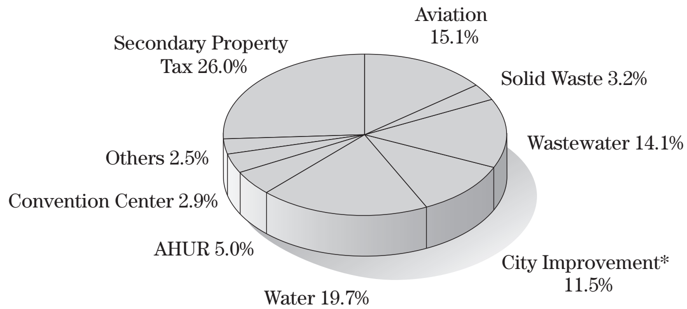
Debt Service

Debt service expenditures include payments of principal, interest, sinking fund contributions, costs of issuance and bond reserve requirements for bonds issued. The debt service allowance in 2007-08 for existing debt and future bond sales is $631,021,000. As shown in the pie chart to the right, the $631.0 million is funded by Secondary Property Tax, Water, Aviation, Wastewater, City Improvement, Arizona Highway User Revenue, Convention Center, and Solid Waste funds. Other funding sources include Sports Facilities, Golf and Grant funds. City Improvement includes $72.0 million in general government nonprofit corporation bonds debt service payments funded by the General ($32.0 million) and Transit 2000 ($40.0 million) portions of excise tax funds.

Secondary Property Tax shown in the pie chart above represents the annual tax levy for debt service and related interest earnings.

2007-08 Debt Service



*Funded by the General and Transit 2000 taxes.

Types of Bonds Issued and Security

Under Arizona law, cities are authorized to issue voter-approved general obligation, highway user revenue and utility revenue bonds. For the city of Phoenix, this includes property tax-supported bonds and revenue bonds (such as water revenue and airport revenue bonds).

The city's general obligation bonds are "full faith and credit" bonds. This means they are secured by a legally binding pledge to levy property taxes without limit to make annual bond principal and interest payments. Water and airport revenue bonds are secured by a pledge of these enterprises' net revenues (revenues net of operation and maintenance expenses) and do not constitute a general obligation of the city backed by general taxing power. Highway user revenue bonds are secured by state-shared gas taxes and other highway user fees and charges and also are not general obligations of the city.

Debt Management

In general, the city has used general obligation bonds to finance capital programs of general government (non-enterprise) departments. These include programs such as fire protection, police protection, libraries, parks and recreation, service centers and storm sewers. The debt service on these bonds is paid from the secondary property tax levy. By state law, the city can only use its secondary property tax levy to pay principal and interest on long-term debt.

Currently, to finance the capital programs of enterprise departments, the city has used revenue bonds secured by and repaid from the revenues of these enterprises. In the past, the city also has used general obligation bonds for water, airport, sanitary sewer and solid waste purposes when deemed appropriate. However, these bonds are repaid from the revenues of these enterprises, not from property taxes or other general revenues.

The city's policy of servicing bonds issued for enterprise purposes with enterprise revenues (for both revenue and general obligation bonds) is viewed favorably by municipal bond analysts. This practice permits the city to maintain a low-to-moderate debt burden on the property tax base. This debt burden is a key measure evaluated by analysts to assess the city's financial strength. Since the 1950s, the city has used a community review process to develop and acquire voter approval for general obligation bond programs.

At a bond election held on March 14, 2006, voters approved all of the $878.5 million of the 2006 Citizens' Bond

Committee-recommended bond authorizations. These authorizations provided funding to construct capital improvements in the following areas:

- Police and Fire Protection
- Police, Fire and Computer Technology
- Parks, Recreation and Mountain Preserves
- Education Facilities
- Library Facilities
- Street Improvements
- Storm Sewers
- Senior Facilities
- Cultural Facilities
- Affordable Housing Neighborhood Revitalization

Bond Ratings

The city's bonds are rated favorably by the major bond rating agencies, Moody's Investors Service and Standard and Poor's. The city's general obligation bonds are rated Aa1 and AAA, respectively. Standard and Poor's has also assigned a Financial Management Assessment (FMA) score of "strong."

Maintaining high bond ratings has resulted in a broader market for the city's bonds and lower interest costs to the city.

The following table is a statement of the city's bonded indebtedness as of April 1, 2007.

Statement of Bonded Indebtedness

General Obligation Bonds (In Thousands of Dollars) (1)

Purpose	Non-Enterprise General Obligation Bonds	Revenue Supported General Obligation Bonds(2)	Total General Obligation Bonds	Revenue Bonds	Total Bonds
Various	$869,983	$ —	$869,983	$ —	$869,983
Airport	—	20,840	20,840	33,155	53,995
Sanitary Sewer	—	61,821	61,821	—	61,821
Solid Waste	—	34,965	34,965	—	34,965
Water	—	110,036	110,036	—	110,036
Public Housing	—	—	—	1,285	1,285
Street and Highway	—	—	—	147,386	147,386
Subtotal	$869,983	$227,662	$1,097,645	$181,826	$1,279,471
Less: Restricted Funds	(90,326)	—	(90,326)	—	(90,326)
Direct Debt	$779,657	$227,662	$1,007,319	$181,826	$1,189,145
Less: Revenue Supported	—	(227,662)	(227,662)	(181,826)	(409,488)
Net Debt	$779,657	$ —	$ 779,657	$ —	$ 779,657

(1) Represents bonds outstanding as of April 1, 2007. These 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 these bonds (including redemption premiums where applicable) is secured by federal securities which were purchased with proceeds of the refunding issues and other available monies 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, since 1990-91, all solid waste bonds have been paid from the revenues of the Solid Waste Enterprise Fund.

Debt Limitation

Under the provisions of the Arizona Constitution, outstanding general obligation bonded debt for combined water, sewer, lighting, park, open space preserves, playgrounds, recreational facilities, public safety, law enforcement, fire emergency, and street and transportation may not exceed 20 percent of a city's net secondary assessed valuation, nor may outstanding general obligation bonded debt for all other purposes exceed six percent of a city's net secondary assessed valuation. Unused borrowing capacity as of April 1, 2007, based upon 2006-07 assessed valuation is shown in the following tables.

Debt Burden

Debt burden is a measurement of the relationship between the debt of the city supported by its property tax base (net direct debt) to the broadest and most generally available measure of wealth in the community: the assessed valuation of all taxable property and the assessed valuation adjusted to reflect market value. In addition, net debt can be compared to population to determine net debt per capita. The city makes these comparisons each time it offers bonds for sale. They are included in the official statements (bond prospectuses) that are distributed to prospective investors. The following table provides debt burden ratios as of April 1, 2007.

The city's debt burden remains in the low-to-moderate range. This means the amount of net debt supported by the city's property tax base is moderate relative to the value of that tax base.

The city has considerable bonded debt outstanding. However, the use of revenue bonds for enterprise activities and enterprise-supported general obligation bonds, in combination with a well-managed, property tax-supported bond program, has permitted the maintenance of a low-to-moderate debt burden.

Water, Sewer, Lighting, Parks, Open Spaces, Playgrounds, Recreational Facilities, Public Safety, Law Enforcement, Fire and Emergency Services Facilities, and Streets and Transportation Facilities Bonds	
20% Constitutional Limitation	$2,452,226,753
Direct General Obligation Bonds Outstanding[1]	(992,544,203)
Unused 20% Limitation Borrowing Capacity	$1,459,682,550

(1) Represents general obligation bonds outstanding as of April 1, 2007.

All Other General Obligation Bonds	
6% Constitutional Limitation	$ 735,668,026
Direct General Obligation Bonds Outstanding	$105,100,000
Less: Principal Redemption Funds held in Restricted Fund as of April 1, 2007	(90,325,636)
Direct General Obligation Bonds Outstanding	(14,774,364)
Unused 6% Limitation Borrowing Capacity	$ 720,893,662

Net Direct General Obligation Bonded Debt Ratios

	Per Capita Debt Pop. Est. as of April 1, 2007 (1,583,700)	Secondary Assessed Valuation ($12,261,133,763)	Full Cash Valuation ($100,948,090,933)
Direct General Obligation Bonded Debt Outstanding as of April 1, 2007	$636.05	8.22%	1.00%
Net Direct General Obligation Bonded Debt Outstanding as of April 1, 2007	$492.30	6.36%	0.77%