

GENERAL FUNDS

Total 2007-08 General Fund revenues are estimated to be \$1,118.0 million or 9.4 percent more than 2006-07 estimates of \$1,022.0 million. General Fund revenues consist of four major categories: local taxes, state-shared revenues, primary property taxes and user fees. Following are descriptions of the revenue sources within these four categories and explanations of 2007-08 revenue estimates.

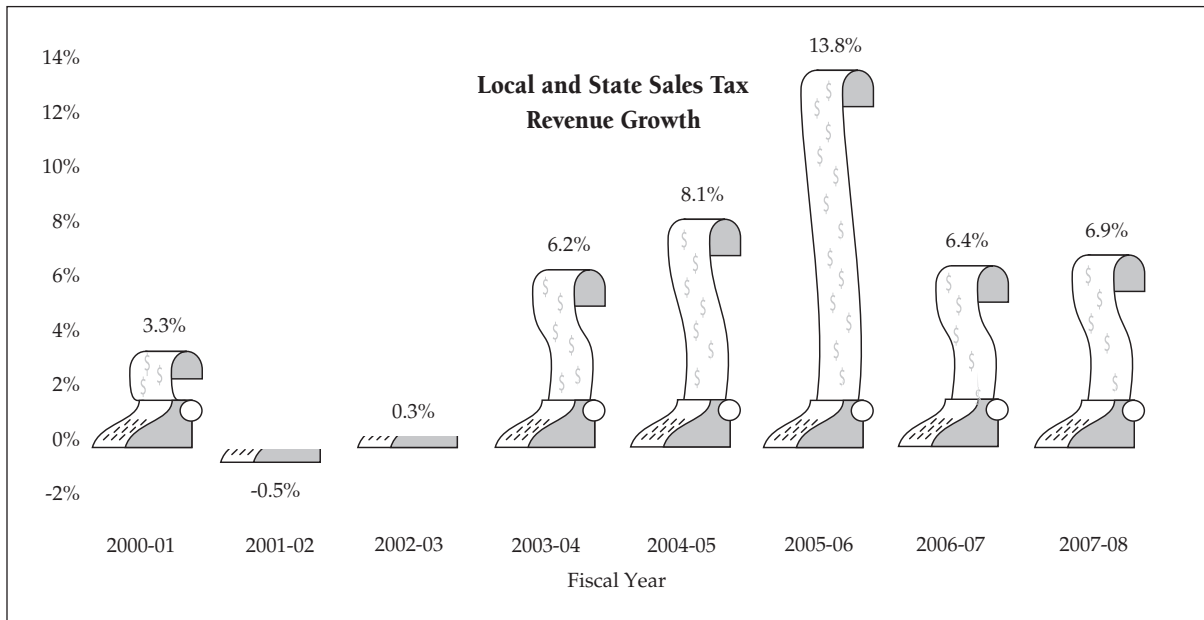
Local and state sales tax collections represent approximately 56 percent of General Fund revenues. Local sales taxes for 2007-08 are expected to grow by 6.9 percent over 2006-07 estimates. This is a decrease from the 7.8 percent growth rate in local sales taxes anticipated in 2006-07.

Phoenix's share of state sales taxes for 2007-08 is expected to grow by 6.8 percent over 2006-07 estimates. This is increased from the 2.2 percent growth in Phoenix's share anticipated in 2006-07. However, the

Phoenix share in 2006-07 was impacted by the 2005 census, which resulted in a significant reduction in Phoenix's share of state sales tax revenues.

Combined local and state sales revenues for 2007-08 are expected to grow by 6.9 percent over 2006-07 estimates. Combined rates of growth since 2000-01 are provided in the chart below.

The table on the previous page details estimated General Fund revenues by major category.



LOCAL SALES TAXES AND FEES

This major revenue category consists of various local sales taxes, privilege license fees, use tax, and franchise taxes and fees. The 2007-08 estimate is \$470.4 million, which is \$30.2 million or 6.9 percent greater than the 2006-07 estimate of \$440.2 million. The assumptions used to estimate local sales taxes follow.

Local Sales Tax

The city of Phoenix's local sales tax consists of 15 general categories that are collected based on a percentage of business income accruing in each category. To protect local businesses, Phoenix also levies a use tax on purchases where no sales taxes were paid. Finally, two additional local taxes are collected based on water service accounts.

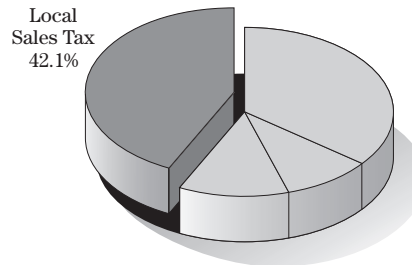
Of the 15 categories collected as a percentage of income, all except advertising provide General Fund resources and contribute to voter-approved resources for police and fire, parks and preserves, and transit programs. Portions of several categories and the entire advertising category are restricted to the

Convention Center fund and/or the Sports Facilities fund. Beginning in May 2005, 2 percent of utilities sales tax collections paid by those utilities with a franchise agreement were directed to the newly established Public Safety Enhancement Fund. Finally, an additional 2 percent tax on the telecommunications category provides resources for the Capital Construction Fund. The table below provides a listing of the local sales tax categories, indicating the specific tax rates

for each fund and the total tax rate for each category.

The General Fund portion of the local sales tax estimate is \$470,411,000 for 2007-08. This is an increase of \$30,248,000 or 6.9 percent from the 2006-07 estimate of \$440,163,000. The increase in local sales tax revenue is based on estimated growth of 5.5 percent in the retail sales category, and reflects slower growth consistent with predictions of local economists. Projected increases in other categories include 9.7

GENERAL FUNDS
Total Revenues – \$1,118.0 Million



CURRENT LOCAL SALES TAX RATES BY CATEGORY

	General Fund	Neighborhood Protection	Public Safety Enhancement	Parks & Preserves	Transit 2000	Convention Center	Sports Facilities	Capital Construction	Total
Advertising	–	–	–	–	–	0.5%	–	–	0.5%
Contracting	0.7%	0.1%	–	0.1%	0.4%	0.5%	–	–	1.8%
Job Printing	0.7%	0.1%	–	0.1%	0.4%	0.5%	–	–	1.8%
Publishing	0.7%	0.1%	–	0.1%	0.4%	0.5%	–	–	1.8%
Transportation/Towing	0.7%	0.1%	–	0.1%	0.4%	0.5%	–	–	1.8%
Restaurants /Bars	0.7%	0.1%	–	0.1%	0.4%	0.5%	–	–	1.8%
Leases/Rentals/Personal Property	1.2%	0.1%	–	0.1%	0.4%	–	–	–	1.8%
Short-Term Motor Vehicle Rental	1.2%	0.1%	–	0.1%	0.4%	–	2.0%	–	3.8%
Commercial Rentals	1.3%	0.1%	–	0.1%	0.4%	–	–	–	1.9%
Lodging Rentals Under 30 Days	1.2%	0.1%	–	0.1%	0.4%	2.0%	1.0%	–	4.8%
Lodging Rentals 30 Days and Over	1.2%	0.1%	–	0.1%	0.4%	–	–	–	1.8%
Retail	1.2%	0.1%	–	0.1%	0.4%	–	–	–	1.8%
Amusements	1.2%	0.1%	–	0.1%	0.4%	–	–	–	1.8%
Utilities	2.7% *	–	2.0% **	–	–	–	–	–	4.7%
Telecommunications	2.7%	–	–	–	–	–	–	2.0%	4.7%

* The General Fund portion of the utilities category includes the 2.0% franchise fee paid by utilities with a franchise agreement.

** The Public Safety Enhancement designated 2.0% sales tax applies only to those utilities with a franchise agreement.

percent for utility and franchise; 7.8 percent for commercial rentals; 7.8 percent for restaurants and bars; and 10.3 percent for hotel/motel room rentals.

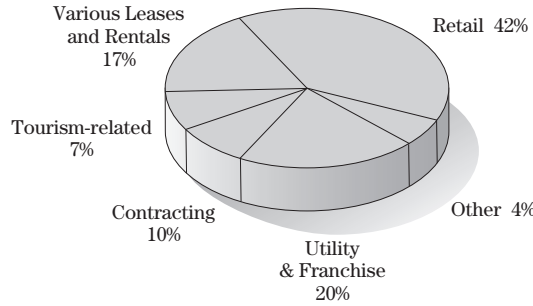
As shown in the pie chart on the right, the retail category represents approximately 42 percent of the General Fund sales tax. Personal income growth, which is used as a trend indicator for retail sales activity, is projected at 6.7 percent for 2007-08. Overall, sales tax growth tends to follow a growth pattern similar to personal income growth.

General Fund sales tax revenue is collected on three rental categories: leases and rentals of personal property, commercial real property rentals and apartment rentals. For 2007-08, these categories are expected to increase 8.7 percent, 7.8 percent and 5.9 percent respectively. These three categories combined are approximately 17 percent of General Fund sales tax revenue.

The contracting category is expected to increase by 12.2 percent. The city has experienced tremendous growth rates in this category over the past several years, led by booming residential and commercial construction. The expected 2006-07 growth is 14.2 percent. For 2007-08, indicators for job creation and population growth predict that residential construction activity will continue to slow. This slowing, however, will be offset by significant public sector commercial construction projects such as the Convention Center expansion, the downtown hotel and light rail. This category represents approximately 10 percent of the General Fund sales tax revenue.

The restaurants and bars category is expected to increase 7.8 percent and the hotel/motel category is expected to increase 10.3 percent in 2007-08. These two categories, combined with revenue from short-term motor vehicle rentals, are closely related to tourism activity and continue to benefit from the rebounding tourism industry. The expected growth rate for these categories for 2006-07 are 8.0 percent and 10.5 percent respectively.

**GENERAL FUNDS
Local Sales Taxes**



Revenues from these tourism-related activities represent approximately 7 percent of General Fund sales tax revenue.

The utility tax category is approximately 20 percent of General Fund sales tax revenue. The category includes electricity, natural and artificial gas, water consumption, sewer service and communications activities. The 2007-08 estimate for utility sales and franchise tax revenue is \$90,975,000, which is an increase of 7.8 percent over the 2005-06 estimate. The increase is partly due to recent and expected future rate increases for water and wastewater.

A use tax is assessed on the purchase of tangible personal property, which is stored, used or consumed within the city, and for which a local sales tax has not been paid at an equivalent rate to the city of Phoenix rate. The tax also applies to items purchased for resale and subsequently used or consumed in the business. The 2007-08 estimate of \$16,004,000 for use tax is 7.9 percent or \$1,172,000 more than the 2006-07 estimate. This category is subject to variation in purchasing practices, as well as economic drivers. The use tax category is approximately 3 percent of General Fund sales tax revenue.

The following table shows General Fund sales tax collections since 2003-04.

The amounts shown exclude the two additional utility tax items that are collected based on water service accounts.

The first of the two additional utility tax items collected on water service accounts was implemented on Oct. 1, 1990. The 2007-08 estimate of \$6,712,000 for this category is 2.5 percent higher than the 2006-07 estimate of \$6,549,000. The second provides funding for storm water management programs required by the Environmental Protection Agency. The 2007-08 estimate of \$1,344,000 for this tax is 2.5 percent greater than the 2006-07 estimate of \$1,311,000. This increase provides for modest growth in accounts.

**GENERAL FUND SALES TAXES
(In Thousands of Dollars)**

Fiscal Year	Revenues	% Change From Previous Year
2003-04	\$325,547	5.8%
2004-05	349,120	7.2
2005-06	398,319	14.1
2006-07 (Est.)	429,779	7.9
2007-08 (Est.)	459,827	7.0

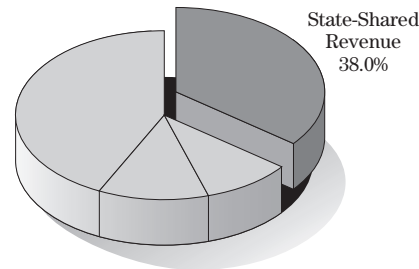
Privilege License Fees

The city charges a \$20 fee to process an application for a privilege tax license and assesses a \$50 annual fee for existing licenses. These fees are intended to recover the costs associated with administering a fair and efficient sales tax system. This category also includes a \$2 per unit (\$50 maximum) annual fee on each apartment complex for non-transient lodging. The 2007-08 estimate for privilege license fee revenue of \$2,355,000 represents no change from the 2006-07 estimate. Historically, the net change in the number of licensed businesses is small.

STATE-SHARED REVENUES

This major revenue category consists of the city's share of the state sales tax, the state income tax and vehicle license tax. The 2007-08 estimate for this category is \$425.1 million, which is \$52.6 million or 14.1 percent more than the 2006-07 estimate of \$372.5 million. The increase is mainly due to projected growth rates of 6.8 percent in state-shared sales taxes and 24.0 percent in state-shared income taxes. The increase in the income tax collections reflects personal and corporate income growth in 2005-06. State-shared vehicle license tax revenue for 2007-08 is estimated to grow at 4.0 percent over the 2006-07 estimate.

GENERAL FUNDS
Total Revenues – \$1,118.0 Million



State Sales Tax

The state sales tax rate on most taxable activities is 5.6 percent with several relatively minor categories having tax rates ranging from 2.5 percent to 5.5 percent. The revenues are split between a “distribution base,” of which Phoenix receives a share, and a “combined non-shared” category, which is allocated entirely to the state. With exceptions for some categories, the distribution base consists of 40 percent of collections. The 0.6 percent education tax included in the total tax rate is not included in any distribution base.

Under the current formula, incorporated cities receive 25 percent of the distribution base. These funds are distributed to individual cities on the basis of relative population percentages. Phoenix's share of the distribution to cities for 2007-08 is estimated at 30.4 percent.

The city's share of the state sales tax for 2007-08 is expected to be \$154,234,000, which is \$9,886,000 or 6.8 percent more than the 2006-07 estimate of \$144,348,000. This estimate is based on the assumption that, similar to the local economy, the state economy will continue to show growth but at a moderated pace. At the state level, retail sales are anticipated to

STATE SALES TAXES (In Thousands of Dollars)

Fiscal Year	Cities' Share of State Collections		Phoenix's Share		
	Total	% Change	Percent	Amount	% Change
2003-04	\$340,536	7.6%	32.6%	\$111,594	7.9%
2004-05	376,213	10.5	32.5	123,788	10.9
2005-06	435,568	15.8	32.5	141,194	14.1
2006-07 (Est.)	471,431	8.2	30.4*	144,348	2.2
2007-08 (Est.)	505,030	7.1	30.4	154,234	6.8

*Impact of 2005 census population changes.

increase about 5.2 percent over the current fiscal year. The table below shows the cities' share of state sales taxes, Phoenix's allocation and annual increases since 2003-04. The population factor changes with decade or mid-decade census counts and periodic adjustments made throughout the year.

State Income Tax

Since in 1973, cities in Arizona have shared 15 percent of the actual state personal and corporate income tax collected two years earlier. Individual cities receive their portion based on the cities' share of the state population.

The 15 percent portion of the state income tax, which will be distributed to cities and towns in 2007-08, is expected to be \$684.5 million. The distribution represents actual individual and corporate income tax collections by the state in the 2005-06 fiscal year. The anticipated \$684.5 million is a 24.2 percent increase from the previous fiscal year. The large increase is a result of rapid growth in personal income and corporate profits two years ago. Personal income tax payments grew by 24.1 percent and corporate income tax payments grew by 24.5 percent. The city of Phoenix's portion of the state income tax is estimated to be approximately 30.4 percent of the 15 percent share distributed to cities. This equates to \$207,826,000 for 2007-08 and is an increase of \$40,247,000 or 24.0 percent from the 2006-07 estimate of \$167,579,000.

The table on the right shows the total cities' share of state income tax, Phoenix's share, percentage allocation and annual increase since 2003-04. Similar to sales tax sharing, population is changed only on the basis of a census count with periodic corrections made throughout the year.

Vehicle License Tax

Vehicle license taxes have been shared with Arizona cities and towns since 1941. The tax is assessed on the basis of an ad valorem rate on each \$100 in value. The value is equal to a percent of the manufacturer's base retail price at the time of initial registration. During each succeeding year, this value is decreased until the established minimum amount is reached. The Arizona Department of Transportation collects and distributes the tax.

Currently, 37.61 percent of collections are allocated to the Arizona Highway Users Revenue fund. The remainder is allocated by percentage to various state funds as well as to the counties and cities. The state is responsible for distributing funds to cities according to their relative population within the county. Based on the 2005 census, Phoenix's percentage of population within Maricopa County is approximately 42.6 percent, down from 46.1 percent based on the 2000 census.

STATE INCOME TAX (In Thousands of Dollars)

Fiscal Year	% Shared w/Cities	Cities' Share of State Collections		Phoenix's Share		
		Total	% Change	Percent	Amount	% Change
2003-04	14.8%	\$365,842	(14.9)%	32.6%	\$119,118	(15.3)%
2004-05	15.0	373,073	2.2	32.5	121,440	1.9
2005-06	15.0	425,229	13.9	32.5	138,313	14.0
2006-07 (Est.)	15.0	551,231	29.6	30.4*	167,579	21.2
2007-08 (Est.)	15.0	684,539	24.2	30.4	207,826	24.0

*Impact of 2005 census population changes.

VEHICLE LICENSE TAX (In Thousands of Dollars)

Fiscal Year	Amount Distributed by Maricopa County	Phoenix's Share		Increase/(Decrease)	
		Percent	Amount	Amount	Percent
2003-04	\$116,050	46.1%	\$53,522	\$5,764	12.1%
2004-05	122,619	46.1	56,552	3,030	5.7
2005-06	136,835	46.1	63,108	6,556	11.6
2006-07 (Est.)	142,182	42.6	60,584	(181)	(0.3)
2007-08 (Est.)	147,870	42.6	63,007	2,423	4.0

Phoenix's share of the vehicle license tax for 2007-08 is anticipated to be \$63,007,000, which is \$2,423,000 or 4.0 percent more than the 2006-07 estimate of \$60,584,000.

The table on the previous page shows the cities' share of the vehicle license tax, Phoenix's share, allocation percentage and annual percentage change since 2003-04.

PRIMARY PROPERTY TAX

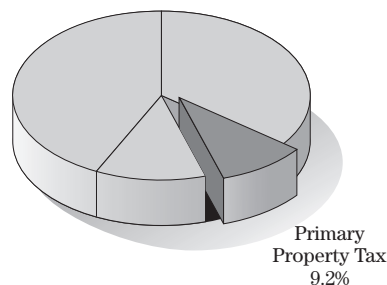
Arizona property taxes are divided into two levies. The primary levy is used for general operation and maintenance expense. The secondary levy can only be used for voter-approved general obligation bond debt service.

The annual increase in the primary property tax levy is limited by the Arizona Constitution to a 2 percent increase over the prior levy plus an estimated levy for previously unassessed property (primarily new construction).

Before 1996-97, the maximum levy allowed by the Arizona Constitution had been levied each year. Leading up to 1996-97, due to a number of years of declining assessed valuations, deferral of the property tax-supported Capital Improvement Program was necessary. A new revenue policy also was established. This policy called for a maximum and minimum allowable combined primary and secondary property tax rate.

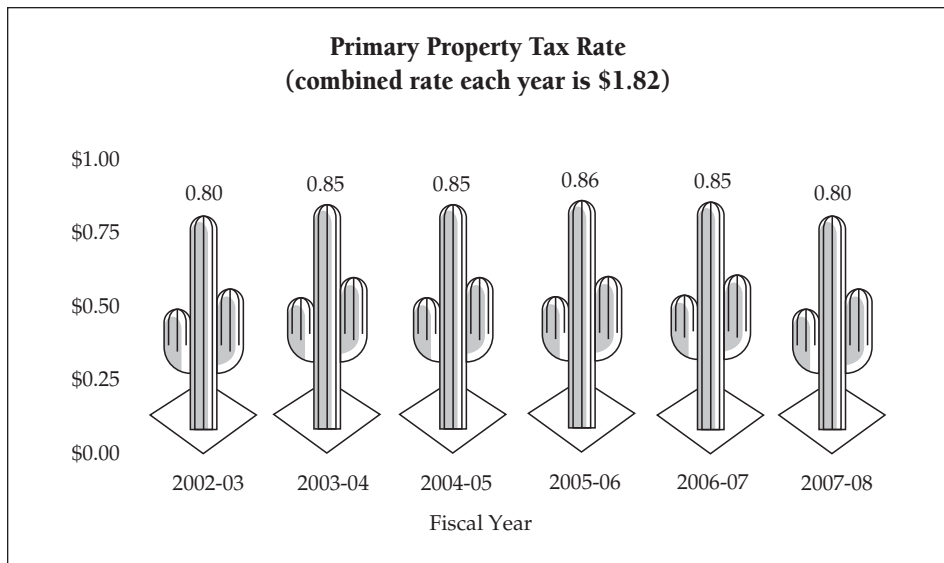
By 1996-97, the application of this revenue policy had driven the combined rate down to the adopted minimum of \$1.82. By Council policy, the \$1.82 rate remains in effect today. The 2006 Bond Committee recommended that maximum allowable primary property taxes be levied in order to help support operating and maintenance costs resulting from 2006 bond-funded capital projects.

GENERAL FUNDS Total Revenues – \$1,118.0 Million



PRIMARY PROPERTY TAX

Fiscal Year	Primary Assessed Valuation (in Billions)	% Change	Primary Levy (in Thousands)	% Change	Rate per \$100 Assessed Valuation
2003-04	\$9,049	9.4%	\$76,392	17.3%	\$.8500
2004-05	9,800	8.3	83,304	9.0	.8500
2005-06	10,637	8.5	91,311	9.6	.8584
2006-07 (Est.)	11,431	7.5	96,622	5.8	.8453
2007-08 (Est.)	12,890	12.8	103,664	7.3	.8042



The chart above shows the changes in the primary property tax rate since 2002-03. The primary property tax rate begins trending down in 2006-07 because the levy is capped at 2 percent regardless of the growth in property values.

The estimated 2007-08 primary property tax levy is \$103,664,000, which is the maximum amount allowed by the Arizona Constitution. This is a 7.3 percent increase over the 2006-07 levy of \$96,622,000. The change in the primary levy reflects an estimated \$5,008,000 increase for collections associated with new properties entering the rolls, plus \$2,034,000 for the State Constitution allowed 2 percent increase on the prior year levy. The primary assessed valuation of \$12.89 billion is approximately 12.8 percent above the 2006-07 primary

assessed valuation of \$11.43 billion. Of this increase about 44 percent is from new properties.

Historically, actual property tax collections are slightly lower than the amount levied. For 2007-08, actual collections for primary property tax are estimated to be \$102,317,000 or 98.7 percent of the levy amount.

The 2007-08 levy results in an estimated primary property tax rate of \$0.8042 per \$100 of assessed valuation. This would result in a secondary property tax rate of \$1.0158 to maintain a total property tax rate of \$1.82 per \$100 of assessed valuation.

The table on the previous page shows primary assessed valuation, primary property tax revenues and primary rates since 2003-04.



USER FEES/OTHER REVENUES

This major revenue category consists of licenses and permits, fines and forfeitures, cable television fees, parks and libraries fees, various user fees designed to recover the costs of providing specific city services, and other miscellaneous General Fund revenue sources. The 2007-08 estimate for this category is \$120.2 million, which is \$6.5 million or 5.7 percent higher than the 2006-07 estimate of \$113.7 million. Following are descriptions of the various categories and explanations of the revenue estimates.

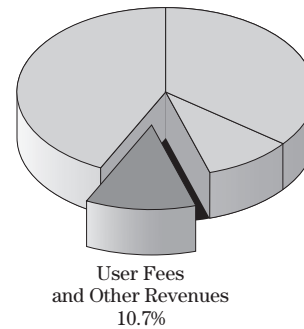
Licenses and Permits

This category consists of various business permit application fees and annual permit fees including liquor license applications, amusement machines, annual liquor licenses and other business license applications and fees. The 2007-08 estimate of \$2,603,000 is 0.9 percent higher than the 2006-07 estimate, given the historically slow growth in this category.

Cable Communications

The city imposes a 5 percent fee on the gross receipts of cable television licensees in return for the use of streets and public rights of way by cable companies in the provision of cable television service. The 2007-08 estimate of \$10,018,000 is \$168,000 or 1.7 percent greater than the 2006-07 estimate of \$9,850,000. The increase assumes conservative growth in the customer base, plus a moderate rate increase of 2 percent for one of the cable providers. The license for the other cable provider was recently renegotiated and provides that the amount will remain at calendar year 2006 levels. The only revenue increase for that provider relates to the elimination of the public access channel revenue offset.

GENERAL FUNDS Total Revenues – \$1,118.0 Million



Fines and Forfeitures

This category is comprised of various sanctions including traffic moving violations, criminal offense fines, parking violations, driving under the influence and defensive driving program revenues. The 2007-08 estimate of \$25,573,000 is \$3,058,000 or 13.6 percent more than the 2006-07 estimate of \$22,515,000. The estimate reflects increases in all categories. Several traffic enforcement programs, a driving under the influence pilot program, and increased collections are expected to contribute to increased revenues.

Court Default Fee

A \$25 default fee was implemented in 1993-94 in order to recover court costs associated with defendants who fail to appear for court appearances or fail to pay previously imposed sanctions on civil traffic violations. The 2007-08 estimate for this revenue category is \$864,000, which is 6.7 percent higher than the 2006-07 estimate. The estimate is based on year-to-date actuals and historical growth patterns.

Engineering and Architectural Services

This user fee category includes permits for utility construction and fiber optic construction in the public rights of way. It also includes revenues from fees for pavement cut activity. The 2007-08 estimate of \$1,400,000 is \$1,200,000 or 46.2 percent less than the 2006-07 estimate of \$2,600,000. The decrease in 2007-08 is due to an anticipated large bad debt write-off due to a customer's bankruptcy.



Fire

The Fire Department receives fees from various services. The majority of the revenue comes from emergency transportation service (ETS). This user fee includes basic life support and advanced life support services and related charges for mileage and supplies for the provision of ambulance service. The 2007-08 estimate for ETS is \$28,000,000, which is \$1,736,000 or 6.6 percent greater than the 2006-07 estimate of \$26,264,000. The primary reason for the projected increase is due to anticipated higher collection rates as a result of bringing the collection activity in-house. The 2007-08 projected revenue also includes rate increases approved by the Arizona Department of Health Services and modest growth in the number of transports.

Other Fire revenue sources include fire prevention inspection fees, computer-aided dispatch (CAD) and various other services provided to the community. The 2007-08 estimate for other fire services is \$9,407,000 which is 53.6 percent above 2006-07. Increased fees for computer-aided dispatch contribute to the increased revenues.

Hazardous Materials Permit and Inspection Fee

Because incidents involving hazardous materials have increased in recent years, a hazardous materials permit and inspection fee was established in October 2001. Revenues from this category are used to recover direct costs incurred for inspecting businesses that use hazardous materials. Upon review in 2003-04, the annual permit fee amount was raised. This annual permit now varies from \$400 to \$1,650 and depends on the volume of hazardous materials stored on site. The 2007-08 estimate is \$1,325,000, which is the same as 2006-07 estimate. Revenues in this category have been historically consistent.

Library Fees

Library fee and fine revenue for 2007-08 is expected to be \$1,726,000, which is \$97,000 or 6.0 percent above the 2006-07 estimate. The increase is due to increased library fine collections. Collection fine trends indicate consistent growth with additional fine revenue coming from the new Cesar Chavez Library.

Parks and Recreation Fees

This category includes parks concession revenues, swimming pool revenues, fees for the use of various park facilities such as ball fields and recreation programs, activities at Municipal Stadium, Maryvale Stadium and the Papago Baseball Facility, and other miscellaneous park fees. The 2007-08 estimate of \$5,036,000 is \$4,000 or 0.1 percent below the 2006-07 estimate. The decrease in 2007-08 is due to a slight decrease in projected property rental fees.

Planning

User fees in this category include rezoning fees and zoning adjustment fees for use permits and variances. The 2007-08 estimate of \$1,683,000, reflects no change from the 2006-07 estimate.

Police

The Police Department receives revenues for various services and programs. Police services are provided on a fee-per-hour basis for school and athletic events as well as other activities where a law enforcement presence is desired. In addition, a false alarm program includes both permit fees and assessments for false alarm responses. Finally, based on recent changes to governing statutes, a fee-recovered vehicle impound program began in 2005-06 which has contributed to Police revenue. For 2007-08, the estimate of \$14,004,000 is 1.7 percent more than the 2006-07 estimate of \$13,773,000.

Street Transportation

This user fee category includes permit fees for utility construction in the public rights of way as well as utility ordinance inspections. The 2007-08 estimate of \$2,472,000 is just slightly more than the 2006-07 estimate of \$2,470,000.

Other Service Charges

Revenue in this category is composed of several non-tax sources including interest income, parking meter revenue, the Downtown Enhancement District, in lieu property taxes, sales of surplus and abandoned property, various rental, parking and concession categories. The 2007-08 estimate of \$14,680,000 is \$871,000 or 5.6 percent less than the 2006-07 estimate of \$15,551,000. This is primarily due to a projected decrease in interest earnings.

All Other Fees

This fee category consists of miscellaneous service charges in the Finance, Housing, Human Services and Neighborhood Services departments and miscellaneous categories. The 2007-08 estimate of \$1,368,000 is \$59,000 or 4.1 percent less than the 2006-07 estimate of \$1,427,000.

