DEBT SERVICE SUMMARY

Debt service expenditures include payments of principal, interest, sinking fund transfers, costs of issuance and bond reserve requirements for bonds issued. The debt service allowance in 2013-14 for existing debt and future bond sales is $535,785,000. This is funded by Water (25%), Wastewater (14%), City Improvement (16%), Aviation (14%), Secondary Property Tax (8%), Passenger Facility Charges (8%), Convention Center (3%), Sports Facilities (4%), Solid Waste (3%) and other various funds (5%). City Improvement includes $84.2 million in general government nonprofit corporation bonds debt service payments funded by General Fund ($30.5 million), Transit 2000 ($53.4 million), Housing ($0.1 million) and capital funds ($0.2 million). Secondary Property Tax represents the annual tax levy for debt service, federal subsidy and related interest earnings.

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. Revenue bonds (such as water revenue 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.

DEBT SERVICE SUMMARY

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

In December 2011, the City Council adopted a policy to delay lower priority bond projects subject to an annual review of property values and financial conditions. In addition, General Obligation debt has been restructured and refinanced to take advantage of favorable market rates. The property tax reserve fund is utilized strategically to pay down debt service to the staff recommended balance while preserving the AAA bond rating.

Bond Ratings

As shown in the chart below, 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 also has assigned a Financial Management Assessment (FMA) score of "strong."

City of Phoenix Bond Ratings

	Rating [1]	
	Moody's	Standard & Poor's
General Obligation	Aa1	AAA
Senior Lien Water Revenue [4]	Aa2	AAA
Junior Lien Water Revenue [2]	Aa2	AAA
Senior Lien Airport Revenue [2]	Aa3	AA-
Junior Lien Airport Revenue [2]	A1	A+
Senior Lien Street and Highway User Revenue	Aa3	AAA
Junior Lien Street and Highway User Revenue	Aa3	AA

DEBT SERVICE SUMMARY

	Rating [1]	
	Moody's	Standard & Poor's
Senior Lien Tax Excise Tax Revenue [2]	Aa2	AAA
Junior Lien Tax Excise Tax Revenue [3]	Aa3	AA
Subordinated Excise Tax Revenue [2]	Aa3	AA
Senior Lien Wastewater System Revenue [2]	Aa2	AAA
Junior Lien Wastewater System Revenue [2]	Aa2	AA+
Rental Car Facility Charge Revenue Bonds [2]	A3	A-
Transit Excise Tax Revenue Bonds (Light Rail) [2]	Aa2	AA
State of AZ Distribution Revenue Bonds [2]	Aa3	AA
Senior Hotel Revenue Bonds [5]	Ba1	BB+
Subordinate Hotel Revenue Bonds [5]	A2	BBB+

[1] Represents underlying rating, if insured.
[2] Issued by the City of Phoenix Civic Improvement Corporation.
[3] There are currently no outstanding junior lien non-sports facilities backed bonds.
[4] No bonds are currently outstanding.
[5] Issued by the Downtown Phoenix Hotel Corporation.

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.

Statement of Bonded Indebtedness[1]
(In Thousands of Dollars)

General Obligation Bonds

Purpose	Non-Enterprise General Obligation Bonds	Revenue-Supported General Obligation Bonds	Total General Obligation Bonds	Revenue Bonds	Total Bonds
Various	$1,505,350	$ —	$1,505,350	$ —	$1,505,350
Airport	—	9,615	9,615	—	9,615
Sanitary Sewer	—	19,638	19,638	—	19,638
Solid Waste	—	10,385	10,385	—	10,385
Water	—	43,287	43,287	—	43,287
Public Housing	—	—	—	—	—
Street and Highway	—	—	—	5,875	5,875
Subtotal	$1,505,350	$ 82,925	$1,588,275	$ 5,875	$1,594,150
Less: Restricted Funds	(321,573)	—	(321,573)	—	(321,573)
Direct Debt	$1,183,777	$ 82,925	$1,266,702	$ 5,875	$1,272,577
Less: Revenue Supported	—	(82,925)	(82,925)	(5,875)	(88,800)
Net Debt	$1,183,777	$ —	$1,183,777	$ —	$1,183,777

DEBT SERVICE SUMMARY

[1]Represents general obligation bonds outstanding as of Dec. 1, 2012. Such figures do not include the outstanding principal amounts of certain general obligation 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 refunded debt service requirements is secured by obligations issued or fully guaranteed by the United States of America which were purchased with proceeds of the refunding issues and other available moneys and 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.

Debt Limitation

Under the provisions of the Arizona Constitution, outstanding general obligation bonded debt for combined water, sewer, light, parks, open space preserves, playgrounds, recreational facilities, public safety, law enforcement, fire emergency, streets 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 6 percent of a city's net secondary assessed valuation. Unused borrowing capacity as of Dec. 1, 2012, is shown below, based upon 2012-13 assessed valuation.

Water, Sewer, Light, Parks, Open Spaces, Playgrounds, Recreational Facilities, Public Safety, Law Enforcement, Fire Emergency, Streets and Transportation Purpose Bonds

20% Constitutional Limitation	$2,169,948,731
Direct General Obligation Bonds Outstanding[1]	(1,218,080,205)
Unused 20% Limitation Borrowing Capacity	$ 951,868,526

All Other General Obligation Bonds

6% Constitutional Limitation		$ 650,984,619
Direct General Obligation Bonds Outstanding	370,195,000[1]	
Less: Principal Redemption Funds held in Restricted Fund as of December 1, 2011	(321,572,601)	
Direct General Obligation Bonds Outstanding		(48,622,399)
Unused 6% Limitation Borrowing Capacity		$ 602,362,220

[1]Represents general obligation bonds outstanding as of December 1, 2012.

DEBT SERVICE SUMMARY

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 Dec. 1, 2012.

Net Direct General Obligation Bonded Debt Ratios

	Per Capita Debt Pop. Est. (1,464,405) [1]	Secondary Assessed Valuation ($10,849,743,656)	Full Cash Valuation ($103,538,836,913)
Direct General Obligation Bonded Debt Outstanding as of December 1, 2011	$864.99	11.67%	1.22%
Net Direct General Obligation Bonded Debt Outstanding as of December 1, 2011	$808.37	10.91%	1.14%

[1] Population estimate obtained from the city of Phoenix Planning and Development Department as of July 1, 2012.

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.

General Government Nonprofit Corporation Bonds

In addition to bonded debt, the city uses nonprofit corporation bonds as a financing tool. This form of financing involves the issuance of bonds by a nonprofit corporation for city-

DEBT SERVICE SUMMARY

approved projects. The city makes annual payments equal to the bond debt service requirements to the corporation.

The city's payments to the corporation are guaranteed by a pledge of excise taxes or utility revenues generated by the city's airport, water system or wastewater system. Pledged excise taxes may include city sales, use, utility and franchise taxes; license and permit fees; and state-shared sales and income taxes.

The city has used nonprofit corporation financing selectively. In general, it has financed only those projects that will generate revenues adequate to support the annual debt service requirements or that generate economic benefits that more than offset the cost of financing. The city also has used nonprofit corporation financing for projects essential to health and safety: e.g., police precinct stations. Similar to bonded debt, these financings are rated by bond rating agencies.

Debt Service by Source of Funds and Type of Expenditure
(In Thousands of Dollars)

Fund	2011-12 Actual	2012-13 Estimate	2013-14 Proposed Budget
Secondary Property Tax	$ 99,861	$ 68,149	$ 40,581
Aviation	82,025	76,712	77,160
Arizona Highway User Revenue	22,000	22,001	1
Convention Center	19,360	18,591	18,584
General	6,151	29,354	30,540
Golf	1	1	1
Housing	72	71	70
Passenger Facility Charges	32,384	44,095	44,092
Solid Waste	14,630	13,387	13,911
Sports Facilities	9,514	22,803	21,881
Transit 2000	48,394	50,892	53,366
Wastewater	70,714	71,683	74,494
Water	105,287	121,492	134,066
Other Funds - Various Sources	30,216	98,169	27,038
Total	$540,609	$637,400	$535,785
Type of Expenditure			
Principal	$208,719	$313,151	$226,617
Interest	324,478	318,498	300,825
Other	7,412	5,751	8,343
Total	$540,609	$637,400	$535,785