

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 2009-10 for existing debt and future bond sales is \$627,923,000. As shown in the following pie chart, the \$627.9 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 \$79.1 million in general government nonprofit corporation bonds debt service payments funded by the General (\$35.1 million) and Transit 2000 (\$44.0 million) portions of excise tax funds.

Secondary Property Tax shown in the pie chart represents the annual tax levy for debt service 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. 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

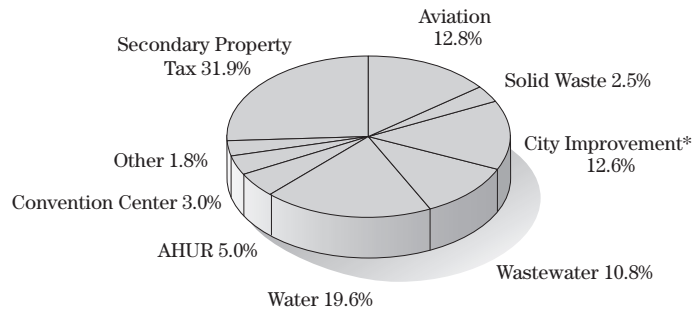
bonds are secured by state-shared gas taxes and other highway user fees and charges, and also are not general obligations of the city.

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.

2009-10 Debt Service



*Funded by the General and Transit 2000 taxes.

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

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 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 table on the next page is a statement of the city's bonded indebtedness as of March 1, 2009.

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 March 1, 2009, based upon 2008-09 assessed valuation is shown in the tables on the next page.

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 table on page 148 provides debt burden ratios as of March 1, 2009.

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-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

City of Phoenix Bond Ratings

	Rating ⁽¹⁾	
	Moody's	Standard & Poor's
General Obligation	Aa1	AAA
General Obligation (variable rate) ⁽⁴⁾	Aa1/VMIG 1	AAA/A-1+
Senior Lien Water Revenue ⁽⁴⁾	Aa3	AAA
Junior Lien Water Revenue ^{(2) (5)}	Aa3	AAA
Airport Revenue ⁽⁵⁾	Aa3	AA-
Senior Lien Airport Revenue ^{(2) (5)}	Aa3	AA-
Junior Lien Airport Revenue ^{(2) (5)}	A1	A
Senior Lien Street and Highway User Revenue	Aa3	AAA
Junior Lien Street and Highway User Revenue	A1	AA
Municipal Housing Revenue	A1	N/R ⁽⁷⁾
Senior Tax Excise Tax Revenue ⁽²⁾	Aa2	AAA
Junior Tax Excise Tax Revenue ⁽⁴⁾	Aa3	AA
Subordinated Excise Tax Revenue ^{(2) (5)}	Aa3	AA
Wastewater System Lease Revenue ^{(2) (4)}	Aa3	AA-
Senior Lien Wastewater System Revenue ⁽²⁾	Aa3	AAA
Junior Lien Wastewater System Revenue ^{(2) (5)}	Aa3	AA+
Bus Acquisition Special Revenue ^{(2) (4) (5)}	A1	N/R ⁽⁷⁾
Rental Car Facility Charge Revenue Bonds ^{(2) (5)}	A3	A-
Transit Excise Tax Revenue Bonds (Light Rail) ^{(2) (5)}	Aa3	AA
State of AZ Distribution Revenue Bonds ^{(2) (5)}	A1	AA-
Senior Hotel Revenue Bonds ^{(5) (6)}	Baa3	BBB-
Subordinate Hotel Revenue Bonds ^{(5) (6)}	A2	A-

⁽¹⁾Represents underlying rating, if insured.

⁽²⁾Issued by the Civic Improvement Corporation.

⁽³⁾Represents ratings on Series 1992 dated 03-15-92 and Series 1999 dated 01-01-99. Two series, Series 1992A, dated 12-15-92 and Series 2002, dated 05-01-02, are insured by Financial Guaranty Insurance Company (FGIC).

⁽⁴⁾No bonds currently outstanding.

⁽⁵⁾Insured by a municipal bond insurance policy or an irrevocable direct pay letter of credit.

The indicated ratings represent the underlying ratings.

⁽⁶⁾Issued by the Downtown Phoenix Hotel Corporation.

⁽⁷⁾Not rated.

Statement of Bonded Indebtedness**General Obligation Bonds (In Thousands of Dollars) ⁽¹⁾**

Purpose	Non-Enterprise General Obligation Bonds	Revenue Supported General Obligation Bonds	Total General Obligation Bonds	Revenue Bonds	Total Bonds
Various	\$1,232,958	\$ —	\$1,232,958	\$ —	\$1,232,958
Airport	—	13,580	13,580	—	13,580
Sanitary Sewer	—	51,873	51,873	—	51,873
Solid Waste	—	25,140	25,140	—	25,140
Water	—	81,405	81,405	—	81,405
Public Housing	—	—	—	155	155
Street and Highway	—	—	—	97,171	97,171
Subtotal	\$1,232,958	\$ 171,998	\$1,404,956	\$ 97,326	\$1,502,282
Less: Restricted Funds	(202,117)	—	(202,117)	—	(202,117)
Direct Debt	\$1,030,841	\$ 171,998	\$1,202,839	\$97,326	\$1,300,165
Less: Revenue Supported	—	(171,998)	(171,998)	(97,326)	(269,324)
Net Debt	\$1,030,841	\$ —	\$1,030,841	\$ —	\$1,030,841

⁽¹⁾Represents bonds outstanding as of March 1, 2009. 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.

**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	\$3,771,214,475
Direct General Obligation Bonds Outstanding ⁽¹⁾	(1,075,420,962)
Unused 20% Limitation Borrowing Capacity	\$2,695,793,513

All Other General Obligation Bonds

6% Constitutional Limitation	\$ 1,131,364,342
Direct General Obligation Bonds Outstanding	\$329,535,000 ⁽¹⁾
Less: Principal Redemption Funds held in Restricted Fund as of March 1, 2009	(202,116,852)
Direct General Obligation Bonds Outstanding	(127,418,148)
Unused 6% Limitation Borrowing Capacity	\$ 1,003,946,194

⁽¹⁾Represents general obligation bonds outstanding as of March 1, 2009.



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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.

Net Direct General Obligation Bonded Debt Ratios

	Per Capita Debt Pop. Est. as of March 1, 2009 (1,650,745) ⁽¹⁾	Secondary Assessed Valuation (\$18,856,072,373)	Full Cash Valuation (\$167,520,964,412)
Direct General Obligation Bonded Debt Outstanding as of March 1, 2009	\$728.66	6.38%	0.72%
Net Direct General Obligation Bonded Debt Outstanding as of March 1, 2009	\$624.47	5.47%	0.62%

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

Fund	2007-08 Actual	2008-09 Estimate	2009-10 Budget
Secondary Property Tax	\$165,827	\$201,024	\$200,222
Aviation	66,025	79,745	77,567
Arizona Highway User Revenue	31,245	31,241	31,247
Convention Center	17,949	18,595	18,592
General	26,175	28,465	35,150
Golf	844	852	849
Grant Funds - Transit and Housing	5,234	321	—
Solid Waste	20,241	15,381	15,594
Sports Facilities	9,010	9,870	9,872
Transit 2000	43,692	41,900	43,960
Wastewater	62,887	67,650	67,370
Water	77,344	82,248	122,744
Capital Funds - Various Sources	31,795	2,470	4,756
Total	\$558,268	\$579,762	\$627,923

Type of Expenditure

Type of Expenditure	2007-08 Actual	2008-09 Estimate	2009-10 Budget
Principal	\$271,045	\$267,696	\$288,828
Interest	285,336	310,974	337,095
Other	1,887	1,092	2,000
Total	\$558,268	\$579,762	\$627,923