
Golf Courses	169	—	401	328
Total	91,473	89,344	87,994	92,983
EXCISE TAX				
Transfers To				
General	561,244	563,156	566,137	574,322
Parks and Recreation	21,986	22,081	21,808	23,074
Transit	85,553	88,028	87,092	92,349
Sports Facilities	12,683	11,296	11,947	12,577
Capital Construction	18,409	18,447	17,966	17,196
City Improvement	16,878	18,239	16,027	17,231
Phoenix Civic Plaza	37,799	37,030	36,849	40,322
Developers Assistance	1,500	300	3,300	—
Total	756,052	758,577	761,126	777,071

City of Phoenix, Arizona
Transfers
All Operating Funds
(Unaudited, Non-GAAP Budgetary Basis)
Fiscal Years Ended June 30
(in thousands)
(Continued)

	Actual			Preliminary Unaudited
	2001	2002	2003	2004
CABLE COMMUNICATIONS				
Transfers To				
General	$ 2,850	$ 1,354	$ 2,982	$ 3,265
DEVELOPMENT SERVICES				
Transfers To				
General	6,379	3,079	3,584	3,538
DEVELOPMENT FEES & PARTICIPATION				
Transfers From				
Developers Assistance	—	6,050	—	—
TRANSIT				
Transfers To				
General	988	—	—	—
City Improvement	799	809	814	818
Total	1,787	809	814	818
Transfers From				
Excise Tax	85,553	88,028	87,092	92,349
PUBLIC HOUSING				
Transfers To				
General	278	270	266	246
City Improvement	—	—	75	74
Capital Projects	—	740	473	434
Total	278	1,010	814	754
Transfers From				
Capital Projects	—	333	340	—
FEDERAL OPERATING TRUST				
Transfers To				
Capital Projects	—	—	106	—
SPORTS FACILITIES				
Transfers To				
General	150	153	224	182
City Improvement	—	—	—	606
Early Redemption	5,740	2,320	2,900	2,480
Capital Projects	—	—	—	500
Total	5,890	2,473	3,124	3,768
Transfers From				
Excise Tax	12,683	11,296	11,947	12,577
CAPITAL CONSTRUCTION				
Transfers From				
Excise Tax	18,409	18,447	17,966	17,196
OTHER RESTRICTED				
Transfers From				
Expendable Trusts	—	1,240	2,456	—
SECONDARY PROPERTY TAX				
Transfers To				
Early Redemption	—	15,000	4,079	—
Transfers From				
G.O. Arbitrage Rebate	—	61	—	—

City of Phoenix, Arizona
Transfers
All Operating Funds
(Unaudited, Non-GAAP Budgetary Basis)
Fiscal Years Ended June 30
(in thousands)
(Continued)

	Actual 2001	Actual 2002	Actual 2003	Preliminary Unaudited 2004
CITY IMPROVEMENT				
Transfers From				
Excise Tax	16,878	18,239	16,027	17,231
Transit	799	809	814	818
Public Housing	—	—	75	74
Sports Facilities	—	—	—	606
Capital Projects	—	—	45	919
Total	17,677	19,048	16,961	19,648
Transfers To				
Capital Projects	—	—	300	—
G.O. ARBITRAGE REBATE				
Transfers To				
Secondary Property Tax	—	61	—	—
STREETS AND HIGHWAYS DEBT SERVICE				
Transfers From				
Highway User Revenue	—	—	537	—
INDUSTRIAL INSURANCE				
Transfers To				
General	—	156	5,351	—
EXPENDABLE TRUSTS				
Transfers To				
Other Restricted Special Revenue	—	1,240	2,456	—
CAPITAL PROJECTS				
Transfers To				
Public Housing	—	333	340	—
Civic Plaza	—	8	—	—
City Improvement	—	—	45	919
Total	—	341	385	919
Transfers From				
General	—	—	202	96
Sports Facilities	—	—	—	500
Federal Operating Trust	—	—	106	—
Public Housing	—	740	473	434
City Improvement	—	—	300	—
Solid Waste	2,533	1,077	1,092	311
Water System and Val Vista	—	30,000	—	—
Total	2,533	31,817	2,173	1,341
AVIATION				
Transfers To				
General	3,541	3,605	4,840	5,180
Sick Leave Trust	48	43	—	—
Total	3,589	3,648	4,840	5,180
PHOENIX CIVIC PLAZA				
Transfers From				
Excise Tax	37,799	37,030	36,849	40,322
Capital Projects	—	8	—	—
Total	37,799	37,038	36,849	40,322
Transfers To				
General	2,155	2,281	2,052	2,118
Sick Leave Trust	9	29	—	—
Total	2,164	2,310	2,052	2,118

City of Phoenix, Arizona
Transfers
All Operating Funds
(Unaudited, Non-GAAP Budgetary Basis)
Fiscal Years Ended June 30
(in thousands)
(Continued)

	Actual			Preliminary Unaudited
	2001	2002	2003	2004
WATER SYSTEM AND VAL VISTA				
Transfers To				
General	11,579	12,432	13,480	14,443
Capital Projects	—	30,000	—	—
Sick Leave Trust	182	241	—	—
Total	11,761	42,673	13,480	14,443
WASTEWATER AND SROG				
Transfers To				
General	6,983	7,560	7,752	8,028
Sick Leave Trust	71	28	—	—
Total	7,054	7,588	7,752	8,028
SOLID WASTE				
Transfers To				
General	4,490	4,643	4,542	4,637
Capital Projects	2,533	1,077	1,092	311
Sick Leave Trust	54	41	—	—
Total	7,077	5,761	5,634	4,948
GOLF COURSES				
Transfers To				
Parks and Recreation	169	—	401	328
Sick Leave Trust	—	8	—	—
Total	169	8	401	328
SICK LEAVE TRUST				
Transfers From				
General	1,336	972	—	—
Aviation	48	43	—	—
Water System and Val Vista	182	241	—	—
Wastewater and SROG	71	28	—	—
Civic Plaza	9	29	—	—
Solid Waste	54	41	—	—
Golf	—	8	—	—
Total	1,700	1,362	—	—
EARLY REDEMPTION				
Transfers From				
Sports Facilities	5,740	2,320	2,900	2,480
Secondary Property Tax	—	15,000	4,079	—
Total	5,740	17,320	6,979	2,480
DEVELOPERS ASSISTANCE				
Transfers From				
Excise Tax	1,500	300	3,300	—
Transfers To				
Development Fees & Participation	—	6,050	—	—
Total Transfers From	$900,920	$945,776	$911,751	$922,225
Total Transfers To	$900,920	$945,776	$911,751	$922,225

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APPENDIX C

CITY SALES AND STATE SHARED REVENUES

The following information was compiled from annual financial reports of the City and from information provided by the City's Finance Department.

City Privilege License (Sales) Taxes

The City's privilege license (sales) tax rate for most business activity categories is 1.8%, while the rate for utilities is 2.7%, advertising is 0.5%, transient room rental is 4.8%, short-term car rental is 3.8%, telecommunications is 4.7% and commercial real estate rental is 1.9%. The City collected $416,431,000 from all privilege license tax categories in fiscal year 1999-00, $514,522,000 in fiscal year 2000-01, $516,011,000 in fiscal year 2001-02 and $514,570,000 in fiscal year 2002-03. The preliminary unaudited total for 2003-04 is $543,709,000.

Privilege License Tax Rates by Category

Category	Rate(1)
Amusement	1.8%
Advertising	0.5
Contracting	1.8
Printing	1.8
Publishing	1.8
Hotel/Motel	4.8
Apartments/Rooming Homes/Trailer Courts	1.8
Commercial Real Estate Rentals	1.9
Residential Real Estate Rentals	1.8
Mining	0.1
Restaurants and Bars	1.8
Retail	1.8(2)
Short-Term Car Rental	3.8
Telecommunications	4.7
Transportation	1.8
Leasing/Rental of Tangible Personal Property	1.8
Utilities	2.7

(1) On October 5, 1993, City of Phoenix voters approved a 0.1% increase in the City's privilege license (sales) tax rate. The revenues produced by the increase must be used to add police officers and firefighters and to expand neighborhood programs designed to deter crime. The increase affects all privilege license tax categories except advertising, utilities, cable television, jet fuel, telecommunications and mining and became effective December 1, 1993. The increase generated $14.5 million in 1994-95, $16.4 million in 1995-96, $17.5 million in 1996-97, $18.5 million in 1997-98, $20.3 million in 1998-99, $21.8 million in 1999-00, $22.1 million in 2000-01, $22.2 million in 2001-02 and $21.8 million in 2002-03. The preliminary unaudited total for 2003-04 is $23.1 million.

On September 7, 1999, City of Phoenix voters approved a 0.1% increase in the City's privilege license (sales) tax rate to be levied for a 10-year period. The revenues produced by the increase will be used for the acquisition of desert preserve open space and the development and improvement of regional and neighborhood parks located within the City. The increase affects all privilege license tax categories except advertising, utilities, cable television, jet fuel, telecommunications, and mining and became effective November 1, 1999. The increase generated $14.3 million in 1999-00, $21.9 million in 2000-01, $22.1 million in 2001-02 and $21.8 million in 2002-03. The preliminary unaudited total for 2003-04 is $23.1 million.

On March 14, 2000, City of Phoenix voters approved a 0.4% increase in the City's privilege license (sales) tax rate to be levied for a 20-year period. The revenues produced by the increase must be used for expanded bus service, the construction of a light rail system and other transportation improvements. The increase affects all privilege license tax categories except advertising, utilities, cable television, jet fuel, telecommunications, and mining and became effective June 1, 2000. The increase generated $7.1 million in 1999-00, $85.6 million in 2000-01, $88.0 million in 2001-02 and $87.1 million in 2002-03. The preliminary unaudited total for 2003-04 is $92.3 million.

(2) Sales of food are exempt from the 1.8% tax.

State Shared Revenues

The City received a total of $378,156,000 in State-shared revenues in fiscal year 1999-00, $392,170,000 in fiscal year 2000-01, $393,746,000 in fiscal year 2001-02 and $403,705,000 in fiscal year 2002-03. The preliminary unaudited total for 2003-04 is $403,237,000.

State Sales Tax

Effective July 1, 1986 the State sales tax became a combined tax, including the previous transaction privilege tax, education excise tax, special education excise tax and business excise tax. Cities throughout Arizona share 25% of the "distribution share" of such combined tax revenues in relation to their population as shown by the latest census.

State Sales Tax
Taxable Activities, Tax Rates and Distribution Share

Taxable Activities	Combined Tax Rate	Distribution Share
Mining — Severance	2.5%	80%
Mining, Oil & Gas	3.125	32
Transportation & Towing	5.6	20
Utilities	5.6	20
Communications	5.6	20
Railroads & Aircraft	5.6	20
Publishing	5.6	20
Printing	5.6	20
Private Car/Pipelines	5.6	20
Contracting	5.6	20
Restaurants & Bars	5.6	40
Amusements	5.6	40
Rentals/Personal Property	5.6	40
Retail(1)	5.6	40
Hotel/Motel	5.5	50
Membership Camping	5.6	40
Rental Occupancy	3	66.67
Use	5.6	0
Jet Fuel (1st 10 million Gallons)	$0.0305/gal	40
Timbering — Ponderosa Pine	$2.13/1,000 board ft.	80
Timbering — Severance — Other	$1.51/1,000 board ft.	80

(1) Effective July 1, 1980 sales of food were exempted from the tax.

State Sales Tax Receipts

Fiscal Year	Amount
2003-04 Preliminary Unaudited	$111,594,000
2002-03	103,408,000
2001-02	102,211,000
2000-01	105,331,000
1999-00	101,708,000
1998-99	92,459,000
1997-98	86,169,000
1996-97	81,449,000
1995-96	80,443,000
1994-95	75,821,000
1993-94	69,257,000

State Income Tax

For fiscal years 2002-03 and 2003-04, cities throughout Arizona share in 14.8% of the State personal and corporate income taxes collected two years previously in relation to their population as determined by the latest census. This reduction from 15.0% was made in the 2002 legislative session and was approved for two fiscal years. Accordingly, for fiscal year 2004-05, cities will again share 15% of collections. For fiscal year 1999-2000, the applicable percentage had been increased to 15.8% in order to hold cities harmless for cuts made in prior years that went into effect in 1997-98. However, the 1999 legislative session resulted in the approval of a reduction in the portion of income taxes shared with cities and towns from 15.8% to 15.0%. This resulted in an estimated reduction for Phoenix in 2000-01 of $7.1 million and for each year thereafter.

Reductions in state income tax rates enacted in the 1998 legislative session resulted in future reductions in the City's state income tax distribution. Because the amount to be distributed is based on amounts collected for the fiscal year two years prior to the current fiscal year, the first decrease did not occur until fiscal year 2000-01 and was expected to be approximately $1.9 million for Phoenix, and to increase to approximately $3.5 million the following fiscal year and for each fiscal year thereafter.

State Income Tax Receipts

Fiscal Year	Amount
2003-04 Preliminary Unaudited	$119,118,000
2002-03	140,600,000
2001-02	137,787,000
2000-01	133,684,000
1999-00	127,374,000
1998-99	114,788,000
1997-98	98,326,000
1996-97	87,054,000
1995-96	75,392,000
1994-95	70,945,000
1993-94	64,131,000

HIGHWAY USER REVENUES

In 1981, the Arizona Legislature concluded a special session on transportation by enacting a 10-year highway and transportation financing program. All the provisions of this legislation, except for the legislated increase in motor vehicle fuel and use fuel taxes, became effective in October 1981. The 1981 legislation had increased the motor vehicle fuel and use fuel taxes from $0.08 per gallon to 8% of the average retail price of gasoline, converted to a cents-per-gallon tax rate.

In February 1982, the Legislature repealed the 1981 fuel tax increase by adopting a new bill which reinstated the $0.08 per gallon fuel tax and added an additional $0.02 per gallon on July 1, 1982, with an additional $0.02 increase effective July 1, 1983 and a final $0.01 increase effective July 1, 1984, for a total motor vehicle fuel and use fuel tax rate of $0.13 per gallon.

The 1981 legislation increased other highway user tax revenue sources. Revenues from the vehicle license (in lieu) tax were increased due to an alteration in the method of determining the depreciated value of a vehicle to which the vehicle license tax applies. The rates of the motor carrier ton-mile tax and other commercial fees were also increased. In addition, the legislation provided for a redistribution of certain "auto-related" revenue from the State's general fund to the highway user revenue fund.

In 1985, the Arizona Legislature enacted transportation finance legislation providing potential funding for controlled access highways and regional public transportation, raising additional Highway User Tax Revenues and providing additional funding sources for the state highway system. Additional Highway User Revenues were provided through an increase in the motor vehicle fuel and use fuel taxes of $0.03, from $0.13 to $0.16 per gallon, effective January 1, 1986, and by an additional $0.01 to $0.17 per gallon effective August 31, 1988. Effective October 1, 1990, the tax on motor vehicle fuel and use fuel was increased by an additional $0.01 to $0.18 per gallon for vehicles under 26,001 pounds and other qualifying vehicles. The use fuel tax rate for all other vehicles is $0.26 per gallon (decreased from $0.27 per gallon on July 1, 2000).

The highway user revenue fund distribution formula has been changed several times, with the last change made in the 1997 regular session of the legislature. Under the revised formula, the Arizona Department of Transportation (ADOT) receives 50.5%, counties 19%, cities 27.5%, and cities with a population over 300,000 3%. The distribution of revenues to cities and towns (the 27.5% portion) is made on the following basis:

One-half of the highway user tax revenues is distributed to each incorporated city and town in the proportion that the population of each bears to the population of all cities and towns within the State, and

One-half is distributed first on the basis of the county origin of sales of motor vehicle fuels within the State. This amount is then apportioned among the incorporated cities and towns within each county in the proportion that the population of each city or town bears to the total population of all cities and towns within the county.

The most recent regular or special United States census of population is used as the basis of apportionments of Highway User Tax Revenues.

The 1981 legislation phased the Arizona Department of Public Safety (DPS) out of the Highway User Revenue Fund. However, in 1991, the Legislature amended the law to require that moneys be distributed each year from the Highway User Revenue Fund and the State Highway Fund to the DPS for funding a portion of highway patrol costs in any amount required by legislative appropriation. The State Legislature enacted legislation in 1995 that reduced the transfer of Highway User Revenues to the DPS by $2.5 million each year for four years beginning in 1996-97 and ending in 1999-00. However, legislation enacted in 1999 kept the distribution from the Highway User Revenue Fund at the then current $12.5 million. In 1998-99, 1999-00, and 2000-01, the total distributions to the DPS were approximately $25 million, consisting of the $12.5 million directly distributed from the Highway User Revenue Fund and $12.5 million from the State Highway Fund. For 2001-02, the distribution to DPS totaled approximately $65 million ($52 million from the Highway User Revenue Fund and $13 million from the State Highway Fund). The distribution from the Highway User Revenue Fund included approximately $30 million in additional distributions authorized in 2001-02 by the Arizona Legislature from the Highway User Revenue Fund to be made prior to the distribution to local governments. For 2002-03, the distribution to DPS totaled approximately $70 million ($56 million from the Highway User Revenue Fund and $14 million from the State Highway Fund), including an estimated $42 million in additional distributions from the Highway User Revenue Fund authorized by the Arizona Legislature. For 2003-04, the estimated distribution to DPS totals approximately $77 million ($48 million from the Highway User Revenue Fund and $29 million from the State Highway Fund). For 2004-05, the estimated distribution to DPS totals approximately $83.9 million ($51.6 million from the Highway User Revenue Fund and $32.3 million from the State Highway Fund.

As noted above, the latest distribution formula for highway user revenue funds provides for the distribution of a 3% portion to incorporated cities with a population of 300,000 or more. This funding can be used for the acquisition of rights-of-way or construction of streets or highways. The 1997 legislation removed language which had previously restricted this distribution of funds from being used for controlled-access purposes. Based on the 1995 special census, effective July 1, 1996, the city of Mesa became eligible to share in this distribution, along with Phoenix and Tucson. The inclusion of Mesa in the special distribution of the 3% portion resulted in an estimated reduction to the City of Phoenix of approximately $3.0 million annually beginning in 1996-97.

City of Phoenix, Arizona

Highway User Tax Revenues		Vehicle License Tax Receipts	
Fiscal Year	Amount	Fiscal Year	Amount
2003-04 Preliminary Unaudited	$111,757,000	2003-04 Preliminary Unaudited	$53,522,000
2002-03	104,597,000	2002-03	47,757,000
2001-02	100,405,000	2001-02	45,844,000
2000-01	102,598,000	2000-01	43,221,000
1999-00	100,348,000	1999-00	41,243,000
1998-99	97,729,000	1998-99	37,802,000
1997-98	88,302,000	1997-98	32,583,000
1996-97	89,147,000	1996-97	31,339,000
1995-96	88,642,000	1995-96	26,907,000
1994-95	81,716,000	1994-95	28,329,000
1993-94	77,712,000	1993-94	22,497,000

LOCAL TRANSPORTATION ASSISTANCE

The 1981 State transportation financing program also provided for the creation of a Local Transportation Assistance Fund (LTAF) for local city transportation purposes (transit, streets, airports, etc.). The 1981 bill was amended in February 1982, restricting the use of these funds by cities of over 300,000 population to mass transit operating costs and related capital purposes. The LTAF is funded from a portion of the receipts of the State Lottery. It is to provide up to $23 million (maximum) to be allocated to incorporated cities and towns in proportion to the population each bears to the total population of all cities and towns. The City received $7,627,000 in 1998-99, $7,483,000 in 1999-00, $7,336,000 in 2000-01, $7,499,000 in 2001-02, $7,343,000 in 2002-03 and $7,246,690 (preliminary unaudited) in 2003-04. The estimate for 2004-05 is $7,024,000. Cities may spend up to 10% of their allocation for recreational, cultural and historic purposes if matched by non-public funds, provided that the annual allocation to cities is $23,000,000.

In addition, on August 31, 1998 former Governor Jane Hull signed into law a transit funding bill that provides additional state funding for public transit through fiscal year 2003. The bill also changed the distribution of Power Ball lottery funds from the Regional Public Transportation Authority (RPTA) directly to the cities and towns in Maricopa County based on population. As a result of this bill, the City received $1,778,000 in 1998-99, $4,612,000 in 1999-00 and $3,880,000 in 2000-01. In 2001, the major funding portion of this transit-funding bill was repealed. Although the Power Ball distribution remains, the City did not receive any funding in 2001-02 or 2002-03. For 2003-04 the City received $1,796,695 (preliminary unaudited) and expects to receive $3,327,527 in 2004-05.

TRANSPORTATION PROGRAM PASSED BY MARICOPA COUNTY VOTERS

In 1985, the Arizona Legislature enacted transportation finance legislation which, among its provisions, provided potential funding for controlled access highways and regional public transportation.

As a result, in Maricopa County, a countywide special election was held on October 8, 1985 to levy a one-half percent transportation excise tax (sales tax) within the County. The measure was passed by the voters by more than a 2 to 1 margin. The transportation excise tax became effective January 1, 1986 for a period not to exceed twenty years. A proposition to extend this tax for a period not to exceed twenty years was approved by voters on November 2, 2004 with 57% of the votes cast in favor of the proposition. The greatest portion of these funds is earmarked for controlled-access highways, determined by the cities and County through their regional planning agency, the Maricopa Association of Governments. A limited portion of the increase is designated for regional public transportation needs.

With passage of the transportation excise tax in Maricopa County in 1985, the Regional Public Transportation Authority was created within the boundaries of the County on January 1, 1986. Each city in the Authority area and the County has the option to participate in the Authority. Each city that participates must use a portion of its Local Transportation Assistance Fund monies for public transportation, with Phoenix and Mesa required to use all of its LTA funds for this purpose.

The Authority is headed by a Board of Directors consisting of one elected official appointed from each participating municipality and the County. The Board is responsible for the development of a regional public transportation system plan for a regional rapid transit system. The Board is also responsible for establishing and operating a regional bus system and may contract with the City of Phoenix to provide the service. In 1986-87, $2.7 million from the initial sales tax increase was allocated to the Board for regional bus service and community based service, while $4.7 million was allocated in 1987-88, $3.9 million was allocated in 1988-89, $4.0 million was allocated in 1989-90, $5.0 million was allocated in 1990-91, $6.1 million was allocated in 1991-92 and $6.1 million was allocated in 1992-93. The allocation was $6.3 million for 1993-94, $6.5 million for 1994-95, $6.6 million for 1995-96, $6.8 million for 1996-97, $6.9 million for 1997-98, $7.0 million for 1998-99, $7.1 million for 1999-00, $7.2 million for 2000-01, $7.3 million in 2001-02, $7.5 million in 2002-03 and the estimate for 2003-04 is $7.6 million.

The Maricopa County Board of Supervisors called a referendum election on March 28, 1989 for the purpose of considering an additional 0.5% sales tax to fund the development and operation of the Authority's adopted Public Transportation Plan over the next 30 years. The referendum was defeated with 61% of the votes cast against the referendum. After the referendum was defeated, former Mayor Goddard initiated an effort to involve the Phoenix urban village planning committees in developing a future transportation program for the City. This resulted in the creation of a Citywide Transit Committee. This committee devised a comprehensive transit plan which offered a variety of services. The plan was adopted by the City Council in July 1990 and incorporated into the citizen-based Regional Transit Plan which was adopted by the RPTA Board of Directors in July 1992. Legislation adopted by the State Legislature and signed by the Governor in 1990 allowed the Maricopa Association of Governments and the RPTA to call for a ½ cent sales tax to be split equally between freeways and transit. MAG and RPTA did call for that election and the Maricopa Board of Supervisors placed the issue on the November 8, 1994 general election ballot. The proposition was defeated, with 54% of the votes cast against the proposition.

On March 14, 2000 City of Phoenix residents approved a 0.4% 20-year sales tax dedicated to transit improvements. Transit improvements include expanded local bus and Dial-A-Ride service, bus rapid transit service, neighborhood circulators, and the construction and operation of a light rail line. In addition, the tax will provide funding for 500 bus pull-outs, 100 miles of bike lanes and left-turn arrows at all major intersections. Voters approved the tax by a 2 to 1 margin providing an estimated $2.9 billion in funding through May 31, 2020.

APPENDIX D

STATE EXPENDITURE LIMITATION

Beginning in fiscal year 1982-83, the City became subject to the annual expenditure limitation which is set by the Arizona Economic Estimates Commission. This limitation is based on the City's actual expenditures for fiscal year 1979-80, with this base adjusted annually to reflect interim population, cost of living and boundary changes. Certain expenditures are specifically exempted from the limit, with these including expenditures made from federal funds and bond sale proceeds, as well as payments for debt service and other lawful long-term obligations. Expenditures from State aid for the City's transit system, which was established under the State Transportation Financing Program enacted by the Arizona Legislature in 1981 and funded from revenues of the State Lottery, have been ruled exempt from the expenditure limitation by the State Attorney General. The limitation can be exceeded for certain emergency expenditures or if approved by the voters. The Constitutional provisions which relate to the expenditure limitation provide four processes to exceed the spending limit: a local home rule option, a permanent base adjustment, a one-time override, and a capital project accumulation.

On November 3, 1981, the Phoenix voters approved five propositions referred to them by the City Council to exceed the expenditure limit. A local home rule option was approved which allowed the City to exclude the expenditures in its Aviation, Water, Sanitary Sewer and Civic Plaza operations from the State expenditure limit in the four fiscal years, 1982-83 through 1985-86.

The four other propositions which were approved 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.

On November 5, 1985, the voters approved a home rule option which provided for the exclusion of expenditures directly cost recovered up to 100% of actual costs from sales, rentals, user fees and charges for materials, services, and facilities provided by the following City programs: Airport Operations, Water System, Wastewater System, and Sanitation Service. It further provided for the exclusion of expenditures from the Water and Wastewater development occupational fees. This home rule option was effective for four fiscal years, 1986-87 through 1989-90.

On October 1, 1991, Phoenix voters approved a home rule option which exempted from the State expenditure limitation all expenditures associated with the Aviation, Water, Wastewater and Solid Waste Funds for the fiscal years 1992-93 through 1995-96.

On October 3, 1995, Phoenix voters approved a home rule option which provided for the exclusion from the State expenditure limitation of all expenditures incurred in connection with Aviation Operations, Water Systems and Wastewater Systems for the fiscal years 1996-97 through 1999-2000.

On September 7, 1999, Phoenix voters approved a home rule alternative expenditure limitation option whereby the City shall, as part of the annual budget process, adopt an expenditure limitation to govern the City budget. No expenditures may be made in excess of such budget, nor may expenditures exceed available revenues. Established exclusions shall continue to apply. This alternative expenditure limitation is effective for fiscal years 2000-01 through 2003-04.

On September 9, 2003, Phoenix voters approved a home rule option similar to the home rule option approved by the Phoenix voters in September 1999, to be effective through fiscal year 2007-08. Previously established exclusions for "pay-as-you-go" capital improvements continue to apply.

The Arizona Attorney General has issued an opinion that a political subdivision may legally carry forward to later years revenues which are not subject to the expenditure limitation and which were not expended in the year of receipt. Pursuant to advice from the Arizona Auditor General, the City now carries forward each year, all unexpended excludable revenues that are not needed to meet the expenditure limitation for that year, to help maximize spending capacity in future years. As of June 30, 2003, non-restricted carryforwards totalled $405,452,736.

The 2001-02 expenditure limit provided by the State of Arizona Economic Estimates Commission was $885,718,186. The alternative expenditure limitation, approved by the voters on September 7, 1999, was equal to the City's annual budget of $3,966,742,911. As a result of allowable exclusions and carryforwards from prior years, the amount of the 2001-02 budget subject to the limitation was $1,355,171,540, or $2,611,571,371 less than the alternative expenditure limitation.

The 2002-03 expenditure limit provided by the State of Arizona Economic Estimates Commission was $974,647,996. The alternative expenditure limitation, approved by the voters on September 7, 1999, was equal to the City's annual budget of $4,204,209,282. As a result of allowable exclusions and carryforwards from prior years, the amount of the 2002-03 budget subject to the limitation was $1,470,677,654, or $2,733,531,628 less than the alternative expenditure limitation.

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, Arizona Employees' Retirement Plan, the State of Arizona Public Safety Personnel Retirement System or the Elected Officials' Retirement Plan.

City of Phoenix, Arizona Employees' Retirement Plan

The City of Phoenix, Arizona Employees' Retirement Plan, 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 "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, 2002. 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 2002-03 were $27,820,000, equivalent to 6.86% of the estimated annual active member payroll, compared with 7.24% in 2001-02. The annual active member covered payroll for the year ended June 30, 2003 was $416,472,000.

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 1971 Group Annuity Mortality Table projected to 2000, set back 6 years for females. Salaries are expected to rise 4.5% due to inflation, 0.5% for other across-the-board factors, and from 0% to 4%, 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, 2003, net assets available for benefits were less than the actuarial accrued liability by $173,542,000, compared with a lack of $116,542,000 at June 30, 2002. The total actuarial accrued liability increased $113,852,000 from 2002 to 2003.

Rodwan and Nichols, Actuaries & Consultants commented in their June 30, 2003 valuation report of the plan:

> Overall experience of the Retirement Plan during the year ended June 30, 2003 was less favorable than expected based on long-term assumptions. The unfavorable experience was primarily attributable to recognized investment income which was less than expected based on the long-term assumption.
>
> The accrued actuarial condition of the Retirement Plan is very good.

State of Arizona Public Safety Personnel Retirement System

The City of Phoenix also contributes to an agent multiple-employer retirement 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 plans are determined on an actuarial basis using the entry age normal cost method. Normal cost is funded on a current basis. The unfunded actuarial accrued liability is funded over an open twenty-year period. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the level percentage of payroll 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 9%. Non-disability mortality rates equal the 1971 Group Annuity Mortality Table projected to 2000 set back 6 years for females. Salaries are expected to rise 5.5% due to inflation and from 1% to 4%, 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.

Members contribute 7.65% of compensation. The City contributes a level percent of payroll normal cost less a credit (spread over twenty years) for the amount by which valuation assets exceed the actuarial accrued liability. In 2002-03 the City's contribution amounted to 2.58% for police and 3.39% for fire.

For the year ended June 30, 2003, covered payroll was $163,889,000 for police, and $86,662,000, 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 $316,000 less than the actuarial accrued liability as of June 30, 2003. Net assets for benefits exceeded the actuarial accrued liability by $136,685,000 as of June 30, 2002.

For fire, net assets available for benefits exceeded the actuarial accrued liability as of June 30, 2003 and June 30, 2002 by $7,987,000 and $79,177,000, 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.

The City contributes an actuarially determined rate, 6.97% for the year ended June 30, 2003, to fully fund benefits for active members. Total contributions for the fiscal year ended June 30, 2003 were $53,000, which consisted of $26,000 from the City and $27,000 from members.

APPENDIX F

CITY OF PHOENIX, ARIZONA
AUDITED FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

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City of Phoenix
Audited Financial Statements
Table of Contents

KPMG LLP
Suite 1100
One Arizona Center
400 East Van Buren Street
Phoenix, AZ 85004

Independent Auditors' Report

The Honorable Mayor and Members of the City Council
City of Phoenix, Arizona:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Phoenix, Arizona (the City) as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Phoenix, Arizona, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison statements for the general fund and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 12, 2003 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG

The Honorable Mayor and Members of the City Council
City of Phoenix, Arizona

The management's discussion and analysis and the schedule of funding progress included in Note 17 to the basic financial statements on pages F-6 through F-14 and F-71 through F-72, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and other supplementary information included on pages F-76 through F-99 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The non-major governmental funds combining and individual fund financial statements on pages F-76 through F-86 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The other supplementary information included on pages F-88 through F-99 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

December 12, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Phoenix, Arizona, we offer the following narrative overview and analysis of the financial activities of the City of Phoenix, Arizona (the City) for the fiscal year ended June 30, 2003.

FINANCIAL HIGHLIGHTS

- The total assets of the City exceeded its total liabilities at the close of the fiscal year by $5.0 billion (net assets). Of this amount, $797.7 million (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by $519.6 million.
- As of the close of the fiscal year, the City's Governmental Funds reported combined ending fund balances of $1.05 billion, an increase of $118.3 million from last fiscal year. Approximately 54.9 percent of this amount, or $577.3 million, is available for spending at the City's discretion (*unreserved fund balance*).
- At the close of the fiscal year, unreserved fund balance for the general fund was $276.8 million, or 82.8 percent of the total general fund balance of $334.5 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's Basic Financial Statements. The Basic Financial Statements are comprised of three components: 1) Government-Wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Financial Statements. This report also contains other supplementary information in addition to the Basic Financial Statements themselves.

The City implemented Governmental Accounting Standards Board (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* GASB Statement No. 37 – *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments – Omnibus,* GASB Statement No. 38 – *Certain Financial Statements Note Disclosures,* and GASB Interpretation No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* effective July 1, 2001. Statement No. 34 represented changes in the financial reporting model. Under the new model, the basic financial statements include both Government-Wide and Fund Financial Statements. Detail regarding the basic financial statements follows.

1) Basic Financial Statements - Government-Wide Financial Statements

The *Government-Wide Financial Statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. They are presented beginning on page F-15 of this report. Summarized versions of these statements are included in this MD&A and can be found on pages F-7 and F-10.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets.* Over time, increases or decreases in net assets may serve as a useful indicator of changes in the City's financial position.

The *Statement of Activities* presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows.* This is the full-accrual method of accounting. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both the Statement of Net Assets and the Statement of Activities divide the functions of the City that are principally supported by taxes and intergovernmental revenues (*Governmental Activities*) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (*Business-Type Activities*). The Governmental Activities of the City include general government, criminal justice, public safety, transportation, public works, community enrichment and community development. The Business-Type Activities of the City include airports, Civic Plaza (convention center), water, wastewater, solid waste disposal and golf course activities.

Government-Wide Financial Statement Analysis

The following tables, graphs and analysis discuss the financial position and changes to the financial position for the City as a whole as of and for the year ended June 30, 2003. The prior year's financial position and results are presented for comparative purposes.

Net Assets. As noted above, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Phoenix, assets exceeded liabilities by $5.0 billion at the close of the fiscal year.

The largest portion of the City's net assets ($3.6 billion or 71.2 percent) reflects its investments in capital assets, e.g., land, buildings, improvements, machinery and equipment, park facilities and infrastructure, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. The following table summarizes the detailed Statement of Net Assets.

City of Phoenix
Net Assets
as of June 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total Government	
	2003	2002	2003	2002	2003	2002
Current and other assets	$ 1,277,175	$ 1,128,635	$ 1,659,337	$ 1,486,179	$ 2,936,512	$ 2,614,814
Capital assets	2,810,199	2,606,972	3,569,824	3,316,687	6,380,023	5,923,659
Total assets	4,087,374	3,735,607	5,229,161	4,802,866	9,316,535	8,538,473
Other Liabilities	119,282	106,522	238,633	78,709	357,915	185,231
Long-term liabilities outstanding	1,633,967	1,570,931	2,287,819	2,265,070	3,921,786	3,836,001
Total liabilities	1,753,249	1,677,453	2,526,452	2,343,779	4,279,701	4,021,232
Net assets:						
Invested in capital assets, net of related debt	1,574,940	1,390,460	2,009,693	1,857,544	3,584,633	3,248,004
Restricted	618,268	568,862	36,232	36,930	654,500	605,792
Unrestricted	140,917	98,832	656,784	564,613	797,701	663,445
Total net assets	$ 2,334,125	$ 2,058,154	$ 2,702,709	$ 2,459,087	$ 5,036,834	$ 4,517,241

The *restricted* portion of the City's net assets ($654.5 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance, or the *unrestricted net assets* ($797.7 million), may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the fiscal year, the City is reporting positive balances in all three categories of net assets (1-invested in capital assets net of related debt, 2-restricted and 3-unrestricted), both for the government as a whole, as well as its separate Governmental and Business-Type Activities.

Capital Assets. As seen above in the summarized table of Net Assets, the City's investment in capital assets for the fiscal year ended June 30, 2003, was $6.4 billion, net of accumulated depreciation. This represents an increase from the prior fiscal year of $456.3 million, an increase of $203.2 million for Governmental Activities and $253.1 million for Business-Type Activities.

Major additions to capital assets during the fiscal year included the following:

- Construction of new and replacement water and sewer mains throughout the City valued at $111 million.
- A variety of street and storm sewer construction projects throughout the City valued at $93 million.
- The rebuilding of Sky Harbor International Airport's original South Runway valued at $72.5 million.
- Land acquisitions for Parks and Preserves initiatives valued at $23.6 million.

The following table provides a listing of the capital assets.

City of Phoenix
Capital Assets
(net of depreciation)
as of June 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total Government	
	2003	2002	2003	2002	2003	2002
Buildings	$ 508,145	$ 506,194	$ 523,257	$ 553,464	$ 1,031,402	$ 1,059,658
Improvements	110,041	89,367	1,192,414	1,158,426	1,302,455	1,247,793
Equipment	206,813	211,309	169,991	163,969	376,804	375,278
Artwork	8,647	6,698	3,100	2,548	11,747	9,246
Land	472,424	418,372	367,918	367,010	840,342	785,382
Infrastructure	1,134,420	1,063,670	582,845	539,710	1,717,265	1,603,380
Construction-in-Progress	369,709	311,362	730,299	531,560	1,100,008	842,922
Total	$ 2,810,199	$ 2,606,972	$ 3,569,824	$ 3,316,687	$ 6,380,023	$ 5,923,659

Additional information regarding the City's capital assets can be found in Note 8 in the Notes to the Financial Section of this report.

Long-term Liabilities. As shown in the summarized table of Net Assets, the City had total long-term liabilities or obligations of $3.9 billion (which is comprised primarily of bonded debt) at the end of the fiscal year. Of this amount, general obligation bonds that are backed by the full faith and credit of the City comprise $970.1 million, while municipal corporation obligations account for $2.1 billion of the total. Revenue bonds total $256.0 million and an additional $6.1 million are special assessment bonds where the City is contingently liable in the event that the assessment revenues are insufficient to satisfy the debt payments.

Under Arizona law, cities can issue general obligation bonds for purposes of water, sewer, artificial light, open space preserves, parks, playgrounds and recreational facilities up to an amount not exceeding 20% of secondary assessed valuation. General obligation bonds for all other purposes may be issued up to an amount not exceeding 6% of secondary assessed valuation.

The City's available debt margin at June 30, 2003 was $559.7 million in the 6% capacity and $1.2 billion in the 20% capacity. Additional information regarding the debt limitations and capacities can be found in Note 11 on page F-63.

The following table illustrates the long-term obligations of the City.

City of Phoenix
Long-Term Liabilities
as of June 30
(in thousands)

	Governmental Activities		Business-Type Activities		Total Government	
	2003	2002	2003	2002	2003	2002
General obligation bonds	$ 665,303	$ 693,110	$ 304,763	$ 332,814	$ 970,066	$ 1,025,924
Revenue bonds	201,077	213,626	54,950	64,340	256,027	277,966
Certificates of Participation	20,455	21,200	-	-	20,455	21,200
Municipal Corporation Obligations	325,234	272,708	1,736,240	1,689,069	2,061,474	1,961,777
Special assessment bonds	6,102	7,401	-	-	6,102	7,401
Insurance claims payable	194,100	160,713	-	-	194,100	160,713
Compensated absences	137,433	130,431	16,024	15,022	153,457	145,453
Landfill Closure/Post-closure costs	-	-	27,837	27,590	27,837	27,590
Other	84,263	71,742	148,005	136,235	232,268	207,977
Total	$ 1,633,967	$ 1,570,931	$ 2,287,819	$ 2,265,070	$ 3,921,786	$ 3,836,001

The City's total long-term obligations increased by $85.8 million during the fiscal year just ended, which represents a minimal increase of 2.2 percent. Although there were four new bond sales during the fiscal year, three of the bond sales were to refinance existing debt and, therefore, did not add to the City's overall outstanding long-term liability total. The new bonds included 1) the May 2003 issuance of Civic Improvement Corporation Senior Lien Excise Tax Revenue Refunding Bonds in the amount of $47.6 million; 2) the Civic Improvement Corporation Subordinated Excise Tax Revenue Bonds in the amount of $80 million for Series 2003A, $25 million for Series 2003B, $25 million for Series 2003C, and $10 million for Series 2003D; 3) the June 2003 General Obligation Refunding Bonds totaling $83.3 million; and 4) the June 2003 Senior Lien Street and Highway User Revenue Refunding Bonds in the amount of $47.3 million.

The City maintains the following ratings on its general obligation debt: "AA+" from Standard and Poor's and "Aa1" from Moody's. During fiscal year 2002-03, the City's rating on senior lien excise tax revenue bonds was raised by Standard and Poor's (S&P) from AA+ to AAA, the highest rating category assigned by S&P. S&P also upgraded the City's subordinated excise tax revenue bonds from A- to AA-. Moody's Investors Service sustained their ratings on these bonds at Aa2 and Aa3 respectively. S&P's credit analysts were favorably impressed with the measures taken to balance the City's General Fund budget during the current economic downturn.

Further detail pertaining to the City's long-term obligations is available in Note 9 in the Notes to the Financial Section of this report.

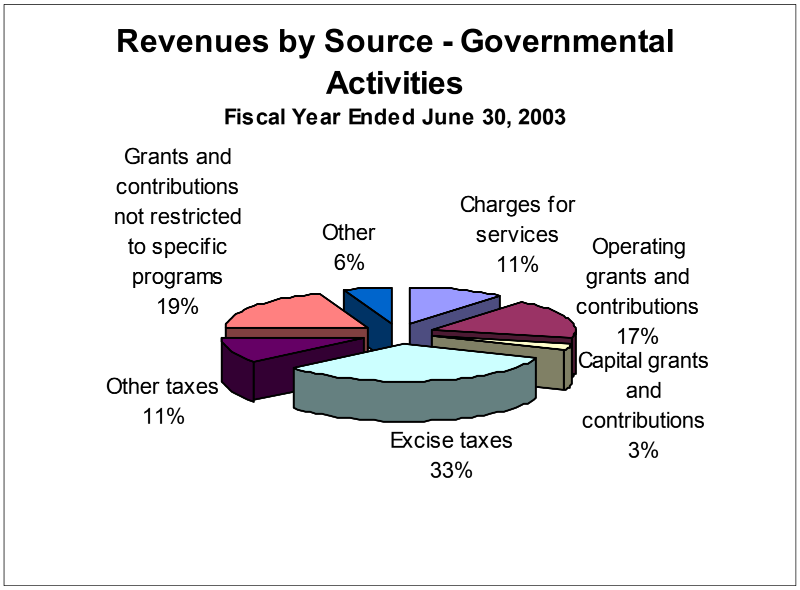
Changes in Net Assets. Detail of the following summarized information can be found in the Statement of Activities.

City of Phoenix
Changes in Net Assets
as of June 30
(in thousands)

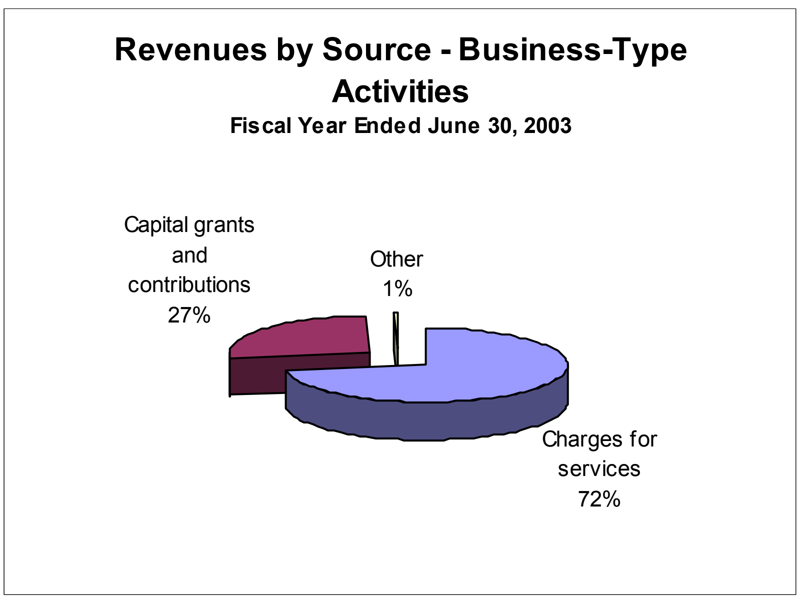
	Governmental Activities		Business-Type Activities		Total Government	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program revenues						
Charges for services	$ 172,047	$ 138,757	$ 638,235	$ 602,199	$ 810,282	$ 740,956
Grants and contributions						
Operating	267,731	246,738	-	-	267,731	246,738
Capital	51,596	87,295	232,511	145,327	284,107	232,622
General revenues						
Excise taxes	514,570	516,011	-	-	514,570	516,011
Other taxes	170,480	162,901	-	-	170,480	162,901
Grants/contrib. not restricted						
to specific programs	306,175	288,839	-	-	306,175	288,839
Other	88,430	88,358	5,355	14,204	93,785	102,562
Total revenues	1,571,029	1,528,899	876,101	761,730	2,447,130	2,290,629
Expenses						
General government	63,728	63,036	-	-	63,728	63,036
Criminal justice	372,545	334,656	-	-	372,545	334,656
Public safety	173,281	157,625	-	-	173,281	157,625
Transportation	218,055	136,828	-	-	218,055	136,828
Public works	24,091	11,598	-	-	24,091	11,598
Community enrichment	198,131	169,750	-	-	198,131	169,750
Community development	148,962	128,227	-	-	148,962	128,227
Interest on long-term debt	60,370	55,910	-	-	60,370	55,910
Aviation	-	-	210,773	196,375	210,773	196,375
Phoenix Civic Plaza	-	-	48,142	50,774	48,142	50,774
Water services	-	-	206,673	192,404	206,673	192,404
Wastewater services	-	-	111,124	113,828	111,124	113,828
Solid waste	-	-	84,030	74,459	84,030	74,459
Golf courses	-	-	7,632	7,949	7,632	7,949
Total expenses	1,259,163	1,057,630	668,374	635,789	1,927,537	1,693,419
Increase in net assets						
before transfers	311,866	471,269	207,727	125,941	519,593	597,210
Transfers	(35,895)	(36,430)	35,895	36,430	-	-
Increase in net assets	275,971	434,839	243,622	162,371	519,593	597,210
Net Assets - July 1	2,058,154	1,623,315	2,459,087	2,296,716	4,517,241	3,920,031
Net Assets - June 30	$ 2,334,125	$ 2,058,154	$ 2,702,709	$ 2,459,087	$ 5,036,834	$ 4,517,241

As can be seen, Governmental Activities increased the City's net assets by $276.0 million, thereby accounting for 53.1 percent of the total growth in the net assets of the City. Business-Type Activities increased the City's net assets by $243.6 million, or 46.9 percent of the total growth in net assets.

The sources of the revenues shown above are portrayed in the following charts by percentage for the Governmental Activities and then the Business-Type Activities.



As can be seen, excise taxes, which include City sales and franchise taxes, are the largest source of revenue for the Governmental Activities comprising thirty-three percent of the total.



As can be seen in this chart, charges for services account for the majority of the Business-Type Activities revenues.

2) Basic Financial Statements - Fund Financial Statements

The Fund Financial Statements are presented in this report on page F-18. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal activities. All of the funds of the City can be divided into three categories: Governmental Funds, Enterprise Funds and Fiduciary Funds.

Governmental Funds. *Governmental Funds* are used to account for essentially the same functions reported as *Governmental Activities* in the Government-Wide Financial Statements. However, unlike the Government-Wide Financial Statements, which are on a full accrual basis, Governmental Fund Financial Statements focus on *near-term inflow and outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year, which is the modified accrual basis of accounting. Reconciliations are provided on F-19 and F-21 to account for the difference between the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances, and the *Governmental Activities* portion of the Government-Wide Financial Statements.

The City maintains twenty-eight individual Governmental Funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund and the Excise Tax Special Revenue Fund, both of which are considered to be major funds under GASB 34. Data from the other twenty-six Governmental Funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major Governmental Funds is provided in the form of *combining statements* later in this report.

The City adopts an annual appropriated budget for all City funds. A Budgetary Comparison Statement has been provided for the General Fund on page F-22 and the Excise Tax Special Revenue Fund on page F-23 to demonstrate compliance with this budget.

Enterprise Funds. *Enterprise Funds* are a type of Proprietary Fund, but are the only type of Proprietary Fund currently maintained by the City. Enterprise Funds are used to report the same functions presented as *Business-Type Activities* in the Government-Wide Financial Statements. Enterprise Funds are used to account for the operation of the City's Sky Harbor International Airport and two regional airports, Civic Plaza (convention center), water system, wastewater system, solid waste disposal and the city golf courses.

Enterprise Fund Financial Statements provide the same type of information as the Government-Wide Financial Statements, only in more detail. The Enterprise Fund Financial Statements on pages F-24 through F-29 provide separate information for each of the six Enterprise Funds noted above as all are considered to be major funds of the City.

Fund Financial Statement Analysis

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related budgetary and legal requirements. The following is a brief discussion of financial highlights from the Fund Financial Statements.

Governmental Funds. The focus of the Governmental Fund Financial Statements is to provide information on near-term inflows, outflows and balances of spendable resources (modified accrual basis). All major Governmental Funds are presented on these financial statements, while the non-major funds are combined into a single column. Combining statements for the non-major funds can be found on F-76 and F-82. The following table summarizes information found in the Governmental Fund Financial Statements. .

City of Phoenix
Changes in Governmental Fund Balances
Fiscal Year Ended June 30, 2003
(in thousands)

	Fund Balances July 1, 2002	Net Change in Fund Balances	Fund Balances June 30, 2003
General	$ 284,780	$ 49,678	$ 334,458
Excise Tax	-	-	-
Nonmajor Governmental	648,653	68,655	717,308
Total	$ 933,433	$ 118,333	$ 1,051,766

As shown in the above table, at the end of the fiscal year, the City's Governmental Funds reported combined ending fund balances of $1.05 billion, an increase of $118.3 million from last fiscal year. Of the total governmental funds combined ending balances, approximately 54.9 percent of this amount, or $577.3 million, constitutes *unreserved fund balance,* which is available for spending at the City's discretion. The remainder of the combined fund balance is *reserved:* This indicates that it is not available for new spending because it has already been committed 1) to liquidate contract and purchase orders for the prior year ($177.8 million), 2) to pay debt service ($285.5 million), and 3) to pay for supply inventories ($11.1 million).

The General Fund is the chief operating fund of the City and accounts for many of the major functions of the government including general government, criminal justice, public safety, transportation, public works, community enrichment and community development. As presented in the table above, the General Fund increased by $49.7 million. This increase was primarily due to mid-year spending reductions which reduced the General Fund operating expenditures. The other major fund, the Excise Tax Special Revenue Fund, is used to account for City sales and franchise taxes. The balance of the Excise Tax Special Revenue Fund at the end of each fiscal year is transferred to other funds resulting in an ending fund balance of zero as shown above.

Governments have an option of including the budgetary comparison statements for the general fund and major special revenue funds as either part of the Fund Financial Statements within the Basic Financial Statements, or as required supplementary information after the Notes to the Financial Statements. The City has chosen to present these budgetary statements as part of the Basic Financial Statements (pages F-22 and F-23). Additionally, governments are required to disclose certain information about employee pension funds. The City has provided this information in Note 17 to the financial statements.

The change between the original general fund budget and the final amended general fund budget for the fiscal year ended June 30, 2003, was a $5.3 million increase in criminal justice, public safety, and capital appropriations. These appropriation increases reflect a small allowance for expenditure variances in the Police and Fire departments. The final amended general fund budget projected fiscal year expenditures of $778 million. The actual general fund expenditures for the fiscal year ended June 30, 2003 were $695 million. The difference of budget to actual reflects expenditure reductions that were part of the City's effort to address the effects of a weaker economy.

Enterprise Funds. The Enterprise Fund Financial Statements are prepared and presented using the same accounting basis and measurement focus as the Government-Wide Financial Statements, but in more detail. The following table summarizes the Enterprise Fund Financial Statements.

City of Phoenix
Changes in Enterprise Fund Net Assets
Fiscal Year Ended June 30, 2003
(in thousands)

	Net Assets July 1, 2002	Change in Net Assets	Net Assets June 30, 2003
Aviation	$ 1,061,712	$ 140,595	$ 1,202,307
Phoenix Civic Plaza	163,758	157	163,915
Water System	820,575	65,105	885,680
Wastewater	423,250	27,360	450,610
Solid Waste	(17,793)	11,350	(6,443)
Golf Courses	7,585	(945)	6,640
Total	$ 2,459,087	$ 243,622	$ 2,702,709

As shown in the table, Net Assets for the Enterprise Funds increased in total by $243.6 million during the fiscal year. The Aviation and Water System comprised the majority of this total with increases of $140.6 million and $65.1 million respectively (84.4 percent). The Aviation and Water System Funds also comprise 77.3 percent ($1.2 billion and $885.7 million respectively) of the total Enterprise Fund Net Assets at June 30, 2003.

3. <u>Basic Financial Statements - Notes to the Financial Statements</u>

The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and Fund Financial Statements. The notes to the financial statements can be found beginning on page F-32 of this report.

ECONOMIC FACTORS

- The unemployment rate in the Phoenix-Mesa metropolitan area as of October 2003 registered 4.4% versus 5.0% for Arizona and 6.0% for the U.S. The prior year (as of October 2002), the unemployment rates were 5.2% in the Phoenix-Mesa area, 5.7% for Arizona and 5.7% nationally.
- Due to a weaker economy, City Council approved nearly $72 million in expenditure reductions that were implemented on March 31, 2003 to achieve 15 months of savings.
- The Phoenix area's personal income increased 7.0%, 10.1% and 4.7% respectively in 1999, 2000 and 2001 (the latest official statistics available).
- The 2003-04 total secondary assessed valuation is $9.8 billion and includes $384 million in new construction being added to the rolls. This represents growth of 11.2% over 2002-03 values. The City's property tax rate for 2003-04 remains at $1.82 per $100 of assessed valuation.

REQUESTS FOR FINANCIAL INFORMATION

This financial report is designed to provide a general overview of the City of Phoenix' finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, City of Phoenix, Calvin C. Goode Municipal Building, Ninth Floor, 251 W. Washington, Phoenix, Arizona, 85003.

City of Phoenix, Arizona
Government-Wide Financial Statements
Statement of Net Assets
June 30, 2003
(in thousands)

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Equity in Pooled Cash and Investments	$ 581,887	$ 265,634	$ 847,521
Cash Deposits	1,191	129	1,320
Cash and Securities with Fiscal Agents/Trustees	76,591	-	76,591
Investments	434,025	10,205	444,230
Internal Balances	57	(57)	-
Receivables, Net of Allowances	169,523	58,160	227,683
Prepaid Items	2,780	4,444	7,224
Inventories	11,121	4,099	15,220
Restricted Assets	-	948,730	948,730
Capital Assets, at Cost, Net of Accumulated Depreciation	2,810,199	3,569,824	6,380,023
Excess of Cost Over Net Assets Acquired, Net of Accumulated Amortization	-	136	136
Water Rights, Net of Accumulated Amortization	-	32,615	32,615
Investment in Joint Use Agreement	-	335,242	335,242
Total Assets	4,087,374	5,229,161	9,316,535
LIABILITIES			
Warrants and Accounts Payable	82,085	30,664	112,749
Trust Liabilities and Deposits	37,197	161	37,358
Deferred Revenue	-	4,277	4,277
Liabilities Payable from Restricted Assets	-	202,892	202,892
Utility Repayment Agreements	-	639	639
Noncurrent Liabilities			
Due Within One Year			
Current Portion of Insurance Claims Payable	78,495	-	78,495
Current Portion of Accrued Compensated Absences	13,204	1,910	15,114
Current Portion of Accrued Landfill Postclosure Care Costs	-	1,090	1,090
Matured Bonds and Certificates Payable	40,959	72,094	113,053
Interest Payable	26,216	55,845	82,061
Current Portion of General Obligation Bonds	31,965	33,277	65,242
Current Portion of Revenue Bonds	19,200	3,710	22,910
Current Portion of Certificates of Participation	785	-	785
Current Portion of Municipal Corporation Obligations	8,110	38,390	46,500
Current Portion of Special Assessment Bonds	1,491	-	1,491
Due in More Than One Year			
Insurance Claims Payable	115,605	-	115,605
Accrued Compensated Absences	124,229	14,114	138,343
General Obligation Bonds	633,338	271,486	904,824
Revenue Bonds	181,877	51,240	233,117
Certificates of Participation	19,670	-	19,670
Municipal Corporation Obligations	317,124	1,697,850	2,014,974
Special Assessment Bonds	4,611	-	4,611
Unamortized Premium/(Discount)	17,088	12,172	29,260
Capital Leases	-	2,252	2,252
Utility Repayment Agreements	-	5,132	5,132
Rebatable Arbitrage	-	510	510
Accrued Landfill Closure and Postclosure Care Costs	-	26,747	26,747
Total Liabilities	1,753,249	2,526,452	4,279,701
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,574,940	2,009,693	3,584,633
Restricted For:			
Capital Projects	57,195	-	57,195
Debt Service	285,491	36,232	321,723
Other Purposes	275,582	-	275,582
Unrestricted	140,917	656,784	797,701
Total Net Assets	$ 2,334,125	$ 2,702,709	$ 5,036,834

The accompanying notes are an integral part of these financial statements.

City of Phoenix, Arizona
Government-Wide Financial Statements
Statement of Activities
For the Year Ended June 30, 2003
(in thousands)

		Program Revenues		
	Expenses	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Functions/Programs				
Governmental Activities				
General Government	$ 63,728	$ 13,655	$ 1,200	$ -
Criminal Justice	372,545	32,253	8,457	1,865
Public Safety	173,281	20,994	1,414	-
Transportation	218,055	22,945	129,987	39,639
Public Works	24,091	700	112	-
Community Enrichment	198,131	6,661	52,393	6,942
Community Development	148,962	74,839	74,168	3,150
Interest on Long-Term Debt	60,370	-	-	-
Total Governmental Activities	1,259,163	172,047	267,731	51,596
Business-Type Activities				
Aviation	210,773	206,316	-	138,867
Phoenix Civic Plaza	48,142	10,275	-	5
Water Services	206,673	216,870	-	51,038
Wastewater Services	111,124	104,647	-	41,877
Solid Waste	84,030	93,441	-	723
Golf Courses	7,632	6,686	-	1
Total Business-Type Activities	668,374	638,235	-	232,511
Total Primary Government	$ 1,927,537	$ 810,282	$ 267,731	$ 284,107

General Revenues (Expenses)
Taxes
Excise Taxes
Property Taxes, Levied for General Purposes
Property Taxes, Levied for Debt Service
Special Assessment Taxes
In-Lieu Property Taxes
Grants and Contributions Not Restricted to Specific Programs
Investment Earnings, Net
Equity Interest in Joint Use Agreement Operating Loss
Loss on Disposal of Capital Assets
Miscellaneous
Transfers - Internal Activities
Total General Revenues, General Expenses and Transfers
Change in Net Assets

Net Assets - July 1
Net Assets - June 30

The accompanying notes are an integral part of these financial statements.

(Continued)

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
$ (48,873)	$ -	$ (48,873)
(329,970)	-	(329,970)
(150,873)	-	(150,873)
(25,484)	-	(25,484)
(23,279)	-	(23,279)
(132,135)	-	(132,135)
3,195	-	3,195
(60,370)	-	(60,370)
(767,789)	-	(767,789)
-	134,410	134,410
-	(37,862)	(37,862)
-	61,235	61,235
-	35,400	35,400
-	10,134	10,134
-	(945)	(945)
-	202,372	202,372
(767,789)	202,372	(565,417)
514,570	-	514,570
65,423	-	65,423
88,873	-	88,873
2,022	-	2,022
14,162	-	14,162
306,175	-	306,175
44,245	23,525	67,770
-	(15,827)	(15,827)
(14,558)	(2,343)	(16,901)
58,743	-	58,743
(35,895)	35,895	-
1,043,760	41,250	1,085,010
275,971	243,622	519,593
2,058,154	2,459,087	4,517,241
$ 2,334,125	$ 2,702,709	$ 5,036,834

City of Phoenix, Arizona
Fund Financial Statements
Balance Sheet
Governmental Funds
June 30, 2003
(in thousands)

	General	Excise Tax	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Equity in Pooled Cash and Investments	$ 193,501	$ -	$ 388,386	$ 581,887
Cash Deposits	948	-	243	1,191
Cash and Securities with Fiscal Agents/Trustees	-	-	76,591	76,591
Investments	224	-	433,801	434,025
Due from Other Funds	154,949	-	9,704	164,653
Receivables, Net of Allowance				
Accounts Receivable	12,639	-	15,151	27,790
Taxes Receivable	5,566	49,259	1,937	56,762
Delinquent Taxes Receivable	1,770	-	2,393	4,163
Intergovernmental	652	18,172	47,639	66,463
Accrued Interest	-	-	1,111	1,111
Notes Receivable	-	-	13,234	13,234
Prepaid Items	-	-	2,780	2,780
Inventories	7,428	-	3,693	11,121
Total Assets	$ 377,677	$ 67,431	$ 996,663	$ 1,441,771
LIABILITIES AND FUND BALANCES				
Liabilities				
Due to Other Funds	$ -	$ 67,384	$ 97,212	$ 164,596
Warrants and Accounts Payable	31,087	47	50,951	82,085
Insurance Claims Payable	59	-	-	59
Trust Liabilities and Deposits	8,410	-	28,787	37,197
Matured Bonds Payable	-	-	40,959	40,959
Interest Payable	-	-	26,216	26,216
Deferred Revenue	3,663	-	35,230	38,893
Total Liabilities	43,219	67,431	279,355	390,005
Fund Balances				
Reserved for				
Encumbrances	11,123	-	166,698	177,821
Debt Service	39,065	-	246,426	285,491
Inventories	7,428	-	3,693	11,121
Unreserved				
Designated for Insurance Claims	184,657	-	3,019	187,676
Designated for Unrealized Gain on Investments	11,182	-	29,327	40,509
Undesignated, reported in:				
General Fund	81,003	-	-	81,003
Special Revenue Funds	-	-	279,928	279,928
Capital Projects Funds	-	-	(11,783)	(11,783)
Total Fund Balances	334,458	-	717,308	1,051,766
Total Liabilities and Fund Balances	$ 377,677	$ 67,431	$ 996,663	$ 1,441,771

The accompanying notes are an integral part of these financial statements.

City of Phoenix, Arizona
Fund Financial Statements
Reconciliation of the Balance Sheet
to the Statement of Net Assets
Governmental Funds
June 30, 2003
(in thousands)

Fund balances - total governmental funds balance sheet		$	1,051,766
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.			
Governmental capital assets	3,699,372		
Accumulated depreciation	(889,173)		
			2,810,199
Other assets used in governmental activities are not available to pay for current period expenditures and, therefore, are deferred in the funds.			38,893
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.			
Governmental bonds payable	(1,235,259)		
Compensated absences	(137,433)		
Insurance claims payable	(194,041)		
			(1,566,733)
Net assets of governmental activities - statement of net assets		$	2,334,125

The accompanying notes are an integral part of these financial statements.

City of Phoenix, Arizona
Fund Financial Statements
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds

For the Fiscal Year Ended June 30, 2003
(in thousands)

	General	Excise Tax	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
City Taxes	$ 61,331	$ 514,570	$ 94,843	$ 670,744
Licenses and Permits	2,988	2,548	7,552	13,088
Intergovernmental	49,859	244,008	319,337	613,204
Charges for Services	38,993	-	89,962	128,955
Fines and Forfeitures	16,779	-	-	16,779
Parks and Recreation	-	-	5,774	5,774
In-Lieu Property Taxes	13,000	-	-	13,000
Special Assessments	-	-	1,692	1,692
Investment Income				
Net Increase in Fair Value of Investments	1,887	-	5,408	7,295
Interest	16,476	-	20,474	36,950
Dwelling Rentals	-	-	6,507	6,507
Other	21,290	-	36,735	58,025
Total Revenues	222,603	761,126	588,284	1,572,013
EXPENDITURES				
Current Operating				
General Government	45,902	-	5,884	51,786
Criminal Justice	331,256	-	12,582	343,838
Public Safety	160,324	-	3,763	164,087
Transportation	43,255	-	113,604	156,859
Public Works	14,420	-	6	14,426
Community Enrichment	24,072	-	154,416	178,488
Community Development	24,142	-	115,337	139,479
Capital	8,169	-	319,030	327,199
Debt Service				
Principal	-	-	43,541	43,541
Interest	-	-	58,551	58,551
Bond Issuance Costs	-	-	1,779	1,779
Arbitrage Rebate and Fiscal Agent Fees	-	-	35	35
Other	-	-	5	5
Total Expenditures	651,540	-	828,533	1,480,073
Excess (Deficiency) of Revenues Over Expenditures	(428,937)	761,126	(240,249)	91,940
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	589,886	-	308,382	898,268
Transfers to Other Funds	(111,271)	(761,126)	(61,766)	(934,163)
Proceeds				
Certificates of Participation and Municipal Corporation Obligations	-	-	60,000	60,000
Premium on Certificates of Participation and Municipal Corporation Obligations	-	-	611	611
Special Assessment Bonds	-	-	135	135
Refunding Bonds	-	-	157,237	157,237
Deposit to Refunding Escrow	-	-	(155,695)	(155,695)
Total Other Financing Sources and Uses	478,615	(761,126)	308,904	26,393
Net Change in Fund Balances	49,678	-	68,655	118,333
FUND BALANCES, JULY 1	284,780	-	648,653	933,433
FUND BALANCES, JUNE 30	$ 334,458	$ -	$ 717,308	$ 1,051,766

The accompanying notes are an integral part of these financial statements.

City of Phoenix, Arizona
Fund Financial Statements
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2003
(in thousands)

Net change in fund balances - total governmental funds	$ 118,333
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital acquisitions ($314,123) exceeded depreciation ($96,338) and loss on disposals of capital assets ($14,558) in the current period.	203,227
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	13,574
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which acquisitions ($217,983) exceeded repayments and amounts refunded ($199,236).	(18,747)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. ($7,002 compensated absences and $33,414 insurance claims payable)	(40,416)
Change in net assets of governmental activities - statement of activities	$ 275,971

The accompanying notes are an integral part of these financial statements.

City of Phoenix, Arizona
Fund Financial Statements
Budgetary Comparison Statement
General Fund

For the Fiscal Year Ended June 30, 2003
(in thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
REVENUES				
City Taxes	$ 61,447	$ 61,447	$ 61,331	$ (116)
Licenses and Permits	3,035	3,035	2,988	(47)
Intergovernmental	50,026	50,026	50,742	716
Charges for Services	34,925	34,925	38,993	4,068
Fines and Forfeitures	15,683	15,683	16,636	953
Interest	7,000	7,000	4,471	(2,529)
Miscellaneous	9,697	9,697	10,240	543
Total Revenues	181,813	181,813	185,401	3,588
EXPENDITURES AND ENCUMBRANCES				
Current Operating				
General Government	88,060	88,060	75,264	12,796
Criminal Justice	346,561	349,661	340,874	8,787
Public Safety	164,275	166,275	162,703	3,572
Transportation	60,236	60,236	49,174	11,062
Public Works	20,355	20,355	16,096	4,259
Community Enrichment	28,872	28,872	25,373	3,499
Community Development	29,863	29,863	24,348	5,515
Capital	-	200	10	190
Lease-Purchase Payments	3,658	3,658	1,206	2,452
Contingency	30,842	30,842	-	30,842
Total Expenditures and Encumbrances	772,722	778,022	695,048	82,974
Excess (Deficiency) of Revenues Over Expenditures and Encumbrances	(590,909)	(596,209)	(509,647)	86,562
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds				
Staff and Administrative	23,988	23,988	23,665	(323)
In-Lieu Property Taxes	13,001	13,001	13,000	(1)
Miscellaneous	604,874	604,874	574,545	(30,329)
Transfers to Other Funds	(109,338)	(109,338)	(91,934)	17,404
Recovery of Prior Years Expenditures	-	-	849	849
Total Other Financing Sources and Uses	532,525	532,525	520,125	(12,400)
Net Change in Fund Balance	$ (58,384)	$ (63,684)	10,478	$ 74,162
Fund Balance, July 1			52,688	
Fund Balance, June 30			$ 63,166	

The accompanying notes are an integral part of these financial statements.

City of Phoenix, Arizona
Fund Financial Statements
Budgetary Comparison Statement
Excise Tax Special Revenue Fund
For the Fiscal Year Ended June 30, 2003
(in thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
REVENUES				
City Taxes	$ 541,250	$ 541,250	$ 514,570	$ (26,680)
Licenses and Permits	2,585	2,585	2,548	(37)
Intergovernmental	254,231	254,231	244,008	(10,223)
Total Revenues	798,066	798,066	761,126	(36,940)
OTHER FINANCING USES				
Transfers to Other Funds				
General Fund	(597,519)	(597,519)	(566,137)	31,382
Transit	(91,220)	(91,220)	(87,092)	4,128
Parks and Preserves	(22,805)	(22,805)	(21,808)	997
Sports Facilities	(12,756)	(12,756)	(11,947)	809
Capital Construction	(18,775)	(18,775)	(17,966)	809
City Improvement	(17,545)	(17,545)	(16,027)	1,518
Phoenix Civic Plaza	(37,446)	(37,446)	(36,849)	597
Developers Assistance Fund	-	-	(3,300)	(3,300)
Total Other Financing Sources and Uses	(798,066)	(798,066)	(761,126)	36,940
Net Change in Fund Balance	$ -	$ -	-	$ -
Fund Balance, July 1			-	
Fund Balance, June 30			$ -	

The accompanying notes are an integral part of these financial statements.

City of Phoenix, Arizona
Fund Financial Statements
Enterprise Funds
Statement of Net Assets
June 30, 2003
with comparative totals for June 30, 2002
(in thousands)

	Aviation	Phoenix Civic Plaza
ASSETS		
Current Assets		
Equity in Pooled Cash and Investments	$ 75,247	$ 31,346
Investments	-	-
Receivables, Net of Allowances	3,212	206
Prepaid Items	1,360	-
Cash Deposits	129	-
Inventories, at Average Cost	1,045	164
Total Unrestricted Current Assets	80,993	31,716
Restricted Assets		
Equity in Pooled Cash and Investments	184,136	420
Cash Deposits	-	670
Cash and Securities with Fiscal Agents/Trustees	35,837	6,835
Investments	299,798	8,288
Due from Other Funds	-	-
Receivables, Net of Allowances	13,496	931
Total Restricted Current Assets	533,267	17,144
Noncurrent Assets		
Capital Assets, at Cost, Net of Accumulated Depreciation	1,387,968	211,592
Excess of Cost Over Net Assets Acquired, Net of Accumulated Amortization	-	-
Water Rights, Net of Accumulated Amortization	-	-
Investment in Joint Use Agreement	-	-
Total Noncurrent Assets	1,387,968	211,592
Total Assets	2,002,228	260,452
LIABILITIES		
Current Liabilities Payable from Current Assets		
Warrants and Accounts Payable	10,958	1,336
Due to Other Funds	-	-
Trust Liabilities and Deposits	157	-
Utility Repayment Agreements	-	-
Deferred Revenue	4,218	-
Accrued Landfill Postclosure Care Costs	-	-
Current Portion of Accrued Compensated Absences	511	161
Total Current Liabilities Payable from Current Assets	15,844	1,497
Current Liabilities Payable from Restricted Assets		
Warrants and Accounts Payable	12,716	139
Due to Other Funds	-	-
Trust Liabilities and Deposits	-	670
Bond Anticipation Notes Payable	-	-
Matured Bonds and Certificates Payable	16,395	4,040
Interest Payable	19,441	2,794
Current Portion of General Obligation Bonds	3,251	-
Current Portion of Revenue Bonds	3,710	-
Current Portion of Municipal Corporation Obligations	10,200	4,265
Accrued Landfill Closure Costs	-	-
Total Current Liabilities Payable from Restricted Assets	65,713	11,908
Noncurrent Liabilities		
General Obligation Bonds, Net of Deferred Interest Expense Adjustment	25,599	-
Revenue Bonds, Net of Deferred Interest Expense Adjustment	41,240	-
Municipal Corporation Obligations, Net of Deferred Interest Expense Adjustment	644,562	82,165
Unamortized Premium (Discount)	892	(190)
Capital Leases	2,252	-
Utility Repayment Agreements	-	-
Rebatable Arbitrage	-	-
Accrued Landfill Closure and Postclosure Care Costs	-	-
Accrued Compensated Absences	3,819	1,157
Total Noncurrent Liabilities	718,364	83,132
Total Liabilities	799,921	96,537
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	905,266	127,634
Restricted for Debt Service	29,264	2,973
Unrestricted	267,777	33,308
Total Net Assets (Deficiencies)	$ 1,202,307	$ 163,915

The accompanying notes are an integral part of these financial statements

(Continued)

Water System	Wastewater	Solid Waste	Golf Courses	Totals	
				2003	2002
$ 115,628	$ 24,105	$ 19,308	$ -	$ 265,634	$ 241,668
10,205	-	-	-	10,205	9,945
34,035	13,527	7,173	7	58,160	62,842
3,084	-	-	-	4,444	4,717
-	-	-	-	129	129
2,157	585	-	148	4,099	3,988
165,109	38,217	26,481	155	342,671	323,289
55,023	62,524	16,004	-	318,107	222,940
6,048	183	74	-	6,975	7,771
44,439	27,877	9,883	705	125,576	146,476
86,789	27,196	61,094	-	483,165	458,150
1,190	-	-	-	1,190	1,484
381	99	-	-	14,907	12,014
193,870	117,879	87,055	705	949,920	848,835
1,207,948	675,218	71,362	15,736	3,569,824	3,316,687
136	-	-	-	136	157
32,615	-	-	-	32,615	32,900
93,765	241,477	-	-	335,242	303,389
1,334,464	916,695	71,362	15,736	3,937,817	3,653,133
1,693,443	1,072,791	184,898	16,596	5,230,408	4,825,257
10,881	5,265	2,181	43	30,664	28,679
-	-	-	48	48	-
-	-	-	4	161	161
-	639	-	-	639	605
37	-	-	22	4,277	2,642
-	-	1,090	-	1,090	1,114
804	184	198	52	1,910	1,558
11,722	6,088	3,469	169	38,789	34,759
11,425	10,411	692	-	35,383	38,734
-	-	-	1,199	1,199	22,391
2,053	183	74	-	2,980	2,974
100,000	60,000	-	-	160,000	-
27,430	16,083	7,650	496	72,094	77,248
17,017	13,933	2,451	209	55,845	46,077
18,386	6,765	4,875	-	33,277	28,363
-	-	-	-	3,710	9,390
9,235	10,240	3,928	522	38,390	35,036
-	-	4,529	-	4,529	4,914
185,546	117,615	24,199	2,426	407,407	265,127
130,210	71,294	44,383	-	271,486	304,451
10,000	-	-	-	51,240	54,950
457,280	422,232	84,749	6,862	1,697,850	1,654,033
7,028	(2,075)	6,374	143	12,172	5,014
-	-	-	-	2,252	2,694
-	5,132	-	-	5,132	3,420
-	510	-	-	510	1,782
-	-	26,747	-	26,747	26,476
5,977	1,385	1,420	356	14,114	13,464
610,495	498,478	163,673	7,361	2,081,503	2,066,284
807,763	622,181	191,341	9,956	2,527,699	2,366,170
626,277	353,235	(11,096)	8,377	2,009,693	1,857,544
3,995	-	-	-	36,232	36,930
255,408	97,375	4,653	(1,737)	656,784	564,613
$ 885,680	$ 450,610	$ (6,443)	$ 6,640	$ 2,702,709	$ 2,459,087

City of Phoenix, Arizona
Fund Financial Statements
Enterprise Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets

For the Fiscal Year Ended June 30, 2003
with comparative totals for June 30, 2002
(in thousands)

	Aviation	Phoenix Civic Plaza
Operating Revenues		
Landing and Terminals Fees	$ 111,261	$ -
Sales	-	-
Rentals	73,237	2,132
Sewer Service Charges	-	-
Sanitation and Landfill Fees	-	-
Golf Fees	-	-
Concessions	-	7,020
Other	21,818	1,123
Total Operating Revenues	206,316	10,275
Operating Expenses		
Administration and Engineering	-	8,291
Operation and Maintenance	124,774	19,571
Promotion	-	763
Depreciation and Amortization	53,346	10,054
Staff and Administrative	4,840	2,052
Payment in Lieu of Property Taxes	-	-
Other	-	1,831
Total Operating Expenses	182,960	42,562
Operating Income (Loss)	23,356	(32,287)
Non-Operating Revenues (Expenses)		
Investment Income		
Net Increase (Decrease) in Fair Value of Investments	5,065	196
Interest on Investments	3,110	1,043
Interest on Capital Debt	(27,813)	(5,580)
Equity Interest in Joint Use Agreement Operating Loss	-	-
Gain (Loss) on Disposal of Fixed Assets	(1,990)	(69)
Total Non-Operating Revenues (Expenses)	(21,628)	(4,410)
Income (Loss) Before Contributions and Transfers	1,728	(36,697)
Capital Contributions	138,867	5
Transfers from Other Funds	-	36,849
Transfers to Other Funds	-	-
Change in Net Assets	140,595	157
Net Assets, July 1	1,061,712	163,758
Net Assets, June 30	$ 1,202,307	$ 163,915

The accompanying notes are an integral part of these financial statements.

(Continued)

Water System	Wastewater	Solid Waste	Golf Courses	Totals 2003	Totals 2002
$ -	$ -	$ -	$ -	$ 111,261	$ 104,874
188,090	-	-	-	188,090	190,996
-	-	-	-	75,369	70,711
-	78,784	-	-	78,784	74,726
-	-	88,441	-	88,441	82,073
-	-	-	4,967	4,967	5,616
-	-	-	1,640	8,660	8,405
28,780	25,863	5,000	79	82,663	64,798
216,870	104,647	93,441	6,686	638,235	602,199
17,293	5,811	16,851	157	48,403	55,079
96,728	38,934	43,719	5,760	329,486	332,153
-	-	-	-	763	710
50,232	30,390	9,276	919	154,217	135,410
6,160	1,432	3,866	401	18,751	17,520
6,729	5,329	676	-	12,734	11,595
-	3,781	5,773	-	11,385	10,397
177,142	85,677	80,161	7,237	575,739	562,864
39,728	18,970	13,280	(551)	62,496	39,335
1,170	465	82	1	6,979	7,988
8,392	3,282	717	2	16,546	24,717
(29,531)	(25,447)	(3,869)	(395)	(92,635)	(72,925)
(4,743)	(11,084)	-	-	(15,827)	(13,917)
(589)	(463)	771	(3)	(2,343)	(4,584)
(25,301)	(33,247)	(2,299)	(395)	(87,280)	(58,721)
14,427	(14,277)	10,981	(946)	(24,784)	(19,386)
51,038	41,877	723	1	232,511	145,327
-	-	-	-	36,849	37,030
(360)	(240)	(354)	-	(954)	(600)
65,105	27,360	11,350	(945)	243,622	162,371
820,575	423,250	(17,793)	7,585	2,459,087	2,296,716
$ 885,680	$ 450,610	$ (6,443)	$ 6,640	$ 2,702,709	$ 2,459,087

City of Phoenix, Arizona
Fund Financial Statements
Enterprise Funds
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2003
with comparative totals for June 30, 2002
(in thousands)

	Aviation	Phoenix Civic Plaza
Cash Flows from Operating Activities		
Receipts from Customers	$ 209,544	$ 10,161
Payments to Suppliers	(81,142)	(19,037)
Payments to Employees	(40,612)	(11,671)
Payment of Staff and Administrative Expenses	(4,840)	(2,052)
Payment in Lieu of Property Taxes	-	-
Net Cash Provided (Used) by Operating Activities	82,950	(22,599)
Cash Flows from Noncapital Financing Activities		
Transfers from Other Funds	-	36,849
Transfers to Other Funds	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	-	36,849
Cash Flows from Capital and Related Financing Activities		
Proceeds from Capital Debt	-	-
Principal Paid on Capital Debt	(24,948)	(3,825)
Interest Paid on Capital Debt	(32,043)	(5,695)
Receipts of Passenger Facility Charges	-	-
Loans to Developers	-	-
Loans from Other Funds	-	-
Loans to (Payments from) Other Funds	-	-
Acquisition and Construction of Capital Assets	(145,271)	(1,831)
Proceeds from Sales of Capital Assets	21	1
Capital Contributions	127,654	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(74,587)	(11,350)
Cash Flows from Investing Activities		
Purchases of Investment Securities	(4,311,160)	(99,134)
Proceeds from Sale and Maturities of Investment Securities	4,389,962	98,969
Interest on Investments	13,116	1,224
Proceeds from Collections of Long-Term Receivable	-	321
Net Cash Provided (Used) by Investing Activities	91,918	1,380
Net Increase (Decrease) in Cash and Cash Equivalents	100,281	4,280
Cash and Cash Equivalents, July 1	194,939	34,991
Cash and Cash Equivalents, June 30	$ 295,220	$ 39,271
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	$ 23,356	$ (32,287)
Adjustments		
Depreciation and Amortization	53,346	10,054
(Increase) Decrease in Assets		
Deposit for Plan Six	-	-
Receivables	2,148	(146)
Allowance for Doubtful Accounts	(570)	-
Prepaid Items	170	-
Inventories	(175)	(54)
Increase (Decrease) in Liabilities		
Warrants and Accounts Payable	2,737	(242)
Trust Liabilities and Deposits	-	32
Deferred Revenue	1,651	-
Accrued Compensated Absences	287	44
Accrued Landfill Closure and Postclosure Care Costs	-	-
Net Cash Provided (Used) by Operating Activities	$ 82,950	$ (22,599)
Noncash Transactions Affecting Financial Position		
Contributions of Capital Assets	$ -	$ 5
Bond Capital Appreciation	-	-
Refunding Issuance in Excess of Bond Retirement	262	-
Increase (Decrease) in Fair Value of Investments	96	(14)
Total Noncash Transactions Affecting Financial Position	$ 358	$ (9)
Cash and Cash Equivalents		
Unrestricted		
Equity in Pooled Cash and Investments	$ 75,247	$ 31,346
Restricted		
Equity in Pooled Cash and Investments	184,136	420
Cash with Fiscal Agents/Trustees	35,837	6,835
Customer and Other Deposits	-	670
(Total 2003 and 2002 restricted assets of $949,920 and $848,835 include $503,257 and $499,595 of noncash assets, respectively)	219,973	7,925
	$ 295,220	$ 39,271

The accompanying notes are an integral part of these financial statements.

(Continued)

Water System	Wastewater	Solid Waste	Golf Courses	Totals	
				2003	2002
$ 219,848	$ 103,766	$ 93,611	$ 6,770	$ 643,700	$ 601,914
(53,735)	(36,126)	(43,683)	(1,619)	(235,342)	(259,417)
(59,657)	(11,457)	(23,904)	(4,330)	(151,631)	(144,872)
(6,160)	(1,432)	(3,866)	(401)	(18,751)	(17,520)
(6,729)	(5,329)	(676)	-	(12,734)	(11,595)
93,567	49,422	21,482	420	225,242	168,510
-	-	-	-	36,849	37,030
(360)	(240)	(354)	-	(954)	(600)
(360)	(240)	(354)	-	35,895	36,430
100,061	60,109	85,718	-	245,888	645,868
(27,520)	(13,531)	(7,997)	(471)	(78,292)	(228,835)
(31,833)	(28,163)	(3,032)	(429)	(101,195)	(84,838)
-	-	-	-	-	8,392
8,000	-	-	-	8,000	(8,000)
-	-	-	48	48	-
-	-	-	-	-	6,300
(130,836)	(79,810)	(39,292)	180	(396,860)	(344,912)
1,397	69	1,143	1	2,632	30,849
15,944	9,450	723	-	153,771	80,786
(64,787)	(51,876)	37,263	(671)	(166,008)	105,610
(376,035)	(94,308)	(829,874)	-	(5,710,511)	(2,395,929)
358,591	92,051	768,813	-	5,708,386	2,123,523
10,433	2,489	799	3	28,064	34,070
-	-	-	-	321	303
(7,011)	232	(60,262)	3	26,260	(238,033)
21,409	(2,462)	(1,871)	(248)	121,389	72,517
195,734	117,151	47,140	953	590,908	518,391
$ 217,143	$ 114,689	$ 45,269	$ 705	$ 712,297	$ 590,908
$ 39,728	$ 18,970	$ 13,280	$ (551)	$ 62,496	$ 39,335
50,232	30,390	9,276	919	154,217	135,410
52	-	-	-	52	(137)
2,693	(721)	30	100	4,104	(1,761)
109	52	130	-	(279)	427
103	-	-	-	273	268
74	26	-	18	(111)	(509)
(75)	670	(1,092)	(13)	1,985	966
176	(212)	10	-	6	417
-	-	-	(16)	1,635	632
475	247	(14)	(37)	1,002	1,639
-	-	(138)	-	(138)	(8,177)
$ 93,567	$ 49,422	$ 21,482	$ 420	$ 225,242	$ 168,510
$ 35,094	$ 32,426	$ -	$ 1	$ 67,526	$ 62,480
446	57	-	-	503	474
789	1,329	167	-	2,547	1,911
109	78	5	-	274	265
$ 36,438	$ 33,890	$ 172	$ 1	$ 70,850	$ 65,130
$ 115,628	$ 24,105	$ 19,308	$ -	$ 265,634	$ 241,668
55,023	62,524	16,004	-	318,107	222,940
44,439	27,877	9,883	705	125,576	123,326
2,053	183	74	-	2,980	2,974
101,515	90,584	25,961	705	446,663	349,240
$ 217,143	$ 114,689	$ 45,269	$ 705	$ 712,297	$ 590,908

City of Phoenix, Arizona
Fund Financial Statements
Fiduciary Funds
Statement of Fiduciary Net Assets

June 30, 2003
with comparative totals for June 30, 2002
(in thousands)

	General Employees' Retirement Plan	Payroll Agency Fund	Totals 2003	Totals 2002
ASSETS				
Equity in Pooled Cash and Investments	$ -	$ 25,600	$ 25,600	$ 30,231
Investments	1,294,799	-	1,294,799	1,291,747
Receivables				
Accounts Receivable	24,686	-	24,686	12,611
Contributions Receivable	1,126	-	1,126	422
Interest and Dividends	1,892	-	1,892	2,767
Total Assets	$ 1,322,503	$ 25,600	$ 1,348,103	$ 1,337,778
LIABILITIES				
Payble to the City of Phoenix	$ 5,635	$ -	$ 5,635	$ 5,117
Accounts Payable	54,325	-	54,325	58,027
Accrued Payroll Payable	-	25,600	25,600	30,231
Total Liabilities	59,960	$ 25,600	85,560	93,375
NET ASSETS				
Held in Trust for Pension Benefits	$ 1,262,543		$ 1,262,543	$ 1,244,403

The accompanying notes are an integral part of these financial statements.

City of Phoenix, Arizona
Fund Financial Statements
Fiduciary Funds
Statement of Changes in Fiduciary Net Assets

For the Fiscal Years Ended June 30, 2003 and 2002
(in thousands)

	2003	2002
ADDITIONS		
Contributions		
City of Phoenix	$ 27,820	$ 28,295
Employees	26,122	25,191
Inter-System Transfers	500	1,053
Total Contributions	54,442	54,539
Investment Income		
From Investing Activities		
Net Increase (Decrease) in Fair Value of Investments	11,292	(125,458)
Interest	21,228	31,213
Dividends	6,630	8,285
Other	193	304
Investment Income/(Loss)	39,343	(85,656)
Less: Investment Expense	2,636	2,918
Net Investment Income (Loss) from Investing Activities	36,707	(88,574)
Net Income from Security Lending Activity	202	91
Total Net Investment Income/(Loss)	36,909	(88,483)
Total Additions	91,351	(33,944)
DEDUCTIONS		
Benefit Payments	70,234	64,289
Refunds of Contributions	2,457	3,484
Inter-System Transfers	365	657
Other	155	75
Total Deductions	73,211	68,505
Net Increase/(Decrease)	18,140	(102,449)
Net Assets Held in Trust for Pension Benefits		
Beginning of Year, July 1	1,244,403	1,346,852
End of Year, June 30	$ 1,262,543	$ 1,244,403

The accompanying notes are an integral part of these financial statements.

The City of Phoenix was incorporated on February 25, 1881. On October 11, 1913, voters ratified a city charter providing for a Council-Manager form of government. The government of the City of Phoenix is operated by authority of its charter, as limited by the state legislature.

1. ***Summary of Significant Accounting Policies***

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

GASB No. 20 requires that governments' proprietary activities apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins. Governments are given the option whether or not to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The City has elected not to implement FASB Statements and Interpretations issued after November 30, 1989.

The City's other significant accounting policies are described below:

a. Reporting Entity

The accompanying financial statements include the City and all of its component units, collectively referred to as "the financial reporting entity". In accordance with GASB No. 14, the component units discussed below have been included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

City of Phoenix Employees' Retirement Plan ("COPERS")
All full-time general employees participate in COPERS, which is governed by a nine member Retirement Board (the "Board"). Four statutory Board members are members of City management. Three Board members are elected from and by the plan's active members. One Board member is a citizen and one is a retiree. Employees contribute 5% of their covered compensation, with the City funding all remaining costs based on actuarial valuations. COPERS is reported in the accompanying financial statements as the Pension Trust Fund. Separate financial statements for COPERS can be obtained through COPERS administrative office at 101 S. Central Avenue, Suite 600, Phoenix, Arizona, 85004.

City of Phoenix Civic Improvement Corporation/
Phoenix Civic Plaza Building Corporation
These nonprofit corporations are organized under the laws of the State of Arizona to assist the City in the acquisition and financing of municipal projects and facilities. Both corporations are governed by self-perpetuating boards of directors, who are responsible for approving the corporations' respective bond sales. Bond sales must also be ratified by the Mayor and City Council. Although they are legally separate from the City, the corporations are reported as if they were part of the primary government, using the blending method, because their sole purpose is to finance and construct public facilities for the City. Separate financial statements for the corporations can be obtained from the City's Finance Department, through the City Controller's Office on the 5th Floor of 251 W. Washington Street, Phoenix, Arizona, 85003.

b. Jointly Governed Organizations

Regional Public Transportation Authority (the "Authority")
The Authority is a voluntary association of local governments, including Phoenix, Tempe, Scottsdale, Glendale, Mesa and Maricopa County. Its purpose is to create a regional public transportation plan for Maricopa County. The Board of Directors consists of the mayors of those cities and a member of the County Board of Supervisors. The Authority is accounted for using the equity method.

Arizona Municipal Water Users Association ("AMWUA")
AMWUA is a nonprofit corporation established and funded by cities in Maricopa County for the development of an urban water policy and to represent the cities' interests before the Arizona legislature. In addition, AMWUA contracts with the cities jointly using the 91st Avenue Wastewater Treatment Plant to perform certain accounting, administrative and support services (see Note 16). The City accounts for AMWUA using the equity method.

c. Basic Financial Statements - GASB #34

The City implemented Governmental Accounting Standards Board (GASB) Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* GASB Statement No. 37 – *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments – Omnibus,* GASB Statement No. 38 – *Certain Financial Statements Note Disclosures,* and GASB Interpretation No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* effective July 1, 2001. Statement No. 34 represents changes in the new financial reporting model. Under the new model, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (statement of net assets and statement of activities) report on the City and its component units as a whole, excluding fiduciary activities. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities,* which rely to a significant extent on fees and charges for support. All activities, both governmental and business type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Generally, the effect of interfund activity has been removed from the government-wide financial statement. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements. The City does not utilize any internal service funds.

Interdepartmental services performed by one department for another are credited to the performing department and charged to the receiving department to reflect the accurate costs of programs. The rates used are intended to reflect full costs in accordance with generally accepted cost accounting principles.

The government-wide Statement of Net Assets reports all financial and capital resources of the government (excluding fiduciary funds). It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Reservations or designations of net assets imposed by the reporting government, whether by administrative policy or legislative actions of the reporting government, are not shown on the government-wide financial statements.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of the various functions and segments of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt and depreciation expense on assets shared by multiple functions are not allocated to the various functions. Program revenues include: 1) charges to customers of users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, investment income and other revenues not identifiable with particular functions or segments are included as general revenues. The general revenues support the net costs of the functions and segments not covered by program revenues.

Also part of the basic financial statements are fund financial statements for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although the new model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds. The City has opted to add some funds as major funds because of outstanding debt or community focus. Other non-major funds are combined in a single column on the fund financial statements and are detailed in combining statements included as supplementary information after the basic financial statements.

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. This is the traditional basis of accounting for governmental funds. This presentation is deemed most appropriate to 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the City's actual revenues, and expenditures conform to the annual budget. Since the governmental fund financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

The proprietary (enterprise) fund and fiduciary fund financial statements are prepared on the same basis (economic resources measurement focus and accrual basis of accounting) as the government-wide financial statements. Therefore, most lines for the total enterprise funds on the proprietary fund financial statements will directly reconcile to the business-type activities column on the government-wide financial statements. Because the enterprise funds are combined into a single business-type activities column on the government-wide financial statements, certain interfund activities between these funds may be eliminated in the consolidation for the government-wide financial statements, but be included in the fund columns in the proprietary fund financial statements.

d. <u>Fund Accounting</u>

The City uses funds to report its financial position and the results of its operations. Fund accounting segregates funds according to their intended purpose and is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, which includes assets, liabilities, fund equity, revenues and expenditures/expenses.

The City uses the following fund categories, further divided by fund type:

Governmental Funds

Governmental funds are those through which most of the governmental functions of the City are financed. The measurement focus is based upon determination of changes in financial position rather than upon net income determination.

The City reports the following major governmental funds:

General Fund

The General Fund is the primary operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund will always be considered a major fund in the basic financial statements.

Excise Tax Special Revenue Fund

The Excise Tax Fund is the only special revenue fund that is presented as a major fund in the basic financial statements. Revenues received for various sales and franchise taxes are recorded in the Excise Tax Fund and then subsequently transferred to the specific fund that has been budgeted to utilize the taxes.

The City reports the following non-major governmental funds:

Special Revenue Funds

Thirteen non-major special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds

Five debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal and interest.

Capital Projects Funds

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The City has 8 capital projects funds.

Proprietary Funds

Proprietary funds are used to account for the City's ongoing organizations and activities, which are similar to those often found in the private sector and where cost recovery and the determination of net income is useful or necessary for sound fiscal management. The measurement focus is based upon determination of net income, changes in net assets, financial position and cash flows.

Enterprise Funds

Enterprise funds are used to account for operations that provide services to the general public for a fee. Under GASB Statement No. 34, enterprise funds are also required for any activity whose principal revenue sources meet any of the following criteria: 1) any activity that has issued debt backed solely by the fees and charges of the activity, 2) if the cost of providing services for an activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges, or 3) it is the policy of the City to establish activity fees or charges to recover the cost of providing services, including capital costs. The City has six enterprise funds, which are all presented as major funds in the basic financial statements and are used to account for the operation of the City's Sky Harbor International Airport and two regional airports, Civic Plaza convention center, water system, wastewater system, solid waste disposal and the city golf courses.

Fiduciary Funds

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and other funds. The reporting focus is upon net assets and changes in net assets and employs accounting principles similar to proprietary funds. Fiduciary funds are not included in the government-wide financial statements since they are not assets of the City available to support City programs.

Pension Trust Funds

Pension Trust Funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post employment benefit plans, or other employee benefit plans. The City has one Pension Trust Fund to account for the activities of the City of Phoenix Employees' Retirement Plan.

Agency Funds

Agency funds are used to account for assets held by a governmental unit as an agent for individuals, private organizations, other governmental units and other funds. The City has one Agency Fund to account for accrued payroll liabilities such as withholding taxes and contributions.

e. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds are accounted for using a current financial resources measurement focus whereby only current assets and current liabilities are generally included on the balance sheet. Operating statements present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Enterprise funds and pension trust funds are accounted for on a flow of economic resources measurement focus whereby all assets and liabilities associated with the operation of these funds are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The modified accrual basis of accounting is used by governmental funds. Revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days after year-end.

Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Revenues susceptible to accrual include property tax, privilege license tax, highway user tax, state shared sales tax, vehicle license tax, and interest earned on investments. Licenses and permits, charges for services, fines and forfeitures, parks and recreation charges and miscellaneous revenues are recorded when received in cash since they are generally not measurable until actually received.

The accrual basis of accounting is followed for all enterprise funds and the Pension Trust Fund, whereby revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized when incurred. Employee contributions to the Pension Trust Fund are recognized as revenue in the period in which employee services are performed and the contributions are therefore earned. Employer contributions are recognized at the same time, as the City is formally committed to contribute the actuarially determined amount each year. Benefit payments received the first of each month by retirees are recognized as an expense of the prior month; and refunds are recognized as expenses when paid out, in accordance with the terms of the plan.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating items.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Agency funds are custodial in nature and do not measure results of operations or have a measurement focus.

f. Budget and Budgetary Accounting

An operating budget is legally adopted by ordinance each fiscal year for the General, Special Revenue (except for the Parks Gift Fund, which is administered by the Parks and Recreation Board, and is reported as part of the Parks Special Revenue Fund), Secondary Property Tax Debt Service, City Improvement Debt Service and Enterprise funds on a modified accrual basis plus encumbrances. The level of legal budgetary control is by fund, except for the General Fund, for which the control is by program. For the applicable level of control, the budget can be amended only by City Council action subject to state law limitations. Transfers of sums within any specific appropriation may be made, but require the City Manager's approval. The General Fund, Development Services Fund, Transit 2000 Fund, and several enterprise funds include an appropriation for contingencies. Expenditures may be made from these appropriations only with City Council approval.

Unexpended appropriations, including those encumbered, lapse at fiscal year end. Since all expenditures must be covered by an appropriation, the City reappropriates all encumbrances outstanding at year-end. For 2002-03, the reappropriation budget was $669,100,000.

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 2002-03 expenditure limit supplied by the Economic Estimates Commission was $974,648,000. The City increased this limit to $4,204,209,000 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 1999 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 will be in effect through 2003-04. In 2003 voters approved a similar home rule option to be in effect through 2007-08. Previously established exclusions for pay-as-you-go capital projects continue to apply.

The City uses only those exemptions needed to comply with the expenditure limitation. Exemptions that are not needed are carried forward to future years and used for future spending capacity. As of June 30, 2002, non-restricted carry forwards totaled $320,272,384.

Budget Calendar

Each year the City Manager issues a budget calendar giving specific completion dates for various phases of the budget process. Both the City Charter and State Statutes are followed by completing each step by the earlier of the two legal "deadlines", described below:

Action	City Charter	State Statutes
City Manager's proposed budget for ensuing year submitted to Council	On or before the first Tuesday in June	No provision
Publish general summary of budget and notice of public hearing	Publish in newspaper of general circulation at least two weeks prior to first public hearing	No provision
Public hearing and tentative budget adoption	On or before the last day of June	On or before the third Monday in July
Publish budget summary and notice of public hearing	No provision	Once a week for two consecutive weeks following tentative adoption
Public hearing and final budget adoption	No provision	No later than the second Monday in August
Property tax levy adoption	No later than the last regular Council meeting in July	No sooner than seven days following final budget adoption and no later than the third Monday in August

Final adoption of the Operating Budget is by Ordinance. Differences between the basis of accounting used for budgetary purposes and that used for reporting in accordance with GAAP are discussed in Note 2.

g. Reservations and Designations

Reservations and designations of fund equity are recorded to signify that a portion of fund equity is not appropriable for expenditure, or is legally segregated or earmarked by management for specific future use.

h. Pooled Cash and Investments

The City's cash resources are combined to form a cash and investment pool managed by the City Treasurer. Excluded from this pool are the investments of COPERS and certain other legally restricted funds. Interest earned by the pool is distributed monthly to individual funds based on daily equity in the pool.

The City has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and External Investment Pools. As a governmental entity, other than an external investment pool, the City's investments are stated at fair value, except for repurchase agreements with maturities when purchased of one year or less. Fair value is based on quoted market prices as of the valuation date.

i. Inventories

Inventories consist of expendable supplies held for consumption. Inventories in governmental funds are stated at average cost. Enterprise fund inventories are stated at the lower of average cost or market. Inventories are primarily accounted for on the consumption method. The reserve for inventory in the governmental funds is equal to the amount of inventory to indicate that a portion of the fund balance is not available for future expenditure.

j. Capital Assets

Prior to GASB Statement No. 34, capital assets for governmental funds were recorded in the General Fixed Assets Account Group and were not depreciated. The new model requires that all capital assets, whether owned by governmental activities or business-type activities, be recorded and depreciated (unless the modified approach is used) in the government-wide financial statements. The City has chosen not to apply the modified approach to any networks or subsystems of infrastructure assets. No long-term assets or depreciation are shown in the governmental fund financial statements.

Capital assets, including public domain infrastructure (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the City) are defined as assets with an initial, individual cost of more than $5,000 and an estimated useful life greater than one year. All artwork is capitalized. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. Interest incurred during the construction phase of projects is reflected in the capitalized value of the asset constructed for the enterprise funds. See Note 8 for presentation of capital additions and interest costs incurred and capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Property, plant and equipment is depreciated or amortized using the straight-line method and the following estimated useful lives:

Buildings and improvements	5 to 50 years
Motor vehicles and motorized equipment	3 to 25 years
Furniture, machinery and equipment	5 to 25 years
General government infrastructure	6 to 100 years
Mains, hydrants, meters and service connections	5 to 50 years

Gain or loss is recognized when assets are retired from service or are otherwise disposed of. Capital assets transferred between funds are transferred at their net book value (cost less accumulated depreciation) or net realizable value, if lower, as of the date of the transfer.

k. Compensated Absences

Vacation and compensatory time benefits are accrued as liabilities as employees earn the benefits to the extent that they meet both of the following criteria:

1. The City’s obligation is attributable to employees’ services already rendered.

2. It is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments.

Sick leave benefits are accrued as a liability as the benefits are earned by employees, but only to the extent that it is probable that the City will compensate the employees through cash payments conditioned on the employees’ termination or retirement. For governmental funds, a liability for these amounts is reported only if they have matured, for example, as a result of employee resignations and retirements. For the government-wide financial statements, as well as the enterprise fund financial statements, all of the outstanding compensated absences are recorded as a liability.

l. Long-Term Obligations

In the government-wide financial statements, and enterprise fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

m. Fund Deficits

The Solid Waste Enterprise Fund had deficit net assets of $6,443,000 at June 30, 2003, which management anticipates will be recovered from future earnings.

n. Interfund Transactions

Interfund transactions, consisting of services performed for other funds or costs billed to other funds are treated as expenditures in the fund receiving the services and as a reimbursement reducing expenditures in the fund performing the services, except for sales of water to other City departments, which are recorded as revenue, and in-lieu property taxes, which are recorded as revenue in the General Fund and expenses in the Enterprise funds. In addition, operating transfers are made between funds to shift resources from a fund legally authorized to receive revenue to a fund authorized to expend the revenue.

o. Statements of Cash Flows

For purposes of the statements of cash flows, all highly liquid investments (including restricted assets) with original maturities of three months or less when purchased are considered to be cash equivalents. The “Equity in Pooled Cash and Investments” balances, net of unrealized gains or losses, are also considered to be cash equivalents due to the fact that the Enterprise funds may deposit or withdraw cash at any time without prior notice or penalty. Under the provisions of GASB No. 9, pension trust funds are not required to present statements of cash flows.

p. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

q. Comparative Data

Comparative data for the prior year have been presented in the accompanying notes to the financial statements in order to provide an understanding of changes in the City’s financial position and operations. Certain prior year data have been reclassified to conform to current year presentation

2. ***Budget Basis of Accounting***

The City's budget is adopted on a basis other than GAAP. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual for the General and major Special Revenue Funds (Exhibits B-5 and B-6) are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget and GAAP bases are:

	Budget	GAAP
Encumbrances	The equivalent of expenditures	A reservation of fund balance
Grant Revenues	Recognized on a modified cash basis	Recognized on the accrual basis
Investment Income	Unrealized gain or loss on investments not recognized	Unrealized gain or loss on investments recognized
Reservations of Fund Balance	Not recognized	Recognized
Designation of Fund Balance for Unrealized Gains on Investments	Not recognized	Recognized
In-Lieu Property Taxes	Interfund Transfers	Revenues and expenses
Staff and Administrative Costs	Interfund Transfers	Reimbursable expenses

Subfunds without legally adopted budgets (and, therefore, not included in the budgetary balances) are reported for GAAP. In addition, certain revenues, expenditures and transfers not recognized in the budgetary year are accrued for GAAP purposes.

Adjustments necessary to convert the results of operations for the fiscal year ended June 30, 2003 on the budget basis to the GAAP basis are as follows (in thousands):

	Excess of Sources of Financial Resources Over Uses of Financial Resources	
	General	**Excise Tax Special Revenue**
Budget basis	$ 10,478	$ -
Entity differences - amounts not budgeted	32,619	-
Transfers not recognized for budget purposes	114	-
Accrued/(deferred) revenue not recognized for budget purposes (net of reversals of prior year accruals)	(741)	-
Accrued expenditures not recognized for budget purposes (net of reversals of prior year accruals)	(637)	-
Unrealized gain or loss on investments	5,816	-
Encumbrances at June 30 recognized as expenditures for budget purposes	2,029	-
GAAP basis	$ 49,678	$ -

Adjustments necessary to convert the fund balances at June 30, 2003 on the budget basis to the GAAP basis are as follows (in thousands):

	Fund Balances at June 30	
	General	Excise Tax Special Revenue
Budget basis	$ 63,166	$ -
Entity differences - amounts not budgeted	225,992	-
Transfers not recognized for budget purposes	(1,569)	-
Accrued/(deferred) revenue not recognized for budget purposes (net of reversals of prior year accruals)	448	-
Accrued expenditures not recognized for budget purposes (net of reversals of prior year accruals)	492	-
Unrealized gain or loss on investments	34,234	-
Encumbrances at June 30 recognized as expenditures for budget pruposes	11,695	-
GAAP basis	$ 334,458	$ -

3. *Property Tax*

Levy, Assessment and Collection

Arizona's property tax system provides for two separate tax systems:

1. A primary system for taxes levied to pay current operation and maintenance expenses.
2. A secondary system for taxes levied to pay principal and interest on bonded indebtedness as well as for the determination of the maximum permissible bonded indebtedness.

Specific provisions are made under each system for determining the full cash and limited values of property, the basis of assessment, and the maximum annual tax levies on certain types of property and by certain taxing authorities. Under the primary system, the limited value of locally-assessed real property (residential, commercial, industrial, agricultural and unimproved property) may increase by more than 10% annually only under certain circumstances. Under the secondary system, there is no limitation on the annual increase in full cash value of any property. Primary levies are limited to a 2% increase annually plus levies attributable to assessed valuation added as a result of growth and annexation. In addition, levies may be increased by an amount equal to payments made during the year by the City pursuant to involuntary tort judgements. Secondary tax levies do not have a limitation. City of Phoenix assessed valuations for 2003 are: primary $9,048,850,849 and secondary $9,792,188,415.

The City Council adopts the annual tax levy not later than the last regularly scheduled meeting in July. The City's property tax is levied each year on or before the third Monday in August. The basis of this levy is the full cash value as determined by the Maricopa County Assessor. For locally assessed property, the full cash value is determined as of January 1 of the year preceding the tax year, known as the valuation year. For utilities and other centrally valued properties, the full cash value is determined as of January 1 of the tax year. The City has a legal enforceable claim to the property when the property tax is levied. The County collects all property taxes on behalf of the City and all other tax levying jurisdictions within the County. Property Taxes Receivable for the year were as follows (in thousands):

	2002 Levy Primary	2002 Levy Secondary	2002 Levy Total	Prior Levies	Total
Taxes Receivable, July 1	$ -	$ -	$ -	$ 4,704	$ 4,704
Current Tax Levy	66,003	89,948	155,951	-	155,951
Adjustments by County Assessor	112	(157)	(45)	(1,611)	(1,656)
	66,115	89,791	155,906	3,093	158,999
Less: Collections	(64,048)	(86,964)	(151,012)	(2,587)	(153,599)
Taxes Receivable, June 30	$ 2,067	$ 2,827	$ 4,894	$ 506	$ 5,400

In fiscal 2002-03, current property tax collections were $151,012,000, or 96.8% of the tax levy, and were recognized as revenue when received. At fiscal year end, the delinquent property tax expected to be collected within 60 days was recognized as revenue and recorded as a receivable for the governmental funds. As delinquent payments are received in 2003-04, the receivable will be credited until the full amount has been satisfied. Any additional collections will be credited to revenue. Property tax revenues on the government-wide statements are recognized, net of estimated uncollectible amounts, in the period for which the taxes are levied.

The year end fund balance in the Secondary Property Tax Debt Service Fund must remain in that fund and be used for future debt service payments. Any year that total primary tax collections, excluding delinquent collections, exceed the primary tax levy, the excess amount must be deducted from the maximum levy of the following year.

Taxes Due and Payable
Property taxes are due and payable at the office of the County Treasurer in two equal installments on October 1 and March 1 following the levy date, and become delinquent the first business day of November and May, respectively. Interest at 16% per annum attaches on the first and second installments following their delinquent dates. Interest on delinquent taxes is retained by the County. The County Treasurer remits to the City on the 15th day of each month all monies collected the previous month on property taxes due the City.

Delinquent Taxes - Sales and Redemption
Public auctions for sale of delinquent real estate taxes are held in the office of the County Treasurer in February following the May 1 date upon which the second half taxes become delinquent. Tax bills are sold to the highest bidder who offers to pay the accumulated amount of tax and to charge thereon the lowest rate of interest. The maximum amount of interest provided by law is 16% per annum. The purchaser is given a Certificate of Purchase issued by the County Treasurer. Five years from the date of sale, the holder of a Certificate of Purchase, which has not been redeemed, may demand of the County Treasurer a County Treasurer's Deed. However, at the end of three full years, a holder of a Certificate may institute a quiet title action. If the suit is successful, the Court will instruct the County Treasurer to issue a County Treasurer's Deed.

Redemption may be made by the owner or any interested party by payment in full of all accumulated charges at any time before issuance of the tax deed.

Unsecured Personal Property
The foregoing is applicable to real property, improvements thereon and secured personal property (personal property attached to real property), utilities and other centrally assessed property. During fiscal 2002-03, 0.2% of the total property tax collections represented taxes on unsecured personal property, which are assessed on a monthly basis using different procedures than those applicable to secured property.

4. ***Cash and Investments***

The City maintains a cash and investment pool that is available for use by all funds except for the investments of the Pension Trust Fund (COPERS) which is held separately. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments". In addition, investments are separately held by several of the City's funds. The Pooled Cash and Investments Account was comprised of the following (in thousands):

	June 30	
	2003	**2002**
Cash in Bank	$ 11,668	$ 7,905
Cash on Hand	226	188
Cash With Fiscal Agents (1)	19,547	-
Investments	1,202,914	1,001,273
Less: SROG Equity in Pooled Cash	(40,978)	(32,968)
Less: Val Vista Equity in Pooled Cash	(2,149)	(1,178)
Total	1,191,228	975,220
Less: Restricted Equity in Pooled Cash	(318,107)	(222,940)
Unrestricted Equity in Pooled Cash	$ 873,121	$ 752,280

(1) Represents cash advanced by the City to fiscal agents on June 30, 2003 for debt service payments on refunded/defeased bonds due to bondholders on July 1, 2003. The City was reimbursed on July 1, 2003, from proceeds of investments maturing in escrow accounts held by the respective fiscal/escrow agents.

A summary of Equity in Pooled Cash and Investments by fund follows (in thousands):

	June 30	
	2003	**2002**
Unrestricted		
General Fund	$ 193,501	$ 153,127
Non-Major Governmental Funds	388,386	327,254
Fiduciary Funds		
Payroll Agency	25,600	30,231
Enterprise Funds		
Aviation	75,247	59,229
Phoenix Civic Plaza	31,346	27,195
Water System	115,628	106,194
Wastewater	24,105	29,247
Solid Waste	19,308	19,542
Golf Courses	-	261
Total Unrestricted	873,121	752,280
Restricted		
Enterprise Funds		
Aviation	184,136	98,877
Phoenix Civic Plaza	420	433
Water System	55,023	45,159
Wastewater	62,524	60,514
Solid Waste	16,004	17,957
Total Restricted	318,107	222,940
	$ 1,191,228	$ 975,220

Deposits

The City's deposits during the year and at fiscal year end were entirely covered by federal depository insurance or by collateral held by the City's agent in the City's name. The carrying amount of the City's deposits at June 30, 2003 was $11,668,000 and the bank ledger balance was $9,800,000.

Cash and securities with fiscal agents and trustees totaled $202,166,000 at June 30, 2003. The City's contracts with the fiscal agents and trustees call for these deposits to be fully covered by collateral held in the fiscal agents' and trustees' trust departments but not in the City's name. Each trust department pledges a pool of collateral against all trust deposits it holds.

Investments

The City Charter and ordinances authorize the City to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, repurchase agreements, money market accounts, certificates of deposit, the State Treasurer's investment pool, highly rated obligations issued or guaranteed by any state or political subdivision thereof rated in the highest short-term or second highest long-term category and investment grade corporate bonds, debentures, notes and other evidences of indebtedness issued or guaranteed by a solvent U.S. corporation which are not in default as to principal or interest. Investments are carried at fair value. It is the City's policy generally to hold investments until maturity. In addition to the types of investments described above, COPERS is also authorized to invest in certain types of investment grade domestic preferred and common stocks, and real property. The City Charter allows up to a 60% investment in common stocks.

The City's investments are categorized as follows to give an indication of the level of risk assumed at year end:

Category 1 Investments that are insured or registered or for which the securities are held by the City or its agent in the City's name.

Category 2 Uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name.

Category 3 Uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name.

All of the investments at June 30, 2003 were included in category 1, except short-term investment funds which, in accordance with GASB No. 3, are not categorized.

Total investments held by the City at June 30, 2003, stated at fair value, were $3,425,108. This total is comprised of investments reported as "Investments", and investments reported within "Equity in Pooled Cash and Investments". The following summarizes those amounts reported in "Investments" in the accompanying financial statements (in thousands):

	Unrestricted				Restricted
	Governmental Funds	COPERS	Enterprise Funds	Total Fair Value	Enterprise Funds
U.S. Government Securities	$ 264,333	$ 334,820	$ 10,205	$ 609,358	$ 480,834
Repurchase Agreements	14,617	-	-	14,617	510
Mortgage Backed Securities	-	17,829	-	17,829	-
Corporate Bonds	-	72,224	-	72,224	-
Municipal Securities	5,360	-	-	5,360	-
Common Stocks	-	820,502	-	820,502	-
Short-Term Investment Funds	149,715	49,424	-	199,139	1,821
	$ 434,025	$ 1,294,799	$ 10,205	$ 1,739,029	$ 483,165

The following summarizes the portion of total investments reported in "Equity in Pooled Cash and Investments" in the accompanying financial statements (in thousands):

U.S. Government Securities	$ 910,261
Repurchase Agreements	135,435
Mortgage Backed Securities	154,380
Municipal Securities	874
Short-Term Investment Funds	1,964
	$ 1,202,914

COPERS' investments are managed by five professional fund managers and are held by a plan custodian who is COPERS' agent. There were no situations that occurred during the year, which posed greater credit risk than at June 30, 2003.

5. ***Receivables***

Receivables are stated net of the Allowance for Doubtful Accounts, and are summarized as follows (in thousands):

	Accounts	Taxes	Interest	Intergov-ernmental	Notes	June 30 2003	June 30 2002
Unrestricted							
Governmental Activities							
General Fund	$ 12,639	$ 7,336	$ -	$ 652	$ -	$ 20,627	$ 23,753
Excise Tax	-	49,259	-	18,172	-	67,431	64,680
Non-Major	15,151	4,330	1,111	47,639	13,234	81,465	67,718
	27,790	60,925	1,111	66,463	13,234	169,523	156,151
Business-Type Activities							
Aviation	3,212	-	-	-	-	3,212	4,790
Civic Plaza	206	-	-	-	-	206	60
Water System	33,092	-	20	923	-	34,035	37,795
Wastewater	10,609	-	-	2,918	-	13,527	12,757
Solid Waste	7,158	-	-	15	-	7,173	7,333
Golf Courses	7	-	-	-	-	7	107
	54,284	-	20	3,856	-	58,160	62,842
	82,074	60,925	1,131	70,319	13,234	227,683	218,993
Restricted							
Business-Type Activities							
Aviation	11,104	-	209	2,183	-	13,496	2,283
Civic Plaza	-	-	50	881	-	931	1,237
Water System	-	-	381	-	-	381	8,294
Wastewater	-	-	-	99	-	99	200
Solid Waste	-	-	-	-	-	-	-
Golf Courses	-	-	-	-	-	-	-
	11,104	-	640	3,163	-	14,907	12,014
	$ 93,178	$ 60,925	$ 1,771	$ 73,482	$ 13,234	$ 242,590	$ 231,007

The following is a summary of the Allowance for Doubtful Accounts for all funds and the Bad Debt Expense for the enterprise funds (in thousands):

	Allowance for Doubtful Accounts			
			June 30	
	Accounts	Taxes	2003	2002
Governmental				
General Fund	$ 22,843	$ -	$ 22,843	$ 21,456
Excise Tax	-	14,268	14,268	2,670
Non-Major	144	-	144	80
Business-Type				
Aviation	1,187	-	1,187	1,757
Water System	751	-	751	642
Wastewater	342	-	342	290
Solid Waste	444	-	444	314
	$ 25,711	$ 14,268	$ 39,979	$ 27,209

Enterprise fund Accounts Receivable included unbilled charges as follows (in thousands):

	June 30	
	2003	2002
Aviation	$ 3,503	$ 4,195
Water System	14,259	15,253
Wastewater	4,892	4,784
Solid Waste	3,691	3,878
	$ 26,345	$ 28,110

The City has entered into a loan agreement with Native American Connections, Inc. (NACI) for the sale of property to NACI. The loan agreement has been recorded as a note receivable in the Municipal Buildings and Service Centers Capital Project Fund. The note amount is $1,000,000, with a maturity date of June 30, 2040, and an interest rate of 5.06%.

The City has also entered into various loan agreements with third parties related to its public housing programs. These loan agreements have been recorded as notes receivable within the Public Housing Special Revenue Fund. Under these agreements, the City has loaned money to nonprofit corporations for the purpose of establishing and/or improving public housing units. The loans are secured by an interest in the property being acquired and/or improved. The following is a summary of these notes:

Note Amount	Dated	Due	Interest Rate	Monthly Payments Amount	Monthly Payments Commencing	Balance June 30, 2003
$ 250,000	12/30/93	07/01/26	2%	$ 417	07/01/96	$ 250,000
250,000	05/10/94	05/01/19	4%	1,471	09/01/95	201,090
150,000	05/10/94	05/01/19	4%	883	09/01/95	120,654
248,660	01/01/95	01/01/25	2%	919	02/01/95	193,198
86,000	02/01/95	09/01/19	2%	370	03/01/95	61,330
64,000	02/01/95	09/01/19	2%	276	03/01/95	45,640
250,000	04/01/95	12/01/19	2%	1,076	06/01/95	180,615
52,350	04/01/95	05/01/10	2%	337	05/01/95	25,505
250,000	06/01/95	06/01/20	4%	1,320	07/01/95	231,434
43,521	06/01/95	07/01/15	2%	220	07/01/95	19,810
250,000	06/30/95	12/31/21	4%	1,290	01/01/96	202,763
250,000	12/31/95	05/01/26	4%	1,202	05/01/96	213,327
197,803	01/01/96	02/01/21	2%	838	02/01/96	149,040
91,000	06/27/96	12/01/26	2%	336	12/01/96	75,420
52,310	07/01/95	11/01/16	2%	265	11/01/96	49,070
62,030	07/01/95	11/01/16	2%	316	11/01/96	44,582
250,061	09/19/96	10/01/21	2%	1,077	04/01/97	197,396
207,355	11/27/96	05/01/27	2%	766	05/01/97	174,241
225,000	12/20/96	06/01/27	2%	832	06/01/97	191,126
134,000	10/10/97	03/01/28	2%	495	04/01/98	115,951
81,766	11/20/98	05/01/19	2%	414	06/01/99	67,617
250,000	05/01/98	09/01/28	2%	924	10/01/98	224,667
250,000	07/22/99	07/01/29	4%	1,194	08/01/99	231,705
250,000	12/07/98	02/01/30	4%	1,194	03/01/00	234,614
250,000	12/22/00	02/01/37	4%	1,107	03/01/02	245,511
500,000	01/23/01	01/01/41	4%	12,782	07/01/02	494,380
250,000	04/17/00	05/01/37	4%	1,207	06/01/02	268,637
250,000	01/13/01	05/01/39	4%	1,198	06/01/04	269,299
250,000	10/15/01	12/01/32	4%	1,246	04/01/03	258,777
250,000	12/27/01	10/01/32	2%	924	11/01/02	246,943
1,000,000	06/26/01	07/01/09	6%	4,100	07/01/09	1,000,000
1,000,000	various	various	4%	various	various	664,708
2,167,507	various	various	4%	various	various	1,636,435
4,505,227	various	various	4%	various	various	2,019,167
450,000	01/01/03	07/01/33	4%	2,184	07/01/03	450,000
480,000	02/28/03	N/A	0%	N/A	N/A	480,000
199,000	06/28/03	08/01/33	4%	950	08/01/03	199,000
500,000	12/13/02	04/01/33	4%	30,617	04/01/05	500,000
						$ 12,233,652

6. ***Interfund Transactions***

Net interfund receivables and payables between governmental activities and business-type activities in the amount of $57,000, are included in the government-wide financial statements at June 30, 2003. The following amounts due to other funds or due from other funds are included in the fund financial statements at June 30, 2003 (in thousands):

	Due To	Due From
Unrestricted		
Governmental Funds		
General Fund	$ -	$ 154,949
Excise Tax	67,384	-
Non-major Governmental	97,212	9,704
Total Governmental Funds	164,596	164,653
Enterprise Funds		
Golf Courses	48	-
Restricted		
Enterprise Funds		
Water System	-	1,190
Solid Waste	-	-
Golf Courses	1,199	-
Total Restricted	1,199	1,190
Total Due To/Due From	$ 165,843	$ 165,843

Interfund balances at June 30, 2003 are short-term loans to cover temporary cash deficits in various funds. This occasionally occurs prior to bond sales or grant reimbursements. All interfund balances outstanding at June 30, 2003 are expected to be repaid within one year.

Net transfers of $35,895,000 from governmental activities to business-type activities on the government-wide statement of activities is primarily the result of the monthly transfer of earmarked excise tax to the Civic Plaza Enterprise fund. The following interfund transfers are reflected in the fund financial statements for the year ended June 30, 2003.

	Transfer Out	Transfer In
Governmental Funds		
General Fund	$ 111,271	$ 589,886
Excise Tax	761,126	-
Non-major Governmental	61,766	308,382
Total Governmental Funds	934,163	898,268
Enterprise Funds		
Civic Plaza	-	36,849
Water System	360	-
Wastewater	240	-
Solid Waste	354	-
Total Enterprise Funds	954	36,849
Total Transfers	$ 935,117	$ 935,117

Interfund transfers are primarily used for 1) debt service payments made from a debt service fund, but funded from an operating fund; 2) subsidy transfers from unrestricted general funds; or 3) transfers to move excise tax revenues from the excise tax fund to the various funds that receive earmarked excise tax revenues and to the general fund.

7. ***Restricted Assets and Liabilities Payable from Restricted Assets***

Restricted assets and liabilities payable from restricted assets are summarized as follows (in thousands):

	June 30	
	2003	2002
Restricted Assets		
Equity in Pooled Cash and Investments	$ 318,107	$ 222,940
Cash Deposits	6,975	7,771
Cash and Securities with Fiscal Agents/Trustees	125,576	146,476
Investments	483,165	458,150
Receivables, Net of Allowances	14,907	12,014
Subtotal	948,730	847,351
Due From Other Funds	1,190	1,484
Total Restricted Assets	$ 949,920	$ 848,835
Liabilities Payable from Restricted Assets		
Warrants and Accounts Payable	$ 35,383	$ 38,734
Trust Liabilities and Deposits	2,980	2,974
Bond Anticipation Notes Payable	160,000	0
Accrued Landfill Closure Costs	4,529	4,914
Subtotal	202,892	46,622
Due to Other Funds	1,199	22,391
Matured Bonds and Certificates Payable	72,094	77,248
Interest Payable	55,845	46,077
Current Portion of General Obligation Bonds	33,277	28,363
Current Portion of Revenue Bonds	3,710	9,390
Current Portion of Municipal Corporation Obligations	38,390	35,036
Total Liabilities Payable from Restricted Assets	$ 407,407	$ 265,127

8. *Capital Assets*

A summary of capital asset activity for the government-wide financial statements follows (in thousands):

	Balances July 1, 2002	Additions	Deletions	Transfers	Balances June 30, 2003
Governmental activities:					
Non-depreciable assets:					
Land	$ 418,372	$ 31,170	$ (7,655)	$ 30,537	$ 472,424
Infrastructure	303,166	6,702	(6)	11,929	321,791
Artwork	6,698	1,969	(42)	22	8,647
Construction-in-Progress	311,362	226,492	(29,835)	(138,310)	369,709
Total non-depreciable assets	1,039,598	266,333	(37,538)	(95,822)	1,172,571
Depreciable assets:					
Buildings	722,085	4,284	(4,461)	22,220	744,128
Improvements	186,647	3,804	(1,978)	26,426	214,899
Infrastructure	1,071,652	41,121	(20)	39,228	1,151,981
Equipment	400,363	28,642	(21,160)	7,948	415,793
Total depreciable assets	2,380,747	77,851	(27,619)	95,822	2,526,801
Less accumulated depreciation for:					
Buildings	(215,891)	(21,709)	1,617	-	(235,983)
Improvements	(97,280)	(9,213)	1,635	-	(104,858)
Infrastructure	(311,148)	(28,204)	-	-	(339,352)
Equipment	(189,054)	(37,437)	17,511	-	(208,980)
Total accumulated depreciation	(813,373)	(96,563)	20,763	-	(889,173)
Total depreciable assets, net	1,567,374	(18,712)	(6,856)	95,822	1,637,628
Governmental activities, capital assets, net	$ 2,606,972	$ 247,621	$ (44,394)	$ -	$ 2,810,199
Business-type activities:					
Non-depreciable assets:					
Land	$ 367,010	$ 909	$ (3,190)	$ 3,189	$ 367,918
Artwork	2,548	133	-	419	3,100
Construction-in-Progress	531,560	305,024	(23,878)	(82,407)	730,299
Total non-depreciable assets	901,118	306,066	(27,068)	(78,799)	1,101,317
Depreciable assets:					
Buildings	900,024	3,579	(14,568)	2,485	891,520
Improvements	1,779,642	55,446	(7,650)	52,207	1,879,645
Hydrants, mains, etc.	818,810	50,864	(728)	14,544	883,490
Equipment	301,247	25,283	(12,309)	9,563	323,784
Total depreciable assets	3,799,723	135,172	(35,255)	78,799	3,978,439
Less accumulated depreciation for:					
Buildings	(346,560)	(34,806)	13,104	-	(368,262)
Improvements	(621,216)	(70,574)	4,559	-	(687,231)
Hydrants, mains, etc.	(279,100)	(21,795)	250	-	(300,645)
Equipment	(137,278)	(26,834)	10,318	-	(153,794)
Total accumulated depreciation	(1,384,154)	(154,009)	28,231	-	(1,509,932)
Total depreciable assets, net	2,415,569	(18,837)	(7,024)	78,799	2,468,507
Business-type activities, capital assets, net	$ 3,316,687	$ 287,229	$ (34,092)	$ -	$ 3,569,824

Depreciation expense was charged to governmental functions in the government-wide financial statements as follows (in thousands):

General Government	$ 6,583
Criminal Justice	9,703
Public Safety	5,430
Transportation	45,166
Public Works	8,079
Community Enrichment	16,633
Community Development	4,744
	$ 96,338

Net enterprise fund interest cost incurred and the portion capitalized were as follows (in thousands):

	Fiscal Year Ended June 30			
	2003		2002	
	Incurred	Capitalized	Incurred	Capitalized
Aviation	$ 39,537	$ 11,986	$ 22,343	$ 4,687
Phoenix Civic Plaza	5,609	29	5,828	5
Water System	33,999	5,257	28,552	6,981
Wastewater	28,253	4,135	28,442	6,221
Solid Waste	3,780	78	3,356	19
	$ 111,178	$ 21,485	$ 88,521	$ 17,913

9. *Long-Term Obligations*

Changes in long-term obligations during fiscal 2002-03 are summarized as follows (in thousands):

	Balances July 1	Additions (1)	Reductions (2)	Balances June 30	Amounts Due Within One Year
Governmental activities					
Bonds and notes payable:					
General Obligation Bonds	$ 693,110	$ 52,481	$ 80,288	$ 665,303	31,965
Revenue Bonds					
Street and Highway User Revenue	210,716	48,177	60,356	198,537	18,805
Housing Revenue	2,910	-	370	2,540	395
Certificates of Participation	21,200	-	745	20,455	785
Municipal Corporation Obligations	272,708	107,680	55,154	325,234	8,110
Special Assessment Bonds	7,401	135	1,434	6,102	1,491
	1,208,045	208,473	198,347	1,218,171	61,551
Deferred Loss on Refunding	14,904	(1,428)	(6,729)	20,205	-
Total bonds and notes payable	1,222,949	207,045	191,618	1,238,376	61,551
Other liabilities:					
Insurance Claims Payable	160,713	194,100	160,713	194,100	78,495
Accrued Compensated Absences	130,431	137,433	130,431	137,433	13,204
Total other liabilities	291,144	331,533	291,144	331,533	91,699
Total governmental activities	$ 1,514,093	$ 538,578	$ 482,762	$ 1,569,909	153,250
Business-type activities					
Bonds and notes payable:					
General Obligation Bonds	332,814	33,223	61,274	304,763	33,277
Revenue Bonds	64,340	-	9,390	54,950	3,710
Municipal Corporation Obligations	1,689,069	82,207	35,036	1,736,240	38,390
	2,086,223	115,430	105,700	2,095,953	75,377
Deferred Loss on Refunding	46,230	(3,557)	(2,671)	45,344	-
Cummulative capital appreciation on general obligation minibonds	(3,637)	(503)	-	(4,140)	-
Total bonds and notes payable	2,128,816	111,370	103,029	2,137,157	75,377
Other liabilities:					
Accrued Compensated Absences	15,022	16,024	15,022	16,024	1,910
Capital Leases	2,694	16	458	2,252	-
Utility Repayment Agreements (3)	3,420	2,600	888	5,132	-
Rebatable Arbitrage	1,782	580	1,852	510	-
Accrued Landfill Closure and Postclosure Care Costs	27,590	1,427	1,180	27,837	1,090
Total other liabilities	50,508	20,647	19,400	51,755	3,000
Total business-type activities	$ 2,179,324	$ 132,017	$ 122,429	$ 2,188,912	78,377

(1) Additions include $503,000 for accrued interest on capital appreciation enterprise general obligation minibonds.
(2) For the Governmental Activities, Insurance Claims Payable and Compensated Absences are generally liquidated by the General Fund.
(3) The amount exdludes the current portion of the liability.

The amounts reported above have been reduced by deposits made with the City's fiscal agent for July 1, 2003 maturities, a portion of which is included in restricted assets for the Enterprise Funds. These deposits were as follows (in thousands):

	Principal	Interest	Total
Governmental Funds			
General Obligation Bonds	$ 25,515	$ 14,984	$ 40,499
Street and Highway User Revenue Bonds	8,165	3,853	12,018
Certificates of Participation	745	567	1,312
Municipal Corporation Obligations	6,534	6,613	13,147
Special Assessment Bonds	-	199	199
	40,959	26,216	67,175
Enterprise Funds			
General Obligation Bonds	27,668	9,083	36,751
Revenue Bonds	9,390	1,909	11,299
Municipal Corporation Obligations	35,036	44,612	79,648
	72,094	55,604	127,698
	$ 113,053	$ 81,820	$ 194,873

Issues of long-term debt, excluding deferred losses of $65,549,000 and accumulated appreciation on general obligation mini-bonds of ($4,140,000) were as follows at June 30, 2003 (dollars in thousands):

Issue Date	Purpose	Maturity Dates	Net Interest Rate	Effective Interest Rate	Average Life (Years)	Original Amount	Balance Outstanding	Unamortized Discount (Premium) (2)
General Obligation Bonds								
12/01/89	Various Improvements	7/1/00-10	7.01	(1)	14.7	$ 12,242	$ 2,456	$ -
12/06/91	Sanitary Sewer	7/1/95-11	4.62	4.56	13.9	30,000	19,281	-
04/01/92	Refunding	7/1/95-13	6.31	6.27	10.6	237,945	30,620	-
04/15/93	Refunding	7/1/95-16	5.48	5.45	13.4	335,165	154,395	-
09/15/93	Refunding	7/1/94-16	5.11	5.12	15.2	70,550	11,935	(33)
12/01/93	Water Improvements	7/1/04-14	5.03	4.98	13.8	17,229	17,229	-
03/01/94	Various Improvements	7/1/96-11	5.22	5.24	10.2	70,635	2,715	2
01/01/95	Various Improvements	7/1/97-12	5.93	5.94	11.4	30,000	3,720	1
07/01/95	Refunding	7/1/10-19	5.59	5.56	19.9	85,000	51,225	-
11/01/95	Various Improvements	7/1/01-20	5.26	5.35	17.0	60,000	24,950	-
02/01/96	Refunding	7/1/96-14	4.86	4.85	10.3	35,280	20,510	-
01/15/97	Various Improvements	7/1/99-20	5.39	5.32	14.7	32,000	14,855	4
01/15/98	Various Improvements	7/1/01-22	4.74	4.67	15.9	75,000	59,340	30
01/15/99	Refunding	7/1/99-20	4.47	4.44	12.4	163,820	154,480	(650)
02/01/99	Various Improvements	7/1/01-23	4.77	4.74	15.8	58,000	49,180	(52)
07/15/00	Various Improvements	7/1/03-25	5.48	5.42	16.9	50,000	31,195	(16)
12/07/01	Sanitary Sewer	7/1/03-21	3.70	3.70	18.0	6,075	5,849	-
05/22/02	Various Improvements-Taxable	7/1/08-10	5.65	5.66	7.1	10,000	10,000	-
05/22/02	Refunding	7/1/03-18	4.46	4.37	8.4	144,495	132,370	(720)
05/22/02	Various Improvements	7/1/11-27	5.11	5.11	18.3	89,970	89,970	-
05/22/02	Refunding	7/1/14-15	4.83	4.77	12.4	14,680	14,680	-
05/21/03	Refunding	7/1/05-16	3.36	3.25	9.1	83,320	83,320	(1,967)
	Total General Obligation Bonds					1,711,406	984,275	(3,401)
Revenue Bonds								
02/01/92	Street/Highway Improvements	7/1/07	6.55	6.76	17.8	55,490	5,815	-
03/15/92	Street/Highway Refunding	7/1/93-11	6.50	6.72	13.4	117,880	10,645	-
12/15/92	Street/Highway Refunding (3)	7/1/94-13	7.96	6.33	15.0	58,226	17,556	-
03/01/93	Water Refunding (3)	7/1/95-22	5.07	5.03	10.6	54,570	10,000	89
09/15/93	Street/Highway Refunding	7/1/95-11	5.03	5.04	13.3	0	0	-
05/01/94	Airport Improvements (3)	7/1/03-12	6.44	6.52	14.1	31,500	29,105	147
05/01/94	Airport Refunding (3)	7/1/95-12	5.56	5.65	5.7	36,400	2,250	15
05/01/94	Airport Refunding (3)	7/1/95-12	6.31	6.41	11.1	21,650	13,595	71
08/01/95	Municipal Housing Refunding	12/1/95-09	6.06	6.03	7.7	4,960	2,540	-
01/01/99	Street/Highway Refunding	7/1/99-11	4.40	4.65	9.1	10,375	9,850	-
05/10/02	Street/Highway Refunding (3)	7/1/03-11	3.61	3.76	5.3	123,125	116,090	-
05/28/03	Street/Highway Refunding	7/1/05-11	2.76	2.56	6.2	47,360	47,360	-
	Total Revenue Bonds					561,536	264,806	322
Certificates of Participation								
06/01/93	Amphitheatre Refunding (3) (4b)	8/1/95-19	5.43	5.89	16.8	14,080	10,900	-
07/01/93	Amphitheatre, Stadium and Housing (3) (4b)	8/1/94-23	5.18	5.67	18.5	11,975	9,555	-
	Total Certificates of Participation					26,055	20,455	-

(Continued)

(1) Effective rate equals the net interest rate.
(2) Enterprise Funds only.
(3) Insured by a municipal bond insurance policy, a reserve account surety bond, a debt service reserve fund, or an irrevocable direct pay letter of credit.
(4) The City has pledged excise taxes as security. The taxes pledged are as follows:
 (a) Senior lien pledge on all outstanding excise tax obligations.
 (b) Subordinated junior lien pledge on all outstanding excise tax obligations.
(5) The City has pledged excise taxes on a senior lien basis as security; however, debt service requirements on these obligations are paid from airport revenues.
(6) The City has pledged designated Water System revenues as security. This pledge is junior to the pledge of net operating revenues for payment of the City's outstanding water revenue bonds.
(7) The City has pledged designated Wastewater System revenues, subject to annual appropriation.

Issue Date	Purpose	Maturity Dates	Net Interest Rate	Effective Interest Rate	Average Life (Years)	Original Amount	Balance Outstanding	Unamortized Discount (Premium) (2)
Municipal Corporation Obligations								
09/01/92	Wtr. Rights Land Acq. Ref. (3) (6)	8/1/97-17	6.07	6.16	18.4	$ 31,485	$ 27,775	$ 356
09/01/92	Superblock Refinancing (3) (4b)	8/1/00-17	6.11	6.21	20.2	15,560	15,010	-
01/01/93	Wastewater System (7)	7/1/97-05	6.24	6.36	21.1	250,000	12,140	28
06/01/93	Patriots Sq. Park. Garage Ref. (3) (4b)	7/1/96-09	5.25	5.61	10.4	14,350	7,445	-
10/01/93	Wastewater Refunding (7)	7/1/99-23	4.87	5.27	22.1	235,735	230,240	5,663
01/01/94	Water System Improvements (6)	7/1/95-24	5.45	5.49	19.5	110,000	5,120	-
05/01/94	Airport Refunding (5)	7/1/95-14	6.09	6.13	11.7	33,705	24,565	87
08/01/94	Civic Plaza (4a)	7/1/05-14	5.98	(1)	16.0	43,250	43,250	-
08/01/94	Civic Plaza Refunding (4a)	7/1/96-05	5.09	5.76	6.4	24,395	3,930	2
11/01/94	Municipal Facilities (3) (4b)	7/1/95-05	6.53	6.47	7.2	33,410	1,230	-
04/25/95	Airport Improvements (3) (9)	6/1/10-20	(8)	(8)	22.0	31,000	31,000	-
06/15/96	Water System Improvements (6)	7/1/00-08	5.82	5.78	15.2	150,000	16,515	(2)
01/15/97	Municipal Facilities Refunding (3) (4b)	7/1/99-21	5.47	5.43	14.4	9,935	9,545	-
07/01/97	Wastewater System (3) (12)	7/1/03-22	5.35	5.32	17.2	75,000	24,455	(45)
01/01/98	Civic Plaza East Garage (3) (4b)	7/1/00-22	6.66	6.63	16.2	43,000	39,250	188
01/15/98	Multipurpose Arena Refunding (3) (4b)	7/1/98-19	6.83	6.64	14.1	48,740	44,000	-
02/01/98	Airport Refunding (5)	7/1/98-14	4.67	4.68	9.6	38,355	28,415	(341)
05/01/98	Water System Refunding (3) (6)	7/1/99-19	5.05	5.03	16.3	109,155	106,450	658
08/01/98	Airport Revenue (10)	7/1/03-25	5.06	5.08	18.1	165,000	160,240	(100)
06/01/99	Phoenix Municipal Courthouse (4a)	7/1/05-29	5.35	5.32	20.7	79,000	79,000	-
06/01/99	Adams Street Garage (4a)	7/1/05-29	5.34	5.31	20.7	15,000	15,000	-
02/01/00	Bus Acquisition Special Revenue (3) (13)	7/1/00-12	5.40	5.42	6.7	18,320	13,430	-
06/01/00	Wastewater System Revenue (3) (12)	7/1/05-24	5.97	5.91	16.4	135,000	25,690	(78)
08/01/00	Municipal Facilities Revenue (3) (4b)	7/1/01-20	5.11	4.94	8.2	65,000	50,930	(273)
07/01/01	Wastewater System Refunding (12)	7/1/02-24	5.06	5.02	16.4	166,260	164,990	(2,506)
08/01/01	Water System Refunding (3) (6)	7/1/02-24	4.88	4.68	14.1	99,980	98,390	(4,806)
04/01/02	Water System Revenue (3) (6)	7/1/07-26	5.10	5.08	16.3	220,000	220,000	(2,329)
05/01/02	Airport Sr. Lien Refunding (3) (10)	7/1/08-13	4.91	4.82	9.5	23,225	23,225	(1,316)
05/01/02	Airport Sr. Lien Revenue (3) (10)	7/1/14-32	5.40	5.53	22.7	231,390	231,390	2,376
05/01/02	Airport Jr. Lien Revenue (3) (11)	7/1/05-29	5.45	5.54	17.8	159,565	159,565	(945)
04/25/03	New City Hall Refunding (4a)	7/1/04-29	4.53	4.43	15.6	47,600	47,600	-
04/30/03	Solid Waste Improvements (3)(14)	7/1/04-23	4.38	4.17	12.3	80,000	80,000	(5,710)
04/30/03	Municipal Facilities (3)(4b)	7/1/05-25	4.13	4.03	11.8	25,000	25,000	-
04/30/03	Municipal Facilities (Taxable) (3)(4b)	7/1/09-33	5.64	(1)	20.8	25,000	25,000	-
04/30/03	Municipal Facilities (Taxable) (3)(4b)	7/1/09-33	5.65	5.66	20.8	10,000	10,000	-
	Total Municipal Corporation Obligations					2,862,415	2,099,785	(9,093)
Special Assessment Bonds								
Various	Unredeemed Matured Bonds	-	-		-	44	44	-
1990	Various Improvements	1/1/00-06	6.90-7.00	(1)	10.0	5,300	1,545	-
1992	Various Improvements	1/1/02-07	6.50-6.90	(1)	10.0	4,724	1,420	-
1993	Various Improvements	1/1/02-09	5.38-6.90	(1)	10.0	2,788	1,255	-
1994	Various Improvements	1/1/95-04	6.90	(1)	10.0	167	4	-
1995	Various Improvements	1/1/95-05	6.35-6.90	(1)	10.0	3,336	765	-
1996	Various Improvements	1/1/97-06	6.90	(1)	10.0	327	99	-
1997	Various Improvements	1/1/98-07	6.90	(1)	10.0	327	97	-
1999	Various Improvements	1/1/00-09	6.90	(1)	10.0	278	165	-
2000	Various Improvements	1/1/01-10	6.90	(1)	10.0	274	191	-
2001	Various Improvements	1/1/02-11	6.90	(1)	10.0	174	139	
2002	Various Improvements	1/1/03-12	6.90	(1)	10.0	268	242	
2003	Various Improvements	1/1/04-13	6.90	(1)	10.0	136	136	
	Total Special Assessment Bonds					18,143	6,102	-
						$ 5,179,555	$ 3,375,423	$ (12,172)

(8) Variable rate demand bonds. The interest rate cannot exceed 18%.
(9) The City has pledged excise taxes on a subordinated junior lien basis as security; however, debt service requirements on these obligations are paid from airport revenues.
(10) The City has pledged net airport revenues on a senior lien basis as security for these bonds.
(11) The City has pledged designated airport revenues as security. This pledge is junior to the pledge of net airport revenues for payment of the City's outstanding senior lien airport bonds.
(12) The City has made a junior lien pledge of Wastewater System revenues as security for these bonds.
(13) Debt service requirements on these obligations are payable soley from certain federal grants received from the Federal Transit Adminsitration, as well as matching funds from the City.
(14) The City has pledged excise taxes on a subordinated junior lien basis as security; however, debt service requirements on these obligations are paid from Solid Waste revenues.

The City has complied with all significant financial covenants of its bonded indebtedness. A brief description of the City's long-term obligations follows.

General Obligation Bonds

As a general rule, the City has given priority to using general obligation bonds for capital programs of general government departments (non-enterprise departments). These include fire, police, library, parks and recreation, mountain preserves, and storm sewers. The annual debt service on these bonds is paid from secondary property taxes. Under State law, the City's secondary property tax levy can only be used for payment of principal and interest on long-term debt.

The City has also used general obligation bonds for airport, solid waste, sanitary sewer and water purposes, when deemed appropriate, with annual debt service on these bonds paid from the revenues of these enterprises, not from property taxes or other general revenues. This has been the case with the water system since 1942, with airport operations since 1967, with the sanitary sewer system since 1981, and with solid waste operations since 1991.

In June 2003, the City issued General Obligation Refunding Bonds, Series 2003, in the amount of $83,320,000 which resulted in a new present value debt service savings of $9,089,673. The bonds have an average life of 9.1 years and were sold at a true interest cost of 3.29%.

Revenue Bonds

In addition to general obligation bonds, under Arizona State law the City is authorized to issue voter-approved highway user revenue and utility revenue bonds, which in Phoenix's case include water revenue and airport revenue bonds. The water and airport revenue bonds are secured by a pledge of revenues from these enterprises, and do not constitute a general obligation of the City backed by general taxing authority. The highway user revenue bonds are secured by State-shared gas taxes and other highway user fees and charges, and are also not a general obligation of the City.

The City has also issued a relatively small amount of public housing revenue bonds since 1974. Debt service on these bonds is paid with housing assistance payments from the federal government and from tenant income derived from the operation of the various housing projects.

In June 2003, the City issued Senior Lien Street and Highway User Revenue Refunding Bonds, Series 2003 in the amount of $47,360,000 which resulted in a new present value debt service savings of $5,108,463. The bonds have an average life of 6.2 years and were sold at a true interest cost of 2.56%.

Certificates of Participation

The City has pledged excise taxes as security for the certificates of participation. The pledge is subordinate to the pledge on all outstanding senior lien and junior lien excise tax obligations.

Municipal Corporation Obligations

The City has entered into certain agreements with the City of Phoenix Civic Improvement Corporation (the "CIC") and the Phoenix Civic Plaza Building Corporation, affiliated nonprofit corporations, for the construction and acquisition of certain facilities and equipment. Under the terms of these agreements, the corporations issued bonds or certificates of participation to finance the facilities, and the City agreed to make lease and purchase payments sufficient to pay principal and interest on the outstanding obligations. The City also pays all expenses of operating and maintaining the facilities and equipment.

In May 2003, the City issued Civic Improvement Corporation Senior Lien Excise Tax Revenue Refunding Bonds, Series 2003 in the amount of $47,600,000 which resulted in a net present value debt service savings of $1,686,623. The bonds have an average life of 15.6 years and were sold at a true interest cost of 4.48%.

In May 2003, the City issued the following Civic Improvement Corporation Subordinated Excise Tax Revenue Bonds:

Solid Waste Improvements, Series 2003A in the amount of $80,000,000. The bonds have an average life of 12.3 years and were sold at a true interest cost of 4.17%.

Municipal Facilities, Series 2003B in the amount of $25,000,000. The bonds have an average life of 11.8 years and were sold at a true interest cost of 4.03%.

Municipal Facilities, Taxable Series 2003C in the amount of $25,000,000. The bonds have an average life of 20.8 years and were sold at a true interest cost of 5.64%.

Municipal Facilities, Taxable Series 2003D in the amount of $10,000,000. The bonds have an average life of 20.8 years and were sold at a true interest cost of 5.66%.

Special Assessment Bonds

Proceeds from special assessment bonds are used for improvements such as paving, sidewalks and sewers. Payments made by the assessed property owners are pledged to pay debt service on the bonds. In the event of default by a property owner, the lien created by the assessment is sold at public auction and the proceeds are used to offset the defaulted assessment. If there is no purchase at the public auction, the City is required to buy the property with funds appropriated from the General Fund.

In May 2003, the City issued Improvement District Bonds, Series 1301 in the amount of $62,425 and Series 1302 in the amount of $73,446. The bonds have an average life of 10.0 years and were sold at a true interest cost of 6.9%

Debt Service Requirements

Debt service requirements, including principal, interest and reserve contributions are as follows (in thousands):

	City of Phoenix Bonds							
Fiscal Years	General Obligation	Highway User Revenue	Housing Revenue	Airport Revenue	Water Revenue	Totals	Total Other Obligations (1)	Total Debt Service
2004	$ 115,849	$ 28,469	$ 547	$ 6,489	$ 550	$ 151,904	$ 161,540	$ 313,444
2005	104,557	26,406	547	6,489	550	138,549	170,374	308,923
2006	101,866	31,246	542	6,492	550	140,696	168,834	309,530
2007	101,131	31,241	554	6,492	550	139,968	171,590	311,558
2008	109,749	31,245	543	6,488	550	148,575	173,313	321,888
	0	0	0	0	0	-	-	0
2009-13	440,886	137,732	319	28,001	2,750	609,688	864,798	1,474,486
2014-18	284,294	-	-	-	5,650	289,944	819,735	1,109,679
2019-23	135,745	-	-	-	8,012	143,757	680,212	823,969
2024-28	39,412	-	-	-	-	39,412	321,195	360,607
2029-32	-	-	-	-	-	-	111,090	111,090
	1,433,489	286,339	3,052	60,451	19,162	1,802,493	3,642,681	5,445,174
Less: Interest	(449,214)	(79,023)	(512)	(15,501)	(9,162)	(553,412)	(1,516,339)	(2,069,751)
	$ 984,275	$ 207,316	$ 2,540	$ 44,950	$ 10,000	$ 1,249,081	$ 2,126,342	$ 3,375,423
Authorized	$ 2,728,210	$ 457,456	$ 4,960	$ 95,490	$ 54,570	$ 3,340,686		
Unissued	$ 664,107	$ -	$ -	$ -	$ -	$ 664,107		
Interest Rates on Outstanding Bonds	3.5 - 7.4%	3.3 - 7.6%	5.2 - 6.3%	4.7 - 8.7%	4.0 - 5.5%			

(1) Other obligations consist of the following (in thousands):

Fiscal Years	Certificates of Participation	Muni. Corp.	Special Assess. Bonds	Total Other Obligations
2004	$ 1,881	$ 157,782	$ 1,877	$ 161,540
2005	1,881	166,738	1,755	170,374
2006	1,874	165,592	1,368	168,834
2007	1,883	168,984	723	171,590
2008	1,889	170,705	719	173,313
0	0	0	0	-
2009-13	9,418	854,788	592	864,798
2014-18	8,608	811,127	-	819,735
2019-23	4,513	675,699	-	680,212
2024-28	-	321,195	-	321,195
2029-32	-	111,090	-	111,090
	31,947	3,603,700	7,034	3,642,681
Less: Interest	(11,492)	(1,503,915)	(932)	(1,516,339)
	$ 20,455	$ 2,099,785	$ 6,102	$ 2,126,342

Capital Leases

The City has entered into a lease agreement with an independent third-party for the purpose of acquiring structural improvements at Sky Harbor International Airport. The leased assets totaled $4,332,000 at June 30, 2003. Interest on the capital lease in the amount of $2,262,000 has been fully expensed and is included in the amount reported as a component of the capital leases obligation. The following is a schedule of future minimum lease payments, as of June 30, 2003 (in thousands):

Years Ending June 30	Aviation Enterprise Fund
2004	$ 458
2005	458
2006	458
2007	458
2008	420
Total Minimum Lease Payments	2,252
Less: Current Portion	(458)
Future Minimum Lease Payments	$ 1,794

Accrued Landfill Closure and Postclosure Care Costs

The Solid Waste Enterprise Fund ("Solid Waste") currently operates one landfill, the Skunk Creek Landfill, and monitors four additional closed landfills. Federal and state regulations require that certain postclosure care costs be incurred to maintain and monitor closed landfills for thirty years after closure to mitigate and prevent future environmental damage. In addition, numerous costs are incurred in the process of closing a landfill. These closure costs include the capping of the landfill with soil, installing such items as drainage and monitoring systems, and remediation of any environmental damage caused by the landfill. These costs are estimated based on what it would cost to perform all closure and postclosure care for the landfills at June 30, 2003 and are subject to change due to inflation, technology changes and applicable legal or regulatory requirements.

Total closure and postclosure care costs for the Skunk Creek Landfill (which is still operating) are currently estimated to be $43,746,000, including $12,115,000 that has already been paid out and an estimated $31,631,000 that will be paid out in future years. Of the unpaid amount, $27,519,000 has been recorded as a liability in the accompanying financial statements based on the use of approximately 87% of the estimated capacity of the landfill. The accrual for these costs for fiscal 2002-03 was increased by $1,864,000. The Skunk Creek Landfill is expected to be closed in the year 2005.

Total closure and postclosure care costs for the four closed landfills are currently estimated to be $53,040,000, including $48,192,000 that has already been paid out and an estimated $4,848,000 that will be paid out in future years as postclosure care efforts continue. The entire unpaid amount has been reported as a liability in the accompanying financial statements. The accrual for these costs was decreased by $2,002,000 during fiscal 2002-03 in connection with these landfills.

Of the liabilities discussed above, $4,529,000 is included in liabilities payable from restricted assets.

Certain environmental remediation costs associated with one of the closed landfills are recoverable from third parties. The City has recovered a total of $29,015,000 from third parties. These recoveries are used to reduce remediation expense in the year the recovery is assured. A total of $10,822,000 (which includes recoveries and applicable interest earnings) has been included in restricted assets on the Enterprise Fund balance sheet. Any postclosure care costs not recovered from third parties will be funded from revenues of the Solid Waste Enterprise Fund.

10. ***Refunded and Refinanced Obligations***

Future debt service on refunded bonds has been provided through advanced refunding bond issues whereby refunding bonds are issued and the net proceeds, plus any additional resources that may be required, are used to purchase securities issued or guaranteed by the United States government. These securities are then deposited in an irrevocable trust under an escrow agreement which states that all proceeds from the trust will be used to fund the principal and interest payments of the previously issued debt being refunded. The trust deposits have been computed so that the securities in the trust, along with future cash flows generated by the securities, will be sufficient to service the previously issued bonds.

During fiscal 2002-03, the City issued General Obligation Refunding Bonds, Series 2003, Street and Highway User Revenue Refunding Bonds, Series 2003 and Senior Lien Excise Tax Revenue Refunding Bonds, Series 2003 to reduce the present value of future debt service payments. These savings were available due to improved municipal bond market conditions (i.e., lower interest rates) during the year. The effects of the refundings and refinancings are summarized as follows (dollars in thousands):

	City of Phoenix		Civic Improvement Corporation
	General Obligation Bonds	**Street and Highway User Revenue**	**Senior Lien Airport Revenue**
Series	2003	2003	2003
Closing Date	06/11/03	06/25/03	05/22/03
Net Interest Rate	3.36%	2.76%	4.53%
Refunding Bonds Issued	$ 83,320	$ 47,360	$ 47,600
Premium (Discount)	4,838	5,134	1,421
Issuance Costs and Insurance	(310)	(302)	(291)
Net Proceeds	$ 87,848	$ 52,192	$ 48,730
Refunded Amount	$ 83,305	$ 49,950	$ 46,645
Decrease in Debt Service	$ 9,591	$ 5,259	$ 1,250
Economic Gain	$ 9,090	$ 5,108	$ 1,687
Number of Years Affected	14	8	27

The General Obligation Refunding Bonds, Series 2003, refunded bonds issued for property tax supported projects as well as various enterprise supported projects. The effect of the refunding on these various funds is as follows (in thousands):

Fund	Issue	Decrease in Debt Service	Economic Gain	Number of Years Affected
Secondary Property Tax	G.O. Refunding, Series 2003	$ 9,575	$ 9,071	14
Aviation	G.O. Refunding, Series 2003	9	10	14
Solid Waste	G.O. Refunding, Series 2003	1	(4)	6
Wastewater System	G.O. Refunding, Series 2003	(2)	3	11
Water System	G.O. Refunding, Series 2003	8	10	9
		$ 9,591	$ 9,090	

The refundings discussed above resulted in the recognition of accounting gains and (losses) (the difference between the dollar amount required for the refunding and the net carrying amount of the refunded debt) of $420,000 in the Secondary Property Tax Fund, ($640,000) in the Aviation Enterprise Fund, $1,405,000 in the Solid Waste Enterprise Fund, ($750,000) in the Wastewater Enterprise Fund and ($450,000) in the Water System Enterprise Fund. These accounting gains and losses are deferred and amortized (using the straight-line method) as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amounts are reported in the accompanying financial statements as a deduction from or addition to the new debt liability.

The deferred and amortized amounts of accounting losses on bond refundings (which are netted against outstanding bond obligations) at June 30, 2003, are summarized as follows (in thousands):

	Deferred Amount July 1	Additions	Reductions due to Refundings	Amortization	Deferred Amount June 30
General Government					
General Obligation	$ 7,549	$ 2,403	$ -	$ (531)	$ 9,421
Revenue	7,355	2,242	-	(818)	8,779
Civic Improvement Corporation	-	2,085	-	(80)	2,005
	$ 14,904	$ 6,730	$ -	$ (1,429)	$ 20,205
Enterprise Funds					
Aviation					
General Obligation	$ 1,038	$ 1,232	$ (69)	$ (195)	$ 2,006
Civic Improvement Corporation	4,177	-	-	(540)	3,637
Water					
General Obligation	3,362	854	-	(367)	3,849
Civic Improvement Corporation	8,156	-	-	(421)	7,735
Wastewater					
General Obligation	1,502	1,940	(468)	(82)	2,892
Civic Improvement Corporation	26,291	-	-	(1,248)	25,043
Solid Waste					
General Obligation	1,704	(1,355)	-	(167)	182
	$ 46,230	$ 2,671	$ (537)	$ (3,020)	$ 45,344

Advanced refunding arrangements at June 30, 2003 were as follows (in thousands):

Date Refunded	Refunded Bonds: Issue Dates	Refunded Bonds: Type	Refunded Bonds: Balance Outstanding	Assets Held in Trust (1)
05/07/86	03/01/81 -	General Obligation		
	12/01/85	Aviation	$ 24,500	$ 28,884
03/04/92	05/15/86 -	Junior Lien Street and		
	07/01/90	Highway User Revenue	$ 14,820	$ 14,376
12/16/92	03/15/87 -	Junior Lien Street and		
	02/01/92	Highway User Revenue	$ 7,750	$ 10,536
04/27/93	12/01/78 -	General Obligation		
	12/06/91	General Government	$ 10,953	
		Water System	1,625	
		Sanitary Sewer	495	
			$ 13,073	$ 21,620
02/28/96	01/01/90 -	General Obligation		
	01/01/95	General Government	$ 1,690	
		Solid Waste	250	
			$ 1,940	$ 2,714
02/12/97	11/01/94	Civic Improvement Corporation		
		Municipal Facilities	$ 8,635	$ 8,943
06/10/98	06/15/96	Civic Improvement Corporation		
		Water System Revenue	$ 102,385	$ 104,599
02/17/99	01/01/89 -	General Obligation		
	01/30/96	General Government	$ 37,110	
		Solid Waste	15,695	
		Water System	29,775	
			$ 82,580	$ 85,861
07/10/01	07/01/97 -	Civic Improvement Corporation		
	06/01/00	Wastewater System Revenue	$ 157,665	$ 166,111
08/30/01	01/01/94 -	Civic Improvement Corporation		
	06/15/96	Water System Revenue	$ 99,915	$ 109,304
06/05/02	02/01/92 -	Junior Lien Street and		
	12/15/92	Highway User Revenue	$ 2,500	$ 3,012
06/12/02	04/01/91 -	General Obligation		
	07/15/00	General Government	$ 65,690	
		Sanitary Sewer	2,310	
		Solid Waste	7,310	
			$ 75,310	$ 85,519
06/11/03	11/01/95	General Obligation		
		General Government	$ 7,815	$ 8,779

(1) Assets held in trust for advanced refunded bonds reflect the market value of those assets.

11. *Legal Debt Margin*

As discussed in Note 3, secondary property taxes are used to finance bond principal and interest payments. Under Arizona law, general obligation bonds for water, sewer, artificial light, open space preserves, parks, playgrounds and recreational facilities may not exceed 20% of a city's secondary assessed valuation. General obligation bonds for all other purposes may not exceed 6% of the secondary assessed valuation. The total debt margin available at July 1, 2003 was as follows (in thousands):

Six Percent Bonds	$ 559,746
Twenty Percent Bonds	1,245,143
	$ 1,804,889

12. *Risk Management*

The City maintained a $7,500,000 self-insured retention during the fiscal year ended June 30, 2003, for most public liability exposures. Losses exceeding that amount are covered by commercial insurance. Effective July 1, 2003, the self-insured retention amount was decreased to $5,000,000 for transit operations but remained at $7,500,000 for other city operations. Airport and aircraft liability exposures, as well as other specialty liability exposures, are fully insured through the purchase of commercial insurance. For the fiscal year ended June 30, 2003, workers' compensation claims for Phoenix Transit employees were self-insured up to a $350,000 self-insured retention, and commercial insurance is purchased for losses exceeding that amount. The self-insured retention remains the same for the year beginning July 1, 2003.

Unemployment and long-term disability benefits are fully self-insured. Beginning April 1, 2003, the City's workers' compensation program became self-insured. Excess workers' compensation insurance is purchased above a $10,000,000 self-insured retention. Employee medical and dental benefits are insured by a commercial health insurance provider through a loss sensitive, minimum premium funding arrangement. Claims are reported as liabilities in the accompanying financial statements when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. This determination is based on reported pending claims, estimates of claims incurred but not reported, and actuarial analyses of the total value of outstanding claims and claim related expenses. For the year ended June 30, 2003, there were no reductions in insurance coverage from the prior year. Settled claims have not exceeded insurance coverage for the past three fiscal years.

The City reports its self-insurance activities in the General Fund, the Transit Special Revenue Fund (for transit related claims only) and the Government-Wide Statement of Net Assets, with the other funds reimbursing the General Fund for their share of the cost of the City's self-insurance program. At June 30, 2003, claims payable totaled $194.1 million. Changes in this liability for the last two fiscal years follow (in thousands):

	Year Ended June 30	
	2003	**2002**
Claims Payable, July 1	$ 160,713	$ 145,872
Current Year Claims and Changes in Estimates	163,933	127,367
Claim Payments	(130,546)	(112,526)
Claims Payable, June 30	$ 194,100	$ 160,713

Claims that are expected to be paid with expendable available financial resources are accounted for in the General Fund and the Transit Special Revenue Fund. All other claims are accounted for in the Government-Wide Statement of Net Assets. These balances were as follows (in thousands):

	June 30 2003	June 30 2002
Amounts due within one year	$ 78,495	$ 68,220
Amounts due in more than one year	115,605	92,493
	$ 194,100	$ 160,713

In addition, cash and investments of $184,657,058 and $3,019,502 are held in the General Fund and Transit Special Revenue Fund, respectively, at June 30, 2003 for purposes of funding the claims liability reported in the Government Wide Statement of Net Assets. As a result, $184,657,058 of the General Fund balance and $3,019,502 of the Transit Special Revenue Fund balance are designated for payment of claims.

13. *Operating Leases*

The City's public housing program leases housing facilities that are, in turn, subleased to low income and elderly tenants. These lease obligations are subsidized by the federal government. Total rental expense for these leases was $34,292,244 and $27,903,887 for the fiscal years ended June 30, 2003 and 2002, respectively. In addition, $3,192,539 was paid during fiscal year 2002-03 on contracts, which the Housing Department administers for HUD.

The City also leases certain airport facilities to third parties. Minimum future rentals on non-cancelable operating leases at June 30, 2003 were as follows (in thousands):

Years Ending June 30	
2004	$ 20,858
2005	10,716
2006	7,785
2007	7,249
2008	7,219
Thereafter	153,827
	$ 207,654

The above amounts do not include contingent rentals, which also may be received under the airport facilities leases, primarily as a percentage of sales in excess of stipulated minimums. Contingent rentals amounted to $17,431,903 and $23,640,000 for the fiscal years ended June 30, 2003 and 2002, respectively. A summary of the assets leased to third parties under the airport operating lease agreements at June 30, 2003 is as follows (in thousands):

Buildings	$ 495,883
Less: Accumulated Depreciation	(236,781)
	$ 259,102

14. *Contractual and Other Commitments*

Public Transit

The City provides public transit service through the following private contractors: ATC/VANCOM Management Services Inc., Laidlaw Transit Services, and Arnett Transportation Services. In addition, the City purchases fixed route bus service from the Regional Public Transportation Authority. The services provided by these contractors, the expiration dates of the current agreements and the estimated contract amount to be provided by the City through June 30, 2004 are as follows (in thousands):

Contractor	Type of Service	Expiration Date	Estimated Annual Subsidy
Laidlaw Transit Services	Bus Service	June 30, 2006	$ 11,830
MV Transportation Services	Dial-a-Ride	June 30, 2006	9,240
Arnett Transportation Svcs.	Downtown Area Shuttle	June 30, 2005	657
ATC/VANCOM Management Services, Inc.	Bus Service	June 30, 2007	67,839
Regional Public Transportation Authority	Bus Service	June 30, 2004	4,933
MV Transportation Services	ALEX	June 30, 2006	941
			$ 95,440

Approximately 10% of the total net transit costs will be reimbursed to the City by adjacent communities and the RPTA. In addition, the City will apply for funding to support daily operations from the Department of Transportation, Federal Transit Administration. This grant will be used to fund approximately 7.3% of the total transit costs for fiscal 2003-04. The City has been the designated recipient for these grants since 1975.

Plan Six Funding Agreements

The Plan Six Funding Agreement provides for a cost sharing arrangement to ensure timely completion of the Plan Six facilities of the Central Arizona Project. These facilities include the new Waddell Dam on the Agua Fria River and modifications of the Roosevelt and Stewart Mountain dams on the Salt River. The parties to this agreement include the United States government, the State of Arizona, the Central Arizona Water Conservation District, Maricopa County Flood Control District, the Salt River Project, and the cities of Phoenix, Chandler, Glendale, Mesa, Scottsdale, Tempe and Tucson. The federal government has determined that the Plan Six Agreement does not constitute a joint venture.

Deposited funds from prior fiscal years are held in the State Treasurer's trust for Plan Six and, as disbursements are made from this fund, the City records an asset (water rights). Upon completion, the City will amortize this asset over a 40-year life. No further contributions are required.

Other Contracts
The City's enterprise funds have entered into construction contracts having remaining commitments at June 30, 2003 as follows (in thousands):

Aviation	$ 80,135
Phoenix Civic Plaza	1,692
Water System	112,830
Wastewater	177,317
Solid Waste	11,616
	$ 383,590

These commitments have not been recorded in the accompanying financial statements. Only the currently payable portions of these contracts have been included in accounts payable in the accompanying financial statements.

15. *Contingent Liabilities*

Pending Litigation
The City is contingently liable in respect to lawsuits and other claims incidental to the ordinary course of its operations. As discussed in Note 12, the City is primarily self-insured, and has accrued a liability for estimated claims outstanding. As with any risk retention program, however, the City is contingently liable in respect to claims beyond those currently accrued. In the opinion of City management, based on the advice of the City Attorney, the outcome of such claims will not have a material adverse effect on the City's financial position, results of operations or liquidity at June 30, 2003.

Housing Authority Bonds and Public Housing Notes Payable
Excluded from the City's long-term obligations in the accompanying financial statements are Housing Authority Bonds and Public Housing Notes Payable. These obligations were incurred in connection with the City's public housing activities, but are entirely supported by the federal government. The City would be obligated to pay the debt service on these bonds only in the event of default by the federal government. The outstanding balances on these bonds and notes at June 30, 2003 were $115,000 and $971,085, respectively.

Sick Leave
Sick leave is continuously accumulated at the rate of 15 days per year but can only be taken in the event of illness. With the exception of police, firefighters, and supervisory, professional, middle management and executive employees, sick leave is not convertible to a cash benefit. However, upon retirement, for every 173 hours of unused sick leave, one month of creditable service is allowed in determining a General Employee Retirement Plan pension. A balance of over 80 hours after making the above calculation will allow an extra month of creditable service. The dollar amount of any cash payment as described below is included in the final average compensation, but the hours used are excluded from credited service.

Police who have accumulated 900 qualifying hours or more of unused sick leave at the time of normal service retirement are eligible to receive a payment equal to 35% or more (depending on the number of qualifying hours) of their base hourly rate for hours in excess of 450 hours.

Firefighters who have accumulated 900 qualifying hours or more of unused sick leave at the time of normal service retirement (1,260 qualifying hours or more for employees not on a 40 hour per week work schedule) are eligible to receive a payment equal to 35% or more (depending on the number of qualifying hours) of their base hourly rate for hours in excess of 450 hours (630 hours for employees not on a 40 hour per week work schedule).

Supervisory and Professional, Middle Management, Executive, Confidential Office and Clerical, Field Unit 1, Field Unit 2, and Office and Clerical employees who have accumulated 750 qualifying hours or more of unused sick leave at the time of normal service retirement are eligible to receive a payment equal to their base hourly rate for 25% of the hours in excess of 250 hours.

Sick leave is accrued as a liability as it is earned by the employees only if the leave is attributable to past service and it is probable that the employees will be compensated through cash payments conditioned on the employees' termination or retirement. In accordance with these criteria, a portion of the sick leave accumulated by police, firefighters, and general employees as described above has been accrued as a liability in the accompanying financial statements. The June 30, 2003, actuarial valuation of the sick leave liability was based on the termination method, with the liability pro-rated based on the current service of a participant. The projected sick leave benefit payment under the termination method is calculated as the maximum sick leave hours eligible for payment multiplied by the probability of an individual employee reaching retirement multiplied by the employee's projected salary at first eligibility for retirement pro-rated based on the employee's current service to date over the projected service to retirement increased by the cost of salary-related fringe benefits.

The sick leave benefit balances (both accrued and unaccrued) at June 30 were as follows (in thousands):

	June 30	
	2003	**2002**
General	$ 129,733	$ 122,142
Police	42,140	88,880
Fire	95,835	39,686
	267,708	250,708
Less: Amounts Accrued as a Liability	(91,026)	(84,369)
	$ 176,682	$ 166,339

Liabilities Under Grants

The City participates in a number of federal and state-assisted grant programs. The audits of these programs for earlier years and the year ended June 30, 2003 have not been completed in all cases; accordingly, final determination of the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although City management believes any such claims would be immaterial to the City's financial position at June 30, 2003.

16. *Joint Use Agreements*

Valley Metro Rail, Inc. (VMRI)

The City currently participates with the cities of Tempe, Mesa, and Glendale in a joint powers agreement for the design, construction and operation of a light rail transit system. The Valley Metro Rail, Inc. (VMRI) is the management agency that was incorporated to administer the joint powers agreement between the cities. The VMRI has oversight responsibility for the planning, designing, construction and operation of a regional mass transit light rail system. The agreement provides voting rights for members of the representative cities related to strategic initiatives including passage of an annual budget.

The City has an ongoing financial responsibility as a result of the joint venture to participate in the cost to construct and operate the light rail project less any Federal reimbursements and operating fares. The equity interests will be determined based on the number of rail mileage located within each City. The joint venture does not report any allocated equity interest for any participating city at this time. Therefore, the City does not have an equity interest at June 30, 2003.

Separate financial statements may be obtained from Valley Metro Rail, Inc., 411 N. Central Avenue, Suite 200, Phoenix, Arizona 85004.

Wastewater

Phoenix participates with the cities of Glendale, Mesa, Scottsdale and Tempe in the Subregional Operating Group ("SROG") Agreement for the construction, operation and maintenance of jointly used facilities, including the 91st Avenue Wastewater Treatment Plant, the Salt River Outfall Sewer, the Southern Avenue Interceptor and related transportation facilities. As lead agency, the City of Phoenix is responsible for the planning, budgeting, construction, operation and maintenance of the plant. Phoenix provides all management personnel and financing arrangements and accepts federal grants on behalf of the participants. The other participants pay for costs of operation and maintenance based on sewage flows and strengths, and for purchased capacity in plant and related transportation facilities based on approved engineering billing schedules.

The City of Phoenix holds title to the land comprising the plant site and rights of way. The City's investment under the joint use agreement is included in the Wastewater Enterprise Fund financial statements as part of the total wastewater system. The SROG members participate in each facility at varying rates depending on their needs at the time each facility was constructed. The system has no bonded debt outstanding. Summary financial information on the joint use agreement as of and for the fiscal years ended June 30, 2003 and 2002 is provided below (in thousands).

	June 30	
	2003	2002
Assets		
Equity in Pooled Cash and Investments	$ 40,978	$ 32,968
Receivables	21,607	10,922
Inventories, at average cost	680	705
Capital Assets, Net of Accumulated Depreciation	455,450	398,881
Total Assets	518,715	443,476
Liabilities	(50,872)	(32,320)
Net Assets	$ 467,843	$ 411,156
Total Revenues	$ 102,136	$ 82,614
Total Expenses	(45,449)	(43,727)
Increase in Net Assets	$ 56,687	$ 38,887

Separate financial statements for the activity under the joint use agreement can be obtained through the AMWUA office at 4041 N. Central Avenue, Phoenix, Arizona 85012.

Water

Phoenix participates with the City of Mesa in the Val Vista Water Treatment Plant and Transmission Line agreement for the construction, operation and maintenance of the jointly used facilities. As lead agency, the City of Phoenix is responsible for the planning, budgeting, construction, operation and maintenance of the Plant. Phoenix provides all management personnel and financing arrangements. The City of Mesa pays for costs of operation and maintenance based on flows and purchased capacity, and for purchased capacity in the Plant and related transmission line based on approved engineering billing schedules.

The City's investment under the joint use agreement is included in the Water Enterprise Fund financial statements as part of the total water system. The plant has no bonded debt outstanding. Summary financial information on the joint use agreement as of and for the fiscal years ended June 30, 2003 and 2002 is provided below (in thousands).

	June 30	
	2003	2002
Assets		
Equity in Pooled Cash and Investments	$ 2,149	$ 1,178
Receivables	2,554	4,296
Capital Assets, Net of Accumulated Depreciation	155,457	155,682
Total Assets	160,160	161,156
Liabilities	(2,152)	(3,009)
Net Assets	$ 158,008	$ 158,147
Total Revenues	$ 18,328	$ 22,372
Total Expenses	(18,467)	(17,905)
Increase (decrease) in Net Assets	$ (139)	$ 4,467

Separate financial statements for the activity under the joint use agreement can be obtained through the City of Phoenix, Finance Department, Utilities Accounting Division, 305 W. Washington Street, Phoenix, Arizona 85003.

17. ***Pension Plans***

Plan Descriptions

Substantially all full-time employees and elected officials of the City are covered by one of three contributory pension plans. In addition to normal retirement benefits, all of the plans also provide for disability and survivor benefits, as well as deferred pensions for former employees. Pension benefits vest after five years for general City employees and elected officials and after ten years for public safety employees.

The City of Phoenix Employees' Retirement Plan ("COPERS") is a single-employer defined benefit pension plan for all full-time classified civil service general City employees. Members are eligible for retirement benefits upon meeting one of the following age and service requirements:

1. Age 60 years, with ten or more years of credited service.

2. Age 62 years, with five or more years of credited service.

3. Any age, which added to years of credited service equals 80 (Rule of 80).

The Plan is authorized by and administered in accordance with Chapter XXIV of the Charter of the City of Phoenix. Authority to make amendments to the plan rests with City voters. The Plan is administered by a nine-member Retirement Board. COPERS has been included as part of the City's reporting entity as a pension trust fund. Copies of the separately issued COPERS financial report, which includes financial statements and required supplemental information, may be obtained from COPERS, Barrister Place, 101 South Central Avenue, Suite 600, Phoenix, Arizona 85004.

The Arizona Public Safety Personnel Retirement System ("APSPRS") is an agent multiple-employer defined benefit pension plan for all sworn police officers and fire fighters. Members are eligible for normal retirement benefits after 20 years of service or at age 62 with completion of 15 years of service. It is authorized by and administered in accordance with Arizona Revised Statutes Title 38, Chapter 5, Article 4, Section 38.841-855. Authority to make amendments rests with the Arizona State Legislature. The Plan is administered by local boards consisting of the City Mayor, two members elected by employees and two citizens appointed by the mayor and approved by the City Council. The same board administers both the Fire Fighters and Police pension plans for the City.

The Elected Officials' Retirement Plan of Arizona ("EORPA") is a cost-sharing multiple-employer defined benefit pension plan for all elected officials of the City. Members are eligible for retirement benefits upon meeting one of the following age and service requirements:

1. Age 60 years, with 25 or more years of credited service.

2. Age 62 years, with ten or more years of credited service.

3. Age 65 years, with five or more years of credited service.

4. Age 50 years, with ten or more years of credited service (reduced pension).

Benefits are based on 4% of the member's final annual salary multiplied by the years of credited service. The maximum is 80% of the member's final annual salary. Benefits for early retirees (option 4 above) are reduced by 3/12 of 1% for each month that early retirement precedes age 65. EORPA is authorized by and administered in accordance with Arizona Revised Statutes Title 38, Chapter 5, Article 3, Section 802 as amended. The authority to make amendments rests with the Arizona State Legislature. The Plan is administered by the Arizona Public Safety Personnel Retirement System.

Copies of the publicly available financial reports for the APSPRS and EORPA may be obtained from Arizona Public Safety Personnel Retirement System, 1020 East Missouri, Phoenix, Arizona 85014-2613.

<u>Funding Policy and Annual Pension Cost</u> (Unaudited)
The City contributes an actuarially determined amount to COPERS to fully fund benefits for active members and to amortize any unfunded actuarial liability as a level percent of projected member payroll over an open period of 20 years from July 1, 2003. The employee contribution rate is 5% of compensation.

In addition to funding the plan for benefits, the City pays the administrative costs of the plan as a City expense. Investment expenses are paid by the plan from investment earnings.

Contribution rates for APSPRS are specified by State statute, with a 7.65% employee share and an employer's share equal to a level percent of compensation to fund normal cost and unfunded accrued liability over an open period of 20 years from July 1, 2003. Optionally, the employer may increase its contributions in order to lower the employees' share.

Contribution rates for EORPA are specified by State statute, with a 7% employee share and an employer's share equal to a level percent of compensation to fund normal cost and unfunded accrued liability over an open period of 20 years from July 1, 2003.

The City's annual pension costs for the current year and related information for each plan is as follows:

		APSPRS		
	COPERS	**Police**	**Fire**	**EORPA**
Contribution Rates:				
City	6.86%	2.58%	3.39%	6.97%
Plan Members	5.00%	7.65%	7.65%	7.00%
Annual Pension Costs (thousands) (1)	$ 27,820	$ 4,351	$ 447	$ 27
Contributions Made (thousands)	$ 27,820	$ 4,351	$ 447	$ 27
Actuarial Valuation Date	6/30/03	6/30/02	6/30/02	6/30/02
Actuarial Cost Method	Entry Age, Normal Cost	Entry Age, Normal Cost	Entry Age, Normal Cost	Entry Age, Normal Cost
Amortization Method	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open
Remaining Amortization Period	20 years	20 years	20 years	20 years
Asset Valuation Method	4-year smoothed market	4-year smoothed market	4-year smoothed market	4-year smoothed market
Actuarial Assumptions:				
Investment Rate of Return	8.0%	9.0%	9.0%	9.0%
Projected Salary Increases *	5.0 - 9.0%	6.5 - 9.5%	6.5 - 9.5%	7.0%
* Includes Inflation at	4.5%	5.5%	5.5%	5.5%
Cost-of-Living Adjustments	-	-	-	-

(1) A fire premium tax levied by the State is credited toward the City's contribution.

Three-year trend information follows:

	Contributions Required and Contributions Made			
	Fiscal Year Ending	**Annual Pension Cost (APC)**	**Percentage Of APC Contributed**	**Net Pension Obligation**
General City Employees	6/30/03	$ 27,819,507	100 %	N/A
	6/30/02	28,294,889	100	N/A
	6/30/01	22,329,387	100	N/A
Public Safety Employees - Police	6/30/03	$ 4,351,071	100 %	N/A
	6/30/02	3,264,728	100	N/A
	6/30/01	5,032,488	100	N/A
Public Safety Employees - Fire	6/30/03	$ 2,885,365	100 %	N/A
	6/30/02	-	100	N/A
	6/30/01	2,276,410	100	N/A
Elected Officials	6/30/03	$ 26,575	100 %	N/A
	6/30/02	24,015	100	N/A
	6/30/01	35,155	100	N/A

	Schedule of Funding Progress (in thousands)						
	Actuarial Valuation Date	**Funding Value of Assets (a)**	**Actuarial Accrued Liability (AAL) Entry Age (b)**	**Unfunded AAL (UAAL) (b - a)**	**Percent Funded (a/b)**	**Annual Covered Payroll (c)**	**UAAL as a Percentage of Covered Payroll (b - a)/(c)**
General City Employees	6/30/02	$ 1,330,584	$ 1,504,125	$ 173,541	88.5 %	$ 416,472	41.7 %
	6/30/01	1,273,731	1,390,273	116,542	91.6	404,414	28.8
	6/30/00	1,291,338	1,259,564	(31,774)	102.5	376,913	N/A
Public Safety Employees - Police	6/30/02	$ (1)	$ (1)	$ (1)	(1) %	$ (1)	(1) %
	6/30/01	1,075,571	938,886	(136,685)	114.6	161,091	N/A
	6/30/00	1,082,395	842,990	(239,405)	128.4	161,300	N/A
Public Safety Employees - Fire	6/30/02	$ (1)	$ (1)	$ (1)	(1) %	$ (1)	(1) %
	6/30/01	616,332	537,155	(79,177)	114.7	86,243	N/A
	6/30/00	614,674	489,794	(124,880)	125.5	89,345	N/A

(1) Information not available

18. *Deferred Compensation Plan*

The City offers its employees a Deferred Compensation Plan ("Plan") created in accordance with Internal Revenue Code Section 457. The plan permits the employees to defer a portion of their salaries until future years. The amount deferred is not available to employees until termination, retirement, death, or unforeseeable emergency.

In prior years, the Internal Revenue Code specified that the plan assets were the property of the City until paid or made available to participants, subject only on an equal basis to the claims of the City's general creditors. Therefore, the plan assets were recorded in an Agency Fund. A 1996 federal law now requires all assets and income of Internal Revenue code Section 457 deferred compensation plans to be held in trust, custodial accounts, or annuity contracts for the exclusive benefit of the participants and their beneficiaries. On September 23, 1998, the City Council approved Ordinance No. S-25613 which amended the City's Plan to comply with the 1996 federal law. The Ordinance establishes a trust into which all assets of the Plan were transferred December 4, 1998. The Plan is administered by the International City Management Association Retirement Corporation ("ICMA-RC"). Consequently, the Plan's assets and liabilities have been removed from the City's financial statements.

19. *Postemployment Health and Life Insurance Benefits*

In accordance with the compensation plan adopted by the City Council each fiscal year, the City offers continuation of group medical and conversion of group life insurance to retirees or to those on long-term disability benefits. At June 30, 2003, approximately 4,525 former employees were eligible for these benefits. If converted, the life insurance premium must be paid in full by the retiree, but the City continues to contribute toward the medical insurance premium. Continuation of the City's contribution towards medical coverage is dependent on the annual budget authorization by the City Council.

Medical insurance benefits are the same as those offered to active employees and include hospital, doctor and prescription drug charges. Retirees may choose single or family coverage. The City contribution to the medical insurance varies with length of service, from $117 per month for retirees with less than five years of active credited service to $202 per month for retirees with 25 or more years of active credited service.

General retirees who were supervisory level or above and who retired before July 1, 1996, with 500 hours or more of unused sick leave were eligible for an additional City contribution of $20 per month. Police and Fire retirees who were supervisors or above, and who retired between August 1979 and July 1984 with 1,000 hours or more of sick leave, were eligible for an additional City contribution of $30 per month. Beginning August 1, 1998, all general retirees in the Supervisory, Professional, Middle Manager, Executive and City Manager categories may have an additional $100 monthly benefit added to their medical insurance contribution if they meet the following conditions: a) they enroll in the City's medical insurance; b) they enroll for family coverage; c) no one in the family is eligible for Medicare; and d) the retiree is under the age of 65.

The total medical insurance premium is collected from retirees monthly. The City provides a pay-as-you-go contribution. The cost to the City for retiree medical insurance for the fiscal years ended June 30, 2003 and 2002 was $9,280,498 and $7,939,718, respectively. All eligible retirees receive the City's medical insurance contribution in cash. This medical insurance contribution is tax free when used for eligible health-related expenses during the calendar year in which it is received. If all the tax-free medical insurance contribution is not used for health-related expenses, the money must be returned to the City.

The City offers a flexible medical insurance plan which provides the services of a staff model type of health maintenance organization ("HMO"), an independent practice association type of health maintenance organization ("IPA"), a preferred provider network ("PPO") and an indemnity plan. Coverage is provided for retirees, covered surviving dependents and other eligible dependents. If a retiree with family coverage dies, coverage for dependents may be continued. The length of coverage is dependent upon the survivor's pension. The City's contribution for surviving dependents is the same as for a retiree except that it does not include the sick leave conversion benefit.

Long-term disability benefits are available to all regular, benefit-eligible employees who meet certain age requirements and have been employed by the City for at least 12 consecutive months. Employees receiving long-term disability benefits are entitled to continuation of group medical, dental and life insurance for a specified period. The cost of these benefits for the fiscal years ended June 30, 2003 and 2002 was approximately $379,000 and $285,000, respectively. The City funds this cost on a pay-as-you-go basis.

20. ***Subsequent Events***

Bond Issuances

On September 16, 2003, the City of Phoenix Civic Improvement Corporation issued $11.3 million in Junior Lien Water System Revenue Refunding Bonds, Series 2003. The bonds were issued at a true interest cost of 4.53% and were delivered on October 21, 2003.

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City of Phoenix, Arizona
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2003
with comparative totals for June 30, 2002
(in thousands)

	Special Revenue Funds				
	Cable Communi-cations	Highway User Revenue	Local Trans-portation Assistance	Transit	Municipal Court
ASSETS					
Equity in Pooled Cash and Investments	$ -	$ 71,927	$ 316	$ 144,254	$ 6,918
Cash Deposits	60	183	-	-	-
Cash and Securities with Fiscal Agents/Trustees	-	-	-	-	-
Investments	-	-	-	-	-
Due from Other Funds	-	-	-	-	-
Receivables, Net of Allowance					
Accounts Receivable	1,900	16	-	1,410	-
Taxes Receivable	-	-	-	-	-
Delinquent Taxes Receivable	-	-	-	-	-
Intergovernmental	-	9,232	-	6,624	-
Accrued Interest	-	-	-	-	-
Notes Receivable	-	-	-	-	-
Prepaid Items	-	-	-	-	-
Inventories	-	1,314	-	1,999	-
Total Assets	$ 1,960	$ 82,672	$ 316	$ 154,287	$ 6,918
LIABILITIES AND FUND BALANCES					
Liabilities					
Due to Other Funds	$ 1,848	$ -	$ -	$ -	$ -
Warrants and Accounts Payable	31	7,418	-	10,525	62
Trust Liabilities and Deposits	60	3,971	-	-	1,220
Matured Bonds Payable	-	-	-	-	-
Interest Payable	-	-	-	-	-
Deferred Revenue	-	-	-	-	-
Total Liabilities	1,939	11,389	-	10,525	1,282
Fund Balances					
Reserved					
Encumbrances	35	25,875	-	51,053	432
Debt Service	-	-	-	7,745	-
Inventories	-	1,314	-	1,999	-
Unreserved					
Designated for Insurance Claims	-	-	-	3,019	-
Designated for Unrealized Gain on Investments	-	988	16	2,384	97
Undesignated	(14)	43,106	300	77,562	5,107
Total Fund Balances	21	71,283	316	143,762	5,636
Total Liabilities and Fund Balances	$ 1,960	$ 82,672	$ 316	$ 154,287	$ 6,918

(Continued)

Special Revenue Funds

Library	Parks and Recreation	Develop-ment Services	Grants	Public Housing	Sports Facilities	Capital Construction	Other Restricted	Total
$ 872	$ 27,056	$ 81,412	$ -	$ -	$ 9,639	$ 34,645	$ 5,417	$ 382,456
-	-	-	-	-	-	-	-	243
-	-	1,017	3,726	2,810	1,863	-	-	9,416
-	-	-	-	38,392	-	-	-	38,392
-	-	-	-	-	-	-	-	-
-	22	1,348	3,112	453	-	9	-	8,270
-	80	-	-	-	-	-	-	80
-	-	-	-	-	-	-	-	-
-	14	34	25,395	4,931	-	-	-	46,230
-	-	-	-	170	-	-	-	170
-	-	-	-	12,234	-	-	-	12,234
-	-	-	-	2,780	-	-		2,780
-	318	-	-	62	-	-	-	3,693
$ 872	$ 27,490	$ 83,811	$ 32,233	$ 61,832	$ 11,502	$ 34,654	$ 5,417	$ 503,964
$ -	$ 1,190	$ -	$ 706	$ 4,944	$ -	$ -	$ -	$ 8,688
245	5,084	716	6,199	3,241	1,080	1,357	297	36,255
(15)	3	3,404	3,011	16,291	-	-	20	27,965
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	8	3,900	22,317	58	-	-	-	26,283
230	6,285	8,020	32,233	24,534	1,080	1,357	317	99,191
451	2,103	861	4,285	396	1,355	12,736	35	99,617
-	1,936	-	-	-	913	1,590	-	12,184
-	318	-	-	62	-	-	-	3,693
-	-	-	-	-	-	-	-	3,019
52	568	1,394	-	11	174	586	62	6,332
139	16,280	73,536	(4,285)	36,829	7,980	18,385	5,003	279,928
642	21,205	75,791	-	37,298	10,422	33,297	5,100	404,773
$ 872	$ 27,490	$ 83,811	$ 32,233	$ 61,832	$ 11,502	$ 34,654	$ 5,417	$ 503,964

City of Phoenix, Arizona
Combining Balance Sheet
Non-Major Governmental Funds

June 30, 2003
with comparative totals for June 30, 2002
(in thousands)

(Continued)

	Capital Projects Funds				
	Street Improve-ments	**Police and Fire Protection**	**Storm Sewers**	**Parks, Recreation and Libraries**	**Public Housing**
ASSETS					
Equity in Pooled Cash and Investments	$ -	$ -	$ -	$ -	$ -
Cash Deposits	-	-	-	-	-
Cash and Securities with Fiscal Agents/Trustees	-	-	-	-	-
Investments	892	791	584	5,529	4,091
Due from Other Funds	-	-	9,438	-	-
Receivables, Net of Allowance					
Accounts Receivable	1,399	-	4	1	-
Taxes Receivable	-	-	-	-	-
Delinquent Taxes Receivable	-	-	-	-	-
Intergovernmental	-	-	-	-	342
Accrued Interest	-	-	-	-	-
Notes Receivable	-	-	-	-	-
Prepaid Items	-	-	-	-	-
Inventories	-	-	-	-	-
Total Assets	$ 2,291	$ 791	$ 10,026	$ 5,530	$ 4,433
LIABILITIES AND FUND BALANCES					
Liabilities					
Due to Other Funds	$ 1,275	$ 22,517	$ -	$ 6,475	$ 17,307
Warrants and Accounts Payable	4,090	1,428	860	398	2,913
Trust Liabilities and Deposits	-	-	-	723	2
Matured Bonds Payable	-	-	-	-	-
Interest Payable	-	-	-	-	-
Deferred Revenue	-	-	-	-	-
Total Liabilities	5,365	23,945	860	7,596	20,222
Fund Balances					
Reserved					
Encumbrances	9,276	16,926	5,562	7,412	3,779
Debt Service	-	-	-	-	-
Inventories	-	-	-	-	-
Unreserved					
Designated for Insurance Claims	-	-	-	-	-
Designated for Unrealized Gain on Investments	-	-	182	25	-
Undesignated	(12,350)	(40,080)	3,422	(9,503)	(19,568)
Total Fund Balances	(3,074)	(23,154)	9,166	(2,066)	(15,789)
Total Liabilities and Fund Balances	$ 2,291	$ 791	$ 10,026	$ 5,530	$ 4,433

(Continued)

Capital Projects Funds				Debt Service Funds			
Municipal Buildings and Service Centers	Transit	Sports and Cultural Facilities	Total	General Obligation/ Secondary Property Tax	Streets and Highways	Public Housing	City Improve-ment
$ -	$ -	$ -	$ -	3,207	$ -	$ -	$ 803
-	-	-	-	-	-	-	-
-	-	-	-	40,499	12,018	-	14,459
133,780	783	584	147,034	245,439	436	-	2,500
-	266	-	9,704	-	-	-	-
30	43	2	1,479	-	-	-	-
-	-	-	-	1,857	-	-	-
-	-	-	-	2,393	-	-	-
-	1,067	-	1,409	-	-	-	-
269	-	-	269	600	-	-	47
1,000	-	-	1,000	-	-	-	-
-	-	-	-	-	-		-
-	-	-	-	-	-	-	-
$ 135,079	$ 2,159	$ 586	$ 160,895	$ 293,995	$ 12,454	$ -	$ 17,809
7,357	-	33,593	88,524	-	-	-	-
2,299	185	1,278	13,451	189	205	-	850
-	-	-	725	-	-	-	-
-	-	-	-	25,515	8,165	-	7,279
-	-	-	-	14,984	3,853	-	7,180
1,000	-	-	1,000	2,393	-	-	-
10,656	185	34,871	103,700	43,081	12,223	-	15,309
7,057	13,778	3,272	67,062	-	-	-	-
-	-	-	-	230,406	185	-	1,975
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
1,709	-	-	1,916	20,508	46	-	525
115,657	(11,804)	(37,557)	(11,783)	-	-	-	-
124,423	1,974	(34,285)	57,195	250,914	231	-	2,500
$ 135,079	$ 2,159	$ 586	$ 160,895	293,995	$ 12,454	$ -	$ 17,809

City of Phoenix, Arizona
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2003
with comparative totals for June 30, 2002
(in thousands)

(Continued)

	Debt Service Funds			
	Special Assess-ment	Total	Totals 2003	Totals 2002
ASSETS				
Equity in Pooled Cash and Investments	$ 1,920	$ 5,930	$ 388,386	$ 327,254
Cash Deposits	-	-	243	325
Cash and Securities with Fiscal Agents/Trustees	199	67,175	76,591	71,275
Investments	-	248,375	433,801	386,327
Due from Other Funds	-	-	9,704	18,786
Receivables, Net of Allowance				
Accounts Receivable	5,402	5,402	15,151	12,508
Taxes Receivable	-	1,857	1,937	1,844
Delinquent Taxes Receivable	-	2,393	2,393	1,945
Intergovernmental	-	-	47,639	37,854
Accrued Interest	25	672	1,111	1,099
Notes Receivable	-	-	13,234	12,468
Prepaid Items	-	-	2,780	2,590
Inventories	-	-	3,693	2,263
Total Assets	$ 7,546	$ 331,804	$ 996,663	$ 876,538
LIABILITIES AND FUND BALANCES				
Liabilities				
Due to Other Funds	$ -	$ -	$ 97,212	$ 70,276
Warrants and Accounts Payable	1	1,245	50,951	39,918
Trust Liabilities and Deposits	97	97	28,787	31,726
Matured Bonds Payable	-	40,959	40,959	38,526
Interest Payable	199	26,216	26,216	24,749
Deferred Revenue	5,554	7,947	35,230	22,690
Total Liabilities	5,851	76,464	279,355	227,885
Fund Balances				
Reserved				
Encumbrances	19	19	166,698	119,921
Debt Service	1,676	234,242	246,426	217,397
Inventories	-	-	3,693	2,263
Unreserved				
Designated for Insurance Claims	-	-	3,019	2,635
Designated for Unrealized Gain on Investments	-	21,079	29,327	30,191
Undesignated	-	-	268,145	276,246
Total Fund Balances	1,695	255,340	717,308	648,653
Total Liabilities and Fund Balances	$ 7,546	$ 331,804	$ 996,663	$ 876,538

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City of Phoenix, Arizona
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Non-Major Funds
For the Fiscal Year Ended June 30, 2003
with comparative totals for June 30, 2002
(in thousands)

	Special Revenue Funds				
	Cable Communi-cations	Highway User Revenue	Local Trans-portation Assistance	Transit	Municipal Court
REVENUES					
City Taxes	$ -	$ -	$ -	$ -	$ -
Licenses and Permits	7,540	-	-	-	-
Intergovernmental	-	105,078	7,342	17,513	-
Charges for Services	-	253	-	19,523	4,305
Parks and Recreation	-	-	-	-	-
Investment Income					
Net Increase (Decrease) in Fair Value of Investments	-	366	-	486	19
Interest	-	2,402	-	4,200	139
Dwelling Rentals	-	-	-	-	-
Other	60	410	-	4,146	-
Total Revenues	7,600	108,509	7,342	45,868	4,463
EXPENDITURES					
Current Operating					
General Government	3,591	-	-	-	139
Criminal Justice	-	-	-	-	3,132
Public Safety	-	-	-	-	-
Transportation	650	32,799	7,157	72,924	-
Public Works	-	-	-	-	-
Community Enrichment	108	-	105	156	-
Community Development	-	-	-	-	-
Capital	18	56,672	-	22,384	26
Debt Service					
Prinicipal	-	-	-	-	-
Interest	-	-	-	-	-
Bond Issuance Costs	-	-	-	-	-
Arbitrage Rebate and Fiscal Agent Fees	-	-	-	-	-
Other	-	-	-	-	-
Total Expenditures	4,367	89,471	7,262	95,464	3,297
Excess (Deficiency) of Revenues Over Expenditures	3,233	19,038	80	(49,596)	1,166
OTHER FINANCING SOURCES (USES)					
Transfers from Other Funds	-	-	-	87,092	67
Transers to Other Funds	(3,257)	(21,405)	-	(2,732)	-
Proceeds					
General Obligation and Revenue Bonds	-	-	-	-	-
Premium/(Discount) on General Obligation and Revenue Bonds	-	-	-	-	-
Certificates of Participation and Municipal Corporation Obligations	-	-	-	-	-
Premium/(Discount) on Certificates of Participation and Municipal Corporation Obligations	-	-	-	-	-
Special Assessment Bonds	-	-	-	-	-
Refunding Bonds	-	-	-	-	-
Deposit to Refunding Escrow	-	-	-	-	-
Total Other Financing Sources and Uses	(3,257)	(21,405)	-	84,360	67
Net Change in Fund Balances	(24)	(2,367)	80	34,764	1,233
FUND BALANCES, JULY 1	45	73,650	236	108,998	4,403
FUND BALANCES, JUNE 30	$ 21	$ 71,283	$ 316	$ 143,762	$ 5,636

(Continued)

Special Revenue Funds								
Library	Parks and Recreation	Develop-ment Services	Grants	Public Housing	Sports Facilities	Capital Construction	Other Restricted	Total
$ -	$ 6,418	$ -	$ -	$ -	$ -	$ -	$ -	$ 6,418
-	-	-	-	-	-	-	12	7,552
-	-	-	80,687	57,111	-	-	10	267,741
969	-	64,741	122	-	-	16	33	89,962
-	3,818	-	-	-	-	-	1,956	5,774
(3)	117	266	32	(764)	25	157	12	713
47	1,022	2,191	258	1,745	218	1,035	153	13,410
27	-	-	-	6,468	-	-	12	6,507
11	972	(141)	427	9,490	-	60	4,658	20,093
1,051	12,347	67,057	81,526	74,050	243	1,268	6,846	418,170
-	-	-	1,200	-	-	-	954	5,884
-	-	-	8,457	-	908	-	85	12,582
-	-	1,968	1,414	-	-	-	381	3,763
-	-	-	54	-	-	-	20	113,604
-	-	-	6	-	-	-	-	6
26,576	74,557	-	49,632	84	476	-	2,722	154,416
-	-	35,346	17,057	62,331	590	-	13	115,337
5	30,014	11,572	3,600	1,624	858	17,610	16	144,399
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
26,581	104,571	48,886	81,420	64,039	2,832	17,610	4,191	549,991
(25,530)	(92,224)	18,171	106	10,011	(2,589)	(16,342)	2,655	(131,821)
25,947	87,593	-	-	369	11,947	17,966	509	231,490
-	(509)	-	(106)	(1,092)	(7,645)	-	-	(36,746)
								-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
25,947	87,084	-	(106)	(723)	4,302	17,966	509	194,744
417	(5,140)	18,171	-	9,288	1,713	1,624	3,164	62,923
225	26,345	57,620	-	28,010	8,709	31,673	1,936	341,850
$ 642	$ 21,205	$ 75,791	$ -	$ 37,298	$ 10,422	$ 33,297	$ 5,100	$ 404,773

City of Phoenix, Arizona
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Non-Major Funds

(Continued)

For the Fiscal Year Ended June 30, 2003
with comparative totals for June 30, 2002
(in thousands)

	Capital Projects Funds				
	Street Improve-ments	Police and Fire Protection	Storm Sewers	Parks, Recreation and Libraries	Public Housing
REVENUES					
City Taxes	$ -	$ -	$ -	$ -	$ -
Licenses and Permits	-	-	-	-	-
Intergovernmental	3,131	1,865	-	6,442	3,150
Charges for Services	-	-	-	-	-
Parks and Recreation	-	-	-	-	-
Investment Income					
Net Increase (Decrease) in Fair Value of Investments	4	255	124	175	83
Interest	52	72	353	52	2
Dwelling Rentals	-	-	-	-	-
Other	1,466	577	37	132	23
Total Revenues	4,653	2,769	514	6,801	3,258
EXPENDITURES					
Current Operating					
General Government	-	-	-	-	-
Criminal Justice	-	-	-	-	-
Public Safety	-	-	-	-	-
Transportation	-	-	-	-	-
Public Works	-	-	-	-	-
Community Enrichment	-	-	-	-	-
Community Development	-	-	-	-	-
Capital	12,725	31,376	11,705	22,641	16,852
Debt Service					
Prinicipal	-	-	-	-	-
Interest	-	-	-	-	-
Bond Issuance Costs	25	-	-	7	-
Arbitrage Rebate and Fiscal Agent Fees	-	-	-	-	-
Other	-	-	-	-	-
Total Expenditures	12,750	31,376	11,705	22,648	16,852
Excess (Deficiency) of Revenues Over Expenditures	(8,097)	(28,607)	(11,191)	(15,847)	(13,594)
OTHER FINANCING SOURCES (USES)					
Transfers from Other Funds	-	202	-	-	444
Transfers to Other Funds	(367)	(67)	-	(6,208)	(340)
Proceeds					
General Obligation and Revenue Bonds	-	-	-	-	-
Premium/(Discount) on General Obligation and Revenue Bonds	-	-	-	-	-
Certificates of Participation and Municipal Corporation Obligations	3,170	-	-	915	-
Premium/(Discount) on Certificates of Participation and Municipal Corporation Obligations	221	-	-	57	-
Special Assessment Bonds	135	-	-	-	-
Refunding Bonds	-	-	-	-	-
Deposit to Refunding Escrow	-	-	-	-	-
Total Other Financing Sources and Uses	3,159	135	-	(5,236)	104
Net Change in Fund Balances	(4,938)	(28,472)	(11,191)	(21,083)	(13,490)
FUND BALANCES, JULY 1	1,864	5,318	20,357	19,017	(2,299)
FUND BALANCES, JUNE 30	$ (3,074)	$ (23,154)	$ 9,166	$ (2,066)	$ (15,789)

(Continued)

Capital Projects Funds				Debt Service Funds			
Municipal Buildings and Service Centers	Transit	Sports and Cultural Facilities	Total	General Obligation/ Secondary Property Tax	Streets and Highways	Public Housing	City Improve- ment
$ -	$ -	$ -	$ -	$ 88,425	$ -	$ -	$ -
-	-	-	-	-	-	-	-
-	36,508	500	51,596	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
646	21	43	1,351	3,102	4	-	162
1,635	8	10	2,184	4,566	8	-	303
-	-	-	-	-	-	-	-
14,048	322	27	16,632	-	-	-	-
16,329	36,859	580	71,763	96,093	12	-	465
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
15,943	31,167	32,222	174,631	-	-	-	-
-	-	-	-	25,515	8,165	370	8,057
-	-	-	-	33,765	9,903	174	14,273
534	-	-	566	389	436	-	388
-	-	-	-	4	-	-	31
-	-	-	-	-	-	-	-
16,477	31,167	32,222	175,197	59,673	18,504	544	22,749
(148)	5,692	(31,642)	(103,434)	36,420	(18,492)	(544)	(22,284)
27,424	-	728	28,798	5,396	18,605	544	23,549
(495)	-	-	(7,477)	(15,464)	(539)	-	(1,366)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
55,915	-	-	60,000	-	-	-	-
333	-	-	611	-	-	-	-
-	-	-	135	-	-	-	-
-	-	-	-	55,207	52,738	-	49,292
-	-	-	-	(54,773)	(52,192)	-	(48,730)
83,177	-	728	82,067	(9,634)	18,612	544	22,745
83,029	5,692	(30,914)	(21,367)	26,786	120	-	461
41,394	(3,718)	(3,371)	78,562	224,128	111	-	2,039
$ 124,423	$ 1,974	$ (34,285)	$ 57,195	$ 250,914	$ 231	$ -	$ 2,500

City of Phoenix, Arizona
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Non-Major Funds

(Continued)

For the Fiscal Year Ended June 30, 2003
with comparative totals for June 30, 2002
(in thousands)

	Debt Service Funds		Totals	
	Special Assess-ment	Total	2003	2002
REVENUES				
City Taxes	$ -	$ 88,425	$ 94,843	$ 87,490
Licenses and Permits	-	-	7,552	6,250
Intergovernmental	-	-	319,337	334,038
Charges for Services	-	-	89,962	81,919
Parks and Recreation	-	-	5,774	6,241
Special Assessments	1,692	1,692	1,692	1,835
Investment Income				
Net Increase (Decrease) in Fair Value of Investments	76	3,344	5,408	12,661
Interest	3	4,880	20,474	20,565
Dwelling Rentals	-	-	6,507	6,881
Other	10	10	36,735	10,286
Total Revenues	1,781	98,351	588,284	568,166
EXPENDITURES				
Current Operating				
General Government	-	-	5,884	8,211
Criminal Justice	-	-	12,582	13,814
Public Safety	-	-	3,763	4,316
Transportation	-	-	113,604	89,926
Public Works	-	-	6	68
Community Enrichment	-	-	154,416	147,402
Community Development	-	-	115,337	105,434
Capital	-	-	319,030	380,432
Debt Service				
Prinicipal	1,434	43,541	43,541	41,187
Interest	436	58,551	58,551	54,933
Bond Issuance Costs	-	1,213	1,779	484
Arbitrage Rebate and Fiscal Agent Fees	-	35	35	493
Other	5	5	5	-
Total Expenditures	1,875	103,345	828,533	846,700
Excess (Deficiency) of Revenues Over Expenditures	(94)	(4,994)	(240,249)	(278,534)
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	-	48,094	308,382	307,950
Transfers to Other Funds	(174)	(17,543)	(61,766)	(53,218)
Proceeds				
General Obligation and Revenue Bonds	-	-	-	99,505
Premium/(Discount) on General Obligation and Revenue Bonds	-	-	-	850
Certificates of Participation and Municipal Corporation Obligations	-	-	60,000	-
Premium/(Discount) on Certificates of Participation and Municipal Corporation Obligations	-	-	611	-
Special Assessment Bonds	-	-	135	443
Refunding Bonds	-	157,237	157,237	264,674
Deposit to Refunding Escrow	-	(155,695)	(155,695)	(287,424)
Total Other Financing Sources and Uses	(174)	32,093	308,904	332,780
Net Change in Fund Balances	(268)	27,099	68,655	54,246
FUND BALANCES, JULY 1	1,963	228,241	648,653	594,407
FUND BALANCES, JUNE 30	$ 1,695	$ 255,340	$ 717,308	$ 648,653

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City of Phoenix, Arizona
Aviation Enterprise Fund
Comparative Statements of Net Assets

June 30, 2003 and 2002
(in thousands)

ASSETS	2003	2002
Current Assets		
Equity in Pooled Cash and Investments	$ 75,247	$ 59,229
Receivables		
Accounts Receivable, Net of Allowance for Doubtful Accounts (2003, $1,187 and 2002, $1,757)	3,212	4,790
Deposits in Escrow	129	129
Prepaid Items	1,360	1,530
Inventories, at Average Cost	1,045	870
Total Unrestricted Current Assets	80,993	66,548
Restricted Assets		
Debt Service		
Investments	8,279	16,914
Cash with Fiscal Agent/Trustee	35,837	36,833
Revenue Bond Reserve		
Investments	29,264	29,300
Accrued Interest Receivable	209	209
Airport Improvement Reserve		
Equity in Pooled Cash and Investments	39,564	39,564
Passenger Facility Charge		
Equity in Pooled Cash and Investments	57,247	28,657
Accounts Receivable	9,232	10
Customer Facility Charge		
Equity in Pooled Cash and Investments	10,241	-
Accounts Receivable	1,872	-
Capital Projects		
Equity in Pooled Cash and Investments	77,084	30,656
Investments	262,255	332,386
Receivables		
Intergovernmental	2,183	2,064
Total Restricted Current Assets	533,267	516,593
Noncurrent Assets		
Capital Assets		
Land	217,887	217,775
Buildings	495,883	508,458
Improvements Other Than Buildings	672,738	642,045
Equipment	42,012	39,465
Construction in Progress	480,642	367,344
Less: Accumulated Depreciation	(521,194)	(485,706)
Total Capital Assets, Net of Accumulated Depreciation	1,387,968	1,289,381
Total Noncurrent Assets	1,387,968	1,289,381
Total Assets	2,002,228	1,872,522

	2003	2002
LIABILITIES		
Current Liabilities Payable from Current Assets		
Warrants Payable	2,995	2,987
Accounts Payable	7,505	4,776
Trust Liabilities and Deposits	157	157
Deferred Revenue	4,218	2,567
Capital Leases	458	458
Current Portion of Accrued Compensated Absences	511	397
Total Current Liabilities Payable from Current Assets	15,844	11,342
Current Liabilities Payable from Restricted Assets		
Debt Service		
Matured Bonds Payable	16,395	24,440
Interest Payable	19,441	12,393
Current Portion of General Obligation Bonds	3,251	3,250
Current Portion of Revenue Bonds	3,710	3,510
Current Portion of Municipal Corporation Obligations	10,200	9,685
Capital Projects		
Warrants Payable	3,642	3,849
Accounts Payable	9,074	7,241
Total Current Liabilities Payable from Restricted Assets	65,713	64,368
Noncurrent Liabilities		
General Obligation Bonds, Net of Deferred Interest Expense Adjustment (2003, $2,006 and 2002, $1,039)	25,599	29,126
Revenue Bonds, Net of Deferred Interest Expense Adjustment (2003, $0 and 2002, $00)	41,240	44,950
Municipal Corporation Obligations, Net of Deferred Interest Expense Adjustment (2003, $3,637 and 2002, $4,177)	644,562	654,223
Unamortized Premium (Discount)	892	461
Capital Leases	2,252	2,694
Accrued Compensated Absences	3,819	3,646
Total Noncurrent Liabilities	718,364	735,100
Total Liabilities	799,921	810,810
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	905,266	852,583
Restricted for Bond Retirement	29,264	29,300
Unrestricted	267,777	179,829
Total Net Assets	$ 1,202,307	$ 1,061,712

City of Phoenix, Arizona
Aviation Enterprise Fund
Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets
For the Fiscal Years Ended June 30, 2003 and 2002
(in thousands)

	2003	2002
Operating Revenues		
Landing and Terminals Fees	$ 111,261	$ 104,874
Parking and Car Rentals	73,237	68,746
Other	21,818	14,885
Total Operating Revenues	206,316	188,505
Operating Expenses		
Operation and Maintenance	124,774	126,884
Depreciation	53,346	48,503
Staff and Administrative	4,840	3,648
Total Operating Expenses	182,960	179,035
Operating Income	23,356	9,470
Non-Operating Revenues (Expenses)		
Investment Income		
Net Increase (Decrease) in Fair Value of Investments	5,065	3,049
Interest	3,110	6,498
Interest on Capital Debt	(27,813)	(17,340)
Gain (Loss) on Disposal of Fixed Assets	(1,990)	21
Total Non-Operating Revenues (Expenses)	(21,628)	(7,772)
Net Income Before Contributions	1,728	1,698
Capital Contributions	138,867	60,466
Change in Net Assets	140,595	62,164
Net Assets, July 1	1,061,712	999,548
Prior Period Adjustment	-	-
Net Assets, July 1, as restated	1,061,712	999,548
Net Assets, June 30	$ 1,202,307	$ 1,061,712

City of Phoenix, Arizona
Aviation Enterprise Fund
Comparative Statements of Cash Flows
For the Fiscal Years Ended June 30, 2003 and 2002
(in thousands)

	2003	2002
Cash Flows from Operating Activities		
Receipts from Customers	$ 209,544	$ 190,608
Payments to Suppliers	(81,142)	(87,410)
Payments to Employees	(40,612)	(39,403)
Payment of Staff and Administrative Expenses	(4,840)	(3,648)
Net Cash Provided by Operating Activities	82,950	60,147
Cash Flows from Capital and Related Financing Activities		
Proceeds from Capital Debt	-	414,655
Principal Paid on Capital Debt	(24,948)	(24,914)
Interest Paid on Capital Debt	(32,043)	(19,366)
Receipts of Passenger Facility Charges	-	8,392
Acquisition and Construction of Capital Assets	(145,271)	(130,450)
Proceeds from Sales of Capital Assets	21	28
Capital Contributions	127,654	58,404
Net Cash Provided (Used) by Capital and Related Financing Activities	(74,587)	306,749
Cash Flows from Investing Activities		
Purchases of Investment Securities	(4,311,160)	(1,602,567)
Proceeds from Sale and Maturities of Investment Securities	4,389,962	1,253,595
Interest on Investments	13,116	11,247
Net Cash Provided (Used) by Investing Activities	91,918	(337,725)
Net Increase in Cash and Cash Equivalents	100,281	29,171
Cash and Cash Equivalents, July 1	194,939	165,768
Cash and Cash Equivalents, June 30	$ 295,220	$ 194,939
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	$ 23,356	$ 9,470
Adjustments		
Depreciation	53,346	48,503
(Increase) Decrease in Assets		
Receivables	2,148	1,076
Allowance for Doubtful Accounts	(570)	395
Deposits in Escrow	-	-
Prepaid Items	170	170
Inventories	(175)	(211)
Increase (Decrease) in Liabilities		
Warrants Payable	8	1,242
Accounts Payable	2,729	(1,648)
Trust Liabilities and Deposits	-	1
Deferred Revenue	1,651	631
Accrued Compensated Absences	287	518
Net Cash Provided by Operating Activities	$ 82,950	$ 60,147
Noncash Transactions Affecting Financial Position		
Refunding Issuance in Excess of Bond Retirement	$ 262	$ (316)
Increase (Decrease) in Fair Value of Investments	96	588
Total Noncash Transactions Affecting Financial Position	$ 358	$ 272

City of Phoenix, Arizona
Water System Enterprise Fund
Comparative Statements of Net Assets
June 30, 2003 and 2002
(in thousands)

	2003	2002
ASSETS		
Current Assets		
Equity in Pooled Cash and Investments	$ 115,628	$ 106,194
Investments	10,205	9,945
Receivables		
Accounts Receivable, Net of Allowance for Doubtful Accounts (2003, $751 and 2002, $642)	33,092	35,349
Intergovernmental	923	1,468
Accrued Interest	20	978
Prepaid Items	3,084	3,187
Inventories, at Average Cost	2,157	2,231
Total Unrestricted Current Assets	165,109	159,352
Restricted Assets		
Debt Service		
Cash with Fiscal Agent	44,439	42,504
Capital Projects		
Equity in Pooled Cash and Investments	55,023	45,159
Deposit with State Treasurer's Trust for Plan Six	3,995	4,797
Investments	86,789	69,605
Due From Other Funds	1,190	1,484
Receivables		
Notes Receivable	-	8,000
Accrued Interest	381	294
Customer and Other Deposits	2,053	1,877
Total Restricted Current Assets	193,870	173,720
Noncurrent Assets		
Capital Assets		
Land	55,231	53,844
Buildings	94,777	91,231
Improvements Other Than Buildings	391,601	369,638
Equipment	117,895	104,516
Mains, Hydrants, Meters and Service Connections	883,490	818,810
Construction in Progress	164,884	111,993
Less: Accumulated Depreciation	(499,930)	(453,487)
Total Capital Assets, Net of Accumulated Depreciation	1,207,948	1,096,545
Other Assets		
Excess of Cost Over Net Assets Acquired, Less Accumulated Amortization (2003, $306 and 2002, $285)	136	157
Water Rights, Less Accumulated Amortization (2003, $9,300 and 2002, $8,264)	32,615	32,900
Investment in Val Vista Treatment Plant Joint Use Agreement	93,765	92,645
Total Other Assets	126,516	125,702
Total Noncurrent Assets	1,334,464	1,222,247
Total Assets	1,693,443	1,555,319

(Continued)

	2003	2002
LIABILITIES		
Current Liabilities Payable from Current Assets		
Warrants Payable	2,468	2,383
Accounts Payable	8,413	8,573
Utility Repayment Agreements	-	165
Deferred Revenue	37	37
Current Portion of Accrued Compensated Absences	804	658
Total Current Liabilities Payable from Current Assets	11,722	11,816
Current Liabilities Payable from Restricted Assets		
Debt Service		
Bond Anticipation Notes Payable	100,000	-
Matured Bonds Payable	27,430	27,685
Interest Payable	17,017	14,819
Current Portion of General Obligation Bonds	18,386	12,240
Current Portion of Revenue Bonds	-	5,880
Current Portion of Municipal Corporation Obligations	9,235	9,310
Capital Projects		
Warrants Payable	3,911	4,408
Accounts Payable	7,514	9,740
Customer and Other Deposits	2,053	1,877
Total Current Liabilities Payable from Restricted Assets	185,546	85,959
Noncurrent Liabilities		
General Obligation Bonds, Net of Deferred Interest Expense Adjustment (2003, $3,849 and 2002, $3,363)	130,210	148,187
Revenue Bonds	10,000	10,000
Municipal Corporation Obligations, Net of Deferred Interest Expense Adjustment (2003, $7,735 and 2002, $8,156)	457,280	466,094
Unamortized Premium (Discount)	7,028	7,040
Accrued Compensated Absences	5,977	5,648
Total Noncurrent Liabilities	610,495	636,969
Total Liabilities	807,763	734,744
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	626,277	549,454
Restricted for Plan Six	3,995	4,797
Unrestricted	255,408	266,324
Total Net Assets	$ 885,680	$ 820,575

City of Phoenix, Arizona
Water System Enterprise Fund
Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

For the Fiscal Years Ended June 30, 2003 and 2002
(in thousands)

	2003	2002
Operating Revenues		
Water Sales	$ 188,090	$ 190,996
Environmental Charges	11,658	10,855
Other	17,122	8,783
Total Operating Revenues	216,870	210,634
Operating Expenses		
Administration and Engineering	17,293	23,240
Operation and Maintenance		
Customer Service	15,265	14,611
Production and Treatment	40,559	42,127
Distribution and Centralized Functions	40,904	38,074
Depreciation and Amortization	50,232	40,062
Staff and Administrative	6,160	6,056
Payment in Lieu of Property Taxes	6,729	5,914
Total Operating Expenses	177,142	170,084
Operating Income	39,728	40,550
Non-Operating Revenues (Expenses)		
Investment Income		
Net Increase (Decrease) in Fair Value of Investments	1,170	3,370
Interest	8,392	10,816
Interest on Capital Debt	(29,531)	(22,320)
Equity Interest in Joint Use Agreement Operating Loss	(4,743)	(4,445)
Loss on Disposal of Fixed Assets	(589)	(246)
Total Non-Operating Revenues (Expenses)	(25,301)	(12,825)
Net Income Before Contributions and Transfers	14,427	27,725
Capital Contributions	51,038	49,364
Operating Transfers to Capital Projects Funds	(360)	(360)
Change in Net Assets	65,105	76,729
Net Assets, July 1	820,575	743,846
Net Assets, June 30	$ 885,680	$ 820,575

City of Phoenix, Arizona
Water System Enterprise Fund
Comparative Statements of Cash Flows
For the Fiscal Years Ended June 30, 2003 and 2002
(in thousands)

	2003	2002
Cash Flows from Operating Activities		
Receipts from Customers	$ 219,848	$ 209,024
Payments to Suppliers	(53,735)	(59,778)
Payments to Employees	(59,657)	(55,747)
Payment of Staff and Administrative Expenses	(6,160)	(6,056)
Payment in Lieu of Property Taxes	(6,729)	(5,914)
Net Cash Provided by Operating Activities	93,567	81,529
Cash Flows from Noncapital Financing Activities		
Operating Transfers to Other Funds	(360)	(360)
Net Cash Used by Noncapital Financing Activities	(360)	(360)
Cash Flows from Capital and Related Financing Activities		
Proceeds from Capital Debt	100,061	223,574
Principal Paid on Capital Debt	(27,520)	(178,100)
Interest Paid on Capital Debt	(31,833)	(26,586)
Proceeds from Loans/(Loans) to Developers	8,000	(8,000)
Proceeds from Loans to Other Funds	-	6,300
Acquisition and Construction of Capital Assets	(130,836)	(146,799)
Proceeds from Sales of Capital Assets	1,397	338
Capital Contributions	15,944	14,169
Net Cash Used by Capital and Related Financing Activities	(64,787)	(115,104)
Cash Flows from Investing Activities		
Purchases of Investment Securities	(376,035)	(518,092)
Proceeds from Sales and Maturities of Investment Securities	358,591	529,626
Interest on Investments	10,433	13,294
Net Cash Provided (Used) by Investing Activities	(7,011)	24,828
Net Increase (Decrease) in Cash and Cash Equivalents	21,409	(9,107)
Cash and Cash Equivalents, July 1	195,734	204,841
Cash and Cash Equivalents, June 30	$ 217,143	$ 195,734
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	$ 39,728	$ 40,550
Adjustments		
Depreciation and Amortization	50,232	40,062
(Increase) Decrease in Assets		
Deposits for Plan Six	52	(137)
Receivables	2,693	(1,858)
Allowance for Doubtful Accounts	109	(56)
Prepaid Expenses	103	98
Inventories	74	(176)
Increase (Decrease) in Liabilities		
Warrants Payable	85	546
Accounts Payable	(160)	1,025
Deferred Revenue	-	1
Customer and Other Deposits	176	303
Accrued Compensated Absences	475	1,171
Net Cash Provided by Operating Activities	$ 93,567	$ 81,529
Noncash Transactions Affecting Financial Position		
Contributions of Capital Assets	$ 35,094	$ 35,196
Bond Capital Appreciation	446	421
Refunding Issuance in Excess of Bond Retirement	789	749
Increase (Decrease) in Fair Value of Investments	109	(236)
Total Noncash Transactions Affecting Financial Position	$ 36,438	$ 36,130

City of Phoenix, Arizona
Wastewater Enterprise Fund
Comparative Statements of Net Assets

June 30, 2003 and 2002
(in thousands)

	2003	2002
ASSETS		
Current Assets		
Equity in Pooled Cash and Investments	$ 24,105	$ 29,247
Receivables		
Accounts Receivable, Net of Allowance for		
Doubtful Accounts (2003, $342 and 2002, $290)	10,609	10,472
Intergovernmental	2,918	2,285
Inventories, at Average Cost	585	611
Total Unrestricted Current Assets	38,217	42,615
Restricted Assets		
Debt Service		
Cash with Fiscal Agent	27,877	26,995
Investments	14	-
Capital Projects		
Equity in Pooled Cash and Investments	62,524	60,514
Cash and Securities with Trustee	-	23,150
Investments	27,182	1,789
Receivables		
Intergovernmental	99	186
Accrued Interest	-	14
Customer Deposits and Other Trust Liabilities	183	395
Total Restricted Current Assets	117,879	113,043
Noncurrent Assets		
Capital Assets		
Land	17,086	16,962
Buildings	46,029	45,389
Improvements Other Than Buildings	776,369	729,199
Equipment	96,322	93,516
Construction in Progress	71,742	45,506
Less: Accumulated Depreciation	(332,330)	(302,224)
Total Capital Assets, Net of Accumulated Depreciation	675,218	628,348
Other Assets		
Investment in SROG Joint Use Agreement	241,477	210,744
Total Noncurrent Assets	916,695	839,092
Total Assets	1,072,791	994,750

	2003	2002
LIABILITIES		
Current Liabilities Payable from Current Assets		
Warrants Payable	457	288
Accounts Payable	4,808	4,307
Utility Repayment Agreements	639	440
Current Portion of Accrued Compensated Absences	184	129
Total Current Liabilities Payable from Current Assets	6,088	5,164
Current Liabilities Payable from Restricted Assets		
Debt Service		
Bond Anticipation Notes Payable	60,000	-
Matured Bonds Payable	16,083	12,830
Interest Payable	13,933	14,165
Current Portion of General Obligation Bonds	6,765	6,378
Current Portion of Municipal Corporation Obligations	10,240	9,745
Capital Projects		
Warrants Payable	210	4,038
Accounts Payable	10,201	5,735
Customer Deposits and Other Trust Liabilities	183	395
Total Current Liabilities Payable from Restricted Assets	117,615	53,286
Noncurrent Liabilities		
General Obligation Bonds, Net of Deferred Interest Expense Adjustment (2003, $2,892 and 2002, $1,502)	71,294	78,602
Municipal Corporation Obligations, Net of Deferred Interest Expense Adjustment (2003, $25,043 and 2002, $26,290)	422,232	431,225
Unamortized Premium (Discount)	(2,075)	(3,172)
Utility Repayment Agreements	5,132	3,420
Rebatable Arbitrage	510	1,782
Accrued Compensated Absences	1,385	1,193
Total Noncurrent Liabilities	498,478	513,050
Total Liabilities	622,181	571,500
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	353,235	323,214
Unrestricted	97,375	100,036
Total Net Assets	$ 450,610	$ 423,250

City of Phoenix, Arizona
Wastewater Enterprise Fund
Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

For the Fiscal Years Ended June 30, 2003 and 2002
(in thousands)

	2003	2002
Operating Revenues		
Sewer Service Charges	$ 78,784	$ 74,726
Environmental Charges	22,361	20,464
Other	3,502	3,885
Total Operating Revenues	104,647	99,075
Operating Expenses		
Administration	5,811	6,836
Operation	22,307	26,566
Maintenance	16,627	19,127
Depreciation	30,390	27,527
Staff and Administrative	1,432	1,414
Payment in Lieu of Property Taxes	5,329	5,088
Industrial Waste/Pre-Treatment	3,781	3,691
Total Operating Expenses	85,677	90,249
Operating Income	18,970	8,826
Non-Operating Revenues (Expenses)		
Investment Income		
Net Increase (Decrease) in Fair Value of Investments	465	747
Interest	3,282	5,675
Interest on Capital Debt	(25,447)	(23,579)
Equity Interest in Joint Use Agreement Operating Loss	(11,084)	(9,472)
Loss on Disposal of Fixed Assets	(463)	(4,576)
Total Non-Operating Revenues (Expenses)	(33,247)	(31,205)
Net Loss Before Contributions and Transfers	(14,277)	(22,379)
Capital Contributions	41,877	35,005
Transfers to Capital Projects Funds	(240)	(240)
Change in Net Assets	27,360	12,386
Net Assets, July 1	423,250	410,864
Net Assets, June 30	$ 450,610	$ 423,250

City of Phoenix, Arizona
Wastewater Enterprise Fund
Comparative Statements of Cash Flows
For the Fiscal Years Ended June 30, 2003 and 2002
(in thousands)

	2003	2002
Cash Flows from Operating Activities		
Receipts from Customers	$ 103,766	$ 98,611
Payments to Suppliers	(36,126)	(47,836)
Payments to Employees	(11,457)	(9,989)
Payment of Staff and Administrative Expenses	(1,432)	(1,414)
Payment in Lieu of Property Taxes	(5,329)	(5,088)
Net Cash Provided by Operating Activities	49,422	34,284
Cash Flows from Noncapital Financing Activities		
Operating Transfers to Other Funds	(240)	(240)
Net Cash Used by Noncapital Financing Activities	(240)	(240)
Cash Flows from Capital and Related Financing Activities		
Proceeds from Capital Debt	60,109	7,572
Principal Paid on Capital Debt	(13,531)	(14,702)
Interest Paid on Capital Debt	(28,163)	(28,322)
Acquisition and Construction of Capital Assets	(79,810)	(63,712)
Proceeds from Sales of Capital Assets	69	30,084
Capital Contributions	9,450	7,842
Net Cash Used by Capital and Related Financing Activities	(51,876)	(61,238)
Cash Flows from Investing Activities		
Purchases of Investment Securities	(94,308)	(60,620)
Proceeds from Sales and Maturities of Investment Securities	92,051	116,145
Interest on Investments	2,489	7,012
Net Cash Provided by Investing Activities	232	62,537
Net Increase (Decrease) in Cash and Cash Equivalents	(2,462)	35,343
Cash and Cash Equivalents, July 1	117,151	81,808
Cash and Cash Equivalents, June 30	$ 114,689	$ 117,151
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	$ 18,970	$ 8,826
Adjustments		
Depreciation	30,390	27,527
(Increase) Decrease in Assets		
Receivables	(721)	(673)
Allowance for Doubtful Accounts	52	35
Inventories	26	(21)
Increase (Decrease) in Liabilities		
Warrants Payable	169	(23)
Accounts Payable	501	(1,383)
Customer Deposits	(212)	174
Accrued Compensated Absences	247	(178)
Net Cash Provided by Operating Activities	$ 49,422	$ 34,284
Noncash Transactions Affecting Financial Position		
Contributions of Capital Assets	$ 32,426	$ 27,163
Refunding Issuance in Excess of Bond Retirement	1,329	1,358
Bond Capital Appreciation	57	53
Increase (Decrease) in Fair Value of Investments	78	(2)
Total Noncash Transactions Affecting Financial Position	$ 33,890	$ 28,572

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APPENDIX G

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE LOAN AGREEMENT

Certain Definitions

The following terms used in this Official Statement and not otherwise defined herein, have the following meanings:

"Additional Pledged Revenues" means any source of revenues which the City may from time to time lawfully pledge, including excise tax levies specifically designated for transportation purposes not inconsistent with light rail transportation and which all rating agencies maintaining ratings on the Bonds agree will not cause to be lowered the rating category applicable to the Bonds at the time of such lawful pledge.

"Administrative Costs" means the following expenses as determined and approved by the City Representative which are incurred in connection with the issuance of the Bonds and the financing of the Project as a direct consequence of the execution and delivery of the Indenture and any Series Supplemental Indenture and the Loan Agreements: (i) the ongoing fees and expenses of the Trustee, (ii) the ongoing fees and expenses of the Paying Agent, (iii) the ongoing fees and expenses of the auction agent, if any, (iv) the ongoing fees and expenses of the remarketing agent, if any, (v) the ongoing fees and expenses of any Credit Support Provider, (vi) fees and expenses of the City and the Corporation, including, but not limited to those of attorneys, financial advisors, accountants and consultants incurred in connection with any regulatory or administrative requirements, including specifically, without limitation, the preparation and filing of annual financial statements and audits and compliance with continuing disclosure requirements, (vii) such other reasonable fees and expenses of the City and the Corporation, including reasonable overhead expenses in carrying out their respective obligations under this Indenture and the Loan Agreements, as applicable. Administrative Costs shall not include costs of issuance of the Bonds.

"Authenticating Agent" means the Trustee and the Registrar for the Bonds and any bank, trust company or other Person designated as an Authenticating Agent for the Bonds by or in accordance with the Indenture, each of which shall be a transfer agent registered in accordance with Section 17A(c) of the Securities Exchange Act of 1934, as amended.

"Bond Counsel" means a firm of attorneys of national reputation experienced in the field of municipal bonds designated by the City Representative whose opinions are generally accepted by purchasers of municipal bonds, acceptable to the Trustee, and who is independent.

"Bond Fund" means the Bond Fund established pursuant to the Indenture.

"Bond Payment Date" means any date on which Bond Service Charges are due and payable on any Bonds.

"Bond Resolution" means, collectively, the resolutions of the Corporation providing for the issuance of the Bonds and approving the Loan, the Loan Agreement, the Indenture, each Series Supplemental Indenture and related matters.

"Bond Service Charges" means, for any period or time, the principal (as payable at stated maturity, or mandatory sinking fund redemption or other mandatory redemption), interest and any redemption premium required to be paid by the Corporation on the Bonds and other amounts payable by the Corporation as described in this definition. In determining Bond Service Charges for any period, mandatory sinking fund redemption requirements for that period shall be taken into account and principal maturities or interest payments for which mandatory sinking fund redemption requirements are imposed and complied with in a prior period, to that extent, shall be excluded. In the case of payment of Bond Service Charges by a person other than the Corporation pursuant to a Credit Support Instrument, *"Bond Service Charges"* means the reimbursement by the Corporation to the provider of that Credit Support Instrument of the amount so paid. *"Bond Service Charges"* for Bonds supported by a Credit Support Instrument include any periodic fees payable by the Corporation to the Credit Support Provider. In the case of Bond Service Charges paid from a

debt service reserve or similar fund, *"Bond Service Charges"* include replenishment to such fund of the Bond Services Charges so paid.

"Bonds" means Bonds of the Corporation issued pursuant to the Indenture and a Series Supplemental Indenture.

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

"City Representative" means the Chief Financial Officer of the City or any other person duly authorized by the City to act on behalf of the City under or with respect to the Indenture.

"Corporation Representative" means the Chief Financial Officer of the City or a person designated by the Chief Financial Officer, any member of the Board of Directors of the Corporation, or any person authorized to act on behalf of the Corporation under or with respect to the Indenture.

"Credit Support Instrument" means an insurance policy, including a policy of bond insurance, letter of credit or other credit enhancement, support or liquidity device provided pursuant to an agreement to which the Corporation is a party and which is used to enhance the security or liquidity of all or any portion of a Series of Bonds.

"Credit Support Provider" means the provider of a Credit Support Instrument relating to all or any portion of a Series of Bonds so long as those Bonds are Outstanding and so long as that Credit Support Instrument is in effect.

"Defeasance Obligations" means, with respect to the 2004 Bonds, those obligations defined in clauses (i) and (ii) of the definition of Permitted Investments. Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

"Derivative Products" means swap agreements, forward agreements, interest rate agreements and other similar agreements.

"Event of Bankruptcy" means the filing of a petition in bankruptcy by or against the specified Person under the United States Bankruptcy Code.

"Event of Default" means an event of default under the Indenture.

"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.

"Interest Account" means the Interest Account of the Bond Fund established pursuant to the Indenture.

"Interest Requirement" means the amount of interest falling due on the Bonds on the next Bond Payment Date, as adjusted pursuant to any Derivative Product with a Qualified Counterparty in accordance with the Series 2004 Loan Agreement.

"Loan Agreements" means, collectively, each of the Series Loan Agreements.

"Loan Payment Date" means any date on which Loan Payments are to be paid as set forth in the Loan Agreements.

"Loan Payments" means all payments required to be paid by the City on any date required by the Loan Agreements.

"Maximum Annual Loan Payments" means the highest aggregate Principal Requirement and Interest Requirement to fall due and payable in the current or any future Bond Year of all Outstanding Bonds, as

adjusted pursuant to any Derivative Product with a Qualified Counterparty in accordance with the Series 2004 Loan Agreement.

"Other Available Moneys" means moneys, including Qualified Counterparty payments under Derivative Products as described in the Series 2004 Loan Agreement, available to the City to be applied to the City's obligations under the Series 2004 Loan Agreement which moneys are not funds from Transit Excise Taxes collected and are not pledged pursuant to the Series 2004 Loan Agreement for the repayment of the loan made pursuant to the Series 2004 Loan Agreement.

"Outstanding Bonds," "Bonds Outstanding" or *"Outstanding"* as applied to Bonds, mean, as of the applicable date, all Bonds which have been authenticated and delivered, or which are being delivered by the Trustee under the Indenture, except:

(a) Bonds, or the portion thereof, cancelled upon surrender, exchange or transfer, or cancelled because of payment or redemption on or prior to that date;

(b) Bonds, or the portion thereof, for the payment, redemption or purchase for cancellation of which sufficient moneys have been deposited and credited with the Trustee or any Paying Agents on or prior to that date for that purpose (whether upon or prior to the maturity or redemption date of those Bonds); provided, that if any of those Bonds are to be redeemed prior to their maturity, notice of that redemption shall have been given or arrangements satisfactory to the Trustee shall have been made for giving notice of that redemption, or waiver by the affected Owners of that notice satisfactory in form to the Trustee shall have been filed with the Trustee;

(c) Bonds, or the portion thereof, which are deemed to have been paid and discharged or caused to have been paid and discharged pursuant to the provisions of the Indenture or its applicable bond documents; and

(d) Bonds in lieu of which others have been authenticated under the Indenture.

"Owner" or *"Bondowner"* or *"Owner of a Bond"* means the Person in whose name a Bond is registered on the Register.

"Parity Obligations" means the Series 2004 Loan Agreement and any additional obligations undertaken by the City in accordance with the provisions of the Series 2004 Loan Agreement to make loan payments to pay debt service on the Bonds issued pursuant to the Indenture.

"Paying Agent" means the Trustee and any bank or trust company designated as a Paying Agent by or in accordance with the Indenture.

"Permitted Investments" means, with respect to the 2004 Bonds, the following:

(i) Cash (insured at all times by the Federal Deposit Insurance Corporation);

(ii) Obligations of, or obligations guaranteed as to principal and interest by, the United States of America or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States of America, including:

- U.S. treasury obligations
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration
- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA)
- State and Local Government Series;

(iii) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Rural Economic Community Development Administration
- U.S. Maritime Administration
- Small Business Administration
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration
- Federal Financing Bank;

(iv) Direct obligations of any of the following federal agencies which are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System
- Senior debt obligations of other Government Sponsored Agencies approved by the 2004 Bond Insurer, provided such obligations are rated at least in the "A" category by S&P;

(v) U.S. dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(vi) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 days after the date of purchase;

(vii) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;

(viii) Pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P and Moody's or any successors thereto; or

(B) (1) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (ii) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (2) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(ix) Municipal obligations rated "Aaa/AAA" or general obligations of states with a rating of at least "A2/A" or higher by both Moody's and S&P;

(x) Investment agreements approved in writing by the 2004 Bond Insurer supported by appropriate opinions of counsel, provided that the providers of such investment agreements are rated at least in the "A" category by S&P; and

(xi) Other forms of investments (including repurchase agreements) approved in writing by the 2004 Bond Insurer, provided that such investments are rated at least in the "A" category by S&P.

"Person" or words importing persons mean firms, associations, partnerships (including without limitation, general and limited partnerships), joint ventures, societies, estates, trusts, corporations, public or governmental bodies, other legal entities and natural persons.

"Pledged Revenues" means, collectively, the Transit Excise Taxes and the Additional Pledged Revenues.

"President" means the President of the Board of Directors of the Corporation.

"Principal Account" means the Principal Account of the Bond Fund created under the Indenture.

"Principal Requirement" means, as of any date of calculation, the principal amount of Bonds falling due during the then current Bond Year.

"Qualified Counterparties" means a counterparty to a Derivative Product (i) which 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 applicable 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 Investments 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 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.

"Rebate Fund" means the Rebate Fund created under the Indenture.

"Redemption Account" means the Redemption Account of the Bond Fund created under the Indenture.

"Register" means the books kept and maintained by the Registrar for registration and transfer of Bonds pursuant to the Indenture.

"Registrar" means the Trustee, until a successor Registrar shall have become such pursuant to applicable provisions of the Indenture which shall be a transfer agent registered in accordance with Section 17(A)(c) of the Securities Exchange Act of 1934, as amended.

"Revenues" means (a) Loan Payments, (b) all other moneys with respect to the Bonds received or to be received by the Corporation or the Trustee pursuant to the Loan Agreements, including without limitation, moneys and investments in the Bond Fund, and (c) all income and profit from the investment of the foregoing moneys. The term *"Revenues"* does not include any moneys or investments in the Rebate Fund.

"Secretary" means the Secretary-Treasurer of the Board of Directors of the Corporation.

"Series Loan Agreement" means a loan agreement, by and between the Corporation, as lender, and the City, as borrower, together with any duly authorized and executed amendments or supplements thereto, executed in connection with the issuance of a Series of Bonds.

"Series of Bonds," "Series" or *"Bonds of a Series"* means a series of Bonds issued under the Indenture and designated as a *"Series"* and authorized by a separate Series Supplemental Indenture.

"Series Supplemental Indenture" means a Supplemental Indenture authorizing the issuance of a Series of Bonds in accordance with the provisions of the Indenture.

"Supplemental Indenture" means any indenture supplemental to the Indenture entered into between the Corporation and the Trustee in accordance with the Indenture.

"2004 Bond Insurance Policy" means the financial guaranty insurance policy issued by the 2004 Bond Insurer insuring the payment when due of the principal of and interest on the 2004 Bonds as provided therein.

"2004 Bond Insurer" means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

"2004 Bond Payment Date" means a date on which principal or interest shall be payable on the 2004 Bonds according to their respective terms so long as any 2004 Bonds are Outstanding.

"2004 Loan" means the loan of 2004 Bond proceeds made by the Corporation to the City pursuant to the Series 2004 Loan Agreement.

"2004 Project Fund" means the fund created pursuant to the Series 2004 Loan Agreement and held by the City.

"2004 Reserve Fund" means the 2004 Reserve Fund created by the Indenture.

"Unassigned Corporation's Rights" means all of the rights of the Corporation to receive additional payments under the Loan Agreements, and to give or withhold consent to amendments, changes, modifications and alterations of the Loan Agreements and its right to enforce such rights.

Summary of Certain Provisions of the Indenture

The following, along with the information included under the heading "THE BONDS," is a summary of certain provisions of the Indenture. This summary does not purport to be complete, and reference is made to the Indenture for a full and complete statement of such provisions. Capitalized terms used in this summary are defined in the Indenture and have the same meaning herein as therein unless the context hereof requires some other meaning.

Pledge and Security. To secure the payment of Bond Service Charges, the Corporation has absolutely assigned to the Trustee the following described property (i) all rights and interests of the Corporation, in, under and pursuant to the Loan Agreements, including any supplements thereto, except for Unassigned Corporation's Rights, the Corporation, however, to remain liable to observe and perform all the conditions and covenants in said Loan Agreements provided to be observed and performed by it, (ii) the Revenues, and (iii) any and all other real or personal property of any kind from time to time by delivery or by writing of any kind specifically conveyed, pledged, assigned or transferred, as and for additional security under the Indenture for the Bonds, by the Corporation or by anyone on its behalf or with its written consent, in favor of the Trustee; excluding, however, any money or investments in the Rebate Fund.

Receipt of Revenues. The amounts to be paid by the City with respect to the Bonds pursuant to the terms of the Loan Agreements have been assigned by the Corporation to the Trustee so that such moneys shall be paid by the City directly to the Trustee, and unless otherwise specified in a Series Loan Agreement or a Series Supplemental Indenture, the Trustee shall credit such moneys to the Revenue Fund.

Flow of Funds. So long as any Bonds are Outstanding, Loan Payments received by the Trustee shall be deposited to the Bond Fund in the following manner and order of priority:

(a) *Interest Account:* To the Interest Account funds in an amount sufficient to cause the amount on deposit in the Interest Account to be equal to the amount required to be deposited therein pursuant to each Series Supplemental Indenture. Moneys in the Interest Account shall be used to pay interest on the Bonds as it becomes due.

(b) *Principal Account:* To the Principal Account funds in an amount sufficient to cause the amount on deposit in the Principal Account to be equal to the amount required to be deposited therein pursuant to each Series Supplemental Indenture. Moneys in the Principal Account shall be used to pay principal on the bonds as it becomes due (whether by maturity or sinking fund redemption).

Redemption Account of the Bond Fund. If the City makes an optional prepayment of any installment of principal which is to be applied to redeem Bonds in accordance with the Master Indenture and a Series

Supplemental Indenture and specifying the series, the amount and maturities of Bonds to be redeemed and the optional redemption date, the amount so paid shall be credited to the Redemption Account and applied promptly by the Trustee, to retire Bonds by purchase, redemption or both purchase and redemption in accordance with the City's directions; provided, however, no amounts may be deposited to the Redemption Account unless all amounts required to be deposited to the Interest Account and the Principal Account on such date have be deposited therein. Any such purchase shall be made at the best price obtainable with reasonable diligence. Any such redemption shall be of Bonds then subject to redemption at the redemption price then applicable for redemption of such Bonds.

Any balance remaining in the Redemption Account after the purchase or redemption of Bonds in accordance with the City's directions shall be transferred to the Interest Account.

Investment of Moneys in Funds. Moneys in each of the funds and accounts (the *"Funds"*) held by the Trustee shall be invested by the Trustee in Permitted Investments at the oral or written direction of the City or, in the absence of any such oral or written duration, in Permitted Investments described in paragraph (vii) of the definition thereof. An investment made from moneys credited to the Funds shall constitute part of that respective Fund, and each respective Fund shall be credited with all proceeds of sale and income from investment of moneys credited thereto. Each investment of moneys in the Funds shall mature or be redeemable at such time as may be necessary to make the required payments from such Funds. Amounts credited to any Fund may be invested, together with amounts credited to one or more other Funds, in the same Permitted Investment, provided that (i) each such investment complies in all respects with the provisions of the Indenture as they apply to each Fund for which the joint investment is made and (ii) the Trustee maintains separate records for each Fund and such investments are accurately reflected therein. Any of those Permitted Investments may be purchased from or sold to the Trustee, the Registrar, an Authenticating Agent or a Paying Agent, or any bank, trust company or savings and loan association affiliated with any of the foregoing. The Trustee shall sell at the best price obtainable, or present for redemption, any Permitted Investment purchased by it as an investment whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund for which such investment was made.

Enforcement of Revenue Pledge. As provided in the Series 2004 Loan Agreement, the Trustee shall have the right of specific performance of the pledge of receipts and revenues of the City described in the Series 2004 Loan Agreement by appropriate court action, in the name of the Trustee on behalf of the Owners of the Bonds, in the name of the Corporation, or in the names of both. Nothing contained in the Indenture or the Series 2004 Loan Agreement shall be deemed to create a lien of any kind upon the Project or any other property acquired with the proceeds of the Bonds.

Intervention by the Trustee. The Trustee may intervene on behalf of the Owners, and shall intervene if requested to do so in writing by the Owners of at least 25 percent of the aggregate principal amount of the Bonds then Outstanding or any Credit Support Provider as described in the Indenture, in any judicial proceeding to which the Corporation or the City is a party and which in the opinion of the Trustee and its counsel has a substantial bearing on the interests of Owners of the Bonds. The rights and obligations of the Trustee are subject to the approval of that intervention by a court of competent jurisdiction. The Trustee may require that a satisfactory indemnity bond be provided to it in accordance with the Indenture before it takes such action.

Removal of the Trustee. The Trustee may be removed at any time by the City with, under certain circumstances, the consent of the Credit Support Provider or by an instrument or document or concurrent instruments or documents in writing delivered to the Trustee with copies thereof mailed to the Corporation, the Registrar, any Paying Agents and the Credit Support Provider and signed by or on behalf of the Owners of not less than 25 percent in aggregate principal amount of the Bonds then Outstanding, in each case with the consent of the Credit Support Provider under circumstances described in the Indenture. The Trustee also may be removed at any time for any breach of trust or for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provision of the Indenture with respect to the duties and obligations of the Trustee by any court of competent jurisdiction upon the application of the Corporation or the Owners of not less than 25 percent in aggregate principal amount of the Bonds then Outstanding.

Appointment of Successor Trustee. If (i) the Trustee shall resign, shall be removed, shall be dissolved, or shall become otherwise incapable of acting under the Indenture, (ii) the Trustee shall be taken under the control of any public officer or officers, or (iii) a receiver shall be appointed for the Trustee by a court, then a successor Trustee shall be appointed by the Corporation; provided, that if a successor Trustee is not so appointed within ten days after (a) a notice of resignation or an instrument or document of removal is received by the Corporation, as provided in the Indenture, respectively, or (b) the Trustee is dissolved, taken under control, becomes otherwise incapable of acting or a receiver is appointed, in each case, as provided above, then, so long as the Corporation shall not have appointed a successor Trustee, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding may designate a successor Trustee by an instrument or document or concurrent instruments or documents in writing signed by or on behalf of those Owners with the consent of the Credit Support Provider as described in the Indenture. If no appointment of a successor Trustee shall be made pursuant to the foregoing provisions. The Owner of any Bond Outstanding hereunder or any retiring Trustee may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Events of Default. The occurrence of any of the following events is defined as and declared to be and to constitute an Event of Default under the Indenture:

(i) Notwithstanding any payment paid with respect thereto pursuant to the terms of any Credit Support Facility, payment of any interest on any Bond shall not be made when and as that interest shall become due and payable;

(ii) Notwithstanding any payment paid with respect thereto pursuant to the terms of any Credit Support Facility, payment of the principal of or any premium on any Bond shall not be made when and as that principal or premium shall become due and payable, whether at stated maturity, by redemption or otherwise;

(iii) Failure by the Corporation to observe or perform any other covenant, agreement or obligation on its part to be observed or performed contained in the Indenture or in the Bonds, which failure shall have continued for a period of 30 days after written notice of such failure, by registered or certified mail, shall have been given to the Corporation and the City, requesting that it be remedied, which notice may be given by the Trustee in its discretion and shall be given by the Trustee at the written request of the Owners of not less than 25 percent in aggregate principal amount of Bonds then Outstanding;

(iv) The occurrence and continuance of any event of default as defined in the Loan Agreements; and

(v) The occurrence of an Event of Bankruptcy as to the Corporation or the Corporation shall (A) commence a proceeding under any federal or state insolvency, reorganization or similar law, or having such a proceeding commenced against it and either having an order of insolvency or reorganization entered against it or having the proceeding remain undismissed and unstayed for 90 days or (B) have a receiver, conservator, liquidator or trustee appointed for it or for the whole or any substantial part of its property. The declaration of an Event of Default under this provision and the exercise of remedies upon any such declaration shall be subject to any applicable limitations of federal or state law affecting or precluding such declaration or exercise during the pendency of or immediately following any liquidation or reorganization proceedings.

Notice of Default. If an Event of Default shall occur, the Trustee shall give written notice of the Event of Default, by registered or certified mail, to, among others, the Corporation, the City, each Credit Support Provider, the Registrar, and any Paying Agent, within five days after the Trustee has notice of the Event of Default. If an Event of Default occurs of which the Trustee has notice pursuant to the Indenture, the Trustee shall give written notice thereof, within 30 days after the receipt by the Trustee of notice of its occurrence, to the Owners of all Bonds then Outstanding and affected thereby as shown by the Register at the close of business 15 days prior to the mailing of that notice; provided that, except in the case of a default in the payment of the principal of or any premium or interest on any Bond or the occurrence of an Event of

Bankruptcy as to the Corporation, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors or responsible officers of the Trustee in good faith determine that the withholding of notice to the Owners is in the interests of the Owners.

Remedies, No Right of Acceleration. If an Event of Default shall happen, then and in each and every such case during the continuance of such Event of Default, the Trustee may, and upon request of the Owners affected thereby as provided in the Indenture shall, with the consent of the Credit Support Providers, exercise the remedy granted pursuant to the Loan Agreements; provided, however, that notwithstanding anything in the Indenture or the Loan Agreements to the contrary, there shall be no right under any circumstances to accelerate the maturities of the Bonds or otherwise to declare any Loan Payments not then past due or in default to be immediately due and payable.

Application of Moneys. After payment of any costs, expenses, liabilities and advances paid, incurred or made by the Trustee in the collection of moneys pursuant to any right given or action taken under the provisions of the Indenture or the provisions of the Loan Agreements, (including without limitation, reasonable attorneys' fees and expenses, except as limited by law or judicial order or decision entered in any action taken under the Indenture) and after any required deposit into the Rebate Fund, all moneys received by the Trustee, unless the principal of all of the Bonds shall have become due and payable, shall be deposited in the Revenue Fund and shall be applied as follows subject to the provisions of the Indenture:

First — To the Interest Account for the payment to the Owners entitled thereto of all installments of interest then due on the Bonds, in the order of the dates of maturity of the installments of that interest, beginning with the earliest date of maturity and, if the amount available is not sufficient to pay in full any particular installment, then to the payment thereof ratably, according to the amounts due on that installment, to the Owners entitled thereto, without any discrimination or privilege, except as to any difference in the respective rates of interest specified in the Bonds; and

Second — To the Principal Account for the payment to the Owners entitled thereto of the unpaid principal of any of the Bonds which shall have become due (other than Bonds previously called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), whether at stated maturity or by redemption, in the order of their due dates, beginning with the earliest due date, with interest on those Bonds from the respective dates upon which they may become due at the rates specified in those Bonds, and if the amount available is not sufficient to pay in full all Bonds due on any particular date, together with that interest, then to the payment thereof ratably, according to the amounts of principal due on that date, to the Owners entitled thereto, without any discrimination or privilege, except as to any difference in the respective rates of interest specified in the Bonds.

If principal of all the Bonds shall have become due, all of those moneys shall be deposited in the Bond Fund and shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds, without preference or priority of principal over interest, of interest over principal, of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the Owners entitled thereto, without any discrimination or privilege, except as to any difference in the respective rates of interest specified in the Bonds.

Whenever moneys are to be applied pursuant to the provisions of the Indenture, those moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of moneys available for application and the likelihood of additional moneys becoming available for application in the future. Whenever the Trustee shall direct the application of those moneys, it shall fix the date upon which the application is to be made, and upon the date, interest shall cease to accrue on the amounts of principal, if any, to be paid on that date, provided the moneys are available therefor. The Trustee shall give notice of the deposit with it of any moneys and of the fixing of that date, all consistent with the requirements of the Indenture for the establishment of, and for giving notice with respect to, a Special Record Date for the payment of overdue interest. The Trustee shall not be required to make payment of principal of and any premium on a Bond to the Owner thereof, until the Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if it is paid fully.

Remedies Vested in Trustee. All rights of action (including without limitation, the right to file proof of claims) under the Indenture or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceeding relating thereto. The sole remedy of the Trustee under the Indenture is that of specific performance as set forth in the Indenture and the Loan Agreements. Any suit or proceeding instituted by the Trustee shall be brought in its name as Trustee without the necessity of joining any Owners as plaintiffs or defendants. Any recovery of judgment shall be for the benefit of the Owners of the Outstanding Bonds entitled thereto, subject to the provisions of the Indenture.

Rights and Remedies of Owners. An Owner shall not have any right to institute any suit, action or proceeding for the enforcement of the Indenture, for the execution of any trust of the Indenture, or for the exercise of any other remedy under the Indenture, unless:

(i) there has occurred and is continuing an Event of Default of which the Trustee has been notified, as provided in the Indenture or of which it is deemed to have notice pursuant to the Indenture;

(ii) the Owners of at least 25 percent in aggregate principal amount of the Bonds then Outstanding shall have made written request to the Trustee and shall have afforded the Trustee reasonable opportunity to proceed to exercise the remedies, rights and powers granted in the Indenture or to institute the suit, action or proceeding in its own name, and shall have offered indemnity to the Trustee as provided in the Indenture; and

(iii) the Trustee thereafter shall have failed or refused to exercise the remedies, rights and powers granted in the Indenture or to institute the suit, action or proceeding in its own name.

No one or more Owners of the Bonds shall have any right to affect, disturb or prejudice in any manner whatsoever the security or benefit of the Indenture by its or their action, or to enforce, except in the manner provided in the Indenture, any remedy, right or power under the Indenture. Any suit, action or proceedings shall be instituted, had and maintained in the manner provided in the Indenture for the benefit of the Owners of all Bonds then Outstanding. Nothing in the Indenture shall affect or impair, however, the right of any Owner to enforce the payment of the Bond Service Charges on any Bond owned by that Owner at and after the maturity thereof, at the place, from the sources and in the manner expressed in that Bond.

Effect of Credit Support Instrument. Notwithstanding the foregoing discussion under the captions "Events of Default," "Remedy," "Application of Money," "Remedies Vested in Trustee" and "Rights and Remedies of Owners," a Credit Support Provider shall be deemed to be the sole holder of the relevant Series of Bonds subject to such Credit Support Provider's Credit Support Instrument for so long as the Credit Support Provider is not in default under the Credit Support Instrument and the Credit Support Provider is not then bankrupt or insolvent or in receivership or contesting its obligations.

Supplemental Indentures Not Requiring Consent of Owners. Without the consent of, or notice, to, any of the Owners, but with notice to any applicable Credit Support Provider, the Corporation Representative on behalf of the Corporation and the Trustee may enter into certain indentures supplemental to the Indenture as provided in the Indenture which shall not, in the opinion of the Corporation Representative and the Trustee, be inconsistent with the terms and provisions of the Indenture.

Supplemental Indentures Requiring Consent of Owners. Exclusive of Supplemental Indentures to which reference is made in the preceding paragraph and subject to the terms, provisions and limitations contained in this paragraph, and not otherwise, with the consent of the Owners of not less than a majority in aggregate principal amount of Bonds at the time Outstanding and the Credit Support Provider, if the Credit Support Provider is not then in default with respect to the Credit Support Instrument, evidenced as provided in the Indenture, the Corporation and the Trustee may also execute and deliver Supplemental Indentures adding any provisions to, changing in any manner or eliminating any of the provisions of the Indenture or any Supplemental Indenture or restricting in any manner the rights of the Owners. Nothing in this paragraph or the preceding paragraph shall permit, however, or be construed as permitting:

(i) without the consent of the Owner of each Bond so affected and the Credit Support Provider, if the Credit Support Provider is not then in default with respect to the Credit Support Instrument, (i) an extension of the maturity of the principal of or the interest on any Bond or (ii) a reduction in the principal amount of any Bond or the rate of interest or premium thereon or

(ii) without the consent of the owners of all Bonds then Outstanding and the Credit Support Provider, if the Credit Support Provider is not then in default with respect to the Credit Support Instrument, (i) the creation of a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (ii) a reduction in the aggregate principal amount of the Bonds required for consent to a Supplemental Indenture.

If the Corporation shall request that the Trustee execute and deliver any Supplemental Indenture for any of such purposes of the Indenture, upon being satisfactorily indemnified with respect to its expenses in connection therewith, the Trustee shall cause notice of the proposed execution and delivery of the Supplemental Indenture to be mailed by first class mail, postage prepaid, and to all Owners of Bonds affected thereby then Outstanding at their addresses as they appear on the Register at the close of business on the fifteenth day preceding that mailing. The notice shall set forth briefly the nature of the proposed Supplemental Indenture and shall state that copies thereof are on file at the designated corporate trust office of the Trustee for inspection by all Owners affected thereby. If the Trustee shall receive, within a period prescribed by the Corporation, of not less than 60 days, but not exceeding one year, following the mailing of the notice, an instrument or document or instruments or documents, in form to which the Trustee does not reasonably object, purporting to be executed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (which instrument or document or instruments or documents shall refer to the proposed Supplemental Indenture in the form described in the notice and specifically shall consent to the Supplemental Indenture in substantially that form), the Trustee shall, but shall not otherwise, execute and deliver the Supplemental Indenture in substantially the form to which reference is made in the notice as being on file with the Trustee, without liability or responsibility to any Owner, regardless of whether that Owner shall have consented thereto. Any consent shall be binding upon the Owner of the Bond giving the consent and, anything in the Indenture to the contrary notwithstanding, upon any subsequent Owner of that Bond and of any Bond issued in exchange therefor (regardless of whether the subsequent Owner has notice of the consent to the Supplemental Indenture). A consent may be revoked in writing, however, by the Owner who gave the consent or by a subsequent Owner of the Bond by a revocation of such consent received by the Trustee prior to the execution and delivery by the Trustee of the Supplemental Indenture. At any time after the Owners of the required percentage of Bonds shall have filed their consents to the Supplemental Indenture, the Trustee shall make and file with the Corporation a written statement that the Owners of the required percentage of Bonds have filed those consents. That written statement shall be conclusive evidence that the consents have been so filed. If the Owners of the required percentage in aggregate principal amount of Bonds Outstanding shall have consented to the Supplemental Indenture, as provided above, no Owner shall have any right (i) to object to (a) the execution or delivery of the Supplemental Indenture, (b) any of the terms and provisions contained therein, or (c) the operation thereof, (ii) to question the propriety of the execution and delivery thereof, or (iii) to enjoin or restrain the Trustee or the Corporation from that execution or delivery or from taking any action pursuant to the provisions thereof.

Notwithstanding the foregoing, the Credit Support Provider shall be deemed to be the Owner of all Outstanding Bonds for the purpose of obtaining consent to any Supplemental Indenture which requires consent of the Owners of a majority in aggregate principal amount of Bonds Outstanding (but not those Supplemental Indentures which require the consent of the Owners of all Outstanding Bonds) and shall be provided with a full transcript of all proceedings relating to the execution thereof so long as the Credit Support Provider is not in default under the Credit Support Instrument relating to the Bonds as the case may be, and the Credit Support Provider is not then bankrupt or insolvent or in receivership.

Modification by Unanimous Consent. Notwithstanding anything contained elsewhere in the Indenture, the rights and obligations of the Corporation and of the Owners, and the terms and provisions of the Bonds and the Master Indenture or any Supplemental Indenture may be modified or altered in any respect with the consent of (i) the Corporation, (ii) the Owners of all of the Bonds then Outstanding, (iii) the Trustee and (iv) the Credit Support Provider, so long as the Credit Support Provider is not then in default under the Credit Support Instrument.

Release of Indenture. If (i) the Corporation shall pay all of the Outstanding Bonds, or shall cause them to be paid and discharged, or if there otherwise shall be paid to the Owners of the Outstanding Bonds, all Bond Service Charges due or to become due thereon, and (ii) provision also shall be made for the payment of all other sums payable under the Indenture, then the Indenture shall cease, determine and become null and void (except as otherwise provided in the Indenture), and the covenants, agreements and obligations of the Corporation under the Indenture shall be released, discharged and satisfied. Thereupon, and subject to the other provisions of the Indenture then applicable,

(i) the Trustee shall release the Indenture (except for those provisions surviving otherwise by reason of the Indenture), and shall execute and deliver to the Corporation any instruments or documents in writing as shall be requisite to evidence that release and discharge or as reasonably may be requested by the Corporation, and

(ii) the Trustee and any other Paying Agents shall assign and deliver to the City any property subject at the time to the pledge of the Indenture which then may be in their possession, except amounts in the Bond Fund required otherwise to be held by the Trustee and the Paying Agents under the Indenture or otherwise for the payment of Bond Service Charges.

Payment and Discharge of Bonds. All of any part of the Bonds shall be deemed to have been paid and discharged within the meaning of the Indenture if:

(i) the Trustee as paying agent and any Paying Agents or any qualified trustee shall have received, in trust for and irrevocably committee thereto, sufficient moneys, or

(ii) the Trustee or any qualified trustee shall have received, in trust for and irrevocably committed thereto, Defeasance Obligations which are certified by an independent public accounting firm of national reputation to be of such maturities or redemption dates and interest payment dates, and to bear such interest, as will be sufficient together with any moneys to which reference is made above, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom (which earnings are to be held likewise in trust and so committed, except as provided in the Indenture),

for the payment of all Bond Service Charges on those Bonds, at their maturity or redemption dates, as the case may be, or if a default in payment shall have occurred on any maturity or redemption date, then for the payment of all Bond Service Charges thereon to the date of the tender of payment to the Owners of the Bonds as to which such default exists; provided, that if any of those Bonds are to be redeemed prior to the maturity thereof, notice of that redemption shall have been duly given or irrevocable provision satisfactory to the Trustee shall have been duly made for the giving of that notice and if a forward supply contract is employed the requirements of the Indenture with respect thereto are satisfied.

Any moneys held by the Trustee or any qualified trustee in accordance with these provisions may be invested by the Trustee or such other trustee only in obligations described above having maturity dates, or having redemption dates which, at the option of the owner of those obligations, shall be not later than the date or dates at which moneys will be required for the purposes described above. To the extent that any income or interest earned by, or increment to, the investments held under these provisions is determined in accordance with the certification described in the Indenture, from time to time by the Trustee or any qualified trustee to be in excess of the amount required to be held by the Trustee or any qualified trustee for the purposes of this Section, that income, interest or increment shall be transferred at the time of that determination to the Rebate Fund.

If any Bonds shall be deemed paid and discharged pursuant to these provisions, then within 15 days after such Bonds are so deemed paid and discharged the Trustee or such other trustee shall cause a written notice to be given to each Owner as shown on the Register on the date on which such Bonds are deemed paid and discharged. Such notice shall state the numbers of the Bonds deemed paid and discharged or state that all of the Bonds are deemed paid and discharged, set forth a description of the obligations held pursuant to the Indenture and specify any date or dates on which any of the Bonds are to be redeemed pursuant to notice of redemption given or irrevocable provisions made for such notice pursuant to the Indenture.

Maintenance of Offices for Payment. So long as the Bonds or any of them shall be Outstanding, the Corporation shall cause offices or agencies where the Bonds may be presented for payment to be maintained in the City or at the office of the Trustee as provided in the form of the Bonds.

Payments Due on Saturdays, Sundays and Holidays. If any Bond Payment Date is a Saturday, Sunday or a day on which (i) the Trustee is required, or authorized or not prohibited, by law (including without limitation, executive orders) to close and is closed, then payment of Bond Service Charges need not be made by the Trustee or any Paying Agent on such Bond Payment Date, but that payment may be made on the next succeeding business day on which the Trustee and the Paying Agent are open for business with the same force and effect as if that payment were made on the Bond Payment Date, and no interest shall accrue for the period after such Bond Payment Date, or (ii) a Paying Agent is required, or authorized or not prohibited, by law (including without limitation, executive orders) to close and is closed, then payment of Bond Service Charges need not be made by that Paying Agent on that date, but that payment may be made on the next succeeding business day on which that Paying Agent is open for business with the same force and effect as if that payment were made on the Bond Payment Date, and no interest shall accrue for the period after that date; provided, that if the Trustee is open for business on the applicable Bond Payment Date, it shall make any payment required hereunder with respect to payment of Bond Service Charges on Bonds presented to it for payment, regardless of whether any Paying Agent shall be open for business or closed on the applicable Bond Payment Date.

Consents of 2004 Bond Insurer. Any provision of the Indenture expressly recognizing or granting rights in or to the 2004 Bond Insurer may not be amended in any manner which affects the rights of the 2004 Bond Insurer under the Indenture without the prior written consent of the 2004 Bond Insurer. The 2004 Bond Insurer reserves the right to charge the City a fee for any consent or amendment to the Indenture while the 2004 Bond Insurance Policy is outstanding.

Any reorganization or liquidation plan with respect to the Corporation must be acceptable to the 2004 Bond Insurer. In the event of any reorganization or liquidation, the 2004 Bond Insurer shall have the right to vote on behalf of all Owners who hold 2004 Bonds absent a default by the 2004 Bond Insurer under the 2004 Bond Insurance Policy.

Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an event of default as defined in the Indenture, the 2004 Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under the Indenture.

Valuation of Investments. Notwithstanding anything in the Indenture to the contrary, the value of "Permitted Investments" and "Defeasance Obligations" shall be determined as follows:

(i) For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards from accepted industry providers. Accepted industry providers shall include but are not limited to pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Salomon Smith Barney, Bear Stearns or Lehman Brothers.

(ii) As to certificates of deposit and bankers' acceptances, the face amount thereof, plus accrued interest thereon; and

(iii) As to any investment not specified above, the value thereof established by prior agreement among the City, the Trustee and the 2004 Bond Insurer.

2004 Bonds to Remain Outstanding. Notwithstanding anything in the Indenture to the contrary, in the event that the principal and/or interest due on the 2004 Bonds shall be paid by the 2004 Bond Insurer pursuant to the 2004 Bond Insurance Policy, the 2004 Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Corporation, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the Corporation to the Owners shall continue to exist and shall run to the benefit of the 2004 Bond Insurer, and the 2004 Bond Insurer shall be subrogated to the rights of such Owners.

Effect of 2004 Bond Insurance Policy. Notwithstanding any other provision of the Indenture, in determining whether the rights of the Owners will be adversely affected by any action taken pursuant to the terms and provisions of the Indenture, the Trustee (or Paying Agent) shall consider the effect on the Owners as if there were no 2004 Bond Insurance Policy.

Summary of Certain Provisions of the Loan Agreement

The following is a summary of certain provisions of the Series 2004 Loan Agreement. This summary is not purported to be complete, and reference is made to the full text of the Series 2004 Loan Agreement for a complete recital of its terms, including definitions of capitalized terms herein.

General. The Series 2004 Loan Agreement has been entered into between the City of Phoenix and the City of Phoenix Civic Improvement Corporation. The Series 2004 Loan Agreement contains the terms and conditions under which the Corporation will loan funds to the City to pay for the acquisition, equipping and construction of the Project.

Project Fund. The City shall establish, hold and maintain a separate fund known as the *"2004 Project Fund"*. The 2004 Project Fund will not be subject to any pledge for the benefit of the Corporation, the Trustee or the Owners of the Bonds. The net proceeds of the 2004 Bonds, shall be deposited in the 2004 Project Fund upon transfer of such net proceeds by the Trustee pursuant to the Indenture. The City covenants and agrees to deposit all amounts transferred to it by the Trustee from the 2004 Reserve Fund to the 2004 Project Fund. In addition, the City may, but shall not be required to deposit additional funds consisting of Other Available Moneys in the 2004 Project Fund. Moneys in the 2004 Project Fund shall be disbursed by the City upon requisition of a City Representative for the following purposes and for no other purpose:

(a) costs and expenses relating to the issuance, sale and delivery of the 2004 Bonds;

(b) payment for the acquisition of the required interests in property from time to time and for labor, services and materials used or furnished in the improvement, construction and equipping of the Project, and for the miscellaneous expenses incidental to any of the foregoing;

(c) reimbursement of Project costs advanced prior to the issuance of the 2004 Bonds; and

(d) transfers to the Rebate Fund.

The City covenants that to the extent Pledged Revenues are not otherwise available in any other fund under the Indenture (other than the Rebate Fund) and Other Available Moneys are not used for such purpose, it will apply amounts on deposit in the 2004 Project Fund to payment of the Loan Payments, but this covenant and agreement shall not constitute a pledge of the 2004 Project Fund. After the City notifies the Corporation and the Trustee that (i) the design acquisition, equipping and construction of the Project has been completed, and (ii) all obligations and costs in connection with the Project have been paid and discharged, except for amounts retained for payment of costs of the Project not yet due and payable, then all money remaining in the 2004 Project Fund shall be transferred to the Bond Fund and used by the Trustee at the direction of the City Representative to purchase 2004 Bonds in the open market at a price not in excess of fair market value, to redeem 2004 Bonds on the next available redemption date or to pay 2004 Bonds in accordance with the requirements of the Code.

Loan Payments. The City will pay, solely from Pledged Revenues, as the Loan Payments in consideration for the 2004 Loan, the following:

(a) The City shall cause to be paid to the person to whom payment is then owed the Administrative Cost pursuant to the Indenture.

(b) On or before the last Business Day of each month, commencing January 2005, the City shall transfer from the Transit 2000 Fund to the City Improvement Fund — Light Rail an amount equal to one-fifth of the interest coming due on the 2004 bonds on the next succeeding 2004 Bond Payment Date, until such transfers have been made in amount sufficient to make such next succeeding interest payment. If funds in the Transit 2000 Fund are insufficient to make a transfer when required, such deficiency shall be remedied on the next succeeding transfer date.

(c) On or before the last Business Day of each month during each Bond Year, commencing with the Bond Year beginning July 2, 2005, the City shall transfer from the Transit 2000 Fund to the City Improvement Fund — Light Rail an amount equal to one-tenth of the Principal Requirement for the 2004 bonds for the then current Bond Year, until such transfers have been made in an amount sufficient to make such next succeeding principal payment. If funds in the Transit 2000 fund are insufficient to make a transfer when required, such deficiency shall be remedied on the next succeeding transfer date.

(d) Regardless of the amount which has been transferred from the Transit 2000 Fund to the City Improvement fund — Light Rail, on or before the Business Day immediately preceding each 2004 Bond Payment Date, until principal of and interest on the 2004 Bond shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Series 2004 Supplemental Indenture, the City shall pay to the Trustee form the City Improvement Fund — Light Rail (or the Transit 2000 Fund if there is a shortfall in the City Improvement Fund — Light Rail) an amount equal to the principal of and/or interest on the 2004 Bonds falling due on such 2004 Bond Payment Date for deposit by the Trustee into the 2004 Principal Subaccount or the 2004 Interest Subaccount, as applicable.

(e) The Loan Payments required by (a), (b), (c) and (d) above shall continue until the 2004 Bonds shall have been fully paid or provision for their payment shall have been made in accordance with the Indenture.

(f) The City shall make any required payments to the Rebate Fund.

(g) The City's obligation to make Loan Payments under the Series 2004 Loan Agreement shall be coextensive with the Corporation's debt service and obligations to pay the Trustee, and that, when the 2004 Bonds and the Trustee's fees and expenses, and all other amounts due under the Indenture have been fully paid or provided for, the City shall have no further obligation to make such Loan Payments.

(h) In the event the City should fail to pay when due any of the amounts required pursuant to the Series 2004 Loan Agreement, the item or installment so in default shall continue as an obligation of the City payable solely from the Pledged Revenues, until the amount in default shall have been fully paid, and the City agrees to pay the same with interest thereon at the rate applicable to the corresponding maturities of 2004 Bonds, from the date said payment was to be made to the date of payment by the City.

(i) To the extent not paid from proceeds of the 2004 Bonds, the City shall pay to the Corporation amounts sufficient to reimburse the Corporation for all its expenses in connection with the issuance of the 2004 Bonds and the Series 2004 Loan Agreement if and when paid by the Corporation. Such amounts shall be paid from Pledged Revenues to the Corporation or its order upon receipt by the City Representative of requisitions therefor.

(j) All the moneys held in the funds and accounts created under the Indenture (except the moneys held in the Rebate Fund) are specifically pledged as security for the Owners of the Bonds, shall be under the control of the Trustee and are not subject to attachment or any other lien by any creditor of the City in the event the City becomes a debtor in a proceeding under the United States Bankruptcy Code.

The obligation of the City to make the Loan Payments is absolute and unconditional but does not constitute a general obligation of the City or a pledge of ad valorem taxes by the City and does not constitute an indebtedness of the City, the State of Arizona or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation restrictions. The City may, at its sole option, make Loan Payments from other funds as permitted by law, but the Corporation shall have no claim to such other funds.

Option to Prepay. The City has the option to make Loan Payments in advance and may require the Corporation to redeem 2004 Bonds, when callable, prior to their maturity. Prior to the call date (and thereafter, if the cost is less than the redemption price) the City may make prepayments of the purchase price for the purpose of repurchasing 2004 Bonds in the open market for cancellation, in which event the amounts of the Loan Payments will be readjusted to fully pay the debt service on all 2004 Bonds remaining outstanding.

Prior Lien Obligations. The City shall not incur any obligations payable from the Pledged Revenues ranking prior to the obligation of the City under the Series 2004 Loan Agreement.

Parity Obligations. The City shall not incur any obligations payable from the Pledged Revenues in the future on a parity with its obligations under the Series 2004 Loan Agreement except for (a) Parity Obligations entered into for the purpose of refunding the Series 2004 Loan Agreement or other Parity Obligations if upon the incurring of such Parity Obligations, the following conditions are met: (i) an officer of the City certifies that the Maximum Annual Loan Payments becoming due and payable hereunder from the date of such determination to maturity or earlier redemption of the 2004 Bonds to be Outstanding immediately after the date of execution and delivery of such refunding obligations is not greater than the Maximum Annual Loan Payments becoming due and payable from the date of such determination to maturity or earlier redemption on the 2004 Bonds Outstanding immediately prior to the execution and delivery of such refunding obligations, and (ii) the Parity Obligations being refunded will no longer be Outstanding upon the issuance of the refunding obligations, or (b) Parity Obligations entered into or issued for purposes other than refunding the Series 2004 Loan Agreement or other Parity Obligations if, upon the incurring of such Parity Obligations, the following conditions are met: (i) a Corporation Representative certifies that, upon issuance or delivery of the Parity Obligations, neither the Corporation, nor the City will be in default under any term or provision of the Indenture or the Series 2004 Loan Agreement, and (ii) a City Representative certifies that either the Pledged Revenues for the most recently completed Fiscal Year for which audited financial statements are available or the Pledged Revenues for 12 consecutive months out of the most recent 18 calendar months would have been at least equal to Administrative Costs for the last complete Bond Year and 175% of the Maximum Annual Loan Payments for all Parity Obligations Outstanding, including the Parity Obligations proposed to be delivered.

Covenant Not to Reduce the Transit Excise Tax Base. The City covenants that while the Series 2004 Loan Agreement or any Parity Obligations are outstanding it will not amend Chapter 14 of the City Code to diminish or reduce the types or nature of the businesses to which the Transit Excise Taxes apply in any manner that would materially diminish the proceeds derived from the 0.4 percent levy.

Assignment. City shall not assign, transfer, pledge or grant a security interest in the Series 2004 Loan Agreement without the prior written consent of the Trustee. The City shall at all times remain liable for the performance of all the covenants and conditions on its part to be performed, notwithstanding any assigning, transferring or subletting which may be made.

Pursuant to the Indenture the Corporation's rights under the Series 2004 Loan Agreement, including the right to receive and enforce payment of the Loan Payments to be made by the City, have been assigned to the Trustee for the benefit of the Owners of the 2004 Bonds.

Defaults and Remedies. The following are events of default under the Series 2004 Loan Agreement:

(a) Failure by the City to pay any Loan Payment;

(b) Failure by the City to pay any other Loan Payment or other payment required to be paid with respect to the Bonds under the Series 2004 Loan Agreement for a period of 30 days after written notice specifying such failure has been given to the City by the Corporation or the Trustee;

(c) Failure by the City to observe and perform any other covenant and condition on its part to be observed or performed under the Series 2004 Loan Agreement for a period of 30 days after written notice specifying such failure has been given to the City by the Corporation or the Trustee; provided that if such failure be such that it 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; and

(d) The occurrence of an Event of Bankruptcy as to the City or the City shall: (i) commence a proceeding under any federal or state insolvency, reorganization or similar law, or have such a proceeding commenced against it and either have an order of insolvency or reorganization entered against it or have the proceeding remain undismissed and unstayed for 90 days; or (ii) have a receiver, conservator, liquidator or trustee appointed for it or for the whole or any substantial part of its property. The declaration of an Event of Default under this subsection (d) and the exercise of remedies upon any such declaration shall be subject to any applicable limitations of federal or state law affecting or precluding such declaration or exercise during the pendency of or immediately following any liquidation or reorganization proceedings.

Upon the occurrence and continuance of an event of default, the Corporation will be entitled to enforce the Series 2004 Loan Agreement by appropriate action to collect any amounts due and owing or to cause the City to perform its other obligations under the Series 2004 Loan Agreement. The Corporation's may exercise any of the available remedies at law or in equity, including, but not limited to, specific performance. Notwithstanding anything in the Series 2004 Loan Agreement or in the Indenture to the contrary, there shall be no right under any circumstances to accelerate or otherwise to declare any Loan Payment not then past due or in default to be immediately due and payable.

Tax Covenants. Under the Series 2004 Loan Agreement, the City and the Corporation covenant that each shall not make use of the Project or the proceeds of the 2004 Bonds or take any action which would adversely affect the exclusion of interest on the 2004 Bonds from gross income for federal income tax purposes.

Amendments to Series 2004 Loan Agreement. 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 Series 2004 Loan Agreement; provided the Trustee receives an opinion of nationally recognized bond counsel to the affect that such amendment (i) does not adversely affect the exclusion of interest on the 2004 Bonds from gross income for federal income tax purposes and (ii) does not adversely affect the interests of the Owners; provided that no such opinion shall be required for any amendment to the description of the Project.

Provisions Regarding 2004 Bond Insurer. The City and the Trustee acknowledge that, as long as the 2004 Bond Insurance Policy is in force and effect and the 2004 Bond Insurer is not in default of its obligations under the 2004 Bond Insurance Policy, the following provisions shall apply:

(a) Any provision of the Series 2004 Loan Agreement expressly recognizing or granting rights in or to the 2004 Bond Insurer may not be amended in any manner which affects the rights of the 2004 Bond Insurer hereunder without the prior written consent of the 2004 Bond Insurer. The 2004 Bond Insurer reserves the right to charge the City a fee for any consent or amendment to the Indenture, as it relates to the 2004 Bonds, or the Series 2004 Loan Agreement while the 2004 Bond Insurance Policy is outstanding.

(b) Any reorganization or liquidation plan with respect to the City must be acceptable to the 2004 Bond Insurer.

(c) The City shall furnish to the 2004 Bond Insurer (to the attention of the Surveillance Department) (i) a copy of any financial statement, audit and/or annual report of the City and (ii) such information as the Certificate Insurer may reasonably request.

(d) The City will permit the 2004 Bond Insurer to discuss the affairs, finances and accounts of the City or any information the 2004 Bond Insurer may reasonably request regarding the security for the payments due under the Series 2004 Loan Agreement and for the 2004 Bonds with the Assistant City Manager responsible for oversight of the City Finance Department, the Chief Financial Officer or a Deputy Finance Director of the City.

(e) Upon the occurrence of an Event of Default under the Series 2004 Loan Agreement, the City will permit the 2004 Bond Insurer to have access to and to make copies of all books and records relating to this Series 2004 Loan Agreement and the 2004 Bonds at any reasonable time.

(f) The 2004 Bond Insurer shall have the right to direct an accounting at the City's expense, and the City's failure to comply with such direction within 30 days after receipt of written notice of the direction from the 2004 Bond Insurer shall be deemed a default under the Series 2004 Loan Agreement; provided, however, that if compliance cannot occur within such period, then such period will be extended so long as compliance is begun within such period and diligently pursued, but only if such extension would not materially adversely affect the interests of any registered owner of the 2004 Bonds.

APPENDIX H

PROPOSED FORM OF LEGAL OPINION OF BOND COUNSEL

[LETTERHEAD OF SQUIRE, SANDERS & DEMPSEY L.L.P.]
[TO BE DATED CLOSING DATE]

City of Phoenix Civic Improvement Corporation
Phoenix, Arizona

We have examined the transcript of proceedings (the "Transcript") relating to the issuance of $500,000,000 Transit Excise Tax Revenue Bonds, Series 2004 (Light Rail Project) (the "Bonds") of the City of Phoenix Civic Improvement Corporation (the "Corporation") dated as of the date hereof. The Bonds are being issued for the purpose of providing funds to assist the City of Phoenix, Arizona (the "City") with financing a portion of the costs of designing, acquiring, constructing and equipping the City's portion of a regional light rail transit system. The documents in the Transcript examined include an executed counterpart of the following: (i) the Master Trust Indenture dated as of December 1, 2004 (the "Master Indenture"), between the Corporation and U.S. Bank National Association, as trustee (the "Trustee"), (ii) the Series 2004 Supplemental Indenture dated as of December 1, 2004 (the "Supplemental Indenture" and, collectively with the Master Indenture, the "Indenture"), between the Corporation and the Trustee, and (iii) the Series 2004 Loan Agreement dated as of December 1, 2004 (the "Loan Agreement"), between the Corporation and the City. We have also examined an executed Bond of the first maturity.

Based upon such examination, we are of the opinion that, under the law existing on the date of this opinion:

1. The Bonds, the Loan Agreement and the Indenture are legal, valid, binding and enforceable in accordance with their respective terms, subject to bankruptcy laws and other laws affecting creditors' rights and to the exercise of judicial discretion.

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 certain payments required to be made by the City under the Loan Agreement, and the City's obligation to make those payments is secured by a pledge of a 0.4 percent portion of privilege license taxes levied and collected by the City which taxes were authorized by a vote of the electors of the City at an election held therein on March 14, 2000 and were codified by the City pursuant to Ordinance No. G-4254, enacted by the City Council on April 5, 2000. The Indenture creates the pledge which it purports to create in the pledged revenues and other moneys in the funds and accounts created by the Indenture, which pledge will be perfected only as to the revenues and other moneys on deposit in the funds and accounts created by the Indenture. The Bonds and the payment of debt service are not secured by an obligation or pledge of any moneys raised by taxation other than the specified excise taxes; 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 Loan 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 interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and is exempt from Arizona state income taxes so long as that interest is excluded from gross income for federal income tax purposes. We express no opinion as to other tax consequences regarding the Bonds.

Under the Code, portions of the interest on the Bonds earned by certain corporations (as defined for federal income tax purposes) may be subject to a corporate alternative minimum tax and interest on the Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States, and to a tax imposed on excess net passive income of certain S corporations.

In giving the foregoing opinions with respect to the treatment of the interest on the Bonds and the status of the Bonds under the tax laws, we have assumed and relied upon compliance with the covenants of the Corporation and the City and the accuracy, which we have not independently verified, of the representations and certifications of the Corporation and the City contained in the Transcript. The accuracy of certain of those representations and certifications, and the compliance by the Corporation and the City with certain of those covenants, may be necessary for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes. Failure to comply with certain requirements subsequent to the issuance of the Bonds may cause interest thereon to be included in gross income for federal income tax purposes and to be subject to Arizona state income taxes retroactively to the date of issuance of the Bonds. We have also relied upon the legal opinion of counsel to the City, contained in the Transcript, as to all matters concerning the due authorization of the Loan Agreement by the City.

We express no opinion as to the statement of insurance printed on the Bonds or as to such insurance referred to in that statement.

Respectfully submitted,

APPENDIX I

FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "Undertaking" or the "Agreement") dated December 10, 2004 is executed and delivered by the City of Phoenix, Arizona (the "City") in connection with the issuance of $500,000,000 City of Phoenix Civic Improvement Corporation Transit Excise Tax Revenue Bonds, Series 2004 (Light Rail Project) (the "Bonds"). The Bonds are being issued pursuant to a Master Trust Indenture dated as of December 1, 2004 (the "Master Indenture"), by and between the City of Phoenix Civic Improvement Corporation (the "Corporation") and U.S. Bank National Association as trustee (the "Trustee"), and a Series 2004 Supplemental Indenture dated as of December 1, 2004 (the "Supplemental Indenture", and collectively with the Master Indenture, the "Indenture"), by and between the Corporation and 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.

"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.

"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.

"Loan Agreement" means the Series 2004 Loan Agreement dated as of December 1, 2004 by and between the Corporation and the City.

"Material Event" means the occurrence of events set forth in Exhibit II that are material, as materiality is interpreted under the Exchange Act.

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

"MSRB" means the Municipal Securities Rulemaking Board.

"NRMSIRs" means, as of any date, any Nationally Recognized Municipal Securities Information Repository then recognized by the Securities and Exchange Commission for purposes of the Rule. As of the date of this Undertaking, the NRMSIRs are:

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, NJ 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
E-Mail: munis@bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
E-Mail: nrmsir@dpcdata.com

Standard & Poor's Securities Evaluations, Inc.
55 Water Street — 45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
E-Mail: nrmsir_repository@sandp.com

FT Interactive Data
Attn: NRMSIR
100 Williams Street
New York, NY 10038
Phone: (212) 771-6999
Fax: (212) 771-7390 (Secondary Market Information)
(212) 771-7391 (Primary Market Information)
E-Mail: nrmsir@FTID.com

The names and addresses of all current NRMSIRs should be verified each time information is delivered pursuant to this Undertaking.

"Participating Underwriters" 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.

"SID" means any public or private repository designated by the State as the state repository and recognized as such by the Securities and Exchange Commission for purposes of the Rule. As of the date of this Agreement, no SID exists within the State. The name and address of the SID, if any, should be verified each time information is delivered pursuant to this Agreement.

"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:

CUSIP No.	Maturity Date	CUSIP No.	Maturity Date
718849AA0	07/01/06	718849AJ1	07/01/14
718849AB8	07/01/07	718849AK8	07/01/15
718849AC6	07/01/08	718849AL6	07/01/16
718849AD4	07/01/09	718849AM4	07/01/17
718849AE2	07/01/10	718849AN2	07/01/18
718849AF9	07/01/11	718849AP7	07/01/19
718849AG7	07/01/12	718849AQ5	07/01/20
718849AH5	07/01/13		

The Final Official Statement relating to the Bonds is dated December 7, 2004 (the "Final Official Statement").

4. *Annual Financial Information Disclosure.* Subject to Section 10 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 all NRMSIRs and to the SID, if any. The City is required to deliver such information in such manner and by such time so that such entities receive the information on the date 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. *Material Events Disclosure.* Subject to Section 10 of this Undertaking, the City hereby covenants that it will disseminate in a timely manner Material Events Disclosure to each NRMSIR or the MSRB, and to the SID, if any. 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 NRMSIRs/SID.* The City shall determine, in the manner it deems appropriate, the names and addresses of the then existing NRMSIRs and SID each time it is required to file information with such entities.

7. *Alternate Means of Disclosure.* Notwithstanding the provisions of Sections 4 and 5 requiring that the City file its Annual Financial Information, its Audited Financial Statements, if any, and Material Events Disclosure with each of the NRMSIRs, for so long as there is an entity then recognized by the Securities and Exchange Commission as eligible to receive filings and submit such filings to the NRMSIRs for purposes of the Rule (a "Central Post Office"), the Board may instead comply with the provisions of this Undertaking by filing the required information with a Central Post Office. As of the date of this Undertaking, the Central Post Office is:

DisclosureUSA.org
P.O. Box 684667
Austin, Texas 78768-4667
Fax: (512) 476-6403
http://www.disclosureUSA.org

8. *Consequences of Failure of the City to Provide Information.* The City shall give notice in a timely manner to each NRMSIR or to the MSRB, and to the SID, if any, of any failure to provide Annual Financial Information Disclosure when the same is due hereunder.

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 Loan 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.

9. *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 terms of the Indentures 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.

10. *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 a series of the Bonds under the Loan Agreement. The City shall give notice in a timely manner if such event occurs, to each NRMSIR or to the MSRB, and to the SID, if any.

11. *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.

12. *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 notice of occurrence of a Material Event, in addition to that which is required by this Undertaking. If the City chooses to include any information from any document or notice of occurrence of a Material Event 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 Material Events Disclosure.

13. *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.

14. *Recordkeeping.* The City shall maintain records of all Annual Financial Information Disclosure and Material 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.

15. *Assignment.* The City shall not transfer obligations under the Loan 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.

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

CITY OF PHOENIX, ARIZONA

By Frank Fairbanks
Its City Manager

By: ______________________________
Kevin Keogh
Chief Financial Officer

ATTEST:

By: ______________________________
City Clerk

APPROVED AS TO FORM:

By: ______________________________
City Attorney

EXHIBIT I
ANNUAL FINANCIAL INFORMATION AND TIMING AUDITED FINANCIAL STATEMENTS

"Annual Financial Information" means the information and operating data of the type contained under the headings "TRANSIT EXCISE TAXES AND COVERAGE — TRANSIT EXCISE TAX COLLECTIONS AND COVERAGE — ACTUAL TRANSIT EXCISE TAX RECEIPTS," and "APPENDIX B — CITY OF PHOENIX, ARIZONA — FINANCIAL DATA — OTHER LONG-TERM OBLIGATIONS."

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 each NRMSIR and to the SID, if any, or filed with the Commission. If the information included by reference is contained in a Final Official Statement, the Final Official Statement must be available from the MSRB; the Final Official Statement need not be available from each NRMSIR, the SID 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 each NRMSIR and to the SID, if any, by February 1 of each year, commencing February 1, 2005, 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 each NRMSIR and to the SID, if any, 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 MATERIAL EVENTS DISCLOSURE IS REQUIRED

1. Principal and interest payment delinquencies
2. Non-payment related defaults
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 or events affecting the tax-exempt status of the security
7. Modifications to the rights of security holders
8. Bond calls
9. Defeasances
10. Release, substitution or sale of property securing repayment of the securities
11. Rating changes

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APPENDIX J

FORM OF FINANCIAL GUARANTY INSURANCE POLICY

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President

AMBAC ASSURANCE CORPORATION CORPORATE SEAL WISCONSIN

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

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