

NEW ISSUE

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

OFFICIAL STATEMENT DATED MAY 12, 2004

In the opinion of Bond Counsel, interest on the 2004 Bonds is includible in gross income for federal and State of Arizona income tax purposes and therefore is not exempt from present federal income taxation and State of Arizona income taxation. See "TAX MATTERS," herein.

\$260,000,000

**CITY OF PHOENIX CIVIC IMPROVEMENT CORPORATION
RENTAL CAR FACILITY CHARGE REVENUE BONDS,
TAXABLE SERIES 2004**

Dated: Date of Delivery

Due: July 1, as shown on inside front cover

Principal of, and premium, if any, on the Rental Car Facility Charge Revenue Bonds, Taxable Series 2004 (the "2004 Bonds") are payable at the designated corporate trust office of U.S. Bank National Association, Minneapolis, Minnesota, as trustee (the "Trustee," also referred to herein as the "Registrar," "Paying Agent" and "Authenticating Agent"). The 2004 Bonds will be issued as fully registered bonds in the denominations of \$5,000 each or any integral multiple thereof. Interest on the 2004 Bonds is payable semiannually on January 1 and July 1 of each year, commencing January 1, 2005, by check of the Trustee, mailed to the person shown on the bond register of the City of Phoenix Civic Improvement Corporation (the "Corporation") maintained by the Trustee as being the registered owner of such 2004 Bond as of the fifteenth day of the month immediately preceding such interest payment date, at the address appearing on said bond register or at such other address as is furnished to the Trustee in writing by such registered owner before the fifteenth day of the month prior to such interest payment date.

The 2004 Bonds are subject to redemption prior to maturity as described herein.

The 2004 Bonds are special revenue obligations of the Corporation and are payable solely from certain payments required to be paid by the City of Phoenix, Arizona (the "City") to the Corporation pursuant to a City Purchase Agreement dated as of June 1, 2004 (the "City Purchase Agreement"). The obligation of the City to make certain payments under the City Purchase Agreement is secured by a first priority pledge of Pledged Revenues (as defined herein) to be derived primarily from daily usage fees (the "Customer Facility Charges") to be paid by rental car customers arriving at Phoenix Sky Harbor International Airport (the "Airport") and to be charged, collected and remitted by rental car companies (the "Companies") obtaining customers at the Airport and the funds and accounts established under the Bond Indenture dated as of June 1, 2004 between the Corporation and the Trustee, including a 2004 Debt Service Reserve Fund, a Debt Service Coverage Fund and an Improvement Reserve/Surplus Fund. The obligation of the City to make payments under the City Purchase 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 or of other revenues generated by the Airport System (as defined herein), except as expressly provided herein. Payment of principal of and interest on the 2004 Bonds is not guaranteed by any of the Companies and no revenues, profits or property of the Companies are pledged as security for the 2004 Bonds. See "SECURITY AND SOURCE OF PAYMENT" herein. The scheduled payment of principal of and interest on the 2004 Bonds when due will be guaranteed by a municipal bond insurance policy to be issued simultaneously with the delivery of the 2004 Bonds by Financial Guaranty Insurance Company.

Proceeds of the 2004 Bonds, together with previously collected Customer Facility Charges, will be used to pay the cost of designing, acquiring, constructing and equipping a consolidated rental car facility at the Airport (the "Project"). See "THE PROJECT" herein.

This cover page contains only a brief description of the 2004 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 2004 Bonds or of investment risks involved with the purchase of the 2004 Bonds, and investors are advised to read the entire Official Statement, giving particular attention to the matters discussed under "BONDHOLDERS' RISKS," in order to obtain information essential to making an informed investment decision.

The 2004 Bonds are offered when, as and if issued and received by the Underwriters, and subject to the legal opinion of Greenberg Traurig, LLP, Bond Counsel, as to validity. Certain legal matters will be passed upon for the Underwriters by Squire Sanders & Dempsey L.L.P., Counsel to the Underwriters. It is expected that the 2004 Bonds will be available for delivery in definitive form in New York, New York on or about June 2, 2004.

**Lehman Brothers
Bear, Stearns & Co. Inc.**

**Piper Jaffray
Siebert Brandford Shank & Co., LLC
Banc of America Securities LLC
Hutchinson, Shockey, Erley & Co.**

**RBC Dain Rauscher Inc.
Stone & Youngberg LLC
Samuel A. Ramirez & Co., Inc.
Peacock, Hislop, Staley & Given, Inc.**

Zions First National Bank

MATURITY SCHEDULE

\$260,000,000 Rental Car Facility Charge Revenue Bonds, Taxable Series 2004

<u>Maturity July 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>Maturity July 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>
2007	\$ 5,960,000	3.69%	100.00%	2012	\$7,435,000	5.47%	100.00%
2008	6,180,000	4.21	100.00	2013	7,845,000	5.60	100.00
2009	6,440,000	4.60	100.00	2014	8,285,000	5.62	100.00
2010	6,735,000	4.94	100.00	2015	8,750,000	5.77	100.00
2011	7,065,000	5.25	100.00				

\$19,050,000 5.87% Term Bonds due July 1, 2017, Price 100.00%

\$21,360,000 5.97% Term Bonds due July 1, 2019, Price 100.00%

\$65,880,000 6.17% Term Bonds due July 1, 2024, Price 100.00%

\$89,015,000 6.25% Term Bonds due July 1, 2029, Price 100.00%

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 OF PHOENIX, ARIZONA
CITY COUNCIL

Phil Gordon
Mayor

Peggy Bilsten, *Vice Mayor*
District 3

Peggy Neely, *Member*
District 2

Michael Johnson, *Member*
District 8

Dave Siebert, *Member*
District 1

Doug Lingner, *Member*
District 7

Tom Simplot, *Member*
District 4

Claude Mattox, *Member*
District 5

Greg Stanton, *Member*
District 6

ADMINISTRATIVE OFFICIALS

Frank A. Fairbanks
City Manager

Sheryl L. Sculley
Assistant City Manager

Alton Washington
Special Assistant City Manager

Marsha Wallace
Deputy City Manager

Kevin Keogh
Chief Financial Officer

David Cavazos
Acting Aviation Director

Peter Van Haren
City Attorney

Vicky Miel
City Clerk

SPECIAL SERVICES

GREENBERG TRAUIG, LLP
Phoenix, Arizona
Bond Counsel

LANDRUM & BROWN, INC.
Chicago, Illinois
Financial Feasibility Consultants

KPMG LLP
Phoenix, Arizona
Certified Public Accountants

U.S. BANK NATIONAL ASSOCIATION
Minneapolis, Minnesota
*Trustee, Registrar,
Paying Agent*

This Official Statement does not constitute an offering of any security other than the original offering of the 2004 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 not so authorized should not be relied upon as having been given or authorized by the Corporation, the City or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, and there shall not be any sale of the 2004 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 is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the Corporation or the City since the date hereof. There is no obligation on the part of the City or the Corporation to provide any continuing secondary market disclosure other than as described herein under the heading "CONTINUING DISCLOSURE."

Upon issuance, the 2004 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 2004 Bonds for sale.

IN CONNECTION WITH THE OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2004 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

\$260,000,000
CITY OF PHOENIX CIVIC IMPROVEMENT CORPORATION
Rental Car Facility Charge Revenue Bonds,
Taxable Series 2004**

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 2004 Bonds. The offering of the 2004 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 2004 Bonds. Accordingly, prospective 2004 Bond purchasers should read this entire Official Statement before making their investment decision.

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

References in this Official Statement to "*Parity Obligations*" shall include any other obligations secured on a parity of lien basis by Pledged Revenues, including the obligation of the City to make payments under the City Purchase Agreement.

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

For the definitions of certain capitalized terms used in this Official Statement and for certain provisions of the City Purchase Agreement dated as of June 1, 2004 (the "*City Purchase Agreement*"), Ordinance No. G-4375 adopted by the Mayor and Council of the City on July 5, 2001, as amended to date and as further supplemented and amended from time to time (the "*CFC Ordinance*"), the Bond Indenture, dated as of June 1, 2004 (the "*Indenture*") between the Corporation and U.S. Bank National Association as trustee (the "*Trustee*"), pursuant to which the 2004 Bonds are being issued, and the lease and concession agreements with the rental car companies, see "APPENDIX I — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS."

THE AIRPORT AND THE AIRPORT SYSTEM

The City owns and operates three airports known as Phoenix Sky Harbor International Airport (the "*Airport*"), Phoenix-Goodyear Airport and Phoenix-Deer Valley Airport (collectively, the "*Airport System*"). The City has operated the Airport System as a self-supporting enterprise since 1967. An overview of the Airport System is set forth in "APPENDIX A — CITY OF PHOENIX, ARIZONA — THE AIRPORT." The City has engaged the firm of Landrum & Brown, Inc. (the "*Feasibility Consultant*") to prepare a financial feasibility study (the "*Financial Feasibility Report*") in connection with the issuance of the 2004 Bonds. The Financial Feasibility Report is included as "APPENDIX B — FINANCIAL FEASIBILITY REPORT."

THE PROJECT

General Description

The proceeds of the 2004 Bonds will fund 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 (the "RCC" or the "Project") at the Airport. In addition to 2004 Bond proceeds, the RCC will also be funded with Customer Facility Charges (as defined herein) that have been collected from rental car customers from June 1, 2002 through the issuance of the 2004 Bonds ("Pre-issuance CFC's"), as well as subsequent Customer Facility Charges collected until the Date of Beneficial Occupancy ("DBO") of the RCC.

The RCC will consist of the following elements: (a) a Customer Service Building containing 113,000 square feet of counter positions and administrative space for each rental car company, administrative space for the Airport and support services, retail space, and circulation space; (b) a parking structure consisting of 5,651 parking stalls for individual rental car companies' ready/return spaces; (c) individual rental car company maintenance/storage facilities; (d) a bus fleet consisting of 62 vehicles; (e) a bus maintenance facility; and (f) certain infrastructure and site development improvements. The elements of the RCC financed with proceeds of the 2004 Bonds will be acquired by the City from the Corporation pursuant to the City Purchase Agreement.

The City will lease portions of the RCC to rental car companies ("RCC Companies") pursuant to lease agreements ("RCC Leases") and enter into rental vehicle concession agreements with the RCC Companies ("Concession Agreements"). For a summary of certain provisions of the RCC Leases and the Concession Agreements, see "APPENDIX I — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — RCC Leases" and "— Concession Agreements."

The proceeds of the 2004 Bonds will be deposited into the Construction Fund held by the City and applied to pay Project costs and costs of issuance of the 2004 Bonds. Earnings on the Construction Fund will be credited to the Construction Fund. The City has covenanted to apply amounts on deposit in the Construction Fund to payment of Purchase Payments to the extent other Pledged Revenues are not available under the Indenture. See "APPENDIX I — SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS — The Indenture."

Operation and Maintenance

The RCC Leases require that each RCC Company pay all expenses of operation and maintenance and repair expenses of its applicable exclusive use areas and its proportionate share of non-exclusive areas.

The City has covenanted in the City Purchase Agreement to pay from amounts transferred by the Trustee from the Transportation O&M Fund, amounts in the Improvement Reserve/Surplus Fund, and amounts held in the Transportation O&M Reserve Fund, Transportation O&M Expenses for transporting customers between the terminals at the Airport and the RCC, including, but not limited to a common bus fleet and automated people mover. The City has also covenanted to maintain a balance in the Transportation O&M Reserve Fund equal to the Transportation O&M Reserve Requirement and a balance in the City Transportation O&M Reserve Fund equal to the City Transportation O&M Reserve Requirement from Pledged Revenues (as such terms are defined herein). To the extent Pledged Revenues are insufficient to maintain the Transportation O&M Reserve Requirement, the City has covenanted to transfer Airport Improvement Funds, to the extent such funds are available, to remedy the deficiency. Airport Improvement Funds are amounts deposited to the Airport Improvement Fund and generally consist of revenues of the Airport System, less costs of maintenance and operation, debt service on all obligations payable from airport revenues and required reserve fund deposits. The Transportation O&M Reserve Requirement is one-half times the succeeding Bond Year's projected Transportation O&M Expenses. The City Transportation O&M Reserve Requirement is one and one-half times the succeeding Bond Year's projected Transportation O&M Expenses. See "SECURITY AND SOURCES OF PAYMENT — Pledged Revenues — Additional Payments from Airport Improvement Funds; Certain Covenants."

THE 2004 BONDS

Authorization and Purpose

The 2004 Bonds are being issued by the Corporation under the terms of the Indenture to provide funds for the purchase of certain components of the RCC as described under the caption "THE PROJECT." The payments to be made by the City pursuant to the City Purchase Agreement are scheduled to be sufficient to make payments on the 2004 Bonds and to pay certain other expenses. The City has pledged the Pledged Revenues on a first priority basis to secure amounts due under the City Purchase Agreement representing the Principal Requirement and the Interest Requirement on the 2004 Bonds and to maintain certain reserve funds. The City's obligations under the City Purchase Agreement representing the Principal Requirement and the Interest Requirement on the 2004 Bonds are the first obligations which are payable from the Pledged Revenues. The Indenture and the City Purchase Agreement permit the issuance of additional obligations on a parity with the 2004 Bonds ("*Parity Obligations*" and together with the 2004 Bonds, the "*Bonds*"). See "SECURITY AND SOURCE OF PAYMENT."

General Description

The 2004 Bonds will be dated the date of initial authentication and delivery, will bear interest payable semiannually on January 1 and July 1 of each year (each an "*Interest Payment Date*"), commencing January 1, 2005. The 2004 Bonds will bear interest at the rates and will mature on the dates and in the amounts set forth on the inside front cover of this Official Statement. The 2004 Bonds will be delivered in fully registered form in the denomination of \$5,000 each or any whole multiple thereof (but no 2004 Bond may represent installments of principal maturing on more than one date).

The principal of and premium, if any, and interest at maturity or redemption on each 2004 Bond will be payable upon presentation and surrender of such 2004 Bond at the designated corporate trust office of the Registrar. Interest on each 2004 Bond, other than that due at maturity or redemption, will be paid on each Interest Payment Date by check of said Registrar, mailed to the person shown on the bond register of the Corporation maintained by the Registrar as being the registered owner of such 2004 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.

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

Redemption Provisions

Optional Redemption of 2004 Bonds. The 2004 Bonds are subject to redemption, in whole or in part, at the option of the Corporation, as directed by the City, at any time or from time to time upon notice as provided in the Indenture, on any date prior to their maturity at a Redemption Price equal to 100% of the principal amount of such 2004 Bonds plus the Make-Whole Premium, if any, as described below, plus the accrued interest, if any, thereon to the redemption date.

The amount of the Make-Whole Premium with respect to any 2004 Bond to be redeemed will be equal to the excess, if any, of:

- (i) the sum of the present values, calculated as of the redemption date, of:
 - (A) each interest payment that, but for such redemption, would have been payable on the 2004 Bond or portion thereof being redeemed on each interest payment date occurring after the redemption date (excluding any accrued interest for the period prior to the redemption date); and

(B) the principal amount that, but for such redemption, would have been payable at the final maturity of the 2004 Bond being redeemed; over

(ii) the principal amount of the 2004 Bond being redeemed.

The present values of interest and principal payments referred to in clause (i) above shall be determined in accordance with generally accepted principles of financial analysis. These present values will be calculated by discounting the amount of each payment of interest or principal from the date that each such payment would have been payable, but for the redemption, to the redemption date at a discount rate equal to the "comparable treasury yield" (as defined below) plus 25 basis points. The Make-Whole Premium will be calculated by an independent investment banking institution of national standing appointed by the City (which may be Lehman Brothers Inc.). If the City fails to appoint an independent investment banker at least 45 days prior to the redemption date, or if the independent investment banker appointed by the City is unwilling or unable to make the calculation, the calculation will be made by an independent investment banking institution of national standing appointed by the Trustee.

For purposes of determining the Make-Whole Premium, "comparable treasury yield" means a rate of interest per annum equal to the weekly average yield to maturity of United States Treasury Securities that have a constant maturity that corresponds to the remaining term to maturity of the 2004 Bonds, calculated to the nearest 1/12th of a year. The comparable treasury yield will be determined as of the third business day immediately preceding the applicable redemption date.

The weekly average yields of United States Treasury Securities will be determined by reference to the most recent statistical release published by the Federal Reserve Bank of New York and designated "H.15(519) Selected Interest Rates" or any successor release. If the H.15 statistical release sets forth a weekly average yield for United States Treasury Securities having a constant maturity that is the same as the remaining term calculated as set forth above, then the comparable treasury yield will be equal to such weekly average yield. In all other cases, the comparable treasury yield will be calculated by interpolation on a straight-line basis, between the weekly average yields on the United States Treasury Securities that have a constant maturity closest to and greater than the remaining term and the United States Treasury Securities that have a constant maturity closest to and less than the remaining term (in each case as set forth in the H.15 statistical release or any successor release). Any weekly average yields calculated by interpolation will be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward. If weekly average yields for United States Treasury Securities are not available in the H.15 statistical release or otherwise, then the comparable treasury yield will be calculated by interpolation of comparable rates selected by an independent investment banker selected in the manner described above.

Mandatory Sinking Fund Redemption. The 2004 Bonds maturing on July 1, 2017, July 1, 2019, July 1, 2024 and July 1, 2029 are subject to mandatory sinking fund redemption and will be redeemed on July 1 of the respective years set forth below (the "*Sinking Fund Retirement Dates*") and in the amounts set forth below (the "*Sinking Fund Requirements*"), by payment of a redemption price of the principal amount of such 2004 Bonds called for redemption plus the interest accrued to the date fixed for redemption, but without premium, as follows:

Bonds Maturing July 1, 2017

<u>Sinking Fund Retirement Date (July 1)</u>	<u>Sinking Fund Requirement</u>
2016	\$9,255,000
2017*	9,795,000

* Maturity

2004 Bonds Maturing July 1, 2019

<u>Sinking Fund Retirement Date (July 1)</u>	<u>Sinking Fund Requirement</u>
2018	\$10,370,000
2019*	10,990,000

* Maturity

2004 Bonds Maturing July 1, 2024

<u>Sinking Fund Retirement Date (July 1)</u>	<u>Sinking Fund Requirement</u>
2020	\$11,645,000
2021	12,365,000
2022	13,130,000
2023	13,940,000
2024*	14,800,000

* Maturity

2004 Bonds Maturing July 1, 2029

<u>Sinking Fund Retirement Date (July 1)</u>	<u>Sinking Fund Requirement</u>
2025	\$15,710,000
2026	16,695,000
2027	17,740,000
2028	18,845,000
2029*	20,025,000

* Maturity

At the option of the Corporation, as directed by the City, whenever 2004 Bonds subject to mandatory sinking fund redemption ("*Term Bonds*") are purchased, redeemed (other than pursuant to the foregoing scheduled Sinking Fund Requirement) or delivered by the City or the Corporation to the Paying Agent for cancellation, the principal amount of such Term Bonds so retired will satisfy and be credited against the Sinking Fund Requirement (and the corresponding redemption requirements) relating to such Term Bonds of the same maturity in such manner as the City determines; provided, however, that following such reduction each Sinking Fund Requirement is an integral multiple of \$5,000. Such option must be exercised on or before the 45th day preceding the applicable mandatory Sinking Fund Retirement Date, by furnishing the Paying Agent a certificate setting forth the extent of the credit to be applied with respect to the then current Sinking Fund Requirement. If the certificate is not timely furnished, the Sinking Fund Requirement (and the corresponding redemption requirement) will not be reduced.

Notice of Redemption. When redemption is authorized or required, the applicable Trustee will give the Owners of the 2004 Bonds to be redeemed notice of the redemption of the 2004 Bonds. Such notice will specify (a) that the whole or part of the 2004 Bonds are to be redeemed and, if in part, the part to be redeemed; (b) the date of redemption; (c) the place or places where the redemption will be made; and (d) the redemption price to be paid. Any redemption of 2004 Bonds in part will be from such maturities as directed by the City and by lot within a maturity in any manner the applicable Paying Agent deems fair.

Notice of such redemption will be given by mailing a copy of the redemption notice not more than 60 days nor less than 30 days prior to such redemption date, to the Owner of each 2004 Bond subject to redemption in whole or in part at the Owner's address shown on the Register on the fifteenth day preceding that mailing. Neither failure to receive any such notice nor any defect therein will affect the sufficiency of the proceedings for the redemption of the 2004 Bonds with respect to which there is no such defect.

Notice having been given in the manner provided above, the 2004 Bonds or portions thereof called for redemption will become due and payable on the redemption date and if an amount of money sufficient to redeem all the 2004 Bonds and portions thereof called for redemption is held by the Trustee or any paying agent on the redemption date, then the 2004 Bonds or portions thereof to be redeemed will not be considered outstanding under the Indenture and will cease to bear interest from and after such redemption date.

Registration, Transfer and Exchange

The Registrar will maintain the books of the Corporation for the registration and transfer of 2004 Bonds, as provided in the Indenture.

The 2004 Bonds may be exchanged, at the option of their Owner, for 2004 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 as, the 2004 Bonds being exchanged. The exchange will be made upon presentation and surrender of the 2004 Bonds being exchanged at the designated office of the Registrar or at the designated office of any Authenticating Agent for the 2004 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 2004 Bond may be transferred upon the bond register, upon presentation and surrender thereof at the designated office of the Registrar or the designated office of any Authenticating Agent for the 2004 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. Upon transfer of any 2004 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 2004 Bond or 2004 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 2004 Bonds presented and surrendered for transfer.

In all cases in which 2004 Bonds are exchanged or transferred pursuant to the Indenture, the Corporation will execute, and the Registrar or any Authenticating Agent, as the case may be, will authenticate and deliver, 2004 Bonds in accordance with the provisions of the Indenture. The Owner will be charged for any fee or charge incurred in connection with the exchange or transfer of any 2004 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 2004 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 2004 Bond is delivered.

All 2004 Bonds issued upon any transfer or exchange of 2004 Bonds will be the valid obligations of the Corporation, evidencing the same debt, and entitled to the same benefits under the Indenture, as the 2004 Bonds surrendered for transfer or exchange. The Registrar and Authenticating Agent will not be required to transfer or exchange any 2004 Bond selected for redemption in whole or in part or to transfer or exchange any 2004 Bond during the period of fifteen days next preceding the selection of 2004 Bonds for redemption.

SECURITY AND SOURCE OF PAYMENT

Pledged Revenues

Purchase Payments. The 2004 Bonds are special revenue obligations of the Corporation payable solely from certain payments (the "Purchase Payments") received under the City Purchase Agreement. The Purchase Payments are payable from a first priority pledge of the Pledged Revenues. Under the terms of the

City Purchase Agreement, the City is to pay Purchase Payments to the Trustee in amounts sufficient to pay when due the principal of and interest on the 2004 Bonds, Administrative Costs, Transportation O&M Expenses and amounts necessary to maintain the balances in the Transportation O&M Reserve Fund, City Transportation O&M Reserve Fund, Debt Service Coverage Fund and the 2004 Debt Service Reserve Fund at the Transportation O&M Reserve Requirement, City Transportation O&M Reserve Requirement, Debt Service Coverage Requirement and the 2004 Debt Service Reserve Requirement, respectively. For complete definitions of Pledged Revenues, Transportation O&M Reserve Requirement, City Transportation O&M Reserve Requirement, Airport Improvement Funds, Administrative Costs, 2004 Debt Service Reserve Requirement and Debt Service Coverage Requirement, see "APPENDIX I — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — Certain Definitions."

Pledged Revenues. The Pledged Revenues consist primarily of Pre-issuance CFC's deposited to funds subject to the lien of the Indenture, Customer Facility Charges collected after issuance of the 2004 Bonds at the Pledged Rate remitted by the Companies (as defined below) to the Depository and transferred to the Trustee, amounts on deposit in the 2004 Bond Fund, the 2004 Debt Service Reserve Fund, the Debt Service Coverage Fund, the Construction Fund and the Improvement Reserve/Surplus Fund and investment income from investments therein. The Pledged Rate for the Customer Facility Charges is currently equal to the Initial Rate of \$4.50 per Transaction Day. See "RATE COVENANT; CUSTOMER FACILITY CHARGES" below for circumstances under which the City may be required to use its best efforts to increase the Initial Rate and the Pledged Rate. The Pledged Revenues do not include (a) amounts paid by the RCC Companies as ground rentals or concession fees, (b) amounts on deposit in or required to be deposited to, the Administrative Costs Fund, (c) amounts on deposit in the Transportation O&M Fund, the Transportation O&M Reserve Fund, and the City Transportation O&M Reserve Fund, and (d) Customer Facility Charges which exceed the Pledged Rate. For complete definitions of Airport Revenues and Cost of Maintenance and Operation see "APPENDIX I — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — Certain Definitions."

Customer Facility Charges. Under the CFC Ordinance, the RCC Companies and other rental car companies who obtain customers at the Airport ("*Off-Site Companies*" and together with the RCC Companies, the "*Companies*") are currently required to charge and collect the Customer Facility Charge at the Initial Rate and remit such funds to a financial institution designated by the City (the "*Depository*"). The Depository will enter into a Bailment Agreement with the Trustee acknowledging the security interest of the Trustee in such funds. The Customer Facility Charge has been imposed since June 1, 2002 and was increased from \$3.50 per Transaction Day to the current rate of \$4.50 per Transaction Day effective September 1, 2003. An exemption in the CFC Ordinance for local customers who do not arrive at the Airport will expire on the date of beneficial occupancy of the RCC.

Additional Payments from Airport Improvement Funds; Certain Covenants. Under the City Purchase Agreement, the City has covenanted to maintain the balance in the Transportation O&M Reserve Fund at the Transportation O&M Reserve Requirement. To the extent Pledged Revenues are not sufficient, the City has covenanted to deposit, within sixty days notice from the Trustee of a deficiency, Airport Improvement Funds in an amount necessary to maintain the Transportation O&M Reserve Requirement ("*Additional Payments*"). Airport Improvement Funds are amounts deposited to the Airport Improvement Fund and generally consist of revenues of the Airport System, less costs of maintenance and operation, debt service on all obligations payable from Airport Revenues and required reserve fund deposits. The pledge of Airport Improvement Funds will remain in effect until no Bonds are outstanding. The Purchase Payments and Additional Payments are collectively referred to herein as the "Purchase Price." The City may, but is not required to, pay the Purchase Price from other funds lawfully available to the Airport System which are not included in the definition of Pledged Revenues ("*Other Available Funds*").

For a discussion of certain covenants which the City has entered into with respect to the Project, see "RATE COVENANTS; CUSTOMER FACILITY CHARGES," "ADDITIONAL PARITY OBLIGATIONS," and "APPENDIX I — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — CFC Ordinance (As Codified) and "— City Purchase Agreement." For a discussion of the

Airport System, and funds available historically in the Airport Improvement Fund, see "APPENDIX A — CITY OF PHOENIX, ARIZONA — THE AIRPORT."

During the term of the City Purchase Agreement, payments of the Purchase Price are to be made regardless of damage to the Project or commercial frustration of purpose, without right of set-off or counterclaim, regardless of any contingencies and whether or not the City possesses or uses the Project. The City's obligation to pay the Purchase Price will continue until all Purchase Payments and Additional Payments due under the City Purchase Agreement have been paid.

The obligation of the City to pay the Purchase Price under the City Purchase Agreement does not constitute a debt or a pledge of the full faith and credit of the City, the State of Arizona or any other political subdivision thereof. The City has not pledged any form of ad valorem taxes or revenues of the Airport System to the payment of the 2004 Bonds. The 2004 Bonds are special revenue obligations of the Corporation secured only by the Purchase Payments which are to be paid from a first priority pledge of the Pledged Revenues. The Purchase Payments are not guaranteed by any of the Companies and no revenues, profits or property of any Company are pledged as security for the 2004 Bonds.

Annual Budget and Projections. A City Representative or Rate Consultant must prepare and deliver to the Trustee and the Bond Insurer (as defined below), no later than 90 days prior to the beginning of each Bond Year, a schedule or schedules setting forth budgeted Administrative Costs, budgeted Transportation O&M Expenses, projected Customer Facility Charges deposited in the Revenue Fund for a twelve-month period ("Annual Receipts") and the ratio of projected Annual Receipts to debt service on the Bonds for the Bond Year. For purposes of determining the Transportation O&M Reserve Requirement and the City Transportation O&M Reserve Requirement, such schedules must also include a projection of Transportation O&M Expenses for the second succeeding Bond Year.

Rate Covenant; Customer Facility Charges

The City covenants that it will in each Bond Year, establish, maintain and enforce the Customer Facility Charges applicable to both RCC Companies and Off-Site Companies at not less than the Pledged Rate, which is currently the Initial Rate of \$4.50 per Transaction Day. In the event that the Annual Receipts described in the schedules prepared as described above, plus amounts on deposit in the Debt Service Coverage Fund, are not projected to equal at least (a) 125% of the Principal Requirement and the Interest Requirement for all Bonds and (b) budgeted Administrative Costs for the next Bond Year and required deposits to the Debt Service Coverage Fund, and the 2004 Debt Service Reserve Fund (and comparable funds established for Parity Obligations) it will, to the extent permitted by law, use its best efforts to increase the rate at which Customer Facility Charges are imposed to remedy such projected deficiencies. In such event, the City must also use its best efforts to notify the Trustee of a corresponding increase in the Pledged Rate. If the City increases the rate imposed and elects to notify the Trustee of an increase in the Pledged Rate, such notice will, without further action, increase the Pledged Rate for purposes of the City Purchase Agreement and the Indenture. The Corporation acknowledges that increasing the rate at which the Customer Facility Charges are imposed and increasing the Pledged Rate are separate legislative acts which are solely within the control of the City Council. See "APPENDIX I — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — The City Purchase Agreement" and "— The CFC Ordinance (as Codified)."

Flow of Funds

General. All moneys in the Revenue Fund are required to be transferred to the following funds in the order listed:

(a) To the Administrative Costs Fund on or before the first Business Day of each month, an amount equal to the Administrative Costs budgeted for the Bonds for such Bond Year until all budgeted Administrative Costs have been deposited. Thereafter, no additional transfers to the Administrative Costs Fund may be made during such Bond Year unless the City amends the Administrative Costs budgeted for the Bonds for such Bond Year and such amendment increases the Administrative Costs budgeted for the Bonds for such Bond Year. In such event, the Trustee is required to transfer to the Administrative

Costs Fund all moneys subsequently deposited in the Revenue Fund until there shall have been deposited thereto an amount equal to the increased Administrative Costs budgeted for the Bonds for such Bond Year. In the event amounts on deposit at the end of a Bond Year exceed the amount budgeted for the following Bond Year, such excess will be transferred to the Improvement Reserve/Surplus Fund.

(b) To the 2004 Interest Account and any subsequent account for Parity Obligations on or before the first Business Day of each month an amount equal to one-fifth of the respective amounts of interest to be paid on Outstanding Bonds on the next Bond Payment Date unless and until funds are on deposit in an amount sufficient to make such payment. If Pledged Revenues are not available to make a deposit when required, such deficiency must be remedied on the next succeeding deposit date. Moneys in the 2004 Interest Account must be used to pay interest on the 2004 Bonds as it becomes due.

(c) To the 2004 Principal Account and any subsequent account for Parity Obligations on or before the first Business Day of each month (in each Bond Year ending on a date on which Bonds mature), an amount equal to one-tenth of the respective principal amounts at maturity plus one-tenth of the amount equal to any mandatory sinking fund redemption requirement for the 2004 Bonds Outstanding (or similar obligation with respect to Parity Obligations) which will mature or be subject to mandatory redemption on the last day of such Bond Year unless and until funds are on deposit in an amount sufficient to make such payment. If Pledged Revenues are not available to make a deposit when required, such deficiency must be remedied on the next succeeding deposit date. Moneys in the 2004 Principal Account must be used to retire 2004 Bonds by payment at their scheduled maturity or their mandatory sinking fund retirement date.

(d) From time to time to the credit of the 2004 Debt Service Reserve Fund and every separate debt service reserve fund established for Parity Obligations not secured by the 2004 Debt Service Reserve Fund, amounts then required to be deposited therein on a pro rata basis, provided that such deposits may be transferred to the applicable Credit Facility in order to reimburse such Credit Facility for amounts paid out under any insurance policy or Qualified Surety Bond securing any of the Bonds.

(e) From time to time to the credit of the Debt Service Coverage Fund amounts then required to be deposited therein.

(f) On or before the first Business Day of each month to the credit of the Transportation O&M Fund an amount equal to the Transportation O&M Expenses budgeted for such Bond Year until all budgeted Transportation O&M Expenses have been deposited.

(g) On or before the first Business Day of each month to the credit of the Transportation O&M Reserve Fund an amount equal to the amount required to maintain the balance therein equal to the Transportation O&M Reserve Requirement.

(h) On or before the first Business Day of each month to the City for deposit to the City Transportation O&M Reserve Fund an amount equal to the amount required to maintain the balance therein equal to the City Transportation O&M Reserve Requirement.

(i) To the credit of the Improvement Reserve/Surplus Fund any amounts remaining in the Revenue Fund.

For a more complete discussion of the general flow of funds see "APPENDIX I — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — The Bond Indenture" and "— The City Purchase Agreement."

2004 Bond Fund

Pursuant to the Indenture, the Trustee will create the 2004 Bond Fund which will contain the 2004 Principal Account, the 2004 Interest Account and the 2004 Redemption Account. So long as any 2004 Bonds are outstanding, the Trustee will deposit the Purchase Payments transferred to it by the City under the City Purchase Agreement from the Revenue Fund into the 2004 Interest Account and the 2004 Principal Account, respectively. The portion of the Purchase Payments deposited into the 2004 Principal Account will be used by

the Trustee to pay the next succeeding principal payment (whether at maturity or pursuant to a sinking fund redemption requirement) on the 2004 Bonds and the portion of the Purchase Payments deposited in the 2004 Interest Account will be used by the Trustee to pay the next succeeding interest payment on the 2004 Bonds.

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

For a more complete description of the 2004 Bond Fund and the use thereof see "APPENDIX I — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — The Indenture."

2004 Debt Service Reserve Fund; Reserve Policy

Pursuant to the Indenture, there is established with the Trustee a separate 2004 Debt Service Reserve Fund which will be available to make payments on the 2004 Bonds and will not be available to make payments on any other Parity Obligations. The 2004 Debt Service Reserve Fund is required to be maintained in an amount equal to Maximum Annual Debt Service for the 2004 Bonds (the "2004 Debt Service Reserve Requirement"). Amounts in the 2004 Debt Service Reserve Fund will be applied to pay the Interest Requirement and the Principal Requirement for the 2004 Bonds on any Bond Payment Date to the extent sufficient funds are not available in the 2004 Bond Fund, the Debt Service Coverage Fund and the Improvement Reserve/Surplus Fund. The 2004 Debt Service Reserve Fund may be funded with cash, certain Permitted Investments, a surety bond or financial instrument issued by an insurance company or financial institution with unsecured long-term indebtedness rated in one of the two highest Rating Categories (a "Qualified Surety Provider"). The City has obtained a commitment from Financial Guaranty Insurance Company (the "2004 Surety Provider" or "Financial Guaranty") to provide the Trustee with its Municipal Bond Debt Service Reserve Fund Policy (the "2004 Surety Bond" or the "Reserve Policy") with coverage equal to the 2004 Debt Service Reserve Requirement. The Reserve Policy unconditionally guarantees the payment of that portion of the principal or accreted value (as applicable) of and interest on the 2004 Bonds described therein which has become due for payment, but shall be unpaid by reason of nonpayment by the Corporation provided that the aggregate amount paid under the Reserve Policy may not exceed the maximum amount set forth in the Reserve Policy, which will be the 2004 Debt Service Reserve Requirement, initially \$21,278,206.50. Financial Guaranty will make such payments to the paying agent (the "Paying Agent") for the 2004 Bonds on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice subsequently confirmed in writing or written notice by registered or certified mail from the Paying Agent of the nonpayment of such amount by the Corporation. The term "nonpayment" in respect of a 2004 Bond includes any payment of principal or interest made to an owner of a 2004 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.

The Reserve Policy is non-cancellable and the premium will be fully paid at the time of delivery of the 2004 Bonds. The Reserve Policy covers failure to pay principal of the 2004 Bonds on their respective stated maturity dates, or dates on which the same shall have been called for mandatory sinking fund redemption, and not on any other date on which the Bonds may have been accelerated, and covers the failure to pay an installment of interest on the stated date for its payment. The Reserve Policy shall terminate on the scheduled final maturity date of the bonds being issued.

Generally, in connection with its issuance of a Reserve Policy, Financial Guaranty requires, among other things, (i) that, so long as it has not failed to comply with its payment obligations under the Reserve Policy, it be granted the power to exercise any remedies available at law or under the authorizing document other than (A) acceleration of the 2004 Bonds or (B) remedies which would adversely affect holders in the event that

the issuer fails to reimburse Financial Guaranty for any draws on the Reserve Policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty's consent. The specific rights, if any, granted to Financial Guaranty in connection with its issuance of the Reserve Policy are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the Corporation is required to provide additional or substitute credit enhancement, and related matters.

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

Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of December 31, 2003, the total capital and surplus of Financial Guaranty was approximately \$1.153 billion. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 125 Park Avenue, New York, New York 10017, Attention: Communications Department (telephone number: 212-312-3000) or the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation. On December 18, 2003, an investor group consisting of The PMI Group, Inc. ("*PMI*"), The Blackstone Group L.P. ("*Blackstone*"), The Cypress Group L.L.C. ("*Cypress*") and CIVC Partners L.P. ("*CIVC*") acquired approximately 95% of the common stock of FGIC Corporation (the "*Common Stock*") from General Electric Capital Corporation ("*GE Capital*"), a subsidiary of General Electric Company ("*GE*"). PMI, Blackstone, Cypress and CIVC acquired approximately 42%, 23%, 23% and 7%, respectively, of the Common Stock. Prior to the closing on December 18, 2003, Financial Guaranty paid GE Capital approximately \$284.3 million in cash dividends. GE retained direct or indirect ownership of approximately 5% of FGIC Corporation's common stock.

The 2004 Surety Bond requires, upon presentation of a demand for payment in accordance with its terms submitted to the 2004 Surety Provider, the 2004 Surety Provider to promptly deposit funds with the Trustee in an amount sufficient to enable the Trustee to make payments due on the 2004 Bonds, but in no event will the amount drawn under the 2004 Surety Bond exceed the coverage limit.

Pursuant to the terms of the 2004 Surety Bond, the coverage limit will automatically be reduced to the extent of each payment made by the 2004 Surety Provider and the City will be required to reimburse the 2004 Surety Provider with interest at a market rate. Upon such reimbursement, the 2004 Surety Bond will be reinstated to the extent of each principal reimbursement up to the coverage limit. The Indenture provides that amounts to be deposited to the 2004 Debt Service Reserve Fund or any separate fund established for Parity Obligations (a "*Reserve Fund*"), may be used to reimburse a Qualified Surety Provider on a pro rata basis among each of the Qualified Surety Providers. The Indenture also provides that draws on a Qualified Surety Bond are to be made only after all other available moneys in the applicable Reserve Fund have been expended. The City has agreed to pay the 2004 Surety Provider interest at a market rate on amounts not immediately reimbursed and certain expenses solely from Pledged Revenues on a subordinate basis to any Bonds.

Debt Service Coverage Fund

Pursuant to the Indenture, there is established with the Trustee a Debt Service Coverage Fund for the benefit of the 2004 Bonds and subsequent Parity Obligations. The Debt Service Coverage Fund must be maintained at an amount equal to 25% of Maximum Annual Debt Service (the "*Debt Service Coverage Requirement*"). Amounts in the Debt Service Coverage Fund must be used by the Trustee to pay the Interest Requirement or the Principal Requirement of the Bonds on any Bond Payment Date to the extent sufficient funds are not available in the 2004 Bond Fund or separate similar funds established for Parity Obligations or the Improvement Reserve/Surplus Fund.

Transportation O&M Expenses and Related Reserve Funds

Under the Indenture, the Trustee is required to make monthly transfers to the City from the Transportation O&M Fund equal to one-twelfth of the annual budgeted Transportation O&M Expenses and any additional amounts necessary to enable the City to pay actual Transportation O&M Expenses. If there are insufficient funds available in the Transportation O&M Fund to pay actual Transportation O&M Expenses, the City or the Trustee will pay such expenses as follows: (a) from amounts transferred by the Trustee to the City at the direction of the City from the Improvement Reserve/Surplus Fund and, (b) from amounts available in the Transportation O&M Reserve Fund held by the Trustee. At the City's option, amounts on deposit in the City Transportation O&M Reserve Fund may be used to pay Transportation O&M Expenses or any other lawful purpose permitted under the CFC Ordinance. For a description of the City's obligation to apply Airport Improvement Funds to remedy a deficiency in the Transportation O&M Reserve Fund, see "SECURITY AND SOURCES OF PAYMENT — Pledged Revenues — *Additional Payments from Airport Improvement Funds; Certain Covenants.*"

Improvement Reserve/Surplus Fund

Pursuant to the Indenture, there is established with the Trustee an Improvement Reserve/Surplus Fund. Amounts in the Improvement Reserve/Surplus Fund will be used by the Trustee in the following order of priority: (a) to pay Administrative Costs to the extent funds are not available in the Administrative Costs Fund, (b) to pay the Principal Requirement and Interest Requirement on any Bond Payment Date to the extent funds are not available in the 2004 Bond Fund or separate bond funds established for Parity Obligations, or the Debt Service Coverage Fund, (c) to restore any deficiency in the 2004 Debt Service Reserve Fund or any separate reserve fund established for Parity Obligations or to reimburse the provider of a Qualified Surety Bond, (d) to restore any deficiency in the Debt Service Coverage Fund, and (e) at the direction of the City, to the Transportation O&M Fund, the Transportation O&M Reserve Fund or to the extent necessary to maintain the balance therein at the Transportation O&M Reserve Requirement, the City Transportation O&M Reserve Fund to the extent necessary to maintain the balance therein at the City Transportation O&M Requirement or the Construction Fund or to reimburse the City for any Airport Improvement Funds deposited to the credit of the Transportation O&M Reserve Fund.

Additional Obligations

The City Purchase Agreement provides that additional Parity Obligations may be issued if an officer of the City shall certify that either (a) the Annual Receipts for the most recently completed fiscal year for which audited financial statements are available or (b) the Annual Receipts for 12 consecutive months out of the most recent 18 calendar months were equal to at least (i) Administrative Costs for the last complete Bond Year plus (ii) 125% of Maximum Annual Debt Service for all Bonds to be outstanding during such period including the Parity Obligations proposed to be issued. In addition, prior to issuance of Parity Obligations, a Corporation Representative must certify that neither the City nor the Corporation will be in default under the Indenture or the City Purchase Agreement and the Trustee must certify that the 2004 Debt Service Reserve Fund and similar reserve funds for Parity Obligations are funded at the respective Debt Service Reserve Requirements and the Debt Service Coverage Fund is funded at the Debt Service Coverage Requirement.

Additionally, Parity Obligations may be issued for refunding purposes without compliance with any of the foregoing financial tests if certain other conditions are met. See "APPENDIX I — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — The City Purchase Agreement."

Derivative Products

The City reserves the right to enter into arrangements involving derivative products including swap agreements, forward agreements, interest rate agreements, and other similar agreements, to the extent permitted by law, and make payments on such agreements from Pledged Revenues, and reserves the right to establish funds, accounts and subaccounts to make payment on such agreements and reserves the right to revise the flow of funds described above, provided that such revisions do not result in payments under such

agreements being made on a basis which is senior to the payment of any Bonds. To the extent the City enters into such agreements and pledges Pledged Revenues to the payment of such agreements on a parity with the Bonds, such agreements may only be incurred if the City satisfies the relevant Parity Obligations test set forth in the City Purchase Agreement. In determining whether the Parity Obligations test is satisfied in connection with any such agreements, the City is permitted to treat the amount or rate of interest on those agreements or on the Parity Obligations to which the applicable agreement applies as the amount or rate of interest payable after giving effect to the agreements, provided that any agreement is with a Qualified Counterparty. Thus the City is permitted to include the net payment due under such agreements in calculating the Parity Obligations test set forth in the City Purchase Agreement. The City will not enter into a Derivative Product without the consent of the 2004 Bond Insurer.

Outstanding Parity Obligations; Subordinate Obligations

The 2004 Bonds are the first series of Bonds to be issued that are to be secured by a first priority pledge of the Pledged Revenues, including the Purchase Payments to be made by the City pursuant to the City Purchase Agreement. The City reserves the right to issue additional obligations payable from the Pledged Revenues on a basis subordinate to the Bonds.

**SCHEDULE OF ANNUALIZED PAYMENTS
UNDER THE CITY PURCHASE AGREEMENT WITH RESPECT TO THE 2004 BONDS**

The City Purchase Agreement requires annual Purchase Payments by the City to the Corporation in an amount equal to the principal of and interest on the 2004 Bonds, which payments have been assigned to the Trustee in addition to certain other amounts payable thereunder. The Purchase Payments are due in immediately available funds on the last Business Day of each month in an amount equal to one-fifth of the Interest Requirement and one-tenth of the Principal Requirement to be paid on the next Bond Payment Date commencing December 31, 2004 and ending June 30, 2029. The Indenture requires that the Trustee deposit the Purchase Payments in the 2004 Bond Fund and use such amounts to pay the principal of and interest on the 2004 Bonds due on the following Bond Payment Date. Set forth below is a schedule of the annual Purchase Payments with respect to the 2004 Bonds required under the City Purchase Agreement:

Fiscal Year Ending June 30,	Principal	Interest	Total
2005	\$ —	\$ 16,552,091.01	\$ 16,552,091.01
2006	—	15,318,130.50	15,318,130.50
2007	5,960,000	15,318,130.50	21,278,130.50
2008	6,180,000	15,098,206.50	21,278,206.50
2009	6,440,000	14,838,028.50	21,278,028.50
2010	6,735,000	14,541,788.50	21,276,788.50
2011	7,065,000	14,209,079.50	21,274,079.50
2012	7,435,000	13,838,167.00	21,273,167.00
2013	7,845,000	13,431,472.50	21,276,472.50
2014	8,285,000	12,992,152.50	21,277,152.50
2015	8,750,000	12,526,535.50	21,276,535.50
2016	9,255,000	12,021,660.50	21,276,660.50
2017	9,795,000	11,478,392.00	21,273,392.00
2018	10,370,000	10,903,425.50	21,273,425.50
2019	10,990,000	10,284,336.50	21,274,336.50
2020	11,645,000	9,628,233.50	21,273,233.50
2021	12,365,000	8,909,737.00	21,274,737.00
2022	13,130,000	8,146,816.50	21,276,816.50
2023	13,940,000	7,336,695.50	21,276,695.50
2024	14,800,000	6,476,597.50	21,276,597.50
2025	15,710,000	5,563,437.50	21,273,437.50
2026	16,695,000	4,581,562.50	21,276,562.50
2027	17,740,000	3,538,125.00	21,278,125.00
2028	18,845,000	2,429,375.00	21,274,375.00
2029	20,025,000	1,251,562.50	21,276,562.50
Total	\$260,000,000	\$261,213,739.51	\$521,213,739.51

**SCHEDULE OF FORECASTED NET ANNUAL CFC RECEIPTS,
DEBT SERVICE REQUIREMENTS, AND COVERAGE OF RENTAL CAR
FACILITY CHARGE REVENUE BONDS OUTSTANDING(1)**

Fiscal Year	Forecasted Annual CFC Receipts	Estimated Administrative Costs	Forecasted Net Annual CFC Receipts	Estimated Amount Available in Debt Service Coverage Fund	Forecasted Net Annual CFC Receipts Available for Debt Service	2004 Bonds Debt Service	Forecasted Debt Service Coverage	
							By Net Annual CFC Receipts	By Net Annual CFC Receipts and Debt Service Coverage Fund
2005	\$30,780,743	\$ —	\$30,780,743	\$5,319,552	\$36,100,295	\$ 16,552,091	1.86	2.18
2006	32,627,587	112,500	32,515,087	5,319,552	37,834,639	15,318,130	2.12	2.47
2007	33,414,561	154,500	33,260,061	5,319,552	38,579,613	21,278,131	1.56	1.81
2008	34,151,058	159,135	33,991,923	5,319,552	39,311,475	21,278,206	1.60	1.85
2009	34,900,218	163,909	34,736,309	5,319,552	40,055,861	21,278,029	1.63	1.88
2010	35,653,284	168,826	35,484,458	5,319,552	40,804,010	21,276,788	1.67	1.92
2011	36,410,234	173,891	36,236,343	5,319,552	41,555,895	21,274,080	1.70	1.95
2012	37,125,009	179,108	36,945,901	5,319,552	42,265,453	21,273,167	1.74	1.99
2013	37,843,286	184,481	37,658,805	5,319,552	42,978,357	21,276,472	1.77	2.02
2014	38,811,357	190,016	38,621,341	5,319,552	43,940,893	21,277,153	1.82	2.07
2015	39,783,812	195,716	39,588,096	5,319,552	44,907,648	21,276,535	1.86	2.11
2016						21,276,661		
2017						21,273,392		
2018						21,273,425		
2019						21,274,337		
2020						21,273,233		
2021						21,274,737		
2022						21,276,817		
2023						21,276,695		
2024						21,276,598		
2025						21,273,437		
2026						21,276,563		
2027						21,278,125		
2028						21,274,375		
2029						21,276,563		
						<u>\$521,213,740</u>		

(1) Forecasted Net Annual CFC Receipts available for debt service in fiscal years 2005 through 2015 were made by the Feasibility Consultant. See Chapter VI of APPENDIX B — FINANCIAL FEASIBILITY REPORT, for a breakdown of forecasted Net Annual CFC Receipts and Administrative Costs.

MUNICIPAL BOND INSURANCE

Bond Insurance

Concurrently with the issuance of the 2004 Bonds, Financial Guaranty Insurance Company will issue its Municipal Bond New Issue Insurance Policy (the "Policy") for the 2004 Bonds described in the Policy. The Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the 2004 Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Corporation. Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successors as its agent (the "Fiscal Agent"), on the later of the date on which such principal or accreted value (if applicable) and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of 2004 Bonds or the Paying Agent of the nonpayment of such amount by the Corporation. The Fiscal Agent will disburse such amount due on any 2004 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, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of a 2004 Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a 2004 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.

The Policy is non-cancellable and the premium will be fully paid at the time of delivery of the 2004 Bonds. The Policy covers failure to pay principal or accreted value (if applicable) of the 2004 Bonds on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the 2004 Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

Generally, in connection with its insurance of an issue of municipal securities, Financial Guaranty requires, among other things, (i) that it be granted the power to exercise any rights granted to the holders of such securities upon the occurrence of an event of default, without the consent of such holders, and that such holders may not exercise such rights without Financial Guaranty's consent, in each case so long as Financial Guaranty has not failed to comply with its payment obligations under its insurance policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty's consent. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the 2004 Bonds are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the Corporation is required to provide additional or substitute credit enhancement, and related matters.

This Official Statement contains a section regarding the ratings assigned to the 2004 Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the 2004 Bonds. Reference should be made to the description of the City for a discussion of the ratings, if any, assigned to such entity's outstanding parity debt that is not secured by credit enhancement.

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

Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of December 31, 2003, the total capital and surplus of Financial Guaranty was approximately \$1,153 billion. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 125 Park Avenue, New York, New York 10017, Attention: Communications Department (telephone number: 212-312-

3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation. On December 18, 2003, an investor group consisting of The PMI Group, Inc. ("PMI"), The Blackstone Group L.P. ("Blackstone"), The Cypress Group L.L.C. ("Cypress") and CIVC Partners L.P. ("CIVC") acquired approximately 95% of the common stock of FGIC Corporation (the "Common Stock") from General Electric Capital Corporation ("GE Capital"), a subsidiary of General Electric Company ("GE"). PMI, Blackstone, Cypress and CIVC acquired approximately 42%, 23%, 23% and 7%, respectively, of the Common Stock. Prior to the closing on December 18, 2003, Financial Guaranty paid GE Capital approximately \$284.3 million in cash dividends. GE retained direct or indirect ownership of approximately 5% of FGIC Corporation's common stock.

THE RENTAL CAR COMPANIES

General

The Airport currently has eight rental car companies serving customers from Airport counters located in each of the three Terminal Building baggage claim areas. In addition, there are three Off-Site Companies serving the Phoenix market. The on-Airport Rental Car Companies include: Advantage, Alamo/National, Avis, Budget, Dollar, Enterprise, Hertz and Thrifty. Each of the on-Airport rental car companies currently operates at the Airport pursuant to agreements that will remain in effect until the date of beneficial occupancy of the RCC. Off-Site Companies currently include Airport Rent-a-Car, Arizona Leasing, and Fox Rent-a-Car. Off-Site Companies, which represent less than one percent of the overall Airport market, operate at the Airport pursuant to annual permits.

In December 2003, the City accepted bids from each of the current on Airport rental car companies that will operate from and occupy space in the new RCC as RCC Companies under RCC Leases. An undetermined number of small rental car companies, representing less than one percent of the overall rental car market, may also enter into RCC Leases as RCC Companies.

For a further discussion of each of the RCC Companies and the Off-Site Companies, as well as a discussion generally of the rental car industry and market, both nationally and at the Airport, see Chapter V of "APPENDIX B — FINANCIAL FEASIBILITY REPORT."

RCC Leases

The City will enter into RCC Leases with the RCC Companies for an initial term during which no rental payments are owed, followed by a primary term commencing on the date of beneficial occupancy and ending at the end of the twentieth lease year (the "Primary Term"). However, if an RCC Company does not receive an award from the City following a request for proposal for a new Concession Agreement, that RCC Company's RCC Lease will automatically expire at the end of the tenth lease year. During the Primary Term, no RCC Company will be allowed to conduct or contract for rental vehicle service or transportation operations anywhere at the Airport other than at the RCC. The RCC Companies' payments under the RCC Leases other than the Customer Facility Charges are specifically excluded from the Pledged Revenues. See "APPENDIX I — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — The RCC Leases" and "— The Concession Agreement."

Concession Agreements

Under each Concession Agreement, each RCC Company has been granted the right to operate a concession for the rental of motor vehicles to the public at the Airport and is required to pay to the City concession privilege fees. The term of the Concession Agreement continues until the end of the tenth contract year, unless sooner terminated. The RCC Companies' payments under the Concession Agreements other than the Customer Facility Charges are specifically excluded from the Pledged Revenues. See "APPENDIX I —

SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — The Concession Agreements.”

Limited Liability

The RCC Companies have not guaranteed payment of debt service on the 2004 Bonds and no revenues or property of the RCC Companies are pledged as security for the 2004 Bonds and no RCC Company has guaranteed completion of construction of the Project. In addition, while the RCC Companies are obligated to remit all Customer Facility Charges from persons to which they were charged, the surety bonds provided by the RCC Companies under the RCC Leases may not be sufficient to cover any deficiency in Customer Facility Charges collections.

FINANCIAL FEASIBILITY REPORT

The Feasibility Consultant prepared the Financial Feasibility Report dated May 12, 2004, included herein as APPENDIX B. The Financial Feasibility Report describes the Project, discusses the rental car market, describes the economic base supporting the rental car market at the Airport, uses an econometric model to set forth trends and forecasts in the rental car demand at the Airport, describes various factors which could have an impact on the rental car demand at the Airport and discusses the financial framework for the 2004 Bonds, including preliminary projections of annual debt service requirements with respect to the 2004 Bonds, Customer Facility Charges calculations, Administrative Costs calculations, projections of revenues pursuant to the Indenture, cash flow projections and rate covenant calculations. The Financial Feasibility Report should be read in its entirety for an understanding of the econometric model, Transaction Day forecast assumptions and the basis for the financial analysis.

The Financial Feasibility Report has been included herein in reliance upon the knowledge and experience of the Feasibility Consultant.

As noted in the Financial Feasibility Report, any forecast is subject to uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. See “BONDHOLDERS’ RISKS.”

FORWARD-LOOKING STATEMENTS

This Official Statement, and particularly the information contained under this caption, the caption “BONDHOLDERS’ RISKS,” and in APPENDIX B (specifically, the information contained in the cover letter from the Financial Feasibility Consultant, and the information contained in Chapters IV, V and VI of the Financial Feasibility Report), contains statements relating to future results that are “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words “estimate,” “forecast,” “intend,” “expect” and similar expressions identify forward-looking statements. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. For a discussion of certain of such risks and possible variations in results, see “BONDHOLDERS’ RISKS” herein (specifically, the information contained under the subheadings “Achievement of Projections,” “Airline Industry and Airport Factors,” “Construction of Project,” “Competition and Alternate Modes of Transportation,” and Chapters V and VI of APPENDIX B hereto.

BONDHOLDERS' RISKS

General

In considering the matters set forth in this Official Statement, prospective investors should carefully review all investment considerations set forth throughout this Official Statement, and should specifically consider certain investment considerations associated with the 2004 Bonds. The City's ability to derive Pledged Revenues from Customer Facility Charges sufficient to pay debt service on the 2004 Bonds depends upon many factors, many of which are not subject to the control of the City. These factors include the financial strength of the air transportation industry and rental car industry in general and the financial strength of the firms in those industries that operate at the Airport. There follows a discussion of some, but not necessarily all, of the possible investment considerations which should be carefully evaluated by prospective purchasers of the 2004 Bonds prior to purchasing any 2004 Bonds. The 2004 Bonds may not be suitable investments for all persons, and prospective purchasers should be able to evaluate the investment considerations and merits of an investment in the 2004 Bonds and confer with their own legal and financial advisors before considering a purchase of the 2004 Bonds.

Ability To Meet Rate Covenant; Customer Facility Charges

As described under the caption "SECURITY AND SOURCE OF PAYMENT — Rate Covenant; Customer Facility Charges", the City covenants that it will, in each Bond Year, establish, maintain and enforce the Customer Facility Charges applicable to both RCC Companies and Off-Site Companies at not less than the Pledged Rate, which is currently the Initial Rate of \$4.50 per Transaction Day. In the event that the Pledged Revenues described in the schedules prepared by a City Representative or a Rate Consultant are not projected to equal at least: (a) 125% of the Principal Requirement and the Interest Requirement for all Bonds and (b) budgeted Administrative Costs for the next Bond Year and required deposits to the 2004 Debt Service Reserve Fund (and similar accounts established for Parity Obligations) and the Debt Service Coverage Fund, it will, to the extent permitted by law, use its best efforts to increase the rate at which Customer Facility Charges are imposed to remedy such projected deficiencies. In such event, the City must use its best efforts to notify the Trustee of a corresponding increase in the Pledged Rate. **However, increasing the rate at which the Customer Facility Charges are imposed and increasing the Pledged Rate are legislative acts solely within the control of the City Council.**

Achievement of Projections

The collection and remittance of Customer Facility Charges in amounts sufficient to pay debt service on the 2004 Bonds when due are affected by and subject to conditions which may change in the future to an extent and with effects that cannot be determined at this time. No absolute representation or assurance is given or can be made that Customer Facility Charges will be realized in amounts sufficient to pay debt service when due on the 2004 Bonds.

The receipt of Customer Facility Charges in the future is subject to, among other factors, the origin and destination passenger activity levels at the Airport, the level of rental car activity at the Airport, economic conditions, and other conditions which are impossible to predict. The future collection and remittance of Customer Facility Charges will have a direct impact upon the payment of debt service on the 2004 Bonds.

As noted in the Financial Feasibility Report, any forecast is subject to uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized, and unanticipated events and circumstances may occur. Therefore, the actual results achieved during the forecast period will vary, and the variations may be material. See "FINANCIAL FEASIBILITY REPORT" and "APPENDIX B — FINANCIAL FEASIBILITY REPORT."

Certain Events Affecting the Travel Industry and the Airport

The general economic downturn and resulting recession, the terrorist attacks of September 11, 2001 and the war with Iraq and hostilities in the Middle East, significantly adversely affected the North American

transportation system, including operations of the Airport. Specifically, since September 11, 2001, enplanements at the Airport and rental of motor vehicles have been adversely affected and may continue to be negatively affected by restrictions on the Airport and the financial condition of the air travel industry. The City cannot predict the likelihood of future incidents similar to September 11, 2001, the likelihood of future air transportation disruptions or the impact on the Airport, the airlines or the Companies from such incidents or disruptions.

Airline Industry and Airport Factors

Aviation Activity in General. The factors affecting aviation activity and the rental of motor vehicles at the Airport includes: the service and route networks of America West Airlines ("*America West*"), Southwest Airlines ("*Southwest*") and other airlines; the financial health and viability of the airline industry; levels of disposable income; national and international economic and political conditions; including disruptions caused by airline incidents, acts of war and terrorism, such as the September 11, 2001 attacks, the availability and price of aviation fuel; levels of air fares; the capacity of the national air traffic control system; and the capacity at the Airport and the Project.

General Factors Affecting Airline Revenues. Airline revenues, including the revenues of those airlines serving the Airport, may be materially affected by many factors including, without limitation, the following: declining demand; service and cost competition; mergers; the availability and cost of fuel and other necessary supplies; high fixed costs; high capital requirements; the cost and availability of financing; technological changes; national and international disasters and hostilities; the cost and availability of employees; strikes and other employee disruptions; the maintenance and replacement requirements of aircraft; the availability of routes and slots at various airports; litigation liability; regulation by the federal government; environmental risks and regulations; noise abatement concerns and regulation; deregulation; federal and state bankruptcy and insolvency laws; acts of war and terrorism and other risks. Many airlines, as a result of these and other factors, have operated at a loss in the past and several have filed for bankruptcy, ceased operations and/or have merged with other airlines. Historically, the airline industry's results have correlated with the performance of the economy. The September 11, 2001 attacks and their aftermath are expected to have a further adverse effect on airline industry earnings, the full extent of which cannot be predicted. Further bankruptcy filings, liquidations or major restructurings by members of the airline industry remain possible. If America West or any other airline executing a lease and use agreement with the Airport were to file for protection in the future under the bankruptcy law, it (or a trustee on its behalf) would have the right to seek rejection of its lease and use agreement, which could have a negative impact on passenger activity at the Airport, the number of persons renting motor vehicles at the Airport and the collection of Customer Facility Charges.

The financial strength and stability of America West and any other airline using the Airport are key determinants of future passenger traffic and the number of available rental car customers. See "Activity Level of America West and Southwest at the Airport" below. No assurance can be given that America West or any other airline will continue its operations at the Airport during the term of the 2004 Bonds. In the event America West or any other airline discontinues or reduces its operations at the Airport, its level of activity may not be replaced by other carriers. Accordingly, although rental car activity at the Airport is not strictly a function of America West's or any other airline's passenger activity, no assurance can be given as to the levels of passenger activity and the rental car activity as a result thereof. For a further description of other factors affecting air travel, including economic conditions and airline strikes, see Chapters III and IV of the Financial Feasibility Report attached hereto as APPENDIX B.

Activity Level of America West and Southwest at the Airport

For the fiscal year ended June 30, 2003, America West Airlines and Southwest Airlines represented approximately 47.5% and 27.4%, respectively, of the total enplaned passengers at the Airport. No other airline represented over 10% of the Airport's operating revenues. No assurance can be given that America West will continue its hubbing operations at the Airport or that Southwest will continue to allocate a significant portion of its system capacity to the Airport. In the event America West discontinues or reduces its hubbing operations at the Airport or Southwest discontinues or reduces the current allocation of its system capacity to

the Airport, their current levels of activity may not be replaced by other carriers. It is reasonable to assume that any significant financial or operational difficulties incurred by America West or Southwest, the two predominant airlines serving the Airport, could have a material adverse effect on passenger activity and rental car activity as a result thereof. See "Airlines Industry and Airport Factors" above. For an examination of the airlines' present situation and the relative presence of each airline at the Airport, including America West and Southwest, see "APPENDIX B — FINANCIAL FEASIBILITY REPORT."

Construction of Project

The ability of the contractors to complete the construction of the Project within budget and on schedule may be adversely affected by various factors including: (a) design and engineering errors, (b) unforeseen site conditions, (c) labor cost increases or other difficulties, (d) adverse weather conditions, (e) unavailability or increased costs of building materials, (f) contractor defaults, and (g) litigation. Even though pursuant to the CFC Ordinance, each RCC Company is currently required to collect and remit Customer Facility Charges, an incomplete Project could adversely affect the ability of the RCC Companies to supply a sufficient number of rental cars to accommodate the corresponding demand and, thus, could reduce the projected amount of Customer Facility Charges revenues.

Competition and Alternate Modes of Transportation

There are alternative forms of ground transportation available at the Airport which could reduce the demand for renting motor vehicles at the Project. These alternate forms which compete with rental cars include taxis, buses, shuttle services, and limousines. For a further description of these alternate modes and their impact on rental car demand, see Chapter V of the Financial Feasibility Report, attached hereto as APPENDIX B.

Considerations Under the Bankruptcy Code

In the event a bankruptcy case is filed with respect to an RCC Company, a bankruptcy court could reject the RCC Lease. In such event, such RCC Company would also be in default under its Concession Agreement, permitting the City to cancel such agreement and remove such RCC Company from possession and occupancy of the Project. In such circumstances, while rental car demand would not be affected, Customer Facility Charge collections could be affected until other RCC Companies are able to increase their capacity to accommodate additional customers.

Limitation of Remedies

Under the terms of the Indenture, the occurrence of an Event of Default does not grant a right to accelerate payment of the 2004 Bonds. Under the terms of the Indenture, the City Purchase Agreement and the RCC Leases, remedies for events of default are limited to such actions which may be taken at law or in equity. See "APPENDIX I — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — The Bond Indenture," "— THE CITY PURCHASE AGREEMENT" and "— The RCC Lease." No mortgage or security interest, however, has been granted or lien created in the Project or any properties, revenues or properties of the Companies or the City to secure the remittance of Customer Facility Charges or payment of the 2004 Bonds.

Various State laws, constitutional provisions, and federal laws and regulations apply to the obligations created by the issuance of the 2004 Bonds. There can be no assurance that there will not be any change in, interpretation of, or addition to the applicable laws and provisions will not be changed, interpreted, or supplemented in a manner that would have a material adverse effect, directly or indirectly, on the affairs of the City or the Companies.

In the event of a default in the payment of principal of or interest on the 2004 Bonds, the remedies available to the owners of the 2004 Bonds upon a default are in many respects dependent upon judicial action, which is often subject to discretion and delay under existing constitutional law, statutory law, and judicial decisions, including the federal Bankruptcy Code. Bond Counsel's opinion to be delivered concurrently with

delivery of the 2004 Bonds will be qualified as to enforceability of the various legal instruments by certain limitations, including limitations imposed by bankruptcy, reorganization, insolvency, and equity principles. See "APPENDIX J — PROPOSED FORM OF LEGAL OPINION OF BOND COUNSEL" attached hereto.

Secondary Market

No assurance can be given concerning the existence of any secondary market in the 2004 Bonds or its creation or maintenance by the Underwriters. Thus, purchasers of 2004 Bonds should be prepared, if necessary, to hold their 2004 Bonds until their respective maturity dates.

AIRLINE INFORMATION

Certain of the airlines, or their parent corporations, operating at the Airport are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended (the "*Exchange Act*"), and accordingly are required to file reports and other information (collectively, the "*SEC Reports*") with the Securities and Exchange Commission (the "*SEC*"). Only companies with securities listed on a national securities exchange, with securities traded over the counter which are registered under the Exchange Act, or which are required to file with the SEC pursuant to information reporting requirements will have information to file. Certain information, including financial information, as of particular dates concerning such airlines or their respective parent corporations, is disclosed in certain reports and statements filed by the airlines with the SEC.

The SEC Reports may be inspected in the Public Reference Room of the SEC at Room 1024, Judiciary Plaza, 450 Fifth Street, NW, Washington, DC 20549, and at the SEC's regional office at the Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, IL 60661-2511, and copies of such SEC Reports may be obtained from the Public Reference Section of the SEC at 450 Fifth Street, NW, Washington, DC 20549, at prescribed rates. The SEC maintains a website at www.sec.gov containing reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. In addition, each domestic airline is required to file periodic reports of financial and operating statistics with the U.S. Department of Transportation. These reports may be inspected at the following location: Office of Airlines Statistics, Research and Special Programs Administration, Department of Transportation at Room 4201, 400 7th Street, SW, Washington, DC 20590, and copies of the reports may be obtained from the U.S. Department of Transportation at prescribed rates. Foreign flag airlines also provide certain information concerning their operations and financial affairs, which may be obtained from the respective airline.

The Corporation and the City undertake no responsibility for and make no representation as to the accuracy or completeness of the content of information appearing on the SEC's website as described in the preceding paragraph, including, but not limited to, updates of such information or links to other Internet sites accessed through the SEC's website.

SOURCES AND APPLICATIONS OF BOND FUNDS

Sources:

Par Amount of the 2004 Bonds	<u>\$260,000,000.00</u>
Total	<u>\$260,000,000.00</u>

Applications:

Construction Fund	\$243,733,889.50
Debt Service Coverage Fund	5,319,551.63
Transportation O&M Reserve Fund	5,997,154.00
Underwriters' Compensation	1,462,320.47
Costs of Issuance(1)	<u>3,487,084.40</u>
Total	<u>\$260,000,000.00</u>

- (1) Includes costs of issuance, premium on the 2004 Policy and fee for a surety bond to fund the 2004 Debt Service Reserve Fund.

THE CITY

The City is a municipal corporation organized and existing under the laws of the State of Arizona. The City will purchase the planned improvements to the Project from the Corporation pursuant to the City Purchase Agreement. Detailed information on the City and the Airport System is set forth in Appendices A through H.

THE CORPORATION

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

The Corporation will enter into the City Purchase Agreement and the Indenture to facilitate the financing of the Project described above. The Corporation is not financially liable for the payment of the principal of or interest on the 2004 Bonds and the Owners will have no right to look to the Corporation for payment of the 2004 Bonds except to the extent of the payments received from the City under the City Purchase 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 City Purchase Agreement.

To the knowledge of the City Attorney, no pending or threatened litigation or administrative action or proceeding has (i) restrained or enjoined, or seeks to restrain or enjoin, the City from entering into the City Purchase Agreement or approving the issuance and delivery of the 2004 Bonds, or (ii) contested or questioned the validity of the 2004 Bonds or the proceedings and authority under which the 2004 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 2004 Bonds.

GROWING SMARTER LEGISLATION

In 1998, the Arizona Legislature passed and the Governor signed into law legislation known as the Growing Smarter Act. The Legislation creates a framework for growth management by strengthening local

and state planning processes, providing for the acquisition and preservation of open space areas through planning requirements as well as a funding mechanism, and establishing a Growing Smarter Commission to make recommendations regarding long-term growth issues.

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

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

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

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

- Adds a water resource element to the required elements of general plans for fast growing small municipalities and municipalities with a population over 10,000, and the comprehensive plans of counties with a population of 125,000 or more. Requires the water resources element to include an inventory of currently available water supplies and an analysis of how growth will be adequately served.
- Requires the governing bodies of municipalities and counties to provide an opportunity for review and further comment by involved parties when adopting a general or comprehensive plan or a major amendment to the general or comprehensive plan.
- Requires the legislative body or a municipality and the board of supervisors of a county to present all major amendments that may be proposed to the general plan at a single public meeting held during the calendar year.
- Requires the legislative body of a municipality with a population between 2,500 and 10,000 with an annual population growth rate of more than 2% over a 10 year period and municipalities with a population over 10,000 to submit each newly adopted general plan to the voters at the next regularly scheduled municipal election. If approved, the plan is effective. If not approved, the current plan remains in place until a new or revised plan is submitted to the voters and approved.
- Allows a municipality to include within their general plan a plan or regulations determining the boundaries, consistent with the growth elements of their general plan, beyond which the municipality may limit or prescribe conditions on publicly financed extensions of water, sewer and street improvements.
- Requires prior to adopting an ordinance to annex territory, the governing body of a municipality to approve a plan, policy or procedure to provide the territory to be annexed with appropriate levels of infrastructure and services to serve anticipated new development within 10 years after the date of annexation becomes final.

- Allows the governing body of a municipality to create an infill incentive district if certain minimum conditions are met; requires the governing body to adopt an infill incentive plan; specifies possible incentive elements.

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

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

TAX MATTERS

Interest on the 2004 Bonds is includible in gross income of the owners thereof for federal and State of Arizona income tax purposes and therefore is not exempt from present federal income taxation and State of Arizona income taxation. One or more maturities of the 2004 Bonds may be sold with original issue discount. Generally, original issue discount is taxed as it accrues. Owners of the 2004 Bonds should consult their tax advisors concerning the computation of original issue discount accruing in each tax year.

LEGAL MATTERS

Legal matters incident to the issuance of the 2004 Bonds and with regard to the taxable status of the interest thereon (see "*TAX MATTERS*") are subject to the legal opinion of Greenberg Traurig, LLP, Phoenix, Arizona, Bond Counsel, who has been retained by, and acts as Bond Counsel to the Corporation and the City. Signed copies of the opinion, dated and speaking only as of the date of delivery of the 2004 Bonds, will be delivered to the Underwriters. Certain legal matters will be passed upon for the Underwriters by Squire, Sanders & Dempsey L.L.P., as Counsel to the Underwriters.

The text of the proposed legal opinion is set forth as Appendix J. 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 2004 Bonds a rating of "AAA" and Moody's Investors Service ("*Moody's*") has assigned to the 2004 Bonds the rating of "Aaa" each with the understanding that the Bond Insurance Policy will be issued by the Bond Insurer upon delivery of the 2004 Bonds. No application has been made to any other rating service for the purpose of obtaining ratings on the 2004 Bonds. The City furnished these rating agencies with certain information and materials with respect to the 2004 Bonds. The ratings reflect only the views of the rating services. An explanation of the significance of the ratings may be obtained from Moody's at 99 Church Street, New York, New York 10007 and from S&P at 55 Water Street, New York, New York 10041. There is no assurance that such ratings will continue for any given period of time or that the ratings will not be revised downward or withdrawn entirely by Moody's or S&P if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings by Moody's or S&P may have an adverse effect on the market price of the 2004 Bonds.

UNDERWRITING

The 2004 Bonds are being purchased for reoffering by Lehman Brothers and the other underwriters shown on the cover (the "*Underwriters*"). The Underwriters have agreed to purchase the 2004 Bonds, subject to certain conditions, at an aggregate purchase price of \$258,537,679.53. If the 2004 Bonds are sold to

produce the yields shown on the inside front cover hereof, the underwriters' compensation will be \$1,462,320.47.

The Underwriters are committed to purchase all of the 2004 Bonds if any are purchased. The 2004 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 2004 Bonds may be sold to certain dealers (including underwriters and dealers depositing the 2004 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 2004 Bonds for the benefit of the beneficial owners of such 2004 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 annual basis, the events which will be noticed on an occurrence basis and other terms of the Undertaking, are set forth in "APPENDIX K — FORM OF CONTINUING DISCLOSURE UNDERTAKING."

The City has represented that it is in compliance with each and every undertaking previously entered into by it pursuant to the Rule. A failure by the City to comply with the Undertaking will not constitute a default under the City Purchase Agreement or the Indenture and beneficial owners of the 2004 Bonds are limited to the remedies described in the Undertaking. See "APPENDIX K — 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 2004 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the 2004 Bonds and their market price.

INDEPENDENT AUDITORS

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

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 2004 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 ESTEYAN
President

CITY OF PHOENIX, ARIZONA

By /s/ KEVIN KEOGH
Chief Financial Officer

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APPENDIX A

CITY OF PHOENIX, ARIZONA

THE AIRPORT

Phoenix Sky Harbor International Airport ("Sky Harbor") is owned and operated by the City of Phoenix. Sky Harbor, located approximately four miles east of the downtown area, was established in 1935. In fiscal year 2002-03 Sky Harbor served 36,613,194 enplaned and deplaned passengers. Service at Sky Harbor is provided by Aeromexico, Air Canada, Alaska, Aloha, America West, American, American Trans Air, Arizona Express, British Airways, Continental, Delta, Frontier, Great Lakes, Hawaiian, Mesa, Midwest Express, Northwest/KLM, Skywest, Southwest, Sun Country, United and USAirways. Sky Harbor accommodated 548,253 operations in fiscal year 2002-03.

The City also serves the area's general aviation traffic activity through two reliever airports that it owns and operates: Phoenix-Deer Valley Airport in the northern part of the City and Phoenix-Goodyear Airport west of the City. These two facilities handled 520,129 general aviation operations in 2002-03.

In 1984-85, Phoenix-Deer Valley Airport and Phoenix-Goodyear Airport were by ordinance (Ordinance S-15347 adopted December 12, 1984) made a part of the "Airport" for the purposes of issuing airport revenue bonds. As a result, these two facilities are now included with Sky Harbor in the definition of "Airport System", and Airport Revenue Bonds can be issued for improvements at Phoenix-Deer Valley Airport and Phoenix-Goodyear Airport. The net revenues of these two airports along with the net revenues of Sky Harbor are considered Net Airport Revenues which are pledged for the payment of principal and interest on the Airport Revenue Bonds.

Capital Improvement Program

Over the past 68 years Sky Harbor has been carrying out a significant expansion program in response to the continuous population and economic growth of the Phoenix metropolitan area. This program has been accomplished through a regular master planning process, implemented through multi-year capital improvement programs. The major funding for these capital improvement programs has come from Airport Revenue Bonds and airport general obligation bonds, with additional funding provided by federal funds, operating funds, non-profit corporation excise tax revenue bonds and passenger facility charges.

The 2003-08 Aviation Capital Improvement Program Summary is presented on page A-2. This program provides for \$793,702,000 in capital improvements for the City's airports. The program is funded from \$42,130,000 in airport operating funds, \$143,000 in community reinvestment funds, \$34,000,000 in passenger facility charges, \$245,114,000 in customer facility charges, \$104,943,000 in capital grants, \$425,000 in airport general obligation bonds, and \$366,947,000 in nonprofit corporation bonds.

The City put a Passenger Facility Charge ("PFC") program in place in April 1996 totaling \$106,966,000. This program expired in November 1998 when the planned revenues were fully collected. The City applied to the Federal Aviation Administration (the "FAA") in April 1998 for a new PFC program totaling \$193,446,000. The second program was approved by the FAA in August 1998 and was in place from December 1998 to March 2002. The FAA approved a third PFC program which began in June 2002 and expires in November 2005 and will total approximately \$221,403,000 in projected revenues. The FAA also approved an increase in the charge per enplaned passenger from \$3.00 to \$4.50. Some of the eligible projects include runway construction/reconstruction, design of an automated people mover, and noise mitigation efforts.

Airports are subject to a variety of federal, state, and local environmental laws and regulations dealing with groundwater quality, air quality, storm water control and waste disposal. The City has programmed a total of \$10,075,000 in the 2003-08 Aviation Capital Improvement Program, including \$3,675,000 under the category Environmental, for meeting environmental regulatory requirements and evaluating and cleaning up environmental contamination. Such amount includes the cost of ongoing activities associated with removal and remediation of underground petroleum storage areas.

CITY OF PHOENIX AVIATION DEPARTMENT
2003-08 CAPITAL IMPROVEMENT PROJECTS
(In thousands)

	2003/04	2004/05	2005/06	2006/07	2007/08	Total
Projects						
Land Acquisition	\$ 18,150	\$ 11,150	\$ —	\$ —	\$ —	\$ 29,300
Terminal 2	6,900	10,000	—	—	—	16,900
Fire Department	1,500	1,000	1,500	—	—	4,000
Air Cargo	10,400	—	—	—	—	10,400
Runway & Taxiway Improvements	14,400	84,800	—	—	—	99,200
Noise Mitigation	16,000	1,000	—	—	—	17,000
Environmental	2,800	800	25	25	25	3,675
People Moving System	20,000	—	2,000	—	—	22,000
Terminal 3	8,050	150	—	—	—	8,200
West Terminal	4,925	—	—	—	—	4,925
Rental Car Facility	242,950	—	—	—	—	242,950
Roadways	1,100	—	—	—	—	1,100
Relocate Air National Guard	800	—	—	—	—	800
Parking Facilities	3,800	—	—	—	—	3,800
Maintenance Facilities	7,300	5,500	—	—	—	12,800
Security Facilities	122,700	—	—	—	—	122,700
Salt River Channelization	1,050	250	—	—	—	1,300
General Aviation	2,900	5,000	—	—	—	7,900
Sky Harbor Center	750	300	—	—	—	1,050
Terminal 4	80,250	27,150	—	—	—	107,400
Infrastructure	30,425	3,000	—	—	—	33,425
Phoenix-Deer Valley Airport	1,750	550	4,500	—	—	6,800
Phoenix-Goodyear Airport	3,825	1,275	—	—	—	5,100
Percent for Art	3,483	1,463	891	120	20	5,977
Airport Contingency	5,000	5,000	5,000	5,000	5,000	25,000
Total Aviation	\$611,208	\$158,388	\$13,916	\$5,145	\$5,045	\$793,702
Source of Funds						
Operating Funds						
Airport Revenues	\$ 27,550	\$ 10,145	\$ 4,345	\$ 45	\$ 45	\$ 42,130
Community Reinvestment	—	143	—	—	—	143
Total Operating Funds	27,550	10,288	4,345	45	45	42,273
Bond Funds						
Nonprofit Corporation Bonds	263,847	83,700	9,300	5,100	5,000	366,947
Airport G.O. Bonds	425	—	—	—	—	425
Total Bonds	264,272	83,700	9,300	5,100	5,000	367,372
Other Funds						
Passenger Facility Charge	33,000	1,000	—	—	—	34,000
Capital Grants	41,943	63,000	—	—	—	104,943
Customer Facility Charges	244,443	400	271	—	—	245,114
Total Restricted Funds	319,386	64,400	271	—	—	384,057
Total Source of Funds	\$611,208	\$158,388	\$13,916	\$5,145	\$5,045	\$793,702

OTHER OUTSTANDING INDEBTEDNESS PAID FROM THE AIRPORT IMPROVEMENT FUND

Airport General Obligation Bonds

As of June 30, 2003, the City had \$30,855,000 principal amount of airport general obligation bonds outstanding. The City has maintained the Airport System as a self-supporting enterprise since 1967. Accordingly, the debt service requirements of airport general obligation bonds have been paid from Net Airport Revenues deposited in the Airport Improvement Fund. The City intends to adhere to this policy in the future. In the event such amounts on deposit in the Airport Improvement Fund should prove insufficient to pay airport general obligation debt service requirements or should the City decide not to pay the debt service from Net Airport Revenues, this indebtedness would then be paid from ad valorem taxes or other available sources.

Airport Excise Tax Revenue Bonds

The City has entered into a number of lease agreements with the City of Phoenix Civic Improvement Corporation (the "Corporation") in order to finance various improvements at the Airport with airport excise tax revenue bonds issued by the Corporation. As of June 30, 2003, the Corporation had \$83,980,000 principal amount of airport excise tax revenue bonds outstanding. The City has agreed to make lease payments to the Corporation in amounts sufficient to pay principal and interest on the excise tax bonds, and the City has pledged its excise tax collections for these payments. However, in keeping with the City's policy of maintaining the Airport System as a self-supporting enterprise, these payments have been made from amounts on deposit in the Airport Improvement Fund. The City intends to adhere to this policy with respect to all future payments due to the Corporation. In the event such revenues should prove insufficient to pay the excise tax bonds or should the City decide not to pay the excise tax bonds from such revenues, the excise tax bonds would then be paid from excise taxes collected by the City or other available sources.

The following schedule sets forth the annual debt service requirements on outstanding airport revenue bonds and on other debt service historically paid from net airport revenues including outstanding airport general obligation bonds and excise tax bonds.

**TOTAL ANNUAL DEBT SERVICE REQUIREMENTS
TO BE PAID FROM NET AIRPORT REVENUES**

Year Ending June 30,	Airport Revenue Bond Debt Service	Outstanding Airport Excise Tax Revenue Bond Debt Service	Outstanding Airport General Obligation Bond Debt Service	Total Airport Debt Service
2004	\$ 33,296,674	\$ 9,940,703	\$ 4,986,709	\$ 48,224,086
2005	45,159,472	9,926,222	4,669,463	59,755,157
2006	43,818,400	9,927,373	4,752,260	58,498,033
2007	43,815,134	9,929,785	4,694,251	58,439,170
2008	43,939,827	9,931,448	4,570,600	58,441,875
2009	45,901,698	9,928,010	1,945,135	57,774,843
2010	48,147,950	6,834,360	1,342,680	56,324,990
2011	48,428,250	6,781,550	1,311,325	56,521,125
2012	48,711,862	6,714,327	1,316,475	56,742,664
2013	43,313,768	6,659,355	1,234,010	51,207,133
2014	44,058,601	6,595,955	733,330	51,387,886
2015	44,065,912	5,285,000	4,436,775	53,787,687
2016	44,068,263	5,286,500	4,493,175	53,847,938
2017	44,061,888	5,289,500	—	49,351,388
2018	44,059,019	5,288,100	—	49,347,119
2019	44,062,456	5,286,700	—	49,349,156
2020	44,063,006	5,289,400	—	49,352,406
2021	44,064,569	—	—	44,064,569
2022	44,058,956	—	—	44,058,956
2023	44,059,231	—	—	44,059,231
2024	44,066,268	—	—	44,066,268
2025	44,064,838	—	—	44,064,838
2026	31,475,788	—	—	31,475,788
2027	31,478,937	—	—	31,478,937
2028	31,476,338	—	—	31,476,338
2029	31,469,807	—	—	31,469,807
2030	19,610,900	—	—	19,610,900
2031	19,612,850	—	—	19,612,850
2032	19,613,338	—	—	19,613,338
	<u>\$1,158,024,000</u>	<u>\$124,894,288</u>	<u>\$40,486,188</u>	<u>\$1,323,404,476</u>

**CITY OF PHOENIX, ARIZONA AVIATION ENTERPRISE FUND
COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES
CHANGES IN FUND BALANCE LAST FIVE YEARS
(non-GAAP Budgetary Basis)
(In Expense Priority Established by the Airport Bond Ordinance)
(In thousands)**

	1998/99	1999/00	2000/01	2001/02	2002/03
Sources of Financial Revenues					
Revenue					
Landing Area	\$ 17,913	\$ 21,137	\$ 22,277	\$ 24,253	\$ 29,386
Terminal Area	63,688	75,153	76,970	80,579	82,262
Ground Transportation	64,552	71,523	77,477	69,482	73,549
Hangar Area	2,584	2,636	3,015	3,282	3,846
Business and Commercial Area	8,647	9,797	9,213	8,356	10,682
Interest on Investments	8,782	5,639	2,406	8,507	5,854
Other	4,261	777	1,960	2,144	7,780
Total Revenues	170,427	186,662	193,318	196,603	213,359
Other Sources					
Recovery of Prior Year Expenditures	103	43	6,348	255	2,877
Total Sources of Financial Resources	170,530	186,705	199,666	196,858	216,236
Uses of Financial Resources					
Operation and Maintenance Expenditures					
Administration	16,596	18,459	18,535	21,305	20,438
General Aviation	484	63	—	—	—
Sky Harbor					
Operations	18,363	20,830	20,797	33,003	24,440
Security Service	10,685	12,120	14,613	20,355	24,833
Technology	—	—	—	—	7,668
Maintenance	28,915	31,240	35,292	34,471	39,786
Custodial Services	5,967	6,101	8,572	8,707	9,485
Phoenix-Deer Valley	943	976	1,239	1,064	1,108
Phoenix-Goodyear	656	807	880	911	723
Staff and Administrative Charges	2,970	3,276	3,541	3,605	4,840
Sick Leave Trust	58	116	48	43	—
Total Operation and Maintenance Expenditures	85,637	93,988	103,517	123,464	133,321
Net Airport Revenues Available for Airport					
Revenue Bond Debt Service	84,893	92,717	96,149	73,394	82,915
Airport Revenue Bond Debt Service					
Principal(3)	12,705	14,460	15,380	—	8,270
Interest	13,276	13,885	13,101	14,271	25,030
Total Airport Revenue Bond Debt Service	25,981	28,345	28,481	14,271	33,300
Net Airport Revenues Available for Airport					
Improvement Fund Expenditures	58,912	64,372	67,668	59,123	49,615
Airport Improvement Fund Expenditures					
Other Expenditures					
Lease Purchase Payments(1)	36,284	20,914	10,804	28,474	16,575
Capital Outlay					
Capital Improvement Programs(2)	10,751	35,113	43,734	33,578	25,101
General Obligations Bond Debt Service	9,233	8,995	5,700	1,898	5,129
Total Other Expenditures	56,268	65,022	60,238	63,950	46,805
Total Uses of Financial Resources	167,886	187,355	192,236	201,685	213,426
Net Increase (Decrease) in Fund Balance	2,644	(650)	7,430	(4,827)	2,810
Fund Balance, July 1	40,948	43,592	42,942	50,372	45,545
Fund Balance, June 30	<u>\$ 43,592</u>	<u>\$ 42,942</u>	<u>\$ 50,372</u>	<u>\$ 45,545</u>	<u>\$ 48,355</u>
Revenue Bond Debt Service Coverage	<u>3.27</u>	<u>3.27</u>	<u>3.38</u>	<u>5.14</u>	<u>2.49</u>

- (1) Includes debt service payments on excise tax revenue bonds historically paid from Net Airport Revenues.
- (2) Fiscal years 1998/99 through 2002/03 include federal grant funds.
- (3) Airport revenue bond principal payment due July 1, 2002 was funded by the 2002A Airport Revenue Bond issue.

Note: These schedules are prepared on a modified accrual basis to correspond to the City's budget practices. They are not intended to present the operations in accordance with generally accepted accounting principles.

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APPENDIX B
FINANCIAL FEASIBILITY REPORT

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May 12, 2004

Mr. Kevin Keogh
Chief Financial Officer
City of Phoenix
Finance Department
Calvin C. Goode Municipal Building
251 West Washington Street, 9th Floor
Phoenix, Arizona 85003

**Re: Report of the Airport Consultant
City of Phoenix Civic Improvement Corporation
Rental Car Facility Charge Revenue Bonds, Taxable Series 2004**

Dear Mr. Keogh:

Landrum & Brown, Inc. is pleased to submit this Financial Feasibility Report (the "Report") to the City of Phoenix, Arizona (the "City") in conjunction with the planned issuance of the City of Phoenix Civic Improvement Corporation Rental Car Facility Charge Revenue Bonds, Taxable Series 2004 in the principal amount of \$260,000,000 (the "2004 Bonds"). All terms used in the Report, unless otherwise defined herein, shall have the same meanings given to them in the City Purchase Agreement and the Bond Indenture.

The City of Phoenix Civic Improvement Corporation (the "Corporation") intends to issue the 2004 Bonds to fund 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 (the "RCC") at Phoenix Sky Harbor International Airport (the "Airport"). In addition to 2004 Bond proceeds, the RCC will also be funded with Customer Facility Charges (the "CFCs") that have been collected from rental car customers arriving at the Airport from June 1, 2002 through the issuance of the 2004 Bonds (the "Pre-Issuance CFC's") and subsequent CFC's collected until the date of beneficial occupancy of the RCC.

The Report includes a review of the Phoenix Area's historical and forecast economic and demographic statistics that provide the foundation for aviation and rental car demand at the Airport. Based on the strong economic and demographic statistics, the Report includes an O&D enplanement forecast that is believed to be a reasonable and reliable indicator of future air service demand at the Airport. The forecast projects O&D enplanements to increase from approximately 10.9 million O&D enplanements in FY 2003 to 15.6 million in FY 2015, an annual compound growth rate of 3.0 percent.

The O&D enplanement and the average daily rental rate forecasts were used to develop the forecast of rental car demand measured by forecast rental car transaction days. Rental car transaction days are forecast to increase from approximately 5.9 million in FY 2003 to approximately 8.8 million in FY 2015, an annual compound growth rate of 3.4 percent over the forecast period.



Based upon our analysis, it is the opinion of Landrum & Brown, Inc. that:

- The Airport will remain the primary airport within the Region during the forecast period and the Region will remain an important O&D passenger market for the Airport due, in part, to the strong and diverse economic base of the Region.
- The economic base of the Region will provide for a strong and steady growth in aviation related activities including O&D passengers who are the most likely to rent cars. The economic factors indicate that the growth in population, effective buying income and employment have historically outperformed the State and the U.S. It is also projected that the Region will continue to outperform the State and the U.S. during the forecast period in each of these categories, providing a sound economic base that will likely stimulate rental car demand.
- The RCC Project is needed at the Airport in order to provide the necessary facilities to accommodate future demand in the Phoenix Area rental car market. The RCC Project has been adequately sized to provide the RCC Companies and any new entrant companies with the opportunities to efficiently operate their rental car businesses and satisfy future rental car demand at the Airport and is designed in such a way that future expansion, if needed, can be easily accommodated with minimal disruption to current operations.
- The Agreement, the RCC Leases, the Bond Indenture and the City Purchase Agreement provide assurance that the Pledged Revenues and other available funds will be adequate to pay Administrative Costs, annual debt service on the 2004 Bonds, Transportation O&M Expenses and to make any fund deposit requirements. The Rate Covenant requires Annual Receipts plus amounts on deposit in the Debt Service Coverage Fund to be at least equal to 1.25 times Maximum Annual Debt Service after the payment of Administrative Costs. The Rate Covenant debt service coverage ratio is projected to range from 1.81 times in FY 2007 to 2.11 times in FY 2015 and is projected to average 1.96 times annual debt service for the period FY 2007 through FY 2015 in the Base Case Analysis.
- As shown in the Sensitivity Analysis, even with a 15.0 percent reduction in transaction days in FY 2007 and an approximate four-year recovery period compared to the Base Case Analysis, debt service coverage from Annual Receipts will equal 1.30 times, which demonstrates that there is sufficient rental car demand to withstand a significant single event that negatively impacts the aviation and rental car industries.

The passenger enplanement forecast and transaction day forecast and corresponding financial projections contained in this Report are based on what Landrum & Brown, Inc. believes to be reasonable evaluations of existing conditions and estimations of future conditions.

Respectfully submitted,

Landrum & Brown, Inc.

Landrum & Brown, Inc.

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I. INTRODUCTION

This Feasibility Report (the "Report") has been prepared to evaluate the financial feasibility of the planned issuance of Rental Car Facility Charge Revenue Bonds, Taxable Series 2004 (the "2004 Bonds") by the City of Phoenix Civic Improvement Corporation. The proceeds of the 2004 Bonds will fund the majority of the cost of designing, acquiring, constructing and equipping certain facilities, infrastructure, site development, bus fleet and other equipment necessary for the operation of a consolidated Rental Car Center (the "RCC" or "RCC Project") at Phoenix Sky Harbor International Airport (the "Airport"). In addition to the 2004 Bond proceeds, the RCC Project will also be funded with Customer Facility Charges ("CFCs") collected by the eight rental car companies located on-Airport (together with any new entities entering into the RCC Lease the "RCC Companies") and the three companies located off-Airport (the "Off-Site Companies" and, together with the RCC Companies, the "Companies") and remitted to the City of Phoenix (the "City"). The Companies commenced collection of CFCs from the rental car customers arriving at the Airport on June 1, 2002.

The RCC Project consists of the following elements: (i) a 113,000 square foot Customer Service Building (the "CSB"), (ii) a parking garage consisting of 5,651 parking spaces for individual RCC Companies' ready/return spaces, (iii) maintenance/storage facilities for each RCC Company, (iv) a fleet of 62 buses, (v) a bus maintenance facility and (vi) certain infrastructure and site development improvements.

This section of the Report describes the Airport, the existing rental car operations at the Airport, the RCC Project and the proposed RCC financing plan.

A. THE AIRPORT

The City owns and operates the Airport and two reliever general aviation airports, Phoenix-Goodyear Airport and Phoenix-Deer Valley Airport (collectively the "Airport System"). The Airport System operates as a self-supporting enterprise through the City's Aviation Department. The Airport is designated as a large hub air carrier airport by the Federal Aviation Administration (the "FAA") and is the principal commercial airport serving metropolitan Phoenix and the surrounding areas. The Airport occupies approximately 3,175 acres of land within the City and is located within minutes of the downtown business district.

The Airport was ranked sixth by Airports Council International in calendar year ("CY") 2002 among U.S. airports in terms of total passengers. **Table I-1** presents the top ten airports, in terms of total passengers, in the U.S. for CY 2002. America West Airlines operates its only domestic hub at the Airport. During fiscal year ("FY") 2003, America West Airlines and its affiliates enplaned 47.5 percent of all enplanements at the Airport. Phoenix is also one of Southwest Airlines top focus cities in its system in terms of enplanements; during FY 2003 Southwest Airlines enplaned 27.4 percent of all enplanements at the Airport. As of March 2004, 16 U.S. air carriers and eight U.S. commuter carriers provided scheduled domestic passenger service at the Airport. Three foreign-flag carriers provided international service. The Airport currently provides

nonstop domestic service to 90 airport destinations and nonstop international service to 18 cities. (See Exhibit I-1). A more detailed profile of historical and forecast air service and passenger traffic at the Airport is provided in Chapter IV of this Report.

Table I-1
Top Ten North American Airports Based on Total Passengers - CY 2002

Rank	Airport	Total Passengers
1	Atlanta (ATL)	76,876,128
2	Chicago (ORD)	66,501,496
3	Los Angeles (LAX)	56,198,447
4	Dallas/Ft. Worth (DFW)	52,826,304
5	Denver (DEN)	35,651,098
6	Phoenix (PHX)	35,534,463
7	Las Vegas (LAS)	35,009,011
8	Houston (IAH)	33,946,484
9	Minneapolis/St Paul (MSP)	32,630,177
10	Detroit (DTW)	32,436,999

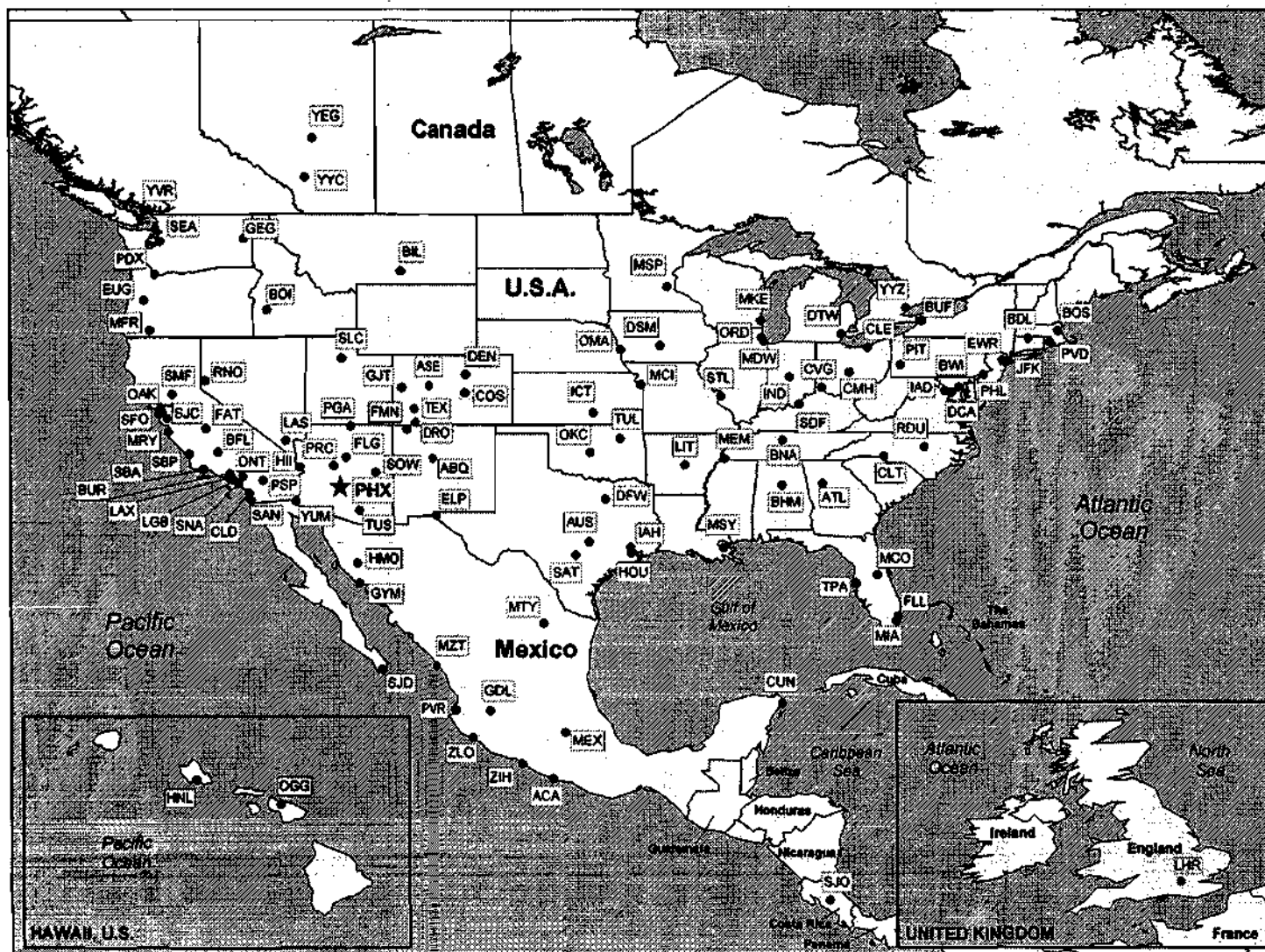
Source: Airports Council International

1. Governance

The City operates under a Council-Manager form of government. The Phoenix City Council (the "City Council") consists of a Mayor and eight City Council members with the Mayor being elected at-large. City Council members are elected for four year staggered terms from separate districts on a non-partisan ballot. The Mayor and each member of the City Council have equal voting powers. The City Council establishes the major policies pertaining to the development and operation of the Airport System. The City Council appoints the City Manager who, among other duties, administers the policies relative to the Airport System. The City Council adopted ordinances pertaining to the establishment and collection of the CFCs, the development of the RCC Project and budget and the issuance of the 2004 Bonds.

The Phoenix Aviation Advisory Board (the "Board"), which meets on a monthly basis, is made up of nine regular members appointed by the City Council. Ex-Officio members of the Board include the Aviation Director, the Chairperson of the Planning Subcommittee of the Board and the current Chairperson of the Phoenix Airline Station Managers Council. The principal duty of the Board is to submit to the City Council recommendations on municipal policies related to the Airport System.

The Aviation Department is headed by the Aviation Director who reports to a Deputy City Manager. The Aviation Director is responsible for executing the aviation policies of the City Council and administering the operations of the Airport System.

Exhibit I-1

Source: Landrum & Brown, Inc.

B. EXISTING RENTAL CAR OPERATIONS

The eight RCC Companies currently service customers from Airport counters located in each of the three terminal building baggage claim areas. The RCC Companies include Advantage, Alamo/National, Avis, Budget, Dollar, Enterprise, Hertz and Thrifty. Each of the RCC Companies currently operates at the Airport pursuant to agreements that will remain in effect until the Date of Beneficial Occupancy (the "DBO") of the RCC. After DBO, the RCC Companies will operate pursuant to the Rental Car Concession Agreement and the Rental Car Lease (See Chapter VI Section A – Legal Framework for Financing and Operating the RCC). Off-Site Companies include Airport Rent-a-Car, Arizona Leasing and Fox Rent-a-Car. Off-Site Companies, which each represent less than one percent of the overall Airport market, operate at the Airport pursuant to annual permits.

According to Auto Rental News, the Phoenix rental car market was the third largest market in the U.S. during FY 2003 based on reported revenues. Table I-2 presents the top ten airport rental car markets in the U.S. for the past six FYs. As presented on Table I-2, the Phoenix rental car market has grown from the seventh largest in FY 1999 to the third largest in FY 2003. Relative to the rest of the top ten airport rental markets, this change is attributable to the strength of the Phoenix market, which saw an increase in rental car demand in FY 2003, versus a continuing decline in rental car demand at some of the other airports. Additionally, the Phoenix market has a well-balanced mix of business and leisure rental car demand that mitigates sustained declines in any particular market segment.

Table I-2
Top Ten Airport Rental Car Markets Based on Reported Revenues (1)

Rank	FY 2003	FY 2002	FY 2001	FY 2000	FY 1999	FY 1998
1	Orlando	Orlando	Orlando	Orlando	Orlando	Orlando
2	Los Angeles	Los Angeles	Los Angeles	Los Angeles	Los Angeles	Los Angeles
3	Phoenix	Atlanta	Atlanta	San Francisco	San Francisco	San Francisco
4	Atlanta	Phoenix	Miami	Miami	Miami	Miami
5	Miami	Miami	San Francisco	Atlanta	Atlanta	Phoenix
6	Denver	Denver	Phoenix	Phoenix	Denver	Atlanta
7	Tampa	San Francisco	Denver	Denver	Phoenix	Denver
8	Las Vegas	Tampa	Newark	Newark	Chicago	Chicago
9	Ft. Lauderdale	Las Vegas	Tampa	Chicago	Newark	Boston
10	San Francisco	Ft. Lauderdale	Ft. Lauderdale	Boston	Boston	Newark

(1) FY is July 1 through June 30

Source: Auto Rental News Fact Book 2003

C. THE RCC PROJECT

In 1998, the Aviation Department began studying the feasibility of developing a consolidated rental car facility to accommodate all rental car operations at the Airport. The growth of the Airport was already placing a strain on its roadways, terminal curb space and rental car facilities. Since 1998, these conditions have been exacerbated by continual growth in the Phoenix market. The facilities that are currently being used by the RCC Companies are inadequate to serve existing demand levels during peak travel periods. In order to address this condition and be able to meet current and future rental car demand at the Airport, the City and the Companies agreed to design and construct the RCC at Sky Harbor Center, a 550 acre multi-use commercial and industrial center owned by the City at the Airport.

The RCC will consolidate all rental car operations at the Airport, include a common transportation system and provide a single multi-faceted complex in which the Companies will operate and rental car customers will pick up and drop off their rental vehicles. The RCC will be located on a 141-acre site located at Buckeye Road and Sixteenth Street within Sky Harbor Center. In addition to the eight RCC Companies that will occupy the RCC upon the DBO, the RCC will be able to accommodate up to five additional RCC Companies whose individual market share would be limited to no more than 1.0 percent of the overall Phoenix rental car market.

In July 2001, the City Council approved the conceptual framework for proceeding with the RCC. The City Council approval included the conceptual design of the RCC, the use of a common transportation system that requires Off-Site Companies to pick up their customers at the RCC and the requirement that all Companies begin collecting a \$3.50 CFC from their rental car customers beginning on June 1, 2002. Pursuant to further City Council action, the CFC was increased from \$3.50 to \$4.50 commencing on September 1, 2003. The CFC proceeds will be used to fund a portion of the RCC. Actual CFC collections from June 1, 2002 through December 31, 2003 totaled \$32.6 million.

The City has assembled a group of professional firms to assist with all aspects of developing and implementing the RCC Project, including a program management team, a design team and a construction management team. Each team is described below.

In December 2000, through a competitive process, the City selected Abacus Project Management Inc. ("Abacus") as the Program Manager for the RCC. Abacus is a Phoenix-based full service program and project management consulting firm that has completed a number of projects at the Airport. Other firms making up the Abacus Program Management Team (the "PM Team") include Pierre Goodwin Alexander & Linville as design phase managers; Aztec Engineering as civil design managers; and Arvisu Advertising as community relations coordinator. The PM Team is responsible for the overall coordination of the pre-design, design, construction and occupancy phases of the RCC Project.

In July 2001, through a competitive process, the City selected TransSystems Corporation as the prime consultant to lead the architectural and engineering aspects of the RCC. A Kansas City-based architectural

engineering design firm, TransSystems has extensive experience working on various projects at the Airport. Other specialty consulting firms making up the design team include Dick & Fritsche Architects, HKS, Inc., Blunk DeMattei, Morrison Maierle, Baker Engineering, Kimley-Horn, Nabar Stanley Brown, Clark Engineering, Pearson Engineering, Logan Simpson Design and Thinking Caps (collectively, the "Design Team"). The Design Team is responsible for completing all elements of the schematic and final design construction documents for the RCC. As of January 2003, all elements of the schematic design phase were complete. Final design and construction document preparation was 92.0 percent complete as of December 31, 2003.

In June 2003, through a competitive process, the City selected Austin-Layton JV to serve as Construction Manager At-Risk (the "CM") for certain elements of the RCC. Austin-Layton JV is a joint venture between Austin Commercial and Layton Southwest (collectively, the "CM Team"). Austin Commercial is a Dallas-based firm with offices in Phoenix and was 31st in the Engineering News Record list of the top 400 contractors based on volume of work in CY 2001, while Layton Southwest was 129th. Austin-Layton will be responsible for constructing the following elements of the RCC: (i) the site development and infrastructure, (ii) the CSB and (iii) the parking garage.

The total cost of the RCC Project is estimated at \$270.0 million. Of this amount, the CM Team has issued a Guaranteed Maximum Price (the "GMP") of \$154.8 million for certain elements of the RCC Project and the City has approved a maximum allowance for exclusive use tenant improvements for the RCC Companies of \$41.0 million. Combined, these two amounts provide an effective GMP of \$195.8 million or 72.5 percent of the total RCC Project cost.

The RCC Project is scheduled for completion in late October 2005. For purposes of this Report, the DBO is assumed to be November 1, 2005. The RCC Project site development began in October 2003. As of February 1, 2004, 72.9 percent of all bid packages pertaining to the GMP have been awarded by the CM Team.

D. FINANCING PLAN

The estimated RCC Project cost of \$270.0 million is anticipated to be funded with \$245.0 million in 2004 Bond proceeds and approximately \$25.0 million in CFCs that have been collected from Airport rental car customers since June 1, 2002 (*See Chapter VI, Section C – Sources and Uses of Funds*).

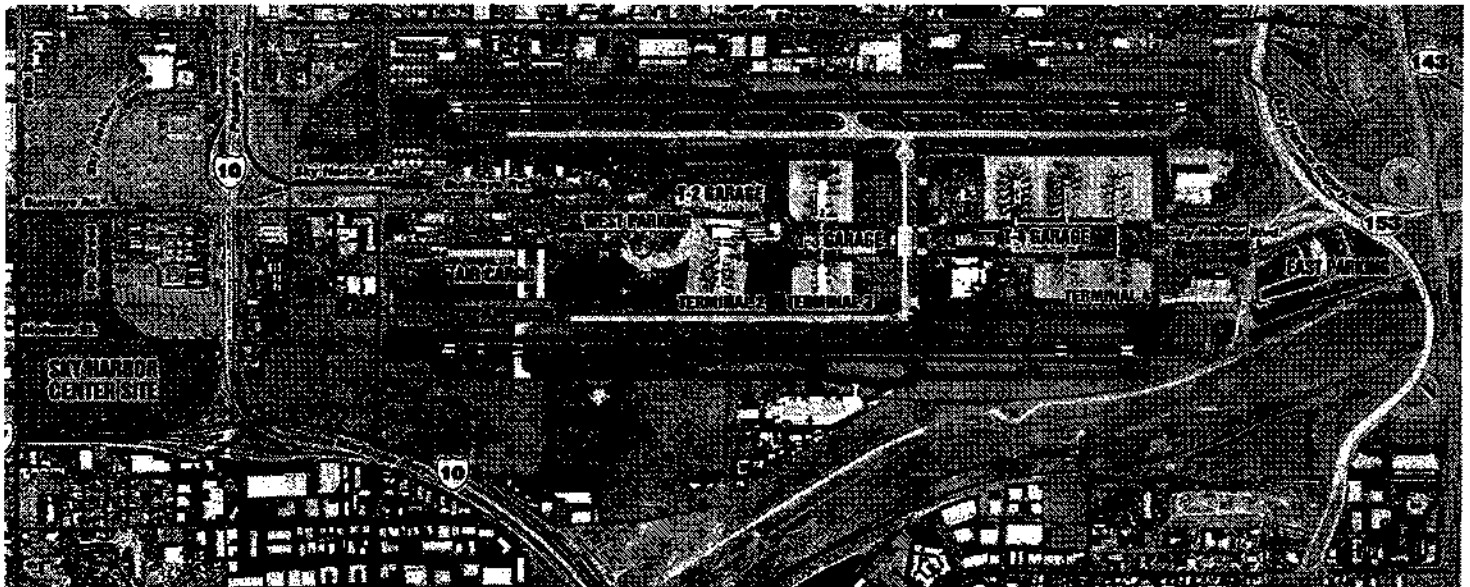
II. THE RENTAL CAR CENTER DESCRIPTION

A. THE RCC PROJECT DESCRIPTION

The RCC is located on a 141-acre site within the Airport development area known as Sky Harbor Center. The RCC is bordered by Buckeye Road on the north, the Maricopa Freeway (I-17) on the south, Sky Harbor Circle South and the Papago Freeway (I-10) on the east and South 16th Street on the west. **Exhibit II-1** is an aerial view of the RCC site in Sky Harbor Center excluding the bus maintenance facility site.

The RCC Project consists of a tri-level parking garage with the CSB situated above the garage. The perimeter of the site is ringed by service facilities for each of the RCC Companies. Additionally, a bus maintenance facility will be proximate to the RCC site, but not part of the same parcel. Each of these facilities is discussed in more detail in Section C of this chapter.

Exhibit II-1
Aerial View of the RCC Project Site



B. THE RCC PROJECT EVOLUTION AND BENEFIT

The current rental car market at the Airport is the third largest in the United States based on reported revenues. In FY 2003, the rental car companies serving the Airport grossed over \$251.1 million in revenues. In order to accommodate projected rental car growth with a viable long-term solution, in FY 1998 the City and the rental car industry initiated Phase I of planning for the development of the RCC. Phase I of the planning included: (i) an analysis of the current and future Phoenix rental car market, (ii) site selection analysis, (iii) a preliminary program, (iv) schematic site layouts, (v) a preliminary plan for the common transportation system and (vi) preliminary financial affordability analyses.

On May 2, 2000, the City Council passed a resolution approving Phase I of the planning process for the RCC Project and authorizing the Aviation Department to proceed with Phase II. The resolution included approval of the following: (i) locating the RCC at the Sky Harbor Center site, (ii) implementing a common transportation system that requires all Off-Site Companies to pick up their customers at the RCC and (iii) establishing a CFC estimated at \$3.50 - \$4.50 per rental day as the primary financing mechanism and as the funding source for annual Transportation O&M Expenses.

In late 2001, the City awarded a contract to the PM Team to initiate the Phase II design and implementation of the RCC Project. Following the events of September 11th, all projects at the Airport were suspended, including the RCC Project. After a nine-month hiatus, the RCC Project was re-initiated. In mid-2002, the Design Team was selected for the RCC Project and design of the facility commenced. As the schematic design process continued, the City elected to incorporate a CM at-risk approach to prepare the RCC site and construct the infrastructure, the CSB and the parking garage of the RCC Project. The CM Team contract was awarded in June 2003.

In addition to increasing long-term capacity, consolidating all rental car functions at Sky Harbor Center provides a number of associated benefits. The primary goals, of both the City and the rental car industry, for the development of the RCC Project include:

- Reducing vehicle emissions by operating a common transportation system.
- Reducing traffic congestion by decreasing the number of vehicle trips through the terminal core roadways
- Improving customer service levels by providing a convenient vehicle pick-up and drop-off process for rental car customers.
- Creating a highly competitive car rental market that will result in improved customer service.
- Improving opportunities for new entrants to easily enter the Phoenix market.
- Increasing rental car facility capacity to meet current and long-term demand.

C. COMPONENTS OF THE RCC PROJECT

Components of the RCC Project include the CSB, the parking garage, the service facility sites, the small operator parcel and the common transportation system. Exhibit II-2 is a rendering of the completed RCC.

1. Customer Service Building

The 113,000 square foot CSB, has three vertical circulation cores connecting it to each of the garage levels and will welcome the customer to the RCC. The CSB is a metal frame structure faced with EIFS (External Insulated Finish System) and pre-cast concrete panels.

The CSB lobby will contain a City-staffed information booth where flight information and other traveler information will be available to rental car customers. The lobby will also provide public seating areas, a retail concession area, Airport administrative space and support service areas. At the center vertical circulation core, near the information booth, there will be automatic teller machines and pay telephones.

The eight individual suite areas for each of the eight RCC Companies will be positioned between the three vertical circulation cores, delivering access to all levels of the parking garage. These suite areas have been designed in a crescent shape to allow for maximum sightlines in all directions and will range in size from 1,937 to 8,235 square feet, comprising a total of almost 40,000 square feet. Encircling the frontage of the suites will be eye-level signage identifying each RCC Company's suite area as well as the three circulation cores customers will use en route to the garage. Upon completion of the CSB (currently estimated to be March 2005), the suites will be turned over to each of the eight RCC Companies for the build out of their exclusive use tenant improvements.

The CSB will contain approximately 4,600 square feet of space devoted to RCC support staff, including facility management personnel. The CSB will be connected to the Airport's central communication center and will have the necessary infrastructure to accommodate Airport paging and other notices as well as accommodating any future technological advances.

The roadway/ramp on which the buses will enter the RCC leads to a bus pickup/drop-off curb area at the entrance to the CSB. This area will be covered by a metal canopy for protection from the elements and will provide public seating. As customers exit the bus, they will see a large directional sign indicating which entry doors to use for the most efficient path of travel to their particular rental car company. Curb signage also will indicate where customers should go for "Return to Airport" bus pickup locations and the terminal building being serviced by each bus.

The RCC design calls for a platform to accommodate an automated people mover that is proposed to replace the bus fleet at a future date.



2. Parking Garage

The three-level parking garage will contain 5,651 parking spaces on opening day and is expandable to 6,527 spaces as demand dictates. The parking garage structure has a footprint of 824,000 square feet and will be built with a post-tensioned concrete deck on cast in-place concrete columns and faced with concrete panels. The lower level of the garage will be set one-half story below grade. The top level of the garage will be covered by a metal roof.

Occupancy of the parking garage was allocated among the RCC Companies, as determined by the City's bid process. Within their individual garage area, each RCC Company will accommodate the ready parking (cars awaiting pickup from customers) and the return area for their vehicles. Upon completion of the parking garage, the spaces will be turned over to each of the eight RCC Companies for the build out of their exclusive use tenant improvements.

The customers will access the garage via escalator or elevator, locate their vehicle and proceed along a designated customer circulation roadway (accessed for return from Sky Harbor Circle South) that runs along the perimeter of the building.

To transfer the vehicles to and from the garage and their service facility, RCC Company traffic will run on a different roadway and will employ the designated ramping that runs along the western and southern edges of the garage.

3. Service Facility

Along the rear perimeter of the RCC are eight service facility sites for the RCC Companies. Combined, these facilities total approximately 78 acres and individually range in size from 84,000 square feet to 734,000 square feet. Each of the eight facilities will be accessed via a dedicated ramp from the parking garage. At the service facilities, the RCC Companies will perform vehicle maintenance, cleaning, fueling, overflow parking and short-term storage. The RCC Companies will also house administrative offices within their individual service facility.

Upon completion of the service facility site preparation, the area will be turned over to each of the eight RCC Companies for the construction of their service facilities and the build out of their exclusive use tenant improvements.

4. Small Operator Parcel

The City will be responsible for the design and construction of the small operator parcel in the RCC. The parcel is a shared facility that includes one suite area in the CSB, one site in the service facility area and an allocation of spaces in the parking garage. The small operator parcel will be able to accommodate up to five additional RCC Companies whose individual market share would be limited to no more than 1.0 percent of the overall Phoenix rental car market.

5. Common Transportation System

The common transportation system is the final component of the RCC Project and is discussed below. Exhibit II-2 is a rendering of the completed RCC.

Exhibit II-2 RCC Project Rendering



D. COMMON TRANSPORTATION SYSTEM

1. Overview of the Common Transportation System

Currently, Airport rental car customers are bused by each individual rental car company to and from their individual rental car agency facility located in and around the Airport. The RCC Project will include a common transportation system that will transport all rental car customers to and from the terminal buildings and the RCC. Once the common transportation system is operational at DBO of the RCC Project, no individual rental car shuttle buses will be allowed in the terminal building area. Off-Site Companies will be required to pick up and drop off their customers at the RCC. The following section outlines the operational aspects of the common transportation system that will transport all rental car customers between the terminal buildings and the RCC.

2. Common Shuttle Bus Operator

In late 2004, the City will contract with a third-party operator to serve as the Common Shuttle Bus Operator ("Operator") for the RCC Project. The Operator will provide all the necessary and required

services for the busing of rental car customers between the Airport terminal buildings and the RCC, including: (i) assistance in managing the bus manufacturing and delivery processes, (ii) assistance in the operational and transitional planning prior to DBO of the RCC and initiation of the bus service, (iii) performance of all operational and maintenance aspects of the bus fleet at the bus maintenance facility, as well as maintenance of the bus facility and (iv) monitoring customer service levels.

3. Common Bus Fleet Operations

In early 2003, the City completed an analysis of bus fleet requirements to determine the number of vehicles necessary to transport passengers between the RCC and the terminal buildings. This analysis took into account the route structure, travel distance and travel time, the number of passengers by terminal building and the passenger capacity and performance of each bus. Based on this analysis, it was determined that 62 buses would be required at DBO to adequately transport passengers and still have a contingency of buses available to allow for routine maintenance of the fleet.

The programming of bus routes has been designed in a manner that will result in little or no wait time for the customers. The estimated cost of the bus fleet procurement is \$20.7 million and the buses are scheduled to be delivered to the Airport by July 2005 in advance of the RCC Project DBO. The estimated seating capacity of each bus is 23 seated with a limited amount of space for standing passengers and interior storage capacity for luggage. The Operator will be responsible for transporting all rental car customers to and from the RCC and Airport terminal buildings. The City will have legal title to, and ownership of, the bus fleet.

4. Bus Maintenance Facility

The bus maintenance facility will be constructed to provide the Operator with adequate facilities for the storage, cleaning and full maintenance of all buses, as well as employee break rooms, employee parking, offices for operator personnel and parts storage. The bus maintenance facility is planned to be located on an approximately seven-acre site owned by the City and will contain approximately 21,000 square feet of office and maintenance space. The maintenance area will include six maintenance bays and one bus wash bay measuring approximately 14,000 square feet. The remaining 7,000 square feet will provide administrative office space and accommodation for drivers during shift changes or when reporting to, or leaving from, work. Parking for the buses will consist of 72 spaces with approximately one-third of the spaces being covered by a protective canopy installation. There will also be 80 parking spaces for employees and visitor vehicles.

5. Bus Fueling

The City, through a third-party concession agreement, operates two CNG fueling stations, on the east and west sides of the Airport. These stations are currently being used by the inter-terminal and employee shuttle operator, City vehicles, taxi operators and shared ride vans. The City is currently in the process of

finalizing its concession agreements with the third-party fueling concessionaire to build a new west side CNG fueling station to accommodate the RCC common transportation system fueling operations.

6. Common Bus Service Routes

The common bus system will utilize the route system that provides the most efficient operations possible while maintaining a high level of customer service. Primary and secondary bus routes have been identified based on route distance, traffic impacts and anticipated travel times.

- The primary route departs the terminal curbs via westbound Sky Harbor Boulevard to Buckeye Road, then turns south on 24th Street to Mohave Street to the RCC. The bus then returns to the Airport terminals via the same route, in reverse.
- A secondary route is available should construction or other unforeseen temporary delays impact 24th Street or Mohave Street. This route would utilize Buckeye Road and 18th Street to access the RCC from the north, off of 18th Street. This route is not being used as the primary route in order to segregate the bus route from the route that customers will use to access the RCC.

The peak period route structure has been determined based on the fleet requirements and the probability that excessive “leave behinds” will be experienced if one bus serves more than one terminal building. During peak periods, it is anticipated that a separate bus will serve each terminal building, in order to ensure an appropriate level of customer service. During off-peak periods, service routes will be combined to maximize operational efficiency, thus minimizing costs.

Drop-off and pick-up locations at the terminal building curbs have been structured to minimize the travel distance and time and provide the most logical and seamless connection from the bus to the terminal building ticket and baggage claim facilities.

7. Service Standards

The consolidated bus operation will be open 24 hours a day, 365 days a year. Regardless of time of day, separation times between buses will be structured to eliminate customer “leave behinds.” Maximum separation times between buses at both the terminal buildings and RCC will be no greater than five minutes during the hours of 6:00 A.M. and 11:00 P.M. It is anticipated that during the majority of the day, certain terminal building routes will require separation times less than five minutes. During the hours of 11:01 P.M. and 5:59 A.M. separation times may be increased beyond the five minutes, provided passenger activity is minimal and a reasonable level of customer service is maintained.

A dispatch system also will be required that will allow the Operator to make adjustments to the operation as needed to ensure that customer service goals are always achieved.

E. THE RCC PROJECT COSTS

Table II-1 presents the estimated \$270.0 million budget for the RCC Project by its various components. As shown on Table II-1, \$154.8 million or 57.3 percent of the RCC Project budget is under a GMP. The City has approved a maximum allowance for exclusive use tenant improvements of \$41.0 million or 15.2 percent of the RCC Project budget. Combined, these two amounts provide an effective GMP of \$195.8 million or 72.5 percent of the total RCC Project cost. If actual project expenditures, net of CM construction costs subject to GMP (\$21.9 million), through December 31, 2003 are included with the GMP and the tenant exclusive use allowance, the effective GMP is \$217.8 million or 80.7 percent of the total RCC budget. As shown on Table II-1, the GMP has a contingency of \$5.4 million or 2.0 percent of the RCC Project budget. In addition, the City has established a construction contingency of \$5.7 million and a soft-cost contingency of \$0.8 million, equal to 2.4 percent of the overall RCC Project budget.

F. RCC DESIGN AND CONSTRUCTION

According to the PM Team, the final design and construction document preparation for the RCC Project is 92.0 percent complete as of December 31, 2003. Through CY 2003, a total of \$26.8 million or 9.9 percent of the overall RCC Project budget has been expended. Table II-2 details the expenditures by project element through CY 2003. As shown on Table II-2, 52.9 percent of the Professional Fees portion of the budget has been expended through CY 2003, 47.9 percent of the Other Project Costs portion of the budget has been expended and 2.5 percent of the total GMP and tenant exclusive use allowance portion of the budget has been expended. Table II-3 details the monthly cash flow of the RCC Project for the construction period beginning in January 2004 through completion in late October 2005.

Table II-1
RCC Project Budget

Project Element	Budget Amount	Percentage of Budget
Professional Fees:		
Planning Studies	\$1,240,849	
Program Management	12,232,014	
Architectural/Design	17,787,648	
CM Pre-Construction Fees	1,127,379	
Environmental Consulting	618,047	
Archaeological Testing	75,000	
Project Coordinator	70,000	
Sub-Total Professional Fees	\$33,150,937	12.3%
Common Busing System:		
Bus Fleet	\$20,710,000	
Bus Maintenance Facility	4,925,000	
Sub-Total Common Busing System	\$25,635,000	9.5%
Other Project Costs:		
Furniture, Fixtures and Equipment	\$400,000	
Utility Relocations	1,408,395	
Public Art	1,150,000	
City Material Testing	825,000	
City Plan Review and Permitting	625,000	
City Development Fees	50,000	
Fire Station Relocation Costs	2,400,000	
Internal City Staff Charges	1,500,000	
Soft Cost Contingency	800,000	
Sub-Total Other Project Costs	\$9,158,395	3.4%
CM Construction Costs Subject to GMP:		
Site Development, CSB, Parking Garage	\$142,212,640	
Contractor's Contingency	5,364,475	
Flight Information Display System	1,250,000	
CCTV/Access Control/Device Monitoring	1,250,000	
Premises Distribution System Line	1,750,000	
Off-Site Signage	1,500,000	
Small RAC Exclusive Use Area	1,400,000	
Miscellaneous	100,000	
Sub-Total CM Construction Costs Subject to GMP	\$154,827,115	57.3%
Tenant Exclusive Use Allowance (1)	\$41,000,000	15.2%
Total Construction Costs Subject to GMP (2)	\$195,827,115	72.5%
Construction Costs Not Subject to GMP:		
Arizona Department of Transportation Signage	\$510,000	
Sub-Total Construction Costs Not Subject to GMP	\$510,000	0.2%
City's Construction Contingency	\$5,718,553	
	\$5,718,553	2.1%
Grand Total	\$270,000,000	100.0%

(1) Although the tenant exclusive use allowance is not technically part of the CM's GMP, it represents the maximum amount authorized by the City.

(2) Total construction costs subject to GMP equal the sum of the CM Construction Costs Subject to GMP and the tenant exclusive use allowance.

Source: Abacus Program Management, Inc.

Table II-2
RCC Project Budget Expended Through CY 2003

Project Element	Budget Amount	Expended Through CY 2003	Percent Expended
Professional Fees:			
Planning Studies	\$1,240,849	\$1,240,849	100.0 %
Program Management	12,232,014	5,829,523	47.7
Architectural/Design	17,787,648	8,961,764	50.4
CM Pre-Construction Fees	1,127,379	1,030,444	91.4
Environmental Consulting	618,047	430,000	69.6
Archaeological Testing	75,000	50,000	66.7
Project Coordinator	70,000	0	0.0
Sub-Total Professional Fees	\$33,150,937	\$17,542,580	52.9 %
Common Busing System:			
Bus Fleet	\$20,710,000	\$0	0.0 %
Bus Maintenance Facility	4,925,000	0	0.0
Sub-Total Common Busing System	\$25,635,000	\$0	0.0 %
Other Project Costs:			
Furniture, Fixtures and Equipment	\$400,000	\$0	0.0 %
Utility Relocations	1,408,395	1,206,929	85.7
Public Art	1,150,000	0	0.0
City Material Testing	825,000	0	0.0
City Plan Review and Permitting	625,000	480,600	76.9
City Development Fees	50,000	0	0.0
Fire Station Relocation Costs	2,400,000	2,400,000	100.0
Internal City Staff Charges	1,500,000	300,000	20.0
Soft Cost Contingency	800,000	0	0.0
Sub-Total Other Project Costs	\$9,158,395	\$4,387,529	47.9 %
CM Construction Costs Subject to GMP	\$154,827,115	\$4,900,000	0.0 %
Tenant Exclusive Use Allowance (1)	\$41,000,000	\$0	0.0 %
Total Construction Costs Subject to GMP (2)	\$195,827,115	\$4,900,000	0.0 %
Construction Costs Not Subject to GMP:			
Arizona Department of Transportation Signage	\$510,000	\$0	0.0 %
Sub-Total Construction Costs Not Subject to GMP	\$510,000	\$0	0.0 %
City's Construction Contingency	\$5,718,553	\$0	0.0 %
Grand Total	\$270,000,000	\$26,830,109	9.9 %

(1) Although the tenant exclusive use allowance is not technically part of the CM's GMP, it represents the maximum amount authorized by the City.

(2) Total construction costs subject to GMP equal the sum of the CM construction costs subject to GMP and the tenant exclusive use allowance.

Source: Abacus Program Management, Inc.

Table II-3
RCC Project Cash Flow through Completion

Project Element	Budget Amount	Expended Through 12/03	2004				
			January	February	March	April	May
Professional Fees:							
Planning Studies	\$1,240,849	\$1,240,849	\$0	\$0	\$0	\$0	\$0
Program Management	12,232,014	5,829,523	225,000	225,000	228,237	210,000	210,000
Architectural/Design	17,787,648	8,961,764	505,000	510,000	570,000	797,500	528,589
CM Pre-Construction Fees	1,127,379	1,030,444	0	21,935	0	0	10,000
Environmental Consulting	618,047	430,000	88,250	14,250	14,250	14,250	14,250
Archaeological Testing	75,000	50,000	5,000	5,000	5,000	5,000	5,000
Project Coordinator	70,000	0	0	0	3,500	3,500	3,500
Sub-Total Professional Fees	\$33,150,937	\$17,542,580	\$823,250	\$776,185	\$821,007	\$1,030,250	\$771,339
Common Busing System:							
Bus Fleet	\$20,710,000	\$0	\$0	\$0	\$0	\$0	\$0
Bus Maintenance Facility	4,925,000	0	0	0	0	0	0
Sub-Total Common Busing System	\$25,635,000	\$0	\$0	\$0	\$0	\$0	\$0
Other Project Costs:							
Furniture, Fixtures and Equipment	\$400,000	\$0	\$0	\$0	\$0	\$0	\$0
Utility Relocations	1,408,395	1,206,929	0	0	0	201,466	0
Public Art	1,150,000	0	1,150,000	0	0	0	0
City Material Testing	\$25,000	0	37,500	37,500	37,500	37,500	37,500
City Plan Review and Permitting	625,000	480,600	900	80,000	63,500	0	0
City Development Fees	50,000	0	0	0	30,000	0	0
Fire Station Relocation Costs	2,400,000	2,400,000	0	0	0	0	0
Internal City Staff Charges	1,500,000	300,000	50,000	50,000	50,000	50,000	50,000
Soft Cost Contingency	300,000	0	0	50,000	50,000	50,000	50,000
Sub-Total Other Project Costs	\$9,158,395	\$4,387,529	\$1,238,400	\$217,500	\$251,000	\$338,966	\$137,500
CM Construction Costs Subject to GMP	\$154,827,115	\$4,900,000	\$2,300,000	\$2,900,000	\$4,100,000	\$5,400,000	\$6,200,000
Tenant Exclusive Use Allowance (1)	\$40,000,000	\$0	\$0	\$0	\$0	\$0	\$0
Total Construction Costs Subject to GMP (2)	\$195,827,115	\$4,900,000	\$2,300,000	\$2,900,000	\$4,100,000	\$5,400,000	\$6,200,000
Construction Costs Not Subject to GMP:							
Arizona Department of Transportation Signage	\$510,000	\$0	\$0	\$0	\$0	\$0	\$0
Sub-Total Construction Costs Not Subject to GMP	\$510,000	\$0	\$0	\$0	\$0	\$0	\$0
City's Construction Contingency	\$5,718,553	\$0	\$0	\$0	\$100,000	\$200,000	\$300,000
	\$5,718,553	\$0	\$0	\$0	\$100,000	\$200,000	\$300,000
Grand Total	\$270,000,000	\$26,830,109	\$4,361,650	\$3,893,685	\$5,272,007	\$6,969,216	\$7,408,839
Cumulative Total		\$26,830,109	\$31,191,759	\$35,085,444	\$40,357,451	\$47,326,667	\$54,735,506
Percent Complete		9.9%	11.6%	13.0%	14.9%	17.5%	20.3%

(1) Although the tenant exclusive use allowance is not technically part of the CM's GMP, it represents the maximum amount authorized by the City.

(2) Total Construction Costs Subject to GMP equal the sum of the CM Construction Costs Subject to GMP and the tenant exclusive use allowance.

Source: Abacus Program Management, Inc.



Table II-3
RCC Project Cash Flow through Completion (cont'd)

Project Element	2004						
	June	July	August	September	October	November	December
Professional Fees:							
Planning Studies	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Program Management	230,833	230,833	230,833	230,833	230,833	230,833	230,833
Architectural/Design	512,500	442,500	417,500	420,000	402,500	382,500	385,000
CM Pre-Construction Fees	4,000	10,000	4,000	4,000	15,000	15,000	13,000
Environmental Consulting	14,250	14,250	14,297	0	0	0	0
Archaeological Testing	0	0	0	0	0	0	0
Project Coordinator	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Sub-Total Professional Fees	\$765,083	\$701,083	\$670,130	\$658,333	\$651,833	\$631,833	\$632,333
Common Busing System:							
Bus Fleet	\$41,667	\$41,667	\$41,667	\$41,667	\$41,667	\$41,667	\$41,667
Bus Maintenance Facility	0	0	0	0	0	0	0
Sub-Total Common Busing System	\$41,667	\$41,667	\$41,667	\$41,667	\$41,667	\$41,667	\$41,667
Other Project Costs:							
Furniture, Fixtures and Equipment	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Utility Relocations	0	0	0	0	0	0	0
Public Art	0	0	0	0	0	0	0
City Material Testing	37,500	37,500	37,500	37,500	37,500	37,500	37,500
City Plan Review and Permitting	0	0	0	0	0	0	0
City Development Fees	0	0	0	0	0	0	0
Fire Station Relocation Costs	0	0	0	0	0	0	0
Internal City Staff Charges	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Soft Cost Contingency	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Sub-Total Other Project Costs	\$137,500	\$137,500	\$137,500	\$137,500	\$137,500	\$137,500	\$137,500
CM Construction Costs Subject to GMP	\$7,100,000	\$7,200,000	\$7,000,000	\$6,600,000	\$6,500,000	\$7,400,000	\$10,000,000
Tenant Exclusive Use Allowance (1)	\$0	\$0	\$1,250,000	\$1,500,000	\$1,750,000	\$2,000,000	\$2,500,000
Total Construction Costs Subject to GMP (2)	\$7,100,000	\$7,200,000	\$8,250,000	\$8,100,000	\$8,250,000	\$9,400,000	\$12,500,000
Construction Costs Not Subject to GMP:							
Arizona Department of Transportation Signage	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sub-Total Construction Costs Not Subject to GMP	\$0	\$0	\$0	\$0	\$0	\$0	\$0
City's Construction Contingency	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000
	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$388,000
Grand Total	\$8,244,250	\$8,380,250	\$9,399,297	\$9,237,500	\$9,381,000	\$10,511,000	\$13,611,500
Cumulative Total	\$63,079,756	\$71,460,006	\$80,859,303	\$90,096,803	\$99,477,803	\$109,988,803	\$123,600,303
Percent Complete	23.4%	26.5%	29.9%	33.4%	36.8%	40.7%	45.8%

(1) Although the tenant exclusive use allowance is not technically part of the CM's GMP, it represents the maximum amount authorized by the City.

(2) Total Construction Costs Subject to GMP equal the sum of the CM Construction Costs Subject to GMP and the tenant exclusive use allowance.

Source: Abacus Program Management, Inc.

Table II-3
RCC Project Cash Flow through Completion (cont'd)

Project Element	2005						
	January	February	March	April	May	June	July
Professional Fees:							
Planning Studies	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Program Management	230,833	220,834	220,834	320,834	320,834	300,000	300,000
Architectural/Design	382,500	377,500	310,000	225,000	225,000	227,500	225,000
CM Pre-Construction Fees	0	0	0	0	0	0	0
Environmental Consulting	0	0	0	0	0	0	0
Archaeological Testing	0	0	0	0	0	0	0
Project Coordinator	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Sub-Total Professional Fees	\$616,833	\$601,834	\$534,334	\$549,334	\$549,334	\$531,000	\$528,500
Common Busing System:							
Bus Fleet	\$41,667	\$41,666	\$41,666	\$41,666	\$41,666	\$0	\$11,000,000
Bus Maintenance Facility	250,000	300,000	800,000	1,000,000	800,000	650,000	500,000
Sub-Total Common Busing System	\$291,667	\$341,666	\$841,666	\$1,041,666	\$841,666	\$650,000	\$11,500,000
Other Project Costs:							
Furniture, Fixtures and Equipment	\$0	\$0	\$0	\$0	\$0	\$100,000	\$100,000
Utility Relocations	0	0	0	0	0	0	0
Public Art	0	0	0	0	0	0	0
City Material Testing	37,500	37,500	37,500	37,500	37,500	37,500	37,500
City Plan Review and Permitting	0	0	0	0	0	0	0
City Development Fees	0	0	0	0	0	0	0
Fire Station Relocation Costs	0	0	0	0	0	0	0
Internal City Staff Charges	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Soft Cost Contingency	50,000	50,000	50,000	50,000	50,000	50,000	0
Sub-Total Other Project Costs	\$137,500	\$137,500	\$137,500	\$137,500	\$137,500	\$187,500	\$187,500
CM Construction Costs Subject to GMP	10,700,000	9,900,000	10,800,000	9,100,000	9,500,000	9,100,000	5,200,000
Tenant Exclusive Use Allowance (1)	3,000,000	3,250,000	2,750,000	2,900,000	3,100,000	3,250,000	3,250,000
Total Construction Costs Subject to GMP (2)	\$13,700,000	\$13,150,000	\$13,550,000	\$12,000,000	\$12,600,000	\$12,350,000	\$8,450,000
Construction Costs Not Subject to GMP:							
Arizona Department of Transportation Signage	\$100,000	\$100,000	\$100,000	\$100,000	\$110,000	\$0	\$0
Sub-Total Construction Costs Not Subject to GMP	\$100,000	\$100,000	\$100,000	\$100,000	\$110,000	\$0	\$0
City's Construction Contingency	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000
Grand Total	\$15,146,000	\$14,831,000	\$15,463,500	\$14,128,500	\$14,538,500	\$14,018,500	\$20,966,000
Cumulative Total	\$138,746,303	\$153,577,303	\$169,040,803	\$183,169,303	\$197,707,803	\$211,726,303	\$232,692,303
Percent Complete	51.4%	56.9%	62.6%	67.8%	73.2%	78.4%	86.2%

(1) Although the tenant exclusive use allowance is not technically part of the CM's GMP, it represents the maximum amount authorized by the City.

(2) Total Construction Costs Subject to GMP equal the sum of the CM Construction Costs Subject to GMP and the tenant exclusive use allowance.

Source: Abacus Program Management, Inc.

Table II-3
RCC Project Cash Flow through Completion (cont'd)

Project Element	August	September	2005 October	November	December	2006 Jan/Feb/Mar	Total
Professional Fees:							
Planning Studies	\$0	\$0	\$0	\$0	\$0	\$0	\$ 1,240,840
Program Management	300,000	300,000	300,000	200,000	200,000	474,234	12,232,014
Architectural/Design	225,000	227,500	225,000	179,795	122,500	0	17,787,648
CM Pre-Construction Fees	0	0	0	0	0	0	1,127,379
Environmental Consulting	0	0	0	0	0	0	618,047
Archaeological Testing	0	0	0	0	0	0	75,000
Project Coordinator	3,500	3,500	3,500	0	0	0	70,000
Sub-Total Professional Fees	\$528,500	\$531,000	\$528,500	\$379,795	\$322,500	\$474,234	\$ 33,130,937
Common Busing System:							
Bus Fleet	\$5,160,000	\$0	\$4,030,000	\$0	\$0	\$0	20,710,000
Bus Maintenance Facility	230,000	100,000	75,000	0	0	0	4,925,000
Sub-Total Common Busing System	\$5,410,000	\$100,000	\$4,125,000	\$0	\$0	\$0	\$ 25,635,000
Other Project Costs:							
Furniture, Fixtures and Equipment	\$100,000	\$100,000	\$0	\$0	\$0	\$0	\$400,000
Utility Relocations	0	0	0	0	0	0	1,408,395
Public Art	0	0	0	0	0	0	1,150,000
City Material Testing	37,500	37,500	37,500	0	0	0	825,000
City Plan Review and Permitting	0	0	0	0	0	0	625,000
City Development Fees	0	0	0	0	0	0	50,000
Fire Station Relocation Costs	0	0	0	0	0	0	2,400,000
Internal City Staff Charges	50,000	50,000	50,000	50,000	50,000	0	1,500,000
Soft Cost Contingency	0	0	0	0	0	0	800,000
Sub-Total Other Project Costs	\$187,500	\$187,500	\$87,500	\$50,000	\$50,000	\$0	\$ 9,158,395
CM Construction Costs Subject to GMP	4,500,000	3,900,000	2,400,000	1,800,000	327,115	0	15,487,115
Tenant Exclusive Use Allowance (1)	\$ 3,250,000	\$ 3,250,000	\$ 4,000,000	\$ -	\$ -	\$ -	\$ 41,000,000
Total Construction Costs Subject to GMP (2)	\$7,750,000	\$7,150,000	\$6,400,000	\$1,800,000	\$327,115	\$0	\$195,827,115
Construction Costs Not Subject to GMP:							
Arizona Department of Transportation Signage	\$0	\$0	\$0	\$0	\$0	\$0	\$510,000
Sub-Total Construction Costs Not Subject to GMP	\$0	\$0	\$0	\$0	\$0	\$0	\$510,000
City's Construction Contingency	\$300,000	\$72,885	\$0	\$0	\$0	\$545,668	\$5,718,553
	\$300,000	\$72,885	\$0	\$0	\$0	\$545,668	\$5,718,553
Grand Total	\$14,176,000	\$8,041,385	\$11,141,000	\$2,229,795	\$699,615	\$1,019,902	\$270,000,000
Cumulative Total	\$246,868,303	\$254,909,688	\$266,050,688	\$268,280,483	\$268,980,098	\$270,000,000	
Percent Complete	91.4%	94.4%	98.5%	99.4%	99.6%	100.0%	

(1) Although the tenant exclusive use allowance is not technically part of the CM's GMP, it represents the maximum amount authorized by the City.

(2) Total Construction Costs Subject to GMP equal the sum of the CM Construction Costs Subject to GMP and the tenant exclusive use allowance.

Source: Abacus Program Management, Inc.

III. ECONOMIC BASE FOR AIRPORT RENTAL CAR DEMAND

The economic and demographic environment of the greater Phoenix region provides the foundation for aviation and rental car demand at the Airport. The main economic and demographic variables reviewed in this Report include local area population, personal income levels, employment patterns, business activity and tourism activity. Historically, demographic and economic statistics are strong indicators of the regional economy. A strong regional economy that attracts both business and tourist visitors will drive aviation demand, which in turn will drive the demand for rental cars.

Statistical Sources

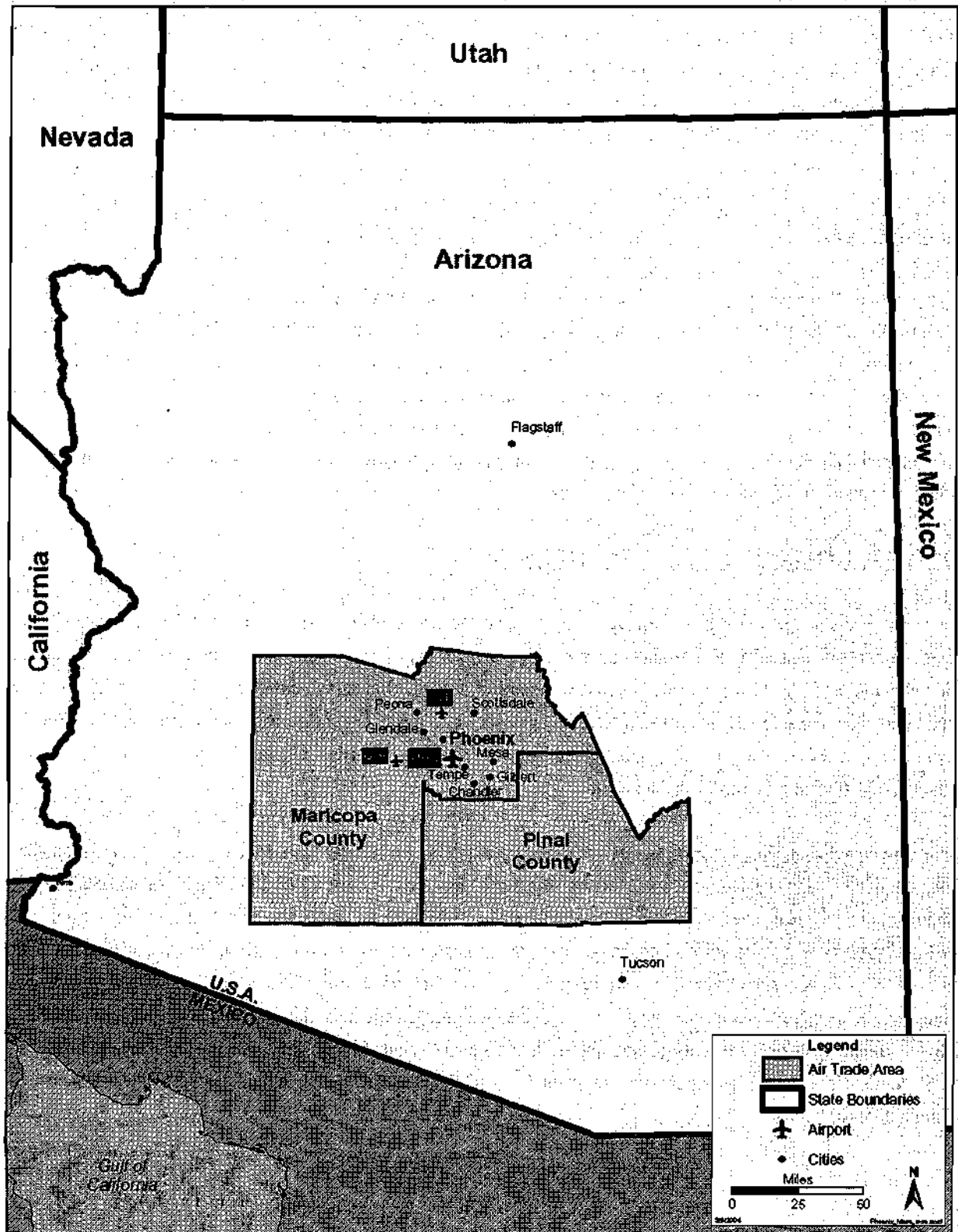
The historical and forecast population, income data and employment presented in this Report were provided by Woods & Poole Economics, an independent, non-partisan U.S. based research firm. Woods & Poole Economics uses U.S. census data as the basis for its analyses. In addition to conducting its own research, Woods & Poole obtains historical data from government sources including the U.S. Departments of Labor and Commerce. Forecast information provided by Woods & Poole is formulated using its own proprietary demographic and economic models. Statistics on effective buying income, unemployment and hotel occupancy rates were provided from other independent sources as identified herein.

A. IDENTIFICATION OF THE AIR TRADE AREA

The primary geographic area served by an airport is generally referred to as the "Air Trade Area." Because the same factors that drive demand for air service also drive rental car demand, this Report analyzes the industry standard Air Trade Area. As discussed in other chapters, rental car customers are specifically comprised of Origin & Destination ("O&D") passengers, whose destination is within the Air Trade Area. Economic vitality and attractive business and/or leisure opportunities within the Air Trade Area positively impact O&D traffic and rental car demand.

For the purposes of this Report, the Air Trade Area is the Phoenix-Mesa Metropolitan Statistical Area (the "Phoenix Area" or "the Region") as defined by the U.S. Census Bureau and is shown in **Exhibit III-1**. The Phoenix Area is comprised of Maricopa and Pinal Counties and includes the following cities: Phoenix, Mesa, Glendale, Scottsdale, Chandler, Tempe, Gilbert and Peoria as shown on the map, and the cities of Goodyear, Tolleson, El Mirage and Avondale. Phoenix is the capital of the State of Arizona ("the State"). The Phoenix Area is the largest metropolitan area in the State and the Airport is the dominant airport in the State. In addition to the Region, travelers to and from Tucson and Flagstaff regularly use the Airport. As the majority of the Airport's O&D passengers are traveling to and from the Phoenix Area, the statistics presented below are for the Region.

**Exhibit III-1
Phoenix Air Trade Area**



Source: Landrum & Brown, Inc.

B. POPULATION

Much of the State's growth has historically been, and will continue to be, driven by the Phoenix Area, which was the fastest growing metropolitan area in the U.S. between CY 1990 and CY 2000. The Region's population increased by 36.1 percent between CY 1994 and CY 2003. The Phoenix Area, with a population of approximately 3.6 million in CY 2003, is by far the largest region in the State, with 63.9 percent of the State's total population in CY 2003. (By comparison, the State's second largest city, Tucson, had a CY 2003 regional population of 895,671, or 16.1 percent of the State's population.) Between CY 1994 and CY 2003 the Region grew at a faster annual compound growth rate than the State. At an annual compound growth rate of 3.5 percent, the Phoenix Area grew from 2.6 million in CY 1994 to 3.6 million in CY 2003. Through CY 2015, the Phoenix Area is expected to grow at a similar rate to that of the State. Between CY 2003 and CY 2015 the Phoenix Area's population is expected to reach 4.7 million, growing at an annual compound growth rate of 2.3 percent.

The State, with a population increase of 40.0 percent between CY 1990 and CY 2000, was second only to Nevada in terms of percentage growth and recorded the fifth largest net gain in population (1.5 million) in the country during the same period. **Table III-1** shows that between CY 1994 and CY 2003 the State's population grew from 4.2 million to 5.6 million, at an annual compound growth rate of 3.1 percent. This was nearly three times faster than that of the entire United States, which had an annual compound growth rate of 1.1 percent during the same time period. The State's population growth is expected to continue at a faster rate than that of the United States through CY 2015. By CY 2015 Arizona is expected to have approximately 7.2 million residents, with a 2.2 percent annual compound growth rate between CY 2003 and CY 2015, while the United States is projected to grow more moderately during the same time period at a 1.1 percent annual compound rate.

1. Net Migration

In an effort to understand the driving forces of the State's population growth, the Arizona Department of Economic Security, Research Administration works with the Motor Vehicle Division of the Arizona Department of Transportation to track in-migration. They do this by recording the number of licenses surrendered monthly and which states originally issued those licenses. **Table III-2** shows the top ten out-of-state licenses surrendered on a monthly average. Although this is not an exact accounting because it does not track out-migration, nor does it account for whether the surrendered license represents a single individual becoming an Arizona resident or a family coming to the State, it does, however, give a reasonable representation of where new residents are coming from and at what rate. The total monthly average of licenses surrendered is 33,300, leading to an annual average of almost 400,000 new licenses issued. This in-migration is an aviation demand driver for both business travel and leisure travel and, therefore, rental car demand. In CY 2002, 50.0 percent of visitors to the Region cited visits to family and friends as the reason for their trip.¹

¹ Arizona Office of Tourism, "Regional Profile: Arizona's Valley of the Sun", January 12, 2004.

Table III - 1
Population

CY	Phoenix Area	Arizona	United States
1994	2,613,502	4,245,089	263,125,821
1995	2,744,046	4,432,499	266,278,393
1996	2,855,711	4,586,940	269,394,284
1997	2,963,714	4,736,990	272,646,925
1998	3,074,532	4,883,342	275,854,104
1999	3,178,349	5,023,823	279,040,168
2000	3,277,577	5,167,142	282,224,348
2001	3,383,411	5,306,966	285,317,559
2002	3,471,947	5,437,586	288,406,943
2003	3,557,760	5,563,788	291,214,807
2010	4,163,462	6,456,353	311,573,092
2015	4,695,763	7,242,152	330,199,779
Annual Compound Growth Rates			
1994 - 2003	3.5 %	3.1 %	1.1 %
2003 - 2010	2.3	2.1	1.0
2010 - 2015	2.4	2.3	1.2
2003 - 2015	2.3	2.2	1.1

Source: Woods & Poole, 2003

Table III - 2
State of Arizona In-Migration
Top 10 States Drivers' Licenses Surrendered
CY 2003

Issuing State	Licenses Surrendered (Monthly Average)
California	7,766
Texas	1,873
Illinois	1,851
Colorado	1,506
Washington	1,440
New York	1,139
New Mexico	1,106
Florida	1,081
Michigan	1,050
Nevada	1,004

Source: Arizona Department of Economic Security, Research Administration

C. PERSONAL INCOME AND PER CAPITA PERSONAL INCOME

Total personal income and per capita personal income ("PCPI") are important factors in forecasting aviation demand. Typically, as regional PCPI increases, so does the demand for air service. Total personal income and PCPI are reported in 1996 dollars (see Table III-3). Total personal income in the Phoenix Area was approximately \$94.6 billion in CY 2003. Between CY 1994 and CY 2003 the Phoenix Area's total personal income increased by 66.0 percent or an annual compound growth rate of 5.8 percent. This growth rate was higher than that of the State, and significantly higher than the United States' total personal income growth rate of 3.3 percent, reflecting in large measure the Region's higher population growth. The Region's total personal income is expected to continue to exhibit strong growth, at an annual compound growth rate of 3.6 percent between CY 2003 and CY 2015.

The Phoenix Area's PCPI increased from approximately \$21,812 in CY 1994 to \$26,604 in CY 2003, an annual compound growth rate of 2.2 percent. Historically, the Region's PCPI has been higher than that of the State and has kept pace with that of the U.S. as a whole. The Region's PCPI is forecast to continue growing at a rate slightly higher than the U.S. 1.2 percent for the Phoenix Area versus 1.0 percent for the U.S. through CY 2015. By CY 2015, the Area's PCPI is expected to reach \$30,735.

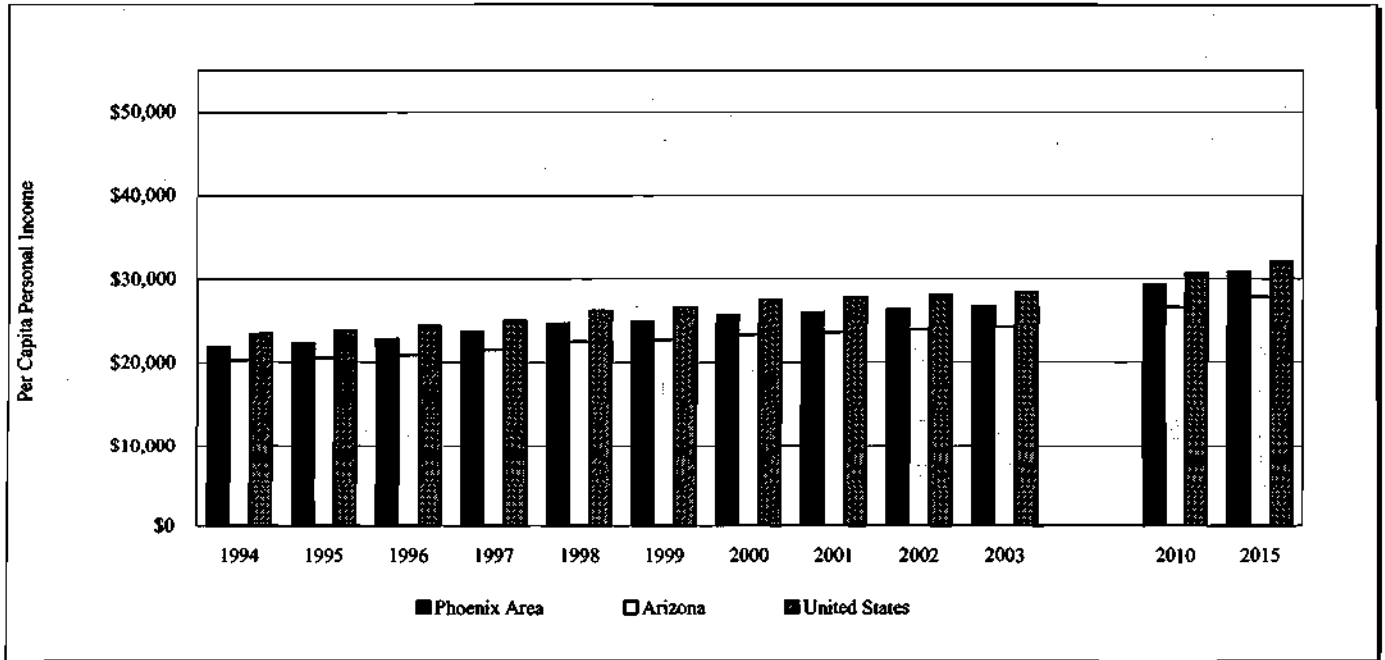
1. Effective Buying Income

Effective Buying Income ("EBI") is a measure of income that is defined as income less personal tax and non-tax payments; it is often referred to as "disposable" or "after-tax" income. Sales and Marketing Management Magazine publishes the EBI statistic annually. The CY 2003 survey shows the Phoenix Area has a median household EBI of \$41,768. (The CY 2003 household statistics are calculated based on CY 2001 data). This compares favorably to other nearby metropolitan areas, for example for CY 2003, Las Vegas had an EBI of \$39,340, Los Angeles had an EBI of \$37,983 and Albuquerque had an EBI of \$36,552.

As Table III-4 shows, the 2003 survey indicates that over one-third (38.3 percent) of the Phoenix Area households have an EBI of over \$50,000. Approximately one-fifth, or 20.8 percent, of Phoenix Area households have an EBI between \$35,000 to \$49,999 and approximately one-fourth (23.2 percent) of the Phoenix Area's households EBIs are between \$20,000 and \$34,999.



Table III-3
Per Capita Personal Income



CY	Phoenix Area		Arizona		United States	
	Total Personal Income (000)	Per Capita Personal Income	Total Personal Income (000)	Per Capita Personal Income	Total Personal Income (000)	Per Capita Personal Income
1994	\$57,004,774	\$21,812	\$85,696,557	\$20,187	\$6,142,296,466	\$23,344
1995	61,038,145	22,244	90,777,737	20,480	6,325,125,765	23,754
1996	64,964,253	22,749	95,787,251	20,883	6,538,103,009	24,270
1997	69,716,196	23,523	101,725,018	21,475	6,796,489,189	24,928
1998	75,583,974	24,584	109,574,769	22,438	7,200,327,146	26,102
1999	78,943,173	24,838	113,948,841	22,682	7,418,473,189	26,586
2000	84,094,324	25,657	120,186,938	23,260	7,741,905,212	27,432
2001	87,751,837	25,936	125,031,497	23,560	7,914,892,609	27,741
2002	91,159,955	26,256	129,662,701	23,846	8,081,254,000	28,020
2003	94,649,152	26,604	134,397,751	24,156	8,249,060,596	28,326
2010	121,909,545	29,281	171,321,720	26,535	9,545,582,823	30,637
2015	144,325,450	30,735	201,707,364	27,852	10,598,325,303	32,097
Annual Compound Growth Rate						
1994 - 2003	5.8 %	2.2 %	5.1 %	2.0 %	3.3 %	2.2 %
2003 - 2010	3.7	1.4	3.5	1.4	2.1	1.1
2010 - 2015	3.4	1.0	3.3	1.0	2.1	0.9
2003 - 2015	3.6	1.2	3.4	1.2	2.1	1.0

Source: Woods & Poole, 2003

Table III - 4
Effective Buying Income - CY 2003

Income	Percentage of Households	
	Phoenix Area	Arizona
\$0- \$19,999	17.7 %	21.3 %
\$20,000 - \$34,999	23.2	33.6
\$35,000 - \$49,999	20.8	20.3
\$50,000 and Over	38.3	24.8
Total EBI (Billions)	\$67.1	\$98.1
Median Household EBI	\$41,768	\$37,883

*Source: Sales and Marketing Management Magazine,
 "2003 Survey of Buying Power and Media Market"*

D. EMPLOYMENT

The Phoenix Area has the largest employment base in the State, with approximately 2.1 million jobs in CY 2003. This accounts for 69.3 percent of all jobs in the State. As seen in **Table III-5**, employment in the Region grew at over twice the rate of that of the rest of the U.S. during the last decade. Between CY 1994 and CY 2003 the annual compound growth rate for employment in the Region was 4.4 percent. This healthy 10-year growth rate is due to the robust growth of the late 1990's and includes the economic downturn the Region and State experienced along with the rest of the country in CY 2001 and CY 2002. Healthy growth is predicted to continue in the Region at an annual compound growth rate that continues to be nearly twice that of the U.S. Between CY 2003 and CY 2015 employment in the Region is expected to increase to approximately 2.8 million, at an annual compound growth rate of 2.3 percent.



**Table III - 5
Employment**

CY	Phoenix Area	Arizona	United States
1994	1,432,485	2,163,256	145,571,591
1995	1,527,167	2,282,147	149,358,784
1996	1,634,303	2,414,365	152,607,198
1997	1,724,283	2,526,487	156,230,188
1998	1,812,213	2,642,772	160,256,203
1999	1,883,730	2,733,088	163,831,078
2000	1,947,328	2,822,379	167,465,312
2001	2,002,240	2,896,513	169,701,582
2002	2,054,624	2,968,243	171,763,657
2003	2,107,562	3,040,585	173,807,389
2010	2,498,181	3,573,664	189,453,084
2015	2,782,431	3,963,547	201,383,284
Annual Compound Growth Rates			
1994 - 2003	4.4 %	3.9 %	2.0 %
2003 - 2010	2.5	2.3	1.2
2010 - 2015	2.2	2.1	1.2
2003 - 2015	2.3	2.2	1.2

Source: Woods & Poole, 2003

I. Employment by Industry

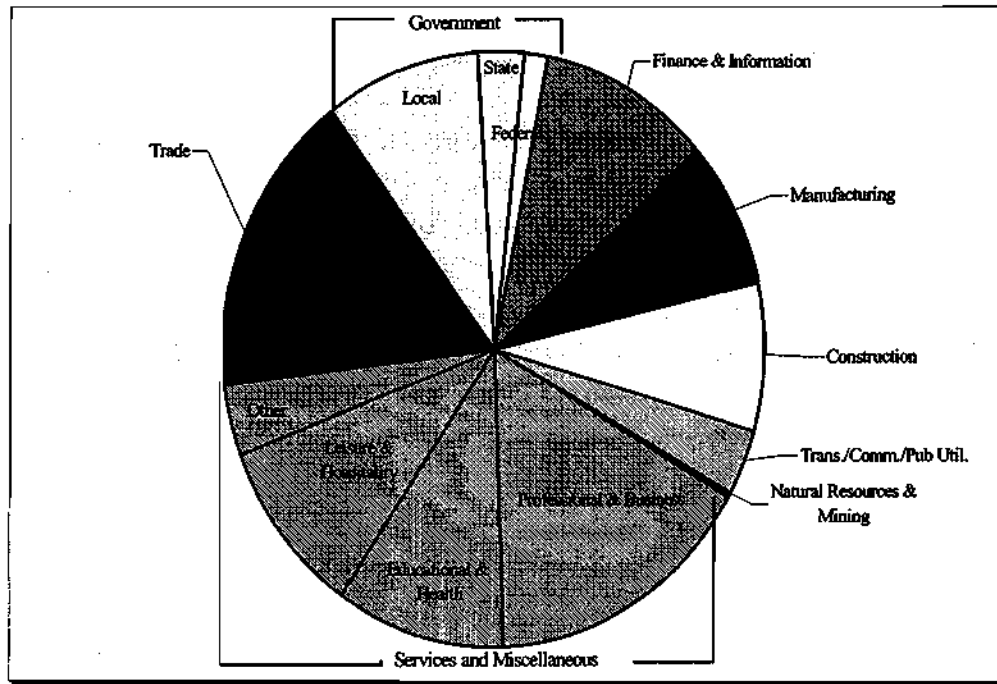
The "Arizona Statewide Economic Study 2002"² describes the Phoenix Area's economic base as composed of computer chip production, aerospace, advanced business services, transportation/distribution/wholesale trade, tourism, and retirement and second home. Table III-6 illustrates the Region's employment distribution by industry sector.

The Services sector has by far the largest number of employees, with 39.7 percent of the Region's workers engaged in this sector in CY 2003. This sector serves both Arizona's fast growing population and the tourism industry. A diverse group of sub-sectors comprise the Services sector. At 16.0 percent of the Region's total employment, the largest sub-sector is Professional and Business Services. Even within this sub-sector there is great diversity. The professions in this group include, but are not limited to, legal advice and representations, accounting, engineering and design services, computer services and veterinary services. The Arizona Department of Economic Security, Research Administration predicts that this sub-sector will grow by 4.2 percent in CY 2004.³

² "Statewide Economic Study 2002: Public Outreach, Local Plan Integration and Strategic Findings" prepared for the Arizona Department of Commerce and The Commerce and Economic Development Commission, Elliott D. Pollack and Company and Pat Schroeder, Practical Solutions, October 2003.

³ "Arizona's Workforce", Arizona Dept. of Economic Security, Research Administration, August 28, 2003.

Table III-6
Phoenix Area CY 2003 Employment by Industry Sector



<u>Industry Sector</u>	<u>Percent Distribution</u>
Services & Miscellaneous (1)	39.7 %
Professional & Business Services	16.0
Educational & Health Services	10.1
Leisure & Hospitality	9.7
Other Services	3.9
Trade	16.7
Government	13.3
Local	9.1
State	2.8
Federal	1.4
Finance/Information	10.3
Manufacturing	8.1
Construction	8.0
Transportation/Communication/Public Utilities	3.7
Natural Resources & Mining	0.1
Total	100.0 %

Source: Arizona Department of Economic Security, Research Administration

(1) The Services and Miscellaneous sector includes the sub-sectors of Educational & Health Services, Leisure & Hospitality, Professional & Business Services and Other Services. The percentages shown next to each subcategory represent its share of total Region employment.

Note: Total may not add to 100.0 percent due to rounding



The next largest Services sub-sector is Educational and Health Services, which employs 10.1 percent of the Region's total workforce. Jobs in this sub-sector are predicted to have the fastest growth in the near term, with an increase of 5.2 percent forecast for CY 2004.⁴

At 16.7 percent of the Region's employment, Trade is the second largest employment sector. Modest growth of about 2.0 percent is expected for this sector in CY 2004, mainly from the retail sub-sector. The wholesale trade sub-sector is expected to show some losses.

Manufacturing and Construction sectors represent nearly identical numbers of employees in the Region at approximately 8.0 percent. Construction is on a strong upswing driven by the housing and infrastructure demands of the growing population, coupled with low interest rates. Construction employment is expected to grow by 3.6 percent in CY 2004. Manufacturing, on the other hand, has been losing jobs. In the Phoenix Area, manufacturing jobs in the computer and electronic industries were hardest hit due to a combination of overcapacity, soft market demand and relocation of manufacturing plants (to East Asia in particular). That trend of job loss is expected to stabilize by early 2004 and modest growth is predicted for CY 2004⁵ as an improving economy, as well as new defense contracts, help the manufacturing sector recover.

2. Unemployment

Another indicator of a Region's economic strength is the seasonally adjusted jobless rate, or unemployment. Table III-7 shows that the Phoenix Area has consistently had a lower jobless rate than the State and the U.S. throughout the last decade. In CY 1994, the Phoenix Area had an annual average unemployment rate of 3.9 percent, which was 2.2 percent less than the national average of 6.1 percent. The lowest unemployment rate for the Phoenix Area in the last decade occurred in CY 1997 when the unemployment rate fell to 2.6 percent for the year. After a period of relative stability through CY 2000, the economic recession that began in CY 2001 adversely impacted the Region's jobless rate, especially due to losses in the manufacturing sector. The Region's average annual unemployment rate for CY 2002 climbed to 5.7 percent, comparable to the national average of 5.8 percent. However, in CY 2003 the Region showed an improvement to 5.0 percent unemployment, while the nation's average climbed to 6.0 percent. Trade and Financial Services showed the strongest job growth in the last quarter of CY 2003. Recently, manufacturing is also showing some increases in job growth, similar to the rest of the U.S., although employment levels in that sector are far below the highs of the late 1990's.⁶

⁴ Ibid.

⁵ "2004-2005 Economic Outlook", Eller College of Business and Public Administration, University of Arizona, Fall 2003.

⁶ "Arizona's Workforce", Arizona Dept. of Economic Security, Research Administration, January 22, 2004.

Table III - 7
Unemployment Rates ⁽¹⁾

CY	Phoenix Area	Arizona	United States
1994	3.9 %	6.4 %	6.1 %
1995	3.2	5.1	5.6
1996	3.4	5.5	5.4
1997	2.6	4.6	5.0
1998	2.9	4.1	4.5
1999	2.9	4.4	4.2
2000	2.7	4.0	4.0
2001	4.0	4.7	4.8
2002	5.7	6.2	5.8
2003	5.0	5.6	6.0

(1) Seasonally adjusted annual average

Source: Arizona Department of Economic Security, Research Administration in cooperation with the US Department of Labor.

E. BUSINESS CLIMATE

The current business climate in the Phoenix Area is relatively positive. The Eller College of Business and Public Administration at The University of Arizona conducts a quarterly survey of business leaders in order to calculate the "Arizona Business Leaders Confidence Index" ("BLCI"). The BLCI results for the first quarter of CY 2004 were the strongest since the survey's inception, with 85.0 percent of the panel's respondents expecting moderate to strong growth in the State's economy. This optimism also is seen in the latest Manpower, Inc. Employment Outlook Survey. That survey, released mid-December 2003, found that 29.0 percent of the Phoenix Area employers plan to expand their workforce in the first quarter of 2004. Similarly, the "Arizona Blue Chip Economic Forecast", published by the Bank One Economic Outlook Center at Arizona State University, expresses reserved optimism for respectable employment growth in the State and Region during CY 2004.⁷ The Blue Chip Panel cautions that while growth is expected in CY 2004 it will most likely not be the "expansive" recovery often seen after a recession, nor will it match the historical levels of high growth rates in the Region.

The Phoenix Area offers many advantages to new, expanding and relocating businesses. The excellent climate and living environment is attractive to employees. The growing population is a source of a well-educated workforce, as are the well-respected higher education institutions, particularly Arizona State University, which is located in the Region. Also, vacant land for corporate growth is more readily available in the Phoenix Area than other parts of the country. Plus, the Region has been cited as a top logistical location because of its good highway, rail and aviation access.⁸

⁷ "Arizona Blue Chip Economic Forecast", Bank One Economic Outlook Center, L. William Seidman Research Institute, W.P. Carey School of Business, Arizona State University; Tempe, AZ, Vol. 19, No. 12, December 2003.

⁸ "State Ratings: Companies Flow into Arizona to Tap into Available Land, Superior Work Force", Expansion Management, Nov. 11, 2003; "Top 15 Logistics Cities in the Western U.S." Expansion Management, December 1, 2003.

The largest growth is expected in the Services sector (see *Section D - Employment*). Education, healthcare and social assistance will lead the Phoenix Area in new jobs. Major employers in the State, sorted by industry sector, are shown on **Table III-8**.

A number of publicly traded companies have their headquarters in the Phoenix Area. Members of the S&P 500 headquartered in the Region are Allied Waste Industries Inc., Apollo Group Inc., Phelps Dodge Corp. and Pinnacle West Capital Corp. There are six S&P MidCap 400 companies and ten S&P Small Cap 600 companies headquartered in the Region. "Expansion Management" magazine praised the Phoenix Area, listing it seventh on its annual list of "America's 50 Hottest Cities" for expansion and relocation.⁹

Small businesses are also thriving in the Phoenix Area. Phoenix is consistently among the top cities on Entrepreneur Magazine's annual list of "Best Cities for Entrepreneurs". The October 2003 issue lists the Region as the number one large city in the Southwest for entrepreneurs and the Region comes in 13th on the national list. Inc. Magazine's March 2004 issue has its own list of "Top 25 Cities For Doing Business in America" determined primarily by sustained job growth. Under the "large metro" areas, Phoenix ranks 12th.

A concern identified by the Eller College of Business and Public Administration "2004/2005 Outlook" is the State's tax system. Currently, business taxes are structured around the manufacturing economy and may not adequately reflect a more service-oriented economy. As with many other states, Arizona's budget deficit is estimated at \$300.0 to \$400.0 million in FY 2004.

In order to position Phoenix for lasting long-term growth, community leaders in the Region are placing an emphasis on finding and attracting priority industries. The Greater Phoenix Economic Council has a list of priority industries that includes the following: advanced financial and business services, aerospace, bio-industry, high-tech and software. Tourism and senior services, along with manufacturing and plastics are also recognized for their continuing importance.

⁹ "Atlanta Tops America's 50 Hottest Cities for Expansions and Relocations", Expansion Management, January 3, 2004.

Table III-8
Arizona Major Employers Sorted by Industry Sector

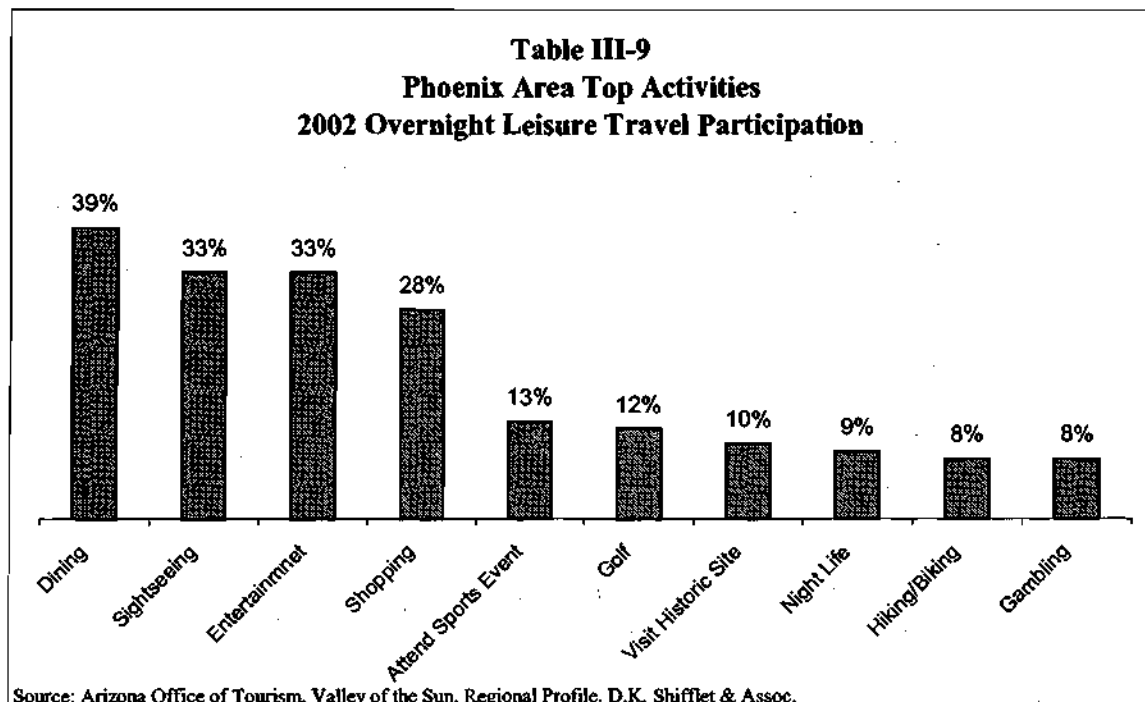
	<u>CY 2003 Employees</u>
Health	
Banner Health Systems	13,756
Education	
Arizona State University	10,005
Mesa Public Schools	8,348
Trade/Retail	
Wal-Mart Stores, Inc.	18,677
Albertson's-Osco	9,500
Bashas' Inc.	9,374
Safeway Inc.	9,100
Fry's Food and Drug Stores	9,100
Target Corp.	9,021
Walgreen Co.	5,738
Government	
State of Arizona	50,363
Maricopa County	13,482
City of Phoenix	13,095
U.S. Postal Service	11,406
Luke Air Force Base	7,386
Financial Activities	
Wells Fargo Company	9,000
America West Holdings	7,280
Bank One Corp.	6,794
American Express Co.	6,670
Bank of America Corp.	6,035
Manufacturing	
Honeywell International Inc.	12,000
Raytheon Co.	10,200
Intel Corp.	9,500
Motorola Inc.	5,840
Utilities	
Qwest Communications International Inc.	6,900
Pinnacle West Capital (Arizona Public Service)	6,100

Source: The Business Journal, October 2003

F. TOURISM AND BUSINESS TRAVEL

The State and the Phoenix Area both have long been recognized as desirable tourist destinations. Averaging over 300 days of sunshine annually, and featuring outstanding natural attractions, including 21 National sites (Parks, Historic Sites and Recreation Areas), the State hosted 26.9 million domestic visitors and 636,000 international visitors in CY 2002.¹⁰ Of those visitors nearly 46.0 percent of domestic visitors and 46.2 percent of international visitors, or 12.6 million total, visited the Phoenix Area.

The Phoenix Area offers a wide range of recreational and entertainment choices. Table III-9 shows the most popular visitor leisure activities and illustrates the diversity in choices. Dining is cited as the most popular leisure activity; the Phoenix Area offers a variety of dining establishments from which to choose, with Southwestern, Western and steakhouses being among the most popular. Sight seeing and entertainment are the next most popular leisure activities. The natural beauty of the Phoenix Area, especially the Sonoran Desert, makes for exceptional sightseeing. Local operators offer a variety of jeep and desert tours. For entertainment, the Phoenix Area offers traditional nightlife choices from lounges to microbreweries. Cultural attractions are provided by several professional theater companies, Ballet Arizona, the Phoenix Symphony and the Phoenix Art Museum, which is one of the largest visual arts centers in the Southwest. There are cultural offerings from the various ethnic groups that influence Phoenix's vitality, which range from Native American to Hispanic to Asian American to African American groups. In particular, the Heard Museum is internationally recognized for its excellent Native American arts and cultures focus, with traditional and contemporary Native American art.



¹⁰ Arizona Office of Tourism Statistical Report 2002. Note: The Arizona Office of Tourism compiles extensive visitors statistics, but there is a significant lag in the release of these reports. The 2002 Statistical Report was released January 2, 2004, and is the most recent detailed information available.

Shopping and culture can be combined in the Phoenix Area by visiting the City of Scottsdale, which is recognized world-wide for its concentration of over 100 fine art galleries. Shopping for all visitors can be done at numerous specialty and antique shops, as well as traditional large shopping areas. For visitors interested in sporting events, the Phoenix Area is home to all four major sports. The Phoenix major sports teams are: Major League Baseball's Arizona Diamondbacks, the NBA's Phoenix Suns, the NHL's Phoenix Coyotes and the NFL's Arizona Cardinals. In addition to these teams, the Phoenix Area is home to numerous popular annual sporting events, including: Cactus League Spring training, which hosts nine of the twelve major league teams in the Phoenix Area each year (the other three Cactus League teams are based in the Tucson area); the Fiesta Bowl, Fiesta Bowl Parade and associated activities; tennis competitions including the Legends Tennis Classic and Franklin Templeton Men's Tennis Classic; and golf competitions, featuring the Safeway PING LPGA Tournament and the FBR Open Golf Tournament.

The Region has approximately 54,200 hotel and motel rooms to host the many visitors drawn to the numerous attractions in the Region. In CY 2002, leisure visitors accounted for 71.0 percent of total visitors. However, as the Region grows and becomes home to more companies, the number of business visitors has increased and is expected to continue rising. Increased business travel is a positive sign, as business travelers reflect the vitality of the local economy and on average, have a higher per day expenditure total. In CY 2002 as the economy slowed nationally, business travel dropped significantly. The State weathered this downturn better than most areas of the country, as overall travel in CY 2002 was down by only 0.9 percent as compared to CY 2001. This reflected a drop in leisure travel of 3.9 percent, but an increase in business travel of 8.7 percent.¹¹ Although these figures are for the whole State, due to the Region's dominance, especially in business, it is safe to extrapolate that the Region's business travel is showing healthy growth. According to the Bank One Economic Outlook Center the overall trend for tourism in CY 2003 and into CY 2004 was positive.¹²

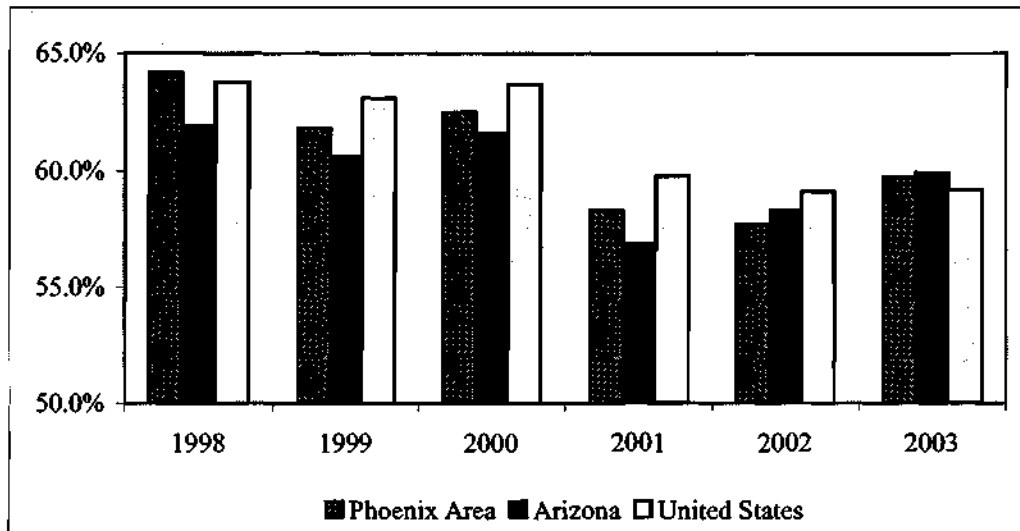
Further indicators of travel and tourism trends can be seen in the hotel and motel occupancy rates, which are illustrated in **Table III-10**. Occupancy had fallen off from the highs of the late 1990's, but is now back on an upward trend. The demand for rooms increased by 7.1 percent in CY 2003. However, the supply of hotel rooms in the Phoenix Area also continues to grow. Supply increased by 3.1 percent in CY 2003; nearly all of this growth was accounted for by three new resorts opening with a combined total of 2,200 new rooms. The occupancy rate increase of 3.5 percent for CY 2003 in the Phoenix Area is in the top five among the top 25 national markets according to the Greater Phoenix Convention and Visitors Bureau.

Hotel occupancy in the Phoenix Area is very seasonal. February and March are the busiest months, with occupancy rates peaking between the mid and upper 80th percentile. Activity declines gradually through August, which is traditionally the least active month, with occupancy rates in the mid to lower 50th percentile. Activity then steadily increases, with a slight dip during the holiday season in December, until the following spring when the cycle begins again.

¹¹ "Arizona 2002: Understanding the Travel Market," Arizona's Governor's Conference 2003, D.K. Shifflet & Associates Ltd.

¹² "Arizona Tourism Barometer" November 2003, Bank One Economic Outlook Center.

Table III-10
Hotel Occupancy Rates



	Phoenix Area (1)	Arizona	United States
CY	Hotel Occupancy Rate	Hotel Occupancy Rate	Hotel Occupancy Rate
1998	64.2%	61.9%	63.8%
1999	61.8	60.6	63.1
2000	62.5	61.6	63.7
2001	58.3	56.9	59.8
2002	57.7	58.3	59.1
2003	59.7	59.9	59.2

(1) The Phoenix Area in this table does not include Pinal County and therefore is not the same as the defined Phoenix Area.

Source: Arizona Office of Tourism; Greater Phoenix Convention and Visitors Bureau in cooperation with Smith Travel Research

G. CONCLUSION

The Region's economy will likely provide a strong and growing economic base to support increases in aviation demand, which in turn will drive growth in rental car demand. In the next chapter, the Report examines the relationships between aviation demand and rental car demand.

IV. RENTAL CAR DEMAND

The last chapter analyzed the factors leading to the conclusion that the Region's economy provides a strong base for increased Airport activity. This chapter analyzes demand given the Region's strong economic base and discusses the relationship between aviation demand and rental car demand. The chapter begins with a review of the historical passenger activity and recent air service trends at the Airport, including the methodology and assumptions used in developing the O&D enplanement forecast. It then discusses historical rental car activity at the Airport, followed by a discussion of secondary factors that could affect rental car demand, regardless of the strong enplanement activity at the Airport. Finally, the chapter sets forth the methodology and assumptions used in developing the rental car demand forecast, which is expressed in annual transaction days.

A. PASSENGER ACTIVITY AND AIR SERVICE ANALYSIS

The analysis presented in this section provides a profile of passenger activity levels and air service trends at the Airport because these factors serve as the basis for projecting future rental car demand. Deplaned passengers, or those passengers who disembark from flights arriving at the Airport are the most likely source of customers for rental cars (*See Section D - Rental Car Activity Forecast*). Typically, aviation traffic data regarding passenger activity levels are analyzed and discussed in terms of enplaned passengers, or those passengers boarding flights departing an airport. In this Report we have used enplanements as the passenger metric used to analyze passenger activity levels and air service trends. Because enplanements represent passengers on the departing segment of a flight itinerary and deplanements represent passengers on the arriving segment of a flight itinerary, the number of enplanements is typically almost identical to the number of deplanements recorded at any airport. For example, from FY 1994 to FY 2003, the average variance between the Airport's recorded enplanements and deplanements is approximately 1.3 percent. Therefore, enplanement data in this Report is applied interchangeably with deplanement data in determining future levels of passenger demand.

1. Airport Overview

The geographic location of the Airport as a strategic point along routes to and from the West Coast, the Phoenix Area's large population base and diverse economy, and the Phoenix Area's attractiveness as a tourist destination, have contributed to the Airport's historical and projected growth as a major aviation market. The Airport, which serves as the primary hub airport in the system of America West Airlines ("AWA") and as a major focus city for Southwest Airlines ("Southwest"), has demonstrated significant growth over the past 10 years.

This growth has been in large part generated by the success of AWA, which has established itself as the nation's second largest low-fare carrier in terms of total annual revenues behind Southwest, one of the world's most successful air carriers and a major competitor to AWA at the Airport and elsewhere. On a national basis, AWA was the eighth largest U.S. air carrier in terms of total annual revenues in CY 2003.

As the primary hub airport in the national system of AWA, the Airport serves as a major O&D and connecting hub airport. As detailed in Chapter III of this Report, the economic and demographic strength of the Airport's Air Trade Area provides a large base of O&D passengers or those passengers for whom the Airport is their point of original departure or final destination. Similarly, when airlines choose an airport at which to establish a connecting or "hubbing" operation one of their key criteria is the strength of the local O&D market. An airline connecting operation typically relies on a large volume of passengers drawn from the O&D market to be combined with connecting passengers on outbound flights. The Airport's strong O&D market combined with its strategic location along routes between the East Coast, the Midwest and the West Coast make the Airport a desirable location for airline connecting operations.

AWA serves the Airport in combination with its commuter affiliate Mesa Airlines ("Mesa"). Mesa, which operates a fleet of 50-seat to 80-seat regional jets and smaller turboprop aircraft feeds passengers within approximately 1,000 miles of the Airport to connecting flights on the larger AWA jets for travel to their final destinations. In FY 2003, AWA and Mesa (together "America West") recorded approximately 8.6 million enplanements at the Airport, which earned them a 47.5 percent market share at the Airport. As a result of America West's major connecting operation at the Airport, approximately 65.0 percent of their combined 8.6 million enplanements were connecting passengers.

Southwest is also a major contributor to the historical success of the Airport. Southwest is the nation's largest low-fare carrier and the fifth largest airline overall, measured in terms of total annual revenue. Southwest has served the Airport since 1982 and established the Airport as its largest market measured by total annual departures. Southwest operates a fleet of Boeing 737 aircraft and focuses on serving primarily short-haul (less than 500 miles) and medium haul (less than 1,000 miles) markets with point-to-point service. Its operation at the Airport is an exception to Southwest's typical operation, in that approximately 32.0 percent of all Southwest enplanements at the Airport are connecting passengers. In FY 2003, Southwest recorded approximately 5.0 million enplanements at the Airport, which earned it the second largest market share at 27.4 percent.

2. Passenger Growth Trends

The growth in air traffic at the Airport as measured in enplaned passengers is presented on **Table IV-1**. Enplanements at the Airport have increased from approximately 12.2 million in FY 1994 to 18.2 million in FY 2003. This growth equates to a total increase of approximately 49.2 percent at an annual compound rate of 4.5 percent. This growth compares quite favorably to the U.S. in total. Over the same period total enplanements for the U.S. increased by approximately 8.4 percent, at an annual compound growth rate of 0.9 percent.

Further, the Airport has outperformed the U.S. average enplanement growth both before and after the events of September 11th. From FY 1994 to FY 2001, which ended June 30, 2001, the Airport recorded an annual enplanement growth rate of approximately 5.8 percent, which again surpassed the U.S. growth rate of approximately 3.1 percent for the same period.



**Table IV-1
Phoenix Sky Harbor International Airport
Historical Enplanements**

<u>FY</u>	<u>Airport</u>	<u>U.S.</u>
1994	12,188,451	475,993,000
1995	13,310,796	505,168,000
1996	14,638,656	515,159,000
1997	15,417,725	541,131,000
1998	15,581,032	553,846,000
1999	16,029,484	560,882,000
2000	17,123,118	587,590,000
2001	18,075,719	591,346,000
2002	16,919,722	517,829,000
2003	18,183,374	516,114,000
2003 YTD (1)	7,267,238	221,966,000
2004 YTD (1)	7,694,024	218,453,000
Annual Compound Growth Rates		
1994-2003	4.5 %	0.9 %
1994-2001	5.8	3.1
2001-2003	0.3	-6.6
2003-2004 YTD	5.9	-1.6

(1) The year-to-date (YTD) period is July 1 through November 30 of the respective FY.

Source: City of Phoenix, Aviation Department and the Air Transport Association

a. The Effects of September 11th

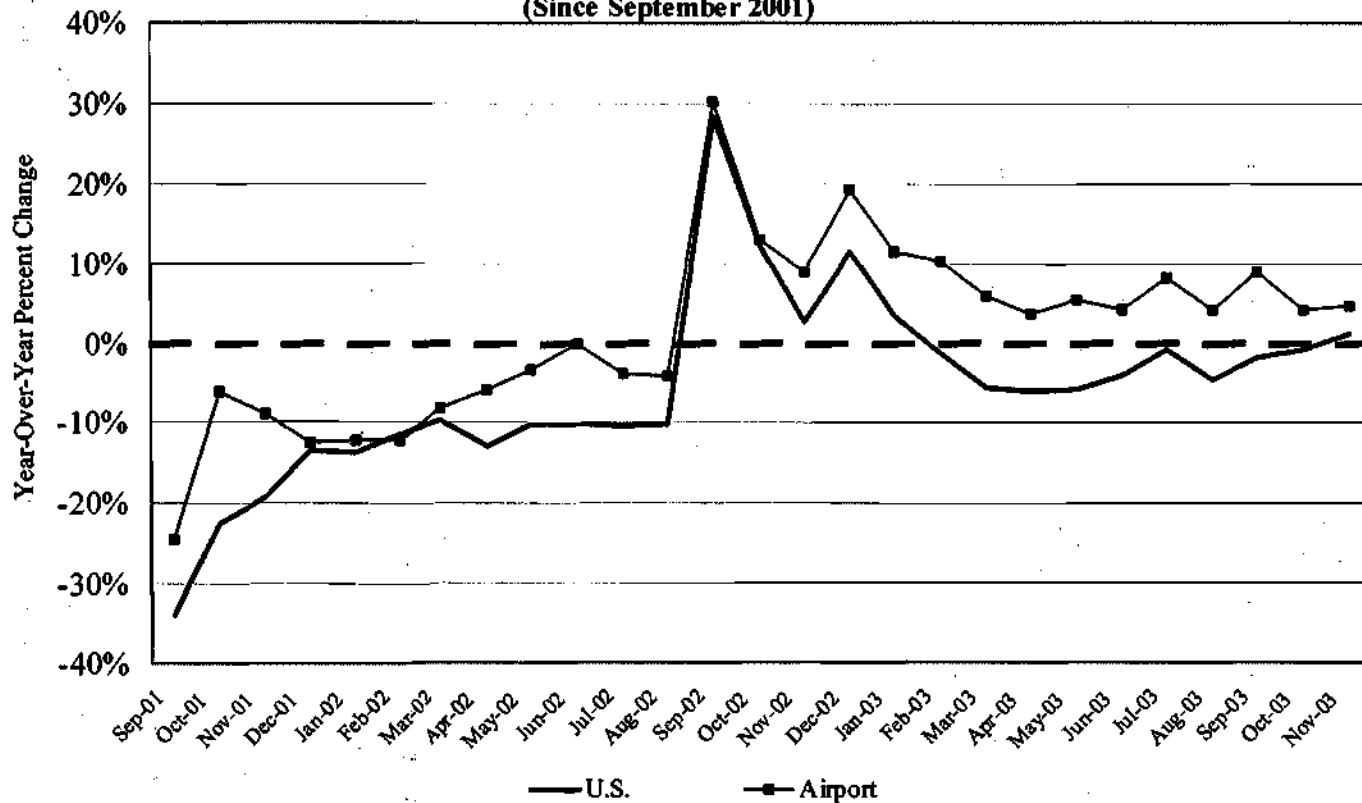
The nation's aviation system has yet to fully recover from the events of September 11th. September 11th was followed by a national ground stop order from the FAA that halted all commercial air service for three days. When the ground stop order was lifted the airlines began to slowly add back service, but demand has not yet fully recovered nationally to the pre-September 11th levels. The impact from these events was felt to varying degrees by all airports. National traffic levels fell dramatically. The Airport's traffic levels also fell significantly in the months following September 11th, but traffic recovered more quickly at the Airport than the U.S. on average.



The graph presented on Table IV-2 demonstrates the year over year percentage change in traffic on a monthly basis for the U.S. and the Airport for the period September 2001 through November 2003. It is clear from this graph that the Airport recovered more quickly and has continued to maintain a recovery trend that far exceeds that of the national average. The Airport's recovery in traffic levels had proceeded at such a pace that by the end of FY 2003 the Airport had set a new record of approximately 18.2 million enplanements, which surpassed its previous high of 18.1 million enplanements recorded in FY 2001. U.S. enplanement levels in FY 2003 were still significantly below the previous high mark reached in FY 2001. This trend has continued into the first five months of FY 2004, where the Airport has recorded enplanement growth of approximately 5.9 percent over the same period in FY 2003. Conversely, enplanement activity in the U.S. continued to decline, although at a much slower rate than during the period immediately following September 11th. The Airport's rapid recovery of passenger traffic was likely the result of several factors, as follows:

- The Airport had been growing rapidly in the months leading up to September 11th, even as the U.S. was starting to show signs of a slowdown in aviation traffic brought on by a weakening economy. The Airport was able to quickly regain its previous momentum due to the economic and demographic strength of the Air Trade Area.
- Approximately 70.0 percent of the Airport's traffic was carried by America West and Southwest. Both carriers are low-fare carriers that appeal to budget minded leisure and business travelers, especially in a weak economy.
- America West significantly improved its operations in terms of on-time performance, lost baggage claims and other customer service measurements. It also implemented a simplified fare structure resulting in increased demand for air service.
- The Airport's geographic location in the Southwest region of the U.S. provided a perceived level of insulation from the East Coast following the events of September 11th.
- The diversity of the Airport's Air Trade Area as both a leading business destination and tourist destination helped to offset the large decrease in business travel that occurred immediately following September 11th.

Table IV-2
Phoenix Sky Harbor International Airport
Year-Over-Year Percent Change in Enplaned Passengers
(Since September 2001)



Source: City of Phoenix, Aviation Department and the Air Transport Association



b. Passenger Diversification and Seasonality

As previously mentioned, the Airport serves a large segment of leisure travelers as well as a significant volume of business travelers. In recent surveys conducted for the Airport, approximately 63.0 percent of surveyed travelers used the Airport for personal travel, which includes leisure and other non-business travel. Of the remaining 37.0 percent approximately 32.0 percent used the Airport for business trips while approximately 5.0 percent were traveling for a combination of personal and business reasons.

The distribution of enplanement traffic over a 12-month period is presented on **Table IV-3**. An even distribution of traffic over all 12 months would result in approximately 8.3 percent of total enplanement traffic to occur in any one month. The Airport experiences a relatively even distribution of traffic over the course of the year with the exception of a significant increase in traffic in March and a decrease in September. The spike in March traffic to 9.5 percent of total annual enplanements can be attributed in large part to the popularity of Major League Baseball's spring training events and college spring break traffic. The Air Trade Area is the home to the spring training site for nine Major League Baseball clubs and this springtime event has become an increasingly popular tourist attraction. The decrease in September's average traffic volume is in large part a result of the end of summer vacation travel that is generally completed by August. By October, business related travel begins to increase again after a typical moderate decrease during the summer season.

c. National and World Rankings

The significant growth experienced at the Airport has placed it among the largest airports in the U.S. and worldwide (see **Table IV-4**). In CY 2002, the Airport was ranked sixth in the nation with approximately 35.5 million total passengers (enplanements plus deplanements)¹. The Airport recorded more passengers than such notable airports as Las Vegas, Detroit, San Francisco and New York's JFK. On a worldwide basis, the Airport was ranked 11th in terms of total passengers, surpassing such international airports as Madrid and Hong Kong.

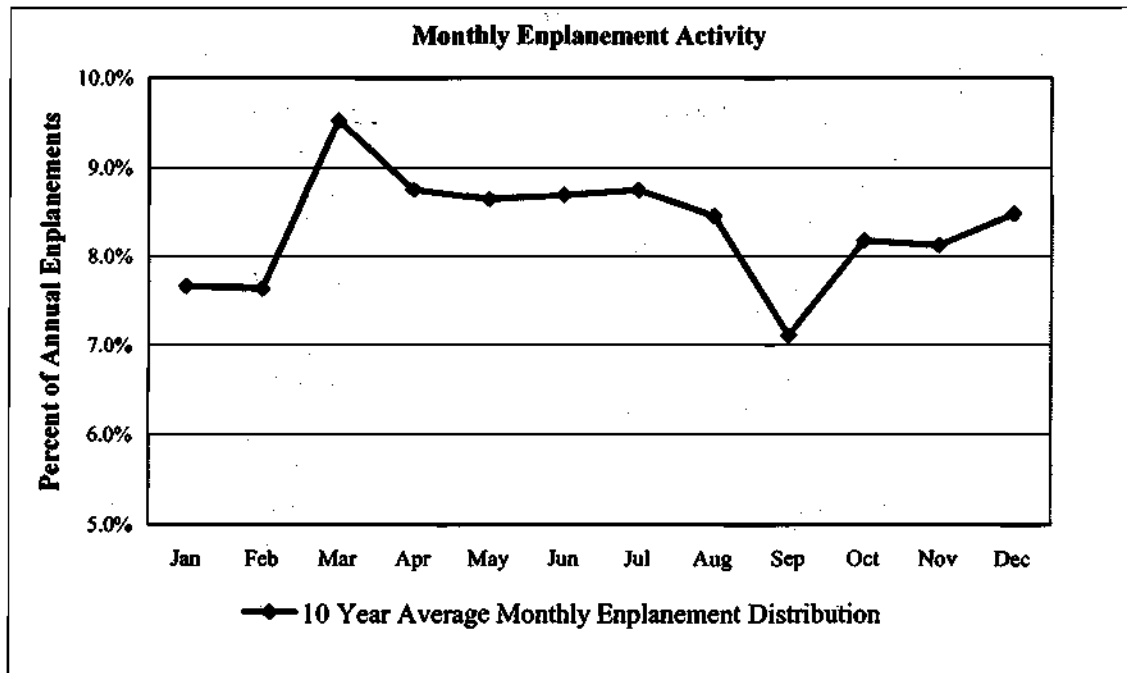
3. Historical Passenger Activity

a. Domestic Enplanements

The domestic and international enplanement sectors, which together equal total enplanements, have both demonstrated significant growth over the past ten years. Domestic enplanements have historically represented the vast majority of total enplanements and in FY 2003 accounted for approximately 96.4 percent of total enplanement activity, but this share of enplanements has been slowly decreasing from a high of approximately 99.4 percent in FY 1994 (see **Table IV-5**).

¹ According to Airports Council International-North America CY 2002 statistics

Table IV-3
Phoenix Sky Harbor International Airport
Seasonality Trends



Month	Average Monthly Enplanement Distribution (FY 1994-FY 2003)
Jan	7.7 %
Feb	7.6
Mar	9.5
Apr	8.8
May	8.6
Jun	8.7
Jul	8.7
Aug	8.5
Sep	7.1
Oct	8.2
Nov	8.1
Dec	8.5
Total	100.0 %

Source: City of Phoenix, Aviation Department and Landrum & Brown, Inc.

Table IV-4
ACI National and Worldwide Passenger Rankings
CY 2002

<u>Top 15 U.S. Airports</u>	<u>Total Passengers</u>
1 Atlanta (ATL)	76,876,128
2 Chicago (ORD)	66,501,496
3 Los Angeles (LAX)	56,198,447
4 Dallas/ Ft. Worth (DFW)	52,826,304
5 Denver (DEN)	35,651,098
6 Phoenix (PHX)	35,534,463
7 Las Vegas (LAS)	35,009,011
8 Houston (IAH)	33,946,484
9 Minneapolis/St. Paul (MSP)	32,630,177
10 Detroit (DTW)	32,436,999
11 San Francisco (SFO)	31,447,750
12 Miami (MIA)	30,060,241
13 Newark (EWR)	28,972,253
14 New York (JFK)	28,888,686
15 Seattle/Tacoma (SEA)	26,688,127

<u>Top 15 Worldwide Airports</u>	<u>Total Passengers</u>
1 Atlanta (ATL)	76,876,128
2 Chicago (ORD)	66,501,496
3 London (LHR)	63,338,649
4 Tokyo (HND)	61,079,478
5 Los Angeles (LAX)	56,198,447
6 Dallas/ Ft. Worth (DFW)	52,826,304
7 Frankfurt (FRA)	48,450,357
8 Paris (CDG)	48,303,439
9 Amsterdam (AMS)	40,736,009
10 Denver (DEN)	35,651,098
11 Phoenix (PHX)	35,534,463
12 Las Vegas (LAS)	35,009,011
13 Houston (IAH)	33,946,484
14 Madrid (MAD)	33,903,553
15 Hong Kong (HKG)	33,876,000

Source: Airports Council International - North America

Table IV-5
Phoenix Sky Harbor International Airport
Domestic and International Enplanements

FY	Domestic	% of Total	International	% of Total	Total
1994	12,119,279	99.4 %	69,172	0.6 %	12,188,451
1995	13,191,150	99.1	119,646	0.9	13,310,796
1996	14,469,747	98.8	168,909	1.2	14,638,656
1997	15,237,376	98.8	180,349	1.2	15,417,725
1998	15,262,309	98.0	318,723	2.0	15,581,032
1999	15,691,517	97.9	337,967	2.1	16,029,484
2000	16,688,056	97.5	435,062	2.5	17,123,118
2001	17,520,800	96.9	554,919	3.1	18,075,719
2002	16,374,689	96.8	545,033	3.2	16,919,722
2003	17,531,391	96.4	651,983	3.6	18,183,374
2003 YTD (1)	7,029,791	96.7 %	237,447	3.3 %	7,267,238
2004 YTD (1)	7,410,422	96.3	283,602	3.7	7,694,024
Annual Compound Growth Rate					
1994-2003	4.2%		28.3%		4.5%

(1) The year-to-date (YTD) period is July 1 through November 30 of the respective FY.

Source: City of Phoenix, Aviation Department

In total, the domestic sector has increased from approximately 12.1 million enplanements in FY 1994 to 17.5 million in FY 2003. This total increase of approximately 5.4 million occurred at an annual compound growth rate of 4.2 percent. The majority of this increase in domestic enplanements was driven by America West and Southwest (see Table IV-6). America West (which includes AWA and Mesa) increased its total enplanements from approximately 4.8 million in FY 1994 to approximately 8.2 million in FY 2003. During this period, Mesa played an increasingly important role in the America West system and increased its domestic enplanement activity from approximately 0.2 million enplanements in FY 1994 to 1.2 million by FY 2003. Southwest increased its total domestic enplanements from approximately 3.6 million in FY 1994 to 5.0 million in FY 2003. Together, America West and Southwest accounted for approximately 4.8 million or 87.8 percent of the 5.4 million increase in domestic enplanements from FY 1994 to FY 2003.

Table IV-6
Phoenix Sky Harbor International Airport
Domestic Enplanements by Airline

FY	America West Airlines	Mesa	Total America West	Southwest	All Other	Total
1994	4,666,250	181,511	4,847,761	3,628,405	3,643,113	12,119,279
1995	4,938,279	201,575	5,139,854	3,998,471	4,052,825	13,191,150
1996	5,692,700	328,013	6,020,713	4,060,854	4,388,180	14,469,747
1997	6,223,105	360,468	6,583,573	3,992,666	4,661,137	15,237,376
1998	6,278,087	311,264	6,589,351	3,986,275	4,686,683	15,262,309
1999	6,236,023	430,713	6,666,736	4,338,740	4,686,041	15,691,517
2000	6,409,163	627,124	7,036,287	4,671,818	4,979,951	16,688,056
2001	7,075,971	669,467	7,745,438	4,797,159	4,978,203	17,520,800
2002	6,667,403	762,832	7,430,235	4,729,726	4,214,728	16,374,689
2003	7,065,718	1,176,835	8,242,553	4,985,745	4,303,093	17,531,391
Annual Compound Growth Rates						
1994-2003	4.7%	23.1%	6.1%	3.6%	1.9%	4.2%

Source: City of Phoenix Aviation Department

(1) Domestic Air Service

Over the period FY 1994 to FY 2004 the quality of domestic air service from the Airport measured in terms of scheduled nonstop destinations, departures and seats and the ratio of jet versus turboprop service has increased significantly. As presented on Table IV-7 total jet nonstop destinations served from the Airport increased from 50 in March 1994 to 80 in March 2004, which equates to a net increase of 60.0 percent.

The increase in destinations served by jets was accounted for by a significant increase in regional jet service. Destinations served by regional jets at the Airport increased from 0 in March 1994 to 31 in March 2004. This significant increase in regional jet activity was provided largely by Mesa in its role as the commuter carrier partner to AWA. This growth in regional jet activity is similar to what has occurred on a national basis, especially at major connecting hub airports like the Airport. Regional jets were first introduced in the early 1990s and, according to FAA statistics, annual departures have increased from 9,100 in federal fiscal year ("FFY") FFY 1991 to 2.4 million in FFY 2003 with the number of destinations served by regional jets increasing from 6 to 231 over the same period.

Total scheduled domestic departures increased by 20.5 percent from March 1994 to March 2004 and scheduled domestic seats increased by 23.4 percent over the same period.

Table IV-7
Phoenix Sky Harbor International Airport
Changes in Domestic Nonstop Scheduled Service
 (For the Month of March)

	1994	1999	2004
Destinations			
Mainline Jet (1)	50	57	49
Regional Jet (2)	0	7	31
Turboprop	15	21	13
Total (3)	65	85	93
Departures			
Mainline Jet (1)	12,880	15,645	14,447
Regional Jet (2)	0	535	3,003
Turboprop	2,379	1,966	932
Total (3)	15,259	18,146	18,382
Seats			
Mainline Jet (1)	1,793,126	2,197,470	2,069,427
Regional Jet (2)	0	26,750	181,330
Turboprop	46,724	56,155	27,392
Total (3)	1,839,850	2,280,375	2,278,149

(1) In this Report Mainline Jets are defined as jet aircraft with greater than 80 seats.

(2) In this Report Regional Jets are defined as jet aircraft with 44 to 80 seats.

(3) There was one domestic market in March 1994, two in March 1999 and three in March 2004 that were served by both turboprop and jet aircraft.

Source: Official Airline Guide

(2) Average Trip Length

As additional destinations were served from the Airport over the historical period and the number of destinations served by jet aircraft increased, the average trip length also has increased (see Table IV-8). In FY 1994 the average trip length from the Airport was 963 miles and 43.7 percent of all domestic O&D enplanements had trip lengths of over 1,000 miles. By FY 2003 these averages increased significantly to an average trip length of 1,120 miles with 55.3 percent of total domestic O&D enplanements traveling on trips over 1,000 miles. As presented on Table IV-9 many of the new destinations added during this period and scheduled in CY 2004 were to the Midwest and East Coast. Average trip lengths increased as additional medium-haul and long-haul service from the Airport was added. All of the new nonstop markets served were previously from the Airport but they required a connecting flight at another intermediary airport to reach the final destination. The addition of new nonstop medium and long-haul service is a very positive indicator of the quality of service available from the Airport.

Table IV-8
Phoenix Sky Harbor International Airport
Average Trip Distance
(Based on Domestic O&D Enplanements)

Trip Distance	FY 1994		FY 1998		FY 2003	
	Domestic O&D Enplanements	% of Total	Domestic O&D Enplanements	% of Total	Domestic O&D Enplanements	% of Total
Up to 500 miles	2,739,480	34.1 %	2,706,780	27.5 %	2,300,210	22.9 %
From 500 to 1,000 miles	1,777,960	22.2	2,247,480	22.9	2,183,880	21.8
From 1,000 to 1,500 miles	1,736,890	21.6	2,431,300	24.7	2,710,690	27.0
Over 1,500 miles	1,771,840	22.1	2,445,230	24.9	2,842,540	28.3
Total	8,026,170	100.0 %	9,830,790	100.0 %	10,037,320	100.0 %
Total over 1,000 miles	3,508,730	43.7 %	4,876,530	49.6 %	5,553,230	55.3 %
Average Trip Length (miles)	963		1,039		1,120	

Note: The above figures may differ from the passenger statistics reported by the airlines to the Airport.

Source: US DOT data provided by Data Base Products, Inc.

Table IV-9
Phoenix Sky Harbor International Airport
New Domestic Nonstop Destinations
(Over 1,000 Miles from the Airport)

Destinations Added From 1994 to 1998	Trip Length (miles)	Destinations Added From 1999 to 2004	Trip Length (miles)
Baltimore	1,994	Anchorage	2,545
Boston	2,295	Birmingham	1,452
Cleveland	1,734	Buffalo	1,908
Des Moines	1,149	Ft. Lauderdale	1,968
Honolulu	2,910	Hartford	2,208
Louisville	1,503	Memphis	1,262
Miami	1,969	Providence	2,272
New Orleans	1,310	Raleigh/Durham	1,896
Kahului	2,838	Spokane	1,021
		Tampa	1,785
		Washington, D.C. (DCA)	1,974

Source: Official Airline Guide

b. International Enplanements

International enplanements have increased from 0.6 percent of total enplanements in FY 1994 to 3.6 percent of total enplanements in FY 2003. This equates to an increase in international enplanements from 69,172 in FY 1994 to 651,983 in FY 2003, an annual compound growth rate of 28.3 percent. Although relatively small in absolute terms, the international sector has provided some significant growth over this historical period. A number of noteworthy events have occurred over the forecast period that has served to increase international traffic. For example, in CY 1995 the U.S. and Canada signed a new air service bilateral agreement, which liberalized air service between the two countries. This agreement granted immediate authority to Canadian air carriers to serve any point in the U.S. from Canada and immediate access to U.S. carriers to serve any airport in Canada from the U.S. with the exception that U.S. carriers were granted phased access to Toronto, Vancouver and Montreal through CY 1998. In FY 1998, the Airport experienced a large increase in U.S. - Canada traffic. Also of note, in FY 1997, British Airways commenced daily nonstop service to London, England (Heathrow) providing the Airport's first nonstop transatlantic service. In addition, throughout this period there has been a significant increase in air traffic to many cities in Mexico. Scheduled international destinations as of March 2004 are presented on **Table IV-10**.

The quantity and quality of international air service has also increased at the Airport over the historical period (see **Table IV-11**). Nonstop international destinations have increased from two in March 1994 to 19 in March 2004. Airline service to these 17 new international destinations was provided on mainline jets to ten markets, on regional jets to five markets and on turboprop aircraft to two markets. Scheduled departures have increased from 62 in March 1994 to 740 in March 2004 and scheduled seats increased from 7,440 to 88,857 over the same period.

c. Air Carriers Serving the Airport

The Airport is served by a diverse group of air carriers providing scheduled passenger service, including 11 of the 12 passenger airlines (excluding American Eagle) included in the U.S. Department of Transportation's list of Major Air Carriers, which includes airlines with over \$1.0 billion in annual revenues.² As presented on **Table IV-12**, the Airport has scheduled passenger service by 16 domestic air carriers, eight domestic commuter carriers and three foreign flag carriers. The foreign flag carriers include Aeromexico, Air Canada and British Airways.

² Major Air Carriers include Alaska Airlines, American Airlines, American Eagle Airlines, American Trans Air, America West Airlines, Continental Airlines, ExpressJet Airlines, Delta Air Lines, Northwest Airlines, Southwest Airlines, United Airlines and US Airways.

Table IV-10
Phoenix Sky Harbor International Airport
International Scheduled Service
 (For the Month of March 2004)

<u>International Market</u>	<u>Average Weekly Departures</u>	<u>Average Weekly Departing Seats</u>
Los Cabos, Mexico	22	3,453
Puerto Vallarta, Mexico	15	2,389
Hermosillo, Mexico	14	1,186
Guadalajara, Mexico	8	471
Mazatlan, Mexico	8	1,059
Cancun, Mexico	7	868
Monterrey, Mexico	7	350
Mexico City, Mexico	7	938
Guaymas, Mexico	7	259
Other Mexican Markets	3	363
Calgary, Canada	21	2,282
Vancouver, Canada	14	1,510
Toronto, Canada	14	2,289
Edmonton, Canada	7	560
San Jose, Costa Rica	7	868
London, England	7	1,912

Source: Official Airline Guide



Table IV-11
Phoenix Sky Harbor International Airport
Changes in International Nonstop Scheduled Service
(For the Month of March)

	<u>1994</u>	<u>1999</u>	<u>2004</u>
Destinations:			
Mainline Jet (1)	2	15	12
Regional Jet (2)	0	0	5
Turboprop	0	2	2
Total (3)	<u>2</u>	<u>17</u>	<u>19</u>
 Departures:			
Mainline Jet (1)	62	426	524
Regional Jet (2)	0	0	154
Turboprop	0	120	62
Total (3)	<u>62</u>	<u>546</u>	<u>740</u>
 Seats:			
Mainline Jet (1)	7,440	63,952	76,103
Regional Jet (2)	0	0	10,460
Turboprop	0	2,280	2,294
Total (3)	<u>7,440</u>	<u>66,232</u>	<u>88,857</u>

(1) In this Report Mainline Jets are defined as jet aircraft with greater than 80 seats.

(2) In this Report Regional Jets are defined as jet aircraft with 44 to 80 seats.

(3) There were two international destination markets in March 1999 and one in March 2004 that was served by both turboprop and jet aircraft.

Source: Official Airline Guide



Table IV-12
Phoenix Sky Harbor International Airport
Air Carriers Providing Scheduled Passenger Service
As of March 2004

Domestic Air Carriers	
Air Midwest	Frontier Airlines
Alaska Airlines	Hawaiian Airlines
Aloha Airlines	Midwest Airlines
America West Airlines	Northwest Airlines
American Airlines	Southwest Airlines
ATA Airlines	Sun Country
Continental Airlines	United Airlines
Delta Air Lines	US Airways
Domestic Commuter Carriers	
Arizona Express Airlines	Freedom Airlines (3)
Atlantic Southeast Airlines	Great Lakes Aviation
Comair (1)	Mesa Airlines (4)
ExpressJet Airlines (2)	Skywest Airlines (5)
Foreign Flag Carriers	
Air Canada	British Airways
Aeromexico	

- (1) Operates as a Delta Air Lines commuter code share partner.
(2) Operates as a Continental Airlines commuter code share partner.
(3) Operates as an America West Airlines commuter code share partner.
(4) Operates as an America West Airlines commuter code share partner.
(5) Operates as both a Delta Air Lines and a United Airlines commuter code share partner.

Source: Official Airline Guide

d. Air Carrier Market Share

The Airport serves as the primary hub airport in the AWA route system and consequently AWA had a 40.8 percent enplanement market share at the Airport in FY 2003 (see Table IV-13).

AWA, together with its commuter code share partner Mesa, accounted for 47.5 percent of total enplanements at the Airport in FY 2003, gradually increasing from 43.4 percent in FY 1999. The growth in market share has been achieved by Mesa, which increased its market share from 3.2 percent in FY 1999 to 6.7 percent in FY 2003. AWA's market share has remained near 41.0 percent over this five-year period. Through the first five months of FY 2004, AWA and Mesa have recorded market shares of 40.5 percent and 8.3 percent, respectively, for a combined market share of 48.8 percent.

The second largest market share at the Airport belongs to Southwest, which accounted for 27.4 percent of all enplanements in FY 2003. Over the past five years Southwest has also gradually increased its market share from 27.1 percent in FY 1999. Southwest's market share through the first five months of FY 2004 was 29.1 percent. The next largest market shares belong to American Airlines, United Airlines, Northwest Airlines and Delta Air Lines, with each accounting for approximately 2.5 to 4.0 percent of Airport enplanements in FY 2003.

e. O&D and Connecting Enplanements

(1) O&D Enplanements

O&D enplanements are those passengers for which the Airport serves as the original point of departure on a passenger's flight itinerary. O&D enplanements represent the true level of air service demand for a particular airport because they exclude connecting passengers or those passengers that use the airport solely as a facility at which they transfer or connect to another aircraft en route to their final destination. The Airport recorded approximately 10.9 million total O&D enplanements in FY 2003, increasing from approximately 8.3 million total O&D enplanements in FY 1994 (see Table IV-14). This growth equates to a total increase of 31.1 percent at an annual compound growth rate of 3.1 percent. Total O&D enplanements reached a historical high of approximately 11.3 million in FY 2000. In FY 2001, total O&D enplanements leveled off at approximately 11.2 million before falling to approximately 10.1 million in FY 2002 primarily as a result of the effects of September 11th and the weak economy. In FY 2003, total O&D enplanements at the Airport rebounded by 8.3 percent to approximately 10.9 million, as passenger traffic at the Airport and nationally began to recover from the decline in FY 2002.

Table IV-13
Phoenix Sky Harbor International Airport
Airline Total Enplanement Market Share

Airline	FY 1999		FY 2000		FY 2001		FY 2002		FY 2003		FY 2004 YTD (2)	
	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total	Enplanements	% of Total
America West Airlines	6,437,523	40.2 %	6,609,541	38.6 %	7,357,948	40.7 %	6,936,792	41.0 %	7,427,345	40.8 %	3,119,750	40.5 %
Southwest Airlines	4,338,740	27.1	4,671,818	27.3	4,797,159	26.5	4,729,726	28.0	4,985,745	27.4	2,235,849	29.1
Mesa Airlines	518,294	3.2	602,809	3.5	597,688	3.3	795,534	4.7	1,218,541	6.7	634,872	8.3
American Airlines	642,867	4.0	658,205	3.8	740,909	4.1	687,256	4.1	727,833	4.0	252,007	3.3
United Airlines	1,138,420	7.1	1,122,073	6.6	1,017,128	5.6	711,421	4.2	682,858	3.8	236,103	3.1
Northwest Airlines	442,478	2.8	638,833	3.7	695,958	3.9	560,562	3.3	550,396	3.0	202,617	2.6
Delta Air Lines	843,219	5.3	867,380	5.1	781,073	4.3	598,878	3.5	529,697	2.9	145,652	1.9
Continental Airlines	370,696	2.3	426,481	2.5	452,740	2.5	404,947	2.4	418,169	2.3	187,663	2.4
Alaska Airlines	372,619	2.3	406,092	2.4	385,733	2.1	378,919	2.2	386,408	2.1	140,343	1.8
US Airways	287,902	1.8	294,320	1.7	372,576	2.1	288,800	1.7	295,851	1.6	126,133	1.6
Trans World Airlines (1)	234,630	1.5	241,955	1.4	246,428	1.4	-	0.0	-	0.0	-	0.0
Other Airlines	402,096	2.5	583,611	3.4	630,379	3.5	826,887	4.9	960,531	5.3	413,035	5.4
Total	16,029,484	100.0 %	17,123,118	100.0 %	18,075,719	100.0 %	16,919,722	100.0 %	18,183,374	100.0 %	7,694,024	100.0 %
America West Airlines	6,437,523	40.2 %	6,609,541	38.6 %	7,357,948	40.7 %	6,936,792	41.0 %	7,427,345	40.8 %	3,119,750	40.5 %
Mesa Airlines	518,294	3.2	602,809	3.5	597,688	3.3	795,534	4.7	1,218,541	6.7	634,872	8.3
Subtotal	6,955,817	43.4 %	7,212,350	42.1 %	7,955,636	44.0 %	7,732,326	45.7 %	8,645,886	47.5 %	3,754,622	48.8 %

(1) Trans World Airways (TWA) was purchased by AMR Corporation, the parent corporation of American Airlines, in April 2001. By FY 2002, any remaining TWA activity was integrated into and recorded under American Airlines.

(2) The year-to-date (YTD) period is July 1, 2003 through November 30, 2003

Source: City of Phoenix, Aviation Department

Table IV-14
Phoenix Sky Harbor International Airport
Total O&D and Connecting Enplanements

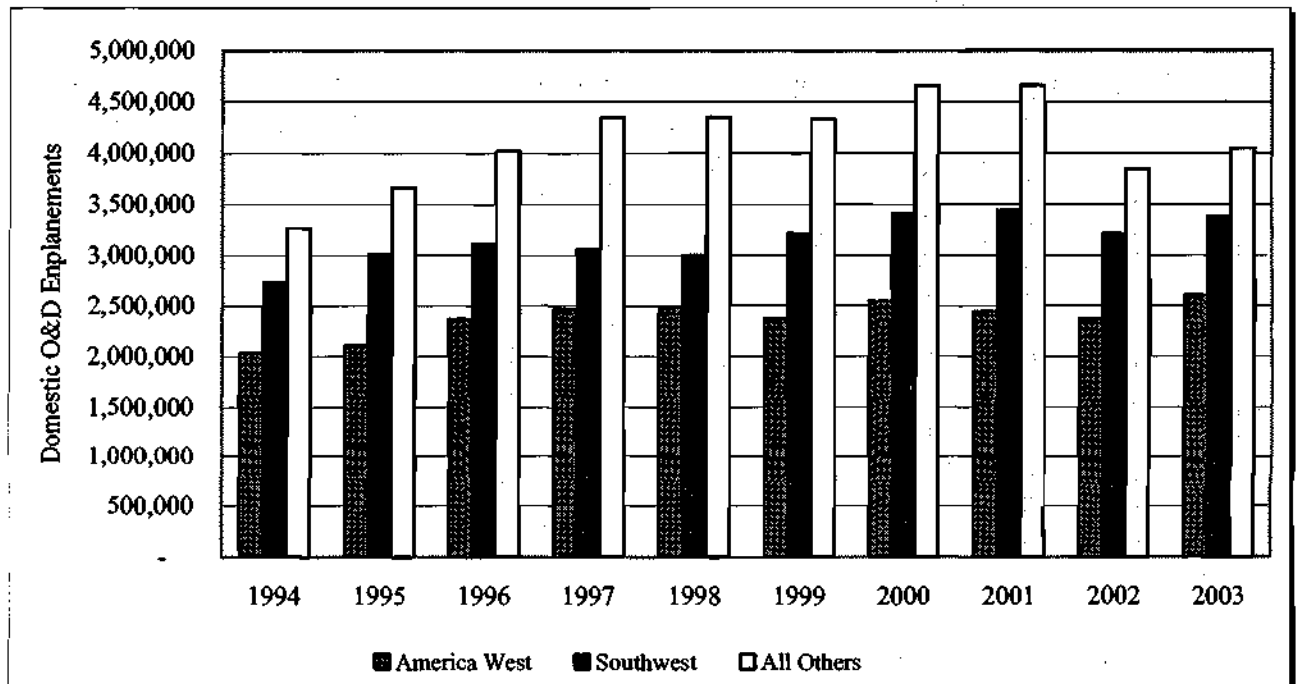
FY	Total O&D Enplanements	Percent of Total	Total Connecting Enplanements	Percent of Total	Total Enplanements
1994	8,323,232	68.8 %	3,766,310	31.2 %	12,089,542
1995	9,116,046	68.9	4,118,604	31.1	13,234,650
1996	9,952,551	69.1	4,443,175	30.9	14,395,726
1997	10,411,246	69.1	4,663,402	30.9	15,074,648
1998	10,435,702	68.7	4,758,337	31.3	15,194,039
1999	10,553,182	65.8	5,482,110	34.2	16,035,292
2000	11,259,784	63.8	6,386,223	36.2	17,646,007
2001	11,223,914	61.2	7,108,284	38.8	18,332,198
2002	10,068,810	59.7	6,802,597	40.3	16,871,407
2003	10,928,591	60.2	7,232,667	39.8	18,161,258
Annual Compound Growth Rate					
1994-2003	3.1%		7.5%		4.6%

Note: The above figures may differ from the passenger statistics reported by the airlines to the Airport.

Source: US DOT data provided by Data Base Products, Inc.

Table IV-15 shows the distribution of O&D enplanements between the Airport's two largest carriers, America West and Southwest, and the All Others category, which includes all other domestic carriers. Southwest has historically accounted for the largest share of domestic O&D enplanements and in FY 2003 recorded approximately 3.4 million or 33.7 percent of the Airport's total domestic O&D enplanements. America West accounted for the second largest share with approximately 2.6 million O&D enplanements or 25.9 percent of the total. The All Others category recorded approximately 4.0 million domestic O&D enplanements in FY 2003 or 40.3 percent of the total. Although total domestic O&D enplanements have increased steadily for each of these three categories over the historical period the distribution or market share for each has remained relatively unchanged.

Table IV-15
Phoenix Sky Harbor International Airport
Domestic O&D Enplanements Market Share



Domestic O&D Enplanements

FY	America West	Percent of Total	Southwest	Percent of Total	All Others	Percent of Total	Total
1994	2,032,410	25.3 %	2,727,880	34.0 %	3,265,855	40.7 %	8,026,170
1995	2,106,080	24.0	3,007,390	34.3	3,660,856	41.7	8,774,350
1996	2,365,960	24.9	3,113,060	32.8	4,023,235	42.3	9,502,280
1997	2,466,890	25.0	3,057,050	31.0	4,347,045	44.0	9,871,010
1998	2,481,200	25.2	3,001,300	30.5	4,348,265	44.2	9,830,790
1999	2,371,350	23.9	3,214,350	32.4	4,331,276	43.7	9,917,000
2000	2,548,770	24.0	3,406,380	32.1	4,657,796	43.9	10,612,970
2001	2,444,490	23.2	3,437,970	32.6	4,659,587	44.2	10,542,070
2002	2,366,790	25.1	3,210,810	34.1	3,847,205	40.8	9,424,830
2003	2,602,290	25.9	3,385,500	33.7	4,049,504	40.3	10,037,320

Annual Compound Growth Rates

1994-2003	2.8%	2.4%	2.4%	2.5%

Note: The above figures may differ from the passenger statistics reported by the airlines to the Airport.

Source: US DOT data provided by Data Base Products, Inc.

(2) Connecting Enplanements

Connecting enplanements are those passengers that use the Airport solely as a transfer point between flights while en route to their final destination. The volume of connecting enplanements at any airport is largely based on the operational and scheduling decisions of the individual carriers running a connecting operation at that airport. In theory, connecting activity can take place at any airport because the connecting passenger uses the airport only as a hub or transfer point and places no significant value on where that connecting activity takes place. In practice though, airlines that run connecting operations very carefully select the location of their hub airports based on a set of criteria that includes, but is not limited to, the geographic location of the airport, the size of the O&D market, existing airline competition at the airport, local air space congestion and the passenger processing capacity of the airport facilities.

The approach used to calculate the Airport's historical connecting rates, or the percentage of total enplanements that use the Airport to connect to another flight, is presented on **Table IV-16** for the period FY 1994 through FY 2003. Because the calculation of this ratio is a complex process requiring the use of specific passenger statistics that are often not recorded by an airport, this Report uses data reported by the airlines operating at the Airport to the U.S. Department of Transportation ("US DOT"). This is an accepted industry procedure that yields the most accurate connecting rate.

The Airport serves as the primary connecting hub in the route system of America West and also as a major connecting point for Southwest and, therefore, the Airport experiences a significant amount of connecting activity. Connecting activity at the Airport has increased from approximately 3.8 million enplanements in FY 1994 to approximately 7.2 million in FY 2003. Similarly, the percentage of the Airport's total enplanements that represent connecting passengers also has steadily increased from 31.2 percent in FY 1994 to 39.8 percent in FY 2003. This growth in connecting activity corresponds with the development and expansion of service provided at the Airport by America West and Southwest. Total connecting activity, in percentage terms, peaked in FY 2002 at 40.3 percent. Connecting activity often increases moderately during periods of slowing or declining air traffic (as occurred in FY 2002) when the carriers that conduct connecting operations often cancel underperforming point-to-point flights and re-route passengers onto connecting flights to improve airline scheduling efficiency and profitability.

Table IV-16
Phoenix Sky Harbor International Airport
Passenger Connecting Rate Analysis

Column:	A	B	C	D	E	F	G	H	I	J	K	L	M	N
	Domestic	Domestic Connections			Total Domestic	Total Domestic	Int'l	Int'l	Total	Domestic &	Total	Total	Airport	Total
FY	O&D	DPIJ (1)	Dom to Dom (2)	Dom to Int'l (3)	Total	Enps. (4)	O&D (5)	Int'l to Dom (6)	Enps. (7)	Int'l Charter	O&D (8)	Connect. (9)	Rate (10)	Enps. (11)
1994	8,026,170	226,450	3,729,460	21,770	3,751,230	12,003,850	29,685	15,080	44,765	40,927	8,323,232	3,766,310	31.2 %	12,089,542
1995	8,774,350	224,660	4,048,260	37,334	4,085,594	13,084,604	50,674	33,010	83,684	66,362	9,116,046	4,118,604	31.1	13,234,650
1996	9,502,280	255,390	4,195,410	126,695	4,322,105	14,079,775	137,302	121,070	258,372	57,579	9,952,551	4,443,175	30.9	14,395,726
1997	9,871,010	279,630	4,379,870	149,742	4,529,612	14,680,252	220,985	133,790	354,775	39,621	10,411,246	4,663,402	30.9	15,074,648
1998	9,830,790	297,830	4,437,830	169,777	4,607,607	14,736,227	260,012	150,730	410,742	47,070	10,435,702	4,758,337	31.3	15,194,039
1999	9,917,000	295,620	5,190,860	153,570	5,344,430	15,557,050	273,409	137,680	411,089	67,153	10,553,182	5,482,110	34.2	16,035,292
2000	10,612,970	344,040	6,051,560	175,753	6,227,313	17,184,323	283,089	158,910	441,999	19,685	11,259,784	6,386,223	36.2	17,646,007
2001	10,542,070	350,850	6,660,630	231,864	6,892,494	17,785,414	310,254	215,790	526,044	20,740	11,223,914	7,108,284	38.8	18,332,198
2002	9,424,830	306,962	6,336,790	237,017	6,573,807	16,305,599	318,697	228,790	547,487	18,321	10,068,810	6,802,597	40.3	16,871,407
2003	10,037,320	260,850	6,655,250	294,957	6,950,207	17,248,377	606,247	282,460	888,707	24,174	10,928,591	7,232,667	39.8	18,161,258

Note: The above figures may differ from the passenger statistics reported by the airlines to the Airport.

- (1) DPIJ is a domestic portion of an international journey, for example, a passenger traveling from the Airport to Los Angeles International Airport ("LAX") and connecting at LAX for an international flight to Tokyo, Japan is recorded as a DPIJ.
- (2) Domestic to domestic connections are passengers arriving at the Airport on a flight that originated from a domestic airport and then connecting at the Airport to a flight destined for another domestic airport.
- (3) Domestic to international connections are passengers arriving at the Airport on a flight that originated from a domestic airport and then connecting at the Airport to a flight destined for an international airport.
- (4) Total Domestic Enplanements (Column F) are equal to the sum of columns A, B and E.
- (5) International O&D enplanements are passengers whose original point of departure is the Airport and whose final destination is an international airport.
- (6) International to domestic connections are passengers arriving at the Airport on a flight that originated from an international airport and then connecting at the Airport to a flight destined for another domestic airport.
- (7) Total International Enplanements (Column I) is equal to the sum of columns G and H.
- (8) Total O&D (Column K) is equal to the sum of columns A, B and G.
- (9) Total connections (Column L) are equal to the sum of columns E and H.
- (10) The Airport's connecting rate (Column M) is calculated by dividing total connections column L by total enplanements column N.
- (11) Total enplanements (Column N) is the sum of columns F, I and J.

Source: US DOT data provided by Data Base Products, Inc.



The vast majority of connecting enplanements at the Airport are passengers on America West or Southwest. As mentioned previously, the Airport serves as the largest and primary connecting hub in America West's route system and, therefore, contributes the largest share of connecting enplanements at the Airport. Corresponding with the volume of total connecting enplanements and the Airport's overall connecting rate is the connecting activity of America West. Presented on Table IV-17 are the estimated connecting statistics for America West and Southwest. It is estimated that in FY 2003 America West recorded 5.6 million connecting passengers or 64.9 percent of its total enplanements. Over the last five years America West's connecting rate at the Airport has ranged between 63.1 percent and 67.9 percent. After reaching a peak of 67.9 percent in FY 2001 it has decreased in each of the last two years to 64.9 percent in FY 2003. Given America West's intentions to focus on increasing their nonstop point-to-point service, it is unlikely that its future connecting rates will much exceed the high range of its historical connecting rates, which are currently approximately 68.0 percent. This connecting rate is actually in a range that is quite common for the primary hub airport of airlines that conduct major connecting operations (see Table IV-18)

Southwest also connects a significant amount and percentage of passengers at the Airport as presented on Table IV-17. It is estimated that in FY 2003 Southwest recorded 1.6 million connecting enplanements at a 32.1 percent connecting rate. Southwest's connecting activity has increased from 25.1 percent in FY 1994 to 32.1 percent in FY 2003. This level of connecting activity is somewhat unusual, although becoming more common, for Southwest (see Table IV-19) which runs a national operation based on point-to-point service and not a true hub and spoke connecting operation used by other major airlines such as America West, United Airlines or American Airlines. Southwest has chosen to conduct a connecting operation at the Airport because of the Airport's strengths in regard to the size and character of the O&D market, geographic location and available facilities, among other criteria.

f. Top O&D Markets

As a major business and tourism destination and one of the largest population centers in the nation, the Air Trade Area generates the demand for air service provided by the carriers serving the Airport. An analysis of the top O&D markets provides an indication of the strength and diversity of demand for air service to and from the Airport. An analysis of an airport's top O&D markets identifies the markets where travelers want to go to and where they originate. An O&D market is defined as the initial or "Origin" airport at which a passenger begins his trip and/or the airport of the passenger's final destination. For example, a passenger beginning a trip in New York City flying to Chicago and then connecting in Chicago for a final destination in Phoenix would be considered an O&D passenger in New York and Phoenix. In certain cases, an O&D market may be served by more than one airport, as is the case in the Los Angeles, Chicago, New York City and Dallas area markets. Airports in these markets are grouped together in this Report to identify the total demand for the overall market.



Table IV-17
Phoenix Sky Harbor International Airport
Airline Connecting Analysis

Estimated Total O&D and Connecting Enplanements (000s)

FY	America West					Southwest				
	O&D	Percent O&D	Connecting	Percent Connecting	Total	O&D	Percent O&D	Connecting	Percent Connecting	Total
1994	2,916	59.5 %	1,981	40.5 %	4,897	2,717	74.9 %	911	25.1 %	3,628
1995	2,230	42.7	2,990	57.3	5,220	3,004	75.1	995	24.9	3,998
1996	2,602	42.4	3,542	57.6	6,144	3,126	77.0	935	23.0	4,061
1997	2,801	41.8	3,893	58.2	6,694	3,057	76.6	935	23.4	3,993
1998	2,827	41.7	3,952	58.3	6,779	3,016	75.7	970	24.3	3,986
1999	2,539	36.9	4,342	63.1	6,881	3,215	74.1	1,124	25.9	4,339
2000	2,577	35.5	4,672	64.5	7,249	3,407	72.9	1,265	27.1	4,672
2001	2,588	32.1	5,466	67.9	8,054	3,439	71.7	1,359	28.3	4,797
2002	2,642	34.2	5,090	65.8	7,732	3,296	69.7	1,434	30.3	4,730
2003	3,034	35.1	5,612	64.9	8,646	3,386	67.9	1,600	32.1	4,986

Note: The above figures may differ from the passenger statistics reported by the airlines to the Airport.

Source: US DOT data provided by Data Base Products, Inc.



Table IV-18
Connecting Hub Airports
(FY 2003)

Total Hub Airport (1)	Percent Connecting	Hub Carrier Only (2)	Percent Connecting
Cincinnati	79.1 %	Delta	70.3 %
Charlotte	74.4	US Airways	81.0
Atlanta	67.1	Delta	69.4
Memphis	65.4	Northwest	71.7
Dallas/Ft. Worth	60.4	American	62.6
Houston Intercontinental	60.3	Continental	61.8
St. Louis	58.1	American	66.3
Pittsburgh	56.8	US Airways	60.6
Minneapolis/St. Paul	56.2	Northwest	63.2
Chicago-O'Hare	55.3	United	59.1
Detroit Wayne County	54.4	Northwest	63.0
Denver	47.6	United	58.8
Salt Lake City	43.9	Delta	62.5
Miami	41.3	American	55.0
Phoenix	40.7	America West	63.1
Philadelphia	36.4	US Airways	46.9
San Francisco	32.1	United	43.1
Chicago-Midway	31.7	Southwest	23.1
Washington Dulles	29.8	United	38.5
Los Angeles	28.0	United	37.9
Seattle	25.8	Alaska	22.4

Note: The above figures may differ from the passenger statistics reported by the airlines to the Airport.

(1) Largest connecting hub airports determined by Landrum & Brown based on airport domestic connecting rates of 25.0 percent or higher.

(2) The estimated domestic connecting rate for the primary carrier at each hub airport.

Source: US DOT data as compiled by Data Base Products, Inc.



Table IV-19
Top 10 Southwest Airlines' Airports
Ranked by Total Southwest Airlines' Enplanements - FY 2003

	Southwest Enplanements				
	Percent		Percent		Total
	O&D	O&D	Connecting	Connecting	
Las Vegas	4,599,770	84.1 %	872,420	15.9 %	5,472,190
Phoenix	3,385,500	67.9	1,600,245	32.1	4,985,745
Baltimore	3,126,410	72.2	1,204,947	27.8	4,331,357
Oakland	3,561,820	94.3	216,277	5.7	3,778,097
Chicago (Midway)	2,570,110	76.9	770,523	23.1	3,340,633
Los Angeles	3,034,740	95.4	146,543	4.6	3,181,283
Houston (Hobby)	2,254,530	71.2	909,909	28.8	3,164,439
Dallas (Love Field)	2,042,220	77.0	610,100	23.0	2,652,320
San Diego	2,517,490	96.6	88,661	3.4	2,606,151
Nashville	1,467,820	72.7	551,370	27.3	2,019,190

Note: The above figures may differ from the passenger statistics reported by the airlines to the Airport.
Source: US DOT data compiled by Data Base Products, Inc.

Table IV-20 presents the Airport's Top 25 Domestic O&D Markets measured in terms of enplaned passengers. The Airport's largest O&D city market is Los Angeles, which includes the five airports serving the Los Angeles area.³ This market accounted for 10.8 percent of domestic O&D at the Airport with almost 1.1 million enplanements in FY 2003. The largest individual O&D airport is Las Vegas with 4.4 percent or 439,640 O&D enplaned passengers in FY 2003. Because of the Airport's location in the Southwest Region of the U.S. it is logical that many of its largest O&D markets will be other regional or West Coast cities. In addition to these cities, there is also significant O&D traffic to and from major Midwest and East Coast markets. The Chicago market (6.2 percent) is the Airport's second largest source of O&D enplanements while the New York City market (3.9 percent) is fourth. Minneapolis/St. Paul (2.7 percent), Dallas (2.1 percent), Baltimore (1.9 percent), Philadelphia (1.3 percent) and Boston (1.1 percent) are all included in the Airport's top 25 domestic O&D enplaned passenger markets in FY 2003. Table IV-20 also presents the top two air carriers based on O&D enplanement market share at the Airport for each O&D market. Southwest controls the top market share in 13 of the top 25 O&D markets while the remaining top 25 O&D markets are typically dominated by the hub airline for the destination airport. For example, United is the dominant carrier in Denver where they operate a connecting hub, while Alaska Airlines is the leading carrier in Seattle where it operates a connecting hub. This type of diversification is common at many hub airports. America West has the largest market share to three of the top 25 markets which are New York (EWR, JFK and LGA), Indianapolis, Indiana and Columbus, Ohio and the second largest market share at 19 of the top 25 O&D markets. America West also controls a dominant share to Orange County and Long Beach, which are part of the Los Angeles market.

³ The Los Angeles city market includes the following five regional airports: Los Angeles International (LAX), John Wayne Airport (SNA), Ontario International, Burbank (BUR) and Long Beach (LGB).

Table IV-20
Phoenix Sky Harbor International Airport
Top 25 Domestic O&D Markets
 (Ranked by FY 2003 Domestic O&D Enplanements)

Rank	City Market	Domestic O&D Market		Carrier Market Share	
		Enplanements	Share	Largest	2nd Largest
1	Los Angeles	1,080,340	10.8 %		
	-Los Angeles (LAX)	431,030	4.3	Southwest (64%)	America West (22%)
	-Orange County (SNA)	224,030	2.2	America West (51%)	Southwest (39%)
	-Ontario (ONT)	201,930	2.0	Southwest (82%)	America West (18%)
	-Burbank (BUR)	199,320	2.0	Southwest (72%)	America West (28%)
	-Long Beach (LGB)	24,030	0.2	America West (93%)	Other Airlines (7%)
2	Chicago	618,500	6.2		
	-O'Hare (ORD)	409,680	4.1	American (36%)	United (34%)
	-Midway (MDW)	208,820	2.1	Southwest (60%)	ATA (36%)
3	Las Vegas (LAS)	439,640	4.4	Southwest (79%)	America West (21%)
4	New York	387,370	3.9		
	-Newark (EWR)	208,790	2.1	Continental (55%)	America West (32%)
	-LaGuardia (LGA)	81,050	0.8	American (29%)	ATA (18%)
	-John F. Kennedy (JFK)	97,530	1.0	America West (57%)	Delta (35%)
5	San Diego (SAN)	349,660	3.5	Southwest (74%)	America West (23%)
6	Seattle (SEA)	327,160	3.3	Alaska (53%)	America West (23%)
7	Denver (DEN)	279,980	2.8	United (35%)	America West (34%)
8	Salt Lake City (SLC)	278,570	2.8	Southwest (46%)	Skywest (Delta) (29%)
9	St. Paul/Minneapolis (MSP)	274,360	2.7	Northwest (49%)	America West (28%)
10	Oakland (OAK)	257,270	2.6	Southwest (69%)	America West (31%)
11	Albuquerque (ABQ)	232,070	2.3	Southwest (80%)	America West (19%)
12	San Jose (SJC)	216,500	2.2	Southwest (58%)	America West (36%)
13	Dallas	209,890	2.1		
	-Dallas/Ft. Worth (DFW)	192,720	1.9	American (55%)	America West (31%)
	-Love Field (DAL)	17,170	0.2	Southwest (94%)	Continental (5%)
14	Portland (PDX)	203,090	2.0	Alaska (41%)	America West (31%)
15	Detroit (DTW)	195,840	2.0	Northwest (48%)	America West (31%)
16	Baltimore (BWI)	191,850	1.9	Southwest (37%)	America West (34%)
17	Sacramento (SMF)	180,900	1.8	Southwest (65%)	America West (33%)
18	San Francisco (SFO)	139,960	1.4	United (50%)	America West (48%)
19	Atlanta (ATL)	137,650	1.4	Delta (59%)	America West (27%)
20	St. Louis (STL)	135,400	1.3	Southwest (51%)	American (31%)
21	Kansas City (MCI)	135,360	1.3	Southwest (56%)	America West (34%)
22	Indianapolis (IND)	128,650	1.3	America West (36%)	ATA (23%)
23	Philadelphia (PHL)	126,890	1.3	US Airways (47%)	America West (35%)
24	Boston (BOS)	113,050	1.1	Southwest (32%)	American (16%)
25	Columbus (CMH)	108,940	1.1	America West (41%)	Southwest (22%)
Subtotal Top 25 Markets		6,748,890	67.2 %		
All Other Markets		3,288,430	32.8 %		
Total Domestic O&D Enplanements		10,037,320	100.0 %		

Note: The above figures may differ from the passenger statistics reported by the airlines to the Airport.

Source: US DOT data provided by Data Base Products, Inc.

4. Enplanement Forecast Methodology

The forecast for O&D enplanements was prepared by Landrum & Brown, Inc. based on a thorough analysis of local air service demand, the strength of the primary carriers serving the Airport, projections regarding the growth in economic and demographic factors of the Air Trade Area and standard industry statistical methods. These various elements of the methodology were combined to produce forecast results that were tested from an econometric or "top down" approach and an air service schedule based on a "bottom-up" perspective. The top-down approach was based on standard linear trend and multivariate regression analyses that projected future baseline O&D demand based on the historical relationships between O&D enplanements and various economic and demographic variables (population, income, airline yield, etc.). The baseline forecast produced from this analysis was then tested and stressed from a bottom-up perspective by building future airline schedules for the Airport corresponding to the projected demand. The merging of the baseline forecast with an actual airline schedule provided a mechanism to test how future demand would be provided by the airlines likely to serve the Airport over the forecast horizon. This technique proved especially valuable in the short-term when airline capacity (scheduled seats) is expected to increase more rapidly than over the long-term as the industry recovers from the recent depressed traffic levels.

The first step in our forecast methodology was a thorough study of recent historical and current traffic levels at the Airport. The system shock produced by the events of September 11th resulted in an unprecedented decline in air travel nationally and at the Airport. On a national basis, the decline in air travel resulting from September 11th obscured the already declining levels of air traffic brought on largely by a weakening economy. During the eight months prior to September 11th, air travel for the U.S. was down in five of the eight months and down slightly for the eight months in total from the same period in CY 2000. In comparison, the Airport was experiencing another record year of growth with traffic up in each of the eight months and by 5.5 percent for the total eight-month period. This was an indication of the relative strength in the demand for air service at the Airport prior to September 11th. The demand for air service at the Airport fell dramatically following September 11th but remained relatively resilient when compared to the total U.S.

By the end of FY 2003, the Airport had set a new FY enplanement record. Based on this performance we assume that the demand for air service at the Airport was concluding its post September 11th recovery phase and entering a future growth stage.

The forecast for air service demand in the new growth stage was developed by segregating total enplanement activity into a total (domestic and international) O&D component and a total connecting traffic component. As discussed earlier in this Report, the volume of connecting traffic at an airport is largely based on operating plans of the primary connecting carrier(s), while O&D traffic is derived largely from the economic and demographic strength of the local Air Trade Area (see Chapter III of this Report). Because of these industry accepted factors, O&D and connecting enplanements are forecast separately and with different methodologies.

5. Enplanement Forecast Assumptions

In preparing the O&D and connecting enplanement forecasts a number of assumptions were made that apply to both forecasts. These assumptions tend to relate to general industry conditions or anticipated future conditions. These assumptions are listed below.

1. The existing strength and character of the Air Trade Area will be maintained and that its anticipated population and economic growth will provide the demand for the projected levels of O&D enplanements.
2. The Airport will continue to serve as the Air Trade Area's primary commercial service airport.
3. AWA will continue to exist as a financially viable airline and continue to develop the Airport as its primary hub airport in its national route system.
4. AWA will maintain its existing relationship with Mesa or another similar commuter/regional airline to feed short-haul and medium-haul passenger traffic to AWA for connecting flights at the Airport and that America West's connecting rate at the Airport will range between 65.0 percent to 70.0 percent from FY 2004 to FY 2015.
5. America West will continue to maintain its current total enplanement market share dominance (47.5 percent) at the Airport and that over the forecast horizon its enplanement market share is expected to range between 45.0 and 50.0 percent from FY 2004 to FY 2015.
6. The Airport will remain a primary focus city for Southwest and that its market share at the Airport will range between 28.0 and 33.0 percent.
7. Southwest will continue to conduct a connecting operation at the Airport and that over the forecast period its connecting rate will range between 28.0 percent and 33.0 percent.
8. The Airport will continue to serve as a key destination for all the Major Air Carriers currently serving the Airport.
9. No future event will occur that has a comparable impact on aviation demand or access to the Airport's facilities as the events of September 11th.
10. Aircraft fuel prices are expected to fluctuate over the forecast period, but they are not expected to have a significant impact on the volume of future air traffic.
11. The capacity of the U.S. and local air traffic control system is sufficient to meet the demand for air service at the Airport projected over the forecast period.
12. The facilities of the Airport over the forecast period will be sufficient to serve the projected levels of air service demand.

a. O&D Enplanements

The O&D enplanement forecast was developed using a series of linear regression, time series and trend line analyses. The results of these analyses were combined to produce a forecast that we believe to be a reasonable and reliable indicator of future air service demand. The analyses mentioned above that were used to develop the O&D enplanement forecast are based on causal models that seek to identify the statistical relationship between an independent variable such as population, income or time (years) and the dependent or forecast variable (O&D enplanements). This does not mean that there is a direct cause-and-effect relationship between an independent and dependent variable but rather a statistical correlation. For example, the strength of the Air Trade Area in terms of the projected growth in the independent forecast variables such as population, employment and income were important factors in predicting the growth of O&D enplanements.

We performed an extensive number of regression, time series and trend line analyses that produced a wide range of results. Many of these analyses were immediately discarded because they failed basic statistical rules for acceptability or produced results judged to be outside a range of reasonableness, which is typical in any forecasting exercise. The dramatic decrease in traffic that occurred following September 11th caused such an irregular variation in the enplanement trend line that many standard statistical models produced unreasonably high or low enplanement projections. To overcome this situation we attempted to smooth the dramatic variation that occurred in FY 2002 by using standard statistical methods and professional judgment. This approach produced forecasts that we believe to be reasonable, given the historical trends at the Airport, which we applied as guidelines in developing the final forecast.

For the short-term horizon we relied on the use of airline schedule information as published in the Official Airline Guide ("OAG"). This information in conjunction with historical individual airline load factor data and industry intelligence such as information regarding new aircraft deliveries, aircraft retirements, new entrant airlines and new routes enabled us to develop what we believe to be a new and more reliable trend line for future Airport O&D enplanements.

The short-term trend line was then extended based on the long-term growth rates that were developed using the previously mentioned causal models to complete the O&D enplanement forecast.

The results of these analyses produced a forecast that projects O&D enplanement to increase from approximately 10.9 million in FY 2003 to approximately 15.6 million in FY 2015 at an annual compound growth rate of 3.0 percent (see Table IV-21). We expect O&D enplanements to increase at a faster rate of 3.2 percent between FY 2003 and FY 2010 and then slow to a more moderate rate of 2.6 percent between FY 2010 and FY 2015. For the first six months of FY 2004 (through December 2003) we estimate that O&D enplanements have increased by 5.8 percent, which is ahead of the 4.1 percent growth rate projected for the full FY 2004. We believe, that based on the strength of the Airport's Air Trade Area, the growth plans of the Airport's two primary carriers, America

West and Southwest, and the general attractiveness as a market to other carriers, that the Airport will achieve these projected O&D enplanement figures.

Table IV-21
Phoenix Sky Harbor International Airport
Forecast of O&D and Connecting Enplanements

FY	O&D Enplanements	Percent of Total	Connecting Enplanements	Percent of Total	Total Enplanements
<i>Actual</i>					
2002	10,068,810	59.5 %	6,853,559	40.5 %	16,922,369
2003	10,928,591	60.2	7,232,667	39.8	18,161,258
<i>Forecast</i>					
2004	11,380,000	60.0 %	7,586,000	40.0 %	18,966,000
2005	11,775,000	59.7	7,948,000	40.3	19,723,000
2006	12,185,000	59.4	8,329,000	40.6	20,514,000
2007	12,613,000	59.1	8,728,000	40.9	21,341,000
2008	12,954,000	58.8	9,077,000	41.2	22,031,000
2009	13,306,000	58.5	9,439,000	41.5	22,745,000
2010	13,667,000	58.2	9,815,000	41.8	23,482,000
2011	14,037,000	57.9	10,207,000	42.1	24,244,000
2012	14,402,000	57.6	10,602,000	42.4	25,004,000
2013	14,777,000	57.3	11,011,000	42.7	25,788,000
2014	15,160,000	57.0	11,437,000	43.0	26,597,000
2015	15,553,000	56.7	11,877,000	43.3	27,430,000
Annual Compound Growth Rate					
2003-2010	3.2 %		4.5 %		3.7 %
2010-2015	2.6		3.9		3.2
2003-2015	3.0		4.2		3.5

Forecast provided by Landrum & Brown, Inc.

Source: City of Phoenix, Aviation Department and the US DOT data provided by Data Base Products, Inc.

b. Connecting Enplanements Forecast

The connecting component of the enplanement forecast was based on a methodology that focused on the historical connecting activity of America West and Southwest, which in FY 2003 accounted for approximately 92.0 percent of the Airport's connecting enplanements. A primary assumption in the connecting forecast was that both America West and Southwest would continue over the FY 2015 forecast horizon to conduct connecting operations at the Airport. As explained earlier, the level of connecting activity at an airport is based on the operating plan of its primary carriers. Given this factor we examined the connecting characteristics of America West and Southwest to help project their likely future actions.

America West's connecting activity increased significantly, from approximately 40.0 percent of total enplanements in FY 1994 to approximately 65.0 percent in FY 2003 as it built its connecting operation at the Airport. Over the last five years its connecting rate has ranged between 63.1 percent and a high of 67.9 percent in FY 2001. Although standard industry techniques such as regression and time series analysis do not, in theory, work well for forecasting connecting traffic, a comparison to other major connecting airlines and the connecting activity at their respective hubs is helpful. A comparison of the connecting rates for the carriers that operate major connecting operations shows that the airline connecting rates typically range between approximately 50.0 percent and 70.0 percent. In only rare circumstances such as US Airways at its Charlotte International Airport hub and Delta Air Lines at its Cincinnati/Northern Kentucky Airport hub do the individual airline connecting rates exceed 70.0 percent. In both the US Airways and Delta Air Lines examples both of these carriers enjoy unusually high market share dominance at the respective airports, which allows them to control the flow of O&D traffic to supplement their connecting activity. Because of the significant and established local competition to America West provided by Southwest and other carriers at the Airport it is unlikely that America West will obtain a similarly dominant O&D market share. In addition, there are other factors that affect airline operating efficiency, such as airline staffing levels and terminal facilities capacity that tend to produce diminishing returns when connecting levels exceed 70.0 percent.

Based on these factors and the announced business plans of America West to increase its focus on long-haul point-to-point service and its historical connecting rate trends, we believe that America West's annual connecting rate at the Airport will increase only modestly to approximately 70.0 percent over the forecast horizon. We believe the increase in connecting rate will occur as America West continues to expand its national system around its primary hub at the Airport.

Southwest also generates a significant level of connecting activity at the Airport that has historically ranged between 25.1 and 32.1 percent of its total enplanement activity over the FY 1994 to FY 2003. As presented earlier on Table IV-19, it is unusual for Southwest to connect more than 30.0 percent of its total enplanements at any one airport. Southwest is arguably the most financially successful airline. It has achieved this status by perfecting an operating system that relies primarily on point-to-

point service. Based on Southwest's business model and discussions with Southwest regarding its future plans at the Airport, we believe it is unlikely that Southwest will significantly increase their connecting percentage at the Airport. Consequently we believe that Southwest's connecting percentage will remain near 30.0 percent over the forecast period.

The combined projected increases in the connecting percentages of both America West and Southwest are expected to result in a total Airport connecting rate of 43.3 percent by FY 2015 (see Table IV-21). This projected connecting rate results in an actual increase in total connecting enplanements from approximately 7.2 million in FY 2003 to approximately 11.9 million in FY 2015. This growth equates to an annual compound growth of 4.5 percent between FY 2003 and FY 2010 and 3.9 percent between FY 2010 and FY 2015.

The forecast O&D enplanements were combined with the forecast connecting enplanements to yield the Airport's total enplanement forecast. To test the reasonableness of the complete long-term forecast we developed simulated average annual day airline schedules for a baseline year and the forecast horizon periods of FY 2008 and FY 2015. This scheduling model identified specific airlines, their markets served, daily departures, scheduled seats, aircraft equipment types, time of day and estimated load factors. The forecast enplanement figures were loaded into this schedule to help identify how they may be distributed across an actual airline schedule. The results of this analysis provided additional evidence that the long-term forecast was a reasonable projection of future demand.

c. Forecast Results Summary

The Airport's total O&D enplanements are projected to increase from approximately 10.9 million in FY 2003 to 15.6 million by FY 2015. O&D enplanement growth is projected at an annual compound rate of 3.0 percent over the FY 2003 to FY 2015 period. From FY 2003 to FY 2010, O&D enplanements are projected to increase at an annual compound rate of 3.2 percent as the Airport and the aviation industry continue to recover. From FY 2010 to the end of the forecast period in FY 2015, O&D enplanements are expected to increase at a slightly lower annual compound rate of 2.6 percent as demand growth from certain mature markets begins to moderate. Connecting enplanements at the Airport are projected to increase from approximately 7.2 million in FY 2003 to approximately 11.9 million in FY 2015 at an annual compound rate of 4.2 percent. From FY 2003 to FY 2010, connecting enplanements are projected to increase at an annual compound rate of 4.5 percent and from FY 2010 to FY 2015 connecting enplanements are expected to increase at a slightly lower annual compound rate of 3.9 percent. Total enplanements at the Airport are projected to increase from approximately 18.2 million in FY 2003 to approximately 27.4 million in FY 2015 at an annual compound rate of 3.5 percent. From FY 2003 to FY 2010, total enplanements are projected to increase at an annual compound rate of 3.7 percent and from FY 2010 to FY 2015 total enplanements are expected to increase at a slightly lower annual compound rate of 3.2 percent.

d. *Comparison to Other Forecasts*

Because other existing forecasts were prepared at different times and for different purposes it is somewhat difficult to make an exact comparison. For general comparison purposes we have provided a presentation of other recently completed forecasts for the Airport (see Table IV-22). The first comparative forecast was developed in support of the Environmental Impact Study ("EIS") for the proposed West Terminal development. This forecast was reviewed and approved by the FAA for use in the EIS in November 2002. This forecast was prepared on a CY basis and total enplanements are projected to reach approximately 25.2 million by CY 2015, at an annual compound growth rate of 2.8 percent from CY 2003 to CY 2015. It should be noted that this forecast was developed prior to the significant rebound in enplanement levels that occurred at the Airport in FY 2003.

The second forecast presented for comparison purposes is the FAA Terminal Area Forecast ("TAF"). The TAF was released in February 2004 and was presented on a FFY basis (12 months ending September 30th). This forecast was based on actual results for FFY 2002 and estimates for FFY 2003. The TAF projected total enplanements to reach approximately 26.4 million by FFY 2015 at an annual compound growth rate of 3.2 percent.

Table IV-22
Phoenix Sky Harbor International Airport
Total Enplanements Forecast Comparisons

Enplanement Forecasts Prepared for the Airport				
	Year	Landrum & Brown Feasibility Study (March 2004)	FAA TAF (February 2004)	Airport West Terminal EIS (November 2002)
Actual	2003	18,183,374	18,183,374	18,183,374
Forecast	2010	23,482,000	23,025,871	22,306,000
Forecast	2015	27,430,000	26,400,274	25,246,000
Annual Compound Growth Rates				
	2003-2010	3.7 %	3.4 %	3.0 %
	2010-2015	3.2	2.8	2.5
	2003-2015	3.5	3.2	2.8

Sources: Landrum & Brown, Inc., FAA Terminal Area Forecast, released February 2004 and Aviation Demand Forecasts, West Terminal EIS, Phoenix Sky Harbor International Airport prepared by Leigh Fisher Associates.

e. Conclusion

Given the underlying strength of the Airport's Air Trade Area in terms of key economic and demographic variables such as projected growth in population, employment and income and the strong and diversified economy and its general attractiveness as a place to live and visit we believe the Air Trade Area will provide a significant level of demand for air service at the levels described above. In addition, the strength and diversification of the air carriers providing service at the Airport are such that we believe the demand for air service will be adequately provided for at the forecast levels presented herein.

B. HISTORICAL RENTAL CAR ACTIVITY AND TRENDS

1. Rental Car Overview

The Phoenix rental car market has grown from the seventh largest market in the U.S. in FY 1999 to the third largest market in FY 2003. This change, relative to the rest of the top ten airports, is attributable to increasing rental car demand at the Airport and the extended deterioration of rental car demand at the other airports. In some of these markets the need to rent a car, primarily for business travelers, is not as much of a necessity as it is in the expansive Phoenix Area. For example, cities such as San Francisco and Atlanta have central business districts that are concentrated and more easily accessible by other means of transportation and therefore minimize the need for a rental car. Additionally, the Phoenix rental car market has a well-balanced mix of business and leisure demand that mitigates sustained downturns in a particular market segment. **Table IV-23** identifies the market share of the rental car companies currently serving the Airport. Although there have been significant changes in the last 30 months, ranging from certain companies relocating to on-Airport facilities, dual-branding and re-organizations under the U.S. bankruptcy laws, the relative market share of each company has remained consistent over the CY 1998 – CY 2003 period. This consistent distribution illustrates that the Phoenix market, despite significant changes in the industry, continues to demonstrate stable rental patterns for the Companies.

2. Rental Car Passenger Profile

The Airport conducts quarterly surveys to understand the demographic and economic characteristics of the passengers and visitors who utilize the Airport. These characteristics are analyzed by O'Neil Associates, Inc. to measure passenger and visitor attitudes towards the Airport and its facilities. These surveys help the Airport understand recent trends in air travel and rental car activities. The most recent survey was completed in the fourth quarter of 2003 and represents the eighth iteration of the New Series ("New Series"), which began in the first quarter of 2002. The Previous Series began in September 1995 and continued until and included the second quarter of 2001 (the "Previous Series"). The New Series survey resulted from a reassessment of the types of questions that were asked in the survey and resulted in several items being added, eliminated or adjusted. The results presented below are based on the New Series and include 4,238 respondents with an associated margin of error of plus or minus 1.5 percent.

Table IV-23
Phoenix Sky Harbor International Airport
Airport Market Share Based on Total Revenues - CY 1998-2003

Company	Market Share Percentage					
	2003	2002	2001	2000	1999	1998
Advantage	3.4 %	2.1 %	2.8 %	2.6 %	2.7 %	2.8 %
Alamo	N/A	12.1	14.3	15.7	16.2	17.4
National	N/A	10.8	11.8	12.1	12.3	12.6
Alamo/National (1)	21.0	N/A	N/A	N/A	N/A	N/A
Avis	20.0	21.0	19.6	20.6	21.1	20.8
Budget	12.9	13.0	13.8	13.1	13.0	12.5
Dollar	7.2	6.4	5.5	5.8	5.6	4.1
Enterprise (2)	4.8	4.6	3.4	2.0	0.6	0.8
Hertz	25.7	25.0	25.1	23.4	24.1	24.9
Thrifty	4.8	4.4	3.1	2.3	2.2	2.2
Other (3)	0.2	0.7	0.6	2.4	2.2	1.9
	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

(1) Alamo and National combined operations in February 2003

(2) Enterprise came on-Airport September 1, 1999

(3) Off-Site Companies

Source: Reported Airport Revenues from RCC Companies

Airport Passengers and Visitors:

- 36.0 percent of the visitors reside in Maricopa County, 9.0 percent reside in Arizona but outside of Maricopa County, 51.0 percent reside in the U.S. outside of Arizona, and 4.0 percent reside outside of the U.S.
- The median age of the Airport visitor is 42 years.
- The gender of the Airport visitor is split evenly between male and female.
- 59.0 percent of the Airport visitors are college graduates.
- The median income of the Airport visitor is \$68,000.
- 32.0 percent of the Airport visitors are traveling for business, 63.0 percent for pleasure and 5.0 percent for both business and pleasure.

Rental Car Customers:

- 19.0 percent of the respondents rented a car while visiting the Phoenix Area.
- 86.0 percent of the respondents renting cars rented the cars at the Airport.
- 35.0 percent of all business travelers rented a car.
- 22.0 percent of all leisure travelers rented a car.
- 51.0 percent of rental car users traveled with one companion.
- One in three business travelers rented a car, compared to one in five leisure travelers.

Table IV-24 presents the distribution of Phoenix visitors by quarter for CY 2003. Excluding Phoenix and the Mountain West Region, the Pacific Coast and the Central Plains regions have the highest percentage of visitors.

Table IV-24
Phoenix Sky Harbor International Airport
Phoenix Visitors CY 2003

Region	States	2003			
		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
North Atlantic	ME, VT, NH, MA, CT, RI, NJ	2.3 %	4.2 %	3.6 %	2.0 %
Middle Atlantic	NY, PA, DE	2.9	4.6	4.0	2.2
South Atlantic	WV, VA, DC, MD, NC, SC	4.4	3.2	3.1	4.2
Far South	GA, FL, AL, MS, TN	2.1	4.6	2.5	5.3
Ohio River Valley	OH, IN, KY, MI	4.9	6.7	3.1	4.5
North Central	MN, WI, IA, ND, SD, MT	5.5	5.0	2.1	2.9
Central Plains	IL, NE, KS, MO	6.0	5.9	4.0	5.3
Southwest	TX, OK, AR, LA	2.9	5.3	4.8	4.5
Mountain West	AZ, NM, NV, UT, CO, ID, WY	53.6	48.0	55.2	54.0
Pacific Coast	CA, OR, WA, AK, HI	8.5	16.9	13.3	15.2
Non-US Residents		4.6	4.0	4.0	4.0
Unknown		2.1	2.0	1.0	1.3

Source: O'Neil Associates Inc., Study 1680, Sky Harbor Visitor Satisfaction Survey 2003 - Q4, page 9

3. Transaction Days, Rental Contracts and Average Contract Length

Table IV-25 summarizes the key statistics of the Phoenix rental car market for FY 1998 through FY 2003 and the first six months of FY 2004. Rental car demand is measured by three statistics: transaction days, rental contracts and contract duration. A transaction day represents a 25-hour period or less for the first day and then a 24-hour period thereafter during which a car is rented. A rental contract is entered into with a customer each time a car is rented, and the number of rental contracts in any period represents the total number of rental car customers. Each car is rented for a specific number of days and the contract duration represents the number of days customers are renting a car for each rental contract. Table IV-25 shows the actual transaction days, rental contracts, average contract length, gross rental revenues and average daily rental rates in current and constant 1996 dollars as reported by each individual Company.

Table IV-25
Phoenix Sky Harbor International Airport
Historical Rental Car Market Performance - FY 1998-2003

FY	Transaction Days	Annual Change	Rental Contracts	Annual Change	Average Contract Length	Annual Change	Gross Rental Revenues	Annual Change	Average Daily Rental Rate			Annual Change
									Current \$	Annual Change	Constant 1996 \$	
1998	6,865,469		1,613,690		4.25		\$247,186,963		\$36.00		\$34.65	
1999	6,651,184	-3.1 %	1,579,020	-2.1 %	4.21	-1.0 %	247,682,922	0.2 %	37.24	3.4 %	35.06	1.2 %
2000	6,904,792	3.8	1,651,660	4.6	4.18	-0.8	264,151,968	6.6	38.26	2.7	35.13	0.2
2001	7,076,444	2.5	1,661,958	0.6	4.26	1.9	284,592,026	7.7	40.22	5.1	36.17	3.0
2002	6,015,941	-15.0	1,423,558	-14.3	4.23	-0.7	246,578,813	-13.4	40.99	1.9	35.95	-0.6
2003	5,935,415	-1.3	1,455,074	2.2	4.08	-3.5	251,091,028	1.8	42.30	3.2	36.16	0.6
YTD 2003	2,516,114		632,067		3.98		\$102,315,538		\$40.66		\$34.76	
YTD 2004 (1)	2,611,394	3.8 %	650,653	2.9 %	4.03	1.3 %	109,213,808	6.7 %	41.82	2.9 %	34.85	0.3 %
Annual Compound Growth Rates												
1998-2001	1.0%		1.0%		0.0%		4.8%		3.8%		1.4%	
2001-2003	-8.4%		-6.4%		-2.1%		-6.1%		2.6%		0.0%	
1998-2003	-2.9%		-2.0%		-0.8%		0.3%		3.3%		0.9%	

(1) For the period July 1, 2003 through December 31, 2003

Source: Airport records and rental car companies

As shown on Table IV-25, transaction days at the Airport decreased from approximately 6.9 million in FY 1998 to approximately 5.9 million in FY 2003, which represents an average annual decrease of 2.9 percent. Prior to the events of September 11th, the transaction days at the Airport increased at an average annual rate of 1.0 percent. Following September 11th and the U.S. economic recession, transaction days decreased at an average annual rate of 8.4 percent during the period FY 2001 through FY 2003. During FY 2002, transaction days at the Airport decreased by 15.0 percent when compared to FY 2001. During FY 2003, transaction days decreased by 1.3 percent over the same period in FY 2002. However, this trend has been reversed in the first six months of FY 2004 with transaction days increasing by 3.8 percent compared to the same period in FY 2003.

Rental contracts at the Airport also decreased from approximately 1.6 million in FY 1998 to 1.5 million in FY 2003, an average annual decrease of 2.0 percent. Prior to FY 2002, the rental contracts at the Airport increased at an average annual rate of 1.0 percent, comparable to the increase in transaction days. Following September 11th, the number of rental contracts decreased at an average annual rate of 6.4 percent during the period FY 2001 through FY 2003. During FY 2002, rental contracts at the Airport decreased by 14.3 percent when compared to the same period in FY 2001. However, this trend reversed in FY 2003 as rental contracts increased by 2.2 percent, compared to the same period in FY 2002. For the first six months of FY 2004, rental contracts have increased 2.9 percent compared to the same period in FY 2003.

The average contract length at the Airport fluctuated during the period FY 1998 through FY 2003 ranging from a high of 4.26 days in FY 2001 to a low of 4.08 days in FY 2003, while the average duration for the period was 4.20 days. Average contract length decreased by 0.8 percent from FY 1998 to FY 2003. The more significant decrease in contract length occurred following the events of September 11th, when the average length of contract fell by 2.1 percent for the period FY 2001 through FY 2003. For the first six months of FY 2004 this trend has reversed and the average contract length has increased by 1.3 percent compared to the same period in FY 2003. Although the average contract length has declined, the number of transaction days continues to show a strong recovery.

The historical trends at the Airport are consistent with the national industry trends. This identifies a pattern of (i) the number of rental car contracts are increasing which indicates that both business and leisure travelers are beginning to travel and rent cars more frequently and (ii) rental car contract durations are decreasing which indicates that travelers are making shorter business and leisure trips translating into fewer transaction days. *(See Section D - Rental Car Activity Forecast)*

4. Gross Rental Revenues and Average Daily Rentals

Gross rental revenues at the Airport peaked in FY 2001 at \$284.6 million. From FY 1998 through FY 2001 gross rental revenues increased at an average annual rate of 4.8 percent. In FY 2002, gross rental revenues fell by 13.4 percent compared to FY 2001. In FY 2003, gross rental revenues increased by 1.8 percent over FY 2002 and are up 6.7 percent for the first half of FY 2004, compared to the first half of FY 2003.



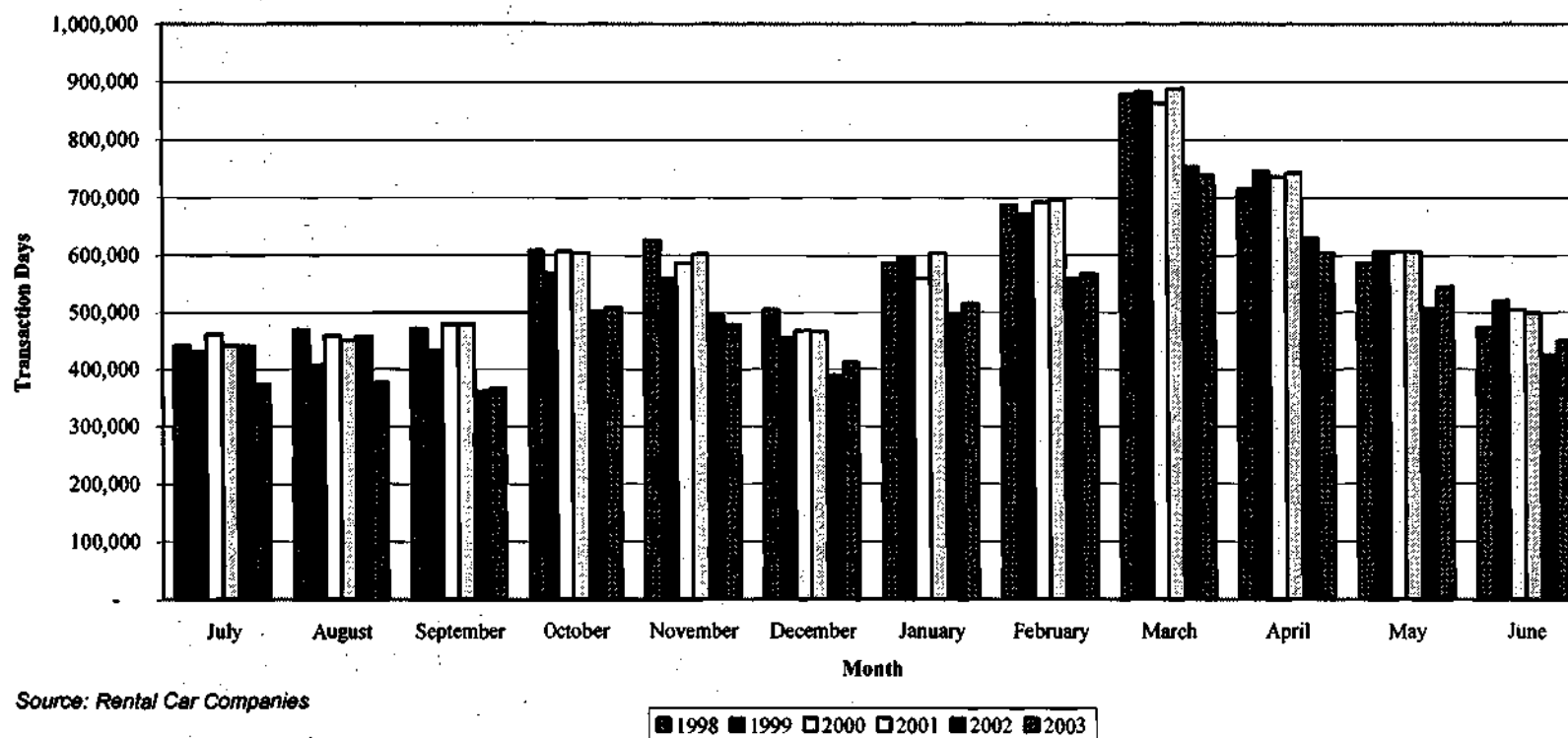
The average daily rental rate, on a *current* dollar basis, increased by 3.3 percent for the period FY 1998 through FY 2003, but has remained virtually unchanged during that time, on a *constant* dollar basis, having increased by only 0.9 percent. In fact, with the average daily rental rate increasing by 2.9 percent in the first half of FY 2004 in *current* dollars, the average daily rental rate for the first half of FY 2004 is virtually identical to FY 1998 on a *constant* dollar basis.

At the Airport the rental car industry has implemented more disciplined fleet management practices, reduced operating expenses and improved operating margins despite lower unit revenues. Furthermore, as the duration increases and business and leisure patterns return to historical trends, gross revenue per rental contract should increase at an even faster rate of growth, providing the rental car companies with greater market pricing flexibility. As demand continues to improve, the rental car companies are expected to increase rental rates in FY 2004 and FY 2005, which should lead to even greater unit revenues.

5. Rental Car Seasonality

Rental car demand at the Airport peaks during the month of March. The Region is a winter retreat for many Midwest visitors due to the Region's favorable climate. In addition, several key events occur during the winter months that attract a large number of visitors to the area such as the Fiesta Bowl, the FBR Open, baseball spring training and convention activities. Rental car demand declines during the months of June through September and begins to pick up again in October through December. Table IV-26 illustrates the seasonality of rental car demand at the Airport in terms of transaction days. From FY 1998 through FY 2003, transaction days peaked during the month of March averaging 12.5 percent of all transaction days in each FY. The second highest peak month is April, when an average of 10.4 percent of the transaction days occur. The lowest months for rentals are July, August and September when 6.5 percent of the average total transaction days occur. The seasonal peaking characteristics at the Airport were an important element in properly sizing and designing the RCC to meet future peak demand levels during the months of March and April. This seasonal demand is reflected in the average daily price which peaks in the month of March at \$42.87 per day and reaches its lowest average daily price of \$36.04 in July.

Table IV-26
Phoenix Sky Harbor International Airport
Monthly Transaction Days - FY 1998 - 2003



C. SECONDARY FACTORS AFFECTING RENTAL CAR DEMAND

Upon arrival at the Airport, an O&D passenger's decision to rent a car is influenced by a number of secondary factors. These factors, described below, are the result of the purpose of the trip, the number of destinations visited during the trip and the O&D passenger's personal preferences.

1. Convenience

A rental car provides maximum flexibility and mobility for a visitor. The Region is large and expansive and the convenience of renting a car versus taking another form of transportation can provide a visitor with the opportunity to leisurely and economically move about the Region. In addition to rental cars, travelers have other means of getting to and from the Airport, such as private vehicles or public transportation. At the Airport and in the Region, alternative modes of transportation that are available include taxicabs, public transit, private shuttle services and limousines. A future light rail system is expected to be operating in Phoenix in December 2008.

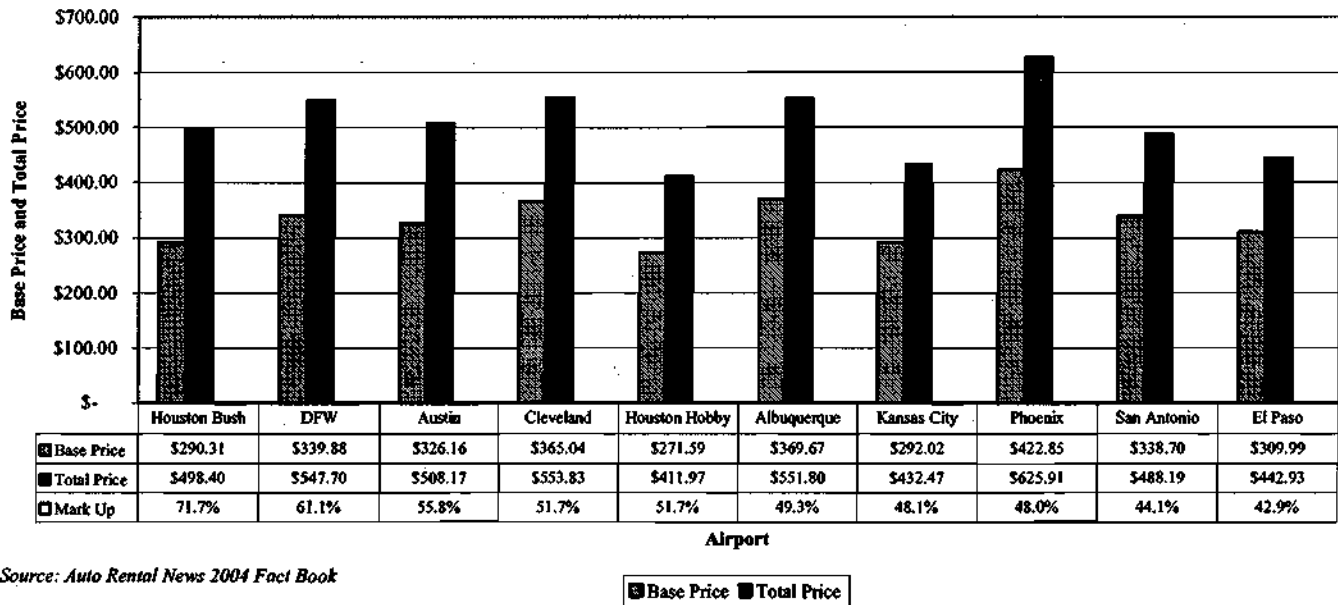
2. Price

The base price of renting a car at an airport can vary significantly from the total price charged by the rental car companies. Across the U.S., city, county and state governments are assessing additional taxes on rental car customers to fund facilities such as sports stadiums and other public infrastructure. Many airports have also initiated collection of a charge similar to the CFC to help pay for new rental car facilities. Furthermore, the rental car companies routinely charge customers a concession recovery fee, equivalent to a percentage of their base price, in order to recover operational cost. These various taxes and fees can add as much as 70.0 percent above the base price at some airports.

Table IV-27 illustrates the base price for the rental of an economy-class vehicle for one week and the total price at the ten airports that have the highest markups in the U.S.⁴ At the Airport, additional taxes and fees increase the total price by 48.0 percent, which is below the average for the airports presented in Table IV-27. Even though the average daily rental rate increased by 3.2 percent in FY 2003 compared to FY 2002, total rental contracts were slightly higher in FY 2003 when compared to FY 2002 levels. For the first half of FY 2004 rental contracts are up 2.9 percent compared to the first half of FY 2003, while transaction days have increased at an even higher rate of 3.8 percent for the same period. These statistics indicate that moderate price increases do not have a significant effect on rental car demand in the Phoenix Area. (See Section C.3. – Transaction Days, Rental Contracts and Average Contract Length)

⁴ Data compiled by Auto Rental News, 2004 Fact Book

Table IV-27
Ten Highest Rental Car Tax and Fee Markups at Airports - FY 2003



3. Availability

An inadequate supply of rental cars in a particular market could potentially impact rental car demand at an airport. Within a particular market or metropolitan area there are numerous locations available for renting a car. Rental car companies manage their inventories by using yield management and fleet optimization models in order to maximize the use of their vehicles. In any market, meeting the rental car demand of airport passengers is the first priority for rental car companies. As the number of total rental contracts at the Airport continues to increase in FY 2004, as in FY 2003, the Companies have been able to meet the increasing demand by allocating more vehicles to the Airport. (See Section C.3. – Transaction Days, Rental Contracts and Average Contract Length)

4. Duration

Duration, or the average length of a rental contract, decreased slightly in FY 2003 and FY 2002 at the Airport. This is consistent with overall industry trends, as corporations have attempted to reduce travel expenses by shortening the length of business trips and car rentals. Leisure travelers have also shortened their length of stay, although to a lesser extent than the business traveler.

As the U.S. economy improves in FY 2004 and beyond, the duration is expected to begin to increase as business and leisure travelers extend their rental contracts to previous levels. The change in duration will have a minimal impact on rental car demand in the Phoenix Area. (See Section C.3. – Transaction Days, Rental Contracts and Average Contract Length)

D. RENTAL CAR ACTIVITY FORECAST

The CFC revenue forecast discussed in Chapter VI of this report is based on the forecast of rental car transaction days multiplied by the CFC rate of \$4.50 per transaction day. The forecast of transaction days is derived by multiplying the number of rental contracts by the average duration of the rental contracts. The historical data in this Report demonstrates a strong correlation between O&D passengers, rental car contracts and transaction days. However, other factors could influence the propensity of O&D passengers to rent vehicles at the Airport (*See Section A - Key Factors Affecting Rental Car Demand*). This section discusses the forecast methodology, forecast assumptions and the results of the forecast.

1. Transaction Day Forecast Methodology

During the planning and design phases of the RCC, Landrum & Brown, Inc. provided the Aviation Department with transaction day forecasts that were used to develop the initial facility requirements of the RCC during the preliminary planning process in 1999 (the "Initial Forecast"). Updates to the Initial Forecast were conducted at the conclusion of the preliminary planning phase in 2000 (the "Phase I Forecast") and again at certain intervals during the schematic design phase (the "Phase II Forecast") to provide the Aviation Department and RCC design team with the latest rental car market changes during these periods to ensure that the RCC was being properly sized during the schematic design phase and to further ensure that the RCC Project remained financially feasible. After the events of September 11th, the schematic design phase was delayed for a period of nine months until the Aviation Department could thoroughly analyze the short-term and long-term impact of September 11th on rental car demand, the facility requirements of the RCC Project and the financial feasibility of the RCC Project. Due to the decreases in passenger traffic and the corresponding decreases in rental car demand, Landrum & Brown prepared a new transaction day forecast and RCC Project financial feasibility analysis in April 2002 (the "April 2002 Forecast") based on a revised Airport O&D passenger forecast. As a result of the April 2002 Forecast, the RCC parking garage space requirements for the design year CY 2015 were downsized from 7,395 spaces to 6,425 spaces, a reduction of 13.1 percent. The sizing of all other elements of the RCC remained unchanged.

As aviation and rental car demand trends began to emerge, Landrum & Brown revised the April 2002 Forecast in November 2002 based on these trends (the "November 2002 Forecast"). Based on the November 2002 Forecast, it was apparent that the recovery of rental car demand was lagging behind the recovery of O&D enplanement demand. The RCC Project parking garage space requirements were further reduced from 6,425 to the current 5,651 spaces, a reduction of 12.1 percent, as a result of the November 2002 Forecast. The sizing of all other elements of the RCC remained unchanged. In June 2003, the City retained Landrum & Brown to develop a revised Passenger Activity Forecast (the "Passenger Activity Forecast") that resulted in a new O&D enplanement forecast. Based on the results of the Passenger Activity Forecast, coupled with rental car demand recovery trends, Landrum & Brown revised the transaction day forecast in June 2003 (the "June 2003 Forecast") to reflect the most current forecast of O&D enplanements and rental car demand. Based on the results of the June 2003 Forecast, the RCC Project parking garage space requirements remained at the 5,651 spaces.

Each of the forecasts referenced above (collectively, the "Forecasts") was developed using a series of linear regression models and trend line analyses in forecasting transaction days. The transaction day forecast included in this Report was also prepared using linear regression and trend line analyses. The results of these analyses were combined to produce a forecast of transaction days that Landrum & Brown believes is a reasonable and reliable indicator of future rental car demand.

The forecast of transaction days in this Report is based on causal models that seek to establish the statistical relationship between independent variables, in this case, O&D enplanements and average daily rental rates, and the dependent or forecast variable (transaction days). A strong statistical correlation between the variables produces an equation for evaluating future rental car demand. However, when the historical data has too many irregular variations, for example, the sudden decrease in transaction days following September 11th, the standard statistical models produce projections that are deemed to be unreasonable. Adjusting for these variations in the forecast model, particularly in the near term, requires an examination of the relationship between O&D enplanement demand and rental car demand and demographic and economic factors in the Region such as population trends, personal income levels and employment.

By examining these historical relationships, the significant variations produced by the linear regression models can be tempered to produce reasonable short-term forecasts. In FY 2003, the Airport reported growth in O&D enplanement traffic of 8.3 percent while rental car transaction days decreased by 1.3 percent. For the first half of FY 2004, O&D enplanement traffic has increased by 5.8 percent over the same period of FY 2003, while rental car transaction days have increased by 3.8 percent. In addition, rental contracts for the first half of FY 2004 have increased by 2.9 percent while the duration of average contract length increased by 1.3 percent over the first half of FY 2003. The first half of FY 2004 marks the first time since FY 2001 that both transaction days and rental contracts have increased at the same time. These positive results indicate that rental car demand, which has tended to lag behind aviation demand in economic cycles, will likely increase at an even higher rate for the second half of FY 2004. National industry trends, such as shorter duration periods, were also factored into the transaction day forecast for the short-term horizon (FY 2004 through FY 2007).

2. Forecast Assumptions

Certain assumptions were used in developing the transaction days forecasts regarding future levels of aviation and rental car activity. These assumptions are listed below.

1. The economic strength of the Phoenix Area during the forecast period as detailed in Chapter III of this Report will be realized and, as a result, both business and leisure demand will grow.
2. The forecast of O&D passengers during the forecast period is reasonable and no events will occur during the forecast period that would cause any major disruptions to aviation and rental car demand. This Report includes a sensitivity analysis that assumes a one-time event occurs during FY 2007 and rental car demand decreases by 15.0 percent (*See Chapter VI, Section J. – Sensitivity Analysis.*)

3. The average duration of rental car contracts will remain relatively flat for the near-term and begin to increase slightly in the future. This assumption is based on recent trends in the Phoenix Area and nationally that indicate leisure travelers are making shorter and more frequent trips and business travelers are making shorter business trips. It is assumed that general economic conditions will improve in the Phoenix Area and the U.S., and duration will begin to return to previous levels.
4. No alternative modes of transportation are foreseen in the Phoenix Area during the forecast period that would significantly reduce rental car demand.
5. For CY 2003, the RCC Companies paid to the City \$25.7 million in concession fees. The minimum annual guarantee amount that was received from the RCC Companies in the December 2003 concession bid totaled \$31.6 million for the first year of operation in the RCC. This very competitive bid amount indicates that the RCC Companies are confident that the rental car demand at the Airport will grow.
6. The more disciplined fleet management systems put in place by the RCC Companies that more closely match supply with demand will remain in effect during the forecast period. As a result, average daily prices, in real terms, will increase at an average annual rate of 1.5 percent.
7. The RCC Companies have provided Landrum & Brown with accurate historical data.
8. The RCC will provide capacity to meet all future rental car demand during the forecast period.

3. *Rental Car Transaction Day Forecast*

As discussed in the forecast methodology, transaction days are forecast using two independent variables, O&D enplanements (*See Section B.4 – O&D Enplanement Forecast Methodology*) and average daily rental rates. The historical average daily rates in *current* and *constant* dollars, are presented on Table IV-25. The transaction day forecast uses the average daily rental rate expressed in *constant* dollars.

a. *Average Daily Rental Rate*

As shown on Table IV-28, for FY 2003 through FY 2015, average daily rental rates, in *constant* dollars, are forecast to increase from \$36.16 to \$43.20. We anticipate that average daily rental rates will increase at an annual compound growth rate of approximately 1.5 percent from FY 2003 through FY 2015. For comparative purposes, the growth rate in *current* dollars is 3.9 percent from \$42.30 in FY 2003 to \$66.95 in FY 2015.

b. *Transaction Day Forecast*

Based on the methodology and assumptions described above, and the respective average daily rental and O&D enplanement forecasts, the rental car transaction day forecast is presented in Table IV-29. Transaction days are forecast to increase from approximately 5.9 million in FY 2003 to approximately 8.8 million in FY 2015, at an annual compound growth rate of 3.4 percent over the forecast period. From FY 2003 to FY 2010 rental car transaction days are forecast to increase from

Table IV-28
Phoenix Sky Harbor International Airport
Historical and Forecast Average Daily Rental Car Rates

	FY	Average Daily Rental Car Rates (<i>current</i>)	Conversion Factor to \$1996 Constant ⁽¹⁾	Average Daily Rental Car Rates (<i>Constant \$1996</i>)
Historical	1998	\$36.00	1.04	\$34.65
	1999	37.24	1.06	35.06
	2000	38.26	1.09	35.13
	2001	40.22	1.12	36.17
	2002	40.99	1.14	35.95
	2003	42.30	1.17	36.16
Forecast¹	2004	43.95	1.20	36.63
	2005	45.67	1.23	37.13
	2006	47.45	1.26	37.66
	2007	49.30	1.29	38.22
	2008	51.22	1.32	38.80
	2009	53.22	1.35	39.42
	2010	55.30	1.38	40.07
	2011	57.45	1.41	40.75
	2012	59.69	1.44	41.45
	2013	62.02	1.47	42.19
	2014	64.44	1.51	42.68
	2015	66.95	1.55	43.20
Average annual compound growth rate:				
	1998-2001	3.8 %	2.4 %	1.4 %
	2001-2003	2.6	2.4	0.0
	1998-2003	3.3	2.4	0.9
	2003-2010	3.9	2.4	1.5
	2010-2015	3.9	2.4	1.5
	2003-2015	3.9	2.4	1.5

(1) The conversion factor from *current* to *constant \$1996* was taken from estimates of inflation prepared by the U.S. Office of Management and Budget.

Table IV-29
Phoenix Sky Harbor International Airport
O&D Enplanements, Rental Car Contracts and Transaction Days

FY	O&D Enplanements	Rental Car Contracts	Rental Car Transaction Days	Average Length of Contract (Days)
Historical				
1998	10,435,702	1,613,690	6,865,469	4.25
1999	10,553,182	1,579,020	6,651,184	4.21
2000	11,259,784	1,651,660	6,904,792	4.18
2001	11,223,914	1,661,958	7,076,444	4.26
2002	10,068,810	1,423,558	6,015,941	4.23
2003	10,928,591	1,455,074	5,935,415	4.08
Forecast				
2004	11,380,000	1,569,448	6,422,690	4.09
2005	11,775,000	1,671,462	6,840,165	4.09
2006	12,185,000	1,771,750	7,250,575	4.09
2007	12,613,000	1,814,272	7,425,458	4.09
2008	12,954,000	1,854,186	7,589,124	4.09
2009	13,306,000	1,893,124	7,755,604	4.10
2010	13,667,000	1,932,879	7,922,952	4.10
2011	14,037,000	1,973,470	8,091,163	4.10
2012	14,402,000	2,010,966	8,250,002	4.10
2013	14,777,000	2,049,174	8,409,619	4.10
2014	15,160,000	2,100,403	8,624,746	4.11
2015	15,553,000	2,150,813	8,840,847	4.11
Annual Compound Growth Rate				
1998-2001	2.5 %	1.0 %	1.0 %	0.0 %
2001-2003	-1.3	-6.4	-8.4	-2.1
1998-2003	0.9	-2.0	-2.9	-0.8
2003-2010	3.2	4.1	4.2	0.1
2010-2015	2.6	2.2	2.2	0.1
2003-2015	3.0	3.3	3.4	0.1

Source: Historical data from the RCC Companies, forecast data from Landrum & Brown, Inc. Passenger Activity Forecast and Transaction Day Forecast



approximately 5.9 million to 7.9 million, increasing at an annual compound rate of 4.2 percent. From FY 2010 to FY 2015, the growth rate in transaction days is projected to slow to an annual compound growth rate of 2.2 percent. The significantly larger growth rate during the earlier part of the forecast is based largely on the short-term recovery in transaction days that is similar to the short-term recovery projected for O&D enplanements.

c. Conclusion

The rental car transaction day forecast assumes that the O&D passenger demand at the Airport will continue to grow at a rate greater than the U.S. as a whole. As a result, rental car demand is also expected to achieve above average growth at the Airport compared to the rest of the U.S. This above average growth is driven by (i) the demand for rental cars accelerating as the U.S. economy improves and businesses increase their travel budgets, (ii) stabilization in the average duration of a contract, (iii) stable or moderate daily rental rates will not reduce demand and (iv) stabilized rental patterns from business and leisure travelers that allow the rental car industry to optimize fleet size. It is reasonable to assume that all of these factors, when combined, will produce a demand for rental car transaction days, that equates to an annual compound growth rate of approximately 3.4 percent from FY 2003 to FY 2015.

V. THE RENTAL CAR INDUSTRY

This chapter discusses recent trends and developments in the U.S. rental car industry and highlights the recent activities of the RCC Companies.

A. THE U.S. RENTAL CAR INDUSTRY

1. Overview

The U.S. rental car industry serves two distinct market segments: (i) the airport market and (ii) the local market. The airport market serves travelers who rent cars at or near an airport upon arrival at their destination airport. The airport market is further segmented into business and leisure travelers. The airport market leader is Hertz Corporation, which grossed approximately \$3.1 billion in total U.S. revenues in FY 2003. Customers who need to temporarily replace their own vehicles, often due to repairs being performed or other circumstances, make up the local market. Local market customers are served at facilities located in town centers, near where people live and work. The local market is dominated by Enterprise Rent-A-Car, which posted total U.S. revenues (local plus airport markets) of \$5.5 billion in FY 2003.

Airports typically require the rental car companies to bid competitively for the right to operate on airport property, for which they are charged various fees. The concession fee is typically the greater of a bid minimum annual guarantee or a stated percentage of each rental car company's annual gross revenues earned at its airport location. In addition, many airports charge rent to the rental car companies for counter space in the terminal facilities, ground rent for storage and maintenance areas located on airport property and other fees specified in the rental car concession agreements. These fees cover the costs associated with building and maintaining all necessary facilities used by the rental car companies and can generate additional revenues for an airport.

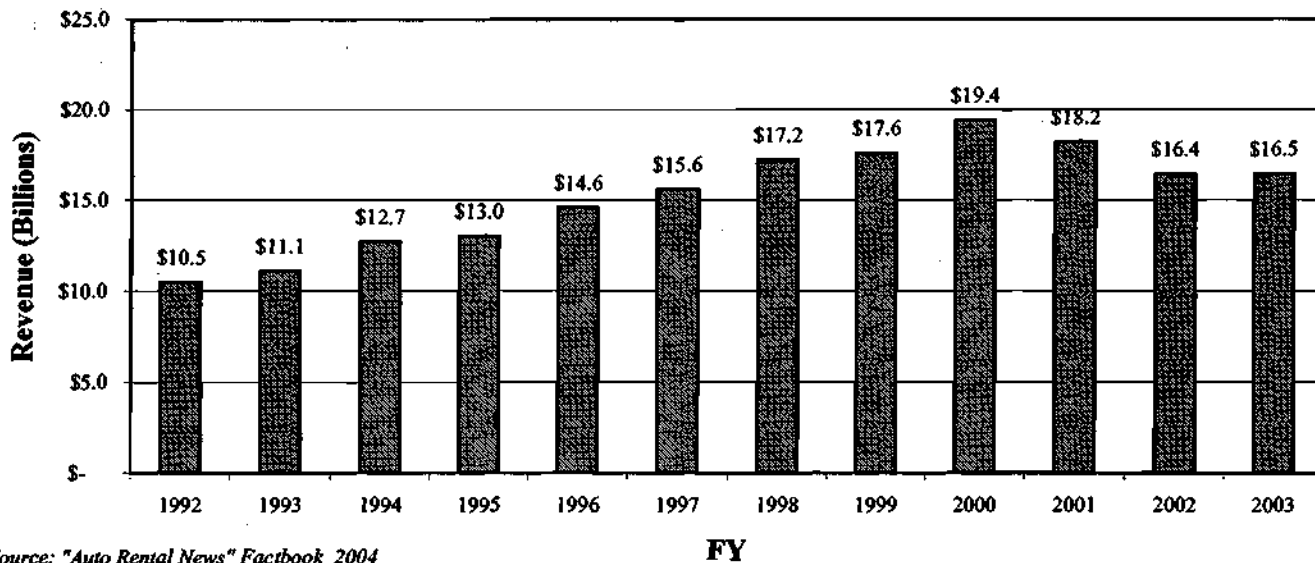
2. Recent U.S. Industry Trends

Traditionally, rental car companies focus on specific segments, such as local or airport markets and business or leisure travelers. The primary focus of this chapter is the airport segment and the business and leisure travelers within this segment. Because the industry has experienced significant changes in the last several years, including consolidations and bankruptcies, this chapter examines the industry as a whole. (See Section B – Rental Car Companies Participating in the RCC Project)

Nationally, the rental car industry began to experience a difficult operating environment as early as the second quarter of CY 2000. This situation was compounded further by the events of September 11th and the U.S. economic recession. Table V-1 illustrates the decline in U.S. rental car market gross revenues. After reaching a peak of \$19.4 billion in FY 2000, total gross revenues declined to \$16.4 billion in FY

2002. At \$16.5 billion¹, in FY 2003 the industry's gross revenue was essentially flat compared to FY 2002.

Table V-1
U.S. Rental Car Market Gross Revenues



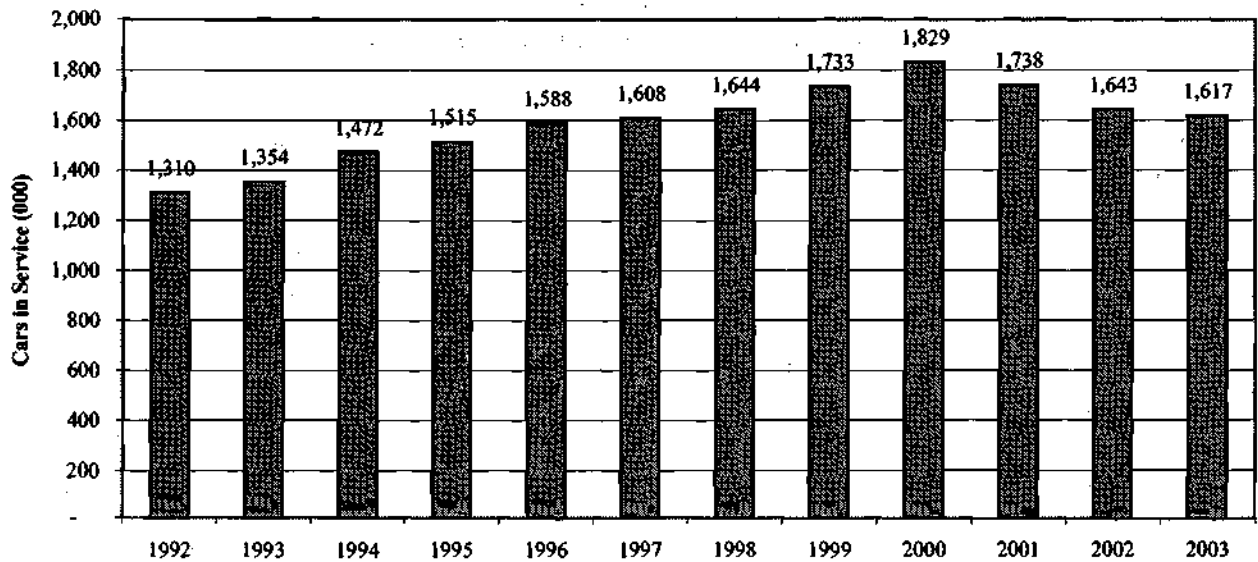
Source: "Auto Rental News" Factbook 2004

One of the factors that contributed to the rental car industry downturn was the rapid expansion of their rental fleets during FY 2000. Total U.S. rental car industry fleet size growth and contraction is illustrated in **Table V-2**. In FY 2000, the total industry fleet reached a high of approximately 1.8 million vehicles. By FY 2002, the total fleet size had dropped to 1.6 million, its approximate size in FY 1998. By FY 2003, total fleet size had been reduced even further, on a par with FY 1997 levels. Although the car rental industry suffered from the same factors that affected airline traffic and hotel occupancy, namely the U.S. economic recession and the events of September 11th the ability to contract fleet size helped to mitigate the impact of the downturn on the industry.

As a result of the events of September 11th and the U.S. economic recession, the airline industry losses totaled \$8.3 billion in CY 2001 and increased to \$11.3 billion in CY 2002 according to the Air Transport Association ("ATA"). Two major U.S. carriers (US Airways and United Airlines) filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. In addition, most major domestic airlines have significantly reduced flight schedules and instituted job reductions in an attempt to stem mounting financial losses. According to ATA, U.S. domestic passenger traffic was down 18.0 percent for the last quarter of CY 2002 and 5.1 percent for CY 2002.

¹ FY 2003 total is an estimate based on projections and SEC filings, published in "Auto Rental News" Factbook 2004.

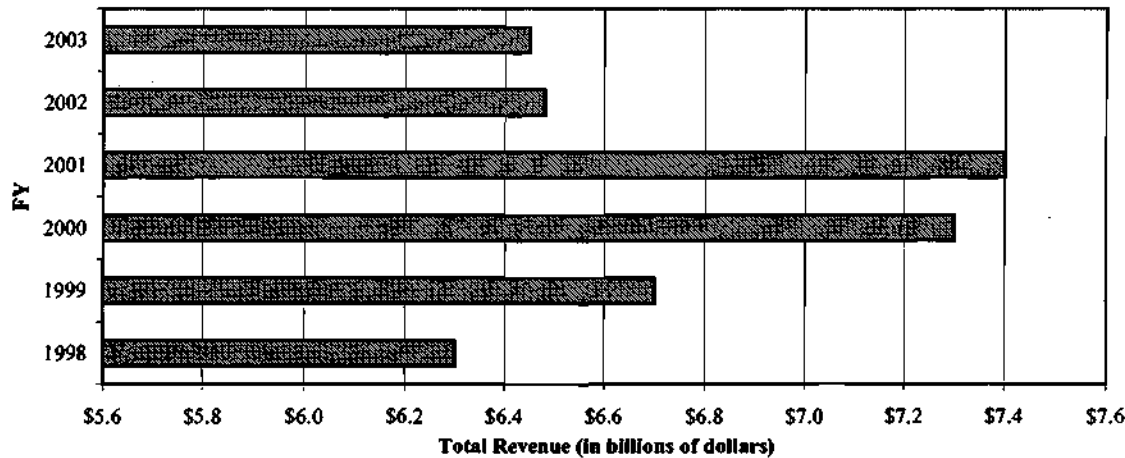
Table V-2
U.S. Rental Car Industry Fleet Size



Source: "Auto Rental News" Factbook 2004

The significant decreases in passenger traffic at U.S. airports coupled with the downturn in the economy caused the rental car industry to suffer similar reductions in airport demand in the fourth quarter of CY 2001 and all of CY 2002. Table V-3 details the reported airport rental car revenues for the top 50 airport markets for each of the past six FYs. As shown, the reported revenue of approximately \$6.5 billion for FY 2002 is a significant drop from the approximately \$7.4 billion recorded in FY 2001. FY 2003 was essentially flat at \$6.5 billion compared to FY 2002. In early CY 2002, ANC Rental Corporation, the parent company of Alamo Rent A Car and National Car Rental filed for Chapter 11 bankruptcy after recording losses of \$606.7 million in FY 2001 and \$534.1 million in FY 2002. In October 2003, the U.S. Bankruptcy Court approved the sale of ANC Rental Corporation to Cerberus Capital Management L.P. ANC Rental Corporation's corporate name has been changed to Vanguard Car Rental USA, Inc. Budget Rent A Car filed for Chapter 11 bankruptcy in July 2002 and was purchased by Cendant Corporation, Avis' parent, in November 2002.

Table V-3
Airport Rental Car Revenue - Top 50 Airports



Source: "Auto Rental News" Factbook 2004, Landrum & Brown extrapolation

3. Industry Outlook

The flat revenues recorded in FY 2003 can be taken as a positive sign. Costs have been brought under control, excessive fleets have been reduced and rental rates have held up over the last year. Rates have in fact stabilized enough that a 2.0 percent increase in rental rates is expected to be implemented in FY 2004, with Cendant Car Rental Group leading the way in announcing an approximately \$5.00 per day increase for their Avis and Budget brands, effective February 15, 2004. Hertz and Vanguard plan similar increases.

Other indicators point to positive growth for the rental car companies in FY 2004 and FY 2005. The Travel Industry Association ("TIA") forecasts an increase of 4.4 percent in CY 2004. Leisure travel recovered more quickly than business travel in CY 2003 and is expected to increase by 3.2 percent in CY 2004. The TIA forecasts that business travel in CY 2004 will increase by 4.2 percent over CY 2003 levels, which marks the first time that a year over year increase has occurred since CY 1999.

Certain rental car companies may have to address the impact of other rental car companies who have entered the airport rental car market with aggressive pricing policies. In a manner similar to the low fare carriers in the aviation industry, some rental car companies that offer lower daily rentals could begin to gain greater market share, which is forcing other companies who rely mostly on the business travelers' higher daily rental rates to re-adjust their pricing to avoid losing market share.

4. The Phoenix Area Outlook

As shown on Table V-4, the Airport rental car market has shown consistent growth, relative to other airport markets, over most of the past six FYs. Table V-5 shows the total rental car revenue change at the top ten airport markets between FY 2002 and FY 2003. The airports are listed in descending order of volume, with Orlando having the highest total rental car revenue. Despite the lack of increase in rental car revenues in FY 2003 over CY 2002, Phoenix is now the third largest market. The overall industry growth in FY 2004 is forecast to increase by several percent, while the Airport is expected to continue to strengthen and return to previous levels of annual growth. In addition to the general U.S. economic and travel recovery, travel to the Phoenix Area could benefit from the weakened U.S. dollar, which is expected to bring more international visitors. There are several developing factors that have been identified and need to be monitored to evaluate the significance of their impact on the Phoenix Area's rental car market. They include the trend towards shorter vacations with just one destination; the growth of all-inclusive resorts, which discourage the need for renting a car; and the trend of borrowing cars from friends and family. A more detailed description of the forecast growth of rental car demand in the Phoenix Area is provided in Chapter IV.

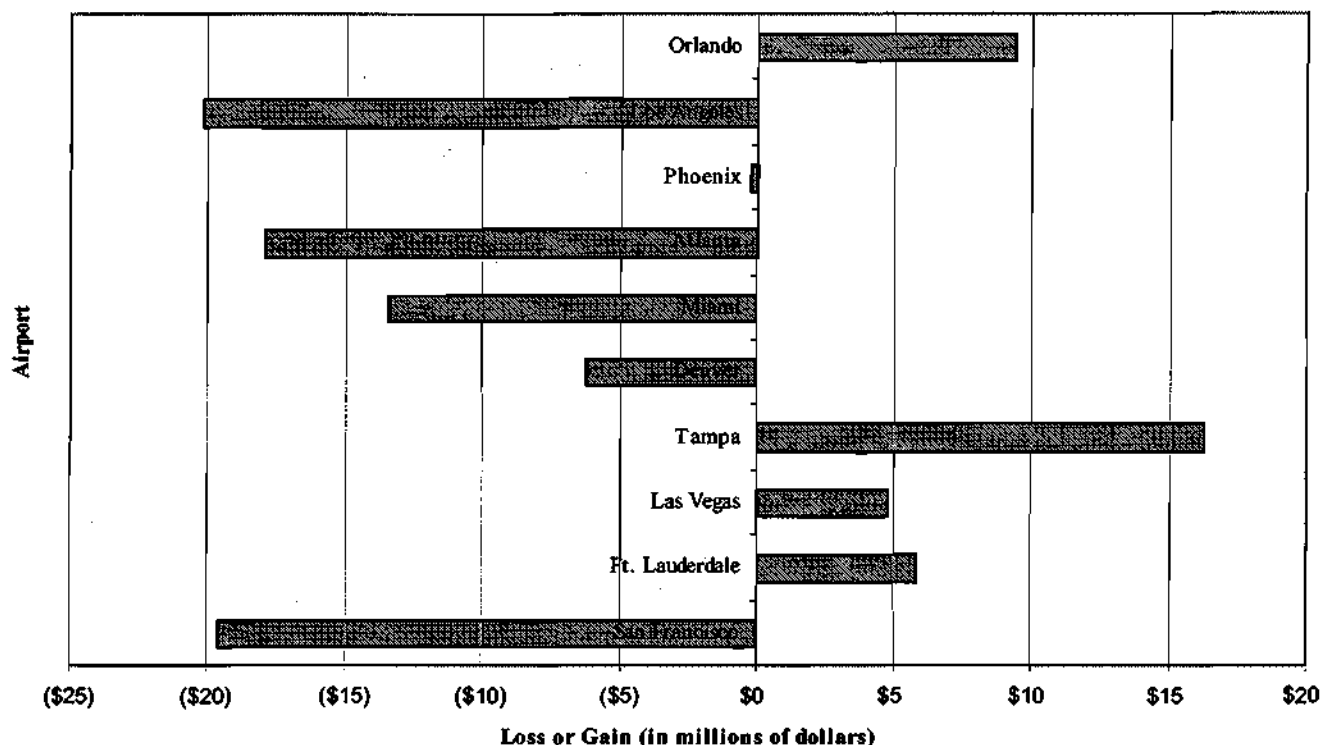
Table V-4
Top Ten Airport Rental Car Markets Based on Reported Revenues

Rank	FY 2003 (1)	FY 2002	FY 2001	FY 2000	FY 1999	FY 1998
1	Orlando	Orlando	Orlando	Orlando	Orlando	Orlando
2	Los Angeles	Los Angeles	Los Angeles	Los Angeles	Los Angeles	Los Angeles
3	Phoenix	Atlanta	Atlanta	San Francisco	San Francisco	San Francisco
4	Atlanta	Phoenix	Miami	Miami	Miami	Miami
5	Miami	Miami	San Francisco	Atlanta	Atlanta	Phoenix
6	Denver	Denver	Phoenix	Phoenix	Denver	Atlanta
7	Tampa	San Francisco	Denver	Denver	Phoenix	Denver
8	Las Vegas	Tampa	Newark	Newark	Chicago	Chicago
9	Ft. Lauderdale	Las Vegas	Tampa	Chicago	Newark	Boston
10	San Francisco	Ft. Lauderdale	Ft. Lauderdale	Boston	Boston	Newark

(1) FY is July 1, 2002 through June 30, 2003

Source: Auto Rental News Fact Book 2003

Table V-5
Total Rental Car Revenue FY 2003 vs. FY 2002 - Top Ten Airport Markets



Source: "Auto Rental News" Facibook 2004, Landrum & Brown extrapolation

B. RENTAL CAR COMPANIES PARTICIPATING IN THE RCC PROJECT

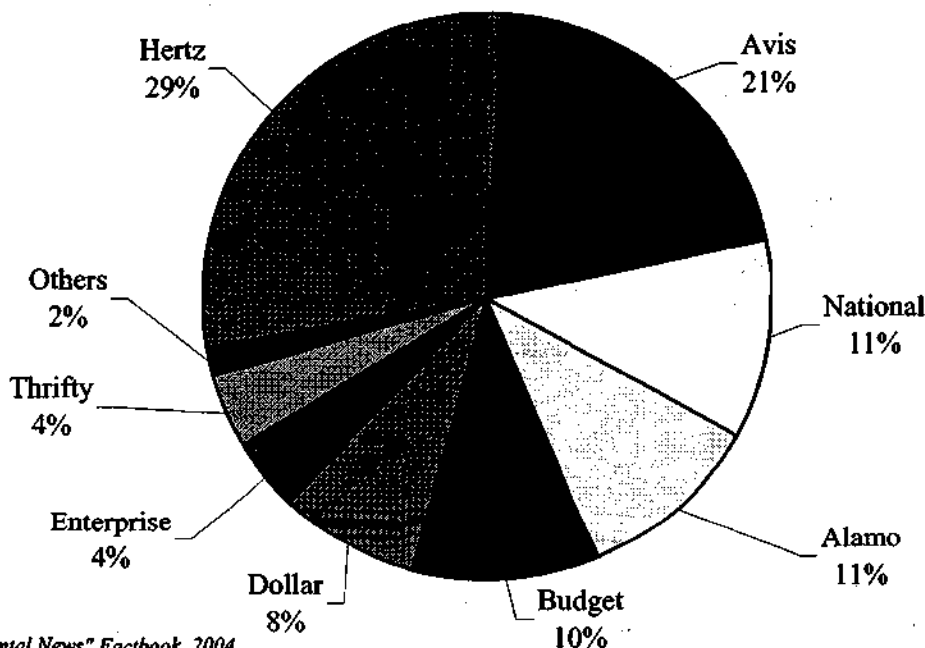
Table V-6 shows the market share of the rental car companies at the Top 50 Airports. The Phoenix Area market share and a brief profile of each rental car company serving the Airport is provided below.

1. Advantage Rent A Car

Advantage Rent A Car ("Advantage") was founded in 1963 in San Antonio, Texas. Advantage first entered the airport market in 1988 and now operates 26 airport rental car facilities across Texas and in eight other western states. Advantage has grown to become the largest privately-held, regionally operated rental car company in the U.S.

The Airport received a bid from San Antonio Rental and Leasing Company, Inc., a wholly owned subsidiary of Advantage, in December 2003 for the rights to operate at the RCC. Based on the required minimum qualifications having been met and the minimum annual guarantee amount bid, the City awarded Advantage the right to conduct a vehicle rental concession at the new RCC in April 2004. During CY 2003, Advantage reported gross receipts at the Airport of \$8.7 million, representing a 3.4 percent market share.

Table V-6
FY 2003 Rental Car Market Share - Top 50 Airports



Source: "Auto Rental News" Factbook 2004

2. Vanguard Car Rental USA, Inc. (Alamo/National)

On November 13, 2001, ANC Rental Corporation, Alamo's and National's parent company filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. ANC Rental Corporation cited the drastic decline in travel resulting from the events of September 11th as the primary reason for this filing. While ANC Rental Corporation reported a net loss of \$534.1 million in FY 2002, and losses continued into FY 2003, the Phoenix franchisee, Steward Ventures, Inc. remained profitable. In October 2003, Cerberus Capital Management L.P. purchased ANC Rental Corporation. ANC Rental Corporation's corporate name has been changed to Vanguard Car Rental USA, Inc. Together, the Alamo and National brands make up a billion-dollar company with 14,000 employees in more than 80 countries. During FY 2003, Alamo reported \$682.0 million in revenues from the top 50 airport markets and had an overall U.S. airport market share of 10.6 percent. For the same period National reported revenues of \$733.0 million and had a U.S. market share of 11.4 percent. The Alamo/National dual brand had a combined U.S. airport market share of 22.0 percent in FY 2003.

Alamo/National operates as a dual-branded company in the Phoenix Area. The current rental car operation at the Airport is owned by a franchisee, Steward Ventures, Inc., an Arizona corporation since 1946. The City received a bid for the rights to operate the dual-brand at the new RCC in December 2003 from Steward Ventures, Inc. Based on the required minimum qualifications having been met and the minimum annual guarantee amount bid, in April 2004 the City awarded Steward Ventures, Inc. the right



to conduct a vehicle rental concession at the new RCC. During CY 2003, Alamo/National reported gross receipts at the Airport of \$53.6 million, representing a 20.9 percent market share.

3. *The Cendant Car Rental Group (Avis/Budget)*

The Cendant Car Rental Group has emerged as one of the world's largest general use rental car companies, comprised of Avis, a popular supplier to the business travel industry, and Budget, a top brand in the leisure travel market. The two brands combine for an extended global reach that includes over 6,000 car and truck locations in the Americas, Australia, New Zealand and the Caribbean. Cendant Car Rental Group acquired Avis Group Holdings in its entirety in March 2001 and purchased the Budget Group in the fall of 2002. Both brands operate under the Cendant Car Rental Group subsidiary. Even though Avis and Budget brands operate under one corporate structure, each brand is operated independently at the Airport. During FY 2003, Avis reported \$1.4 billion in revenues from the top 50 airport markets and had an overall U.S. airport market share of 21.0 percent. For the same period, Budget reported revenues of \$669.0 million and had a U.S. airport market share of 10.4 percent.

The City received two bids in December 2003 for the rights to operate at the new RCC. One bid was received from Avis Rent A Car System, Inc., and the other bid was received from Budget Rent A Car System, Inc. Based on the required minimum qualifications having been met and the minimum annual guarantee amount bid, in April 2004 the City awarded Avis Rent A Car System, Inc. and Budget Rent A Car System, Inc. the right to conduct vehicle rental concessions at the RCC. During CY 2003, Avis reported gross receipts at the Airport of \$51.5 million, representing a 20.1 percent market share. Budget reported gross receipts of \$31.7 million, representing a 12.3 percent market share in CY 2003.

4. *Dollar Thrifty Automotive Group, Inc.*

Dollar Thrifty Automotive Group, Inc. ("DTG"), a Fortune 1000 company, is the parent company of DTG Operations, Inc., doing business as Dollar Rent A Car ("Dollar") and Thrifty Rent A Car System, Inc. ("Thrifty"). DTG was incorporated on November 4, 1997, and completed its initial public offering of common stock on December 23, 1997. It is the successor to Pentastar Transportation Group, Inc., which was formed in 1989 to acquire and operate the rental car subsidiaries of Chrysler Corporation, now known as Daimler-Chrysler Corporation.

Dollar was incorporated in 1965, and Thrifty was incorporated in 1950. Thrifty is an indirect subsidiary of DTG, which was formed in December 1998. Thrifty, Inc. operates Thrifty and Thrifty Car Sales, Inc.; the latter principally franchises used vehicle sales.

In December 2002, DTG unveiled a new corporate platform transforming the company from a brand structure to a functional structure. Previously functioning as two separate operating companies (Dollar Rent A Car, Inc. and Thrifty Rent A Car System, Inc.) DTG began operating as a single company while continuing to support and grow both of its brands independently. This new business model combined

functions such as field operations, technology systems, fleet and administrative management. Seamless to customers, as both Dollar and Thrifty brands remain separate in sales, marketing and franchising areas, this new structure allows DTG to avoid certain duplicative costs as well as realize cost savings and operating efficiencies.

Together, Dollar and Thrifty have operations in over 70 countries, including approximately 800 corporate and franchised locations in the U.S. and Canada. During FY 2003, Dollar reported \$525.0 million in revenues from the top 50 airport markets and had an overall U.S. airport market share of 8.1 percent. For the same period Thrifty reported revenues of \$269.0 million and had a U.S. airport market share of 4.2 percent.

Two separate bids were submitted to the City in December 2003 for the right to operate rental car operations at the RCC. One bid was received from Cholla Holdings, L.L.C., which is a franchise operator for Thrifty, Inc. and a second bid was received from DTG Operations, Inc., doing business as Dollar Rent A Car. Based on the required minimum qualifications having been met and the minimum annual guarantee amount bid, in April 2004 the City awarded Cholla Holdings, L.L.C. and DTG Operations, Inc. the right to conduct vehicle rental concessions at the RCC. In CY 2003, Thrifty reported gross receipts at the Airport of \$12.3 million, representing a 4.8 percent market share, and Dollar reported gross receipts of \$18.9 million, representing a 7.4 percent market share.

5. Enterprise Rent-A-Car Company

Enterprise Rent-A-Car Company ("Enterprise") is the largest rental car company in the U.S. with over \$6.9 billion in sales and 4,800 locations in the U.S., Canada, Germany, Ireland and the United Kingdom. Enterprise employs over 50,000 people. The company has a rental fleet of over 500,000 vehicles and targets customers whose cars are in the shop or who need a rental for short trips. Enterprise has aggressively started serving the airport markets and currently serves the top 100 U.S. airports. The company states that it will continue to expand its airport markets. During FY 2003, Enterprise reported \$272.0 million in revenues from the top 50 airport markets and had an overall U.S. airport market share of 4.2 percent.

The City received a bid from Enterprise Leasing Company of Phoenix, a wholly owned subsidiary of Enterprise, in December 2003 for the rights to operate at the new RCC. Based on the required minimum qualifications having been met and the minimum annual guarantee amount bid, in April 2004 the City awarded Enterprise the right to conduct a vehicle rental concession at the new RCC. During CY 2003, Enterprise reported gross receipts at the Airport of \$12.2 million, representing a 4.8 percent market share.

6. The Hertz Corporation

The Hertz Corporation ("Hertz"), owned by Ford Motor Company, is the world's oldest and the leading rental car company. The company operates approximately 7,000 locations in more than 150 countries.

The company's rental car sales are almost evenly split between business and leisure travelers. Ford Motor Company partially spun off Hertz in a 1997 initial public offering and bought all its remaining shares for approximately \$735.0 million in FY 2001. During FY 2003, Hertz reported \$1.8 billion in revenues from the top 50 airport markets and had an overall U.S. airport market share of 28.5 percent.

The City received a bid from Hertz in December 2003 for the rights to operate at the new RCC. Based on the required minimum qualifications having been met and the minimum annual guarantee amount bid, in April 2004 the City awarded Hertz the right to conduct a vehicle rental concession at the new RCC. During CY 2003, Hertz reported gross receipts at the Airport of \$66.2 million, representing a 25.8 percent market share.

C. INDUSTRY RISK FACTORS

The previous five years have been a difficult period for the rental car industry. From the strong economy in the late 1990's to the demise of the entire travel industry following the events of September 11th and the U.S. economic recession, the rental car industry found it necessary to change its business strategies to sustain profitability and performance.

Several companies were forced to enter bankruptcy (ANC Rental Corporation, the parent company of Alamo and National, and Budget Rent A Car) during this time period. Slow economic growth in the Phoenix Area, or an economic recession in the U.S., could limit any rental car industry recovery and further erode the rental car industry's ability to return to overall profitability. Another economic downturn in the near term could result in more restructurings or consolidation among various rental car companies. Without economic growth and increased leisure travel, the rental car industry could be limited in its ability to increase prices in the near term. Consequently, only those companies that have reduced expenses or restructured their operations would likely remain profitable. Listed below are additional risk factors that will confront the industry in the near term.

1. Corporate integration

The integration of corporate infrastructure and culture will continue to be a challenge for companies that have recently merged. These companies must continue to provide high levels of service to maintain their market share while integrating operating systems and administrative functions.

2. Branding and customer service

Product branding will also be a challenge for merged companies and may become an issue for other companies as they enter market segments outside of their traditional core area (e.g., Hertz expanding more into the local market and Enterprise aggressively entering the airport market). Rental car companies will need to continually adjust their marketing and reservation systems as customer travel habits and booking methods continue to evolve.

3. Access to capital markets

Due to the bankruptcies and general financial condition of the rental car industry, raising capital when needed may prove to be difficult and could further erode market share for a particular company.

4. Maintaining sufficient cash flow levels

There is not enough recent financial information available to determine if the cost reduction programs implemented by the industry have brought operating costs in line with revenue expectations.

5. Fleet management

In an effort to reduce costs, certain companies may have reduced fleet inventories to the point where they cannot adequately service customer demand, which could result in possible market share decline.

6. Economic conditions and terrorist attacks

The rental car industry lags behind other industries during an economic recovery, because other industries need to achieve several quarters of economic growth and profitability before they are likely to return to previous travel patterns and travel programs. Another economic recession or a terrorist attack involving, or significantly affecting the aviation industry will likely erode any of the recovery gains the rental car industry has recently made.

VI. FINANCIAL ANALYSIS

This chapter discusses the legal framework and flow of funds created for financing and operating the RCC and includes a description of the sources and uses of funds for designing, acquiring, constructing and equipping the RCC. It includes projections of: (i) Annual Receipts, (ii) Administrative Costs, (iii) annual debt service on the 2004 Bonds, (iv) Transportation O&M Expenses and (v) certain fund deposit requirements. The forecast of Annual Receipts, Administrative Costs, annual debt service on the 2004 Bonds, Transportation O&M Expenses and certain fund deposits are combined to provide an annual cash flow forecast, estimated fund balances and a debt service coverage calculation, as required under the City Purchase Agreement (defined below). A sensitivity analysis is presented that assesses the potential impact of a reduction in O&D enplanements, transaction days and Annual Receipts resulting from a single event that reduces passenger air travel and rental car demand.

A. LEGAL FRAMEWORK FOR FINANCING AND OPERATING THE RCC

The financing and operating of the RCC will be governed by four documents: (i) the Rental Car Concession Agreement (the "Agreement"), (ii) the Rental Car Lease (the "RCC Lease") and (iii) the Bond Indenture (the "Bond Indenture") and (iv) the City Purchase Agreement (the "City Purchase Agreement"). A brief overview of key provisions of each of these documents is presented below.

1. Key Provisions of the Agreement

Under the terms and conditions of the Agreement, the RCC Companies have the non-exclusive right to operate a vehicle rental service at the Airport and utilize the RCC to conduct all Airport rental car transactions. The term of the Agreement commences on the DBO of the RCC and continues for a period of 10 years. Concurrent with the execution of the Agreement, each RCC Company must execute the RCC Lease under which it will occupy, use and lease space at the RCC. A description of the RCC Lease is provided in Section A.2.

During the term of the Agreement, each RCC Company will pay an annual concession fee equal to the greater of 10.0 percent of each RCC Company's Gross Revenues (as defined in the Agreement) for the applicable year or the minimum annual guarantee bid. Concession fees are not Pledged Revenues (as defined therein) under the Bond Indenture.

In accordance with the bids received and awarded by the City, the cumulative minimum annual guarantee for all RCC Companies bidding was approximately \$31.6 million. By comparison, concession fees paid to the City for FY 2003 totaled \$25.7 million. Each year the minimum annual guarantee is adjusted to the higher of the bid minimum annual guarantee or 75.0 percent of the previous years concession fees paid to the City by the RCC Company.

Under the Agreement, each RCC Company is obligated to remit CFCs collected from Airport rental car customers in accordance with the provisions of Ordinance No. G-4375, adopted on July 5, 2001 by the City Council and any amendments thereto, including, but not limited to, amendments in Ordinance No. G-



4418 and Ordinance No. G-4530 (the “CFC Ordinance”), which imposes a uniform CFC on rental car customers arriving at the Airport. The CFC Ordinance is currently codified in Phoenix City Code Section 4-79. Upon issuance of the 2004 Bonds, each RCC Company agrees to remit CFCs to the City’s designated depository on a monthly basis and further agrees that it will not be entitled to any rights to offset or other reduction in the CFC requirements. The City’s designated depository will then remit the CFCs to the Trustee.

The Agreement affirms that the Operator selected by the City will exclusively transport all of the Companies’ customers between the RCC and the Airport terminal buildings on a common transportation system. All Companies will be required to use the common transportation system. The cost of operating and maintaining the common transportation system will be funded with CFC proceeds. Off-Site Companies that are not tenants in the RCC will be required to “double-bus” their customers, meaning that the customers will be transported between the Airport terminal buildings and the RCC via the common transportation system and may only be picked up at designated curb locations at the RCC to be transported to the Off-Site Company’s location.

The Agreement also affirms that the RCC Companies agree not to divert revenue from the RCC Company’s vehicle rental concessions authorized under the Agreement. Diversion can include advising or suggesting to a customer or potential customer arriving at the Airport that such customer or potential customer rent a vehicle at any off-Airport location, regardless of the reason.

2. Key Provisions of the RCC Lease

The RCC Lease provides the terms for financing, constructing and operating the RCC and gives the RCC Companies having executed an Agreement the right to occupy designated premises at the RCC. The term of the RCC Lease consists of an initial term and a primary term. The initial term commences on the date the RCC Lease is executed and terminates upon the DBO of the RCC. The intent of the initial term is to give the RCC Companies the right and obligation to design and construct their exclusive use facilities within the RCC in a timely manner prior to the opening of the RCC to the traveling public. The primary term commences on the DBO of the RCC and expires on the 20th year after DBO, unless terminated earlier as provided in the RCC Lease. If any current RCC Company does not receive an award from the City following a subsequent bid process for a new Agreement, the RCC Lease will automatically expire at the end of the 10-year Agreement.

Under the terms of the RCC Lease, each RCC Company will be assigned an exclusive use area within the CSB, an exclusive use area within the parking garage and an exclusive use service site area. The CSB area is designated for counter retail areas, the parking garage is designated for ready and return parking for rental vehicles and the service site area is to be used for storing and maintaining the rental car fleets. The initial allocation of all exclusive use premises was determined based on the bids received by the City in December 2003. The exclusive use premises within the CSB and the exclusive use service site premises will remain unchanged for the first 10 years of the RCC Lease. The exclusive use parking

garage premises are reallocated every two years during the RCC Lease term based on changes in market share at the Airport among the RCC Companies using the RCC. Each RCC Company is allocated a portion of an initial tenant allowance of \$41.0 million of 2004 Bond proceeds that will be used to design, construct and equip the exclusive use premises. The allocation to the RCC Companies, excluding the small operators, was determined based on the bids received by the City. Any funding over and above the allowance will be the sole responsibility of each individual RCC Company. Each RCC Company is responsible for payment of all expenses in connection with the operation, maintenance and repair of its exclusive use areas. The City has agreed to design and construct the small operator parcel that will be able to accommodate up to five RCC Companies whose individual market shares would be limited to no more than 1.0 percent of the overall Phoenix Area rental car market.

In accordance with the RCC Lease, each RCC Company will be allocated a share of ground rent for the entire 141-acre site at the following rates per square foot commencing on the Primary Term (as defined therein) of the RCC Lease:

- Year One \$0.52 per square foot
- Year Two \$0.56
- Year Three \$0.60
- Year Four \$0.64
- Years Five-Twenty \$0.64 (plus a price index adjustment not to exceed 5.0 percent in any RCC Lease year.)

Ground rents are allocated to each RCC Company based on a Share Calculation Formula (as defined in the RCC Lease). The RCC Companies agree to pay for all annual operating, maintenance and repair expenses for all non-exclusive areas of the RCC. The City will develop and deliver to the RCC Companies a forecast of operating, maintenance and repair expenses for the ensuing FY and will invoice these expenses on a monthly basis in accordance with the Share Calculation Formula. At the end of each FY, the City will determine the actual operating, maintenance and repair expenses and notify each RCC Company of any reconciling amounts owed or credits due. Any revenues realized from these sources are not Pledged Revenues (as defined therein) under the Bond Indenture.

The RCC Lease states that the City shall have the sole and exclusive right to contract for and retain any revenues from any food and beverage, news and gift, advertising, luggage carts or any other customer service amenity within the RCC or on the common transportation system. Any revenues realized from these sources are not Pledged Revenues (as defined therein) under the Bond Indenture.

Comparable to the Agreement, each RCC Company is obligated under the RCC Lease to remit CFCs collected from rental car customers arriving at the Airport in accordance with the provisions of the CFC Ordinance. Also, the RCC Lease affirms that the Operator selected by the City will transport all the Companies' customers between the RCC and the Airport terminal buildings exclusively on a common transportation system. The cost of operating and maintaining the common transportation system will be funded with CFC proceeds.

In accordance with the RCC Lease, the City agrees to use its best efforts to cause the 2004 Bonds to be issued under the Bond Indenture. The City also agrees that there will be no mortgage or encumbrance on the RCC to secure the City's obligation under the Bond Indenture; provided, however, that the 2004 Bondholders, acting on their own behalf or through the Trustee, will be entitled to the remedy of specific performance to enforce the City's obligations under the RCC Lease and the City Purchase Agreement. The City and the RCC Companies agree that if there is a conflict between the RCC Lease and the Bond Indenture, the terms and provisions of the Bond Indenture shall control.

Under the RCC Lease, the City and the RCC Companies agree that the development costs of the RCC Project shall be funded initially from the following sources: (i) CFC proceeds collected and remitted to the City from June 1, 2002 through DBO of the RCC, (ii) 2004 Bond proceeds and (iii) any interest earnings. The City and the RCC Companies further agree that the sources of funding will be used for the following elements of the RCC Project: (i) the funding of all costs associated with the planning, designing, constructing and equipping of the RCC Project, (ii) reimbursing the RCC Companies collectively for any financial or legal consulting fees directly associated with the RCC Project and for consulting fees directly associated with reviewing the Bond Indenture, (iii) the funding of any special funds or accounts as may be required or permitted in accordance with the Bond Indenture, (iv) the funding of any reserve fund accounts or improvement funds as may be required or permitted by the Bond Indenture, (v) the City's costs associated with the issuance of the 2004 Bonds and (vi) the funding of the Tenant Allowance (as defined in the RCC Lease) for the designing, constructing and equipping of the RCC Companies' exclusive use premises. Future RCC expansion, improvements or equipment may be funded with excess CFCs and/or additional bonds.

Under the default and termination provisions of the RCC Lease, any RCC Company is in monetary default if it fails to pay the rent or any other payments, charges or fees required under the RCC Lease or under the Agreement. Any RCC Company in monetary default shall have 10 days to cure the default. Any RCC Company is in non-monetary default if it fails to keep, perform and observe any other term or condition set forth in the RCC Lease. Upon written notice, the RCC Company in non-monetary default will have 30 days to cure the non-monetary default. The City can immediately terminate the RCC Lease if: (i) the RCC Company fails to cure certain covenant breaches within the applicable period, (ii) the RCC Company fails to comply with the CFC Ordinance, (iii) the Agreement is terminated, (iv) the RCC Company becomes insolvent, (v) a petition under any part of the federal bankruptcy laws or an action under any present or future insolvency law or statute, shall be filed against the RCC Company and shall not be dismissed within 30 days after the filing, (vi) the RCC Company vacates the RCC, (vii) the RCC Company conducts its operations in a manner that threatens public safety or (viii) the RCC Company willfully falsifies any of its records or figures.

3. Key Provisions of the City Purchase Agreement and Bond Indenture

The City of Phoenix Civic Improvement Corporation (the "Corporation") and the City will enter into a City Purchase Agreement dated as of June 1, 2004 pursuant to which the Corporation has agreed to issue the 2004 Bonds to acquire the Property, which is defined as any and all of the components of the RCC Project funded with proceeds of the 2004 Bonds, and to sell the Property to the City. The Corporation and the Trustee will also enter into a Bond Indenture dated as of June 1, 2004.

The City Purchase Agreement and the Bond Indenture provide for (i) the terms and conditions for the issuance of the 2004 Bonds, (ii) the administration and transfer of Purchase Payments, (iii) the deposit of Annual Receipts and Pledged Revenues (as defined therein) to the Revenue Fund, (iv) additional payments from Airport Improvement Funds and (v) the application of Annual Receipts to the payment of Administrative Costs, annual debt service on the 2004 Bonds and Transportation O&M Expenses. Key provisions of the City Purchase Agreement and Bond Indenture are described below.

a. Annual Budgets and Projections

A City Representative or Rate Consultant shall prepare and deliver to the Trustee and the 2004 Bond Insurer, no later than ninety days prior to the beginning of each Bond Year, a schedule or schedules setting forth budgeted Administrative Costs, budgeted Transportation O&M Expenses, projected Pledged Revenues by source and the ratio of projected Annual Receipts to debt service on the Bonds for the Bond Year. For purposes of determining the Transportation O&M Reserve Requirement and the City Transportation O&M Reserve Requirement, such schedules shall also include a projection of Transportation O&M Expenses for the second succeeding Bond Year.

b. Rate Covenant

The City covenants that it will in each Bond Year, establish, maintain and enforce the CFCs applicable to both RCC Companies and Off-Site Companies at not less than the Pledged Rate, which is currently the Initial Rate of \$4.50 per Transaction Day. In the event that the Annual Receipts described in the schedules prepared in Section 3.a. above, plus amounts on deposit in the Debt Service Coverage Fund, are not projected to equal at least (a) 125 percent of the Principal Requirement and the Interest Requirement plus (b) budgeted Administrative Costs for the next Bond Year and any amounts required to maintain the 2004 Debt Service Reserve Fund (and comparable funds established for Parity Obligations) at the applicable Debt Service Reserve Fund Requirement and the Debt Service Coverage Fund at the Debt Service Coverage Requirement, it will use its best efforts to increase the rate at which CFCs are imposed to remedy such projected deficiencies. In such event, the City must also use its best efforts to notify the Trustee of a corresponding increase in the Pledged Rate. If the City increases the rate imposed and elects to notify the Trustee of an increase in the Pledged Rate, such notice shall, without further action, increase the Pledged Rate for purposes of the City Purchase Agreement and the Bond Indenture.

The Corporation acknowledges that increasing the rate at which CFCs are imposed and increasing the Pledged Rate are separate legislative acts solely within the control of the City Council.

c. Issuance of Parity Obligations

The City Purchase Agreement and the Bond Indenture authorize the issuance of the 2004 Bonds by the Corporation to fund the majority of the cost of designing, acquiring, constructing and equipping certain facilities, infrastructure, site development and equipment necessary for the operation of the RCC. The City Purchase Agreement permits the issuance of additional obligations on parity with the 2004 Bonds ("Parity Obligations" and together with the 2004 Bonds, the "Bonds"). In order to issue Parity Obligations, a Corporation Representative shall certify that, upon issuance or delivery of the Parity Obligations, neither the Corporation, nor the City will be in default under any term or provision of the Bond Indenture or the City Purchase Agreement. Furthermore, the Trustee shall certify that upon issuance of the Parity Obligations, the 2004 Debt Service Reserve Fund (and comparable funds established for Parity Obligations) and the Debt Service Coverage Fund are funded at the applicable Debt Service Reserve Requirement and the Debt Service Coverage Requirement, respectively. Also, a certificate must be delivered that meets the following test:

A City Representative shall certify that either the Annual Receipts for the most recently completed Fiscal Year for which audited financial statements are available or the Annual Receipts for 12 consecutive months out of the most recent 18 calendar months would have been at least equal to Administrative Costs for the last complete Bond Year and 125.0 percent of the Maximum Annual Debt Service for all Bonds to be Outstanding, including the Parity Obligations proposed to be issued.

d. Additional Payments from Airport Improvement Funds

Under the City Purchase Agreement, the City has covenanted to maintain the balance in the Transportation O&M Reserve Fund at the Transportation O&M Reserve Requirement and to maintain the balance in the City Transportation O&M Reserve Fund at the City Transportation O&M Reserve Requirement. To the extent funds in the Transportation O&M Fund and the Improvement Reserve/Surplus Fund are not sufficient to pay Transportation O&M Expenses and amounts from the Transportation O&M Reserve Fund are so used, the City has covenanted to deposit, within 60 days notice from the Trustee of a deficiency, Airport Improvement Funds in an amount necessary to maintain the Transportation O&M Reserve Requirement ("Additional Payments"). Airport Improvement Funds are amounts deposited to the Airport Improvement Fund and generally consist of revenues of the Airport System, less costs of maintenance and operation, debt service on all obligations payable from Airport Revenues and required reserve fund deposits. The pledge of Airport Improvement Funds will remain in effect until no Bonds are outstanding. The Purchase Payments and Additional Payments are collectively referred to herein as the

"Purchase Price". The City may, but is not required to, pay the Purchase Price from other lawfully available funds available to the Airport System, which are not included in the definition of Pledged Revenues.

B. FLOW OF FUNDS

The Bond Indenture establishes certain funds and accounts and the priority and manner in which Pledged Revenues received by the Trustee shall be deposited to the credit of the Revenue Fund. The flow of funds is shown on **Exhibit VI-1**.

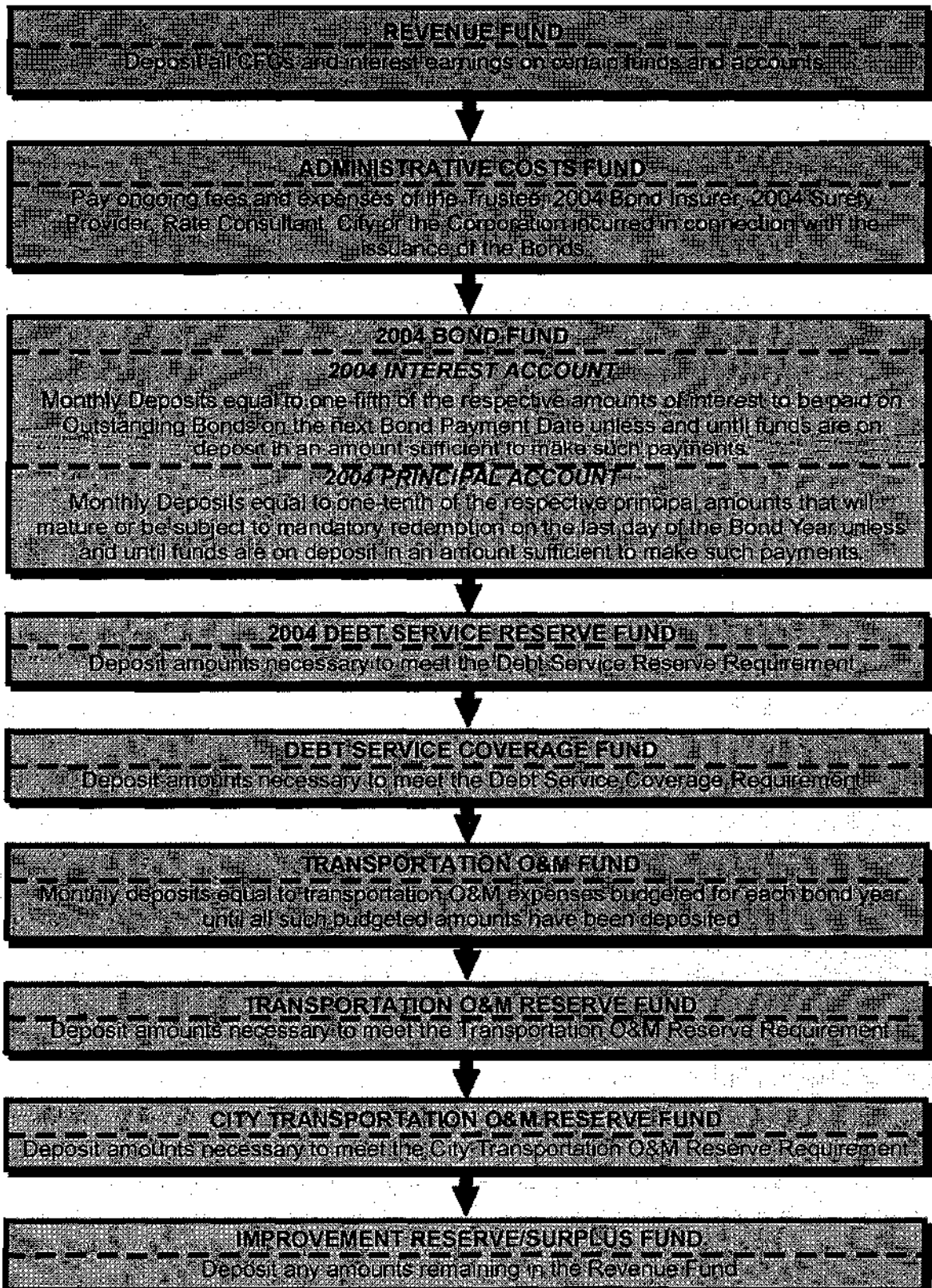
Pledged Revenues are defined in the Bond Indenture as (i) all amounts deposited to the Revenue Fund, including the CFCs remitted by the Companies to the City's designated depository and transferred to the Trustee (and any interest or penalties paid with respect to a Company's failure to remit) and income from investments therein and amounts required to be transferred to the Revenue Fund from the funds and accounts established under the Bond Indenture, (ii) amounts held by the Trustee in the 2004 Bond Fund, the 2004 Debt Service Reserve Fund, the Debt Service Coverage Fund and the Improvement Reserve/Surplus Fund and income from investments therein, (iii) amounts held in the Construction Fund until expended as permitted in the City Purchase Agreement, including income from investments therein and (iv) all other amounts received by the Trustee or the Corporation with respect to payment of the Principal Requirement or the Interest Requirement with respect to the 2004 Bonds, but excluding (a) amounts paid by the RCC Companies as ground rentals or concession fees, (b) amounts on deposit in or required to be deposited to, the Administrative Costs Fund, (c) amounts on deposit in the Transportation O&M Fund, the Transportation O&M Reserve Fund and the City Transportation O&M Reserve Fund and (d) CFCs which exceed the Pledged Rate.

The monies on deposit in the Revenue Fund are to be applied in the following manner and order of priority:

(a) **Administrative Costs Fund.** The Trustee shall deposit to the Administrative Costs Fund on or before the first Business Day of each month, an amount equal to the Administrative Costs budgeted for the 2004 Bonds or any Parity Obligations for such Bond Year until all budgeted Administrative Costs have been deposited. Thereafter, no additional transfers to the Administrative Costs Fund may be made during such Bond Year unless the City amends the Administrative Costs budgeted for the Bonds for such Bond Year and such amendment increases the Administrative Costs budgeted for the Bonds for such Bond Year. In such event, the Trustee is required to transfer to the Administrative Costs Fund all moneys subsequently deposited in the Revenue Fund until there shall have been deposited thereto an amount equal to the increased Administrative Costs budgeted for the Bonds for such Bond Year. In the event amounts on deposit at the end of a Bond Year exceed the amount budgeted for the following Bond Year, such excess shall be transferred to the Improvement Reserve/Surplus Fund. Notwithstanding the foregoing, Administrative Costs may not be paid in any Bond Year in an amount exceeding one percent of the preceding Bond Year's Annual Receipts. For purposes of the limitation, Annual Receipts for the Bond Year ending July 1, 2004 shall be deemed to be \$27,653,902. Administrative Costs in excess of such limit may be paid from amounts in the Improvement Reserve/Surplus Fund.



Exhibit VI-1
Flow of Funds



- (b) **2004 Interest Account and Parity Obligation Interest Accounts.** The Trustee shall deposit to the 2004 Interest Account and any subsequent account for Parity Obligations on or before the first Business Day of each month an amount equal to one-fifth of the respective amounts of interest to be paid on Outstanding Bonds on the next Bond Payment Date unless and until funds are on deposit in an amount sufficient to make such payment. If Pledged Revenues are not available to make a deposit when required, such deficiency shall be remedied on the next succeeding deposit date. Moneys in the 2004 Interest Account shall be used to pay interest on the 2004 Bonds as it becomes due.
- (c) **2004 Principal Account and Parity Obligation Principal Accounts.** The Trustee shall deposit to the 2004 Principal Account and any subsequent account for Parity Obligations on or before the first Business Day of each month (in each Bond Year ending on a date on which Bonds mature), an amount equal to one tenth of the respective principal amounts at maturity plus one-tenth of the amount equal to any mandatory sinking fund redemption requirement of Section 3.2(b) of the Bond Indenture, of 2004 Bonds Outstanding (or similar obligation with respect to Parity Obligations) which will mature or be subject to mandatory redemption on the last day of such Bond Year unless and until funds are on deposit in an amount sufficient to make such payment. If Pledged Revenues are not available to make a deposit when required, such deficiency shall be remedied on the next succeeding deposit date. Moneys in the 2004 Principal Account shall be used to retire 2004 Bonds by payment at their scheduled maturity or their mandatory sinking fund retirement date.
- (d) **2004 Debt Service Reserve Fund and Parity Obligation Reserve Funds.** The Trustee shall deposit from time to time to the credit of the 2004 Debt Service Reserve Fund and every separate debt service reserve fund established for Parity Obligations not secured by the 2004 Debt Service Reserve Fund, amounts then required to be deposited therein on a pro rata basis, provided that such deposits may be transferred to the applicable Credit Facility in order to reimburse such Credit Facility for amounts paid out under any insurance policy or Qualified Surety Bond securing any of the Bonds.
- (e) **Debt Service Coverage Fund.** The Trustee shall deposit from time to time to the credit of the Debt Service Coverage Fund, amounts then required to be deposited therein.
- (f) **Transportation O&M Fund.** The Trustee shall deposit to the credit of the Transportation O&M Fund on or before the first Business Day of each month an amount equal to the Transportation O&M Expenses budgeted for such Bond Year until all budgeted Transportation O&M Expenses have been deposited.
- (g) **Transportation O&M Reserve Fund.** The Trustee shall deposit to the credit of the Transportation O&M Reserve Fund on or before the first Business Day of each month an amount equal to the amount required to maintain the balance therein equal to the Transportation O&M Reserve Requirement.



- (h) **City Transportation O&M Reserve Fund.** The Trustee shall transfer to the City for deposit to the City Transportation O&M Reserve Fund on or before the first Business Day of each month, amounts certified by the City as necessary to maintain the balance therein at the City Transportation O&M Reserve Requirement.
- (i) **Improvement Reserve/Surplus Fund.** The Trustee shall deposit to the credit of the Improvement Reserve/Surplus Fund any amounts remaining in the Revenue Fund.

C. SOURCES AND USES OF FUNDS

The RCC Project, as described in Chapter II of this Report, includes the CSB, parking garage, service facilities, bus fleet, bus maintenance facility, associated site improvements and related infrastructure. As shown on Table VI-1, the total estimated RCC Project cost of \$270.0 million is composed of \$244.4 million for the RCC and \$25.6 million for the common transportation system. The sources of funds include: (i) Pre-2004 Bond Issuance CFCs, (ii) Post-2004 Bond Issuance CFCs, (iii) 2004 Bond proceeds and (iv) interest income earned in the Construction Fund. As a source of funds, total Pre-2004 Bond Issuance CFCs are forecast to equal \$45.9 million while Post-2004 Bond Issuance CFCs are forecast to equal \$37.8 million for a total CFC collection of \$83.7 million from June 1, 2002 through DBO. For purposes of determining the sources and uses of funds, projected CFC Collections from January 1, 2004 through DBO equal 90.0 percent of the CFC Collections forecast by Landrum & Brown. This 10.0 percent reduction produces total CFC Collections that are \$5.7 million less than those forecast by Landrum & Brown. (See Section D – CFC Revenues). The Pre-2004 Bond Issuance CFCs and the Post-2004 Bond Issuance CFCs will be applied to the RCC Project and certain funds that will be created pursuant to the City Purchase Agreement and Bond Indenture.

As shown on Table VI-1, Pre-2004 Bond Issuance CFCs are expected to be applied in the following manner: (i) \$18.0 million to the City Transportation O&M Reserve Fund. This equals one and one-half times the amount forecast for Transportation O&M Expenses in FY 2007, (ii) \$25.0 million to the common transportation system for the cost of purchasing the bus fleet (\$20.7 million) and to fund a portion of the cost of constructing the bus maintenance facility (\$4.3 million) and (iii) \$2.9 million to the Improvement Reserve/Surplus Fund.

The Post-2004 Bond Issuance CFCs are expected to be applied in the following manner: (i) \$21.1 million to 2004 Bond Interest Expense and (ii) \$16.6 million to the Improvement Reserve/Surplus Fund.

The 2004 Bond proceeds and interest income earned in the Construction Fund are expected to be applied to the RCC Project and certain funds in the following manner: (i) \$244.4 million to the RCC Project and \$0.6 million to the common transportation system to fund a portion of the cost of constructing the bus maintenance facility, (ii) \$5.3 million for the Debt Service Coverage Requirement (equal to 25.0 percent of Maximum Annual Debt Service), (iii) \$6.0 million to the Transportation O&M Reserve Fund (equal to one-half of forecast FY 2007 Transportation O&M Expenses) and (iv) \$5.0 million to fund cost of issuance expenses.

**Table VI-1
Estimated Sources and Uses of Funds**

Sources of Funds:	Total	Pre-2004 Bond Issuance CFC Revenues (1)	Post-2004 Bond Issuance CFC Revenues (2)	2004 Bond Proceeds
2004 Bond Proceeds	\$ 260,000,000	\$ -	\$ -	\$ 260,000,000
CFC Revenues Pre-2004 Bond Issuance (3)	45,921,947	45,921,947	-	-
CFC Revenues Post-2004 Bond Issuance to DBO (4)	37,762,625	-	37,762,625	-
Interest Income Earned in Construction Fund	1,290,111	-	-	1,290,111
Total Sources of Funds	\$ 344,974,683	\$ 45,921,947	\$ 37,762,625	\$ 261,290,111
Uses of Funds:				
RCC Project Costs	\$ 244,365,000	\$ -	\$ -	\$ 244,365,000
Common Transportation System Costs (5)	25,635,000	24,976,000	-	659,000
2004 Bond Interest During Construction (6)	21,147,530	-	21,147,530	-
Debt Service Coverage Fund (7)	5,319,552	-	-	5,319,552
Transportation O&M Reserve Fund (8)	5,997,154	-	-	5,997,154
City Transportation O&M Reserve Fund (9)	17,991,461	17,991,461	-	-
Improvement Reserve/Surplus Fund	19,569,581	2,954,486	16,615,095	-
Cost of Issuance-2004 Bonds (10)	4,949,405	-	-	4,949,405
Total Uses of Funds	\$ 344,974,683	\$ 45,921,947	\$ 37,762,625	\$ 261,290,111

(1) CFC revenues are applied in the following order: 1) City Transportation O&M Reserve Fund, 2) A portion of the Common Transportation System costs not funded by 2004 Bond Proceeds and 3) Improvement Reserve/Surplus Fund.

(2) CFC revenues are applied in the following order: 1) 2004 Bond Interest during Construction and 2) Improvement Reserve/Surplus Fund (DBO is November 1, 2005).

(3) Actual CFC revenues through December 2003, thereafter forecast CFC revenues are discounted by 10.0 percent. Source: Landrum & Brown, Inc.

(4) Forecast CFC revenues are discounted by 10.0 percent up to DBO. Source: Landrum & Brown, Inc.

(5) Cost of purchasing 62 buses and the cost of constructing the bus maintenance facility. Source: Landrum & Brown, Inc.

(6) 2004 Bond Interest accrued through DBO.

(7) Debt Service Coverage Fund equal to 25.0 percent of Maximum Annual Debt Service.

(8) Funded at one-half of the estimated Transportation O&M Expenses for the first full FY of operation after DBO (FY 2007). Source: Landrum & Brown, Inc.

(9) Funded at one and one-half times the estimated Transportation O&M Expenses for the first full FY of operation after DBO (FY 2007) Source: Landrum & Brown, Inc.

(10) Includes cost of issuance, underwriters spread, cost of insurance and the cost of a surety bond to fund the 2004 Debt Service Reserve Fund.

Source: Lehman Brothers and Landrum & Brown, Inc.

D. CFC'S REVENUES

CFC Collections at the Airport began on June 1, 2002 at the rate of \$3.50 per transaction day. The rate was increased to \$4.50 beginning on September 1, 2003. For purposes of this Report, it is assumed that the CFC rate will remain at \$4.50 through FY 2015. Actual CFC Collections remitted to the City from June 1, 2002 through December 31, 2003 totaled \$32.6 million. From January 1, 2004 through May 31, 2004 CFC Collections are forecast at \$14.8 million. The sum of the actual CFC Collections remitted and the forecast amount equal \$47.4 million and represent the forecast Pre-2004 Bond Issuance CFCs. The forecast of Post-2004 Bond Issuance CFC Collections from June 1, 2004 through DBO are estimated at \$42.0 million. The total amount of all CFC Collections from June 1, 2002 through DBO is therefore forecast to be \$89.4 million. This total amount is \$5.7 million greater than the amount shown in the sources and uses of funds table (See *Section C – Sources and Uses of Funds, Table VI-1*). This variance is the result of applying a 10.0 percent discount to the CFC forecast prepared by Landrum and Brown for the period January 1, 2004 through DBO. For purposes of developing the sources and uses of funds, the 10.0 percent discount was applied to develop a more conservative estimate of CFC collections

From FY 2003 through FY 2015, CFC Collections are forecast to increase at an average annual growth rate of 3.4 percent. From FY 2007, the first full 12-month period of operating the RCC, through FY 2015, CFC Collections are forecast to increase from \$33.4 million to \$39.8 million, an average annual growth rate of 2.2 percent.

Total CFC Collections after DBO through FY 2015 are estimated to total \$351.8 million (See *Table VI-5 – Application of Annual Receipts, Fund Balances and Debt Service Coverage Analysis*).

For purposes of this Report it was assumed that CFC Collections remitted after the issuance of the 2004 Bonds would be used to pay Administrative Costs, annual debt service on the 2004 Bonds, Transportation O&M Expenses and amounts necessary to maintain the balances in the Transportation O&M Reserve Fund, the City Transportation O&M Reserve Fund, 2004 Debt Service Reserve Fund and the Debt Service Coverage Fund as required.

E. ADMINISTRATIVE COSTS

Administrative Costs are to be paid from CFC revenues beginning in FY 2006 coincident with DBO of the RCC. Administrative Costs include: (i) the on-going fees and expenses of the Trustee, as Trustee, (ii) the on-going fees and expenses of the Trustee, as Paying Agent, (iii) the on-going fees and expenses of the 2004 Bond Insurer and a Qualified Surety Provider, if any, (iv) fees and expenses of the Rate Consultant subsequent to those included in the costs of issuance, (v) fees and expenses of the City and the Corporation, including, but not limited to those of attorneys, financial advisors, accountants and consultants incurred in connection with any regulatory or administrative requirements, including specifically, without limitation, the preparation and filing of annual financial statements and audits and compliance with continuing disclosure requirements, (vi) the reasonable legal fees and expenses of the RCC Companies incurred with respect to defending any actions or proceedings brought by third parties challenging the CFCs or the collection or remittance thereof pursuant to the RCC Leases and (vii) such other reasonable fees and expenses of the City.

and the Corporation, including reasonable overhead expenses in carrying out their respective obligations under the Bond Indenture, the City Purchase Agreement and the RCC Leases, as applicable.

Administrative costs are estimated to be \$112,500 in FY 2006 from DBO through June 30, 2006. For the first full year of RCC operations, FY 2007, Administrative Costs are estimated at \$154,500 and are increased each FY thereafter at an average annual rate of 3.0 percent reaching a total of \$195,716 in FY 2015.

F. ANNUAL DEBT SERVICE REQUIREMENTS

Table VI-2 presents the estimated annual debt service requirements on the 2004 Bonds. Debt service requirements for the forecast period do not include Parity Obligations that may be issued to fund future capital improvements to the RCC. The 2004 Bonds have a term of 25 years and will mature on July 1, 2029. It is anticipated that the first interest payment will be due on January 1, 2005. After the sale of the 2004 Bonds, principal and interest payments will be made with CFC Collections. The debt service schedule assumes that principal payments will be due July 1 of each FY, and interest payments will be due on January 1 and July 1 of each FY.

G. TRANSPORTATION OPERATING AND MAINTENANCE EXPENSES

Transportation Operating and Maintenance Expenses ("Transportation O&M Expenses") include all expenditures (exclusive of depreciation and interest on money borrowed), which are necessary to the efficient maintenance and operation of vehicles and facilities, including, but not limited to buses, which transport rental car customers between the Airport terminal buildings and the RCC.

Pursuant to the Bond Indenture, the Trustee is required to make monthly transfers to the City from the Transportation O&M Fund equal to one-twelfth of the annual budgeted Transportation O&M Expenses and any additional amounts necessary to enable the City to pay actual Transportation O&M Expenses. If there are insufficient funds available in the Transportation O&M Fund to pay actual Transportation O&M Expenses, the City or the Trustee will pay such expenses as follows: (a) from amounts transferred by the Trustee to the City at the direction of the City from the Improvement Reserve/Surplus Fund and (b) from amounts available in the Transportation O&M Reserve Fund held by the Trustee. At the City's option, amounts on deposit in the City Transportation O&M Reserve Fund may be used to pay Transportation O&M Expenses or any other lawful purpose permitted under the CFC Ordinance. In the event amounts on deposit at the end of a Bond Year exceed the City Transportation O&M Reserve Requirement for the following Bond Year, such excess shall be transferred to the Trustee to the credit of the Revenue Fund.

Table VI-2
2004 Taxable Bonds Estimated Debt Service Schedule

FY Ending June 30,	Principal	Interest	Total
2005	\$ -	\$ 16,552,091	\$ 16,552,091
2006	-	15,318,131	15,318,131
2007	5,960,000	15,318,131	21,278,131
2008	6,180,000	15,098,207	21,278,207
2009	6,440,000	14,838,029	21,278,029
2010	6,735,000	14,541,789	21,276,789
2011	7,065,000	14,209,080	21,274,080
2012	7,435,000	13,838,167	21,273,167
2013	7,845,000	13,431,473	21,276,473
2014	8,285,000	12,992,153	21,277,153
2015	8,750,000	12,526,536	21,276,536
2016	9,255,000	12,021,661	21,276,661
2017	9,795,000	11,478,392	21,273,392
2018	10,370,000	10,903,426	21,273,426
2019	10,990,000	10,284,337	21,274,337
2020	11,645,000	9,628,234	21,273,234
2021	12,365,000	8,909,737	21,274,737
2022	13,130,000	8,146,817	21,276,817
2023	13,940,000	7,336,696	21,276,696
2024	14,800,000	6,476,598	21,276,598
2025	15,710,000	5,563,438	21,273,438
2026	16,695,000	4,581,563	21,276,563
2027	17,740,000	3,538,125	21,278,125
2028	18,845,000	2,429,375	21,274,375
2029	20,025,000	1,251,563	21,276,563
Total	\$ 260,000,000	\$ 261,213,740	\$ 521,213,740

Source: Lehman Brothers

Pursuant to the Bond Indenture, the Transportation O&M Reserve Requirement means an amount equal to one-half of the succeeding Bond Year's projected Transportation O&M Expenses as certified by a City Representative or Rate Consultant (as defined therein) to the Trustee. The City Transportation O&M Reserve Requirement means an amount equal to one and one-half times the succeeding Bond Year's projected Transportation O&M Expenses as certified by a City Representative or Rate Consultant (as defined therein) to the Trustee.

Also pursuant to the Bond Indenture, Airport Improvement Funds means amounts on deposit in the Airport Improvement Fund, which are, not required to pay debt service on, or to reimburse a credit or surety provider for payments with respect to Airport obligations.

Airport Improvement Funds are deposited to the Airport Improvement Fund and generally consist of revenues of the Airport System, less costs of maintenance and operation, debt service on all obligations payable from Airport Revenues and required reserve fund deposits.

For purposes of this Report, Landrum & Brown has developed a forecast of Transportation O&M Expenses for the common transportation system during the forecast period beginning at DBO and continuing through FY 2015. The forecast has been developed based on information from three sources: 1) the Airport, 2) the RCC Companies that currently operate bus fleets at the Airport and 3) bus vendors. Operating cost information was gathered for the Airport's inter-terminal/employee shuttle operation and the rental car companies' busing operations. The inter-terminal bus operations were used as the primary input for the estimate due to the number of similarities to the RCC Project's planned common transportation system. The inter-terminal bus operation utilizes 40-foot CNG buses that are the same type that will be purchased for the RCC Project. In addition, fueling for the existing operation is provided by the same third-party fueling concessionaire who will build a new west side CNG fueling station for the Operator. Finally, given the same equipment and nature of operations, labor and other operating expenses are assumed to be similar to those currently provided for the existing inter-terminal bus operation. Table VI-3 illustrates the forecast of Transportation O&M Expenses from DBO in FY 2006 through FY 2015. For the first full year of operations in FY 2007, Transportation O&M Expenses are forecast at approximately \$12.0 million and increase to approximately \$17.2 million in FY 2015 at an average annual growth rate of 4.6 percent.

During the forecast period, it is expected that additional buses will be purchased. To quantify this increase, an analysis was conducted to determine the fleet size requirements for FY 2010 and FY 2015. It is assumed that by FY 2010, an additional seven buses will be required for a total fleet size of 69 buses and in FY 2015 an additional ten buses will be purchased for a total of 79 buses. The purchase of additional buses is assumed to be funded with excess CFC Collections in the Improvement Reserve/Surplus Fund. The forecast of Transportation O&M Expenses has been incrementally increased in FY 2010 and FY 2015 to account for the additional buses.

In order to further validate the Transportation O&M Expense forecast, the Transportation O&M Expenses for FY 2007 were compared to other similar transportation operations. Table VI-4 compares the annual per bus costs for Phoenix with four other airport systems. Although each transportation system is different in its operating environment and the costs that are included in the annual operating expenses, the comparison demonstrates that the forecast represents a reasonable estimate of Transportation O&M Expenses for the RCC Project.

Table VI-3
Common Transportation System
Estimated Annual Operating & Maintenance Expenses
FY 2004 through FY 2015

	2004	2005	2006 (1)	2007	2008	2009	2010 (2)	2011	2012	2013	2014	2015 (2)
Personnel Expenses:												
Salaries, Wages, and Benefits	\$ -	\$ -	\$ 5,025,000	\$ 6,901,000	\$ 7,108,030	\$ 7,321,271	\$ 7,917,954	\$ 8,563,268	\$ 8,820,166	\$ 9,084,771	\$ 9,357,314	\$ 10,119,935
Uniforms and Tools	-	-	37,500	51,500	53,045	54,636	59,089	63,905	65,822	67,797	69,831	75,522
Training and Education	-	-	41,250	56,650	58,350	60,100	64,998	70,295	72,404	74,576	76,814	83,074
Miscellaneous	-	-	45,000	61,800	63,654	65,564	70,907	76,686	78,987	81,356	83,797	90,626
Sub-Total Personnel Expenses	\$ -	\$ -	\$ 5,148,750	\$ 7,070,950	\$ 7,283,079	\$ 7,501,571	\$ 8,112,949	\$ 8,774,154	\$ 9,037,379	\$ 9,308,500	\$ 9,587,755	\$ 10,369,157
Other Operating Expenses:												
CNG Fuel	\$ -	\$ -	\$ 900,000	\$ 1,236,000	\$ 1,273,080	\$ 1,311,272	\$ 1,418,141	\$ 1,533,720	\$ 1,579,731	\$ 1,627,123	\$ 1,675,937	\$ 1,812,526
Oil	-	-	30,000	41,200	42,436	43,709	47,271	51,124	52,658	54,237	55,863	60,418
Repairs and Maintenance	-	-	198,750	272,950	281,139	289,573	313,173	338,696	348,857	359,323	370,103	400,266
Material and Supplies	-	-	525,000	721,000	742,630	764,909	827,249	894,670	921,510	949,155	977,630	1,057,307
Insurance	-	-	300,000	412,000	424,360	437,091	472,714	511,240	526,577	542,374	558,646	604,175
General and Administration	-	-	33,750	46,350	47,741	49,173	53,180	57,514	59,240	61,017	62,848	67,970
Taxes	-	-	67,500	92,700	95,481	98,345	106,361	115,029	118,480	122,034	125,695	135,939
Sub-Total Other Operating Expenses	\$ -	\$ -	\$ 2,055,000	\$ 2,822,200	\$ 2,906,866	\$ 2,994,072	\$ 3,238,089	\$ 3,501,993	\$ 3,607,053	\$ 3,715,264	\$ 3,826,722	\$ 4,138,600
Amortization of Start-Up Costs and Capital Equipment	\$ -	\$ -	\$ 375,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000
Bus Maintenance Facility O&M Expenses	\$ -	\$ -	\$ 375,000	\$ 515,000	\$ 530,450	\$ 546,364	\$ 562,754	\$ 579,637	\$ 597,026	\$ 614,937	\$ 633,383	\$ 652,387
Contingency (3)	\$ -	\$ -	\$ 375,000	\$ 515,000	\$ 530,450	\$ 546,364	\$ 562,754	\$ 579,637	\$ 597,026	\$ 614,937	\$ 633,383	\$ 652,387
Management Fee	\$ -	\$ -	\$ 416,438	\$ 571,158	\$ 587,542	\$ 604,418	\$ 653,827	\$ 701,771	\$ 721,924	\$ 742,682	\$ 764,062	\$ 820,627
Total	\$ -	\$ -	\$ 8,745,188	\$ 11,994,308	\$ 12,338,387	\$ 12,692,788	\$ 13,730,374	\$ 14,737,192	\$ 15,160,408	\$ 15,596,320	\$ 16,043,310	\$ 17,233,157

Average Annual Growth Rate

2007 - 2010	4.6%
2010 - 2015	4.6%
2007 - 2015	4.6%

(1) For the period November 1, 2005 through June 30, 2006

(2) Assumes the purchase of seven additional buses in FY 2010 and ten additional buses in FY 2015.

(3) Contingency provided for unanticipated personnel and operating expenses.

Source: Landrum & Brown, Inc.

Table VI-4
Common Transportation System Cost Comparisons

<u>Airport</u>	<u>Type of Operation</u>	<u>Number of Buses</u>	<u>Annual O&M Expenses</u>	<u>Average Cost per Bus</u>
Phoenix	Inter-terminal Shuttle	32	\$ 6,250,000	\$ 195,313
Baltimore	Common Rental Car Shuttle	25	4,300,000	172,000
Dallas/Ft. Worth	Common Rental Car Shuttle	40	6,800,000	170,000
Houston	Common Rental Car Shuttle	26	4,500,000	173,077
Las Vegas	Common Rental Car Shuttle	40	6,700,000	167,500
Phoenix	Common Rental Car Shuttle	62	\$ 11,994,308	\$ 193,457

Source: Airport records, Landrum & Brown, Inc.

H. FUND DEPOSIT REQUIREMENTS

The funds created pursuant to the City Purchase Agreement and the Bond Indenture are assumed to be funded with Pre-2004 Bond Issuance CFCs, Post-2004 Bond Issuance CFCs, proceeds from the 2004 Bonds and interest income earned on the Construction Fund. For the forecast period, certain fund deposit requirements are assumed to be funded with CFC Collections pursuant to the flow of funds created and established in the Bond Indenture.

I. APPLICATION OF ANNUAL RECEIPTS, FUND BALANCES AND DEBT SERVICE COVERAGE

Table VI-5 presents the application of Annual Receipts, fund balances and debt service coverage calculations through FY 2015 in the Base Case Analysis (the "Base Case Analysis"). In the Base Case Analysis, the application of Annual Receipts follows the flow of funds created in the Bond Indenture. The initial deposits to certain funds are shown in Table VI-5 based on the sources and uses of funds described in Section C of this chapter.

Under the Base Case Analysis, in FY 2007, the first full year the RCC is in operation, the Rate Covenant debt service coverage ratio is 1.81 times with approximately \$0.7 million being transferred from the Improvement Reserve/Surplus Fund to the Transportation O&M Reserve Fund and City Transportation O&M Reserve Fund pursuant to the Transportation O&M Reserve Fund Requirement and the City Transportation O&M Reserve Fund Requirement. The projected Rate Covenant debt service coverage ratio increases each year thereafter and reaches its highest ratio in FY 2015 at 2.11 times. The average Rate Covenant debt service coverage ratio from FY 2007 through FY 2015 is 1.96.

In FY 2007, the debt service coverage ratio based on Annual Receipts is 1.56 times with approximately \$0.7 million being transferred from the Improvement Reserve/Surplus Fund to the Transportation O&M Reserve Fund and City Transportation O&M Reserve Fund pursuant to the Transportation O&M Reserve Fund Requirement and the City Transportation O&M Reserve Fund Requirement. The projected Annual Receipts debt service coverage ratio increases each year thereafter and reaches its highest ratio in FY 2015 at 1.86 times. The average Annual Receipts debt service coverage ratio from FY 2007 through FY 2015 is 1.71.



Table V-3
Base Case Analysis
Application of Annual Receipts, Fund Balances and Debt Service Coverage Analysis
FY 2002 through FY 2019

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
CFC Rate & Forecast Transaction Days														
CFC Rate (%)	2.50	3.50	4.31	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Forecast of Transaction Days	425,318	593,413	6,422,800	6,940,165	7,230,775	7,425,438	7,589,124	7,755,604	7,922,952	8,091,163	8,260,002	8,429,619	8,604,746	8,784,847
Annual Receipts:														
CFC Revenues - Pre-2004 Bond Issuance	\$ 1,097,433	\$ 20,897,077	\$ 25,469,787	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CFC Revenues - Post-2004 Bond Issuance	-	-	3,244,195	36,780,743	3,913,715	-	-	-	-	-	-	-	-	-
CFC Revenues	-	-	-	-	23,694,032	33,414,561	34,151,058	34,900,218	35,655,284	36,410,234	37,125,009	37,843,286	38,511,357	39,783,812
Total Annual Receipts before Transfers	(4)	\$1,097,433	\$24,897,877	\$27,658,982	\$38,788,743	\$33,414,561	\$34,151,058	\$34,900,218	\$35,655,284	\$36,410,234	\$37,125,009	\$37,843,286	\$38,511,357	\$39,783,812
Transfer to City Transportation O&M Reserve Fund	(\$1,097,433)	(\$16,894,028)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfer to Transportation O&M Reserve Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from Debt Service Coverage Fund	-	-	5,319,552	5,319,552	5,319,552	5,319,552	5,319,552	5,319,552	5,319,552	5,319,552	5,319,552	5,319,552	5,319,552	5,319,552
Transfer to Fund Common Transportation System	-	-	(2,677,600)	-	-	-	-	-	-	-	-	-	-	-
Total Annual Receipts and Debt Service Coverage Fund before Transfers	(4)	\$ -	\$4,003,049	\$7,997,454	\$36,108,295	\$38,734,113	\$39,470,610	\$40,219,770	\$40,972,836	\$41,729,786	\$42,444,561	\$43,162,836	\$44,130,909	\$45,103,364
Expenses & Transfers														
Administrative Costs	(4)	\$ -	\$ -	\$ -	\$ -	(\$12,902)	(\$14,900)	(\$19,133)	(\$18,909)	(\$18,836)	(\$17,891)	(\$19,108)	(\$18,481)	(\$19,016)
Annual Receipts and Debt Service Coverage Fund Available for Debt Service	-	-	4,003,049	7,997,454	36,100,295	37,834,639	38,579,612	39,311,673	40,055,861	40,804,012	41,555,894	42,305,453	43,057,136	43,807,644
2004 Bond Debt Service	(4)	-	-	-	(\$6,573,091)	(\$5,318,131)	(\$1,278,131)	(\$1,278,207)	(\$1,278,329)	(\$1,278,789)	(\$1,273,107)	(\$1,273,107)	(\$1,277,135)	(\$1,274,236)
Transfer from (to) 2004 Debt Service Reserve Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to Debt Service Coverage Fund	-	-	(5,319,552)	(5,319,552)	(5,319,552)	(5,319,552)	(5,319,552)	(5,319,552)	(5,319,552)	(5,319,552)	(5,319,552)	(5,319,552)	(5,319,552)	(5,319,552)
Annual Receipts Remaining for Transportation O&M Expenses	-	-	4,003,049	2,677,902	14,228,652	12,198,937	14,841,871	12,718,717	13,458,210	14,207,669	14,962,263	15,672,724	16,383,532	17,144,189
Transportation O&M Expenses	-	-	-	-	-	(8,746,188)	(11,894,308)	(12,338,307)	(12,897,788)	(13,730,374)	(14,737,197)	(15,180,408)	(16,043,310)	(17,222,137)
Transfer from (to) Transportation O&M Reserve Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Annual Receipts transferred from (to) Construction Fund (2002-2005)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Annual Receipts transferred from (to) the City Transportation O&M Reserve Fund	-	-	-	-	-	(516,139)	(531,000)	(1,556,378)	(1,510,228)	(634,824)	(633,888)	(675,484)	(1,781,771)	(2,106,733)
Annual Receipts Remaining Transferred to Improvement Reserve/Surplus Fund	-	-	(4,003,049)	(2,677,902)	(14,228,652)	(8,401,789)	-	-	-	-	-	-	-	-
Transfer from Improvement Reserve/Surplus Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transportation O&M Expenses	-	-	-	-	-	-	12,377	-	-	-	-	-	-	-
Transportation O&M Reserve Fund Requirement	-	-	-	-	-	172,839	-	-	-	25,114	-	-	-	-
City Transportation O&M Reserve Fund Requirement	-	-	-	-	-	516,119	373,473	1,309,679	1,510,228	621,261	359,489	111,868	1,076,815	1,730,403
Total Expenses & Transfers	\$ -	\$ (4,003,049)	\$ (7,997,454)	\$ (26,108,295)	\$ (7,947,139)	\$ (58,734,113)	\$ (59,470,610)	\$ (40,219,770)	\$ (40,972,836)	\$ (41,729,786)	\$ (42,444,561)	\$ (43,162,836)	\$ (44,130,909)	\$ (45,103,364)
Purchase Additional Buses from Improvement Reserve/Surplus Fund	-	-	-	-	-	-	-	-	2,573,554	-	-	-	-	4,180,275
Total Expenses (2)	\$ -	\$ -	\$ -	\$ (26,108,295)	\$ (7,947,139)	\$ (58,734,113)	\$ (59,470,610)	\$ (40,219,770)	\$ (40,972,836)	\$ (41,729,786)	\$ (42,444,561)	\$ (43,162,836)	\$ (44,130,909)	\$ (45,103,364)
Fund Balances														
Debt Service Coverage Fund	\$ -	\$ -	\$ -	\$ 5,319,552	\$ 5,319,552	\$ 5,319,552	\$ 5,319,552	\$ 5,319,552	\$ 5,319,552	\$ 5,319,552	\$ 5,319,552	\$ 5,319,552	\$ 5,319,552	\$ 5,319,552
2004 Debt Service Reserve Fund (2)	-	-	21,278,207	21,278,207	21,278,207	21,278,207	21,278,207	21,278,207	21,278,207	21,278,207	21,278,207	21,278,207	21,278,207	21,278,207
Transportation O&M Reserve Fund (4)	-	-	5,997,154	5,997,154	5,997,154	6,169,193	6,346,394	6,885,181	7,388,596	7,982,204	8,822,455	9,616,579	9,318,830	9,318,830
City Transportation O&M Reserve Fund (5) (6)	1,097,433	17,991,461	17,991,461	17,991,461	17,991,461	18,307,580	19,609,182	20,395,561	22,035,789	22,740,612	23,394,481	24,007,965	25,849,736	27,556,489
Improvement Reserve/Surplus Fund (7)	-	4,003,049	6,680,951	20,909,603	29,361,372	28,660,837	28,327,363	27,817,444	22,997,389	22,396,007	21,541,561	20,737,546	14,946,869	-

2004 Debt Service Coverage Analysis

Debt Service Coverage from Annual Receipts (4)-(5)/(6)	1.86	2.12	1.56	1.48	1.63	1.67	1.70	1.74	1.77	1.82	1.86
Debt Service Coverage from Annual Receipts and Debt Service Coverage Fund (Rate Covenant Test) (6)-(4)/(5)	2.18	2.47	1.81	1.85	1.98	1.92	1.95	1.99	2.02	2.07	2.11

(1) The CFC rate was increased from 2.50 to 4.50 on September 1, 2009.

(2) Total Expenses include Administrative Costs, 2004 Bond Debt Service and Transportation O&M Expenses.

(3) Funded with a Bond Bank.

(4) Transportation O&M Reserve Fund is adjusted each year to reflect one-half of the preceding Bond Year's estimated Transportation O&M Expenses.

(5) City Transportation O&M Reserve Fund is adjusted each year to reflect one and one-half times the preceding Bond Year's estimated Transportation O&M Expenses.

(6) Deposits to the City Transportation O&M Reserve Fund may also be used for any other lawful purpose permitted under the CFC Ordinance.

(7) Purchase seven additional buses in FY 2010 and 10 additional buses in FY 2011.

Source: London & Berry, Inc.

The balance in the Transportation O&M Reserve Fund in FY 2015 is projected to be \$9.3 million and the balance in the City Transportation O&M Reserve Fund in FY 2015 is projected to be \$28.0 million. The balance in the Improvement Reserve/Surplus Fund is projected to be \$14.8 million in FY 2015 after purchasing seven buses in FY 2010 for \$2.6 million and 10 buses in FY 2015 for \$4.2 million. The Base Case Analysis shows that transfers from the Improvement Reserve/Surplus Fund to the City Transportation O&M Reserve Fund totaling approximately \$7.6 million are required in each year from FY 2007 through FY 2015 to meet the City Transportation O&M Reserve Requirement.

J. SENSITIVITY ANALYSIS

A sensitivity analysis ("Sensitivity Analysis") was performed on the Base Case Analysis by modifying the transaction days and corresponding Annual Receipts as presented in **Table VI-6**. The Sensitivity Analysis assumed a one time single event that reduced transaction days by 15.0 percent over a 12-month period. This assumption is approximately equal to the decrease in transaction days experienced by the Airport in FY 2002 after September 11th. The Sensitivity Analysis also assumes a recovery period of approximately four years before demand returns to pre-event levels. The period chosen for the Sensitivity Analysis was FY 2007, the first full year of operating the RCC. Based on these assumptions, transaction days are reduced from approximately 7.4 million in the Base Case Analysis to 6.2 million in the Sensitivity Analysis in FY 2007. Similarly, Annual Receipts decrease from \$33.4 million in the Base Case Analysis to \$27.7 million in the Sensitivity Analysis in FY 2007. Even with this decrease, the Rate Covenant debt service coverage ratio equals 1.55 times in FY 2007 and increases to 2.10 times in FY 2015 and averages 1.82 times for the period FY 2007 through FY 2015. The debt service coverage ratio based on Annual Receipts ranges from a low of 1.30 times in FY 2007 to a high of 1.85 times in FY 2015 and averages 1.57 times for the period FY 2007 through FY 2015. The decrease in total Annual Receipts in the Sensitivity Analysis from FY 2007 through FY 2015 is approximately \$26.3 million compared to total Annual Receipts in the Base Case Analysis.

The balance in the Transportation O&M Reserve Fund in FY 2015 is projected to be \$8.8 million and the balance in the City Transportation O&M Reserve Fund in FY 2015 is estimated to be \$26.3 million. The balance in the Improvement Reserve/Surplus Fund is projected to be \$0.8 million in FY 2015 after purchasing seven buses in FY 2014 for \$2.8 million.

The Sensitivity Analysis shows that beginning in FY 2007, after the payment of Administrative Costs and 2004 Bond debt service in certain FYs, there are insufficient Annual Receipts to pay the annual Transportation O&M Expenses and to fund the Transportation O&M Reserve Fund Requirement in accordance with the Bond Indenture. From FY 2007 through FY 2015, approximately \$19.1 million is transferred from the Improvement Reserve/Surplus Fund to the Transportation O&M Fund. From FY 2007 through FY 2015, approximately \$1.2 million is transferred from the Improvement Reserve/Surplus Fund to the Transportation O&M Reserve Fund to meet the Transportation O&M Reserve Requirement. Additionally, from FY 2007 through FY 2015 approximately \$5.5 million is transferred from the Improvement Reserve/Surplus Fund to the City Transportation O&M Reserve Fund to meet City Transportation O&M Reserve Requirement.

Table V5-4
Sensitivity Analysis
 Application of Annual Receipts, Fund Balances and Debt Service Coverage Analysis
 FY 2002 through FY 2019

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
CPC Rate & Forecast Transaction Days														
CPC Rate (%)	\$ 3.30	\$ 3.30	\$ 4.31	\$ 4.30	\$ 4.30	\$ 4.30	\$ 4.30	\$ 4.30	\$ 4.30	\$ 4.30	\$ 4.30	\$ 4.30	\$ 4.30	\$ 4.30
Forecast of Transaction Days	425,318	5,935,463	6,422,690	6,640,165	7,230,375	6,165,989	6,438,512	6,701,733	7,086,932	7,370,489	7,738,929	8,123,876	8,513,938	8,813,975
Annual Receipts:														
CPC Revenues - Pre-2004 Bond Issuance	\$ 1,097,433	\$ 20,897,077	\$ 23,409,707	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CPC Revenues - Post-2004 Bond Issuance	-	-	2,344,195	36,780,740	8,933,530	23,894,052	27,723,449	29,064,633	30,517,888	31,891,193	33,166,840	34,425,182	35,566,441	36,662,888
CPC Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Annual Receipts before Transfers	(1) \$ 11,097,433	\$20,897,077	\$25,753,902	\$36,780,740	\$8,933,530	\$23,894,052	\$27,723,449	\$29,064,633	\$30,517,888	\$31,891,193	\$33,166,840	\$34,425,182	\$35,566,441	\$36,662,888
Transfer to City Transportation O&M Reserve Fund	\$ (1,097,433)	\$ (16,894,020)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfer to Transportation O&M Reserve Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from Debt Service Coverage Fund	-	-	5,319,332	5,319,332	5,319,332	5,319,332	5,319,332	5,319,332	5,319,332	5,319,332	5,319,332	5,319,332	5,319,332	5,319,332
Transfer to Fund Common Transportation System	-	-	(24,976,800)	-	-	-	-	-	-	-	-	-	-	-
Total Annual Receipts and Debt Service Coverage Fund after Transfers	(1) \$ -	\$4,003,057	\$7,777,102	\$36,780,740	\$27,947,139	\$23,863,801	\$24,384,207	\$29,827,440	\$27,230,748	\$28,686,992	\$28,344,724	\$31,885,993	\$28,641,183	\$29,982,440
Expenses & Transfers														
Administrative Costs	(1) \$ -	\$ -	\$ -	\$ -	\$ (13,700)	\$ (14,380)	\$ (19,135)	\$ (163,009)	\$ (168,236)	\$ (73,870)	\$ (79,100)	\$ (184,481)	\$ (180,810)	\$ (191,716)
Annual Receipts and Debt Service Coverage Fund Available for Debt Service	-	4,003,057	7,777,102	36,780,740	27,947,139	23,863,801	24,384,207	29,827,440	27,230,748	28,686,992	28,344,724	31,885,993	28,641,183	29,982,440
2004 Bond Debt Service	(1) \$ -	\$ -	\$ -	\$ (16,332,091)	\$ (13,318,131)	\$ (12,378,131)	\$ (11,382,307)	\$ (11,278,039)	\$ (11,276,780)	\$ (11,274,088)	\$ (11,273,167)	\$ (11,276,473)	\$ (11,277,133)	\$ (11,274,336)
Transfer from (to) 2004 Debt Service Reserve Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to Debt Service Coverage Fund	-	-	5,319,332	5,319,332	5,319,332	5,319,332	5,319,332	5,319,332	5,319,332	5,319,332	5,319,332	5,319,332	5,319,332	5,319,332
Annual Receipts Remaining for Transportation O&M Expenses	-	4,003,057	2,457,710	14,224,632	17,126,957	8,700,419	7,627,317	9,073,950	10,445,578	11,772,908	13,100,236	14,427,564	15,754,892	17,082,220
Transportation O&M Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from (to) Transportation O&M Reserve Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Annual Receipts transferred from (to) Construction Fund (2002-2003)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Annual Receipts transferred from (to) the City Transportation O&M Reserve Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Annual Receipts Remaining Transferred to Improvement Reserve/Surplus Fund	-	(4,003,057)	(2,457,710)	(14,224,632)	(17,126,957)	(8,700,419)	(7,627,317)	(9,073,950)	(10,445,578)	(11,772,908)	(13,100,236)	(14,427,564)	(15,754,892)	(17,082,220)
Transfer from Improvement Reserve/Surplus Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transportation O&M Expenses	-	-	-	-	-	5,893,489	4,711,073	3,846,838	3,717,244	3,819,937	3,921,163	4,022,389	4,123,615	4,224,841
Transportation O&M Reserve Fund Requirement	-	-	-	-	-	172,889	177,280	233,817	187,992	193,632	199,441	205,250	211,059	216,868
City Transportation O&M Reserve Fund Requirement	-	-	-	-	-	316,119	331,892	705,020	93,977	90,896	98,322	107,784	117,246	126,708
Total Expenses & Transfers	\$ -	\$ (4,003,057)	\$ (7,991,454)	\$ (14,100,299)	\$ (7,947,139)	\$ (3,093,081)	\$ (4,384,207)	\$ (9,827,440)	\$ (7,210,748)	\$ (8,486,292)	\$ (8,144,733)	\$ (11,885,993)	\$ (6,641,183)	\$ (4,498,440)
Purchase Additional Buses from Improvement Reserve/Surplus Fund	-	-	-	-	-	-	-	-	-	-	-	-	2,811,453	-
Total Expenses (2)	\$ -	\$ -	\$ -	\$ (14,100,299)	\$ (7,947,139)	\$ (3,093,081)	\$ (4,384,207)	\$ (9,827,440)	\$ (7,210,748)	\$ (8,486,292)	\$ (8,144,733)	\$ (11,885,993)	\$ (6,641,183)	\$ (4,498,440)
Fund Balances														
Debt Service Coverage Fund	\$ -	\$ -	\$ 5,319,332	\$ 5,319,332	\$ 5,319,332	\$ 5,319,332	\$ 5,319,332	\$ 5,319,332	\$ 5,319,332	\$ 5,319,332	\$ 5,319,332	\$ 5,319,332	\$ 5,319,332	\$ 5,319,332
2004 Debt Service Reserve Fund (3)	-	-	21,276,207	21,276,207	21,276,207	21,276,207	21,276,207	21,276,207	21,276,207	21,276,207	21,276,207	21,276,207	21,276,207	21,276,207
Transportation O&M Reserve Fund (4)	-	-	5,991,154	5,991,154	5,991,154	6,159,193	6,346,394	6,541,411	6,745,428	6,958,445	7,179,462	7,406,479	7,639,496	7,877,513
City Transportation O&M Reserve Fund (5) (6)	1,097,433	17,991,461	17,991,461	17,991,461	18,307,580	18,307,580	19,039,182	19,744,233	20,308,210	20,829,106	21,407,429	22,054,909	22,784,147	23,591,439
Improvement Reserve/Surplus Fund (7)	-	4,003,057	6,460,951	20,809,000	29,361,372	22,919,725	12,599,349	13,000,940	9,533,730	6,939,264	5,388,337	4,780,433	1,497,840	793,325
2004 Debt Service Coverage Analysis														
Debt Service Coverage from Annual Receipts [(4)-(5)](8)	-	-	-	1.86	2.12	1.30	1.36	1.40	1.40	1.55	1.63	1.71	1.79	1.83
Debt Service Coverage from Annual Receipts and Debt Service Coverage Fund (Rate Constant Test) [(4)-(5)](9)	-	-	-	2.18	2.47	1.86	1.81	1.88	1.74	1.89	1.88	1.96	2.04	2.10

- (1) The CPC rate was increased from 3.30 to 4.30 on September 1, 2003.
 (2) Total Expenses include Administrative Costs, 2004 Bond Debt Service and Transportation O&M Expenses.
 (3) Funded with a Sinking Bond.
 (4) Transportation O&M Reserve Fund is adjusted each year to reflect one-half of the preceding Bond Year's estimated Transportation O&M Expenses.
 (5) City Transportation O&M Reserve Fund is adjusted each year to reflect one and one-half times the preceding Bond Year's estimated Transportation O&M Expenses.
 (6) Deposits to the City Transportation O&M Reserve Fund may also be used for any other lawful purpose permitted under the CPC Ordinance.
 (7) Phoenix serves additional buses in FY 2014.



K. CONCLUSION

Based upon the findings and analyses contained in this Report, it is the opinion of Landrum & Brown, Inc. that:

- The Airport will remain the primary airport within the Region during the forecast period and the Region will remain an important O&D passenger market for the Airport due, in part, to the strong and diverse economic base of the Region.
- The economic base of the Region will provide for a strong and steady growth in aviation related activities including O&D passengers who are the most likely to rent cars. The economic factors of the Region, as described in Chapter III of this Report, indicate that the growth in population, effective buying income and employment have historically outperformed the State and the U.S. It is also projected that the Region will continue to outperform the State and the U.S. during the forecast period in each of these categories, providing a sound economic base that will likely stimulate rental car demand.
- The RCC Project is needed at the Airport in order to provide the necessary facilities to accommodate future demand in the Phoenix Area rental car market. The RCC Project has been adequately sized to provide the RCC Companies and any new entrant companies with the opportunities to efficiently operate their rental car businesses and satisfy future rental car demand at the Airport and is designed in such a way that future expansion, if needed, can be easily accommodated with minimal disruption to current operations.
- The Agreement, the RCC Leases, the Bond Indenture and the City Purchase Agreement provide assurance that the Pledged Revenues and other available funds will be adequate to pay Administrative Costs, annual debt service on the 2004 Bonds and Transportation O&M Expenses and to make any fund deposit requirements. The Rate Covenant requires Annual Receipts plus amounts on deposit in the Debt Service Coverage Fund to be at least equal to 1.25 times Maximum Annual Debt Service after the payment of Administrative Costs. The Rate Covenant debt service coverage ratio is projected to range from 1.81 times in FY 2007 to 2.11 times in FY 2015 and is projected to average 1.96 times annual debt service for the period FY 2007 through FY 2015 in the Base Case Analysis.
- As shown in the Sensitivity Analysis, even with a 15.0 percent reduction in transaction days in FY 2007 and an approximate four-year recovery period compared to the Base Case Analysis, debt service coverage from Annual Receipts will equal 1.30 times, which demonstrates that there is sufficient rental car demand to withstand a significant single event that negatively impacts the aviation and rental car industries.

The O&D passenger forecast, the rental car transaction day forecast and all of the financial projections contained in this Report are based on what Landrum & Brown, Inc. believes to be reasonable evaluations of current conditions and estimations of future conditions. The realization of the projections is dependent upon numerous future events and uncertainties and specific results therefore cannot be assured. Accordingly, actual results may vary, perhaps significantly, from the projections. This Report should be read in its entirety in order to gain an understanding of the projections and the assumptions underlying these projections. Landrum & Brown, Inc. has no responsibility to update this Report for events and circumstances occurring after the date of this Report.

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APPENDIX C

CITY OF PHOENIX, ARIZONA — DESCRIPTION

OVERVIEW

Phoenix is the sixth largest city in the United States, the State capital of Arizona and the center of the metropolitan area encompassed by Maricopa County. This metropolitan area also includes the cities of Mesa, Glendale, Tempe, Scottsdale, Chandler, Peoria, Gilbert, Goodyear, Tolleson, El Mirage and Avondale as well as all unincorporated areas of the County. It is situated 1,117 feet above sea level in the semi-arid Salt River Valley. The area is well known for its mild, sunny winters and hot summers, and receives average rainfall of 7.66 inches annually.

Phoenix was founded in 1870 as an agricultural community. In 1881, it was incorporated as a City. The City Charter under which it is presently governed was adopted in 1913 and has been amended from time to time. The City has grown steadily since its inception and has shown especially strong growth since 1950. The 1900 census recorded Phoenix population at 5,544. In 1950, the City occupied 17 square miles with a population of almost 107,000, ranking it 99th among American cities. The 1990 census recorded Phoenix population at 983,403 and the 2000 census recorded Phoenix population at 1,321,045. As of April 1, 2004 the City encompasses 512.25 square miles, with the City of Phoenix Planning Department estimating the City's population at 1,481,675.

Population Statistics
Phoenix, Maricopa County and Arizona

Area	1950	1960	1970	1980	1990	2000	2003(1)	Percent Change	
								1950-03	1990-03
Phoenix	106,818	439,170	584,303	789,704	983,403	1,321,045	1,481,675	1,287.1%	50.7%
Maricopa County	331,770	663,510	971,228	1,509,175	2,122,101	3,072,149	3,396,875	923.9	60.1
State of Arizona	749,587	1,301,161	1,775,399	2,716,546	3,665,228	5,130,632	5,629,870	651.1	53.6

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

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

Phoenix is served by main lines of the Union Pacific and Burlington Northern Santa Fe Railroads, a transcontinental busline (Greyhound Trailways), and 10 transcontinental, 34 interstate and 39 intrastate truck lines. Phoenix Sky Harbor International Airport, located approximately 4 miles from downtown Phoenix, is served by the following scheduled airlines: Aeromexico, Air Canada, Alaska, Aloha, America West, American, American Trans Air, Arizona Express, British Airways, Continental, Delta, Frontier, Great Lakes, Hawaiian, Mesa (dba America West Express), Midwest Express, Northwest/KLM, Skywest, Southwest, Sun Country, United, and USAirways. Interstate 10, Interstate 17, U.S. Highways 60, 70, 80, 89 and State Highways 51, 85 and 93 all traverse the City.

The metropolitan area is presently served by 38 elementary school districts, 6 high school districts and 11 unified school districts, operating over 400 schools. Education is also provided by private and parochial schools located throughout the metropolitan area. Maricopa County Community College District serves the educational needs of the Phoenix area through ten institutions. Arizona State University (ASU) houses 11 colleges and has a total enrollment of more than 57,000 undergraduate, graduate, and professional students on three campuses in Metro Phoenix. ASU's main campus is located just east of Phoenix in the city of Tempe. The Arizona State University West campus opened in 1991, is located in northwest Phoenix, and has an enrollment of more than 6,500 students. The Arizona State University East campus opened in 1996, is located in southeast Metro Phoenix in the city of Mesa, and has an enrollment of more than 3,500 students. In addition, ASU offers academic programs and professional certificate programs at its Downtown Phoenix extended campus. The City also contains a private graduate school and a number of private universities, colleges, and technical institutions. The 2000 Census indicated that 58% of the adult residents of Maricopa County are college educated.

SIGNIFICANT DEVELOPMENTS

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

In 1984 a group of leading downtown business leaders founded the Phoenix Community Alliance (the "Alliance"). The group's express purpose is to work with government and other development interests to accomplish the highest quality downtown revitalization possible. They have been involved in a program of cooperative planning between government and private interests and are currently focusing their attention on bringing increased housing, especially ownership housing, to downtown.

General Plan

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

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

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

Phoenix Civic Plaza

Redevelopment of the downtown Phoenix area has accompanied the construction and expansion of the Phoenix Civic Plaza convention center. In 1972 the Phoenix Civic Plaza, a convention and cultural center, was formally opened. The original facility encompassed eight city-blocks in downtown Phoenix, having a capacity of 10,000 persons and containing a variety of meeting and exhibition halls in addition to a symphony hall. In 1980, the Phoenix City Council authorized expansion of the Phoenix Civic Plaza, with approximately 306,000 square feet of additional space in a new structure connected directly to the existing facility. Construction of the \$55 million addition commenced in late 1982 and was completed in June 1985. In November 1995, the City completed a \$31.5 million modernization and refurbishing program for the Phoenix Civic Plaza.

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

On June 22, 2001 the Arizona Legislature appointed the Ad Hoc Study Committee on Phoenix Civic Plaza/Convention Facility Expansion. The membership included four State Senators, four State Representatives and nine public members. The Committee's charge was to make recommendations on several issues regarding Phoenix Civic Plaza Expansion, including potential funding sources and State involvement. The Committee recognized the significant statewide benefit of convention business and unanimously recom-

mended that the State develop a program to provide matching funds for major convention center improvements. On November 6, 2001, City of Phoenix voters approved a ballot proposition authorizing the City to incur debt and expend public funds in an amount up to \$300 million from City funding sources and in an amount up to \$300 million from State or other non-City funding sources for the construction, expansion, modification and improvement of the Phoenix Civic Plaza. In June 2003, the Arizona Legislature approved spending up to \$300 million in State money to match the City's contribution.

The City retained Conventional Wisdom Corporation to prepare a Development Master Plan for the Civic Plaza Expansion which identified and analyzed development alternatives for the expansion project and recommended a development concept. In September 2002, the Phoenix City Council approved the development concept and authorized Conventional Wisdom Corporation to prepare a detailed Architectural Facility Program that will be used as the basis for design. Under the approved development concept, the size of the Phoenix Civic Plaza will more than double, changing its ranking from the 60th largest convention center in the nation to the 20th largest.

In 2001 Phoenix voters approved \$18.5 million in general obligation bonds for the renovation of Symphony Hall. In order to minimize disruption to event activity at Symphony Hall, the construction schedule for Symphony Hall was aligned with the first phase of the Civic Plaza Expansion. In June 2003 the City Council approved the final development concept and selected the design team and the construction management team for the Civic Plaza Expansion/Symphony Hall Renovation. Construction is scheduled to begin in the spring of 2004 and is expected to be completed by the end of 2008.

Business Development

The Greater Phoenix Economic Council (GPEC) was formed in 1989 as a partnership between Maricopa County and municipal governments, business and industry, and educational institutions in the metropolitan Phoenix area to serve as the marketing and business image promotion arm for all of its participants. The City of Phoenix has 7 appointments to the GPEC Board with no other city having more than two appointments. GPEC strives to adapt to continually changing needs of business decision makers and stay abreast of U.S. and world competitors; expand its marketing activities into the international arena, with a clear, effective focus that will have a beneficial impact on the region's economy; and advocate the development of the infrastructure necessary for the continued economic growth of the region.

The City's Community and Economic Development Department works closely with GPEC to attract new wealth-generating employers to Phoenix. Since 1991, the Department has attracted 168 new employers to the City of Phoenix. These new companies are projected to employ 30,100 individuals and absorb more than 12.5 million square feet of office and industrial space.

Arts, Cultural and Sports Facilities

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

In November 1988 the City entered into negotiations with the Phoenix Suns Limited Partnership (the "Suns") for the development and operation of a 20,000 seat downtown sports arena to be located immediately south of the Civic Plaza. Final agreements between the City and the Suns were approved by the City Council in July 1989. The construction cost of the arena and adjacent garage was \$87 million. The City acquired and cleared the land for the project at a cost of \$12.8 million and contributed \$35 million for construction costs. The Suns were responsible for the balance of the construction costs and in addition contributed \$515,000 for land acquisition. Construction began in November 1990 and the America West Arena celebrated a grand opening in June 1992.

The Phoenix Museum of History and the Arizona Science Center are located in Heritage and Science Park, a multi-block downtown cultural center, and received City funding from general obligation bonds approved by the voters in 1988. The Arizona Science Center, which cost \$47 million, encompasses 120,000 square feet including a 200 seat planetarium and a 285 seat Iwerks Theater. The City contributed land and \$20 million to the project, with the balance funded by private contributions. The Phoenix Museum of History is approximately 20,000 square feet and cost \$3.5 million. In addition to the museums, an 800-space parking garage was also developed. The parking garage was completed in November 1995, the Phoenix Museum of History opened to the public in January 1996 and the Arizona Science Center opened in April 1997.

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

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

Renovations to America West Arena began in spring 2001. Interior renovations included concourse improvements, seating enhancements and the construction of additional women's restrooms. These improvements were completed in spring 2003 at a total cost of \$13.4 million, \$9.9 million funded by the City and \$3.5 million funded by the Suns. Exterior renovations, estimated at \$28 million, are underway and are being fully funded by the Suns. These improvements include a 15,000 square foot climate controlled pavilion being constructed on the main entrance plaza, expansion of the north wall of the Arena which will facilitate the addition of street level restaurants along Jefferson Street and the construction of a pedestrian passageway from Jefferson Street to Jackson Street. These exterior renovations are expected to be completed by mid 2004.

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

Office Development

In the 1970s Arizona's three major commercial banks (at that time Valley National Bank, First Interstate Bank, and The Arizona Bank) located their high-rise headquarters buildings in the downtown area and two hotels, having combined capacities of 1,272 rooms, were constructed to the west of the convention center. In addition, the Citibank building (now Compass Bancshares), consisting of 113,000 square feet of space situated on the northwest corner of Van Buren Street and First Avenue, was opened on August 1, 1989.

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

The Trammell Crow Company completed construction of an \$80 million, 26-story, 450,000 square-foot high-rise office building, including 40,000 square feet of retail, opposite Patriots Square Park in the center of downtown Phoenix in 1988. In conjunction with this project, the City constructed a 1,456 space underground public parking garage beneath Patriots Square Park to support the parking needs generated by the Trammell Crow building and other downtown projects. This \$15 million project was dedicated in December 1988. In

response to a successful leasing effort, Trammell Crow Company constructed a second office building which opened in January 1990 on the half-block immediately north of their first building, consisting of 475,000 square feet including 15,000 square feet of retail.

Culminating an effort initiated by the Alliance, the City entered into an agreement with The Rouse Company in September 1987 to develop a \$515 million mixed-use development project to the north of the Phoenix Civic Plaza known as The Arizona Center (also known as Superblock). Ultimate development will include 1.5 million square feet of office space, 240,000 square feet of retail space, a hotel and a three acre public plaza. Arizona Public Service now occupies the first office building of 450,000 square feet which was completed in March 1989. The balance of Phase I including the public plaza and a garden, a second office building of 300,000 square feet and 150,000 square feet of retail and entertainment space celebrated its grand opening in November 1990. In March 1998, a 5,000 seat, 24 screen movie theater opened.

The Barron Collier Company and Opus West initiated a mixed-use downtown development project. The plans for Collier Center include a 700-room hotel, three high-rise towers with 1.5 million square feet of office space, 200,000 square feet of retail shops and restaurants, and parking for 2,400 vehicles. The project is located on a 7.2 acre site bounded by Washington, Jefferson, First and Third Streets. Collier Center's Phase I, a \$500 million, 23-story office tower, was completed in September 2000 and is the Arizona headquarters for Bank of America. The tower contains over 500,000 square feet of office space, 85,000 square feet of retail space and a 1,500-space underground parking garage.

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

In Spring of 2002, the City of Phoenix and the State of Arizona, in partnership with Maricopa County, Arizona's three State universities, various foundations and the private sector formalized two proposals with the International Genomics Consortium (IGC) and The Translational Genomics Research Institute (TGen) to locate their new headquarters in downtown Phoenix. The City agreed to construct a 170,000 square foot research facility for IGC and TGen to be located at Fifth and Van Buren Streets. Construction began in late July 2003 with occupancy expected by late 2004. Once the research organizations are operating in their headquarters they are expected to employ approximately 350 employees earning average salaries of \$70,000 annually.

Neighborhood Revitalization and Downtown Housing

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

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

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

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

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

In November 1997, the City reached an agreement with Post Properties, Inc. (formerly Columbus Realty Trust) for the construction of 400 urban residential rental units in downtown Phoenix. The project was built on an approximately 11-acre site bounded by First Avenue, Third Avenue, Margaret T. Hance Park and Roosevelt Street. Total project cost was \$68 million. The development is characterized by a high density urban design with extensive streetscape treatments, street level retail, private courtyards, structured parking and extensive landscape improvements to historic Portland Parkway. The project included \$1.6 million in direct City financial assistance plus property tax abatement and the inclusion of 45,000 square feet of City owned land.

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

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

In October 2000, the City Council approved the selection of Artisan Homes to build approximately 35 condominium units on 69,000 square feet of City-owned property located on the northeast corner of Seventh Street and Washington Street. The units will vary in size from 1000 to 1750 square feet with prices ranging from \$135,000 to \$235,000. Construction began in Summer of 2002 and was complete in November 2003.

In an effort to assist ownership housing projects in the downtown area, in June 2001 the City approved reimbursing Artisan Homes, Inc. up to \$100,000 for public infrastructure and offsite improvements in connection with a 75-unit loft style condominium project called Artisan on Central, located on Central Avenue and Willetta Street. Construction began in early 2002 on the first 40 units which were available for occupancy in the winter of 2003. Construction of an additional 35 units is scheduled to be completed by January 2006.

In November 2001, the City entered into an agreement for the development of 31 loft-style homes ranging in size from 1250 to 1850 square feet with sale prices starting at \$195,000. The Stadium Lofts at Copper Square will be located at the northwest corner of Second and Buchanan Streets. Construction began in December 2001 and is expected to be completed in November 2004.

On July 3, 2002 the City Council approved a Disposition and Development Agreement with TASB, L.L.C. to provide for the restoration of 114 West Adams Street, the historic Title and Trust Building, for the development of approximately 90 condominiums, associated parking and ancillary commercial space. The City will assist with the historic rehabilitation of the building and upgrades to the public infrastructure and off-site improvements. Renovation began in 2002 and is expected to be completed by late 2004.

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

In August 2003 Artisan Homes began building 105 ownership housing units on a 5.5 acre site bounded by Fifth and Seventh Streets and Roosevelt and Portland Streets. Artisan Village will be an urban, mixed-use row house and townhouse residential project featuring ownership and unique live/work units with 3,000 square feet of street level retail opportunities, streetscapes, green belts, open spaces and 1,200 square feet dedicated for cultural use. The total project cost is estimated at \$18 million and is expected to be completed by summer of 2005.

Government Facilities

A new 601,000 square-foot Phoenix City Hall was built on Washington Street between Second and Third Avenues, immediately north of the existing Calvin C. Goode Municipal Building. The project includes a 1,500-space parking structure, located between Washington and Jefferson Streets and Third and Fourth Avenues, which also contains 43,000 square feet of office and retail space. Construction began in mid-January 1992 with occupancy completed in January 1994.

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

Construction of the Phoenix Municipal Court Valdemar A. Cordova Building, a nine-story, 375,000 square-foot City criminal justice facility, began in the summer of 1997. The building is located on the northwest corner of Washington Street and Third Avenue, directly west of Phoenix City Hall. The project cost \$79 million and was completed in the fall of 1999. It is estimated that between 3,000 and 4,000 customers per day visit this facility, making it the largest volume court in the State.

The Federal government began construction of a 550,000 square-foot federal courthouse in the summer of 1997. The Sandra Day O'Connor U.S. Courthouse is located on two blocks bounded by Jefferson and Washington Streets and Fourth and Sixth Avenues in downtown Phoenix. The project cost approximately \$110 million and includes courtrooms and related office space. The project was completed in September 2000.

Downtown Streetscape

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

In the Fall of 2000 the City of Phoenix and Maricopa County reached an agreement wherein the County would be responsible for funding the streetscape buildout of Jackson Street from First Avenue to Ninth Avenue and the City would be responsible for its maintenance. The \$3.2 million project involved a three-month community input process to identify the parameters of the street layout, landscape, sidewalk, lighting and design elements. Construction began in March 2004 with completion expected by the beginning of 2005.

Transit/Light Rail

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

Final design of an approximately \$1.2 billion light rail system connecting central Phoenix with Tempe and Mesa has begun. The cost of the project will be funded with Federal grant funds and City sales tax revenues. On March 14, 2000, City of Phoenix voters approved a 0.4% sales tax increase to be levied for a period of twenty years to provide funding for the light rail system as well as mass transit, including expanded bus service and other transportation improvements. Construction of the first phase of the light rail system is planned to be completed in 2006.

Central Avenue

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

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

Phoenix Sky Harbor Center

Phoenix Sky Harbor Center was approved by the City Council in 1984, and in 1985 \$19,150,000 in City bonds were issued for the development of 550 City-owned acres located immediately to the west of Phoenix Sky Harbor International Airport into a business/commerce park. The acquisition phase and the second phase of infrastructure development was completed in 1993. Sky Chefs Inc. (formerly Cater Air International) occupies over 120,000 square feet on the site. In the third quarter of 1990, Honeywell Inc. (formerly AlliedSignal, Inc.) began development of a 545,000 square-foot facility on a 28-acre site with the project completed in July 1991.

Bank of America established its credit card operations at Sky Harbor Center in 1991. The Bank of America Credit Card Center has approximately 2,000 employees and includes a 400,000 square-foot complex on 22 acres. In November 1995, Bank of America completed construction of an additional 150,000 square-foot structure for credit card operations which employs approximately 1,100 employees.

In December 1991, the Hertz Corporation completed construction of two buildings on 13 acres with a total of 25,657 square feet of office space. In January 1996 Hertz completed construction of a 15 acre expansion of its facility. Miller Brands of Phoenix, a beverage distributor, developed a 300,000 square-foot

facility on 22 acres in Sky Harbor Center. The facility consists of 172,000 square feet of distribution space and 128,000 square feet of office and building space.

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

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

In June 2002, Bank One broke ground on a \$70 million, 400,000 square foot regional processing center which will support its banking and financial operations. Approximately 1,200 employees will relocate to the facility which began phased operations in October 2003.

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

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

Phoenix Sky Harbor International Airport

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

In April 2000 the City Council approved a \$640 million airport expansion program funded by airport revenue bonds. This program included funds to design a new terminal complex at the west end of the airport and to construct the infrastructure necessary to support the terminal. Also included are funds for land acquisition, a residential sound assistance program, an airport people mover system, additional public parking garages, and improvements for the reliever airports. Many of the projects in this program were postponed due to the reduction of airline travel after the events of September 11, 2001. Passenger traffic at Phoenix Sky Harbor International Airport has recovered to pre-September 2001 levels. As a result, all projects have been resumed with the exception of the West Terminal which is pending the results of an environmental impact study.

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

proceeds and bond funds and is estimated to cost \$270 million. Construction is underway and is expected to be completed in November 2005.

Property Tax Supported Bond Program

In order to help meet the City's future capital financing needs, a comprehensive property tax supported General Obligation bond program was initiated in the summer of 2000. A citizens bond committee consisting of nearly 300 private citizens was appointed by the Mayor and City Council to review the City's capital requirements and recommend a total bond program to the voters. This is the traditional approach used by the City for bond elections since 1950. The program culminated in a special bond election on March 13, 2001 when the voters approved twelve propositions totaling \$753.9 million in new General Obligation bond authorizations. The propositions and the amount of bonds authorized are shown in the following table.

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

PHOENIX CITY GOVERNMENT

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

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

The City Manager is responsible for executing Council policies and administering City operations. Reporting to the City Manager are two Assistant City Managers, two Executive Assistants to the City Manager, City Auditor, City Attorney, Budget & Research, and four Deputy City Managers, each responsible for directing a set of City departments and functions.

The City government is responsible for furnishing basic municipal services. Primary services delivered by the City's 26 departments, 18 functions and 14,677 employees include police, City courts, fire protection, parks, recreation, libraries, sanitation, water, sewer, transportation (including streets and public transit), airports, building safety, public works, neighborhood improvement and housing, community and economic development and convention and cultural services. These services are being provided in fiscal year 2003-04 through an adopted operating budget of \$2,447.9 million. Of this, the general purpose funds budget totals \$892.8 million, which is for general municipal services and excludes enterprise activities such as water, sewer, refuse and airports.

Elected Officials

Phil Gordon, Mayor

Mayor Gordon was elected to his first term as Mayor in 2003. Prior to being elected mayor, Mr. Gordon served since 1998 as the Councilmember representing District 4. Mr. Gordon has served as a member of the Madison School Board and chairman of the Phoenix Planning Commission, Neighborhood Block Watch Committee and the Downtown Village Planning Committee. Mr. Gordon holds a bachelor's degree in education from the University of Arizona and a law degree from Arizona State University.

Peggy Bilsten, Vice Mayor, District 3

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

Michael Johnson, Councilmember, District 8

Councilmember Johnson began his first term on the City Council in January 2002. Mr. Johnson has served on the South Mountain Village Planning Committee and the Rio Salado Advisory Committee. Mr. Johnson is president and CEO of Nkosi Inc., a security service. Mr. Johnson retired from the Police Department in 1995 after serving 21 years as a police officer, community relations officer and detective.

Doug Lingner, Councilmember, District 7

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

Claude Mattox, Councilmember, District 5

Councilmember Mattox began his second term on the City Council in January 2004. Mr. Mattox has been active in the community for many years and has served as chairman of the Maryvale Village Planning Committee, Desert West Park Planning Committee, West Phoenix Cactus League Spring Baseball Coalition, Phoenix Surface Transportation Advisory Committee and Maricopa Neighbors Airport Noise and Safety Committee. Mr. Mattox is vice president and associate broker for National Western Real Estate and also is owner of Desert Sun Enterprises, a community relations consulting firm.

Peggy Neely, Councilmember, District 2

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

Dave Siebert, Councilmember, District 1

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

Tom Simplot, Councilmember, District 4

Councilmember Simplot was elected to the City Council in September 2003 to serve the remaining term left vacant upon the resignation of Phil Gordon, who announced his candidacy for the Mayor of Phoenix. Mr. Simplot has been active in the community for many years, serving as the past-president of the Maricopa County Board of Health, former chairman of the Phoenix Historic Preservation Commission, and former vice-chairman of the Phoenix Encanto Village Planning Committee. Mr. Simplot is also the founding president of the Arizona State University Dean's Board of Excellence; is a former member of the Phoenix Housing Commission, and has served on the Maricopa County Downtown Advisory Committee and is a past president of the Maricopa County Industrial Development Authority. Additionally, Mr. Simplot has been an active member of the state and county bar associations and served on the board of directors of the Arizona Bar Foundation. Mr. Simplot holds a bachelor's degree in political science from Arizona State University and a law degree from the University of Iowa College of Law.

Greg Stanton, Councilmember, District 6

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

Administrative Staff

FRANK A. FAIRBANKS

City Manager

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

SHERYL L. SCULLEY

Assistant City Manager

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

ALTON WASHINGTON

Special Assistant City Manager

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

MARSHA WALLACE

Deputy City Manager

Ms. Wallace was appointed Deputy City Manager in December 1997 after serving as Executive Assistant to City Manager since October 1992 and as Assistant to the City Manager beginning in October 1990. She began her career with the City in 1980 as a Management Assistant. Ms. Wallace is currently responsible for policy issues with the Mayor and City Council Members, and has administrative responsibility for the Aviation, Budget & Research, and Parks & Recreation as well as Public Information and the Grievance Committee. She also serves as Liaison with Arizona State University. She is a graduate of the University of Kansas and holds a master's degree in public administration from Arizona State University.

PETER VAN HAREN

City Attorney

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

DAVID CAVAZOS*Acting Aviation Director*

Mr. Cavazos was appointed Acting Aviation Director in 2003 after having served as Assistant Aviation Director since 2001. He began his career with the City in 1987 in the Management Intern Program. He has earned four City Manager Excellence Awards and has received numerous business development advocacy awards: Arizona SBA Minority and Small Business Advocate of the Year, 1996 Grand Canyon Minority Supplier Development Council Corporate Advocate of the Year, 1996 Public Advocate of the Year for the National Center for American Indian Development; and the 2002 City of Phoenix Medweek Advocate of the Year. Mr. Cavazos was the 2002 Chairman of the Board for the Arizona Hispanic Chamber of Commerce. He previously served as the Chairman of the Governor's Strategic Partnership for Economic Development (GSPED) Small Business/Minority Business Commission, and as Chairman of the Grand Canyon Minority Supplier Development Council Board. He currently serves on the Board of Directors for Phoenix Children's Hospital, the Arizona-Mexico Commission and the Arizona Hispanic Chamber of Commerce. Mr. Cavazos is an Accredited Member (A.A.E.) of the American Association of Airport Executives and is also certified in Economic Development Finance (EDFP) through the National Development Council. He holds a master's degree in management and public policy from Carnegie Mellon University and a bachelor's degree from Western Illinois University with honors.

KEVIN KEOGH*Chief Financial Officer*

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

MAYOR & CITY COUNCIL



Awards

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

- **Carl Bertelsmann Prize**

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

- **2003 Presidential Citation of Merit**

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

- **Government Performance Project**

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

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

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

- **Center City Starr Award**

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

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

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

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

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

- **Distinguished Budget Presentation Award**

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

- **All-America City**

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

- **1998 Technology Leadership Award**

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

- **2000 Technology Achievement Award**

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

- **1997 Technology Achievement Awards**

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

- **1996 Technology Achievement Awards**

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

- **1995 Technology Achievement Awards**

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

- **1994 Technology Achievement Awards**

The City of Phoenix was the recipient of a Public Technology, Inc. national award for the Information Technology Department's Alternative Professional Training Program. The program provides professional and technical training via satellite and videotape at a savings of approximately 66% over sending employees to seminars. The City also received three special-mention awards for its Business and Industry Data Center (BIDC), Roosevelt Irrigation District Water Exchange, and Multiple Residence Mapping Project.

- **1993 Technology Achievement Awards**

The City of Phoenix was the recipient of three Public Technology, Inc. awards. An achievement award was received by the Office of Environmental Programs for its submission "Procurement of Environmental Products," a citywide environmental program that resulted in finding environmentally friendly ways for the City to do business, such as changing purchasing guidelines in favor of recycled paper products. The City also received two special-mention awards for its Daily Activity and Record Tracking System (DARTS) for Reserve-a-Ride transportation and for the Phoenix Recycles Bicycles Program.

- **Financial World Magazine Award**

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

- **3CMA Savvy Award**

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

- **IABC Silver Quill Award of Excellence**

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

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

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

- **Disability Friendly City Award**

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

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

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

- **Valley Forward Environmental Award**

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

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

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

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

Awarded to the City of Phoenix Neighborhood Services Department by the National Association of Housing and Redevelopment Officials (NAHRO) in September 1997. The award program recognizes outstanding efforts in housing and community development. The City received the award for its Longview Neighborhood Initiative Area due to the positive economic impact on the neighborhood and City, including neighborhood preservation activities, creative financing, public/private partnerships, and economic development.

- **National Academy of Cable Programming Award**

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

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

- **National Safety Council Award**

In 1992 and 1993, the City of Phoenix Transit System received a first place award from the National Safety Council. The awards were won in the Fleet Safety Contest-Urban Transit category for areas with a population of 1 million or more in recognition of the Transit System's safe performance in 1991 and 1992, respectively.

- **National Recreation and Parks Association Awards**

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

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

- **1995 Technology Award of Excellence**

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

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

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

- **AMWA Gold Award for Competitiveness**

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

- **AMSA Awards**

In August 1993, the Association of Metropolitan Sewerage Agencies presented the City of Phoenix with a Silver Award for operations at the 91st Avenue and 23rd Avenue Wastewater Treatment Plants. The award is based on AMSA's annual evaluation of the operations of its member facilities. To qualify for a Silver

Award, discharges from a facility cannot exceed its National Pollutant Discharge Elimination System (NPDES) permit requirement more than five times during one year.

In May 1992, the AMSA presented the City of Phoenix with a Silver Award for operations at the 91st Avenue Wastewater Treatment Plant.

- **Sister Cities Best Overall Program Award**

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

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

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

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

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

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

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

- **CIO Magazine Award**

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

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

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

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

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

PHOENIX ECONOMY(1)

Since the end of World War II one of the major economic and demographic trends in the United States has been the sustained growth of population and employment in the Sunbelt in excess of national levels. Phoenix has been a consistent example of this and in recent decades the Phoenix area has been one of the most rapidly growing metropolitan statistical areas (MSA) in the country in terms of population, employment and personal income growth. As of year-end 2002, the Phoenix-Mesa MSA accounts for approximately 63.7% of Arizona's population, an estimated 70.0% of personal income, and approximately 70.3% of the State's employment. Over the last five years, the Phoenix-Mesa MSA has accounted for approximately 71.1% of the increase in Arizona's population and 70% of the State's employment growth.

From 1950 to 2002, U.S. population grew 89% while Metro Phoenix grew 830% from 374,961 in 1950 to approximately 3,488,645 people in 2002. According to the U.S. Bureau of the Census, as of 2000 the Metro Phoenix area was the 14th largest metropolitan statistical area. Since the Census Bureau's previous 1996 estimates, Metro Phoenix surpassed Cleveland-Akron and Minneapolis-St. Paul in terms of population. According to the Maricopa Association of Governments, Maricopa County's population is expected to grow to 4.13 million by 2010.

The rapid population growth has been accompanied by even greater employment growth. Nonagriculture wage and salary employment from 1950 through October 2003 in the Phoenix-Mesa MSA was up over 2093.0% to 1,631,600 jobs, while the U.S. as a whole grew 190.0%. Historically, the unemployment rate in the Phoenix-Mesa MSA has been well below that of the U.S. as a whole. The seasonally adjusted unemployment rate in the Phoenix-Mesa MSA as of October 2003 registered 4.4% versus 5.0% for Arizona and 6.0% nationally.

(1) Beginning in 1994, the Office of Management and Budget redefined the Phoenix Metropolitan Statistical Area (MSA) to include both Maricopa and Pinal Counties. The Arizona Department of Economic Security has released historical employment data on the new Phoenix-Mesa MSA from 1990 forward. Prior to 1990, detailed industry sub-sector employment data is not available for the Phoenix-Mesa MSA. When historical data for the Phoenix-Mesa MSA is not available Maricopa County data is used, and all references to "Maricopa County only" data are so noted. Maricopa County accounts for 97% of the Phoenix-Mesa metro area employment and 95% of the area's population. "Metro Phoenix" refers to the Phoenix-Mesa MSA, unless otherwise noted.

**Population
Metropolitan Statistical Areas
(in thousands)**

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

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

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

WHY PHOENIX GROWS

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

There are also objective reasons why Phoenix grows. According to the National Association of Realtors, as of second quarter 2003, the U.S. median housing price for an existing single family home was \$168,400 and the median price for a similar home in Phoenix was \$152,500. The Phoenix labor force is relatively young and well-educated. The median age in Metro Phoenix is 33.0 years compared to 35.3 years for the U.S. as a whole. According to the 2000 census, 82.5% of the adults in Maricopa County are high school graduates compared to the U.S. average of 80.4%. More than 59% of the high school graduates in Maricopa County have gone on to college, compared with 52% nationally. The average education attained is 12.7 years in Maricopa County versus 12.5 years for the U.S. as a whole according to the 1990 Census (the latest available data).

The Phoenix area enjoys a very positive business climate as evidenced by statistics from the U.S. Bureau of the Census on the number of business establishments in Maricopa County. From 1982 to 2001, total business establishments increased by 112.8%. Growth was strong in all categories: firms with employees of 100

to 499 increased 181.5% over the nineteen year period, while employers with 500 or more employees increased 300.0% and small employers (under 100 employees) increased 111.0%.

Historically, during periods of national economic expansion, Phoenix-Mesa MSA employment has grown much more rapidly than the United States as a whole. During periods of slowing in the U.S. economy, the Phoenix-Mesa MSA has usually continued to grow, albeit slowly. It takes a national recession for the Phoenix-Mesa MSA to experience employment declines. The phenomenon where one sector of the economy has pulled an entire area into recession has occurred in other metro areas in the country, but has not occurred in the Phoenix metropolitan area. The diversity of the employment mix is the primary reason why one sector alone has not caused the Phoenix metropolitan area economy as a whole to deteriorate as rapidly as other areas of the U.S. during recessionary periods.

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

The years 1993 through early 2001 were strong growth years for the Metro Phoenix economy. Employment in 2000 increased 3.5% following increases of 4.6%, 5.4%, 5.4% and 7.2% in 1999, 1998, 1997 and 1996, respectively. Since March 2001, the Phoenix economy has been impacted by the national economic recession, the September 11, 2001 terrorist attacks and the Iraqi War. Several of the economic sectors that usually hold Metro Phoenix in good stead in an economic slowdown were especially hard hit by the events of September 11, 2001, including semiconductor and aerospace manufacturing and tourism, but are beginning to improve. In addition, although an end to the national recession was declared in November 2001, many national economists have suggested that this date ignores that employment levels have been especially slow to recover and as a lagging indicator may more accurately describe the state of the economy. In October 2001, employment growth in Metro Phoenix turned negative for the first time since the 1991 recession and remained negative until September 2002. Overall, employment decreased 0.4% in 2002. Employment on a year-to-year basis is increasing, but is still considered slow. Year-to-date employment growth in Metro Phoenix through October 2003 was 1.0% and is expected to reach 1.9% by the end of 2003. Economic forecasts call for employment to increase by 3.4% in 2004.

EMPLOYMENT MIX

The employment mix of the Phoenix-Mesa MSA is well diversified and mirrors that of the United States in many respects. However, it is somewhat over-represented in construction employment when compared to the U.S. as a whole, due to the rapid population growth. It is under-represented in manufacturing, but its manufacturing mix is much more concentrated in high technology than that of the United States. High technology manufacturing represents 41.4% of the manufacturing jobs in Metro Phoenix versus 12.5% nationally. This is a significant, positive factor in the long run because these high technology manufacturing sectors are in the early stage of their life cycles.

A breakdown of Metro Phoenix's manufacturing employment is reflective of the area's high-technology base: 29.7% of total manufacturing employment is in computers and electronic components, 11.7% is in aerospace products and the remainder is in other durable or non-durable manufacturing.

NON-FARM WAGE & SALARY EMPLOYMENT
Percent Distribution
Annual Averages through October 2003

<u>Sector</u>	<u>Phoenix-Mesa MSA</u>	<u>United States</u>
Manufacturing.....	8.1%	11.1%
Natural Resources & Mining	0.1	0.4
Construction	7.9	5.4
Total Goods Producing	16.1	17.0
Transportation, Warehousing, Utilities	3.7	3.6
Trade	16.5	15.7
Information	2.2	2.5
Financial Activities.....	8.0	6.1
Services	39.7	38.5
Government.....	13.7	16.6
Total Service Producing.....	83.9	83.0
Non-Farm Wage & Salary	<u>100.0%</u>	<u>100.0%</u>

Note: Annual averages may not add due to rounding.

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

Over the last twenty-eight years, the Phoenix metropolitan area has become economically healthier and less cyclical in nature. During the 1975 to 1980 recovery, the Phoenix-Mesa MSA grew 47.1% in employment. This exceeded the expansion in other growth areas such as San Diego, Denver and Houston. During the expansion which began in November 1982, Phoenix-Mesa MSA growth again outpaced that of comparable fast growth areas. From November 1982 to July 1990, Phoenix-Mesa MSA employment was up 49.4% compared to 22.4% nationally. During the recovery from March 1991 to March 2001, employment in the Phoenix-Mesa MSA grew 58.4% versus 22.3% nationally. Employment in the Phoenix-Mesa MSA has grown 1.8% since the most recent recession ended in November 2001 compared to a decline of 0.6% nationally. During the recession of March 2001 through November 2001, employment in the Phoenix-Mesa MSA declined 1.0% versus a national decline of 0.1%. During the recession between July 1990 and March 1991, Phoenix-Mesa MSA employment increased 3.0% compared to a decrease of 1.7% nationally. During the 1980 to 1982 recession, employment increased 6.0% in the Phoenix-Mesa MSA and declined 0.2% nationally, as compared to the 1973 to 1975 recession where U.S. employment declined 3.7%, while the Phoenix-Mesa MSA dropped 5.6%.

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

	RECESSION PERIODS					GROWTH PERIODS				
	Jan. 1970 to Nov. 1970	Nov. 1973 to Mar. 1975	Jan. 1980 to Nov. 1982	July 1990 to Mar. 1991	Mar. 2001 to Nov. 2001	Nov. 1970 to Nov. 1973	Mar. 1975 to Jan. 1980	Nov. 1982 to July 1990	Mar. 1991 to Mar. 2001	Nov. 2001 to Oct. 2003
U.S. Average	1.1%	(3.7)%	(0.2)%	(1.7)%	(0.1)%	10.9%	18.2%	22.4%	22.3%	(0.6)%
Phoenix, AZ(1)	2.1	(5.6)	6.0	3.0	(1.0)	35.3	47.1	49.4	58.4	1.8
Tucson, AZ	4.6	0.7	6.4	8.0	(0.7)	33.0	27.1	24.3	35.3	1.3
Albuquerque, NM	6.5	(3.0)	4.6	(0.9)	0.2	26.0	30.2	40.6	36.5	1.8
Atlanta, GA	2.1	(7.3)	7.7	(2.6)	(0.5)	19.2	35.3	45.2	47.1	2.6
Austin, TX	5.9	6.1	18.3	4.4	(2.0)	26.4	31.9	37.8	70.4	0.2
Dallas, TX	(1.6)	(29.9)	9.6	(0.9)	(2.0)	16.4	32.7	29.4	42.4	(2.1)
Denver-Boulder, CO	6.5	(2.7)	8.9	0.0	(1.4)	22.5	30.6	12.8	43.2	(2.9)
El Paso, TX	4.4	1.2	3.7	(0.7)	(1.1)	19.7	21.9	27.2	23.9	2.2
Houston, TX	2.2	3.7	10.3	0.5	0.7	19.9	39.7	9.2	29.7	(1.0)
Los Angeles-Long Beach, CA	(2.6)	(3.1)	(2.6)	(2.5)	(1.4)	9.5	20.5	17.4	2.8	(1.1)
Oakland, CA	—	—	0.7	0.0	(1.7)	—	16.9	29.6	21.2	0.2
Portland, OR	0.5	(2.0)	(5.6)	(1.0)	(1.5)	15.0	27.6	39.3	34.6	(2.8)
Salt Lake City-Ogden, UT	3.3	1.6	3.4	1.1	0.0	15.9	23.2	24.1	44.1	(1.5)
San Antonio, TX	2.1	0.1	8.9	1.2	(0.4)	14.3	25.6	22.6	37.8	1.9
San Diego, CA	2.1	1.7	2.8	(0.3)	1.4	18.7	37.0	44.9	25.7	0.7
San Francisco, CA(2)	(0.4)	0.5	1.5	(1.4)	(6.1)	6.1	17.0	8.8	16.2	(4.7)
San Jose, CA	0.6	(0.7)	7.4	(1.3)	(8.9)	22.6	44.3	16.3	29.7	(9.8)
Seattle, WA	(8.1)	2.6	(1.1)	(1.1)	(1.6)	10.3	37.1	47.1	26.8	(2.5)

— = Data not available.

- (1) In 1994, the Office of Management and Budget redefined the Phoenix Metropolitan Statistical Area (MSA) to include both Maricopa and Pinal counties. Historical data for the new Phoenix-Mesa MSA is unavailable prior to 1974. Data prior to 1974 reflects Maricopa County data only.
- (2) Prior to 1982, the San Francisco MSA included Oakland, CA.

Source: Labor Market Information from Various States

Arizona's manufacturing industry is concentrated in the Phoenix metropolitan area. According to the Arizona Department of Economic Security, the Phoenix-Mesa MSA has approximately 3,400 manufacturing firms employing approximately 129,100 as of October 2003. This represents 74.2% of the State's total manufacturing employment. Major manufacturers located in the Phoenix-Mesa MSA include Honeywell, Motorola, Intel, Boeing, TRW/Vehicle Safety Systems, IBM and ON Semiconductors. During the expansion from March 1991 to March 2001, manufacturing employment in the Phoenix-Mesa MSA increased 19.1% compared to a decline of 0.8% nationally. During the last recession from March 2001 to November 2001, manufacturing employment in the Phoenix-Mesa MSA decreased 8.4% compared to a 6.1% decrease nationally. As of October 2003, Phoenix-Mesa MSA manufacturing employment has decreased 11.2% since November 2001, compared to an 8.0% decrease nationally. This decline in Greater Phoenix is a function of both the national recession and the effects that the terrorist attacks of September 11th have had on the area's semiconductor manufacturing sector. Since semiconductors are used in many durable goods, most of which purchases can be postponed until better economic times, this sector of manufacturing has been affected more dramatically than other manufacturing sectors. Arizona's major aerospace contractors are specialized in aircraft production and design, missile development, guidance systems and other areas that, while adversely affected by the terrorist attacks of September 11, 2001, are expected to recover strongly.

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

Phoenix-Mesa MSA increased 4.8%. During the recovery from March 1991 to March 2001, services employment increased 77.6% versus 38.8% in the U.S. From March 2001 to November 2001, services employment in the Phoenix-Mesa MSA decreased by 3.0% while nationally, services employment increased by 0.5%. Since the recession ended in November 2001, services employment has increased 6.3% in the Phoenix-Mesa MSA and 2.5% nationally.

Professional and business services employment is a strong contributor to services growth. The number of jobs within this sector in the Phoenix-Mesa MSA increased 92.6% during the growth period between November 1982 and July 1990.⁽¹⁾ During the recession from July 1990 through March 1991, professional and business services employment increased 1.7%. During the recovery from March 1991 to March 2001, professional and business services employment increased 136.8%. Employment in this sector declined 6.6% in the Phoenix-Mesa MSA during the recession from March 2001 through November 2001 and has experienced growth of 5.5% between November 2001 and October 2003.

A significant portion of services employment is related to tourism. Leisure and hospitality employment, 24.4% of total services employment, was up 57.7% within the Phoenix-Mesa MSA between November 1982 and July 1990.⁽¹⁾ During the July 1990 to March 1991 recession, leisure and hospitality employment increased 9.2%. Between March 1991 and March 2001, employment in this sector increased 48.3%. During the latest recession from March 2001 through November 2001, leisure and hospitality employment decreased 3.7%. This employment sector has increased 0.9% since the end of the recession through October 2003. Construction of three new resorts within Metro Phoenix was completed in 2002. The Westin Kierland Resort, Marriott Desert Ridge and the Sheraton Wild Horse Pass added a total of 2,200 hotel rooms. The opening of these three resorts is expected to have a positive impact on the Metro Phoenix tourism market.

Educational and health services employment in Maricopa County increased 5.0% during the recession from July 1990 to March 1991.⁽¹⁾ During the March 1991 to March 2001 expansion, educational and health services employment increased 50.8%. From March 2001 through November 2001, educational and health services employment increased 3.0% and has increased 12.9% from November 2001 through October 2003.

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

2002 MAJOR EMPLOYERS METROPOLITAN PHOENIX

SERVICES

(Excluding Resorts and Health Services)

Employer	Number of Employees
Bank One Arizona	8,800
American Express Co.	8,700
America West Airlines	8,000
Qwest (formerly U.S. West)	8,000*
Bank of America	5,400
Southwest Airlines	4,800
Discover Financial Services	4,000
Salt River Project	3,600
AT&T	3,200
Avnet	2,800
Pinnacle West Capital Corporation	2,700
Charles Schwab	2,600
Central Newspapers, Inc.	2,600

HEALTH SERVICES

Banner Health Arizona	14,700
St. Joseph's Hospital	3,500
The Mayo Clinic	3,400
Advance PCS	2,400
Cigna Health Care of Arizona	2,000

RESORTS

The Pointe Hilton Resorts	1,500
The Phoenician	1,400
The Fairmont Scottsdale Princess	1,300

RETAIL TRADE

Wal-Mart	6,200
Fry's Food and Drug Stores	5,700
Bashas' Markets Inc.	5,300
Safeway, Inc.	5,000
Dayton Hudson Corp./Target	4,900
Phillips 66 (formerly Tosco)	4,000
Home Depot	2,800
Costco	2,200
Earnhardt Auto Centers	1,800
CSK Auto	1,700

MANUFACTURING

Honeywell	14,000
Motorola, Inc.	10,700
Intel Corporation	10,000
Boeing	4,800
Shamrock Foods Company	1,800
TRW/Vehicle Safety System	1,600
Microchip Technology Inc.	1,400
Sunland Beef	1,400

GOVERNMENT/SCHOOLS

State of Arizona	28,400
City of Phoenix	14,352
Maricopa County	11,900
Mesa Public Schools	10,000
Arizona State University	8,900
Luke Airforce Base	8,600
U.S. Postal Service	7,200
City of Mesa	3,600

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

Source: Elliott D. Pollack & Co.

SKY HARBOR INTERNATIONAL AIRPORT TRAFFIC(1)

AIR PASSENGER ARRIVALS

	2002/2003	% Change Year Ago	2001/2002	% Change Year Ago	2000/2001	% Change Year Ago
December	1,597,209	17.4	1,360,910	-11.5	1,536,886	5.1
January.....	1,424,638	10.6	1,288,431	-12.0	1,463,694	6.7
February.....	1,416,932	10.4	1,283,852	-11.6	1,451,927	1.2
March	1,711,437	-0.2	1,714,390	-5.2	1,808,734	3.8
April	1,554,874	7.2	1,450,815	-8.1	1,578,042	2.6
May	1,593,369	4.2	1,529,438	-2.4	1,566,820	0.3
June	1,645,151	4.0	1,582,440	-0.7	1,593,341	0.9
July.....	1,735,015	7.6	1,613,140	-4.0	1,680,168	4.6
August	1,656,936	4.1	1,591,173	-4.5	1,665,489	5.6
September	1,398,438	7.2	1,304,097	29.9	1,004,270	-26.1
October	1,609,241	5.5	1,525,311	12.2	1,360,054	-12.5
November	1,486,642	2.3	1,453,451	8.7	1,336,736	-14.6
Total	<u>18,829,882</u>	<u>6.4</u>	<u>17,697,448</u>	<u>-1.9</u>	<u>18,046,161</u>	<u>-1.7</u>

AIR PASSENGER DEPARTURES

December	1,561,556	19.1	1,310,830	-12.5	1,497,802	8.4
January.....	1,410,170	11.5	1,265,195	-12.1	1,438,898	9.1
February.....	1,370,790	10.4	1,241,916	-12.4	1,417,780	4.3
March	1,718,895	5.8	1,624,625	-8.2	1,770,461	5.4
April	1,574,320	3.5	1,521,047	-5.8	1,615,375	4.6
May	1,625,009	5.3	1,543,474	-3.3	1,596,319	3.1
June	1,654,169	4.1	1,588,369	-0.2	1,592,283	4.6
July.....	1,703,600	8.0	1,577,115	-4.1	1,645,229	7.9
August	1,598,875	4.1	1,535,524	-4.2	1,602,479	5.7
September	1,359,778	8.8	1,249,762	30.1	960,541	-24.5
October	1,538,654	4.1	1,478,513	12.8	1,310,253	-6.1
November	1,492,810	4.7	1,426,324	9.0	1,308,417	-9.0
Total	<u>18,608,626</u>	<u>7.2</u>	<u>17,362,694</u>	<u>-2.2</u>	<u>17,755,837</u>	<u>1.4</u>

TOTAL AIR TRAFFIC

December	3,158,765	18.2	2,671,740	-12.0	3,034,688	6.7
January.....	2,834,808	11.0	2,553,626	-12.0	2,902,592	7.9
February.....	2,787,722	10.4	2,525,768	-12.0	2,869,707	2.7
March	3,430,332	2.7	3,339,015	-6.7	3,579,195	4.6
April	3,129,194	5.3	2,971,862	-6.9	3,193,417	3.6
May	3,218,378	4.7	3,072,912	-2.9	3,163,139	1.7
June	3,299,320	4.1	3,170,809	-0.5	3,185,624	2.7
July.....	3,438,615	7.8	3,190,255	-4.1	3,325,397	6.2
August	3,255,811	4.1	3,126,697	-4.3	3,267,968	5.7
September	2,758,216	8.0	2,553,859	30.0	1,964,811	-25.3
October	3,147,895	4.8	3,003,824	12.5	2,670,307	-9.5
November	2,979,452	3.5	2,879,775	8.9	2,645,153	-11.9
Total	<u>37,438,508</u>	<u>6.8</u>	<u>35,060,142</u>	<u>-2.1</u>	<u>35,801,998</u>	<u>-0.1</u>

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

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

SCHEDULED AIRLINES SERVING SKY HARBOR INTERNATIONAL AIRPORT

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

Source: City of Phoenix Aviation Department.

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

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003*
Natural Resources and Mining.....	4.0	5.3	6.2	5.9	5.1	3.6	2.4	2.4	2.3	2.3
Construction.....	75.4	88.0	95.4	100.6	110.1	118.3	123.3	128.3	125.4	127.7
Manufacturing.....	139.0	147.4	154.5	160.3	165.7	161.4	161.1	153.2	138.3	130.4
Trade, Transportation, and Utilities										
Wholesale Trade.....	53.4	59.9	65.4	69.7	73.3	75.9	78.5	79.6	77.5	76.6
Retail Trade.....	138.3	147.3	155.3	163.4	170.2	177.7	185.5	186.2	188.8	189.7
Transp., Warehousing, and Utilities	45.2	46.4	49.2	51.0	53.4	57.2	57.4	58.6	58.9	59.8
Information.....	23.0	25.0	27.0	29.8	31.7	35.2	42.0	41.6	38.9	36.4
Financial Activities.....	87.5	88.4	98.0	110.3	118.5	124.3	126.3	129.6	130.2	130.1
Professional and Business Services...	147.4	169.3	194.8	213.4	226.0	248.0	264.1	259.4	253.3	256.8
Educational and Health Services....	106.5	112.4	119.9	125.1	130.3	135.3	137.5	143.7	152.8	161.8
Leisure and Hospitality.....	119.3	126.2	131.4	136.1	143.1	146.8	149.7	152.5	153.0	155.2
Other Services.....	42.0	43.7	45.6	45.5	48.2	52.1	54.9	59.3	61.0	63.0
Government.....	161.1	165.6	170.1	171.9	182.7	189.3	195.7	203.4	211.6	212.2
Total.....	<u>1,142.0</u>	<u>1,224.8</u>	<u>1,312.5</u>	<u>1,383.0</u>	<u>1,458.1</u>	<u>1,525.0</u>	<u>1,578.4</u>	<u>1,597.7</u>	<u>1,591.9</u>	<u>1,602.0</u>

* 10 months average.

Note: Annual averages may not add due to rounding.

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

The Phoenix-Mesa MSA unemployment rate has generally been consistently below the State and national average. In 2002, the seasonally adjusted unemployment rate for the Phoenix-Mesa MSA was 5.7% compared to 6.2% and 5.8% for Arizona and the United States, respectively. As of October 2003, the unemployment rate in the Phoenix-Mesa MSA was 4.4% compared to 5.0% for Arizona and 6.0% for the United States.

Job growth has also yielded gains in personal income. In 1999, personal income increased by 7.0%, while in 2000 and 2001 (the latest available data), personal income increased 10.1% and 4.7% respectively. The Greater Phoenix Blue Chip Economic Forecast, a consensus forecast of a number of local economists, estimates personal income increases of 4.4%, 5.3% and 6.4% in 2002, 2003 and 2004, respectively.

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

Year	Employed Phoenix-Mesa MSA	Unemployed Phoenix-Mesa MSA	Unemployment Rate		
			Phoenix-Mesa MSA	Arizona	U.S.
2003*	1,693,400	93,900	4.4%	5.0%	6.0%
2002	1,689,300	101,600	5.7	6.2	5.8
2001	1,661,300	68,500	4.0	4.7	4.7
2000	1,604,800	45,200	2.7	4.0	4.0
1999	1,523,400	48,000	3.1	4.4	4.2
1998	1,455,600	40,700	2.7	4.1	4.5
1997	1,388,200	43,500	3.0	4.6	4.9
1996	1,382,900	53,500	3.7	5.5	5.4
1995	1,351,800	48,400	3.5	5.1	5.6
1994	1,214,900	60,300	4.7	6.4	6.1
1993	1,103,200	58,600	5.0	6.3	6.9
1992	1,077,300	76,300	6.6	7.6	7.5
1991	1,082,900	57,900	5.1	5.8	6.8

* 10 month average.

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

CONSTRUCTION/REAL ESTATE MARKET

During the 1990s, the construction/real estate market in Maricopa County fully recovered from the recession of the late 1980s. Currently, vacancy rates are lower than they were during the economic slowdown in the late 1980s; however, according to the Greater Phoenix Blue Chip Economic Forecast, it now appears that vacancy rates in virtually all commercial real estate sectors are headed upward and that new supply will exceed absorption in most commercial markets. The overall economic environment appears considerably healthier today than in the late 1980s when the State faced a national recession, a severe real estate recession and defense cutbacks. The result is that vacancy rates in this cycle are not expected to reach the high level that they reached in the late 1980s and the downturn will be shorter in duration. Single family permits declined annually from 1986 through 1990; however, single family permit activity was up 27% in 1991, 36% in 1992, 19% in 1993, 22% in 1994, 0.7% in 1995, 5.0% in 1996, 3.4% in 1997 and 16.1% in 1998. There were 26,824 single family permits issued in Maricopa County in 1995, 28,157 issued in 1996, 29,109 issued in 1997 and a record 33,811 issued in 1998. Indeed, 1998 was the eighth consecutive year of increased single family permit activity. In 1999 and 2000, the number of single family permits issued declined modestly by 1.7% and 2.3%, respectively, to 33,252 permits in 1999 and 32,511 permits in 2000. Single family permits issued in 2001 increased 1.1% to 32,869 permits and increased 4.4% in 2002 to 34,315 permits. For the first three quarters of 2003, single family permits were up 14.6%. The Greater Phoenix Blue Chip Economic Forecast calls for a slight decrease in permits in 2004 to 34,063 permits and a decrease in 2005 to 33,106 permits. The expected decline is modest compared to the declines experienced during previous periods of national economic slowdown.

The City of Phoenix had recently been experiencing a declining market share of residential permits within the Metro Phoenix area. This was a result of the recent build-out of certain major master planned communities within the City of Phoenix and the opening or expansion of new planned communities outside of the City's boundary. Through September of 2003, however, the City of Phoenix captured 23.7% of the market. This is the highest percentage the City has attained since 1993.

In the past, multi-family housing has been hit harder by recession than single family housing. Permits declined from 1984 through 1990, but a recovery in multi-family housing began in 1991. The number of permits issued increased each year from 1991 through 1996. In 1997 the number of permits issued declined

7.1% to 7,930 units and remained just under 8,000 per year for 1998 and 1999. In 2000, 2001 and 2002 there were 8,009, 7,201 and 5,607 units permitted, respectively. Multi-family housing has been hit hard by low interest rates that have made single-family housing very affordable. As a result, absorption of single-family homes has increased while absorption of multi-family homes has slowed. In the first quarter of 2003 there were 521 multi-family permits issued. It is anticipated that approximately 4,850 permits will be issued in 2003 and 5,100 issued in 2004. Multi-family housing has enjoyed low levels of vacancy since 1993. Vacancy rates peaked in second quarter 1988 at 14.1% but backed down to 4.5% by the end of 1996. The vacancy rate was 9.4% in 2002, and 10.1% for the third quarter 2003. The Greater Phoenix Blue Chip Economic Forecast estimates that the multi-family vacancy rate will remain in the 9% to 10% range during 2003, 2004 and 2005.

1996 was the first year since 1991 that new office construction took place. Vacancy rates peaked in 1986 at just over 30%, but declined to 9.1% in 1996. According to CB Richard Ellis, in 1996 only six buildings were built, but in 1997 twenty-four were built, in 1998 thirty-six were built, in 1999 fifty-four were built, in 2000 fifty-one were built, in 2001 sixty-two were built and in 2002 forty-seven were built. The vacancy rate at year-end 2002 increased to 18.8% from 16.0% at year-end 2001. Through third quarter 2003, approximately 377,000 square feet of office space was added to the market, while approximately 1 million square feet was absorbed. Thus, as of third quarter 2003, the vacancy rate declined to 18.6% versus 19.4% as of second quarter of 2003. The Greater Phoenix Blue Chip Economic Forecast estimates that the vacancy rate will be 19.3% at year-end 2003 and decline to 18.2% and 16.3% in 2004 and 2005, respectively.

Given the rapid growth in single family housing over the last decade, demand for retail space has remained relatively strong. More recently, additional supply has slowed due to the slowdown in overall retail sales. Vacancy rates were 7.4% in 1997 but declined to 6.3%, 5.5% and 5.3% in 1998, 1999 and 2000, respectively. According to CB Richard Ellis, vacancy rates rose to 6.6% in 2001 and 7.3% in 2002; however, the 2002 rate is slightly higher (7.5%) when regional malls are excluded. The near term outlook is not as favorable for the retail space market as it has been in the recent past. Vacancy rates are expected to increase to 8.9% in 2003, 8.8% in 2004 and 9.1% in 2005.

The industrial space market experienced healthy absorption from 1991 through 2000. Vacancy rates declined from a peak of 14.8% in 1991 to 7.4% by the end of 2000. New construction increased in response to the low vacancy rates with just over 6 million square-feet of industrial space built in 1995, 7.3 million square-feet built in 1996, 8.1 million square-feet built in 1997, 7.0 million square-feet built in 1998, 8.7 million square feet built in 1999, 6.5 million square feet built in 2000 and 8.1 million square feet built in 2001. According to CB Richard Ellis, approximately 5.1 million square feet of new industrial space was built in 2002, while only 3.4 million square feet was absorbed. Therefore, the vacancy rate increased to 10.3% in 2002 compared to 9.8% in 2001. During the first three quarters of 2003, 2.1 million square feet was added and 2.1 million square feet was absorbed, holding the vacancy rate at 10.3%. According to the Greater Phoenix Blue Chip Economic Forecast, construction is expected to slow during 2003 and 2004 with vacancy rates expected to be 10.5% at the end of 2003, 9.8% in 2004 and 9.1% in 2005.

Overall, most commercial sectors are approaching the trough for this cycle, but the recovery will be slow. The decline from the peak, however, was considerably milder than the last recession because of the lower level of vacancy rates from which the decline started. However, the slow rates of growth will affect the balance between absorption and new construction and will lead to lower levels of new construction over the next couple of years. Construction employment is expected to experience a decline, but less than the cyclical norm. After growing by 4.2% in 2000 and 4.1% in 2001, construction employment declined by 2.3% in 2002, and is expected to increase by 1.2% in 2003 and 2004 according to the Greater Phoenix Blue Chip Economic Forecast. These are relatively modest fluctuations in an industry that has historically been quite cyclical.

OUTLOOK/CONCLUSION

Employment in the Metro Phoenix economy is expected to have increased in 2003. Total non-agricultural wage and salary employment, after climbing by 3.5% in 2000 and 1.2% in 2001, declined by 0.4% in 2002. According to the Greater Phoenix Blue Chip Economic Forecast, the economy, as measured by employment growth, is expected to increase by 1.9% in 2003 and 3.4% in 2004.

The outlook for the Phoenix metropolitan area still calls for continued but slow growth according to the Greater Phoenix Blue Chip Economic Forecast. Population is expected to increase by 2.7% in both 2003 and 2004. Retail sales, which increased 10.4% in 1999, 8.4% in 2000, 1.5% in 2001 and 0.3% in 2002, are expected to increase 4.7% in 2003 and 5.9% in 2004. Personal income is expected to have grown by 4.4% in 2002 and should grow by 5.3% in 2003 and 6.4% in 2004. The long-term forecast for the Phoenix metropolitan area continues to be positive.

MARICOPA COUNTY RETAIL SALES
(\$ in millions)

<u>Year</u>	<u>Amount</u>	<u>Percentage Change</u>
2003*	\$28,821	5.2%
2002	30,690	0.3
2001	30,606	1.5
2000	30,167	8.4
1999	27,825	10.4
1998	25,207	7.9
1997	23,360	7.8
1996	21,664	8.2
1995	20,017	9.9
1994	18,206	14.3
1993	15,925	9.8

*Year-to-date through November 2003.

Source: Arizona Department of Revenue.

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

<u>Year</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Other</u>	<u>Total</u>
2003*	\$1,233,877	\$ 281,458	\$ 35,956	\$524,996	\$2,076,287
2002	1,233,033	429,049	47,250	526,263	2,235,595
2001	931,463	1,105,088	50,292	946,859	3,033,702
2000	752,495	967,373	157,826	580,794	2,458,488
1999	803,018	829,901	92,881	401,848	2,127,648
1998	801,955	816,664	124,313	479,879	2,222,811
1997	799,148	594,355	98,989	508,898	2,001,390
1996	742,743	550,152	205,329	635,751	2,133,975
1995	731,454	394,319	56,229	328,668	1,510,670
1994	719,427	445,803	67,350	332,616	1,565,196
1993	629,874	183,745	17,150	252,910	1,083,679

*Year-to-date through September 2003.

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

**VALUE OF BUILDING PERMITS
MARICOPA COUNTY
(\$ in thousands)**

<u>Year</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Other</u>	<u>Total</u>
2003*	\$5,202,661	\$1,060,695	\$ 60,134	\$1,050,615	\$7,374,105
2002	5,750,850	1,620,722	86,044	1,231,003	8,688,619
2001	5,088,241	2,256,850	345,985	1,641,521	9,332,597
2000	4,774,188	2,144,767	253,472	1,493,186	8,665,613
1999	5,142,869	1,878,629	210,676	1,092,337	8,324,511
1998	4,778,571	2,230,445	378,141	1,101,269	8,488,426
1997	3,903,540	1,840,324	233,598	1,133,849	7,111,311
1996	3,508,416	1,422,384	788,083	1,079,458	6,798,341
1995	3,199,942	1,043,978	413,835	782,609	5,440,364
1994	3,203,144	959,539	145,310	584,029	4,892,022
1993	2,432,682	547,667	50,139	499,052	3,529,540

*Year-to-date through September 2003.

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

NEW HOUSING STARTS(1)

<u>Year</u>	<u>City of Phoenix</u>	<u>Maricopa County</u>
2003*	8,157	34,971
2002	9,154	43,826
2001	9,754	43,732
2000	8,052	43,908
1999	9,836	47,406
1998	11,212	47,801
1997	8,253	42,568
1996	10,548	39,628
1995	10,774	37,091
1994	9,891	33,862
1993	6,392	24,147

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

* Year-to-date through September 2003.

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

**FINANCIAL INSTITUTIONS SERVING METRO PHOENIX
TOTAL ASSETS OVER \$20 MILLION**

Banks

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

Source: Federal Deposit Insurance Corporation.

APPENDIX D
CITY OF PHOENIX, ARIZONA
FINANCIAL DATA

VALUATIONS

2003-04 Fiscal Year

Secondary Assessed Valuation	\$ 9,792,188,415(1)
Primary Assessed Valuation	9,048,850,849(2)
Full Cash Value	79,124,594,645(3)

- (1) This assessed valuation represents the amount used in determining property tax levies for the payment of principal and interest on bonds, and the calculation of the maximum permissible bonded indebtedness.
- (2) This assessed valuation represents the amount used in determining property tax levies for the payment of current operation and maintenance expenses.
- (3) Full cash value represents total market value and is calculated by the Maricopa County Assessor's Office, and the Arizona Department of Revenue, Division of Property and Special Taxes.

Arizona Property Tax System

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

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

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

Basis of Property Assessments(1)

<u>Tax Years</u>	<u>Mines</u>	<u>Utilities</u>	<u>Railroads</u>	<u>Commercial and Industrial</u>	<u>Residential(2)</u>	<u>Agriculture</u>
1980-82	52%	44%	34%	25%	10%	16%
1983	38	38	30	25	10	16
1984	36	36	23	25	10	16
1985	34	34	(3)	25	10	16
1986	32	32	(3)	25	10	16
1987-94	30	30	(3)	25	10	16
1995	29(4)	29(4)	(3)	25(5)	10	16(5)
1996	28(4)	28(4)	(3)	25(5)	10	16(5)
1997	27(4)	27(4)	(3)	25(5)	10	16(5)
1998	26(4)	26(4)	(3)	25(5)	10	16(5)
1999-03	25(4)	25(4)	(3)	25(5)	10	16(5)

- (1) Additional classes of property exist, but do not amount to a significant portion of total valuation for the City of Phoenix. These classes consist of historic property; aerospace manufacturing property in a reuse zone; property in a foreign trade zone; environmental technology property for the first twenty years from the date placed in service and leasehold or other possessory interest in certain public property.
- (2) Does not include residential properties leased or rented. The assessment factor for these properties was 18% in tax year 1984 and was to be reduced 1% per year until 1992. Legislation passed in 1988, however, froze the assessment factor for leased or rented residential properties for 1988 and 1989 at the 1987 level of 15%. Legislation passed in 1990 set the assessment ratio for these properties at 14% for 1990, 13% for 1991 and 12% for 1992. Legislation passed in 1993 set the assessment ratio at 11% for 1993, and 10% for 1994 and each year thereafter.
- (3) For years after 1984, the percentage assessment factor for Primary tax purposes is to be determined annually equal to the ratio of the total assessed valuation for Primary tax purposes of mining, utilities, commercial and industrial properties to the total limited property value of such properties. The percentage assessment factor for Secondary tax purposes is to equal the ratio of the total assessed valuation for Secondary tax purposes of such properties to the total full cash value of such properties.
- (4) Legislation passed in 1994 reduced the assessment factor to 29% in 1995, 28% in 1996, 27% in 1997, 26% in 1998 and 25% in 1999 and each year thereafter.
- (5) Legislation authorized by an amendment to the Constitution of Arizona by vote at the November 5, 1996 general election provided for a reduced assessment ratio of 1% on commercial and industrial and agricultural personal property for full cash values up to \$3,000 in tax year 1995 and \$50,000 in tax year 1996. Thereafter, up to \$50,000 shall be exempt from taxation. The exemption amount shall be adjusted annually for inflation by the Arizona Department of Revenue. Any portion of the full cash value in excess of those amounts will be assessed at 25% or 16%, as applicable.

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

Tax Procedures

The Arizona Legislature revised the property tax valuation system effective with the tax year beginning January 1, 1997. Under the new system, a valuation date was established as January 1 of the year preceding

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

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

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

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

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

Delinquent Tax Procedures

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

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

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

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

Full Cash Value History

Fiscal Year	City of Phoenix	Maricopa County	State of Arizona
2003-04	\$79,124,594,645	\$226,293,568,605	\$335,149,188,693
2002-03	67,638,014,420	194,235,322,146	294,684,679,137
2001-02	63,269,038,936	180,653,045,937	273,788,719,647
2000-01	56,520,869,237	149,395,798,645	249,615,904,375
1999-00	51,170,108,692	134,709,854,002	218,663,627,946
1998-99	46,338,897,513	128,171,304,453	210,603,641,756
1997-98	44,606,566,775	120,276,555,947	198,556,280,715
1996-97	40,536,950,475	107,933,711,838	179,907,770,879
1995-96	39,971,562,865	105,326,279,588	175,683,516,736
1994-95	37,403,489,980	97,887,171,609	164,888,857,486

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

Secondary Assessed Valuation History

Fiscal Year	City of Phoenix	Maricopa County	State of Arizona
2003-04	\$9,792,188,415	\$27,477,987,528	\$40,861,415,479
2002-03	8,802,883,478	24,457,047,282	36,825,660,973
2001-02	8,232,133,776	22,913,134,480	34,468,574,240
2000-01	7,573,211,016	20,877,715,546	32,071,738,214
1999-00	6,915,960,312	18,676,830,848	28,184,077,278
1998-99	6,202,274,718	16,813,017,261	26,793,103,101
1997-98	5,894,963,462	15,723,498,194	25,384,679,197
1996-97	5,400,221,498	14,343,156,861	23,333,708,811
1995-96	5,348,425,323	14,119,434,946	23,022,330,962
1994-95	5,149,843,630	13,521,174,915	22,221,432,843

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

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

Fiscal Year	Real Estate	Improvements	Secured & Unsecured Personal	Utilities Ralls & Wires	Gross Assessed Valuation	Exemptions	Net Secondary Assessed Valuation
2003-04	\$2,974,456,188	\$7,169,077,063	\$594,164,050	\$830,478,168	\$11,568,175,469	\$1,775,987,054	\$9,792,188,415
2002-03	2,488,650,102	6,284,297,650	612,065,590	747,923,082	10,132,936,424	1,330,052,946	8,802,883,478
2001-02	2,163,560,680	5,868,320,490	618,533,930	684,402,671	9,334,817,771	1,102,683,995	8,232,133,776
2000-01	1,933,926,600	5,198,083,457	579,897,990	631,039,395	8,342,947,442	769,736,426	7,573,211,016
1999-00	1,883,458,451	4,608,310,408	520,095,915	603,225,851	7,615,090,625	699,130,313	6,915,960,312
1998-99	1,745,639,548	4,024,090,552	513,240,900	560,079,571	6,843,050,571	640,775,853	6,202,274,718
1997-98	1,707,648,601	3,775,667,800	508,147,650	575,580,845	6,567,044,896	672,081,434	5,894,963,462
1996-97	1,763,247,205	3,293,925,357	465,657,755	575,195,555	6,098,025,872	697,804,374	5,400,221,498
1995-96	1,452,272,969	2,924,578,560	480,605,530	499,209,889	5,356,666,948	8,241,625	5,348,425,323
1994-95	1,516,937,800	2,415,957,553	697,298,980	528,322,281	5,158,516,614	8,672,984	5,149,843,630

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

- (1) The Maricopa County Finance Department reports that exemptions for 1996-97 through 2003-04 include organizational exemptions such as churches, whereas in prior years exemptions only included personal exemptions such as widows and disabled persons. In years prior to 1996-97, secondary assessed valuation in each classification was reported net of organizational exemptions. As a result, secondary assessed valuation by classification in 1996-97 through 2003-04 is not comparable to previous years secondary assessed valuation by classification. However, net secondary assessed valuation is comparable for all years.

Primary Assessed Valuation History

Fiscal Year	City of Phoenix	Maricopa County	State of Arizona
2003-04	\$9,048,850,849	\$25,447,850,971	\$38,311,495,654
2002-03	8,268,924,766	22,955,864,882	34,868,616,692
2001-02	7,689,379,400	21,355,326,477	32,518,431,391
2000-01	7,024,054,018	19,362,298,255	30,144,285,019
1999-00	6,425,131,594	17,463,875,533	26,593,673,070
1998-99	5,899,905,701	16,017,265,623	25,682,910,177
1997-98	5,614,496,354	15,006,270,531	24,284,338,991
1996-97	5,233,427,802	13,975,668,204	22,820,491,792
1995-96	5,067,237,371	13,493,736,826	22,109,868,588
1994-95	5,066,598,314	13,302,326,609	21,729,506,885

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

**City of Phoenix, Arizona
Major Taxpayers
2003-04**

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

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

TAX DATA

Maricopa County assesses and collects all City property taxes. Property taxes are payable in two installments. The first installment is due on the first business day of October and becomes delinquent on the first business day of November. The second installment is due on the first business day of March and becomes delinquent on the first business day of May. Interest at the rate of 16% per annum attaches on first and second installments following delinquent dates. The following table sets forth the City's tax levy for 2003-04 and for the past ten fiscal years, as well as the tax collection record of the City's levy for the 2003-04 fiscal year and for the previous ten fiscal years. It should be noted that the total collection figures for each fiscal year reflect amounts collected on such year's levy and amounts collected during such year on prior years' levies, but do not include penalties for delinquent payments.

Fiscal Year	Tax Rate Per \$100 Assessed	Tax Levy	Current Collection(1)		Total Collection(2)	
			Amount	% of Levy	Amount	% of Levy
2003-04	\$1.82	\$171,899,460	\$ 95,863,090	57.8%	\$ 99,393,797	57.8%
2002-03	1.82	155,950,420	151,011,797	96.8	153,599,250	98.5
2001-02	1.82	145,395,416	140,187,238	96.4	142,896,627	98.3
2000-01	1.82	133,109,691	129,187,927	97.1	130,917,435	98.4
1999-00	1.82	121,581,798	118,826,076	97.7	121,038,518	99.6
1998-99	1.82	110,130,882	108,068,788	98.1	110,291,021	100.1
1997-98	1.82	104,716,452	102,552,294	97.9	104,373,897	99.7
1996-97	1.82	96,718,505	95,342,617	98.6	97,574,122	100.9
1995-96	1.82	94,702,111	93,688,948	98.9	95,427,243	100.8
1994-95	1.84	93,889,000	89,417,578	95.2	91,157,589	97.1
1993-94	1.84	95,778,000	91,948,554	96.0	95,102,795	99.3

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

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

Source: Maricopa County Treasurer's Office.

**Total Direct And Overlapping Tax Rates
Per \$100 Assessed Valuation(1)
For Fiscal Year 2003-04**

<u>Overlapping Municipality</u>	<u>Total Tax Rate Inside City of Phoenix</u>
Inside Agua Fria Union High School District No. 216 Inside Litchfield Elementary School District No. 79	\$13.1074
Inside Glendale Union High School District No. 205 Inside Washington Elementary School District No. 6 Inside Glendale Elementary School District No. 40	13.2006 14.8864
Inside Phoenix Union High School District No. 210 Inside Phoenix Elementary School District No. 1 Inside Riverside Elementary School District No. 2 Inside Isaac Elementary School District No. 5 Inside Wilson Elementary School District No. 7 Inside Osborn Elementary School District No. 8 Inside Creighton Elementary School District No. 14 Inside Murphy Elementary School District No. 21 Inside Balsz Elementary School District No. 31 Inside Madison Elementary School District No. 38 Inside Laveen Elementary School District No. 59 Inside Roosevelt Elementary School District No. 66 Inside Alhambra Elementary School District No. 68 Inside Cartwright Elementary School District No. 83	16.1269 11.6978 15.8360 14.7322 12.3662 13.5475 14.5067 13.0499 12.4079 13.1781 15.6737 16.0923 16.5243
Inside Tempe Union High School District No. 213 Inside Tempe Elementary School District No. 3(2) Inside Kyrene Elementary School District No. 28(2)	12.6197 12.5157
Inside Tolleson Union High School District No. 214 Inside Tolleson Elementary School District No. 17 Inside Fowler Elementary School District No. 45 Inside Union Elementary School District No. 62 Inside Littleton Elementary School District No. 65 Inside Pendergast Elementary School District No. 92	14.9278 15.0752 16.0281 15.2284 15.6815
Inside Scottsdale Unified School District No. 48(2)	10.3274
Inside Paradise Valley Unified School District No. 69	12.1088
Inside Cave Creek Unified School District No. 93	9.5211
Inside Deer Valley Unified School District No. 97	12.1644
(1) Included in the computation for each of the overlapping municipalities is the Maricopa County tax rate of \$1.2808, the Maricopa County Community College tax rate of \$1.0785, the City of Phoenix tax rate of \$1.8200, the Maricopa County Education Equalization tax rate of \$0.4717, the Maricopa County Flood Control District tax rate of \$0.2119, the Central Arizona Water Conservation District tax rate of \$0.12, the Volunteer Fire District Assistance tax rate of \$0.0070 and the County Library District tax rate of \$0.0521.	
(2) Includes the East Valley Institute of Technology tax rate of \$0.0976.	
Source: Maricopa County Finance Department.	

STATEMENT OF BONDED INDEBTEDNESS(1)

Purpose	General Obligation Bonds			Revenue Bonds	Total Bonds
	Non-Enterprise General Obligation Bonds	Revenue Supported General Obligation Bonds(2)	Total General Obligation Bonds		
Various	\$874,558,637	\$ —	\$ 874,558,637	\$ —	\$ 874,558,637
Airport	—	30,855,000	30,855,000	44,950,000	75,805,000
Sanitary Sewer	—	80,496,279	80,496,279	—	80,496,279
Solid Waste	—	49,470,000	49,470,000	—	49,470,000
Water	—	149,355,160	149,355,160	—	149,355,160
Public Housing	—	—	—	2,540,000	2,540,000
Street & Highway	—	—	—	207,315,920	207,315,920
Subtotal	874,558,637	310,176,439	1,184,735,076	254,805,920	1,439,540,996
Less: Restricted Funds	263,316,717	—	263,316,717	—	263,316,717
Direct Debt	611,241,920	310,176,439	921,418,359	254,805,920	1,176,224,279
Less: Revenue Supported	—	310,176,439	310,176,439	254,805,920	564,982,359
Net Debt	<u>\$611,241,920</u>	<u>\$ —</u>	<u>\$ 611,241,920</u>	<u>\$ —</u>	<u>\$ 611,241,920</u>

- (1) Represents bonds outstanding as of April 1, 2004. Such figures do not include the outstanding principal amounts of certain general obligation bonds, certain water revenue bonds and street and highway user revenue bonds which have been refunded or the payment of which has been provided for in advance of maturity. The payment of the debt service requirements on such bonds (including redemption premiums where applicable) is secured by federal securities which were purchased with proceeds of the refunding issues and other available moneys and are held in irrevocable trusts and special investment funds held by the City.
- (2) Revenues remaining after payment of operation and maintenance expenses and revenue bond debt service requirements of the Phoenix aviation operations since 1967 and the Phoenix water system since 1942 have been paying the general obligation bond debt service requirements of each respective system. In addition, the debt service requirements on the City's sanitary sewer general obligation bonds are supported from revenues of the City's sanitary sewer system. This enterprise system was established in the 1980-81 fiscal year through the City's imposition of a sewer user charge beginning June 1, 1980. Also, beginning in 1990-91, all solid waste bonds are being paid from the revenues of the solid waste enterprise fund.

**Annual Debt Service Requirements
General Obligation Bonded Debt Outstanding**

Fiscal Year Ending June 30,	Total Debt Service Requirements(1)	Enterprise Supported	Net Debt Service Requirements
2004	\$ 118,278,689	\$ 49,978,662	\$ 68,300,027
2005	113,118,140	39,685,763	73,432,377
2006	110,426,902	36,771,578	73,655,324
2007	109,691,831	33,976,911	75,714,920
2008	118,310,371	44,107,512	74,202,859
2009	114,174,105	34,974,422	79,199,683
2010	115,084,697	35,661,456	79,423,241
2011	109,948,788	32,848,748	77,100,040
2012	92,368,180	15,329,700	77,038,480
2013	84,448,616	15,328,434	69,120,182
2014	72,112,297	10,747,956	61,364,341
2015	70,663,476	14,558,157	56,105,319
2016	89,261,785	29,638,159	59,623,626
2017	63,903,314	9,312,109	54,591,205
2018	64,150,115	9,381,008	54,769,107
2019	55,384,276	3,462,033	51,922,243
2020	51,357,614	2,943,270	48,414,344
2021	37,504,176	1,552,945	35,951,231
2022	36,776,957	715,700	36,061,257
2023	30,534,981	—	30,534,981
2024	26,814,037	—	26,814,037
2025	26,828,112	—	26,828,112
2026	23,210,500	—	23,210,500
2027	23,213,900	—	23,213,900
2028	15,161,600	—	15,161,600
Totals	\$1,772,727,459	\$420,974,523	\$1,351,752,936

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

Direct General Obligation Bonded Debt Outstanding

Issue Date	Original Issuance	Purpose	Maturity Dates	Bonds Outstanding As of 4-1-04(1)
12-01-89	\$ 12,241,589	Various Improvements — Minibonds	7-1-00/10	\$ 2,456,204
12-06-91	30,000,000	Sanitary Sewer Improvements	7-1-95/11	19,280,680
04-01-92	237,945,000	Refunding	7-1-95/06	30,620,000
04-15-93	335,165,000	Refunding	7-1-95/12	154,395,000
09-15-93	70,550,000	Refunding	7-1-94/09	11,935,000
12-01-93	17,229,249	Various Improvements — Minibonds	7-1-04/14	17,229,249
03-01-94	70,635,000	Various Improvements	7-1-96/04	2,715,000
01-01-95	30,000,000	Various Improvements	7-1-97/05	3,720,000
07-01-95	85,000,000	Refunding	7-1-10/19	34,520,000
11-01-95	60,000,000	Various Improvements	7-1-01/20	24,950,000
02-01-96	35,280,000	Refunding	7-1-96/14	20,510,000
01-15-97	32,000,000	Various Improvements	7-1-99/20	14,855,000
01-15-98	75,000,000	Various Improvements	7-1-01/22	59,340,000
01-15-99	163,820,000	Refunding	7-1-99/20	154,480,000
02-01-99	58,000,000	Various Improvements	7-1-01/23	40,640,000
07-15-00	50,000,000	Various Improvements	7-1-03/25	31,195,000
12-12-01	6,075,000	Sanitary Sewer Improvements	7-1-03/21	5,848,943
06-01-02	10,000,000	Various Improvements (Taxable)	7-1-08/10	10,000,000
06-01-02	89,970,000	Various Improvements	7-1-11/27	83,120,000
06-01-02	144,495,000	Refunding	7-1-03/18	120,210,000
06-01-02	14,680,000	Refunding	7-1-14/15	8,525,000
06-01-03	83,320,000	Refunding	7-1-05/16	83,320,000
03-01-04	200,000,000	Various Improvements	7-1-09/28	200,000,000
03-01-04	50,870,000	Refunding	7-1-11/19	50,870,000
Total Direct General Obligation Debt Outstanding				1,184,735,076
Less: Principal Redemption Funds held in Restricted Fund				263,316,717
Total Direct General Obligation Debt Outstanding				921,418,359
Less: General Obligation Bonded Debt Supported from Enterprise Revenues				310,176,439 (2)
Net Direct General Obligation Bonded Debt Outstanding				<u>\$ 611,241,920</u>

- (1) Represents general obligation bonds outstanding as of April 1, 2004.
- (2) Revenues remaining after payment of operation and maintenance expenses and revenue bond debt service requirements of the Phoenix aviation operations since 1967 and the Phoenix water system since 1942 have been paying the general obligation bond debt service requirements of each respective system. In addition, the debt service requirements on the City's sanitary sewer general obligation bonds are supported from revenues of the City's sanitary sewer system. This enterprise system was established in the 1980-81 fiscal year through the City's imposition of a sewer user charge beginning June 1, 1980. Also, beginning in 1990-91, all solid waste bonds are being paid from refuse user fee revenues. In the event the revenues of any of these systems should prove insufficient to pay the general obligation bond debt service requirements, or should the City decide not to pay the debt service from revenues of the systems, this debt service would then be paid from ad valorem taxes or other available sources.

**City of Phoenix
Airport Revenue Bonds Outstanding(1)**

<u>Issue Date</u>	<u>Original Issuance</u>	<u>Purpose</u>	<u>Maturity Dates</u>	<u>Average Interest Rate</u>	<u>Bonds Outstanding As of 4-1-04</u>
5-1-94	\$63,990,000	Airport Refunding	7-1-95/12	5.97%	\$15,845,000
5-1-94	31,500,000	Airport Improvements	7-1-03/12	6.44	29,105,000
Total Airport Revenue Bonds Outstanding					<u>\$44,950,000</u>

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

**City of Phoenix
Street and Highway User Revenue Bonds Outstanding**

<u>Issue Date</u>	<u>Original Issuance</u>	<u>Purpose</u>	<u>Maturity Dates</u>	<u>Average Interest Rate</u>	<u>Bonds Outstanding As of 4-1-04</u>
2-1-92	\$ 55,490,000	Street & Highway Improvement	7-1-07	6.55%	\$ 5,815,000
3-15-92	117,880,000	Street & Highway Refunding (Junior Lien)	7-1-93/11	6.50	10,645,000
12-15-92	58,225,920	Street & Highway Refunding (Junior Lien)	7-1-94/13	7.96	17,555,920
1-1-99	10,375,000	Street & Highway Refunding (Junior Lien)	7-1-99/11	4.36	9,850,000
5-1-02	123,125,000	Street & Highway Refunding (Junior Lien)	7-1-03/11	4.77	116,090,000
6-1-03	47,360,000	Street & Highway Refunding	7-1-05/11	4.59	47,360,000
Total Street & Highway User Revenue Bonds Outstanding					<u>\$207,315,920</u>

**City of Phoenix
Municipal Housing Revenue Bonds Outstanding(1)**

<u>Issue Date</u>	<u>Original Issuance</u>	<u>Purpose</u>	<u>Maturity Dates</u>	<u>Average Interest Rate</u>	<u>Bonds Outstanding As of 4-1-04</u>
8-1-95	\$4,960,000	Public Housing Refunding	12-1-95/09	6.06%	\$2,540,000
Total Municipal Housing Revenue Bonds Outstanding					<u>\$2,540,000</u>

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

DEBT LIMITATION

Under the provisions of the Arizona Constitution, outstanding general obligation bonded debt for combined water, sewer, light, parks, open space preserves, playgrounds and recreational facilities may not exceed 20% of a city's net secondary assessed valuation, nor may outstanding general obligation bonded debt for all other purposes exceed 6% of a city's net secondary assessed valuation. Unused borrowing capacity as of April 1, 2004 is shown below, based upon 2003-04 assessed valuation.

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

20% Constitutional Limitation	\$1,958,437,683
Direct General Obligation Bonds Outstanding	<u>790,295,076(1)</u>
Unused 20% Limitation Borrowing Capacity	<u>\$1,168,142,607</u>

All Other General Obligation Bonds

6% Constitutional Limitation	\$587,531,305
Direct General Obligation Bonds Outstanding	\$394,440,000(1)
Less: Principal Redemption Funds held in Restricted Fund as of March 1, 2004	<u>263,316,717</u>
Direct General Obligation Bonds Outstanding	<u>131,123,283</u>
Unused 6% Limitation Borrowing Capacity	<u>\$456,408,022</u>

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

NET DIRECT AND OVERLAPPING GENERAL OBLIGATION BONDED DEBT AND DEBT RATIOS

	As of April 1, 2004(1)
City of Phoenix	\$ 611,241,920
Maricopa County	46,377,000
Maricopa County Community College District	101,679,000
East Valley Institute of Technology	1,386,000
Various Elementary School Districts	443,272,000
Various High School Districts	284,521,000
Various Unified School Districts	375,201,000
Net Direct and Overlapping General Obligation Bonded Debt	<u>\$1,863,677,920</u>

(1) Represents the net direct debt of the City of Phoenix as of April 1, 2004. The direct debt for Maricopa County and the various school districts is as of July 1, 2003, the latest available data.

Excludes \$4,610,000 principal amount of City Improvement Districts' bonded debt. This indebtedness is presently being paid from special assessments levied against property owners residing within the improvement districts. Excludes \$6,030,000 principal of Tatum Ranch Community Facilities District bonded debt. This indebtedness is presently being paid from Special Taxing District property tax revenues.

Also does not include the obligation of the Central Arizona Water Conservation District (CAWCD) to the United States of America, Department of the Interior for repayment of capital costs for construction of the Central Arizona Project (CAP), a major reclamation project constructed by the Department of the Interior. The obligation is evidenced by a master contract between the CAWCD and the Department of the Interior. The repayment will take place over a period of 50 years. Interest will be payable at the rate of 3.342% per annum on the unpaid balance. The City of Phoenix portion is estimated to be \$254.6 million, including interest, and will be paid over a fifty year period. The cost for 1997 was \$4.4 million, increasing to \$5.2 million in the year 2004 and remaining constant through the final payment in 2044. The United States and CAWCD recently announced an agreement to settle litigation over the amount of the construction cost repayment obligation, the amount of the respective obligations for payments of the operation, maintenance and replacement costs and the application of certain revenues and credits for amounts paid by CAWCD to the United States against such obligations and costs. Under the agreement, CAWCD's obligation for substantially all of the CAP features that have been constructed so far will be set at \$1.65 billion, which amount assumes (but does not mandate) that the United States will acquire a total of 665,224 acre feet of CAP water for federal purposes. The United States will complete unfinished CAP construction work related to the water supply system and regulatory storage stages of the CAP at no additional cost to CAWCD. Of the \$1.65 billion repayment obligation, 73% will be interest bearing and the remaining 27% will be non-interest bearing. These percentages will be fixed for the entire 50 year repayment period, which commenced October 1, 1993. Effectiveness of the agreement is subject to a number of conditions including settlement of certain Indian community water claims and other water claims and will require certain State of Arizona and Federal legislation. If the conditions are not met by May 9, 2012, the parties could extend such deadline or the agreement will terminate and either party may petition U.S. District Court to resume litigation. It is not possible to predict whether the agreement will be effective or if the litigation will be resumed or the outcome of any such litigation.

The CAWCD is a water conservation district having boundaries coterminous with the exterior boundaries of Maricopa, Pima and Pinal Counties. It was formed for the express purpose of paying administrative costs and expenses of the District and to assist in repayment of the Central Arizona Project capital costs to the United States. Repayment will be made from a combination of power revenues, subcontract revenues (i.e., agreements with municipal, industrial and agricultural water users for delivery of Central Arizona Project water) and a tax levy against all taxable property in the District. Currently, the tax levy is limited by Arizona Revised Statutes to fourteen cents per \$100 of assessed valuation. There can be no assurance that such levy limit will not be increased or removed at any time during the life of the contract. The CAWCD has levied a tax of \$0.12 per \$100 of assessed valuation for the 2003-04 fiscal year.

Net Direct And Overlapping General Obligation Bonded Debt Ratios

	Per Capita Debt (Pop. Est. @ 4-1-04 1,481,675)	As Percent of City's 2003-04	
		Secondary Assessed Valuation	Full Cash Valuation
Direct General Obligation Bonded Debt Outstanding as of April 1, 2004	\$ 625.47	9.46%	1.17%
Net Direct General Obligation Bonded Debt Outstanding as of April 1, 2004	412.53	6.24	0.77
Net Direct and Overlapping General Obligation Bonded Debt Outstanding as of April 1, 2004	1,257.82	19.03	2.36

Overlapping General Obligation Bonded Debt, Net Assessed Valuations and Tax Rates
As of July 1, 2003
(in thousands)

Overlapping Municipality	2003-04 Net Secondary Assessed Valuation	Net Bonded Debt	Approximate Applicable Percent	Net Overlapping Bonded Debt	2003-04 Tax Rate Per \$100 Assessed
State of Arizona	\$40,861,415	\$ —	24.0%	\$ —	\$ —
Maricopa County	27,477,988	130,273	35.6	46,377	1.2808
Maricopa County Community College District	27,477,988	285,615	35.6	101,679	1.0785
East Valley Institute of Technology	12,331,113	12,055	11.5	1,386	0.0976
Elementary School Districts:					
Phoenix S.D. No. 1	668,777	58,375	100.0	58,375	6.9754
Riverside S.D. No. 2	220,957	7,790	97.2	7,572	2.5463
Tempe S.D. No. 3	1,399,835	66,645	16.4	10,930	4.1931
Isaac S.D. No. 5	175,594	7,660	100.0	7,660	6.6845
Washington S.D. No. 6	1,317,889	131,765	97.0	127,812	4.8108
Wilson S.D. No. 7	139,098	8,295	100.0	8,295	5.5807
Osborn S.D. No. 8	471,830	30,115	99.9	30,085	3.2147
Creighton S.D. No. 14	383,061	19,850	90.5	17,964	4.3960
Tolleson S.D. No. 17	91,830	6,552	19.9	1,304	5.6172
Murphy S.D. No. 21	105,013	6,150	100.0	6,150	5.3552
Kyrene S.D. No. 28	1,665,048	60,250	38.8	23,377	4.0891
Balsz S.D. No. 31	310,749	18,805	95.3	17,921	3.8984
Madison S.D. No. 38	878,355	49,530	99.9	49,480	3.2564
Glendale S.D. No. 40	300,649	22,915	—	—	6.4966
Fowler S.D. No. 45	138,288	7,130	83.8	5,975	5.7646
Laveen S.D. No. 59	61,816	4,120	48.2	1,986	4.0266
Union S.D. No. 62	14,005	—	—	—	6.7175
Littleton S.D. No. 65	93,510	1,350	6.5	88	5.9178
Roosevelt S.D. No. 66	429,763	27,095	98.8	26,770	6.5222
Alhambra S.D. No. 68	374,574	35,360	82.0	28,995	6.9408
Litchfield S.D. No. 79	280,627	21,890	0.3	66	4.2666
Cartwright S.D. No. 83	316,842	1,560	100.0	1,560	7.3728
Pendergast S.D. No. 92	222,687	22,035	49.5	10,907	6.3709
High School Districts:					
Glendale Union No. 205	1,618,538	64,545	79.0	50,991	3.3478
Phoenix Union No. 210	4,536,430	170,935	96.4	164,781	4.1095
Tempe Union No. 213	3,064,883	183,565	28.5	52,316	3.2870
Tolleson Union No. 214	560,320	34,940	46.8	16,352	4.2686
Agua Fria Union No. 216	449,585	40,270	0.2	81	3.7988
Unified School Districts:					
Scottsdale No. 48	3,496,720	265,710	15.5	41,185	5.1878
Paradise Valley No. 69	2,232,271	318,110	68.7	218,542	7.0668
Cave Creek No. 93	1,064,509	54,570	12.4	6,767	4.4791
Deer Valley No. 97	1,434,074	198,370	54.8	108,707	7.1224
Total Overlapping General Obligation Bonded Debt				\$1,252,436	

Source: Maricopa County Finance Department.

Authorized and Unissued Bonds of Overlapping Municipalities

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

<u>Municipality</u>	<u>Authorized and Unissued Bonds</u>
Maricopa County Community College District	\$ 4,000
Cave Creek Elementary School District No. 93	22,315,000
Deer Valley Unified Elementary School District No. 97	25,500,000
Fowler Elementary School District No. 45	10,000,000
Glendale Elementary School District No. 40	24,725,000
Glendale Union High School District No. 205	80,000,000
Laveen Elementary School District No. 59	1,315,000
Paradise Valley Unified Elementary School District No. 69	26,735,000
Pendergast Elementary School District No. 92	825,000
Phoenix Union High School District No. 210	205,000,000
Riverside Elementary School District No. 2	3,000,000
Tolleson Union High School District No. 214	44,000,000
Washington Elementary School District No. 6	29,640,000

OTHER LONG-TERM OBLIGATIONS

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

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

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

Under the terms of these agreements, the City has agreed to make lease and purchase payments in amounts sufficient to pay principal and interest on bonds issued by the corporations to finance the facilities, and has pledged its excise tax collections for these payments. The City's excise tax collections in 1999-00 totaled \$604,783,000, in 2000-01 totaled \$626,416,000, in 2001-02 totaled \$626,212,000 and in 2002-03 totaled \$630,418,000. The estimate for 2003-04 is \$638,124,000. These amounts do not include revenues from three privilege license (sales) tax rate increases approved by voters and are not part of the pledge for lease and purchase payments on bonds of the corporations. These three excluded voter approved tax rates increases are as follows: on October 5, 1993, voters approved a 0.1% increase in the City's privilege license tax rate. The revenues produced by the increase must be used to add police officers and firefighters and to expand neighborhood programs designed to deter crime. On September 7, 1999, voters approved a 0.1% increase in the City's privilege license tax rate to be levied for a 10-year period. The revenues produced by the increase will be used for the acquisition of desert preserve open space and the development and improvement of regional and neighborhood parks located within the City. On March 14, 2000, voters approved a 0.4% increase in the City's privilege license tax rate to be levied for a period of 20 years. The revenues produced by the increase will be used for expanded bus service, the construction of a light rail system and other transportation improvements.

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

<u>Issue Date</u>	<u>Original Issuance</u>	<u>Purpose</u>	<u>Maturity Dates</u>	<u>Average Interest Rate</u>	<u>Bonds Outstanding As of 4-1-04</u>
5-01-94	\$33,705,000	Airport Improvements Refunding ⁽¹⁾	7-1-95/14	6.09%	\$ 24,565,000
8-01-94	24,395,000	Civic Plaza Refunding	7-1-96/05	5.09	3,930,000
8-01-94	43,250,000	Civic Plaza Improvements	7-1-05/14	5.98	43,250,000
2-01-98	38,355,000	Airport Terminal 4 Refunding ⁽¹⁾	7-1-98/14	4.92	28,415,000
6-01-99	79,000,000	Phoenix Municipal Courthouse	7-1-05/29	5.34	79,000,000
6-01-99	15,000,000	Adams Street Garage	7-1-05/29	5.35	15,000,000
5-01-03	47,600,000	New City Hall Refunding	7-1-04/29	4.73	47,600,000
Total Civic Plaza and Civic Improvement Senior Lien Debt Outstanding					<u>\$241,760,000</u>

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

**Phoenix Civic Plaza Building Corporation and
City of Phoenix Civic Improvement Corporation
Schedule of Annual Debt Service Requirements
Senior Lien Debt Outstanding**

Fiscal Year	Phoenix Civic Plaza Building Corporation			City of Phoenix Civic Improvement Corporation			Combined Annual Debt Service Requirements		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2003-04	\$ 3,165,000	\$ 2,802,975	\$ 5,967,975	\$ 6,325,000	\$ 10,013,818	\$ 16,338,818	\$ 9,490,000	\$ 12,816,793	\$ 22,306,793
2004-05	3,340,000	2,632,065	5,972,065	8,525,000	9,711,938	18,236,938	11,865,000	12,344,003	24,209,003
2005-06	3,545,000	2,425,834	5,970,834	8,945,000	9,295,138	18,240,138	12,490,000	11,720,972	24,210,972
2006-07	3,770,000	2,199,840	5,969,840	9,400,000	8,846,389	18,246,389	13,170,000	11,046,229	24,216,229
2007-08	3,985,000	1,984,950	5,969,950	9,880,000	8,363,050	18,243,050	13,865,000	10,348,000	24,213,000
2008-09	4,215,000	1,753,820	5,968,820	10,385,000	7,847,664	18,232,664	14,600,000	9,601,484	24,201,484
2009-10	4,465,000	1,505,135	5,970,135	6,860,000	7,286,375	14,146,375	11,325,000	8,791,510	20,116,510
2010-11	4,730,000	1,241,700	5,971,700	7,210,000	6,940,978	14,150,978	11,940,000	8,182,678	20,122,678
2011-12	5,015,000	957,900	5,972,900	7,575,000	6,571,055	14,146,055	12,590,000	7,528,955	20,118,955
2012-13	5,315,000	657,000	5,972,000	7,960,000	6,181,851	14,141,851	13,275,000	6,838,851	20,113,851
2013-14	5,635,000	338,100	5,973,100	8,380,000	5,767,878	14,147,878	14,015,000	6,105,978	20,120,978
2014-15	—	—	—	4,825,000	5,344,497	10,169,497	4,825,000	5,344,497	10,169,497
2015-16	—	—	—	5,070,000	5,098,873	10,168,873	5,070,000	5,098,873	10,168,873
2016-17	—	—	—	5,350,000	4,822,760	10,172,760	5,350,000	4,822,760	10,172,760
2017-18	—	—	—	5,625,000	4,542,991	10,167,991	5,625,000	4,542,991	10,167,991
2018-19	—	—	—	5,925,000	4,248,822	10,173,822	5,925,000	4,248,822	10,173,822
2019-20	—	—	—	6,225,000	3,942,500	10,167,500	6,225,000	3,942,500	10,167,500
2020-21	—	—	—	6,550,000	3,620,648	10,170,648	6,550,000	3,620,648	10,170,648
2021-22	—	—	—	6,885,000	3,281,632	10,166,632	6,885,000	3,281,632	10,166,632
2022-23	—	—	—	7,245,000	2,925,270	10,170,270	7,245,000	2,925,270	10,170,270
2023-24	—	—	—	7,610,000	2,562,518	10,172,518	7,610,000	2,562,518	10,172,518
2024-25	—	—	—	8,005,000	2,168,587	10,173,587	8,005,000	2,168,587	10,173,587
2025-26	—	—	—	8,420,000	1,748,406	10,168,406	8,420,000	1,748,406	10,168,406
2026-27	—	—	—	8,870,000	1,306,406	10,176,406	8,870,000	1,306,406	10,176,406
2027-28	—	—	—	9,315,000	855,588	10,170,588	9,315,000	855,588	10,170,588
2028-29	—	—	—	7,215,000	381,988	7,596,988	7,215,000	381,988	7,596,988
	<u>\$47,180,000</u>	<u>\$18,499,319</u>	<u>\$65,679,319</u>	<u>\$194,580,000</u>	<u>\$133,677,620</u>	<u>\$328,257,620</u>	<u>\$241,760,000</u>	<u>\$152,176,939</u>	<u>\$393,936,939</u>

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

The City entered into a lease agreement with the City of Phoenix Civic Improvement Corporation to finance the acquisition of property for The Arizona Center (Superblock), an 8-block mixed use development in downtown Phoenix. The City of Phoenix Civic Improvement Corporation issued bonds for payment of the costs of acquisition of certain parcels of property for the project, and the City pledged its excise tax collections to make lease payments sufficient to pay principal and interest on the bonds. This pledge is on a parity with all other outstanding subordinated excise tax obligations and is subordinate to the pledge on all outstanding senior lien and junior lien excise tax obligations.

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

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

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

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

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

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

<u>Issue Date</u>	<u>Original Issuance</u>	<u>Purpose</u>	<u>Maturity Dates</u>	<u>Average Interest Rate</u>	<u>Bonds Outstanding As of 4-1-04</u>
9-01-92	\$15,560,000	Superblock Land Acquisition Refunding	8-1-00/17	5.97%	\$ 15,010,000
6-01-93	14,350,000	Patriot's Square Park and Parking Garage Refunding	7-1-96/09	5.25	7,445,000
11-01-94	33,410,000	Municipal Facilities	7-1-95/05	6.40	1,230,000
4-25-95	31,000,000	Airport Improvements(2)	6-1-10/20	Variable	31,000,000
1-15-97	9,935,000	Municipal Facilities Refunding	7-1-99/21	5.19	9,545,000
1-01-98	43,000,000	Civic Plaza East Garage (Taxable)	7-1-00/22	6.52	39,250,000
1-15-98	48,740,000	Municipal Multipurpose Arena Refunding (Taxable)	7-1-98/19	6.12	44,000,000
8-01-00	65,000,000	Municipal Facilities(3)	7-1-01/20	5.35	50,930,000
5-01-03	80,000,000	Solid Waste Improvements(4)	7-1-04/23	4.93	80,000,000
5-01-03	25,000,000	Municipal Facilities	7-1-05/25	4.37	25,000,000
5-01-03	25,000,000	Municipal Facilities (Taxable)	7-1-09/33	5.59	25,000,000
5-01-03	10,000,000	Municipal Facilities (Taxable)	7-1-09/33	5.60	10,000,000
Total Phoenix Civic Plaza Building Corporation and City of Phoenix Civic Improvement Corporation Subordinated Junior Lien Debt Outstanding					<u>\$338,410,000</u>

- (1) Schedule includes subordinated junior lien debt issued by the City of Phoenix Civic Improvement Corporation and the Phoenix Civic Plaza Building Corporation, but does not include subordinated junior lien debt incurred by the City of Phoenix. See page D-22 for a schedule of outstanding subordinated junior lien debt issued by the City of Phoenix.
- (2) Debt service requirements on these obligations are supported by airport revenues.
- (3) Debt service requirements on \$8,677,000 of these obligations are supported by solid waste revenues.
- (4) Debt service requirements on these obligations are supported by solid waste revenues.

**Phoenix Civic Plaza Building Corporation and
City of Phoenix Civic Improvement Corporation
Schedule of Annual Debt Service Requirements
Subordinated Junior Lien Debt Outstanding(1)**

Fiscal Year	Phoenix Civic Plaza Building Corporation			City of Phoenix Civic Improvement Corporation			Combined Annual Debt Service Requirements		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2003-04	\$ 1,100,000	\$ 2,558,049	\$ 3,658,049	\$ 10,240,000	\$ 16,883,734	\$ 27,123,734	\$ 11,340,000	\$ 19,441,783	\$ 30,781,783
2004-05	1,175,000	2,483,799	3,658,799	12,050,000	15,316,193	27,366,193	13,225,000	17,799,992	31,024,992
2005-06	1,255,000	2,404,486	3,659,486	12,815,000	14,792,138	27,607,138	14,070,000	17,196,624	31,266,624
2006-07	1,340,000	2,319,774	3,659,774	13,230,000	14,255,811	27,485,811	14,570,000	16,575,585	31,145,585
2007-08	1,430,000	2,229,324	3,659,324	12,710,000	13,666,303	26,376,303	14,140,000	15,895,627	30,035,627
2008-09	1,520,000	2,140,664	3,660,664	13,945,000	13,013,360	26,958,360	15,465,000	15,154,024	30,619,024
2009-10	1,615,000	2,045,664	3,660,664	13,680,000	12,249,273	25,929,273	15,295,000	14,294,937	29,589,937
2010-11	1,715,000	1,944,726	3,659,726	14,400,000	11,491,881	25,891,881	16,115,000	13,436,607	29,551,607
2011-12	1,825,000	1,836,681	3,661,681	15,180,000	10,690,825	25,870,825	17,005,000	12,527,506	29,532,506
2012-13	1,940,000	1,721,706	3,661,706	15,990,000	9,845,154	25,835,154	17,930,000	11,566,860	29,496,860
2013-14	2,065,000	1,593,181	3,658,181	16,315,000	8,953,546	25,268,546	18,380,000	10,546,727	28,926,727
2014-15	2,205,000	1,456,375	3,661,375	18,360,000	8,075,164	26,435,164	20,565,000	9,531,539	30,096,539
2015-16	2,350,000	1,310,294	3,660,294	18,230,000	7,061,977	25,291,977	20,580,000	8,372,271	28,952,271
2016-17	2,505,000	1,154,606	3,659,606	17,570,000	6,048,861	23,618,861	20,075,000	7,203,467	27,278,467
2017-18	2,670,000	988,650	3,658,650	16,425,000	5,078,826	21,503,826	19,095,000	6,067,476	25,162,476
2018-19	2,845,000	815,100	3,660,100	17,330,000	4,178,658	21,508,658	20,175,000	4,993,758	25,168,758
2019-20	3,030,000	630,175	3,660,175	13,905,000	3,225,263	17,130,263	16,935,000	3,855,438	20,790,438
2020-21	3,230,000	433,225	3,663,225	8,245,000	2,480,763	10,725,763	11,475,000	2,913,988	14,388,988
2021-22	3,435,000	223,275	3,658,275	8,435,000	2,068,848	10,503,848	11,870,000	2,292,123	14,162,123
2022-23	—	—	—	8,865,000	1,646,673	10,511,673	8,865,000	1,646,673	10,511,673
2023-24	—	—	—	2,890,000	1,202,898	4,092,898	2,890,000	1,202,898	4,092,898
2024-25	—	—	—	1,815,000	1,052,649	2,867,649	1,815,000	1,052,649	2,867,649
2025-26	—	—	—	1,685,000	950,763	2,635,763	1,685,000	950,763	2,635,763
2026-27	—	—	—	1,780,000	853,875	2,633,875	1,780,000	853,875	2,633,875
2027-28	—	—	—	1,885,000	751,525	2,636,525	1,885,000	751,525	2,636,525
2028-29	—	—	—	1,995,000	643,137	2,638,137	1,995,000	643,137	2,638,137
2029-30	—	—	—	2,110,000	528,425	2,638,425	2,110,000	528,425	2,638,425
2030-31	—	—	—	2,225,000	407,100	2,632,100	2,225,000	407,100	2,632,100
2031-32	—	—	—	2,360,000	279,162	2,639,162	2,360,000	279,162	2,639,162
2032-33	—	—	—	2,495,000	143,462	2,638,462	2,495,000	143,462	2,638,462
	<u>\$39,250,000</u>	<u>\$30,289,754</u>	<u>\$69,539,754</u>	<u>\$299,160,000</u>	<u>\$187,836,247</u>	<u>\$486,996,247</u>	<u>\$338,410,000</u>	<u>\$218,126,001</u>	<u>\$556,536,001</u>

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

The City entered into lease and leaseback agreements for the purpose of acquiring land and constructing an amphitheatre. The City also entered into a subsequent financing agreement to be used for refinancing the purchase price of the land related to the amphitheater, purchasing a multifamily housing facility and for various other City projects. The City pledged excise taxes for payments which are due under the leaseback agreement and the financing agreement. The pledge for payments under these agreements is on a parity with the pledge of such taxes for Phoenix Civic Plaza Building Corporation and City of Phoenix Civic Improvement Corporation subordinated junior lien debt outstanding, and is subordinate to the pledge on all outstanding senior lien and junior lien excise tax obligations.

**City of Phoenix
Subordinated Junior Lien Debt Outstanding**

<u>Issue Date</u>	<u>Original Issuance</u>	<u>Purpose</u>	<u>Maturity Dates</u>	<u>Average Interest Rate</u>	<u>Bonds Outstanding As of 4-1-04</u>
6-1-93	\$14,080,000	Amphitheatre Refunding	8-1-95/19	5.43%	\$10,900,000
7-1-93	11,975,000	Amphitheatre Land and Multi-Family Housing	8-1-94/23	5.18	9,555,000
Total Subordinated Junior Lien Debt Outstanding					<u>\$20,455,000</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003-04	\$ 785,000	\$ 1,096,478	\$ 1,881,478
2004-05	825,000	1,056,232	1,881,232
2005-06	860,000	1,013,573	1,873,573
2006-07	915,000	967,752	1,882,752
2007-08	970,000	918,613	1,888,613
2008-09	1,015,000	866,312	1,881,312
2009-10	1,070,000	811,575	1,881,575
2010-11	1,135,000	753,875	1,888,875
2011-12	1,195,000	692,675	1,887,675
2012-13	1,250,000	628,238	1,878,238
2013-14	1,310,000	560,825	1,870,825
2014-15	1,380,000	490,163	1,870,163
2015-16	1,205,000	415,725	1,620,725
2016-17	1,275,000	350,363	1,625,363
2017-18	1,340,000	281,213	1,621,213
2018-19	1,415,000	208,525	1,623,525
2019-20	450,000	131,775	581,775
2020-21	480,000	108,150	588,150
2021-22	500,000	82,950	582,950
2022-23	1,080,000	56,700	1,136,700
	<u>\$20,455,000</u>	<u>\$11,491,712</u>	<u>\$31,946,712</u>

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

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

<u>Issue Date</u>	<u>Original Issuance</u>	<u>Purpose</u>	<u>Maturity Dates</u>	<u>Average Interest Rate</u>	<u>Bonds Outstanding As of 4-1-04</u>
2-1-00	\$18,320,000	Bus Acquisition	7-1-00/12	5.34%	\$13,430,000
Total Bus Acquisition Special Revenue Bonded Debt					<u>\$13,430,000</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003-04	\$ 1,200,000	\$ 720,893	\$ 1,920,893
2004-05	1,260,000	657,892	1,917,892
2005-06	1,330,000	591,743	1,921,743
2006-07	1,400,000	518,592	1,918,592
2007-08	1,475,000	441,593	1,916,593
2008-09	1,560,000	360,467	1,920,467
2009-10	1,640,000	278,568	1,918,568
2010-11	1,725,000	191,647	1,916,647
2011-12	1,840,000	99,360	1,939,360
	<u>\$13,430,000</u>	<u>\$3,860,755</u>	<u>\$17,290,755</u>

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

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

<u>Issue Date</u>	<u>Original Issuance</u>	<u>Purpose</u>	<u>Maturity Dates</u>	<u>Average Interest Rate</u>	<u>Bonds Outstanding As of 4-1-04</u>
08-01-98	\$165,000,000	Airport Improvements	7-1-03/25	5.14%	\$160,240,000
05-01-02	23,225,000	Airport Improvements	7-1-08/13	5.54	23,225,000
05-01-02	231,390,000	Airport Improvements	7-1-14/32	5.32	231,390,000
Total Senior Lien Airport Revenue Bonded Debt Outstanding					<u>\$414,855,000</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003-04	\$ 4,995,000	\$ 21,812,828	\$ 26,807,828
2004-05	5,245,000	21,563,077	26,808,077
2005-06	4,165,000	21,300,828	25,465,828
2006-07	4,380,000	21,082,164	25,462,164
2007-08	4,715,000	20,874,116	25,589,116
2008-09	6,925,000	20,627,837	27,552,837
2009-10	8,025,000	20,269,501	28,294,501
2010-11	9,970,000	19,837,087	29,807,087
2011-12	10,785,000	19,301,263	30,086,263
2012-13	12,730,000	18,721,262	31,451,262
2013-14	14,175,000	18,022,438	32,197,438
2014-15	14,960,000	17,242,249	32,202,249
2015-16	15,785,000	16,418,775	32,203,775
2016-17	16,630,000	15,569,113	32,199,113
2017-18	17,525,000	14,673,750	32,198,750
2018-19	18,470,000	13,729,962	32,199,962
2019-20	19,465,000	12,735,025	32,200,025
2020-21	20,480,000	11,724,013	32,204,013
2021-22	21,525,000	10,673,475	32,198,475
2022-23	22,630,000	9,569,300	32,199,300
2023-24	23,795,000	8,408,412	32,203,412
2024-25	25,015,000	7,187,725	32,202,725
2025-26	13,710,000	5,904,413	19,614,413
2026-27	14,430,000	5,184,637	19,614,637
2027-28	15,185,000	4,427,063	19,612,063
2028-29	15,980,000	3,629,850	19,609,850
2029-30	16,820,000	2,790,900	19,610,900
2030-31	17,705,000	1,907,850	19,612,850
2031-32	18,635,000	978,338	19,613,338
	<u>\$414,855,000</u>	<u>\$386,167,251</u>	<u>\$801,022,251</u>

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

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

<u>Issue Date</u>	<u>Original Issuance</u>	<u>Purpose</u>	<u>Maturity Dates</u>	<u>Average Interest Rate</u>	<u>Bonds Outstanding As of 4-1-04</u>
05-01-02	\$159,565,000	Airport Improvements	7-1-05/29	5.46%	\$159,565,000
Total Junior Lien Airport Revenue Bonded Debt Outstanding					<u>\$159,565,000</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003-04	\$ —	\$ 8,717,731	\$ 8,717,731
2004-05	3,145,000	8,717,731	11,862,731
2005-06	3,300,000	8,560,481	11,860,481
2006-07	3,465,000	8,395,481	11,860,481
2007-08	3,640,000	8,222,231	11,862,231
2008-09	3,820,000	8,040,231	11,860,231
2009-10	4,030,000	7,830,131	11,860,131
2010-11	4,255,000	7,608,481	11,863,481
2011-12	4,490,000	7,374,456	11,864,456
2012-13	4,735,000	7,127,506	11,862,506
2013-14	5,000,000	6,861,163	11,861,163
2014-15	5,290,000	6,573,663	11,863,663
2015-16	5,595,000	6,269,488	11,864,488
2016-17	5,915,000	5,947,775	11,862,775
2017-18	6,260,000	5,600,269	11,860,269
2018-19	6,630,000	5,232,494	11,862,494
2019-20	7,020,000	4,842,981	11,862,981
2020-21	7,430,000	4,430,556	11,860,556
2021-22	7,820,000	4,040,481	11,860,481
2022-23	8,230,000	3,629,931	11,859,931
2023-24	8,665,000	3,197,856	11,862,856
2024-25	9,130,000	2,732,113	11,862,113
2025-26	9,620,000	2,241,375	11,861,375
2026-27	10,140,000	1,724,300	11,864,300
2027-28	10,685,000	1,179,275	11,864,275
2028-29	11,255,000	604,957	11,859,957
	<u>\$159,565,000</u>	<u>\$145,703,137</u>	<u>\$305,268,137</u>

The City entered into the City Purchase Agreement with the City of Phoenix Civic Improvement Corporation to design, acquire, construct, and equip certain facilities, infrastructure, site development, and equipment necessary for the operation of a consolidated rental car center at Sky Harbor International Airport. The City of Phoenix Civic Improvement Corporation issued the 2004 Bonds to fund a portion of the costs of the rental car center and the City has made a first priority pledge of Pledged Revenues to be derived primarily from daily usage fees to be paid by rental car customers arriving at the Airport.

**City of Phoenix Civic Improvement Corporation
Rental Car Facility Charge Bonded Debt(1)**

<u>Issue Date</u>	<u>Original Issuance</u>	<u>Purpose</u>	<u>Maturity Dates</u>	<u>Average Interest Rate</u>	<u>Bonds Outstanding</u>
06-02-04	\$260,000,000	Rental Car Facility	7-01-05/29	6.08%	\$260,000,000

(1) Represents the 2004 Bonds offered herein.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004-05	\$ —	\$ 16,552,091.01	\$ 16,552,091.01
2005-06	—	15,318,130.50	15,318,130.50
2006-07	5,960,000	15,318,130.50	21,278,130.50
2007-08	6,180,000	15,098,206.50	21,278,206.50
2008-09	6,440,000	14,838,028.50	21,278,028.50
2009-10	6,735,000	14,541,788.50	21,276,788.50
2010-11	7,065,000	14,209,079.50	21,274,079.50
2011-12	7,435,000	13,838,167.00	21,273,167.00
2012-13	7,845,000	13,431,472.50	21,276,472.50
2013-14	8,285,000	12,992,152.50	21,277,152.50
2014-15	8,750,000	12,526,535.50	21,276,535.50
2015-16	9,255,000	12,021,660.50	21,276,660.50
2016-17	9,795,000	11,478,392.00	21,273,392.00
2017-18	10,370,000	10,903,425.50	21,273,425.50
2018-19	10,990,000	10,284,336.50	21,274,336.50
2019-20	11,645,000	9,628,233.50	21,273,233.50
2020-21	12,365,000	8,909,737.00	21,274,737.00
2021-22	13,130,000	8,146,816.50	21,276,816.50
2022-23	13,940,000	7,336,695.50	21,276,695.50
2023-24	14,800,000	6,476,597.50	21,276,597.50
2024-25	15,710,000	5,563,437.50	21,273,437.50
2025-26	16,695,000	4,581,562.50	21,276,562.50
2026-27	17,740,000	3,538,125.00	21,278,125.00
2027-28	18,845,000	2,429,375.00	21,274,375.00
2028-29	20,025,000	1,251,562.50	21,276,562.50
	<u>\$260,000,000</u>	<u>\$261,213,739.51</u>	<u>\$521,213,739.51</u>

The City entered into city purchase agreements with the City of Phoenix Civic Improvement Corporation for the acquisition of approximately 13,000 acres of agricultural land and associated water rights in McMullen Valley, as well as for certain modifications and expansions at various water treatment plants throughout the City. The City of Phoenix Civic Improvement Corporation issued bonds for the acquisition of the property and the water treatment plant modifications and expansions, and the City pledged designated Water System Revenues to make payments sufficient to pay principal and interest on the bonds. This pledge is junior to the pledge of the Net Operating Revenues of the Water System for the payment of any City water revenue bonds, of which there are none currently outstanding. Amounts due on the bonds and pursuant to the city purchase agreements are as follows:

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

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 4-1-04
09-01-92	\$ 31,485,000	McMullen Valley & Water Rights Refunding	8-01-97/17	5.92%	\$ 27,775,000
01-01-94	110,000,000	Water System Improvements	7-01-95/05	5.45	5,120,000
06-15-96	150,000,000	Water System Improvements	7-01-00/06	5.79	16,515,000
05-01-98	109,155,000	Water System Refunding	7-01-99/19	4.94	106,450,000
08-01-01	99,980,000	Water System Refunding	7-01-02/24	5.24	98,390,000
04-01-02	220,000,000	Water System Improvements	7-01-07/26	5.14	220,000,000
10-01-03	11,325,000	Water System Refunding	7-01-05/22	4.29	11,325,000
Total Junior Lien Water Revenue Bonded Debt					<u>\$485,575,000</u>

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

Fiscal Year	Principal	Interest	Total
2003-04	\$ 9,235,000	\$ 24,290,891	\$ 33,525,891
2004-05	9,805,000	24,449,602	34,254,602
2005-06	10,315,000	23,886,560	34,201,560
2006-07	17,410,000	23,310,489	40,720,489
2007-08	19,195,000	22,562,611	41,757,611
2008-09	17,965,000	21,655,439	39,620,439
2009-10	19,730,000	20,750,402	40,480,402
2010-11	19,840,000	19,746,546	39,586,546
2011-12	22,985,000	18,711,522	41,696,522
2012-13	24,695,000	17,593,793	42,288,793
2013-14	25,900,000	16,289,345	42,189,345
2014-15	27,070,000	14,916,312	41,986,312
2015-16	28,305,000	13,476,637	41,781,637
2016-17	31,045,000	11,972,412	43,017,412
2017-18	29,865,000	10,342,725	40,207,725
2018-19	31,360,000	8,850,668	40,210,668
2019-20	20,135,000	7,221,706	27,356,706
2020-21	21,210,000	6,148,350	27,358,350
2021-22	22,295,000	5,066,825	27,361,825
2022-23	21,430,000	3,929,800	25,359,800
2023-24	22,535,000	2,824,700	25,359,700
2024-25	16,220,000	1,662,500	17,882,500
2025-26	17,030,000	851,500	17,881,500
	<u>\$485,575,000</u>	<u>\$320,511,335</u>	<u>\$806,086,335</u>

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

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

<u>Issue Date</u>	<u>Original Issuance</u>	<u>Purpose</u>	<u>Maturity Dates</u>	<u>Average Interest Rate</u>	<u>Notes Outstanding As of 4-1-04</u>
4-09-03	\$100,000,000	Water System Improvements	Up to 270 days	Various	\$100,000,000
Total Junior Subordinate Water Revenue Debt Outstanding					<u>\$100,000,000</u>

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

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

<u>Issue Date</u>	<u>Original Issuance</u>	<u>Purpose</u>	<u>Maturity Dates</u>	<u>Average Interest Rate</u>	<u>Bonds Outstanding As of 4-1-04</u>
01-01-93	\$250,000,000	Wastewater System Improvements	7-1-97/05	6.24%	\$ 12,140,000
10-01-93	235,735,000	Wastewater System Refunding	7-1-99/23	4.87	230,240,000
Total Wastewater System Lease Revenue Bonded Debt					<u>\$242,380,000</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003-04	\$ 7,280,000	\$ 11,957,861	\$ 19,237,861
2004-05	7,685,000	11,556,511	19,241,511
2005-06	8,115,000	11,123,080	19,238,080
2006-07	8,505,000	10,733,560	19,238,560
2007-08	8,995,000	10,321,067	19,316,067
2008-09	9,490,000	9,880,313	19,370,313
2009-10	9,830,000	9,405,812	19,235,812
2010-11	10,325,000	8,914,313	19,239,313
2011-12	10,845,000	8,398,062	19,243,062
2012-13	11,385,000	7,855,813	19,240,813
2013-14	11,955,000	7,286,562	19,241,562
2014-15	12,550,000	6,688,813	19,238,813
2015-16	13,180,000	6,061,312	19,241,312
2016-17	13,835,000	5,402,313	19,237,313
2017-18	14,530,000	4,710,562	19,240,562
2018-19	15,255,000	3,984,062	19,239,062
2019-20	15,980,000	3,259,450	19,239,450
2020-21	16,740,000	2,500,400	19,240,400
2021-22	17,535,000	1,705,250	19,240,250
2022-23	18,365,000	872,337	19,237,337
	<u>\$242,380,000</u>	<u>\$142,617,453</u>	<u>\$384,997,453</u>

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

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

<u>Issue Date</u>	<u>Original Issuance</u>	<u>Purpose</u>	<u>Maturity Dates</u>	<u>Average Interest Rate</u>	<u>Bonds Outstanding As of 4-1-04</u>
7-01-97	\$ 75,000,000	Wastewater System Improvements	7-1-03/17	5.33%	\$ 24,455,000
6-01-00	135,000,000	Wastewater System Improvements	7-1-05/10	6.01	25,690,000
7-01-01	166,260,000	Wastewater System Refunding	7-1-02/24	5.14	164,990,000
Total Junior Lien Wastewater System Revenue Bonded Debt					<u>\$215,135,000</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003-04	\$ 2,960,000	\$ 11,290,804	\$ 14,250,804
2004-05	6,810,000	11,157,604	17,967,604
2005-06	7,200,000	10,773,510	17,973,510
2006-07	4,600,000	10,367,328	14,967,328
2007-08	6,460,000	10,103,763	16,563,763
2008-09	8,225,000	9,744,904	17,969,904
2009-10	8,680,000	9,292,256	17,972,256
2010-11	9,160,000	8,812,081	17,972,081
2011-12	9,645,000	8,331,181	17,976,181
2012-13	10,160,000	7,812,763	17,972,763
2013-14	10,700,000	7,266,663	17,966,663
2014-15	11,275,000	6,696,388	17,971,388
2015-16	11,875,000	6,095,462	17,970,462
2016-17	12,510,000	5,462,556	17,972,556
2017-18	13,175,000	4,795,800	17,970,800
2018-19	13,865,000	4,104,113	17,969,113
2019-20	14,560,000	3,410,863	17,970,863
2020-21	15,290,000	2,682,862	17,972,862
2021-22	16,075,000	1,899,250	17,974,250
2022-23	10,690,000	1,095,500	11,785,500
2023-24	11,220,000	561,000	11,781,000
	<u>\$215,135,000</u>	<u>\$141,756,651</u>	<u>\$356,891,651</u>

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

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

<u>Issue Date</u>	<u>Original Issuance</u>	<u>Purpose</u>	<u>Maturity Dates</u>	<u>Average Interest Rate</u>	<u>Notes Outstanding As of 4-1-04</u>
3-26-03	\$100,000,000	Wastewater System Improvements	Up to 270 days	Various	\$100,000,000
Total Junior Subordinate Wastewater System Revenue Debt Outstanding					<u>\$100,000,000</u>

SHORT-TERM DEBT

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

CONTRACTUAL COMMITMENTS

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

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

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

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

SUMMARY OF AUTHORIZED, ISSUED AND UNISSUED BONDS

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

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

2003-08 CAPITAL IMPROVEMENT PROGRAM SUMMARY

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

Formal City Council adoption of the Capital Improvement Program indicates the City's commitment to the five-year plan, but does not in itself authorize expenditures. The necessary funding mechanisms must be adopted each year to pay for the improvements. The City Council authorized two sets of appropriations for the 2003-04 capital budget, which is the first year of the CIP: (1) authorization for the 2003-04 capital projects financed with bonds and bond-related funds; and (2) authorization for all 2003-04 pay-as-you-go projects financed with operating funds.

The 2003-08 CIP, which is summarized on pages D-34 and D-35, totals \$5.17 billion, and will be funded by 1988, 1989 and 2001 bond authorizations, operating funds, Federal aid and other long-term financings. The CIP was adopted by the Phoenix City Council in June of 2003.

**Summary of 2003-08 Capital Improvement Program
All Sources of Funds**

Program	2003-04	2004-05	2005-06	2006-07	2007-08	Total
Arts and Cultural Facilities ...	\$ 30,548,000	\$ 721,000	\$ 797,000	\$ —	\$ —	\$ 32,066,000
Aviation	611,208,000	158,388,000	13,916,000	5,145,000	5,045,000	793,702,000
Civic Plaza	179,991,000	56,382,000	329,880,000	18,980,000	15,770,000	601,003,000
Economic Development	65,389,000	4,415,000	1,063,000	1,050,000	—	71,917,000
Energy Conservation	1,502,000	1,638,000	1,450,000	1,450,000	1,450,000	7,490,000
Facilities Management	15,889,000	9,874,000	6,963,000	3,750,000	4,350,000	40,826,000
Fire Protection	16,276,000	20,683,000	19,471,000	—	—	56,430,000
Freeway Mitigation	6,836,000	2,677,000	1,816,000	30,000	—	11,359,000
Historic Preservation	2,980,000	1,780,000	1,880,000	180,000	146,000	6,966,000
HOPE VI	7,787,000	7,297,000	6,650,000	6,750,000	—	28,484,000
Housing	25,536,000	15,204,000	14,943,000	7,837,000	6,655,000	70,175,000
Human Services	7,475,000	8,600,000	9,900,000	—	—	25,975,000
Information Technology	62,338,000	3,525,000	2,200,000	—	—	68,063,000
Libraries	16,608,000	6,455,000	6,218,000	4,757,000	200,000	34,238,000
Neighborhood Services	22,795,000	5,033,000	3,708,000	670,000	670,000	32,876,000
Parks, Recreation and Mountain Preserves	132,802,000	49,350,000	54,302,000	36,149,000	22,060,000	294,663,000
Police Protection	30,202,000	36,800,000	27,100,000	—	—	94,102,000
Public Transit	271,547,000	213,045,000	257,334,000	142,847,000	28,704,000	913,477,000
Solid Waste Disposal	76,443,000	14,922,000	4,883,000	3,440,000	3,730,000	103,418,000
Storm Sewers	41,052,000	20,194,000	16,464,000	3,583,000	1,500,000	82,793,000
Streets — Major Streets	92,979,000	57,843,000	61,915,000	37,575,000	32,291,000	282,603,000
Streets — Other Streets	47,569,000	34,658,000	32,760,000	31,542,000	32,363,000	178,892,000
Streets — Traffic Improvements	17,753,000	10,922,000	13,658,000	10,325,000	12,047,000	64,705,000
Wastewater	117,039,000	78,957,000	77,177,000	106,405,000	133,586,000	513,164,000
Water	155,444,000	332,998,000	156,681,000	56,844,000	55,719,000	757,686,000
Total CIP Costs	\$2,055,988,000	\$1,152,361,000	\$1,123,129,000	\$479,309,000	\$356,286,000	\$5,167,073,000

Source of Funds	2003-04	2004-05	2005-06	2006-07	2007-08	Total
Operating Funds:						
General Purpose Fund	\$ 3,493,000	\$ 4,002,000	\$ 3,658,000	\$ 4,980,000	\$ 5,570,000	\$ 21,703,000
Parks and Preserves	42,402,000	30,820,000	38,657,000	36,149,000	22,060,000	170,088,000
Transit 2000	67,896,000	18,437,000	143,221,000	126,819,000	12,975,000	369,348,000
Development Services	24,000	—	—	—	—	24,000
Capital Construction	33,720,000	19,914,000	20,455,000	20,993,000	21,814,000	116,896,000
Sports Facilities	2,567,000	—	—	—	—	2,567,000
Parks Monopole Revenue	170,000	120,000	—	—	—	290,000
Arizona Highway Users	83,060,000	54,465,000	54,310,000	55,170,000	54,077,000	301,082,000
Community Reinvestment	3,735,000	1,050,000	1,050,000	1,050,000	—	6,885,000
Enterprise Funds:						
Aviation	30,030,000	10,145,000	4,345,000	45,000	45,000	44,610,000
Civic Plaza	3,625,000	2,908,000	3,060,000	3,200,000	3,200,000	15,993,000
Solid Waste	5,565,000	2,260,000	2,250,000	2,500,000	2,750,000	15,325,000
Wastewater	22,976,000	21,051,000	22,745,000	22,770,000	22,794,000	112,336,000
Water	52,389,000	50,055,000	50,055,000	49,977,000	49,977,000	252,453,000
Community Development Block Grants (CDBG)	1,967,000	600,000	600,000	600,000	600,000	4,367,000
HOPE VI Grant	7,786,000	7,297,000	6,650,000	6,750,000	—	28,483,000
Federal and State Grants	1,446,000	—	—	—	—	1,446,000
Total Operating Funds	<u>\$ 362,851,000</u>	<u>\$ 223,124,000</u>	<u>\$ 351,056,000</u>	<u>\$331,003,000</u>	<u>\$195,862,000</u>	<u>\$1,463,896,000</u>
Bond Funds:						
Property Tax Supported:						
1988 Various Purpose	\$ 10,489,000	\$ 1,077,000	\$ 816,000	\$ —	\$ —	\$ 12,382,000
1989 Historic Preservation ...	564,000	164,000	164,000	164,000	130,000	1,186,000
2001 Various Purpose	280,545,000	160,264,000	145,591,000	6,986,000	316,000	593,702,000
Non-Profit Corporation Bonds:						
Aviation	264,272,000	83,700,000	9,300,000	5,100,000	5,000,000	367,372,000
Civic Plaza	175,658,000	43,260,000	320,520,000	15,970,000	12,770,000	568,178,000
Wastewater	57,822,000	40,153,000	41,085,000	55,402,000	79,183,000	273,645,000
Water	102,047,000	280,931,000	105,632,000	6,825,000	5,700,000	501,135,000
Total Bond Funds	<u>\$ 891,397,000</u>	<u>\$ 609,549,000</u>	<u>\$ 623,108,000</u>	<u>\$ 90,447,000</u>	<u>\$103,099,000</u>	<u>\$2,317,600,000</u>
Other Capital Sources:						
Development Impact Fees	\$ 40,276,000	\$ 5,064,000	\$ 3,856,000	\$ 2,200,000	\$ 1,500,000	\$ 52,896,000
Lease Purchase	329,330,000	208,228,000	111,622,000	—	—	649,180,000
Passenger Facility Charge	277,443,000	1,400,000	271,000	—	—	279,114,000
Other Cities' Share:						
SROG and Val Vista	39,722,000	19,916,000	14,842,000	28,775,000	32,151,000	135,406,000
Public Safety/Service Radio System and Other	4,081,000	—	—	—	—	4,081,000
Solid Waste Remediation	4,474,000	784,000	1,073,000	940,000	980,000	8,251,000
Capital Grants	80,046,000	78,287,000	12,593,000	21,665,000	20,184,000	212,775,000
Federal, State & Other Participation	18,818,000	6,009,000	4,708,000	4,279,000	2,510,000	36,324,000
Capital Reserves	7,550,000	—	—	—	—	7,550,000
Total Other Capital Funds ...	<u>\$ 801,740,000</u>	<u>\$ 319,688,000</u>	<u>\$ 148,965,000</u>	<u>\$ 57,859,000</u>	<u>\$ 57,325,000</u>	<u>\$1,385,577,000</u>
Total CIP Source of Funds	<u>\$2,055,988,000</u>	<u>\$1,152,361,000</u>	<u>\$1,123,129,000</u>	<u>\$479,309,000</u>	<u>\$356,286,000</u>	<u>\$5,167,073,000</u>

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

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

	<u>Actual</u>			<u>Budgeted</u>
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
REVENUES				
City Taxes				
Sales, Use and Franchise	\$ 514,522	\$ 516,011	\$ 514,570	\$ 548,323
Property-Primary-Operating	59,586	61,818	65,107	76,915
-Secondary-Debt Service	71,342	81,559	88,425	94,984
Other City Taxes	2,025	2,377	2,642	2,480
Other				
Licenses and Permits	12,988	13,522	13,088	10,267
Charges for Services	109,662	119,529	137,162	101,111
Fines and Forfeitures	15,323	13,825	16,646	17,860
Parks, Recreation and Library	4,458	5,351	7,198	4,945
Dwelling Rentals	6,794	6,818	6,429	6,859
Interest	25,583	22,533	18,231	15,006
Community Reinvestment	1,740	2,777	2,171	2,343
Other	27,788	24,339	27,670	29,301
State-Shared Revenues				
Highway User Tax	102,598	100,405	104,597	108,490
State Sales Tax	105,331	102,211	103,408	109,538
State Income Tax	133,684	137,787	140,600	117,517
Vehicle License Tax	43,221	45,844	47,757	53,900
Local Transportation Assistance	7,336	7,499	7,343	7,387
Federal Revenues				
Human Resources Federal Trust	35,871	38,771	44,141	44,021
Federal Transit Administration	10,280	9,781	7,300	6,986
Community Development	16,821	17,692	16,281	25,538
Public Housing Grants	43,337	49,066	55,800	59,238
HOPE VI Grants	—	—	1,312	7,786
Other Grants	24,505	21,918	23,512	19,499
Federal Administrative Cost Recovery	94	69	75	75
Enterprise Funds				
Aviation	193,318	196,603	213,359	219,924
Phoenix Civic Plaza	10,553	11,005	11,483	11,465
Water System and Val Vista	227,822	236,084	250,321	235,387
Wastewater and SROG	125,918	126,098	132,733	133,685
Solid Waste	85,630	88,221	95,046	96,414
Golf Courses	7,430	7,450	6,675	7,881
Total Revenues	2,025,560	2,066,963	2,161,082	2,175,125
RECOVERIES				
Prior Year Expenditures	12,066	7,280	9,709	3,500
TRANSFERS (TO) FROM OTHER FUNDS				
Self Insurance Trust Funds	—	156	5,351	—
Expendable Trust Funds	—	1,240	2,456	—
Capital Projects Funds	(2,533)	(31,476)	(1,788)	—
Sick Leave Trust Fund	(1,700)	(1,362)	—	—
Early Redemption Fund	(5,740)	(17,320)	(6,979)	(2,480)
Street and Highway Debt Service Fund	—	—	(537)	—
Developers Assistance Fund	(1,500)	5,750	(3,300)	—
GO Arbitrage Rebate Debt Service Fund	—	61	—	—
Net Deposit to Refunding Escrow	—	(5,262)	485	—
FUND BALANCES, BEGINNING OF YEAR	454,044	566,145	590,400	643,180
Total Resources Available for Expenditures	2,480,197	2,592,175	2,756,879	2,819,325

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

	Actual			Budgeted
	2001	2002	2003	2004
EXPENDITURES AND ENCUMBRANCES				
Current Operating				
General Government	\$ 86,338	\$ 86,438	\$ 82,668	\$ 80,359
Criminal Justice	28,146	29,475	30,736	48,505
Public Safety	447,288	463,008	489,394	517,702
Transportation				
Streets and Traffic	50,451	48,257	53,309	55,520
Transit	85,260	99,123	111,665	123,061
Community and Economic Development				
Development Services	27,918	30,405	31,725	34,754
Neighborhood Services and Housing	76,748	82,602	88,854	125,991
Other Economic Development	15,822	17,100	16,679	19,677
Community Enrichment				
Parks and Recreation	78,545	79,409	80,544	90,597
Libraries	25,893	26,863	27,488	30,544
Other Community Enrichment	4,214	8,945	8,589	3,372
Human Services	56,119	60,356	65,662	68,699
Environmental Services	19,544	16,329	18,471	21,044
Contingencies	—	—	—	85,075
Total Governmental Expenditures	1,002,286	1,048,310	1,105,784	1,304,900
Enterprise Funds				
Aviation	99,298	119,222	127,909	148,052
Phoenix Civic Plaza	30,143	24,247	24,730	33,137
Water System and Val Vista	100,164	110,914	115,832	121,740
Wastewater and SROG	52,077	54,424	56,622	63,324
Solid Waste	59,289	69,332	70,190	72,703
Golf Courses	6,950	6,567	5,706	6,674
Total Operating Expenditures	1,350,207	1,433,016	1,506,773	1,750,530
Capital Improvement				
Governmental Funds				
General Government	3,481	506	107	4,939
Public Safety	3,106	863	976	—
Transportation	92,010	135,399	122,267	184,676
Public Works	3,806	1,517	2,214	—
Community and Economic Development	6,375	3,290	18,018	13,512
Community Enrichment	26,623	24,662	29,262	45,139
Enterprise Funds				
Aviation	43,734	33,578	25,101	30,030
Phoenix Civic Plaza	4,474	2,943	2,614	3,625
Water System and Val Vista	44,703	52,564	64,674	52,389
Wastewater and SROG	19,356	26,801	20,156	22,976
Solid Waste	2,019	2,687	4,611	5,565
Golf Courses	62	9	2	—
Total Capital Expenditures	249,749	284,819	290,002	362,851

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

		Actual		
	2001	2002	2003	Budgeted 2004
Debt Service				
General Obligation Bonds				
Various Purpose				
Principal	\$ 28,070	\$ 27,799	\$ 25,515	\$ 31,965
Interest	33,705	30,161	33,765	41,960
Early Redemption	10,507	4,082	25,807	21,059
Arbitrage Rebate and Fees	2	162	153	—
Airport				
Principal	3,270	—	3,200	3,250
Interest	2,430	1,898	1,929	1,737
Water				
Principal	14,525	12,655	12,240	18,386
Interest	9,620	8,786	8,181	8,861
Solid Waste				
Principal	5,380	6,325	5,890	4,875
Interest	3,962	2,860	3,407	2,468
Sanitary Sewer				
Principal	9,310	5,650	6,338	6,765
Interest	4,656	4,200	4,115	3,707
Revenue Bonds				
Street & Highway User				
Principal	17,775	18,615	10,965	21,605
Interest	15,223	13,270	10,644	9,664
Public Housing				
Principal	335	345	370	395
Interest	215	195	174	152
Airport				
Principal	15,380	—	8,270	8,705
Interest	13,101	14,271	25,030	33,309
Water				
Principal	13,410	15,030	15,190	9,235
Interest	16,304	16,386	25,851	24,841
Sanitary Sewer				
Principal	—	620	2,840	2,960
Interest	12,607	11,232	11,419	11,291
Total Debt Service	221,427	184,166	214,482	267,190
Lease-Purchase Payments	84,309	89,398	75,631	79,099
Total Expenditures and Encumbrances	1,914,052	2,001,775	2,113,699	2,459,670
FUND BALANCES, END OF YEAR	\$ 566,145	\$ 590,400	\$ 643,180	\$ 359,655

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

<u>Funds</u>	<u>Actual</u>			<u>Budgeted 2004</u>
	<u>2001</u>	<u>2002</u>	<u>2003</u>	
GENERAL FUND	\$ 46,478	\$ 52,688	\$ 63,166	\$ —
SPECIAL REVENUE FUNDS				
Highway User Revenue	41,861	38,062	32,416	1,136
Parks and Recreation	14,200	20,011	17,158	690
Development Services	13,190	15,346	16,505	12,042
Development Fees and Participations	35,023	54,366	76,614	65,608
Local Transportation Assistance	—	236	316	440
Transit	64,685	83,288	90,001	61,767
Public Housing	25,009	25,949	34,895	14,334
Court Awards	3,080	4,001	530	195
Sports Facilities	5,662	8,416	9,163	10,553
Capital Construction	19,453	19,770	17,186	2,646
Other Restricted	—	1,240	9,248	7,905
DEBT SERVICE FUNDS				
Secondary Property Tax	100	100	100	100
City Improvement	—	—	175	175
ENTERPRISE FUNDS				
Aviation	50,372	45,545	48,355	26,235
Phoenix Civic Plaza	21,300	24,814	29,955	27,132
Water System and Val Vista	149,073	126,634	124,978	80,188
Wastewater and SROG	57,695	51,598	52,752	31,517
Solid Waste	18,749	18,247	20,006	16,992
Golf Courses	215	89	(339)	—
Total Operating Funds	<u>\$566,145</u>	<u>\$590,400</u>	<u>\$643,180</u>	<u>\$359,655</u>

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

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

		Actual		
	2001	2002	2003	Budgeted 2004
GENERAL FUND				
<i>Transfers From</i>				
Excise Tax	\$561,134	\$563,266	\$566,137	\$575,816
Cable Communications	2,850	1,354	2,982	2,112
Development Services	6,379	3,079	3,584	3,763
Public Housing	278	270	266	269
Sports Facilities	150	153	224	231
Aviation	3,541	3,605	4,840	5,082
Transit	988	—	—	—
Phoenix Civic Plaza	2,155	2,281	2,052	2,155
Water System and Val Vista	11,579	12,432	13,480	14,766
Wastewater and SROG	6,983	7,560	7,752	8,445
Solid Waste	4,490	4,643	4,542	4,836
Industrial Insurance	—	156	5,351	—
Total	600,527	598,799	611,210	617,475
<i>Transfers To</i>				
Library	25,216	25,403	25,947	28,902
Parks and Recreation	69,318	67,263	65,785	74,236
Capital Projects	—	—	202	—
Sick Leave Trust	1,336	972	—	—
Total	95,870	93,638	91,934	103,138
LIBRARY				
<i>Transfers From</i>				
General	25,216	25,403	25,947	28,902
HIGHWAY USER REVENUE				
<i>Transfers To</i>				
Streets and Highways Debt Service	—	—	537	—
PARKS AND RECREATION				
<i>Transfers From</i>				
General	69,318	67,263	65,785	74,236
Excise Tax	21,986	22,081	21,808	23,304
Golf Courses	169	—	401	235
Total	91,473	89,344	87,994	97,775
EXCISE TAX				
<i>Transfers To</i>				
General	561,134	563,266	566,137	575,816
Parks and Recreation	21,986	22,081	21,808	23,304
Transit	85,663	87,918	87,092	93,211
Sports Facilities	12,683	11,296	11,947	12,779
Capital Construction	18,409	18,447	17,966	18,300
City Improvement	16,878	18,239	16,027	16,334
Phoenix Civic Plaza	37,799	37,030	36,849	38,199
Developers Assistance	1,500	300	3,300	—
Total	756,052	758,577	761,126	777,943

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

	2001	Actual 2002	2003	Budgeted 2004
CABLE COMMUNICATIONS				
Transfers To				
General	\$ 2,850	\$ 1,354	\$ 2,982	\$ 2,112
DEVELOPMENT SERVICES				
Transfers To				
General	6,379	3,079	3,584	3,763
DEVELOPMENT FEES & PARTICIPATION				
Transfers From				
Developers Assistance	—	6,050	—	—
TRANSIT				
Transfers To				
General	988	—	—	—
City Improvement	799	809	814	818
Total	1,787	809	814	818
Transfers From				
Excise Tax	85,663	87,918	87,092	93,211
PUBLIC HOUSING				
Transfers To				
General	278	270	266	269
City Improvement	—	—	75	—
Capital Projects	—	740	473	—
Total	278	1,010	814	269
Transfers From				
Capital Projects	—	333	340	—
FEDERAL OPERATING TRUST				
Transfers To				
Capital Projects	—	—	106	—
SPORTS FACILITIES				
Transfers To				
General	150	153	224	231
Early Redemption	5,740	2,320	2,900	2,480
Total	5,890	2,473	3,124	2,711
Transfers From				
Excise Tax	12,683	11,296	11,947	12,779
CAPITAL CONSTRUCTION				
Transfers From				
Excise Tax	18,409	18,447	17,966	18,300
OTHER RESTRICTED				
Transfers From				
Expendable Trusts	—	1,240	2,456	—
SECONDARY PROPERTY TAX				
Transfers To				
Early Redemption	—	15,000	4,079	—
Transfers From				
G.O. Arbitrage Rebate	—	61	—	—

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

	2001	Actual 2002	2003	Budgeted 2004
CITY IMPROVEMENT				
<i>Transfers From</i>				
Excise Tax	16,878	18,239	16,027	16,334
Transit	799	809	814	818
Public Housing	—	—	75	—
Capital Projects	—	—	45	—
Total	17,677	19,048	16,961	17,152
<i>Transfers To</i>				
Capital Projects	—	—	300	—
G.O. ARBITRAGE REBATE				
<i>Transfers To</i>				
Secondary Property Tax	—	61	—	—
STREETS AND HIGHWAYS DEBT SERVICE				
<i>Transfers From</i>				
Highway User Revenue	—	—	537	—
INDUSTRIAL INSURANCE				
<i>Transfers To</i>				
General	—	156	5,351	—
EXPENDABLE TRUSTS				
<i>Transfers To</i>				
Other Restricted Special Revenue	—	1,240	2,456	—
CAPITAL PROJECTS				
<i>Transfers To</i>				
Public Housing	—	333	340	—
Civic Plaza	—	8	—	—
City Improvement	—	—	45	—
Total	—	341	385	—
<i>Transfers From</i>				
General	—	—	202	—
Federal Operating Trust	—	—	106	—
Public Housing	—	740	473	—
City Improvement	—	—	300	—
Solid Waste	2,533	1,077	1,092	—
Water System and Val Vista	—	30,000	—	—
Total	2,533	31,817	2,173	—
AVIATION				
<i>Transfers To</i>				
General	3,541	3,605	4,840	5,082
Sick Leave Trust	48	43	—	—
Total	3,589	3,648	4,840	5,082
PHOENIX CIVIC PLAZA				
<i>Transfers From</i>				
Excise Tax	37,799	37,030	36,849	38,199
Capital Projects	—	8	—	—
Total	37,799	37,038	36,849	38,199
<i>Transfers To</i>				
General	2,155	2,281	2,052	2,155
Sick Leave Trust	9	29	—	—
Total	2,164	2,310	2,052	2,155

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

	2001	Actual 2002	2003	Budgeted 2004
WATER SYSTEM AND VAL VISTA				
<i>Transfers To</i>				
General	11,579	12,432	13,480	14,766
Capital Projects	—	30,000	—	—
Sick Leave Trust	182	241	—	—
Total	11,761	42,673	13,480	14,766
WASTEWATER AND SROG				
<i>Transfers To</i>				
General	6,983	7,560	7,752	8,445
Sick Leave Trust	71	28	—	—
Total	7,054	7,588	7,752	8,445
SOLID WASTE				
<i>Transfers to</i>				
General	4,490	4,643	4,542	4,836
Capital Projects	2,533	1,077	1,092	—
Sick Leave Trust	54	41	—	—
Total	7,077	5,761	5,634	4,836
GOLF COURSES				
<i>Transfers To</i>				
Parks and Recreation	169	—	401	235
Sick Leave Trust	—	8	—	—
Total	169	8	401	235
SICK LEAVE TRUST				
<i>Transfers From</i>				
General	1,336	972	—	—
Aviation	48	43	—	—
Water System and Val Vista	182	241	—	—
Wastewater and SROG	71	28	—	—
Civic Plaza	9	29	—	—
Solid Waste	54	41	—	—
Golf	—	8	—	—
Total	1,700	1,362	—	—
EARLY REDEMPTION				
<i>Transfers From</i>				
Sports Facilities	5,740	2,320	2,900	2,480
Secondary Property Tax	—	15,000	4,079	—
Total	5,740	17,320	6,979	2,480
DEVELOPERS ASSISTANCE				
<i>Transfers From</i>				
Excise Tax	1,500	300	3,300	—
<i>Transfers To</i>				
Development Fees & Participation	—	6,050	—	—
Total Transfers From	\$900,920	\$945,776	\$911,751	\$926,273
Total Transfers To	\$900,920	\$945,776	\$911,751	\$926,273

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APPENDIX E

CITY SALES AND STATE SHARED REVENUES

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

City Privilege License (Sales) Taxes

The City's privilege license (sales) tax rate for most business activity categories is 1.8%, while the rate for utilities is 2.7%, advertising is 0.5%, transient room rental is 4.8%, short-term car rental is 3.8%, telecommunications is 4.7% and commercial real estate rental is 1.9%. The City collected \$416,431,000 from all privilege license tax categories in fiscal year 1999-00, \$514,522,000 in fiscal year 2000-01, \$516,011,000 in fiscal year 2001-02 and \$514,570,000 in fiscal year 2002-03. The estimate for 2003-04 is \$548,323,000.

Privilege License Tax Rates by Category

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

(1) On October 5, 1993, City of Phoenix voters approved a 0.1% increase in the City's privilege license (sales) tax rate. The revenues produced by the increase must be used to add police officers and firefighters and to expand neighborhood programs designed to deter crime. The increase affects all privilege license tax categories except advertising, utilities, cable television, jet fuel, telecommunications and mining and became effective December 1, 1993. The increase generated \$14.5 million in 1994-95, \$16.4 million in 1995-96, \$17.5 million in 1996-97, \$18.5 million in 1997-98, \$20.3 million in 1998-99, \$21.8 million in 1999-00, \$22.1 million in 2000-01, \$22.2 million in 2001-02 and \$21.8 million in 2002-03. The estimate for 2003-04 is \$23.3 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 is expected to generate \$23.3 million in 2003-04.

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 is expected to generate \$93.2 million in 2003-04.

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

State Shared Revenues

The City received a total of \$378,156,000 in State-shared revenues in fiscal year 1999-00, \$392,170,000 in fiscal year 2000-01, \$393,746,000 in fiscal year 2001-02 and \$403,705,000 in fiscal year 2002-03. The estimate for 2003-04 is \$396,832,000.

State Sales Tax

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

State Sales Tax Taxable Activities, Tax Rates and Distribution Share

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

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

State Sales Tax Receipts

Fiscal Year	Amount
2003-04 Estimated	\$109,538,000
2002-03	103,408,000
2001-02	102,211,000
2000-01	105,331,000
1999-00	101,708,000
1998-99	92,459,000
1997-98	86,169,000
1996-97	81,449,000
1995-96	80,443,000
1994-95	75,821,000
1993-94	69,257,000

State Income Tax

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

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

State Income Tax Receipts

Fiscal Year	Amount
2003-04 Estimated	\$117,517,000
2002-03	140,600,000
2001-02	137,787,000
2000-01	133,684,000
1999-00	127,374,000
1998-99	114,788,000
1997-98	98,326,000
1996-97	87,054,000
1995-96	75,392,000
1994-95	70,945,000
1993-94	64,131,000

HIGHWAY USER REVENUES

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

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

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

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

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

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

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

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

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

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

City of Phoenix, Arizona

Highway User Tax Revenues		Vehicle License Tax Receipts	
Fiscal Year	Amount	Fiscal Year	Amount
2003-04 Estimated	\$108,490,000	2003-04 Estimated	\$53,900,000
2002-03	104,597,000	2002-03	47,757,000
2001-02	100,405,000	2001-02	45,844,000
2000-01	102,598,000	2000-01	43,221,000
1999-00	100,348,000	1999-00	41,243,000
1998-99	97,729,000	1998-99	37,802,000
1997-98	88,302,000	1997-98	32,583,000
1996-97	89,147,000	1996-97	31,339,000
1995-96	88,642,000	1995-96	26,907,000
1994-95	81,716,000	1994-95	28,329,000
1993-94	77,712,000	1993-94	22,497,000

LOCAL TRANSPORTATION ASSISTANCE

The 1981 State transportation financing program also provided for the creation of a Local Transportation Assistance Fund (LTAF) for local city transportation purposes (transit, streets, airports, etc.). The 1981 bill was amended in February 1982, restricting the use of these funds by cities of over 300,000 population to mass transit operating costs and related capital purposes. The LTAF is funded from a portion of the receipts of the State Lottery. It is to provide up to \$23 million (maximum) to be allocated to incorporated cities and towns in proportion to the population each bears to the total population of all cities and towns. The City received \$7,726,000 in 1994-95, \$7,624,000 in 1995-96, \$7,522,000 in 1996-97, \$7,719,000 in 1997-98 and \$7,627,000 in 1998-99, \$7,483,000 in 1999-00, \$7,336,000 in 2000-01, \$7,499,000 in 2001-02 and \$7,343,000 in 2002-03. The estimate for 2003-04 is \$7,387,000. Cities may spend up to 10% of their allocation for recreational, cultural and historic purposes if matched by non-public funds, provided that the annual allocation to cities is \$23,000,000.

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

TRANSPORTATION PROGRAM PASSED BY MARICOPA COUNTY VOTERS

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

As a result, in Maricopa County, a countywide special election was held on October 8, 1985 to levy a one-half percent transportation excise tax (sales tax) within the County. The measure was passed by the voters by

more than a 2 to 1 margin. The transportation excise tax became effective January 1, 1986 for a period not to exceed twenty years. The greatest portion of these funds is earmarked for controlled-access highways, determined by the cities and County through their regional planning agency, the Maricopa Association of Governments. A limited portion of the increase is designated for regional public transportation needs.

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

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

The Maricopa County Board of Supervisors called a referendum election on March 28, 1989 for the purpose of considering an additional 0.5% sales tax to fund the development and operation of the Authority's adopted Public Transportation Plan over the next 30 years. The referendum was defeated with 61% of the votes cast against the referendum. After the referendum was defeated, former Mayor Goddard initiated an effort to involve the Phoenix urban village planning committees in developing a future transportation program for the City. This resulted in the creation of a Citywide Transit Committee. This committee devised a comprehensive transit plan which offered a variety of services. The plan was adopted by the City Council in July 1990 and incorporated into the citizen-based Regional Transit Plan which was adopted by the RPTA Board of Directors in July 1992. Legislation adopted by the State Legislature and signed by the Governor in 1990 allowed the Maricopa Association of Governments and the RPTA to call for a 1/2 cent sales tax to be split equally between freeways and transit. MAG and RPTA did call for that election and the Maricopa Board of Supervisors placed the issue on the November 8, 1994 general election ballot. The proposition was defeated, with 54% of the votes cast against the proposition.

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

APPENDIX F

STATE EXPENDITURE LIMITATION

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

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

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

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

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

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

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

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

The Arizona Attorney General has issued an opinion that a political subdivision may legally carry forward to later years revenues which are not subject to the expenditure limitation and which were not expended in the year of receipt. Pursuant to advice from the Arizona Auditor General, the City now carries forward each year, all unexpended excludable revenues that are not needed to meet the expenditure limitation for that year, to

help maximize spending capacity in future years. As of June 30, 2003, non-restricted carryforwards totalled \$405,452,736.

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

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

APPENDIX G

RETIREMENT AND PENSION PLANS

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

City of Phoenix, Arizona Employees' Retirement Plan

The City of Phoenix, Arizona Employees' Retirement Plan, a single-employer defined benefit pension plan, covers all full-time general employees of the City, with the exception of sworn City police and fire personnel. Periodic employer contributions to the pension plan are determined on an actuarial basis using the "entry age normal cost method." Normal cost is funded on a current basis. The unfunded actuarial accrued liability is amortized over an open twenty-year period from June 30, 2002. Periodic contributions for both normal cost and the amortization of the actuarial accrued liability are based on the level percentage of payroll method. The funding strategy for normal cost and the actuarial liability should provide sufficient resources to pay employee pension benefits on a timely basis.

The general employees contribute 5% of their compensation to the plan. City of Phoenix contributions for 2002-03 were \$27,820,000, equivalent to 6.86% of the estimated annual active member payroll, compared with 7.24% in 2001-02. The annual active member covered payroll for the year ended June 30, 2003 was \$416,472,000.

Significant actuarial assumptions used to compute the pension contribution requirements are as follows: The rate of return on investments is assumed to be 8.0%. Mortality rates equal the 1971 Group Annuity Mortality Table projected to 2000, set back 6 years for females. Salaries are expected to rise 4.5% due to inflation, 0.5% for other across-the-board factors, and from 0% to 4%, based on age, for merit and longevity. Probabilities of retirement at specific ages are based on past experience. Assumptions for separation from active employment and for disability are according to a table based on past experience.

The actuarial accrued liability of the Plan is measured in accordance with the requirements of Governmental Accounting Standards Board Statement No. 25 and No. 27. As of June 30, 2003, net assets available for benefits were less than the actuarial accrued liability by \$173,542,000, compared with a lack of \$116,542,000 at June 30, 2002. The total actuarial accrued liability increased \$113,852,000 from 2002 to 2003.

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

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

The accrued actuarial condition of the Retirement Plan is very good.

State of Arizona Public Safety Personnel Retirement System

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

Periodic employer contributions to the pension plans are determined on an actuarial basis using the entry age normal cost method. Normal cost is funded on a current basis. The unfunded actuarial accrued liability is funded over an open twenty-year period. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the level percentage of payroll method. The funding

strategy for normal cost and the unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis.

Significant actuarial assumptions used to compute the pension contribution requirements are as follows: The rate of return on investments is assumed to be 9%. Non-disability mortality rates equal the 1971 Group Annuity Mortality Table projected to 2000 set back 6 years for females. Salaries are expected to rise 5.5% due to inflation and from 1% to 4%, based on age, for merit and longevity. Probabilities of retirement at specific ages are based on past experience. Assumptions for separation from active employment and for disability are according to a table based on past experience.

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

For the year ended June 30, 2003, covered payroll was \$163,889,000 for police, and \$86,662,000, for fire.

The actuarial accrued liability of the Plan is measured in accordance with the requirements of Governmental Accounting Standards Board Statement No. 25 and No. 27. For police, net assets available for benefits were \$316,000 less than the actuarial accrued liability as of June 30, 2003. Net assets for benefits exceeded the actuarial accrued liability by \$136,685,000 as of June 30, 2002.

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

Elected Officials' Retirement Plan

This is a cost sharing multiple-employer defined benefit pension plan of which the City of Phoenix is a contributing employer and covers the Mayor and City Council, effective January 4, 1988. As a condition of coverage, members are required to contribute 7% of compensation.

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

APPENDIX H

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

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**City of Phoenix
Audited Financial Statements
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KPMG LLP
Suite 1100
One Arizona Center
400 East Van Buren Street
Phoenix, AZ 85004

Independent Auditors' Report

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

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

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

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

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



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

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

KPMG LLP

December 12, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

1) Basic Financial Statements - Government-Wide Financial Statements

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

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

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

Both the *Statement of Net Assets* and the *Statement of Activities* divide the functions of the City that are principally supported by taxes and intergovernmental revenues (*Governmental Activities*) from other functions that are intended to recover all or a significant portion of their cost through user fees and

charges (*Business-Type Activities*). The Governmental Activities of the City include general government, criminal justice, public safety, transportation, public works, community enrichment and community development. The Business-Type Activities of the City include airports, Civic Plaza (convention center), water, wastewater, solid waste disposal and golf course activities.

Government-Wide Financial Statement Analysis

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

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

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

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

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

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

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

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

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

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

The following table provides a listing of the capital assets.

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

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

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

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

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

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

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

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

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

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

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

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

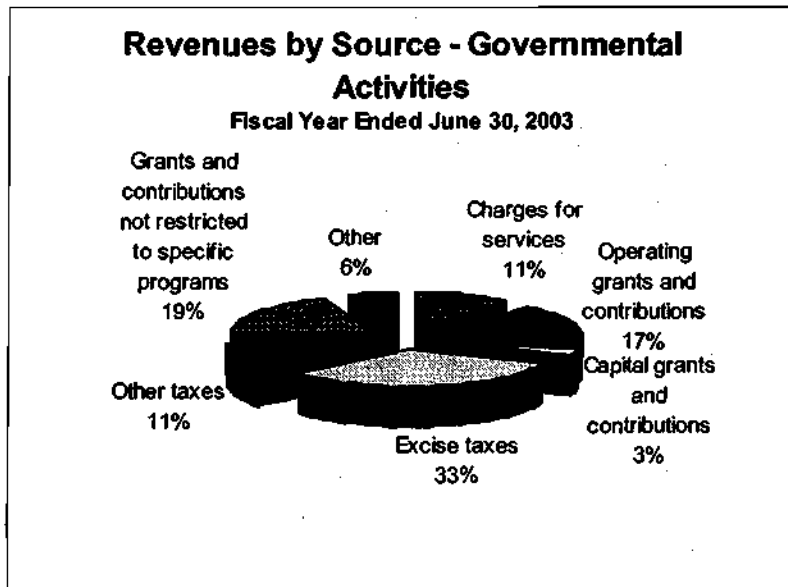
Changes in Net Assets. Detail of the following summarized information can be found in the Statement of Activities.

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

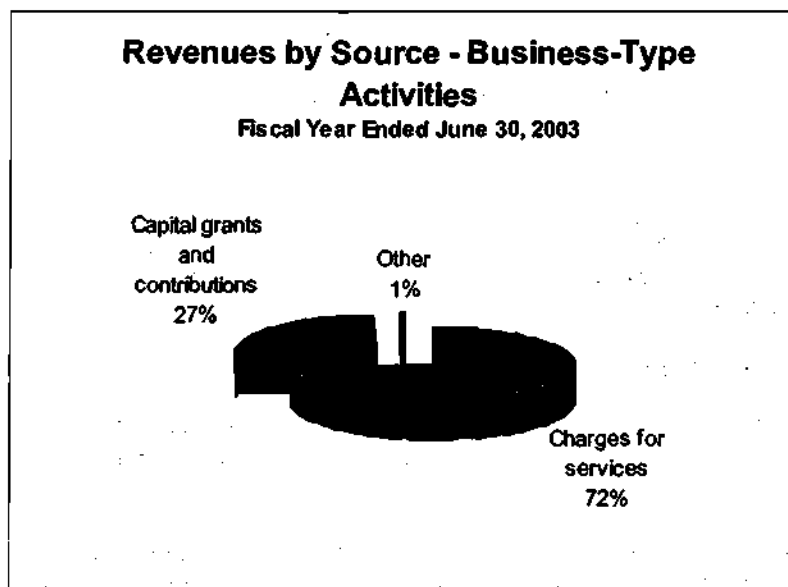
	Governmental Activities		Business-Type Activities		Total Government	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program revenues						
Charges for services	\$ 172,047	\$ 138,757	\$ 638,235	\$ 602,199	\$ 810,282	\$ 740,956
Grants and contributions						
Operating	267,731	246,738	-	-	267,731	246,738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

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

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



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



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

2) Basic Financial Statements - Fund Financial Statements

The Fund Financial Statements are presented in this report on page H-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 H-19 and H-21 to account for the difference between the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances, and the *Governmental Activities* portion of the Government-Wide Financial Statements.

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

The City adopts an annual appropriated budget for all City funds. A Budgetary Comparison Statement has been provided for the General Fund on page H-22 and the Excise Tax Special Revenue Fund on page H-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 H-24 through H-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 H-76 and H-82. The following table summarizes information found in the Governmental Fund Financial Statements.

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

	Fund Balances July 1, 2002	Net Change in Fund Balances	Fund Balances June 30, 2003
General	\$ 284,780	\$ 49,678	\$ 334,458
Excise Tax	-	-	-
Nonmajor Governmental	648,653	68,655	717,308
Total	<u>\$ 933,433</u>	<u>\$ 118,333</u>	<u>\$ 1,051,766</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 \$1.05 billion, an increase of \$118.3 million from last fiscal year. Of the total governmental funds combined ending balances, approximately 54.9 percent of this amount, or \$577.3 million, constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The remainder of the combined fund balance is *reserved*. This indicates that it is not available for new spending because it has already been committed 1) to liquidate contract and purchase orders for the prior year (\$177.8 million), 2) to pay debt service (\$285.5 million), and 3) to pay for supply inventories (\$11.1 million).

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

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

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

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

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

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

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

3. 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 H-32 of this report.

ECONOMIC FACTORS

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

REQUESTS FOR FINANCIAL INFORMATION

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

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

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

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

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government	\$ 63,728	\$ 13,655	\$ 1,200	\$ -
Criminal Justice	372,545	32,253	8,457	1,865
Public Safety	173,281	20,994	1,414	-
Transportation	218,055	22,945	129,987	39,639
Public Works	24,091	700	112	-
Community Enrichment	198,131	6,661	52,393	6,942
Community Development	148,962	74,839	74,168	3,150
Interest on Long-Term Debt	60,370	-	-	-
Total Governmental Activities	1,259,163	172,047	267,731	51,596
Business-Type Activities				
Aviation	210,773	206,316	-	138,867
Phoenix Civic Plaza	48,142	10,275	-	5
Water Services	206,673	216,870	-	51,038
Wastewater Services	111,124	104,647	-	41,877
Solid Waste	84,030	93,441	-	723
Golf Courses	7,632	6,686	-	1
Total Business-Type Activities	668,374	638,235	-	232,511
Total Primary Government	\$ 1,927,537	\$ 810,282	\$ 267,731	\$ 284,107
General Revenues (Expenses)				
Taxes				
Excise Taxes				
Property Taxes, Levied for General Purposes				
Property Taxes, Levied for Debt Service				
Special Assessment Taxes				
In-Lieu Property Taxes				
Grants and Contributions Not Restricted to Specific Programs				
Investment Earnings, Net				
Equity Interest in Joint Use Agreement Operating Loss				
Loss on Disposal of Capital Assets				
Miscellaneous				
Transfers - Internal Activities				
Total General Revenues, General Expenses and Transfers				
Change in Net Assets				
Net Assets - July 1				
Net Assets - June 30				

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

(Continued)

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

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

June 30, 2003
(in thousands)

	General	Excise Tax	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Equity in Pooled Cash and Investments	\$ 193,501	\$ -	\$ 388,386	\$ 581,887
Cash Deposits	948	-	243	1,191
Cash and Securities with Fiscal Agents/Trustees	-	-	76,591	76,591
Investments	224	-	433,801	434,025
Due from Other Funds	154,949	-	9,704	164,653
Receivables, Net of Allowance				
Accounts Receivable	12,639	-	15,151	27,790
Taxes Receivable	5,566	49,259	1,937	56,762
Delinquent Taxes Receivable	1,770	-	2,393	4,163
Intergovernmental	652	18,172	47,639	66,463
Accrued Interest	-	-	1,111	1,111
Notes Receivable	-	-	13,234	13,234
Prepaid Items	-	-	2,780	2,780
Inventories	7,428	-	3,693	11,121
Total Assets	<u>\$ 377,677</u>	<u>\$ 67,431</u>	<u>\$ 996,663</u>	<u>\$ 1,441,771</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Due to Other Funds	-	67,384	97,212	164,596
Warrants and Accounts Payable	31,087	47	50,951	82,085
Insurance Claims Payable	59	-	-	59
Trust Liabilities and Deposits	8,410	-	28,787	37,197
Matured Bonds Payable	-	-	40,959	40,959
Interest Payable	-	-	26,216	26,216
Deferred Revenue	3,663	-	35,230	38,893
Total Liabilities	<u>43,219</u>	<u>67,431</u>	<u>279,355</u>	<u>390,005</u>
Fund Balances				
Reserved for				
Encumbrances	11,123	-	166,698	177,821
Debt Service	39,065	-	246,426	285,491
Inventories	7,428	-	3,693	11,121
Unreserved				
Designated for Insurance Claims	184,657	-	3,019	187,676
Designated for Unrealized Gain on Investments	11,182	-	29,327	40,509
Undesignated	81,003	-	268,145	349,148
Total Fund Balances	<u>334,458</u>	<u>-</u>	<u>717,308</u>	<u>1,051,766</u>
Total Liabilities and Fund Balances	<u>\$ 377,677</u>	<u>\$ 67,431</u>	<u>\$ 996,663</u>	<u>\$ 1,441,771</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, 2003
 (in thousands)

Fund balances - total governmental funds balance sheet	\$ 1,051,766

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

Governmental capital assets	3,699,372	
Accumulated depreciation	<u>(889,173)</u>	
		2,810,199

Other assets used in governmental activities are not available to pay for current period expenditures and, therefore, are deferred in the funds. 38,893

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.

Governmental bonds payable	(1,235,259)	
Compensated absences	(137,433)	
Insurance claims payable	<u>(194,041)</u>	
		(1,566,733)

Net assets of governmental activities - statement of net assets	<u>\$ 2,334,125</u>

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

City of Phoenix, Arizona
Fund Financial Statements
Statement of Revenues, Expenditures and Changes
in Fund Balance - Governmental Funds
For the Fiscal Year Ended June 30, 2003
(in thousands)

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

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

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

Net change in fund balances - total governmental funds \$ 118,333

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital acquisitions (\$314,123) exceeded depreciation (\$96,338) and loss on disposals of capital assets (\$14,558) in the current period. 203,227

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 13,574

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which acquisitions (\$217,983) exceeded repayments and amounts refunded (\$199,236). (18,747)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.
(\$7,002 compensated absences and \$33,414 insurance claims payable) (40,416)

Change in net assets of governmental activities - statement of activities \$ 275,971

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

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

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

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

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

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
REVENUES				
City Taxes	\$ 541,250	\$ 541,250	\$ 514,570	\$ (26,680)
Licenses and Permits	2,585	2,585	2,548	(37)
Intergovernmental	254,231	254,231	244,008	(10,223)
Total Revenues	798,066	798,066	761,126	(36,940)
OTHER FINANCING USES				
Transfers to Other Funds				
General Fund	(597,519)	(597,519)	(566,137)	31,382
Transit	(91,220)	(91,220)	(87,092)	4,128
Parks and Preserves	(22,805)	(22,805)	(21,808)	997
Sports Facilities	(12,756)	(12,756)	(11,947)	809
Capital Construction	(18,775)	(18,775)	(17,966)	809
City Improvement	(17,545)	(17,545)	(16,027)	1,518
Phoenix Civic Plaza	(37,446)	(37,446)	(36,849)	597
Developers Assistance Fund	-	-	(3,300)	(3,300)
Total Other Financing Sources and Uses	(798,066)	(798,066)	(761,126)	36,940
Net Change in Fund Balance	<u>\$ -</u>	<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, 2003

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

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

The accompanying notes are an integral part of these financial statements

(Continued)

Water System	Wastewater	Solid Waste	Golf Courses	Totals	
				2003	2002
\$ 115,628	\$ 24,105	\$ 19,308	\$ -	\$ 265,634	\$ 241,668
10,205	-	-	-	10,205	9,945
34,035	13,527	7,173	7	58,160	62,842
3,084	-	-	-	4,444	4,717
-	-	-	-	129	129
2,157	585	-	148	4,099	3,988
165,109	38,217	26,481	155	342,671	323,269
55,023	62,524	16,004	-	318,107	222,940
6,048	183	74	-	6,975	7,771
44,439	27,877	9,883	705	125,576	146,476
86,789	27,196	61,094	-	483,165	458,150
1,190	-	-	-	1,190	1,484
381	99	-	-	14,907	12,014
193,870	117,879	87,055	705	949,920	848,835
1,207,948	675,218	71,362	15,736	3,569,824	3,316,687
136	-	-	-	136	157
32,615	-	-	-	32,615	32,900
93,765	241,477	-	-	335,242	303,389
1,334,464	916,695	71,362	15,736	3,937,817	3,653,133
1,693,443	1,072,791	184,898	16,596	5,230,408	4,825,257
10,881	5,265	2,181	43	30,664	28,679
-	-	-	48	48	-
-	-	-	4	161	161
-	639	-	-	639	605
37	-	-	22	4,277	2,642
-	-	1,090	-	1,090	1,114
804	184	198	52	1,910	1,558
11,722	6,088	3,469	169	38,789	34,759
11,425	10,411	692	-	35,383	38,734
-	-	-	1,199	1,199	22,391
2,053	183	74	-	2,980	2,974
100,000	60,000	-	-	160,000	-
27,430	16,083	7,650	496	72,094	77,248
17,017	13,933	2,451	209	55,845	46,077
18,386	6,765	4,875	-	33,277	28,363
-	-	-	-	3,710	9,390
9,235	10,240	3,928	522	38,390	35,036
-	-	4,529	-	4,529	4,914
185,546	117,615	24,199	2,426	407,407	265,127
130,210	71,294	44,383	-	271,486	304,451
10,000	-	-	-	51,240	54,950
457,280	422,232	84,749	6,862	1,697,850	1,654,033
7,028	(2,075)	6,374	143	12,172	5,014
-	-	-	-	2,252	2,694
-	5,132	-	-	5,132	3,420
-	510	-	-	510	1,782
-	-	26,747	-	26,747	26,476
5,977	1,385	1,420	356	14,114	13,464
810,495	498,478	163,673	7,361	2,081,503	2,066,284
807,763	622,181	191,341	9,956	2,527,699	2,366,170
626,277	353,235	(11,096)	8,377	2,009,693	1,857,544
3,995	-	-	-	36,232	36,930
255,408	97,375	4,653	(1,737)	656,784	564,613
\$ 885,680	\$ 450,610	\$ (6,443)	\$ 6,640	\$ 2,702,709	\$ 2,459,087

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

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

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

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

(Continued)

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

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

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

	Aviation	Phoenix Civic Plaza
Cash Flows from Operating Activities		
Receipts from Customers	\$ 209,544	\$ 10,181
Payments to Suppliers	(81,142)	(19,037)
Payments to Employees	(40,612)	(11,671)
Payment of Staff and Administrative Expenses	(4,840)	(2,052)
Payment in Lieu of Property Taxes	-	-
Net Cash Provided (Used) by Operating Activities	82,950	(22,599)
Cash Flows from Noncapital Financing Activities		
Transfers from Other Funds	-	36,849
Transfers to Other Funds	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	-	36,849
Cash Flows from Capital and Related Financing Activities		
Proceeds from Capital Debt	-	-
Principal Paid on Capital Debt	(24,948)	(3,825)
Interest Paid on Capital Debt	(32,043)	(5,695)
Receipts of Passenger Facility Charges	-	-
Loans to Developers	-	-
Loans from Other Funds	-	-
Loans to (Payments from) Other Funds	-	-
Acquisition and Construction of Capital Assets	(145,271)	(1,831)
Proceeds from Sales of Capital Assets	21	1
Capital Contributions	127,654	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(74,587)	(11,350)
Cash Flows from Investing Activities		
Purchases of Investment Securities	(4,311,160)	(99,134)
Proceeds from Sale and Maturities of Investment Securities	4,389,962	98,969
Interest on Investments	13,116	1,224
Proceeds from Collections of Long-Term Receivable	-	321
Net Cash Provided (Used) by Investing Activities	91,918	1,380
Net Increase (Decrease) in Cash and Cash Equivalents	100,281	4,280
Cash and Cash Equivalents, July 1	194,939	34,991
Cash and Cash Equivalents, June 30	\$ 295,220	\$ 39,271
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ 23,356	\$ (32,287)
Adjustments		
Depreciation and Amortization	53,346	10,054
(Increase) Decrease in Assets		
Deposit for Plan Six	-	-
Receivables	2,148	(146)
Allowance for Doubtful Accounts	(570)	-
Prepaid Items	170	-
Inventories	(175)	(54)
Increase (Decrease) in Liabilities		
Warrants and Accounts Payable	2,737	(242)
Trust Liabilities and Deposits	-	32
Deferred Revenue	1,651	-
Accrued Compensated Absences	287	44
Accrued Landfill Closure and Postclosure Care Costs	-	-
Net Cash Provided (Used) by Operating Activities	\$ 82,950	\$ (22,599)
Noncash Transactions Affecting Financial Position		
Contributions of Capital Assets	\$ -	\$ 5
Bond Capital Appreciation	-	-
Refunding Issuance in Excess of Bond Retirement	262	-
Increase (Decrease) in Fair Value of Investments	96	(14)
Total Noncash Transactions Affecting Financial Position	\$ 358	\$ (9)
Cash and Cash Equivalents		
Unrestricted		
Equity in Pooled Cash and Investments	\$ 75,247	\$ 31,346
Restricted		
Equity in Pooled Cash and Investments	184,136	420
Cash with Fiscal Agents/Trustees	35,837	6,835
Customer and Other Deposits	-	670
(Total 2003 and 2002 restricted assets of \$949,920 and \$848,835 include \$503,257 and \$499,595 of noncash assets, respectively)	219,973	7,925
	\$ 295,220	\$ 39,271

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

(Continued)

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

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

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

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

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

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

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

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

1. Summary of Significant Accounting Policies

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

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

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

a. Reporting Entity

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

City of Phoenix Employees' Retirement Plan ("COPERS")

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

**City of Phoenix Civic Improvement Corporation/
Phoenix Civic Plaza Building Corporation**

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

b. Jointly Governed Organizations

Regional Public Transportation Authority (the "Authority")

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

Arizona Municipal Water Users Association ("AMWUA")

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

c. Basic Financial Statements - GASB #34

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

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

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

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

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

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 8 capital projects funds.

Proprietary Funds

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

Enterprise Funds

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

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.

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

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

f. Budget and Budgetary Accounting

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

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

Expenditure Limitation

Since fiscal year 1982-83, the City has been subject to an annual expenditure limitation imposed by the Arizona Constitution. This limitation is based upon the City's actual 1979-80 expenditures adjusted annually for subsequent growth in population and inflation. The 2002-03 expenditure limit supplied by the Economic Estimates Commission was \$974,648,000. The City increased this limit to \$4,204,209,000 to adjust for additional voter-approved modifications, as described below.

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

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

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

Phoenix voters have approved four-year home rule options on a regular basis since the implementation of the Expenditure Limitation. The current home rule option which was approved in 1999 allows the City Council, after hearings are held for each council district, to establish the annual budget as the limit. This four-year home rule option will be in effect through 2003-04. In 2003 voters approved a similar home rule option to be in effect through 2007-08. Previously established exclusions for pay-as-you-go capital projects continue to apply.

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, 2002, non-restricted carry forwards totaled \$320,272,384.

Budget Calendar

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

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

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

g. Reservations and Designations

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

h. Pooled Cash and Investments

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

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

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

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

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

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

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

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

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

k. Compensated Absences

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

1. The City's obligation is attributable to employees' services already rendered.
2. It is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments.

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

Notes to the Financial Statements

(Continued)

l. Long-Term Obligations

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

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

m. Fund Deficits

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

n. Interfund Transactions

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

o. Statements of Cash Flows

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

p. Use of Estimates

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

q. Comparative Data

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

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, 2003 on the budget basis to the GAAP basis are as follows (in thousands):

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

Notes to the Financial Statements
(Continued)

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

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

3. Property Tax

Levy, Assessment and Collection

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

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

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

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

Notes to the Financial Statements
(Continued)

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

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

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

Taxes Due and Payable

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

Delinquent Taxes - Sales and Redemption

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

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

Unsecured Personal Property

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

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

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

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

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

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, 2003 was \$11,668,000 and the bank ledger balance was \$9,800,000.

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

Investments

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

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

- Category 1** Investments that are insured or registered or for which the securities are held by the City or its agent in the City's name.
- Category 2** Uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name.
- Category 3** Uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name.

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

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

	Unrestricted			Total	Restricted
	Governmental Funds	COPERS	Enterprise Funds	Fair Value	Enterprise Funds
U.S. Government Securities	\$ 264,333	\$ 334,820	\$ 10,205	\$ 609,358	\$ 480,834
Repurchase Agreements	14,617	-	-	14,617	510
Mortgage Backed Securities	-	17,829	-	17,829	-
Corporate Bonds	-	72,224	-	72,224	-
Municipal Securities	5,360	-	-	5,360	-
Common Stocks	-	820,502	-	820,502	-
Short-Term Investment Funds	149,715	49,424	-	199,139	1,821
	<u>\$ 434,025</u>	<u>\$ 1,294,799</u>	<u>\$ 10,205</u>	<u>\$ 1,739,029</u>	<u>\$ 483,165</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	\$ 910,261
Repurchase Agreements	135,435
Mortgage Backed Securities	154,380
Municipal Securities	874
Short-Term Investment Funds	1,964
	<u>\$ 1,202,914</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, 2003.

5. Receivables

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

	Accounts	Taxes	Interest	Intergov- ernmental	Notes	June 30	
						2003	2002
Unrestricted							
Governmental Activities							
General Fund	\$ 12,639	\$ 7,336	\$ -	\$ 652	\$ -	\$ 20,627	\$ 23,753
Excise Tax	-	49,259	-	18,172	-	67,431	64,680
Non-Major	15,151	4,330	1,111	47,639	13,234	81,465	67,718
	<u>27,790</u>	<u>60,925</u>	<u>1,111</u>	<u>66,463</u>	<u>13,234</u>	<u>169,523</u>	<u>156,151</u>
Business-Type Activities							
Aviation	3,212	-	-	-	-	3,212	4,790
Civic Plaza	206	-	-	-	-	206	60
Water System	33,092	-	20	923	-	34,035	37,795
Wastewater	10,609	-	-	2,918	-	13,527	12,757
Solid Waste	7,158	-	-	15	-	7,173	7,333
Golf Courses	7	-	-	-	-	7	107
	<u>54,284</u>	<u>-</u>	<u>20</u>	<u>3,856</u>	<u>-</u>	<u>58,160</u>	<u>62,842</u>
	<u>82,074</u>	<u>60,925</u>	<u>1,131</u>	<u>70,319</u>	<u>13,234</u>	<u>227,683</u>	<u>218,993</u>
Restricted							
Business-Type Activities							
Aviation	11,104	-	209	2,183	-	13,496	2,283
Civic Plaza	-	-	50	881	-	931	1,237
Water System	-	-	381	-	-	381	8,294
Wastewater	-	-	-	99	-	99	200
Solid Waste	-	-	-	-	-	-	-
Golf Courses	-	-	-	-	-	-	-
	<u>11,104</u>	<u>-</u>	<u>640</u>	<u>3,163</u>	<u>-</u>	<u>14,907</u>	<u>12,014</u>
	<u>\$ 93,178</u>	<u>\$ 60,925</u>	<u>\$ 1,771</u>	<u>\$ 73,482</u>	<u>\$ 13,234</u>	<u>\$ 242,590</u>	<u>\$ 231,007</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				
	Accounts	Taxes	June 30	
			2003	2002
Governmental				
General Fund	\$ 22,843	\$ -	\$ 22,843	\$ 21,456
Excise Tax	-	14,268	14,268	2,670
Non-Major	144	-	144	80
Business-Type				
Aviation	1,187	-	1,187	1,757
Water System	751	-	751	642
Wastewater	342	-	342	290
Solid Waste	444	-	444	314
	<u>\$ 25,711</u>	<u>\$ 14,268</u>	<u>\$ 39,979</u>	<u>\$ 27,209</u>

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

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

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

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 \$57,000, are included in the government-wide financial statements at June 30, 2003. The following amounts due to other funds or due from other funds are included in the fund financial statements at June 30, 2003 (in thousands):

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

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

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

	<u>Transfer Out</u>	<u>Transfer In</u>
Governmental Funds		
General Fund	\$ 111,271	\$ 589,886
Excise Tax	761,126	-
Non-major Governmental	61,766	308,382
Total Governmental Funds	<u>934,163</u>	<u>898,268</u>
Enterprise Funds		
Civic Plaza	-	36,849
Water System	360	-
Wastewater	240	-
Solid Waste	354	-
Total Enterprise Funds	<u>954</u>	<u>36,849</u>
Total Transfers	<u>\$ 935,117</u>	<u>\$ 935,117</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	
	2003	2002
Restricted Assets		
Equity in Pooled Cash and Investments	\$ 318,107	\$ 222,940
Cash Deposits	6,975	7,771
Cash and Securities with Fiscal Agents/Trustees	125,576	146,476
Investments	483,165	458,150
Receivables, Net of Allowances	14,907	12,014
Subtotal	948,730	847,351
Due From Other Funds	1,190	1,484
Total Restricted Assets	\$ 949,920	\$ 848,835
Liabilities Payable from Restricted Assets		
Warrants and Accounts Payable	\$ 35,383	\$ 38,734
Trust Liabilities and Deposits	2,980	2,974
Bond Anticipation Notes Payable	160,000	0
Accrued Landfill Closure Costs	4,529	4,914
Subtotal	202,892	46,622
Due to Other Funds	1,199	22,391
Matured Bonds and Certificates Payable	72,094	77,248
Interest Payable	55,845	46,077
Current Portion of General Obligation Bonds	33,277	28,363
Current Portion of Revenue Bonds	3,710	9,390
Current Portion of Municipal Corporation Obligations	38,390	35,036
Total Liabilities Payable from Restricted Assets	\$ 407,407	\$ 265,127

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

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	\$	6,583
Criminal Justice		9,703
Public Safety		5,430
Transportation		45,166
Public Works		8,079
Community Enrichment		16,633
Community Development		4,744
	\$	<u>96,338</u>

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

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

Notes to the Financial Statements

(Continued)

9. Long-Term Obligations

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

	Balances July 1	Additions (1)	Reductions (2)	Balances June 30	Amounts Due Within One Year
Governmental activities					
Bonds and notes payable:					
General Obligation Bonds	\$ 693,110	\$ 52,481	\$ 80,288	\$ 665,303	31,965
Revenue Bonds					
Street and Highway User Revenue	210,716	48,177	60,356	198,537	18,805
Housing Revenue	2,910	-	370	2,540	395
Certificates of Participation	21,200	-	745	20,455	785
Municipal Corporation Obligations	272,708	107,680	55,154	325,234	8,110
Special Assessment Bonds	7,401	135	1,434	6,102	1,491
	1,208,045	208,473	198,347	1,218,171	61,551
Deferred Loss on Refunding	14,904	(1,428)	(6,729)	20,205	-
Total bonds and notes payable	1,222,949	207,045	191,618	1,238,376	61,551
Other liabilities:					
Insurance Claims Payable	160,713	194,100	160,713	194,100	78,495
Accrued Compensated Absences	130,431	137,433	130,431	137,433	13,204
Total other liabilities	291,144	331,533	291,144	331,533	91,699
Total governmental activities	\$ 1,514,093	\$ 538,578	\$ 482,762	\$ 1,569,909	153,250
Business-type activities					
Bonds and notes payable:					
General Obligation Bonds	332,814	33,223	61,274	304,763	33,277
Revenue Bonds	64,340	-	9,390	54,950	3,710
Municipal Corporation Obligations	1,689,069	82,207	35,036	1,736,240	38,390
	2,086,223	115,430	105,700	2,095,953	75,377
Deferred Loss on Refunding	46,230	(3,557)	(2,671)	45,344	-
Cumulative capital appreciation on general obligation minibonds	(3,637)	(503)	-	(4,140)	-
Total bonds and notes payable	2,128,816	111,370	108,371	2,131,815	75,377
Other liabilities:					
Accrued Compensated Absences	15,022	16,024	15,022	16,024	1,910
Capital Leases	2,694	16	458	2,252	-
Utility Repayment Agreements (3)	3,420	2,600	888	5,132	-
Rebutable Arbitrage	1,782	580	1,852	510	-
Accrued Landfill Closure and Postclosure Care Costs	27,590	1,427	1,180	27,837	1,090
Total other liabilities	50,508	20,647	19,400	51,755	3,000
Total business-type activities	\$ 2,179,324	\$ 132,017	\$ 127,771	\$ 2,183,570	78,377

(1) Additions include \$503,000 for accrued interest on capital appreciation enterprise general obligation minibonds.

(2) For the Governmental Activities, Insurance Claims Payable and Compensated Absences are generally liquidated by the General Fund.

(3) The amount 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, 2003 maturities, a portion of which is included in restricted assets for the Enterprise Funds. These deposits were as follows (in thousands):

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

Notes to the Financial Statements

(Continued)

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

Issue Date	Purpose	Maturity Dates	Net Interest Rate	Effective Interest Rate	Average Life (Years)	Original Amount	Balance Outstanding	Unamortized Discount (Premium) (2)
General Obligation Bonds								
12/01/89	Various Improvements	7/1/00-10	7.01	(1)	14.7	\$ 12,242	\$ 2,456	\$ -
12/06/91	Sanitary Sewer	7/1/95-11	4.62	4.56	13.9	30,000	19,281	-
04/01/92	Refunding	7/1/95-13	6.31	6.27	10.6	237,945	30,620	-
04/15/93	Refunding	7/1/95-16	5.48	5.45	13.4	335,165	154,395	-
09/15/93	Refunding	7/1/94-16	5.11	5.12	15.2	70,550	11,935	(33)
12/01/93	Water Improvements	7/1/04-14	5.03	4.98	13.8	17,229	17,229	-
03/01/94	Various Improvements	7/1/96-11	6.22	5.24	10.2	70,635	2,715	2
01/01/95	Various Improvements	7/1/97-12	5.93	5.94	11.4	30,000	3,720	1
07/01/95	Refunding	7/1/10-19	5.59	5.56	19.9	85,000	51,225	-
11/01/95	Various Improvements	7/1/01-20	5.26	5.35	17.0	60,000	24,950	-
02/01/96	Refunding	7/1/96-14	4.86	4.85	10.3	35,280	20,510	-
01/15/97	Various Improvements	7/1/99-20	5.39	5.32	14.7	32,000	14,855	4
01/15/98	Various Improvements	7/1/01-22	4.74	4.67	15.9	75,000	59,340	30
01/15/99	Refunding	7/1/99-20	4.47	4.44	12.4	163,820	154,480	(650)
02/01/99	Various Improvements	7/1/01-23	4.77	4.74	15.8	58,000	49,180	(52)
07/15/00	Various Improvements	7/1/03-25	5.48	5.42	16.9	50,000	31,195	(16)
12/07/01	Sanitary Sewer	7/1/03-21	3.70	3.70	18.0	6,075	5,849	-
05/22/02	Various Improvements-Taxable	7/1/08-10	5.65	5.66	7.1	10,000	10,000	-
05/22/02	Refunding	7/1/03-18	4.46	4.37	8.4	144,495	132,370	(720)
05/22/02	Various Improvements	7/1/11-27	5.11	5.11	18.3	89,970	89,970	-
05/22/02	Refunding	7/1/14-15	4.83	4.77	12.4	14,680	14,680	-
05/21/03	Refunding	7/1/05-16	3.36	3.25	9.1	83,320	83,320	(1,967)
Total General Obligation Bonds						1,711,406	984,275	(3,401)
Revenue Bonds								
02/01/92	Street/Highway Improvements	7/1/07	6.55	6.76	17.8	55,490	5,815	-
03/15/92	Street/Highway Refunding	7/1/93-11	6.50	6.72	13.4	117,880	10,645	-
12/15/92	Street/Highway Refunding (3)	7/1/94-13	7.96	6.33	15.0	58,226	17,556	-
03/01/93	Water Refunding (3)	7/1/95-22	5.07	5.03	10.6	54,570	10,000	89
09/15/93	Street/Highway Refunding	7/1/95-11	5.03	5.04	13.3	0	0	-
05/01/94	Airport Improvements (3)	7/1/03-12	6.44	6.52	14.1	31,500	29,105	147
05/01/94	Airport Refunding (3)	7/1/95-12	5.56	5.65	5.7	36,400	2,250	15
05/01/94	Airport Refunding (3)	7/1/95-12	6.31	6.41	11.1	21,650	13,595	71
08/01/95	Municipal Housing Refunding	12/1/95-09	6.06	6.03	7.7	4,960	2,540	-
01/01/99	Street/Highway Refunding	7/1/99-11	4.40	4.65	9.1	10,375	9,850	-
05/10/02	Street/Highway Refunding (3)	7/1/03-11	3.61	3.76	5.3	123,125	116,090	-
05/28/03	Street/Highway Refunding	7/1/05-11	2.76	2.56	6.2	47,360	47,360	-
Total Revenue Bonds						561,536	264,806	322
Certificates of Participation								
06/01/93	Amphitheatre Refunding (3) (4b)	8/1/95-19	5.43	5.89	16.8	14,080	10,900	-
07/01/93	Amphitheatre, Stadium and Housing (3) (4b)	8/1/94-23	5.18	5.67	18.5	11,975	9,555	-
Total Certificates of Participation						26,055	20,455	-

(Continued)

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

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	\$ 356
09/01/92	Superblock Refinancing (3) (4b)	8/1/00-17	6.11	6.21	20.2	15,560	15,010	-
01/01/93	Wastewater System (7)	7/1/97-05	6.24	6.36	21.1	250,000	12,140	28
06/01/93	Patriots Sq. Park. Garage Ref. (3) (4b)	7/1/96-09	5.25	5.61	10.4	14,350	7,445	-
10/01/93	Wastewater Refunding (7)	7/1/99-23	4.87	5.27	22.1	235,735	230,240	5,663
01/01/94	Water System Improvements (6)	7/1/95-24	5.45	5.49	19.5	110,000	5,120	-
05/01/94	Airport Refunding (5)	7/1/95-14	6.09	6.13	11.7	33,705	24,565	87
08/01/94	Civic Plaza (4a)	7/1/95-14	5.98	(1)	18.0	43,250	43,250	-
08/01/94	Civic Plaza Refunding (4a)	7/1/98-05	5.09	5.76	6.4	24,395	3,930	2
11/01/94	Municipal Facilities (3) (4b)	7/1/95-05	6.53	6.47	7.2	33,410	1,230	-
04/25/95	Airport Improvements (3) (9)	6/1/10-20	(8)	(8)	22.0	31,000	31,000	-
06/15/96	Water System Improvements (6)	7/1/00-08	5.82	5.78	15.2	150,000	16,515	(2)
01/15/97	Municipal Facilities Refunding (3) (4b)	7/1/99-21	5.47	5.43	14.4	9,935	9,545	-
07/01/97	Wastewater System (3) (12)	7/1/03-22	5.35	5.32	17.2	75,000	24,455	(45)
01/01/98	Civic Plaza East Garage (3) (4b)	7/1/00-22	6.66	6.63	16.2	43,000	39,250	188
01/15/98	Multipurpose Arena Refunding (3) (4b)	7/1/98-19	6.83	6.64	14.1	48,740	44,000	-
02/01/98	Airport Refunding (5)	7/1/98-14	4.67	4.68	9.6	38,355	28,415	(341)
05/01/98	Water System Refunding (3) (6)	7/1/99-19	5.05	5.03	16.3	109,155	106,450	658
08/01/98	Airport Revenue (10)	7/1/03-25	5.06	5.08	18.1	165,000	160,240	(100)
06/01/99	Phoenix Municipal Courthouse (4a)	7/1/05-29	5.35	5.32	20.7	79,000	79,000	-
06/01/99	Adams Street Garage (4a)	7/1/05-29	5.34	5.31	20.7	15,000	15,000	-
02/01/00	Bus Acquisition Special Revenue (3) (13)	7/1/00-12	5.40	5.42	6.7	18,320	13,430	-
06/01/00	Wastewater System Revenue (3) (12)	7/1/05-24	5.97	5.91	16.4	135,000	25,690	(78)
08/01/00	Municipal Facilities Revenue (3) (4b)	7/1/01-20	5.11	4.94	8.2	85,000	50,930	(273)
07/01/01	Wastewater System Refunding (12)	7/1/02-24	5.06	5.02	16.4	168,260	164,990	(2,506)
08/01/01	Water System Refunding (3) (6)	7/1/02-24	4.88	4.68	14.1	99,980	98,390	(4,806)
04/01/02	Water System Revenue (3) (6)	7/1/07-26	5.10	5.08	16.3	220,000	220,000	(2,329)
05/01/02	Airport Sr. Lien Refunding (3) (10)	7/1/08-13	4.91	4.82	9.5	23,225	23,225	(1,316)
05/01/02	Airport Sr. Lien Revenue (3) (10)	7/1/14-32	5.40	5.53	22.7	231,390	231,390	2,376
05/01/02	Airport Jr. Lien Revenue (3) (11)	7/1/05-29	5.45	5.54	17.8	159,565	159,565	(945)
04/25/03	New City Hall Refunding (4a)	7/1/04-29	4.53	4.43	15.6	47,600	47,600	-
04/30/03	Solid Waste Improvements (3)(14)	7/1/04-23	4.38	4.17	12.3	80,000	80,000	(5,710)
04/30/03	Municipal Facilities (3)(4b)	7/1/05-25	4.13	4.03	11.8	25,000	25,000	-
04/30/03	Municipal Facilities (Taxable) (3)(4b)	7/1/09-33	5.64	(1)	20.8	25,000	25,000	-
04/30/03	Municipal Facilities (Taxable) (3)(4b)	7/1/09-33	5.65	5.66	20.8	10,000	10,000	-
Total Municipal Corporation Obligations						2,862,415	2,099,785	(9,093)
Special Assessment Bonds								
Various	Unredeemed Matured Bonds	-	-	-	-	44	44	-
1990	Various Improvements	1/1/00-06	6.90-7.00	(1)	10.0	5,300	1,545	-
1992	Various Improvements	1/1/02-07	6.50-6.90	(1)	10.0	4,724	1,420	-
1993	Various Improvements	1/1/02-09	5.38-6.90	(1)	10.0	2,788	1,255	-
1994	Various Improvements	1/1/95-04	6.90	(1)	10.0	167	4	-
1995	Various Improvements	1/1/95-05	6.35-6.90	(1)	10.0	3,336	765	-
1996	Various Improvements	1/1/97-06	6.90	(1)	10.0	327	99	-
1997	Various Improvements	1/1/98-07	6.90	(1)	10.0	327	97	-
1999	Various Improvements	1/1/00-09	6.90	(1)	10.0	278	165	-
2000	Various Improvements	1/1/01-10	6.90	(1)	10.0	274	191	-
2001	Various Improvements	1/1/02-11	6.90	(1)	10.0	174	139	-
2002	Various Improvements	1/1/03-12	6.90	(1)	10.0	268	242	-
2003	Various Improvements	1/1/04-13	6.90	(1)	10.0	136	136	-
Total Special Assessment Bonds						18,143	6,102	-
						\$ 5,179,555	\$ 3,375,423	\$ (12,172)

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

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

Revenue Bonds

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

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

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

Certificates of Participation

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

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

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

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

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

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

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

Special Assessment Bonds

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

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

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	Water Revenue	Totals		
2004	\$ 115,849	\$ 28,469	\$ 547	\$ 6,489	\$ 550	\$ 151,904	\$ 161,540	\$ 313,444
2005	104,557	26,406	547	6,489	550	138,549	170,374	308,923
2006	101,866	31,246	542	6,492	550	140,696	168,834	309,530
2007	101,131	31,241	554	6,492	550	139,968	171,590	311,558
2008	109,749	31,245	543	6,488	550	148,575	173,313	321,888
	0	0	0	0	0	-	-	0
2009-13	440,886	137,732	319	28,001	2,750	609,688	864,798	1,474,486
2014-18	284,294	-	-	-	5,650	289,944	819,735	1,109,679
2019-23	135,745	-	-	-	8,012	143,757	680,212	823,969
2024-28	39,412	-	-	-	-	39,412	321,195	360,607
2029-32	-	-	-	-	-	-	111,090	111,090
	1,433,489	288,339	3,052	60,451	19,162	1,802,493	3,642,681	5,445,174
Less: Interest	(449,214)	(79,023)	(512)	(15,501)	(9,162)	(553,412)	(1,516,339)	(2,069,751)
	\$ 984,275	\$ 207,316	\$ 2,540	\$ 44,950	\$ 10,000	\$ 1,249,081	\$ 2,126,342	\$ 3,375,423
Authorized	\$ 2,728,210	\$ 457,456	\$ 4,960	\$ 95,490	\$ 54,570	\$ 3,340,686		
Unissued	\$ 664,107	\$ -	\$ -	\$ -	\$ -	\$ 664,107		
Interest Rates on Outstanding Bonds	3.5 - 7.4%	3.3 - 7.6%	5.2 - 6.3%	4.7 - 8.7%	4.0 - 5.5%			

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

Fiscal Years	Certificates of Participation	Muni. Corp.	Special Assess. Bonds	Total Other Obligations
2004	\$ 1,881	\$ 157,782	\$ 1,877	\$ 161,540
2005	1,881	166,738	1,755	170,374
2006	1,874	165,592	1,368	168,834
2007	1,883	168,984	723	171,590
2008	1,889	170,705	719	173,313
	0	0	0	-
2009-13	9,418	854,788	592	864,798
2014-18	8,608	811,127	-	819,735
2019-23	4,513	675,699	-	680,212
2024-28	-	321,195	-	321,195
2029-32	-	111,090	-	111,090
	31,947	3,603,700	7,034	3,642,681
Less: Interest	(11,492)	(1,503,915)	(932)	(1,516,339)
	\$ 20,455	\$ 2,099,785	\$ 6,102	\$ 2,126,342

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, 2003. Interest on the capital lease in the amount of \$2,262,000 has been fully expensed and is included in the amount reported as a component of the capital leases obligation. The following is a schedule of future minimum lease payments, as of June 30, 2003 (in thousands):

<u>Years Ending June 30</u>	<u>Aviation Enterprise Fund</u>
2004	\$ 458
2005	458
2006	458
2007	458
2008	420
Total Minimum Lease Payments	2,252
Less: Current Portion	(458)
Future Minimum Lease Payments	<u>\$ 1,794</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, 2003 and are subject to change due to inflation, technology changes and applicable legal or regulatory requirements.

Total closure and postclosure care costs for the Skunk Creek Landfill (which is still operating) are currently estimated to be \$43,746,000, including \$12,115,000 that has already been paid out and an estimated \$31,631,000 that will be paid out in future years. Of the unpaid amount, \$27,519,000 has been recorded as a liability in the accompanying financial statements based on the use of approximately 87% of the estimated capacity of the landfill. The accrual for these costs for fiscal 2002-03 was increased by \$1,864,000. The Skunk Creek Landfill is expected to be closed in the year 2005.

Total closure and postclosure care costs for the four closed landfills are currently estimated to be \$53,040,000, including \$48,192,000 that has already been paid out and an estimated \$4,848,000 that will be paid out in future years as postclosure care efforts continue. The entire unpaid amount has been reported as a liability in the accompanying financial statements. The accrual for these costs was decreased by \$2,002,000 during fiscal 2002-03 in connection with these landfills.

Of the liabilities discussed above, \$4,529,000 is included in liabilities payable from restricted assets.

Certain environmental remediation costs associated with one of the closed landfills are recoverable from third parties. The City has recovered a total of \$29,015,000 from third parties. These recoveries are used to reduce remediation expense in the year the recovery is assured. A total of \$10,822,000 (which includes recoveries and applicable interest earnings) has been included in restricted assets on the Enterprise Fund balance sheet. Any postclosure care costs not recovered from third parties will be funded from revenues of the Solid Waste Enterprise Fund.

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 2002-03, the City issued General Obligation Refunding Bonds, Series 2003, Street and Highway User Revenue Refunding Bonds, Series 2003 and Senior Lien Excise Tax Revenue Refunding Bonds, Series 2003 to reduce the present value of future debt service payments. These savings were available due to improved municipal bond market conditions (i.e., lower interest rates) during the year. The effects of the refundings and refinancings are summarized as follows (dollars in thousands):

	City of Phoenix		Civic Improvement Corporation
	General Obligation Bonds	Street and Highway User Revenue	Senior Lien Airport Revenue
Series	2003	2003	2003
Closing Date	06/11/03	06/25/03	05/22/03
Net Interest Rate	3.36%	2.76%	4.53%
Refunding Bonds Issued	\$ 83,320	\$ 47,360	\$ 47,600
Premium (Discount)	4,838	5,134	1,421
Issuance Costs and Insurance	(310)	(302)	(291)
Net Proceeds	<u>\$ 87,848</u>	<u>\$ 52,192</u>	<u>\$ 48,730</u>
Refunded Amount	\$ 83,305	\$ 49,950	\$ 46,645
Decrease in Debt Service	\$ 9,591	\$ 5,259	\$ 1,250
Economic Gain	\$ 9,090	\$ 5,108	\$ 1,687
Number of Years Affected	14	8	27

Notes to the Financial Statements

(Continued)

The General Obligation Refunding Bonds, Series 2003, refunded bonds issued for property tax supported projects as well as various enterprise supported projects. The effect of the refunding on these various funds is as follows (in thousands):

Fund	Issue	Decrease in Debt Service	Economic Gain	Number of Years Affected
Secondary Property Tax	G.O. Refunding, Series 2003	\$ 9,575	\$ 9,071	14
Aviation	G.O. Refunding, Series 2003	9	10	14
Solid Waste	G.O. Refunding, Series 2003	1	(4)	6
Wastewater System	G.O. Refunding, Series 2003	(2)	3	11
Water System	G.O. Refunding, Series 2003	8	10	9
		<u>\$ 9,591</u>	<u>\$ 9,090</u>	

The refundings discussed above resulted in the recognition of accounting gains and (losses) (the difference between the dollar amount required for the refunding and the net carrying amount of the refunded debt) of \$420,000 in the Secondary Property Tax Fund, (\$640,000) in the Aviation Enterprise Fund, \$1,405,000 in the Solid Waste Enterprise Fund, (\$750,000) in the Wastewater Enterprise Fund and (\$450,000) in the Water System Enterprise Fund. These accounting gains and losses are deferred and amortized (using the straight-line method) as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amounts are reported in the accompanying financial statements as a deduction from or addition to the new debt liability.

The deferred and amortized amounts of accounting losses on bond refundings (which are netted against outstanding bond obligations) at June 30, 2003, are summarized as follows (in thousands):

	Deferred Amount July 1	Additions	Reductions due to Refundings	Amortization	Deferred Amount June 30
General Government					
General Obligation	\$ 7,549	\$ 2,403	\$ -	\$ (531)	\$ 9,421
Revenue	7,355	2,242	-	(818)	8,779
Civic Improvement Corporation	-	2,085	-	(80)	2,005
	<u>\$ 14,904</u>	<u>\$ 6,730</u>	<u>\$ -</u>	<u>\$ (1,429)</u>	<u>\$ 20,205</u>
Enterprise Funds					
Aviation					
General Obligation	\$ 1,038	\$ 1,232	\$ (69)	\$ (195)	\$ 2,006
Civic Improvement Corporation	4,177	-	-	(540)	3,637
Water					
General Obligation	3,362	854	-	(367)	3,849
Civic Improvement Corporation	8,156	-	-	(421)	7,735
Wastewater					
General Obligation	1,502	1,940	(468)	(82)	2,892
Civic Improvement Corporation	26,291	-	-	(1,248)	25,043
Solid Waste					
General Obligation	1,704	(1,355)	-	(167)	182
	<u>\$ 46,230</u>	<u>\$ 2,671</u>	<u>\$ (537)</u>	<u>\$ (3,020)</u>	<u>\$ 45,344</u>

Notes to the Financial Statements

(Continued)

Advanced refunding arrangements at June 30, 2003 were as follows (in thousands):

Date Refunded	Refunded Bonds		Balance Outstanding	Assets Held in Trust (1)
	Issue Dates	Type		
05/07/86	03/01/81 - 12/01/85	General Obligation Aviation	\$ 24,500	\$ 28,884
03/04/92	05/15/86 - 07/01/90	Junior Lien Street and Highway User Revenue	\$ 14,820	\$ 14,376
12/16/92	03/15/87 - 02/01/92	Junior Lien Street and Highway User Revenue	\$ 7,750	\$ 10,536
04/27/93	12/01/78 - 12/06/91	General Obligation General Government Water System Sanitary Sewer	\$ 10,953 1,625 495 \$ 13,073	\$ 21,620
02/28/96	01/01/90 - 01/01/95	General Obligation General Government Solid Waste	\$ 1,690 250 \$ 1,940	\$ 2,714
02/12/97	11/01/94	Civic Improvement Corporation Municipal Facilities	\$ 8,635	\$ 8,943
06/10/98	06/15/96	Civic Improvement Corporation Water System Revenue	\$ 102,385	\$ 104,599
02/17/99	01/01/89 - 01/30/96	General Obligation General Government Solid Waste Water System	\$ 37,110 15,695 29,775 \$ 82,580	\$ 85,861
07/10/01	07/01/97 - 06/01/00	Civic Improvement Corporation Wastewater System Revenue	\$ 157,665	\$ 166,111
08/30/01	01/01/94 - 06/15/96	Civic Improvement Corporation Water System Revenue	\$ 99,915	\$ 109,304
06/05/02	02/01/92 - 12/15/92	Junior Lien Street and Highway User Revenue	\$ 2,500	\$ 3,012
06/12/02	04/01/91 - 07/15/00	General Obligation General Government Sanitary Sewer Solid Waste	\$ 65,690 2,310 7,310 \$ 75,310	\$ 85,519
06/11/03	11/01/95	General Obligation General Government	\$ 7,815	\$ 8,779

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

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, 2003 was as follows (in thousands):

Six Percent Bonds	\$ 559,746
Twenty Percent Bonds	1,245,143
	<u>\$ 1,804,889</u>

12. Risk Management

The City maintained a \$7,500,000 self-insured retention during the fiscal year ended June 30, 2003, for most public liability exposures. Losses exceeding that amount are covered by commercial insurance. Effective July 1, 2003, the self-insured retention amount was decreased to \$5,000,000 for transit operations but remained at \$7,500,000 for other city operations. Airport and aircraft liability exposures, as well as other specialty liability exposures, are fully insured through the purchase of commercial insurance. For the fiscal year ended June 30, 2003, workers' compensation claims for Phoenix Transit employees were self-insured up to a \$350,000 self-insured retention, and commercial insurance is purchased for losses exceeding that amount. The self-insured retention remains the same for the year beginning July 1, 2003.

Unemployment and long-term disability benefits are fully self-insured. Beginning April 1, 2003, the City's workers' compensation program became self-insured. Excess workers' compensation insurance is purchased above a \$10,000,000 self-insured retention. Employee medical and dental benefits are insured by a commercial health insurance provider through a loss sensitive, minimum premium funding arrangement. Claims are reported as liabilities in the accompanying financial statements when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. This determination is based on reported pending claims, estimates of claims incurred but not reported, and actuarial analyses of the total value of outstanding claims and claim related expenses. For the year ended June 30, 2003, there were no reductions in insurance coverage from the prior year. Settled claims have not exceeded insurance coverage for the past three fiscal years.

The City reports its self-insurance activities in the General Fund, the Transit Special Revenue Fund (for transit related claims only) and the Government-Wide Statement of Net Assets, with the other funds reimbursing the General Fund for their share of the cost of the City's self-insurance program. At June 30, 2003, claims payable totaled \$194.1 million. Changes in this liability for the last two fiscal years follow (in thousands):

	<u>Year Ended June 30</u>	
	<u>2003</u>	<u>2002</u>
Claims Payable, July 1	\$ 160,713	\$ 145,872
Current Year Claims and Changes in Estimates	163,933	127,367
Claim Payments	<u>(130,546)</u>	<u>(112,526)</u>
Claims Payable, June 30	<u>\$ 194,100</u>	<u>\$ 160,713</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 and the Transit Special Revenue Fund. All other claims are accounted for in the Government-Wide Statement of Net Assets. These balances were as follows (in thousands):

	June 30	
	2003	2002
Amounts due within one year	\$ 78,495	\$ 68,220
Amounts due in more than one year	115,605	92,493
	<u>\$ 194,100</u>	<u>\$ 160,713</u>

In addition, cash and investments of \$184,657,058 and \$3,019,502 are held in the General Fund and Transit Special Revenue Fund, respectively, at June 30, 2003 for purposes of funding the claims liability reported in the Government Wide Statement of Net Assets. As a result, \$184,657,058 of the General Fund balance and \$3,019,502 of the Transit Special Revenue Fund balance are designated for payment of claims.

13. Operating Leases

The City's public housing program leases housing facilities that are, in turn, subleased to low income and elderly tenants. These lease obligations are subsidized by the federal government. Total rental expense for these leases was \$34,292,244 and \$27,903,887 for the fiscal years ended June 30, 2003 and 2002, respectively. In addition, \$3,192,539 was paid during fiscal year 2002-03 on contracts, which the Housing Department administers for HUD.

The City also leases certain airport facilities to third parties. Minimum future rentals on non-cancelable operating leases at June 30, 2003 were as follows (in thousands):

Years Ending June 30	
2004	\$ 20,858
2005	10,716
2006	7,785
2007	7,249
2008	7,219
Thereafter	153,827
	<u>\$ 207,654</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 \$17,431,903 and \$23,640,000 for the fiscal years ended June 30, 2003 and 2002, respectively. A summary of the assets leased to third parties under the airport operating lease agreements at June 30, 2003 is as follows (in thousands):

Buildings	\$ 495,883
Less: Accumulated Depreciation	(236,781)
	<u>\$ 259,102</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, 2004 are as follows (in thousands):

Contractor	Type of Service	Expiration Date	Estimated Annual Subsidy
Laidlaw Transit Services	Bus Service	June 30, 2006	\$ 11,830
MV Transportation Services	Dial-a-Ride	June 30, 2006	9,240
Arnett Transportation Svcs.	Downtown Area Shuttle	June 30, 2005	657
ATC/VANCOM Management Services, Inc.	Bus Service	June 30, 2007	67,839
Regional Public Transportation Authority	Bus Service	June 30, 2004	4,933
MV Transportation Services	ALEX	June 30, 2006	941
			<u>\$ 95,440</u>

Approximately 10% of the total net transit costs will be reimbursed to the City by adjacent communities and the RPTA. In addition, the City will apply for funding to support daily operations from the Department of Transportation, Federal Transit Administration. This grant will be used to fund approximately 7.3% of the total transit costs for fiscal 2003-04. The City has been the designated recipient for these grants since 1975.

Plan Six Funding Agreements

The Plan Six Funding Agreement provides for a cost sharing arrangement to ensure timely completion of the Plan Six facilities of the Central Arizona Project. These facilities include the new Waddell Dam on the Agua Fria River and modifications of the Roosevelt and Stewart Mountain dams on the Salt River. The parties to this agreement include the United States government, the State of Arizona, the Central Arizona Water Conservation District, Maricopa County Flood Control District, the Salt River Project, and the cities of Phoenix, Chandler, Glendale, Mesa, Scottsdale, Tempe and Tucson. The federal government has determined that the Plan Six Agreement does not constitute a joint venture.

Deposited funds from prior fiscal years are held in the State Treasurer's trust for Plan Six and, as disbursements are made from this fund, the City records an asset (water rights). Upon completion, the City will amortize this asset over a 40-year life. No further contributions are required.

Notes to the Financial Statements

(Continued)

Other Contracts

The City's enterprise funds have entered into construction contracts having remaining commitments at June 30, 2003 as follows (in thousands):

Aviation	\$ 80,135
Phoenix Civic Plaza	1,692
Water System	112,830
Wastewater	177,317
Solid Waste	11,616
	<u>\$ 383,590</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, 2003.

Housing Authority Bonds and Public Housing Notes Payable

Excluded from the City's long-term obligations in the accompanying financial statements are Housing Authority Bonds and Public Housing Notes Payable. These obligations were incurred in connection with the City's public housing activities, but are entirely supported by the federal government. The City would be obligated to pay the debt service on these bonds only in the event of default by the federal government. The outstanding balances on these bonds and notes at June 30, 2003 were \$115,000 and \$971,085, respectively.

Sick Leave

Sick leave is continuously accumulated at the rate of 15 days per year but can only be taken in the event of illness. With the exception of police, firefighters, and supervisory, professional, middle management and executive employees, sick leave is not convertible to a cash benefit. However, upon retirement, for every 173 hours of unused sick leave, one month of creditable service is allowed in determining a General Employee Retirement Plan pension. A balance of over 80 hours after making the above calculation will allow an extra month of creditable service. The dollar amount of any cash payment as described below is included in the final average compensation, but the hours used are excluded from credited service.

Police who have accumulated 900 qualifying hours or more of unused sick leave at the time of normal service retirement are eligible to receive a payment equal to 35% or more (depending on the number of qualifying hours) of their base hourly rate for hours in excess of 450 hours.

Firefighters who have accumulated 900 qualifying hours or more of unused sick leave at the time of normal service retirement (1,260 qualifying hours or more for employees not on a 40 hour per week work schedule) are eligible to receive a payment equal to 35% or more (depending on the number of qualifying hours) of their base hourly rate for hours in excess of 450 hours (630 hours for employees not on a 40 hour per week work schedule).

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, 2003, actuarial valuation of the sick leave liability was based on the termination method, with the liability pro-rated based on the current service of a participant. The projected sick leave benefit payment under the termination method is calculated as the maximum sick leave hours eligible for payment multiplied by the probability of an individual employee reaching retirement multiplied by the employee's projected salary at first eligibility for retirement pro-rated based on the employee's current service to date over the projected service to retirement increased by the cost of salary-related fringe benefits.

The sick leave benefit balances (both accrued and unaccrued) at June 30 were as follows (in thousands):

	June 30	
	2003	2002
General	\$ 129,733	\$ 122,142
Police	42,140	88,880
Fire	95,835	39,686
	267,708	250,708
Less: Amounts Accrued as a Liability	(91,026)	(84,369)
	<u>\$ 176,682</u>	<u>\$ 166,339</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, 2003 have not been completed in all cases; accordingly, final determination of the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although City management believes any such claims would be immaterial to the City's financial position at June 30, 2003.

16. Joint Use Agreements

Valley Metro Rail, Inc. (VMRI)

The City currently participates with the cities of Tempe, Mesa, and Glendale in a joint powers agreement for the design, construction and operation of a light rail transit system. The Valley Metro Rail, Inc. (VMRI) is the management agency that was incorporated to administer the joint powers agreement between the cities. The VMRI has oversight responsibility for the planning, designing, construction and operation of a regional mass transit light rail system. The agreement provides voting rights for members of the representative cities related to strategic initiatives including passage of an annual budget.

The City has an ongoing financial responsibility as a result of the joint venture to participate in the cost to construct and operate the light rail project less any Federal reimbursements and operating fares. The equity interests will be determined based on the number of rail mileage located within each City. The joint venture does not report any allocated equity interest for any participating city at this time. Therefore, the City does not have an equity interest at June 30, 2003.

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

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, 2003 and 2002 is provided below (in thousands).

	June 30	
	2003	2002
Assets		
Equity in Pooled Cash and Investments	\$ 40,978	\$ 32,968
Receivables	21,607	10,922
Inventories, at average cost	680	705
Capital Assets, Net of Accumulated Depreciation	455,450	398,881
Total Assets	518,715	443,476
Liabilities	(50,872)	(32,320)
Net Assets	\$ 467,843	\$ 411,156
Total Revenues	\$ 102,136	\$ 82,614
Total Expenses	(45,449)	(43,727)
Increase in Net Assets	\$ 56,687	\$ 38,887

Separate financial statements for the activity under the joint use agreement can be obtained through the AMWUA office at 4041 N. Central Avenue, Phoenix, Arizona 85012.

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, 2003 and 2002 is provided below (in thousands).

	<u>June 30</u>	
	<u>2003</u>	<u>2002</u>
Assets		
Equity in Pooled Cash and Investments	\$ 2,149	\$ 1,178
Receivables	2,554	4,296
Capital Assets, Net of Accumulated Depreciation	<u>155,457</u>	<u>155,682</u>
Total Assets	160,160	161,156
Liabilities	<u>(2,152)</u>	<u>(3,009)</u>
Net Assets	<u>\$ 158,008</u>	<u>\$ 158,147</u>
Total Revenues	\$ 18,328	\$ 22,372
Total Expenses	<u>(18,467)</u>	<u>(17,905)</u>
Increase (decrease) in Net Assets	<u>\$ (139)</u>	<u>\$ 4,467</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, 2003. The employee contribution rate is 5% of compensation.

In addition to funding the plan for benefits, the City pays the administrative costs of the plan as a City expense. Investment expenses are paid by the plan from investment earnings.

Contribution rates for APSPRS are specified by State statute, with a 7.65% employee share and an employer's share equal to a level percent of compensation to fund normal cost and unfunded accrued liability over an open period of 20 years from July 1, 2003. Optionally, the employer may increase its contributions in order to lower the employees' share.

Contribution rates for EORPA are specified by State statute, with a 7% employee share and an employer's share equal to a level percent of compensation to fund normal cost and unfunded accrued liability over an open period of 20 years from July 1, 2003.

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

	COPERS	APSPRS		EORPA
		Police	Fire	
Contribution Rates:				
City	6.86%	2.58%	3.39%	6.97%
Plan Members	5.00%	7.65%	7.65%	7.00%
Annual Pension Costs (thousands) (1)	\$ 27,820	\$ 4,351	\$ 447	\$ 27
Contributions Made (thousands)	\$ 27,820	\$ 4,351	\$ 447	\$ 27
Actuarial Valuation Date	6/30/03	6/30/02	6/30/02	6/30/02
Actuarial Cost Method	Entry Age, Normal Cost	Entry Age, Normal Cost	Entry Age, Normal Cost	Entry Age, Normal Cost
Amortization Method	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open
Remaining Amortization Period	20 years	20 years	20 years	20 years
Asset Valuation Method	4-year smoothed market	4-year smoothed market	4-year smoothed market	4-year smoothed market
Actuarial Assumptions:				
Investment Rate of Return	8.0%	9.0%	9.0%	9.0%
Projected Salary Increases *	5.0 - 9.0%	6.5 - 9.5%	6.5 - 9.5%	7.0%
* Includes Inflation at	4.5%	5.5%	5.5%	5.5%
Cost-of-Living Adjustments	-	-	-	-

(1) A fire premium tax levied by the State is credited toward the City's contribution.

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	6/30/03	\$ 27,819,507	100 %	N/A
	6/30/02	28,294,889	100	N/A
	6/30/01	22,329,387	100	N/A
Public Safety Employees - Police	6/30/03	\$ 4,351,071	100 %	N/A
	6/30/02	3,264,728	100	N/A
	6/30/01	5,032,488	100	N/A
Public Safety Employees - Fire	6/30/03	\$ 2,885,365	100 %	N/A
	6/30/02	-	100	N/A
	6/30/01	2,276,410	100	N/A
Elected Officials	6/30/03	\$ 26,575	100 %	N/A
	6/30/02	24,015	100	N/A
	6/30/01	35,155	100	N/A

Schedule of Funding Progress (in thousands)							
	Actuarial Valuation Date	Funding Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Percent Funded (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a)/(c)
General City Employees	6/30/02	\$ 1,330,584	\$ 1,504,125	\$ 173,541	88.5 %	\$ 416,472	41.7 %
	6/30/01	1,273,731	1,390,273	116,542	91.6	404,414	28.8
	6/30/00	1,291,338	1,259,564	(31,774)	102.5	376,913	N/A
Public Safety Employees - Police	6/30/02	\$ (1)	\$ (1)	\$ (1)	(1) %	\$ (1)	(1) %
	6/30/01	1,075,571	938,886	(136,685)	114.6	161,091	N/A
	6/30/00	1,082,395	842,990	(239,405)	128.4	161,300	N/A
Public Safety Employees - Fire	6/30/02	\$ (1)	\$ (1)	\$ (1)	(1) %	\$ (1)	(1) %
	6/30/01	616,332	537,155	(79,177)	114.7	86,243	N/A
	6/30/00	614,674	489,794	(124,880)	125.5	89,345	N/A

(1) Information not available

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.

In prior years, the Internal Revenue Code specified that the plan assets were the property of the City until paid or made available to participants, subject only on an equal basis to the claims of the City's general creditors. Therefore, the plan assets were recorded in an Agency Fund. A 1996 federal law now requires all assets and income of Internal Revenue code Section 457 deferred compensation plans to be held in trust, custodial accounts, or annuity contracts for the exclusive benefit of the participants and their beneficiaries. On September 23, 1998, the City Council approved Ordinance No. S-25613 which amended the City's Plan to comply with the 1996 federal law. The Ordinance establishes a trust into which all assets of the Plan were transferred December 4, 1998. The Plan is administered by the International City Management Association Retirement Corporation ("ICMA-RC"). Consequently, the Plan's assets and liabilities have been removed from the City's financial statements.

19. Postemployment Health and Life Insurance Benefits

In accordance with the compensation plan adopted by the City Council each fiscal year, the City offers continuation of group medical and conversion of group life insurance to retirees or to those on long-term disability benefits. At June 30, 2003, approximately 4,525 former employees were eligible for these benefits. If converted, the life insurance premium must be paid in full by the retiree, but the City continues to contribute toward the medical insurance premium. Continuation of the City's contribution towards medical coverage is dependent on the annual budget authorization by the City Council.

Medical insurance benefits are the same as those offered to active employees and include hospital, doctor and prescription drug charges. Retirees may choose single or family coverage. The City contribution to the medical insurance varies with length of service, from \$117 per month for retirees with less than five years of active credited service to \$202 per month for retirees with 25 or more years of active credited service.

General retirees who were supervisory level or above and who retired before July 1, 1996, with 500 hours or more of unused sick leave were eligible for an additional City contribution of \$20 per month. Police and Fire retirees who were supervisors or above, and who retired between August 1979 and July 1984 with 1,000 hours or more of sick leave, were eligible for an additional City contribution of \$30 per month. Beginning August 1, 1998, all general retirees in the Supervisory, Professional, Middle Manager, Executive and City Manager categories may have an additional \$100 monthly benefit added to their medical insurance contribution if they meet the following conditions: a) they enroll in the City's medical insurance; b) they enroll for family coverage; c) no one in the family is eligible for Medicare; and d) the retiree is under the age of 65.

The total medical insurance premium is collected from retirees monthly. The City provides a pay-as-you-go contribution. The cost to the City for retiree medical insurance for the fiscal years ended June 30, 2003 and 2002 was \$9,280,498 and \$7,939,718, respectively. All eligible retirees receive the City's medical insurance contribution in cash. This medical insurance contribution is tax free when used for eligible health-related expenses during the calendar year in which it is received. If all the tax-free medical insurance contribution is not used for health-related expenses, the money must be returned to the City.

The City offers a flexible medical insurance plan which provides the services of a staff model type of health maintenance organization ("HMO"), an independent practice association type of health maintenance organization ("IPA"), a preferred provider network ("PPO") and an indemnity plan. Coverage is provided for retirees, covered surviving dependents and other eligible dependents. If a retiree with family coverage dies, coverage for dependents may be continued. The length of coverage is dependent upon the survivor's pension. The City's contribution for surviving dependents is the same as for a retiree except that it does not include the sick leave conversion benefit.

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, 2003 and 2002 was approximately \$379,000 and \$285,000, respectively. The City funds this cost on a pay-as-you-go basis.

20. Subsequent Events

Bond Issuances

On September 16, 2003, the City of Phoenix Civic Improvement Corporation issued \$11.3 million in Junior Lien Water System Revenue Refunding Bonds, Series 2003. The bonds were issued at a true interest cost of 4.53% and were delivered on October 21, 2003.

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City of Phoenix, Arizona
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2003
with comparative totals for June 30, 2002
(in thousands)

	Special Revenue Funds				
	Cable Communi- cations	Highway User Revenue	Local Trans- portation Assistance	Transit	Municipal Court
ASSETS					
Equity in Pooled Cash and Investments	\$ -	\$ 71,927	\$ 316	\$ 144,254	\$ 6,918
Cash Deposits	60	183	-	-	-
Cash and Securities with Fiscal Agents/Trustees	-	-	-	-	-
Investments	-	-	-	-	-
Due from Other Funds	-	-	-	-	-
Receivables, Net of Allowance					
Accounts Receivable	1,900	16	-	1,410	-
Taxes Receivable	-	-	-	-	-
Delinquent Taxes Receivable	-	-	-	-	-
Intergovernmental	-	9,232	-	6,624	-
Accrued Interest	-	-	-	-	-
Notes Receivable	-	-	-	-	-
Prepaid Items	-	-	-	-	-
Inventories	-	1,314	-	1,999	-
Total Assets	\$ 1,960	\$ 82,672	\$ 316	\$ 154,287	\$ 6,918
LIABILITIES AND FUND BALANCES					
Liabilities					
Due to Other Funds	\$ 1,848	\$ -	\$ -	\$ -	\$ -
Warrants and Accounts Payable	31	7,418	-	10,525	62
Trust Liabilities and Deposits	60	3,971	-	-	1,220
Matured Bonds Payable	-	-	-	-	-
Interest Payable	-	-	-	-	-
Deferred Revenue	-	-	-	-	-
Total Liabilities	1,939	11,389	-	10,525	1,282
Fund Balances					
Reserved					
Encumbrances	35	25,875	-	51,053	432
Debt Service	-	-	-	7,745	-
Inventories	-	1,314	-	1,999	-
Unreserved					
Designated for Insurance Claims	-	-	-	3,019	-
Designated for Unrealized Gain on Investments	-	988	16	2,384	97
Undesignated	(14)	43,106	300	77,562	5,107
Total Fund Balances	21	71,283	316	143,762	5,636
Total Liabilities and Fund Balances	\$ 1,960	\$ 82,672	\$ 316	\$ 154,287	\$ 6,918

(Continued)

Special Revenue Funds

Library	Parks and Recreation	Develop- ment Services	Grants	Public Housing	Sports Facilities	Capital Construction	Other Restricted	Total
\$ 872	\$ 27,056	\$ 81,412	\$ -	\$ -	\$ 9,639	\$ 34,645	\$ 5,417	\$ 382,456
-	-	-	-	-	-	-	-	243
-	-	1,017	3,726	2,810	1,863	-	-	9,416
-	-	-	-	38,392	-	-	-	38,392
-	-	-	-	-	-	-	-	-
-	22	1,348	3,112	453	-	9	-	8,270
-	80	-	-	-	-	-	-	80
-	-	-	-	-	-	-	-	-
-	14	34	25,395	4,931	-	-	-	46,230
-	-	-	-	170	-	-	-	170
-	-	-	-	12,234	-	-	-	12,234
-	-	-	-	2,780	-	-	-	2,780
-	318	-	-	62	-	-	-	3,693
\$ 872	\$ 27,490	\$ 83,811	\$ 32,233	\$ 61,832	\$ 11,502	\$ 34,654	\$ 5,417	\$ 503,964
\$ -	\$ 1,190	\$ -	\$ 706	\$ 4,944	\$ -	\$ -	\$ -	\$ 8,688
245	5,084	716	6,199	3,241	1,080	1,357	297	36,255
(15)	3	3,404	3,011	16,291	-	-	20	27,965
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	8	3,900	22,317	58	-	-	-	26,283
230	6,285	8,020	32,233	24,534	1,080	1,357	317	99,191
451	2,103	861	4,285	396	1,355	12,736	35	99,617
-	1,936	-	-	-	913	1,590	-	12,184
-	318	-	-	62	-	-	-	3,693
-	-	-	-	-	-	-	-	3,019
52	568	1,394	-	11	174	586	62	6,332
139	16,280	73,536	(4,285)	36,829	7,980	18,385	5,003	279,928
642	21,205	75,791	-	37,298	10,422	33,297	5,100	404,773
\$ 872	\$ 27,490	\$ 83,811	\$ 32,233	\$ 61,832	\$ 11,502	\$ 34,654	\$ 5,417	\$ 503,964

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

(Continued)

June 30, 2003

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

Capital Projects Funds					
	Street Improve- ments	Police and Fire Protection	Storm Sewers	Parks, Recreation and Libraries	Public Housing
ASSETS					
Equity in Pooled Cash and Investments	\$ -	\$ -	\$ -	\$ -	\$ -
Cash Deposits	-	-	-	-	-
Cash and Securities with Fiscal Agents/Trustees	-	-	-	-	-
Investments	892	791	584	5,529	4,091
Due from Other Funds	-	-	9,438	-	-
Receivables, Net of Allowance					
Accounts Receivable	1,399	-	4	1	-
Taxes Receivable	-	-	-	-	-
Delinquent Taxes Receivable	-	-	-	-	-
Intergovernmental	-	-	-	-	342
Accrued Interest	-	-	-	-	-
Notes Receivable	-	-	-	-	-
Prepaid Items	-	-	-	-	-
Inventories	-	-	-	-	-
Total Assets	\$ 2,291	\$ 791	\$ 10,026	\$ 5,530	\$ 4,433
LIABILITIES AND FUND BALANCES					
Liabilities					
Due to Other Funds	\$ 1,275	\$ 22,517	\$ -	\$ 6,475	\$ 17,307
Warrants and Accounts Payable	4,090	1,428	860	398	2,913
Trust Liabilities and Deposits	-	-	-	723	2
Matured Bonds Payable	-	-	-	-	-
Interest Payable	-	-	-	-	-
Deferred Revenue	-	-	-	-	-
Total Liabilities	5,365	23,945	860	7,596	20,222
Fund Balances					
Reserved					
Encumbrances	9,276	16,926	5,562	7,412	3,779
Debt Service	-	-	-	-	-
Inventories	-	-	-	-	-
Unreserved					
Designated for Insurance Claims	-	-	-	-	-
Designated for Unrealized Gain on Investments	-	-	182	25	-
Undesignated	(12,350)	(40,080)	3,422	(9,503)	(19,568)
Total Fund Balances	(3,074)	(23,154)	9,166	(2,066)	(15,789)
Total Liabilities and Fund Balances	\$ 2,291	\$ 791	\$ 10,026	\$ 5,530	\$ 4,433

(Continued)

Capital Projects Funds				Debt Service Funds			
Municipal Buildings and Service Centers	Transit	Sports and Cultural Facilities	Total	General Obligation/ Secondary Property Tax	Streets and Highways	Public Housing	City Improve- ment
\$ -	\$ -	\$ -	\$ -	3,207	\$ -	\$ -	\$ 803
-	-	-	-	-	-	-	-
-	-	-	-	40,499	12,018	-	14,459
133,780	783	584	147,034	245,439	436	-	2,500
-	266	-	9,704	-	-	-	-
30	43	2	1,479	-	-	-	-
-	-	-	-	1,857	-	-	-
-	-	-	-	2,393	-	-	-
-	1,067	-	1,409	-	-	-	-
269	-	-	269	600	-	-	47
1,000	-	-	1,000	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
\$ 135,079	\$ 2,159	\$ 586	\$ 160,895	\$ 293,995	\$ 12,454	\$ -	\$ 17,809
7,357	-	33,593	88,524	-	-	-	-
2,299	185	1,278	13,451	189	205	-	850
-	-	-	725	-	-	-	-
-	-	-	-	25,515	8,165	-	7,279
-	-	-	-	14,984	3,853	-	7,180
1,000	-	-	1,000	2,393	-	-	-
10,656	185	34,871	103,700	43,081	12,223	-	15,309
7,057	13,778	3,272	67,062	-	-	-	-
-	-	-	-	230,406	185	-	1,975
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
1,709	-	-	1,916	20,508	46	-	525
115,657	(11,804)	(37,557)	(11,783)	-	-	-	-
124,423	1,974	(34,285)	57,195	250,914	231	-	2,500
\$ 135,079	\$ 2,159	\$ 586	\$ 160,895	\$ 293,995	\$ 12,454	\$ -	\$ 17,809

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

(Continued)

June 30, 2003

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

Debt Service Funds				
	Special Assess- ment	Total	Totals	
			2003	2002
ASSETS				
Equity in Pooled Cash and Investments	\$ 1,920	\$ 5,930	\$ 388,386	\$ 327,254
Cash Deposits	-	-	243	325
Cash and Securities with Fiscal Agents/Trustees	199	67,175	76,591	71,275
Investments	-	248,375	433,801	386,327
Due from Other Funds	-	-	9,704	18,786
Receivables, Net of Allowance				
Accounts Receivable	5,402	5,402	15,151	12,508
Taxes Receivable	-	1,857	1,937	1,844
Delinquent Taxes Receivable	-	2,393	2,393	1,945
Intergovernmental	-	-	47,639	37,854
Accrued Interest	25	672	1,111	1,099
Notes Receivable	-	-	13,234	12,468
Prepaid Items	-	-	2,780	2,590
Inventories	-	-	3,693	2,263
Total Assets	\$ 7,546	\$ 331,804	\$ 996,663	\$ 876,538
LIABILITIES AND FUND BALANCES				
Liabilities				
Due to Other Funds	\$ -	\$ -	\$ 97,212	\$ 70,276
Warrants and Accounts Payable	1	1,245	50,951	39,918
Trust Liabilities and Deposits	97	97	28,787	31,726
Matured Bonds Payable	-	40,959	40,959	38,526
Interest Payable	199	26,216	26,216	24,749
Deferred Revenue	5,554	7,947	35,230	22,690
Total Liabilities	5,851	76,464	279,355	227,885
Fund Balances				
Reserved				
Encumbrances	19	19	166,698	119,921
Debt Service	1,676	234,242	246,426	217,397
Inventories	-	-	3,693	2,263
Unreserved				
Designated for Insurance Claims	-	-	3,019	2,635
Designated for Unrealized Gain on Investments	-	21,079	29,327	30,191
Undesignated	-	-	268,145	276,246
Total Fund Balances	1,695	255,340	717,308	648,653
Total Liabilities and Fund Balances	\$ 7,546	\$ 331,804	\$ 996,663	\$ 876,538

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City of Phoenix, Arizona
Combining Statement of Revenues, Expenditures and
Changes in Fund Balance - Non-Major Funds

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

	Special Revenue Funds				
	Cable Communi- cations	Highway User Revenue	Local Trans- portation Assistance	Transit	Municipal Court
REVENUES					
City Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	7,540	-	-	-	-
Intergovernmental	-	105,078	7,342	17,513	-
Charges for Services	-	253	-	19,523	4,305
Parks and Recreation	-	-	-	-	-
Investment Income	-	-	-	-	-
Net Increase (Decrease) in Fair Value of Investments	-	366	-	486	19
Interest	-	2,402	-	4,200	139
Dwelling Rentals	-	-	-	-	-
Other	60	410	-	4,146	-
Total Revenues	7,600	108,509	7,342	45,868	4,463
EXPENDITURES					
Current Operating					
General Government	3,591	-	-	-	139
Criminal Justice	-	-	-	-	3,132
Public Safety	-	-	-	-	-
Transportation	650	32,799	7,157	72,924	-
Public Works	-	-	-	-	-
Community Enrichment	108	-	105	156	-
Community Development	-	-	-	-	-
Capital	18	56,672	-	22,384	26
Debt Service					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Bond Issuance Costs	-	-	-	-	-
Arbitrage Rebate and Fiscal Agent Fees	-	-	-	-	-
Other	-	-	-	-	-
Total Expenditures	4,367	89,471	7,262	95,464	3,297
Excess (Deficiency) of Revenues Over Expenditures	3,233	19,038	80	(49,596)	1,166
OTHER FINANCING SOURCES (USES)					
Transfers from Other Funds	-	-	-	87,092	67
Transfers to Other Funds	(3,257)	(21,405)	-	(2,732)	-
Proceeds					
General Obligation and Revenue Bonds	-	-	-	-	-
Premium/(Discount) on General Obligation and Revenue Bonds	-	-	-	-	-
Certificates of Participation and Municipal Corporation Obligations	-	-	-	-	-
Premium/(Discount) on Certificates of Participation and Municipal Corporation Obligations	-	-	-	-	-
Special Assessment Bonds	-	-	-	-	-
Refunding Bonds	-	-	-	-	-
Deposit to Refunding Escrow	-	-	-	-	-
Total Other Financing Sources and Uses	(3,257)	(21,405)	-	84,360	67
Net Change in Fund Balances	(24)	(2,367)	80	34,764	1,233
FUND BALANCES, JULY 1	45	73,650	236	108,998	4,403
FUND BALANCES, JUNE 30	\$ 21	\$ 71,283	\$ 316	\$ 143,762	\$ 5,636

Special Revenue Funds

Library	Parks and Recreation	Develop- ment Services	Grants	Public Housing	Sports Facilities	Capital Construction	Other Restricted	Total
\$ -	\$ 6,418	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	6,418
-	-	-	-	-	-	-	12	7,552
-	-	-	80,687	57,111	-	-	10	267,741
969	-	64,741	122	-	-	16	33	89,962
-	3,818	-	-	-	-	-	1,956	5,774
(3)	117	266	32	(764)	25	157	12	713
47	1,022	2,191	258	1,745	218	1,035	153	13,410
27	-	-	-	6,468	-	-	12	6,507
11	972	(141)	427	9,490	-	60	4,658	20,093
1,051	12,347	67,057	81,526	74,050	243	1,268	6,846	418,170
-	-	-	1,200	-	-	-	954	5,884
-	-	-	8,457	-	908	-	85	12,582
-	-	1,968	1,414	-	-	-	381	3,763
-	-	-	54	-	-	-	20	113,604
-	-	-	6	-	-	-	-	6
26,576	74,557	-	49,632	84	476	-	2,722	154,416
-	-	35,346	17,057	62,331	590	-	13	115,337
5	30,014	11,572	3,600	1,624	858	17,610	16	144,399
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
26,581	104,571	48,886	81,420	64,039	2,832	17,610	4,191	549,991
(25,530)	(92,224)	18,171	106	10,011	(2,589)	(16,342)	2,655	(131,821)
25,947	87,593	-	-	369	11,947	17,966	509	231,490
-	(509)	-	(106)	(1,092)	(7,645)	-	-	(36,746)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
25,947	87,084	-	(106)	(723)	4,302	17,966	509	194,744
417	(5,140)	18,171	-	9,288	1,713	1,624	3,164	62,923
225	26,345	57,620	-	28,010	8,709	31,673	1,936	341,850
\$ 642	\$ 21,205	\$ 75,791	\$ -	\$ 37,298	\$ 10,422	\$ 33,297	\$ 5,100	\$ 404,773

City of Phoenix, Arizona
Combining Statement of Revenues, Expenditures and
Changes in Fund Balance - Non-Major Funds

(Continued)

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

	Capital Projects Funds				
	Street Improve- ments	Police and Fire Protection	Storm Sewers	Parks, Recreation and Libraries	Public Housing
REVENUES					
City Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	-	-	-	-	-
Intergovernmental	3,131	1,865	-	6,442	3,150
Charges for Services	-	-	-	-	-
Parks and Recreation	-	-	-	-	-
Investment Income	-	-	-	-	-
Net Increase (Decrease) in Fair Value of Investments	4	255	124	175	83
Interest	52	72	353	52	2
Dwelling Rentals	-	-	-	-	-
Other	1,466	577	37	132	23
Total Revenues	4,653	2,769	514	6,801	3,258
EXPENDITURES					
Current Operating					
General Government	-	-	-	-	-
Criminal Justice	-	-	-	-	-
Public Safety	-	-	-	-	-
Transportation	-	-	-	-	-
Public Works	-	-	-	-	-
Community Enrichment	-	-	-	-	-
Community Development	-	-	-	-	-
Capital	12,725	31,376	11,705	22,641	16,852
Debt Service					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Bond Issuance Costs	25	-	-	7	-
Arbitrage Rebate and Fiscal Agent Fees	-	-	-	-	-
Other	-	-	-	-	-
Total Expenditures	12,750	31,376	11,705	22,648	16,852
Excess (Deficiency) of Revenues Over Expenditures	(8,097)	(28,607)	(11,191)	(15,847)	(13,594)
OTHER FINANCING SOURCES (USES)					
Transfers from Other Funds	-	202	-	-	444
Transfers to Other Funds	(367)	(67)	-	(6,208)	(340)
Proceeds					
General Obligation and Revenue Bonds	-	-	-	-	-
Premium/(Discount) on General Obligation and Revenue Bonds	-	-	-	-	-
Certificates of Participation and Municipal Corporation Obligations	3,170	-	-	915	-
Premium/(Discount) on Certificates of Participation and Municipal Corporation Obligations	221	-	-	57	-
Special Assessment Bonds	135	-	-	-	-
Refunding Bonds	-	-	-	-	-
Deposit to Refunding Escrow	-	-	-	-	-
Total Other Financing Sources and Uses	3,159	135	-	(5,236)	104
Net Change in Fund Balances	(4,938)	(28,472)	(11,191)	(21,083)	(13,490)
FUND BALANCES, JULY 1	1,864	5,318	20,357	19,017	(2,299)
FUND BALANCES, JUNE 30	\$ (3,074)	\$ (23,154)	\$ 9,166	\$ (2,066)	\$ (15,789)

(Continued)

Capital Projects Funds				Debt Service Funds			
Municipal Buildings and Service Centers	Transit	Sports and Cultural Facilities	Total	General Obligation/ Secondary Property Tax	Streets and Highways	Public Housing	City Improve- ment
\$ -	\$ -	\$ -	\$ -	\$ 88,425	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	36,508	500	51,596	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
646	21	43	1,351	3,102	4	-	162
1,635	8	10	2,184	4,566	8	-	303
-	-	-	-	-	-	-	-
14,048	322	27	16,632	-	-	-	-
16,329	36,859	580	71,763	96,093	12	-	465
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
15,943	31,167	32,222	174,631	-	-	-	-
-	-	-	-	25,515	8,165	370	8,057
-	-	-	-	33,765	9,903	174	14,273
534	-	-	566	389	436	-	388
-	-	-	-	4	-	-	31
-	-	-	-	-	-	-	-
16,477	31,167	32,222	175,197	59,873	18,504	544	22,749
(148)	5,692	(31,642)	(103,434)	36,420	(18,492)	(544)	(22,284)
27,424	-	728	28,798	5,396	18,605	544	23,549
(495)	-	-	(7,477)	(15,464)	(539)	-	(1,366)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
55,915	-	-	60,000	-	-	-	-
333	-	-	611	-	-	-	-
-	-	-	135	-	-	-	-
-	-	-	-	55,207	52,738	-	49,292
-	-	-	-	(54,773)	(52,192)	-	(48,730)
83,177	-	728	82,067	(9,634)	18,612	544	22,745
83,029	5,692	(30,914)	(21,387)	26,786	120	-	461
41,394	(3,718)	(3,371)	78,562	224,128	111	-	2,039
\$ 124,423	\$ 1,974	\$ (34,285)	\$ 57,195	\$ 250,914	\$ 231	\$ -	\$ 2,500

City of Phoenix, Arizona
Combining Statement of Revenues, Expenditures and
Changes in Fund Balance - Non-Major Funds

(Continued)

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

	Debt Service Funds			
	Special Assess- ment	Total	Totals	
			2003	2002
REVENUES				
City Taxes	\$ -	\$ 88,425	\$ 94,843	\$ 87,490
Licenses and Permits	-	-	7,552	6,250
Intergovernmental	-	-	319,337	334,038
Charges for Services	-	-	89,962	81,919
Parks and Recreation	-	-	5,774	6,241
Special Assessments	1,692	1,692	1,692	1,835
Investment Income				
Net Increase (Decrease) in Fair Value of Investments	76	3,344	5,408	12,661
Interest	3	4,880	20,474	20,565
Dwelling Rentals	-	-	6,507	6,881
Other	10	10	36,735	10,286
Total Revenues	1,781	98,351	588,284	568,166
EXPENDITURES				
Current Operating				
General Government	-	-	5,884	8,211
Criminal Justice	-	-	12,582	13,814
Public Safety	-	-	3,763	4,316
Transportation	-	-	113,604	89,926
Public Works	-	-	6	68
Community Enrichment	-	-	154,416	147,402
Community Development	-	-	115,337	105,434
Capital	-	-	319,030	380,432
Debt Service				
Principal	1,434	43,541	43,541	41,187
Interest	436	58,551	58,551	54,933
Bond Issuance Costs	-	1,213	1,779	484
Arbitrage Rebate and Fiscal Agent Fees	-	35	35	493
Other	5	5	5	-
Total Expenditures	1,875	103,345	828,533	846,700
Excess (Deficiency) of Revenues Over Expenditures	(94)	(4,994)	(240,249)	(278,534)
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	-	48,094	308,382	307,950
Transfers to Other Funds	(174)	(17,543)	(61,766)	(53,218)
Proceeds				
General Obligation and Revenue Bonds	-	-	-	99,505
Premium/(Discount) on General Obligation and Revenue Bonds	-	-	-	850
Certificates of Participation and Municipal Corporation Obligations	-	-	60,000	-
Premium/(Discount) on Certificates of Participation and Municipal Corporation Obligations	-	-	611	-
Special Assessment Bonds	-	-	135	443
Refunding Bonds	-	157,237	157,237	264,674
Deposit to Refunding Escrow	-	(155,695)	(155,695)	(287,424)
Total Other Financing Sources and Uses	(174)	32,093	308,904	332,780
Net Change in Fund Balances	(268)	27,099	68,655	54,246
FUND BALANCES, JULY 1	1,963	228,241	648,653	594,407
FUND BALANCES, JUNE 30	\$ 1,695	\$ 255,340	\$ 717,308	\$ 648,653

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

June 30, 2003 and 2002
(in thousands)

	2003	2002
ASSETS		
Current Assets		
Equity in Pooled Cash and Investments	\$ 75,247	\$ 59,229
Receivables		
Accounts Receivable, Net of Allowance for		
Doubtful Accounts (2003, \$1,187 and 2002, \$1,757)	3,212	4,790
Deposits in Escrow	129	129
Prepaid Items	1,360	1,530
Inventories, at Average Cost	1,045	870
Total Unrestricted Current Assets	80,993	66,548
Restricted Assets		
Debt Service		
Investments	8,279	16,914
Cash with Fiscal Agent/Trustee	35,837	36,833
Revenue Bond Reserve		
Investments	29,264	29,300
Accrued Interest Receivable	209	209
Airport Improvement Reserve		
Equity in Pooled Cash and Investments	39,564	39,564
Passenger Facility Charge		
Equity in Pooled Cash and Investments	57,247	28,657
Accounts Receivable	9,232	10
Customer Facility Charge		
Equity in Pooled Cash and Investments	10,241	-
Accounts Receivable	1,872	-
Capital Projects		
Equity in Pooled Cash and Investments	77,084	30,656
Investments	262,255	332,386
Receivables		
Intergovernmental	2,183	2,064
Total Restricted Current Assets	533,267	516,593
Noncurrent Assets		
Capital Assets		
Land	217,887	217,775
Buildings	495,883	508,458
Improvements Other Than Buildings	672,738	642,045
Equipment	42,012	39,465
Construction in Progress	480,642	367,344
Less: Accumulated Depreciation	(521,194)	(485,706)
Total Capital Assets, Net of Accumulated Depreciation	1,387,968	1,289,381
Total Noncurrent Assets	1,387,968	1,289,381
Total Assets	2,002,228	1,872,522

	2003	2002
<u>LIABILITIES</u>		
Current Liabilities Payable from Current Assets		
Warrants Payable	2,995	2,987
Accounts Payable	7,505	4,776
Trust Liabilities and Deposits	157	157
Deferred Revenue	4,218	2,567
Capital Leases	458	458
Current Portion of Accrued Compensated Absences	511	397
Total Current Liabilities Payable from Current Assets	15,844	11,342
Current Liabilities Payable from Restricted Assets		
Debt Service		
Matured Bonds Payable	16,395	24,440
Interest Payable	19,441	12,393
Current Portion of General Obligation Bonds	3,251	3,250
Current Portion of Revenue Bonds	3,710	3,510
Current Portion of Municipal Corporation Obligations	10,200	9,685
Capital Projects		
Warrants Payable	3,642	3,849
Accounts Payable	9,074	7,241
Total Current Liabilities Payable from Restricted Assets	65,713	64,368
Noncurrent Liabilities		
General Obligation Bonds, Net of Deferred Interest Expense Adjustment (2003, \$2,006 and 2002, \$1,039)	25,599	29,126
Revenue Bonds, Net of Deferred Interest Expense Adjustment (2003, \$0 and 2002, \$00)	41,240	44,950
Municipal Corporation Obligations, Net of Deferred Interest Expense Adjustment (2003, \$3,637 and 2002, \$4,177)	644,562	654,223
Unamortized Premium (Discount)	892	461
Capital Leases	2,252	2,694
Accrued Compensated Absences	3,819	3,646
Total Noncurrent Liabilities	718,364	735,100
Total Liabilities	799,921	810,810
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	905,266	852,583
Restricted for Bond Retirement	29,264	29,300
Unrestricted	267,777	179,829
Total Net Assets	\$ 1,202,307	\$ 1,061,712

City of Phoenix, Arizona
Aviation Enterprise Fund
Comparative Statements of Revenues, Expenses and
Changes in Fund Net Assets

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

	2003	2002
Operating Revenues		
Landing and Terminals Fees	\$ 111,261	\$ 104,874
Parking and Car Rentals	73,237	68,746
Other	21,818	14,885
Total Operating Revenues	206,316	188,505
Operating Expenses		
Operation and Maintenance	124,774	126,884
Depreciation	53,346	48,503
Staff and Administrative	4,840	3,648
Total Operating Expenses	182,960	179,035
Operating Income	23,356	9,470
Non-Operating Revenues (Expenses)		
Investment Income		
Net Increase (Decrease) in Fair Value of Investments	5,065	3,049
Interest	3,110	6,498
Interest on Capital Debt	(27,813)	(17,340)
Gain (Loss) on Disposal of Fixed Assets	(1,990)	21
Total Non-Operating Revenues (Expenses)	(21,628)	(7,772)
Net Income Before Contributions	1,728	1,698
Capital Contributions	138,867	60,466
Change in Net Assets	140,595	62,164
Net Assets, July 1	1,061,712	999,548
Prior Period Adjustment	-	-
Net Assets, July 1, as restated	1,061,712	999,548
Net Assets, June 30	\$ 1,202,307	\$ 1,061,712

City of Phoenix, Arizona
Aviation Enterprise Fund
Comparative Statements of Cash Flows
For the Fiscal Years Ended June 30, 2003 and 2002
(in thousands)

	2003	2002
Cash Flows from Operating Activities		
Receipts from Customers	\$ 209,544	\$ 190,608
Payments to Suppliers	(81,142)	(87,410)
Payments to Employees	(40,612)	(39,403)
Payment of Staff and Administrative Expenses	(4,840)	(3,648)
Net Cash Provided by Operating Activities	82,950	60,147
Cash Flows from Capital and Related Financing Activities		
Proceeds from Capital Debt	-	414,655
Principal Paid on Capital Debt	(24,948)	(24,914)
Interest Paid on Capital Debt	(32,043)	(19,366)
Receipts of Passenger Facility Charges	-	8,392
Acquisition and Construction of Capital Assets	(145,271)	(130,450)
Proceeds from Sales of Capital Assets	21	28
Capital Contributions	127,654	58,404
Net Cash Provided (Used) by Capital and Related Financing Activities	(74,587)	306,749
Cash Flows from Investing Activities		
Purchases of Investment Securities	(4,311,160)	(1,602,567)
Proceeds from Sale and Maturities of Investment Securities	4,389,962	1,253,595
Interest on Investments	13,116	11,247
Net Cash Provided (Used) by Investing Activities	91,918	(337,725)
Net Increase in Cash and Cash Equivalents	100,281	29,171
Cash and Cash Equivalents, July 1	194,939	165,768
Cash and Cash Equivalents, June 30	\$ 295,220	\$ 194,939
Reconciliation of Operating Income to		
Net Cash Provided by Operating Activities		
Operating Income	\$ 23,356	\$ 9,470
Adjustments		
Depreciation	53,346	48,503
(Increase) Decrease in Assets		
Receivables	2,148	1,076
Allowance for Doubtful Accounts	(570)	395
Deposits in Escrow	-	-
Prepaid Items	170	170
Inventories	(175)	(211)
Increase (Decrease) in Liabilities		
Warrants Payable	8	1,242
Accounts Payable	2,729	(1,648)
Trust Liabilities and Deposits	-	1
Deferred Revenue	1,651	631
Accrued Compensated Absences	287	518
Net Cash Provided by Operating Activities	\$ 82,950	\$ 60,147
Noncash Transactions Affecting Financial Position		
Refunding Issuance in Excess of Bond Retirement	\$ 262	\$ (316)
Increase (Decrease) in Fair Value of Investments	96	588
Total Noncash Transactions Affecting Financial Position	\$ 358	\$ 272

City of Phoenix, Arizona
Water System Enterprise Fund
Comparative Statements of Net Assets
June 30, 2003 and 2002
(in thousands)

	2003	2002
<u>ASSETS</u>		
Current Assets		
Equity in Pooled Cash and Investments	\$ 115,628	\$ 106,194
Investments	10,205	9,945
Receivables		
Accounts Receivable, Net of Allowance for Doubtful Accounts (2003, \$751 and 2002, \$642)	33,092	35,349
Intergovernmental	923	1,468
Accrued Interest	20	978
Prepaid Items	3,084	3,187
Inventories, at Average Cost	2,157	2,231
Total Unrestricted Current Assets	165,109	159,352
Restricted Assets		
Debt Service		
Cash with Fiscal Agent	44,439	42,504
Capital Projects		
Equity in Pooled Cash and Investments	55,023	45,159
Deposit with State Treasurer's Trust for Plan Six	3,995	4,797
Investments	86,789	69,605
Due From Other Funds	1,190	1,484
Receivables		
Notes Receivable	-	8,000
Accrued Interest	381	294
Customer and Other Deposits	2,053	1,877
Total Restricted Current Assets	193,870	173,720
Noncurrent Assets		
Capital Assets		
Land	55,231	53,844
Buildings	94,777	91,231
Improvements Other Than Buildings	391,601	369,638
Equipment	117,895	104,516
Mains, Hydrants, Meters and Service Connections	883,490	818,810
Construction in Progress	164,884	111,993
Less: Accumulated Depreciation	(499,930)	(453,487)
Total Capital Assets, Net of Accumulated Depreciation	1,207,948	1,096,545
Other Assets		
Excess of Cost Over Net Assets Acquired, Less Accumulated Amortization (2003, \$306 and 2002, \$285)	136	157
Water Rights, Less Accumulated Amortization (2003, \$9,300 and 2002, \$8,264)	32,615	32,900
Investment in Val Vista Treatment Plant Joint Use Agreement	93,765	92,645
Total Other Assets	126,516	125,702
Total Noncurrent Assets	1,334,464	1,222,247
Total Assets	1,693,443	1,555,319

	2003	2002
<u>LIABILITIES</u>		
Current Liabilities Payable from Current Assets		
Warrants Payable	2,468	2,383
Accounts Payable	8,413	8,573
Utility Repayment Agreements	-	165
Deferred Revenue	37	37
Current Portion of Accrued Compensated Absences	804	658
Total Current Liabilities Payable from Current Assets	11,722	11,816
Current Liabilities Payable from Restricted Assets		
Debt Service		
Bond Anticipation Notes Payable	100,000	-
Matured Bonds Payable	27,430	27,685
Interest Payable	17,017	14,819
Current Portion of General Obligation Bonds	18,386	12,240
Current Portion of Revenue Bonds	-	5,880
Current Portion of Municipal Corporation Obligations	9,235	9,310
Capital Projects		
Warrants Payable	3,911	4,408
Accounts Payable	7,514	9,740
Customer and Other Deposits	2,053	1,877
Total Current Liabilities Payable from Restricted Assets	185,546	85,959
Noncurrent Liabilities		
General Obligation Bonds, Net of Deferred Interest Expense Adjustment (2003, \$3,849 and 2002, \$3,363)	130,210	148,187
Revenue Bonds	10,000	10,000
Municipal Corporation Obligations, Net of Deferred Interest Expense Adjustment (2003, \$7,735 and 2002, \$8,156)	457,280	466,094
Unamortized Premium (Discount)	7,028	7,040
Accrued Compensated Absences	5,977	5,648
Total Noncurrent Liabilities	610,495	636,969
Total Liabilities	807,763	734,744
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	626,277	549,454
Restricted for Plan Six	3,995	4,797
Unrestricted	255,408	266,324
Total Net Assets	<u>\$ 885,680</u>	<u>\$ 820,575</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, 2003 and 2002
(in thousands)

	2003	2002
Operating Revenues		
Water Sales	\$ 188,090	\$ 190,996
Environmental Charges	11,658	10,855
Other	17,122	8,783
Total Operating Revenues	216,870	210,634
Operating Expenses		
Administration and Engineering	17,293	23,240
Operation and Maintenance		
Customer Service	15,265	14,611
Production and Treatment	40,559	42,127
Distribution and Centralized Functions	40,904	38,074
Depreciation and Amortization	50,232	40,062
Staff and Administrative	6,160	6,056
Payment in Lieu of Property Taxes	6,729	5,914
Total Operating Expenses	177,142	170,084
Operating Income	39,728	40,550
Non-Operating Revenues (Expenses)		
Investment Income		
Net Increase (Decrease) in Fair Value of Investments	1,170	3,370
Interest	8,392	10,816
Interest on Capital Debt	(29,531)	(22,320)
Equity Interest in Joint Use Agreement Operating Loss	(4,743)	(4,445)
Loss on Disposal of Fixed Assets	(589)	(246)
Total Non-Operating Revenues (Expenses)	(25,301)	(12,825)
Net Income Before Contributions and Transfers	14,427	27,725
Capital Contributions	51,038	49,364
Operating Transfers to Capital Projects Funds	(360)	(360)
Change in Net Assets	65,105	76,729
Net Assets, July 1	820,575	743,846
Net Assets, June 30	\$ 885,680	\$ 820,575

City of Phoenix, Arizona
Water System Enterprise Fund
Comparative Statements of Cash Flows
For the Fiscal Years Ended June 30, 2003 and 2002
(in thousands)

	2003	2002
Cash Flows from Operating Activities		
Receipts from Customers	\$ 219,848	\$ 209,024
Payments to Suppliers	(53,735)	(59,778)
Payments to Employees	(59,657)	(55,747)
Payment of Staff and Administrative Expenses	(6,160)	(6,056)
Payment in Lieu of Property Taxes	(6,729)	(5,914)
Net Cash Provided by Operating Activities	93,567	81,529
Cash Flows from Noncapital Financing Activities		
Operating Transfers to Other Funds	(360)	(360)
Net Cash Used by Noncapital Financing Activities	(360)	(360)
Cash Flows from Capital and Related Financing Activities		
Proceeds from Capital Debt	100,061	223,574
Principal Paid on Capital Debt	(27,520)	(178,100)
Interest Paid on Capital Debt	(31,833)	(26,586)
Proceeds from Loans/(Loans) to Developers	8,000	(8,000)
Proceeds from Loans to Other Funds	-	6,300
Acquisition and Construction of Capital Assets	(130,836)	(146,799)
Proceeds from Sales of Capital Assets	1,397	338
Capital Contributions	15,944	14,169
Net Cash Used by Capital and Related Financing Activities	(64,787)	(115,104)
Cash Flows from Investing Activities		
Purchases of Investment Securities	(376,035)	(518,092)
Proceeds from Sales and Maturities of Investment Securities	358,591	529,626
Interest on Investments	10,433	13,294
Net Cash Provided (Used) by Investing Activities	(7,011)	24,828
Net Increase (Decrease) in Cash and Cash Equivalents	21,409	(9,107)
Cash and Cash Equivalents, July 1	195,734	204,841
Cash and Cash Equivalents, June 30	\$ 217,143	\$ 195,734
Reconciliation of Operating Income to		
Net Cash Provided by Operating Activities		
Operating Income	\$ 39,728	\$ 40,550
Adjustments		
Depreciation and Amortization	50,232	40,062
(Increase) Decrease in Assets		
Deposits for Plan Six	52	(137)
Receivables	2,693	(1,858)
Allowance for Doubtful Accounts	109	(56)
Prepaid Expenses	103	98
Inventories	74	(176)
Increase (Decrease) in Liabilities		
Warrants Payable	85	546
Accounts Payable	(160)	1,025
Deferred Revenue	-	1
Customer and Other Deposits	176	303
Accrued Compensated Absences	475	1,171
Net Cash Provided by Operating Activities	\$ 93,567	\$ 81,529
Noncash Transactions Affecting Financial Position		
Contributions of Capital Assets	\$ 35,094	\$ 35,196
Bond Capital Appreciation	446	421
Refunding Issuance in Excess of Bond Retirement	789	749
Increase (Decrease) in Fair Value of Investments	109	(236)
Total Noncash Transactions Affecting Financial Position	\$ 36,438	\$ 36,130

City of Phoenix, Arizona
Wastewater Enterprise Fund
Comparative Statements of Net Assets
June 30, 2003 and 2002
(in thousands)

	2003	2002
<u>ASSETS</u>		
Current Assets		
Equity in Pooled Cash and Investments	\$ 24,105	\$ 29,247
Receivables		
Accounts Receivable, Net of Allowance for Doubtful Accounts (2003, \$342 and 2002, \$290)	10,609	10,472
Intergovernmental	2,918	2,285
Inventories, at Average Cost	585	611
Total Unrestricted Current Assets	38,217	42,615
Restricted Assets		
Debt Service		
Cash with Fiscal Agent	27,877	26,995
Investments	14	-
Capital Projects		
Equity in Pooled Cash and Investments	62,524	60,514
Cash and Securities with Trustee	-	23,150
Investments	27,182	1,789
Receivables		
Intergovernmental	99	186
Accrued Interest	-	14
Customer Deposits and Other Trust Liabilities	183	395
Total Restricted Current Assets	117,879	113,043
Noncurrent Assets		
Capital Assets		
Land	17,086	16,962
Buildings	46,029	45,389
Improvements Other Than Buildings	776,369	729,199
Equipment	96,322	93,516
Construction in Progress	71,742	45,506
Less: Accumulated Depreciation	(332,330)	(302,224)
Total Capital Assets, Net of Accumulated Depreciation	675,218	628,348
Other Assets		
Investment in SROG Joint Use Agreement	241,477	210,744
Total Noncurrent Assets	916,695	839,092
Total Assets	1,072,791	994,750

	2003	2002
<u>LIABILITIES</u>		
Current Liabilities Payable from Current Assets		
Warrants Payable	457	288
Accounts Payable	4,808	4,307
Utility Repayment Agreements	639	440
Current Portion of Accrued Compensated Absences	184	129
Total Current Liabilities Payable from Current Assets	6,088	5,164
Current Liabilities Payable from Restricted Assets		
Debt Service		
Bond Anticipation Notes Payable	60,000	-
Matured Bonds Payable	16,083	12,830
Interest Payable	13,933	14,165
Current Portion of General Obligation Bonds	6,765	6,378
Current Portion of Municipal Corporation Obligations	10,240	9,745
Capital Projects		
Warrants Payable	210	4,038
Accounts Payable	10,201	5,735
Customer Deposits and Other Trust Liabilities	183	395
Total Current Liabilities Payable from Restricted Assets	117,615	53,286
Noncurrent Liabilities		
General Obligation Bonds, Net of Deferred Interest Expense Adjustment (2003, \$2,892 and 2002, \$1,502)	71,294	78,602
Municipal Corporation Obligations, Net of Deferred Interest Expense Adjustment (2003, \$25,043 and 2002, \$26,290)	422,232	431,225
Unamortized Premium (Discount)	(2,075)	(3,172)
Utility Repayment Agreements	5,132	3,420
Rebatable Arbitrage	510	1,782
Accrued Compensated Absences	1,385	1,193
Total Noncurrent Liabilities	498,478	513,050
Total Liabilities	622,181	571,500
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	353,235	323,214
Unrestricted	97,375	100,036
Total Net Assets	\$ 450,610	\$ 423,250

City of Phoenix, Arizona
Wastewater Enterprise Fund
Comparative Statements of Revenues, Expenses and
Changes in Fund Net Assets
For the Fiscal Years Ended June 30, 2003 and 2002
(in thousands)

	2003	2002
Operating Revenues		
Sewer Service Charges	\$ 78,784	\$ 74,726
Environmental Charges	22,361	20,464
Other	3,502	3,885
Total Operating Revenues	<u>104,647</u>	<u>99,075</u>
Operating Expenses		
Administration	5,811	6,836
Operation	22,307	26,566
Maintenance	16,627	19,127
Depreciation	30,390	27,527
Staff and Administrative	1,432	1,414
Payment in Lieu of Property Taxes	5,329	5,088
Industrial Waste/Pre-Treatment	3,781	3,691
Total Operating Expenses	<u>85,677</u>	<u>90,249</u>
Operating Income	<u>18,970</u>	<u>8,826</u>
Non-Operating Revenues (Expenses)		
Investment Income		
Net Increase (Decrease) in Fair Value of Investments	465	747
Interest	3,282	5,675
Interest on Capital Debt	(25,447)	(23,579)
Equity Interest in Joint Use Agreement Operating Loss	(11,084)	(9,472)
Loss on Disposal of Fixed Assets	(463)	(4,576)
Total Non-Operating Revenues (Expenses)	<u>(33,247)</u>	<u>(31,205)</u>
Net Loss Before Contributions and Transfers	<u>(14,277)</u>	<u>(22,379)</u>
Capital Contributions	41,877	35,005
Transfers to Capital Projects Funds	(240)	(240)
Change in Net Assets	<u>27,360</u>	<u>12,386</u>
Net Assets, July 1	<u>423,250</u>	<u>410,864</u>
Net Assets, June 30	<u>\$ 450,610</u>	<u>\$ 423,250</u>

City of Phoenix, Arizona
Wastewater Enterprise Fund
Comparative Statements of Cash Flows
For the Fiscal Years Ended June 30, 2003 and 2002
(in thousands)

	2003	2002
Cash Flows from Operating Activities		
Receipts from Customers	\$ 103,766	\$ 98,611
Payments to Suppliers	(36,126)	(47,836)
Payments to Employees	(11,457)	(9,989)
Payment of Staff and Administrative Expenses	(1,432)	(1,414)
Payment in Lieu of Property Taxes	(5,329)	(5,088)
Net Cash Provided by Operating Activities	49,422	34,284
Cash Flows from Noncapital Financing Activities		
Operating Transfers to Other Funds	(240)	(240)
Net Cash Used by Noncapital Financing Activities	(240)	(240)
Cash Flows from Capital and Related Financing Activities		
Proceeds from Capital Debt	60,109	7,572
Principal Paid on Capital Debt	(13,531)	(14,702)
Interest Paid on Capital Debt	(28,163)	(28,322)
Acquisition and Construction of Capital Assets	(79,810)	(63,712)
Proceeds from Sales of Capital Assets	69	30,084
Capital Contributions	9,450	7,842
Net Cash Used by Capital and Related Financing Activities	(51,876)	(61,238)
Cash Flows from Investing Activities		
Purchases of Investment Securities	(94,308)	(60,620)
Proceeds from Sales and Maturities of Investment Securities	92,051	116,145
Interest on Investments	2,489	7,012
Net Cash Provided by Investing Activities	232	62,537
Net Increase (Decrease) in Cash and Cash Equivalents	(2,462)	35,343
Cash and Cash Equivalents, July 1	117,151	81,808
Cash and Cash Equivalents, June 30	\$ 114,689	\$ 117,151
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 18,970	\$ 8,826
Adjustments		
Depreciation	30,390	27,527
(Increase) Decrease in Assets		
Receivables	(721)	(673)
Allowance for Doubtful Accounts	52	35
Inventories	26	(21)
Increase (Decrease) in Liabilities		
Warrants Payable	169	(23)
Accounts Payable	501	(1,383)
Customer Deposits	(212)	174
Accrued Compensated Absences	247	(178)
Net Cash Provided by Operating Activities	\$ 49,422	\$ 34,284
Noncash Transactions Affecting Financial Position		
Contributions of Capital Assets	\$ 32,426	\$ 27,163
Refunding Issuance in Excess of Bond Retirement	1,329	1,358
Bond Capital Appreciation	57	53
Increase (Decrease) in Fair Value of Investments	78	(2)
Total Noncash Transactions Affecting Financial Position	\$ 33,890	\$ 28,572

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APPENDIX I

SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS

The following information summarizes or paraphrases certain provisions of the City Purchase Agreement, the Bond Indenture, the CFC Ordinance (as codified in the City Code), the RCC Leases and the Concession Agreements. Such information is not a full statement of the terms of such documents and, accordingly, is qualified by reference to the full text thereof.

CERTAIN DEFINITIONS

The following definitions in summary form of certain terms used in the City Purchase Agreement, the Bond Indenture and the CFC Ordinances (terms not so defined have the meanings ascribed to such terms in the City Purchase Agreement and the Bond Indenture):

"Additional Payments" means the sum of the payments from Airport Improvement Fund required by the City Purchase Agreement.

"Administrative Costs" means the following expenses as determined and approved by the City which are incurred in connection with the issuance of the Bonds and the financing of the Project as a direct consequence of the execution and delivery of the Indenture, the City Purchase Agreement and the RCC Leases: (i) the ongoing fees and expenses of the Trustee, as Trustee, (ii) the ongoing fees and expenses of the Trustee as Paying Agent, (iii) the ongoing fees and expenses of the 2004 Bond Insurer and a Qualified Surety Provider, if any, (iv) fees and expenses of the Rate Consultant subsequent to those included in the costs of issuance, (v) fees and expenses of the City and the Corporation, including, but not limited to those of attorneys, financial advisors, accountants and consultants incurred in connection with any regulatory or administrative requirements, including specifically, without limitation, the preparation and filing of annual financial statements and audits and compliance with continuing disclosure requirements, (vi) the reasonable legal fees and expenses of the RCC Companies incurred with respect to defending any actions or proceedings brought by third parties challenging the Customer Facility Charges or the collection or remittance thereof pursuant to the RCC Leases and (vii) such other reasonable fees and expenses of the City and the Corporation, including reasonable overhead expenses in carrying out their respective obligations under the Bond Indenture, the City Purchase Agreement and the RCC Leases, as applicable. Administrative Costs shall not include costs of issuance.

"Airport" means Phoenix-Sky Harbor International Airport.

"Airport Improvement Funds" means amounts on deposit in the Airport Improvement Fund which are not required to pay debt service on, or to reimburse a credit or surety provider for payments with respect to, Airport Obligations.

"Airport Obligations" means obligations of the City or the Corporation the debt service on which is payable from Airport Revenues on any priority of lien basis.

"Airport Revenue Bond Ordinance" means Ordinance No. S-21974 adopted by the Mayor and Council of the City on April 20, 1994, as amended to date and as further supplemented and amended from time to time.

"Airport Revenues" means the term so defined in the Airport Revenue Bond Ordinance.

"Annual Receipts" means Customer Facility Charges deposited in the Revenue Fund for a twelve-month period.

"Airport System" means the airports of the City presently known as "Phoenix — Sky Harbor International Airport," "Phoenix — Goodyear Airport," and "Phoenix — Deer Valley Airport," including all additions, extensions and improvements thereto which may be made while any Bonds remain Outstanding, including all property and facilities of every nature owned or operated by the City and used in connection with its airports or for airport purposes, including but without limitation, lands, rights-in-land, terminals and other buildings and facilities, hangars, runways, ramps, shops, stores and similar facilities located in the terminal

building areas, parking meters and facilities, facilities for limousine, taxi and car rental services, restrooms, sinks, showers, toilets, luggage lockers, repair shops, facilities for the sale of oil and fuel, communication facilities, restaurant and bar facilities, and all other property and facilities of every nature located on or used in connection with the airports and the land on which each is located, and including airport facilities not described in this definition if such facilities have been added to the definition of Airport by subsequent resolution or ordinance of the City.

"Board" means the Board of Directors of the Corporation.

"Bond Documents" means, collectively, the Bond Indenture and the City Purchase Agreement and similar financing instruments.

"Bond Indenture" means the Bond Indenture dated as of June 1, 2004 between the Corporation and the Trustee, as amended or supplemented from time to time.

"Bond Payment Date" means a date on which principal or interest shall be payable on Bonds in accordance with their respective terms.

"Bond Year" means the period commencing July 2 of each year and ending July 1 of the next year.

"Bonds" means the 2004 Bonds and any Parity Obligations Outstanding from time to time.

"Buses" means the common bus fleet to transport rental car customers between the Airport terminals and the Rental Car Center.

"Business Day" means any day other than (i) a Saturday, Sunday or legal holiday, (ii) a day on which banking institutions located in the City of Phoenix, Arizona, the City of New York, New York, or the city in which the designated corporate trust office of the Trustee is located, are required or are authorized by law or executive order to close, or (iii) a day on which the New York Stock Exchange is closed.

"CFC Ordinance" means Ordinance No. G-4375 duly adopted on July 5, 2001 by the Mayor and Council of the City and any amendments thereto, including, but not limited to, amendments in Ordinance No. G-4418 and in Ordinance No. G-4530. The CFC Ordinance is currently codified in Phoenix City Code Section 79.

"City" means the City of Phoenix, Arizona.

"City Purchase Agreement" means the City Purchase Agreement, dated as of June 1, 2004 by and between the Corporation and the City, as amended or supplemented from time to time.

"City Representative" means the Chief Financial Officer of the City or any other person at any time designated to act on behalf of the City by written certificate furnished to the Corporation and the Trustee, if any, containing the specimen signature of such person and signed by the City Manager or his designee. Such certificate may designate one or more alternates.

"City Transportation O&M Reserve Fund" means the fund of that name to be held by the City pursuant to the City Purchase Agreement.

"City Transportation O&M Reserve Requirement" means an amount equal to one and one-half times the succeeding Bond Year's projected Transportation O&M Expenses as certified by a City Representative or Rate Consultant to the Trustee until changed in accordance with the City Purchase Agreement, the initial City Transportation Requirement shall be \$17,991,461.

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

"Company" or "Companies" means each RCC Company and Off-Site Company.

"Compound Interest Bonds" means Bonds which for a stated period of time bear interest which interest is calculated based on regular compounding, payable only (i) at maturity or earlier redemption or (ii) on a specified date, from and after which such Bonds bear interest payable on a regularly scheduled basis. Bonds

described in clause (ii), above, shall be deemed to be "*Compound Interest Bonds*" until the specified date on which the compounded interest ceases to accrue.

"*Concession Agreement*" or "*Concession Agreements*" means each Rental Vehicle Concession Agreement between the City and an RCC Company, and any amendments or extensions thereof.

"*Construction Fund*" means the fund established pursuant to the City Purchase Agreement and maintained by the City or the Corporation on behalf of the City for the payment of costs of the Project and issuance expenses related to the 2004 Bonds.

"*Contract Year*" means the twelve (12) month period beginning on January 1st and ending December 31st of the year following the date of beneficial occupancy and every twelve-month period thereafter until the end of the term of the Concession Agreement.

"*Credit Facility*" means a bank, financial institution, insurance company or indemnity company enhancing the credit of any Bonds by assuring holders of such Bonds that principal of and interest on said Bonds will be paid promptly when due and includes the issuance of an insurance policy, surety bond or other form of security for the 2004 Debt Service Reserve Fund or similar fund established for Parity Obligations.

"*Customer Facility Charges*" means payments to be made to the Depository by the Companies pursuant to the CFC Ordinance.

"*Date of Beneficial Occupancy*" or "*DBO*" is as defined in the CFC Ordinance.

"*Debt Service Coverage Fund*" means the fund of that name created pursuant to the Bond Indenture.

"*Debt Service Coverage Requirement*" means 25% of the aggregate Debt Service Reserve Requirement.

"*Debt Service Reserve Requirement*" means, with respect to a series of Bonds, Maximum Annual Debt Service. A Debt Service Reserve Requirement may be recalculated from time to time as Bonds of such series are no longer Outstanding.

"*Defeasance Obligations*" means money and any of the following:

(i) non-callable direct obligations of the United States of America, non-callable and non-prepayable direct federal agency obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America, non-callable direct obligations of the United States of America which have been stripped by the United States Treasury itself or by any Federal Reserve Bank (not including "CATS," "TIGRS" and "TRS" unless the Corporation obtains a Rating Confirmation with respect thereto) and the interest components of REFCORP bonds for which the underlying bond is non-callable (or non-callable before the due date of such interest component) for which separation of principal and interest is made by request to the Federal Reserve Bank of New York in book-entry form, and shall exclude investments in mutual funds and unit investment trusts;

(ii) non-callable obligations timely maturing and bearing interest (but only to the extent that the full faith and credit of the United States of America are pledged to the timely payment thereof), including, but not limited to Resolution Funding Corp. debt obligations, and U.S. Agency for International Development guaranteed notes (must mature at least 4 business days before the appropriate payment date); and

(iii) certificates rated "AAA" by S&P or "Aaa" by Moody's evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (ii), provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee in a segregated trust account in the trust department separate from the general assets of such custodian.

"Depository" means, initially, Bank One, NA as the financial institution designated by the City to receive the Customer Facility Charges pursuant to the CFC Ordinance.

"Derivative Product" means an agreement of the City entered into in accordance with the City Purchase Agreement.

"Exclusive-Use Customer Service Building" or *"ECS"* means the storefront or linear counter retail area within the Customer Service Building which the Tenant will transact business with Airport customers.

"Exclusive-Use Garage Area" or *"EG"* means the RCC garage area designated for ready and return parking of Tenant's rental vehicles.

"Exclusive-Use Vehicle Service Site" or *"EVS"* means the RCC ground area designated for the non-retail activities, necessary to the operation of Tenant's vehicle rental service.

"Exclusive Use Manual" or *"EUM"* means the document in the RCC Lease which governs the development, design and construction of the Exclusive Use areas (ECS, EVS, EG) of the RCC.

"Improvement Reserve/Surplus Fund" means the fund of that name created pursuant to the Bond Indenture.

"Initial Rate" means, with respect to Customer Facility Charges, a fee equal to four dollars and fifty cents (\$4.50) per Transaction Day.

"Interest Requirement" means the amount of interest falling due on the next Bond Payment Date.

"Maximum Annual Debt Service" means an amount equal to the highest aggregate Principal Requirement and Interest Requirement to fall due and payable in the current or any future Bond Year of all Outstanding Bonds, as adjusted pursuant to any Derivative Product with a Qualified Counterparty in accordance with the City Purchase Agreement. In case any Bonds outstanding or proposed to be issued shall bear interest at a variable rate, the Interest Requirement of such Bonds in each Bond Year during which such variable rate applies shall be computed, subject to the maximum rate which such Bonds may bear under the terms of their issuance at the highest of (i) the actual rate on the date of calculation or if the indebtedness is not yet outstanding, the initial rate (if established and binding), (ii) if the indebtedness has been outstanding for at least twelve months, the average rate borne by reference to an index comparable to that utilized in determining the interest rate for the debt to be issued and, (iii) (a) the rate of interest established for long-term bonds by the 20-year "Revenue Bond Index" most recently published by *THE BOND BUYER* of New York, New York, prior to the date of computation (or in the absence of such published index, some other index selected in good faith by the Chief Financial Officer of the City after consultation with one or more reputable, experienced investment bankers as being equivalent thereto) or (b) if the interest is not excludible from income for federal income tax purposes, the interest rate on direct U.S. Treasury obligations with comparable maturities (the *"Variable Rate Assumption"*). With respect to any Commercial Paper issued or proposed to be issued, the Principal Requirement shall be calculated as if the entire amount of Commercial Paper authorized to be issued under the Parity Obligation Documents were to be amortized over a term of 30 years commencing in the year in which such Commercial Paper is issued or proposed to be issued and with substantially level annual debt service payments and the Interest Requirement shall be computed using the Variable Rate Assumption.

"Maximum Rate" means, with respect to Customer Facility Charges, a fee equal to four dollars and fifty cents (\$4.50) per Transaction Day.

"Off-Site Company" or *"Off-Site Companies"* means each rental car company obtaining customers at the Airport which is not a party to an RCC Lease.

"Operator" means the contracting party bound to all rights and obligations under the Concession Agreement and its successors and assigns.

"Opinion of Counsel" means a written opinion of an attorney or firm of attorneys selected by the City and acceptable to the Trustee and, to the extent the Corporation is to act or refrain from acting in reliance thereon, the Corporation, and who (except as otherwise expressly *provided herein* or in the City Purchase Agreement) may be counsel for the Corporation, the City or the Trustee, provided that such attorney or firm of attorneys may not be an employee of the Trustee.

"Other Available Funds" means moneys available to the Airport which are not included in the definition of Pledged Revenues.

"Other Available Moneys" means Other Available Funds which the City elects to make available for a particular purpose.

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

"Parity Obligations" means obligations, which may be bonds, lease obligations, purchase agreements or other obligations which are issued subsequent to, and are to rank on a parity with the City's obligation to pay the Purchase Price under the City Purchase Agreement from the Pledged Revenues.

"Permitted Investments" means and include:

(i) Direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, provided, that the full faith and credit of the United States of America must be pledged to any such direct obligation or guarantee (*"Direct Obligations"*).

(ii) Direct obligations and fully guaranteed certificates of beneficial interest of the Federal Credit System Financial Assistance Corporation, the Farmers Home Administration or the Export-Import Bank of the United States; consolidated debt obligations and letter of credit-backed issues of the Federal Home Loan Banks; participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation (*"FHLMCs"*); debentures of the Federal Housing Administration; mortgage backed securities (except stripped mortgage securities which are valued greater than par on the portion of unpaid principal) and senior debt obligations of the Federal National Mortgage Association (*"FNMA's"*); participation certificates of the General Services Administration; guaranteed mortgage-backed securities and guaranteed participation certificates of the Government National Mortgage Association (*"GNMA's"*); guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration; local authority bonds of the U.S. Department of Housing & Urban Development; guaranteed Title XI financings of the U.S. Maritime Administration; Resolution Funding Corporation securities.

(iii) Direct obligations of any state of the United States of America or any subdivision or agency thereof whose unsecured, uninsured and unguaranteed general obligation debt is rated, at the time of purchase, "A" or better by Moody's and "A" or better by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured, uninsured and unguaranteed general obligation debt is rated, at the time of purchase, "A" or better by Moody's and "A" or better by S&P.

(iv) Commercial paper (having original maturities of not more than 270 days) rated, at the time of purchase, "P-1" by Moody's and "A-1" or better by S&P.

(v) Federal funds, certificates of deposit collateralized and in accordance with A.R.S. § 35-323, time deposits or bankers acceptances (in each case having maturities of not more than 360 days collateralized in accordance with A.R.S. § 35-323) of any domestic bank including a branch office of a foreign bank which branch office is located in the United States, provided legal opinions are received to the effect that full and timely payment of such deposit or similar obligation is enforceable against the principal office or any branch of such bank, which, at the time of purchase, has a short-term "Bank Deposit" rating of "P-1" by Moody's and a "Short-Term CD" rating of "A-1" or better by S&P.

(vi) Deposits of any bank or savings and loan association which has combined capital, surplus and undivided profits of not less than \$3 million, provided such deposits are continuously and fully insured by the Bank Insurance Fund or the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation.

(vii) Investments in money-market funds rated "AAAm" or "AAAm-G" by S&P.

(viii) Repurchase agreements collateralized by Direct Obligations, GNMA's, FNMA's or FHLMC's with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank insured by the FDIC, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated "P-1" or "A3" or better by Moody's, and "A-1" or "A-" or better by S&P, provided:

(A) a master repurchase agreement or specific written repurchase agreement governs the transaction; and

(B) the securities are held free and clear of any lien by the Trustee or an independent third party acting solely as agent ("*Agent*") for the Trustee, and such third party is (1) a Federal Reserve Bank or (2) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$50 million, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee; and

(C) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Trustee; and

(D) the repurchase agreement has a term of 180 days or less, and the Trustee or the Agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two Business Days of such valuation; and

(E) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 102%.

(ix) Pre-refunded municipal obligations defined as follows:

Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the dates specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "*Escrow*"), in the highest Rating Category of S&P and Moody's or any successors thereto; or

(B) (1) which are fully secured as to principal and interest and redemption premium, if any, by an Escrow consisting only of cash or obligations which are direct obligations of the United States of America, which Escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (2) which Escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations as described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

(x) A "no load" open-end Management Investment Company or Trust (mutual fund), registered with the Federal Securities and Exchange Commission (SEC), meeting the requirements of Rule 2a-7 under the Investment Company Act of 1940, and which invests in short term United States Treasury obligations, agencies guaranteed by the United States, and repurchase agreements secured by the same and which, with regard to amounts relating to the Bonds, is rated by S&P at least as highly as the then current rating by S&P for the Bonds.

"*Pledged Rate*" means, with respect to the Customer Facility Charges, a fee equal to the rate charged per Transaction Day, which shall be the Initial Rate unless and until modified as provided in the City Purchase Agreement.

"Pledged Revenues" means (i) all amounts deposited to the Revenue Fund, including the Customer Facility Charges remitted by the Companies to the Depository and transferred to the Trustee (and any interest or penalties paid with respect to a Company's failure to remit) and income from investments therein and amounts required to be transferred to the Revenue Fund from the funds and accounts established under the Bond Indenture, (ii) amounts held by the Trustee in the 2004 Bond Fund, the 2004 Debt Service Reserve Fund, the Debt Service Coverage Fund and the Improvement Reserve/Surplus Fund and income from investments therein, (iii) amounts held in the Construction Fund until expended as permitted in the City Purchase Agreement, including income from investments therein and (iv) all other amounts received by the Trustee or the Corporation with respect to payment of the Principal Requirement or the Interest Requirement with respect to the 2004 Bonds, but excluding (A) amounts paid by the RCC Companies as ground rentals or concession fees, (B) amounts on deposit in or required to be deposited to, the Administrative Costs Fund, (C) amounts on deposit in the Transportation O&M Fund, the Transportation O&M Reserve Fund and the City Transportation O&M Reserve Fund, and (D) Customer Facility Charges which exceed the Pledged Rate.

"Policy Costs" means with respect to the 2004 Surety Bond, the obligation to repay the 2004 Surety Provider for amounts drawn under the 2004 Surety Bond and related expenses (together with interest thereon at a rate equal to the lower of (i) the prime rate of Morgan Guaranty Trust Company of New York in effect from time to time or (ii) the highest rate permitted by law.

"Principal Installment" means, for any particular Bond Payment Date on which principal and interest shall be payable, the aggregate of the principal amount of 2004 Bonds that are due on such date.

"Principal Payment Date" means the dates established for the payment of Principal Requirements on Bonds.

"Principal Requirement" means, as of any date of calculation, the sum of (a) the principal amount of Bonds falling due during the then current Bond Year plus (b) the amount of principal of Bonds required to be redeemed pursuant to a mandatory redemption feature during the then current Bond Year. In computing the Principal Requirement, an amount of Bonds required to be redeemed pursuant to mandatory redemption in each year shall be deemed to fall due in that year and (except in case of default in observing a mandatory redemption requirement) shall be deducted from the amount of Bonds maturing on the scheduled maturity date. In the case of Bonds supported by a Credit Facility, the Principal Requirements for such Bonds shall be determined in accordance with the principal retirement schedule specified in the proceedings authorizing the issuance of such Bonds, rather than any amortization schedule set forth in such Credit Facility.

"Project" means, in the aggregate, the improvements described in the City Purchase Agreement.

"Property" means any or all of the components of the Project actually funded with proceeds of the 2004 Bonds.

"Prorated Contract Year" means the period from the Date of Beneficial Occupancy until the beginning of the first Contract Year under a Concession Agreement.

"Purchase Payments" means the sum of the payments required by the City Purchase Agreement to be paid by the City to or for the account of the Corporation, excluding Additional Payments.

"Purchase Price" means the sum of the Purchase Payments and the Additional Payments, if any.

"Qualified Counterparty" means a counterparty to a Derivative Product (i) which is a bank, insurance company, indemnity company, financial institution or any similar or related company with a credit rating in one of the two highest Rating Categories of the Rating Agency, (ii) the obligations of the counterparty which are guaranteed by an entity described in clause (i), or (iii) the obligations of which are fully secured by obligations described in items (i) or (ii) of the definition of Permitted Investments which are (A) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 105% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (B) held by the Trustee (who shall not be the provider of the collateral) or by any Federal Reserve

Bank or a depository acceptable to the Trustee, (C) subject to a perfected first lien on behalf of the Trustee, and (D) free and clear from all third-party liens.

"Policy Costs" means with respect to the 2004 Surety Bond, the obligation to repay the 2004 Surety Provider for amounts drawn under the 2004 Surety Bond and related expenses (together with interest thereon at a rate equal to the lower of (i) the prime rate of Morgan Guaranty Trust Company of New York in effect from time to time or (ii) the highest rate permitted by law.

"Qualified Surety Bond" means a surety bond or financial instrument issued by an insurance company or financial institution meeting the rating requirements set forth in the Bond Indenture.

"Rate Consultant" means a Person chosen by the City and qualified to review and assess the anticipated Pledged Revenues and recommend to the City the amount of the Customer Facility Charge.

"Rating Agency" means Moody's or S&P, or both.

"Rating Category" means one of the general rating categories of a Rating Agency without regard to any refinement or gradation of such rating category by numerical modifier or otherwise.

"RCC Company" or *"RCC Companies"* or *"Tenant"* means each of the following entities, and any surviving, resulting or transferee entity permitted under each RCC Lease: Advantage, Alamo/National, Avis, Budget, Dollar, Enterprise, Hertz and Thrifty, and any new entities entering into an RCC Lease.

"RCC Lease" or *"RCC Leases"* or *"Lease"* means each RCC Lease between the City and an RCC Company, and any permitted amendments thereto, and each similar agreement between the City and a Company, and any permitted amendments thereto.

"Rental Car Center" means the rental car center on an Airport site and within a development known as Sky Harbor Center which will include a Customer Service Building, rental car parking areas and rental car maintenance and storage facilities and will accommodate all of the RCC Companies servicing Airport customers.

"S&P" means Standard & Poor's Ratings Group, a division of The McGraw Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency for the type of credit in question, *"S&P"* shall be deemed to refer to any other nationally recognized securities rating agency designated by the Corporation by written notice to the Trustee.

"Small Operator Parcel" or *"SOP"* means the smallest area of ECS, EVS, and EG identified for allocation in the RFP for the operation of a non-exclusive rental vehicle service at the Airport.

"Surety Provider" means a provider of a Qualified Surety Bond, including the 2004 Surety Provider.

"2004 Bonds" means the City of Phoenix Civic Improvement Corporation Rental Car Facility Charge Revenue Bonds, Taxable Series 2004.

"2004 Bond Fund" means the fund of that name created pursuant to the Bond Indenture.

"2004 Bond Insurance Policy" or *"2004 Policy"* means the municipal bond insurance policy issued by the 2004 Insurer guaranteeing the scheduled payment of principal of and interest on the 2004 Bonds when due.

"2004 Bond Insurer" or *"2004 Insurer"* means Financial Guaranty Insurance Company, a New York stock insurance company or any successor thereto.

"2004 Bond Payment Date" means each date on which interest or both principal and interest shall be payable on any of the 2004 Bonds according to their respective terms so long as any 2004 Bonds are Outstanding.

"2004 Debt Service Reserve Fund" means the fund of that name created pursuant to the Bond Indenture.

"2004 Debt Service Reserve Requirement" means Maximum Annual Debt Service with respect to the 2004 Bonds. The 2004 Debt Service Reserve Requirement may be recalculated from time to time as 2004 Bonds are rendered no longer Outstanding.

"2004 Interest Account" means the account of the 2004 Bond Fund of that name created pursuant to the Bond Indenture.

"2004 Principal Account" means the account of the 2004 Bond Fund of that name created pursuant to the Bond Indenture.

"2004 Redemption Account" means the account of the 2004 Bond Fund of that name created pursuant to the Bond Indenture.

"2004 Surety Bond" means the Municipal Bond Debt Service Reserve Fund Policy issued by the 2004 Surety Provider.

"2004 Surety Provider" means Financial Guaranty Insurance Company, a New York stock insurance company or any successor thereto.

"Transaction Day" means a car rented for twenty-five or fewer hours for the first Transaction Day and, and every twenty-four hours for each Transaction Day thereafter.

"Transportation O&M Expenses" means all expenditures (exclusive of depreciation and interest on money borrowed) which are necessary to the efficient maintenance and operation of vehicles and facilities, including, but not limited to Buses, which transport rental car customers between the Airport terminals and the Rental Car Center.

"Transportation O&M Fund" means the fund of that name created pursuant to the Bond Indenture.

"Transportation O&M Reserve Fund" means the fund of that name created pursuant to the Bond Indenture.

"Transportation O&M Reserve Requirement" means an amount equal to one-half of the succeeding Bond Year's projected Transportation O&M Expenses as certified by a City Representative or Rate Consultant to the Trustee until changed in accordance with the City Purchase Agreement, the initial O&M Reserve Requirement shall be \$5,997,154.

"Trustee" means U.S. Bank National Association, in its capacity as trustee hereunder and any successor to its duties hereunder.

THE CITY PURCHASE AGREEMENT

Section 2.3. Construction Fund. The City or the Corporation on behalf of the City shall establish and maintain a separate fund known as the "Taxable Series 2004 Construction Fund" (the "*Construction Fund*"). The City may, but shall not be required, to deposit Other Available Moneys in the Construction Fund. Moneys in the Construction Fund shall be disbursed for the following purposes and for no other purposes:

- (i) costs and expenses relating to the issuance, sale and delivery of the 2004 Bonds;
- (ii) payment for labor, services and materials used or furnished in the improvement and construction of the Project, and all real and personal property deemed necessary in connection with the Project and for the miscellaneous expenses incidental to any of the foregoing including the premium on each performance and payment bond;
- (iii) reimbursement of capital expenditures relating to the Project advanced prior to the issuance of the 2004 Bonds; and
- (iv) payment of the Purchase Price representing interest on the 2004 Bonds during the construction and acquisition of the Project.

The City covenants and agrees that to the extent Pledged Revenues are not otherwise available from any other fund under the Indenture (other than the Administrative Costs Fund, the Transportation O&M Fund and the Transportation O&M Reserve Fund), to apply amounts on deposit in the Construction Fund to payment of Purchase Payments.

Before any of the foregoing payments may be made, the City or the Corporation shall maintain or record with respect to each such payment to the effect that: (i) none of the items for which the payment is proposed to be made has formed the basis for any payment previously made from the Construction Fund, (ii) each item for which payment is proposed to be made is or was necessary in connection with the Project and (iii) each item for which payment is proposed is for a purpose permitted by this Section 2.3.

Section 2.4. Transportation O&M Expenses and City Transportation O&M Reserve Fund. There is established with the City the City Transportation O&M Reserve Fund which is to be maintained at the City Transportation O&M Reserve Requirement. Upon issuance and delivery of the 2004 Bonds, the City agrees to deposit, or to direct the Depository to deposit to the credit of the City Transportation O&M Reserve Fund, Customer Facility Charges previously collected in an amount equal to the City Transportation O&M Reserve Requirement. The City agrees to pay Transportation O&M Expenses from the following sources in the following order: (i) from monthly amounts and supplemental amounts transferred by the Trustee pursuant to the Bond Indenture, (ii) amounts available in the Improvement Reserve/Surplus Fund and (iii) amounts transferred by the Trustee to the City from the Transportation O&M Reserve Fund (including Airport Improvement Funds deposited by the City). At the City's option, amounts on deposit in the City Transportation O&M Reserve Fund may also be used for Transportation O&M Expenses or for any other lawful purpose permitted under the CFC Ordinance. In the event amounts on deposit at the end of a Bond Year exceed the City Transportation O&M Reserve Requirement for the following Bond Year, such excess shall be transferred to the Trustee to the credit of the Revenue Fund.

* * *

Section 3.3. Amounts of Purchase Price Payable Upon Issuance of 2004 Bonds. The City agrees that it will pay, subject to certain limitations in the City Purchase Agreement, solely from the Pledged Revenues, as the Purchase Price of the Property. The payments under the City Purchase Agreement include, but are not limited to, the following amounts:

- (a) A sum equal to the interest on the Bonds falling due on the next succeeding interest payment date.
- (b) A sum equal to the principal payments due for the then current Bond Year.
- (c) A sum equal to the Trustee's fees and expenses under the Indenture and fees and expenses of the 2004 Surety Provider and the 2004 Bond Insurer as provided in the City Purchase Agreement.
- (d) Additional Payments.

* * *

Section 3.5. Limitation on Source of City Payments; City's Obligation to Make Deposits to Certain Funds Under the Bond Indenture; Additional Payments.

- (a) Except to the extent the City determines to make payments from Other Available Moneys, all amounts to be paid by the City (other than in subsection (c) below) shall be payable solely from the Pledged Revenues. Amounts payable by the City hereunder shall never constitute a general obligation of the City or a pledge of ad valorem taxes by the City.
- (b) The City shall cause to be remitted to the Trustee the Pledged Revenues to maintain the balances in the Administrative Costs Fund, the 2004 Debt Service Reserve Fund and the Debt Service Coverage Fund at the required levels pursuant to the Bond Indenture.

(c) The City shall cause to be remitted to the Trustee the Pledged Revenues to maintain the balance in the Transportation O&M Reserve Fund at the Transportation O&M Revenue Requirement and the City Transportation O&M Fund at the City Transportation O&M Reserve Requirement. In the event Pledged Revenues are insufficient for such purposes, the City pledges to remit to the Trustee, to the extent permitted by law, Airport Improvement Funds to remedy any deficiency within sixty days of notice from the Trustee. The City's obligation to make Additional Payments as provided in this subsection (c) shall continue until all Bonds are no longer outstanding.

Section 3.6. Obligations of City Hereunder Unconditional. The obligations of the City to pay the amounts required in Section 3.3 (subject to certain limitations) and to perform and observe the other agreements on its part contained herein shall be absolute and unconditional, regardless of the continued existence of the Property or its physical condition.

* * *

Section 4.1. Prior Lien Obligations. The City shall not incur any obligations payable from the Pledged Revenues ranking prior to the obligations of the City under this City Purchase Agreement.

The City shall not incur any obligations payable from the Pledged Revenues in the future on a parity with its obligations under the City Purchase Agreement except for (a) Bonds entered into or issued for the purpose of refunding the 2004 Bonds or Parity Obligations if upon the incurring of such Parity Obligations, the conditions specified below are met, or (b) Parity Obligations entered into or issued for purposes other than refunding the 2004 Bonds or Parity Obligations if, upon the incurring of such Parity Obligations, the conditions specified below are met.

Section 4.2. Additional Parity Obligations for Refunding Purposes. Any or all of the 2004 Bonds or Parity Obligations may be refunded at maturity, upon redemption in accordance with their terms or with the consent of the holders thereof, and the refunding obligations so issued, if so designated by the City, shall constitute Parity Obligations *provided, however*, that:

(a) An officer of the City shall certify that the Maximum Annual Debt Service becoming due and payable from the date of such determination to maturity or earlier redemption on the Bonds of all series to be Outstanding immediately after the date of authentication and delivery of such refunding bonds is not greater than 110% of the Maximum Annual Debt Service becoming due and payable from the date of such determination to maturity or earlier redemption on the Bonds of all series Outstanding immediately prior to the authentication and delivery of such refunding bonds; and

(b) The bonds being refunded will no longer be Outstanding upon the issuance of the refunding bonds.

Section 4.3. Parity Obligations Generally. Parity Obligations may also be issued if the following conditions are satisfied:

(a) A Corporation Representative shall certify that, upon issuance or delivery of the Parity Obligations, neither the Corporation, nor the City will be in default under any term or provision of the Bond Indenture or the City Purchase Agreement;

(b) To the extent necessary to acknowledge or perfect the security interest of the holders of the Parity Obligations in the Pledged Revenues (other than amounts in the 2004 Debt Service Reserve Fund), an agreement in form and substance satisfactory to the Trustee between the Trustee and the trustee(s) for the Parity Obligations;

(c) The Trustee certifies that upon issuance of the Parity Obligations, the 2004 Debt Service Reserve Fund (and similar accounts established for Parity Obligations) and the Debt Service Coverage Fund are funded at the applicable Debt Service Reserve Requirement and the Debt Service Coverage Requirement, respectively; and

(d) A City Representative shall certify that either the Annual Receipts for the most recently completed Fiscal Year for which audited financial statements are available or the Annual Receipts for 12 consecutive months out of the most recent 18 calendar months would have been at least equal to Administrative Costs for the last complete Bond Year and 125% of the Maximum Annual Debt Service for all Bonds to be Outstanding, including the Parity Obligations proposed to be issued.

Section 4.4. Rate Covenant. The City covenants that it will in each Bond Year, establish, maintain and enforce the Customer Facility Charges applicable to both RCC Companies and Off-Site Companies at not less than the Pledged Rate. In the event that the Annual Receipts prepared pursuant to the City Purchase Agreement plus amounts on deposit in the Debt Service Coverage Fund, are not projected to equal at least (a) 125% of the Principal Requirement and the Interest Requirement plus (b) budgeted Administrative Costs for the next Bond Year and any amounts required to maintain the 2004 Debt Service Reserve Fund (and comparable funds established for Parity Obligations) at the applicable Debt Service Reserve Fund Requirement and the Debt Service Coverage Fund at the Debt Service Coverage Requirement, it will use its best efforts to increase the rate at which Customer Facility Charges are imposed to remedy such projected deficiencies and notify the Trustee of a corresponding increase in the Pledged Rate. Such notice shall, without further action, increase the Pledged Rate for purposes of this Agreement and the Bond Indenture. The Corporation acknowledges that increasing the rate at which the Customer Facility Charges are imposed and increasing the Pledged Rate are legislative acts solely within the control of the City Council.

Section 4.5. Derivative Products. The City reserves the right to enter into arrangements involving derivative products including swap agreements, forward agreements, interest rate agreements, and other similar agreements, to the extent permitted by law, and make payments on such agreements from Pledged Revenues, and reserves the right to establish funds, accounts and subaccounts to make payment on such agreement and reserves the right to revise the flow of funds set forth in the Bond Indenture and corresponding Parity Obligation Documents, provided that such revisions do not result in payments under such agreements being made on a basis which is senior to the payment of any Bonds and do not permit extraordinary payments such as termination payments to be made on a basis other than subordinate to the payment of the Principal Requirement and the Interest Requirement. To the extent the City enters into such agreements and pledges Pledged Revenues to the payment of such agreements on a parity with the Bonds, such agreements may only be incurred if the City satisfies the relevant Parity Obligations test subject to the provisions set forth below. In determining whether the Parity Obligations test is satisfied in connection with any such agreements, the City is permitted to treat the amount or rate of interest on those agreements or on the Parity Bonds to which the applicable agreement applies as the amount or rate of interest payable after giving effect to the agreements, provided that any agreement is with a Qualified Counterparty, thus the City is permitted to include the net payment due under such agreements in calculating the additional bonds tests. Further, the City is permitted to disregard the notional principal amount of any such agreement provided that such agreement is with a Qualified Counterparty. The City will not enter into a Derivative Product without the consent of the 2004 Insurer.

Section 4.6. Subordinate Obligations. The City reserves the right to issue or enter into obligations payable from Pledged Revenues after payment of Bonds, which are subordinate to the City's obligation to pay the Purchase Price hereunder.

* * *

Section 5.2. Annual Budget and Projections. A City Representative or Rate Consultant shall prepare and deliver to the Trustee and the 2004 Bond Insurer, no later than ninety (90) days prior to the beginning of each Bond Year, a schedule or schedules setting forth budgeted Administrative Costs, budgeted Transportation O&M Costs, projected Pledged Revenues by source and the ratio of projected Annual Receipts to debt service on the Bonds for the Bond Year. For purposes of determining the Transportation O&M Reserve Requirement and the City Transportation O&M Reserve Requirement, such schedules shall also include a projection of Transportation O&M Expenses for the second succeeding Bond Year.

Section 5.3. RCC Leases and Concession Agreements. The City shall diligently enforce its rights and perform its obligations (including those rights to performance of obligations to the City owed by third parties, such as payment guarantors) under the RCC Leases and Concession Agreements.

* * *

Section 5.8. No Competing Facility. The City may only permit a competing facility to be operated within its jurisdiction if Airport rental car customers are required to pay Customer Facility Charges at not less than the Pledged Rate and the rental car companies using such facility are required to remit such Customer Facility Charges to the Depository for the benefit of the Trustee.

* * *

Section 7.1. Events of Default. Any one or more of the following events (herein called "Events of Default") shall constitute a default under the City Purchase Agreement.

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

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

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

Section 7.2. Remedies on Default by City. Upon the occurrence of an Event of Default as above defined, the Corporation shall, but only if requested to do so by the Trustee, without further demand or notice, exercise any of the available remedies at law or in equity, including, but not limited to, specific performance hereunder and under the RCC Leases and Concession Agreements, however, under no circumstances may amounts due under the City Purchase Agreement be accelerated.

* * *

Section 8.9 Provisions Regarding 2004 Bond Insurer and 2004 Surety Provider.

(a) The City shall provide the 2004 Bond Insurer with the following information:

(i) Notice of any drawing upon or deficiency due to market fluctuation in the amount, if any, on deposit, in the 2004 Debt Service Reserve Fund;

(ii) Notice of the redemption, other than mandatory sinking fund redemption, of any of the 2004 Bonds, or of any advance refunding of the 2004 Bonds, including the principal amount, maturities and CUSIP numbers thereof;

(iii) Notice of an event requiring the City to use its best efforts to increase the rate at which Customer Facility Charges are imposed and to increase the Pledged Rate;

(iv) Notice of any material events with respect to the 2004 Bonds pursuant to Rule 15c2-12 under the Securities Exchange Act of 1934;

(v) Notice of any downgrade in the underlying ratings of the 2004 Bonds below investment grade;

(vi) Notice if the project is not completed by December 31, 2005; and

(vii) Such additional information as the 2004 Bond Insurer may reasonably request from time to time.

(b) The City shall pay Policy Costs from amounts described in paragraph (f) hereof. Repayment of Policy Costs shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to $\frac{1}{12}$ th of the aggregate of Policy Costs related to such draw.

(c) Amounts in respect of Policy Costs paid to the 2004 Surety Provider shall be credited first to interest due, then to the expenses due and then to principal due.

(d) Payment of any Policy Costs shall be made prior to replenishment of any cash amounts withdrawn from the 2004 Debt Service Reserve Fund. Payment of Policy Costs and reimbursement of amounts with respect to alternative credit instruments shall be made on a pro rata basis prior to replenishment of any cash drawn from the Debt Service Reserve Fund.

(e) If the City shall fail to pay any Policy Costs in accordance with the requirements hereof, the 2004 Surety Provider shall be entitled to exercise any and all remedies available at law, including those provided under the Indenture, other than (i) acceleration of the maturity of the 2004 Bonds or (ii) remedies which would adversely affect owners of the 2004 Bonds.

(f) In order to secure the City's payment obligations with respect to the Policy Costs, there is hereby granted in favor of the 2004 Surety Provider a security interest (subordinate only to that of the owners of the Bonds) in the Pledged Revenues.

(g) The City's obligations hereunder to pay Policy Costs to the 2004 Surety Provider shall expressly survive payment in full of the Purchase Price.

(h) The City shall take such actions as are within its control to enable the Corporation to comply with the Debt Service Reserve Fund Policy Agreement dated June 2, 2004 with respect to the 2004 Bonds.

(i) The 2004 Surety Provider and the 2004 Bond Insurer shall be considered third party beneficiaries of this Agreement for purposes of this Section.

(j) The City shall pay or reimburse the 2004 Bond Insurer for any and all charges, fees, costs, and expenses that the 2004 Bond Insurer may reasonably pay or incur in connection with the following: (i) the administration, enforcement, defense, or preservation of any rights or security hereunder or under any other transaction document; (ii) the pursuit of any remedies, under the City Purchase Agreement, under any other transaction document, or otherwise afforded by law or equity; (iii) any amendment, waiver, or other action with respect to or related to the City Purchase Agreement or any other transaction document whether or not executed or completed; (iv) the violation by the City of any law, rule, or regulation or any judgment, order or decree applicable to it; (v) any advances or payments made by the 2004 Bond Insurer to cure defaults of the City under the transaction documents; or (vi) any litigation or other dispute in connection with the City Purchase Agreement, any other transaction document, or the transactions contemplated hereby or thereby, other than amounts resulting from the failure of the 2004 Bond Insurer to honor its payment obligations under the Policy. The 2004 Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver, or consent proposed in respect of this City Purchase Agreement or any other transaction document. The obligations of the City to the 2004 Bond Insurer shall survive discharge and termination of this City Purchase Agreement.

Section 9.3. Amendments. The City Purchase Agreement may only be amended with the express written consent of the Trustee and in accordance with the provisions of the Bond Indenture, provided that no such consent shall be required for any amendment to the description of the Project or the Property.

THE BOND INDENTURE

Section 1.3. All 2004 Bonds Equally and Ratably Secured; 2004 Bonds Not General Obligations of the Corporation. All 2004 Bonds issued hereunder and at any time Outstanding shall in all respects be equally and ratably secured. The 2004 Bonds shall be payable solely out of the Pledged Revenues and shall not constitute an indebtedness or general obligation of the Corporation or the City within the meaning of any State

constitutional provision or statutory limitation and shall never constitute or give rise to a pecuniary liability of the Corporation or the City or be a charge against their general credit or a charge against the general credit or the taxing powers of the State or any political subdivision thereof. The Corporation has no taxing power.

* * *

Section 5.3. Flow of Funds — Revenue Fund. So long as any 2004 Bonds are Outstanding, in each Bond Year, Pledged Revenues received by the Trustee shall be deposited to the credit of the Revenue Fund and applied in the following manner and order of priority:

(a) **Administrative Costs Fund.** The Trustee shall deposit to the Administrative Costs Fund on or before the first Business Day of each month, an amount equal to the Administrative Costs budgeted for the 2004 Bonds or any Parity Obligations for such Bond Year until all budgeted Administrative Costs have been deposited. Thereafter, no additional transfers to the Administrative Costs Fund may be made during such Bond Year unless the City amends the Administrative Costs budgeted for the Bonds for such Bond Year and such amendment increases the Administrative Costs budgeted for the Bonds for such Bond Year. In such event, the Trustee is required to transfer to the Administrative Costs Fund all moneys subsequently deposited in the Revenue Fund until there shall have been deposited thereto an amount equal to the increased Administrative Costs budgeted for the Bonds for such Bond Year. In the event amounts on deposit at the end of a Bond Year exceed the amount budgeted for the following Bond Year, such excess shall be transferred to the Improvement Reserve/Surplus Fund. Notwithstanding the foregoing, Administrative Costs may not be paid in any Bond Year in an amount exceeding one percent of the preceeding Bond Year's Annual Receipts. For purposes of this limitation, Annual Receipts for the Bond Year ending July 1, 2004 shall be deemed to be \$27,653,902. Administrative Costs in excess of such limit may be paid from amounts in the Improvement Reserve/Surplus Fund.

(b) **2004 Interest Account and Parity Obligation Interest Accounts.** The Trustee shall deposit to the 2004 Interest Account and any subsequent account for Parity Obligations on or before the first Business Day of each month an amount equal to one-fifth of the respective amounts of interest to be paid on Outstanding Bonds on the next Bond Payment Date unless and until funds are on deposit in an amount sufficient to make such payment. If Pledged Revenues are not available to make a deposit when required, such deficiency shall be remedied on the next succeeding deposit date. Moneys in the 2004 Interest Account shall be used to pay interest on the 2004 Bonds as it becomes due.

(c) **2004 Principal Account and Parity Obligation Principal Accounts.** The Trustee shall deposit to the 2004 Principal Account and any subsequent account for Parity Obligations on or before the first Business Day of each month (in each Bond Year ending on a date on which Bonds mature), an amount equal to one tenth of the respective principal amounts at maturity plus one-tenth of the amount equal to any mandatory sinking fund redemption requirement of 2004 Bonds Outstanding (or similar obligation with respect to Parity Obligations) which will mature or be subject to mandatory redemption on the last day of such Bond Year unless and until funds are on deposit in an amount sufficient to make such payment. If Pledged Revenues are not available to make a deposit when required, such deficiency shall be remedied on the next succeeding deposit date. Moneys in the 2004 Principal Account shall be used to retire 2004 Bonds by payment at their scheduled maturity or their mandatory sinking fund retirement date.

(d) **2004 Debt Service Reserve Fund and Parity Obligation Reserve Funds.** The Trustee shall deposit from time to time to the credit of the 2004 Debt Service Reserve Fund and every separate debt service reserve fund established for Parity Obligations not secured by the 2004 Debt Service Reserve Fund, amounts then required to be deposited therein on a pro rata basis, provided that such deposits may be transferred to the applicable Credit Facility in order to reimburse such Credit Facility for amounts paid out under any insurance policy or Qualified Surety Bond securing any of the Bonds.

(e) **Debt Service Coverage Fund.** The Trustee shall deposit from time to time to the credit of the Debt Service Coverage Fund, amounts then required to be deposited therein.

(f) *Transportation O&M Fund.* The Trustee shall deposit to the credit of the Transportation O&M Fund on or before the first Business Day of each month an amount equal to the Transportation O&M Expenses budgeted for such Bond Year until all budgeted Transportation O&M Expenses have been deposited.

(g) *Transportation O&M Reserve Fund.* The Trustee shall deposit to the credit of the Transportation O&M Reserve Fund on or before the first Business Day of each month an amount equal to the amount required to maintain the balance therein equal to the Transportation O&M Reserve Requirement.

(h) The Trustee shall transfer to the City for deposit to the City Transportation O&M Reserve Fund on or before the first Business Day of each month amounts certified by the City as necessary to maintain the balance therein at the City Transportation O&M Reserve Requirement.

(i) *Improvement Reserve/Surplus Fund.* The Trustee shall deposit to the credit of the Improvement Reserve/Surplus Fund any amounts remaining in the Revenue Fund.

Section 5.4. 2004 Redemption Account of the 2004 Bond Fund. If the City makes an optional prepayment of any installment of principal which is to be applied to redeem 2004 Bonds and specifying the amount and maturities of 2004 Bonds to be redeemed and the optional redemption date, the amount so paid shall be credited to the 2004 Redemption Account and applied promptly by the Trustee, first, to cause the amounts credited to the 2004 Interest Account or the 2004 Principal Account of the 2004 Bond Fund, in that order, to be not less than the amounts then required to be credited thereto, and, second, to retire 2004 Bonds by purchase, redemption or both purchase and redemption in accordance with the City's directions. Any such purchase shall be made at the best price obtainable with reasonable diligence and no 2004 Bond shall be so purchased at a cost or price (including brokerage fees or commissions or other charges), excluding accrued interest, which exceeds the redemption price at which such 2004 Bond could be redeemed on the date of purchase or on the next succeeding date upon which such 2004 Bond is subject to redemption, plus accrued interest, to the date of purchase. Any such redemption shall be of 2004 Bonds then subject to redemption at the redemption price then applicable for redemption of such 2004 Bonds.

Any balance remaining in the 2004 Redemption Account after the purchase or redemption of 2004 Bonds in accordance with the City's directions shall be transferred to the 2004 Interest Account.

Section 5.5. Administrative Costs Fund. The Trustee shall apply amounts credited to the Administrative Costs Fund to pay or reimburse the City for Administrative Costs within three Business Days of receipt of a direction of a City Representative specifying the payee and certifying that the Administrative Costs have been incurred as permitted by this Bond Indenture.

Section 5.6. Debt Service Coverage Fund. Subject to the payments required as described above, from and to the extent of any moneys remaining in the Revenue Fund, there shall be deposited to the Debt Service Coverage Fund from time to time amounts necessary to maintain the balance in the Debt Service Coverage Fund at an amount at least equal to the Debt Service Coverage Requirement. Amounts in the Debt Service Coverage Fund shall be used by the Trustee to pay the Interest Requirement or the Principal Requirement of the Bonds on any Bond Payment Date to the extent sufficient funds are not available in the 2004 Bond Fund or separate similar funds established for Parity Obligations, or the Improvement Reserve/Surplus Fund.

Section 5.7. 2004 Debt Service Reserve Fund.

(a) Subject to the payments required as described above, from and to the extent of any moneys remaining in the Revenue Fund, there shall be deposited to the 2004 Debt Service Reserve Fund from time to time amounts necessary to maintain the balance in the 2004 Debt Service Reserve Fund at an amount at least equal to the 2004 Debt Service Reserve Requirement and to similar accounts established at the applicable Debt Service Reserve Requirement for any Parity Obligations.

(b) Amounts in the 2004 Debt Service Reserve Fund shall be applied to pay the Interest Requirement and the Principal Requirement for the 2004 Bonds on any Bond Payment Date to the extent sufficient funds are not available 2004 Bond Fund, the Debt Service Coverage Fund and the Improvement Reserve/Surplus Fund.

(c) The 2004 Debt Service Reserve Fund may be funded with cash, Permitted Investments or a Qualified Surety Bond. The City has deposited with the Trustee the 2004 Surety Bond issued by the 2004 Surety Provider equal to the 2004 Debt Service Reserve Requirement. In the event the City chooses to provide a subsequent Qualified Surety Bond, the City shall receive a certificate or an opinion to the effect that the Qualified Surety Bond is a binding obligation of the issuer thereof and shall receive evidence that the issuer thereof meets the rating requirements set forth in the Indenture. If as a result of the provision of a Qualified Surety Bond, the amount of cash and Permitted Investments exceeds the 2004 Debt Service Reserve Requirement, such excess shall be transferred to the Revenue Fund. In the event the 2004 Debt Service Reserve Fund contains both cash or Permitted Investments and a Qualified Surety Bond, then the cash and Permitted Investments shall be liquidated prior to drawing upon the Qualified Surety Bond. Further, replenishment of the 2004 Debt Service Bond Reserve Fund shall be made first to the reinstatement of such Qualified Surety Bond and then, at the option of the Corporation, at the direction of the City, to cash or Permitted Investments. In the event the amount on deposit in the 2004 Debt Service Reserve Fund consists of cash or Permitted Investments with a value in excess of the 2004 Debt Service Reserve Requirement, the Trustee shall transfer such excess to the Revenue Fund.

Section 5.8. Transportation O&M Fund. Subject to the payments required by as described above, amounts remaining in the Revenue Fund shall be credited to the Transportation O&M Fund. On the first Business Day of each month, the Trustee shall transfer one-twelfth of the budgeted annual Transportation O&M Expenses to the City pursuant to the City Purchase Agreement to be used to pay Transportation O&M Expenses or to reimburse the City for such expenses. If the monthly amounts so transferred are insufficient to pay Transportation O&M Expenses incurred, the Trustee shall, at the direction of the City, transfer additional amounts necessary to pay actual Transportation O&M Expenses in accordance with the following paragraph.

The City has covenanted in the City Purchase Agreement to pay Transportation O&M Expenses from the following sources in the following order: (i) monthly or supplemental transfers from the Transportation O&M Fund, (ii) amounts on deposit in the Improvement Reserve/Surplus Fund and (iii) amounts on deposit in the Transportation O&M Reserve Fund. At the City's option, amounts on deposit in the City Transportation O&M Reserve Fund may also be used to pay Transportation O&M Expenses.

Section 5.9 Transportation O&M Reserve Fund. Subject to the payments required as described above, from and to the extent of any moneys remaining in the Revenue Fund together with Airport Improvement Funds paid by the City to the Trustee pursuant to the City Purchase Agreement, there shall be deposited to the Transportation O&M Reserve Fund from time to time amounts necessary to maintain the balance in the Transportation O&M Reserve Fund at an amount at least equal to the Transportation O&M Reserve Requirement. Amounts in the Transportation O&M Reserve Fund shall be used by the Trustee to pay Transportation O&M Expenses either directly or by transfer to the City to the extent funds are not available in the Transportation O&M Fund and the Improvement Reserve/Surplus Fund.

Section 5.10. Improvement Reserve/Surplus Fund. Subject to the payments required as described above, amounts remaining in the Revenue Fund shall be deposited to the Improvement Reserve/Surplus Fund. Amounts in the Improvement Reserve/Surplus Fund shall be used by the Trustee in the following order of priority: (i) to pay Administrative Costs to the extent funds are not available in the Administrative Costs Fund, (ii) to pay the Principal Requirement and Interest Requirement on the Bonds on any Bond Payment Date to the extent funds are not available in the 2004 Bond Fund or separate bond funds established for Parity Obligations, or the Debt Service Coverage Fund, (iii) to restore any deficiency in the 2004 Debt Service Reserve Fund or any separate reserve fund established for Parity Obligations or to reimburse the provider of a Qualified Surety Bond, (iv) to restore any deficiency in the Debt Service Coverage Fund, and (v) at the direction of the City, to the Transportation O&M Fund, the Transportation O&M Reserve Fund to the extent necessary to maintain the balance therein at the Transportation O&M Reserve Requirement, the City Transportation O&M Reserve Fund to the extent necessary to maintain the balance therein at the City Transportation O&M Requirement or the Construction Fund or to reimburse the City for any Airport Improvement Funds deposited to the credit of the Transportation O&M Reserve Fund.

* * *

Section 5.13. Investment Income. Except as otherwise provided herein, interest income and gain received, or loss realized, from investments or moneys in any fund or account shall be credited, or charged, as the case may be, to such respective fund or account. Income and gain from 2004 Redemption Account investments may be transferred to any other fund or account upon direction of the City. Investment income from the Administrative Costs Fund, the 2004 Debt Service Reserve Fund, the Debt Service Coverage Fund and the Improvement Reserve/Surplus Fund shall be transferred to the Revenue Fund to the extent such funds are not needed to maintain an applicable balance requirement.

* * *

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

(a) If payment of any installment of interest on any 2004 Bond shall not be made in full when the same becomes due and payable;

(b) If payment of the principal or redemption premium, if any, on any 2004 Bond shall not be made in full when the same becomes due and payable;

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

(d) If the Corporation shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions on its part to be performed and such default shall continue for 30 days after written notice specifying such default and requiring the same to be remedied shall have been given to the Corporation and the City by the Trustee, unless within such 30 days the Corporation shall have commenced and be diligently pursuing in good faith appropriate corrective action to the satisfaction of the Trustee; the Trustee may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than 25% in principal amount of the 2004 Bonds then Outstanding; or

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

Section 7.2. Remedies and Enforcement of Remedies. (a) Upon the occurrence and continuance of any Event of Default and in accordance with the City Purchase Agreement, the Trustee may, and upon the written request of the Holders of not less than a majority in principal amount of the 2004 Bonds Outstanding, together with indemnification of the Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the 2004 Bondholders hereunder and the 2004 Bonds by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem expedient, including but not limited to, an action for the recovery of any amounts due hereunder or for damages for the breach of this Bond Indenture, and the Trustee may pursue any other remedy which the law affords, including the remedy of specific performance. The Trustee shall also have those remedies which the Corporation is provided pursuant to the City Purchase Agreement, subject to any limitations on such remedies set forth in the City Purchase Agreement and of the Bond Indenture.

(b) Regardless of the happening of an Event of Default and subject to the Bond Indenture, the Trustee, if requested in writing by the Holders of not less than a majority in principal amount of the 2004 Bonds then Outstanding shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security hereunder by any acts which may be unlawful or in violation, or (ii) to preserve or protect the interests of the Holders, provided that such request is in accordance with law and the provisions hereof and, in the sole judgment of the Trustee, is not unduly prejudicial to the interest of the Holders of 2004 Bonds not making such request.

Section 7.3. No Acceleration. In no event shall the Trustee have the right to accelerate or cause to become immediately due and payable or payable in advance of their scheduled maturity dates, other than an optional redemption pursuant to this Bond Indenture and then only to the extent of the amount to be so redeemed and only pursuant to the Bond Indenture, amounts due thereunder.

Section 7.4. Application of Revenues and Other Moneys After Default. During the continuance of an Event of Default all moneys received by the Trustee pursuant to any right given or action taken under the provisions of this Article, shall, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the fees, expenses and advances incurred or made by the Trustee with respect thereto, be deposited in the 2004 Bond Fund, and all amounts held by the Trustee hereunder shall be applied as follows:

First: To the payment to the Persons entitled thereto of all installments of interest (including interest on amounts unpaid when due on the 2004 Bonds) then due, and, if the amount available shall not be sufficient to pay in full any installment or installments then due, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid Principal Installments or redemption price of any 2004 Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all the 2004 Bonds due on any date, then to the payment thereof ratably, according to the amounts of Principal Installments or redemption price due on such date, to the Persons entitled thereto, without any discrimination or preference.

Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys shall be applied by it at such times, and from time to time, as the Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal of the 2004 Bonds to be paid on such dates shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of any unpaid 2004 Bond until such 2004 Bond shall be presented to the Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all principal of and interest on the 2004 Bonds which has become due has been paid under the provisions of this Section and all expenses and charges of the Trustee have been paid and the 2004 Bond Fund contains the amounts then required to be credited thereto, any balance remaining shall be paid to the City.

* * *

Section 7.7. Individual 2004 Bondholder Action Restricted. (a) No Holder of any 2004 Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement hereof or for the execution of any trust hereunder or for any remedy hereunder except for the right to institute any suit, action or proceeding in equity or at law for the enforcement of the Trustee's duties and powers hereunder upon the occurrence of all of the following events:

(i) The Holders of at least a majority in principal amount 2004 Bonds Outstanding, shall have made written request to the Trustee to proceed to exercise the powers granted herein; and

(ii) Such 2004 Bondholders shall have offered the Trustee reasonable security or indemnity; and

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

(iv) During such 60 day period no direction inconsistent with such written request has been delivered to the Trustee by the Holders of a greater majority in principal amount of 2004 Bonds then Outstanding.

(b) No one or more Holders of 2004 Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the security hereof or to enforce any right except in the manner herein provided and for the equal benefit of the Holders of all 2004 Bonds Outstanding.

(c) Nothing contained herein shall affect or impair, or be construed to affect or impair, the right of the Holder of any 2004 Bond (i) to receive payment of the principal of or interest on such 2004 Bond, as the case may be, on or after the due date thereof or (ii) to institute suit for the enforcement of any such payment on or after such due date; provided, however, no Holder of any 2004 Bond may institute or prosecute any such suit or enter judgment therein if, and to the extent that, the institution or prosecution of such suit or the entry of judgment therein would, under applicable law, result in the surrender, impairment, waiver or loss of the lien hereof on the moneys, funds and properties pledged hereunder for the equal and ratable benefit of all Holders of 2004 Bonds.

* * *

Section 7.9. Waiver of Event of Default. (a) No delay or omission of the Trustee or of any Holder of the 2004 Bonds to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given by this Article may be exercised from time to time and as often as may be deemed expedient.

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

(c) In case of any waiver by the Trustee of an Event of Default hereunder, the Corporation, the Trustee and the 2004 Bondholders shall be restored to their former positions and rights hereunder, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon. The Trustee shall not be responsible to anyone for waiving or refraining from waiving any Event of Default in accordance with this Section.

* * *

Section 7.13. 2004 Bond Insurer's Rights Relating to Events of Default. Notwithstanding any provision herein to the contrary:

(a) In determining whether a payment default has occurred or whether a payment on the 2004 Bonds has been made hereunder, no effect shall be given to payments made under the 2004 Policy.

(b) The Trustee shall give immediate notice to the 2004 Insurer of any payment default and shall notify the 2004 Insurer within 30 days of any other event of default of which the Trustee has knowledge.

(c) For all purposes of this Article VII, except the giving of notice of default to 2004 Bondholders, the 2004 Insurer shall be deemed to be the sole holder of the 2004 Bonds for so long as the 2004 Policy is in effect and the Bond Insurer is not contesting its obligations thereunder.

(d) The 2004 Insurer shall be deemed to be a third party beneficiary entitled to:

(i) notify the Corporation and the Trustee or any applicable receiver of the occurrence of an Event of Default; and

(ii) request the Trustee to intervene in judicial proceedings that affect the 2004 Bonds or the security therefor. The Trustee or receiver shall be required to accept notice of an event of default from the 2004 Insurer.

Section 9.1. Supplements not Requiring Consent of 2004 Bondholders. The Corporation acting through the Corporation Representative and the Trustee may, but without the consent of or notice to any of the Holders, enter into one or more supplements to the Bond Indenture for one or more of the following purposes:

- (a) To cure any ambiguity or formal defect or omission herein or to correct or supplement any provision therein which may be inconsistent with any other provision herein, or, to make any other provisions with respect to matters or questions arising hereunder provided such action shall, in the opinion of the Trustee, not materially adversely affect the interests of the Holders;
- (b) To grant or confer upon the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them;
- (c) To secure additional revenues or provide additional security or reserves for payment of the 2004 Bonds;
- (d) To comply with the requirements of any state or federal securities laws or the Trust Indenture Act of 1939, as from time to time amended, if required by law or regulation lawfully issued thereunder;
- (e) To provide for the appointment of a successor trustee or co-trustee; and
- (f) To adopt procedures for the disclosure of information to 2004 Bondholders and to others in accordance with any guidelines for such purpose promulgated by the American Bankers Association or some other similar national organization, as such guidelines may be made applicable to this Bond Indenture by agreement of the Trustee, the Corporation and the City.

Section 9.2. Supplements Requiring Consent of 2004 Bondholders. (a) Other than Supplements described above and subject to the terms and provisions and limitations contained in this Article and not otherwise, the Holders of not less than a majority in principal amount of the 2004 Bonds then Outstanding, shall have the right, from time to time, anything contained herein to the contrary notwithstanding, to consent to and approve the execution by the Corporation acting through the Corporation Representative and the Trustee of such Supplement as shall be deemed necessary and desirable by the Corporation and the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular respect, any of the terms or provisions contained herein; provided, however, nothing shall permit or be construed as permitting a supplement which would:

- (i) extend the stated maturity of or time for paying interest on any 2004 Bond or reduce the principal amount of or the redemption premium or rate of interest payable on any 2004 Bond without the consent of the Holder of such 2004 Bond;
- (ii) prefer or give a priority to any 2004 Bond over any other 2004 Bond without the consent of the Holder of each 2004 Bond then Outstanding not receiving such preference or priority;
- (iii) reduce the principal amount of 2004 Bonds then Outstanding the consent of the Holders of which is required to authorize such Supplement without the consent of the Holders of all 2004 Bonds then Outstanding;
- (iv) increase the principal amount of 2004 Bonds then Outstanding the request of the Holders of which is required under the Bond Indenture, without the consent of the Holders of all 2004 Bonds then Outstanding; or
- (v) reduce the redemption price of any 2004 Bond upon optional redemption or reduce any period of time prior to commencement of any optional redemption period without the consent of the Holder of such 2004 Bond.

(b) If at any time the Corporation shall request the Trustee to enter into a Supplement pursuant to this Section, the Trustee shall, upon being satisfactorily and specifically indemnified by the City with respect to expenses with respect to such Supplement, cause notice of the proposed execution of such Supplement to be

mailed by first class mail, postage pre-paid, to all registered Holders of 2004 Bonds then Outstanding at their addresses as they appear on the registration books herein provided for. The Trustee shall not, however, be subject to any liability to any 2004 Bondholder by reason of its failure to mail, or the failure of such 2004 Bondholder to receive, the notice required by this Section, and any such failure shall not affect the validity of such Supplement when consented to and approved as provided in this Section. Such notice shall briefly set forth the nature of the proposed Supplement and shall state that copies thereof are on file at the office of the Trustee for inspection by all 2004 Bondholders.

Section 9.4. Amendments to City Purchase Agreement Not Requiring Consent of 2004 Bondholders. The Corporation and the Trustee may, without the consent of or notice to any of the Holders consent to and join with the City in the execution and delivery of any amendment, change or modification of the City Purchase Agreement as may be required (i) by the provisions thereof; (ii) to cure any ambiguity or formal defect or omission therein or to correct or supplement any provision therein which may be inconsistent with any other provision therein, or to make any other provisions with respect to matters or questions arising thereunder provided such action shall, in the opinion of the Trustee, not materially adversely affect the interests of the Holders or the 2004 Insurer and (iii) to preserve the power of the Corporation to continue to issue bonds or other obligations (specifically not limited to the 2004 Bonds authorized hereby) the interest on which is likewise exempt from federal and State income taxes in connection with any other change therein which in the opinion of the Trustee will not materially adversely affect the interests of the Holders or the Trustee. In addition, the Corporation and the City may amend the description of the Project in the City Purchase Agreement at any time without notice to or consent of the Trustee or the Holders.

Section 9.5. Amendments to City Purchase Agreement Requiring Consent of 2004 Bondholders. Except for amendments, changes or modification to the City Purchase Agreement described above, the Trustee may consent to and join with the City in the execution and delivery of any amendment, change or modification to the City Purchase Agreement only upon the consent of not less than a majority in principal amount of 2004 Bonds then Outstanding, given, provided, however, no such amendment, change or modification may affect the obligation of the City to make payments under the City Purchase Agreement or reduce the amount of or extend the time for making such payments without the consent of the Holders of all 2004 Bonds then Outstanding.

* * *

Section 9.6 Amendments Requiring 2004 Insurer's Consent. No provision of the Indenture or the City Purchase Agreement may be amended without the prior written consent of the 2004 Insurer other than for the issuance of additional Parity Obligations which otherwise meet the requirements of the City Purchase Agreement.

Section 9.7 Rights of 2004 Insurer, Notices. The 2004 Insurer shall receive any notice which would be required to be provided to the Holders of the 2004 Bonds and may deliver consents on behalf of the Holders of the 2004 Bonds. Copies of any proposed amendments to the Indenture or the Purchase Agreement shall be sent to each Rating Agency rating the 2004 Bonds at least 15 days prior to the effective date thereof. The 2004 Insurer shall receive a full transcript of all proceedings relating to the execution of any such supplement or amendment.

The 2004 Insurer shall receive (a) notice of the resignation or removal of the Trustee and the appointment of and acceptance of duties by, any successor thereto, (b) notice of the commencement of any proceeding by or against the Corporation or the City commenced under the United States Bankruptcy Code, or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding"), and (c) notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the 2004 Bonds.

Section 9.8 Default by 2004 Insurer. Any provision of the Indenture to the contrary notwithstanding, but subject to the 2004 Insurer's subrogation rights with respect to payments made under the 2004 Policy, if under any provision hereof any action is to be taken only with the consent or approval of the 2004 Insurer, if at

the time such consent or approval would otherwise be called for the 2004 Insurer is in bankruptcy, receivership, insolvency or similar proceedings or is in default of or is contesting its obligations under the 2004 Policy pertaining to the 2004 Bonds affected by the consent or approval, then the consent or approval of, the 2004 Insurer shall not be required.

Section 10.1. Discharge. If payment of all principal of, premium, if any, and interest on all of the 2004 Bonds in accordance with their terms and is provided for in accordance with the Bond Indenture, and if all other sums, if any, payable by the Corporation, including Policy Costs shall be paid, then the liens, estates and security interests granted under the Bond Indenture shall cease. Thereupon, upon the request of the Corporation, and upon receipt by the Trustee of an Opinion of Counsel (acceptable in form and substance to the 2004 Insurer) addressed to the Corporation, Trustee and the 2004 Insurer stating that all conditions precedent to the satisfaction and discharge of the lien of the Bond Indenture have been satisfied, the Trustee shall execute and deliver proper instruments acknowledging such satisfaction and discharging the lien hereof and the Trustee shall transfer all property held by it hereunder, other than moneys or obligations held by the Trustee for payment of amounts due or to become due on the 2004 Bonds, to the Corporation, the City or such other Person as may be entitled thereto as their respective interests may appear. Such satisfaction and discharge shall be without prejudice to the rights of the Trustee thereafter to charge and be compensated or reimbursed for services rendered and expenditures incurred in connection herewith.

The Corporation or the City may at any time surrender to the Trustee for cancellation any 2004 Bonds previously authenticated and delivered which the Corporation or the City may have acquired in any manner whatsoever and such 2004 Bonds upon such surrender and cancellation shall be deemed to be paid and retired.

Section 10.2. Providing for Payment of 2004 Bonds. Payment of all or any part of the 2004 Bonds in authorized denominations may be provided for by the deposit with the Trustee or any financial institution meeting the requirements as a successor Trustee under the Bond Indenture which may be designated by the City and acceptable to the Trustee to serve as its agent (the "Depository Trustee") of moneys or Defeasance Obligations which are not redeemable in advance of their maturity dates. The moneys and the maturing principal and interest income on such Defeasance Obligations, if any, shall be sufficient, as evidenced by a certificate of an independent nationally recognized certified public accountant or firm of such accountants acceptable to the Trustee, the Depository Trustee and the 2004 Insurer, to pay when due the principal of and interest on such Bonds. The moneys and Defeasance Obligations shall be held by the Trustee or the Depository Trustee irrevocably in trust for the Holders of such 2004 Bonds solely for the purpose of paying the principal and interest on such 2004 Bonds as the same shall mature or come due.

If payment of 2004 Bonds is so provided for, the Trustee or the Depository Trustee shall mail a notice so stating to each Holder of a 2004 Bond so provided for.

2004 Bonds, the payment of which has been provided for shall no longer be deemed Outstanding under the Bond Indenture. The obligation of the Corporation in respect of such 2004 Bonds shall nevertheless continue but the Holders thereof shall thereafter be entitled to payment only from the moneys or Defeasance Obligations deposited with the Trustee or the Depository Trustee to provide for the payment of such 2004 Bonds.

CFC ORDINANCE (AS CODIFIED)

Sec. 4-79. Rental car customer facility charge.

A. Commencing on June 1, 2002, and subject to the exception in Subsection 4-79(B), all on-airport vehicle rental companies who lease terminal space at, and all off-airport vehicle rental companies who obtain customers at, Phoenix Sky Harbor International Airport shall collect a daily customer facility charge ("CFC") of three dollars and fifty cents per transaction day per vehicle from all airport customers. A transaction day means a car rented for twenty-five or fewer hours for the first transaction day, and every twenty-four hours for each transaction day thereafter. Effective September 1, 2003, the CFC shall increase to four dollars and fifty cents per transaction day per vehicle from all airport customers.

B. The CFC shall not apply to customers who did not arrive at the airport by an airline servicing the airport as evidenced by the customers rental contract and an Arizona driver's license that both reference a personal residence within one of the Maricopa County zip codes that fall within a thirty-mile radius of the airport (the "non-airport customer exemption"). The non-airport customer exemption shall terminate on the date of beneficial occupancy of the consolidated rental car facility.

C. All CFCs collected by all vehicle rental companies are and shall be trust funds held by the vehicle rental companies for the benefit of the City. Vehicle rental companies and their agents hold only a possessory interest in the CFCs, and no legal or equitable interest. All vehicle rental companies shall segregate, separately account for and disclose all CFC's as trust funds in their financial statements, and shall maintain adequate records that account for all CFC's charged and collected. Failure to segregate the CFC's shall not alter or eliminate their trust fund nature. The City shall have the right to audit the CFC records upon reasonable notice.

D. All vehicle rental companies shall remit all CFC's that were collected or should have been collected from its airport customers on a monthly basis to the City together with the monthly statement of transactions and transaction days to a lockbox location designated by the City. The CFC's shall be remitted by the last day of the month following the month the CFC's were collected. Failure to strictly comply with this subparagraph shall be considered a material breach of the vehicle rental company's authorization to do business at the airport.

E. 1. The CFC's shall be used to pay, or reimburse the City, for the costs associated with the consolidated rental car facility which shall be located in Sky Harbor Center, and for the costs of related transportation facilities and equipment. Any or all of the CFC's may be pledged to the punctual payment of debt service on obligations issued by or on behalf of the City for the cost of the consolidated rental car facility and related transportation facilities and equipment, and to create and maintain reasonable reserves. Eligible costs for the consolidated rental car facility shall include all costs, fees, and expenses associated with the planning, design, equipping, construction, and other related costs for the development or acquisition of the consolidated car rental facility. Eligible costs for the related transportation facilities and equipment shall include operating costs in addition to the foregoing costs. Any or all of the CFC's may be deposited with an eligible depository or held in trust by a trustee pending application as authorized by this section.

2. The CFC's shall be used to pay, or reimburse, the participating vehicle rental companies for reasonable and necessary consulting and attorneys' fees directly related to their participation in the consolidated rental car facility project.

F. The consolidated rental car facility and related improvements are designated as "special purpose facilities" for purposes of Ordinance No. S-21974, as amended, Master Airport Revenue Refunding Bond Ordinance.

G. This Section is hereby adopted pursuant to the laws of the State of Arizona, including, without limitation, Arizona Constitution, Article XIII; Title 9 and Article 6, Chapter 25, Title 28, Arizona Revised Statutes, as amended; and the City of Phoenix Charter.

(Ord. No. G-4375, § 2, passed 7-5-2001, eff. 8-4-2001; Ord. No. G-4418, §3, passed 4-3-2002, eff. 5-3-2002; Ord. No. G-4530, § 1, 2, passed 7-2- 2003, eff. 8-1 -2003)

THE RCC LEASE

* * *

2.2 Allocation/Reallocation/Relocation of Premises.

(a) Initial Allocation

The initial allocation of the Premises has been determined by the results of the RFP.

The Tenant's initial allocation of the EVS and ECS will remain unchanged for the first ten years of the Term, except upon City's determination that those areas must be reallocated to avoid adverse impact on the operation of the RCC resulting from changes in operations by the Tenants or changes in the needs of the RCC customers.

(b) EG Reallocation

On or about the end of the second Lease Year, and every two years thereafter until the end of the Term, City will lend its best effort to reallocate EG in a manner which most approximates the market share of each Tenant (as averaged throughout the most recent twenty-four (24) month period since DBO) in a manner consistent with the EUM and with the least impact on the operation of the RCC, in City's sole judgment.

Tenant shall be responsible for any and all expenses or costs incurred in effecting reallocation.

(c) Relocation

At any time throughout the Term, if City determines that significant market share changes make it necessary to relocate Tenant within the RCC and/or reallocate Tenant's Premises in order to ensure operational efficiency and provide optimum customer service, City has the right to relocate Tenant or reallocate the Premises and will make every effort to accomplish the relocation or reallocation in the least obstructive manner and in a manner consistent with the EUM.

Tenant shall be responsible for any and all expenses or costs incurred in effecting relocation or reallocation.

2.3 *Future Expansion of EG.* If at any time throughout the Term the EG is expanded, the Tenant shall be allocated additional EG stalls approximately in the same percentage of stalls allocated to the Tenant for the most recent EG reallocation as described above.

Tenant shall be responsible for any and all expenses or costs incurred in effecting the allocation, reallocation, or relocation as a result of future expansion of the EG.

2.4 *SOP Conditions.* The SOP will accommodate multiple Tenants and will not be modified for the first ten years of the Term, unless in City's sole determination, modifications must be made in order to facilitate operations at the RCC. It is expected that no individual Tenant operating from the SOP will have a market share of greater than one (1%) percent. City reserves the right to modify SOP conditions in order to promote access by qualified Tenants at any time during the Term without unduly burdening the overall operations of the RCC.

2.5 *Reallocation upon Tenant Termination.* In addition to all other remedies at law, upon the termination of a Tenant's Lease, the City will conduct a bid amongst all other existing Tenants at the RCC for the premises vacated as a result of the termination. If none of the other Tenants bid or are successful in a bid for the vacated premises, then the City will conduct an RFP to the general public for the vacated premises. If there is no interest in the RFP from the general public, then the City will allow existing Tenants to lease vacated garage space on a month to month basis until such time as a new entrant occupies the premises. At all times City will receive cost recovery for the vacated premises.

2.6 *Allocation Based on a Subsequent RFP.* After the tenth Lease Year of the Term all premises will be reallocated based on the results of a new RFP process that the City intends to conduct during the tenth

Lease Year. In any subsequent RFP, all leased areas of the RCC will be subject to occupancy by different Tenants, such that Tenant may receive an award from the City but not occupy the same Premises as Tenant previously occupied.

3.1 Initial Term. The Initial Term of this Lease shall commence on the date of lease execution and shall extend until DBO. During the Initial Term, the Tenant shall have no payment obligations under this Lease. During the Initial Term Tenant will continue operations at the Airport terminals and at its current individual premises.

3.2 Primary Term. The Primary Term of this Lease shall commence on DBO and shall expire at 12:00 a.m. (midnight) on the last day of the twentieth Lease Year, unless this Lease is sooner terminated as hereinafter provided. The start of the Primary Term will trigger the payment obligations described below. During the Primary Term, Tenant will not be permitted to conduct, or contract for, rental Vehicle service or transportation operations anywhere at the Airport other than at the RCC under the terms of this Lease and the Agreement.

If DBO is on a day other than the first day of the month, all monetary obligations under the Lease will be prorated for the remainder of the month.

3.3 Automatic Expiration of the Term. If Tenant does not receive an award from the City following a subsequent RFP for a new Agreement, the RCC Lease will automatically expire at the end of the tenth Lease Year. In the event that a holdover period is necessary, City will provide written notice and consent to Tenant for the extent of said holdover period.

3.4 Holdover. If a Tenant continues to operate after the expiration of the Term with the consent of the City, the RCC Lease, with all its terms and conditions, will be deemed extended on a month-to-month basis. Either the City or the Tenant may terminate this holdover at any time by giving thirty (30) days written notice of termination to the other.

If Tenant continues to operate after the expiration of the Term without the City's consent, Tenant's occupancy shall be at sufferance in monthly intervals with fees payable in advance and equal to 200% of the monthly MAG. Tenant shall be bound by all other conditions and terms of the RCC Lease.

Nothing shall be construed, however, to give any automatic right of holdover and City may exercise any and all remedies at law or in equity to recover possession of the premises identified in the Lease and to terminate Tenant's rental vehicle services at the Airport, together with any damages incurred by the City.

4.1 Ground Rent. Tenant shall pay City an allocated share of ground rent for the entire RCC, in accordance with rates specified in the RCC Lease.

4.2 RCC Operation/Maintenance/Repair Recovery.

(a) Exclusive Use Areas

Tenant is responsible for payment of all expenses in connection with the operation, maintenance, and repair of its EVS, ECS and EG up to a physical demarcation location as specified in the EUM.

(b) Non-Exclusive Areas

The City will develop and deliver to Tenant in writing forecasts of operation, maintenance and repair expenses for the CAS, including administrative charges for the Prorated Lease Year and the first Lease Year. Tenant's allocable share of said forecasted expense shall be based on a share calculation formula.

* * *

5.1 Permitted Use. Tenant shall have the right to the use of the Premises and all common areas of the RCC only for the purpose of conducting Tenant's non-exclusive vehicle rental service pursuant to the Phoenix City Code and the terms of this Lease and the Agreement. All other uses and activities are expressly prohibited unless City provides written consent in its sole and absolute discretion.

* * *

6.1 *Tenant Responsibilities.* Tenant is responsible for performing all repair and maintenance of its improvements on the EVS, ECS, and EG, up to a demarcation point, as specified in the EUM, except for the utilities in the ECS and EG as explained in the EUM.

The required level or standard of maintenance for the EVS, ECS, and EG will be determined by the City with input from the Tenant.

If City determines that Tenant is failing to maintain the level or standard of maintenance set by the City for the EVS, ECS, and EG, Tenant will be deemed in default. In addition to all other remedies, City may elect to assume the responsibility for said maintenance. If City assumes the responsibility for said maintenance, Tenant shall reimburse the City for its costs and an associated administrative charge by paying City 120% of the actual costs as set forth in a written report to the Tenant.

6.2 *City Responsibilities.* City is responsible for performing all repair and maintenance on the CAS and the BMF. Tenant will reimburse City for Tenant's share of all costs.

6.3 *Restoration.* In the event, the CAS requires major restoration/rehabilitation resulting from ordinary wear and tear, the City will elect to have CFC proceeds fund any eligible work in accordance with Phoenix City Code Section 4-79.

* * *

7.1 *Common Transportation.* Airport customers will be transported between Airport terminals and the RCC exclusively on a common transportation system provided by the City. Customers of all rental vehicle companies operating at the Airport will be required to use the common transportation system. No Tenant will be permitted at any time under any circumstances to use its own transportation system or contract with a third party transportation system, or use vouchers, or use its rental vehicles to pick up or drop off customers at the Airport terminals. The cost of operating and maintaining the common transportation system will be funded from CFC proceeds.

City will require that customers of rental vehicle companies that are not Tenants in the RCC will be "double-bused," meaning that the customers will be transported between the Airport terminals and the RCC via the common transportation system and may only be picked up at a curb position at the RCC designated for non-tenant rental car companies. The customers will then be transported to the non-tenant rental car companies' off-site location. Drop off of customers of non-Tenant rental car companies will occur in the same manner at the same RCC curb.

Loading and unloading curbside positions for the common transportation system have been identified for each Airport terminal and at the RCC. At the discretion of the City in consultation with the Tenant and non-tenant rental car companies, these positions may be amended from time to time as is necessary to provide for appropriate curb management and traffic control.

7.2 *Common Busing Operator.* Pursuant to a RFP process, the City, in consultation with a designated representative of the rental car industry, shall select and contract with a busing operator who will operate the common transportation system.

7.3 *Automated People Mover System.* In the event that an automated people mover system (APM) that services the RCC is developed at the Airport, the common busing system will be terminated and the APM will become the common transportation system following advance written notice to the Tenant.

* * *

8.1 *Payment Guaranty.* Tenant shall provide City with security to guarantee payment for all amounts due under the RCC Lease. The amount of such security is required to be 25% of all rent, operations and

maintenance recovery, and fees due for the current Lease Year as determined by City's forecast. The amount of the security will be adjusted accordingly every Lease Year throughout the Term of the Lease.

The security shall be in one of the following forms:

- (a) An irrevocable letter of credit drawn on a bank doing business in Arizona;
- (b) A bond in a form acceptable to City provided by a surety authorized to conduct business in Arizona;
- (c) Any form of security approved in writing by the City in its sole and absolute discretion.

The City shall draw upon or make a claim under the security provided pursuant to this Section in order to satisfy any delinquency under this Lease that remains uncured thirty (30) calendar days after written notice, if required, has been given to the Tenant. If the City draws or makes a claim upon the security, Tenant must replenish the security to its original amount within thirty (30) calendar days after notice of the City's draw.

* * *

9.2 CFC Remittances. The Tenant shall promptly remit to the Eligible Depository the CFC's required to be collected and at the times required under the CFC Ordinance (regardless of whether such amounts are actually collected). The Tenant covenants and agrees that it will not be entitled to any rights to offset or other reduction in the requirements herein and to remit to the Eligible Depository all CFC's imposed regardless of any amounts that may be owed or due to the Tenant by the City. All CFC's collected by the Tenant shall be trust funds held for the benefit of the City and subject to the pledge by the City under the Bond Documents. The Tenant shall have only a possessory interest and not an equitable interest in CFC collections. The Tenant hereby consents to such pledge and acknowledges the Trustee's security interest in the CFC collections as the Trustee's bailee under Article 3, Chapter 9, Title 47 of the Arizona Revised Statutes, as amended.

10.1 Issuance of Bonds. The City shall use its best efforts to cause the Bonds to be issued under the Trust Indenture. There will be no mortgage or encumbrance on the RCC to secure the City's obligations under the Bond Documents; provided however, that the Bondholders, acting on their own behalf or through the Trustee, will be entitled to the remedy of specific performance to enforce the City's obligations under this Lease and the Bond Documents.

10.2 Conflict with the Bond Documents. If there is a conflict between this Lease and any of the Bond Documents, the terms and provisions of the Bond Documents shall control. In the event that enforcement of the terms of this Lease would result in an event which, with the giving of notice and the failure to cure, would result in an event of default under the Bond Documents, the terms of the Bond Documents shall be deemed to preclude such enforcement.

10.3 RCC Initial Funding. The City and Tenant agree that development costs of the RCC shall be funded initially from the following sources: (1) all CFC proceeds collected and remitted to City since June 1, 2002 through the date of issuance of the 2004 Bonds by City; (2) proceeds of the 2004 Bonds; and (3) any investment earnings on each of the foregoing.

10.4 Expansion/Improvements. If the City concludes that the RCC should be expanded or improved, or additional equipment is required for the RCC's efficient operation, the City may cause additional Bonds to be issued in its sole and absolute discretion after consultation with RCC Tenants and consideration of their comments and suggestions.

The final term and the structure of the additional Bonds will be determined by the City's Finance Department; however, the City will discuss proposed structures for the additional Bonds with the Tenant(s) and will consider comments and suggestions from them.

* * *

12.1 *Tenant Default and Opportunity to Cure.* Tenant will be in default of this Lease if it fails to comply with any of its terms and conditions. There are two types of defaults and opportunities to cure:

(a) *Monetary Default*

Tenant is in default if it fails to duly and punctually pay the rent or any other payments, charges or fees required under this Lease or under the Agreement. Except for failure to collect and remit CFC's as required, City shall issue written notice of non-payment to Tenant and Tenant shall have ten (10) days after such notice to cure the default.

(b) *Non-monetary Default*

Tenant is in default if it fails to keep, perform and observe any other term or condition set forth in this Lease, including, but not limited to, the failure by the Tenant, or its employees, agents and contractors, to operate in a manner consistent with the uses and standards of service set forth herein and in the Agreement. Except as described below, City will issue written notice of the non-monetary default and Tenant shall have thirty (30) days after written notice to correct the instance of non-monetary default. Unless otherwise prescribed by law, City may allow more than thirty (30) days for the Tenant to cure a non-monetary default if Tenant has notified City in writing of the additional time period necessary to cure the default and Tenant has already commenced prompt efforts to cure the default prior to sending City the notification.

12.2 *Termination by City.*

(a) *Immediate Termination — No Notice Required*

In addition to all other available remedies, the City may terminate the RCC Lease with no notice if any of the following events occur:

- (1) Tenant failing to cure any default as described below.
- (2) Tenant failing to collect and remit CFC's as required.
- (3) Within a six (6) month period City has issued three (3) written notices of default to Tenant for failure to comply with the same term or condition of the RCC Lease.
- (4) Termination of the Concession Agreement.
- (5) Tenant becoming insolvent, or taking the benefit of any present or future insolvency statute, or making a general assignment for the benefit of creditors, or filing a voluntary petition in bankruptcy, or a petition or answer seeking an arrangement for its reorganization, or the readjustment of its indebtedness under the federal bankruptcy laws, or under any other law or statute of the United States or of any state thereof, or consent to the appointment of a receiver, trustee, or liquidator of any or substantially all of its property.
- (6) A petition under any part of the federal bankruptcy laws or an action under any present or future insolvency law or statute, shall be filed against Tenant and shall not be dismissed within thirty (30) days after the filing thereof.
- (7) Tenant vacating the Premises. Premises are presumed vacated if the ECS area is unmanned during RCC hours of operation, as specified in the Agreement, for three (3) consecutive days.
- (8) Tenant conducting its operations in a manner that threatens public safety as determined by the City in conformity with the laws and regulations of the State of Arizona and the City of Phoenix.
- (9) Tenant willfully falsifying any of its records or figures so as to deprive the City of any of its rights under the terms of this Lease.

(b) Termination by City After Notice

In addition to termination as stated above, City may terminate this Lease thirty (30) days after written notice by the City if any of the following events occur:

(1) With the written concurrence of the Tenant, the occurrence of any act which deprives the Tenant of the rights, power, licenses, permits, or authority necessary for the proper conduct and operations of the activities authorized herein and in the Agreement.

(2) The lawful assumption by the United States Government, or any authorized agency thereof, of the operation, control, or use of the Airport and its facilities, or any part thereof, in such a manner as to substantially restrict Tenant's operations for a period in excess of thirty (30) consecutive days.

In addition to termination as stated above, City may terminate this lease three (3) days after written notice by the City if Tenant fails to provide and/or maintain the Financial Security and Insurance required by the RCC Lease at anytime during the Term. If the City does not terminate, Tenant must obtain a new or renewed policy that specifically provides the required coverage to the City for any liability arising during the lapsed or previously uncovered period.

12.3 Termination by Tenant. If Tenant is not in default under the RCC Lease or the Agreement, it may terminate this Lease at any time by giving the City forty-five (45) days advance written notice, upon the happening of any of the following events:

(a) Issuance by a court of competent jurisdiction of an injunction in any way preventing or restraining normal use of the Airport or any substantial part of the Airport that remains in force for a period of ninety (90) consecutive days.

(b) The inability of Tenant to use, for a period in excess of ninety (90) consecutive days, the Airport or any substantial part of the Airport because of embargo, fire, explosion, earthquake, other similar casualty or acts of God or the public enemy, provided that same is not caused by Tenant's negligent acts of omission or commission or its willful misconduct.

(c) The lawful assumption by the United States Government, or any authorized agency thereof, of the operation, control, or use of the Airport and its facilities, or any part thereof, in such a manner as to substantially restrict Tenant's operations for a period in excess of ninety (90) consecutive days.

13.1 Surrender — Removable Property. Upon the expiration of the term of this Lease, including any authorized holdover period, or upon the sooner termination of the Lease, Tenant shall peaceably and quietly leave, remove all its personal property, furniture and equipment, then surrender, and yield up to the City all of the Premises broom-clean and free of occupants, and shall repair all damage to the Premises caused by or resulting from the removal of any property of Tenant or its agents, contractors and vendors, normal wear and tear excepted.

Any property, furniture or equipment of Tenant which remains in the RCC after the expiration of the Term, including any authorized holdover period, or upon earlier termination, shall be deemed to have been abandoned, and may either be retained by City as its property or disposed of in such manner as City may see fit. If such property or any part thereof shall be sold, City shall receive and retain the proceeds of such sale. Tenant shall be liable to City for any and all costs of removal and the repair of any and all damage caused thereby in excess of any proceeds received by City from any sale of Tenant's property pursuant to this provision.

THE CONCESSION AGREEMENT

* * *

2.1 Commencements and Expiration. The term of the Concession Agreement will commence on DBO and shall continue until the end of the tenth contract year unless sooner terminated as hereinafter

provided. After DBO the Operator will not be allowed to operate at the Airport in any manner inconsistent with the terms of the Agreement.

2.2 Holdover. If an Operator continues to operate after the expiration of the Term with the consent of the City, the Agreement, with all its terms and conditions, will be deemed extended on a month-to-month basis. Either the City or the Operator may terminate this holdover at any time by giving thirty (30) days written notice of termination to the other.

If Operator continues to operate after the expiration of the Term without the City's consent, Operator's occupancy shall be at sufferance in monthly intervals with fees payable in advance and equal to 200% of the monthly MAG (as defined below). Operator shall be bound by all conditions and terms of this Agreement.

Nothing shall be construed, however, to give any right of holdover and City may exercise any and all remedies at law or in equity to recover possession of the premises identified in the Lease and to terminate Operator's rental vehicle services at the Airport, together with any damages incurred by the City.

* * *

3.1 Concession Fee. From DBO until the end of the Term or earlier termination of the Concession Agreement, Operator will pay an annual Concession fee equal to the greater of 10% of the Operator's Gross Revenues for the applicable Contract Year or the Minimum Annual Guarantee (hereinafter "MAG") as determined for said Contract Year. The Concession Fee for any portion of a month will be prorated. Any Concession Fees remaining unpaid are subject to interest as stated in Phoenix City Code Section 4-7 and any amendments thereto.

3.2 Gross Revenues.

A. Definition

"Gross Revenues" includes all amounts received, billed (whether collected or not), delivered and/or realized by the Operator, without deduction or offset, whether by cash, credit or otherwise related to Operator's Vehicle rental concession as authorized by this Agreement. All revenue is included in the definition of Gross Revenues unless specifically excluded as provided below. In determining whether an amount is or is not Gross Revenue the burden of proof is on the Operator and all exclusions described below will be construed narrowly.

B. Exclusions

Gross Revenues shall not include:

(1) Taxes — Any fee or other charge levied by federal, state, county or municipal government that is explicitly identified by the taxing authority as a tax levied on the customer and required by law to be separately stated.

(2) CFC's.

(3) Sums collected for damage, loss, conversion, or abandonment of Operator's Vehicles or for disposal of Operator's damaged vehicles, provided that Operator retains, documentation from a third-party that establishes that the damage, loss, conversion, abandonment or disposal occurred and identifies the sums collected.

3.3 Diversion of Vehicle Rental Revenue. Operator agrees that it will not divert revenue from Operator's vehicle rental concession authorized by this Agreement from being included in Gross Revenues. Diversion shall include, but not be limited to, Operator advising or suggesting to a customer or potential customer arriving at the Airport that such customer or potential customer rent a vehicle at any off-Airport location, regardless of the reason.

Operator agrees that it will not rename or revise any Gross Revenues, fees, charges, or other revenue, or falsify any of its records, in an attempt to avoid payment of, or reduce Gross Revenues, or reduce payment of any other charges or fees due and owing to the City hereunder.

3.4 Concession Recovery Fee. "Concession Recovery Fees" include any surcharges or any amount that Operator separately states and charges its customers to recover the amount of the Operator's concession fees that are payable under this Agreement. Operator acknowledges that its payments to the City under this Agreement are for Operator's use of facilities at the Airport, and that those payments do not reflect a fee that is imposed by the City upon customers renting Vehicles from Operator. Operator understands that the City does not encourage nor support the practice of transferring Operator's obligation for payment of Operator's concession fees due under this Agreement to its customers. Operator is prohibited from stating or implying, in writing or verbally, that the City or Airport imposes or approves of any direct charge to its customers, including any surcharge that Operator passes on to its customers to recoup Operators' Airport Concession Fee. Operator is prohibited from misrepresenting to the public its prices or the terms and provisions of its rental agreement or those of its competitors, either verbally or in writing. If Operator recovers from or charges its customers the Concession Fee, that charge shall be clearly and separately stated in writing immediately adjacent to Operator's time and mileage charges on the customer's invoice, shall not be described as a tax, and shall be no greater than 11.11% of the Gross Revenues resulting from that rental contract.

3.5 Customer Facility Charge (CFC). The Operator shall promptly remit to the Eligible Depository the CFC's required to be charged, and at the times required under the CFC Ordinance (regardless of whether such amounts are actually collected). The Operator covenants and agrees that it will not be entitled to any rights to offset or other reduction in the requirements herein and to remit to the Eligible Depository all CFC's imposed regardless of any amounts that may be owed or due to the Operator by the City. All CFC's collected by the Operator shall be trust funds held for the benefit of the City and subject to the pledge by the City under the Bond Documents. The Operator shall have only a possessory interest and not an equitable interest in CFC collections. The Operator hereby consents to such pledge and acknowledges the Trustee's security interest in the CFC collections as the Trustee's bailee under Article 3, Chapter 9, Title 47 of the Arizona Revised Statutes, as amended.

3.6 Minimum Annual Guarantee. The MAG represents the minimum amount of fee that the Operator is required to pay the City each Contract Year of the Term.

For the first full Contract Year and each succeeding Contract Year of the Term, the MAG will become the greater of seventy five (75%) percent of the Concession Fee paid by the Operator for the previous Contract Year or the first Contract Year MAG stated above.

3.7 Taxes and other Exactions. Operator is responsible for payment, in a timely fashion, directly to the applicable taxing authority, of any applicable tax or other exaction assessed or assessable as the result of its conduct of business at the Airport under authority of this Agreement, including any tax payable to the City.

3.8 Time and Manner of Payment. All payments to be made under this Agreement will be due in accordance with the following:

A. MAG — One twelfth ($1/12^{\text{th}}$) of the annual MAG shall be paid on the first day of each month for said month.

B. Percentage of Gross Revenues — On or before the twentieth day of each month, the Operator will submit a monthly statement of Gross Revenues for the preceding month. If the percentage of Gross Revenues for said month exceeds an amount equal to one twelfth ($1/12^{\text{th}}$) of the MAG, the Operator will also submit the additional fees at that time.

C. CFC — On or before the last day of each month, the Operator shall submit a monthly statement of transactions and transaction days for the prior month and remit the CFC proceeds collected for the prior month in accordance with Phoenix City Code Section 4-79.

D. All payments shall be tendered in lawful currency of the United States, either by check or by electronic transfer and free from all claims or setoffs of any kind against City. In the event technological advances make point of sale Gross Revenue reporting and payment transfers more economically feasible, the City, after considering the economic impact to both the Operator and the City, may revise how

payment remittances are made. Any and all equipment and transmission changes necessary to accomplish the change in the reporting and/or remittance process will be the responsibility of the Operator.

4.1 *Uses Permitted.* During the Term of the Concession Agreement, and subject to entering into a Lease at the RCC, Operator shall have the non-exclusive right to operate a Vehicle rental service at the Airport. Operator understands and agrees that it is restricted under this Agreement to activities necessary to the operation of a Vehicle rental service only, and that no other product, merchandise, or service shall be sold or offered by Operator without the express written consent of the Aviation Director. Operator further agrees that all Airport-related rental car transactions will take place at the RCC.

4.2 *RCC Lease.* Concurrently with the execution of the Concession Agreement, the Operator will execute an RCC Lease under which it will occupy, use and lease space at the RCC. If the Operator is unsuccessful in any subsequent bid process, its Lease shall terminate at the end of the Term of this Agreement unless earlier termination occurs.

* * *

5.1 *Common Transportation System.* Airport customers will be transported between Airport terminals and the RCC exclusively on a common transportation system provided by the City. Customers of all rental vehicle companies operating at the Airport will be required to use the common transportation system. No Operator will be permitted at any time under any circumstances to use its own transportation system or contract with a third party transportation system, or use vouchers, or use its rental vehicles to pick up or drop off customers at the Airport terminals. The cost of operating and maintaining the common transportation system will be funded from CFC proceeds. The City will require that customers of rental vehicle companies that are not tenants in the RCC will be "double-bused," meaning that the customers will be transported between the Airport terminals and the RCC via the common transportation system and may only be picked up at a position at the RCC designated curb for non-tenant rental car companies. The customers will then be transported to the non-tenant rental car companies' off-site location. Drop off of customers of non-tenant rental car companies will occur in the same manner at the same RCC curb.

Loading and unloading curbside positions for the common transportation system have been identified for each Airport terminal and at the RCC. At the discretion of the City in consultation with the Operators and non-tenant rental car companies, these positions may be amended from time to time as is necessary to provide for appropriate curb management and traffic control.

5.2 *Common Busing Operator.* Pursuant to a RFP process, the City, in consultation with a designated representative of the rental car industry, shall select and contract with a busing operator who will operate the common transportation system.

5.3 *Automated People Mover System.* In the event that an automated people mover system (APM) that services the RCC is developed at the Airport, the common busing system will be terminated and the APM will become the common transportation system following advance written notice to the Tenant.

6.1 *Payment Guaranty.* The Operator shall provide to the City security to guarantee payment for all amounts due under the Concession Agreement. The amount of security will be twenty five (25%) percent of the MAG for the applicable Contract Year as provided herein. The amount of the security will be adjusted accordingly every Contract Year throughout the Term of the Agreement.

The security shall be in one of the following forms:

- A. An irrevocable letter of credit drawn on a bank doing business in Arizona.
- B. A bond in a form acceptable to the City provided by a surety authorized to conduct business in Arizona.
- C. A form of security approved in writing by the City in its sole and absolute discretion.

The City may draw upon the security provided pursuant to this Section in order to satisfy any payment delinquency under this Agreement that remains uncured ten (10) calendar days after written notice, if required, has been given to the Operator. If the City draws upon the security, Operator must replenish the security to its original amount within thirty (30) calendar days after notice of the City's draw.

7.1 Operator Default and Opportunity to Cure. Operator will be in default of this Agreement if it fails to comply with any of its terms and conditions. There are two types of defaults and opportunities to cure:

A. Monetary Default. Operator is in default if it fails to duly and punctually pay the Concession Fees or any other payments, charges, rents or fees required under the Agreement or under the Lease. Except for failure to collect and remit CFC's as required, the City shall issue written notice of non-payment to the Operator and the Operator shall have ten (10) days after notice to cure the default.

B. Non-monetary Default. Operator is in default if it fails to keep, perform and observe any other term or condition set forth in the Agreement, including, but not limited to, the failure by the Operator, or its employees, agents and contractors, to operate in a manner consistent with the uses and standards of service set forth herein and in the Lease. Unless the City's allowed to terminate immediately, City will issue written notice of the non-monetary default and Operator shall have thirty (30) days after written notice to correct the instance of non-monetary default.

7.2 Termination by City.

A. Immediate Termination — No Notice Required

In addition to all other available remedies, the City may terminate the Agreement with no notice if any of the following events occur:

1. Operator fails to cure any default as described above.
2. Operator fails to collect and remit CFC's as required.
3. Within a six (6) month period the City has issued three (3) written notices of default to the Operator for failure to comply with any one term or condition of this Agreement.
4. Termination of the RCC Lease.
5. Operator becomes insolvent, or takes the benefit of any present or future insolvency statute, or makes a general assignment for the benefit of creditors, or files a voluntary petition in bankruptcy, or a petition or answer seeking an arrangement for its reorganization, or the readjustment of its indebtedness under the federal bankruptcy laws, or under any other law or statute of the United States or of any state thereof, or consents to the appointment of a receiver, trustee, or liquidator of any or substantially all of its property.
6. A petition under any part of the federal bankruptcy laws or an action under any present or future insolvency law or statute, is filed against Operator and is not be dismissed within thirty (30) days after the filing thereof.
7. A transfer or assignment occurs without prior approval of the City.
8. Operator vacates the premises at the RCC. Premises are presumed vacated if the Operator's space in the customer service building is unmanned during RCC hours of operation for three (3) consecutive days.
9. Operator conducts its operations in a manner that threatens public safety as determined by the City in conformity with the laws and regulations of the State of Arizona and the City of Phoenix.
10. The City determines that Operator willfully falsified any of its records or figures so as to deprive the City of any of its rights under the terms of this Agreement or diverted revenue.

11. Operator failed to comply with all applicable laws and regulations of the United States Government, the State of Arizona, the County of Maricopa, and the City of Phoenix and all agencies thereof, and all rules and/or regulations of the Airport now in effect or hereafter promulgated.

B. Termination by City After Notice

1. In addition to termination as stated above, the City may terminate the Agreement thirty (30) days after written notice by the City if any of the following events occur:

(a) With written concurrence of Operator, the occurrence of any act that deprives the Operator of the rights, power, licenses, permits, or authority necessary for the proper conduct and operations of the activities authorized herein.

(b) The lawful assumption by the United States Government, or any authorized agency thereof, of the operation, control, or use of the Airport and its facilities, or any part thereof, in such a manner as to substantially restrict Operator's operations for a period in excess of ninety (90) consecutive days.

2. In addition to termination as stated above, the City may terminate the Lease three (3) days after written notice by the City if Operator fails to provide and/or maintain the Financial Security and Insurance required by this Agreement at anytime during the Term. If the City does not terminate, Operator must obtain a new or renewed policy that specifically provides the required coverage to the City for any liability arising during the lapsed or previously uncovered period.

7.3 Termination by Operator. If Operator is not in default under the Agreement or the Lease, it may terminate this Agreement at any time by giving the City forty-five (45) days advance written notice, upon the happening of any of the following events:

A. Issuance by a court of competent jurisdiction of an injunction in any way preventing or restraining normal use of the Airport or any substantial part of the Airport that remains in force for a period of ninety (90) consecutive days.

B. The inability of Operator to use, for a period in excess of ninety (90) consecutive days, the Airport or any substantial part of the Airport because of embargo, fire, explosion, earthquake, other similar casualty or acts of God or the public enemy, provided that same is not caused by Operator's negligent acts of omission or commission or its willful misconduct.

C. The lawful assumption by the United States Government, or any authorized agency thereof, of the operation, control, or use of the Airport and its facilities, or any part thereof, in such a manner as to substantially restrict Operator's operations for a period in excess of ninety (90) consecutive days.

* * *

9.1 Assignment. Operator shall not assign, encumber, or otherwise transfer, whether voluntarily or involuntarily or by operation of law, its interest in the Lease or any part thereof without City's prior written consent. City agrees, however, that it will consent if Operator establishes to the City's satisfaction that the transferee is qualified to meet all the financial obligations of the Lease and has the requisite experience to operate the vehicle rental service with the appropriate level of customer service under the terms of this Lease and the Agreement. City's consent to a transfer is subject to City Council approval and shall not be deemed consent to any other subsequent transfers. Any attempt by Operator to perform any of the acts proscribed under this Article without the prior written consent of the City, may be deemed by the City, in its sole absolute discretion, as a breach of the Lease rendering it null and void.

9.2 Changes in Operator. For purposes of the Agreement, the merger of the Operator with any other entity or the transfer of any controlling ownership interest in the Operator, or the assignment or transfer of any portion of the assets of the Operator to any entity intended to replace the Operator under the Lease, whether or not located at the Airport, shall constitute a transfer. Without limiting the generality of the foregoing, if Operator is a partnership, a withdrawal or change, voluntary, involuntary or by operation of law of the partner or partners owning fifty one (51%) percent or more of the partnership, or the dissolution of the partnership,

shall be deemed a transfer. If Operator is a corporation or limited liability company, any dissolution, merger, consolidation, or other reorganization of Operator which would result in a different Operator under this Agreement, or the sale of at least fifty one (51%) percent of the value of the assets of the Operator, shall be deemed a transfer.

The phrase "controlling percentage" means the ownership of, and the right to vote, stock or interests possessing at least fifty one (51%) percent of the total combined voting power of all classes of Operator's capital stock or interests issued, outstanding and entitled to vote for the election of directors.

9.3 Consolidation. Subject to the provisions of the RFP, Operator shall not, without the prior written consent of the City, unite, merge, consolidate or combine, either directly or indirectly, with any other person, firm or corporation operating or having operated at the Airport within a year from the time of proposed merger or consolidation, under any other rental concession, whether such uniting, merging, consolidating or combining be through the sale of property or sale of stock or otherwise; or sell or otherwise dispose of all or part of its interests in the legal entity operating at the RCC and thereby eliminate or reduce Operator's obligations hereunder and under the Lease.

Nothing herein shall prevent the City from authorizing the Operator to engage in multi-branded operations so long as the Operator continues to meet all its financial and operational obligations under this Agreement and the Lease and the City determines that the multi-branded operation does not significantly impair the overall operation of the RCC.

9.4 No Release. In no event will City's consent to a transfer be deemed a release of the primary obligor hereunder. If after obtaining requisite consent, Operator shares all or any part of its interests in its allocation of the Premises or if all or any part of its interest in the RCC is occupied by anyone other than Operator (including any subsidiary of Operator), the City may, but shall not be obligated to, if an event of default shall occur and continue, collect rent from such assignee or occupant. In such event, the City shall apply the amount collected to the extent possible to satisfy the obligations of Operator, but no such collection shall be deemed a waiver by the City of the obligations, rights and covenants contained in the Lease or an acceptance by the City of any such shared use, claimant or occupant as a successor Operator, nor a release of Operator by the City from the performance by Operator of the covenants and obligations of Operator under the Lease. Notwithstanding anything contained in the Lease to the contrary, no such shared use or assignment shall be authorized if it in any way releases Operator from its primary obligations under this Agreement.

APPENDIX J

[LETTERHEAD OF GREENBERG TRAURIG, LLP]

[TO BE DATED CLOSING DATE]

PROPOSED FORM OF LEGAL OPINION OF BOND COUNSEL

We hereby certify that we have examined certified copy of the proceedings of the City of Phoenix Civic Improvement Corporation (the "*Corporation*") passed preliminary to the issue of \$260,000,000 aggregate principal amount of its Rental Car Facility Charge Revenue Bonds, Taxable Series 2004 (the "*2004 Bonds*") in fully registered form, dated as of the date hereof. The 2004 Bonds are being issued to pay for the cost of designating, acquiring, equipping and constructing a consolidated rental car facility at Phoenix-Sky Harbor International Airport.

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

As to questions of fact material to the opinions expressed herein, we have relied upon, and have assumed due compliance with the provisions of, the proceedings and other documents, and have relied upon certifications and representations furnished to us without undertaking to verify the same by independent investigation, including, without limitation, the use to be made of the proceeds of the 2004 Bonds. Reference is made to certifications of and opinions of counsel to parties other than the Corporation with respect to the existence and powers of such parties to enter into and perform the instruments referred to, the authorization, execution and delivery of such instruments by such parties and such instruments being binding upon and enforceable against such parties; we express no opinion as to such matters.

Said 2004 Bonds are being issued pursuant to a Bond Indenture, dated as of June 1, 2004 between the Corporation and U.S. Bank National Association, as trustee (the "*Indenture*"). The 2004 Bonds are payable solely, as to both principal and interest, from payments made by the City of Phoenix, Arizona (the "*City*") under the City Purchase Agreement dated as of June 1, 2004 (the "*City Purchase Agreement*").

Based upon the foregoing, we are of the opinion as of this date, which is the date of initial delivery of the 2004 Bonds against payment therefor, that:

1. The Indenture and the City Purchase Agreement and the 2004 Bonds have been duly authorized, executed and delivered by the Corporation and are valid and binding upon and enforceable against the Corporation.

2. The 2004 Bonds constitute special obligations of the Corporation, and the principal of and interest and any premium on the 2004 Bonds (collectively, "debt service"), unless paid from other sources, are payable solely from the revenues and other moneys pledged and assigned by the Indenture, to secure that payment. Those revenues and other moneys include certain payments required to be made by the City under the City Purchase Agreement, and the City's obligation to make those payments is secured by a first lien pledge of pledged revenues which include revenues derived from certain customer facility charges to be collected by rental car companies and other funds, as more fully defined and provided in the Indenture. The Indenture creates the pledge which it purports to create in the pledged revenues and of other moneys in the funds and accounts created by the Indenture (other than the Administrative Costs Fund, the Transportation O&M Fund, the Transportation O&M Reserve Fund), which pledge will be perfected only as to the revenue and other moneys on deposit in the funds and accounts created by the Indenture and held by the Trustee or by a depository holding funds in a segregated trust account under a bailment agreement with the Trustee. The 2004 Bonds and the payment of debt service are not secured by an obligation or pledge of any moneys raised by taxation; the 2004 Bonds do not represent or constitute a debt or pledge of the general credit of the Corporation, the City or the State of Arizona; and the City Purchase Agreement, including the City's obligation to make the

payments required thereunder, does not represent or constitute a debt or pledge of the general credit of the City.

3. Interest on the 2004 Bonds is includible in the gross income of the owners thereof for federal and State of Arizona income tax purposes and therefore is not exempt from present federal income taxation or State of Arizona income taxation. Ownership of the 2004 Bonds may result in other federal or State of Arizona income tax consequences to certain taxpayers and we express no opinion regarding any such collateral consequences resulting from the ownership, receipt or accrual of interest on, or disposition of, the 2004 Bonds.

This opinion is written upon reliance upon certifications of the Corporation and the City with respect to certain material facts solely within the Corporation's and the City's knowledge relating to application of the proceeds of the 2004 Bonds. Our opinion represents our legal judgment based upon our review of the law and the facts we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to review or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

The rights of the owners of the 2004 Bonds and the enforceability of those rights under the 2004 Bonds and the documents referred to above may be subject to bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and the enforcement of those rights may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully submitted,

APPENDIX K

FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the "*Undertaking*" or the "*Agreement*") dated June 1, 2004 is executed and delivered by the City of Phoenix, Arizona (the "*City*") in connection with the issuance of \$260,000,000 City of Phoenix Civic Improvement Corporation Rental Car Facility Charge Revenue Bonds, Taxable Series 2004 (the "*2004 Bonds*"). The 2004 Bonds are being issued pursuant to a Bond Indenture dated as of June 1, 2004 by and between the City of Phoenix Civic Improvement Corporation (the "*Corporation*") and U.S. Bank National Association, as trustee (the "*Trustee*"). The City covenants and agrees as follows:

1. *Purpose of this Undertaking.* This Undertaking is executed and delivered by the City as of the date set forth below, for the benefit of the beneficial owners of the 2004 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 2004 Bonds at the time the 2004 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 2004 Bonds.

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

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

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

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

City Purchase Agreement means the City Purchase Agreement dated as of June 1, 2004 and by and between the City and the Corporation.

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

FT Interactive Data
Attn: NRMSIR
100 William Street
New York, NY 10038
Phone: (212) 771-6999
Fax: (212) 771-7390
E-Mail: NRMSIR@FTID.com

DPC Data, Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
E-Mail: nrmsir@dpcdata.com

Standard & Poor's Securities Evaluations, Inc.
55 Water Street, 45th Floor
New York, New York 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 Underwriter means each broker, dealer or municipal securities dealer acting as an underwriter in the primary offering of the 2004 Bonds.

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

SID means any public or private repository designated by the State as the state repository and recognized as such by the Securities and Exchange Commission for purposes of the Rule. As of the date of this Agreement, no SID exists within the State. The name and address of the SID, if any, should be verified each time information is delivered pursuant to this Agreement.

State means the State of Arizona.

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

3. **CUSIP Number/Final Official Statement.** The CUSIP Numbers of the 2004 Bonds are as follows:

<u>CUSIP No.</u>	<u>Maturity Date</u>	<u>CUSIP No.</u>	<u>Maturity Date</u>
718846AA6	07/01/07	718846AH1	07/01/14
718846AB4	07/01/08	718846AJ7	07/01/15
718846AC2	07/01/09	718846AK4	07/01/17
718846AD0	07/01/10	718846AL2	07/01/19
718846AE8	07/01/11	718846AM0	07/01/24
718846AF5	07/01/12	718846AN8	07/01/29
718846AG3	07/01/13		

The Final Official Statement relating to the 2004 Bonds is dated May 12, 2004 (the "Final Official Statement").

4. **Annual Financial Information Disclosure.** Subject to Section 9 of this Undertaking, the City shall disseminate its Annual Financial Information and its Audited Financial Statements, if any, (in the form and by the dates set forth in *Exhibit I*) to 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 by the dates specified.

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

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

5. *Material Events Disclosure.* Subject to Section 9 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 2004 Bonds or defeasance of any 2004 Bonds need not be given under this Agreement any earlier than the notice (if any) of such redemption or defeasance is given to the 2004 Bondholders pursuant to the Indentures.

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 2004 Bond may seek mandamus or specific performance by court order, to cause the City to comply with its obligations under this Undertaking. A default under this Undertaking shall not be deemed an event of default under the City Purchase Agreement or the Indenture, and the sole remedy available to 2004 Bondholders under this Undertaking in the event of any failure of the City to comply with this Undertaking shall be an action to compel performance.

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

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

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

(c) The amendment or waiver does not materially impair the interests of the beneficial owners of the 2004 Bonds, as determined by parties unaffiliated with the City (such as the Trustee) or by approving vote of the 2004 Bondholders pursuant to the Indenture at the time of the amendment.

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

9. *Termination of Undertaking.* The Undertaking of the City shall be terminated hereunder if the City shall no longer have liability for any obligation on or relating to repayment of the 2004 Bonds under the City Purchase 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.

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

11. *Additional Information.* Nothing in this Undertaking shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Financial Information Disclosure or 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.

12. *Beneficiaries.* This Undertaking has been executed in order to assist the Participating Underwriters in complying with the Rule; however, this Undertaking shall inure solely to the benefit of the City, the Dissemination Agent, if any, and the beneficial owners of the 2004 Bonds, and shall create no rights in any other person or entity.

13. *Recordkeeping.* The City shall maintain records of all Annual Financial Information Disclosure and 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.

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

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

CITY OF PHOENIX, ARIZONA

By Frank Fairbanks
Its City Manager

By: _____
Kevin Keogh
Chief Financial Officer

ATTEST:

By: _____
City Clerk

APPROVED AS TO FORM:

By: _____
City Attorney

EXHIBIT I

ANNUAL FINANCIAL INFORMATION AND TIMING AND AUDITED FINANCIAL STATEMENTS

"Annual Financial Information" means financial information and operating data consisting of (a) quantitative financial information relating to the number of Transaction Days at the Airport during the prior fiscal year, (b) the Pledged Rate then in effect, (c) the total Annual Receipts, Pledged Revenues and Administrative Costs for the prior fiscal year, (d) the City's or the Rate Consultant's calculation of the resulting debt service coverage for such period and (e) the balances as of the end of the prior fiscal year contained in funds held by the Trustee under the Indenture indicated in the reports prepared by the Trustee.

All or a portion of the Annual Financial Information and the Audited Financial Statements as set forth below may be included by reference to other documents which have been submitted to each NRMSIR and to the SID, if any, or filed with the Commission. If the information included by reference is contained in a Final Official Statement, the Final Official Statement must be available from the MSRB; the Final Official Statement need not be available from each NRMSIR, the SID or the Commission. The City shall clearly identify each such item of information included by reference.

Annual Financial Information exclusive of Audited Financial Statements will be provided to each NRMSIR and to the SID, if any, by February 1 of each year, commencing February 1, 2005, 210 days after the last day of the City's fiscal year. Audited Financial Statements as described below should be filed at the same time as the Annual Financial Information. If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements shall be included, to be followed up by Audited Financial Statements when available.

Audited Financial Statements will be prepared according to GAAP, as applied to governmental units as modified by State law. Audited Financial Statements will be provided to each NRMSIR and to the SID, if any within 30 days after availability to the City.

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

EXHIBIT II

EVENTS FOR WHICH MATERIAL EVENTS DISCLOSURE IS REQUIRED

1. Principal and interest payment delinquencies
2. Non-payment related defaults
3. Unscheduled draws on debt service reserves reflecting financial difficulties
4. Unscheduled draws on credit enhancements reflecting financial difficulties
5. Substitution of credit or liquidity providers, or their failure to perform
6. Adverse tax opinions or events affecting the tax-exempt status of the security, if applicable
7. Modifications to the rights of security holders
8. Bond calls
9. Defeasances
10. Release, substitution or sale of property securing repayment of the securities
11. Rating changes

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APPENDIX L
FORM OF MUNICIPAL BOND INSURANCE POLICY

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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.

Frank Biron

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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DO NOT STAPLE THIS FORM

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FORM G-36 (0S) - FOR OFFICIAL STATEMENTS

SECTION I - MATERIALS SUBMITTED

THIS FORM IS SUBMITTED IN CONNECTION WITH (check one):

1. ☒ A FINAL OFFICIAL STATEMENT RELATING TO A PRIMARY OFFERING OF MUNICIPAL SECURITIES (enclose two (2) copies)

(a) DATE RECEIVED FROM ISSUER: 05/24/2004

(b) DATE SENT TO MSRB: 05/24/2004

2. ☐ AN AMENDED OFFICIAL STATEMENT WITHIN THE MEANING OF RULE G-36(d) (enclose two (2) copies)

(a) DATE RECEIVED FROM ISSUER: _____

(b) DATE SENT TO MSRB: _____

IF MATERIALS SUBMITTED WITH THIS FORM CONSIST OF MORE THAN ONE DOCUMENT (e.g. preliminary official statement and wrap, even if physically attached), PLEASE CHECK HERE: ☐C. IF THIS FORM AMENDS PREVIOUSLY SUBMITTED FORM WITHOUT CHANGING MATERIALS SUBMITTED, PLEASE CHECK HERE (include copy of original form G-36 (0S)): ☐

SECTION II - IDENTIFICATION OF ISSUE(S)

Each issue must be listed separately.

If more space is needed to list additional issues, please include on a separate sheet and check here: ☐

NAME OF ISSUER: City of Phoenix Civic Improvement Corporation Rental Car Facility Charge Revenue Bonds
 DESCRIPTION: Taxable Series 2004
 DATE OF ISSUE: City of Phoenix Civic Improvement Corporation Rental Car Facility Charge Revenue Bonds
 DATE OF ISSUE: Taxable Series 2004

STATE: AZ
 DATED:
 DATE: 06/02/2004

NAME OF
 ISSUER
 DESCRIPTION
 DATE OF ISSUE

STATE:
 DATED
 DATE:

NAME OF
 ISSUER
 DESCRIPTION
 DATE OF ISSUE

STATE:
 DATED
 DATE:

SECTION III - TRANSACTION INFORMATION

1. LATEST FINAL MATURITY DATE OF ALL SECURITIES IN OFFERING: 07/01/2029
 2. DATE OF FINAL AGREEMENT TO PURCHASE, OFFER OR SELL SECURITIES (Date of Sale): 05/12/2004
 3. ACTUAL OR EXPECTED DATE OF DELIVERY OF SECURITIES TO UNDERWRITER(S) (Bond Closing): 06/02/2004
 4. IF THESE SECURITIES ADVANCE REFUND ALL OR A PORTION OF ANOTHER ISSUE, PLEASE CHECK HERE: ☐
 A separate Form G-36(ARD) and copies of the advance refunding documents must be submitted for each issue advance refunded.

SECTION IV - UNDERWRITER ASSESSMENT INFORMATION

The information will be used by the MSRB to compute any rule A-13 underwriting assessment that may be due on this offering. The managing underwriter will be sent an invoice if a rule A-13 assessment is due on the offering.

1. MANAGING

UNDERWRITER: Lehman Brothers

SEC REG.

NUMBER: 8-12324

2. TOTAL PAR VALUE OF ALL SECURITIES IN OFFERING \$ 260,000,000

3. PAR AMOUNT OF SECURITIES UNDERWRITTEN (if different from the amount shown in item B above): \$

4. CHECK ALL THAT APPLY

1. ☐ At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent.
 2. ☐ At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent.
 3. ☐ This offering is exempt from SEC rule 15c2-12 under section (c)(1) of that rule. Section (c)(1) of SEC rule 15c2-12 states that an offering is exempt from the requirements of the rule if the securities offered have authorized denominations of \$100,000 or more and sold to no more than 35 persons each of whom the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment; and (2) is not purchasing for more than one account, or with a view toward distributing the securities.

SECTION V - CUSIP INFORMATION

MSRB rule G-34 requires that CUSIP numbers be assigned to each new issue of municipal securities unless the issue is ineligible for CUSIP number assignment under the eligibility criteria of the CUSIP Service Bureau.

CUSIP-9 NUMBERS OF THE ISSUE(S)

Maturity Date	CUSIP Number	Maturity Date	CUSIP Number	Maturity Date	CUSIP Number
07/01/2007	718846AA6	07/01/2008	718846AB4	07/01/2009	718846AC2
07/01/2010	718846AD0	07/01/2011	718846AE8	07/01/2012	718846AF5
07/01/2013	718846AG3	07/01/2014	718846AH1	07/01/2015	718846AJ7
07/01/2017	718846AK4	07/01/2019	718846AL2	07/01/2024	718846AM0
07/01/2029	718846AN8				

IF ANY OF THE ABOVE SECURITIES HAS A "CUSIP-6" BUT NO "CUSIP-9", CHECK HERE AND LIST THEM BELOW: ☐

(Please see instructions in Form G-36 Manual)

LIST ALL CUSIP-6 NUMBERS ASSIGNED: _____

State the reason why such securities have not been assigned a "CUSIP-9": _____

IF ANY OF THESE SECURITIES IS INELIGIBLE FOR CUSIP NUMBER ASSIGNMENT, PLEASE CHECK HERE: ☐

State the reason why such securities are ineligible for CUSIP number assignment: _____

SECTION VI - MANAGING UNDERWRITER'S CERTIFICATION AND SIGNATURE

THE UNDERSIGNED CERTIFIES THAT THE MATERIALS ACCOMPANYING THIS FORM ARE AS DESCRIBED IN SECTION I ABOVE AND THAT ALL OTHER INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT. THE UNDERSIGNED AGREES THAT THE MATERIALS WILL BE PUBLICLY DISSEMINATED.



ON BEHALF

ON IV ABOVE

SIGNED: _____

NAME:

(PRINT)

underwriter)

PHONE:

most likely

and

tail instruc

id or noted

TURNED FOR

form and two copies of the official

MSRB within the meaning of rule G-36.

ial statement must

MSRB, MSIL System, 1900 Duke Street, Suite 600, Alexandria, Virginia