

OFFICIAL STATEMENT DATED SEPTEMBER 21, 2005

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 2005B 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 2005B 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 2005B 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
\$275,362,351.75
State of Arizona Distribution Revenue Bonds
Series 2005B
(Civic Plaza Expansion Project)

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

The State of Arizona Distribution Revenue Bonds, Series 2005B (Civic Plaza Expansion Project) (the "2005B 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 2005B Bonds will be made to the ultimate purchasers thereof and all payments of principal and interest on the 2005B Bonds will be made to such purchasers through DTC. Payment of the principal of and interest on the 2005B Bonds will be paid by U.S. Bank National Association, Phoenix, Arizona, or any successor thereto as trustee (the "Trustee," also referred to herein as the "Registrar," "Paying Agent" and "Authenticating Agent"). The 2005B Bonds are being issued pursuant to a Series 2005B Trust Indenture, dated as of October 1, 2005 (the "2005B Indenture"), between the Corporation and the Trustee.

The 2005B Bonds are not subject to redemption prior to maturity.

The principal of and interest on the 2005B Bonds are payable solely from payments to be made by the City of Phoenix, Arizona (the "City"), to the Corporation pursuant to a Series 2005B Loan Agreement, dated as of October 1, 2005 (the "2005B Loan Agreement"), between the City and the Corporation. **The obligation of the City to make payments to the extent required under the 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.** Interest on the 2005B Bonds will accrete in value (see "APPENDIX K — SCHEDULE OF COMPOUND ACCRETED VALUES OF THE 2005B BONDS") from the initial delivery date to maturity or July 1, 2013 (the "Conversion Date"), as applicable, at the yields set forth on the inside front cover page. On the Conversion Date, the 2005B Bonds will convert to current interest bonds and thereafter interest will be payable semiannually on each January 1 and July 1, commencing January 1, 2014 until maturity. Except to the extent that the City appropriates other lawfully available funds for such payments at its sole option, or, under the limited circumstances set forth in the 2005B Loan Agreement, advances funds pending reimbursement as hereinafter provided, the City's payments are payable solely from and secured by a first pledge of distributions from the Arizona Convention Center Development Fund (the "ACCDF") authorized pursuant to Arizona Revised Statutes, Sections 9-601 through 9-626 and Sections 42-5029 and 42-5030. Such distributions are to commence upon filing of the certificate of completion of the project. The City will, under the limited circumstances set forth in the 2005B Loan Agreement and as described herein, advance funds to assure timely payments of the principal of and interest on the 2005B Bonds. Such advances by the City will be payable solely from, and secured by a subordinate pledge of, the City's Excise Taxes as defined herein. See "SECURITY AND SOURCE OF PAYMENT" herein. The scheduled payment of principal of and interest on the 2005B Bonds when due will be guaranteed by a municipal bond insurance policy to be issued simultaneously with the delivery of the 2005B Bonds by **Financial Guaranty Insurance Company**.

This cover page contains only a brief description of the 2005B 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 2005B Bonds and investors are advised to read the entire Official Statement in order to obtain information essential to making an informed investment decision.

The 2005B 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 2005B Bonds will be available for delivery in book-entry-only form through the facilities of DTC on or about October 6, 2005.

Lehman Brothers**Morgan Stanley & Co. Incorporated****Peacock, Hislop, Staley & Given, Inc.****Piper Jaffray & Co.****RBC Dain Rauscher****ApexPryor Securities****Ramirez & Co., Inc.**

MATURITY SCHEDULES

\$275,362,351.75

CITY OF PHOENIX CIVIC IMPROVEMENT CORPORATION State of Arizona Distribution Revenue Bonds, Series 2005B (Civic Plaza Expansion Project)

\$15,238,008.70

Capital Appreciation Bonds

<u>Maturity July 1</u>	<u>Initial Principal Amount</u>	<u>Initial Amount per \$5,000 Accreted Amount Due at Maturity</u>	<u>Approximate Yield to Maturity</u>
2012	\$ 460,208.70	\$3,867.30	3.85%
2013	14,777,800.00	3,694.45	3.95

\$260,124,343.05

Convertible Capital Appreciation Bonds

<u>Maturity July 1</u>	<u>Initial Principal Amount</u>	<u>Initial Amount per \$5,000 Accreted Amount at the Conversion Date(1)</u>	<u>Coupon From and After Conversion Date(1)</u>	<u>Approximate Yield to Maturity</u>
2018	\$ 1,484,036.00	\$3,619.60	5.50%	4.22%
2019	1,915,439.40	3,600.45	5.50	4.29
2020	2,374,494.70	3,586.85	5.50	4.34
2021	2,851,493.40	3,573.30	5.50	4.39
2022	3,353,331.60	3,559.80	5.50	4.44
2023	3,882,660.70	3,549.05	5.50	4.48
2024	4,443,799.80	3,543.70	5.50	4.50
2025	5,027,387.85	3,532.95	5.50	4.54
2026	5,639,202.30	3,522.30	5.50	4.58
2027	6,287,082.70	3,514.30	5.50	4.61
2028	6,972,383.00	3,509.00	5.50	4.63
2029	7,697,628.90	3,503.70	5.50	4.65
2030	8,465,538.90	3,501.05	5.50	4.66
2031	9,274,258.40	3,498.40	5.50	4.67
2032	10,123,692.00	3,495.75	5.50	4.68
2033	11,032,587.00	3,495.75	5.50	4.68
2034	11,637,351.75	3,495.75	5.50	4.68
2035	12,267,767.20	3,493.10	5.50	4.69
2036	12,935,793.00	3,490.50	5.50	4.70
2037	13,634,005.65	3,487.85	5.50	4.71
2038	14,372,964.80	3,485.20	5.50	4.72
2039	15,164,105.20	3,485.20	5.50	4.72
2040	15,997,068.00	3,485.20	5.50	4.72
2041	16,878,823.60	3,485.20	5.50	4.72
2042	17,805,886.80	3,485.20	5.50	4.72
2043	18,785,228.00	3,485.20	5.50	4.72
2044	19,820,332.40	3,485.20	5.50	4.72

(1) Conversion Date is July 1, 2013.

CITY OF PHOENIX, ARIZONA

CITY OF PHOENIX CIVIC IMPROVEMENT CORPORATION

Wallace Estfan
President and Director

Harvey Saari
Vice President and Director

James H. Lundy
Secretary-Treasurer and Director

Barbara Barone
Director

Michael R. Davis
Director

CITY COUNCIL

Phil Gordon
Mayor

Michael Johnson, *Vice Mayor*
District 8

Peggy Bilsten, *Member*
District 3

Doug Lingner, *Member*
District 7

Claude Mattox, *Member*
District 5

Peggy Neely, *Member*
District 2

Dave Siebert, *Member*
District 1

Tom Simplot, *Member*
District 4

Greg Stanton, *Member*
District 6

ADMINISTRATIVE OFFICIALS

Frank A. Fairbanks
City Manager

Sheryl L. Sculley
Assistant City Manager

Alton Washington
Special Assistant City Manager

Bob Wingenroth
Interim Finance Director

Gary Verburg
City Attorney

Vicky Miel
City Clerk

SPECIAL SERVICES

SQUIRE, SANDERS & DEMPSEY L.L.P.
Phoenix, Arizona
Bond Counsel

KPMG LLP
Phoenix, Arizona
Certified Public Accountants

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

This Official Statement does not constitute an offering of any security other than the original offering of the 2005B 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 2005B 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 by, and except with respect to the information about the City, is not to be construed as a representation by the City. 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."

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors in accordance with Federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Upon issuance, the 2005B 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 2005B Bonds for sale.

IN CONNECTION WITH THE OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2005B 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
CITY OF PHOENIX CIVIC IMPROVEMENT CORPORATION
\$275,362,351.75
State of Arizona Distribution Revenue Bonds
Series 2005B
(Civic Plaza Expansion 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 2005B Bonds. The offering of the 2005B 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 2005B Bonds. Accordingly, prospective 2005B Bond purchasers should read this entire Official Statement before making an 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 adverse material fact necessary to make such statements, in light of the circumstances under which this Official Statement is made, not misleading. The presentation of financial and other information, including tables of receipts from taxes and other sources, is intended to show recent historical information and, except as expressly stated otherwise, is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as is shown by 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 or uncoded, or to the Arizona Constitution, are references to current provisions. Those provisions may be amended, repealed or supplemented.

For a summary of certain provisions of the 2005B Indenture and the 2005B Loan Agreement, see "APPENDIX H — SUMMARY OF CERTAIN PROVISIONS OF THE 2005B INDENTURE AND THE 2005B LOAN AGREEMENT." For the definition of certain capitalized terms used in this Official Statement, see "Definitions" which appears in "APPENDIX H — SUMMARY OF CERTAIN PROVISIONS OF THE 2005B INDENTURE AND THE 2005B LOAN AGREEMENT."

BACKGROUND

In 2001, the City concluded that to keep its downtown convention center, known as the Phoenix Civic Plaza Convention Center (the "Civic Plaza"), competitive in today's convention marketplace, it would need to substantially expand its useable exhibit and meeting space. In compliance with a charter provision requiring expenditures of greater than \$3,000,000 for convention facilities to be submitted to a vote of the electors of the City, the City submitted to its electors a proposition authorizing the expenditure of \$300,000,000 of City money to be matched by \$300,000,000 of non-City money to pay for a \$600,000,000 expansion of its Civic Plaza convention facilities. At an election held November 6, 2001, the proposition was approved by an affirmative vote of more than two-thirds of the electors voting in the City election.

To raise the non-City funds required by the ballot proposition, the City requested the State legislature provide matching funds for the Project (defined below). The State legislature responded affirmatively with the passage in 2003 of legislation (the "Act") authorizing up to fifty percent State funding for certain convention center

developments in the State designated as eligible projects. The Project (defined below) will be an eligible project and the City is an eligible city thereunder. See APPENDIX A for the full text of the Act.

Under the Act, the Arizona Department of Revenue is required annually to make a transfer of funds from its excise tax clearing account to the Arizona Convention Center Development Fund (the "ACCDF"), a fund established by the Act and administered by the State Treasurer. The annual transfers into the ACCDF for each eligible project are a fixed, stated amount, which is a minimum of two times the maximum potential distribution from the ACCDF to an eligible city for an eligible project during such fiscal year. The transfer of State excise tax receipts to the ACCDF is made during the month of July of each fiscal year from the State excise tax clearing account at the same time as the transfer of State-shared excise taxes to the municipalities and counties of the State, including the City (which transfer of State-shared excise taxes comprises a portion of the Excise Taxes described hereinafter). Certain portions of the amounts deposited to the excise tax clearing account are earmarked for the transfer of State-shared excise taxes to the municipalities and counties (the "distribution base"). In the State fiscal year ending June 30, 2004, the distribution base represented approximately 32% of the aggregate, unencumbered deposits to the excise tax clearing account as a whole. In that fiscal year, the other 68% of the aggregate, unencumbered deposits to the excise tax clearing account were available for the transfers to the ACCDF, together with any unused portion of the distribution base in that fiscal year. The balance in the excise tax clearing account is transferred to the general fund of the State after the transfer to the ACCDF. Under the Act, the transfers to the ACCDF are returned to the general fund on the first Monday in August following their transfer until construction of an eligible project has been completed and a certificate of completion has been filed with the State Treasurer. See APPENDIX A for the full text of the Act.

After an eligible city, such as the City, files a certificate of completion for an eligible project, such as the Project, moneys transferred to the ACCDF are no longer returned to the State general fund. Instead, the legislatively-established amounts are distributed by the State Treasurer from the ACCDF to the eligible city (the "State Distributions") to be used either to pay project costs or to pay debt service on financing undertaken to pay costs of construction of the eligible project. The Act requires the State Treasurer to make State Distributions to the eligible city on or before August 1 of each year. The following table sets forth the schedule of maximum State Distributions to the City, assuming both a filing by July 31, 2009 of the certificate evidencing completion of construction of the Project and the expenditure of \$300,000,000 of non-City eligible project costs. For a discussion of State Distribution variance either as to timing or amount, see "PLAN OF FINANCE" herein.

TABLE 1
SCHEDULE OF MAXIMUM STATE DISTRIBUTIONS
(On or before August 1 of each year)

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2009	\$ 5,000,000	2027	\$27,500,000
2010	10,000,000	2028	28,000,000
2011	15,000,000	2029	28,500,000
2012	20,000,000	2030	29,000,000
2013	20,500,000	2031	29,500,000
2014	21,000,000	2032	30,000,000
2015	21,500,000	2033	30,000,000
2016	22,000,000	2034	30,000,000
2017	22,500,000	2035	30,000,000
2018	23,000,000	2036	30,000,000
2019	23,500,000	2037	30,000,000
2020	24,000,000	2038	30,000,000
2021	24,500,000	2039	30,000,000
2022	25,000,000	2040	30,000,000
2023	25,500,000	2041	30,000,000
2024	26,000,000	2042	30,000,000
2025	26,500,000	2043	30,000,000
2026	27,000,000		

After (i) the eligible city has paid or otherwise satisfied all obligations due and payable for the eligible project during the fiscal year in which the State Distributions are made, and (ii) the chief financial officer of the eligible city notifies the State Treasurer that the eligible city's annual obligations have been satisfied, the State Treasurer is required to transfer to the State general fund the remaining moneys in the ACCDF. In the following July, another annual transfer is made to the ACCDF by the Arizona Department of Revenue for the eligible project and the State Distributions are made again by August 1.

The Project is scheduled for completion in December, 2008. Under the Act, the City has until July 31, 2009 to file its certificate of completion in order for the first State Distribution to be made by the State Treasurer to the City on or before August 1, 2009. See "PLAN OF FINANCE" herein for a discussion of the City's advance of State Distributions if completion of the Project is delayed beyond July 31, 2009, or if non-City project costs are less than \$300,000,000.

The Corporation has previously sold \$300,000,000 of Subordinated Excise Tax Revenue Bonds, Series 2005A (Civic Plaza Expansion Project) (the "2005A Bonds"), the debt service on which will be paid from City loan payments payable solely from the City's pledged Excise Taxes, as defined and described below. The debt service on the 2005B Bonds described in this Official Statement is expected to be paid primarily from City loan payments payable solely from the State Distributions ("2005B Loan Payments"). See "SECURITY AND SOURCE OF PAYMENT" for a complete discussion of the pledge and use of the State Distributions for the 2005B Loan Payments under the 2005B Loan Agreement (defined below) and the City's obligation to advance funds under certain circumstances from Excise Taxes on a parity with the 2005A Bonds in order to make any Additional Loan Payments (as defined below). The City expects that the net proceeds of the 2005A Bonds and the 2005B Bonds will be sufficient to fund the Project (defined below).

THE PROJECT

The City will use the proceeds of the 2005A Bonds and the 2005B Bonds to construct, expand, modify and improve the Civic Plaza to create additional rentable convention space through the construction of a new four-level meeting facility on the symphony terrace site adjacent to the existing Civic Plaza, replacing the existing north building of the Civic Plaza with a new four-level facility, and providing transitional improvements and structural renovations to the south building of the existing Civic Plaza (the "Project").

The Project is being constructed so that existing facilities will not be removed from service until replacement space has been built and opened so that the Civic Plaza can remain open for convention business without losing any rentable space throughout the expansion. Accordingly, the new four-level meeting facility adjacent to the existing Civic Plaza will be constructed as Phase I ("Phase I"), and placed in service before the existing north building is demolished and replaced as Phase II of the Project ("Phase II"). The transitional improvements and structural renovations to the south building of the existing Civic Plaza are included in the Phase II construction contracts. The City is on schedule for the completion and opening of Phase I by May, 2006 and has scheduled its first event for the same month. The City has set a completion date for Phase II of the Project of December, 2008.

The Project is being undertaken pursuant to a construction-manager-at-risk program with a guaranteed maximum price ("GMP") which has not yet been determined for the total Project. The City has a GMP for Phase I which is within its budget for Phase I. The Project is ninety percent designed. It is expected that the design of the facility will be completed by October, 2005. The GMP for Phase II and, therefore, for the entire Project is expected by the first quarter of 2006.

The City has scheduled convention events for early 2009, which require that Phase II be completed by December, 2008. Accordingly, the City expects that the Project will be completed in December, 2008 and that a certificate of completion of construction will be filed with the State Treasurer early in 2009.

THE 2005B BONDS

Authorization and Purpose

The 2005B Bonds are being issued by the Corporation pursuant to the terms of the Series 2005B Trust Indenture, dated as of October 1, 2005 (the "2005B Indenture"), which is to be executed prior to the delivery of the 2005B Bonds, by the Corporation and the Trustee (which, together with any successor, is referred to herein as "Trustee," "Registrar," "Paying Agent" and "Authenticating Agent") and are being issued for the purpose of paying a portion of the costs of constructing, expanding, modifying and improving the Civic Plaza to create additional rentable convention space through the construction of the Project. See "PLAN OF FINANCE." Costs of issuance of the 2005B Bonds will be paid from a portion of the proceeds of the 2005B Bonds.

General Description

The 2005B 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 2005B BONDS, AS NOMINEE OF THE DEPOSITORY TRUST COMPANY ("DTC"), REFERENCES HEREIN TO THE OWNERS OF THE 2005B BONDS (OTHER THAN UNDER THE CAPTION "TAX MATTERS") WILL MEAN CEDE & CO. AND WILL NOT MEAN THE BENEFICIAL OWNERS OF THE 2005B BONDS. PRINCIPAL AND INTEREST PAYMENTS ON THE 2005B 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 2005B Bonds maturing on July 1 in the years 2012 and 2013 are being issued as capital appreciation bonds in the initial amount of \$15,238,008.70, and will be dated the date of the initial delivery thereof (the "CABs"). Interest on the CABs will not be paid semiannually; instead interest will accrue and be compounded

semiannually on each January 1 and July 1, commencing January 1, 2006, until paid at maturity, at the approximate yield to maturity set forth on the inside front cover page (see “APPENDIX K — SCHEDULE OF COMPOUND ACCRETED VALUES OF THE 2005B BONDS”). The 2005B Bonds maturing on July 1 in the years 2018 through and including 2044 (the “Convertible Bonds”) will be issued as convertible capital appreciation bonds in the initial principal amount of \$260,124,343.05, and will be dated the date of the initial delivery thereof. Interest on the Convertible Bonds initially will not be paid semiannually; instead interest will accrue and be compounded semiannually on each January 1 and July 1, commencing January 1, 2006 until July 1, 2013, the date on which the Convertible Bonds will convert to current interest bonds (the “Conversion Date”), at the approximate yield to maturity set forth on the inside front cover page of this Official Statement (see “APPENDIX K — SCHEDULE OF COMPOUND ACCRETED VALUES OF THE 2005B BONDS”). From and after the Conversion Date, interest on the Convertible Bonds will be payable on the accreted value as of the Conversion Date semiannually on each January 1 and July 1 (each an “Interest Payment Date”), commencing January 1, 2014, until maturity, at the interest rates set forth on the inside front cover page of this Official Statement. The 2005B Bonds will be delivered in fully registered form in the denomination of \$5,000 each of accreted amount due at maturity or any whole multiple thereof (but no 2005B 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 interest at maturity on each 2005B Bond will be payable upon presentation and surrender of such 2005B Bond at the designated corporate trust office of the Registrar. Interest on each 2005B Bond, other than that due at maturity, 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 2005B 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 2005B 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 2005B Bonds providing for making all payments to that Owner of principal of and interest on that 2005B 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 2005B 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 2005B Bonds after the Conversion Date may be made by wire transfer to any Owner of \$1,000,000 aggregate principal amount of 2005B 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 2005B 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, NY, will act as securities depository for the 2005B Bonds. The 2005B 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 certificate will be issued for each maturity of the 2005B Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 85 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, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, 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 Direct Participants and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2005B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2005B Bonds on DTC's records. The ownership interest of each actual purchaser of each 2005B Bond ("Beneficial Owner") is in turn to be recorded on the Direct Participants' 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 Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2005B Bonds are to be accomplished by entries made on the books of Direct Participants and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2005B Bonds, except in the event that use of the book-entry system for the 2005B Bonds is discontinued.

To facilitate subsequent transfers, all 2005B 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 2005B Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2005B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2005B Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2005B Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2005B Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of 2005B Bonds may wish to ascertain that the nominee holding the 2005B 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 registrar and request that copies of the notices be provided directly to them.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2005B 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 the 2005B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the 2005B 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 the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct Participants and Indirect 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 Direct Participants and Indirect Participants 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 to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation and the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2005B Bonds at any time by giving reasonable notice to the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, 2005B 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, 2005B Bond certificates will be printed and delivered to DTC.

Redemption Provisions

The 2005B Bonds are not subject to redemption prior to maturity.

Registration, Transfer and Exchange

The Trustee will maintain the books of the Corporation for the registration and transfer of 2005B Bonds, as provided in the 2005B Indenture.

2005B Bonds may be exchanged, at the option of their Owner, for 2005B Bonds of any authorized denomination or denominations in an aggregate principal amount equal to the unmatured principal amount of, and bearing interest at the same rate and maturing on the same date or dates as, the 2005B Bonds being exchanged. The exchange will be made upon presentation and surrender of the 2005B Bonds being exchanged at the designated office of the Registrar or at the designated office of any Authenticating Agent for the 2005B Bonds, together with an assignment duly executed by the Owner or its duly authorized attorney in any form which is satisfactory to the Registrar or the Authenticating Agent, as the case may be.

Any 2005B Bond may be transferred upon the Register, upon presentation and surrender thereof at the designated office of the Registrar or the designated office of any Authenticating Agent for the 2005B Bonds, together with an assignment duly executed by the Owner or its duly authorized attorney in any form which shall be satisfactory to the Registrar or the Authenticating Agent, as the case may be. Upon transfer of any 2005B Bond and on request of the Registrar or the Authenticating Agent, the Corporation will execute in the name of the transferee, and the Registrar or the Authenticating Agent, as the case may be, will authenticate and deliver, a new 2005B Bond or 2005B Bonds, of any authorized denomination or denominations in an aggregate principal amount equal to the unmatured and unredeemed principal amount of, and bearing interest at the same rate and maturing on the same date or dates as, the 2005B Bonds presented and surrendered for transfer.

In all cases in which 2005B Bonds shall be exchanged or transferred pursuant to the 2005B Indenture, the Corporation will execute, and the Registrar or any Authenticating Agent, as the case may be, will authenticate and deliver, 2005B Bonds in accordance with the provisions of the 2005B Indenture. The Owner will be charged for any fee or charge incurred in connection with the exchange or transfer of any 2005B Bond and the Corporation and the Registrar or the Authenticating Agent, as the case may be, may also make a charge for every exchange or transfer of 2005B Bonds sufficient to reimburse them for any tax or excise required to be paid with respect to the exchange or transfer. The charge must be paid before a new bond is delivered.

All 2005B Bonds issued upon any transfer or exchange of 2005B Bonds will be the valid obligations of the Corporation, evidencing the same debt, and entitled to the same benefits under the 2005B Indenture, as the 2005B Bonds surrendered upon transfer or exchange.

PLAN OF FINANCE

The City has requested the Corporation assist in the financing of the Project by issuing its 2005A Bonds and 2005B Bonds for such purpose and by entering into a loan agreement with the City related to each series of bonds. The 2005A Bonds will fund the City's portion of the Project and the debt service thereon will be paid from loan payments (the "2005A Loan Payments") from the City to the Corporation pursuant to a loan agreement entered into between the Corporation as lender and the City as obligor. The 2005A Loan Payments are payable from and secured solely by the City's Excise Taxes (as defined and described below). The 2005B Bonds will fund the State-backed portion of the Project and the debt service thereon is expected to be paid primarily from loan payments (the "2005B Loan Payments") from the City to the Corporation pursuant to a loan agreement entered into between the Corporation as lender and the City as obligor (the "2005B Loan Agreement"). Except for the City's obligation to advance funds as described below, the 2005B Loan Payments will be paid from and secured solely by the State Distributions under the Act.

The maximum State Distributions are set forth in Table 1, commence on or before August 1 immediately following the filing of the certificate of completion of construction, and continue until the chief financial officer of the City notifies the State Treasurer that no further distributions are required, or until 35 years following the filing of the certificate of completion, whichever first occurs. The ability of the City to make the 2005B Loan Payments required to pay debt service on the 2005B Bonds when due solely from the State Distributions is dependent upon timely completion of the Project to permit the first State Distribution to occur on or before August 1, 2009, and on total non-City costs of the Project being equal to \$300,000,000. If the completion of construction is delayed and the City is not able to certify construction completion by July 31, 2009, all State Distributions will be delayed with the result that State Distributions may not be sufficient to permit the City to make the 2005B Loan Payments in full during certain Bond Years (July 2 of one calendar year through July 1 of the immediately succeeding calendar year). If such event were to occur, the City has agreed in the 2005B Loan Agreement to advance the amount of any shortfall through additional loan payments (the "Additional Loan Payments"). Likewise, if the total costs of the Project backed by State Distributions are less than \$300,000,000, under the Act, the State Distributions are reduced proportionately with the result that funds from the projected State Distributions may not be sufficient to permit the City to make the loan payments set forth on page 15 in full. Since the Corporation is issuing its 2005B Bonds with the expectation that total costs of the Project backed by State Distributions will equal \$300,000,000, the City has agreed to advance the amount of any shortfall as Additional Loan Payments. The City's obligations to make Additional Loan Payments shall terminate when, in any Bond Year, the State Distributions projected to be received by the City in each succeeding Bond Year meet or exceed scheduled debt service on the 2005B Bonds in each succeeding Bond Year.

The City has agreed to make such advances as Additional Loan Payments under the 2005B Loan Agreement in anticipation of reimbursement of such advances with interest from the State Distributions.

To secure its obligation to make the Additional Loan Payments, if needed, the City has pledged its Excise Taxes as described below. See "SECURITY AND SOURCE OF PAYMENT" herein.

The City's obligation to make the Additional Loan Payments may terminate or be reduced if the Act is modified in any way which would impair the City's ability to be reimbursed for such payments with interest from the State Distributions.

SECURITY AND SOURCE OF PAYMENT

General

The 2005B Bonds are special revenue obligations of the Corporation. The 2005B Bonds are payable as to both principal and interest solely from payments required under the Series 2005B Loan Agreement between the City and the Corporation. Under the terms of the 2005B Loan Agreement, the City is required to make 2005B Loan Payments to the Trustee for the account of the Corporation which will be sufficient to pay the principal of and interest on the 2005B Bonds. The primary source of the revenues for the City's payments under the 2005B Loan Agreement is the State Distributions. See "APPENDIX H — SUMMARY OF CERTAIN PROVISIONS OF THE 2005B INDENTURE AND THE 2005B LOAN AGREEMENT." No further legislative action is required to authorize the State Distributions, however, the legislature could repeal or modify the Act with the result that there could be insufficient funds available to pay the debt service on the 2005B Bonds. See "BONDHOLDERS' RISKS" herein. See APPENDIX B for financial information relating to the State excise tax collections.

To the extent the City certifies construction completion by July 31, 2009, and total State-backed eligible Project costs equal \$300,000,000, the State Distributions paid as 2005B Loan Payments will be sufficient to pay debt service on the 2005B Bonds as it becomes due. However, if either of those events does not occur, the City would be required to make Additional Loan Payments to the extent required under the 2005B Loan Agreement.

The Additional Loan Payments, if any, will be payable on the business day next preceding January 1 and July 1 of each Bond Year.

The City pledges for the Additional Loan Payments, if any, all excise, transaction, privilege, business and franchise taxes, state-shared sales and income taxes, and receipts from licenses and permits, which the City presently or in the future imposes or receives from other entities and which are not earmarked by the contributor for a contrary or inconsistent purpose (all such taxes and receipts are herein referred to as "Excise Taxes"). Such amounts will be subordinate and junior to the City's payments on a first priority, or senior, basis to support certain other obligations of the City to the Corporation and to other entities (the obligations payable from payments supported by a first priority pledge of the Excise Taxes, referred to herein as the "Senior Obligations" and the obligations payable from payments supported by a second priority pledge of the Excise Taxes, referred to herein as the "Junior Obligations"). See "OUTSTANDING SENIOR AND JUNIOR OBLIGATIONS" in Appendix C hereof. The Additional Loan Payments, if any, will be payable from the Excise Taxes on a parity with other subordinated junior obligations (the Additional Loan Payments, if any, together with such other subordinated junior obligations, are referred to herein as the "Subordinated Junior Obligations"). See "OUTSTANDING SUBORDINATED JUNIOR OBLIGATIONS," in Appendix C hereof.

The obligation of the City to make payments to the extent required under the 2005B Loan Agreement, but solely from the sources set forth therein, 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 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.

Agreement with the State

The City and the State have entered into an Agreement dated September 6, 2005 (the "Agreement") in order to clarify the respective obligations of each under the Act in connection with the financing of the Project. Pursuant to the Agreement, the City has covenanted to use its best efforts to complete the Project by December 15, 2008 at a cost, for purposes of the Act, not to exceed \$600 million. The Agreement clarifies that any costs in excess of \$600 million are the sole responsibility of the City and are not considered costs of the eligible project for purposes of determining the amount of State Distributions. The Agreement further sets forth the duties and responsibilities of the State Department of Revenue and the State Treasurer in connection with the timing and amounts of State Distributions as contemplated by the Act. Furthermore, the Agreement sets forth the City's obligations relating to progress reports, the procedure for filing the certificate of completion of construction, use of State Distributions and submission of certificates of sufficiency of distributions as required under the Act.

Flow of Funds

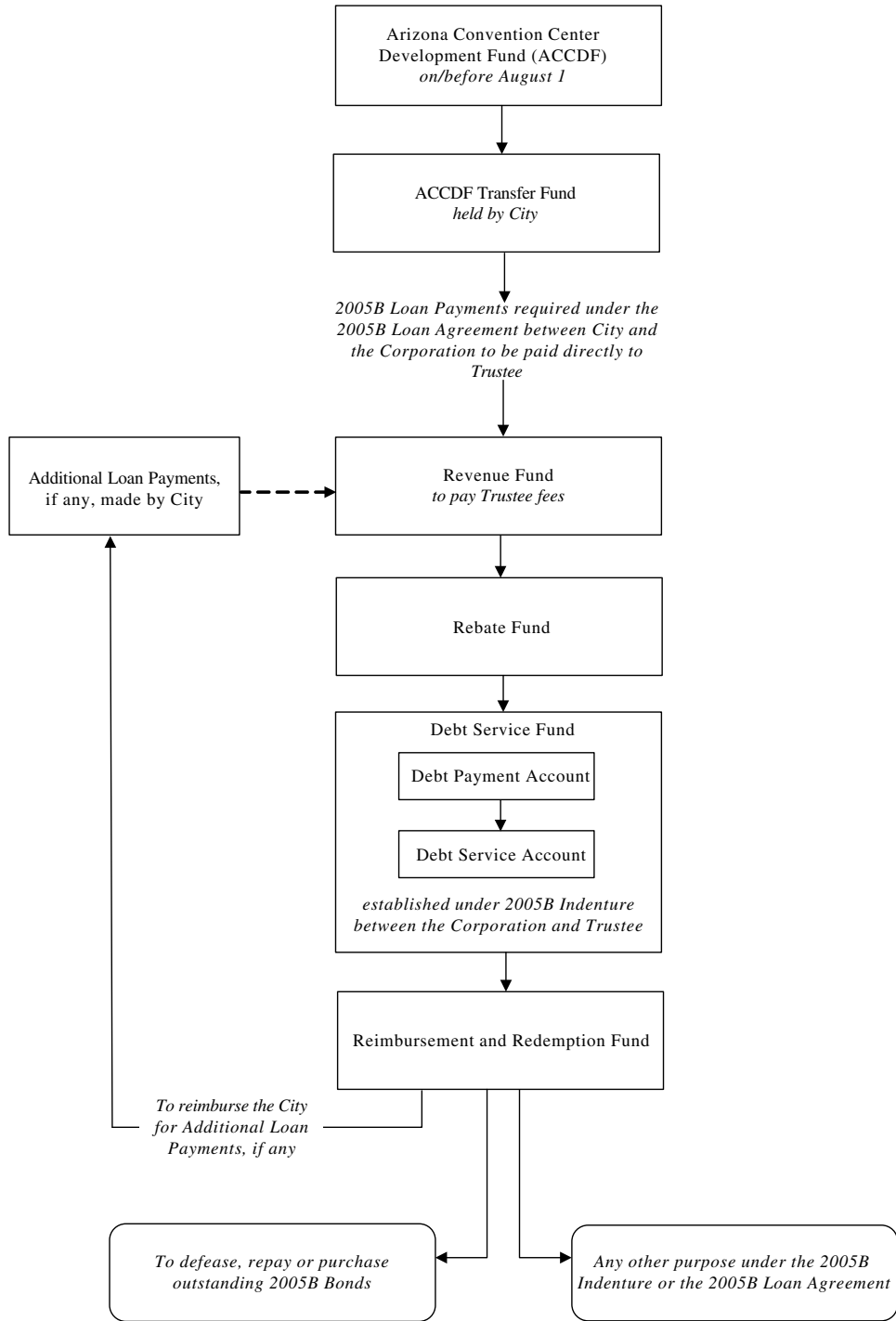
Pursuant to the Act, the State Department of Revenue is required to make annual deposits into the ACCDF during the month of July in each fiscal year. On or before each August 1 following the filing by the City of a certificate of completion of construction with the State Treasurer, the State Treasurer will pay to the City the State Distributions set forth in Table 1 assuming such filing is made on or before July 31, 2009 and the State-backed portion of Project costs certified therein was equal to \$300,000,000. Upon receipt of the State Distributions, the City shall deposit them in the ACCDF Transfer Fund created in the 2005B Loan Agreement.

In accordance with the provisions of the 2005B Loan Agreement, the City shall immediately pay the entire amount of the State Distribution as its 2005B Loan Payment to the Trustee for deposit into the Revenue Fund created in and subject to the pledge of the 2005B Indenture. In accordance with the provisions of the 2005B Indenture, the Trustee will first pay Trustee's fees and expenses and any other expenses of the Corporation for which it has requested payment and will then immediately transfer the entire balance in the Revenue Fund to the Debt Payment Account of the Debt Service Fund, both created in and subject to the pledge of the 2005B Indenture. On each August 1, the Trustee will transfer from the Debt Payment Account to the Debt Service Account of the Debt Service Fund, created in and subject to the pledge of the 2005B Indenture, an amount equal to the current Bond Year's debt service requirements.

All transfers from the Revenue Fund to the Debt Service Fund will be retained therein until the combined balance of the Debt Payment Account and Debt Service Account total \$60,000,000, an amount expected to be approximately equal to two times the maximum annual debt service coming due on the 2005B Bonds. Any excess amounts over \$60,000,000 will be transferred by the Trustee to the Reimbursement and Redemption Fund created in, but not subject to the pledge of, the 2005B Indenture. Under the terms of the 2005B Indenture, moneys in the Reimbursement and Redemption Fund may be used at the City's option to defease or purchase 2005B Bonds in the open market, to reimburse the City for Additional Loan Payments, if any, with interest as provided in the 2005B Indenture, or for any other lawful purpose under the 2005B Loan Agreement or the 2005B Indenture.

Following payment of all amounts due and owing on the 2005B Bonds or to the Corporation or the City under either the 2005B Indenture or 2005B Loan Agreement, all remaining State Distributions will be returned to the State.

Flow of Funds



BONDHOLDERS' RISKS

INVESTMENT IN THE 2005B BONDS INVOLVES CERTAIN RISKS. ANYONE CONSIDERING INVESTMENT IN THE 2005B BONDS SHOULD EXAMINE CAREFULLY THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES HERETO, AND IN PARTICULAR THE BONDHOLDERS' RISKS DISCUSSED BELOW.

Limited Source and Security for Payment of the 2005B Bonds

The 2005B Bonds are payable solely from the Revenues, which consist of: (i) 2005B Loan Payments (payable from State Distributions), (ii) the Additional Loan Payments, if any (payable from a subordinate lien pledge of Excise Taxes) and in each case, only under the limited circumstances described herein under the captions "PLAN OF FINANCE" and "SECURITY AND SOURCES OF PAYMENT", and (iii) funds on deposit in certain funds and accounts established under the 2005B Indenture, including the 2005B Revenue Fund and the 2005B Debt Service Fund and available remaining proceeds of the 2005B Bonds, if any. No other moneys have been pledged for the payment of the 2005B Bonds.

Availability of State Distributions as Sole Source of 2005B Loan Payments

The Series 2005B Loan Payments are payable solely from State Distributions deposited to the ACCDF Transfer Fund and from available remaining proceeds of the 2005B Bonds, if any. The commencement and amount of State Distributions as contemplated by the Act are subject to three contingencies. First, if for any reason, construction of the Project is never completed and the City is unable to file a certificate of completion of construction, the State Distributions will not commence and the City will have no obligation to pay the 2005B Loan Payments from any other source. In that event, the 2005B Bonds will be paid only to the extent of the Additional Loan Payments, if any, funds on deposit in the 2005B Revenue Fund and the 2005B Debt Service Fund and available remaining proceeds of 2005B Bonds, if any. Second, in the event completion of the Project is delayed beyond July 31, 2009, investors will be relying on Additional Loan Payments until filing of the certificate of completion and commencement of State Distributions. Third, State Distributions are subject to reduction to the extent that the City incurs less than \$300 million of Project costs eligible for funding from State Distributions. In that event, the 2005B Bonds will be paid from 2005B Loan Payments and Additional Loan Payments (until State Distributions are projected to be received by the City in each succeeding Bond Year to meet or exceed scheduled debt service on the 2005B Bonds in each succeeding Bond Year).

Amendment or Repeal of the Act

If the Act is repealed or amended in any manner that materially adversely impacts the amount of the State Distributions, the City will have no obligation to pay the 2005B Loan Payments from other sources and the amounts on deposit in the funds and accounts established in the 2005B Indenture, might not be sufficient to pay in full the remaining debt service on the 2005B Bonds. Furthermore, if the Act is repealed or amended in a manner that adversely affects the ability of the City to be reimbursed with interest from State Distributions for any 2005B Additional Loan Payments, the City's obligation to make the 2005B Additional Loan Payments will be terminated or adjusted downward by the City to the extent of the amendment's adverse impact. In such event, it is possible that the only monies available for payment of the 2005B Bonds would be the amounts on deposit in the funds and accounts established in the 2005B Indenture.

The City believes that there are several provisions of the Act which evidence the State Legislature's intent that the State Distributions, upon commencement, should continue as set forth therein until payment in full of debt service on the 2005B Bonds. First, the Act requires that the Auditor General of the State conduct an economic analysis to determine the total amount of incremental State general fund revenues derived from economic activity associated with increased attendance at events held at eligible projects. The Act further provides that if the State Distributions are higher than the incremental State general fund revenues, the State is to recover the difference by withholding local transportation assistance revenues otherwise payable by the State to an eligible city, instead of reducing future State Distributions. Second, the Act specifically

contemplates borrowing by eligible cities to be repaid from State Distributions because (i) financing costs are an eligible use of State Distributions, (ii) State Distributions do not commence until after filing of the certificate of completion of construction which construction most likely could not be completed in the absence of borrowed funds and (iii) the City is required to notify the State of the issuance of the 2005B Bonds as part of the filing of the certificate of completion of construction. Furthermore, one of the purposes of the Agreement between the City and the State is to set forth the expectations of each under the Act as they relate to the payment of the State Distributions to be used to pay 2005B Loan Payments.

Enforceability of Remedies

The enforceability of the rights and remedies of the Owners of the 2005B Bonds under the 2005B Indenture and the various other agreements and contracts described herein may be subject to bankruptcy, insolvency, reorganization, moratorium, redemption, fraudulent transfer and other similar laws affecting the rights of creditors generally, and the exercise of judicial discretion in accordance with general principles of equity (whether applied by a court of law or equity). The opinions of counsel to be delivered at the closing of the sale of the 2005B Bonds will contain qualifications as to the enforceability of such documents for such matters. Further, such remedies, to the extent available, may be subject to delays inherent in litigation, and could result in a corresponding delay of payment of principal of or interest on the 2005B Bonds.

SCHEDULE OF ANNUAL DEBT SERVICE ON THE 2005B BONDS

The annual debt service with respect to the 2005B Bonds is as follows:

<u>Bond Year Ending July 1,</u>	<u>Principal</u>	<u>Interest</u>	<u>Compounded Interest</u>	<u>Debt Service</u>
2012	\$ 460,208.70	\$ —	\$ 134,791.30	\$ 595,000
2013	14,777,800.00	—	5,222,200.00	20,000,000
2014	—	20,449,000	—	20,449,000
2015	—	20,449,000	—	20,449,000
2016	—	20,449,000	—	20,449,000
2017	—	20,449,000	—	20,449,000
2018	1,484,036.00	20,449,000	565,964.00	22,499,000
2019	1,915,439.40	20,336,250	744,560.60	22,996,250
2020	2,374,494.70	20,189,950	935,505.30	23,499,950
2021	2,851,493.40	20,007,900	1,138,506.60	23,997,900
2022	3,353,331.60	19,788,450	1,356,668.40	24,498,450
2023	3,882,660.70	19,529,400	1,587,339.30	24,999,400
2024	4,443,799.80	19,228,550	1,826,200.20	25,498,550
2025	5,027,387.85	18,883,700	2,087,612.15	25,998,700
2026	5,639,202.30	18,492,375	2,365,797.70	26,497,375
2027	6,287,082.70	18,052,100	2,657,917.30	26,997,100
2028	6,972,383.00	17,560,125	2,962,617.00	27,495,125
2029	7,697,628.90	17,013,700	3,287,371.10	27,998,700
2030	8,465,538.90	16,409,525	3,624,461.10	28,499,525
2031	9,274,258.40	15,744,575	3,980,741.60	28,999,575
2032	10,123,692.00	15,015,550	4,356,308.00	29,495,550
2033	11,032,587.00	14,219,150	4,747,413.00	29,999,150
2034	11,637,351.75	13,351,250	5,007,648.25	29,996,250
2035	12,267,767.20	12,435,775	5,292,232.80	29,995,775
2036	12,935,793.00	11,469,975	5,594,207.00	29,999,975
2037	13,634,005.65	10,450,825	5,910,994.35	29,995,825
2038	14,372,964.80	9,375,850	6,247,035.20	29,995,850
2039	15,164,105.20	8,241,750	6,590,894.80	29,996,750
2040	15,997,068.00	7,045,225	6,952,932.00	29,995,225
2041	16,878,823.60	5,782,975	7,336,176.40	29,997,975
2042	17,805,886.80	4,451,150	7,739,113.20	29,996,150
2043	18,785,228.00	3,046,175	8,164,772.00	29,996,175
2044	19,820,332.40	1,563,925	8,614,667.60	29,998,925
Total	<u>\$275,362,351.75</u>	<u>\$459,931,175</u>	<u>\$117,032,648.25</u>	<u>\$852,326,175</u>

BOND INSURANCE

Financial Guaranty has supplied the following information for inclusion in this Official Statement. Reference is made to “APPENDIX L —FORM OF MUNICIPAL BOND INSURANCE POLICY” for a specimen of the bond insurance policy.

Concurrently with the issuance of the 2005B Bonds, Financial Guaranty Insurance Company (“*Financial Guaranty*”) will issue its Municipal Bond New Issue Insurance Policy for the 2005B Bonds (the “*Policy*”). The Policy unconditionally guarantees the payment of that portion of the principal of and interest on the 2005B Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the 2005B Bonds (the “*Issuer*”). Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the “*Fiscal Agent*”), on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the Policy) from an owner of 2005B Bonds or the trustee or paying agent (if any) of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any 2005B Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner’s right to receive payment of the principal and interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner’s rights to payment of such principal and interest shall be vested in Financial Guaranty. The term “nonpayment” in respect of a 2005B Bond includes any payment of principal or interest made to an owner of a 2005B Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the Policy is non-cancellable by Financial Guaranty. The Policy covers failure to pay principal of the 2005B Bonds on their stated maturity dates or their mandatory sinking fund redemption dates, and not on any other date on which the 2005B Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. The Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the 2005B Bonds is accelerated, Financial Guaranty will only be obligated to pay principal and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, Financial Guaranty will become the owner of the 2005B Bond, appurtenant coupon or right to payment of principal or interest on such 2005B Bond and will be fully subrogated to all of the Bondholder’s rights thereunder.

The Policy does not insure any risk other than Nonpayment by the Issuer, as defined in the Policy. Specifically, the Policy does not cover: (i) 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; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure the 2005B Bonds, Financial Guaranty may be granted certain rights under the 2005B Bond documentation. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the 2005B Bonds may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty, a New York stock insurance corporation, is a direct, wholly-owned subsidiary of FGIC Corporation, a Delaware corporation, and provides financial guaranty insurance for public finance and structured finance obligations. Financial Guaranty is licensed to engage in financial guaranty insurance in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico and, through a branch, in the United Kingdom.

On December 18, 2003, an investor group consisting of The PMI Group, Inc. (“*PMI*”), affiliates of The Blackstone Group L.P. (“*Blackstone*”), affiliates of The Cypress Group L.L.C. (“*Cypress*”) and affiliates of CIVC Partners L.P. (“*CIVC*”) acquired FGIC Corporation (the “*FGIC Acquisition*”) from a subsidiary of General Electric Capital Corporation (“*GE Capital*”). PMI, Blackstone, Cypress and CIVC acquired

approximately 42%, 23%, 23% and 7%, respectively, of FGIC Corporation's common stock. FGIC Corporation paid GE Capital approximately \$284.3 million in pre-closing dividends from the proceeds of dividends it, in turn, had received from Financial Guaranty, and GE Capital retained approximately \$234.6 million in liquidation preference of FGIC Corporation's convertible participating preferred stock and approximately 5% of FGIC Corporation's common stock. Neither FGIC Corporation nor any of its shareholders is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where it is domiciled, including Article 69 of the New York Insurance Law ("*Article 69*"), a comprehensive financial guaranty insurance statute. Financial Guaranty is also subject to the insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction, but generally require insurance companies to maintain minimum standards of business conduct and solvency, to meet certain financial tests, to comply with requirements concerning permitted investments and the use of policy forms and premium rates and to file quarterly and annual financial statements on the basis of statutory accounting principles ("*SAP*") and other reports. In addition, Article 69, among other things, limits the business of each financial guaranty insurer, including Financial Guaranty, to financial guaranty insurance and certain related lines.

For the six months ended June 30, 2005, and the years ended December 31, 2004, and December 31, 2003, Financial Guaranty had written directly or assumed through reinsurance, guaranties of approximately \$35.3 billion, \$59.5 billion and \$42.4 billion par value of securities, respectively (of which approximately 61%, 56% and 79%, respectively, constituted guaranties of municipal bonds), for which it had collected gross premiums of approximately \$131.4 million, \$323.6 million and \$260.3 million, respectively. For the six months ended June 30, 2005, Financial Guaranty had reinsured, through facultative and excess of loss arrangements, approximately 4.2% of the risks it had written.

As of June 30, 2005, Financial Guaranty had net admitted assets of approximately \$3.327 billion, total liabilities of approximately \$2.152 billion, and total capital and policyholders' surplus of approximately \$1.175 billion, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

The unaudited financial statements of Financial Guaranty as of June 30, 2005, the audited financial statements of Financial Guaranty as of December 31, 2004, and the audited financial statements of Financial Guaranty as of December 31, 2003, which have been filed with the Nationally Recognized Municipal Securities Information Repositories ("*NRMSIRs*"), are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading "*BOND INSURANCE*," or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of Financial Guaranty (if any) included in documents filed by Financial Guaranty with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the 2005B Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

Financial Guaranty also prepares quarterly and annual financial statements on the basis of generally accepted accounting principles. Copies of Financial Guaranty's most recent GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

The financial strength of Financial Guaranty is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of Financial Guaranty. Any further

explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the 2005B Bonds, and are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the 2005B Bonds. Financial Guaranty does not guarantee the market price or investment value of the 2005B Bonds nor does it guarantee that the ratings on the 2005B Bonds will not be revised or withdrawn.

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the 2005B Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the Policy under the heading “*BOND INSURANCE*”. In addition, Financial Guaranty makes no representation regarding the 2005B Bonds or the advisability of investing in the 2005B Bonds.

SOURCES AND APPLICATIONS OF FUNDS

Sources:

Original Principal Amount of the 2005B Bonds	\$275,362,351.75
Reoffering Premium	<u>28,361,271.55</u>
Total	<u><u>\$303,723,623.30</u></u>

Applications:

Transfer to the City to Pay Project Costs	\$300,000,000.00
Costs of Issuance (including bond insurance)	1,970,474.42
Underwriters’ Compensation	<u>1,753,148.88</u>
Total	<u><u>\$303,723,623.30</u></u>

THE CITY

The City is a municipal corporation organized and existing under the laws of the State of Arizona. Pursuant to the 2005B Loan Agreement, the City will agree to make payments sufficient to pay amounts due on the 2005B Bonds. Detailed information on the City’s Excise Taxes is set forth in Appendix C.

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 2005B Loan Agreement and the 2005B Indenture to facilitate the financing of a portion of the costs of the Project. The Corporation is not financially liable for the payment of principal of or premium, if any, or interest on the 2005B Bonds and the Owners will have no right to look to the Corporation for payment of the 2005B Bonds except to the extent of the loan payments received from the City under the 2005B 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 2005B 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 2005B Bonds or the execution of the 2005B Loan Agreement by the City, or (ii) contested or questioned the validity of the 2005B Bonds or the proceedings and authority under which the 2005B 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 2005B Bonds.

TAX MATTERS

General

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law (i) interest on the 2005B 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) the 2005B Bonds and the income thereon are exempt from taxation under the laws of the State of Arizona. Bond Counsel will express no opinion as to any other tax consequences regarding the 2005B 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 2005B 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 and the City may cause the interest on the 2005B 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 2005B Bonds. The Corporation and the City have covenanted to take the actions required of it for the interest on the 2005B Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion.

A portion of the interest on the 2005B Bonds earned by certain corporations may be subject to a federal corporate alternative minimum tax. In addition, interest on the 2005B 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 2005B Bonds. Bond Counsel will express no opinion regarding those consequences.

Purchasers of the 2005B Bonds at other than their original issuance at the respective yields indicated on the inside cover of this Official Statement should consult their own tax advisors regarding other tax considerations such as the consequences of market discount.

Original Issue Discount

All of the 2005B Bonds ("Discount Bonds") were offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity over the "issue price" of a

Discount Bond. In the case of CABs, the stated redemption price at maturity is equal to the amount that will be paid at the maturity of the CABs. In the case of the Convertible Bonds, the stated redemption price at maturity is equal to (i) the amount that will be paid at the maturity of the Convertible Bonds plus (ii) the amount of interest scheduled to be paid on such Convertible Bonds between the Conversion Date and the maturity date of the Convertible Bonds. The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity is sold pursuant to that offering.

For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period from issuance to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excluded from the owner's gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as other interest on the 2005B Bonds, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, prior sale, or other disposition of that Discount Bond. Any interest paid to the owner of a Convertible Bond will (i) be treated first as a payment of the OID accruing for that interest period and, to the extent of any excess over such allocable OID, as a non-taxable payment of principal and (ii) reduce the owner's basis in such Convertible Bond. The amount of OID that accrues each year to a corporate owner of a Discount Bond is taken into account in computing the corporation's liability for federal alternative minimum tax. A purchaser of a Discount Bond in the initial public offering at the yield stated on the inside front cover of this Official Statement who holds that Discount Bond to maturity will realize no gain or loss upon the retirement of that Discount Bond.

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

LEGAL MATTERS

Legal matters incident to the issuance of the 2005B 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 2005B Bonds, will be delivered to the Underwriters. Certain legal matters will be passed upon for the Underwriters by Greenberg Traurig, LLP, as Counsel to the Underwriters.

The text of the proposed legal opinion is set forth in Appendix I. 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.

RATINGS

Standard & Poor's Ratings Services ("S&P") has assigned to the 2005B Bonds a rating of "AAA" and Moody's Investors Service ("Moody's") has assigned to the 2005B Bonds the rating of "Aaa" each with the understanding that the Policy will be issued by the 2005B Bond Insurer upon delivery of the 2005B Bonds. No application was made to any other rating service for the purpose of obtaining ratings on the 2005B 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 2005B Bonds.

UNDERWRITING

The 2005B Bonds are being purchased for reoffering by Lehman Brothers and the other Underwriters shown on the front cover of this Official Statement (the "Underwriters"). The Underwriters have agreed to purchase the 2005B Bonds, subject to certain conditions, at an aggregate purchase price of \$301,970,474.42, which is net of an underwriting discount of \$1,753,148.88.

The Underwriters are committed to purchase all of the 2005B Bonds if any are purchased. The 2005B 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 2005B Bonds may be offered and sold to certain dealers (including underwriters and dealers depositing the 2005B 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 2005B Bonds for the benefit of the beneficial owners of such 2005B 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 J— 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 2005B Loan Agreement or the 2005B Indenture and beneficial owners of the 2005B Bonds are limited to the remedies described in the Undertaking. See "APPENDIX J— 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 2005B Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the 2005B Bonds and their market price.

INDEPENDENT AUDITORS

The financial statements of the City as of June 30, 2004 and for the fiscal year then ended included in Appendix G to this Official Statement have been audited by KPMG LLP, independent auditors, as stated in their report which appears in Appendix G.

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 2005B 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/ BOB WINGENROTH
Interim Finance Director

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APPENDIX A
THE ACT

FILED

**JANICE K. BREWER
SECRETARY OF STATE**

State of Arizona
House of Representatives
Forty-sixth Legislature
First Regular Session
2003

CHAPTER 266

HOUSE BILL 2332

AN ACT

AMENDING TITLE 9, ARIZONA REVISED STATUTES, BY ADDING CHAPTER 6; AMENDING TITLE 41, CHAPTER 4, ARTICLE 7, ARIZONA REVISED STATUTES, BY ADDING SECTION 41-791.04; AMENDING SECTION 42-5029, ARIZONA REVISED STATUTES; AMENDING TITLE 42, CHAPTER 5, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 42-5030; RELATING TO MUNICIPAL CONVENTION CENTER FINANCING.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Title 9, Arizona Revised Statutes, is amended by adding
3 chapter 6, to read:

4 CHAPTER 6

5 CONVENTION CENTERS

6 ARTICLE 1. ARIZONA CONVENTION CENTER DEVELOPMENT FUND

7 9-601. Arizona convention center development fund; purpose

8 THE ARIZONA CONVENTION CENTER DEVELOPMENT FUND IS ESTABLISHED TO
9 ENCOURAGE AND ENABLE ELIGIBLE CITIES UNDER SECTION 9-604 TO DEVELOP AND
10 EXPAND MUNICIPALLY OPERATED MAJOR CONVENTION CENTER FACILITIES DESIGNED TO
11 SERVE LARGE CONVENTIONS AND TRADE SHOWS ATTENDED PRIMARILY BY RESIDENTS OF
12 OTHER STATES AND TO ENCOURAGE THE TOURISM AND VISITOR INDUSTRIES IN THIS
13 STATE.

14 9-602. Fund operation

15 A. THE ARIZONA CONVENTION CENTER DEVELOPMENT FUND CONSISTS OF MONIES
16 DEPOSITED PURSUANT TO SECTIONS 42-5029 AND 42-5030.

17 B. THE STATE TREASURER SHALL ADMINISTER THE FUND. THE STATE TREASURER
18 SHALL INVEST AND DIVEST MONIES IN THE FUND AS PROVIDED BY SECTION 35-313 AS
19 NEEDED TO FACILITATE DISTRIBUTIONS FROM THE FUND, AND MONIES EARNED FROM
20 INVESTMENT SHALL BE CREDITED TO THE FUND.

21 C. ON OR BEFORE AUGUST 1 OF EACH YEAR, THE STATE TREASURER SHALL
22 DISTRIBUTE THE AMOUNTS COMPUTED IN SUBSECTION D OF THIS SECTION TO EACH
23 ELIGIBLE CITY THAT HAS FILED A CERTIFICATE OF COMPLETION OF CONSTRUCTION
24 PURSUANT TO SECTION 9-622 FOR EACH ELIGIBLE PROJECT UNDER SECTION 9-605.

25 D. THE AMOUNT TO BE DISTRIBUTED PURSUANT TO SUBSECTION C OF THIS
26 SECTION SHALL BE COMPUTED BY DIVIDING THE TOTAL COST OF THE ELIGIBLE PROJECT
27 NOT FUNDED FROM MUNICIPAL SOURCES AS IDENTIFIED IN THE CERTIFICATE OF
28 COMPLETION OF CONSTRUCTION FILED PURSUANT TO SECTION 9-622 BY THREE HUNDRED
29 MILLION AND MULTIPLYING THE QUOTIENT BY THE FOLLOWING AMOUNTS:

30 1. IN THE FIRST FISCAL YEAR, FIVE MILLION DOLLARS.

31 2. IN THE SECOND FISCAL YEAR, TEN MILLION DOLLARS.

32 3. IN THE THIRD FISCAL YEAR, FIFTEEN MILLION DOLLARS.

33 4. IN THE FOURTH FISCAL YEAR, TWENTY MILLION DOLLARS.

34 5. IN THE FIFTH FISCAL YEAR AND EACH OF THE NEXT THIRTY FISCAL YEARS,
35 THE AMOUNT DISTRIBUTED IN THE PRECEDING FISCAL YEAR PLUS FIVE HUNDRED
36 THOUSAND DOLLARS, EXCEPT THAT THE AMOUNT DISTRIBUTED SHALL NOT EXCEED THIRTY
37 MILLION DOLLARS IN ANY FISCAL YEAR.

38 E. IF SUFFICIENT DISTRIBUTIONS HAVE BEEN MADE TO PROVIDE FOR ALL OF
39 THE USES OF THE FUND MONIES PURSUANT TO SECTION 9-603 FOR AN ELIGIBLE
40 PROJECT, THE CHIEF FINANCIAL OFFICER OF THE ELIGIBLE CITY SHALL CERTIFY TO
41 THE STATE TREASURER THAT NO ADDITIONAL DISTRIBUTIONS ARE REQUIRED FOR THE
42 PROJECT, AND ON RECEIVING THE CERTIFICATION THE STATE TREASURER SHALL MAKE
43 NO FURTHER DISTRIBUTIONS TO THE CITY FOR THAT PROJECT.

44 F. AFTER THE DISTRIBUTIONS REQUIRED BY SUBSECTION C OF THIS SECTION,
45 ANY MONIES REMAINING IN THE FUND ON RECEIPT OF THE CERTIFICATION OF

1 ~~SATISFACTION OF ANNUAL OBLIGATIONS PURSUANT TO SECTION 9-623, OR ON THE FIRST~~
2 ~~MONDAY IN AUGUST IF A CERTIFICATE OF COMPLETION OF CONSTRUCTION HAS NOT BEEN~~
3 ~~PREVIOUSLY FILED PURSUANT TO SECTION 9-622, SHALL BE TRANSFERRED TO THE STATE~~
4 ~~GENERAL FUND.~~

5 9-603. Use of fund monies

6 A. THE MONIES IN THE ARIZONA CONVENTION CENTER DEVELOPMENT FUND SHALL
7 BE USED ONLY FOR THE PURPOSES SPECIFIED IN THIS CHAPTER.

8 B. THE STATE TREASURER SHALL DISBURSE MONIES FROM THE FUND AS PROVIDED
9 IN SECTION 9-602. ANY AMOUNTS REMAINING IN THE FUND AFTER THE DISTRIBUTIONS
10 MADE PURSUANT TO SECTION 9-602, SUBSECTION C SHALL BE HELD IN RESERVE FOR THE
11 PURPOSES OF THE DISTRIBUTIONS UNTIL THE CERTIFICATE OF SATISFACTION OF ANNUAL
12 OBLIGATIONS IS RECEIVED BY THE STATE TREASURER OR UNTIL THE FIRST MONDAY IN
13 AUGUST IF A CERTIFICATE OF COMPLETION OF CONSTRUCTION HAS NOT BEEN PREVIOUSLY
14 FILED PURSUANT TO SECTION 9-622.

15 C. A CITY THAT RECEIVES MONIES DISTRIBUTED FROM THE FUND:

16 1. SHALL SEGREGATE AND SEPARATELY ACCOUNT FOR THE MONIES AND SHALL NOT
17 COMMINGLE THE MONIES FROM THE FUND WITH MONIES FROM ANY OTHER SOURCE. THOSE
18 MONIES SHALL BE DESIGNATED AS A SPECIAL FUND OF THE ELIGIBLE CITY, SEPARATE
19 FROM THE CITY'S GENERAL FUND. ANY AMOUNT NOT IMMEDIATELY USED TO MEET
20 SCHEDULED PAYMENTS OR CURRENT EXPENSES SHALL REMAIN IN THE SPECIAL FUND,
21 SHALL NOT BE TRANSFERRED TO THE CITY'S GENERAL FUND AND SHALL BE USED ONLY
22 FOR THE PERMITTED PURPOSES IN THE FUTURE.

23 2. MAY USE MONIES FROM THE FUND ONLY FOR THE FOLLOWING PURPOSES IN
24 CONNECTION WITH AN ELIGIBLE PROJECT UNDER SECTION 9-605:

25 (a) THE DESIGN, DEVELOPMENT, CONSTRUCTION AND RELATED COSTS FOR A
26 CONVENTION CENTER AND RELATED DEVELOPMENT.

27 (b) FINANCING COSTS AND ANY OTHER COSTS INCURRED IN CONNECTION WITH
28 ANY FINANCINGS UNDERTAKEN TO FACILITATE THE ACCOMPLISHMENT OF THE USES OF THE
29 MONIES IN THE FUND AS PROVIDED IN THIS SECTION.

30 (c) FUNDING FINANCIAL RESERVES CREATED IN CONNECTION WITH ANY
31 FINANCINGS UNDERTAKEN TO FACILITATE THE ACCOMPLISHMENT OF THE USES OF THE
32 MONIES IN THE FUND AS PROVIDED IN THIS SECTION.

33 (d) REIMBURSEMENT OF ANY AMOUNTS PLUS INTEREST ADVANCED BY AN ELIGIBLE
34 CITY BUT FOR WHICH THE ELIGIBLE CITY DOES NOT HAVE ULTIMATE RESPONSIBILITY
35 TO PAY ANY PORTION OF FINANCING OR RELATED COSTS INCURRED IN CONNECTION WITH
36 ANY FINANCINGS UNDERTAKEN TO FACILITATE THE ACCOMPLISHMENT OF THE OTHER USES
37 OF THE MONIES IN THE FUND AS PROVIDED IN THIS SECTION.

38 (e) ANY OTHER COSTS NECESSARY TO EFFECTUATE THE USES AND PURPOSES
39 SPECIFIED IN THIS ARTICLE.

40 D. AMOUNTS DISTRIBUTED FROM THE FUND ARE IN ADDITION TO ANY OTHER
41 AMOUNTS DISTRIBUTED TO ELIGIBLE CITIES PURSUANT TO ANY OTHER LAW.

42 9-604. Eligible cities

43 TO BE ELIGIBLE TO RECEIVE DISTRIBUTIONS FROM THE ARIZONA CONVENTION
44 CENTER DEVELOPMENT FUND A MUNICIPALITY MUST:

45 1. BE A CHARTER CITY.

- 1 2. HAVE A POPULATION OF MORE THAN:
2 (a) ONE MILLION PERSONS ACCORDING TO THE MOST RECENT UNITED STATES
3 DECENNIAL CENSUS AT THE TIME OF THE DISTRIBUTION.
4 (b) FIVE HUNDRED FIFTY THOUSAND PERSONS ACCORDING TO THE MOST RECENT
5 UNITED STATES DECENNIAL CENSUS, OR A SPECIAL CENSUS CONDUCTED PURSUANT TO
6 SECTION 42-5033, AT THE TIME OF THE INITIAL DISTRIBUTION.
7 3. OPERATE A CONVENTION CENTER FACILITY WITH AT LEAST TWO HUNDRED
8 THOUSAND SQUARE FEET OF EXHIBITION SPACE THAT WAS CONSTRUCTED WITH MONIES
9 FROM MUNICIPAL SOURCES.

10 9-605. Eligible projects

11 A. AN ELIGIBLE CITY MAY NOT SPEND MONIES FROM THE ARIZONA CONVENTION
12 CENTER DEVELOPMENT FUND FOR USES OTHER THAN THOSE PERMITTED BY SECTION 9-603
13 AND ONLY IN CONNECTION WITH AN ELIGIBLE CONVENTION CENTER DEVELOPMENT
14 PROJECT.

15 B. A PROJECT IS ELIGIBLE ONLY IF:

16 1. THE VOTERS OF THE ELIGIBLE CITY HAVE APPROVED THE PROJECT AND ANY
17 REQUIRED FINANCING FOR THE PROJECT.

18 2. SPECIFICALLY IDENTIFIED MUNICIPAL SOURCES HAVE BEEN DEDICATED TO
19 PROVIDE FUNDING FOR AT LEAST ONE-HALF OF THE TOTAL PROJECT COST.

20 3. THE TOTAL COST OF THE PROJECT DOES NOT EXCEED SIX HUNDRED MILLION
21 DOLLARS.

22 C. IN THE CASE OF AN ELIGIBLE CITY DESCRIBED IN SECTION 9-604,
23 PARAGRAPH 2, SUBDIVISION (b), A PROJECT IS ELIGIBLE UNDER THIS SECTION ONLY
24 IF:

25 1. THE JOINT LEGISLATIVE BUDGET COMMITTEE HAS CONDUCTED A FINANCIAL
26 ANALYSIS OF THE PROPOSED PROJECT THAT INDICATES THAT THE PROJECT WILL RESULT
27 IN AN INCREASE IN STATE GENERAL FUND REVENUES GREATER THAN THE AMOUNTS OF
28 DISTRIBUTIONS PURSUANT TO SECTION 9-602 IN CONNECTION WITH THE PROJECT.

29 2. THE TOTAL COST OF THE PROJECT DOES NOT EXCEED SIXTY MILLION
30 DOLLARS.

31 ARTICLE 2. DEVELOPMENT

32 9-621. Authority to receive and spend distributions

33 IN ADDITION TO ANY OTHER POWERS CONFERRED BY LAW, AN ELIGIBLE CITY
34 DESCRIBED IN SECTION 9-604 MAY RECEIVE AND SPEND DISTRIBUTIONS FROM THE
35 ARIZONA CONVENTION CENTER DEVELOPMENT FUND PURSUANT TO THIS CHAPTER.

36 9-622. Certification of completion of construction

37 A. WHEN CONSTRUCTION OR EXPANSION OF AN ELIGIBLE CONVENTION CENTER
38 DEVELOPMENT PROJECT IS COMPLETE, THE CHIEF FINANCIAL OFFICER OF THE CITY
39 SHALL CERTIFY THE COMPLETION TO THE STATE TREASURER AND TRANSMIT A COPY OF
40 THE CERTIFICATION TO THE AUDITOR GENERAL.

41 B. AS A PART OF THE CERTIFICATION, THE CHIEF FINANCIAL OFFICER OF THE
42 CITY SHALL:

43 1. NOTIFY THE STATE TREASURER IF THE CITY HAS ENTERED INTO ANY
44 AGREEMENTS THAT REQUIRE FUTURE SCHEDULED PAYMENTS AND THE AMOUNTS OF ANY SUCH
45 PAYMENTS.

1 ~~2. CERTIFY TO THE STATE TREASURER THAT A PROJECT MEETS ALL OF THE~~
2 ELIGIBILITY REQUIREMENTS OF SECTION 9-605 BEFORE ANY DISTRIBUTIONS FOR THE
3 PROJECT FROM THE ARIZONA CONVENTION CENTER DEVELOPMENT FUND TO THE CITY.

4 3. CERTIFY TO THE STATE TREASURER THE TOTAL COST OF THE ELIGIBLE
5 PROJECT AND THE PART OF THE TOTAL COST TO BE FUNDED FROM MUNICIPAL SOURCES.

6 9-623. Certification of satisfaction of annual obligation

7 A. IN ANY YEAR THAT A SCHEDULED PAYMENT IS DUE AS STATED IN THE
8 CERTIFICATION OF COMPLETION OF CONSTRUCTION FROM MONIES IN THE SPECIAL FUND
9 ESTABLISHED BY THE ELIGIBLE CITY FOR RECEIPT OF DISTRIBUTIONS FROM THE
10 ARIZONA CONVENTION CENTER DEVELOPMENT FUND, ON RECEIVING DISTRIBUTIONS FROM
11 THE ARIZONA CONVENTION CENTER DEVELOPMENT FUND, THE CHIEF FINANCIAL OFFICER
12 SHALL DEPOSIT INTO THE APPROPRIATE ACCOUNT A SUFFICIENT AMOUNT FROM THOSE
13 DISTRIBUTIONS TO MAKE ANY SCHEDULED PAYMENTS OR DEPOSITS FOR THE CURRENT
14 FISCAL YEAR.

15 B. THE CHIEF FINANCIAL OFFICER SHALL CERTIFY TO THE STATE TREASURER
16 THE SATISFACTION OF THE ANNUAL OBLIGATIONS ON DEPOSITING INTO THE APPROPRIATE
17 FUNDS OR ACCOUNTS SUFFICIENT MONIES TO MAKE ANY SCHEDULED PAYMENTS OR
18 DEPOSITS FOR THE CURRENT FISCAL YEAR.

19 9-624. Request for state lease purchase

20 A. THE CHIEF FINANCIAL OFFICER MAY FILE A NOTICE WITH THE DIRECTOR OF
21 THE DEPARTMENT OF ADMINISTRATION REQUESTING THIS STATE TO UNDERTAKE LEASE
22 PURCHASE FINANCING IN CONNECTION WITH AN ELIGIBLE PROJECT PURSUANT TO SECTION
23 41-791.04. THE NOTICE SHALL INCLUDE A DETAILED DESCRIPTION OF THE PART OF
24 THE ELIGIBLE PROJECT THAT THE STATE IS REQUESTED TO LEASE PURCHASE.

25 B. THE DEPARTMENT OF ADMINISTRATION SHALL PROMPTLY RESPOND TO THE
26 PROPOSAL IN THE MANNER PRESCRIBED BY SECTION 41-791.04.

27 C. IF A NOTICE IS FILED AND THE LEASE PURCHASE FINANCING IS COMPLETED
28 PURSUANT TO THIS SECTION, NO DISTRIBUTIONS SHALL BE MADE BY THE STATE
29 TREASURER PURSUANT TO SECTION 9-602 TO THE ELIGIBLE CITY FOR THE ELIGIBLE
30 PROJECT.

31 9-625. Tax exemption

32 AN ELIGIBLE CITY IS REGARDED AS PERFORMING A GOVERNMENTAL FUNCTION IN
33 CARRYING OUT THE PURPOSES OF THIS CHAPTER AND THE ELIGIBLE PROJECT IS
34 CONSIDERED TO BE MUNICIPAL PROPERTY FOR THE PURPOSES OF ARTICLE IX, SECTION
35 2, CONSTITUTION OF ARIZONA.

36 9-626. Construction progress reports; auditor general
37 performance measures

38 A. THE ELIGIBLE CITY SHALL REPORT PROGRESS ON THE DEVELOPMENT OF ANY
39 ELIGIBLE PROJECT TO THE JOINT COMMITTEE ON CAPITAL REVIEW TWICE ANNUALLY
40 DURING CONSTRUCTION OF THE ELIGIBLE PROJECT.

41 B. WITHIN FIVE YEARS AFTER THE FILING OF THE CERTIFICATE OF COMPLETION
42 OF CONSTRUCTION OF AN ELIGIBLE PROJECT PURSUANT TO SECTION 9-622, AND AFTER
43 CONSULTATION WITH THE ELIGIBLE CITY, THE AUDITOR GENERAL SHALL CONDUCT OR
44 CONTRACT FOR AN ECONOMIC AND FISCAL IMPACT ANALYSIS OF THE ELIGIBLE PROJECT

1 ~~IN ITS FIFTH YEAR OF OPERATION FOLLOWING THE FILING OF THE CERTIFICATE OF~~
2 COMPLETION OF CONSTRUCTION. AT A MINIMUM, THE ANALYSIS SHALL:

3 1. ESTIMATE THE EFFECTS OF DIRECT, INDIRECT AND INDUCED ECONOMIC
4 ACTIVITY IN THIS STATE ASSOCIATED WITH:

5 (a) REGIONAL AND NATIONAL CONVENTIONS AND TRADE SHOWS HELD AT THE SITE
6 OF THE ELIGIBLE PROJECT, THE TOTAL AMOUNT OF STATE GENERAL FUND REVENUES
7 DERIVED FROM THAT ECONOMIC ACTIVITY AND THE ESTIMATED AVERAGE ANNUAL
8 ATTENDANCE AT THOSE EVENTS ASSUMING:

9 (i) THE ELIGIBLE PROJECT HAD NOT BEEN COMPLETED.

10 (ii) THE ELIGIBLE PROJECT HAS BEEN COMPLETED.

11 (b) THE CONSTRUCTION OF THE ELIGIBLE PROJECT AND THE TOTAL AMOUNT OF
12 STATE GENERAL FUND REVENUES DERIVED FROM THE CONSTRUCTION ACTIVITY.

13 2. COMPUTE THE TOTAL CUMULATIVE AMOUNT OF DISTRIBUTIONS PURSUANT TO
14 SECTION 9-602 FOR THE FIRST THROUGH FIFTH YEARS FOLLOWING THE FILING OF THE
15 CERTIFICATE OF COMPLETION OF CONSTRUCTION FOR THE ELIGIBLE PROJECT PURSUANT
16 TO SECTION 9-622 AND FROM THE FIRST THROUGH EACH SUBSEQUENT FIFTH YEAR.

17 3. COMPUTE THE NET CUMULATIVE DISTRIBUTIONS FOR THE ELIGIBLE PROJECT
18 BY SUBTRACTING THE AMOUNT DETERMINED PURSUANT TO PARAGRAPH 1, SUBDIVISION (b)
19 OF THIS SUBSECTION FROM EITHER THE AMOUNTS DETERMINED PURSUANT TO PARAGRAPH
20 2 OF THIS SUBSECTION OR, IF APPLICABLE, THE AMOUNT OF STATE MONIES PAID UNDER
21 A LEASE PURCHASE AGREEMENT PURSUANT TO SECTION 41-791.04.

22 4. BASED ON THE ANALYSIS CONDUCTED PURSUANT TO THIS SUBSECTION,
23 ESTIMATE THE MINIMUM REQUIRED ATTENDANCE AT THE ELIGIBLE PROJECT FOR THE
24 FIFTH YEAR FOLLOWING THE FILING OF THE CERTIFICATE OF COMPLETION OF
25 CONSTRUCTION OF AN ELIGIBLE PROJECT PURSUANT TO SECTION 9-622 AND EACH YEAR
26 THEREAFTER. THE ESTIMATES SHALL BE COMPUTED AS FOLLOWS:

27 (a) DIVIDE THE TOTAL STATE GENERAL FUND REVENUES ESTIMATED PURSUANT
28 TO PARAGRAPH 1, SUBDIVISION (a), ITEM (i) OF THIS SUBSECTION BY THE
29 ATTENDANCE ESTIMATED PURSUANT TO PARAGRAPH 1, SUBDIVISION (a), ITEM (i) OF
30 THIS SUBSECTION.

31 (b) DIVIDE THE NET CUMULATIVE DISTRIBUTION AMOUNTS FOR THE FIFTH YEAR
32 FOLLOWING THE FILING OF THE CERTIFICATE OF COMPLETION OF CONSTRUCTION OF AN
33 ELIGIBLE PROJECT PURSUANT TO SECTION 9-622 AND EACH YEAR THEREAFTER COMPUTED
34 PURSUANT TO PARAGRAPH 3 OF THIS SUBSECTION BY THE QUOTIENT COMPUTED PURSUANT
35 TO SUBDIVISION (a) OF THIS PARAGRAPH.

36 (c) ADD THE AVERAGE ANNUAL ATTENDANCE ESTIMATED PURSUANT TO PARAGRAPH
37 1, SUBDIVISION (a), ITEM (i) OF THIS SUBSECTION TO EACH OF THE QUOTIENTS
38 DETERMINED PURSUANT TO SUBDIVISION (b) OF THIS PARAGRAPH. THE RESULTING SUMS
39 ARE THE MINIMUM REQUIRED ATTENDANCE AMOUNTS FOR EACH YEAR.

40 C. BEGINNING IN THE FIFTH CALENDAR YEAR FOLLOWING THE FILING OF THE
41 CERTIFICATE OF COMPLETION OF CONSTRUCTION OF AN ELIGIBLE PROJECT PURSUANT TO
42 SECTION 9-622 AND EACH YEAR THEREAFTER, THE AUDITOR GENERAL SHALL:

43 1. ESTIMATE THE AVERAGE ANNUAL ATTENDANCE AT REGIONAL AND NATIONAL
44 CONVENTIONS AND TRADE SHOWS HELD AT THE SITE OF THE ELIGIBLE PROJECT USING

1 ANY APPROPRIATE METHOD TO ESTIMATE THE ATTENDANCE. THE ELIGIBLE CITY SHALL
2 COOPERATE WITH AND ASSIST THE AUDITOR GENERAL IN DEVELOPING THE ESTIMATES.

3 2. COMPUTE THE RATIO OF THE CUMULATIVE SUM OF THE ESTIMATED ATTENDANCE
4 AMOUNTS DEVELOPED PURSUANT TO PARAGRAPH 1 OF THIS SUBSECTION FOR ALL YEARS
5 THROUGH THE CURRENT YEAR TO THE CUMULATIVE SUM OF THE MINIMUM REQUIRED
6 ATTENDANCE AMOUNTS FOR THOSE YEARS COMPUTED PURSUANT TO SUBSECTION B,
7 PARAGRAPH 4, SUBDIVISION (c) OF THIS SECTION.

8 3. NOTIFY THE PRESIDENT OF THE SENATE, THE SPEAKER OF THE HOUSE OF
9 REPRESENTATIVES AND THE GOVERNOR OF:

10 (a) THE MINIMUM REQUIRED ATTENDANCE AMOUNTS FOR THOSE YEARS COMPUTED
11 PURSUANT TO SUBSECTION B, PARAGRAPH 4, SUBDIVISION (c) OF THIS SECTION.

12 (b) THE ATTENDANCE ESTIMATE DEVELOPED PURSUANT TO PARAGRAPH 1 OF THIS
13 SUBSECTION.

14 (c) THE RATIO COMPUTED PURSUANT TO PARAGRAPH 2 OF THIS SUBSECTION.

15 D. EXCEPT AS PROVIDED IN PARAGRAPH 4 OF THIS SUBSECTION, IF THE RATIO
16 COMPUTED PURSUANT TO SUBSECTION C, PARAGRAPH 2 OF THIS SECTION IS LESS THAN
17 ONE:

18 1. THE AUDITOR GENERAL SHALL COMPUTE THE DIFFERENCE BETWEEN THE
19 ESTIMATED STATE GENERAL FUND REVENUES AND THE NET CUMULATIVE DISTRIBUTIONS
20 BY MULTIPLYING THE NET CUMULATIVE DISTRIBUTIONS COMPUTED PURSUANT TO
21 SUBSECTION B, PARAGRAPH 3 OF THIS SECTION BY THE DIFFERENCE BETWEEN THE RATIO
22 COMPUTED PURSUANT TO SUBSECTION C, PARAGRAPH 2 OF THIS SECTION AND ONE.

23 2. THE AUDITOR GENERAL SHALL NOTIFY THE STATE TREASURER OF:

24 (a) THE RATIO COMPUTED PURSUANT TO SUBSECTION C, PARAGRAPH 2 OF THIS
25 SECTION.

26 (b) THE DIFFERENCE COMPUTED PURSUANT TO PARAGRAPH 1 OF THIS
27 SUBSECTION.

28 3. AT THE TIME OF THE NEXT REGULARLY SCHEDULED DISTRIBUTION, THE STATE
29 TREASURER SHALL WITHHOLD FROM THE AMOUNT THAT WOULD OTHERWISE BE DISTRIBUTED
30 TO THE ELIGIBLE CITY FROM THE LOCAL TRANSPORTATION ASSISTANCE FUND PURSUANT
31 TO SECTION 28-8102 AN AMOUNT EQUAL TO THE AMOUNT STATED IN THE NOTICE
32 RECEIVED PURSUANT TO PARAGRAPH 2 OF THIS SUBSECTION. IF THE AMOUNT AVAILABLE
33 FOR DISTRIBUTION IS LESS THAN THE AMOUNT TO BE WITHHELD, THE STATE TREASURER
34 SHALL CONTINUE WITHHOLDING FROM SUBSEQUENT DISTRIBUTIONS UNTIL THE FULL
35 AMOUNT STATED IN THE NOTICE HAS BEEN WITHHELD.

36 4. THE ELIGIBLE CITY MAY REQUEST AND THE AUDITOR GENERAL SHALL CONDUCT
37 OR CONTRACT FOR A COMPLETE ECONOMIC AND FISCAL IMPACT ANALYSIS OF THE
38 ELIGIBLE PROJECT. IF AN ANALYSIS IS REQUESTED:

39 (a) THE AUDITOR GENERAL SHALL NOT NOTIFY THE STATE TREASURER PURSUANT
40 TO PARAGRAPH 2 OF THIS SUBSECTION, AND THE STATE TREASURER SHALL NOT WITHHOLD
41 PURSUANT TO PARAGRAPH 3 OF THIS SUBSECTION, PENDING COMPLETION OF THE
42 ANALYSIS.

43 (b) THE ANALYSIS SHALL BE SIMILAR TO THE ANALYSIS DESCRIBED IN
44 SUBSECTION B OF THIS SECTION, EXCEPT THAT THE ANALYSIS SHALL EXAMINE THE

1 OPERATIONS OF THE ELIGIBLE PROJECT IN THE YEAR FOR WHICH THE RATIO IS LESS
2 THAN ONE.

3 (c) THE ANALYSIS, AT A MINIMUM, SHALL ESTIMATE THE TOTAL CUMULATIVE
4 INCREMENTAL REVENUES TO THE STATE GENERAL FUND RESULTING FROM THE COMPLETION
5 OF THE ELIGIBLE PROJECT INCLUDING THE REVENUES RESULTING FROM THE
6 CONSTRUCTION ACTIVITY ASSOCIATED WITH THE COMPLETION OF THE ELIGIBLE PROJECT.

7 (d) AND THE ANALYSIS DEMONSTRATES THAT THE TOTAL CUMULATIVE
8 INCREMENTAL REVENUES TO THE STATE GENERAL FUND EXCEED THE TOTAL CUMULATIVE
9 AMOUNT OF DISTRIBUTIONS PURSUANT TO SECTION 9-602 AS COMPUTED IN SUBSECTION
10 B, PARAGRAPH 3 OF THIS SECTION, THE AUDITOR GENERAL SHALL NOT NOTIFY THE
11 STATE TREASURER PURSUANT TO PARAGRAPH 2 OF THIS SUBSECTION AND THE STATE
12 TREASURER SHALL NOT WITHHOLD PURSUANT TO PARAGRAPH 3 OF THIS SUBSECTION.

13 (e) AND THE ANALYSIS DEMONSTRATES THAT THE TOTAL CUMULATIVE
14 INCREMENTAL REVENUES TO THE STATE GENERAL FUND ARE LESS THAN THE TOTAL
15 CUMULATIVE AMOUNT OF DISTRIBUTIONS PURSUANT TO SECTION 9-602 AS COMPUTED IN
16 SUBSECTION B, PARAGRAPH 3 OF THIS SECTION:

17 (i) THE AUDITOR GENERAL SHALL SUBTRACT THE AMOUNT OF THE TOTAL
18 CUMULATIVE INCREMENTAL REVENUES TO THE STATE GENERAL FUND FROM THE AMOUNT OF
19 THE TOTAL CUMULATIVE DISTRIBUTIONS.

20 (ii) THE AUDITOR GENERAL SHALL NOTIFY THE STATE TREASURER OF THE
21 DIFFERENCE COMPUTED PURSUANT TO ITEM (i) OF THIS SUBDIVISION.

22 (iii) AT THE TIME OF THE NEXT REGULARLY SCHEDULED DISTRIBUTION, THE
23 STATE TREASURER SHALL WITHHOLD FROM THE AMOUNT THAT WOULD OTHERWISE BE
24 DISTRIBUTED TO THE ELIGIBLE CITY FROM THE LOCAL TRANSPORTATION ASSISTANCE
25 FUND PURSUANT TO SECTION 28-8102 AN AMOUNT EQUAL TO THE AMOUNT STATED IN THE
26 NOTICE RECEIVED PURSUANT TO ITEM (ii) OF THIS SUBDIVISION. IF THE AMOUNT
27 AVAILABLE FOR DISTRIBUTION IS LESS THAN THE AMOUNT TO BE WITHHELD, THE STATE
28 TREASURER SHALL CONTINUE WITHHOLDING FROM SUBSEQUENT DISTRIBUTIONS UNTIL THE
29 FULL AMOUNT STATED IN THE NOTICE HAS BEEN WITHHELD.

30 E. THE ELIGIBLE CITY SHALL REIMBURSE THE AUDITOR GENERAL FOR ANY COSTS
31 INCURRED IN COMPLYING WITH THE REQUIREMENTS OF THIS SECTION.

32 Sec. 2. Title 41, chapter 4, article 7, Arizona Revised Statutes, is
33 amended by adding section 41-791.04, to read:

34 41-791.04. Lease purchase financing; eligible municipal
35 convention center projects; eligible projects
36 lease purchase fund

37 A. ON THE FILING OF A NOTICE BY AN ELIGIBLE CITY WITH THE DIRECTOR
38 PURSUANT TO SECTION 9-624 REQUESTING THIS STATE TO LEASE PURCHASE PART OF AN
39 ELIGIBLE MUNICIPAL CONVENTION CENTER PROJECT, THE DIRECTOR MAY COMPLETE LEASE
40 PURCHASE FINANCING OF THE PART OF THE ELIGIBLE PROJECT DESIGNATED BY THE
41 ELIGIBLE CITY. THE DIRECTOR MAY EMPLOY OUTSIDE CONSULTANTS TO REVIEW THE
42 LEASE PURCHASE PROGRAM REQUEST AND REPORT ON THE FINANCIAL DETAILS OF THE
43 PROGRAM NEGOTIATED WITH THE ELIGIBLE CITY. THE ELIGIBLE CITY IS RESPONSIBLE
44 FOR THE COSTS OF THE CONSULTANT AND THE REPORT. THE LEASE PURCHASE AGREEMENT
45 SHALL INCLUDE THE PROVISIONS REQUIRED BY SECTION 41-791.02, SUBSECTION B AND

1 THE PROVISIONS AUTHORIZED BY SECTION 41-791.02, SUBSECTION C. THE AGREEMENT
2 IS SUBJECT TO THE REVIEW PROVISIONS OF SECTION 41-791.02, SUBSECTIONS D AND
3 E. AT THE DIRECTOR'S REQUEST, THE ATTORNEY GENERAL MAY GIVE OTHER OPINIONS
4 RELATING TO THE AGREEMENT.

5 B. THE LEASE PURCHASE FINANCING AGREEMENT SHALL PROVIDE FOR:

6 1. THE USE, MAINTENANCE AND OPERATION OF THE ELIGIBLE PROJECT BY THE
7 ELIGIBLE CITY AND FOR THE OWNERSHIP OF THE ELIGIBLE PROJECT BY THE ELIGIBLE
8 CITY ON COMPLETION OF PERFORMANCE OF THE LEASE PURCHASE AGREEMENT.

9 2. THE ELIGIBLE CITY'S OPTION TO PURCHASE THE ELIGIBLE PROJECT AND ON
10 EXERCISING THE OPTION, THE VESTING OF OWNERSHIP OF THE ELIGIBLE PROJECT IN
11 THE ELIGIBLE CITY ON DISCHARGING THE LEASE PURCHASE AGREEMENT.

12 C. EXCEPT AS PROVIDED IN SUBSECTION E OF THIS SECTION, THE ANNUAL
13 LEASE PAYMENT UNDER THE LEASE PURCHASE AGREEMENT SHALL NOT EXCEED THE AMOUNT
14 THAT WOULD OTHERWISE HAVE BEEN DISTRIBUTABLE TO THE ELIGIBLE CITY PURSUANT
15 TO SECTION 9-602 IF THE NOTICE PURSUANT TO SECTION 9-624 HAD NOT BEEN FILED.

16 D. AN ELIGIBLE PROJECTS LEASE PURCHASE FUND IS ESTABLISHED CONSISTING
17 OF MONIES APPROPRIATED BY THE LEGISLATURE FOR LEASE PURCHASE AGREEMENT
18 PAYMENTS PURSUANT TO THIS SECTION. THE DIRECTOR SHALL ADMINISTER THE FUND
19 AND DISTRIBUTE MONIES IN THE FUND TO MAKE PAYMENTS PURSUANT TO LEASE PURCHASE
20 AGREEMENTS ENTERED INTO BY THE DIRECTOR PURSUANT TO THIS SECTION AND TO PAY
21 COSTS CONSIDERED TO BE NECESSARY BY THE DIRECTOR AND THE ELIGIBLE CITY IN
22 CONNECTION WITH LEASE PURCHASE TRANSACTIONS ENTERED INTO PURSUANT TO THIS
23 SECTION. PAYMENTS PURSUANT TO A LEASE PURCHASE AGREEMENT SHALL BE MADE ONLY
24 FROM THE ELIGIBLE PROJECTS LEASE PURCHASE FUND. THE STATE TREASURER SHALL
25 INVEST AND DIVEST MONIES IN THE FUND AS PROVIDED BY SECTION 35-313, AND
26 MONIES EARNED FROM INVESTMENT SHALL BE CREDITED TO THE FUND. MONIES IN THE
27 FUND ARE EXEMPT FROM THE PROVISIONS OF SECTION 35-190 RELATING TO LAPSING OF
28 APPROPRIATIONS.

29 E. AT THE REQUEST OF AN ELIGIBLE CITY, THE DIRECTOR MAY COMPLETE LEASE
30 PURCHASE FINANCING FOR ALL OR ANY PART OF THE ELIGIBLE PROJECT, EXCEPT THAT
31 IF THE ANNUAL LEASE PAYMENT OF THIS STATE EXCEEDS THE AMOUNTS THAT WOULD
32 OTHERWISE HAVE BEEN DISTRIBUTABLE TO THE ELIGIBLE CITY FOR THE ELIGIBLE
33 PROJECT, ALL SUCH EXCESS AMOUNTS SHALL BE PAID FROM MONIES PROVIDED BY THE
34 ELIGIBLE CITY.

35 Sec. 3. Section 42-5029, Arizona Revised Statutes, is amended to read:
36 42-5029. Remission and distribution of monies

37 A. The department shall deposit, pursuant to sections 35-146 and
38 35-147, all revenues collected under this article and articles 4, 5, 8 and
39 9 of this chapter pursuant to section 42-1116, separately accounting for:

- 40 1. Payments of estimated tax under section 42-5014, subsection D.
41 2. Revenues collected pursuant to section 42-5070.

1 3. Revenues collected under this article and article 5 of this chapter
2 from and after June 30, 2000 from sources located on Indian reservations in
3 this state.

4 4. Revenues collected pursuant to section 42-5010, subsection G and
5 section 42-5155, subsection D.

6 B. The department shall credit payments of estimated tax to an
7 estimated tax clearing account and each month shall transfer all monies in
8 the estimated tax clearing account to a fund designated as the transaction
9 privilege and severance tax clearing account. The department shall credit
10 all other payments to the transaction privilege and severance tax clearing
11 account, separately accounting for the monies designated as distribution base
12 under sections 42-5010, 42-5164, 42-5205, 42-5353 and 42-5409. Each month
13 the department shall report to the state treasurer the amount of monies
14 collected pursuant to this article and articles 4, 5, 8 and 9 of this
15 chapter.

16 C. On notification by the department, the state treasurer shall
17 distribute the monies deposited in the transaction privilege and severance
18 tax clearing account in the manner prescribed by this section and by sections
19 42-5164, 42-5205, 42-5353 and 42-5409, after deducting warrants drawn against
20 the account pursuant to sections 42-1118 and 42-1254.

21 D. Of the monies designated as distribution base the department shall:

22 1. Pay twenty-five per cent to the various incorporated municipalities
23 in this state in proportion to their population as shown by the last United
24 States decennial or special census, or revisions to the decennial or special
25 census certified by the United States bureau of the census, to be used by the
26 municipalities for any municipal purpose.

27 2. Pay 38.08 per cent to the counties in this state by averaging the
28 following proportions:

29 (a) The proportion that the population of each county bears to the
30 total state population, as shown by the most recent United States decennial
31 or special census, or revisions to the decennial or special census certified
32 by the United States bureau of the census.

33 (b) The proportion that the distribution base monies collected during
34 the calendar month in each county under this article, section 42-5164,
35 subsection B, section 42-5205, subsection B and sections 42-5353 and 42-5409
36 bear to the total distribution base monies collected under this article,
37 section 42-5164, subsection B, section 42-5205, subsection B and sections
38 42-5353 and 42-5409 throughout the state for the calendar month.

39 3. Pay an additional 2.43 per cent to the counties in this state as
40 follows:

41 (a) Average the following proportions:

42 (i) The proportion that the assessed valuation used to determine
43 secondary property taxes of each county, after deducting that part of the
44 assessed valuation that is exempt from taxation at the beginning of the month
45 for which the amount is to be paid, bears to the total assessed valuations

1 used to determine secondary property taxes of all the counties after
2 deducting that portion of the assessed valuations that is exempt from
3 taxation at the beginning of the month for which the amount is to be paid.
4 Property of a city or town that is not within or contiguous to the municipal
5 corporate boundaries and from which water is or may be withdrawn or diverted
6 and transported for use on other property is considered to be taxable
7 property in the county for purposes of determining assessed valuation in the
8 county under this item.

9 (ii) The proportion that the distribution base monies collected during
10 the calendar month in each county under this article, section 42-5164,
11 subsection B, section 42-5205, subsection B and sections 42-5353 and 42-5409
12 bear to the total distribution base monies collected under this article,
13 section 42-5164, subsection B, section 42-5205, subsection B and sections
14 42-5353 and 42-5409 throughout the state for the calendar month.

15 (b) If the proportion computed under subdivision (a) of this paragraph
16 for any county is greater than the proportion computed under paragraph 2 of
17 this subsection, the department shall compute the difference between the
18 amount distributed to that county under paragraph 2 of this subsection and
19 the amount that would have been distributed under paragraph 2 of this
20 subsection using the proportion computed under subdivision (a) of this
21 paragraph and shall pay that difference to the county from the amount
22 available for distribution under this paragraph. Any monies remaining after
23 all payments under this subdivision shall be distributed among the counties
24 according to the proportions computed under paragraph 2 of this subsection.

25 4. After any distributions required by sections 42-5030, 42-5030.01,
26 42-5031, 42-5032, ~~AND 42-5032.01 and 42-5032.02~~, and after making any
27 transfer to the water quality assurance revolving fund as required by section
28 49-282, subsection B, credit the remainder of the monies designated as
29 distribution base to the state general fund. From this amount:

30 (a) The legislature shall annually appropriate to:

31 (i) The department of revenue sufficient monies to administer and
32 enforce this article and articles 5, 8 and 9 of this chapter.

33 (ii) The department of economic security monies to be used for the
34 purposes stated in title 46, chapter 1.

35 (iii) The Arizona arts endowment fund established by section 41-986,
36 the full amount by which revenues derived from the amusement classification
37 pursuant to section 42-5073 for the current fiscal year exceed the revenues
38 that were derived from that classification in fiscal year 1993-1994, except
39 that this amount shall not exceed two million dollars through fiscal year
40 2008-2009.

41 (iv) The firearms safety and ranges fund established by section
42 17-273, fifty thousand dollars derived from the taxes collected from the
43 retail classification pursuant to section 42-5061 for the current fiscal
44 year.

1 (b) The state treasurer shall transfer to the tourism fund an amount
2 equal to the sum of the following:

3 (i) Three and one-half per cent of the gross revenues derived from the
4 transient lodging classification pursuant to section 42-5070 during the
5 preceding fiscal year.

6 (ii) Three per cent of the gross revenues derived from the amusement
7 classification pursuant to section 42-5073 during the preceding fiscal year.

8 (iii) Two per cent of the gross revenues derived from the restaurant
9 classification pursuant to section 42-5074 during the preceding fiscal year.

10 E. If approved by the qualified electors voting at a statewide general
11 election, all monies collected pursuant to section 42-5010, subsection G and
12 section 42-5155, subsection D shall be distributed each fiscal year pursuant
13 to this subsection. The monies distributed pursuant to this subsection are
14 in addition to any other appropriation, transfer or other allocation of
15 public or private monies from any other source and shall not supplant,
16 replace or cause a reduction in other school district, charter school,
17 university or community college funding sources. The monies shall be
18 distributed as follows:

19 1. If there are outstanding state school facilities revenue bonds
20 pursuant to title 15, chapter 16, article 7, each month one-twelfth of the
21 amount that is necessary to pay the fiscal year's debt service on outstanding
22 state school improvement revenue bonds for the current fiscal year shall be
23 transferred each month to the school improvement revenue bond debt service
24 fund established by section 15-2084. The total amount of bonds for which
25 these monies may be allocated for the payment of debt service shall not
26 exceed a principal amount of eight hundred million dollars exclusive of
27 refunding bonds and other refinancing obligations.

28 2. After any transfer of monies pursuant to paragraph 1 of this
29 subsection, twelve per cent of the remaining monies collected during the
30 preceding month shall be transferred to the technology and research
31 initiative fund established by section 15-1648 to be distributed among the
32 universities for the purpose of investment in technology and research-based
33 initiatives.

34 3. After the transfer of monies pursuant to paragraph 1 of this
35 subsection, three per cent of the remaining monies collected during the
36 preceding month shall be transferred to the workforce development account
37 established in each community college district pursuant to section 15-1472
38 for the purpose of investment in workforce development programs.

39 4. After transferring monies pursuant to paragraphs 1, 2 and 3 of this
40 subsection, one-twelfth of the amount a community college that is owned,
41 operated or chartered by a qualifying Indian tribe on its own Indian
42 reservation would receive pursuant to section 15-1472, subsection D,
43 paragraph 2 if it were a community college district under the jurisdiction
44 of the state board of directors for community colleges shall be distributed
45 each month to the treasurer or other designated depository of a qualifying

1 Indian tribe. Monies distributed pursuant to this paragraph are for the
2 exclusive purpose of providing support to one or more community colleges
3 owned, operated or chartered by a qualifying Indian tribe and shall be used
4 in a manner consistent with section 15-1472, subsection B. For purposes of
5 this paragraph, "qualifying Indian tribe" has the same meaning as defined in
6 section 42-5031.01, subsection D.

7 5. After transferring monies pursuant to paragraphs 1, 2 and 3 of this
8 subsection, one-twelfth of the following amounts shall be transferred each
9 month to the department of education for the increased cost of basic state
10 aid under section 15-971 due to added school days and associated teacher
11 salary increases enacted in 2000:

12 (a) In fiscal year 2001-2002, \$15,305,900.

13 (b) In fiscal year 2002-2003, \$31,530,100.

14 (c) In fiscal year 2003-2004, \$48,727,700.

15 (d) In fiscal year 2004-2005, \$66,957,200.

16 (e) In fiscal year 2005-2006 and each fiscal year thereafter,
17 \$86,280,500.

18 6. After transferring monies pursuant to paragraphs 1, 2 and 3 of this
19 subsection, seven million eight hundred thousand dollars is appropriated each
20 fiscal year, to be paid in monthly installments, to the department of
21 education to be used for school safety as provided in section 15-154 and two
22 hundred thousand dollars is appropriated each fiscal year, to be paid in
23 monthly installments to the department of education to be used for the
24 character education matching grant program as provided in section 15-154.01.

25 7. After transferring monies pursuant to paragraphs 1, 2 and 3 of this
26 subsection, no more than seven million dollars may be appropriated by the
27 legislature each fiscal year to the department of education to be used for
28 accountability purposes as described in section 15-241 and title 15, chapter
29 9, article 8.

30 8. After transferring monies pursuant to paragraphs 1, 2 and 3 of this
31 subsection, one million five hundred thousand dollars is appropriated each
32 fiscal year, to be paid in monthly installments, to the failing schools
33 tutoring fund established by section 15-241.

34 9. After transferring monies pursuant to paragraphs 1, 2 and 3 of this
35 subsection, twenty-five million dollars shall be transferred each fiscal year
36 to the state general fund to reimburse the general fund for the cost of the
37 income tax credit allowed by section 43-1072.01.

38 10. After the payment of monies pursuant to paragraphs 1 through 9 of
39 this subsection, the remaining monies collected during the preceding month
40 shall be transferred to the classroom site fund established by section
41 15-977. The monies shall be allocated as follows in the manner prescribed
42 by section 15-977:

1 (a) Forty per cent shall be allocated for teacher compensation based
2 on performance.

3 (b) Twenty per cent shall be allocated for increases in teacher base
4 compensation and employee related expenses.

5 (c) Forty per cent shall be allocated for maintenance and operation
6 purposes.

7 F. The department shall credit the remainder of the monies in the
8 transaction privilege and severance tax clearing account to the state general
9 fund, subject to any distribution required by section 42-5030.01.

10 G. Notwithstanding subsection D of this section, if a court of
11 competent jurisdiction finally determines that tax monies distributed under
12 this section were illegally collected under this article or articles 5, 8 and
13 9 of this chapter and orders the monies to be refunded to the taxpayer, the
14 department shall compute the amount of such monies that was distributed to
15 each city, town and county under this section. The department shall notify
16 the state treasurer of that amount plus the proportionate share of additional
17 allocated costs required to be paid to the taxpayer. Each city's, town's and
18 county's proportionate share of the costs shall be based on the amount of the
19 original tax payment each municipality and county received. Each month the
20 state treasurer shall reduce the amount otherwise distributable to the city,
21 town and county under this section by one thirty-sixth of the total amount
22 to be recovered from the city, town or county until the total amount has been
23 recovered, but the monthly reduction for any city, town or county shall not
24 exceed ten per cent of the full monthly distribution to that entity. The
25 reduction shall begin for the first calendar month after the final
26 disposition of the case and shall continue until the total amount, including
27 interest and costs, has been recovered.

28 H. On receiving a certificate of default from the greater Arizona
29 development authority pursuant to section 41-1554.06 or 41-1554.07 and to the
30 extent not otherwise expressly prohibited by law, the state treasurer shall
31 withhold from the next succeeding distribution of monies pursuant to this
32 section due to the defaulting political subdivision the amount specified in
33 the certificate of default and immediately deposit the amount withheld in the
34 greater Arizona development authority revolving fund. The state treasurer
35 shall continue to withhold and deposit the monies until the greater Arizona
36 development authority certifies to the state treasurer that the default has
37 been cured. In no event may the state treasurer withhold any amount that the
38 defaulting political subdivision certifies to the state treasurer and the
39 authority as being necessary to make any required deposits then due for the
40 payment of principal and interest on bonds of the political subdivision that
41 were issued before the date of the loan repayment agreement or bonds and that
42 have been secured by a pledge of distributions made pursuant to this section.

Passed the House February 18, 2003

by the following vote: 59 Ayes,

0 Nays, 1 Not Voting

Jake Flake
Speaker of the House

Norman L. Moore
Chief Clerk of the House

Passed the Senate June 18, 2003

by the following vote: 21 Ayes,

7 Nays, 2 Not Voting

Ken Farnsworth
President of the Senate

Charmion Bellinger
Secretary of the Senate

**EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF GOVERNOR**

This Bill was received by the Governor this

_____ day of _____, 20____

at _____ o'clock _____ M.

Secretary to the Governor

Approved this _____ day of

_____, 20____,

at _____ o'clock _____ M.

Governor of Arizona

**EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF SECRETARY OF STATE**

This Bill was received by the Secretary of State

this _____ day of _____, 20____,

at _____ o'clock _____ M.

Secretary of State

HOUSE CONCURS IN SENATE
AMENDMENTS AND FINAL PASSAGE

June 19, 2003,

by the following vote: 31 Ayes,

21 Nays, 8 Not Voting

Jake Flake
Speaker of the House

Norman L. Moore
Chief Clerk of the House

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF GOVERNOR

This Bill was received by the Governor this

20 day of June, 2003

at 8:13 o'clock A M.

Sandra Ramirez
Secretary to the Governor

Approved this 24 day of

June, 2003,

at 2¹⁰ o'clock P. M.

Jan Nagelkerke
Governor of Arizona

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF SECRETARY OF STATE

This Bill was received by the Secretary of State

this 24 day of June, 2003

at 4:37 o'clock P M.

Janice K. Brewer
Secretary of State

H.B. 2332

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APPENDIX B

STATE OF ARIZONA HISTORICAL EXCISE TAX COLLECTIONS

Arizona Department of Revenue Transaction Privilege, License and Use Taxes* (in millions)

<u>Fiscal Year Ended June 30</u>	<u>Transaction Privilege, License & Use Tax</u>	<u>% Change</u>
2004	\$4,753	8.4%
2003	4,383	1.8
2002	4,305	0.5
2001	4,284	6.0
2000	4,041	11.2
1999	3,635	7.8
1998	3,372	5.6
1997	3,193	4.9
1996	3,044	—
Average Annual Growth 1996-2004:		<u>7.0%</u>

* Excludes the “Education Tax” pursuant to Proposition 301

Source: Arizona Department of Revenue website
(www.azdor.gov/txfcts.htm)

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APPENDIX C
CITY OF PHOENIX, ARIZONA
OBLIGATIONS PAYABLE FROM EXCISE TAXES

Outstanding Senior and Junior Obligations

As of July 2, 2005, there are presently outstanding \$183,275,000 of Senior Obligations. The debt service requirements on \$42,305,000 of the Senior Obligations are supported by airport revenues. The Phoenix Aviation Department has been a self-supporting enterprise since 1967, with debt service requirements on airport revenue bonds, airport general obligation bonds and airport lease purchase obligations paid from airport revenues.

The following issues of Senior Obligations are outstanding:

<u>Issue Date</u>	<u>Original Issuance</u>	<u>Purpose</u>	<u>Obligations Outstanding As of 7-2-05</u>
05-01-94	\$ 33,705,000	Airport Improvements Refunding (1)	\$ 17,980,000
08-01-94	43,250,000	Civic Plaza Improvements	3,545,000
02-01-98	38,355,000	Airport Terminal 4 Refunding (1)	24,325,000
06-01-99	79,000,000	Phoenix Municipal Courthouse	77,410,000
06-01-99	15,000,000	Adams Street Garage	14,695,000
05-01-03	47,600,000	New City Hall Refunding	45,320,000
Total	<u>\$256,910,000</u>		<u>\$183,275,000</u>

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

There are not presently outstanding any Junior Obligations.

So long as any of the 2005B Bonds remain outstanding and the principal and interest thereon is unpaid or unprovided for, the City has agreed not to issue additional Senior Obligations or Junior Obligations unless the Excise Taxes collected by the City during the next preceding fiscal year (the "Prior Excise Taxes") are at least two times the highest combined interest and principal requirements for any succeeding fiscal year for all outstanding Senior Obligations, Junior Obligations, Subordinated Junior Obligations, including the Additional Loan Payments, if any, and any obligations on a parity therewith.

Outstanding Subordinated Junior Obligations

There are presently outstanding \$658,035,000 principal amount of Subordinated Junior Obligations, including the 2005A Bonds delivered on September 13, 2005. The debt service requirements on \$31,000,000 of the Subordinated Junior Obligations are supported by airport revenues, and debt service requirements on \$80,080,000 of the Subordinated Junior Obligations are supported by solid waste revenues.

<u>Issue Date</u>	<u>Original Issuance</u>	<u>Purpose</u>	<u>Obligations Outstanding As of 7-2-05</u>
06-01-93	\$ 14,350,000	Patriot's Square Park and Parking Garage Refunding	\$ 5,265,000
04-25-95	31,000,000	Airport Improvements (1)	31,000,000
01-15-97	9,935,000	Municipal Facilities Refunding	9,360,000
01-01-98	43,000,000	Civic Plaza East Garage (Taxable)	36,975,000
01-15-98	48,740,000	Municipal Multipurpose Arena Refunding (Taxable)	40,535,000
08-01-00	65,000,000	Municipal Facilities (2)	38,010,000
05-01-03	80,000,000	Solid Waste Improvements (3)	75,190,000
05-01-03	25,000,000	Municipal Facilities	24,015,000
05-01-03	25,000,000	Municipal Facilities (Taxable)	25,000,000
05-01-03	10,000,000	Municipal Facilities (Taxable)	10,000,000
06-01-04	22,000,000	Municipal Facilities	22,000,000
06-01-04	5,700,000	Municipal Facilities Refunding	5,700,000
07-01-04	35,465,000	Municipal Facilities Refunding	34,985,000
09-13-05	<u>300,000,000</u>	Civic Plaza Expansion	<u>300,000,000</u> (4)
Total	<u>\$715,190,000</u>		<u>\$658,035,000</u>

- (1) Debt service requirements on these obligations are supported by airport revenues.
- (2) Debt service requirements on \$4,890,000 of these obligations are supported by solid waste revenues.
- (3) Debt service requirements on these obligations are supported by solid waste revenues.
- (4) Represents the 2005A Bonds delivered on September 13, 2005.

The City has agreed not to further encumber the Excise Taxes on a parity with the payments under the 2005B Loan Agreement unless the Prior Excise Taxes are at least equal to the highest combined total of the following for any succeeding 12 months: (i) principal and interest requirements on the Senior Obligations and the Junior Obligations during such period, plus (ii) two times the principal and interest requirements for all Subordinated Junior Obligations including the Additional Loan Payments, if any, and parity obligations then outstanding and proposed to be issued during such period. In computing the interest requirements on obligations which bear or are to bear interest at a variable interest rate, such interest requirements shall be assumed to be a fixed interest rate equal to the greater of: (1) 9.2% or (2) (a) if any variable rate obligations secured by a pledge of Excise Taxes are outstanding, the highest variable rate actually borne by such obligations over the previous 24 months, or (b) if no such variable rate obligations are outstanding, then the highest rate borne by variable rate obligations over the previous 24 months for which the interest rate is computed by reference to an index, or based on factors, comparable to that to be utilized for the proposed obligations.

EXCISE TAXES AND COVERAGE

Excise Taxes in General

The Excise Taxes pledged to the payment of Loan Payments include the City's unrestricted revenues from transaction privilege (sales) taxes, use taxes, State-Shared Sales Taxes (as defined herein), State-

Shared Income Taxes (as defined herein), franchise taxes, permits and fees and fines and forfeitures. The major categories of such revenues are discussed more fully below.

Potential for Reduction in State Shared Revenues

As shown in the tables under the caption “Excise Tax Collections and Coverage,” State-Shared Income Taxes and State-Shared Sales Taxes constitute the second and third largest components, respectively, of Excise Taxes. Although the State has not to date reduced or altered the existing formulas for determining State-Shared Income Taxes and State-Shared Sales Taxes in connection with balancing the State budget, the State could take such actions in the future. The City cannot predict the likelihood or estimate the potential fiscal impact of any potential reductions by the State in the amount of State-Shared Income Taxes and State-Shared Sales Taxes distributed to the City.

City Transaction Privilege (Sales) Taxes

The City’s transaction privilege (sales) tax is levied by the City upon persons on account of their business activities within the City. The amount of taxes due is calculated by applying the tax rate against the gross proceeds of sales or gross income derived from the business activities. Transaction privilege (sales) taxes are collected by the City on a monthly basis.

State-Shared Sales Taxes

Pursuant to statutory formula, cities and towns in Arizona receive a portion of the State-levied transaction privilege (sales) tax. The State transaction privilege (sales) tax is levied against most of the categories of business activity as the City’s transaction privilege (sales) tax. The rate of taxation varies among the different types of business activities taxed, with the most common rate being 5.6% of the amount or volume of business transacted.

Under current State law, the aggregate amount distributed to all Arizona cities and towns is equal to 25% of the “distribution share” of revenues attributable to each category of taxable activity. The allocation to each city and town of the revenues available to all cities and towns is based on their population relative to the aggregate population of all cities and towns as shown by the latest census. State-levied transaction privilege (sales) taxes are collected by the State and are distributed monthly to cities and towns (“State-Shared Sales Taxes”).

State-Shared Income Taxes

Under current State law, Arizona cities and towns are preempted by the State from imposing a local income tax. Cities and towns are, however, entitled by statutory formula to typically receive 15% of State personal and corporate income tax collections (“State-Shared Income Taxes”) collected by the State two years earlier. Distribution of such funds is made monthly based on the proportion of each city’s and town’s population to the total population of all incorporated cities and towns in the State as determined by the latest census.

The percentage amount received by cities and towns was adjusted to 15.8% for fiscal year 1999-00 but returned to 15% for the next fiscal year. The increase to 15.8% was intended to offset expected reduced income tax collections resulting from percentage rate reductions in the prior year. The return to 15% did not have an immediate impact due to continuing increases in collections. To resolve a State budget shortfall projected to be larger than forecasted at the time of adoption of the biennial budget, such percentage amount was reduced to 14.8% for fiscal years 2002-03 and 2003-04. Beginning in fiscal year 2004-05, the percentage returned to 15%.

Other Excise Tax Revenues

Cities and towns in the State have exclusive control over public rights-of-way dedicated to the municipality and may grant franchise agreements to and impose franchise taxes on utilities using those rights-of-way. A franchise may be granted only with voter approval and the term of franchises is limited to 25 years. The City has granted franchises to and imposed franchise taxes on utility and cable television providers.

The City also imposes and collects fees for licenses and permits to engage in certain activities within the City and for the right to utilize certain City property.

Excise Tax Collections and Coverage

The City has provided actual Excise Tax receipts for fiscal years 2001 through 2005, and has provided a forecast of revenue to be generated over the next five fiscal years from the Excise Taxes. These figures are reflected on the following schedules. The schedule on page C-5 shows the calculations of the projected available coverage against the annual debt service requirements for all Senior Obligations, Junior Obligations and Subordinated Junior Obligations, including the 2005A Bonds after debt service supported by airport revenues and solid waste revenues is subtracted from the annual requirements.

ACTUAL EXCISE TAX RECEIPTS FOR THE FISCAL YEARS ENDED JUNE 30

Revenue Source	2001	2002	2003	2004	2005 (4)
Privilege License Tax & Fees(1)	\$282,230,000	\$279,332,000	\$283,692,000	\$300,948,000	\$332,381,000
Use Tax	10,353,000	9,352,000	9,672,000	11,291,000	10,414,000
Utility & Franchise(2) . .	92,303,000	94,962,000	90,499,000	92,849,000	98,479,000
Licenses & Permits	2,515,000	2,568,000	2,547,000	2,650,000	2,460,000
State Sales Tax	105,331,000	102,211,000	103,408,000	111,594,000	123,788,000
State Income Tax(3) . . .	133,684,000	137,787,000	140,600,000	119,118,000	121,440,000
Total	<u>\$626,416,000</u>	<u>\$626,212,000</u>	<u>\$630,418,000</u>	<u>\$638,450,000</u>	<u>\$688,962,000</u>

PROJECTED EXCISE TAX RECEIPTS FOR THE FISCAL YEARS ENDED JUNE 30

Revenue Source	2006	2007	2008	2009	2010
Privilege License Tax & Fees(1)	\$354,082,000	\$378,016,000	\$402,466,000	\$425,452,000	\$451,398,000
Use Tax	12,895,000	13,771,000	14,184,000	14,609,000	15,048,000
Utility & Franchise(2) . .	124,082,000	127,439,000	132,335,000	137,243,000	142,542,000
Licenses & Permits	2,496,000	2,596,000	2,694,000	2,789,000	2,895,000
State Sales Tax	134,822,000	140,864,000	150,724,000	160,521,000	171,276,000
State Income Tax	138,455,000	161,264,000	178,204,000	191,315,000	203,246,000
Total	<u>\$766,832,000</u>	<u>\$823,950,000</u>	<u>\$880,607,000</u>	<u>\$931,929,000</u>	<u>\$986,405,000</u>

(1) Does not include revenues from the 0.1% increase in the City's privilege license (sales) tax rate approved by City of Phoenix voters on October 5, 1993. 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 revenues resulting from this increase totaled \$22.1 million in 2000-01, \$22.2 million in 2001-02, \$21.8 million in 2002-03, \$23.1 million in 2003-04 and \$25.3 million in 2004-05 (preliminary unaudited).

Does not include revenues from the 0.1% increase in the City's privilege license (sales) tax rate approved by City of Phoenix voters on September 7, 1999 and 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 revenues resulting from the increase totaled \$21.9 million in 2000-01, \$22.1 million in 2001-02, \$21.8 million in 2002-03, \$23.1 million in 2003-04 and \$25.4 million in 2004-05 (preliminary unaudited).

Does not include revenues from the 0.4% increase in the City's privilege license (sales) tax rate approved by City of Phoenix voters on March 14, 2000 and to be levied for a 20-year period. The revenues produced by the increase will 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 revenues resulting from the increase totaled \$85.6 million in 2000-01, \$88.0 million in 2001-02, \$87.1 million in 2002-03, \$92.3 million in 2003-04 and \$101.5 million in 2004-05 (preliminary unaudited).

(2) Effective October 1, 1990, a special excise tax was imposed on all water service accounts based upon water meter size. Revenues generated from the tax on water service accounts are used to fund a portion of the City's jail costs.

Effective October 1, 1993, a storm water management special excise tax was imposed on all water service accounts based upon water meter size. Revenues generated from this charge will be used to offset the estimated annual cost of the federally-mandated National Pollutant Discharge Elimination System Program.

(3) Due to a statewide citizens' initiative in 1972, the State shares a portion of income taxes received two years earlier with Arizona cities and towns. In 2003-04, the City of Phoenix shared in the income taxes received by the State during the 2001-02 severe economic downturn. As a result of the economic downturn, the City's state-shared income tax receipts decreased in 2003-04. For additional information on state-shared income taxes, see "EXCISE TAXES AND COVERAGE — State-Shared Income Taxes."

(4) Preliminary unaudited.

**SCHEDULE OF PROJECTED EXCISE TAX REVENUES,
DEBT SERVICE REQUIREMENTS AND PROJECTED DEBT SERVICE COVERAGE,
NET OF REQUIREMENTS PAID FROM AIRPORT REVENUES
AND SOLID WASTE REVENUES(1)**

Fiscal Year	Projected Excise Taxes Pledged	Outstanding Senior Lien Debt Service Net of Requirements Paid From Airport Revenues	Projected Revenues Available for Subordinated Junior Lien Obligations	Outstanding Subordinated Junior Lien Debt Service Requirements Net of Requirements Paid From Airport Revenues and Solid Waste Revenues (2)	Projected Coverage of Subordinated Junior Lien Debt Service Requirements
2006	\$766,832,000	\$ 13,943,759	\$752,888,241	\$ 36,300,080	20.74
2007	823,950,000	10,176,604	813,773,396	39,645,892	20.53
2008	880,607,000	10,171,603	870,435,397	39,198,432	22.21
2009	931,929,000	10,164,654	921,764,346	39,772,371	23.18
2010	986,405,000	10,172,015	976,232,985	38,238,983	25.53
2011		10,169,428		38,274,209	
2012		10,171,727		38,310,959	
2013		10,162,496		38,065,874	
2014		10,171,923		37,555,180	
2015		10,169,497		36,753,479	
2016		10,168,873		35,354,959	
2017		10,172,760		38,584,054	
2018		10,167,991		38,412,814	
2019		10,173,822		38,423,745	
2020		10,167,500		35,255,226	
2021		10,170,648		34,143,925	
2022		10,166,632		33,913,061	
2023		10,170,270		30,272,123	
2024		10,172,518		30,257,035	
2025		10,173,587		24,954,149	
2026		10,168,406		23,870,513	
2027		10,176,406		23,869,125	
2028		10,170,588		23,871,525	
2029		7,596,988		23,873,137	
2030		—		23,877,425	
2031		—		23,867,600	
2032		—		23,878,912	
2033		—		23,876,212	
2034		—		21,238,250	
2035		—		21,239,500	
2036		—		21,239,750	
2037		—		21,237,250	
2038		—		21,235,250	
2039		—		21,236,750	
2040		—		21,239,500	
2041		—		21,236,250	
		<u>\$245,290,695</u>		<u>\$1,082,573,499</u>	

- (1) Does not include debt service on an estimated \$350 million of bonds expected to be issued to fund construction of a hotel adjacent to Phoenix Civic Plaza and expected to be paid solely from hotel revenues. A portion of these bonds will be secured solely by hotel revenues while a portion is expected to be additionally secured by a junior lien pledge of a portion of Excise Taxes with respect to hotel and rental car activity.
- (2) Includes debt service on the 2005A Bonds delivered on September 13, 2005.

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APPENDIX D

CITY SALES TAXES 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 \$514,522,000 from all privilege license tax categories in fiscal year 2000-01, \$516,011,000 in fiscal year 2001-02, \$514,570,000 in fiscal year 2002-03 and \$543,709,000 in fiscal year 2003-04. The preliminary unaudited total for 2004-05 is \$593,436,000.

Privilege License Tax Rates by Category

Category	Rate(1)
Mining	0.1%
Advertising	0.5
Amusement	1.8
Contracting	1.8
Leasing/Rental of Tangible Personal Property	1.8
Printing	1.8
Publishing	1.8
Residential Real Estate Rentals	1.8
Restaurants and Bars	1.8
Retail	1.8(2)
Transportation	1.8
Commercial Real Estate Rentals	1.9
Utilities	2.7
Short-Term Car Rental	3.8
Telecommunications	4.7
Hotel/Motel	4.8
Jet Fuel	\$0.00732/gallon

(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, \$21.8 million in 2002-03 and \$23.1 million for 2003-04. The preliminary unaudited total for 2004-05 is \$25.3 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, \$21.8 million in 2002-03 and \$23.1 million for 2003-04. The preliminary unaudited total for 2004-05 is \$25.4 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 will 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, \$87.1 million in 2002-03 and \$92.3 million in 2003-04. The preliminary unaudited total for 2004-05 is \$101.5 million.

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

State Shared Revenues

The City received a total of \$392,170,000 in State-shared revenues in fiscal year 2000-01, \$393,746,000 in fiscal year 2001-02, \$403,705,000 in fiscal year 2002-03 and \$403,237,000 in fiscal year 2003-04. The preliminary unaudited total for 2004-05 is \$426,380,000.

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
2004-05 Preliminary Unaudited	\$123,788,000
2003-04	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

State Income Tax

For fiscal years 2002-03 and 2003-04, cities throughout Arizona shared 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. Cities will again share 15% of collections beginning in fiscal year 2004-05. 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 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 distributions are based on amounts collected for the fiscal year two years prior to the current fiscal year, the first decrease occurred in fiscal year 2000-01. The distribution to the City was estimated to decrease \$1.9 million in 2000-01 and \$3.5 million each year thereafter.

State Income Tax Receipts

Fiscal Year	Amount
2004-05 Preliminary Unaudited	\$121,440,000
2003-04	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

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 receive 19%, cities receive 27.5%, and cities with a population over 300,000 receive 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 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 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 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 \$83 million (\$55 million from the Highway User Revenue Fund and \$28 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 distribution to DPS was approximately \$79 million (\$49 million from the Highway User Revenue Fund and \$30 million from the State Highway Fund). For 2004-05, the estimated

distribution to DPS totals approximately \$85 million (\$52 million from the Highway User Revenue Fund and \$33 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
2004-05 Preliminary Unaudited	\$117,464,000	2004-05 Preliminary Unaudited	\$56,552,000
2003-04	111,757,000	2003-04	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

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 \$7,246,000 in 2003-04. The preliminary unaudited total for 2004-05 is \$7,136,000. The estimate for 2005-06 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, then-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, \$3,327,527 in 2004-05 and expects to receive \$1,200,000 in 2005-06.

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, Maricopa County held a special election 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.

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. 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. 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.

On Nov. 2, 2004 Maricopa County voters approved Proposition 400, which extends the County's one-half percent sales tax for transportation funding for an additional 20 years. The continuation of the countywide one-half percent sales tax will provide funding for freeways, streets, bus transit, rural transit, dial-a-ride, and light rail. Combined with projected federal matching funds, the tax is expected to provide \$5 billion for transit improvements over the life of the tax. It will support the creation of an integrated "supergrid" bus and dial-a-ride network that offers consistent service levels across the region; an expanded Express bus and bus rapid transit network that addresses both suburb-to-central-city and suburb-to-suburb commute trips; expansion of light rail transit; and associated capital investments, including new buses and Intelligent Transportation System improvements, as well as passenger and operations facilities. For 2005-06, the tax is expected to generate \$45.7 million with the funding being split \$25.9 million for bus operating and bus capital and \$19.8 million for light rail/high capacity transit capital.

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 system. 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 E

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, 2004, non-restricted carryforwards totalled \$388,708,736.

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.

The 2003-04 expenditure limit provided by the State of Arizona Economic Estimates Commission was \$1,001,653,252. The alternative expenditure limitation, approved by the voters on September 7, 1999, was equal to the City's annual budget of \$4,925,935,201. As a result of allowable exclusions and carryforwards from prior years, the amount of the 2003-04 budget subject to the limitation was \$1,316,649,199, or \$3,609,286,002 less than the alternative expenditure limitation.

APPENDIX F

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, 2004. 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 2003-04 were \$39,564,000, equivalent to 9.17% of the estimated annual active member payroll, compared with 6.86% in 2002-03. The annual active member covered payroll for the year ended June 30, 2004 was \$445,348,000.

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, 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, 2004, net assets available for benefits were less than the actuarial accrued liability by \$267,021,000, compared with a lack of \$173,541,000 at June 30, 2003. The total actuarial accrued liability increased \$180,670,000 from 2003 to 2004.

Rodwan Consulting Company, Actuaries & Consultants commented in their June 30, 2004 valuation report of the plan:

Overall experience of the Retirement Plan during the year ended June 30, 2004 was less favorable than expected based on long-term assumptions. The unfavorable experience was primarily attributable to investment income carry-forwards from prior years based on the smoothed market value of assets which produced a recognized return which was less than the long-term assumption. The rate of retirements also contributed to the unfavorable experience.

The accrued actuarial condition of the Retirement Plan is 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 8.75%. 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 5.25% 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 or plus a debit (spread over twenty years) for the amount by which the actuarial accrued liability exceeds the valuation assets. In 2003-04 the City's contribution amounted to 6.43% for police and 6.59% for fire.

For the year ended June 30, 2004, covered payroll was \$172,095,000 for police, and \$85,026,000, for fire.

The actuarial accrued liability of the Plan is measured in accordance with the requirements of Governmental Accounting Standards Board Statement No. 25 and No. 27. For police, net assets available for benefits were less than the actuarial accrued liability as of June 30, 2004 and June 30, 2003 by \$102,758,000 and \$316,000, respectively.

For fire, net assets available for benefits were less than the actuarial accrued liability as of June 30, 2004 by \$38,649,000 and for June 30, 2003 exceeded the actuarial accrued liability by \$7,987,000.

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, 13.49% for the year ended June 30, 2004, to fully fund benefits for active members. Total contributions for the fiscal year ended June 30, 2004 were \$87,000, which consisted of \$57,000 from the City and \$30,000 from members.

APPENDIX G

**CITY OF PHOENIX, ARIZONA
AUDITED FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004**

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**City of Phoenix
Audited Financial Statements
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KPMG LLP
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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, 2004, which collectively comprise the City's basic financial statements. 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, 2004, 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 also issue a report dated December 10, 2004 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 G-6 through G-14 and G-70 through G-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 fund financial statements and other supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements 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 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 10, 2004

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, 2004.

FINANCIAL HIGHLIGHTS

- The total assets of the City exceeded its total liabilities at the close of the fiscal year by \$5.5 billion (net assets). Of this amount, \$861.4 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 \$467.8 million.
- As of the close of the fiscal year, the City's Governmental Funds reported combined ending fund balances of \$1.12 billion, an increase of \$66.2 million from last fiscal year. Approximately 47.6 percent of this amount, or \$532.2 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 \$240.7 million, or 79.3 percent of the total general fund balance of \$303.7 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. 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 G-15 of this report. Summarized versions of these statements are included in this MD&A and can be found on pages G-7 and G-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, community enrichment, community development and environmental services. 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, 2004. 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 \$5.5 billion at the close of the fiscal year.

The largest portion of the City's net assets (\$3.9 billion or 72.0 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.

	Governmental Activities		Business-Type Activities		Total Government	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 1,379,340	\$ 1,277,175	\$ 1,953,041	\$ 1,659,337	\$ 3,332,381	\$ 2,936,512
Capital assets	<u>3,137,875</u>	<u>2,810,199</u>	<u>3,868,650</u>	<u>3,569,824</u>	<u>7,006,525</u>	<u>6,380,023</u>
Total assets	<u>4,517,215</u>	<u>4,087,374</u>	<u>5,821,691</u>	<u>5,229,161</u>	<u>10,338,906</u>	<u>9,316,535</u>
Other Liabilities	145,193	119,282	406,454	238,633	551,647	357,915
Long-term liabilities outstanding	<u>1,798,181</u>	<u>1,633,967</u>	<u>2,484,442</u>	<u>2,287,819</u>	<u>4,282,623</u>	<u>3,921,786</u>
Total liabilities	<u>1,943,374</u>	<u>1,753,249</u>	<u>2,890,896</u>	<u>2,526,452</u>	<u>4,834,270</u>	<u>4,279,701</u>
Net assets:						
Invested in capital assets, net of related debt	1,737,512	1,574,940	2,149,567	2,009,693	3,887,079	3,584,633
Restricted	719,892	618,268	36,293	36,232	756,185	654,500
Unrestricted	<u>116,437</u>	<u>140,917</u>	<u>744,935</u>	<u>656,784</u>	<u>861,372</u>	<u>797,701</u>
Total net assets	<u>\$ 2,573,841</u>	<u>\$ 2,334,125</u>	<u>\$ 2,930,795</u>	<u>\$ 2,702,709</u>	<u>\$ 5,504,636</u>	<u>\$ 5,036,834</u>

The *restricted* portion of the City's net assets (\$756.2 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance, or the *unrestricted net assets* (\$861.4 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, 2004, was \$7.0 billion, net of accumulated depreciation. This represents an increase from the prior fiscal year of \$626.5 million, an increase of \$327.7 million for Governmental Activities and \$298.8 million for Business-Type Activities.

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

- Various street and storm sewer projects throughout the City valued at \$82.7 million.
- Land acquisition, design and construction related to the Light Rail project valued at \$60.7 million.
- Construction of the Sky Harbor Airport Consolidated Rental Car Facility valued at \$47.0 million.
- Design and construction at the Union Hills and Lake Pleasant water treatment plants valued at \$40.8 million.
- New and Replacement water mains throughout the City valued at \$39.4 million.
- Expansion and improvements at Sky Harbor Airport Terminal 4 valued at \$36.0 million.
- New public transit buses valued at \$25.1 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	
	2004	2003	2004	2003	2004	2003
Buildings	\$ 512,422	\$ 508,145	\$ 518,631	\$ 523,257	\$ 1,031,053	\$ 1,031,402
Improvements	146,438	110,041	1,328,047	1,192,414	1,474,485	1,302,455
Equipment	223,719	206,813	183,838	169,991	407,557	376,804
Artwork	8,647	8,647	3,187	3,100	11,834	11,747
Land	539,214	472,424	458,071	367,918	997,285	840,342
Infrastructure	1,234,996	1,134,420	664,204	582,845	1,899,200	1,717,265
Construction-in-Progress	472,439	369,709	712,672	730,299	1,185,111	1,100,008
Total	\$ 3,137,875	\$ 2,810,199	\$ 3,868,650	\$ 3,569,824	\$ 7,006,525	\$ 6,380,023

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 \$4.3 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 \$1.1 billion, while municipal corporation obligations account for \$2.3 billion of the total. Revenue bonds total \$224.2 million and an additional \$4.6 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, 2004 was \$529.0 million in the 6% capacity and \$1.35 billion in the 20% capacity. Additional information regarding the debt limitations and capacities can be found in Note 11 on page G-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	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 830,779	\$ 665,303	\$ 272,016	\$ 304,763	\$ 1,102,795	\$ 970,066
Revenue bonds	182,974	201,077	41,240	54,950	224,214	256,027
Certificates of Participation	20,455	20,455	-	-	20,455	20,455
Municipal Corporation						
Obligations	337,364	325,234	1,974,275	1,736,240	2,311,639	2,061,474
Special assessment bonds	4,610	6,102	-	-	4,610	6,102
Insurance claims payable	167,453	194,100	-	-	167,453	194,100
Compensated absences	139,246	137,433	16,424	16,024	155,670	153,457
Landfill Closure/Post-						
closure costs	-	-	31,874	27,837	31,874	27,837
Other	115,300	84,263	148,613	148,005	263,913	232,268
Total	<u>\$ 1,798,181</u>	<u>\$ 1,633,967</u>	<u>\$ 2,484,442</u>	<u>\$ 2,287,819</u>	<u>\$ 4,282,623</u>	<u>\$ 3,921,786</u>

The City's total long-term obligations increased by \$360.8 million during the fiscal year just ended, which represents an increase of 9.2 percent. During the fiscal year, the City sold \$200 million in Various Purpose General Obligation Bonds, Series 2004. The City also refunded \$50.4 million of outstanding general obligation bonds with the issuance of \$50.9 million General Obligation Refunding Bonds, Series 2004. The Civic Improvement Corporation long term debt obligation was increased by the May 2004 sale of \$260.0 million Rental Car Facility Charge Revenue Bonds, Taxable Series 2004; and the June 2004 sale of \$22.0 million Subordinated Excise Tax Revenue Bonds, Series 2004. The City also refunded \$10 million of water system revenue bonds with the issuance of \$11.3 million Junior Lien Water System Revenue Refunding Bonds, Series 2003; and refunded \$4.9 million of outstanding subordinated excise tax revenue bonds with the issuance of \$5.7 million Subordinated Excise Tax Revenue Refunding Bonds, Series 2004.

The City maintains the following ratings on its general obligation debt: "AA+" from Standard and Poor's (S&P) and "Aa1" from Moody's. Both S&P and Moody's listed the City's outlook as "Stable", and noted well-managed financial operations, strong fund balances and reserves, and a moderate but manageable debt burden as the rationale for these ratings.

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.

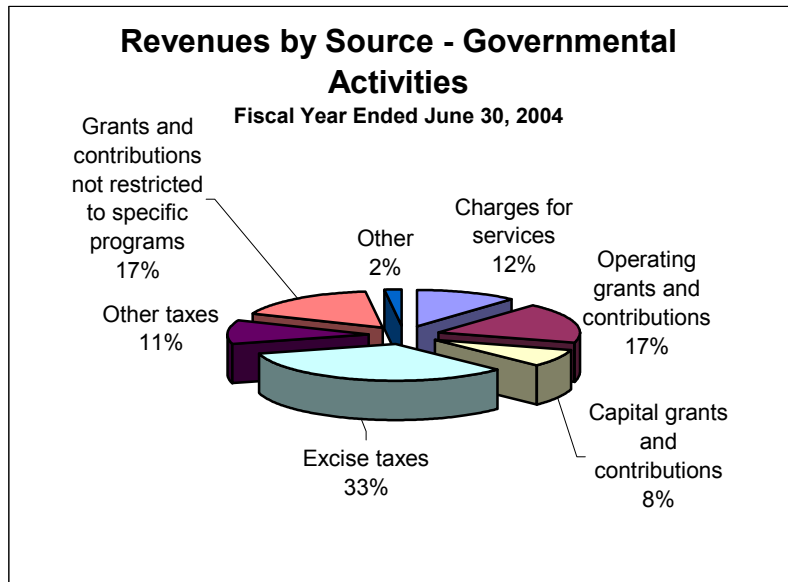
Changes in Net Assets. Detail of the following summarized information can be found in the Statement of Activities.

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

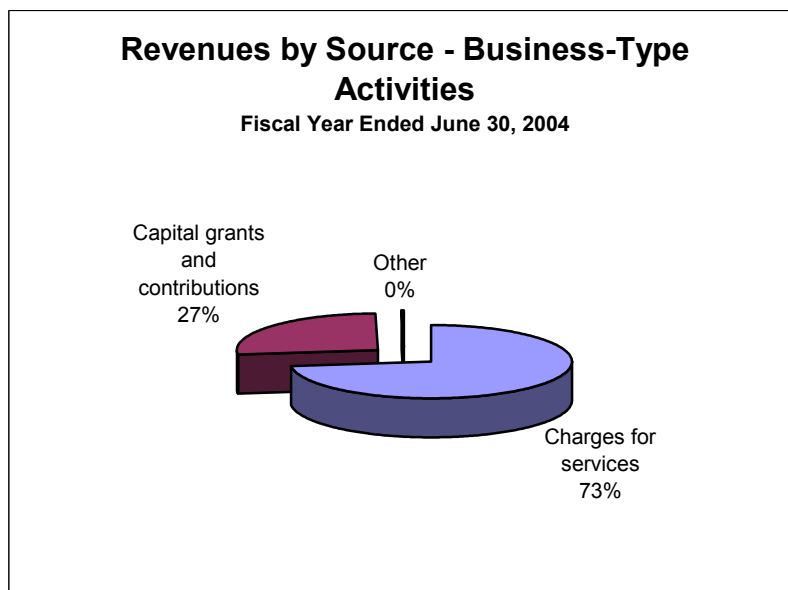
	Governmental Activities		Business-Type Activities		Total Government	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues						
Charges for services	\$ 187,402	\$ 172,047	\$ 667,995	\$ 638,235	\$ 855,397	\$ 810,282
Grants and contributions						
Operating	287,534	267,731	-	-	287,534	267,731
Capital	126,272	51,596	245,792	232,511	372,064	284,107
General revenues						
Excise taxes	543,709	514,570	-	-	543,709	514,570
Other taxes	172,455	170,480	-	-	172,455	170,480
Grants/contrib. not restricted to specific programs						
Other	271,298	306,175	-	-	271,298	306,175
Other	29,934	88,430	(1,603)	5,355	28,331	93,785
Total revenues	1,618,604	1,571,029	912,184	876,101	2,530,788	2,447,130
Expenses						
General government	74,749	63,728	-	-	74,749	63,728
Criminal justice	31,768	34,903	-	-	31,768	34,903
Public safety	537,018	510,923	-	-	537,018	510,923
Transportation	250,951	218,055	-	-	250,951	218,055
Public works	30,035	24,091	-	-	30,035	24,091
Community enrichment	211,238	198,131	-	-	211,238	198,131
Community development	156,389	148,962	-	-	156,389	148,962
Interest on long-term debt	64,531	60,370	-	-	64,531	60,370
Aviation	-	-	228,891	210,773	228,891	210,773
Phoenix Civic Plaza	-	-	46,687	48,142	46,687	48,142
Water services	-	-	210,114	206,673	210,114	206,673
Wastewater services	-	-	120,966	111,124	120,966	111,124
Solid waste	-	-	92,565	84,030	92,565	84,030
Golf courses	-	-	7,084	7,632	7,084	7,632
Total expenses	1,356,679	1,259,163	706,307	668,374	2,062,986	1,927,537
Increase in net assets						
before transfers	261,925	311,866	205,877	207,727	467,802	519,593
Transfers	(22,209)	(35,895)	22,209	35,895	-	-
Increase in net assets	239,716	275,971	228,086	243,622	467,802	519,593
Net Assets - July 1	2,334,125	2,058,154	2,702,709	2,459,087	5,036,834	4,517,241
Net Assets - June 30	\$ 2,573,841	\$ 2,334,125	\$ 2,930,795	\$ 2,702,709	\$ 5,504,636	\$ 5,036,834

As can be seen, Governmental Activities increased the City's net assets by \$239.7 million, thereby accounting for 51.2 percent of the total growth in the net assets of the City. Business-Type Activities increased the City's net assets by \$228.1 million, or 48.8 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 G-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 G-19 and G-21 to account for the differences 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 G-22 and the Excise Tax Special Revenue Fund on page G-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 G-24 through G-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 G-76 and G-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, 2004
(in thousands)

	Fund Balances July 1, 2003	Net Change in Fund Balances	Fund Balances June 30, 2004
General	\$ 334,458	\$ (30,754)	\$ 303,704
Excise Tax	-	-	-
Nonmajor Governmental	717,308	96,967	814,275
Total	<u>\$ 1,051,766</u>	<u>\$ 66,213</u>	<u>\$ 1,117,979</u>

As shown in the above table, at the end of the fiscal year, the City's Governmental Funds reported combined ending fund balances of \$1.12 billion, an increase of \$66.2 million from last fiscal year. Of the total governmental funds combined ending balances, approximately 47.3 percent of this amount, or \$528.9 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 (\$224.8 million), 2) to pay debt service (\$347.5 million), 3) to pay for supply inventories (\$13.5 million), and 4) to pay for prepaid items (\$3.2 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 decreased by \$30.7 million. This decrease in fund balance was primarily due to an increase over the prior year in Public Safety expenditures, which includes the cost of providing both Police and Fire protection for the City. 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 G-22 and G-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, 2004, was a \$600 thousand increase in public safety 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 \$778.4 million. The actual general fund expenditures for the fiscal year ended June 30, 2004 were \$731.5 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, 2004
(in thousands)

	Net Assets July 1, 2003	Change in Net Assets	Net Assets June 30, 2004
Aviation	\$ 1,202,307	\$ 115,821	\$ 1,318,128
Phoenix Civic Plaza	163,915	8,244	172,159
Water System	885,680	62,523	948,203
Wastewater	450,610	38,756	489,366
Solid Waste	(6,443)	3,647	(2,796)
Golf Courses	6,640	(905)	5,735
Total	\$ 2,702,709	\$ 228,086	\$ 2,930,795

As shown in the table, Net Assets for the Enterprise Funds increased in total by \$228.1 million during the fiscal year. The Aviation and Water System comprised the majority of this total with increases of \$115.8 million and \$62.5 million respectively (78.2 percent). The Aviation and Water System Funds also comprise 77.3 percent (\$1.3 billion and \$948.2 million respectively) of the total Enterprise Fund Net Assets at June 30, 2004.

3. Basic Financial Statements - Notes to the Financial Statements

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 G-32 of this report.

ECONOMIC FACTORS

- The seasonally adjusted unemployment rate in the Phoenix-Mesa metropolitan area as of June 2004 registered 4.2% versus 4.7% for Arizona and 5.6% for the U.S. In 2003, the unemployment rates were 5.0% in the Phoenix-Mesa area, 5.6% for Arizona and 6.0% 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%, 10.9% 3.8% and 3.0% respectively in 1999, 2000, 2001 and 2002 (the latest official statistics available).
- The 2004-05 total secondary assessed valuation is \$10.5 billion and includes \$338 million in new construction being added to the rolls. This represents growth of 7.1% over 2003-04 values. The City's property tax rate for 2004-05 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 Chief Financial Officer, 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, 2004
(in thousands)

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Equity in Pooled Cash and Investments	\$ 543,729	\$ 239,047	\$ 782,776
Cash Deposits	1,265	126	1,391
Cash and Securities with Fiscal Agents/Trustees	93,909	-	93,909
Investments	526,960	10,325	537,285
Internal Balances	150	(150)	-
Receivables, Net of Allowances	196,592	63,947	260,539
Prepaid Items	3,244	4,821	8,065
Inventories	13,491	4,159	17,650
Restricted Assets	-	1,211,908	1,211,908
Capital Assets, at Cost			
Non-depreciable	1,363,710	1,173,930	2,537,640
Depreciable (net)	1,774,165	2,694,720	4,468,885
Excess of Cost Over Net Assets Acquired, Net of Accumulated Amortization	-	115	115
Water Rights, Net of Accumulated Amortization	-	32,693	32,693
Investment in Joint Use Agreement	-	386,050	386,050
Total Assets	<u>4,517,215</u>	<u>5,821,691</u>	<u>10,338,906</u>
LIABILITIES			
Warrants and Accounts Payable	103,881	35,579	139,460
Trust Liabilities and Deposits	41,312	159	41,471
Deferred Revenue	-	4,016	4,016
Liabilities Payable from Restricted Assets	-	366,343	366,343
Utility Repayment Agreements	-	357	357
Noncurrent Liabilities			
Due Within One Year			
Current Portion of Insurance Claims Payable	55,434	-	55,434
Current Portion of Accrued Compensated Absences	12,897	1,864	14,761
Current Portion of Accrued Landfill Postclosure Care Costs	-	1,422	1,422
Matured Bonds and Certificates Payable	58,717	73,869	132,586
Interest Payable	32,402	56,897	89,299
Current Portion of General Obligation Bonds	31,566	24,820	56,386
Current Portion of Revenue Bonds	18,160	3,925	22,085
Current Portion of Certificates of Participation	480	-	480
Current Portion of Municipal Corporation Obligations	10,986	46,354	57,340
Current Portion of Special Assessment Bonds	1,511	-	1,511
Due in More Than One Year			
Insurance Claims Payable	112,019	-	112,019
Accrued Compensated Absences	126,349	14,560	140,909
General Obligation Bonds	799,213	247,196	1,046,409
Revenue Bonds	164,814	37,315	202,129
Certificates of Participation	19,975	-	19,975
Municipal Corporation Obligations	326,378	1,927,921	2,254,299
Special Assessment Bonds	3,099	-	3,099
Unamortized Premium/(Discount)	24,181	11,332	35,513
Capital Leases	-	1,798	1,798
Utility Repayment Agreements	-	4,717	4,717
Accrued Landfill Closure and Postclosure Care Costs	-	30,452	30,452
Total Liabilities	<u>1,943,374</u>	<u>2,890,896</u>	<u>4,834,270</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,737,512	2,149,567	3,887,079
Restricted For:			
Capital Projects	76,949	-	76,949
Debt Service	347,461	36,293	383,754
Other Purposes	295,482	-	295,482
Unrestricted	116,437	744,935	861,372
Total Net Assets	<u>\$ 2,573,841</u>	<u>\$ 2,930,795</u>	<u>\$ 5,504,636</u>

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, 2004
(in thousands)

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Functions/Programs				
Governmental Activities				
General Government	\$ 74,749	\$ 13,849	\$ 1,324	\$ -
Criminal Justice	31,768	19,434	14	-
Public Safety	537,018	34,069	11,300	2,757
Transportation	250,951	24,242	138,664	118,707
Environmental Services	30,035	694	6	-
Community Enrichment	211,238	6,857	53,233	665
Community Development	156,389	88,257	82,993	4,143
Interest on Long-Term Debt	64,531	-	-	-
Total Governmental Activities	<u>1,356,679</u>	<u>187,402</u>	<u>287,534</u>	<u>126,272</u>
Business-Type Activities				
Aviation	228,891	213,671	-	135,170
Phoenix Civic Plaza	46,687	10,054	-	4,398
Water Services	210,114	224,150	-	55,158
Wastewater Services	120,966	114,946	-	50,099
Solid Waste	92,565	98,995	-	967
Golf Courses	7,084	6,179	-	-
Total Business-Type Activities	<u>706,307</u>	<u>667,995</u>	<u>-</u>	<u>245,792</u>
Total Primary Government	<u>\$ 2,062,986</u>	<u>\$ 855,397</u>	<u>\$ 287,534</u>	<u>\$ 372,064</u>
General Revenues (Expenses)				
Taxes				
Excise Taxes				
Property Taxes, Levied for General Purposes				
Property Taxes, Levied for Debt Service				
In-Lieu Property Taxes				
Grants and Contributions Not Restricted to Specific Programs				
Investment Earnings, Net				
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
\$ (59,576)	\$ -	\$ (59,576)
(12,320)	-	(12,320)
(488,892)	-	(488,892)
30,662	-	30,662
(29,335)	-	(29,335)
(150,483)	-	(150,483)
19,004	-	19,004
(64,531)	-	(64,531)
<u>(755,471)</u>	<u>-</u>	<u>(755,471)</u>
-	119,950	119,950
-	(32,235)	(32,235)
-	69,194	69,194
-	44,079	44,079
-	7,397	7,397
-	(905)	(905)
<u>-</u>	<u>207,480</u>	<u>207,480</u>
<u>(755,471)</u>	<u>207,480</u>	<u>(547,991)</u>
543,709	-	543,709
76,708	-	76,708
94,476	-	94,476
1,271	-	1,271
271,298	-	271,298
3,800	(1,603)	2,197
26,134	-	26,134
(22,209)	22,209	-
<u>995,187</u>	<u>20,606</u>	<u>1,015,793</u>
<u>239,716</u>	<u>228,086</u>	<u>467,802</u>
2,334,125	2,702,709	5,036,834
<u>\$ 2,573,841</u>	<u>\$ 2,930,795</u>	<u>\$ 5,504,636</u>

City of Phoenix, Arizona
Fund Financial Statements
Balance Sheet
Governmental Funds

June 30, 2004
(in thousands)

	General	Excise Tax	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Equity in Pooled Cash and Investments	\$ 84,547	\$ -	\$ 459,182	\$ 543,729
Cash Deposits	912	-	353	1,265
Cash and Securities with Fiscal Agents/Trustees	-	-	93,909	93,909
Investments	5,540	-	521,420	526,960
Due from Other Funds	227,583	-	4,809	232,392
Receivables, Net of Allowance				
Accounts Receivable	16,618	-	12,049	28,667
Taxes Receivable	7,012	52,273	2,090	61,375
Delinquent Taxes Receivable	2,087	-	2,606	4,693
Intergovernmental	612	19,262	64,216	84,090
Accrued Interest	45	-	1,618	1,663
Notes Receivable	-	-	16,104	16,104
Prepaid Items	123	-	3,121	3,244
Inventories	10,164	-	3,327	13,491
Total Assets	<u>\$ 355,243</u>	<u>\$ 71,535</u>	<u>\$ 1,184,804</u>	<u>\$ 1,611,582</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Due to Other Funds	\$ -	\$ 71,493	\$ 160,749	\$ 232,242
Warrants and Accounts Payable	37,093	42	66,746	103,881
Insurance Claims Payable	40	-	-	40
Trust Liabilities and Deposits	10,449	-	30,863	41,312
Matured Bonds Payable	-	-	58,717	58,717
Interest Payable	-	-	32,402	32,402
Deferred Revenue	3,957	-	21,052	25,009
Total Liabilities	<u>51,539</u>	<u>71,535</u>	<u>370,529</u>	<u>493,603</u>
Fund Balances				
Reserved for				
Encumbrances	10,956	-	213,883	224,839
Debt Service	41,749	-	305,712	347,461
Inventories	10,164	-	3,327	13,491
Prepaid Items	123	-	3,121	3,244
Unreserved				
Designated for Insurance Claims, reported in:				
General Fund	172,812	-	-	172,812
Special Revenue Funds	-	-	4,329	4,329
Designated for Unrealized Gain on Investments, reported in:				
General Fund	4,646	-	-	4,646
Special Revenue Funds	-	-	2,645	2,645
Capital Projects Funds	-	-	82	82
Debt Service Funds	-	-	890	890
Undesignated, reported in:				
General Fund	63,254	-	-	63,254
Special Revenue Funds	-	-	358,117	358,117
Capital Projects Funds	-	-	(77,831)	(77,831)
Total Fund Balances	<u>303,704</u>	<u>-</u>	<u>814,275</u>	<u>1,117,979</u>
Total Liabilities and Fund Balances	<u>\$ 355,243</u>	<u>\$ 71,535</u>	<u>\$ 1,184,804</u>	<u>\$ 1,611,582</u>

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, 2004
(in thousands)

Fund balances - total governmental funds balance sheet \$ 1,117,979

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	4,082,176	
Accumulated depreciation	<u>(944,301)</u>	
		3,137,875

Other assets used in governmental activities are not available to pay for current period expenditures and, therefore, are deferred in the funds. 25,009

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	(1,400,363)	
Compensated absences	(139,246)	
Insurance claims payable	<u>(167,413)</u>	
		(1,707,022)

Net assets of governmental activities - statement of net assets \$ 2,573,841

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, 2004
(in thousands)

	General	Excise Tax	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
City Taxes	\$ 71,927	\$ 543,709	\$ 101,316	\$ 716,952
Licenses and Permits	2,414	2,650	8,211	13,275
Intergovernmental	55,365	230,712	364,438	650,515
Charges for Services	38,724	-	104,343	143,067
Fines and Forfeitures	16,892	-	-	16,892
Parks and Recreation	-	-	5,976	5,976
Special Assessments	-	-	1,641	1,641
Investment Income				
Net Decrease in Fair Value of Investments	(16,536)	-	(16,053)	(32,589)
Interest	16,800	-	19,589	36,389
Dwelling Rentals	-	-	6,488	6,488
Other	12,964	-	13,191	26,155
Total Revenues	<u>198,550</u>	<u>777,071</u>	<u>609,140</u>	<u>1,584,761</u>
EXPENDITURES				
Current Operating				
General Government	53,314	-	6,329	59,643
Criminal Justice	29,857	-	330	30,187
Public Safety	509,197	-	17,404	526,601
Transportation	54,929	-	121,189	176,118
Community Enrichment	27,576	-	159,955	187,531
Community Development	24,944	-	123,861	148,805
Environmental Services	21,056	-	50	21,106
Capital	2,580	-	444,340	446,920
Debt Service				
Principal	-	-	61,325	61,325
Interest	-	-	61,828	61,828
Bond Issuance Costs	-	-	742	742
Arbitrage Rebate and Fiscal Agent Fees	-	-	34	34
Other	-	-	1,927	1,927
Total Expenditures	<u>723,453</u>	<u>-</u>	<u>999,314</u>	<u>1,722,767</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(524,903)</u>	<u>777,071</u>	<u>(390,174)</u>	<u>(138,006)</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	592,754	-	344,287	937,041
Transfers to Other Funds	(98,605)	(777,071)	(83,574)	(959,250)
Proceeds				
General Obligation and Revenue Bonds	-	-	200,000	200,000
Premium on General Obligation and Revenue Bonds	-	-	8,599	8,599
Certificates of Participation and Municipal Corporation Obligations	-	-	20,000	20,000
Premium on Certificates of Participation and Municipal Corporation Obligations	-	-	1,311	1,311
Refunding Bonds	-	-	42,020	42,020
Deposit to Refunding Escrow	-	-	(45,502)	(45,502)
Total Other Financing Sources and Uses	<u>494,149</u>	<u>(777,071)</u>	<u>487,141</u>	<u>204,219</u>
Net Change in Fund Balances	<u>(30,754)</u>	<u>-</u>	<u>96,967</u>	<u>66,213</u>
FUND BALANCES, JULY 1	<u>334,458</u>	<u>-</u>	<u>717,308</u>	<u>1,051,766</u>
FUND BALANCES, JUNE 30	<u>\$ 303,704</u>	<u>\$ -</u>	<u>\$ 814,275</u>	<u>\$ 1,117,979</u>

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, 2004
(in thousands)

Net change in fund balances - total governmental funds \$ 66,213

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 and contributions (\$430,576) exceeded depreciation (\$98,688) and loss on disposals of capital assets (\$4,213) in the current period. 327,675

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (13,884)

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 (\$271,930) exceeded repayments and amounts refunded (\$106,827). (165,103)

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 (\$1,813 compensated absences and (\$26,628) insurance claims). 24,815

Change in net assets of governmental activities - statement of activities \$ 239,716

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, 2004
(in thousands)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
City Taxes	\$ 72,156	\$ 72,156	\$ 71,927	\$ (229)
Licenses and Permits	2,215	2,215	2,414	199
Intergovernmental	55,701	55,701	55,365	(336)
Charges for Services	38,840	38,840	38,724	(116)
Fines and Forfeitures	16,440	16,440	16,896	456
Interest	6,480	6,480	4,100	(2,380)
Miscellaneous	11,402	11,402	12,030	628
Total Revenues	<u>203,234</u>	<u>203,234</u>	<u>201,456</u>	<u>(1,778)</u>
EXPENDITURES AND ENCUMBRANCES				
Current Operating				
General Government	86,471	86,471	78,150	8,321
Criminal Justice	31,845	31,845	30,947	898
Public Safety	502,142	502,742	500,614	2,128
Transportation	51,847	51,847	50,253	1,594
Community Enrichment	27,355	27,355	25,912	1,443
Community Development	29,636	29,636	24,916	4,720
Environmental Services	21,383	21,383	19,647	1,736
Capital	3,293	3,293	189	3,104
Lease-Purchase Payments	1,106	1,106	839	267
Contingency	22,700	22,700	-	22,700
Total Expenditures and Encumbrances	<u>777,778</u>	<u>778,378</u>	<u>731,467</u>	<u>46,911</u>
Excess (Deficiency) of Revenues Over Expenditures and Encumbrances	(574,544)	(575,144)	(530,011)	45,133
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds				
Staff and Administrative	24,848	24,848	24,226	(622)
In-Lieu Property Taxes	14,624	14,624	14,071	(553)
Miscellaneous	578,003	578,003	577,662	(341)
Transfers to Other Funds	(103,138)	(103,138)	(97,047)	6,091
Recovery of Prior Years Expenditures	-	-	1,137	1,137
Total Other Financing Sources and Uses	<u>514,337</u>	<u>514,337</u>	<u>520,049</u>	<u>5,712</u>
Net Change in Fund Balance	<u>\$ (60,207)</u>	<u>\$ (60,807)</u>	<u>(9,962)</u>	<u>\$ 50,845</u>
Fund Balance, July 1			<u>63,166</u>	
Fund Balance, June 30			<u>\$ 53,204</u>	

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, 2004
(in thousands)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
City Taxes	\$ 548,323	\$ 548,323	\$ 543,709	\$ (4,614)
Licenses and Permits	2,565	2,565	2,650	85
Intergovernmental	227,055	227,055	230,712	3,657
Total Revenues	<u>777,943</u>	<u>777,943</u>	<u>777,071</u>	<u>(872)</u>
OTHER FINANCING USES				
Transfers to Other Funds				
General Fund	(575,816)	(575,816)	(574,322)	1,494
Transit	(93,211)	(93,211)	(92,349)	862
Parks and Preserves	(23,304)	(23,304)	(23,074)	230
Sports Facilities	(12,779)	(12,779)	(12,577)	202
Capital Construction	(18,300)	(18,300)	(17,196)	1,104
City Improvement	(16,334)	(16,334)	(17,231)	(897)
Phoenix Civic Plaza	(38,199)	(38,199)	(40,322)	(2,123)
Total Other Financing Sources and Uses	<u>(777,943)</u>	<u>(777,943)</u>	<u>(777,071)</u>	<u>872</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balance, July 1			-	
Fund Balance, June 30			<u>\$ -</u>	

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, 2004

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

	<u>Aviation</u>	<u>Phoenix Civic Plaza</u>
<u>ASSETS</u>		
Current Assets		
Equity in Pooled Cash and Investments	\$ 60,569	\$ 25,800
Investments	-	-
Receivables, Net of Allowances	3,669	4
Prepaid Items	1,190	-
Cash Deposits	126	-
Inventories, at Average Cost	1,051	162
Total Unrestricted Current Assets	66,605	25,966
Restricted Assets		
Equity in Pooled Cash and Investments	222,616	-
Cash Deposits	-	660
Cash and Securities with Fiscal Agents/Trustees	51,509	6,945
Investments	498,787	8,044
Due from Other Funds	-	-
Receivables, Net of Allowances	26,567	584
Total Restricted Current Assets	799,479	16,233
Noncurrent Assets		
Capital Assets, at Cost, Net of Accumulated Depreciation	1,510,945	223,811
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	1,510,945	223,811
Total Assets	2,377,029	266,010
<u>LIABILITIES</u>		
Current Liabilities Payable from Current Assets		
Warrants and Accounts Payable	9,793	941
Due to Other Funds	-	-
Trust Liabilities and Deposits	155	-
Utility Repayment Agreements	-	-
Deferred Revenue	3,948	-
Accrued Landfill Postclosure Care Costs	-	-
Current Portion of Accrued Compensated Absences	500	159
Total Current Liabilities Payable from Current Assets	14,396	1,100
Current Liabilities Payable from Restricted Assets		
Warrants and Accounts Payable	28,600	1,948
Due to Other Funds	-	-
Trust Liabilities and Deposits	-	660
Bond Anticipation Notes Payable	-	-
Matured Bonds and Certificates Payable	17,160	4,265
Interest Payable	20,207	2,681
Current Portion of General Obligation Bonds	3,230	-
Current Portion of Revenue Bonds	3,925	-
Current Portion of Municipal Corporation Obligations	13,860	4,515
Accrued Landfill Closure Costs	-	-
Total Current Liabilities Payable from Restricted Assets	86,982	14,069
Noncurrent Liabilities		
General Obligation Bonds, Net of Deferred Interest Expense Adjustment	22,562	-
Revenue Bonds, Net of Deferred Interest Expense Adjustment	37,315	-
Municipal Corporation Obligations, Net of Deferred Interest Expense Adjustment	891,242	77,650
Unamortized Premium (Discount)	680	(172)
Capital Leases	1,798	-
Utility Repayment Agreements	-	-
Rebatable Arbitrage	-	-
Accrued Landfill Closure and Postclosure Care Costs	-	-
Accrued Compensated Absences	3,926	1,204
Total Noncurrent Liabilities	957,523	78,682
Total Liabilities	1,058,901	93,851
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	991,343	142,521
Restricted for Debt Service	29,095	3,145
Unrestricted	297,690	26,493
Total Net Assets (Deficiencies)	\$ 1,318,128	\$ 172,159

The accompanying notes are an integral part of these financial statements

(Continued)

Water System	Wastewater	Solid Waste	Golf Courses	Totals	
				2004	2003
\$ 99,003	\$ 30,579	\$ 23,008	\$ 88	\$ 239,047	\$ 265,634
10,145	-	-	180	10,325	10,205
38,386	13,938	7,947	3	63,947	58,160
3,631	-	-	-	4,821	4,444
-	-	-	-	126	129
2,227	613	-	106	4,159	4,099
153,392	45,130	30,955	377	322,425	342,671
56,620	64,116	12,879	-	356,231	318,107
5,874	215	54	-	6,803	6,975
43,441	28,299	12,087	-	142,281	125,576
106,823	5,582	58,751	1,085	679,072	483,165
-	-	-	-	-	1,190
312	58	-	-	27,521	14,907
213,070	98,270	83,771	1,085	1,211,908	949,920
1,343,496	704,804	70,786	14,808	3,868,650	3,569,824
115	-	-	-	115	136
32,693	-	-	-	32,693	32,615
99,012	287,038	-	-	386,050	335,242
1,475,316	991,842	70,786	14,808	4,287,508	3,937,817
1,841,778	1,135,242	185,512	16,270	5,821,841	5,230,408
14,984	5,845	3,971	45	35,579	30,664
-	-	-	-	-	48
-	-	-	4	159	161
-	357	-	-	357	639
41	-	-	27	4,016	4,277
-	-	1,422	-	1,422	1,090
792	181	180	52	1,864	1,910
15,817	6,383	5,573	128	43,397	38,789
20,023	9,218	1,559	18	61,366	35,383
-	-	-	150	150	1,199
1,821	215	54	-	2,750	2,980
200,000	100,000	-	-	300,000	160,000
26,636	17,005	8,803	-	73,869	72,094
17,202	13,501	3,284	22	56,897	55,845
9,673	7,232	4,685	-	24,820	33,277
-	-	-	-	3,925	3,710
8,815	14,495	4,669	-	46,354	38,390
-	-	2,227	-	2,227	4,529
284,170	161,666	25,281	190	572,358	407,407
120,517	64,521	39,596	-	247,196	271,486
-	-	-	-	37,315	51,240
460,297	408,983	80,080	9,669	1,927,921	1,697,850
6,604	(1,843)	5,899	164	11,332	12,172
-	-	-	-	1,798	2,252
-	4,717	-	-	4,717	5,132
-	-	-	-	-	510
-	-	30,452	-	30,452	26,747
6,170	1,449	1,427	384	14,560	14,114
593,588	477,827	157,454	10,217	2,275,291	2,081,503
893,575	645,876	188,308	10,535	2,891,046	2,527,699
663,492	351,159	(4,881)	5,933	2,149,567	1,954,784
4,053	-	-	-	36,293	36,232
280,658	138,207	2,085	(198)	744,935	711,693
\$ 948,203	\$ 489,366	\$ (2,796)	\$ 5,735	\$ 2,930,795	\$ 2,702,709

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, 2004
with comparative totals for June 30, 2003
(in thousands)

	Aviation	Phoenix Civic Plaza
Operating Revenues		
Landing and Terminals Fees	\$ 117,070	\$ -
Sales	-	-
Rentals	78,425	2,182
Sewer Service Charges	-	-
Sanitation and Landfill Fees	-	-
Golf Fees	-	-
Concessions	-	6,683
Other	17,777	1,176
Total Operating Revenues	<u>213,272</u>	<u>10,041</u>
Operating Expenses		
Administration and Engineering	-	8,908
Operation and Maintenance	137,744	17,717
Promotion	-	756
Depreciation and Amortization	58,455	10,044
Staff and Administrative	5,189	2,118
Other	-	1,817
Total Operating Expenses	<u>201,388</u>	<u>41,360</u>
Operating Income (Loss)	<u>11,884</u>	<u>(31,319)</u>
Non-Operating Revenues (Expenses)		
Investment Income		
Net Increase (Decrease) in Fair Value of Investments	(5,916)	(840)
Interest on Investments	1,787	997
Interest on Capital Debt	(27,503)	(5,327)
Equity Interest in Joint Use Agreement Operating Loss	-	-
Gain (Loss) on Disposal of Fixed Assets	399	13
Total Non-Operating Revenues (Expenses)	<u>(31,233)</u>	<u>(5,157)</u>
Income (Loss) Before Contributions and Transfers	<u>(19,349)</u>	<u>(36,476)</u>
Capital Contributions	135,170	4,398
Transfers from Other Funds	-	40,322
Transfers to Other Funds	-	-
Change in Net Assets	<u>115,821</u>	<u>8,244</u>
Net Assets, July 1	1,202,307	163,915
Net Assets, June 30	<u>\$ 1,318,128</u>	<u>\$ 172,159</u>

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

(Continued)

Water System	Wastewater	Solid Waste	Golf Courses	Totals	
				2004	2003
\$ -	\$ -	\$ -	\$ -	\$ 117,070	\$ 111,261
196,341	-	-	-	196,341	188,090
-	-	-	-	80,607	75,369
-	87,993	-	-	87,993	78,784
-	-	92,824	-	92,824	88,441
-	-	-	4,649	4,649	4,967
-	-	-	1,447	8,130	8,660
27,809	26,953	6,171	83	79,969	82,663
224,150	114,946	98,995	6,179	667,583	638,235
18,756	5,899	19,879	178	53,620	48,403
102,974	44,951	47,428	5,368	356,182	329,486
-	-	-	-	756	763
49,747	29,100	9,374	883	157,603	154,217
6,366	1,305	3,960	328	19,266	18,751
-	4,392	5,540	110	11,859	11,385
177,843	85,647	86,181	6,867	599,286	563,005
46,307	29,299	12,814	(688)	68,297	75,230
(5,840)	(2,144)	(553)	-	(15,293)	6,979
6,889	2,849	1,168	-	13,690	16,546
(26,778)	(24,772)	(6,253)	(174)	(90,807)	(92,635)
(4,674)	(10,456)	-	-	(15,130)	(15,827)
(819)	(91)	(131)	(43)	(672)	(2,343)
(31,222)	(34,614)	(5,769)	(217)	(108,212)	(87,280)
15,085	(5,315)	7,045	(905)	(39,915)	(12,050)
55,158	50,099	967	-	245,792	232,511
-	-	-	-	40,322	36,849
(7,720)	(6,028)	(4,365)	-	(18,113)	(13,688)
62,523	38,756	3,647	(905)	228,086	243,622
885,680	450,610	(6,443)	6,640	2,702,709	2,459,087
\$ 948,203	\$ 489,366	\$ (2,796)	\$ 5,735	\$ 2,930,795	\$ 2,702,709

City of Phoenix, Arizona
Fund Financial Statements
Enterprise Funds
Statement of Cash Flows

For the Fiscal Year Ended June 30, 2004
with comparative totals for June 30, 2003
(in thousands)

	Aviation	Phoenix Civic Plaza
Cash Flows from Operating Activities		
Receipts from Customers	\$ 212,544	\$ 10,233
Payments to Suppliers	(95,263)	(17,511)
Payments to Employees	(43,384)	(12,035)
Payment of Staff and Administrative Expenses	(5,189)	(2,118)
Net Cash Provided (Used) by Operating Activities	<u>68,708</u>	<u>(21,431)</u>
Cash Flows from Noncapital Financing Activities		
Transfers from Other Funds	-	40,322
Transfers to Other Funds	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>-</u>	<u>40,322</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from Capital Debt	260,000	-
Principal Paid on Capital Debt	(16,850)	(4,040)
Interest Paid on Capital Debt	(37,463)	(5,474)
Loans to Developers	-	-
Loans from Other Funds	-	-
Acquisition and Construction of Capital Assets	(156,846)	(16,032)
Proceeds from Sales of Capital Assets	596	41
Capital Contributions	122,038	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>171,475</u>	<u>(25,505)</u>
Cash Flows from Investing Activities		
Purchases of Investment Securities	(7,189,096)	(96,330)
Proceeds from Sale and Maturities of Investment Securities	6,990,103	96,574
Interest on Investments	(1,716)	166
Proceeds from Collections of Long-Term Receivable	-	338
Net Cash Provided (Used) by Investing Activities	<u>(200,709)</u>	<u>748</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>39,474</u>	<u>(5,866)</u>
Cash and Cash Equivalents, July 1	295,220	39,271
Cash and Cash Equivalents, June 30	<u>\$ 334,694</u>	<u>\$ 33,405</u>
Reconciliation of Operating Income (Loss) to		
Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ 11,884	\$ (31,319)
Adjustments		
Depreciation and Amortization	58,455	10,044
(Increase) Decrease in Assets		
Deposits	3	-
Receivables	6	201
Allowance for Doubtful Accounts	(463)	1
Prepaid Items	170	-
Inventories	(6)	2
Increase (Decrease) in Liabilities		
Warrants and Accounts Payable	(1,165)	(395)
Trust Liabilities and Deposits	(2)	(10)
Deferred Revenue	(270)	-
Accrued Compensated Absences	96	45
Accrued Landfill Closure and Postclosure Care Costs	-	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 68,708</u>	<u>\$ (21,431)</u>
Noncash Transactions Affecting Financial Position		
Contributions of Capital Assets	\$ -	\$ 4,398
Bond Capital Appreciation	-	-
Refunding Issuance in Excess of Bond Retirement	732	-
Increase (Decrease) in Fair Value of Investments	(1,109)	(31)
Total Noncash Transactions Affecting Financial Position	<u>\$ (377)</u>	<u>\$ 4,367</u>
Cash and Cash Equivalents		
Unrestricted		
Equity in Pooled Cash and Investments	\$ 60,569	\$ 25,800
Restricted		
Equity in Pooled Cash and Investments	222,616	-
Cash with Fiscal Agents/Trustees	51,509	6,945
Customer and Other Deposits	-	660
(Total 2004 and 2003 restricted assets of \$1,211,908 and \$949,920 include \$710,646 and \$503,257 of noncash assets, respectively)	<u>274,125</u>	<u>7,605</u>
	<u>\$ 334,694</u>	<u>\$ 33,405</u>

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

(Continued)

Water System	Wastewater	Solid Waste	Golf Courses	Totals	
				2004	2003
\$ 219,591	\$ 114,608	\$ 98,201	\$ 6,188	\$ 661,365	\$ 643,700
(52,862)	(41,811)	(44,969)	(1,511)	(253,927)	(235,342)
(65,259)	(12,818)	(24,364)	(4,073)	(161,933)	(151,631)
(6,366)	(1,305)	(3,960)	(328)	(19,266)	(18,751)
95,104	58,674	24,908	276	226,239	237,976
-	-	-	-	40,322	36,849
(7,720)	(6,028)	(4,365)	-	(18,113)	(13,688)
(7,720)	(6,028)	(4,365)	-	22,209	23,161
100,139	40,005	9	7,297	407,450	245,888
(26,636)	(16,780)	(7,650)	(5,370)	(77,326)	(78,292)
(33,714)	(28,344)	(6,146)	(478)	(111,619)	(101,195)
-	-	-	-	-	8,000
-	-	-	(48)	(48)	48
(143,300)	(73,915)	(8,464)	(1,029)	(399,586)	(396,860)
386	104	554	-	1,681	2,632
18,359	12,996	955	-	154,348	153,771
(84,766)	(65,934)	(20,742)	372	(25,100)	(166,008)
(810,989)	(699,899)	(835,229)	(2,280)	(9,633,823)	(5,710,511)
791,015	721,513	837,572	1,015	9,437,792	5,708,386
1,098	195	615	-	358	28,064
-	-	-	-	338	321
(18,876)	21,809	2,958	(1,265)	(195,335)	26,260
(16,258)	8,521	2,759	(617)	28,013	121,389
217,143	114,689	45,269	705	712,297	590,908
\$ 200,885	\$ 123,210	\$ 48,028	\$ 88	\$ 740,310	\$ 712,297
\$ 46,307	\$ 29,299	\$ 12,814	\$ (688)	\$ 68,297	\$ 75,230
49,747	29,100	9,374	883	157,603	154,217
(58)	-	-	-	(55)	52
(4,371)	(422)	(785)	4	(5,367)	4,104
40	52	11	-	(359)	(279)
(547)	-	-	-	(377)	273
(70)	(28)	-	42	(60)	(111)
4,103	580	1,790	2	4,915	1,985
(232)	32	(20)	-	(232)	6
4	-	-	5	(261)	1,635
181	61	(11)	28	400	1,002
-	-	1,735	-	1,735	(138)
\$ 95,104	\$ 58,674	\$ 24,908	\$ 276	\$ 226,239	\$ 237,976
\$ 36,799	\$ 37,103	\$ 12	\$ -	\$ 78,312	\$ 67,526
321	61	-	-	382	503
965	1,725	46	-	3,468	2,547
(1,742)	(77)	32	-	(2,927)	274
\$ 36,343	\$ 38,812	\$ 90	\$ -	\$ 79,235	\$ 70,850
\$ 99,003	\$ 30,579	\$ 23,008	\$ 88	\$ 239,047	\$ 265,634
56,620	64,116	12,879	-	356,231	318,107
43,441	28,299	12,087	-	142,281	125,576
1,821	215	54	-	2,750	2,980
101,882	92,630	25,020	-	501,262	446,663
\$ 200,885	\$ 123,209	\$ 48,028	\$ 88	\$ 740,309	\$ 712,297

City of Phoenix, Arizona
Fund Financial Statements
Fiduciary Funds
Statement of Fiduciary Net Assets
 June 30, 2004
 (in thousands)

	General Employees' Retirement Plan	Payroll Agency Fund
<u>ASSETS</u>		
Equity in Pooled Cash and Investments	\$ -	\$ 33,407
Investments		
Temporary Investments	197,966	-
Fixed Income	448,138	-
Domestic Equities	792,985	-
International Equities	149,380	-
Receivables		
Accounts Receivable	51,397	-
Contributions Receivable	1,858	-
Interest and Dividends	2,443	-
Total Assets	<u>1,644,167</u>	<u>33,407</u>
<u>LIABILITIES</u>		
Payable to the City of Phoenix	6,377	-
Accounts Payable	192,047	-
Accrued Payroll Payable	-	33,407
Total Liabilities	<u>198,424</u>	<u>\$ 33,407</u>
<u>NET ASSETS</u>		
Held in Trust for Pension Benefits	<u>\$ 1,445,743</u>	

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, 2004 and 2003
(in thousands)

	<u>2004</u>	<u>2003</u>
<u>ADDITIONS</u>		
Contributions		
City of Phoenix	\$ 39,564	\$ 27,820
Employees	24,783	26,122
Inter-System Transfers	373	500
Total Contributions	<u>64,720</u>	<u>54,442</u>
Investment Income		
From Investing Activities		
Net Increase (Decrease) in Fair		
Value of Investments	184,205	11,292
Interest	10,936	21,228
Dividends	6,173	6,630
Other	460	193
Investment Income/(Loss)	<u>201,774</u>	<u>39,343</u>
Less: Investment Expense	<u>3,316</u>	<u>2,636</u>
Net Investment Income (Loss)		
from Investing Activities	198,458	36,707
Net Income from Security Lending Activity	183	202
Total Net Investment Income/(Loss)	<u>198,641</u>	<u>36,909</u>
Total Additions	<u>263,361</u>	<u>91,351</u>
<u>DEDUCTIONS</u>		
Benefit Payments	76,949	70,234
Refunds of Contributions	2,272	2,457
Inter-System Transfers	600	365
Other	340	155
Total Deductions	<u>80,161</u>	<u>73,211</u>
Net Increase	183,200	18,140
Net Assets Held in Trust for		
Pension Benefits		
Beginning of Year, July 1	1,262,543	1,244,403
End of Year, June 30	<u>\$ 1,445,743</u>	<u>\$ 1,262,543</u>

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

City of Phoenix, Arizona
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2004

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

The basic financial statements constitute the core of the financial section of the City’s Comprehensive Annual Financial Report (CAFR). The basic financial statements include the government-wide financial statements, fund financial statements, and the accompanying notes to these 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.

Notes to the Financial Statements

(Continued)

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. Fund Accounting

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.

Notes to the Financial Statements

(Continued)

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 eight 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.

Notes to the Financial Statements (Continued)

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.

Notes to the Financial Statements

(Continued)

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 outstanding encumbrances. For 2003-04, the reappropriation budget was \$784,900,000.

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 2003-04 expenditure limit supplied by the Economic Estimates Commission was \$1,001,653,000. The City increased this limit to \$4,925,936,000 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.

Notes to the Financial Statements
(Continued)

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, 2003, non-restricted carry forwards totaled \$405,452,736.

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 fourteen 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.

Notes to the Financial Statements
(Continued)

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

All capital assets, whether owned by governmental activities or business-type activities, are 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.

Public domain infrastructure (e.g. roads, bridges, sidewalks and other assets that are immovable and of value only to the City) has both depreciable and non-depreciable components. Non-depreciable infrastructure consists of sub-grade preparation. According to the Streets Department engineers, sub-grade preparation, which is necessary for the initial construction of a street, will not have to be replaced in order to maintain the streets at an acceptable level. Therefore, the sub-grade preparation is treated as a permanent improvement.

Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life greater than two years. All artwork, land and non-depreciable infrastructure 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.

Notes to the Financial Statements

(Continued)

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.

i. 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 \$2,796,000 at June 30, 2004, 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

Certain comparative data for the prior year have been presented in the enterprise funds' comparative financial statements and 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.

Notes to the Financial Statements
(Continued)

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, 2004 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	\$ (9,962)	\$ -
Entity differences - amounts not budgeted	(16,572)	-
Transfers not recognized for budget purposes	0	-
Accrued/(deferred) revenue not recognized for budget purposes (net of reversals of prior year accruals)	(4)	-
Accrued expenditures not recognized for budget purposes (net of reversals of prior year accruals)	(284)	-
Unrealized gain or loss on investments	(4,057)	-
Encumbrances at June 30 recognized as expenditures for budget purposes	125	-
GAAP basis	<u>\$ (30,754)</u>	<u>\$ -</u>

Notes to the Financial Statements
(Continued)

Adjustments necessary to convert the fund balances at June 30, 2004 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	\$ 53,204	\$ -
Entity differences - amounts not budgeted	209,476	-
Transfers not recognized for budget purposes	(1,569)	-
Accrued/(deferred) revenue not recognized for budget purposes (net of reversals of prior year accruals)	444	-
Accrued expenditures not recognized for budget purposes (net of reversals of prior year accruals)	151	-
Unrealized gain or loss on investments	30,178	-
Encumbrances at June 30 recognized as expenditures for budget purposes	11,820	-
GAAP basis	<u>\$ 303,704</u>	<u>\$ -</u>

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 2004 are: primary \$9,800,420,933 and secondary \$10,489,921,645.

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.

Notes to the Financial Statements
(Continued)

Property Taxes Receivable for the year were as follows (in thousands):

	2003 Levy			Prior Levies	Total
	Primary	Secondary	Total		
Taxes Receivable, July 1	\$ -	\$ -	\$ -	\$ 5,400	\$ 5,400
Current Tax Levy	76,915	94,984	171,899	-	171,899
Adjustments by County Assessor	(80)	(198)	(278)	(437)	(715)
	76,835	94,786	171,621	4,963	176,584
Less: Collections	(74,944)	(92,337)	(167,281)	(3,312)	(170,593)
Taxes Receivable, June 30	\$ 1,891	\$ 2,449	\$ 4,340	\$ 1,651	\$ 5,991

In fiscal 2003-04, current property tax collections were \$167,281,000, or 97.3% 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 2004-05, 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 2003-04, 0.1% 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.

Notes to the Financial Statements
(Continued)

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	
	2004	2003
Cash in Bank	\$ 11,054	\$ 11,668
Cash on Hand	228	226
Cash With Fiscal Agents (1)	6,449	19,547
Investments	1,192,614	1,202,914
Less: SROG Equity in Pooled Cash	(36,331)	(40,978)
Less: Val Vista Equity in Pooled Cash	(1,600)	(2,149)
Total	<u>1,172,414</u>	<u>1,191,228</u>
Less: Restricted Equity in Pooled Cash	(356,231)	(318,107)
Unrestricted Equity in Pooled Cash	<u>\$ 816,183</u>	<u>\$ 873,121</u>

(1) Represents cash advanced by the City to fiscal agents on June 30, 2004 for debt service payments on refunded/defeased bonds due to bondholders on July 1, 2004. The City was reimbursed on July 1, 2004, 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	
	2004	2003
Unrestricted		
General Fund	\$ 84,547	\$ 193,501
Non-Major Governmental Funds	459,182	388,386
Fiduciary Funds		
Payroll Agency	33,407	25,600
Enterprise Funds		
Aviation	60,569	75,247
Phoenix Civic Plaza	25,800	31,346
Water System	99,003	115,628
Wastewater	30,579	24,105
Solid Waste	23,008	19,308
Golf Courses	88	-
Total Unrestricted	<u>816,183</u>	<u>873,121</u>
Restricted		
Enterprise Funds		
Aviation	222,616	184,136
Phoenix Civic Plaza	-	420
Water System	56,620	55,023
Wastewater	64,116	62,524
Solid Waste	12,879	16,004
Total Restricted	<u>356,231</u>	<u>318,107</u>
	<u>\$ 1,172,414</u>	<u>\$ 1,191,228</u>

Notes to the Financial Statements
(Continued)

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, 2004 was \$11,054,000 and the bank ledger balance was \$13,119,000.

Cash and securities with fiscal agents and trustees totaled \$236,190,000 at June 30, 2004. 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, 2004 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, 2004, stated at fair value, were \$3,997,440. 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			Total Fair Value	Restricted
	Governmental Funds	COPERS	Enterprise Funds		Enterprise Funds
U.S. Government Securities	\$ 325,052	\$ 89,608	\$ 8,171	\$ 422,831	\$ 666,156
Repurchase Agreements	23,597	-	2,154	25,751	11,337
Mortgage Backed Securities	-	33,818	-	33,818	-
Asset Backed Securities	-	26,039	-	26,039	-
Corporate Bonds	-	298,673	-	298,673	-
Municipal Securities	4,902	-	-	4,902	-
Domestic Equities	-	792,985	-	792,985	-
International Equities	-	149,380	-	149,380	-
Short-Term Investment Funds	173,409	197,966	-	371,375	1,579
	<u>\$ 526,960</u>	<u>\$ 1,588,469</u>	<u>\$ 10,325</u>	<u>\$ 2,125,754</u>	<u>\$ 679,072</u>

Notes to the Financial Statements
(Continued)

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	\$	878,885
Repurchase Agreements		56,929
Mortgage Backed Securities		253,900
Municipal Securities		538
Short-Term Investment Funds		2,362
	\$	<u>1,192,614</u>

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, 2004.

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	
						2004	2003
Unrestricted							
Governmental Activities							
General Fund	\$ 16,618	\$ 9,099	\$ 45	\$ 612	\$ -	\$ 26,374	\$ 20,627
Excise Tax	-	52,273	-	19,262	-	71,535	67,431
Non-Major	12,049	4,696	1,618	64,216	16,104	98,683	81,465
	<u>28,667</u>	<u>66,068</u>	<u>1,663</u>	<u>84,090</u>	<u>16,104</u>	<u>196,592</u>	<u>169,523</u>
Business-Type Activities							
Aviation	3,669	-	-	-	-	3,669	3,212
Civic Plaza	4	-	-	-	-	4	206
Water System	36,537	-	40	1,809	-	38,386	34,035
Wastewater	11,696	-	-	2,242	-	13,938	13,527
Solid Waste	7,930	-	-	17	-	7,947	7,173
Golf Courses	3	-	-	-	-	3	7
	<u>59,839</u>	<u>-</u>	<u>40</u>	<u>4,068</u>	<u>-</u>	<u>63,947</u>	<u>58,160</u>
	<u>88,506</u>	<u>66,068</u>	<u>1,703</u>	<u>88,158</u>	<u>16,104</u>	<u>260,539</u>	<u>227,683</u>
Restricted							
Business-Type Activities							
Aviation	12,203	-	147	14,217	-	26,567	13,496
Civic Plaza	-	-	41	543	-	584	931
Water System	-	-	312	-	-	312	381
Wastewater	-	-	-	58	-	58	99
Solid Waste	-	-	-	-	-	-	-
Golf Courses	-	-	-	-	-	-	-
	<u>12,203</u>	<u>-</u>	<u>500</u>	<u>14,818</u>	<u>-</u>	<u>27,521</u>	<u>14,907</u>
	<u>\$ 100,709</u>	<u>\$ 66,068</u>	<u>\$ 2,203</u>	<u>\$ 102,976</u>	<u>\$ 16,104</u>	<u>\$ 288,060</u>	<u>\$ 242,590</u>

Notes to the Financial Statements
(Continued)

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	2004	2003
Governmental					
General Fund	\$	25,986	\$ -	\$ 25,986	\$ 22,843
Excise Tax		-	8,512	8,512	14,268
Non-Major		84	-	84	144
Business-Type					
Aviation		724	-	724	1,187
Water System		791	-	791	751
Wastewater		394	-	394	342
Solid Waste		455	-	455	444
		\$ 28,434	\$ 8,512	\$ 36,946	\$ 39,979

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

		June 30	
		2004	2003
Aviation	\$	3,901	\$ 3,503
Water System		15,288	14,259
Wastewater		5,285	4,892
Solid Waste		4,053	3,691
		\$ 28,527	\$ 26,345

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%.

Notes to the Financial Statements
(Continued)

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		Balance June 30, 2004
				Amount	Commencing	
\$ 250,000	12/30/93	07/01/26	2%	\$ 417	07/01/96	\$ 241,352
250,000	05/10/94	05/01/19	4%	1,471	09/01/95	192,154
150,000	05/10/94	05/01/19	4%	883	09/01/95	115,292
248,660	01/01/95	01/01/25	2%	919	02/01/95	185,357
86,000	02/01/95	09/01/19	2%	370	03/01/95	58,357
64,000	02/01/95	09/01/19	2%	276	03/01/95	43,428
250,000	04/01/95	12/01/19	2%	1,076	06/01/95	170,435
52,350	04/01/95	05/01/10	2%	337	05/01/95	22,539
250,000	06/01/95	06/01/20	4%	1,320	07/01/95	224,734
43,521	06/01/95	07/01/15	2%	220	07/01/95	18,459
250,000	06/30/95	12/31/21	4%	1,290	01/01/96	194,616
250,000	12/31/95	05/01/26	4%	1,202	05/01/96	207,324
197,803	01/01/96	02/01/21	2%	838	02/01/96	141,293
91,000	06/27/96	12/01/26	2%	336	12/01/96	73,083
62,030	07/01/95	11/01/16	2%	316	11/01/96	42,147
250,061	09/19/96	10/01/21	2%	1,077	04/01/97	187,580
207,355	11/27/96	05/01/27	2%	766	05/01/97	167,991
225,000	12/20/96	06/01/27	2%	832	06/01/97	183,349
134,000	10/10/97	03/01/28	2%	495	04/01/98	112,293
81,766	11/20/98	05/01/19	2%	414	06/01/99	63,972
250,000	05/01/98	09/01/28	2%	924	10/01/98	216,888
250,000	07/22/99	07/01/29	4%	1,194	08/01/99	226,557
250,000	12/07/98	02/01/30	4%	1,194	03/01/00	229,585
261,053	12/22/00	02/01/37	4%	1,107	03/01/02	254,633
500,000	01/23/01	01/01/41	4%	12,782	07/01/02	488,533
272,594	04/17/00	05/01/37	4%	1,207	06/01/02	264,830
270,786	01/13/01	05/01/39	4%	1,198	06/01/04	260,035
261,053	10/15/01	12/01/32	4%	1,246	04/01/03	254,087
250,000	12/27/01	10/01/32	2%	924	11/01/02	240,737
1,000,000	06/26/01	07/01/09	6%	4,100	07/01/09	1,000,000
2,631,342	various	various	4%	various	various	2,110,507
2,167,507	various	various	4%	various	various	1,531,241
4,599,696	various	various	4%	various	various	3,724,065
457,500	01/01/03	07/01/33	4%	2,184	07/01/03	449,443
480,000	02/28/03	(1)	0%	(1)	(1)	480,000
199,000	06/28/03	08/01/33	4%	950	08/01/03	196,385
530,865	12/13/02	04/01/33	4%	30,617	04/01/05	530,865
						<u>\$ 15,104,146</u>

(1) The due date and payment schedule has not been determined at this time and is based on the compliance of specific provisions in the contract.

Notes to the Financial Statements
(Continued)

6. Interfund Transactions

Net interfund receivables and payables between governmental activities and business-type activities in the amount of \$150,000, are included in the government-wide financial statements at June 30, 2004. The following amounts due to other funds or due from other funds are included in the fund financial statements at June 30, 2004 (in thousands):

	<u>Due To</u>	<u>Due From</u>
Unrestricted		
Governmental Funds		
General Fund	\$ -	\$ 227,583
Excise Tax	71,493	-
Non-major Governmental	160,749	4,809
Total Governmental Funds	<u>232,242</u>	<u>232,392</u>
Restricted		
Enterprise Funds		
Water System	-	-
Solid Waste	-	-
Golf Courses	150	-
Total Restricted	<u>150</u>	<u>-</u>
Total Due To/Due From	<u>\$ 232,392</u>	<u>\$ 232,392</u>

Interfund balances at June 30, 2004 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, 2004 are expected to be repaid within one year.

Net transfers of \$22,209,000 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, 2004.

	<u>Transfer Out</u>	<u>Transfer In</u>
Governmental Funds		
General Fund	\$ 98,605	\$ 592,754
Excise Tax	777,071	-
Non-major Governmental	83,574	344,287
Total Governmental Funds	<u>959,250</u>	<u>937,041</u>
Enterprise Funds		
Civic Plaza	-	40,322
Water System	7,720	-
Wastewater	6,028	-
Solid Waste	4,365	-
Total Enterprise Funds	<u>18,113</u>	<u>40,322</u>
Total Transfers	<u>\$ 977,363</u>	<u>\$ 977,363</u>

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.

Notes to the Financial Statements
(Continued)

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	
	2004	2003
Restricted Assets		
Equity in Pooled Cash and Investments	\$ 356,231	\$ 318,107
Cash Deposits	6,803	6,975
Cash and Securities with Fiscal Agents/Trustees	142,281	125,576
Investments	679,072	483,165
Receivables, Net of Allowances	27,521	14,907
Subtotal	<u>1,211,908</u>	<u>948,730</u>
Due From Other Funds	<u>-</u>	<u>1,190</u>
Total Restricted Assets	<u>\$ 1,211,908</u>	<u>\$ 949,920</u>
Liabilities Payable from Restricted Assets		
Warrants and Accounts Payable	\$ 61,366	\$ 35,383
Trust Liabilities and Deposits	2,750	2,980
Bond Anticipation Notes Payable	300,000	160,000
Accrued Landfill Closure Costs	2,227	4,529
Subtotal	<u>366,343</u>	<u>202,892</u>
Due to Other Funds	150	1,199
Matured Bonds and Certificates Payable	73,869	72,094
Interest Payable	56,897	55,845
Current Portion of General Obligation Bonds	24,820	33,277
Current Portion of Revenue Bonds	3,925	3,710
Current Portion of Municipal Corporation Obligations	46,354	38,390
Total Liabilities Payable from Restricted Assets	<u>\$ 572,358</u>	<u>\$ 407,407</u>

Notes to the Financial Statements
(Continued)

8. Capital Assets

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

	Balances July 1, 2003	Additions	Deletions	Transfers	Balances June 30, 2004
Governmental activities:					
Non-depreciable assets:					
Land	\$ 472,424	\$ 24,672	\$ (454)	\$ 42,572	\$ 539,214
Infrastructure	321,791	17,083	-	4,535	343,409
Artwork	8,647	-	-	-	8,647
Construction-in-Progress	369,709	283,714	(43,194)	(137,789)	472,440
Total non-depreciable assets	1,172,571	325,469	(43,648)	(90,682)	1,363,710
Depreciable assets:					
Buildings	744,128	4,438	(515)	22,060	770,111
Improvements	214,899	15,874	(2,435)	30,684	259,022
Infrastructure	1,151,981	78,505	(29,238)	31,408	1,232,656
Equipment	415,793	50,267	(15,913)	6,530	456,677
Total depreciable assets	2,526,801	149,084	(48,101)	90,682	2,718,466
Less accumulated depreciation for:					
Buildings	(235,983)	(22,003)	297	-	(257,689)
Improvements	(104,858)	(9,619)	1,893	-	(112,584)
Infrastructure	(339,352)	(30,871)	29,153	-	(341,070)
Equipment	(208,980)	(36,989)	13,011	-	(232,958)
Total accumulated depreciation	(889,173)	(99,482)	44,354	-	(944,301)
Total depreciable assets, net	1,637,628	49,602	(3,747)	90,682	1,774,165
Governmental activities, capital assets, net	\$ 2,810,199	\$ 375,071	\$ (47,395)	\$ -	\$ 3,137,875
Business-type activities:					
Non-depreciable assets:					
Land	\$ 367,918	\$ 2,357	\$ (27)	\$ 87,823	\$ 458,071
Artwork	3,100	-	-	87	3,187
Construction-in-Progress	730,299	287,092	24,180	(328,899)	712,672
Total non-depreciable assets	1,101,317	289,449	24,153	(240,989)	1,173,930
Depreciable assets:					
Buildings	891,520	10,185	(238)	20,102	921,569
Improvements	1,879,645	55,082	(3,025)	156,448	2,088,150
Hydrants, mains, etc.	883,490	64,158	(5,665)	43,078	985,061
Equipment	323,784	21,746	(14,468)	21,361	352,423
Total depreciable assets	3,978,439	151,171	(23,396)	240,989	4,347,203
Less accumulated depreciation for:					
Buildings	(368,262)	(34,862)	187	-	(402,937)
Improvements	(687,231)	(75,529)	2,657	-	(760,103)
Hydrants, mains, etc.	(300,645)	(21,328)	1,116	-	(320,857)
Equipment	(153,794)	(27,432)	12,640	-	(168,586)
Total accumulated depreciation	(1,509,932)	(159,151)	16,600	-	(1,652,483)
Total depreciable assets, net	2,468,507	(7,980)	(6,796)	240,989	2,694,720
Business-type activities, capital assets, net	\$ 3,569,824	\$ 281,469	\$ 17,357	\$ -	\$ 3,868,650

Notes to the Financial Statements

(Continued)

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

General Government	\$	6,465
Criminal Justice		720
Public Safety		14,015
Transportation		52,865
Community Enrichment		17,072
Community Development		4,801
Environmental Services		7,940
		<u>7,940</u>
	<u>\$</u>	<u>103,878</u>

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

	Fiscal Year Ended June 30			
	2004		2003	
	Incurred	Capitalized	Incurred	Capitalized
Aviation	\$ 35,670	\$ 8,899	\$ 39,537	\$ 11,986
Phoenix Civic Plaza	5,379	52	5,609	29
Water System	32,479	6,666	33,999	5,257
Wastewater	28,120	5,073	28,253	4,135
Solid Waste	6,347	140	3,780	78
	<u>\$ 107,995</u>	<u>\$ 20,830</u>	<u>\$ 111,178</u>	<u>\$ 21,485</u>

Notes to the Financial Statements
(Continued)

9. Long-Term Obligations

Changes in long-term obligations during fiscal 2003-04 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	\$ 665,303	\$ 242,943	\$ 77,467	\$ 830,779	31,566
Revenue Bonds					
Street and Highway User Revenue	198,537	1,097	18,805	180,829	17,740
Housing Revenue	2,540	-	395	2,145	420
Certificates of Participation	20,455	-	-	20,455	480
Municipal Corporation Obligations	325,234	20,080	7,950	337,364	10,986
Special Assessment Bonds	6,102	-	1,492	4,610	1,511
	1,218,171	264,120	106,109	1,376,182	62,703
Deferred Loss on Refunding	20,205	3,317	2,206	21,316	-
Total bonds and notes payable	1,238,376	267,437	108,315	1,397,498	62,703
Other liabilities:					
Insurance Claims Payable	194,100	146,899	173,546	167,453	55,434
Accrued Compensated Absences	137,433	139,246	137,433	139,246	12,897
Total other liabilities	331,533	286,145	310,979	306,699	68,331
Total governmental activities	\$ 1,569,909	\$ 553,582	\$ 419,294	\$ 1,704,197	131,034
Business-type activities					
Bonds and notes payable:					
General Obligation Bonds	304,763	10,443	43,190	272,016	24,820
Revenue Bonds	54,950	-	13,710	41,240	3,925
Municipal Corporation Obligations	1,736,240	281,283	43,254	1,974,269	46,354
	2,095,953	291,726	100,154	2,287,525	75,099
Deferred Loss on Refunding	45,344	2,043	3,469	43,918	-
Cummulative capital appreciation on general obligation minibonds	(4,140)	(382)	(1,136)	(3,386)	-
Total bonds and notes payable	2,137,157	293,387	102,487	2,328,057	75,099
Other liabilities:					
Accrued Compensated Absences	16,024	16,424	16,024	16,424	1,864
Capital Leases (3)	2,252	4	458	1,798	-
Utility Repayment Agreements (3)	5,132	-	415	4,717	-
Rebatable Arbitrage	510	-	510	-	-
Accrued Landfill Closure and Postclosure Care Costs	27,837	4,751	714	31,874	1,422
Total other liabilities	51,755	21,179	18,121	54,813	3,286
Total business-type activities	\$ 2,188,912	\$ 314,566	\$ 120,608	\$ 2,382,870	78,385

- (1) Additions include \$382,000 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 excludes 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, 2004 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	\$ 31,965	\$ 19,332	\$ 51,297
Street and Highway User Revenue Bonds	18,805	4,745	23,550
Certificates of Participation	-	-	-
Municipal Corporation Obligations	7,947	8,178	16,125
Special Assessment Bonds	-	147	147
	58,717	32,402	91,119
Enterprise Funds			
General Obligation Bonds	33,276	8,908	42,184
Revenue Bonds	3,710	1,389	5,099
Municipal Corporation Obligations	36,883	46,600	83,483
	73,869	56,897	130,766
	\$ 132,586	\$ 89,299	\$ 221,885

Notes to the Financial Statements
(Continued)

Issues of long-term debt, excluding deferred losses of \$65,234 and accumulated appreciation on general obligation mini-bonds of (\$3,386) were as follows at June 30, 2004 (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	17,845	-
04/01/92	Refunding	7/1/95-13	6.31	6.27	10.6	237,945	19,030	-
04/15/93	Refunding	7/1/95-16	5.48	5.45	13.4	335,165	127,820	-
09/15/93	Refunding	7/1/94-16	5.11	5.12	15.2	70,550	10,975	(30)
12/01/93	Water Improvements	7/1/04-14	5.03	4.98	13.8	17,229	8,713	-
01/01/95	Various Improvements	7/1/97-12	5.93	5.94	11.4	30,000	1,920	-
07/01/95	Refunding	7/1/10-19	5.59	5.56	19.9	85,000	34,520	-
11/01/95	Various Improvements	7/1/01-20	5.26	5.35	17.0	60,000	23,160	-
02/01/96	Refunding	7/1/96-14	4.86	4.85	10.3	35,280	20,425	-
01/15/97	Various Improvements	7/1/99-20	5.39	5.32	14.7	32,000	13,655	3
01/15/98	Various Improvements	7/1/01-22	4.74	4.67	15.9	75,000	57,020	27
01/15/99	Refunding	7/1/99-20	4.47	4.44	12.4	163,820	152,040	(562)
02/01/99	Various Improvements	7/1/01-23	4.77	4.74	15.8	58,000	38,920	(37)
07/15/00	Various Improvements	7/1/03-25	5.48	5.42	16.9	50,000	30,955	(14)
12/07/01	Sanitary Sewer	7/1/03-21	3.70	3.70	18.0	6,075	5,615	-
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	118,590	(602)
05/22/02	Various Improvements	7/1/11-27	5.11	5.11	18.3	89,970	83,120	-
05/22/02	Refunding	7/1/14-15	4.83	4.77	12.4	14,680	8,525	-
05/21/03	Refunding	7/1/05-16	3.36	3.25	9.1	83,320	83,320	(1,729)
03/01/04	Various Improvements	7/1/09-28	4.24	4.22	16.3	200,000	200,000	(393)
03/01/04	Refunding	7/1/11-19	3.94	3.74	11.7	50,870	50,870	(164)
Total General Obligation Bonds						1,891,641	1,119,494	(3,501)
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	10,060	-
12/15/92	Street/Highway Refunding (3)	7/1/94-13	7.96	6.33	15.0	58,226	16,661	-
05/01/94	Airport Improvements (3)	7/1/03-12	6.44	6.52	14.1	31,500	26,575	121
05/01/94	Airport Refunding (3)	7/1/95-12	5.56	5.65	5.7	36,400	2,250	13
05/01/94	Airport Refunding (3)	7/1/95-12	6.31	6.41	11.1	21,650	12,415	58
08/01/95	Municipal Housing Refunding	12/1/95-09	6.06	6.03	7.7	4,960	2,145	-
01/01/99	Street/Highway Refunding	7/1/99-11	4.40	4.65	9.1	10,375	9,200	-
05/10/02	Street/Highway Refunding (3)	7/1/03-11	3.61	3.76	5.3	123,125	99,415	-
05/28/03	Street/Highway Refunding	7/1/05-11	2.76	2.56	6.2	47,360	47,360	-
Total Revenue Bonds						506,966	231,896	192
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.

Notes to the Financial Statements
(Continued)

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	\$ 355
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	6,240	10
06/01/93	Patriots Sq. Park. Garage Ref. (3) (4b)	7/1/96-09	5.25	5.61	10.4	14,350	6,395	-
10/01/93	Wastewater Refunding (7)	7/1/99-23	4.87	5.27	22.1	235,735	228,860	5,212
01/01/94	Water System Improvements (6)	7/1/95-24	5.45	5.49	19.5	110,000	2,635	-
05/01/94	Airport Refunding (5)	7/1/95-14	6.09	6.13	11.7	33,705	21,360	66
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	765	-
11/01/94	Municipal Facilities (3) (4b)	7/1/95-05	6.53	6.47	7.2	33,410	630	-
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	11,340	(1)
01/15/97	Municipal Facilities Refunding (3) (4b)	7/1/99-21	5.47	5.43	14.4	9,935	9,455	-
07/01/97	Wastewater System (3) (12)	7/1/03-22	5.35	5.32	17.2	75,000	22,170	(40)
01/01/98	Civic Plaza East Garage (3) (4b)	7/1/00-22	6.66	6.63	16.2	43,000	38,150	173
01/15/98	Multipurpose Arena Refunding (3) (4b)	7/1/98-19	6.83	6.64	14.1	48,740	42,320	-
02/01/98	Airport Refunding (5)	7/1/98-14	4.67	4.68	9.6	38,355	26,415	(288)
05/01/98	Water System Refunding (3) (6)	7/1/99-19	5.05	5.03	16.3	109,155	106,280	600
08/01/98	Airport Revenue (10)	7/1/03-25	5.06	5.08	18.1	165,000	155,245	(91)
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	12,230	-
06/01/00	Wastewater System Revenue (3) (12)	7/1/05-24	5.97	5.91	16.4	135,000	25,690	(61)
08/01/00	Municipal Facilities Revenue (3) (4b)	7/1/01-20	5.11	4.94	8.2	65,000	41,990	(110)
07/01/01	Wastewater System Refunding (12)	7/1/02-24	5.06	5.02	16.4	166,260	164,315	(2,332)
08/01/01	Water System Refunding (3) (6)	7/1/02-24	4.88	4.68	14.1	99,980	97,970	(4,433)
04/01/02	Water System Revenue (3) (6)	7/1/07-26	5.10	5.08	16.3	220,000	220,000	(2,176)
05/01/02	Airport Sr. Lien Refunding (3) (10)	7/1/08-13	4.91	4.82	9.5	23,225	23,225	(1,160)
05/01/02	Airport Sr. Lien Revenue (3) (10)	7/1/14-32	5.40	5.53	22.7	231,390	231,390	2,265
05/01/02	Airport Jr. Lien Revenue (3) (11)	7/1/05-29	5.45	5.54	17.8	159,565	159,565	(888)
04/25/03	New City Hall Refunding (4a)	7/1/04-29	4.53	4.43	15.6	47,600	46,480	-
04/30/03	Solid Waste Improvements (3)(14)	7/1/04-23	4.38	4.17	12.3	80,000	77,925	(5,197)
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	-
10/01/03	Water System Refunding (6)	7/1/05-22	4.47	4.53	15.6	11,325	11,325	212
06/01/04	Excise Tax Revenue (3)(4b)	7/1/06-25	4.44	4.14	8.4	22,000	22,000	(67)
06/01/04	Excise Tax Revenue Refunding (3)(4b)	7/1/15-25	4.98	4.89	16.6	5,700	5,700	(71)
06/02/04	Rental Car Facility (Taxable) (3)(15)	7/1/07-29	6.12	6.20	16.5	260,000	260,000	-
Total Municipal Corporation Obligations						3,161,440	2,349,100	(8,022)
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	1,065	-
1992	Various Improvements	1/1/02-07	6.50-6.90	(1)	10.0	4,724	1,170	-
1993	Various Improvements	1/1/02-09	5.38-6.90	(1)	10.0	2,788	1,075	-
1994	Various Improvements	1/1/95-04	6.90	(1)	10.0	0	0	-
1995	Various Improvements	1/1/95-05	6.35-6.90	(1)	10.0	3,336	365	-
1996	Various Improvements	1/1/97-06	6.90	(1)	10.0	327	67	-
1997	Various Improvements	1/1/98-07	6.90	(1)	10.0	327	64	-
1999	Various Improvements	1/1/00-09	6.90	(1)	10.0	278	138	-
2000	Various Improvements	1/1/01-10	6.90	(1)	10.0	274	164	-
2001	Various Improvements	1/1/02-11	6.90	(1)	10.0	174	121	-
2002	Various Improvements	1/1/03-12	6.90	(1)	10.0	268	215	-
2003	Various Improvements	1/1/04-13	6.90	(1)	10.0	136	122	-
Total Special Assessment Bonds						17,976	4,610	-
						<u>\$ 5,604,078</u>	<u>\$ 3,725,555</u>	<u>\$ (11,331)</u>

- (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 solely from certain federal grants received from the Federal Transit Administration, 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.
- (15) The City has made a first priority pledge of a \$4.50 per day car rental usage fee to be paid by rental car customers arriving at Phoenix Sky Harbor International Airport as security for the bonds.

Notes to the Financial Statements

(Continued)

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 March 2004, the City sold \$200,000,000 in long-term fixed rate general obligation bonds. The bond proceeds were used for various purpose projects. The bonds have an average life of 16.3 years and were sold at a true interest cost of 4.22%.

The City also refunded \$50,410,000 of outstanding general obligation bonds with the issuance of \$50,870,000 General Obligation Refunding Bonds, Series 2004. The refunding bonds were issued at a true interest cost of 3.74% and produced present value debt service savings, net of transaction costs, of \$3,263,317.

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.

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.

Notes to the Financial Statements

(Continued)

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 October 2003, the CIC issued \$11,325,000 Junior Lien Water System Revenue Refunding Bonds, Series 2003 to refund \$10,000,000 of City of Phoenix Water System Revenue Bonds. The refunding bonds were issued at a true interest cost of 4.53% and produced present value debt service savings, net of transaction costs, of \$846,437.

In May 2004, the CIC issued \$260,000,000 Rental Car Facility Charge Revenue Bonds, Taxable Series 2004. Proceeds of the bonds will be used to pay the majority of the cost of designing, acquiring, constructing, and equipping certain facilities, infrastructure, site development and equipment necessary for the operation of a consolidated rental car center adjacent to Sky Harbor International Airport. The bonds have an average life of 16.5 years and were sold at a true interest cost of 6.20%.

In June 2004, the CIC issued \$22,000,000 Subordinated Excise Tax Revenue Bonds, Series 2004. Proceeds of the bonds will be used to fund the acquisition of certain equipment and real property which have been acquired or are expected to be acquired and to fund the construction of certain improvements. The bonds have an average life of 8.4 years and were sold at a true interest cost of 4.14%.

The City also refunded \$4,880,000 of outstanding subordinated excise tax revenue bonds, with the issuance of \$5,700,000 Subordinated Excise Tax Revenue Refunding Bonds, Series 2004. The refunding bonds were issued at a true interest cost of 4.89% and were issued to restructure bonds originally issued for the Golf Enterprise Fund.

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.

Notes to the Financial Statements
(Continued)

Debt Service Requirements

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

Fiscal Years	City of Phoenix Bonds					Total Other Obligations (1)	Total Debt Service
	General Obligation	Highway User Revenue	Housing Revenue	Airport Revenue	Totals		
2005	\$ 113,118	\$ 26,406	\$ 547	\$ 6,489	\$ 146,560	\$ 192,367	\$ 338,927
2006	110,427	31,246	542	6,492	148,707	186,779	335,486
2007	109,691	31,241	553	6,493	147,978	195,766	343,744
2008	118,310	31,245	543	6,488	156,586	197,501	354,087
2009	114,174	31,240	320	6,489	152,223	199,010	351,233
2010-14	473,961	106,492	-	21,512	601,965	984,143	1,586,108
2015-19	343,365	-	-	-	343,365	925,506	1,268,871
2020-24	182,988	-	-	-	182,988	736,127	919,115
2025-29	88,416	-	-	-	88,416	374,657	463,073
2030-34	-	-	-	-	-	69,385	69,385
	1,654,450	257,870	2,505	53,963	1,968,788	4,061,241	6,030,029
Less: Interest	(534,956)	(69,359)	(360)	(12,723)	(617,398)	(1,687,076)	(2,304,474)
	<u>\$ 1,119,494</u>	<u>\$ 188,511</u>	<u>\$ 2,145</u>	<u>\$ 41,240</u>	<u>\$ 1,351,390</u>	<u>\$ 2,374,165</u>	<u>\$ 3,725,555</u>
Authorized	\$ 2,777,370	\$ 457,456	\$ 4,960	\$ 95,490	\$ 3,335,276		
Unissued	\$ 464,107	\$ -	\$ -	\$ -	\$ 464,107		
Interest Rates on Outstanding Bonds	2.8 - 7.4%	3.3 - 7.6%	5.2 - 6.3%	4.7 - 8.7%			

(1) Other obligations consist of the following (in thousands):

Fiscal Years	Certificates of Participation	Muni. Corp.	Special Assess. Bonds	Total Other Obligations
2005	\$ 3,763	\$ 186,805	\$ 1,799	\$ 192,367
2006	1,874	183,538	1,367	186,779
2007	1,883	193,160	723	195,766
2008	1,889	194,893	719	197,501
2009	1,881	196,752	377	199,010
2010-14	9,407	974,521	215	984,143
2015-19	8,361	917,145	-	925,506
2020-24	2,889	733,238	-	736,127
2025-29	-	374,657	-	374,657
2030-34	-	69,385	-	69,385
	31,947	4,024,094	5,200	4,061,241
Less: Interest	(11,492)	(1,674,994)	(590)	(1,687,076)
	<u>\$ 20,455</u>	<u>\$ 2,349,100</u>	<u>\$ 4,610</u>	<u>\$ 2,374,165</u>

Notes to the Financial Statements

(Continued)

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, 2004. Interest on the capital lease in the amount of \$1,798,000 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, 2004 (in thousands):

<u>Years Ending June 30</u>	<u>Aviation Enterprise Fund</u>
2005	\$ 458
2006	458
2007	458
2008	424
Total Minimum Lease Payments	1,798
Less: Current Portion	(458)
Future Minimum Lease Payments	<u>\$ 1,340</u>

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, 2004 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 \$44,625,000, including \$12,634,000 that has already been paid out and an estimated \$31,991,000 that will be paid out in future years. Of the unpaid amount, \$28,472,000 has been recorded as a liability in the accompanying financial statements based on the use of approximately 89% of the estimated capacity of the landfill. The accrual for these costs for fiscal 2003-04 was increased by \$953,000. 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 \$55,033,000, including \$49,404,000 that has already been paid out and an estimated \$5,629,000 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 increased by \$780,000 during fiscal 2003-04 in connection with these landfills.

Of the liabilities discussed above, \$2,227,000 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 \$10,990,000 (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.

Notes to the Financial Statements
(Continued)

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 2003-04, the City issued General Obligation Refunding Bonds, Series 2004, and Junior Lien Water System 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 City also issued Subordinated Junior Lien Excise Tax Revenue Refunding Bonds, Series 2004 to refinance and restructure a portion of debt of the Golf Enterprise Fund. The effects of the refundings and refinancings are summarized as follows (dollars in thousands):

	Civic Improvement Corporation		
	City of Phoenix General Obligation Bonds	Junior Lien Water System Revenue	Subordinate Excise Tax Revenue
Series	2004	2003	2004
Closing Date	04/01/04	10/21/03	06/22/04
Net Interest Rate	3.94%	4.47%	4.98%
Refunding Bonds Issued	\$ 50,870	\$ 11,325	\$ 5,700
Premium (Discount)	4,598	(309)	41
Issuance Costs and Insurance	(105)	(155)	(174)
Net Proceeds	<u>\$ 55,363</u>	<u>\$ 10,861</u>	<u>\$ 5,567</u>
Refunded Amount	\$ 50,410	\$ 1,000	\$ 4,880
Decrease in Debt Service	\$ 3,487	\$ 859	\$ N/A
Economic Gain	\$ 3,263	\$ 846	\$ N/A
Number of Years Affected	16	19	22

Notes to the Financial Statements
(Continued)

The General Obligation Refunding Bonds, Series 2004, 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):

<u>Fund</u>	<u>Issue</u>	<u>Decrease in Debt Service</u>	<u>Economic Gain</u>	<u>Number of Years Affected</u>
Secondary Property Tax	G.O. Refunding, Series 2004	\$ 3,457	\$ 2,964	16
Solid Waste	G.O. Refunding, Series 2004	8	11	12
Wastewater System	G.O. Refunding, Series 2004	6	7	12
Water System	G.O. Refunding, Series 2004	16	281	16
		<u>\$ 3,487</u>	<u>\$ 3,263</u>	

The refunding 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 \$165,000 in the Secondary Property Tax Fund, \$30,000 in the Solid Waste Enterprise Fund, (\$15,000) in the Wastewater Enterprise Fund and (\$580,000) 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, 2004, are summarized as follows (in thousands):

	<u>Deferred Amount July 1</u>	<u>Additions</u>	<u>Reductions due to Refundings</u>	<u>Amortization</u>	<u>Deferred Amount June 30</u>
General Government					
General Obligation	\$ 9,421	\$ 3,317	\$ -	\$ (923)	\$ 11,815
Revenue	8,779	-	-	(1,203)	7,576
Civic Improvement Corporation	2,005	-	-	(80)	1,925
	<u>\$ 20,205</u>	<u>\$ 3,317</u>	<u>\$ -</u>	<u>\$ (2,206)</u>	<u>\$ 21,316</u>
Enterprise Funds					
Aviation					
General Obligation	\$ 2,006	\$ -	\$ -	\$ (193)	\$ 1,813
Civic Improvement Corporation	3,637	-	-	(539)	3,098
Golf					
Civic Improvement Corporation	-	541	-	-	541
Water					
General Obligation	3,849	279	-	(495)	3,633
Civic Improvement Corporation	7,735	950	-	(472)	8,213
Wastewater					
General Obligation	2,892	95	-	(478)	2,509
Civic Improvement Corporation	25,043	-	-	(1,246)	23,797
Solid Waste					
General Obligation	182	178	-	(46)	314
	<u>\$ 45,344</u>	<u>\$ 2,043</u>	<u>\$ -</u>	<u>\$ (3,469)</u>	<u>\$ 43,918</u>

Notes to the Financial Statements
(Continued)

Advanced refunding arrangements at June 30, 2004 were as follows (in thousands):

Date Refunded	Issue Dates	Refunded Bonds		Balance Outstanding	Assets Held in Trust (1)
		Type			
05/07/86	03/01/81 - 12/01/85	General Obligation Aviation		\$ 21,075	\$ 23,535
03/04/92	05/15/86 - 07/01/90	Junior Lien Street and Highway User Revenue		\$ 13,355	\$ 12,999
12/16/92	03/15/87 - 02/01/92	Junior Lien Street and Highway User Revenue		\$ 7,750	\$ 10,213
04/27/93	12/01/78 - 12/06/91	General Obligation General Government Water System Sanitary Sewer		\$ 10,953 1,625 495	\$ 20,720
02/28/96	01/01/90 - 01/01/95	General Obligation General Government Solid Waste		\$ 1,690 250	\$ 2,509
06/10/98	06/15/96	Civic Improvement Corporation Water System Revenue		\$ 102,385	\$ 103,967
02/17/99	01/01/89 - 01/30/96	General Obligation General Government Solid Waste Water System		\$ 30,545 1,325 15,990	\$ 48,896
07/10/01	07/01/97 - 06/01/00	Civic Improvement Corporation Wastewater System Revenue		\$ 157,665	\$ 165,188
08/30/01	01/01/94 - 06/15/96	Civic Improvement Corporation Water System Revenue		\$ 99,915	\$ 104,923
06/05/02	02/01/92 - 12/15/92	Junior Lien Street and Highway User Revenue		\$ 2,500	\$ 2,899
06/12/02	04/01/91 - 07/15/00	General Obligation General Government Sanitary Sewer Solid Waste		\$ 65,690 2,310 7,310	\$ 82,446
06/11/03	11/01/95	General Obligation General Government		\$ 7,815	\$ 8,368
04/01/04	07/01/95 - 06/01/02	General Obligation General Government Sanitary Sewer Solid Waste Water		\$ 42,185 745 1,380 6,100	\$ 54,289

(1) Assets held in trust for advanced refunded bonds reflect the market value of those assets.

Notes to the Financial Statements

(Continued)

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, 2004 was as follows (in thousands):

Six Percent Bonds	\$	529,028
Twenty Percent Bonds		1,354,731
	\$	<u>1,883,759</u>

12. Risk Management

The City maintained a \$7,500,000 self-insured retention during the fiscal year ended June 30, 2004, 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, 2004, 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, 2004.

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 \$15,000,000 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, 2004, 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, 2004, claims payable totaled \$167.4 million. Changes in this liability for the last two fiscal years follow (in thousands):

	Year Ended June 30	
	2004	2003
Claims Payable, July 1	\$ 194,100	\$ 160,713
Current Year Claims and Changes in Estimates	146,899	163,933
Claim Payments	<u>(173,546)</u>	<u>(130,546)</u>
Claims Payable, June 30	<u>\$ 167,453</u>	<u>\$ 194,100</u>

Notes to the Financial Statements
(Continued)

Claims that are expected to be paid with expendable available financial resources are accounted for in the General Fund. All other claims are accounted for in the Government-Wide Statement of Net Assets. These balances were as follows (in thousands):

	<u>June 30</u>	
	<u>2004</u>	<u>2003</u>
Amounts due within one year	\$ 55,434	\$ 78,495
Amounts due in more than one year	112,019	115,605
	<u>\$ 167,453</u>	<u>\$ 194,100</u>

In addition, assets of \$172,812,102 and \$4,328,665 are held in the General Fund and Transit Special Revenue Fund, respectively, at June 30, 2004 for purposes of funding the claims liability reported in the Government Wide Statement of Net Assets. As a result, \$172,812,102 of the General Fund balance and 4,328,665 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 \$37,111,663 and \$34,292,244 for the fiscal years ended June 30, 2004 and 2003, respectively. In addition, \$3,139,700 was paid during fiscal year 2002-04 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, 2004 were as follows (in thousands):

<u>Years Ending</u>	
<u>June 30</u>	
2005	\$ 26,314
2006	16,214
2007	15,725
2008	14,966
2009	7,725
2010-2014	172,973
	<u>\$ 253,917</u>

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 \$19,859,985 and \$17,431,903 for the fiscal years ended June 30, 2004 and 2003, respectively. A summary of the assets leased to third parties under the airport operating lease agreements at June 30, 2004 is as follows (in thousands):

Buildings	\$ 497,128
Less: Accumulated Depreciation	<u>(255,740)</u>
	<u>\$ 241,388</u>

Notes to the Financial Statements
(Continued)

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, 2005 are as follows (in thousands):

<u>Contractor</u>	<u>Type of Service</u>	<u>Expiration Date</u>	<u>Estimated Annual Subsidy</u>
Laidlaw Transit Services	Bus Service	June 30, 2006	\$ 11,521
MV Transportation Services	Dial-a-Ride	June 30, 2006	9,347
Arnett Transportation Svcs.	Downtown Area Shuttle	June 30, 2005	584
ATC/VANCOM Management Services, Inc.	Bus Service	June 30, 2007	66,032
Regional Public Transportation Authority	Bus Service	June 30, 2004	4,902
MV Transportation Services	ALEX	June 30, 2006	882
			<u>\$ 93,268</u>

Approximately 9.1% 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 is expected to fund approximately 6.2% of the total transit costs for fiscal 2004-05. 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 Plan Six Funding Agreement does not constitute a joint venture as cost sharing projects are not considered joint ventures as the participating governments do not retain an on-going financial interest or responsibility in the project, in accordance with GASB Statement No. 14, "The Financial Reporting Entity".

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.

Notes to the Financial Statements

(Continued)

Other Contracts

The City's enterprise funds have entered into construction contracts having remaining commitments at June 30, 2004 as follows (in thousands):

Aviation	\$ 324,476
Phoenix Civic Plaza	123,736
Water System	98,311
Wastewater	140,311
Solid Waste	<u>22,652</u>
	<u>\$ 709,486</u>

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, 2004.

Public Housing Notes Payable

Excluded from the City's long-term obligations in the accompanying financial statements are 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 notes at June 30, 2004 were \$931,202.

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. Police also have the option of monthly conversion of sick leave accrual to pay as salary for a minimum of three years and maximum of six years if they have at least 1,714 unused 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). Firefighters also have the option of monthly conversion of sick leave accrual to pay as salary for a minimum of three years and maximum of six years. Firefighters must have 17 years of service and at least 2,400 unused hours for 56-hour employees or the 40-hour employee equivalent.

Notes to the Financial Statements

(Continued)

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, 2004, 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):

	<u>June 30</u>	
	<u>2004</u>	<u>2003</u>
General	\$ 136,026	\$ 129,733
Police	100,698	42,140
Fire	43,524	95,835
	<u>280,248</u>	<u>267,708</u>
Less: Amounts Accrued as a Liability	<u>(90,208)</u>	<u>(91,026)</u>
	<u>\$ 190,040</u>	<u>\$ 176,682</u>

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, 2004 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, 2004.

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 powers agreement to participate in the cost to construct and operate the light rail project less any Federal reimbursements and operating fares. The City's share of costs is determined based on the number of rail mileage located within each City, plus dedicated local costs. VMRI 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, 2004.

Separate financial statements may be obtained from Valley Metro Rail, Inc., 411 N. Central Avenue, Suite 200, Phoenix, Arizona 85004.

Notes to the Financial Statements
(Continued)

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, 2004 and 2003 is provided below (in thousands).

	June 30	
	2004	2003
Assets		
Equity in Pooled Cash and Investments	\$ 36,331	\$ 40,978
Receivables	26,218	21,607
Inventories, at average cost	705	680
Capital Assets, Net of Accumulated Depreciation	<u>542,472</u>	<u>455,450</u>
Total Assets	605,726	518,715
Liabilities	<u>(52,147)</u>	<u>(50,872)</u>
Net Assets	<u>\$ 553,579</u>	<u>\$ 467,843</u>
Total Revenues	\$ 134,475	\$ 102,136
Total Expenses	<u>(48,739)</u>	<u>(45,449)</u>
Increase in Net Assets	<u>\$ 85,736</u>	<u>\$ 56,687</u>

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.

Notes to the Financial Statements
(Continued)

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, 2004 and 2003 is provided below (in thousands).

	June 30	
	2004	2003
Assets		
Equity in Pooled Cash and Investments	\$ 1,601	\$ 2,149
Receivables	4,759	2,554
Capital Assets, Net of Accumulated Depreciation	<u>160,436</u>	<u>155,457</u>
Total Assets	166,796	160,160
Liabilities	<u>(3,544)</u>	<u>(2,152)</u>
Net Assets	<u>\$ 163,252</u>	<u>\$ 158,008</u>
Total Revenues	\$ 26,034	\$ 18,328
Total Expenses	<u>(20,990)</u>	<u>(18,467)</u>
Increase (decrease) in Net Assets	<u>\$ 5,044</u>	<u>\$ (139)</u>

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.

Notes to the Financial Statements

(Continued)

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.

Notes to the Financial Statements
(Continued)

Funding Policy and Annual Pension Cost (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, 2004. 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, 2004. 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, 2004.

The City's annual pension costs for the current year and related information for each plan is as follows:

	COPERS	APSPRS		EORPA
		Police	Fire	
Contribution Rates:				
City	9.17%	6.43%	6.59%	13.49%
Plan Members	5.00%	7.65%	7.65%	7.00%
Annual Pension Costs (thousands) (1)	\$ 39,564	\$ 11,059	\$ 5,714	\$ 57
Contributions Made (thousands)	\$ 39,564	\$ 11,059	\$ 5,714	\$ 57
Actuarial Valuation Date	6/30/04	6/30/03	6/30/03	6/30/03
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. This amount reported above is before the fire premium tax credit allowance.

Notes to the Financial Statements
(Continued)

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	6/30/04	\$ 39,563,747	100 %	N/A
	6/30/03	27,819,507	100	N/A
	6/30/02	28,294,889	100	N/A
Public Safety Employees - Police	6/30/04	\$ 11,059,483	100 %	N/A
	6/30/03	4,351,071	100	N/A
	6/30/02	3,264,728	100	N/A
Public Safety Employees - Fire	6/30/04	\$ 5,713,553	100 %	N/A
	6/30/03	2,885,365	100	N/A
	6/30/02	-	100	N/A
Elected Officials	6/30/04	\$ 57,496	100 %	N/A
	6/30/03	26,575	100	N/A
	6/30/02	24,015	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	6/30/04	\$ 1,417,774	\$ 1,684,795	\$ 267,021	84.2 %	\$ 445,348	60.0 %
	6/30/03	1,330,584	1,504,125	173,541	88.5	416,472	41.7
	6/30/02	1,273,731	1,390,273	116,542	91.6	404,414	28.8
Public Safety Employees - Police	6/30/04	\$ (1)	\$ (1)	\$ (1)	(1) %	\$ (1)	(1) %
	6/30/03	1,087,091	1,087,407	316	100.0	163,889	0.2
	6/30/02	1,075,571	938,886	(136,685)	114.6	161,091	N/A
Public Safety Employees - Fire	6/30/04	\$ (1)	\$ (1)	\$ (1)	(1) %	\$ (1)	(1) %
	6/30/03	631,030	623,043	(7,987)	101.3	84,662	N/A
	6/30/02	616,332	537,155	(79,177)	114.7	86,243	N/A

(1) Information not available

Notes to the Financial Statements

(Continued)

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.

A 1996 federal law 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 was administered by the International City Management Association Retirement Corporation ("ICMA-RC") from December 4, 1998 through April 6, 2004. Beginning April 7, 2004, Nationwide Investment Services Corporation became the Plan administrator.

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, 2004, approximately 4,728 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, 2004 and 2003 was \$9,844,324 and \$9,280,498, 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.

Notes to the Financial Statements

(Continued)

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, 2004 and 2003 was approximately \$313,000 and \$379,000, respectively. The City funds this cost on a pay-as-you-go basis.

20. Subsequent Events

Bond Issuances

On July 1, 2004, the City of Phoenix issued \$27,775,000 in Refunding Certificates of Participation, Series 17 relating to the Arizona Municipal Financing Program of 1992. These bonds were issued at a true interest cost of 4.125% and were delivered on July 21, 2004.

On July 1, 2004, the City of Phoenix issued \$35,465,000 in Refunding Certificates of Participation, Series 18 relating to the Arizona Municipal Financing Program of 1992. These bonds were issued at a true interest cost of 4.707% and were delivered on July 21, 2004.

On December 10, 2004, the City of Phoenix Civic Improvement Corporation issued \$500 million Transit Excise Tax Revenue Bonds, Series 2004. These bonds were issued at a true interest cost of 4.087% and were delivered on December 10, 2004.

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City of Phoenix, Arizona
Combining Balance Sheet
Non-Major Governmental Funds

June 30, 2004

with comparative totals for June 30, 2003
(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	\$ -	\$ 64,731	\$ -	\$ 155,149	\$ 7,459
Cash Deposits	60	293	-	-	-
Cash and Securities with Fiscal Agents/Trustees	-	-	-	-	-
Investments	-	-	-	-	-
Due from Other Funds	-	-	-	-	-
Receivables, Net of Allowance					
Accounts Receivable	1,980	-	-	310	-
Taxes Receivable	-	-	-	-	-
Delinquent Taxes Receivable	-	-	-	-	-
Intergovernmental	-	9,675	-	8,965	5
Accrued Interest	-	-	-	-	-
Notes Receivable	-	-	-	-	-
Prepaid Items	-	-	-	-	-
Inventories	-	1,103	-	1,660	-
Total Assets	<u>\$ 2,040</u>	<u>\$ 75,802</u>	<u>\$ -</u>	<u>\$ 166,084</u>	<u>\$ 7,464</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Due to Other Funds	\$ 1,920	\$ -	\$ -	\$ -	\$ -
Warrants and Accounts Payable	25	4,276	-	11,521	531
Trust Liabilities and Deposits	60	3,633	-	-	805
Matured Bonds Payable	-	-	-	-	-
Interest Payable	-	-	-	-	-
Deferred Revenue	-	-	-	17	-
Total Liabilities	<u>2,005</u>	<u>7,909</u>	<u>-</u>	<u>11,538</u>	<u>1,336</u>
Fund Balances					
Reserved					
Encumbrances	42	26,095	-	8,250	519
Debt Service	-	-	-	8,355	-
Inventories	-	1,103	-	1,660	-
Prepaid Items	-	-	-	-	-
Unreserved					
Designated for Insurance Claims	-	-	-	4,329	-
Designated for Unrealized Gain on Investments	-	359	4	947	42
Undesignated	(7)	40,336	(4)	131,005	5,567
Total Fund Balances	<u>35</u>	<u>67,893</u>	<u>-</u>	<u>154,546</u>	<u>6,128</u>
Total Liabilities and Fund Balances	<u>\$ 2,040</u>	<u>\$ 75,802</u>	<u>\$ -</u>	<u>\$ 166,084</u>	<u>\$ 7,464</u>

Special Revenue Funds

Library	Parks and Recreation	Development Services	Grants	Public Housing	Sports Facilities	Capital Construction	Other Restricted	Total
\$ 1,164	\$ 39,834	\$ 109,217	\$ -	\$ -	\$ 11,467	\$ 27,693	\$ 5,923	\$ 422,637
-	-	-	-	-	-	-	-	353
-	-	-	86	2,661	43	-	-	2,790
-	-	-	-	45,007	-	-	-	45,007
-	-	-	-	-	-	-	-	-
-	21	3,646	1,041	827	-	10	-	7,835
-	93	-	-	-	-	-	-	93
-	-	-	-	-	-	-	-	-
-	9	20	18,430	8,683	-	-	-	45,787
-	-	-	-	186	-	-	-	186
-	-	-	-	15,104	-	-	-	15,104
-	14	-	-	3,107	-	-	-	3,121
153	345	-	-	66	-	-	-	3,327
\$ 1,317	\$ 40,316	\$ 112,883	\$ 19,557	\$ 75,641	\$ 11,510	\$ 27,703	\$ 5,923	\$ 546,240
\$ -	\$ -	\$ -	\$ 4,099	\$ 20,318	\$ -	\$ -	\$ -	\$ 26,337
836	2,161	1,941	4,812	3,684	1	3,053	146	32,987
(18)	2	3,739	3,110	18,702	-	-	29	30,062
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	2	5,640	7,536	11	-	-	-	13,206
818	2,165	11,320	19,557	42,715	1	3,053	175	102,592
452	4,936	2,911	5,171	804	684	9,135	186	59,185
-	2,089	-	-	-	875	1,605	-	12,924
153	345	-	-	66	-	-	-	3,327
-	14	-	-	3,107	-	-	-	3,121
-	-	-	-	-	-	-	-	4,329
13	338	699	-	-	60	160	23	2,645
(119)	30,429	97,953	(5,171)	28,949	9,890	13,750	5,539	358,117
499	38,151	101,563	-	32,926	11,509	24,650	5,748	443,648
\$ 1,317	\$ 40,316	\$ 112,883	\$ 19,557	\$ 75,641	\$ 11,510	\$ 27,703	\$ 5,923	\$ 546,240

City of Phoenix, Arizona
Combining Balance Sheet
Non-Major Governmental Funds

(Continued)

June 30, 2004
with comparative totals for June 30, 2003
(in thousands)

	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	9,592	35,739	17,212	15,420	12,229
Due from Other Funds	-	-	4,809	-	-
Receivables, Net of Allowance					
Accounts Receivable	88	-	2	1	-
Taxes Receivable	-	-	-	-	-
Delinquent Taxes Receivable	-	-	-	-	-
Intergovernmental	1,099	20	-	-	602
Accrued Interest	-	-	-	-	-
Notes Receivable	-	-	-	-	-
Prepaid Items	-	-	-	-	-
Inventories	-	-	-	-	-
Total Assets	<u>\$ 10,779</u>	<u>\$ 35,759</u>	<u>\$ 22,023</u>	<u>\$ 15,421</u>	<u>\$ 12,831</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Due to Other Funds	\$ 11,346	\$ 21,318	\$ -	\$ 2,884	\$ 11,764
Warrants and Accounts Payable	2,313	8,172	1,266	2,278	296
Trust Liabilities and Deposits	-	-	-	723	2
Matured Bonds Payable	-	-	-	-	-
Interest Payable	-	-	-	-	-
Deferred Revenue	-	-	-	-	-
Total Liabilities	<u>13,659</u>	<u>29,490</u>	<u>1,266</u>	<u>5,885</u>	<u>12,062</u>
Fund Balances					
Reserved					
Encumbrances	9,891	20,788	4,697	13,178	7,693
Debt Service	-	-	-	-	-
Inventories	-	-	-	-	-
Prepaid Items	-	-	-	-	-
Unreserved					
Designated for Insurance Claims	-	-	-	-	-
Designated for Unrealized Gain on Investments	6	15	26	7	6
Undesignated	(12,777)	(14,534)	16,034	(3,649)	(6,930)
Total Fund Balances	<u>(2,880)</u>	<u>6,269</u>	<u>20,757</u>	<u>9,536</u>	<u>769</u>
Total Liabilities and Fund Balances	<u>\$ 10,779</u>	<u>\$ 35,759</u>	<u>\$ 22,023</u>	<u>\$ 15,421</u>	<u>\$ 12,831</u>

(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 Improvement
\$ -	\$ -	\$ -	\$ -	\$ 33,002	\$ 20	\$ -	\$ 1,941
-	-	-	-	-	-	-	-
-	-	-	-	51,297	23,550	-	16,125
95,593	515	34,012	220,312	253,775	-	-	2,326
-	-	-	4,809	-	-	-	-
35	1	-	127	-	-	-	-
-	-	-	-	1,997	-	-	-
-	-	-	-	2,606	-	-	-
-	16,708	-	18,429	-	-	-	-
365	-	-	365	1,004	-	-	47
1,000	-	-	1,000	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
\$ 96,993	\$ 17,224	\$ 34,012	\$ 245,042	\$ 343,681	\$ 23,570	\$ -	\$ 20,439
\$ 3,619	\$ 45,647	\$ 37,834	\$ 134,412	\$ -	\$ -	\$ -	\$ -
1,505	7,369	8,757	31,956	13	-	-	1,790
-	-	-	725	-	-	-	-
-	-	-	-	31,965	18,805	-	7,947
-	-	-	-	19,332	4,745	-	8,178
1,000	-	-	1,000	2,606	-	-	-
6,124	53,016	46,591	168,093	53,916	23,550	-	17,915
6,742	61,742	29,967	154,698	-	-	-	-
-	-	-	-	289,265	(123)	-	2,277
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
5	-	17	82	500	143	-	247
84,122	(97,534)	(42,563)	(77,831)	-	-	-	-
90,869	(35,792)	(12,579)	76,949	289,765	20	-	2,524
\$ 96,993	\$ 17,224	\$ 34,012	\$ 245,042	\$ 343,681	\$ 23,570	\$ -	\$ 20,439

City of Phoenix, Arizona
Combining Balance Sheet
Non-Major Governmental Funds

(Continued)

June 30, 2004
with comparative totals for June 30, 2003
(in thousands)

	<u>Debt Service Funds</u>			
	Special Assess- ment	Total	Totals	
			2004	2003
ASSETS				
Equity in Pooled Cash and Investments	\$ 1,582	\$ 36,545	\$ 459,182	\$ 388,386
Cash Deposits	-	-	353	243
Cash and Securities with Fiscal Agents/Trustees	147	91,119	93,909	76,591
Investments	-	256,101	521,420	433,801
Due from Other Funds	-	-	4,809	9,704
Receivables, Net of Allowance				
Accounts Receivable	4,087	4,087	12,049	15,151
Taxes Receivable	-	1,997	2,090	1,937
Delinquent Taxes Receivable	-	2,606	2,606	2,393
Intergovernmental	-	-	64,216	47,639
Accrued Interest	16	1,067	1,618	1,111
Notes Receivable	-	-	16,104	13,234
Prepaid Items	-	-	3,121	2,780
Inventories	-	-	3,327	3,693
Total Assets	<u>\$ 5,832</u>	<u>\$ 393,522</u>	<u>\$ 1,184,804</u>	<u>\$ 996,663</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Due to Other Funds	\$ -	\$ -	\$ 160,749	\$ 97,212
Warrants and Accounts Payable	-	1,803	66,746	50,951
Trust Liabilities and Deposits	76	76	30,863	28,787
Matured Bonds Payable	-	58,717	58,717	40,959
Interest Payable	147	32,402	32,402	26,216
Deferred Revenue	4,240	6,846	21,052	35,230
Total Liabilities	<u>4,463</u>	<u>99,844</u>	<u>370,529</u>	<u>279,355</u>
Fund Balances				
Reserved				
Encumbrances	-	-	213,883	166,698
Debt Service	1,369	292,788	305,712	246,426
Inventories	-	-	3,327	3,693
Prepaid Items	-	-	3,121	2,780
Unreserved				
Designated for Insurance Claims	-	-	4,329	3,019
Designated for Unrealized Gain on Investments	-	890	3,617	29,327
Undesignated	-	-	280,286	265,365
Total Fund Balances	<u>1,369</u>	<u>293,678</u>	<u>814,275</u>	<u>717,308</u>
Total Liabilities and Fund Balances	<u>\$ 5,832</u>	<u>\$ 393,522</u>	<u>\$ 1,184,804</u>	<u>\$ 996,663</u>

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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, 2004
with comparative totals for June 30, 2003
(in thousands)

	Special Revenue Funds				
	Cable Communi- cations	Highway User Revenue	Local Trans- portation Assistance	Transit	Municipal Court
REVENUES					
City Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	8,207	-	-	-	-
Intergovernmental	-	112,654	7,245	18,529	-
Charges for Services	-	51	-	20,947	4,460
Parks and Recreation	-	-	-	-	-
Investment Income	-	-	-	-	-
Net Increase (Decrease) in Fair Value of Investments	-	(1,900)	-	(3,574)	(140)
Interest	-	1,943	-	3,679	148
Dwelling Rentals	-	-	-	-	-
Other	50	783	-	4,164	-
Total Revenues	8,257	113,531	7,245	43,745	4,468
EXPENDITURES					
Current Operating					
General Government	3,692	-	-	-	83
Criminal Justice	-	-	-	-	316
Public Safety	-	-	-	-	3,179
Transportation	890	28,681	7,456	83,967	-
Community Enrichment	121	-	105	156	-
Community Development	-	-	-	-	-
Environmental Services	-	-	-	-	-
Capital	-	57,109	-	38,448	398
Debt Service					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Bond Issuance Costs	-	-	-	-	-
Arbitrage Rebate and Fiscal Agent Fees	-	-	-	-	-
Other	-	-	-	-	-
Total Expenditures	4,703	85,790	7,561	122,571	3,976
Excess (Deficiency) of Revenues Over Expenditures	3,554	27,741	(316)	(78,826)	492
OTHER FINANCING SOURCES (USES)					
Transfers from Other Funds	-	-	-	92,349	-
Transfers to Other Funds	(3,540)	(31,131)	-	(2,739)	-
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	(3,540)	(31,131)	-	89,610	-
Net Change in Fund Balances	14	(3,390)	(316)	10,784	492
FUND BALANCES, JULY 1	21	71,283	316	143,762	5,636
FUND BALANCES, JUNE 30	\$ 35	\$ 67,893	\$ -	\$ 154,546	\$ 6,128

Special Revenue Funds

Library	Parks and Recreation	Development Services	Grants	Public Housing	Sports Facilities	Capital Construction	Other Restricted	Total
\$ -	\$ 7,053	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,053
-	-	-	-	-	-	-	4	8,211
-	-	-	83,773	65,292	-	41	2	287,536
936	-	77,754	114	-	-	4	77	104,343
-	3,690	-	-	-	-	-	2,286	5,976
(37)	(876)	(2,501)	(202)	(950)	(224)	(820)	(145)	(11,369)
40	931	2,632	286	1,088	245	839	155	11,986
28	-	-	-	6,445	-	-	15	6,488
26	498	(5)	983	1,135	395	48	2,579	10,656
993	11,296	77,880	84,954	73,010	416	112	4,973	430,880
-	-	-	1,324	-	-	-	1,230	6,329
-	-	-	14	-	-	-	-	330
-	-	1,915	11,300	-	935	-	75	17,404
-	-	-	195	-	-	-	-	121,189
28,106	80,362	-	48,056	152	-	-	2,897	159,955
-	-	39,163	17,701	66,508	458	-	31	123,861
-	-	-	6	-	-	20	24	50
400	6,643	11,030	6,358	9,421	1,277	25,935	68	157,087
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
28,506	87,005	52,108	84,954	76,081	2,670	25,955	4,325	586,205
(27,513)	(75,709)	25,772	-	(3,071)	(2,254)	(25,843)	648	(155,325)
27,370	92,655	-	-	-	12,577	17,196	-	242,147
-	-	-	-	(1,301)	(9,236)	-	-	(47,947)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
27,370	92,655	-	-	(1,301)	3,341	17,196	-	194,200
(143)	16,946	25,772	-	(4,372)	1,087	(8,647)	648	38,875
642	21,205	75,791	-	37,298	10,422	33,297	5,100	404,773
\$ 499	\$ 38,151	\$ 101,563	\$ -	\$ 32,926	\$ 11,509	\$ 24,650	\$ 5,748	\$ 443,648

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, 2004
with comparative totals for June 30, 2003
(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	5,867	2,757	-	665	4,143
Charges for Services	-	-	-	-	-
Parks and Recreation	-	-	-	-	-
Investment Income					
Net Increase (Decrease) in Fair Value of Investments	29	84	(92)	84	45
Interest	1	3	129	2	1
Dwelling Rentals	-	-	-	-	-
Other	909	1,297	37	327	74
Total Revenues	<u>6,806</u>	<u>4,141</u>	<u>74</u>	<u>1,078</u>	<u>4,263</u>
EXPENDITURES					
Current Operating					
General Government	-	-	-	-	-
Criminal Justice	-	-	-	-	-
Public Safety	-	-	-	-	-
Transportation	-	-	-	-	-
Community Enrichment	-	-	-	-	-
Community Development	-	-	-	-	-
Environmental Services	-	-	-	-	-
Capital	24,416	56,155	9,483	22,224	16,154
Debt Service					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Bond Issuance Costs	-	-	-	-	-
Arbitrage Rebate and Fiscal Agent Fees	-	-	-	-	-
Other	-	-	-	-	-
Total Expenditures	<u>24,416</u>	<u>56,155</u>	<u>9,483</u>	<u>22,224</u>	<u>16,154</u>
Excess (Deficiency) of Revenues Over Expenditures	(17,610)	(52,014)	(9,409)	(21,146)	(11,891)
OTHER FINANCING SOURCES (USES)					
Transfers from Other Funds	-	-	-	-	530
Transfers to Other Funds	(189)	-	-	(47)	-
Proceeds					
General Obligation and Revenue Bonds	18,000	63,000	21,000	32,500	27,500
Premium/(Discount) on General Obligation and Revenue Bonds	-	-	-	-	-
Certificates of Participation and Municipal Corporation Obligations	(7)	18,437	-	295	419
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	<u>17,804</u>	<u>81,437</u>	<u>21,000</u>	<u>32,748</u>	<u>28,449</u>
Net Change in Fund Balances	194	29,423	11,591	11,602	16,558
FUND BALANCES, JULY 1	(3,074)	(23,154)	9,166	(2,066)	(15,789)
FUND BALANCES, JUNE 30	<u>\$ (2,880)</u>	<u>\$ 6,269</u>	<u>\$ 20,757</u>	<u>\$ 9,536</u>	<u>\$ 769</u>

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 Improvement
\$ -	\$ -	\$ -	\$ -	\$ 94,263	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	63,470	-	76,902	-	-	-	-
-	-	-	-	-	-	-	-
(1,924)	9	346	(1,419)	(3,002)	(36)	-	(281)
2,181	52	5	2,374	4,906	48	-	275
-	-	-	-	-	-	-	-
(198)	-	80	2,526	-	-	-	-
59	63,531	431	80,383	96,167	12	-	(6)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
15,634	101,297	41,890	287,253	-	-	-	-
-	-	-	-	31,965	18,805	395	8,668
-	-	-	-	35,386	9,525	152	16,423
-	-	-	-	519	223	-	-
-	-	-	-	5	1	-	28
-	-	-	-	-	-	-	1,908
15,634	101,297	41,890	287,253	67,875	28,554	547	27,027
(15,575)	(37,766)	(41,459)	(206,870)	28,292	(28,542)	(547)	(27,033)
5,204	-	34,867	40,601	5,442	28,331	547	27,219
(35,050)	-	(2)	(35,288)	-	-	-	(162)
9,700	-	28,300	200,000	-	-	-	-
-	-	-	-	8,599	-	-	-
856	-	-	20,000	-	-	-	-
1,311	-	-	1,311	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	42,020	-	-	-
-	-	-	-	(45,502)	-	-	-
(17,979)	-	63,165	226,624	10,559	28,331	547	27,057
(33,554)	(37,766)	21,706	19,754	38,851	(211)	-	24
124,423	1,974	(34,285)	57,195	250,914	231	-	2,500
\$ 90,869	\$ (35,792)	\$ (12,579)	\$ 76,949	\$ 289,765	\$ 20	\$ -	\$ 2,524

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, 2004
with comparative totals for June 30, 2003
(in thousands)

	<u>Debt Service Funds</u>			
	Special Assess- ment	Total	Totals	
			2004	2003
REVENUES				
City Taxes	\$ -	\$ 94,263	\$ 101,316	\$ 94,843
Licenses and Permits	-	-	8,211	7,552
Intergovernmental	-	-	364,438	319,337
Charges for Services	-	-	104,343	89,962
Parks and Recreation	-	-	5,976	5,774
Special Assessments	1,641	1,641	1,641	1,692
Investment Income				
Net Increase (Decrease) in Fair Value of Investments	54	(3,265)	(16,053)	5,408
Interest	-	5,229	19,589	20,474
Dwelling Rentals	-	-	6,488	6,507
Other	9	9	13,191	36,735
Total Revenues	<u>1,704</u>	<u>97,877</u>	<u>609,140</u>	<u>588,284</u>
EXPENDITURES				
Current Operating				
General Government	-	-	6,329	5,884
Criminal Justice	-	-	330	12,582
Public Safety	-	-	17,404	3,763
Transportation	-	-	121,189	113,604
Community Enrichment	-	-	159,955	154,416
Community Development	-	-	123,861	115,337
Environmental Services	-	-	50	6
Capital	-	-	444,340	319,030
Debt Service				
Principal	1,492	61,325	61,325	43,541
Interest	342	61,828	61,828	58,551
Bond Issuance Costs	-	742	742	1,779
Arbitrage Rebate and Fiscal Agent Fees	-	34	34	35
Other	19	1,927	1,927	5
Total Expenditures	<u>1,853</u>	<u>125,856</u>	<u>999,314</u>	<u>828,533</u>
Excess (Deficiency) of Revenues Over Expenditures	(149)	(27,979)	(390,174)	(240,249)
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	-	61,539	344,287	308,382
Transfers to Other Funds	(177)	(339)	(83,574)	(61,766)
Proceeds				
General Obligation and Revenue Bonds	-	-	200,000	-
Premium/(Discount) on General Obligation and Revenue Bonds	-	8,599	8,599	-
Certificates of Participation and Municipal Corporation Obligations	-	-	20,000	60,000
Premium/(Discount) on Certificates of Participation and Municipal Corporation Obligations	-	-	1,311	611
Special Assessment Bonds	-	-	-	135
Refunding Bonds	-	42,020	42,020	157,237
Deposit to Refunding Escrow	-	(45,502)	(45,502)	(155,695)
Total Other Financing Sources and Uses	<u>(177)</u>	<u>66,317</u>	<u>487,141</u>	<u>308,904</u>
Net Change in Fund Balances	(326)	38,338	96,967	68,655
FUND BALANCES, JULY 1	1,695	255,340	717,308	648,653
FUND BALANCES, JUNE 30	<u>\$ 1,369</u>	<u>\$ 293,678</u>	<u>\$ 814,275</u>	<u>\$ 717,308</u>

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City of Phoenix, Arizona
Aviation Enterprise Fund
Comparative Statements of Net Assets

June 30, 2004 and 2003
(in thousands)

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
Current Assets		
Equity in Pooled Cash and Investments	\$ 60,569	\$ 75,247
Receivables		
Accounts Receivable, Net of Allowance for		
Doubtful Accounts (2004, \$724 and 2003, \$1,187)	3,669	3,212
Deposits in Escrow	126	129
Prepaid Items	1,190	1,360
Inventories, at Average Cost	1,051	1,045
Total Unrestricted Current Assets	<u>66,605</u>	<u>80,993</u>
Restricted Assets		
Debt Service		
Investments	-	8,279
Cash with Fiscal Agent/Trustee	37,367	35,837
Revenue Bond Reserve		
Investments	29,095	29,264
Accrued Interest Receivable	147	209
Airport Improvement Reserve		
Equity in Pooled Cash and Investments	39,564	39,564
Passenger Facility Charge		
Equity in Pooled Cash and Investments	109,812	57,247
Accounts Receivable	9,552	9,232
Customer Facility Charge		
Equity in Pooled Cash and Investments	-	10,241
Accounts Receivable	2,651	1,872
Investments	242,364	-
Cash with Fiscal Agent/Trustee	14,142	-
Capital Projects		
Equity in Pooled Cash and Investments	73,240	77,084
Investments	227,328	262,255
Receivables		
Intergovernmental	14,217	2,183
Total Restricted Current Assets	<u>799,479</u>	<u>533,267</u>
Noncurrent Assets		
Capital Assets		
Land	304,556	217,887
Buildings	497,128	495,883
Improvements Other Than Buildings	772,526	672,738
Equipment	43,693	42,012
Construction in Progress	470,381	480,642
Less: Accumulated Depreciation	(577,339)	(521,194)
Total Capital Assets, Net of Accumulated Depreciation	<u>1,510,945</u>	<u>1,387,968</u>
Total Noncurrent Assets	<u>1,510,945</u>	<u>1,387,968</u>
Total Assets	<u>2,377,029</u>	<u>2,002,228</u>

<u>LIABILITIES</u>	<u>2004</u>	<u>2003</u>
Current Liabilities Payable from Current Assets		
Warrants Payable	3,407	2,995
Accounts Payable	5,928	7,505
Trust Liabilities and Deposits	155	157
Deferred Revenue	3,948	4,218
Capital Leases	458	458
Current Portion of Accrued Compensated Absences	500	511
Total Current Liabilities Payable from Current Assets	14,396	15,844
Current Liabilities Payable from Restricted Assets		
Debt Service		
Matured Bonds Payable	17,160	16,395
Interest Payable	20,207	19,441
Current Portion of General Obligation Bonds	3,230	3,251
Current Portion of Revenue Bonds	3,925	3,710
Current Portion of Municipal Corporation Obligations	13,860	10,200
Capital Projects		
Warrants Payable	4,417	3,642
Accounts Payable	24,183	9,074
Total Current Liabilities Payable from Restricted Assets	86,982	65,713
Noncurrent Liabilities		
General Obligation Bonds, Net of Deferred Interest Expense Adjustment (2004, \$1,813 and 2003, \$2,006)	22,562	25,599
Revenue Bonds, Net of Deferred Interest Expense Adjustment (2004, \$0 and 2003, \$0)	37,315	41,240
Municipal Corporation Obligations, Net of Deferred Interest Expense Adjustment (2004, \$3,098 and 2003, \$3,637)	631,242	644,562
Rental Car Facility Revenue Bonds, Net of Deferred Interest Expense Adjustment (2004, \$0 and 2003, \$0)	260,000	-
Unamortized Premium (Discount)	680	892
Capital Leases	1,798	2,252
Accrued Compensated Absences	3,926	3,819
Total Noncurrent Liabilities	957,523	718,364
Total Liabilities	1,058,901	799,921
 <u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	991,343	905,266
Restricted for Bond Retirement	29,095	29,264
Unrestricted	297,690	267,777
Total Net Assets	\$ 1,318,128	\$ 1,202,307

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, 2004 and 2003
(in thousands)

	<u>2004</u>	<u>2003</u>
Operating Revenues		
Landing and Terminals Fees	\$ 117,070	\$ 111,261
Parking and Car Rentals	78,425	73,237
Other	17,777	21,818
Total Operating Revenues	<u>213,272</u>	<u>206,316</u>
Operating Expenses		
Operation and Maintenance	137,744	124,774
Depreciation	58,455	53,346
Staff and Administrative	5,189	4,840
Total Operating Expenses	<u>201,388</u>	<u>182,960</u>
Operating Income	11,884	23,356
Non-Operating Revenues (Expenses)		
Investment Income		
Net Increase (Decrease) in Fair		
Value of Investments	(5,916)	5,065
Interest	1,787	3,110
Interest on Capital Debt	(27,503)	(27,813)
Gain (Loss) on Disposal of Fixed Assets	399	(1,990)
Total Non-Operating Revenues (Expenses)	<u>(31,233)</u>	<u>(21,628)</u>
Net Income (Loss) Before Contributions	(19,349)	1,728
Capital Contributions	135,170	138,867
Change in Net Assets	<u>115,821</u>	<u>140,595</u>
Net Assets, July 1	1,202,307	1,061,712
Net Assets, June 30	<u>\$ 1,318,128</u>	<u>\$ 1,202,307</u>

City of Phoenix, Arizona
Aviation Enterprise Fund
Comparative Statements of Cash Flows
For the Fiscal Years Ended June 30, 2004 and 2003
(in thousands)

	<u>2004</u>	<u>2003</u>
Cash Flows from Operating Activities		
Receipts from Customers	\$ 212,544	\$ 209,544
Payments to Suppliers	(95,263)	(81,142)
Payments to Employees	(43,384)	(40,612)
Payment of Staff and Administrative Expenses	(5,189)	(4,840)
Net Cash Provided by Operating Activities	<u>68,708</u>	<u>82,950</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from Capital Debt	260,000	-
Principal Paid on Capital Debt	(16,850)	(24,948)
Interest Paid on Capital Debt	(37,463)	(32,043)
Receipts of Passenger Facility Charges	-	-
Acquisition and Construction of Capital Assets	(156,846)	(145,271)
Proceeds from Sales of Capital Assets	596	21
Capital Contributions	122,038	127,654
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>171,475</u>	<u>(74,587)</u>
Cash Flows from Investing Activities		
Purchases of Investment Securities	(7,189,096)	(4,311,160)
Proceeds from Sale and Maturities of Investment Securities	6,990,103	4,389,962
Interest on Investments	(1,716)	13,116
Net Cash Provided (Used) by Investing Activities	<u>(200,709)</u>	<u>91,918</u>
Net Increase in Cash and Cash Equivalents	39,474	100,281
Cash and Cash Equivalents, July 1	295,220	194,939
Cash and Cash Equivalents, June 30	<u>\$ 334,694</u>	<u>\$ 295,220</u>
Reconciliation of Operating Income to		
Net Cash Provided by Operating Activities		
Operating Income	\$ 11,884	\$ 23,356
Adjustments		
Depreciation	58,455	53,346
(Increase) Decrease in Assets		
Receivables	6	2,148
Allowance for Doubtful Accounts	(463)	(570)
Deposits in Escrow	3	-
Prepaid Items	170	170
Inventories	(6)	(175)
Increase (Decrease) in Liabilities		
Warrants Payable	412	8
Accounts Payable	(1,577)	2,729
Trust Liabilities and Deposits	(2)	-
Deferred Revenue	(270)	1,651
Accrued Compensated Absences	96	287
Net Cash Provided by Operating Activities	<u>\$ 68,708</u>	<u>\$ 82,950</u>
Noncash Transactions Affecting Financial Position		
Refunding Issuance in Excess of Bond Retirement	\$ 732	\$ 262
Increase (Decrease) in Fair Value of Investments	(1,109)	96
Total Noncash Transactions Affecting Financial Position	<u>\$ (377)</u>	<u>\$ 358</u>

City of Phoenix, Arizona
Water System Enterprise Fund
Comparative Statements of Net Assets

June 30, 2004 and 2003
(in thousands)

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
Current Assets		
Equity in Pooled Cash and Investments	\$ 99,003	\$ 115,628
Investments	10,145	10,205
Receivables		
Accounts Receivable, Net of Allowance for Doubtful Accounts (2004, \$791 and 2003, \$751)	36,537	33,092
Intergovernmental	1,809	923
Accrued Interest	40	20
Prepaid Items	3,631	3,084
Inventories, at Average Cost	2,227	2,157
Total Unrestricted Current Assets	<u>153,392</u>	<u>165,109</u>
Restricted Assets		
Debt Service		
Cash with Fiscal Agent	43,441	44,439
Capital Projects		
Equity in Pooled Cash and Investments	56,620	55,023
Deposit with State Treasurer's Trust for Plan Six	4,053	3,995
Investments	106,823	86,789
Due From Other Funds	-	1,190
Receivables		
Accrued Interest	312	381
Customer and Other Deposits	1,821	2,053
Total Restricted Current Assets	<u>213,070</u>	<u>193,870</u>
Noncurrent Assets		
Capital Assets		
Land	58,715	55,231
Buildings	106,364	94,777
Improvements Other Than Buildings	424,385	391,601
Equipment	137,942	117,895
Mains, Hydrants, Meters and Service Connections	985,061	883,490
Construction in Progress	176,019	164,884
Less: Accumulated Depreciation	<u>(544,990)</u>	<u>(499,930)</u>
Total Capital Assets, Net of Accumulated Depreciation	1,343,496	1,207,948
Other Assets		
Excess of Cost Over Net Assets Acquired, Less Accumulated Amortization (2004, \$327 and 2003, \$306)	115	136
Water Rights, Less Accumulated Amortization (2004, \$10,338 and 2003, \$9,300)	32,693	32,615
Investment in Val Vista Treatment Plant		
Joint Use Agreement	99,012	93,765
Total Other Assets	<u>131,820</u>	<u>126,516</u>
Total Noncurrent Assets	<u>1,475,316</u>	<u>1,334,464</u>
Total Assets	<u>1,841,778</u>	<u>1,693,443</u>

	2004	2003
<u>LIABILITIES</u>		
Current Liabilities Payable from Current Assets		
Warrants Payable	3,094	2,468
Accounts Payable	11,890	8,413
Deferred Revenue	41	37
Current Portion of Accrued Compensated Absences	792	804
Total Current Liabilities Payable from Current Assets	<u>15,817</u>	<u>11,722</u>
Current Liabilities Payable from Restricted Assets		
Debt Service		
Bond Anticipation Notes Payable	200,000	100,000
Matured Bonds Payable	26,636	27,430
Interest Payable	17,202	17,017
Current Portion of General Obligation Bonds	9,673	18,386
Current Portion of Municipal Corporation Obligations	8,815	9,235
Capital Projects		
Warrants Payable	6,502	3,911
Accounts Payable	13,521	7,514
Customer and Other Deposits	1,821	2,053
Total Current Liabilities Payable from Restricted Assets	<u>284,170</u>	<u>185,546</u>
Noncurrent Liabilities		
General Obligation Bonds, Net of Deferred Interest Expense Adjustment (2004, \$3,633 and 2003, \$3,849)	120,517	130,210
Revenue Bonds	-	10,000
Municipal Corporation Obligations, Net of Deferred Interest Expense Adjustment (2004, \$8,213 and 2003, \$7,735)	460,297	457,280
Unamortized Premium (Discount)	6,604	7,028
Accrued Compensated Absences	6,170	5,977
Total Noncurrent Liabilities	<u>593,588</u>	<u>610,495</u>
Total Liabilities	<u>893,575</u>	<u>807,763</u>
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	663,492	580,846
Restricted for Plan Six	4,053	3,995
Unrestricted	280,658	300,839
Total Net Assets	<u>\$ 948,203</u>	<u>\$ 885,680</u>

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, 2004 and 2003
(in thousands)

	<u>2004</u>	<u>2003</u>
Operating Revenues		
Water Sales	\$ 196,341	\$ 188,090
Environmental Charges	15,956	11,658
Other	11,853	17,122
Total Operating Revenues	<u>224,150</u>	<u>216,870</u>
Operating Expenses		
Administration and Engineering	18,756	17,293
Operation and Maintenance		
Customer Service	14,941	15,265
Production and Treatment	43,443	40,559
Distribution and Centralized Functions	44,590	40,904
Depreciation and Amortization	49,747	50,232
Staff and Administrative	6,366	6,160
Total Operating Expenses	<u>177,843</u>	<u>170,413</u>
Operating Income	46,307	46,457
Non-Operating Revenues (Expenses)		
Investment Income		
Net Increase (Decrease) in Fair Value of Investments	(5,840)	1,170
Interest	6,889	8,392
Interest on Capital Debt	(26,778)	(29,531)
Equity Interest in Joint Use Agreement Operating Loss	(4,674)	(4,743)
Loss on Disposal of Fixed Assets	(819)	(589)
Total Non-Operating Revenues (Expenses)	<u>(31,222)</u>	<u>(25,301)</u>
Net Income Before Contributions and Transfers	15,085	21,156
Capital Contributions	55,158	51,038
Operating Transfers to General Fund - In Lieu Property Taxes	(7,360)	(6,729)
Operating Transfers to Capital Projects Funds	(360)	(360)
Change in Net Assets	<u>62,523</u>	<u>65,105</u>
Net Assets, July 1	885,680	820,575
Net Assets, June 30	<u>\$ 948,203</u>	<u>\$ 885,680</u>

City of Phoenix, Arizona
Water System Enterprise Fund
Comparative Statements of Cash Flows
For the Fiscal Years Ended June 30, 2004 and 2003
(in thousands)

	2004	2003
Cash Flows from Operating Activities		
Receipts from Customers	\$ 219,591	\$ 219,848
Payments to Suppliers	(52,862)	(53,735)
Payments to Employees	(65,259)	(59,657)
Payment of Staff and Administrative Expenses	(6,366)	(6,160)
Net Cash Provided by Operating Activities	<u>95,104</u>	<u>100,296</u>
Cash Flows from Noncapital Financing Activities		
Operating Transfers to Other Funds	(7,720)	(7,089)
Net Cash Used by Noncapital Financing Activities	<u>(7,720)</u>	<u>(7,089)</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from Capital Debt	100,139	100,061
Principal Paid on Capital Debt	(26,636)	(27,520)
Interest Paid on Capital Debt	(33,714)	(31,833)
Proceeds from Loans/(Loans) to Developers	-	8,000
Acquisition and Construction of Capital Assets	(143,300)	(130,836)
Proceeds from Sales of Capital Assets	386	1,397
Capital Contributions	18,359	15,944
Net Cash Used by Capital and Related Financing Activities	<u>(84,766)</u>	<u>(64,787)</u>
Cash Flows from Investing Activities		
Purchases of Investment Securities	(810,989)	(376,035)
Proceeds from Sales and Maturities of Investment Securities	791,015	358,591
Interest on Investments	1,098	10,433
Net Cash Provided (Used) by Investing Activities	<u>(18,876)</u>	<u>(7,011)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(16,258)</u>	<u>21,409</u>
Cash and Cash Equivalents, July 1	217,143	195,734
Cash and Cash Equivalents, June 30	<u>\$ 200,885</u>	<u>\$ 217,143</u>
Reconciliation of Operating Income to		
Net Cash Provided by Operating Activities		
Operating Income	\$ 46,307	\$ 46,457
Adjustments		
Depreciation and Amortization	49,747	50,232
(Increase) Decrease in Assets		
Deposits for Plan Six	(58)	52
Receivables	(4,371)	2,693
Allowance for Doubtful Accounts	40	109
Prepaid Expenses	(547)	103
Inventories	(70)	74
Increase (Decrease) in Liabilities		
Warrants Payable	626	85
Accounts Payable	3,477	(160)
Deferred Revenue	4	-
Customer and Other Deposits	(232)	176
Accrued Compensated Absences	181	475
Net Cash Provided by Operating Activities	<u>\$ 95,104</u>	<u>\$ 100,296</u>
Noncash Transactions Affecting Financial Position		
Contributions of Capital Assets	\$ 36,799	\$ 35,094
Bond Capital Appreciation	321	446
Refunding Issuance in Excess of Bond Retirement	965	789
Increase (Decrease) in Fair Value of Investments	(1,742)	109
Total Noncash Transactions Affecting Financial Position	<u>\$ 36,343</u>	<u>\$ 36,438</u>

City of Phoenix, Arizona
Wastewater Enterprise Fund
Comparative Statements of Net Assets

June 30, 2004 and 2003
(in thousands)

	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
Current Assets		
Equity in Pooled Cash and Investments	\$ 30,579	\$ 24,105
Receivables		
Accounts Receivable, Net of Allowance for		
Doubtful Accounts (2004, \$394 and 2003, \$342)	11,696	10,609
Intergovernmental	2,242	2,918
Inventories, at Average Cost	613	585
Total Unrestricted Current Assets	<u>45,130</u>	<u>38,217</u>
Restricted Assets		
Debt Service		
Cash with Fiscal Agent	28,299	27,877
Investments	-	14
Capital Projects		
Equity in Pooled Cash and Investments	64,116	62,524
Investments	5,582	27,182
Receivables		
Intergovernmental	58	99
Customer Deposits and Other Trust Liabilities	215	183
Total Restricted Current Assets	<u>98,270</u>	<u>117,879</u>
Noncurrent Assets		
Capital Assets		
Land	17,086	17,086
Buildings	58,844	46,029
Improvements Other Than Buildings	851,744	776,369
Equipment	107,829	96,322
Construction in Progress	29,395	71,742
Less: Accumulated Depreciation	<u>(360,094)</u>	<u>(332,330)</u>
Total Capital Assets, Net of Accumulated Depreciation	704,804	675,218
Other Assets		
Investment in SROG Joint Use Agreement	287,038	241,477
Total Noncurrent Assets	<u>991,842</u>	<u>916,695</u>
Total Assets	<u>1,135,242</u>	<u>1,072,791</u>

	<u>2004</u>	<u>2003</u>
<u>LIABILITIES</u>		
Current Liabilities Payable from Current Assets		
Warrants Payable	921	457
Accounts Payable	4,924	4,808
Utility Repayment Agreements	357	639
Current Portion of Accrued Compensated Absences	181	184
Total Current Liabilities Payable from Current Assets	<u>6,383</u>	<u>6,088</u>
Current Liabilities Payable from Restricted Assets		
Debt Service		
Bond Anticipation Notes Payable	100,000	60,000
Matured Bonds Payable	17,005	16,083
Interest Payable	13,501	13,933
Current Portion of General Obligation Bonds	7,232	6,765
Current Portion of Municipal Corporation Obligations	14,495	10,240
Capital Projects		
Warrants Payable	873	210
Accounts Payable	8,345	10,201
Customer Deposits and Other Trust Liabilities	215	183
Total Current Liabilities Payable from Restricted Assets	<u>161,666</u>	<u>117,615</u>
Noncurrent Liabilities		
General Obligation Bonds, Net of Deferred Interest Expense Adjustment (2004, \$2,509 and 2003, \$2,892)		
	64,521	71,294
Municipal Corporation Obligations, Net of Deferred Interest Expense Adjustment (2004, \$23,797 and 2003, \$25,043)		
	408,983	422,232
Unamortized Premium (Discount)	(1,843)	(2,075)
Utility Repayment Agreements	4,717	5,132
Rebatable Arbitrage	-	510
Accrued Compensated Absences	1,449	1,385
Total Noncurrent Liabilities	<u>477,827</u>	<u>498,478</u>
Total Liabilities	<u>645,876</u>	<u>622,181</u>
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	351,159	343,757
Unrestricted	138,207	106,853
Total Net Assets	<u>\$ 489,366</u>	<u>\$ 450,610</u>

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, 2004 and 2003
(in thousands)

	2004	2003
Operating Revenues		
Sewer Service Charges	\$ 87,993	\$ 78,784
Environmental Charges	22,862	22,361
Other	4,091	3,502
Total Operating Revenues	<u>114,946</u>	<u>104,647</u>
Operating Expenses		
Administration	5,899	5,811
Operation	26,742	22,307
Maintenance	18,209	16,627
Depreciation	29,100	30,390
Staff and Administrative	1,305	1,432
Industrial Waste/Pre-Treatment	4,392	3,781
Total Operating Expenses	<u>85,647</u>	<u>80,348</u>
Operating Income	29,299	24,299
Non-Operating Revenues (Expenses)		
Investment Income		
Net Increase (Decrease) in Fair Value of Investments	(2,144)	465
Interest	2,849	3,282
Interest on Capital Debt	(24,772)	(25,447)
Equity Interest in Joint Use Agreement Operating Loss	(10,456)	(11,084)
Loss on Disposal of Fixed Assets	(91)	(463)
Total Non-Operating Revenues (Expenses)	<u>(34,614)</u>	<u>(33,247)</u>
Net Loss Before Contributions and Transfers	(5,315)	(8,948)
Capital Contributions	50,099	41,877
Transfers to General Fund - In Lieu Property Taxes	(5,788)	(5,329)
Transfers to Capital Projects Funds	(240)	(240)
Change in Net Assets	<u>38,756</u>	<u>27,360</u>
Net Assets, July 1	450,610	423,250
Net Assets, June 30	<u>\$ 489,366</u>	<u>\$ 450,610</u>

City of Phoenix, Arizona
Wastewater Enterprise Fund
Comparative Statements of Cash Flows
For the Fiscal Years Ended June 30, 2004 and 2003
(in thousands)

	2004	2003
Cash Flows from Operating Activities		
Receipts from Customers	\$ 114,608	\$ 103,766
Payments to Suppliers	(41,811)	(36,126)
Payments to Employees	(12,818)	(11,457)
Payment of Staff and Administrative Expenses	(1,305)	(1,432)
Net Cash Provided by Operating Activities	<u>58,674</u>	<u>54,751</u>
Cash Flows from Noncapital Financing Activities		
Operating Transfers to Other Funds	(6,028)	(5,569)
Net Cash Used by Noncapital Financing Activities	<u>(6,028)</u>	<u>(5,569)</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from Capital Debt	40,005	60,109
Principal Paid on Capital Debt	(16,780)	(13,531)
Interest Paid on Capital Debt	(28,344)	(28,163)
Acquisition and Construction of Capital Assets	(73,915)	(79,810)
Proceeds from Sales of Capital Assets	104	69
Capital Contributions	12,996	9,450
Net Cash Used by Capital and Related Financing Activities	<u>(65,934)</u>	<u>(51,876)</u>
Cash Flows from Investing Activities		
Purchases of Investment Securities	(699,899)	(94,308)
Proceeds from Sales and Maturities of Investment Securities	721,513	92,051
Interest on Investments	195	2,489
Net Cash Provided by Investing Activities	<u>21,809</u>	<u>232</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>8,521</u>	<u>(2,462)</u>
Cash and Cash Equivalents, July 1	114,689	117,151
Cash and Cash Equivalents, June 30	<u>\$ 123,210</u>	<u>\$ 114,689</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 29,299	\$ 24,299
Adjustments		
Depreciation	29,100	30,390
(Increase) Decrease in Assets		
Receivables	(422)	(721)
Allowance for Doubtful Accounts	52	52
Inventories	(28)	26
Increase (Decrease) in Liabilities		
Warrants Payable	464	169
Accounts Payable	116	501
Customer Deposits	32	(212)
Accrued Compensated Absences	61	247
Net Cash Provided by Operating Activities	<u>\$ 58,674</u>	<u>\$ 54,751</u>
Noncash Transactions Affecting Financial Position		
Contributions of Capital Assets	\$ 37,103	\$ 32,426
Refunding Issuance in Excess of Bond Retirement	1,725	1,329
Bond Capital Appreciation	61	57
Increase (Decrease) in Fair Value of Investments	(77)	78
Total Noncash Transactions Affecting Financial Position	<u>\$ 38,812</u>	<u>\$ 33,890</u>

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APPENDIX H
SUMMARY OF CERTAIN PROVISIONS OF THE 2005B INDENTURE
AND THE 2005B LOAN AGREEMENT

Certain Definitions

The following terms used in this Official Statement and not otherwise defined herein, have the following meanings:

“*ACCDF*” means the Arizona Convention Center Development Fund created and funded by the Act.

“*ACCDF Transfer Fund*” means the ACCDF Transfer Fund held by the City created pursuant to the 2005B Loan Agreement into which the State Distributions will be deposited.

“*Act*” means Arizona Revised Statutes, Sections 9-601 through 9-626 and Sections 42-5029 and 42-5030 relating to the creation and funding of the ACCDF.

“*Authenticating Agent*” means the Trustee and the Registrar for the 2005B Bonds and any bank, trust company or other Person designated as an Authenticating Agent for the 2005B Bonds by or in accordance with the 2005B 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 which is independent.

“*Bond Resolution*” means, collectively, the resolutions providing for the issuance of the 2005B Bonds and approving the 2005B Loan Agreement, the 2005B Indenture and related matters.

“*Bond Service Charges*” means, for any period or time, the principal of and interest on the 2005B Bonds for that period or payable at that time.

“*City Representative*” means the Finance Director or Interim Finance Director of the City or any other person who at the time is serving as chief financial officer of the City.

“*Civic Plaza Enterprise Fund*” means the Civic Plaza Enterprise Fund created by the City to receive moneys, including Excise Taxes, to be applied, among other things, to costs or debt service for various Civic Plaza projects, including the 2005B Initial Loan Payment and the 2005B Additional Loan Payments, if any, relating to the Project.

“*Completion Certificate*” means the Certificate of Completion of Construction to be filed by the City Representative pursuant to the 2005B Loan Agreement.

“*Corporation Representative*” means the Finance Director or Interim Finance Director of the City or his designee, 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 2005B Indenture and the 2005B Loan Agreement, as evidenced by a resolution confirming such authorization adopted by the Corporation.

“*Defeasance Obligations*” means:

- (1) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series — “SLGs”);
- (2) Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities;
- (3) Resolution Funding Corp. (REFCORP). Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable;

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

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

- a. U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership;
- b. Farmers Home Administration (FmHA)
Certificates of beneficial ownership;
- c. Federal Financing Bank;
- d. General Services Administration
Participation certificates;
- e. U.S. Maritime Administration
Guaranteed Title XI financing; and
- f. U.S. Department of Housing and Urban Development (HUD)
Project Notes,
Local Authority Bonds,
New Communities Debentures — U.S. government guaranteed debentures, and
U.S. Public Housing Notes and Bonds — U.S. government guaranteed public housing notes and bonds.

“*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 2005B Indenture.

“*Excise Taxes*” means all excise taxes now or hereafter validly imposed by the City and the proceeds of all excise taxes imposed by other entities and contributed, allocated or paid over to the City and not earmarked by the contributor for a contrary or inconsistent purpose (including, without limitation, excise, transaction, franchise, privilege and business taxes, state-shared sales and income taxes and receipts from licenses and permits) which the City now collects, which it may collect in the future, or which are allocated or apportioned to the City by the State or any political subdivision thereof, or by any other governmental unit or agency, except the City’s share of any excise and franchise taxes which by state law, rule or regulation must be expended for other purposes, such as the motor vehicle fuel tax.

“*Interest Payment Date*” or “*Interest Payment Dates*” means January 1 and July 1 of each year, commencing January 1, 2014.

“*Other Available Moneys*” means moneys available to the City to be applied to the City’s obligations under the 2005B Loan Agreement, which moneys are not funds from State Distributions or Excise Taxes collected and which are neither pledged hereby nor required to be applied by the City for the repayment of the 2005B Loan.

“*Outstanding Bonds*,” “*Bonds Outstanding*” or “*Outstanding*” as applied to 2005B Bonds, mean, as of the applicable date, all 2005B Bonds which have been authenticated and delivered, or which are being delivered by the Trustee under the 2005B Indenture, except:

- (a) 2005B Bonds, or the portion thereof, cancelled upon surrender, exchange or transfer, or cancelled because of payment on or prior to that date;
- (b) 2005B Bonds, or the portion thereof, for the payment 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 2005B Bonds);

(c) 2005B 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 2005B Indenture; and

(d) 2005B Bonds in lieu of which others have been authenticated under the 2005B Indenture.

“Owner” or “Bondowner” or “Owner of a 2005B Bond” means the Person in whose name a 2005B Bond is registered on the Register.

“Paying Agent” means any bank or trust company designated as a Paying Agent by or in accordance with the 2005B Indenture.

“Permitted Investments” means

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

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

- a. U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership;
- b. Farmers Home Administration (FmHA)
Certificates of beneficial ownership;
- c. Federal Financing Bank;
- d. Federal Housing Administration Debentures (FHA);
- e. General Services Administration
Participation certificates;
- f. Government National Mortgage Association (GNMA or “Ginnie Mae”)
GNMA-guaranteed mortgage-backed bonds, and
GNMA-guaranteed pass-through obligations (participation certificates) (not acceptable for certain cash-flow sensitive issues);
- g. U.S. Maritime Administration
Guaranteed Title XI financing; and
- h. U.S. Department of Housing and Urban Development (HUD)
Project Notes,
Local Authority Bonds,
New Communities Debentures — U.S. government guaranteed debentures, and
U.S. Public Housing Notices and Bonds — U.S. government guaranteed public housing notes and bonds;

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

- a. Federal Home Loan Bank System
Senior debt obligations (Consolidated debt obligations);
- b. Federal Home Loan Mortgage Corporation (FHLMC or “FreddieMac”)
Participation Certificates (Mortgage-backed securities), and Senior debt obligations;
- c. Federal National Mortgage Association (FNMA or “Fannie Mae”)
Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal);
- d. Student Loan Marketing Association (SLMA or “Sallie Mae”)
Senior debt obligations;
- e. Resolution Funding Corp. (REFCORP)
(only the interest components of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable); and
- f. Farm Credit System
Consolidated systemwide bonds and notes;

(4) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of “AAAm-G,” “AAA-m” or “AA-m” and if rated by Moody’s rated “Aaa,” “Aa1” or “Aa2”;

(5) Certificates of deposit secured at all times by collateral described in (1) and/or (2) above; certificates of deposit must have a one year or less maturity; such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose short term obligations are rated “A-1+” or better by S&P and “Prime-1” by Moody’s; the collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral;

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

(7) Investment agreements, including guaranteed investment contracts, forward purchase agreements and reserve fund put agreements acceptable to the 2005B Bond Insurer;

(8) Commercial paper rated “Prime-1” by Moody’s and “A-1+” or better by S&P;

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

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

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

a. Repurchase agreements must be between the municipal entity and a dealer bank or securities firm;

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

b. The written repurchase agreement must include the following:

(i) Securities which are acceptable for transfer are:

(A) Direct U.S. governments, or

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

(ii) The term of repurchase agreement may be up to 30 days;

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

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

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

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

(vii) Valuation of Collateral:

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

(B) The value of collateral must be equal to 102% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repurchase agreement plus accrued interest; if the value of securities held as collateral slips below 102% of the value of the cash transferred by municipality, then additional cash and/or acceptable securities must be transferred; if, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%; and

(C) Legal opinion which must be delivered to the municipal entity: repurchase agreement meets guidelines under state law for legal investment of public funds; and

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

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

“*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.

“*Policy*” means the municipal bond new issue insurance policy issued by the 2005B Bond Insurer that guarantees payment of principal of and interest on the 2005B Bonds.

“*President*” means the President of the Board of Directors of the Corporation.

“*Principal Payment Date*” means, as to the 2005B Bonds, July 1 in the years specified herein for the stated amount of principal to be retired at maturity.

“*Project*” has the meaning given in the body of this Official Statement.

“Register” means the books kept and maintained by the Registrar for registration and transfer of 2005B Bonds pursuant to the 2005B Indenture.

“Registrar” means the Trustee, until a successor Registrar shall have become such pursuant to applicable provisions of this 2005B 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) the 2005B Loan Payments and the 2005B Additional Loan Payments, if any, (b) all other moneys with respect to the 2005B Bonds received or to be received by the Corporation or the Trustee in respect of the 2005B Loan Agreement, including without limitation moneys and investments in the 2005B Debt Service Fund and the 2005B Revenue 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 2005B Rebate Fund or the 2005B Reimbursement and Redemption Fund.

“Secretary” means the Secretary-Treasurer of the Board of Directors of the Corporation.

“State Distributions” means the amounts to be disbursed by the State Treasurer from the ACCDF to the City on or before each August 1 following the filing by the City Representative of the Completion Certificate in the amounts set forth in Section 9-602 of the Act and continuing for 35 years, or until the filing by the City Representative of a Certificate of Sufficiency of Distributions, whichever first occurs.

“Supplemental Indenture” means any indenture supplemental to the 2005B Indenture entered into between the Corporation and the Trustee in accordance with the 2005B Indenture.

“2005B Loan Payments” means all payments required to be paid by the City from State Distributions pursuant to the 2005B Loan Agreement.

“2005B Additional Loan Payment Date” means the business day immediately preceding January 1 and July 1 of each Bond Year, commencing on or prior to January 1, 2014 and ending the earlier of (a) the date the City’s obligations to make 2005B Additional Loan Payments terminates pursuant to the 2005B Loan Agreement, or (b) the business day immediately preceding the date upon which the final payment of principal, premium, if any, and interest are due and payable on the 2005B Bonds.

“2005B Additional Loan Payments” means any payments made from Excise Taxes or Other Available Moneys on any 2005B Additional Loan Payment Date to pay the Principal Requirement or Interest Requirement on the 2005B Bonds.

“2005B Bond Insurer” means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto.

“2005B Bond Payment Date” means a date on which principal or interest shall be payable on the 2005B Bonds according to their respective terms.

“2005B Debt Payment Account” means the 2005B Debt Payment Account established within the 2005B Debt Service Fund pursuant to the 2005B Indenture.

“2005B Debt Service Account” means the 2005B Debt Service Account established within the 2005B Debt Service Fund pursuant to the 2005B Indenture.

“2005B Reimbursement and Redemption Fund” means the 2005B Reimbursement and Redemption Fund established pursuant to the 2005B Indenture.

“2005B Revenue Fund” means the 2005B Revenue Fund established pursuant to the 2005 Indenture.

“Unassigned Corporation’s Rights” means all of the rights of the Corporation to receive additional payments under the 2005B Loan Agreement and to give or withhold consent to amendments, changes, modifications and alterations of the 2005B Loan Agreement and its right to enforce such rights.

Summary of Certain Provisions of the 2005B Indenture

The following, along with the information included under the heading “THE 2005B BONDS,” is a summary of certain provisions of the 2005B Indenture. This summary does not purport to be complete, and reference is made to the 2005B Indenture for a full and complete statement of such provisions. Capitalized terms used in this summary are defined in the 2005B 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 right, title and interest of the Corporation, in and to the 2005B Loan Agreement, except for Unassigned Corporation’s Rights, including any supplements thereto, the Corporation, however, to remain liable to observe and perform all the conditions and covenants in said 2005B Loan Agreement provided to be observed and performed by it, (ii) all of the amounts payable to or received by the Corporation pursuant to such 2005B Loan Agreement described in paragraph (i) above, including without limitation, all of the 2005B Loan Payments, all of the 2005B Additional Loan Payments, if any, and the other amounts to be paid to the Corporation or the Trustee under the terms of such 2005B Loan Agreement; and (iii) the Revenues; excluding, however, any money or investments in the 2005B Rebate Fund and the 2005B Reimbursement and Redemption Fund.

Receipt of Revenues. The amounts to be paid by the City with respect to the 2005B Bonds pursuant to the terms of the 2005B Loan Agreement have been assigned by the Corporation to the Trustee so that such moneys shall be paid by the City directly to the Trustee, and the Trustee shall credit such moneys to the 2005B Revenue Fund. On or before each August 1, commencing with the August 1 immediately following the filing of the Completion Certificate under the 2005B Loan Agreement, the City will pay to the Trustee the 2005B ACCDF Transfer Fund Loan Payment then due under the 2005B Loan Agreement. The Trustee shall, at least 15 business days prior to each 2005B Additional Loan Payment Date, determine the amount, if any, required to be deposited for the immediately succeeding 2005B Additional Loan Payment, which shall be the amount, subject to the terms and conditions contained in the 2005B Loan Agreement, which, when added to the moneys in the 2005B Debt Payment Account available for the payment of Bond Service Charges, is sufficient to pay into the 2005B Debt Service Account available for the payment of Bond Service Charges, is sufficient to pay into the 2005B Debt Service Account the amounts due therein on the next Interest Payment Date. If the amount required to be deposited with the Trustee has not been received by the Trustee on the due date thereof, the Trustee shall immediately notify the 2005B Bond Insurer and its fiscal agent as described in the 2005B Indenture.

Flow of Funds. The Trustee shall make transfers from the 2005B Revenue Fund as follows:

(i) *2005B Debt Service Fund.*

(A) *2005B Debt Payment Account.* Immediately upon the receipt of Revenues in the 2005B Revenue Fund, and following the payment of any amounts due to the Trustee, the Registrar or any Paying Agents pursuant to the 2005B Indenture and the deposit of any required amounts to the 2005B Rebate Fund, the Trustee shall transfer from the 2005B Revenue Fund to the 2005B Debt Payment Account within the 2005B Debt Service Fund all amounts then on deposit in the 2005B Revenue Fund.

(B) *2005B Debt Service Account.* Immediately upon each deposit into the 2005B Debt Payment Account from the 2005B Revenue Fund, the Trustee shall transfer to the 2005B Debt Service Account within the 2005B Debt Service Fund an amount sufficient, together with any amounts already on deposit therein, to pay all debt service coming due on the 2005B Bonds in the then-current Bond Year. Money in the 2005B Debt Service Account shall be used and withdrawn by the Trustee solely for the purpose of paying debt service on the 2005B Bonds as it shall become due and payable.

(ii) *2005B Reimbursement and Redemption Fund.* If, on August 1 in any year, after making the transfers and deposits referred to in (i) above, the combined balance in the 2005B Debt Payment Account and the 2005B Debt Service Account in the 2005B Debt Service Fund exceeds \$60,000,000,

such excess above \$60,000,000 shall be transferred to the 2005B Reimbursement and Redemption Fund and applied to reimburse the City for any 2005B Additional Loan Payments, or to defease or purchase 2005B Bonds in the open market, or otherwise for any purpose not inconsistent with the terms of the 2005B Indenture, in accordance with the written direction of the City Representative.

Investment of 2005B Revenue Fund, 2005B Debt Service Fund and 2005B Reimbursement and Redemption Fund. Moneys in each of the 2005B Revenue Fund, 2005B Debt Service Fund and 2005B Reimbursement and Redemption Fund (collectively, the "Funds"), shall be invested, held and reinvested by the Trustee in Permitted Investments at the oral (confirmed in writing as soon as practical) or written direction of the City Representative or, in the absence of any such oral or written direction, in Permitted Investments described in paragraph (4) 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. For purposes of the 2005B Indenture, those investments shall be valued by the Trustee at market value at the times provided in the 2005B Indenture. 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 2005B 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 or account for which such investment was made.

Enforcement of Revenue Pledge. As provided in the 2005B Loan Agreement, the Trustee shall have the right of specific performance of the pledge of receipts and revenues of the City described in the 2005B Loan Agreement by appropriate court action, in the name of the Trustee on behalf of the Owners of the 2005B Bonds, in the name of the Corporation, or in the names of both. Nothing contained in the 2005B Indenture and the 2005B 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 2005B 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 2005B Bonds then Outstanding or the 2005B Bond Insurer as described in the 2005B 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 2005B 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 2005B 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 2005B Bond Insurer 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 2005B Bond Insurer and signed by or on behalf of the Owners of not less than 25 percent in aggregate principal amount of the 2005B Bonds then Outstanding, in each case with the consent of the 2005B Bond Insurer under circumstances described in the 2005B 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 2005B 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 2005B 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 2005B 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 2005B 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 2005B 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 2005B Bond Insurer as described in the 2005B Indenture. If no appointment of a successor Trustee shall be made pursuant to the foregoing provisions, the Owner of any 2005B 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, prescribe and 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 2005B Indenture:

(i) Notwithstanding any payment made with respect thereto pursuant to the Policy, payment of any interest on any 2005B Bond shall not be made when and as that interest shall become due and payable;

(ii) Notwithstanding any payment made with respect thereto pursuant to the Policy, payment of the principal on any 2005B Bond shall not be made when and as that principal shall become due and payable, whether at stated maturity 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 2005B Indenture or in the 2005B 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 2005B Bonds then Outstanding;

(iv) The occurrence and continuance of any event of default as defined in the 2005B Loan Agreement; 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, the 2005B Bond Insurer, 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 2005B 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 2005B 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 2005B 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 2005B Indenture shall, exercise the remedy granted pursuant to the 2005B Loan Agreement; provided, however, that notwithstanding anything therein or in the 2005B Indenture to the contrary, there shall be no right under any circumstances to accelerate the maturities of the 2005B Bonds or otherwise to declare any 2005B Loan Payment or 2005B Additional Loan Payment not then past due or in default to be immediately due and payable.

Remedies, 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 2005B Indenture or the provisions of the 2005B Loan Agreement, (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 2005B Indenture) and after any required deposit into the 2005B Rebate Fund, all moneys received by the Trustee, unless the principal of all of the 2005B Bonds shall have become due and payable, shall be deposited in the 2005B Revenue Fund and shall be applied:

First — To the 2005B Debt Service Account for the payment to the Owners entitled thereto of all installments of interest then due on the 2005B Bonds, in the order of the due dates of the installments of that interest, beginning with the earliest due date 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 2005B Bonds; and

Second — To the 2005B Debt Service Account for the payment to the Owners entitled thereto of the unpaid principal of any of the 2005B Bonds which shall have become due in the order of their due dates, beginning with the earliest due date, with interest on those 2005B Bonds from the respective dates upon which they may become due at the rates specified in those 2005B Bonds, and if the amount available is not sufficient to pay in full all 2005B 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 2005B Bonds.

If principal of all the 2005B Bonds shall have become due, all of those moneys shall be deposited in the 2005B Debt Service Account and shall be applied to the payment of the principal and interest then due and unpaid upon the 2005B 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 2005B Bond over any other 2005B 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 2005B Bonds.

Whenever moneys are to be applied pursuant to the provisions of the 2005B 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 2005B 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 on a 2005B Bond to the Owner thereof, until the 2005B 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 2005B Indenture or under any of the 2005B Bonds may be enforced by the Trustee without the possession of any of the 2005B Bonds or the production thereof in any trial or other proceeding relating thereto. The sole remedy of the Trustee under the 2005B Indenture is that of specific performance as set forth in the 2005B Indenture and the 2005B Loan Agreement. 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 2005B 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 2005B Indenture, for the execution of any trust of the 2005B Indenture, or for the exercise of any other remedy under the 2005B Indenture, unless:

(i) there has occurred and is continuing an Event of Default of which the Trustee has been notified, as provided in the 2005B Indenture or of which it is deemed to have notice pursuant to the 2005B Indenture;

(ii) the Owners of at least 25 percent in aggregate principal amount of the 2005B 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 2005B 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 2005B Indenture; and

(iii) the Trustee thereafter shall have failed or refused to exercise the remedies, rights and powers granted in the 2005B Indenture or to institute the suit, action or proceeding in its own name.

No one or more Owners of the 2005B Bonds shall have any right to affect, disturb or prejudice in any manner whatsoever the security or benefit of the 2005B Indenture by its or their action, or to enforce, except in the manner provided in the 2005B Indenture, any remedy, right or power under the 2005B Indenture. Any suit, action or proceedings shall be instituted, had and maintained in the manner provided in the 2005B Indenture for the benefit of the Owners of all 2005B Bonds then Outstanding. Nothing in the 2005B Indenture shall affect or impair, however, the right of any Owner to enforce the payment of the Bond Service Charges on any 2005B Bond owned by that Owner at and after the maturity thereof, at the place, from the sources and in the manner expressed in that 2005B Bond.

Effect of Policy. Notwithstanding the foregoing discussion under the captions “Events of Default,” “Remedy,” “Application of Money,” “Remedies Vested in Trustee” and “Rights and Remedies of Owners,” the 2005B Bond Insurer shall be deemed to be the sole holder of the 2005B Bonds for so long as the 2005B Bond Insurer is not in default under the Policy and none of the insurance companies comprising the 2005B Bond Insurer is 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, the Corporation Representative on behalf of the Corporation and the Trustee may enter into certain indentures supplemental to the 2005B Indenture as provided in the 2005B Indenture which shall not, in the opinion of the Corporation Representative and the Trustee, be inconsistent with the terms and provisions of the 2005B 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 2005B Bonds at the time Outstanding and the 2005B Bond Insurer, if the 2005B Bond Insurer is not then in default with respect to the Policy, evidenced as provided in the 2005B 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 2005B 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 2005B Bond so affected and the 2005B Bond Insurer, if the 2005B Bond Insurer is not then in default with respect to the Policy, (i) an extension of the maturity of the principal of or the interest on any 2005B Bond or (ii) a reduction in the principal amount of any 2005B Bond or the rate of interest or premium thereon or

(ii) without the consent of the owners of all 2005B Bonds then Outstanding and the 2005B Bond Insurer, if the 2005B Bond Insurer is not then in default with respect to the Policy, (i) the creation of a privilege or priority of any 2005B Bond or 2005B Bonds over any other 2005B Bond or 2005B Bonds, or (ii) a reduction in the aggregate principal amount of the 2005B 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 2005B 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 2005B 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. 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 2005B 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 2005B Bond giving the consent and, anything in the 2005B Indenture to the contrary notwithstanding, upon any subsequent Owner of that 2005B Bond and of any 2005B 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 2005B 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 2005B 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 2005B 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 2005B 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 2005B Bond Insurer 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 2005B 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 2005B Bond Insurer is not in default under the Policy relating to the 2005B Bonds as the case may be, and none of the insurance companies comprising the 2005B Bond Insurer is then bankrupt or insolvent or in receivership.

Modification by Unanimous Consent. Notwithstanding anything contained elsewhere in the 2005B Indenture, the rights and obligations of the Corporation and of the Owners, and the terms and

provisions of the 2005B Bonds and the 2005B 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 2005B Bonds then Outstanding, (iii) the Trustee and (iv) the 2005B Bond Insurer, so long as the 2005B Bond Insurer is not then in default under the Policy.

Release of 2005B 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 2005B Indenture, then the 2005B Indenture shall cease, determine and become null and void (except as otherwise provided in the 2005B Indenture), and the covenants, agreements and obligations of the Corporation under the 2005B Indenture shall be released, discharged and satisfied. Thereupon, and subject to the other provisions of the 2005B Indenture then applicable,

(i) the Trustee shall release the 2005B Indenture (except for those provisions surviving otherwise by reason of the 2005B 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 2005B Indenture which then may be in their possession, except amounts in the 2005B Debt Service Fund required otherwise to be held by the Trustee and the Paying Agents under the 2005B Indenture or otherwise for the payment of Bond Service Charges.

Payment and Discharge of 2005B Bonds. All or any part of the 2005B Bonds shall be deemed to have been paid and discharged within the meaning of the 2005B Indenture if:

(i) the Trustee as paying agent and any Paying Agents or any qualified trustee shall have received, in trust for and irrevocably committed thereto, sufficient moneys, or

(ii) the Trustee or any other qualified trustee agreeing to transfer amounts as required by the 2005B Indenture shall have received, in trust for and irrevocably committed thereto, noncallable 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 well be sufficient together with any moneys to which reference is made in subparagraph (i) above, without further investment or reinvestment of either the principal amount thereof of the interest earnings therefrom (which earnings are to be held likewise in trust and so committed, except as provided in the 2005B Indenture,

for the payment of all Bond Service Charges on those 2005B Bonds, at their maturity dates, 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 2005B Bonds as to which such default exists; provided, if a forward supply contract is employed the requirements of the 2005B 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 2005B 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 City.

If any 2005B Bonds shall be deemed paid and discharged pursuant to these provisions, then within 15 days after such 2005B 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 2005B

Bonds are deemed paid and discharged. Such notice shall state the numbers of the 2005B Bonds deemed paid and discharged or state that all of the 2005B Bonds are deemed paid and discharged, set forth a description of the obligations held pursuant to the 2005B Indenture and specify that the 2005B Bonds are not subject to redemption.

Maintenance of Offices for Payment. So long as the 2005B Bonds or any of them shall be Outstanding, the Corporation shall cause offices or agencies where the 2005B 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 2005B Bonds.

Payments Due on Saturdays, Sundays and Holidays. If any Interest Payment Date or Principal 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 Interest Payment Date or Principal 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 Interest Payment Date or Principal Payment Date, and no interest shall accrue for the period after such Interest 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 Interest Payment Date or Principal 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 Interest Payment Date or Principal Payment Date, it shall make any payment required hereunder with respect to payment of Bond Service Charges on 2005B Bonds presented to it for payment, regardless of whether any Paying Agent shall be open for business or closed on the applicable Interest Payment Date or Principal Payment Date.

Summary of Certain Provisions of the 2005B Loan Agreement

The following is a summary of certain provisions of the 2005B Loan Agreement. This summary is not purported to be complete, and reference is made to the full text of the 2005B Loan Agreement for a complete recital of its terms, including definitions of capitalized terms herein.

General. The 2005B Loan Agreement has been entered into between the City, as obligor and the Corporation, as lender. The Project which is the subject to the 2005B Loan Agreement is not pledged for the payment of the Loan Payments. The 2005B Loan Agreement contains the terms and conditions under which the 2005B Loan is made to the City.

Payment of 2005B Loan. Pursuant to the 2005B Loan Agreement, the City agrees to the payment of all 2005B ACCDF Transfer Fund Loan Payments due thereunder, but only from amounts in the ACCDF Transfer Fund. The 2005B ACCDF Transfer Fund Loan Payments will be in an amount equal to the entire balance in the ACCDF Transfer Fund on August 1 of each Bond Year, commencing the August 1 following the filing of the Completion Certificate with the State Treasurer. In the event the first State Distribution does not occur on August 1, 2009 or the total eligible cost of the Project funded by the State Distributions, as specified in the Completion Certificate, is less than \$300,000,000, the City shall make 2005B Additional Loan Payments in amounts sufficient to fund any shortfall between the debt service due on the 2005B Bonds and the State Distributions.

The obligation of the City to make payments under the 2005B Loan Agreement is absolute and unconditional but does not constitute a general obligation of 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. Except to the extent the City is required to make 2005B Additional Loan Payments from Excise Taxes or determines to make such payments from Other Available Moneys, all amounts to be paid by the City under the 2005B Loan Agreement are payable solely from the State Distributions.

Repeal or Amendment of Act. If the Act is repealed or amended in such manner that the ability of the City to be reimbursed with interest for any 2005B Additional Loan Payments is adversely affected, the City's obligation to make its 2005B Additional Loan Payments shall be terminated or adjusted downward by the City to the extent of the amendment's adverse impact.

Prepayment of the 2005B Loan Generally. The City is permitted to prepay all or a part of the 2005B Loan to the extent and in the manner permitted by the 2005B Indenture. Upon any partial prepayment of the 2005B Loan resulting in a defeasance of 2005B Bonds, each installment of interest thereafter payable will be reduced, taking into account the interest rate or rates on the 2005B Bonds remaining outstanding.

Parity Obligations. Under the 2005B Loan Agreement, the City reserves the right to incur obligations payable from the Excise Taxes in the future on a parity with the obligations to make any 2005B Additional Loan Payments thereunder, but only if upon the incurring of such future obligation or obligations the following conditions are met:

(a) The pledged Excise Taxes received by the City during the completed fiscal year immediately preceding the incurring of the proposed parity obligation are at least equal to the highest combined total, for any succeeding 12 month period, of amounts due on Senior Obligations and Junior Obligations during such period plus two times the 2005B Additional Loan Payments, if any, and the interest and principal requirements for all parity obligations then outstanding and all proposed parity obligations to be secured by a pledge of taxes during such period using the applicable maximum interest rates where variable rate obligations are involved in such computations; and

(b) The City shall certify through its Finance Director or other appropriate official that it is not in default in any payment under the 2005B Loan Agreement or with respect to any obligation described and included within that Section.

Assignment. Pursuant to the 2005B Indenture, the Corporation's rights under the 2005B Loan Agreement, including the right to receive and enforce payment of the 2005B ACCDF Transfer Fund Loan Payments and the 2005B Additional Loan Payments, if any, to be made by the City under the 2005B Loan Agreement, have been assigned to the Trustee for the benefit of the Owners of the 2005B Bonds.

Defaults and Remedies. The following are events of default under the 2005B Loan Agreement:

(a) Failure by the City to pay any 2005B ACCDF Transfer Fund Loan Payment or 2005B Additional Loan Payment or other payment required to be paid with respect to the 2005B Bonds under the 2005B Loan Agreement at the time specified therein;

(b) Failure by the City to observe and perform any other covenant and condition on its part to be observed or performed under the 2005B Loan Agreement for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Corporation or the Trustee; and

(c) The filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment or attachment, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of the federal bankruptcy laws.

Upon the occurrence and continuance of an event of default, the Corporation will be entitled to enforce the 2005B Loan Agreement by appropriate action to collect any amounts due and owing or to cause the City to perform its other obligations under the 2005B Loan Agreement. The Corporation's sole remedy under the 2005B Loan Agreement is that of specific performance. Notwithstanding anything in the 2005B Loan Agreement or in the 2005B Indenture to the contrary, there shall be no right under any circumstances to

accelerate or otherwise to declare any 2005B ACCDF Transfer Fund Loan Payment or 2005B Additional Loan Payment not then past due or in default to be immediately due and payable. The City shall be liable for all expenses and costs which the Corporation incurs or may incur in connection with the enforcement of any of its remedies in the 2005B Loan Agreement, including reasonable attorney's fees to the extent permitted by law.

Tax Covenants. Under the 2005B Loan Agreement, the City and the Corporation covenant that each shall not make use of the Project or the proceeds of the 2005B Bonds or take any action which would adversely affect the exclusion of interest on the 2005B Bonds from gross income for federal income tax purposes.

Amendments to 2005B Loan Agreement. The Corporation and the Trustee may, without the consent of or notice to any of the Owners, consent to and join with the City in the execution and delivery of any amendment, change or modification of the 2005B Loan Agreement; provided the Trustee reserves an opinion of nationally recognized bond counsel to the effect that such amendment (i) does not adversely affect the exclusion of interest on the 2005B Bonds from gross income for federal income tax purposes and (ii) does not adversely affect the interests of the Owners.

APPENDIX I
PROPOSED FORM OF LEGAL OPINION OF BOND COUNSEL
[LETTERHEAD OF SQUIRE, SANDERS & DEMPSEY L.L.P.]
[TO BE DATED CLOSING DATE]

To: City of Phoenix Civic Improvement Corporation
Phoenix, Arizona

We have examined the transcript of proceedings (the “Transcript”) relating to the issuance of \$275,362,351.75 State of Arizona Distribution Revenue Bonds, Series 2005B (Civic Plaza Expansion Project) (the “2005B Bonds”) of the City of Phoenix Civic Improvement Corporation (the “Corporation”), dated as of the date hereof. The 2005B Bonds are being issued for the purpose of providing funds to assist the City of Phoenix, Arizona (the “City”) with financing the construction, expansion, modification and improvement of the Phoenix Civic Plaza Convention Center. The documents in the Transcript examined include an executed counterpart of the following: (i) the Series 2005B Loan Agreement, dated as of October 1, 2005 (the “2005B Loan Agreement”), between the Corporation, as lender, and the City, as obligor; and (ii) the Series 2005B Trust Indenture, dated as of October 1, 2005 (the “2005B Indenture”), between the Corporation and U.S. Bank National Association, as trustee. We have also examined an executed 2005B 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 2005B Bonds, the 2005B Loan Agreement and the 2005B 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 2005B Bonds constitute special revenue obligations of the Corporation, and the principal of and interest and any premium on the 2005B Bonds (collectively, “debt service”), unless paid from other sources, are payable solely from the revenues and other moneys pledged and assigned by the 2005B Indenture to secure that payment. Those revenues and other moneys include certain payments required to be made by the City under the 2005B Loan Agreement, and the City’s obligation to make those payments is secured by a pledge of certain distributions of excise taxes to be made by the State of Arizona to the City pursuant to Arizona Revised Statutes Sections 9-601 through 9-626 and Sections 42-5029 and 42-5030 (the “State Distributions”), and, to the limited extent specified in the 2005B Loan Agreement, excise taxes levied and collected by the City and shared taxes received by the City from the State of Arizona. The 2005B Indenture creates the pledge which it purports to create in the pledged revenues and other moneys in the funds and accounts created and pledged by the 2005B Indenture, which pledge will be perfected only as to the revenues and other moneys on deposit in the funds and accounts created by the 2005B Indenture. The 2005B Bonds and the payment of debt service are not secured by an obligation or pledge of any moneys raised by taxation other than the State Distributions and the specified excise and shared taxes; the 2005B 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 2005B 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 2005B 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 2005B Bonds.

Under the Code, portions of the interest on the 2005B Bonds earned by certain corporations (as defined for federal income tax purposes) may be subject to a federal corporate alternative minimum tax and interest on the 2005B Bonds may be subject to a federal 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 2005B Bonds and the status of the 2005B 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 2005B 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 2005B 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 2005B 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 2005B Loan Agreement by the City.

Respectfully submitted,

APPENDIX J
FORM OF CONTINUING DISCLOSURE UNDERTAKING

**FOR THE PURPOSE OF PROVIDING
CONTINUING DISCLOSURE INFORMATION
UNDER SECTION (b) (5) OF RULE 15c2-12**

This Continuing Disclosure Undertaking (the “Undertaking” or the “Agreement”), dated October 6, 2005 is executed and delivered by the City of Phoenix, Arizona (the “City”) in connection with the issuance of \$275,362,351.75 City of Phoenix Civic Improvement Corporation State of Arizona Distribution Revenue Bonds, Series 2005B (Civic Plaza Expansion Project) (the “2005B Bonds”). The 2005B Bonds are being issued pursuant to a Series 2005B Trust Indenture, dated as of October 1, 2005 (the “2005B Indenture”) by and between the City of Phoenix Civic Improvement Corporation (the “Corporation”) and U.S. Bank National Association, Phoenix, Arizona, as trustee (the “Trustee”). The City covenants and agrees as follows:

1. *Purpose of this Undertaking.* This Undertaking is executed and delivered by the City as of the date set forth below, for the benefit of the beneficial owners of the 2005B 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 2005B Bonds at the time the 2005B 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 2005B 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.

“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

FT Interactive Data
Attn: NRMSIR
100 William Street, 15th Floor
New York, NY 10038
Phone: (212) 771-6999; (800) 689-8466
Fax: (212) 771-7390
E-Mail: NRMSIR@interactivedata.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

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 2005B Bonds.

“Rule” means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Exchange Act, 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 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.

“2005B Loan Agreement” means the Series 2005B Loan Agreement, dated as of October 1, 2005, between the Corporation, as lender, and the City, as obligor.

“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 2005B Bonds are as follows:

<u>CUSIP No.</u>	<u>Maturity Date</u>	<u>CUSIP No.</u>	<u>Maturity Date</u>
71884WAA9	7/01/12	71884WAV3	7/01/31
71884WAB7	7/01/13	71884WAW1	7/01/32
71884WAG6	7/01/18	71884WAX9	7/01/33
71884WAH4	7/01/19	71884WAY7	7/01/34
71884WAJ0	7/01/20	71884WAZ4	7/01/35
71884WAK7	7/01/21	71884WBA8	7/01/36
71884WAL5	7/01/22	71884WBB6	7/01/37
71884WAM3	7/01/23	71884WBC4	7/01/38
71884WAN1	7/01/24	71884WBD2	7/01/39
71884WAP6	7/01/25	71884WBE0	7/01/40
71884WAQ4	7/01/26	71884WBF7	7/01/41
71884WAR2	7/01/27	71884WBG5	7/01/42
71884WAS0	7/01/28	71884WBH3	7/01/43
71884WAT8	7/01/29	71884WBJ9	7/01/44
71884WAU5	7/01/30		

The Final Official Statement relating to the 2005B Bonds is dated September 21, 2005 (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 2005B Bonds or defeasance of any 2005B 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 2005B 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. *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 2005B 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 2005B Loan Agreement or the 2005B Indenture, and the sole remedy available to Bondholders under this Undertaking in the event of any failure of the City to comply with this Undertaking shall be an action to compel performance.

8. *Alternate Means of Disclosure.* Notwithstanding the provisions of Sections 4, 5, and 7 requiring that the City file its Annual Financial Information Disclosure, Material Events Disclosure and notice of any failure to comply with this Undertaking with each of the NRMSIRs and any SID, the City may instead comply with the provisions of this Undertaking by filing the required information with an entity then recognized by the Commission as eligible to receive filings and submit such filings to the NRMSIRs and any SID for purposes of the Rule (a “Central Post Office”). As of the date of this Undertaking, the Central Post Office that has been recognized by the Commission is:

Disclosure USA.org
P.O. Box 684667
Austin, Texas 78768-4667
Fax: (512) 476-6403
<http://www.disclosureusa.org>

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 2005B 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 2005B Indenture at the time of the amendment.

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

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 the 2005B Bonds under the 2005B 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 2005B 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 its obligations under the 2005B Loan Agreement unless the transferee agrees to assume all obligations of the City under this Undertaking or to execute an Undertaking meeting the requirements of the Rule.

16. *Governing Law.* This Agreement shall be governed by the laws of the State.

CITY OF PHOENIX, ARIZONA
By Frank Fairbanks
Its City Manager

By: _____
Bob Wingenroth
Interim Finance Director

ATTEST:

By: _____
City Clerk

APPROVED AS TO FORM:

By: _____
City Attorney

EXHIBIT I
ANNUAL FINANCIAL INFORMATION AND AUDITED
FINANCIAL STATEMENTS

“Annual Financial Information” means the information and operating data of the type contained in the Final Official Statement under the heading “APPENDIX C — CITY OF PHOENIX, ARIZONA — OBLIGATIONS PAYABLE FROM EXCISE TAXES.”

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, 2006, 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 Undertaking, 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 2005B Bonds
7. Modifications to the rights of bondholders
8. Bond calls
9. Defeasances
10. Release, substitution or sale of property securing repayment of the 2005B Bonds
11. Rating changes

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APPENDIX K
SCHEDULE OF COMPOUND ACCRETED VALUES OF THE 2005B BONDS

SCHEDULE OF COMPOUND ACCRETED VALUE OF THE 2005B BONDS

**City of Phoenix Civic Improvement Corporation
State of Arizona Distribution Revenue Bonds
Series 2005B
(Civic Plaza Expansion Project)**

Date	CABs					Convertible CABs				
	07/01/2012	07/01/2013	07/01/2018	07/01/2019	07/01/2020	07/01/2021	07/01/2022	07/01/2023	07/01/2024	
10/06/05	\$3,867.30	\$3,694.45	\$3,619.60	\$3,600.45	\$3,586.85	\$3,573.30	\$3,559.80	\$3,549.05	\$3,543.70	
01/01/06	3,902.25	3,728.75	3,655.45	3,636.70	3,623.40	3,610.15	3,596.90	3,586.35	3,581.10	
07/01/06	3,977.40	3,802.40	3,732.60	3,714.75	3,702.05	3,689.35	3,676.75	3,666.70	3,661.70	
01/01/07	4,053.95	3,877.45	3,811.35	3,794.40	3,782.35	3,770.35	3,758.40	3,748.85	3,744.05	
07/01/07	4,132.00	3,954.05	3,891.80	3,875.80	3,864.45	3,853.10	3,841.80	3,832.80	3,828.30	
01/01/08	4,211.55	4,032.15	3,973.90	3,958.95	3,948.30	3,937.70	3,927.10	3,918.65	3,914.45	
07/01/08	4,292.60	4,111.80	4,057.75	4,043.85	4,034.00	4,024.10	4,014.30	4,006.45	4,002.55	
01/01/09	4,375.25	4,193.00	4,143.35	4,130.60	4,121.50	4,112.45	4,103.40	4,096.20	4,092.60	
07/01/09	4,459.45	4,275.80	4,230.80	4,219.20	4,210.95	4,202.70	4,194.50	4,187.95	4,184.65	
01/01/10	4,545.30	4,360.25	4,320.05	4,309.70	4,302.35	4,294.95	4,287.60	4,281.75	4,278.80	
07/01/10	4,632.80	4,446.35	4,411.20	4,402.15	4,395.70	4,389.25	4,382.80	4,377.65	4,375.10	
01/01/11	4,722.00	4,534.20	4,504.30	4,496.60	4,491.10	4,485.60	4,480.10	4,475.70	4,473.55	
07/01/11	4,812.90	4,623.75	4,599.35	4,593.05	4,588.55	4,584.05	4,579.55	4,576.00	4,574.20	
01/01/12	4,905.55	4,715.05	4,696.40	4,691.55	4,688.10	4,684.65	4,681.25	4,678.50	4,677.10	
07/01/12	5,000.00	4,808.20	4,795.45	4,792.20	4,789.85	4,787.50	4,785.15	4,783.30	4,782.35	
01/01/13		4,903.15	4,896.65	4,895.00	4,893.80	4,892.60	4,891.40	4,890.45	4,889.95	
07/01/13		5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	

SCHEDULE OF ACCRETED VALUE OF THE 2005B BONDS

**City of Phoenix Civic Improvement Corporation
State of Arizona Distribution Revenue Bonds
Series 2005B
(Civic Plaza Expansion Project)**

Date	Convertible CABs										
	07/01/2025	07/01/2026	07/01/2027	07/01/2028	07/01/2029	07/01/2030	07/01/2031	07/01/2032	07/01/2033		
10/06/05	\$3,532.95	\$3,522.30	\$3,514.30	\$3,509.00	\$3,503.70	\$3,501.05	\$3,498.40	\$3,495.75	\$3,495.75		
01/01/06	3,570.60	3,560.15	3,552.35	3,547.15	3,541.95	3,539.35	3,536.75	3,534.15	3,534.15		
07/01/06	3,651.65	3,641.70	3,634.20	3,629.25	3,624.30	3,621.80	3,619.35	3,616.85	3,616.85		
01/01/07	3,734.55	3,725.10	3,718.00	3,713.25	3,708.55	3,706.20	3,703.85	3,701.50	3,701.50		
07/01/07	3,819.35	3,810.40	3,803.70	3,799.25	3,794.80	3,792.55	3,790.35	3,788.10	3,788.10		
01/01/08	3,906.05	3,897.65	3,891.35	3,887.20	3,883.00	3,880.90	3,878.85	3,876.75	3,876.75		
07/01/08	3,994.70	3,986.90	3,981.05	3,977.15	3,973.30	3,971.35	3,969.40	3,967.45	3,967.45		
01/01/09	4,085.40	4,078.20	4,072.80	4,069.25	4,065.65	4,063.90	4,062.10	4,060.30	4,060.30		
07/01/09	4,178.10	4,171.60	4,166.70	4,163.45	4,160.20	4,158.55	4,156.95	4,155.30	4,155.30		
01/01/10	4,272.95	4,267.10	4,262.75	4,259.85	4,256.90	4,255.45	4,254.00	4,252.55	4,252.55		
07/01/10	4,369.95	4,364.85	4,361.00	4,358.45	4,355.90	4,354.60	4,353.35	4,352.05	4,352.05		
01/01/11	4,469.15	4,464.80	4,461.50	4,459.35	4,457.15	4,456.10	4,455.00	4,453.90	4,453.90		
07/01/11	4,570.60	4,567.05	4,564.35	4,562.60	4,560.80	4,559.90	4,559.00	4,558.10	4,558.10		
01/01/12	4,674.35	4,671.65	4,669.55	4,668.20	4,666.85	4,666.15	4,665.45	4,664.80	4,664.80		
07/01/12	4,780.50	4,778.60	4,777.20	4,776.25	4,775.35	4,774.85	4,774.40	4,773.95	4,773.95		
01/01/13	4,889.00	4,888.05	4,887.30	4,886.85	4,886.35	4,886.15	4,885.90	4,885.65	4,885.65		
07/01/13	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00		

SCHEDULE OF ACCRETED VALUE OF THE 2005B BONUS

**City of Phoenix Civic Improvement Corporation
State of Arizona Distribution Revenue Bonds
Series 2005B
(Civic Plaza Expansion Project)**

Date	Convertible CABs												
	07/01/2034	07/01/2035	07/01/2036	07/01/2037	07/01/2038	07/01/2039	07/01/2040	07/01/2041	07/01/2042	07/01/2043	07/01/2044		
10/06/05	\$3,495.75	\$3,493.10	\$3,490.50	\$3,487.85	\$3,485.20	\$3,485.20	\$3,485.20	\$3,485.20	\$3,485.20	\$3,485.20	\$3,485.20	\$3,485.20	
01/01/06	3,534.15	3,531.55	3,529.00	3,526.40	3,523.80	3,523.80	3,523.80	3,523.80	3,523.80	3,523.80	3,523.80	3,523.80	
07/01/06	3,616.85	3,614.40	3,611.90	3,609.45	3,606.95	3,606.95	3,606.95	3,606.95	3,606.95	3,606.95	3,606.95	3,606.95	
01/01/07	3,701.50	3,699.15	3,696.80	3,694.45	3,692.10	3,692.10	3,692.10	3,692.10	3,692.10	3,692.10	3,692.10	3,692.10	
07/01/07	3,788.10	3,785.90	3,783.65	3,781.45	3,779.25	3,779.25	3,779.25	3,779.25	3,779.25	3,779.25	3,779.25	3,779.25	
01/01/08	3,876.75	3,874.65	3,872.60	3,870.50	3,868.40	3,868.40	3,868.40	3,868.40	3,868.40	3,868.40	3,868.40	3,868.40	
07/01/08	3,967.45	3,965.55	3,963.60	3,961.65	3,959.70	3,959.70	3,959.70	3,959.70	3,959.70	3,959.70	3,959.70	3,959.70	
01/01/09	4,060.30	4,058.50	4,056.75	4,054.95	4,053.15	4,053.15	4,053.15	4,053.15	4,053.15	4,053.15	4,053.15	4,053.15	
07/01/09	4,155.30	4,153.70	4,152.05	4,150.45	4,148.85	4,148.85	4,148.85	4,148.85	4,148.85	4,148.85	4,148.85	4,148.85	
01/01/10	4,252.55	4,251.10	4,249.65	4,248.20	4,246.75	4,246.75	4,246.75	4,246.75	4,246.75	4,246.75	4,246.75	4,246.75	
07/01/10	4,352.05	4,350.80	4,349.50	4,348.25	4,346.95	4,346.95	4,346.95	4,346.95	4,346.95	4,346.95	4,346.95	4,346.95	
01/01/11	4,453.90	4,452.80	4,451.75	4,450.65	4,449.55	4,449.55	4,449.55	4,449.55	4,449.55	4,449.55	4,449.55	4,449.55	
07/01/11	4,558.10	4,557.25	4,556.35	4,555.45	4,554.55	4,554.55	4,554.55	4,554.55	4,554.55	4,554.55	4,554.55	4,554.55	
01/01/12	4,664.80	4,664.10	4,663.40	4,662.75	4,662.05	4,662.05	4,662.05	4,662.05	4,662.05	4,662.05	4,662.05	4,662.05	
07/01/12	4,773.95	4,773.45	4,773.00	4,772.55	4,772.05	4,772.05	4,772.05	4,772.05	4,772.05	4,772.05	4,772.05	4,772.05	
01/01/13	4,885.65	4,885.40	4,885.15	4,884.95	4,884.70	4,884.70	4,884.70	4,884.70	4,884.70	4,884.70	4,884.70	4,884.70	
07/01/13	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	

APPENDIX L
FORM OF MUNICIPAL BOND INSURANCE POLICY



Financial Guaranty Insurance Company
 125 Park Avenue
 New York, NY 10017
 T 212-312-3000
 T 800-352-0001

Municipal Bond New Issue Insurance Policy

Issuer:	Policy Number:
	Control Number: 0010001
Bonds:	Premium:

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all



Financial Guaranty Insurance Company
 125 Park Avenue
 New York, NY 10017
 T 212-312-3000
 T 800-352-0001

Municipal Bond New Issue Insurance Policy

principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

SPECIMEN

President

Effective Date:

Authorized Representative

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer



Financial Guaranty Insurance Company
 125 Park Avenue
 New York, NY 10017
 T 212-312-3000
 T 800-352-0001

Endorsement
To Financial Guaranty Insurance Company
Insurance Policy

Policy Number: _____ **Control Number:** 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

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