NEW ISSUES — BOOK-ENTRY-ONLY **RATINGS**: Moody's: A1
Standard & Poor's: A+

OFFICIAL STATEMENT DATED AUGUST 11, 2010

In the opinion of Bond Counsel, assuming compliance with certain tax covenants, interest on the Tax-Exempt Bonds (as defined herein) is excluded from gross income for federal income tax purposes under existing statutes, regulations, rulings and court decisions. Interest on the Tax-Exempt Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Bond Counsel is further of the opinion that assuming interest on the Tax-Exempt Bonds is so excludable from gross income for federal income tax purposes, the interest on the Tax-Exempt Bonds is exempt from income taxation under the laws of the State of Arizona. See "TAX MATTERS — Tax-Exempt Bonds" herein. In the opinion of Bond Counsel, interest on the Taxable Improvement Bonds (as defined herein) is includible in gross income for federal income tax purposes and therefore is not exempt from present federal income taxation. See "TAX MATTERS — Taxable Improvement Bonds" herein.

CITY OF PHOENIX CIVIC IMPROVEMENT CORPORATION

$642,680,000 **Junior Lien Airport Revenue Bonds, Series 2010A (Non-AMT)**	**$21,345,000** **Junior Lien Airport Revenue Bonds, Taxable Series 2010B (Recovery Zone Economic Development Bonds-Direct Payment)**	**$32,080,000** **Junior Lien Airport Revenue Refunding Bonds, Series 2010C (Non-AMT)**

Dated: Date of Delivery **Due: July 1, as shown on inside front cover**

Principal of, interest on, and premium, if any, on the Junior Lien Airport Revenue Bonds, Series 2010A (the *"Tax-Exempt Improvement Bonds"*), the Junior Lien Airport Revenue Refunding Bonds, Series 2010C (the *"Refunding Bonds"* and, together with the Tax-Exempt Improvement Bonds, the *"Tax-Exempt Bonds"*) and the Junior Lien Airport Revenue Bonds, Taxable Series 2010B (Recovery Zone Economic Development Bonds-Direct Payment) (the *"Taxable Improvement Bonds"* and together with the Tax-Exempt Bonds, the *"2010 Junior Bonds"*) are payable at the designated corporate trust office of U.S. Bank National Association, Phoenix, Arizona, as trustee (the *"Trustee,"* also referred to herein as the *"Registrar," "Paying Agent"* and *"Authenticating Agent"*). The 2010 Junior Bonds will be issued as fully registered bonds in amounts of $5,000 each or any integral multiple thereof of principal due on specified maturity dates. The 2010 Junior Bonds, when issued, will be registered in the name of The Depository Trust Company *("DTC")* or its nominee and will be available to purchasers initially only through the book-entry-only system maintained by DTC. So long as the book-entry-only system is maintained, no physical delivery of the 2010 Junior Bonds will be made to the ultimate purchasers thereof and all payments of principal of and premium, if any, and interest on the 2010 Junior Bonds will be made to such purchasers through DTC. Interest on the 2010 Junior Bonds is payable semiannually on January 1 and July 1 of each year, commencing January 1, 2011, by the Trustee. The 2010 Junior Bonds are being issued pursuant to a Bond Indenture, dated as of August 1, 2010, between the City of Phoenix Civic Improvement Corporation (the *"Corporation"*) and the Trustee.

The 2010 Junior Bonds are subject to redemption prior to maturity as described herein.

The 2010 Junior Bonds are special revenue obligations of the Corporation and are payable solely from payments required to be paid by the City of Phoenix, Arizona (the *"City"*), to the Corporation pursuant to the Junior Lien City Purchase Agreement, dated as of August 1, 2010 (the *"City Purchase Agreement"*) between the City and the Corporation. **The obligations of the City to make payments under the City Purchase Agreement are absolute and unconditional, but do not constitute a pledge of the full faith and credit or the ad valorem taxing power of the City.** Except to the extent the City appropriates other lawfully available funds for such payments and except as described below with respect to the Tax-Exempt Improvement Bonds and the Taxable Improvement Bonds (collectively, the *"Improvement Bonds"*), the City's payments under the City Purchase Agreement are payable solely from Designated Revenues (as defined herein) to be derived from operation of the City's Airport, as defined herein. The pledge of Designated Revenues to amounts due under the City Purchase Agreement is subordinate to amounts owed with respect to outstanding Senior Lien Obligations (as defined herein) and Senior Lien Obligations which may be issued in the future. Principal of and interest on the Improvement Bonds is additionally payable from and secured by an irrevocable commitment of the net proceeds of a passenger facility charge approved by the Federal Aviation Administration in an amount equal to debt service on the Improvement Bonds in each Fiscal Year due on or before July 1, 2016. Interest on the Taxable Improvement Bonds is further secured by an irrevocable commitment of the 2010 RZEDB Subsidy Payments (as defined herein).

This cover page contains only a brief description of the 2010 Junior Bonds and the security therefor, and is designed for quick reference only. This cover page is not a summary of all material information with respect to the 2010 Junior Bonds or of investment risks involved with the purchase of the 2010 Junior Bonds, and investors are advised to read this entire Official Statement, giving particular attention to the matters discussed under "CERTAIN BONDHOLDERS' RISKS," in order to obtain information essential to making an informed investment decision.

The 2010 Junior 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 and tax exemption. Certain legal matters will be passed upon for the Underwriters by Kutak Rock LLP, counsel to the Underwriters. It is expected that the 2010 Junior Bonds will be available for delivery in book-entry-only form through the facilities of DTC on or about September 1, 2010.

Barclays Capital **BofA Merrill Lynch**

Citi **Jefferies & Company** **J.P. Morgan**

Siebert Brandford Shank & Co., LLC

Mesirow Financial, Inc. **Rice Financial Products Co.**

MATURITY SCHEDULES

$642,680,000
Junior Lien Airport Revenue Bonds, Series 2010A (Non-AMT)

Maturity July 1	Principal Amount	Interest Rate	Price or Yield	Maturity July 1	Principal Amount	Interest Rate	Price or Yield
2013	$ 850,000	2.000%	1.410%	2021	$ 500,000	4.000%	3.650%*
2013	5,300,000	3.000	1.410	2021	16,285,000	5.000	3.650*
2013	5,560,000	4.000	1.410	2022	17,620,000	5.000	3.800*
2014	300,000	3.000	1.660	2023	18,500,000	5.000	3.940*
2014	11,805,000	5.000	1.660	2024	19,425,000	5.000	4.040*
2015	3,155,000	4.000	2.170	2025	6,075,000	4.125	4.170
2015	9,550,000	5.000	2.170	2025	14,320,000	5.000	4.170*
2016	1,595,000	4.000	2.610	2026	21,365,000	5.000	4.290*
2016	11,715,000	5.000	2.610	2027	22,430,000	5.000	4.390*
2017	425,000	4.000	2.900	2028	23,555,000	5.000	4.460*
2017	13,535,000	5.000	2.900	2029	24,730,000	5.000	4.530*
2018	5,135,000	3.000	3.090	2030	12,635,000	4.500	4.650
2018	9,520,000	5.000	3.090	2030	13,330,000	5.000	4.650*
2019	2,120,000	4.000	3.300	2031	27,200,000	5.000	4.730*
2019	13,165,000	5.000	3.300	2034	20,000,000	5.000	100.000
2020	2,785,000	3.500	3.490				
2020	13,240,000	5.000	3.490				

$ 58,635,000 5.250% Term Bonds due July 1, 2033, Yield 4.670%*
$216,320,000 5.000% Term Bonds due July 1, 2040, Price 100.000

$21,345,000
Junior Lien Airport Revenue Bonds, Taxable Series 2010B
(Recovery Zone Economic Development Bonds-Direct Payment)

Maturity July 1	Principal Amount	Interest Rate	Price
2040	$21,345,000	6.600%	100.000

$32,080,000
Junior Lien Airport Revenue Refunding Bonds, Series 2010C (Non-AMT)

Maturity July 1	Principal Amount	Interest Rate	Yield
2023	$10,175,000	5.000%	3.940%*
2024	10,685,000	5.000	4.040*
2025	11,220,000	5.000	4.170*

* Yield to July 1, 2020, the first optional redemption date.

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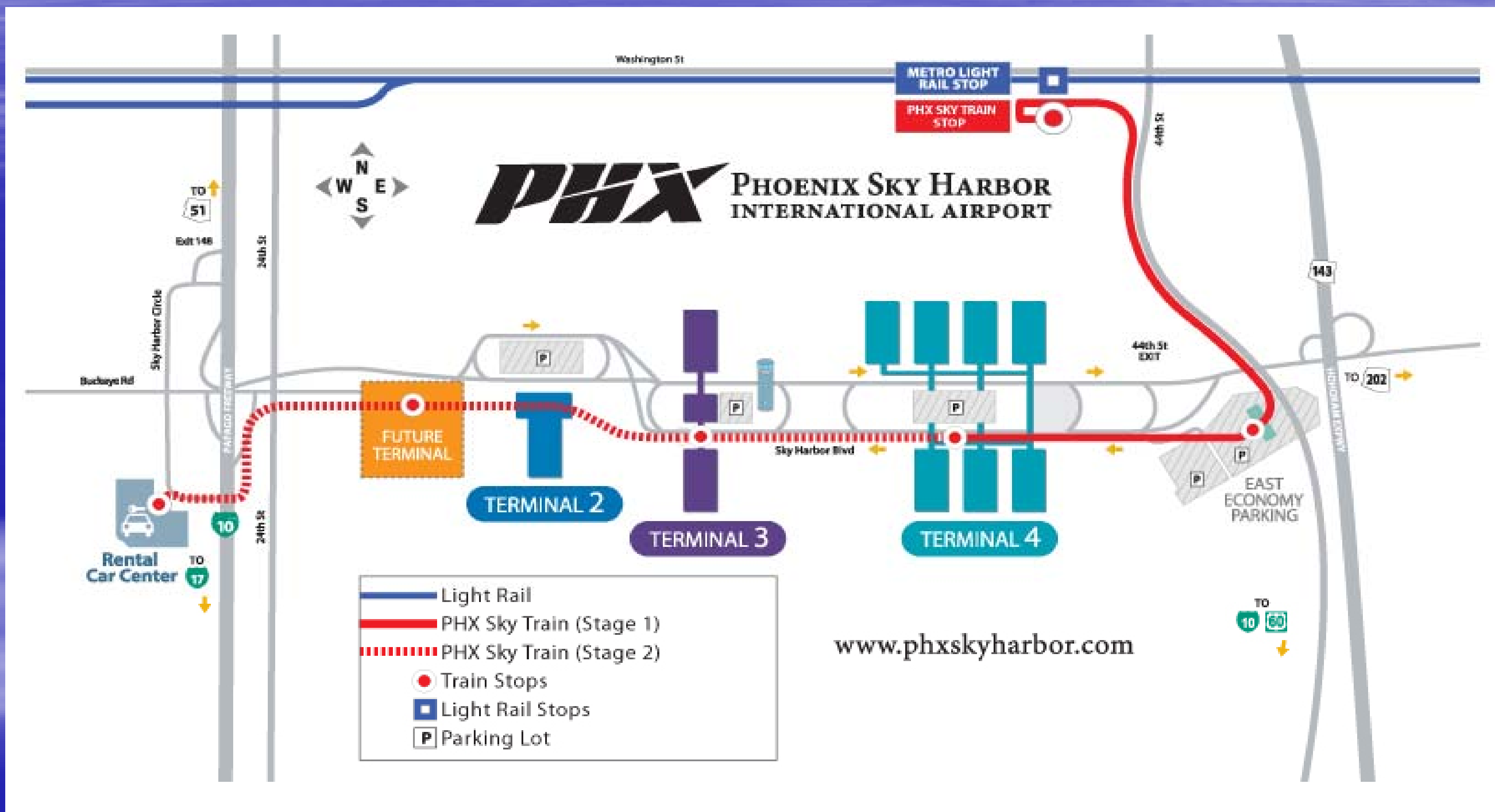
PHX Sky Train
PHX
Sky Train

PHX Sky Train Map



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CITY OF PHOENIX, ARIZONA

CITY OF PHOENIX CIVIC IMPROVEMENT CORPORATION

Wallace Estfan
President and Director

Michael R. Davis
Vice President and Director

James H. Lundy
Secretary-Treasurer and Director

Barbara Barone
Director

Bruce Covill
Director

Karlene Keogh
Director

CITY OF PHOENIX, ARIZONA
CITY COUNCIL

Phil Gordon, *Mayor*

Michael Nowakowski, *Vice Mayor*
District 7

Sal DiCiccio, *Member*
District 6

Bill Gates, *Member*
District 3

Michael Johnson, *Member*
District 8

Claude Mattox, *Member*
District 5

Peggy Neely, *Member*
District 2

Tom Simplot, *Member*
District 4

Thelda Williams, *Member*
District 1

ADMINISTRATIVE OFFICIALS

David Cavazos
City Manager

Ed Zuercher
Assistant City Manager

David Krietor
Deputy City Manager

Jeff DeWitt
Finance Director

Danny Murphy
Aviation Director

Gary Verburg
City Attorney

Mario Paniagua
City Clerk

SPECIAL SERVICES

GREENBERG TRAURIG, LLP
Phoenix, Arizona
Bond Counsel

FRASCA & ASSOCIATES, L.L.C.
New York, New York
Financial Advisor

JACOBS CONSULTANCY INC.
Burlingame, California
Airport Consultant

U.S. BANK NATIONAL ASSOCIATION
Phoenix, Arizona
Trustee, Bond Registrar, Paying Agent

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This Official Statement does not constitute an offering of any security other than the original offering of the 2010 Junior Bonds of the Corporation identified on the cover page hereof. No person has been authorized by the Corporation, the City, the Financial Advisor 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, the Financial Advisor 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 2010 Junior 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 2010 Junior 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 2010 Junior Bonds for sale.

IN CONNECTION WITH THE OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2010 JUNIOR 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
CITY OF PHOENIX CIVIC IMPROVEMENT CORPORATION

$642,680,000 Junior Lien Airport Revenue Bonds, Series 2010A (Non-AMT)	$21,345,000 Junior Lien Airport Revenue Bonds, Taxable Series 2010B (Recovery Zone Economic Development Bonds-Direct Payment)	$32,080,000 Junior Lien Airport Revenue Refunding Bonds, Series 2010C (Non-AMT)

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 2010 Junior Bonds. The offering of the 2010 Junior 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 2010 Junior Bonds. Accordingly, prospective 2010 Junior 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 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 continue or be repeated in the future.

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 certain provisions of the City Purchase Agreement, 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 (the *"Airport Revenue Bond Ordinance"*) and for the definitions of certain capitalized terms used in this Official Statement and for certain provisions of the Bond Indenture, dated as of August 1, 2010 (the *"Indenture"*) between the Corporation and the Trustee, pursuant to which the 2010 Junior Bonds are being issued, see "APPENDIX H — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — CERTAIN DEFINITIONS."

THE AIRPORT

The City owns and operates, through its Aviation Department, Phoenix-Sky Harbor International Airport ("Sky Harbor") and two general aviation airports, Phoenix-Goodyear Airport and Phoenix-Deer Valley Airport (collectively, the "*Airport*"). The City has operated the Airport as a self-supporting enterprise since 1967.

Sky Harbor, located approximately four miles east of the downtown Phoenix area, was established in 1935. Sky Harbor is the only Arizona airport designated as a large hub by the Federal Aviation Administration (FAA) and is the principal commercial service airport serving metropolitan Phoenix and most of the State's population. There are no other U.S. medium- or large-hub commercial service airports within a five hour driving distance of Phoenix, with the closest being Las Vegas' McCarran International Airport (290 miles to the northwest). In fiscal year 2008-09, Sky Harbor served 18,912,120 enplaned passengers. Service at Sky Harbor is provided by AeroMexico, Air Canada, AirTran, Alaska, American, British Airways, Continental, Delta/Northwest, ExpressJet (Continental Express), Frontier, Great Lakes, Hawaiian, JetBlue Airways, Mesa (dba US Airways Express), Mesaba (Delta Connection), Midwest, Skywest (dba Delta Connection and United Express), Southwest, Sun Country, United, US Airways and WestJet. Sky Harbor served commercial, general aviation and military aircraft with 469,269 operations in fiscal year 2008-09.

Sky Harbor has three passenger terminal buildings, Terminals 2, 3, and 4. Collectively, the three terminals provide a total of 102 passenger hold rooms and associated aircraft parking positions (gates). Terminal 2 contains approximately 330,000 square feet and 10 gates. Terminal 3 contains approximately 880,000 square feet and 16 gates. Terminal 4 contains approximately 2.3 million square feet and 76 gates. Southwest Airlines and US Airways, the two largest carriers at Sky Harbor, and all international carriers operate exclusively from Terminal 4. A consolidated rental car facility is located on a 141-acre site, with 5,651 ready/return garage spaces and a 113,000 square foot commercial service building. Sky Harbor has three parallel air carrier runways supported by a network of taxiways, aprons, and hold areas.

The City also serves the area's general aviation traffic activity through the two reliever airports that it owns and operates. Phoenix-Deer Valley Airport is located in the northern part of the City and Phoenix-Goodyear Airport is located west of the City. These two facilities handled, in aggregate, 569,066 general aviation operations in fiscal year 2008-09. In fiscal year 1984-85, Phoenix-Deer Valley Airport and Phoenix-Goodyear Airport were made a part of the Airport for the purpose of issuing obligations payable from Net Airport Revenues (as defined herein). Such obligations payable from Net Airport Revenues *("Senior Lien Obligations")*, as well as Junior Lien Obligations (as defined herein), can be issued for improvements at Phoenix-Deer Valley Airport and Phoenix-Goodyear Airport. The revenues of these two airports along with the revenues of Sky Harbor are Airport Revenues (as defined herein) which form the basis of determining Net Airport Revenues, which are pledged to the payment of principal of and interest on Senior Lien Obligations and Designated Revenues, which are pledged to the payment of principal of and interest on Junior Lien Obligations.

In fiscal year 2006-07, the City entered into an intergovernmental agreement with the City of Mesa, the Town of Queen Creek, the Town of Gilbert and the Gila River Indian Community and became a voting member of the Phoenix-Mesa Gateway Airport Authority, which owns and operates Phoenix-Mesa Gateway Airport. The revenues of Phoenix-Mesa Gateway Airport are not included in the definition of Airport Revenues and cannot be pledged for the payment of principal and interest on the Senior Lien Obligations or Junior Lien Obligations.

The City has engaged the firm of Jacobs Consultancy Inc. to prepare a traffic and earnings report in connection with the issuance of the 2010 Junior Bonds. The report of Jacobs Consultancy Inc. is included as "APPENDIX A — REPORT OF THE AIRPORT CONSULTANT."

Airport System Management

Direct supervision of the Airport is exercised by the Aviation Department. Management of the Airport is led by the Aviation Director with 780 full-time equivalent employees as of May 1, 2010. The Aviation Director currently reports to a Deputy City Manager.

David Krietor, Deputy City Manager, was appointed Deputy City Manager in June 2006. Prior to his appointment as Deputy City Manager, Mr. Krietor served as Chief of Staff for Mayor Phil Gordon's Office, Aviation Director and Community and Economic Development Director. In his current capacity, Mr. Krietor oversees the Aviation Department, Economic Development Department, Convention Center, Development Services and Planning Department, Fire Department and Public Information Office. He holds a master's degree in Public Administration and a bachelor's degree in Business Management from Syracuse University.

Danny Murphy, Aviation Director, was appointed Aviation Director in June 2007. His management experience with the City of Phoenix includes Acting Water Services Director, Chief Information Officer, Assistant Information Technology Department Director, Chief Information Technology Manager and Deputy City Clerk. Mr. Murphy is a graduate of the Harvard University Program for Senior Executives in State and Local Government and holds a master's degree in business administration and a bachelor's of science degree from Northeast Louisiana University.

Paul Blue, Assistant Aviation Director, was named Assistant Aviation Director in August 2006. In this role, he oversees the following divisions: Financial Management, Business and Properties, Community Noise Reduction Program/Sound Mitigation, Capital Management including Phoenix-Goodyear and Phoenix-Deer Valley Airports and Commercial Land. His management experience at the airport includes serving as Deputy Aviation Director for Business and Properties starting in 2001. Mr. Blue holds both a master's degree in

Business Administration and a master's degree in Public Administration from Arizona State University and a bachelor's of arts degree from Westmont College.

Jane Morris, Assistant Aviation Director, was named Assistant Aviation Director in February 2008. In this role, she oversees the following divisions: Design and Construction, Planning and Environmental, Technology and Phoenix Airport Museum. Prior to joining the Aviation Department, Ms. Morris was the Acting Assistant Director of the Community and Economic Development Department and Central City Administrator overseeing downtown redevelopment efforts. Ms. Morris holds a master's degree in Public Administration from Arizona State University and a bachelor's degree in Liberal Arts from the University of Iowa. Ms. Morris is an accredited airport executive.

Carl Newman, Assistant Aviation Director, was named Assistant Aviation Director in February 2003. In his current role, Mr. Newman is responsible for the following divisions: Operations, Facilities and Services, Aviation Fire, Aviation Police and Phoenix-Mesa Gateway Airport Coordination. Starting in 1980, Mr. Newman began a long career at the airport in various roles, including Deputy Aviation Director, Facilities Superintendent, and Airside Operations Manager. Mr. Newman holds a bachelor's degree in Public Administration from the University of Arizona. Mr. Newman is an accredited airport executive.

The City's Finance Department oversees the issuance of debt for the Airport and performs certain accounting, financing, treasury and related functions for the Airport. The Finance Department is led by the Finance Director.

Jeff DeWitt, Finance Director, was appointed Finance Director in February 2010 after having served as Interim Finance Director since March 2009. He is responsible for the management of over $7 billion in assets. Mr. DeWitt served as Assistant Finance Director since 2002 where he was responsible for the oversight of several areas including debt management, investments and cash management, water and wastewater financial planning and rate development, financial systems applications and support and financial accounting and reporting. Throughout his career in the Finance Department, Mr. DeWitt has been involved in the planning and issuance of more than $4 billion of debt to fund capital expenditures. Mr. DeWitt holds a master's degree from Southern Illinois University at Carbondale and a bachelor's degree from Eastern Illinois University. He is a member of the Government Finance Officers Association and has served on the American Water Works Association Rates and Charges Committee for eight years where he has taught national seminars on financial planning.

PLAN OF FINANCE

Airport Improvements

Projects. The net proceeds of the Tax-Exempt Improvement Bonds, other than those to be applied as described in the first paragraph under the caption "Plan of Refunding" below, will be deposited to the Series 2010A Account of the Project Fund to finance a portion of the costs related to the PHX Sky Train (as defined herein), PHX Sky Train related land, other land acquisition costs, and to pay costs of issuance. For a more detailed description of the PHX Sky Train, see "APPENDIX A — REPORT OF THE AIRPORT CONSULTANT — Aviation Capital Improvement Program." The net proceeds of the Taxable Improvement Bonds will be used to reimburse the City for land acquisition for noise mitigation and related capital costs unrelated to the PHX Sky Train, and to pay costs of issuance.

Project Fund. Earnings on Project Fund investments will be held in the Project Fund and used to pay project costs. Upon completion of the projects and payment of all project costs, any funds remaining in the Project Fund shall be transferred to the 2010 Junior Lien Interest Account or 2010 Junior Lien Principal Account of the 2010 Junior Lien Bond Fund as directed by the City and used to pay debt service on Tax-Exempt Improvement Bonds. For a discussion of the 2010 Junior Lien Bond Fund, see "SECURITY AND SOURCES OF PAYMENT — Flow of Funds — 2010 Junior Lien Bond Fund."

Moneys held in the Project Fund are not pledged as security for the 2010 Junior Bonds or any Senior Lien Obligations.

For a more complete description of the Project Fund, see "APPENDIX H — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE CITY PURCHASE AGREEMENT," and "— THE AIRPORT REVENUE BOND ORDINANCE."

Plan of Refunding

A portion of the proceeds of the Tax-Exempt Improvement Bonds will be held by the City in an irrevocable trust account (the *"Refunding Account"*) to be applied to the payment of the principal of and interest on the Corporation's outstanding Airport Revenue Bond Anticipation Notes, Series 2008A and Series 2008B issued in the original aggregate principal amount of $200,000,000 (the *"Notes Being Refunded"*) as they become due. The Notes Being Refunded will mature no later than 90 days after the date of initial authentication and delivery of the Tax-Exempt Improvement Bonds.

The proceeds of the sale of the Refunding Bonds remaining after deduction of issuance costs for the Refunding Bonds will be placed in an irrevocable trust account (the *"Trust Account"*) with U.S. Bank National Association, as trustee (the *"1998 Trustee"*), to be applied to the redemption of the following maturities of the Corporation's Senior Lien Airport Revenue Bonds, Series 1998A (the *"Bonds Being Refunded"*) on their redemption date.

SINKING FUND RETIREMENT DATES OF BONDS BEING REFUNDED

Series	Sinking Fund Retirement Date	Principal Amount Outstanding	Principal Amount to be Refunded	Coupon	Expected Call Date	Call Price as a Percentage of Principal
1998A	07-01-23	$10,875,000	$10,875,000	5.00%	09/15/10	100.0%
1998A	07-01-24	11,420,000	11,420,000	5.00	09/15/10	100.0
1998A	07-01-25†	11,990,000	11,990,000	5.00	09/15/10	100.0

† Maturity.

SOURCES AND APPLICATIONS OF FUNDS

	Junior Lien Airport Revenue Bonds, Series 2010A (Non-AMT)	Junior Lien Airport Revenue Bonds, Taxable Series 2010B (Recovery Zone Economic Development Bonds-Direct Payment)	Junior Lien Airport Revenue Refunding Bonds, Series 2010C (Non-AMT)
Sources:			
Par Amount of the Bonds	$642,680,000.00	$21,345,000.00	$32,080,000.00
Net Original Issue Premium	26,796,082.70	—	2,440,903.70
Other Available Funds	—	—	3,047,188.07
Total	$669,476,082.70	$21,345,000.00	$37,568,091.77
Applications:			
Project Fund for Airport Improvements	$412,517,884.12	$19,524,898.13	$ —
Trust Account for Bonds Being Refunded	—	—	34,637,373.61
Refunding Account for Notes Being Refunded	200,087,303.01	—	—
Deposit to 2010 Junior Lien Bond Reserve Fund	52,284,201.41	1,666,260.39	2,694,814.46
Costs of Issuance	1,292,858.84	42,928.87	69,210.04
Underwriters' Discount	3,293,835.32	110,912.61	166,693.66
Total	$669,476,082.70	$21,345,000.00	$37,568,091.77

2010 JUNIOR BONDS

Authorization and Purpose

The Improvement Bonds are being issued by the Corporation under the terms of the Indenture for the purpose of (i) providing funds for the purchase of certain improvements at the Airport described under the heading "PLAN OF FINANCE — Airport Improvements", (ii) refunding the Notes Being Refunded and (iii) paying the costs of issuance of the Improvement Bonds. The Refunding Bonds are being issued to provide funds for the refunding of the Bonds Being Refunded as described under the caption "PLAN OF FINANCE — Plan of Refunding." The payments pursuant to the City Purchase Agreement *("Purchase Payments")* are scheduled to be sufficient to make payments on the 2010 Junior Bonds and certain other expenses. To secure amounts due under the City Purchase Agreement with respect to all of the 2010 Junior Bonds, the City has made a pledge of the Designated Revenues (as defined herein). Payments under the City Purchase Agreement relating to the Improvement Bonds are further secured by an irrevocable commitment of the PFC Revenues (as defined herein), to the extent received, in each Fiscal Year through and including June 30, 2016, as such period may be extended or reestablished by the City, in its discretion, by written direction to the Trustee (the *"Commitment Period"*), in an amount equal to debt service on the Improvement Bonds *("Improvement Bonds Debt Service")* in each Fiscal Year due on or before July 1, 2016. Payments of the Purchase Price relating to the Junior Lien Interest Requirements of the Taxable Improvement Bonds are further secured by an irrevocable commitment of the 2010 RZEDB Subsidy Payments (as defined herein) through the final maturity of the Taxable Improvement Bonds. See "SECURITY AND SOURCE OF PAYMENT — Pledge of Designated Revenues" and "— Irrevocable Commitment of Passenger Facility Charge Revenues to Improvement Bonds Debt Service" and "— Irrevocable Commitment of 2010 RZEDB Subsidy Payments to Interest on Taxable Improvement Bonds."

General Description

The 2010 Junior Bonds will be issued as fully registered bonds, without coupons, in book-entry-only form and will be registered to Cede & Co. as described below under "Book-Entry-Only System." AS LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE 2010 JUNIOR BONDS, AS NOMINEE OF THE DEPOSITORY TRUST COMPANY *("DTC")*, REFERENCES HEREIN TO THE OWNERS OF THE 2010 JUNIOR BONDS (OTHER THAN UNDER THE CAPTION "TAX MATTERS") WILL MEAN CEDE & CO. AND WILL NOT MEAN THE BENEFICIAL OWNERS OF THE 2010 JUNIOR BONDS. PRINCIPAL, PREMIUM, IF ANY, AND INTEREST PAYMENTS ON THE 2010 JUNIOR BONDS ARE TO BE MADE TO DTC AND ALL SUCH PAYMENTS WILL BE VALID AND EFFECTIVE TO SATISFY FULLY AND TO DISCHARGE THE OBLIGATIONS OF THE CORPORATION AND THE CITY WITH RESPECT TO, AND TO THE EXTENT OF, THE AMOUNTS SO PAID.

The 2010 Junior Bonds will be dated the date of initial authentication and delivery thereof, will bear interest payable semiannually on January 1 and July 1 of each year (each an *"Interest Payment Date"*), commencing January 1, 2011. The 2010 Junior 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 2010 Junior Bonds will be delivered in fully registered form in amounts of $5,000 each or any whole multiple thereof (but no 2010 Junior Bond may represent installments of principal maturing on more than one date).

Subject to the provisions contained under the heading "Book-Entry-Only System" below, the principal of and premium, if any, and interest at maturity or redemption on each 2010 Junior Bond will be payable upon presentation and surrender of such 2010 Junior Bond at the designated corporate trust office of the Registrar. Interest on each 2010 Junior 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 2010 Junior 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.

The Indenture provides that, with the approval of the Corporation, the Trustee may enter into an agreement with any Owner of $1,000,000 or more in aggregate principal amount of 2010 Junior Bonds, as applicable, providing for making all payments to that Owner of principal of and interest and any premium on those 2010 Junior Bonds or any portion thereof (other than any payment of the entire unpaid principal amount thereof) at a place and in a manner other than as described above, without presentation or surrender of those 2010 Junior Bonds, upon any conditions which shall be satisfactory to the Trustee and the Corporation; provided that without a special agreement or consent of the Corporation, payment of interest on the 2010 Junior Bonds may be made by wire transfer to any Owner of $1,000,000 aggregate principal of 2010 Junior Bonds, upon two days prior written notice to the Trustee specifying a wire transfer address of a bank or trust company in the United States.

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.

Designation of the Taxable Improvement Bonds as Recovery Zone Economic Development Bonds

The Corporation and the City currently intend to irrevocably elect to treat the Taxable Improvement Bonds as "Recovery Zone Economic Development Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 (the *"Recovery Act"*) and the Internal Revenue Code of 1986, as amended (the *"Code"*). Subject to the Corporation's and the City's compliance with certain requirements of the Code, the Corporation and the City expect to receive cash subsidy payments rebating a portion of the interest on the Taxable Improvement Bonds from the United States Treasury in an amount equal to forty-five percent of the interest payable on the Taxable Improvement

Bonds (the *"2010 RZEDB Subsidy Payments"*). Any 2010 RZEDB Subsidy Payments received by the Corporation or the City will be deposited directly to the Series 2010B Interest Subaccount of the 2010 PFC Interest Account of the PFC Revenue Fund and will not constitute Airport Revenues. See "CERTAIN BONDHOLDERS' RISKS — Considerations Regarding Taxable Improvement Bonds (Recovery Zone Economic Development Bonds)" and "TAX MATTERS — Taxable Improvement Bonds."

Book-Entry-Only System

The following information about the book-entry-only system applicable to the 2010 Junior Bonds has been supplied by DTC. None of the Corporation, the City, the Trustee, the Underwriters or the Financial Advisor makes any representations, warranties or guarantees with respect to its accuracy or completeness.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants *("Direct Participants")* deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation *("DTCC")*. DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly *("Indirect Participants"* and together with Direct Participants, *"Participants")*. DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at **www.dtcc.com** and **www.dtc.org**.

Purchases of 2010 Junior Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2010 Junior Bonds on DTC's records. The ownership interest of each actual purchaser of each 2010 Junior Bond *("Beneficial Owner")* is in turn to be recorded on the Direct Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2010 Junior Bonds are to be accomplished by entries made on the books of Direct Participants and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2010 Junior Bonds, except in the event that use of the book-entry system for the 2010 Junior Bonds is discontinued.

To facilitate subsequent transfers, all 2010 Junior Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of 2010 Junior Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2010 Junior Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2010 Junior Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the 2010 Junior Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2010 Junior Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Corporation as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2010 Junior Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal and interest payments on the 2010 Junior Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Corporation or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Corporation or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2010 Junior Bonds at any time by giving reasonable notice to the Corporation or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2010 Junior Bond certificates are required to be printed and delivered.

The Corporation may decide to discontinue the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 2010 Junior Bond certificates will be printed and delivered to DTC.

THE CORPORATION WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO DTC, DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (2) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE 2010 JUNIOR BONDS UNDER THE INDENTURE; (3) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE 2010 JUNIOR BONDS; (4) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE 2010 JUNIOR BONDS; (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF 2010 JUNIOR BONDS; OR (6) ANY OTHER MATTERS.

SO LONG AS CEDE & CO., AS NOMINEE FOR DTC, IS THE SOLE REGISTERED OWNER, THE CORPORATION AND THE BOND TRUSTEE WILL TREAT CEDE & CO. AS THE ONLY OWNER OF THE BONDS FOR ALL PURPOSES UNDER THE INDENTURE, INCLUDING RECEIPT OF ALL PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, AND INTEREST ON THE BONDS, RECEIPT OF NOTICES, VOTING AND REQUESTING OR DIRECTING THE CORPORATION AND THE TRUSTEE TO TAKE OR NOT TO TAKE, OR CONSENTING TO, CERTAIN ACTIONS UNDER SUCH INDENTURE. THE CORPORATION AND THE TRUSTEE HAVE NO RESPONSIBILITY OR OBLIGATION TO THE PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT; (B) THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER WITH RESPECT TO THE PRINCIPAL OF AND INTEREST ON THE BONDS; (C) THE DELIVERY OR TIMELINESS OF DELIVERY BY DTC OR ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO BONDHOLDERS; THE SELECTION BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY BENEFICIAL OWNER TO RECEIVE PAYMENT IN THE EVENT OF

A PARTIAL REDEMPTION OF THE BONDS; OR CONSENTS OR OTHER ACTION TAKEN BY DTC OR CEDE & CO., AS REGISTERED OWNER.

So long as Cede & Co. is the registered owner of the 2010 Junior Bonds, as nominee for DTC, references herein to "Owner" or registered owners of the 2010 Junior Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of such 2010 Junior Bonds.

Redemption Provisions

Optional Redemption — Tax-Exempt Improvement Bonds. The Tax-Exempt Improvement Bonds maturing on or prior to July 1, 2020 are not subject to optional redemption prior to maturity. The Tax-Exempt Improvement Bonds maturing on and after July 1, 2021 (excluding the Tax-Exempt Improvement Bond maturing on July 1, 2034), are subject to redemption at the option of the Corporation, as directed by the City, on July 1, 2020, and thereafter, in whole or in part at any time, in increments of $5,000, in any order of maturity, as directed by the City, and by lot within a maturity, by payment of the redemption price of each Tax-Exempt Improvement Bond called for redemption, but without premium. The Tax-Exempt Improvement Bond maturing on July 1, 2034 is subject to redemption at the option of the Corporation, as directed by the City, on July 1, 2015, and thereafter, in whole or in part at any time, in increments of $5,000 by lot, by payment of the redemption price of the Tax-Exempt Improvement Bond, but without premium.

Optional Redemption — Taxable Improvement Bonds — Make-Whole Optional Redemption. The Taxable Improvement Bonds are subject to redemption prior to their stated maturity dates at the option of the Corporation, as directed by the City, in whole or in part on any date, at a redemption price equal to the greater of:

(1) the issue price set forth on the inside front cover page hereof (but not less than 100%) of such principal amount of the Taxable Improvement Bonds to be redeemed; or

(2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such Taxable Improvement Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Taxable Improvement Bonds are to be redeemed, discounted to the date on which such Taxable Improvement Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below) plus 40 basis points;

plus, in each case, accrued interest on such Taxable Improvement Bonds to be redeemed to the redemption date.

"Treasury Rate" means, with respect to any redemption date for a particular Taxable Improvement Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Taxable Improvement Bond to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Extraordinary Optional Redemption — Taxable Improvement Bonds. The Taxable Improvement Bonds are subject to redemption at any time prior to their maturity at the option of the Corporation, at the direction of the City, in whole or in part, upon the occurrence of an Extraordinary Event (as defined below), at a redemption price equal to the greater of:

(1) the issue price set forth on the inside front cover page hereof (but not less than 100%) of the principal amount of such Taxable Improvement Bonds to be redeemed; or

(2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such Taxable Improvement Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Taxable Improvement Bonds are to be

redeemed, discounted to the date on which such Taxable Improvement Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (described above) plus 100 basis points;

plus, in each case, accrued interest on such Taxable Improvement Bonds to be redeemed to the redemption date.

An *"Extraordinary Event"* will have occurred if a material adverse change has occurred to Section 54AA, 1400U-1, 1400U-2 or 6431 of the Code (as such Sections were added by Sections 1401 and 1531 of the Recovery Act, pertaining to "Build America Bonds" and "Recovery Zone Economic Development Bonds") or any guidance published by the Internal Revenue Service or the United States Treasury with respect to such sections or any other determinations by the Internal Revenue Service or the United States Treasury pursuant to which the 2010 RZEDB Subsidy Payments are reduced or eliminated.

Calculation of Redemption Price — Taxable Improvement Bonds — Optional Redemption or Extraordinary Optional Redemption. The redemption price of the Taxable Improvement Bonds to be redeemed will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the City at the City's expense to calculate such redemption price. The City and the Corporation may conclusively rely on the determination of such redemption price by such independent accounting firm, investment banking firm or financial advisor and will not be liable for such reliance.

Optional Redemption — Refunding Bonds. The Refunding Bonds are subject to redemption at the option of the Corporation, as directed by the City, on July 1, 2020 and thereafter, in whole or in part at any time, in increments of $5,000, in any order of maturity, as directed by the City, and by lot within a maturity, by payment of the redemption price of each Refunding Bond called for redemption (expressed as a percentage of the principal amount thereof) plus accrued interest to the date fixed for redemption, but without premium.

Mandatory Sinking Fund Redemption. The Tax-Exempt Improvement Bonds maturing on July 1, 2033 and July 1, 2040 (the *"Term Bonds"*) are subject to mandatory 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 equal to the principal amount of such Term Bonds called for redemption plus the interest accrued to the date fixed for redemption, but without premium, as follows:

Tax-Exempt Improvement Bonds Maturing July 1, 2033

Sinking Fund Retirement Date	Sinking Fund Requirement
2032	$28,570,000
2033*	30,065,000

* Maturity

Tax-Exempt Improvement Bonds Maturing July 1, 2040

Sinking Fund Retirement Date	Sinking Fund Requirement
2034	$11,645,000
2035	33,230,000
2036	34,890,000
2037	36,635,000
2038	38,465,000
2039	40,390,000
2040*	21,065,000

* Maturity

At the option of the Corporation, as directed by the City, whenever 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 as the Term Bond so purchased, redeemed or delivered 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.

Selection of Bonds for Redemption-Tax-Exempt Bonds. Any redemption of Tax-Exempt Bonds in part will be from such series and such maturities as directed by the City. If a book-entry system through DTC is used for determining beneficial ownership of the Tax-Exempt Bonds and less than all of the Tax-Exempt Bonds of a given maturity and coupon are called for redemption, DTC will determine the amount of the interest of each direct or indirect participant to be redeemed in accordance with its operating procedures, which is to select such interests by lot, provided, however, that the portion of any Tax-Exempt Bond to be redeemed will be in the principal amount of $5,000 or an integral multiple thereof. If the book-entry system through DTC for determining beneficial interests of the direct or indirect participants of the Tax-Exempt Bonds is discontinued and less than all of a maturity of the Tax-Exempt Bonds is to be redeemed, the particular Tax-Exempt Bonds or portions thereof of such maturity to be redeemed shall be selected by lot in any manner the Trustee deems fair, provided, however, that the portion of any Tax-Exempt Bond to be redeemed will be in the principal amount of $5,000 or an integral multiple thereof.

Selection of Bonds for Redemption-Taxable Improvement Bonds. If less than all of the Taxable Improvement Bonds are called for prior redemption, the particular Taxable Improvement Bonds or portions thereof to be redeemed shall be selected by the Trustee on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, provided that, so long as the Taxable Improvement Bonds are held in book-entry form, the selection for redemption of such Taxable Improvement Bonds shall be made in accordance with the operational arrangements of DTC then in effect. None of the Corporation, the City or the Underwriters can provide any assurance that DTC, DTC's direct and indirect participants or any other intermediary will allocate the redemption of Taxable Improvement Bonds on such basis. If the DTC operational arrangements do not allow for redemption on a pro rata pass-through distribution of principal basis, the Taxable Improvement Bonds will be selected for redemption, in accordance with DTC procedures, by lot. Whether the selection is made on a pro rata pass-through distribution or by lot, the portion of any Taxable Improvement Bond to redeemed will be in the principal amount of $5,000 or an integral multiple thereof.

If the book-entry system through DTC for determining beneficial interests of the Direct Participants of the Taxable Improvement Bonds is discontinued and less than all of the Taxable Improvement Bonds are to be redeemed, the Taxable Improvement Bonds to be redeemed will be selected by the Trustee on a *pro rata* distribution of principal basis among all of the Owners of the Taxable Improvement Bonds based on the principal amount of

Taxable Improvement Bonds owned by such Owners, provided, however, that the portion of any Taxable Improvement Bond to redeemed will be in the principal amount of $5,000 or an integral multiple thereof.

Notice of Redemption. When redemption is authorized or required, the Trustee will give the Owners of the 2010 Junior Bonds to be redeemed notice of the redemption of such 2010 Junior Bonds. Such notice will specify (a) that the whole or part of the 2010 Junior 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. Notwithstanding the foregoing, no notice of redemption shall be sent unless (a) the Trustee has on deposit sufficient funds to effect such redemption or (b) the redemption notice states that redemption is contingent upon receipt of such funds prior to the redemption date.

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 2010 Junior 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 2010 Junior Bonds with respect to which there is no such defect.

Notice having been given in the manner provided above, the 2010 Junior 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 2010 Junior Bonds or portions thereof called for redemption is held by the Trustee or any paying agent on the redemption date, then the 2010 Junior 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.

SECURITY AND SOURCES OF PAYMENT

Pledge of Designated Revenues

General. The 2010 Junior Bonds are special revenue obligations of the Corporation payable solely from payments received under the City Purchase Agreement. Under the terms of the City Purchase Agreement, the City is to make Purchase Payments to the Trustee in amounts sufficient to pay when due the principal of and interest on the 2010 Junior Bonds, fees of the Trustee and all other expenses enumerated in the City Purchase Agreement.

Designated Revenues. The Purchase Payments relating to all of the 2010 Junior Bonds are secured by a pledge of the Designated Revenues. The City Purchase Agreement defines the term Net Airport Revenues to mean Airport Revenues, after provision for payment of all of the Cost of Maintenance and Operation and the term Designated Revenues to mean Net Airport Revenues, after payments required on any Senior Lien Obligations. Airport Revenues generally include all income and revenue received by the City directly or indirectly from the use and operation of the Airport, except for certain specifically excluded revenues. Airport Revenues also include, among other revenues, rentals; landing fees; use charges; income from sales of services, fuel oil and other supplies or commodities; fees from concessions and parking; fees from rental car, taxi and limousine services (other than customer facility charges such as those relating to Special Purpose Facilities, which are pledged to debt service on obligations incurred for such facilities, until released (to the extent available) to Airport Revenues as reimbursement for eligible expenses *("Recovered Revenue")*); advertising revenues; and receipts derived from leases or other contractual agreements relating to the use of the Airport. Passenger Facility Charges, 2010 RZEDB Subsidy Payments, federal grants and special facility revenues (such as customer facility charges relating to Special Purpose Facilities which remain pledged to debt service on obligations incurred for such facilities and do not represent Recovered Revenues) are specifically excluded from Airport Revenues. Cost of Maintenance and Operation generally includes all expenses (exclusive of depreciation and interest on money borrowed) which are necessary to the efficient maintenance and operation of the Airport. For a description of the irrevocable commitment of Passenger Facility Charges to the payment of the principal of and interest on the Improvement Bonds Debt Service due on or before July 1, 2016, see "Irrevocable Commitment of Passenger Facility Charges to Improvement Bonds Debt Service." For complete definitions of Airport Revenues and Cost of Maintenance and Operation see "APPENDIX H — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS - CERTAIN DEFINITIONS." The Purchase Payments to be made under the City Purchase Agreement will be, with respect to the

Designated Revenues, (i) junior to Senior Lien Obligations presently outstanding in the aggregate principal amount of $679,545,000 and (ii) on a parity with additional Junior Lien Obligations which may be issued in the future.

Irrevocable Commitment of Passenger Facility Charge Revenues to Improvement Bonds Debt Service

Passenger Facility Charge Revenues. Improvement Bonds Debt Service which is due on or before July 1, 2016 is further secured by an irrevocable commitment of net proceeds of a passenger facility charge *("Passenger Facility Charge"* or *"PFC"*) imposed by the City and collected on behalf of the City by non-exempt passenger air carriers at Sky Harbor in an amount equal to such Improvement Bonds Debt Service to the extent received by the City in any Fiscal Year during the Commitment Period. The Passenger Facility Charge is currently imposed at the rate of $4.50 per qualifying enplaned passenger, and is required to be remitted to the City less the compensation (i.e., any accrued interest prior to remittance and $0.11 per Passenger Facility Charge collected) that air carriers are permitted to deduct prior to remittance. Such remittances, to the extent received in each Fiscal Year plus interest thereon, are referred to herein as *"PFC Revenues."* Such PFC Revenues are to be transferred to the PFC Interest Account and the PFC Principal Account of the PFC Revenue Fund upon receipt until such amount equals Improvement Bonds Debt Service for that Bond Year. See "Flow of Funds — Application of PFC Revenues." Any Improvement Bonds Debt Service not paid by PFC Revenues would then be payable from Designated Revenues on a parity with the debt service on the Refunding Bonds or any additional Junior Lien Obligations which may be outstanding.

Applicable Laws and the City's Passenger Facility Charge Program. For a description of the laws relating to Passenger Facility Charges and the City's Passenger Facility Charge Program, see "PASSENGER FACILITY CHARGE PROGRAM," herein."

Investment Considerations. For a description of certain risks relating to the City's Passenger Facility Charge Program, see "CERTAIN BONDHOLDERS' RISKS — Certain Risks and Covenants Relating to the Amount and Timing of Receipt of PFC Revenues."

Irrevocable Commitment of 2010 RZEDB Subsidy Payment to Interest on Taxable Improvement Bonds

The Corporation and the City currently intend to irrevocably elect to treat the Taxable Improvement Bonds as "Recovery Zone Economic Development Bonds" for purposes of the Recovery Act and the Code. Subject to the Corporation's and the City's compliance with certain requirements of the Code, the Corporation and the City expect to receive 2010 RZEDB Subsidy Payments rebating forty-five percent of the interest on the Taxable Improvement Bonds from the United States Treasury. In addition to the pledge of Designated Revenues and the irrevocable commitment of the PFC Revenues discussed above, the Junior Lien Interest Requirements of the Taxable Improvement Bonds will be further secured by an irrevocable commitment of the 2010 RZEDB Subsidy Payments through the final maturity of the Taxable Improvement Bonds. Any such cash subsidy payments received by the Corporation or the City will be deposited directly to the Series 2010B Interest Subaccount of the 2010 PFC Interest Account of the PFC Revenue Fund and will not constitute Airport Revenues. See "CERTAIN BONDHOLDERS' RISKS — Consideration Regarding Taxable Improvement Bonds (Recovery Zone Economic Development Bonds)" and "TAX MATTERS — Taxable Improvement Bonds."

Certain Covenants and Remedies

Covenants and agreements contained in the Airport Revenue Bond Ordinance are incorporated by reference in the City Purchase Agreement and are applicable to the 2010 Junior Bonds. The Trustee and the Corporation, as its respective interests appear, have the right to enforce these covenants and agreements. The City may, but is not required to, pay amounts due under the City Purchase Agreement from unrestricted grant money and other moneys available to the Airport, which are not included in the definition of Airport Revenues *("Other Available Funds")*. For a discussion of certain financial covenants which the City has entered into with respect to the Airport, see "SECURITY AND SOURCES OF PAYMENT — Rate Covenants," "— Additional Senior Lien Obligations," "— Additional Junior Lien Obligations" and "APPENDIX H — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE AIRPORT REVENUE BOND ORDINANCE." For a discussion of the Airport, see "APPENDIX A — REPORT OF THE AIRPORT CONSULTANT."

During the term of the City Purchase Agreement, payments are to be made regardless of damage to the Airport 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 Airport. The City's obligation to make Purchase Payments will continue until all Purchase Payments and all other amounts due under the City Purchase Agreement have been paid or otherwise provided for.

The obligation of the City to make Purchase Payments 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 to the payment of the 2010 Junior Bonds. The 2010 Junior Bonds are special revenue obligations of the Corporation secured only by the Purchase Payments which are to be paid from a pledge of the Designated Revenues and, with respect to the Improvement Bonds, an irrevocable commitment of the PFC Revenues during the Commitment Period and, with respect to the Junior Lien Interest Requirements of the Taxable Improvement Bonds, an irrevocable commitment of the 2010 RZEDB Subsidy Payments. Remedies available to the Trustee upon a failure of the City to make Purchase Payments when due are generally limited to specific performance against the City to payment from Designated Revenues and, with respect to the Improvement Bonds, the PFC Revenues during the Commitment Period and with respect to the Junior Lien Interest Requirements of the Taxable Improvement Bonds, the 2010 RZEDB Subsidy Payments. The Purchase Payments are not secured by a lien of the Airport or any portion thereof. For a description of events of default and remedies under the City Purchase Agreement, see "APPENDIX H — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS."

Rate Covenants

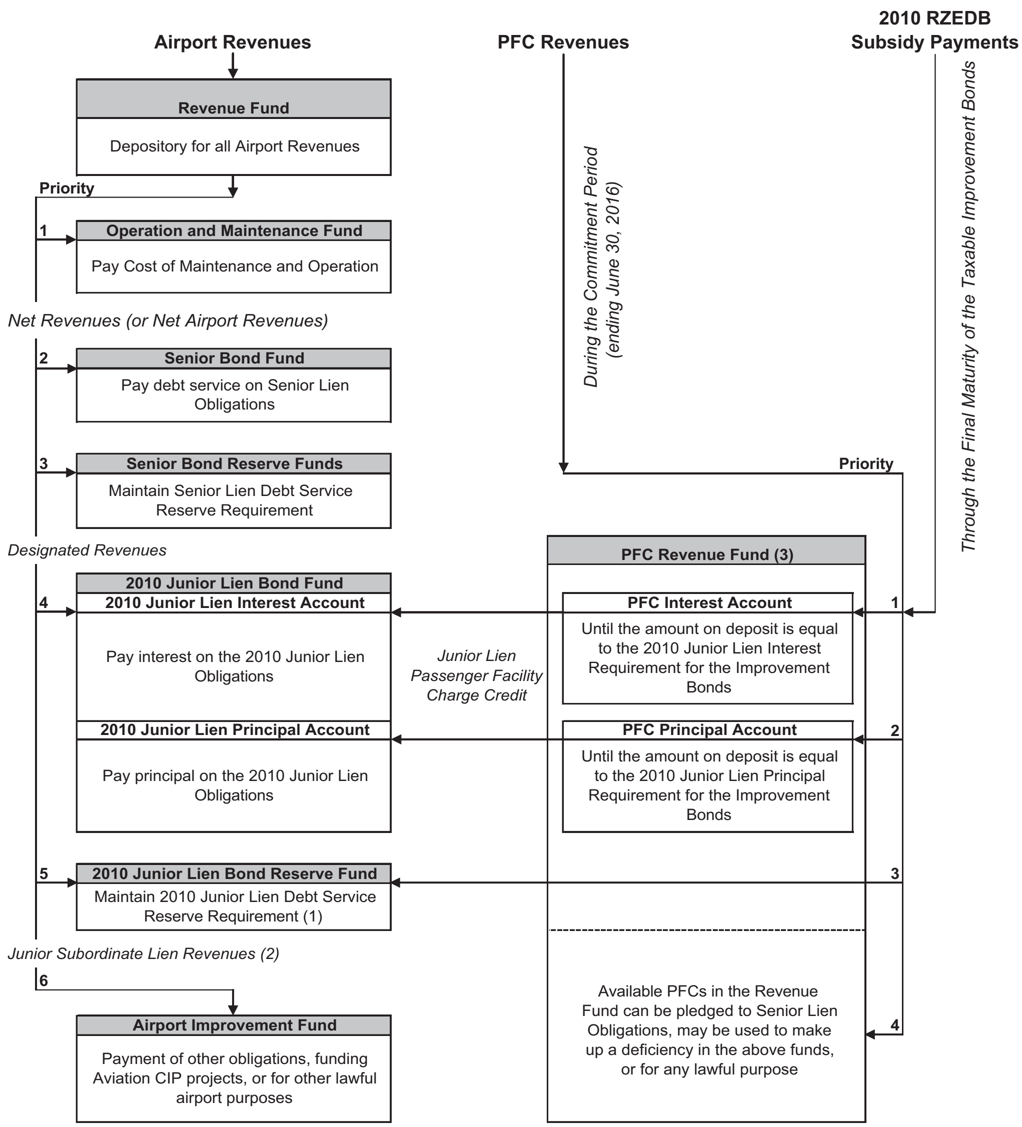
Senior Lien Rate Covenant. Pursuant to the Airport Revenue Bond Ordinance and the other Senior Lien Obligation Documents, the City has covenanted to continuously maintain the Airport in good condition and operate the same in a proper and economical manner and on a revenue-producing basis, and will in each Fiscal Year establish, maintain and enforce schedules of rates, fees and charges for the use of the Airport (i) sufficient to produce Net Airport Revenues at least equal to 125% of the annual debt service requirements of Senior Lien Obligations (net of Other Available Funds deposited in the Bond Fund in such Fiscal Year and net of any Passenger Facility Charge Credit applicable to Senior Lien Obligations in such Fiscal Year) and (ii) sufficient to produce any required payments to any debt service reserve fund established for Senior Lien Obligations, for such Fiscal Year. *"Passenger Facility Charge Credit"* means the amount of principal of and/or interest to come due on specified Senior Lien Obligations during any Fiscal Year to which Passenger Facility Charges, state and/or federal grants or other moneys have received all required governmental approvals and have been irrevocably committed or are held in the Bond Fund or otherwise in trust by or on behalf of the Paying Agent and are to be set aside exclusively to be used to pay Interest Requirements and/or Principal Requirements on such specified Senior Lien Obligations, during the period of such commitment (unless such Passenger Facility Charges, state and/or federal grants or other moneys are subsequently included in the definition of Airport Revenues). There are currently no Senior Lien Obligations to which Passenger Facility Charges have been irrevocably committed. See "APPENDIX H — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE AIRPORT REVENUE BOND ORDINANCE — Section 4.3 Rate Covenant" and "— THE CITY PURCHASE AGREEMENT."

Junior Lien Rate Covenant. Pursuant to the Airport Revenue Bond Ordinance and the City Purchase Agreement, the City has covenanted to continuously maintain the Airport in good condition and operate the same in a proper and economical manner and on a revenue-producing basis, and will in each Fiscal Year establish, maintain and enforce schedules of rates, fees and charges for the use of the Airport (i) sufficient to produce Designated Revenues at least equal to 110% of the annual debt service requirements of Junior Lien Obligations (net of Other Available Funds deposited in the Bond Fund in such Fiscal Year and net of any Junior Lien Passenger Facility Charge Credit applicable to such Fiscal Year) and (ii) sufficient to produce any required payments to the Junior Lien Bond Reserve Fund or any separate reserve fund, including the 2010 Junior Lien Improvement Bond Reserve Fund and the 2010 Junior Lien Refunding Bond Reserve Fund, for such Fiscal Year. *"Junior Lien Passenger Facility Charge Credit"* means the amount of principal of and/or interest to come due on specified Junior Lien Obligations during any Fiscal Year to which Passenger Facility Charges, state and/or federal grants or other moneys have received all required governmental approvals and have been irrevocably committed or are held in the Junior Lien Bond Fund or otherwise in trust by or on behalf of the Paying Agent and are to be set aside exclusively to be used to pay Junior Lien Interest Requirements and/or Junior Lien Principal Requirements on such specified Junior Lien Obligations, during the period of such commitment (unless such Passenger Facility Charges, state and/or federal grants or other moneys are subsequently included in the definition of Airport Revenues). **The City has irrevocably committed the PFC Revenues, to the extent received in any Fiscal Year during the Commitment Period, to payment of the Improvement Bonds Debt Service due on and before July 1, 2016. The City and the Corporation have irrevocably committed the 2010 RZEDB Subsidy Payments to the Junior Lien Interest Requirements of the Taxable Improvement Bonds. Such irrevocable commitments are expected to constitute a Junior Lien Passenger Facility Charge Credit for such Improvement Bonds Debt Service.** See "APPENDIX H — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE CITY PURCHASE AGREEMENT."

Flow of Funds

General. The application of Airport Revenues is governed by the Airport Revenue Bond Ordinance and the City Purchase Agreement. Such documents provide that so long as any Senior Lien Obligations or Junior Lien Obligations remain outstanding, all Airport Revenues shall be deposited as collected into a fund designated the *"Revenue Fund"* held by the City separate and apart from all other funds of the City. The following figure depicts the flow of funds under the Airport Revenue Bond Ordinance and the City Purchase Agreement and the application of Airport Revenues and PFC Revenues:

FIGURE 1
APPLICATION OF REVENUES AND PFC REVENUES
BOND ORDINANCE AND JUNIOR LIEN CITY PURCHASE AGREEMENT
City of Phoenix Aviation Department



(1) PFC Revenues will be transferred to the 2010 Junior Lien Bond Reserve Fund to the extent amounts have been withdrawn to pay Improvement Bonds Debt Service.

(2) Junior Subordinate Lien Revenues is defined in the Commercial Paper documents.

(3) The PFC Interest Account and PFC Principal Account are accounts within the PFC Revenue Fund. Additionally there is a Series 2010B Interest Subaccount of the PFC Interest Account where 2010 RZEDB Subsidy Payments are deposited for payment of interest on the Taxable Improvement Bonds.

As set forth in the figure above, all moneys in the Revenue Fund shall be transferred by the City to the following funds in the order listed:

(a) From time to time to the Operation and Maintenance Fund sufficient moneys to pay Cost of Maintenance and Operation;

(b) Monthly to the Bond Fund, (i) into the Principal Account amounts equal to one-twelfth of the next succeeding principal requirement (whether at maturity or pursuant to a sinking fund redemption requirement) on all Senior Lien Obligations, and (ii) into the Interest Account amounts equal to one-sixth of the next succeeding interest requirement, on all Senior Lien Obligations. Moneys in the Bond Fund shall be transferred by the City to the respective paying agents for Senior Lien Obligations, at least one business day before each debt service payment is required to be made on the Senior Lien Obligations.

(c) From time to time to each separate bond reserve fund established for Senior Lien Obligations (each, a *"Senior Lien Obligation Bond Reserve Fund"*), amounts then required to be deposited to such Senior Lien Obligation Bond Reserve Funds; provided that such deposits may be transferred to a Credit Facility in order to reimburse such Credit Facility for amounts paid out under any insurance policy or surety bond securing any of the Senior Lien Obligations.

(d) Monthly to the Junior Lien Bond Fund, (i) into the Junior Lien Principal Account amounts equal to one-twelfth of the next succeeding Junior Lien Principal Requirement (whether at maturity or pursuant to a mandatory sinking fund redemption requirement) for the next succeeding Junior Lien Principal Payment Date and (ii) into the Junior Lien Interest Account amounts equal to one-sixth of the Junior Lien Interest Requirement for the next succeeding Junior Lien Interest Payment Date, in each case less any amounts to which an irrevocable commitment from another funding source has been made.

(e) From time to time into any reserve fund established for Junior Lien Obligations including the 2010 Junior Lien Bond Reserve Fund, amounts then required to be deposited therein under the terms of the Junior Lien Obligation Documents, provided that such deposits may be transferred to a Junior Lien Credit Facility in order to reimburse such Junior Lien Credit Facility for amounts paid out under any insurance policy or surety bond securing any of the Junior Lien Obligations and related costs. See "2010 Junior Lien Bond Reserve Fund" for a discussion of such funds.

(f) From time to time to the Airport Improvement Fund such funds as the City chooses to deposit therein. Amounts in the Airport Improvement Fund may be used for any lawful airport purpose including, but not limited to, the payment of other obligations of the City relating to the Airport.

Each of the above-referenced funds is created as a separate fund and is held by the City.

The City may establish one or more additional funds, accounts or subaccounts including funds, accounts or subaccounts for the payment of obligations subordinate in lien to the payment of the Senior Lien Obligations and Junior Lien Obligations. In the event the City establishes additional funds, accounts or subaccounts for the payment of obligations subordinate in lien to the payment of the Senior Lien Obligations and Junior Lien Obligations, the City has reserved the right to provide that deposits into such funds, accounts or subaccounts may be made in a manner which is prior to deposits to be made into the Airport Improvement Fund. The City has further reserved the right to provide that any moneys held in such additional funds, accounts or subaccounts may not be used to pay amounts due on any Senior Lien Obligations or Junior Lien Obligations.

For a more complete discussion of the general flow of funds see "APPENDIX H — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE AIRPORT REVENUE BOND ORDINANCE and — THE CITY PURCHASE AGREEMENT."

Application of PFC Revenues. The City will establish pursuant to the Airport Revenue Bond Ordinance and the City Purchase Agreement the PFC Revenue Fund, which will contain the PFC Interest Account, including a Series 2010B Interest Subaccount and the PFC Principal Account. The City may establish additional similar accounts for other obligations payable in whole or in part from PFC Revenues. As set forth in the figure above, the City is required to deposit all PFC Revenues into the PFC Revenue Fund for application in the following order of priority during the Commitment Period.

(a) Monthly, to the PFC Interest Account until the amount on deposit therein, including the amount on deposit in the Series 2010B Interest Subaccount, is equal to the 2010 Junior Lien Interest Requirement for the then current Bond Year with respect to the Improvement Bonds, for transfer from the PFC Interest Account, including the Series 2010B Interest Subaccount, to the 2010 Junior Lien Interest Account of the 2010 Junior Lien Bond Fund at least two Business Days prior to a Junior Lien Interest Payment Date.

(b) Monthly, to the PFC Principal Account until the amount on deposit therein is equal to the 2010 Junior Lien Principal Requirement for the Improvement Bonds for the then current Bond Year, for transfer from the PFC Principal Account to the 2010 Junior Lien Principal Account of the 2010 Junior Lien Bond Fund at least two Business Days prior to a Junior Lien Principal Payment Date.

(c) Monthly, to the 2010 Junior Lien Bond Reserve Fund the amounts necessary to maintain the amounts on deposit therein at the 2010 Junior Lien Debt Service Reserve Requirement to the extent amounts have been withdrawn to pay the 2010 Junior Lien Interest Requirement or 2010 Junior Lien Principal Requirement with respect to the Improvement Bonds.

To the extent PFC Revenues in any month exceed the requirements set forth in (a), (b) and (c) above, the City may transfer such excess PFC Revenues into any other fund or account established by the City under the Airport Revenue Bond Ordinance or use such excess PFC Revenues for any other lawful purpose consistent with Federal law applicable to Passenger Facility Charges. Consequently, if PFC Revenues were received in excess of the amounts required to be applied as described in (a), (b) and (c) above during the Commitment Period, and the City had not expended the excess PFC Revenues for other permitted uses, but PFC Revenues were insufficient in any subsequent Fiscal Year to pay debt service, the City would be permitted, but not required, to apply such excess PFC Revenues towards debt service in subsequent Fiscal Years. See "CERTAIN BONDHOLDERS' RISKS — Certain Risks and Covenants Relating to the Amount and Timing of Receipt of PFC Revenues."

2010 Junior Lien Bond Fund. Pursuant to the Indenture, the Trustee will create the 2010 Junior Lien Bond Fund which will contain the 2010 Junior Lien Principal Account, the 2010 Junior Lien Interest Account and the 2010 Junior Lien Redemption Account. So long as any 2010 Junior Bonds are outstanding, the Trustee will deposit the Purchase Payments transferred to it by the City from the Interest Account and Principal Account of the Bond Fund into the 2010 Junior Lien Interest Account and the 2010 Junior Lien Principal Account, respectively. The portion of the Purchase Payments deposited into the 2010 Junior Lien 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 2010 Junior Bonds and the portion of the Purchase Payments deposited in the 2010 Junior Lien Interest Account will be used by the Trustee to pay the next succeeding interest payment on the 2010 Junior Bonds.

If all required deposits to the debt service funds and 2010 Junior Lien Bond Reserve Fund, as discussed below, for all Junior Lien Obligations have been made and the City makes an optional prepayment of its Purchase Payments to be used to purchase or redeem 2010 Junior Bonds, such optional prepayment shall be deposited in the 2010 Junior Lien Redemption Account and promptly applied by the Trustee, to retire 2010 Junior Bonds by purchase, redemption or both in accordance with the City's direction. Any balance remaining in the 2010 Junior Lien Redemption Account after the purchase or redemption of the 2010 Junior Bonds in accordance with the City's direction shall be transferred to the 2010 Junior Lien Interest Account.

For a more complete description of the Bond Fund and the use thereof see "APPENDIX H — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE INDENTURE."

Bond Reserve Funds

Senior Lien Obligation Bond Reserve Funds. The Airport Revenue Bond Ordinance and the Senior Lien Obligation Documents require that the City establish a separate bond reserve fund with respect to each concurrent issuance of Senior Lien Obligations in an amount equal to the Debt Service Reserve Requirement. The City satisfied such requirement for the Senior Lien Airport Revenue Bonds, Series 1998A with the deposit of a surety bond issued by Financial Security Assurance, Inc. The City satisfied such requirement for the Senior Lien Airport Revenue Refunding Bonds, Series 2002A and Senior Lien Airport Revenue Bonds, Series 2002B with the deposit of a surety bond issued by Financial Guaranty Insurance Company ("*FGIC*"). Although FGIC's ratings were subsequently downgraded and ultimately suspended by Moody's and S&P, the Airport Revenue Bond Ordinance and the Senior Lien Obligation Documents do not require the City to secure a substitute surety bond or deposit funds for the Series 2002A and Series 2002B Debt Service Reserve Funds. However, the City has determined that, upon the issuance of the 2010 Junior Bonds, it will fund the amount of the Series 2002A and Series 2002B Debt Service Reserve Requirement with cash from the Airport Improvement Fund. The City satisfied such requirement for the Senior Lien Airport Revenue Bonds, Series 2008A and Series 2008B and Senior Lien Airport Revenue Refunding Bonds, Series 2008C and Series 2008D with a cash deposit.

Following the delivery of the 2010 Junior Bonds offered herein, Debt Service Reserve Funds will have been established for Outstanding Senior Lien Obligation Bonds as set forth in the following table.

Table 1
SENIOR LIEN OBLIGATION BOND RESERVE FUNDS

Senior Lien Obligation Bond Series	Funding Type	Value Credited to the Debt Service Reserve Requirement
Series 1998A (1)	Surety Bond issued by Financial Security Assurance, Inc.	$12,590,500.00
Series 2002A and 2002B (2)	Cash to be deposited by the City on the date of delivery of the 2010 Junior Bonds offered herein	19,614,637.50
Series 2008A, Series 2008B, Series 2008C and Series 2008D	Cash and Permitted Investments on deposit with Trustee	30,786,632.55

(1) Represents bonds to be refunded by the Refunding Bonds offered herein.

(2) The surety bond provided by FGIC and reinsured by National Public Finance Guaranty Corporation (formerly MBIA Insurance Corporation of Illinois) will continue to be available for the Series 2002A and Series 2002B bonds.

2010 Junior Lien Bond Reserve Fund. Pursuant to the City Purchase Agreement, the City will establish with the Trustee, as assignee of the Corporation under the Indenture, a 2010 Junior Lien Bond Reserve Fund. The 2010 Junior Lien Bond Reserve Fund will be required to be maintained in an amount equal to the lesser of: (a) Maximum Annual Junior Lien Debt Service with respect to the 2010 Junior Bonds without regard to any Junior Lien Passenger Charge Credit, (b) 10% of the stated principal amount of the 2010 Junior Bonds and (c) 125% of the average annual 2010 Junior Lien Principal Requirement and 2010 Junior Lien Interest Requirement (the *"2010 Junior Lien Debt Service Reserve Requirement"*). The 2010 Junior Lien Bond Reserve Fund will be available exclusively for the benefit of the 2010 Junior Bonds and will not be available to make payments with respect to any additional Junior Lien Obligations.

The City intends to satisfy the 2010 Junior Lien Debt Service Reserve Requirement with cash deposits from the proceeds of the Improvement Bonds and from the Airport Improvement Fund.

Table 2
2010 JUNIOR LIEN BOND RESERVE FUND

Junior Lien Obligation Bond Series	Funding Type	Value Credited to the Debt Service Reserve Requirement
Series 2010A, Series 2010B and Series 2010C	Cash and Permitted Investments on deposit with Trustee	$56,645,276.26

The City also may satisfy the 2010 Junior Lien Debt Service Reserve Requirement with a Qualified Surety Bond but has no present intent to do so. A Qualified Surety Bond is a letter of credit, surety bond, insurance policy or similar financial instrument from a provider whose long-term unsecured debt is rated "Aaa" by Moody's and "AAA" by S&P or if in the form of an irrevocable letter of credit issued by a bank, at least "Aa" by Moody's and "AA" by S&P. See "APPENDIX H — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE CITY PURCHASE AGREEMENT."

Additional Senior Lien Obligations

The Airport Revenue Bond Ordinance provides that additional Senior Lien Obligations may be issued if (1) an officer of the City shall certify that either the Net Airport Revenues of the most recently completed fiscal year for which audited financial statements are available or the Net Airport Revenues for 12 consecutive months out of the most recent 18 calendar months, in each case together with Other Available Funds deposited to the Bond Fund during such period (a) were equal to at least 1.25 times actual debt service on outstanding Senior Lien Obligations during such period and (b) would have been at least equal to 120% of Maximum Annual Debt Service for all Senior Lien Obligations to be outstanding, including the obligations proposed to be issued, and (2) a Consultant provides a report which projects that Net Airport Revenues in each fiscal year will equal at least 1.25 times debt service on Senior Lien Obligations to be outstanding, including the obligations proposed to be issued, which report addresses the period of time beginning with the first full fiscal year following the issuance of the Senior Lien Obligations through the later of (i) three fiscal years following the expected date of completion of the proposed project or (ii) five fiscal years following the issuance of the Senior Lien Obligations. In making such projections, the Consultant's report may reduce assumed senior lien debt service by applying a Passenger Facility Charge Credit, if applicable. Under the City Purchase Agreement, Other Available Funds deposited to the Bond Fund are not taken into account for purposes of clause (1) in the preceding sentence. Additionally, Senior Lien Obligations may be issued for refunding purposes without compliance with any of the foregoing financial tests if certain other conditions are met. See "SECURITY AND SOURCE OF PAYMENT — Rate Covenant; Airport Rates and Charges" and "APPENDIX H — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE AIRPORT REVENUE BOND ORDINANCE."

Outstanding Senior Lien Obligations

As of July 1, 2010, there are $679,545,000 principal amount of the Corporation's Senior Lien Airport Revenue Bonds outstanding as shown on the table below, which are senior in priority to the City's obligations under the City Purchase Agreement.

Table 3
CITY OF PHOENIX CIVIC IMPROVEMENT CORPORATION
SENIOR LIEN AIRPORT REVENUE BONDS OUTSTANDING

Series	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding as of 7-1-10
1998A	$150,000,000	Airport Improvements	07-01-06/25	5.14%	$ 34,285,000 (1)
2002A	23,225,000	Airport Improvements	07-01-08/13	5.54	16,575,000
2002B	231,390,000	Airport Improvements	07-01-14/32	5.32	231,390,000
2008A	206,840,000	Airport Improvements	07-01-20/38	5.00	206,840,000
2008B	43,160,000	Airport Improvements	07-01-12/19	5.20	43,160,000
2008C	109,850,000	Airport Improvements Refunding	07-01-09/22	4.69	94,985,000
2008D	68,520,000	Airport Improvements Refunding	07-01-09/20	5.23	52,310,000
Total Senior Lien Airport Revenue Bonds of the Corporation Outstanding					$679,545,000

(1) Represents bonds to be refunded by the Refunding Bonds offered herein. See "PLAN OF FINANCE — Plan of Refunding."

Outstanding Junior Lien Obligations

The City has issued Junior Lien Obligations, none of which are currently outstanding. The 2010 Junior Bonds will be the only Junior Lien Obligations outstanding at the time the 2010 Junior Bonds are issued.

Additional Junior Lien Obligations

The City Purchase Agreement provides that additional Junior Lien Obligations may be issued if either (1) an officer of the City shall certify that either the Designated Revenues of the most recently completed fiscal year for which audited financial statements are available or the Designated Revenues for 12 consecutive months out of the most recent 24 calendar months, (a) were equal to at least 1.10 times actual debt service on outstanding Junior Lien Obligations during such period and (b) would have been at least equal to 110% of Maximum Annual Junior Lien Debt Service for all Junior Lien Obligations to be outstanding, including the obligations proposed to be issued, or (2) a Consultant provides a report which projects that Designated Revenues in each Fiscal Year will equal at least 1.10 times debt service on Junior Lien Obligations to be outstanding, including the obligations proposed to be issued, which report addresses the period of time beginning with the first full fiscal year following the issuance of the Junior Lien Obligations through the later of (a) three fiscal years following the expected date of completion of the proposed project or (b) five fiscal years following the issuance of the Junior Lien Obligations. In making such projections, the Consultant's report may reduce assumed senior lien debt service and junior lien debt service by applying a Passenger Facility Charge Credit or a Junior Lien Passenger Facility Charge Credit, if applicable. **The City has irrevocably committed the PFC Revenues, to the extent received in any Fiscal Year during the Commitment Period, to Improvement Bonds Debt Service due on or before July 1, 2016. The City and Corporation have irrevocably committed the 2010 RZEDB Subsidy Payments to the Junior Lien Interest Requirements of the Taxable Improvement Bonds. Such irrevocable commitments are expected to constitute a Junior Lien Passenger Facility Charge Credit for such Improvement Bonds Debt Service.** Additionally, Junior Lien Obligations may be issued for refunding purposes without compliance with any of the foregoing financial tests if certain other conditions are met. See "APPENDIX H — SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE CITY PURCHASE AGREEMENT."

Other Obligations Currently Paid From Airport Improvement Fund

The City has a policy of paying certain general obligation and excise tax obligations incurred for projects at the Airport with funds deposited to the Airport Improvement Fund. As of July 1, 2010 there are $11,350,000 principal amount of airport general obligation bonds outstanding and $620,000 principal amount of airport excise tax revenue bonds outstanding.

DEBT SERVICE REQUIREMENTS

The following two schedules set forth the annual principal and interest requirements on each series of the 2010 Junior Bonds offered herein, as well as forecasted Net Airport Revenues, forecasted Designated Revenues, debt service requirements and debt service coverage ratios of Senior and Junior Lien obligations outstanding for the fiscal years 2011 through 2016 forecast period.

SCHEDULE OF PAYMENTS
UNDER THE CITY PURCHASE AGREEMENT (1)

The City Purchase Agreement requires semi-annual Purchase Payments by the City to the Corporation in an amount equal to the principal of and interest on the 2010 Junior Bonds, which payments have been assigned to the Trustee under the Indenture in addition to certain other amounts payable thereunder. The Purchase Payments are due in immediately available funds on each December 31 and June 30 commencing December 31, 2010 and ending June 30, 2040. The Indenture requires that the Trustee deposit the Purchase Payments received from the City from Designated Revenues (with respect to all of the 2010 Junior Bonds) and PFC Revenues (with respect to the Improvement Bonds) and 2010 RZEDB Subsidy Payments (with respect to the Taxable Improvement Bonds) in the 2010 Bond Fund and use such amounts to pay the principal of and interest on the 2010 Junior Bonds due on the following day. Set forth below is a schedule of the annual Purchase Payments with respect to the 2010 Junior Bonds:

Fiscal Year Ending June 30,	Tax-Exempt Improvement Bonds			Taxable Improvement Bonds (2)			Refunding Bonds			Total 2010 Junior Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2011	$ —	$ 26,457,276	$ 26,457,276	$ —	$ 1,173,975	$ 1,173,975	$ —	$ 1,336,667	$ 1,336,667	$ —	$ 28,967,918	$ 28,967,918
2012	—	31,748,731	31,748,731	—	1,408,770	1,408,770	—	1,604,000	1,604,000	—	34,761,501	34,761,501
2013	11,710,000	31,748,731	43,458,731	—	1,408,770	1,408,770	—	1,604,000	1,604,000	11,710,000	34,761,501	46,471,501
2014	12,105,000	31,350,331	43,455,331	—	1,408,770	1,408,770	—	1,604,000	1,604,000	12,105,000	34,363,101	46,468,101
2015	12,705,000	30,751,081	43,456,081	—	1,408,770	1,408,770	—	1,604,000	1,604,000	12,705,000	33,763,851	46,468,851
2016	13,310,000	30,147,381	43,457,381	—	1,408,770	1,408,770	—	1,604,000	1,604,000	13,310,000	33,160,151	46,470,151
2017	13,960,000	29,497,831	43,457,831	—	1,408,770	1,408,770	—	1,604,000	1,604,000	13,960,000	32,510,601	46,470,601
2018	14,655,000	28,804,081	43,459,081	—	1,408,770	1,408,770	—	1,604,000	1,604,000	14,655,000	31,816,851	46,471,851
2019	15,285,000	28,174,031	43,459,031	—	1,408,770	1,408,770	—	1,604,000	1,604,000	15,285,000	31,186,801	46,471,801
2020	16,025,000	27,430,981	43,455,981	—	1,408,770	1,408,770	—	1,604,000	1,604,000	16,025,000	30,443,751	46,468,751
2021	16,785,000	26,671,506	43,456,506	—	1,408,770	1,408,770	—	1,604,000	1,604,000	16,785,000	29,684,276	46,469,276
2022	17,620,000	25,837,256	43,457,256	—	1,408,770	1,408,770	—	1,604,000	1,604,000	17,620,000	28,850,026	46,470,026
2023	18,500,000	24,956,256	43,456,256	—	1,408,770	1,408,770	10,175,000	1,604,000	11,779,000	28,675,000	27,969,026	56,644,026
2024	19,425,000	24,031,256	43,456,256	—	1,408,770	1,408,770	10,685,000	1,095,250	11,780,250	30,110,000	26,535,276	56,645,276
2025	20,395,000	23,060,006	43,455,006	—	1,408,770	1,408,770	11,220,000	561,000	11,781,000	31,615,000	25,029,776	56,644,776
2026	21,365,000	22,093,413	43,458,413	—	1,408,770	1,408,770	—	—	—	21,365,000	23,502,183	44,867,183
2027	22,430,000	21,025,163	43,455,163	—	1,408,770	1,408,770	—	—	—	22,430,000	22,433,933	44,863,933
2028	23,555,000	19,903,663	43,458,663	—	1,408,770	1,408,770	—	—	—	23,555,000	21,312,433	44,867,433
2029	24,730,000	18,725,913	43,455,913	—	1,408,770	1,408,770	—	—	—	24,730,000	20,134,683	44,864,683
2030	25,965,000	17,489,413	43,454,413	—	1,408,770	1,408,770	—	—	—	25,965,000	18,898,183	44,863,183
2031	27,200,000	16,254,338	43,454,338	—	1,408,770	1,408,770	—	—	—	27,200,000	17,663,108	44,863,108
2032	28,570,000	14,894,338	43,464,338	—	1,408,770	1,408,770	—	—	—	28,570,000	16,303,108	44,873,108
2033	30,065,000	13,394,413	43,459,413	—	1,408,770	1,408,770	—	—	—	30,065,000	14,803,183	44,868,183
2034	31,645,000	11,816,000	43,461,000	—	1,408,770	1,408,770	—	—	—	31,645,000	13,224,770	44,869,770
2035	33,230,000	10,233,750	43,463,750	—	1,408,770	1,408,770	—	—	—	33,230,000	11,642,520	44,872,520
2036	34,890,000	8,572,250	43,462,250	—	1,408,770	1,408,770	—	—	—	34,890,000	9,981,020	44,871,020
2037	36,635,000	6,827,750	43,462,750	—	1,408,770	1,408,770	—	—	—	36,635,000	8,236,520	44,871,520
2038	38,465,000	4,996,000	43,461,000	—	1,408,770	1,408,770	—	—	—	38,465,000	6,404,770	44,869,770
2039	40,390,000	3,072,750	43,462,750	—	1,408,770	1,408,770	—	—	—	40,390,000	4,481,520	44,871,520
2040	21,065,000	1,053,250	22,118,250	21,345,000	1,408,770	22,753,770	—	—	—	42,410,000	2,462,020	44,872,020
	$642,680,000	**$611,019,139**	**$1,253,699,139**	**$21,345,000**	**$42,028,305**	**$63,373,305**	**$32,080,000**	**$22,240,917**	**$54,320,917**	**$696,105,000**	**$675,288,361**	**$1,371,393,361**

(1) Represents debt service requirements on the 2010 Junior Bonds offered herein.

(2) The Taxable Improvement Bonds are designated as "Recovery Zone Economic Development Bonds — Direct Payment." The City will elect to receive subsidy payments, in the amount of 45% of each interest payment on the Taxable Improvement Bonds, paid directly to the City by the United States Treasury. Debt service shown has not been reduced by the subsidy payments.

SCHEDULE OF FORECASTED NET AIRPORT REVENUES, FORECASTED DESIGNATED REVENUES, DEBT SERVICE REQUIREMENTS AND DEBT SERVICE COVERAGE OF SENIOR AND JUNIOR LIEN OBLIGATIONS OUTSTANDING

Fiscal Year	Forecasted Net Airport Revenues Available for Debt Service (1)	Outstanding Senior Lien Airport Revenue Bond Debt Service (2)	Debt Service Coverage of Senior Lien Airport Revenue Bonds Debt Service by Forecasted Net Airport Revenues	Forecasted Designated Revenues	Gross 2010 Junior Bonds Debt Service	Junior Lien Passenger Facility Charge Credit Attributable to RZEDB Subsidy Payments	2010 Junior Bonds Debt Service Net of RZEDB Subsidy Payments	Junior Lien Passenger Facility Charge Credit Attributable to PFC Revenues	2010 Junior Bond Debt Service Net of Junior Lien PFC Credit (3)	Total Senior Lien and Net 2010 Junior Bond Debt Service	Total Aggregate Coverage of Senior Lien Debt Service and Net 2010 Junior Bond Debt Service by Forecasted Net Airport Revenues
2011	$ 98,498,906	$ 53,098,450	1.86	$45,400,456	$ 28,967,918	$ 528,289	$ 28,439,629	$27,102,962	$1,336,667	$54,435,117	1.81
2012	104,783,223	57,818,775	1.81	46,964,448	34,761,501	633,946	34,127,555	32,523,555	1,604,000	59,422,775	1.76
2013	101,811,035	52,710,550	1.93	49,100,485	46,471,501	633,947	45,837,554	44,233,554	1,604,000	54,314,550	1.87
2014	107,971,106	53,395,675	2.02	54,575,431	46,468,101	633,946	45,834,155	44,230,155	1,604,000	54,999,675	1.96
2015	112,514,324	52,097,325	2.16	60,416,999	46,468,851	633,947	45,834,904	44,230,904	1,604,000	53,701,325	2.10
2016	114,765,129	52,139,700	2.20	62,625,429	46,470,151	633,946	45,836,205	44,232,205	1,604,000	53,743,700	2.14
2017		52,162,875			46,470,601	633,947	45,836,654				
2018		52,213,950			46,471,851	633,946	45,837,905				
2019		52,284,962			46,471,801	633,947	45,837,854				
2020		52,493,650			46,468,751	633,946	45,834,805				
2021		47,224,762			46,469,276	633,947	45,835,329				
2022		47,224,475			46,470,026	633,946	45,836,080				
2023		36,721,850			56,644,026	633,947	56,010,079				
2024		36,727,712			56,645,276	633,946	56,011,330				
2025		36,726,275			56,644,776	633,947	56,010,829				
2026		36,730,213			44,867,183	633,946	44,233,237				
2027		36,726,438			44,863,933	633,947	44,229,986				
2028		36,727,363			44,867,433	633,946	44,233,487				
2029		36,722,100			44,864,683	633,947	44,230,736				
2030		36,722,900			44,863,183	633,946	44,229,237				
2031		36,728,350			44,863,108	633,947	44,229,161				
2032		36,724,588			44,873,108	633,946	44,239,162				
2033		17,113,250			44,868,183	633,947	44,234,236				
2034		17,114,750			44,869,770	633,946	44,235,824				
2035		17,114,250			44,872,520	633,947	44,238,573				
2036		17,115,250			44,871,020	633,946	44,237,074				
2037		17,111,000			44,871,520	633,947	44,237,573				
2038		17,115,000			44,869,770	633,946	44,235,824				
2039		—			44,871,520	633,947	44,237,573				
2040		—			44,872,020	633,946	44,238,074				
		$1,094,806,438			$1,371,393,361	$18,912,737	$1,352,480,624				

(1) Forecasted Net Airport Revenues available for debt service in fiscal years 2010 through 2016 were prepared by Jacobs Consultancy, Airport Consultants.

(2) Does not include debt service on the Bonds Being Refunded.

(3) Represents debt service on the 2010 Junior Bonds, offered herein, net of Junior Lien Passenger Facility Charge Credits.

PASSENGER FACILITY CHARGE PROGRAM

Authorization for the Passenger Facility Charge

The Passenger Facility Charge is currently collected by non-exempt air carriers using Sky Harbor and remitted to the City pursuant to Section 1113(e) of the Federal Aviation Act, as amended, and the regulations promulgated thereunder (collectively, the *"PFC Laws"*). The PFC Laws empower the FAA to authorize a public agency that controls an airport to impose a passenger facility charge of $1.00, $2.00, $3.00, $4.00 or $4.50 (the current maximum level) for each enplaned passenger at such airport (a *"PFC"*), subject to certain exceptions described below. Proceeds of an authorized PFC may be used only to pay "allowable costs" of specific airport projects approved by the Federal Aviation Administration (*"FAA"*), including debt service and other financing costs on bonds issued to finance such specific projects. Projects for which the FAA may authorize a PFC must (i) preserve or enhance safety, security or capacity of the national air transportation system, (ii) reduce noise or mitigate noise impacts resulting from an airport or (iii) furnish opportunities for enhanced competition between or among air carriers.

Under the PFC Laws, substantially all air carriers serving an airport for which the FAA has authorized the collection of a PFC must collect such PFC at the time they sell an airline ticket to a passenger to be enplaned at the airport. Passenger enplanements subject to the charge include passengers originating their travel itineraries on departing flights out of the collecting airport or connecting passengers at the collecting airport whose itineraries originated in other cities, provided the airport is among the first two or last two airports collecting a PFC on such connecting passenger's itinerary. An authorized PFC may only be collected for "revenue passengers" enplaned at a collecting airport, including passengers using scheduled and non-scheduled airline service. "Revenue passengers" do not include passengers who do not pay for the air transportation which resulted in their enplanement, including passengers using frequent flyer awards.

Under the PFC Laws, the air carriers collecting a PFC on behalf of a public agency must remit the proceeds of the PFC to the public agency on a monthly basis, not later than the last day of the month following the month in which such proceeds were collected or the first business day thereafter. Prior to such remittance, however, collecting air carriers are entitled to retain any interest accrued on the investment of the proceeds of the PFC they collect, as well as $0.11 of each PFC collected as compensation for administering the collection process.

Under the PFC Laws, the FAA may terminate a public agency's ability to impose, collect and apply the proceeds of a previously authorized PFC if the FAA finds that the public agency has violated the PFC Laws, including a violation of the agency's obligation under the PFC Laws to expend proceeds of its authorized PFC only on FAA-approved projects. A public agency's ability to impose, collect and apply the proceeds of a previously authorized PFC may also be terminated by the FAA if the agency is found to have violated the Airport Noise and Capacity Act of 1990 or its implementing regulations (collectively, the *"Noise Law"*). Both the PFC Laws and the Noise Law contain a variety of procedural safeguards, including an informal resolution procedure, and in the case of the PFC Laws, a public hearing, which would apply before a public agency's PFC program could be terminated. Under the PFC Laws and the Noise Law, termination proceedings would include a period of time to allow the airport agency to correct any violation identified by the FAA or otherwise settle any alleged violation. The public agency would also subject certain other of its funds, including federal airport improvement grants, to termination by violating the PFC Laws or the Noise Law. While the City is not aware of any action by the FAA to terminate its ability to impose, collect and apply the proceeds of its PFC program, there can be no assurance that the FAA will not terminate the PFC program in the future.

The City's Passenger Facility Charge Program

From January 26, 1996, when the City initiated the collection of the Passenger Facility Charge at the Airport, through March 31, 2010, the City's Passenger Facility Charge collections measured on a cash basis totaled $870.4 million (excluding interest). The City's most recent approval was granted April 30, 2009 and effective August 1, 2010, continuing the $4.50 PFC charge in place since June 5, 2002. Nonscheduled on-demand carriers and carriers with fewer than 7,500 enplanements annually are exempted. The City expects that PFC Revenues received in each year during the Commitment Period will be sufficient to pay Improvement Bonds Debt Service when due during the Commitment Period. For further discussion of the City's Passenger Facility Charge program, see "APPENDIX A — REPORT OF THE AIRPORT CONSULTANT." For further discussion of the risks associated therewith, see "CERTAIN BONDHOLDERS' RISKS — Bankruptcy and Financial Considerations — Passenger Facility Charges" and "— Certain Risks and Covenants Relating to the Amount and Timing of Receipt of PFC Revenues."

Table 4 below shows PFC collections at Sky Harbor in each of fiscal years 2007, 2008 and 2009. Table 5 below shows active and closed PFC approvals and the remaining collection authority. Table 6 below shows the various projects approved for funding in the three active PFC approvals.

Table 4
HISTORICAL PFC COLLECTIONS
Phoenix Sky Harbor International Airport
Fiscal Years

	2007	2008*	2009*
PFC Rate	$ 4.50	$ 4.50	$ 4.50
Airline Administrative Fee	$ 0.11	$ 0.11	$ 0.11
Net PFC Rate	$ 4.39	$ 4.39	$ 4.39
Total Enplanements (000's)	20,763	20,668	18,912
PFC Eligible Enplanements	92.4%	94.7%	87.8%
Total PFC Collections (000's)	$84,212	$85,964	$72,924

* In FY2008, Southwest Airlines remitted 13 months of PFC revenues, whereas in FY2009 it only remitted 11 months of PFC revenues. When compensating for this timing difference, the estimated PFC-eligible passenger percentage for Sky Harbor is above 90% for both years, or 91% for the 3 year period. The Aviation Department assesses a penalty for late remittance.

Source: City of Phoenix Aviation Department

Table 5
PFC APPROVALS AND REVENUES
Phoenix Sky Harbor International Airport
(as of April 30, 2010; in millions)

PFC APPROVALS	Approval Amount	Revenues	Remaining Authority
PFC 1	$ 93.2	$ 93.2	$ —
PFC 2	147.9	147.9	—
PFC 3	208.1	208.1	—
Subtotal Closed PFC Approvals (1)	$ 449.2	$449.2	$ —
PFC 4	$ 222.3	$222.3	$ —
PFC 5	202.2	202.2	—
PFC 6	1,858.6	1.8	1,856.8
Subtotal Active PFC Approvals (2)	$2,283.1	$426.3	$1,856.8
Total All PFC Approvals	$2,732.3	$875.5	$1,856.8

(1) PFC 1, PFC 2 and PFC 3 are closed and no longer active.

(2) Active PFCs include PFC 4 applications 04-07-C-00-PHX ($177.8 million) and 04-07-C-01-PHX ($44.5 million), PFC 5 application 07-08-C-00-PHX and PFC 6 application 09-09-C-00-PHX.

Source: Federal Aviation Administration and City of Phoenix Aviation Department.

Table 6
ACTIVE PFC APPROVALS BY PROJECT (1)
Phoenix Sky Harbor International Airport
(as of April 30, 2010; in millions)

	Approval Amount
PFC 4	
Community Noise Reduction Program	$ 75.0
Terminal 4 Expansion	37.5
Airside Reconstruction	25.0
Automated People Mover Design	40.4
Capital Security Improvements	44.4 (2)
Subtotal PFC 4	$ 222.3
PFC 5	
Taxiway Improvements	$ 12.5
Noise Mitigation Program	25.9
Security Improvements	101.8
Terminal Facilities Improvements	44.3
Passenger Information and Paging System	17.7
Subtotal PFC 5	$ 202.2
PFC 6	
Automated Train	$1,788.6 (3)
Community Noise Reduction Program	6.4
Terminal 4 Rehabilitation	15.1
Airfield Lighting and Runway Sign Relocation	2.1
Terminal Capacity Improvements	37.8
South Infield Paving	8.6
Subtotal PFC 6	$1,858.6
Total PFC Approval Amount	$2,283.1
Less: PFC 4-6 Revenues Collected as of April 30, 2010	(426.3)
Remaining Authority	$1,856.8

(1) All PFC approval amounts are for pay-as-you-go funds except as noted.

(2) Includes PFC approval for $41.6 million bond funds and $2.8 million interest.

(3) Includes PFC approval for $270.0 million pay-as-you-go, $753.1 million bond funds and $765.5 million interest.

Source: Federal Aviation Administration and City of Phoenix Aviation Department.

ENPLANED PASSENGER ACTIVITY

The ten largest U.S. passenger airlines provide regular service at Sky Harbor. As of May 2010, airlines at Sky Harbor provided nonstop passenger service to 101 airports, including 82 U.S. airports and 19 international airports located primarily in Mexico and Canada. According to Airports Council International ("ACI") preliminary statistics for 2009, Sky Harbor was the 19th largest airport in the world as measured by total passengers. U.S. Department of Transportation statistics show that in the 12 months ended June 2009, Sky Harbor was the ninth largest airport in the U.S. in terms of enplaned passengers. Sky Harbor is a major connecting hub airport in the route network of US Airways and one of the largest "focus city" airports in the route network of Southwest Airlines. The inland location of Sky Harbor allows connections that minimize circuity between the southwestern U.S. and points eastward. The following table sets forth the passenger and air cargo airlines that provided service at Sky Harbor in the first eleven months of FY2010.

Table 7
AIRLINES REPORTING ENPLANED PASSENGERS AND AIR CARGO
Phoenix Sky Harbor International Airport
(for the 11 months ended May 31, 2010)

Major/National	**Foreign-Flag**
AirTran	Aeromexico
Alaska	Air Canada
American	British Airways
Continental (1)	WestJet
Delta (2)	
Frontier (3)	**All-Cargo**
Hawaiian	Federal Express
JetBlue	UPS
Midwest (3)	ABX Air
Southwest	Air Transport International
Sun Country	Ameriflight
United (1)	Empire
US Airways	AirNet Systems
Regional/Commuter	
ExpressJet (Continental Express)	
Great Lakes	
Mesa (US Airways Express)	
Mesaba (Delta Connection)	
Skywest (Delta Connection and United Express)	

(1) In May 2010, United and Continental announced their intent to merge.
(2) Delta merged with Northwest in October 2008.
(3) In April 2010, Republic Airways Holdings announced that Midwest and Frontier would merge under the Frontier brand.

Source: City of Phoenix Aviation Department.

Table 8 presents total historical enplaned passengers by airline at Sky Harbor. More than three-quarters (77.5%) of all passengers enplaned at Sky Harbor in FY2009 boarded flights operated by either US Airways (and its commuter affiliate) or Southwest Airlines. Delta, United and American ranked as the next largest airlines by enplaned passengers in FY2009, respectively.

Table 8
TOTAL ENPLANED PASSENGERS BY AIRLINE
Phoenix Sky Harbor International Airport

	Fiscal Years			July-May	
Published Airline	**2007**	**2008**	**2009**	**FY 2009**	**FY 2010**
US Airways	9,660,048	9,784,717	9,221,795	8,420,347	8,429,751
Southwest	6,240,937	6,052,552	5,431,992	4,964,975	5,084,926
Delta (1)	1,180,998	1,340,302	1,180,336	1,084,349	1,140,066
United	913,608	776,579	684,758	630,623	629,077
American	752,317	700,978	638,183	588,642	573,389
Continental	619,682	610,212	568,749	521,568	508,985
Alaska	376,946	382,930	332,754	305,189	301,781
Frontier	238,723	219,522	225,050	207,837	196,536
AirTran	44,467	148,120	114,165	104,797	81,651
Hawaiian	84,820	86,755	87,649	80,189	77,639
British Airways	87,104	87,041	79,479	71,332	69,640
JetBlue	120,435	85,395	76,917	69,989	74,250
All Other	442,785	392,427	270,293	256,534	263,850
Total	**20,762,870**	**20,667,530**	**18,912,120**	17,306,371	17,431,541
Share of Total					
US Airways	46.5%	47.3%	48.8%	48.7%	48.4%
Southwest	30.1	29.3	28.7	28.7	29.2
Delta (1)	5.7	6.5	6.2	6.3	6.5
United	4.4	3.8	3.6	3.6	3.6
American	3.6	3.4	3.4	3.4	3.3
Continental	3.0	3.0	3.0	3.0	2.9
Alaska	1.8	1.9	1.8	1.8	1.7
Frontier	1.1	1.1	1.2	1.2	1.1
AirTran	0.2	0.7	0.6	0.6	0.5
Hawaiian	0.4	0.4	0.5	0.5	0.4
British Airways	0.4	0.4	0.4	0.4	0.4
JetBlue	0.6	0.4	0.4	0.4	0.4
All Other	2.1	1.9	1.4	1.5	1.5
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(1) Northwest Airlines is included here with Delta for all years shown, despite the fact that the merger with Delta occurred in October 2008.

Notes: Passengers reported by regional affiliates have been grouped with their respective code-sharing partners. Columns may not add to totals shown because of rounding.

Source: City of Phoenix Aviation Department.

The total number of enplaned passengers at Sky Harbor increased an average of 3.2% per year from FY1999 through FY2007, and then declined in FY2008 and FY2009, as shown in Table 9. Several factors, including the global and national economic recession, the financial system crisis, substantial increases in the national unemployment rate, and reduced airline passenger capacity began to negatively impact passenger traffic levels in FY2008. Connecting passengers drove the majority of the passenger growth over the 10-year period ending FY2009, increasing an average of 3.2% per year compared with 0.7% for origin-destination passengers. For the first eleven months of FY2010, total passenger enplanements at Sky Harbor have increased 0.7% compared to the same period in FY2009.

Table 9
HISTORICAL PASSENGER ENPLANEMENTS
Phoenix Sky Harbor International Airport

Fiscal Year	By Destination		By Type of Origin-Destination (O&D) Passenger				
	Domestic	International	Resident	Visitor	Total O&D	Connecting	Total
1999	15,691,517	413,981	n.c.	n.c.	10,586,143	5,519,355	**16,105,498**
2000	16,688,056	435,062	n.c.	n.c.	10,700,138	6,422,980	**17,123,118**
2001	17,521,031	555,028	n.c.	n.c.	10,926,739	7,149,320	**18,076,059**
2002	16,368,415	547,552	n.c.	n.c.	10,072,452	6,843,515	**16,915,967**
2003	17,530,164	651,983	n.c.	n.c.	10,911,007	7,271,140	**18,182,147**
2004	18,220,965	735,433	5,179,576	6,366,217	11,545,793	7,410,605	**18,956,398**
2005	19,258,385	811,301	5,503,864	6,752,627	12,256,491	7,813,195	**20,069,686**
2006	19,749,643	892,620	5,774,407	6,881,781	12,656,188	7,986,075	**20,642,263**
2007	19,891,566	871,304	5,886,832	6,927,873	12,814,705	7,948,165	**20,762,870**
2008	19,751,515	916,015	5,903,235	6,904,645	12,807,880	7,859,650	**20,667,530**
2009	17,980,137	931,983	5,143,281	6,179,439	11,322,720	7,589,400	**18,912,120**
FYTD2009							**17,306,371**
FYTD2010							**17,431,541**
Compound annual growth rate:							
1999-2007	3.0%	9.7%	n.a.	n.a.	2.4%	4.7%	**3.2%**
2007-2009	(4.9)	3.4	(6.5)	(5.6)	(6.0)	(2.3)	**(4.6)**
1999-2009	1.4	8.5	n.a.	n.a.	0.7	3.2	**1.6**
FYTD2010							**0.7%**

Notes: FYTD=Fiscal year-to-date, July 1, 2009 through May 31, 2010; n.c.=not calculated; n.a.=not applicable.

Sources: City of Phoenix Aviation Department; U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

SKY HARBOR'S ROLE AS A CONNECTING HUB

As discussed under "ENPLANED PASSENGER ACTIVITY," Sky Harbor serves as a major connecting hub in the route system of US Airways and is also one of the major "focus cities" in Southwest Airlines' system. In FY2009, US Airways and Southwest Airlines together accounted for 77.5% of total enplaned passengers at Sky Harbor and 97.6% of the connecting passengers at Sky Harbor. In FY2009, US Airways accounted for 48.8% of the total enplaned passengers at Sky Harbor and 77.9% of the connecting traffic, and Southwest Airlines accounted for 28.7% of total enplanements and 19.7% of the connecting traffic. US Airways has a long history at Sky Harbor, as America West Airlines (America West merged with US Airways in September 2005), located its headquarters in Tempe and began commercial service in 1983. As of May 2010, Sky Harbor remains US Airways' third largest hub in terms of departing seats (11.5%) behind Charlotte and Philadelphia. Southwest Airlines also has a long history at Sky Harbor, as it began service at Sky Harbor in 1982. As of May 2010, Southwest Airlines offers more seats at Sky Harbor than at all but two airports in its system — Las Vegas McCarran International Airport and Chicago Midway International Airport.

AVIATION CAPITAL IMPROVEMENT PROGRAM

The Aviation Capital Improvement Program (the *"Aviation CIP"*) is presented as Exhibit A-1 in "APPENDIX A — REPORT OF THE AIRPORT CONSULTANT." The Aviation CIP provides for $1.3 billion in capital improvements for the Airport. The Aviation CIP is expected to be funded from $162.3 million in airport operating funds, $183.5 million in pay-as-you-go Passenger Facility Charges, $174.4 million in 2008 bond proceeds and commercial paper, $632.6 million in Passenger Facility Charge bonds (consisting of the Improvement Bonds), $178.4 million in federal grants, and $3.4 million in miscellaneous and other funding sources.

A major component of the Aviation CIP is an automated people mover designed to carry over 35 million riders annually through seven stations along an elevated guideway spanning approximately five miles (the *"PHX Sky Train"*). The PHX Sky Train will enhance Sky Harbor access and the regional surface transportation system by relieving severe roadway congestion in and around Sky Harbor and by serving as an inter-modal connector within Sky Harbor. The PHX Sky Train has been approved by the FAA for a $4.50 PFC collection rate, which required, in part, a finding by the FAA that the system makes a substantial contribution to reducing congestion.

The PHX Sky Train will be completed in two stages. Stage 1 will link the Valley Metro light rail station located on Washington Street at 44th Street with Terminal 4 via the East Economy Lot parking facilities. Stage 1 will be a fully operable stand-alone system. Stage 2 will link the Terminal 4 Station completed in Stage 1 with Terminal 3, a new west ground transportation center, and the rental car center.

Table 10
AVIATION CAPITAL IMPROVEMENT PROGRAM THROUGH FY2016
CITY OF PHOENIX AVIATION DEPARTMENT
(in thousands)

	Total
PHX Sky Train	
Stage 1	$ 644,325
Stage 2 Design	58,800
Subtotal PHX Sky Train	$ 703,125
Other CIP Projects	
Noise Mitigation and Land Acquisition	$ 192,309
Runways, Taxiways, and Roadways	99,681
Terminals	66,634
General Aviation	55,366
Security and Technology	48,503
All Other	168,872
Subtotal Other CIP Projects	$ 631,365
Total All Projects	$1,334,490

Source: City of Phoenix Aviation Department.

The Capital Management Division ("CMD") was created in October 2007 to support the Aviation Department in budgeting and managing the Capital Improvement Program and to work closely with all divisions that are initiating and planning new capital projects. CMD's primary role is to ensure that each project has a well-defined scope of work, an accurate budget, and an appropriate schedule to complete the work. In addition, CMD also manages the Aviation Department's federal and state grant projects to ensure they comply with regulatory guidelines.

AIRPORT RATES AND CHARGES

In 1981, the Mayor and Council of the City formally adopted a compensatory (cost of services) rate-setting policy which provides (1) that charges to aviation users be established on the basis of the costs to provide, maintain and operate Airport facilities and services and (2) that these costs be recovered from aviation users on a basis not to exceed their proportional use thereof. Under this compensatory rate-setting methodology, the City bears the risk of any revenue shortfall and retains any surplus revenue for its own discretionary expenditures. Rates and charges are typically adjusted at the beginning of each Fiscal Year after the City has reviewed proposed rate changes and capital expenditures with airline representatives. However, the City retains its proprietary right to adjust fees and to determine its capital expenditures without airline approval, and the City has the unilateral right to adjust terminal rental rates and landing fees at any time to reflect changes in cost. Any such adjustment is subject to federal law and regulations. In establishing any new schedule of rates, fees and charges for the use of the Airport, the City intends to comply with federal law and regulations.

The City uses short-term (month-to-month) Letters of Authorization (each, a *"LOA"*) for airline space within its terminal facilities. Such LOA can be terminated by either party upon 30-days' notice, providing the City with the flexibility to maximize the use of its terminal facilities.

The following table provides the historical average airline cost per enplaned passenger.

Table 11
HISTORICAL AVERAGE COST PER ENPLANEMENT
Phoenix Sky Harbor International Airport
Fiscal Years

	2007	2008	2009
Total Airline Revenue (000's)	$86,436	$88,874	$95,143
Enplanements (000's)	20,763	20,668	18,912
Cost per Enplanement	$ 4.16	$ 4.30	$ 5.03

For a more detailed discussion of Airport Rates and Charges see "APPENDIX A — REPORT OF THE AIRPORT CONSULTANT."

HISTORICAL REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES

Table 12 under the caption "CITY OF PHOENIX, AVIATION DEPARTMENT ENTERPRISE FUND COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE" presents historical results of the Airport on a budgetary basis for the last three years. This schedule is consistent with the City's Comprehensive Annual Financial Report (*"CAFR"*) Exhibits E-4 and E-5.

The FY2008 operating expenditures increased 5.1% from prior year's spending primarily due to the addition of a 3-mile bus extension to provide shuttle bus service between all of the passenger terminals and the 44th Street Metro Light Rail station (Metro Light Rail is the regional light rail service linking several valley cities).

In early FY2009, Sky Harbor began to experience declines in passenger traffic. In response, Airport management reassessed traffic and revenue forecasts and the Aviation Department's operating budget. Revised forecasts anticipated a 12.0% to 15.0% decline in passenger traffic in FY2009. Airport management acted aggressively to offset the declining revenues by reducing FY2009 operating expenditures by 3.1% and committing to maintain future operating expenditure growth between 3.0% and 5.0% annually. Airport management expects FY2010 operating expenditures to grow by 3.2% from FY2009.

Operating budget reductions resulted in total operating savings in excess of $25 million and included reduced frequency of bus service during off-peak-hours, bus service efficiencies to reduce overall transportation costs, reduced utility budgets by implementing electricity and water saving strategies, eliminating certain non-essential vacant positions, and reducing non-essential budgets for supplies, equipment replacement, and other commodities.

Table 12
CITY OF PHOENIX AVIATION DEPARTMENT ENTERPRISE FUND COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (non-GAAP)
(In Expense Priority Established by the Airport Bond Ordinance) (Fiscal Years; in thousands)

	2007	2008	2009
REVENUES			
Landing Area	$ 34,289	$ 34,780	$ 37,213
Terminal Area	98,038	100,787	103,320
Ground Transportation	118,048	121,604	103,225
Other	27,550	31,787	30,761
Interest	8,848	9,709	8,358
Total Revenues before Reimbursement	286,773	298,667	282,877
Transportation O&M Expense Reimbursement (1)	10,080	11,441	6,808
Total Revenues	296,853	310,108	289,685
EXPENDITURES AND ENCUMBRANCES			
Cost of Maintenance and Operation			
Personal Services	90,822	94,846	92,856
Contractual Services	80,671	86,575	85,714
Supplies	13,648	13,361	11,210
Equipment/Minor Improvements	4,247	4,811	3,722
Total Cost of Maintenance and Operation (1)	189,388	199,593	193,502
Net Airport Revenue Available for Revenue Bond Debt Service (Net Revenues)	107,465	110,515	96,183
Total Senior Lien Airport Revenue Bond Debt Service	31,955	32,432	56,334
Senior Lien Revenue Bond Debt Service Coverage	3.36	3.41	1.71
Net Revenue Available After Senior Lien Revenue Bond Debt Service (Designated Revenues)	75,510	78,083	39,849
Other Expenditures			
Capital Improvements	47,855	43,743	25,129
General Obligation Bond Debt Service	4,694	4,550	1,948
Lease-Purchase Payments	9,651	7,750	26
Total Other Expenditures	62,200	56,043	27,103
Total Expenditures and Encumbrances	283,543	288,068	276,939
Excess (Deficiency) of Revenues Over (Under) Expenditures and Encumbrances	13,310	22,040	12,746
OTHER FINANCING SOURCES (USES)			
Recovery of Prior Years Expenditures	13	2,191	12,082
Transfer to General Fund: Staff and Administrative — Central Service	(6,188)	(6,388)	(5,897)
Transfers (to) from Other Funds			
Transfers to Other Funds	(60)	(1,268)	(394)
Transfers from Other Funds	—	3,239	15,728
Net Transfers (to) from Other Funds	(60)	1,971	15,334
Total Other Financing Sources (Uses)	(6,235)	(2,226)	21,519
Net Increase (Decrease) in Fund Balance	7,075	19,814	34,265
FUND BALANCE, JULY 1	69,477	76,552	96,366
FUND BALANCE, JUNE 30	$ 76,552	$ 96,366	$130,631
Airport Improvement Reserve Fund Balance, June 30	166,092	166,140	175,573
Total Airport Cash on Hand, June 30	$242,644	$262,506	$306,204

(1) Rental Car Center Transportation O&M Expenses as defined in the CFC Bond Documents are included as a Cost of Maintenance and Operation. Amounts reimbursed to the City by the CFC trustee to pay the rental car busing service expenses (included as a Cost of Maintenance and Operation) are included as Revenues. The CAFR Exhibit E-5 provides a presentation of expenditures that are subsequently reimbursed as revenues.

REPORT OF THE AIRPORT CONSULTANT

The Report of the Airport Consultant (the *"Report"*) prepared by Jacobs Consultancy Inc. is included herein as Appendix A. The Report presents certain enplaned passenger and financial forecasts for Fiscal Years 2010 through 2016 and sets forth the assumptions upon which the forecasts are based. The financial forecasts are based on assumptions that were provided by, or reviewed with and adopted by, the Aviation Department of the City. The Report should be read in its entirety for an understanding of the forecasts and the underlying assumptions contained therein. As noted in the 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 may vary, and the variations may be material. See "CERTAIN BONDHOLDERS' RISKS — Report of the Airport Consultant."

CERTAIN BONDHOLDERS' RISKS

Investment in the 2010 Junior Bonds involves risk. The City's ability to generate Designated Revenues and PFC Revenues from the operation of the Airport and to collect 2010 RZEDB Subsidy Payments to pay debt service on the 2010 Junior Bonds depends upon many factors, most of which are not under the control of the City. This section describes some of the risks associated with investing in the 2010 Junior Bonds; however, prospective purchasers of the 2010 Junior Bonds should give careful consideration to all of the information in this Official Statement.

Certain Factors Affecting the Air Transportation Industry and the Airport

General. No assurance can be given with respect to the levels of aviation activity that will be achieved at the Airport in future fiscal years. Traffic at the Airport is sensitive to a variety of factors including (1) the growth in the population and economy of the Air Service Area served by the Airport, (2) national and international economic conditions, (3) air carrier economics and air fares, (4) the availability and price of aviation fuel, (5) air carrier service and route networks, (6) the capacity of the air traffic control system, (7) the capacity of the Airport/airways system, and (8) safety concerns arising from international conflicts and the possibility of additional terrorist attacks. Since early 2000, several factors including slow or negative traffic growth in certain areas, increased fuel, labor, equipment and other costs, health concerns such as Severe Acute Respiratory Syndrome (SARS), costs of compliance with new security regulations and requirements, threat of possible future terrorist attacks and an increase in the cost of debt, have reduced profits and caused significant losses for all but a few air carriers.

Aviation Security Requirements and Related Costs. The FAA, as a result of the events of September 11, 2001, instituted numerous safety and security measures for all U.S. airports including Sky Harbor. The provision of and cost of airport security was transferred to and now is administered by the federal government through the Transportation Security Administration (the "TSA") instead of private companies. Like many other airport operators, Sky Harbor experienced increased operating costs due to compliance with the new federally mandated security and operating requirements. The Aviation and Transportation Security Act requires that TSA-approved explosive detection systems ("EDS") be deployed at all U.S. airports to screen all checked baggage. EDS equipment and the facility modifications necessary to accommodate the equipment purchased were paid for in part by the federal government and installed at Sky Harbor. Sky Harbor is currently in compliance with all federally mandated security requirements.

International Conflict and the Threat of Terrorism. The conflicts in Iraq and Afghanistan and the threat of terrorism have had a negative effect on air travel. Uncertainty associated with war and the increased threats of future terrorist attacks, both domestically and internationally, may have an adverse impact on air travel in the foreseeable future. The City cannot predict the likelihood of future extraordinary events, the likelihood of future air transportation disruptions or the impact on Sky Harbor or the airlines if such incidents or disruptions do occur.

Cost of Aviation Fuel. According to the Air Transportation Association's (ATA) third quarter 2009 data, fuel is the second largest cost component of airline operations at 23.8% compared with 24.9% for labor related expenses. Fuel continues to be an important and variable determinant of an air carrier's operating economics. Aviation fuel prices tend to fluctuate with crude oil prices. According to ATA, the average price of a barrel of jet fuel in 2009 was $79.67. Jet fuel prices have increased significantly since 2000, with the average price per barrel during 2000-2009 at $63.09. The significant increase in aviation fuel costs have had, and are likely to continue to have, an adverse impact on the air transportation industry by increasing airline operating costs, increasing fares, hampering airline recovery plans and reducing airline profitability.

Certain Risks and Covenants Relating to the Amount and Timing of Receipt of PFC Revenues

Passenger Facility Charge collections are dependent upon the number of enplaned passengers using Sky Harbor. (For a summary of historical passenger enplanements at Sky Harbor, see "Table 9" herein and "APPENDIX A — REPORT OF THE AIRPORT CONSULTANT"). In addition, the City's ability to recognize PFC Revenues that are sufficient to pay debt service on the Improvement Bonds during the Commitment Period will require (a) that the air carriers collecting the Passenger Facility Charge remit the net proceeds thereof to the City in accordance with the PFC Laws, (b) that the maximum amount of Passenger Facility Charge collections authorized by the FAA (either under the current authorization or as may be amended) not be exceeded prior to the payment, or provision for the payment, of the Improvement Bonds (c) that the City's ability to impose and collect the Passenger Facility Charge not be terminated by the FAA prior to the payment, or provision for the payment, of all the Improvement Bonds during the Commitment Period and (d) PFC Revenues are received in each Fiscal Year in amounts at least equal to the amounts irrevocably committed in each Fiscal Year. For further discussion see "APPENDIX A — REPORT OF THE AIRPORT CONSULTANT." See also "CERTAIN BONDHOLDERS' RISKS — Bankruptcy and Financial Considerations-Passenger Facility Charges."

To help ensure that each of these requirements is satisfied, the City has covenanted (i) to take all action reasonably necessary to cause the collection and remittance to the City of all PFC Revenues required by Federal law to be so collected and remitted and (ii) to apply PFC Revenues, to the extent received in any Fiscal Year, to payments equal to, but not to exceed the 2010 Junior Lien Interest Requirement and 2010 Junior Lien Principal Requirement with respect to the Improvement Bonds coming due each Fiscal Year during the Commitment Period.

Despite the foregoing covenants, no assurance can be given that the PFC Laws will not be modified or restricted by the FAA or the U.S. Congress so as to reduce the amount of PFC Revenues available to the City. Further, even if the City takes all reasonably necessary action to cause the collection and remittance of PFC Revenues, there can be no assurance that the FAA will not terminate the City's PFC program.

PFC Revenues received in a Fiscal Year during the Commitment Period which exceed the amount irrevocably committed for Improvement Bonds Debt Service in that Fiscal Year may be applied by the City for any lawful purpose. Under the current PFC Laws, such purposes are limited to eligible projects or debt service related to eligible projects. Consequently, if PFC Revenues were received in excess of the amount irrevocably committed to Improvement Bonds Debt Service in a Fiscal Year during the Commitment Period and the City had not expended the excess PFC Revenues for other permitted uses, but collections in a subsequent Fiscal Year were less than the amount pledged to debt service, the City would be permitted, but not required, to apply such excess PFC Revenues towards Improvement Bonds Debt Service.

Activity Level and Financial Condition of Airlines Serving the Airport

The Airport derives a substantial portion of its operating revenues from landing and facility rental fees. The financial strength and stability of the airlines using Sky Harbor, together with numerous other factors, influence the level of aviation activity at, and the revenues of, the Airport. Individual airline decisions regarding level of service also affect total enplanements. Financial or operational difficulties of any of the airlines operating at Sky Harbor will have an adverse impact, directly or indirectly on Designated Revenues, Airport operations and PFC Revenues. In some cases, such an impact may be material.

The operating revenues from the landing and facility fees of US Airways and Southwest Airlines are especially important to the Airport. For the fiscal year ended June 30, 2009, US Airways and Southwest Airlines represented approximately 48.8% and 28.7%, respectively, of the total enplaned passengers at Sky Harbor. No other airline represented over 7% of Sky Harbor's enplaned passengers. No assurance can be given that US Airways will continue its hubbing operations at Sky Harbor or that Southwest Airlines will continue to allocate a significant portion of its system capacity to Sky Harbor. In the event US Airways discontinues or reduces its hubbing operations at Sky Harbor or Southwest Airlines discontinues or reduces the current allocation of its system capacity, other carriers may not step in to maintain the current level of activity at Sky Harbor. It is reasonable to assume that any significant financial or operational difficulties incurred by US Airways or Southwest Airlines could have a material adverse effect on the Airport.

For additional information regarding airlines generally, including US Airways and Southwest Airlines, see "APPENDIX A — REPORT OF THE AIRPORT CONSULTANT."

Bankruptcy and Financial Considerations

Since September 11, 2001, substantially all domestic airlines were downgraded by the rating agencies, and a number of them have filed for bankruptcy, including, but not limited to, United, US Airways, Delta, Northwest, Frontier, Hawaiian, Mesa, Sun Country and Air Canada. By 2007, all major airlines that had filed for Chapter 11 of the U.S. Bankruptcy Code had emerged from bankruptcy. Certain other airlines including ATA, Aloha, Midway, Vanguard and Skybus have ceased operations. None of the airlines that ceased operations had significant enplanement levels at Sky Harbor. However, airline bankruptcies can result in reductions of service levels, even in cases where such airlines continue to operate in bankruptcy. Additional bankruptcies, liquidations or major restructurings of other airlines could occur. It is not possible to predict the impact on Sky Harbor of the potential of any future bankruptcies, liquidations or major restructurings of other airlines.

Further, the airline industry is in the process of fundamental changes and it is possible that one or more of the airlines serving Sky Harbor could consolidate. In 2009, Delta and Northwest merged under the Delta name and currently operate under a single FAA certificate. In 2010, Continental and United announced their plans to merge. Further, the president of US Airways stated in May 2010 that there is a high probability that the carrier will merge with a major airline at some point in the future. Depending upon which airlines serving Sky Harbor merge, if any, the result may be fewer flights or decreases in service levels, which decrease could be significant. Such decreases could result in reduced Net Airport Revenues, Designated Revenues and PFC Revenues and increased costs for the airlines serving Sky Harbor. It is not possible at this time to predict the effects on Sky Harbor of potential airline consolidations.

Letters of Authorization. To date, all airlines that have filed for bankruptcy protection have remitted all material payments due to the Airport for use of terminal facilities under their respective LOA. In the event a bankruptcy case is filed by an airline in the future, under current law the bankruptcy court could terminate the LOA at the expiration of its 30-day term. In such event, the City would be permitted to remove such airline from use and occupancy of the terminal and provide the premises to another airline. In such circumstances, while passenger demand may not be affected, revenue collections could be affected until other airlines absorb the unmet demand of the departing airline. However, the City cannot make any assurance regarding how a bankruptcy court will interpret the LOA.

Passenger Facility Charges. The PFC Laws provide that Passenger Facility Charges collected by the airlines constitute a trust fund held for the beneficial interest of the eligible agency (i.e., the Airport) imposing the Passenger Facility Charges, except for any handling fee or retention of interest collected on unremitted proceeds. In addition, federal regulations require airlines to account for Passenger Facility Charge collections separately and to disclose the existence and amount of funds regarded as trust funds for financial statements. Airlines are permitted to commingle Passenger Facility Charge collections with other revenues. Airlines that have filed for Chapter 7 or 11 bankruptcy protection, however, are required to segregate Passenger Facility Charge revenue in a separate account for the benefit of the applicable airport and cannot grant a third party any security or other interest in Passenger Facility Charge revenue. Passenger Facility Charges collected by those airlines are required by the bankruptcy court to be placed in accounts separate from other airline revenue accounts and paid to airports monthly in accordance with the Passenger Facility Charge regulations. However, the City cannot predict whether an airline that files for bankruptcy protection will properly account for the Passenger Facility Charges or whether the bankruptcy estate will have sufficient moneys to pay the Airport in full for the Passenger Facility Charges owed by such airline. The airlines are entitled to retain interest earned on Passenger Facility Charge collections until such Passenger Facility Charge collections are remitted.

Airline Agreements and Federal Regulation Regarding Rates and Charges

The current form of month-to-month LOA for the exclusive use of space at Sky Harbor gives the Airport great flexibility in adjusting to the varying demands of the airlines. It also means that the airlines can seek to increase or decrease their space on a monthly basis. The City cannot offer any assurance that airlines will be willing to maintain their use of Airport space on terms that are similar to their existing terms of use.

The FAA Authorization Act of 1994 establishes that airline rates and charges set by airports be "reasonable" and mandates an expedited administrative process by which the Secretary of Transportation (the *"Secretary"*) shall review rates and charges complaints that are not under an agreement with the carriers. An affected air carrier may file a written complaint requesting a determination of the Secretary as to reasonableness within 60 days after such carrier receives written notice of the establishment or increase of such fee. During the pendency of the review, the airlines must pay the disputed portion of the fee to the airport under protest, subject to refund to the extent such fees are found to be unreasonable by the Secretary. The airport must obtain a letter of credit, surety bond or other suitable credit facility equal to the amount in dispute unless the airport and the complaining carriers agree otherwise.

Recent Arizona Legislation

Senate Bill 1070, Arizona's new immigration legislation, was signed into law in April with a July 29, 2010 effective date. The law makes it a criminal misdemeanor for a foreign national to be in Arizona without carrying federally-required registration documentation. As of mid-June, the bill was the subject of legal challenges. The effect of this law, if any, on passenger traffic is currently unknown.

Competition, Travel Alternatives and Other Issues

Sky Harbor has no significant competition in the Phoenix-Mesa-Glendale Metropolitan Statistical Area. For a broader discussion of other airports in Arizona, including development of air service at Phoenix-Mesa Gateway Airport, see "APPENDIX A — REPORT OF THE AIRPORT CONSULTANT".

Teleconference, video-conference and web-based meetings continue to improve in quality and price and are often considered a satisfactory alternative to face-to-face business meetings. While the effects of these developments cannot be quantified, it is possible that business travel to and from Sky Harbor may be adversely affected as a result.

Considerations Regarding Taxable Improvement Bonds (Recovery Zone Economic Development Bonds)

The Corporation and the City currently intend to elect irrevocably to treat the Taxable Improvement Bonds as "Recovery Zone Economic Development Bonds" for the purposes of the Recovery Act and the Code. Subject to the Corporation's and the City's compliance with certain requirements of the Code, the Corporation and the City expect to receive 2010 RZEDB Subsidy Payments rebating a portion of the interest on the Taxable Improvement Bonds from the United States Treasury in an amount equal to forty-five percent of the interest payable on the Taxable Improvement Bonds. If the Corporation or the City do not meet the requirements of the Code, the Corporation or the City may not receive the 2010 RZEDB Subsidy Payments. Such cash subsidy does not constitute a full faith and credit guaranty of the United States but is required to be paid by the United States Treasury under the Code. If the 2010 RZEDB Subsidy Payments are reduced or eliminated as a result of a change in the Law, the Corporation and the City may elect to redeem the Taxable Improvement Bonds. See "THE 2010 JUNIOR BONDS - Redemption Provisions — Extraordinary Optional Redemption of the Taxable Improvement Bonds."

The Corporation and the City's receipt of the subsidy is subject to certain requirements including the filing of a form with the Internal Revenue Service prior to each Interest Payment Date. The subsidy payment is also subject to the condition that any 2010 RZEDB Subsidy Payment is required to be offset by the United States Treasury by any outstanding tax or other obligations due and payable to the federal government by the City or the Corporation. The Corporation and the City make no assurances regarding future legislative or policy changes or the netting of other tax liabilities against the subsidy by the United States Treasury which may affect the amount or receipt of the subsidy payment. No holder of a Taxable Improvement Bond will be entitled to a tax credit with respect to the Taxable Improvement Bonds. See "TAX MATTERS."

Cost of Capital Improvement Program

The Airport intends to carry out the Aviation CIP as outlined in "APPENDIX A — REPORT OF THE AIRPORT CONSULTANT." The ability of the Airport to complete the Aviation CIP may be adversely affected by various factors including: (1) incorrect assumptions made to complete the Aviation CIP, (2) design and engineering oversights, (3) changes to the scope of the projects, including changes to federal security regulations, (4) delays in contract awards, (5) material and/or labor shortages, (6) unforeseen site conditions, (7) adverse weather conditions and other force majuere events, (8) contractor defaults, (9) labor disputes, (10) unanticipated economic events such as inflation and (11) environmental issues. No assurance can be made that the projects will not exceed the currently budgeted amounts. Any schedule delays or cost increases could result in the need to issue additional indebtedness and may result in increased costs per enplaned passenger to the airlines, increased parking rates, or other rate increases.

Uncertainties of Projections, Forecasts and Assumptions

This Official Statement, and particularly the information contained under the caption "APPENDIX A — REPORT OF THE AIRPORT CONSULTANT," contain 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 and its appendices, the words "estimate," "budget," "forecast," "intend," "expect," "projected," and similar expressions identify forward looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward looking statements. Among many factors that may cause projected revenues and expenditures to be materially different from those anticipated include an inability to incur debt at assumed interest rates, construction delays, increases in construction costs, general economic downturns, factors affecting the airline industry in general or specific airlines, federal, state or local legislation and/or regulations, changes in the Airport's operational plans and procedures, and regulatory and other restrictions, including but not limited to those that may affect the ability to undertake, the timing or the costs of certain projects or operations. Any forecast is subject to such uncertainties. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

Report of the Airport Consultant

The Report included as Appendix A to this Official Statement contains certain assumptions and forecasts. The Report should be read in its entirety for a discussion of historical and forecast results of the Airport and the assumptions and rationale underlying the forecasts. As noted in the Report, any forecast is subject to uncertainties. There will usually be differences between actual and forecast results because not all events and circumstances occur as expected, and those differences may be material.

Accordingly, the projections contained in the Report or that may be contained in any future certificate of the City or a consultant are not necessarily indicative of future performance, and neither the Airport Consultant nor the City assumes any responsibility for the failure to meet such projections. In addition, certain assumptions with respect to future business and financing decisions of the Airport are subject to change. No representation is made or intended, nor should any representation be inferred, with respect to the likely existence of any particular future set of facts or circumstances, and prospective purchasers of the 2010 Junior Bonds are cautioned not to place undue reliance upon the Report or upon any projections or requirements for projections. If actual results are less favorable than the results projected or if the assumptions used in preparing such projections prove to be incorrect, the amount of Designated Revenues may be materially less than expected and consequently, the ability of the City to make timely payment of the principal of and interest on the 2010 Junior Bonds may be materially adversely affected.

Neither the City's independent auditors, nor any other independent accountants have compiled, examined or performed any procedures with respect to the Designated Revenues forecast, nor have they expressed any opinion or any form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the Designated Revenues forecast, nor have they expressed any opinion or any form of assurance on such information or its achievability.

Limitation of Remedies

The Airport Revenue Bond Ordinance, the City Purchase Agreement and the Indenture provide limited remedies for Owners if defaults occur relating to the 2010 Junior Bonds the most significant of which is specific performance. Such documents and agreements do not provide for acceleration prior to maturity. The availability of those remedies may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights generally; the application of equitable principles and the exercise of judicial discretion in appropriate cases; common law and statutes affecting the enforceability of contractual obligations generally; principles of public policy concerning, affecting or limiting the enforcement of rights or remedies against governmental entities such as the City. The City can not assure Owners that the remedies provided in the Airport Revenue Bond Ordinance, City Purchase Agreement and the Indenture will be available or effective to make Owners whole if a default occurs.

Future Legislation

The operation of the Airport and the ability of the City to generate Designated Revenues and PFC Revenues sufficient to pay the 2010 Junior Bonds may be adversely affected by future federal, state or local legislation that affects the Airport directly, or activities at the Airport. Federal legislation that could adversely affect the Designated Revenues and PFC Revenues includes, but is not limited to, legislation limiting the use of Airport properties, legislation imposing additional liabilities or restrictions on the operation of the Airport or the airlines and other persons using the Airport, changes in environmental laws, reductions in federal funding for the Airport, and elimination or reduction of the ability of the City to impose fees and charges for use of Airport products or services. In addition, the United States Congress could enact legislation making interest earned on the 2010 Junior Bonds includable in a bondholder's gross income for federal income tax purposes, and the Arizona Legislature could enact legislation subjecting interest on the Tax-Exempt Bonds to State personal income taxation.

With respect to an airline in bankruptcy proceedings in a foreign country, the City is unable to predict what types of orders and/or relief could be issued by foreign bankruptcy tribunals, or the extent to which any such orders would be enforceable in the United States.

AIRLINE INFORMATION

The major and national airlines serving Sky Harbor or their respective parent corporations are subject to the periodic reporting requirements of the Securities Exchange Act of 1934 and, in accordance therewith, file reports and other information with the Securities and Exchange Commission (the *"Commission"*). 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 with the Commission. Such reports and statements can be inspected and copied at the public reference facilities maintained by the Commission, which can be located by calling the Commission at 1-800-SEC-0330 or from the Commission's EDGAR database on the internet. In addition, each airline is required to file periodic reports of financial and operating statistics with the U.S. Department of Transportation. Such reports of financial operating statistics can be obtained from the Office of Airline Information, Bureau of Transportation Statistics, Department of Transportation, Room 4201, 400 7th Street, S.W., Washington D.C. 20590 and copies of such reports can be obtained at prescribed rates. The foreign airlines also provide certain information concerning their operations and financial affairs, which may be obtained from the respective airlines. None of the Corporation, the City or the Underwriters make any representation with respect to, and assume no responsibility for, the accuracy or completeness of, any information filed or provided by the airlines.

The City undertakes no responsibility for and makes no representation as to the accuracy or completeness of (i) any reports and statements filed with the SEC or U.S. Department of Transportation as described in this section or (ii) any material contained on the SEC's website as described in this section, including, but not limited to, updated information on the SEC website or links to other Internet sites accessed through the SEC's website. Any such information is not part of this Official Statement nor has such information been incorporated by reference herein, and such information should not be relied upon in deciding whether to invest in the 2010 Junior Bonds.

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 Airport from the Corporation pursuant to the City Purchase Agreement. Detailed information on the City and the Airport is set forth in Appendices A through G.

THE CORPORATION

The 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 improvements to the Airport described above. The Corporation is not financially liable for the payment of the principal of or interest on the 2010 Junior Bonds and the Owners will have no right to look to the Corporation for payment of the 2010 Junior Bonds except to the extent of the payments received from the City under the City Purchase Agreement.

LITIGATION

The City is 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 the City or seeks to restrain or enjoin the City from entering into the City Purchase Agreement, approving the issuance and delivery of the 2010 Junior Bonds or collecting and applying the Designated Revenues, PFC Revenues or 2010 RZEDB Subsidy Payments to the payment of the 2010 Junior Bonds or (ii) contested or questioned the validity of the 2010 Junior Bonds or the proceedings and authority under which the 2010 Junior 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 respective times of delivery of the 2010 Junior Bonds.

On January 13, 2006, the Federal Aviation Administration notified the City it "disposed of" property purchased with FAA funds for noise compatibility purposes when the City entered into certain commercial ground leases. The FAA claims that since the City purchased the property with noise compatibility grants, the FAA is entitled to its share of the lease proceeds. The City and the FAA have entered into negotiations regarding how to characterize these leases under Federal law. The City intends to pursue all avenues to establish that the City is not liable to reimburse the FAA. In the opinion of City Management, this claim will not have a materially adverse affect on the City's ability to pay principal of or interest on the Series 2010 Junior Bonds.

TAX MATTERS

Tax-Exempt Bonds-General. The Internal Revenue Code of 1986, as amended (the *"Code"*) includes requirements which the City must continue to meet with respect to the Tax-Exempt Bonds after the issuance thereof in order that interest on the Tax-Exempt Bonds not be included in gross income for federal income tax purposes. The City's failure to meet these requirements may cause interest on the Tax-Exempt Bonds to be included in gross income for federal income tax purposes retroactive to their date of issuance. The City and the Corporation have covenanted in the City Purchase Agreement to take the actions required by the Code in order to maintain the exclusion from federal gross income of interest on the Tax-Exempt Bonds.

In the opinion of Bond Counsel, rendered with respect to the Tax-Exempt Bonds on the date of issuance of the Tax-Exempt Bonds, assuming continuing compliance by the City with the tax covenants referred to above, under existing statutes, regulations, rulings and court decisions, interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes. Interest on the Tax-Exempt Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the

Tax-Exempt Bonds is taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax imposed on corporations. Bond Counsel is further of the opinion upon the date of issuance of the Tax-Exempt Bonds, assuming the interest thereon is so excludible from gross income for federal income tax purposes, that such interest is exempt from income taxation under the laws of the State of Arizona.

Except as described above, Bond Counsel will express no opinion regarding the federal income tax consequences resulting from the ownership of, receipt or accrual of interest on, or disposition of the Tax-Exempt Bonds. Prospective purchasers of the Tax-Exempt Bonds should be aware that the ownership of the Tax-Exempt Bonds may result in other collateral federal tax consequences, including (i) the denial of a deduction for interest on indebtedness incurred or continued to purchase or carry the Tax-Exempt Bonds or, in the case of a financial institution, that portion of an owner's interest expense allocable to interest on a Bond; (ii) the reduction of the loss reserve deduction for property and casualty insurance companies by fifteen percent (15%) of certain items, including the interest on the Tax-Exempt Bonds; (iii) the inclusion of interest on the Tax-Exempt Bonds in the earnings of certain foreign corporations doing business in the United States for purposes of the branch profits tax; (iv) the inclusion of interest on the Tax-Exempt Bonds in passive investment income subject to federal income taxation of certain Subchapter S corporations with Subchapter C earnings and profits at the close of the taxable year; and (v) the inclusion in gross income of interest of the Tax-Exempt Bonds in the determination of the taxability of certain Social Security and Railroad Retirement benefits to certain recipients of such benefits.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to Bond Counsel as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention, or to reflect any changes in law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of a particular result, and are not binding on the Internal Revenue Service or the courts; rather, such opinions represent Bond Counsel's professional judgment based on its review of existing law, and in reliance on the representations and covenants that it deems relevant to such opinion.

Tax-Exempt Bonds-Original Issue Discount. The initial offering price of certain of the Tax-Exempt Bonds (referred to in this section as the *"Discount Bonds"*), is less than the principal amount payable at maturity. Under the Code, the difference between the principal amount of the Discount Bonds and the initial offering price to the public, excluding bond houses and brokers, at which price a substantial amount of the Discount Bonds of the same maturity was sold, is original issue discount. Original issue discount represents interest which is excluded from gross income; however, such interest is taken into account for purposes of determining the alternative minimum tax imposed on corporations and may result in the collateral federal tax consequences described above under "Tax Exempt Bonds — General." Original issue discount will accrue actuarially over the term of a Discount Bond at a constant interest rate. A purchaser who acquires a Discount Bond in the initial offering at a price equal to the initial offering price thereof as set forth on the inside front cover page of this Official Statement will be treated as receiving an amount of interest excludable from gross income for federal income tax purposes equal to the original issue discount accruing during the period such purchaser holds such Discount Bond and will increase its adjusted basis in such Discount Bond by the amount of such accruing discount for purposes of determining a taxable gain or loss on the sale or other disposition of such Discount Bond. The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of the Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. Prospective purchasers of the Discount Bonds should consult their own tax advisors with respect to the precise determination for federal income tax purposes of interest accrued upon sale, redemption or other disposition of the Discount Bonds and with respect to the state and local tax consequences of owning and disposing of the Discount Bonds.

Tax-Exempt Bonds – Premium. The difference between the principal amount of certain of the Tax-Exempt Bonds (referred to in this section as the *"Premium Bonds"*), and the initial offering price to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of the Premium Bonds of the same maturity was sold constitutes to an initial purchaser amortizable bond premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actually on a constant interest rate basis over the term of each Premium Bond. For purposes of determining gain or loss on the sale or other disposition of a

Premium Bond, an initial purchaser who acquires such obligation in the initial offering to the public at the initial offering price is required to decrease such purchaser's adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Premium Bonds. Owners of the Premium Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning the Premium Bonds.

Taxable Improvement Bonds-Federal Income Taxes. Interest on the Taxable Improvement Bonds will not be excludible from gross income of the owners thereof for federal income tax purposes. Bond Counsel expresses no other opinion regarding the tax consequences of ownership of, or the receipt of interest payments on, the Taxable Improvement Bonds. Owners of the Taxable Bonds should consult their tax advisors with respect to any such consequences, including, without limitation, the treatment of interest in state and local taxing jurisdictions, the calculation and timing of inclusion of interest income, the tax consequences of dispositions of Taxable Improvement Bonds at a gain or a loss and the determination of the amount thereof, rules applicable if Taxable Improvement Bonds are acquired at a premium or discount from their face amount (including, without limitation, the possible treatment of accrued market discount as ordinary income, deferral of certain interest deductions attributable to indebtedness incurred or continued to purchase or hold Taxable Improvement Bonds, and the amortization of market premium).

Taxable Improvement Bonds-State Income Taxes. Arizona law does not provide an express statutory or constitutional exclusion of interest on the Taxable Improvement Bonds from gross income for Arizona income taxes. Accordingly, Bond Counsel expresses no opinion as to any such exclusion.

LEGAL MATTERS

Legal matters incident to the issuance of the 2010 Junior Bonds and with regard to the tax-exempt status of the interest on the Tax-Exempt Bonds (see "TAX MATTERS — Tax-Exempt Bonds — General") are subject to the legal opinion of Greenberg Traurig, LLP, Phoenix, Arizona, Bond Counsel, who has been retained by, and is acting 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 2010 Junior Bonds, will be delivered to the Underwriters. Certain legal matters will be passed upon for the Underwriters by Kutak Rock LLP, as Counsel to the Underwriters.

The text of the proposed legal opinion is set forth as Appendix I. 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

Moody's Investors Service ("Moody's") has assigned a rating of "A1" to the 2010 Junior Bonds. Standard & Poor's Ratings Group, a division of the McGraw-Hill Companies, Inc. ("S&P") has assigned a rating of "A+" to the 2010 Junior Bonds. No application has been made to any other rating service for the purpose of obtaining ratings on the 2010 Junior Bonds. The City furnished these rating agencies with certain information and materials with respect to the 2010 Junior Bonds. The ratings reflect only the views of the rating services. An explanation of the significance of the ratings may be obtained from S&P at 55 Water Street, New York, New York 10041 and from Moody's at 7 World Trade Center at 250 Greenwich Street, 23rd Floor, New York, New York 10007. 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 S&P or Moody's if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings by S&P or Moody's may have an adverse effect on the market price of the 2010 Junior Bonds.

UNDERWRITING

The 2010 Junior Bonds are being purchased for reoffering by Barclays Capital Inc. and the other underwriters shown on the cover (the *"Underwriters"*). The Underwriters have agreed to purchase the 2010 Junior Bonds, subject to certain conditions, at an aggregate purchase price of $721,770,544.81. If the 2010 Junior Bonds are sold to produce the yields shown on the inside front cover hereof, the Underwriters' compensation will be $3,571,441.59.

The Underwriters are committed to purchase all of the 2010 Junior Bonds if any are purchased. The 2010 Junior 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 2010 Junior Bonds may be sold to certain dealers (including underwriters and dealers depositing the 2010 Junior Bonds into investment trusts) at prices lower than the public offering price.

J.P.Morgan Securities Inc. (JPMSI), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a "*Dealer Agreement*") with each of UBS Financial Services Inc. (UBSFS) and Charles Schwab & Co., Inc. (CS&Co.) for the retail distribution of certain securities offerings, including the Bonds, at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS& Co. will purchase Bonds from JPMSI at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

CONTINUING DISCLOSURE

The City will enter into a Continuing Disclosure Undertaking (the *"Undertaking"*) with respect to the 2010 Junior Bonds for the benefit of the beneficial owners of such 2010 Junior Bonds to send certain information annually and to provide notice of certain events to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system pursuant to the requirements of Section (b)(5) of Rule 15c2-12 (the *"Rule"*) adopted by the 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 J — FORM OF CONTINUING DISCLOSURE UNDERTAKING."

The City has represented that it is in compliance with all undertakings that it has previously entered into 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 Indentures and beneficial owners of the 2010 Junior Bonds are limited to the remedies described in the Undertaking. See "APPENDIX J — 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 2010 Junior Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the 2010 Junior Bonds and their market price.

INDEPENDENT AUDITORS AND INCORPORATION BY REFERENCE OF CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT

The financial statements of the City as of June 30, 2009 for its fiscal year then ended have been audited by Clifton Gunderson LLP, independent auditors, as stated in their report. The financial statements and auditor's report are part of the City's comprehensive annual financial report (the *"CAFR"*), which may be obtained from EMMA, free of charge, at http://emma.msrb.org, or from the City, free of charge, at the following location: 251 West Washington Street, 9th Floor, Phoenix, Arizona 85003, Attention: Finance Department, Telephone: (602) 262-7166. The CAFR may also be downloaded from the City's website at www.phoenix.gov under City Government-Financial Information-Financial Reports-Comprehensive Annual Financial Report. The CAFR so filed with EMMA as part of the City's continuing disclosure undertakings pursuant to the Rule is hereby incorporated by reference.

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 2010 Junior 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 ESTFAN
President

CITY OF PHOENIX, ARIZONA

By /s/ JEFF DEWITT
Finance Director

Appendix A

REPORT OF THE AIRPORT CONSULTANT

on the proposed issuance of

CITY OF PHOENIX CIVIC IMPROVEMENT CORPORATION

JUNIOR LIEN AIRPORT REVENUE BONDS,

SERIES 2010A, SERIES 2010B, AND SERIES 2010C

Prepared for

City of Phoenix Aviation Department
Phoenix, Arizona

Prepared by
Jacobs Consultancy
San Francisco, California

July 22, 2010

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JACOBS
CONSULTANCY

555 Airport Boulevard, Suite 300
Burlingame, California 94010 U.S.A.
1.650.579.7722 Fax: 1.650.343.5220

July 22, 2010

Mr. Danny Murphy
Aviation Director
City of Phoenix
Aviation Department
Phoenix Sky Harbor International Airport
3400 Sky Harbor Boulevard
Phoenix, Arizona 85034

Re: Report of the Airport Consultant on behalf of the City of Phoenix, Arizona, concerning the issuance of Junior Lien Airport Revenue Bonds, Series 2010A, Series 2010B, and Series 2010C

Dear Mr. Murphy:

We are pleased to submit this Report of the Airport Consultant (Report) on certain aspects of the proposed issuance of Junior Lien Airport Revenue Bonds, Series 2010A (Series 2010A Junior Bonds), Series 2010B (Series 2010B Junior Bonds, and collectively with the Series 2010A Junior Bonds, the Improvement Bonds), and Series 2010C (the Series 2010C Junior Bonds, or Refunding Bonds, and collectively with the Improvement Bonds, the 2010 Junior Bonds) by the City of Phoenix Civic Improvement Corporation (CIC) of the City of Phoenix, Arizona (the City), for and on behalf of its Aviation Department (the Aviation Department).* This letter and the accompanying attachment and exhibits constitute our Report.

The purpose of the Report is to evaluate the ability of the City to satisfy the requirements of the Rate Covenant and the Junior Lien Rate Covenant during the forecast period taking into account the proposed 2010 Junior Bonds and outstanding Senior Lien Bonds. The forecast covers the fiscal year ending June 30, 2010 (FY 2010) through FY 2016, inclusive (the forecast period).

The City owns and, through the Aviation Department, operates Phoenix Sky Harbor International Airport (Sky Harbor), which is the primary air carrier airport serving the Phoenix region and the State of Arizona. The City also owns and operates Phoenix-Deer Valley and Phoenix-Goodyear general aviation airports (collectively with Sky Harbor,

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*Capitalized terms not otherwise defined in this Report have the meanings given in the Bond Ordinance, Senior Lien Obligation Documents, Junior Lien Obligation Documents, or Official Statement to which this Report is attached.

the Airport) and is a member of the Phoenix-Mesa Gateway Airport Authority which owns and operates Phoenix-Mesa Gateway Airport.

The City intends to issue the Improvement Bonds, in the par amount of $675,270,000.* Proceeds from the Improvement Bonds, with interest earnings during construction, are expected to be used for the following purposes:

- Pay the costs of Stage 1 of the PHX Sky Train and certain other planned capital improvement projects.
- Reimburse the commercial paper program.
- Fund a deposit to the 2010 Junior Lien Bond Reserve Fund allocable to the Improvement Bonds.
- Pay the costs of issuing the Improvement Bonds, including underwriters' discount and financing, legal, and other costs.

The City intends to issue the Refunding Bonds in the aggregate principal amount of $34,770,000* to refund the Senior Lien Airport Revenue Bonds, Series 1998A.

AVIATION CAPITAL IMPROVEMENT PROGRAM

The Aviation Department has developed an Aviation Capital Improvement Program (Aviation CIP) through FY 2016 with project costs totaling $1.3 billion. The largest single project in the Aviation CIP is Stage 1 of the PHX Sky Train, which is estimated to cost $644.3 million.

The PHX Sky Train is an automated people mover designed to carry over 35 million riders annually through seven stations along a guideway spanning approximately 5 miles. When the full PHX Sky Train is open in 2020, it will connect parking garages, passenger terminals, Valley Metro's light rail line and bus network, transportation centers near the east and west Sky Harbor access points for commercial and private vehicle passenger drop-off, and the rental car center. The PHX Sky Train will enhance Sky Harbor access and the regional surface transportation system by relieving severe roadway congestion on and around Sky Harbor and by serving as an inter-modal connector within Sky Harbor (virtually eliminating the Aviation Department's busing operations). The PHX Sky Train has been approved by the Federal Aviation Administration (FAA) for a $4.50 PFC collection rate, which required, in part, a finding by the FAA that the system makes a substantial contribution to reducing congestion.

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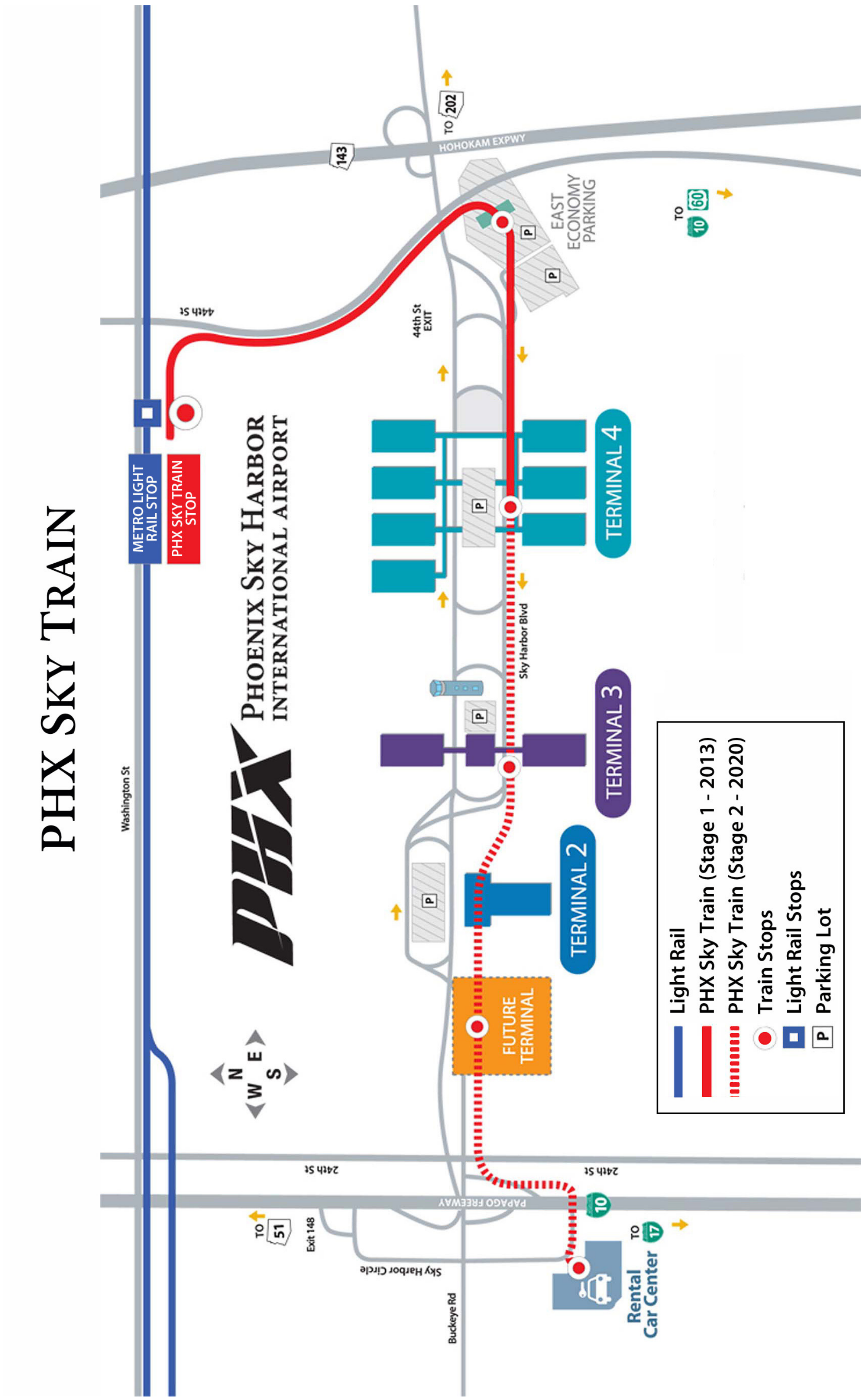
*Preliminary and subject to change.


PHX Sky Train
Metro Light Rail Stop
PHX Sky Train Stop
Phoenix Sky Harbor International Airport
Washington St
44th St
24th St
44th St Exit
Hohokam Expwy
Papago Freeway
Sky Harbor Blvd
Buckeye Rd
Sky Harbor Circle
Exit 148
East Economy Parking
Terminal 4
Terminal 3
Terminal 2
Future Terminal
Rental Car Center
Light Rail
PHX Sky Train (Stage 1 - 2013)
PHX Sky Train (Stage 2 - 2020)
Train Stops
Light Rail Stops
Parking Lot

PHX Sky Train will be completed in two stages. Stage 1, a fully operable system, will link the Valley Metro light rail station located on Washington Street at 44th Street with Terminal 4 via the East Economy Lot parking facilities. Stage 1 is scheduled to be fully operational in November 2012 with passenger service expected during the first quarter of 2013. Stage 2 will link the Terminal 4 Station completed in Stage 1 with Terminal 3 and the rental car center. Stage 2 is scheduled to be fully operational in 2020. As part of the Stage 2 construction, the airport intends to lay the initial groundwork for a station to the west of Terminal 3 that will link the PHX Sky Train with a future terminal, thereby allowing development of a future terminal without disruption to the ongoing operation of the PHX Sky Train. Development of a future terminal is not contemplated until after Stage 2 of the PHX Sky Train is complete, and development would be dependent on increased enplaned passenger traffic, available funding, and other considerations as may be applicable at that time.

The Aviation Department monitors demand forecasts and facility capacity frequently and periodically responds to unanticipated requirements for capital investments. For instance, one ongoing study is seeking to identify the most prudent investment plan to balance extending the life of the oldest terminal facility with reconfiguration or expansion of newer facilities. In this case, the Aviation CIP includes certain costs related to extending the life of the terminal facilities, but not for projects that might be identified through the study. Similarly, a portion of the PHX Sky Train Stage 2 may be accelerated into the period covered by the Aviation CIP. Aviation Department management is responsive to a rapidly changing aviation industry that is impacted by global, national, and local economies as well as other factors. Such factors may impact the traffic levels at Sky Harbor and thus could affect the demand and need for certain capital projects. Therefore, the Aviation CIP as presented in this Report may be modified in future years.

The Aviation Department plans to fund certain project costs of the Aviation CIP through Airport Improvement Program (AIP) grants administered by the FAA, contributions from the Transportation Security Administration (TSA), passenger facility charge (PFC) revenues, customer facility charge (CFC) revenues, internal funds, and the proceeds of borrowings, including certain bonds previously issued, a Commercial Paper (CP) program, and the Improvement Bonds. Based on information currently available, the City does not plan to issue additional Senior Lien Obligations or Junior Lien Obligations during the forecast period.

LEGAL FRAMEWORK

The 2010 Junior Bonds are being issued pursuant to the Bond Ordinance, the Senior Lien Obligation Documents, the Junior Lien Obligation Documents, and a Junior Lien City Purchase Agreement. The legal framework of the 2010 Junior Bonds is described below.

2010 Junior Bonds

The 2010 Junior Bonds are special revenue obligations of the CIC and are payable from payments to be made to the CIC by the City pursuant to the Junior Lien City Purchase Agreement to be dated August 1, 2010. As required in the Junior Lien City Purchase Agreement, the City will make payments to the CIC in an amount that is sufficient to pay principal and interest on the 2010 Junior Bonds. Payment on the 2010 Junior Bonds are made from (1) Designated Revenues, (2) PFC Revenues, and (3) 2010 Recovery Zone Economic Development Bonds (RZEDB) Payments.

Upon the issuance of the Improvement Bonds, annual PFC Revenues will be irrevocably committed in an amount equal to Improvement Bonds Debt Service to the extent received by the City in any Fiscal Year, beginning on the date of issuance and ending June 30, 2016, unless subsequently extended or reestablished by the City in its discretion (the Commitment Period), to pay debt service. The Improvement Bonds will be secured by Designated Revenues (Net Airport Revenues after making all payments required for the benefit of the Senior Lien Obligations), PFC Revenues, and 2010 RZEDB Subsidy Payments related to the Series 2010B Junior Bonds. The Series 2010C Junior Bonds are payable solely from Designated Revenues.

The City's obligations to make payments under the Junior Lien City Purchase Agreement are absolute and unconditional, but do not constitute a pledge of the full faith and credit or the ad valorem taxing power of the City. Except to the extent the City appropriates other lawfully available funds for such payments, the obligations are payable solely from payments required to be paid by the City of pursuant to the Junior Lien City Purchase Agreement and include Designated Revenues, PFC Revenues, and 2010 RZEDB Subsidy Payments.

The 2010 Junior Bonds are not Parity Bonds (i.e., Senior Lien Obligations) under the Bond Ordinance. Section 4.6(b) of the Junior Lien City Purchase Agreement (the Junior Lien Rate Covenant) requires that the rates, fees, and charges for the use of the Airport be (1) sufficient to produce Designated Revenues at least equal to 110% of the amount required to be paid into the Junior Lien Bond Fund from the Revenue Fund, net of Other Available Funds deposited in the Junior Lien Bond Fund in such Fiscal Year after subtracting any Junior Lien Passenger Facility Charge Credit applicable to such Fiscal

Year, and (2) sufficient to produce amounts required to be deposited in any separate bond reserve fund for Junior Lien Obligations, including the 2010 Junior Lien Bond Reserve Fund for such Fiscal Year.

Section 4.3 of the Junior Lien City Purchase Agreement reserves the City's right to issue additional Junior Lien Obligations if (1) Designated Revenues for the most recently completed Fiscal Year for which audited financial statements are available or the Designated Revenues for any 12 consecutive months out of the most recent 24 calendar months were sufficient to satisfy the rate covenant and would have been at least equal to 110% of the Maximum Annual Junior Lien Debt Service for all Junior Lien Obligations to be Outstanding including the Junior Lien Obligations proposed to be issued, or (2) Designated Revenues will be sufficient to satisfy the rate covenant (including any Junior Lien Obligations to be issued) in each Fiscal Year, after subtracting from the amount to be paid by any Junior Lien Passenger Facility Charge Credit, for the period of time beginning the first full Fiscal Year following the issuance of the Junior Lien Obligations through the later of three Fiscal Years following the expected date of completion of any construction projects to be financed at the Airport with the proceeds of the Junior Lien Obligations or five Fiscal Years following the issuance of the Junior Lien Obligations.

Senior Lien Obligations

The City is not issuing Senior Lien Obligations at this time. In Section 4.3 of the Bond Ordinance (and Section 4.6(a) of the Junior Lien City Purchase Agreement) (the Rate Covenant) the City covenants that "it will in each Fiscal Year establish, maintain and enforce schedules of rates, fees and charges for the use of the Airport (i) sufficient to produce Net Revenues at least equal to 125% of the amount required to be paid into the Bond Fund from the Revenue Fund, net of Other Available Funds deposited in the Bond Fund, in such Fiscal Year and after subtracting any Passenger Facility Charge Credit applicable to such Fiscal Year…and (ii) sufficient to produce amounts required to be deposited in the Bond Reserve Fund and any separate bond reserve fund for such Fiscal Year."

AIRLINE RATES AND CHARGES

The Phoenix City Code defines the terms and conditions by which airlines at Sky Harbor may use the airfield in common with other users and may occupy and use exclusive- and joint-use space in the terminal buildings. The City does not have long-term lease agreements with the airlines governing the use and occupancy of terminal space or the airfield at Sky Harbor. The terms are formalized in letters from the City authorizing month-to-month occupancy.

Additionally, Sky Harbor does not have a formal agreement with the airlines governing the rates and charges methodology for landing, terminal, and other fees. The Phoenix City Code provides that airline rents, fees, and charges be calculated pursuant to a compensatory rate-setting methodology. The City bears the risk of any shortfall in non-airline revenues and retains the benefit of any surplus in non-airline revenues for its own discretionary Airport-related use.

Airline Revenues consists of landing fees, terminal rentals, and other charges paid to the City by airlines for use and occupancy of the Airport. Aviation Department Management intends to adjust airline charges as necessary so as to increase Sky Harbor Airline Revenues 4.5% in FY 2011, and at an average annual rate of 5% thereafter unless costs allocated to the airline rate base cannot support such increases. For the purpose of the Report, it was assumed that the City would continue to use this method to adjust airline charges during the forecast period and that airlines at Sky Harbor would pay such charges.

COST PER ENPLANED PASSENGER (CPE)
City of Phoenix Aviation Department
Sky Harbor International Airport
(for the 12 months ending June 30; in millions except CPE)

		Forecast					
	2010	2011	2012	2013	2014	2015	2016
Total Airline Revenues	$ 94.5	$ 98.8	$ 103.7	$ 108.9	$ 114.4	$ 120.1	$ 126.1
Enplaned Passengers	18.9	19.1	19.4	19.8	20.2	20.6	21.0
CPE	$ 4.99	$ 5.18	$ 5.35	$ 5.51	$ 5.67	$ 5.84	$ 6.02

SCOPE OF REPORT

This Report was prepared to evaluate the ability of the City to satisfy the requirements of the Rate Covenant and the Junior Lien Rate Covenant during the forecast period. In preparing this Report, we analyzed:

- The status of the Aviation CIP.
- Future airline traffic demand at Sky Harbor, giving consideration to the demographic and economic characteristics of Sky Harbor's service region, historical trends in airline traffic, recent airline service developments and airfares, and other key factors that may affect future airline traffic.
- Estimated sources and uses of funds for the Aviation CIP and the estimated annual Debt Service Requirements for the proposed 2010 Junior Bonds, provided by the City's Financial Advisor, Frasca & Associates.

- Historical relationships among Airport Revenues, Cost of Maintenance and Operation (Expenses), airline traffic, and other factors that may affect future Airport Revenues and Expenses.

- Historical Expense trends using the City budgetary actual results from FY 2007-2009, the City's current FY 2010 estimates for budgetary actual results, and the City's preliminary budget of Expenses for FY 2011.

- Historical trends in Airport Revenues from FY 2007-2009 using the City's audited Comprehensive Annual Financial Report (CAFR), Exhibit E-4 and Exhibit E-5, as adjusted to comply with the Bond Ordinance.

- The City's policies and contractual agreements relating to use of the Airport; calculation and adjustment of airline rentals, fees, and charges; operation of public automobile parking and other concession and service privileges; and leasing of buildings and grounds.

- The historical and estimated future PFC Revenues and the City's intended use of PFC Revenues during the forecast period for funding portions of the Aviation CIP on a pay-as-you-go basis and as a source for repayment of the Improvement Bonds (the Junior Lien Passenger Facility Charge Credit).

We also identified key factors upon which the future financial results of the Airport may depend and formulated assumptions about those factors with the City. On the basis of those assumptions, we assembled the financial forecasts presented in the accompanying exhibits provided at the end of this Report and summarized in this letter.

FORECAST DEBT SERVICE COVERAGE

Exhibit H, Exhibit I-1, and the table on the following page summarize forecasts of Net Airport Revenues, Debt Service Requirements, and debt service coverage, taking into consideration debt service on outstanding Senior Lien Obligations and estimated debt service on the proposed 2010 Junior Bonds.

FORECAST DEBT SERVICE COVERAGE
City of Phoenix Aviation Department
(for the 12 months ending June 30; in thousands except coverage ratios)

	Forecast						
	2010	2011	2012	2013	2014	2015	2016
SENIOR LIEN OBLIGATIONS							
Net Revenues and Other Available Funds	$ 87,571	$ 98,499	$ 104,783	$ 101,811	$ 107,971	$ 112,514	$ 114,765
Senior Lien Debt Service Requirements							
Existing Senior Lien Debt Service	$ 54,588	$ 54,811	$ 59,533	$ 54,424	$ 55,109	$ 53,810	$ 53,856
Less: Passenger Facility Charge Credit	-	-	-	-	-	-	-
Subtotal Existing Senior Lien Debt Service	$ 54,588	$ 54,811	$ 59,533	$ 54,424	$ 55,109	$ 53,810	$ 53,856
Less: Series 1998A Bonds (to be refunded with Series 2010C Junior Bonds)	-	(1,712)	(1,715)	(1,714)	(1,713)	(1,712)	(1,717)
Existing and Proposed Senior Lien Debt Service	$ 54,588	$ 53,098	$ 57,819	$ 52,711	$ 53,396	$ 52,097	$ 52,140
Senior Lien Debt Service Coverage Ratios (on Net Revenues and Other Available Funds)							
Existing Coverage	1.60	1.80	1.76	1.87	1.96	2.09	2.13
Proposed Coverage after Series 1998A Bonds are refunded with Series 2010C Junior Bonds	1.60	1.86	1.81	1.93	2.02	2.16	2.20
JUNIOR LIEN OBLIGATIONS							
Designated Revenues	$ 32,983	$ 45,400	$ 46,964	$ 49,100	$ 54,575	$ 60,417	$ 62,625
Junior Lien Debt Service Requirements							
Existing Junior Lien Debt Service	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Proposed Junior Lien Debt Service							
Improvement Bonds							
Series 2010A Junior Bonds	$ -	$ 30,971	$ 35,621	$ 46,601	$ 46,597	$ 46,601	$ 46,597
Series 2010B Junior Bonds	-	1,283	1,476	1,476	1,476	1,476	1,476
Less: Junior Lien Passenger Facility Charge Credit	-	(31,677)	(36,433)	(47,413)	(47,409)	(47,413)	(47,408)
Less: 2010 RZEDB Subsidy Payment	-	(577)	(664)	(664)	(664)	(664)	(664)
Subtotal Net Improvement Bonds	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Refunding Bonds, Series 2010C Junior Bonds	-	1,712	1,715	1,714	1,713	1,712	1,717
Subtotal Proposed Net Junior Lien Debt Service	$ -	$ 1,712	$ 1,715	$ 1,714	$ 1,713	$ 1,712	$ 1,717
Existing and Proposed Net Junior Lien Debt Service	$ -	$ 1,712	$ 1,715	$ 1,714	$ 1,713	$ 1,712	$ 1,717
Junior Lien Debt Service Coverage Ratios (on Designated Revenues)							
Existing and Proposed Net Junior Lien Debt Service Coverage	n/a	26.51	27.39	28.65	31.86	35.28	36.48
AGGREGATE							
Net Revenues and Other Available Funds	$ 87,571	$ 98,499	$ 104,783	$ 101,811	$ 107,971	$ 112,514	$ 114,765
Existing and Proposed Aggregate Senior Lien and Junior Lien Net Debt Service	54,588	54,811	59,533	54,424	55,109	53,810	53,856
Aggregate Debt Service Coverage Ratios (on Net Revenues and Other Available Funds)							
Total Aggregate Net Debt Service Coverage	1.60	1.80	1.76	1.87	1.96	2.09	2.13

The calculation of debt service coverage through the forecast period indicates compliance with the Rate Covenant of the Bond Ordinance and the Junior Lien Rate Covenant in each year of the forecast period.

ASSUMPTIONS

The accompanying financial forecasts are based on information and assumptions that were either provided by, or reviewed with and agreed to by, the City and Aviation Department (Management). Accordingly, the forecasts reflect Management's expected course of action during the forecast period and, in Management's judgment, present fairly the expected financial results of the Airport.

The key factors and assumptions that are significant to the forecasts are set forth in the attachment, "Background, Assumptions, and Rationale for the Financial Forecasts." The attachment should be read in its entirety for an understanding of the forecasts and the underlying assumptions.

In our opinion, the assumptions underlying the financial forecasts provide a reasonable basis for the forecasts. However, any forecast is subject to uncertainties. Inevitably, some assumptions will not be realized, and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material. Neither Jacobs Consultancy nor any person acting on our behalf makes any warranty, expressed or implied, with respect to the information, assumptions, forecasts, opinions, or conclusions disclosed in this Report. We have no responsibility to update this Report for events and circumstances occurring after the date of the Report.

* * * * *

We appreciate the opportunity to serve as the Airport Consultant in connection with this proposed financing.

Respectfully submitted,

Jacobs Consultancy

JACOBS CONSULTANCY

Attachment

BACKGROUND, ASSUMPTIONS, AND RATIONALE FOR THE FINANCIAL FORECASTS

City of Phoenix, Arizona

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CONTENTS

CONTENTS *(continued)*

CONTENTS *(continued)*

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TABLES

TABLES *(continued)*

FIGURES

EXHIBITS

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AIRLINE TRAFFIC ANALYSIS

This section presents a review of (1) Phoenix Sky Harbor International Airport (Sky Harbor) facilities, (2) the Sky Harbor service region, (3) the demographic and economic profile of the region, including demographic trends, economic trends, tourism, attractions, and conventions, all of which contribute to air travel demand, (4) the economic outlook for the nation and the Metropolitan Statistical Area (MSA), (5) Sky Harbor rankings and roles, (6) historical passenger and airline activity at Sky Harbor, (7) air cargo trends at Sky Harbor, (8) key factors affecting the future of airline traffic at Sky Harbor, and (9) forecasts of airline traffic at Sky Harbor through FY 2016, including enplaned passengers and aircraft operations.

SKY HARBOR FACILITIES

The City of Phoenix (the City or Phoenix) owns and operates, through its Aviation Department, Sky Harbor and two general aviation airports, Phoenix-Deer Valley Airport and Phoenix-Goodyear Airport (collectively, with Sky Harbor, the Airport). Sky Harbor is the only Arizona airport designated as a large hub by the FAA and is the principal commercial service airport serving metropolitan Phoenix and surrounding areas. Sky Harbor occupies approximately 3,000 acres of land located entirely within the City and is accessible within minutes from the central business district.

Sky Harbor has three passenger terminal buildings, Terminals 2, 3, and 4.* The terminals are located on Sky Harbor Boulevard, which forms an east-west spine through the middle of Sky Harbor connecting with 24th Street and Interstate 10 (I-10) on the west and the Hohokam Expressway (SR 143) and the Red Mountain Freeway (SR 202) on the east. Sky Harbor provides approximately 25,000 public parking spaces in garages adjacent to or above the terminal buildings, in an economy lot west of the terminal buildings, and in economy lots and garages east of the terminal buildings. In 2006, the City completed construction of a consolidated rental car center west of Sky Harbor terminal buildings.

Collectively, Terminals 2, 3, and 4 provide a total of 102 passenger holdrooms and associated aircraft parking positions (collectively, gates). Terminal 2 contains approximately 330,000 square feet and 10 gates. Terminal 3 contains approximately 880,000 square feet and 16 gates. Terminal 4 contains approximately 2.3 million square feet and 76 gates. Southwest Airlines, US Airways, and all international airlines operate exclusively from Terminal 4. The consolidated rental car center is on

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*After the opening of Terminal 4 in November 1990, Terminal 1 was vacated and later razed.

a 141-acre site, with 5,651 ready/return garage spaces and an 113,000-square-foot customer service building.

Sky Harbor has three parallel air carrier runways (8/26 is 11,490 feet in length, 7L/25R is 10,300 feet in length, and 7R/25L is 7,800 feet in length) supported by a network of taxiways, aprons, and hold areas. Together with the terminals, Sky Harbor facilities are capable of accommodating the operations of all commercial jet aircraft currently in use.

SKY HARBOR SERVICE REGION

The primary region served by Sky Harbor is the Phoenix-Mesa-Glendale MSA, a large population center in south-central Arizona.* Arizona is located in the southwestern region of the continental United States, bordering Mexico. There are no other U.S. large-hub commercial service airports within a 5-hour driving distance from Phoenix, with the closest being Las Vegas' McCarran International Airport (290 miles to the northwest). (See Figure 1.)

The MSA comprises Maricopa and Pinal counties and contains Phoenix and the cities of Chandler, Glendale, Mesa, Paradise Valley, Scottsdale, and Tempe, among others. The MSA also includes Sun City, a major retirement community in unincorporated Maricopa County, as well as the Gila River and Salt River Pima-Maricopa Indian communities.

The MSA ranks as the 12th largest in the United States, with an estimated 2008 population of 4,282,000, accounting for nearly two-thirds of Arizona's population. The Bureau of the Census reports an estimated 2008 Phoenix population of 1,568,000, making it the fifth largest city in the United States, as well as the largest U.S. state capital in terms of population. Despite Arizona's reputation as a retirement destination, Bureau of the Census statistics indicate that the MSA has no higher concentration of individuals aged 65 and older than the nation overall.

Historically, growth in air travel demand to and from the MSA has been fostered by strong population growth, the economic health and expansion of the MSA, and the attractiveness of the MSA as a business and leisure destination.

The narrative that follows discusses the economic base for passenger traffic at Sky Harbor in terms of historical MSA socioeconomic data, an economic profile of the MSA by industry sector, and the outlook for the United States economy as well as the Arizona and MSA economies.

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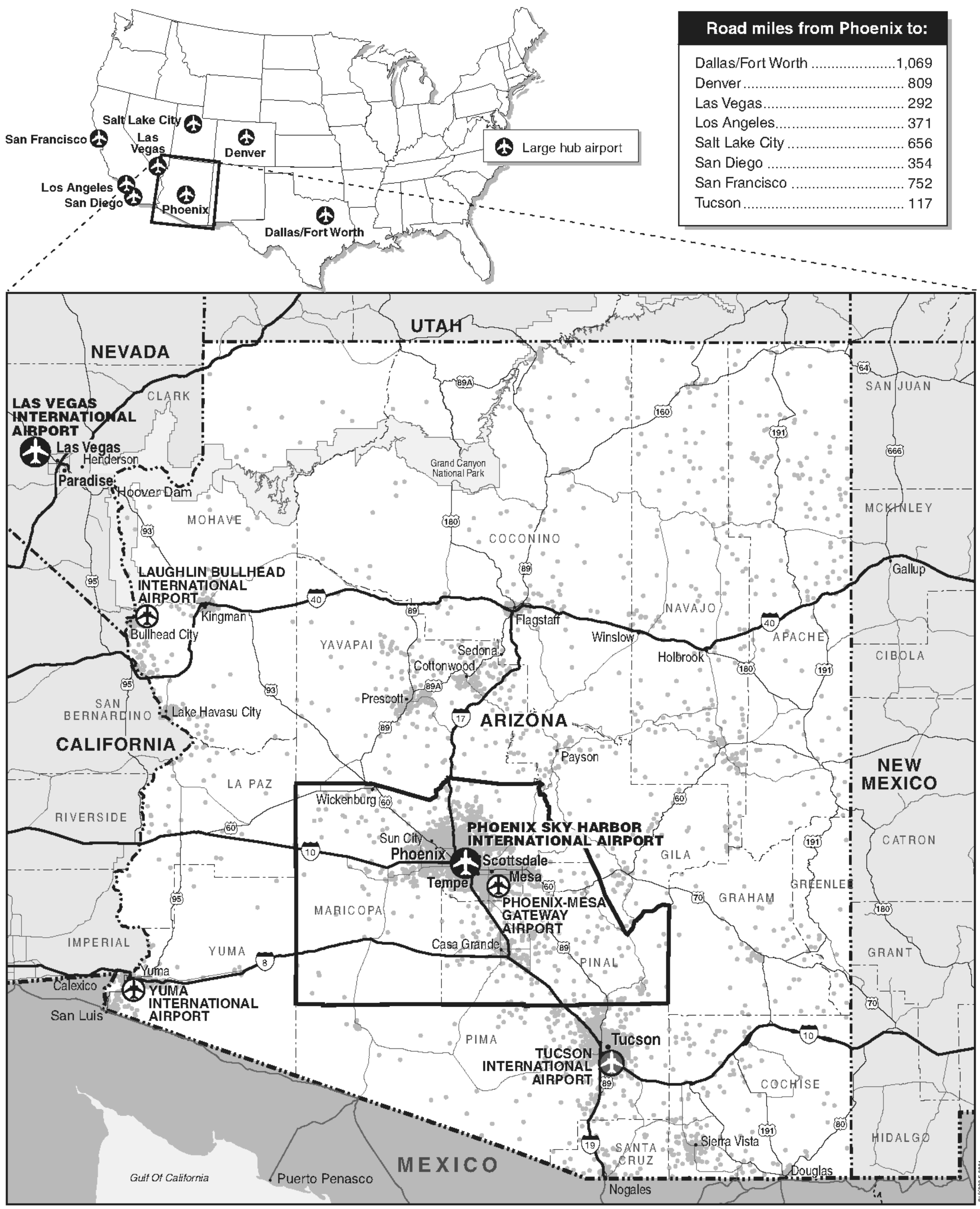
*In December 2009, the U.S. Office of Management and Budget (OMB) renamed the former Phoenix-Mesa-Scottsdale Metropolitan Statistical Area as the Phoenix-Mesa-Glendale Metropolitan Statistical Area.

Figure 1
AIRPORT SERVICE REGION
Phoenix Sky Harbor International Airport



Road miles from Phoenix to:	
Dallas/Fort Worth	1,069
Denver	809
Las Vegas	292
Los Angeles	371
Salt Lake City	656
San Diego	354
San Francisco	752
Tucson	117

LEGEND

- Airport service region
- Population density: 1 dot equals 500 people
- Large hub airport
- Medium hub airport
- Other airports with jet service
- International boundary
- State boundary
- County boundary

Source: 2000 U.S. Census data.

DEMOGRAPHIC AND ECONOMIC PROFILE

The level of air travel demand is highly correlated with the economic base of an airport's service region, particularly with socioeconomic trends and tourism appeal. The demographic variables with the strongest influence on airline travel demand are the MSA population, employment, and per capita income. In addition to these factors, tourism can also have a significant role in generating visitor airline travel demand to the MSA.

Growth in employment and income, along with an expanding population base, generate demand for domestic and international airline travel to and from the MSA. Similarly, unique natural resources and cultural attractions make the MSA and the rest of Arizona popular travel destinations.

Demographic Trends

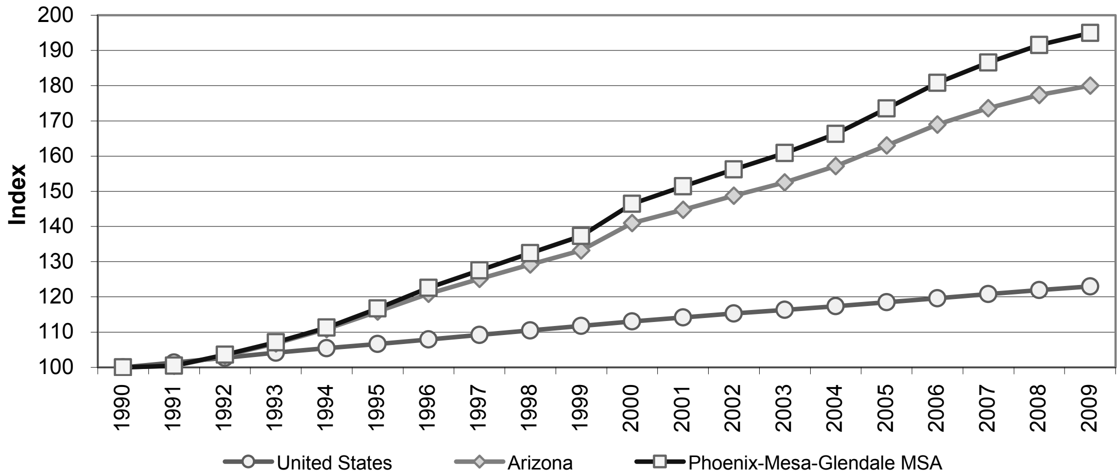
Trends in population and income are discussed below.

Population

Population growth is a key factor influencing the demand for airline travel. Arizona ranked second in the nation in terms of its rate of population growth between 2000 and 2009, based on estimates by the U.S. Bureau of the Census. In 2009, the MSA had a population of nearly 4.4 million and accounted for nearly two-thirds of the state's population.

Between 1990 and 2009, the MSA population increased at a rate more than triple that of the nation. (See Figure 2.)

Figure 2
COMPARATIVE INDEX OF POPULATION TRENDS
(1990 = 100)



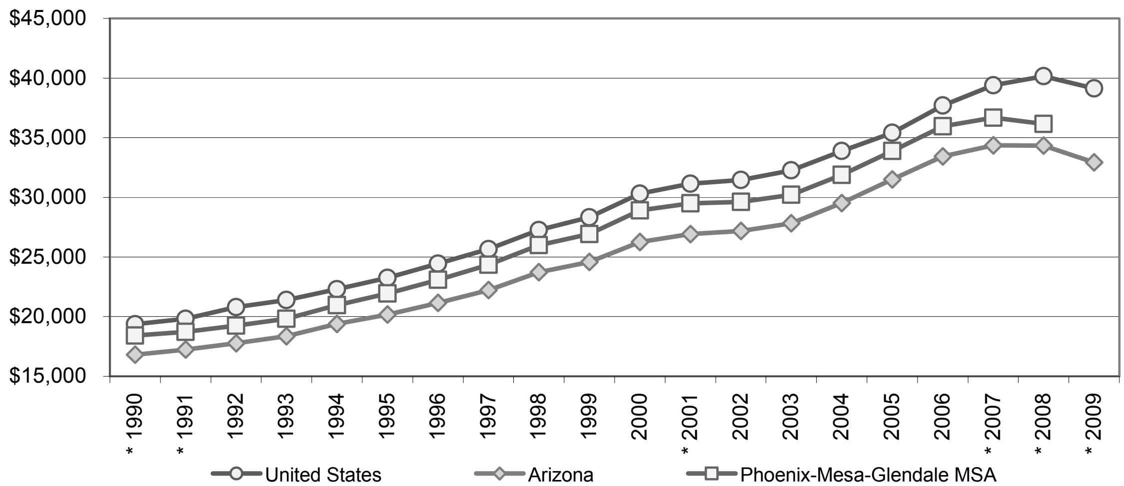
Population	1990	2000	2009
United States	249,622,814	282,171,957	307,006,550
Arizona	3,665,339	5,166,697	6,595,778
Phoenix-Mesa-Glendale MSA	2,238,498	3,278,661	4,364,094
Compound annual growth rate		**1990-2000**	**2000-2009**
United States		1.2%	0.9%
Arizona		3.5	2.8
Phoenix-Mesa-Glendale MSA		3.9	3.2

Source: U.S. Department of Commerce, Bureau of the Census website.

Income

Per capita income growth in the MSA has generally mirrored nationwide growth, albeit at a somewhat lower level, over the past two decades. (See Figure 3.) Since 2006, however, per capita income growth in the MSA has lagged nationwide growth. The MSA's per capita personal income in 2008 ($36,200) was 90% of the national average ($40,200) and slightly higher than the state average ($34,300).

Figure 3
PER CAPITA PERSONAL INCOME



Per Capita Personal Income	**1990**	**2000**	**2009** *(a)*
United States	19,354	30,318	39,138
Arizona	16,806	26,262	32,935
Phoenix-Mesa-Glendale MSA	18,408	28,909	36,156
Compound annual growth rate		**1990-2000**	**2000-2009** *(b)*
United States		4.6%	2.9%
Arizona		4.6	2.5
Phoenix-Mesa-Glendale MSA		4.6	2.8

Note: *Indicates national recession during all or part of year, according to the National Bureau of Economic Research.

(a) Per capita personal income for the MSA is for 2008, the most recent data available.
(b) The percentage shown for the MSA is for 2000-2008.

Source: U.S. Department of Commerce, Bureau of Economic Analysis website.

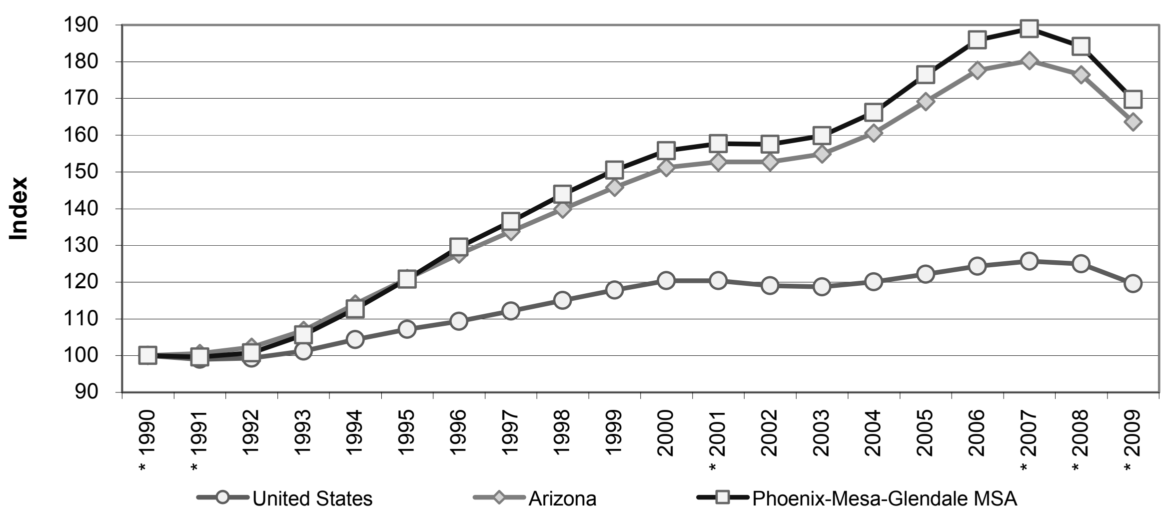
Economic Trends

Historical trends in employment are described below, followed by discussions of employment by sector, major Arizona employers, and unemployment rates.

Employment

Between 1990 and 2009, employment in the MSA increased at a rate triple that of the nation—similar to population growth patterns. (See Figure 4.) Following the 2001 recession, employment levels rebounded more quickly in the MSA than in the nation. In 2008 and 2009, however, employment in the MSA declined to a much greater extent than the nation as a whole, reflecting a more substantial impact from the housing and real estate decline and related construction slowdown. Between 2007 and 2009, the MSA lost 10% of its jobs, twice the national decline.

Figure 4
COMPARATIVE INDEX OF TOTAL NON-AGRICULTURAL EMPLOYMENT
(1990 = 100)



Non-Agricultural Employment	1990	2000	2009
United States	109,487,000	131,785,000	130,920,000
Arizona	1,483,100	2,242,700	2,426,400
Phoenix-Mesa-Glendale MSA	1,013,300	1,578,400	1,719,600
Compound annual growth rate		**1990-2000**	**2000-2009**
United States		1.9%	(0.1%)
Arizona		4.2	0.9
Phoenix-Mesa-Glendale MSA		4.5	1.0

Note: *Indicates national recession during all or part of year, according to the National Bureau of Economic Research.

Source: U.S. Department of Labor, Bureau of Labor Statistics website.

Employment by Sector

The major nonagricultural employment sectors are shown in Table 1. Employment growth in every sector of the MSA, with the exception of natural resources and mining, significantly outpaced U.S. employment from 1990 through 2009. The MSA has a higher percentage of jobs in professional and business services, financial activities, and construction than the United States overall, and a lower percentage in government, manufacturing, education, and health services.

Table 1
AVERAGE ANNUAL NONAGRICULTURAL EMPLOYMENT GROWTH, 1990-2009, AND EMPLOYMENT SHARE BY INDUSTRY, 2009

	CAGR 1990-2009			2009 percent of total *(a)*		
Industry	MSA	Arizona	United States	MSA	Arizona	United States
Trade, Transportation, Utilities	2.5%	2.3%	0.5%	20.7%	19.9%	19.2%
Professional/ Business Services	4.9	4.8	2.3	16.1	14.3	12.7
Government	2.6	2.3	1.1	13.9	17.5	17.3
Education & Health Services	4.9	4.8	3.0	13.1	13.6	14.7
Leisure & Hospitality	2.8	2.5	1.8	10.2	10.6	10.1
Financial Activities	3.0	2.8	0.8	8.1	6.9	6.0
Manufacturing	-0.9	-0.7	-2.1	6.6	6.3	9.1
Construction	2.8	2.3	0.7	5.6	5.3	4.6
Other Services	3.1	2.6	1.2	4.0	3.9	4.1
Information	1.1	1.0	0.2	1.7	1.6	2.2
Natural Resources & Mining	-2.1	-0.6	-0.5	0.2	0.5	0.5
TOTAL	2.8%	2.6%	1.0%	100.0%	100.0%	100.0%

Notes: CAGR=Compound annual growth rate.
MSA=Phoenix-Mesa-Glendale Metropolitan Statistical Area.

(a) Columns may not add to totals shown because of rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics website.

In the first quarter of 2010, the MSA continued to lose jobs (down 4.2%, year-over-year), although this decline was the smallest since the third quarter of 2008. While sizeable losses in construction employment continued (the MSA lost 52% of its construction employment between the first quarter of 2006 and the first quarter of 2010), other sectors of the MSA economy showed improvement:

- Preliminary April 2010 employment statistics for the trade, transportation, and utilities sector—the MSA's largest—showed the first year-over-year increase since March 2008.

- Employment growth in the MSA's education and health services sector has continued unabated throughout the recent recession. Since December 2007, when the recession began, employment in this sector of the MSA's economy has experienced year-over-year monthly employment *increases* averaging greater than 4%.

Major Employers

The 25 largest private employers in Arizona (based on the number of employees) are listed in Table 2. Seventeen of the 25 companies listed are ranked in the Fortune 500 list of largest U.S. companies, based upon revenues, including US Airways and Southwest Airlines—the two dominant providers of passenger air service at Sky Harbor.

Table 2
MAJOR PRIVATE-SECTOR EMPLOYERS IN ARIZONA
(ranked by number of employees)

Company	Employment	Type of business
Wal-Mart Stores Inc.	31,280	Retail trade
Banner Health Arizona	27,431	Health services
Wells Fargo & Company	14,000	Services
Apollo Group Inc.	**12,299**	**Services**
Raytheon Company	11,500	Manufacturing
Honeywell	10,145	Manufacturing
Bank of America	10,000	Services
Intel Corporation	10,000	Manufacturing
JPMorgan Chase & Co.	9,300	Services
US Airways	**8,646**	**Services**
Catholic Healthcare West	7,771	Health services
American Express	7,324	Services
Scottsdale Health Care	6,500	Health services
Freeport McMoRan Copper & Gold, Inc.	**6,100**	**Mining**
Avnet, Inc.	**5,300**	**Services**
Safeway, Inc.	5,249	Retail trade
Mayo Clinic Hospital	5,059	Health services
Fry's Food & Drug Stores	4,745	Retail trade
The Boeing Company	4,700	Manufacturing
Salt River Project	4,461	Services
Southwest Airlines	3,851	Services
Abrazo Health Care - Vanguard Health Systems	3,842	Health services
PetSmart, Inc.	**3,392**	**Retail trade**
Qwest Communications	3,390	Services
General Dynamics C4 Systems	3,200	Manufacturing

Note: Bolded rows represent Fortune 1000 companies headquartered in the MSA.

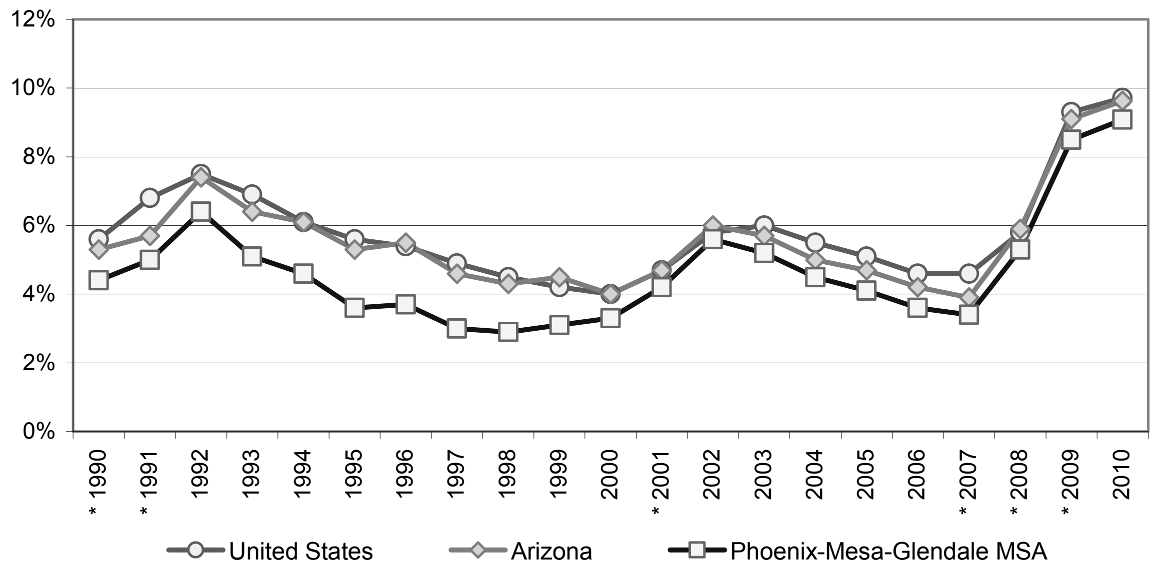
Source: Phoenix Business Journal, *2010 Book of Lists*.

Corporate headquarters are important generators of airline travel demand due to trips to and from field offices and customer locations, as well as visits from vendors and suppliers. The MSA is the headquarters location for five Fortune 500 companies (Avnet, Freeport-McMoRan Copper & Gold, US Airways, PetSmart, and Insight Enterprises) and six additional Fortune 1000 companies (Republic Services, Pinnacle West Capital, Apollo Group, Amkor Technology, ON Semiconductor, and RSC Holdings). In addition, Mesa Airlines is also headquartered in the MSA.

Unemployment Rate

Unemployment rates serve as an indicator of an area's economic health. Unemployment in the MSA has been lower than in the United States in every year since 1990, as shown on Figure 5. Since the 2000 to 2002 period, when the unemployment rate in the MSA converged with that of the United States, the unemployment rate in the MSA has remained lower than the national rate by approximately 1.0 percentage point.

Figure 5
CIVILIAN UNEMPLOYMENT RATE
(1990-2010)



Civilian Unemployment Rate	1990	2000	2009	2010
United States	5.6%	4.0%	9.3%	9.7%
Arizona	5.3	4.0	9.1	9.6
Phoenix-Mesa-Glendale MSA	4.4	3.3	8.5	9.1

Notes: *Indicates national recession during all or part of year, according to the National Bureau of Economic Research.
2010 data represents the average for January-March 2010.

Source: U.S. Department of Labor, Bureau of Labor Statistics website.

Tourism, Attractions, and Conventions

Demand for air service at Sky Harbor is driven not only by the demographic and economic characteristics of the local population, but also by the appeal of the MSA and the rest of Arizona as a tourism destination. Arizona's popularity among tourists is exemplified by its selection as the "Best Domestic Tourism Destination" by the readers of *Global Traveler* magazine in 2009.

Phoenix and the surrounding cities of Chandler, Glendale, Mesa, Paradise Valley, Scottsdale, and Tempe are within the so-called Valley of the Sun, an area with attractions including resorts, spas, professional sports, shopping, golf, restaurants, and nightlife, set amidst the Sonoran Desert. The MSA also offers museums and galleries, a variety of sporting events, Old West and Native American history, and outdoor recreation facilitated by more than 300 days of sunshine each year.

In addition to the attractions within the MSA, the northern part of Arizona is home to Grand Canyon National Park, Red Rock Country of Sedona, the Painted Desert, the Petrified Forest, Meteor Crater, ancient Native American ruins, and the Navajo and Hopi reservations.

According to the most recent passenger survey conducted at Sky Harbor by O'Neil Associates, the majority of passengers traveled through Sky Harbor for leisure rather than business purposes. Roughly two-thirds of domestic passengers and three-quarters of international passengers identified themselves as leisure travelers.

Total direct travel spending in Arizona was approximately $18.5 billion in 2008, down 3% from a peak of $19.1 billion in 2007, but up 57% from $11.8 billion in 1998, according to the Arizona Office of Tourism. The Arizona Office of Tourism estimates that the State hosted 37.4 million visitors in 2008 (32.4 million domestic and 5.0 million international), down from 38.6 million in 2007. Approximately two-thirds of all travel spending in Arizona occurs in the MSA.

Major sporting events also draw tourists to the MSA. For example, in 2008, the MSA hosted Super Bowl XLII, the National Football League's championship game. The MSA is also the location of the annual Fiesta Bowl and Insight Bowl college football bowl games and the annual Waste Management Phoenix Open PGA golf tournament.

The MSA is home to four major league professional sports teams: (1) Arizona Diamondbacks Major League Baseball team, (2) Arizona Cardinals National Football League team, (3) Phoenix Suns National Basketball Association team, and (4) Phoenix Coyotes National Hockey League team. At the college level, the Arizona State Sun Devils compete within the Pacific-10 Conference in a number of sports, including baseball, basketball, and football.

The favorable Arizona climate brings 15 Major League Baseball teams, known as the Cactus League, to the MSA each February and March for spring training and preseason play. The teams include the Arizona Diamondbacks, Chicago Cubs, Chicago White Sox, Cincinnati Reds, Cleveland Indians, Colorado Rockies, Kansas City Royals, Los Angeles Angels of Anaheim, Los Angeles Dodgers, Milwaukee Brewers, Oakland Athletics, San Diego Padres, San Francisco Giants, Seattle Mariners, and Texas Rangers.

The Phoenix International Raceway is a major venue for NASCAR auto racing events. The Raceway hosts five NASCAR events annually, two of which involve distances of 500 kilometers or more: the Subway Fresh Fit 600, held in April, and the Checker O'Reilly Auto Parts 500 presented by Pennzoil, held in November.

Convention visitors are another important component of tourism in the MSA. The Phoenix Convention Center was expanded in 2008 to offer 900,000 square feet of meeting and event space. The Phoenix Convention Center calendar for 2010 lists approximately 200 events.

ECONOMIC OUTLOOK

Economic activity in the MSA is also linked to the production of goods and services in the rest of the United States. Airline travel and the movement of cargo through the MSA depend on the economic linkages between the MSA, Arizona, and national economies.

U.S. Economy

The U.S. economy, after expanding from November 2001 to December 2007, entered into a recession, which was triggered by a contraction in the real estate markets combined with a surge in energy and other commodity prices in 2006. As the economy weakened, a number of factors contributed to the intensity and duration of the recession, including:

- A financial system crisis in the United States triggered by a decrease in real estate prices and the value of real estate backed investment securities and other financial assets during the summer of 2007. This was followed by sub-prime mortgage-related problems with some large investment and commercial banks during the first half of 2008 and the collapse of Lehman Brothers and the near collapse of AIG in the second half of 2008.

- National unemployment rates (seasonally adjusted) increased from 5.8% in July 2008 to 10.0% in December 2009, reflecting the loss of 7 million jobs during this period.

- Consumer spending, which historically accounts for about 70% of U.S. Gross Domestic Product (GDP), became constrained by the loss of home equity, tight credit, modest income growth, and high unemployment in a weak labor market. Consumer borrowing began declining in the fourth quarter of 2008 and accelerated to an 8.5% annual rate of decline by November 2009.

- A significant decline in U.S. economic performance, measured by decreases in U.S. GDP during four consecutive quarters beginning with the third quarter of 2008 through the second quarter of 2009.

- A global economic recession, the fourth since World War II, declared by the International Monetary Fund (IMF) in April 2009, related to the spillover effects from the U.S. recession and financial crisis.

During the fourth quarter of 2008, Congress passed the Emergency Economic Stabilization Act of 2008, which provided for a government bailout of troubled banks and approved loan guarantees for the U.S. auto industry.

Although the National Bureau of Economic Research* has not officially announced the end of the current recession, there is general agreement among economists that the recession ended in the second quarter of 2009. Recent trends in U.S. GDP suggest that economic growth is strengthening, with increases of 2.2% in the third quarter of 2009, 5.6% in the fourth quarter of 2009, and 3.2% in the first quarter of 2010. Unemployment rates, however, remain at high levels (9.9% in April 2010) and continue to dampen the prospects for an economic recovery.

At its April 2010 meeting, the Federal Open Market Committee (FOMC) expected the economic recovery to continue but at a slower rate of growth in output and employment than past recoveries from deep recessions. The FOMC's April 2010 outlook included the following observations:

- Consumer spending and business outlays for equipment and software were seen as broadly consistent with a moderate pace of economic recovery;

- The labor market appeared to be starting to improve, but job growth was expected to be modest;

- The continued expansion of economic activity would be supported by a number of factors, including accommodative monetary policy and the improved condition of financial markets and institutions.

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*The National Bureau of Economic Research is a nonprofit economic research organization which determines the start and end dates of U.S. economic cycles.

Table 3 presents a comparison of U.S. economic projections prepared by the Congressional Budget Office (CBO), the *Blue Chip* Consensus, and the FOMC. Consistent with the CBO projections, both the *Blue Chip* Consensus and the FOMC projections reflect the effects of fiscal stimulus and Federal Reserve measures to provide support to credit markets. The long-term growth rates for each of three projections (through 2020) do not include assumptions regarding further economic and other shocks, and all three projections show GDP growth ranging from 2.0% to 3.0%. This rate of growth is significantly less than world-wide growth projections, especially in emerging economies like India and China.

Table 3
U.S. ECONOMIC PROJECTIONS
2009-2020

	Compound annual growth rate *(a)*			
	Historical	Projected		
	1980-2009	2009-2010	2010-2011	2009-2020
Real GDP				
CBO	2.8%	2.1%	2.4%	2.9%
Blue Chip Consensus		2.9	3.1	*(b)*
FOMC		2.7 – 4.0	3.0 – 4.6	2.4 – 3.0
CPI-U				
CBO	3.4%	1.6%	1.1%	1.7%
Blue Chip Consensus		1.7	2.0	*(b)*
	Calendar year average rates			
Unemployment rate (percent)				
CBO	6.2% *(c)*	10.1%	9.5%	5.0% *(d)*
Blue Chip Consensus		10.0	9.3	*(b)*
FOMC		8.6 – 9.7	7.2 – 8.7	5.0 – 6.3
3-Month Treasury Bill rate				
CBO	5.5% *(c)*	0.2%	0.7%	4.8% *(d)*
Blue Chip Consensus		0.5	1.8	*(b)*
10-Year Treasury Note rate				
CBO	7.2% *(c)*	3.6%	3.9%	5.6% *(d)*
Blue Chip Consensus		4.0	4.6	*(b)*

Legend: CBO=Congressional Budget Office, CPI-U=Consumer price index for all urban consumers, FOMC=Federal Reserve Board, Federal Open Market Committee, GDP=Gross Domestic Product.

Note: The *Blue Chip* Consensus is the average of about 50 forecasts by private-sector economists.

(a) Represents the percent change between the fourth quarters of the years indicated, except for 1980 through 2009.

(b) The January 2010 *Blue Chip* Consensus extends only through 2011.

(c) Represents the average from 1980 through 2009 (estimated).

(d) Level in 2020.

Sources: Congressional Budget Office, *The Budget and Economic Outlook, Fiscal Years 2010 to 2020*, January 2010 (including data for the Blue Chip Consensus). Federal Reserve Board, Federal Open Market Committee, *Summary of Economic Projections*, April 27-28, 2010, published May 19, 2010.

Arizona and MSA Economies

The economy of the MSA was affected by the recent recession to a greater extent than the nation overall. Weakening inflows of population resulted in an oversupply of residential and commercial property. The subprime mortgage crisis and collapse of the housing market adversely affected the MSA economy as well. The number of properties in foreclosure in Maricopa County increased from 5,000 in late 2006 to 50,000 in late 2009, while median home prices fell by half over the same period.*

Despite these recent challenges, the Arizona and MSA economies appear poised for a resumption of growth. The University of Arizona, in its April 2010 publication, *Arizona's Economy,* stated that the recent economic recession came to an end in Arizona in early 2010, trailing the nation's emergence from the recession by about 3 months. The number of nonfarm jobs in Arizona stopped falling on a month-over-month basis in December 2009. Personal income stabilized in mid-2009, following material declines. Residential building permits and housing prices bottomed in March 2009 and May 2009, respectively.

Over the longer term, projections of population and employment for both Arizona and the MSA continue to exceed national projections. Recent socioeconomic projections for Arizona and the MSA prepared by the University of Arizona's Eller College of Management are shown in Table 4. Projections of the same variables for the United States are presented for comparative purposes. In terms of population growth, the MSA and the state are both expected to grow at lower-than-historical rates. Non-farm employment is projected to decline for Arizona and the MSA in 2010 before resuming slow growth in 2011 and faster growth in 2012 and 2013. Per capita personal income is projected to show no net growth in 2010, before increasing modestly in 2011 and more strongly in 2012 and 2013.

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*Elliott D. Pollack & Company, "What's Next?" Presentation to Arizona Association of County Treasurers, April 22, 2010.

Table 4
SOCIOECONOMIC PROJECTIONS
(Phoenix-Mesa-Glendale MSA, Arizona, and the United States)

	Compound annual growth rate			
	Historical	Projected		
	1990-2009	2009-2010	2010-2011	2011-2013
Population				
Phoenix-Mesa-Glendale MSA	3.6%	1.6%	2.3%	2.9% *(a)*
Arizona	3.1	1.3	2.0	2.4
United States	1.1	1.1	1.0	1.0
Non-agricultural employment				
Phoenix-Mesa-Glendale MSA	2.8%	(3.0%)	1.4%	5.0% *(a)*
Arizona	2.6	(1.7)	1.4	4.6
United States	0.9	n.a.	n.a.	1.0 *(b)*
Per capita personal income				
Phoenix-Mesa-Glendale MSA	3.8%*(c)*	(1.1%)	1.1%	4.3% *(a)*
Arizona	3.6	0.6	2.2	4.4
United States	3.8	n.a.	n.a.	4.7 *(b)*

(a) The percentage shown is for 2011-2012.
(b) The percentage shown is for 2008-2018.
(c) The percentage shown is for 1990-2008, the most recent data available.

Sources: Historical—U.S. Department of Commerce, Bureau of the Census website; U.S. Department of Labor, Bureau of Labor Statistics website; U.S. Department of Commerce Bureau of Economic Analysis website.

Projections—MSA, Arizona: University of Arizona, Eller College of Management, Economic & Business Research Center, April 2010 (Arizona) and January 2010 (MSA). United States: U.S. Department of Commerce, Bureau of the Census website, *2008 National Population Projections,* August 2008; U.S. Department of Commerce, Bureau of Economic Analysis website, *Employment Outlook: 2008-2018*, December 2009.

Risks to the U.S. and MSA Economic Outlooks

While the near-term economic outlook is improving and the mid- to long-term outlook is favorable, there are risks that these results may not be achieved. Key risks include:

- **Federal Government Response.** In the near term, the federal government's policy response to the recent financial crisis and recession in the United States may not be effective in providing the foundation for a recovery.

- **Inflation.** Inflation may persist, perhaps due to the sizable amount of liquidity that the Federal Reserve Bank has injected into the banking system, which could eventually exert upward pressures on prices. Increases in oil prices and rapid expansion of U.S. industrial capacity could also exert upward pressure on inflation.

- **Consumer Spending.** U.S. consumers may not be able to sustain spending growth, despite increased spending during the early months of 2010, due to persistent unemployment and the various factors described above.

- **Federal Deficit**. In the longer term, the U.S. economic performance may be affected by sizable deficits. The continuing deficits in the U.S. balance of payments could result in greater volatility in the currency markets, which would then translate into higher interest rates and, therefore, slower economic growth. These risks could be compounded if the fiscal deficit does not shrink within the next 5 years, thereby leading to much larger financing requirements and subsequent increases in interest rates. Increased interest rates could lead to slower investment and, consequently, slower productivity growth.

- **MSA Population Growth.** The MSA faces the risk that population inflows will not strengthen as quickly as anticipated. Population growth in the MSA is a key variable influencing local demand for residential and commercial construction, and demand for goods and services in general which, in turn, drives employment.

SKY HARBOR RANKINGS AND ROLES

Sky Harbor is one of three major connecting hub airports in the route network of US Airways and is one of the largest "focus city" airports in the route network of Southwest Airlines. The inland location of Sky Harbor allows connecting trip routings that minimize circuity between the southwestern United States and points eastward. Additionally, Sky Harbor is a growing international gateway for destinations in Mexico and Canada.

Primary Commercial Service Airport in Arizona

Sky Harbor is by far the largest of the 13 commercial service airports in Arizona, accounting for nearly 89% of the passengers enplaned in the state, as shown in Table 5. In its most recent fiscal year (FY), the 12 months ended June 2009, Sky Harbor enplaned 18.6 million revenue passengers on an average of 551 daily scheduled departing flights. In comparison, Tucson International Airport, a medium-hub airport located approximately 120 miles southeast of Sky Harbor, enplaned 1.9 million revenue passengers on an average of 63 daily scheduled departing flights. As previously noted, there are no other U.S. large-hub commercial service airports within a 5-hour driving distance from Phoenix, with the closest being Las Vegas' McCarran International Airport (290 miles to the northwest).

Table 5
ARIZONA COMMERCIAL SERVICE AIRPORTS
(for the 12 months ended June 30, 2009)

Airport	Types of aircraft serving the airport	Total revenue enplaned passengers	% of state total
Phoenix Sky Harbor Intl.	Mainline jet/ regional jet/ turboprop	18,617,654	88.5%
Tucson International	Mainline jet/ regional jet/ turboprop	1,867,009	8.9
Phoenix-Mesa Gateway	Mainline jet	237,639	1.1
Laughlin Bullhead Intl.	Mainline jet	117,566	0.6
Yuma International	Regional jet/ turboprop	74,315	0.4
Flagstaff Pulliam	Turboprop	62,595	0.3
Grand Canyon National Park	Turboprop	28,478	0.1
All other		20,301	0.1
Total		**21,025,557**	**100.0%**

Note: Passenger figures reported to U.S. Department of Transportation (DOT) represent revenue passengers only, and the Sky Harbor value shown above differs from passenger numbers reported to Sky Harbor, which include non-revenue passengers.

Sources: *Official Airline Guide*; U.S. DOT, Schedule T100.

The only other airport with commercial service located within the MSA is Phoenix-Mesa Gateway Airport, located approximately 30 miles southeast of Sky Harbor. Allegiant Air, LLC, a subsidiary of Allegiant Travel Company, began scheduled service at Phoenix-Mesa Gateway Airport in October 2007.* Despite Allegiant's rapid expansion at Phoenix-Mesa Gateway Airport, fewer than 250,000 passengers enplaned there in the 12 months ended June 2009 as compared with 18.6 million passengers enplaned at Sky Harbor during the same period.

Sky Harbor Ranks among Top U.S. Airports

The 10 largest U.S. passenger airlines and many of the large U.S. all-cargo airlines provide regular service at Sky Harbor. In May 2010, airlines at Sky Harbor provided nonstop passenger service to 101 airports, including 82 U.S. airports and 19 international airports located primarily in Mexico and Canada.

According to Airports Council International (ACI) preliminary statistics for 2009, Sky Harbor was the 19th largest airport in the world as measured by total

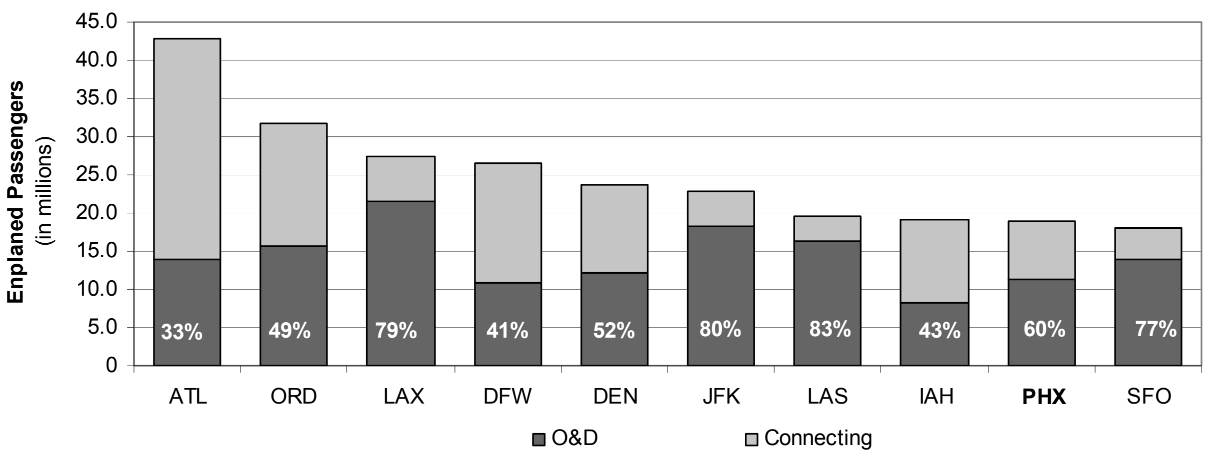
*Allegiant is a niche carrier, primarily offering less-than-daily service using narrow-body MD-80 aircraft, linking small cities throughout the northern and midwest United States with major Sunbelt leisure destinations in Florida and the U.S. Southwest.

passengers. U.S. Department of Transportation (DOT) statistics show that, in the 12 months ended June 2009, Sky Harbor was the ninth largest airport in the United States in terms of enplaned passengers, as illustrated on Figure 6.

Figure 6 also shows that, among the 10 largest U.S. airports, Sky Harbor had the eighth-largest number of origin and destination (O&D) passengers. O&D passengers include area residents who board a flight at an airport on the initial leg of their outbound journey as well as visitors to the area who initiate their return journey at an airport. This ranking reflects the relative size of the Phoenix market and Sky Harbor's role as the primary commercial service airport in Arizona.

A total of 11.3 million O&D passengers were enplaned on flights at Sky Harbor in FY 2009 (i.e., these passengers did not connect from another flight). This large base of O&D passengers also supports the US Airways and Southwest Airlines connecting operations by enabling those airlines to maintain high flight frequencies for accommodating passenger connections efficiently.

Figure 6
TOTAL ENPLANED PASSENGERS BY ORIGIN-DESTINATION AND CONNECTING
Top 10 U.S. Airports in Terms of Enplaned Passengers
(for the 12 months ended June 30, 2009)



Notes: Percentages reflect O&D passengers as a percent of total enplaned passengers.
O&D passengers include passengers making a connection from one international flight to another international flight.

Airport Code Legend: ATL=Atlanta, ORD=Chicago-O'Hare, LAX=Los Angeles, DFW=Dallas/Fort Worth, DEN=Denver, JFK=New York-Kennedy, LAS=Las Vegas, IAH=Houston-Bush, PHX=Phoenix, SFO=San Francisco.

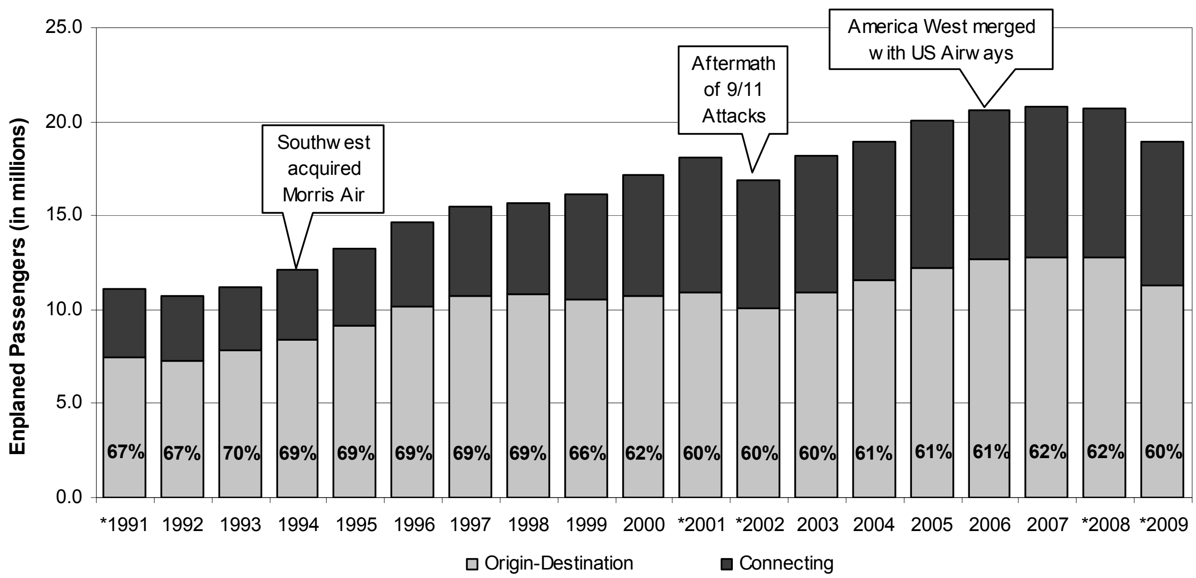
Sources: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1; U.S. DOT, Schedule T100; Phoenix Sky Harbor International Airport.

Sky Harbor Role as a Connecting Hub

In FY 2009, 18.9 million passengers enplaned at Sky Harbor, as shown on Figure 7. Between FY 1991 and FY 2008, the number of enplaned passengers increased at a 3.7% average annual growth rate. In FY 2009, the number of enplaned passengers decreased 8.5% and returned to the FY 2004 level—similar to the nationwide trend.

In FY 2009, 40% (7.6 million) of the passengers at Sky Harbor connected from one flight to another. The use of an airport as a connecting hub is a decision an airline makes based on such factors as its routing and pricing strategies, available airport capacity, the airport's geographic location, and relative costs at alternative airports.

Figure 7
HISTORICAL ENPLANED PASSENGERS
Phoenix Sky Harbor International Airport
(Fiscal Years)



Notes: Percentages reflect O&D passengers as a percent of total enplaned passengers.
*Indicates national recession during all or part of year, according to the National Bureau of Economic Research.

Sources: City of Phoenix Aviation Department; U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

As mentioned previously, Sky Harbor serves as a major connecting hub in the route system of US Airways and is also one of the major "focus cities" in Southwest Airlines' system. Although Southwest's route network is generally a point-to-point network rather than hub-and-spoke network, more than one-quarter of its passengers at Sky Harbor connected with other Southwest flights in FY 2009.* US Airways and Southwest, together, account for roughly 98% of connecting passengers at Sky Harbor.

Growth in the number of connecting passengers at Sky Harbor outpaced growth in the number of O&D passengers between FY 1991 and FY 2007. During the nationwide downturn in airline traffic in FY 2009, connecting passengers declined at less than half the rate of O&D passengers at Sky Harbor.

Sky Harbor Role as an International Gateway

In FY 2009, Sky Harbor ranked 17th among U.S. airports in terms of the number of passengers connecting to international flights.

International enplaned passengers account for about 5% of total passengers at Sky Harbor. Approximately 47% of those passengers made flight connections while the remaining 53% were O&D passengers. The majority of international passengers at Sky Harbor boarded flights bound for Mexico, while most of the remainder were bound for Canada, the United Kingdom, Costa Rica, and Jamaica.

Airline Roles at Sky Harbor

As mentioned earlier, the airlines serving Sky Harbor play somewhat differing service roles. Table 6 presents a segmentation of enplaned passengers at Sky Harbor in FY 2009, profiling the types of traffic accommodated by the primary airline groups at Sky Harbor. Although US Airways accounted for 48.8% of total enplaned passengers at Sky Harbor, the airline accommodated most (77.9%) of the connecting traffic. Southwest Airlines, by comparison, accounted for 28.7% of total enplaned passengers and 19.7% of total connecting passengers. The other airlines together accommodated the remaining 22.5% of total enplaned passengers but boarded only 2.5% of Sky Harbor's connecting passengers.

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*Passengers flying on Southwest must use separate tickets to make connections with other airlines. These passengers are reported by Southwest as O&D passengers. Consequently, the airline understates its actual number of connecting passengers.

Table 6
COMPOSITION OF ENPLANED PASSENGERS, BY AIRLINE GROUP
Phoenix Sky Harbor International Airport
(Fiscal Year 2009; passengers in thousands)

	Enplaned passengers				Passenger composition by airline			
	US Airways	Southwest	All other airlines	Total--- all airlines	US Airways	Southwest	All other airlines	Total--- all airlines
Total	**9,222**	**5,432**	**4,258**	**18,912**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
By sector:								
Domestic	8,526	5,432	4,023	17,980	92.4%	100.0%	94.5%	95.1%
International	696	-	236	932	7.6	-	5.5	4.9
By type of passenger:								
O&D	3,313	3,940	4,070	11,323	35.9%	72.5%	95.6%	59.9%
Resident	*1,682*	*1,914*	*1,547*	*5,143*	*18.2*	*35.2*	*36.3*	*27.2*
Visitor	*1,631*	*2,025*	*2,523*	*6,179*	*17.7*	*37.3*	*59.2*	*32.7*
Connecting	5,909	1,492	188	7,589	64.1	27.5	4.4	40.1
Airline share of Sky Harbor total:								
Total	48.8%	28.7%	22.5%	100.0%				
O&D	29.3	34.8	35.9	100.0				
Connecting	77.9	19.7	2.5	100.0				

Note: Figures may not add to totals shown because of rounding.

Sources: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1; City of Phoenix Aviation Department.

Sky Harbor Role in US Airways' System

America West Airlines built its headquarters in Tempe, began commercial service in 1983, and established a major hub at Sky Harbor. In September 2005, America West merged with US Airways and, although the merged airline retained the US Airways name, it kept the Phoenix-area corporate headquarters. Table 7 shows that in May 2010, Sky Harbor was the third largest US Airways hub in terms of departing seats (11.5% of its total systemwide capacity), behind Charlotte and Philadelphia, and US Airways offered more than twice as many seats as the next-ranking airport (Washington-Reagan) in its system.

Table 7
SCHEDULED DEPARTING SEATS ON US AIRWAYS
Top U.S. Airports in the US Airways System
(for the first week of May)

		2008		2009		2010	
Rank	Airport	Seats	% of total	Seats	% of total	Seats	% of total
1	Charlotte	389,210	18.1%	388,033	19.5%	393,693	20.3%
2	Philadelphia	265,872	12.4	252,700	12.7	265,499	13.7
3	**Phoenix**	**239,945**	**11.2**	**223,422**	**11.2**	**223,491**	**11.5**
4	Washington-Reagan	113,934	5.3	103,618	5.2	107,497	5.6
5	New York-LaGuardia	78,664	3.7	77,002	3.9	70,983	3.7
6	Boston	64,750	3.0	62,550	3.1	54,423	2.8
7	Las Vegas	92,748	4.3	67,777	3.4	33,738	1.7
8	Orlando	33,096	1.5	27,921	1.4	27,994	1.4
9	Pittsburgh	38,164	1.8	28,268	1.4	25,367	1.3
10	Los Angeles	25,294	1.2	24,765	1.2	21,078	1.1
	All other	805,031	37.5	731,163	36.8	711,559	36.8
	Total---U.S. system	2,146,708	100.0%	1,987,219	100.0%	1,935,322	100.0%

Note: Represents seats on scheduled domestic and international flights and includes regional code-sharing affiliates.

Source: *Official Airline Guide*.

US Airways and its regional code-sharing affiliates accounted for 48.8% of enplaned passengers at Sky Harbor in FY 2009—the largest share of any airline at Sky Harbor. US Airways is also affiliated with Air Canada, United Airlines, and Continental Airlines at Sky Harbor through its membership in the global Star Alliance. Over the past 10 years, the number of Sky Harbor passengers enplaned by US Airways grew an average of 2.6% per year. US Airways' top five O&D passenger markets at Sky Harbor in FY 2009 were the Los Angeles area, the San Francisco Bay area, the New York area, the Chicago area, and the Washington, D.C. area. These five markets accounted for 28.8% of US Airways' total domestic O&D passengers at Sky Harbor.

US Airways reported a first quarter 2010 net loss of $45 million, compared with a $103 million loss in the first quarter of 2009. In its first quarter earnings press release, dated April 27, 2010, the airline's Chairman and Chief Executive Officer Doug Parker commented:

> We are very pleased with our improvement in financial performance as evidenced by our first quarter results. Our rate of improvement continues to outpace the industry and, on an absolute basis, our pre-tax margin (excluding special items) is among the best of the major network carriers. The improvement would have been even more pronounced except for

extreme winter storms along the East Coast during the quarter, which impacted US Airways more than many of our competitors.

Looking forward, we believe we are well-positioned for success in a dynamic and improving industry environment. The steps we have taken to improve our airline—focusing our flying on areas of competitive strength, increasing ancillary revenue generation, establishing industry leading operating reliability and keeping our costs in check—have clearly made a difference and are now complemented by a much improved industry revenue environment.

Sky Harbor Role in Southwest Airlines' System

Headquartered in Dallas, Southwest Airlines began commercial service in 1971 and began serving Sky Harbor in 1982. Southwest has traditionally focused on providing high-frequency service, primarily in short- and medium-haul markets. The average length of Southwest's passenger trips to and from Sky Harbor in FY 2009 was 836 miles, compared with 1,270 miles for US Airways' passengers and 1,553 miles for passengers on all other airlines at Sky Harbor.

In May 2010, Southwest offered more seats at Sky Harbor than at all but two airports in its system—Las Vegas and Chicago-Midway—as shown in Table 8.

Table 8
SCHEDULED DEPARTING SEATS ON SOUTHWEST AIRLINES
Top U.S. Airports in the Southwest System
(for the first week of May)

		2008		2009		2010	
Rank	Airport	Seats	% of total	Seats	% of total	Seats	% of total
1	Las Vegas	229,585	7.2%	217,803	7.4%	205,373	6.9%
2	Chicago-Midway	210,123	6.6	196,281	6.7	198,616	6.7
3	**Phoenix**	**184,820**	**5.8**	**170,181**	**5.8**	**160,805**	**5.4**
4	Baltimore	158,267	4.9	149,340	5.1	155,890	5.2
5	Houston-Hobby	130,455	4.1	121,152	4.1	118,532	4.0
6	Dallas-Love Field	123,714	3.9	118,213	4.0	115,462	3.9
7	Denver	56,557	1.8	104,977	3.6	110,100	3.7
8	Los Angeles	112,679	3.5	109,850	3.7	103,137	3.5
9	Orlando	113,620	3.6	112,173	3.8	102,375	3.4
10	Oakland	127,991	4.0	106,812	3.6	99,804	3.3
	All other	1,749,598	54.7	1,534,793	52.2	1,612,909	54.1
	Total---U.S. system	3,197,409	100.0%	2,941,575	100.0%	2,983,003	100.0%

Source: *Official Airline Guide.*

Southwest accounted for 28.7% of enplaned passengers at Sky Harbor in FY 2009, ranking second to US Airways. Over the past 10 years, the number of passengers enplaned on Southwest at Sky Harbor increased an average of 2.3% per year. Southwest's top five O&D passenger markets at Sky Harbor in FY 2009 were the Los Angeles area, the San Francisco Bay area, Las Vegas, San Diego, and Denver. These five markets accounted for 45.5% of Southwest's total O&D passengers at Sky Harbor.

Southwest reported first quarter 2010 net income of $11 million. In its first quarter earnings press release, dated April 22, 2010, the airline's Chief Executive Officer Gary Kelly commented:

> We are extremely pleased to report a profitable start to the year, especially in this challenging economic environment exacerbated by persistently high energy costs. As the quarter progressed, we began to see modest improvement in demand for business travel, as measured by the increase in full-fare traffic. Overall demand … remained strong, resulting in a record first quarter performance for load factor, passenger yield, and passenger revenues. Furthermore, first quarter 2010 operating unit revenues, and the corresponding 19.3% year-over-year increase, represent all-time quarterly records. To achieve this revenue performance in, seasonally, the weakest quarter, is notable. To do so in a recovering economic environment is truly remarkable. … [W]e expect another significant year-over-year unit revenue gain in second quarter 2010.
>
> Our network optimization and revenue management efforts continue to contribute significantly to this industry-leading revenue performance.

HISTORICAL PASSENGER AND AIRLINE ACTIVITY

The narrative that follows provides a discussion of historical activity at Sky Harbor in terms of domestic and international service and capacity; enplaned passenger trends by airline; and passenger trends by market segment.

Airlines Providing Service

Table 9 lists the passenger and cargo airlines that provided service at Sky Harbor in FY 2010.

Table 9
AIRLINES REPORTING ENPLANED PASSENGERS AND AIR CARGO
Phoenix Sky Harbor International Airport
(for the 11 months ended May 31, 2010)

Major/ national
AirTran
Alaska
American
Continental *(a)*
Delta/ Northwest
Frontier *(b)*
Hawaiian
JetBlue
Midwest *(b)*
Southwest
Sun Country
United *(a)*
US Airways

Regional/ commuter
ExpressJet (Continental Express)
Great Lakes
Mesa (US Airways Express)
Mesaba (Delta Connection)
Skywest (Delta Connection and United Express)

Foreign-flag
Aeromexico
Air Canada
British Airways
WestJet

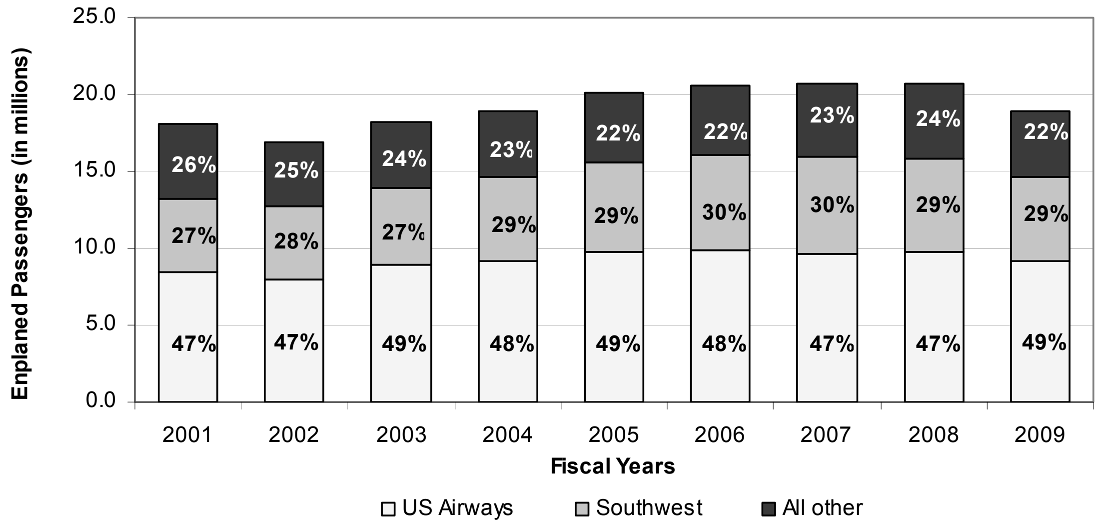
All-cargo airlines
Federal Express
UPS
ABX Air
Air Transport International
Ameriflight
Empire
AirNet Systems

(a) In early May 2010, United and Continental announced their intent to merge.
(b) In April 2010, Republic Airways Holdings announced that Midwest and Frontier would merge under the Frontier brand.

Source: City of Phoenix Aviation Department.

The proportion of passengers accounted for by the various airlines serving Sky Harbor has changed slightly over the past 9 years, as shown on Figure 8. (In the chart, America West is grouped with US Airways in all years.)

Figure 8
TOTAL ENPLANED PASSENGERS BY AIRLINE GROUPING
Phoenix Sky Harbor International Airport
(Fiscal Years)



Source: City of Phoenix Aviation Department.

Total enplaned passengers in FY 2009 were slightly above their level in FY 2001. Over the 9-year period, US Airways (including America West in earlier years) and Southwest each gained 2 points of market share from the other airlines serving Sky Harbor. The number of passengers enplaned by all airlines other than US Airways and Southwest, considered together, declined 12% over the same period.

Domestic Service

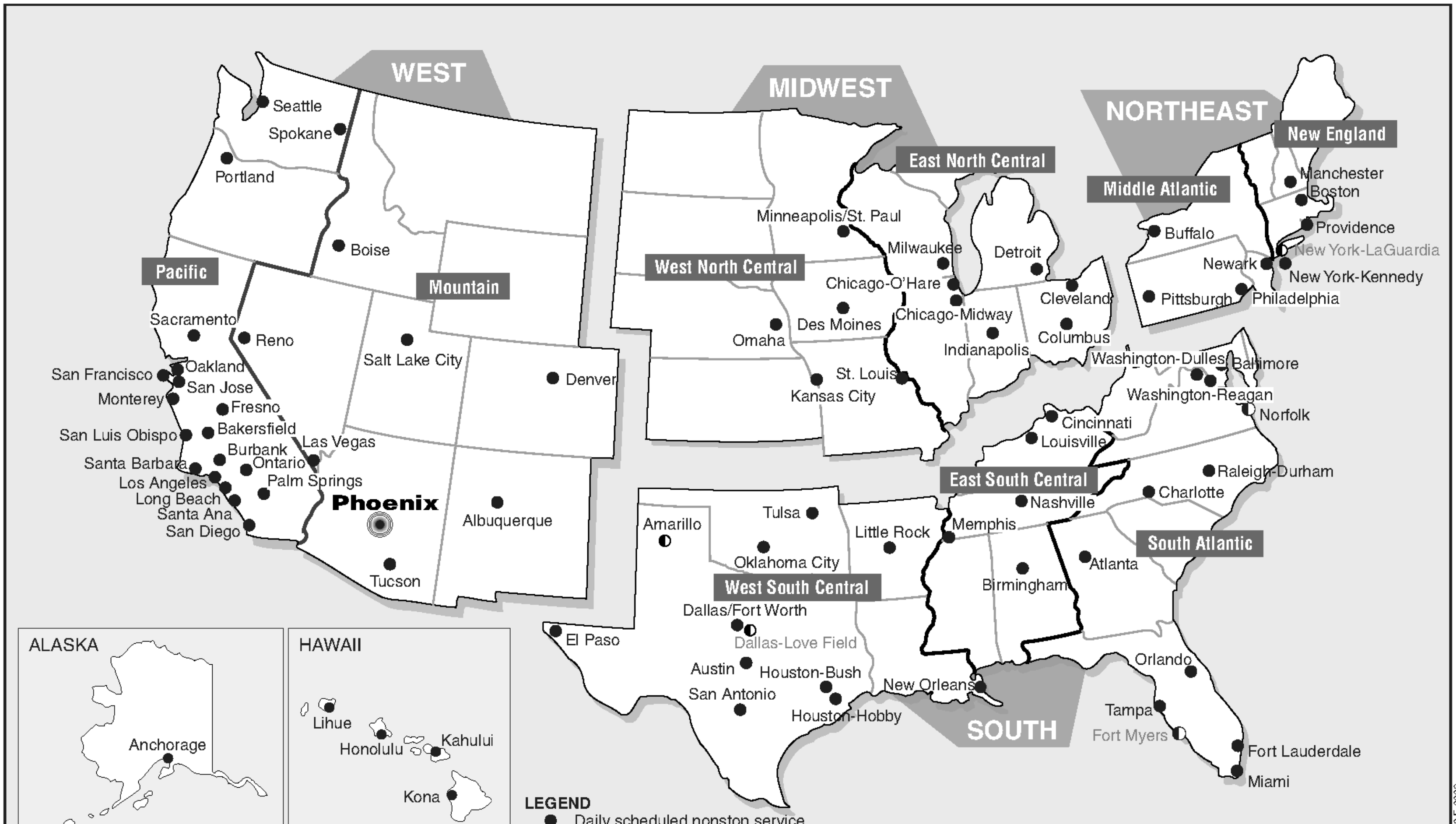
Figure 9 shows the locations of the U.S. airports served by scheduled daily nonstop or one-stop same-plane jet flights from Sky Harbor in the first week of May 2010.

Figure 9

U.S. AIRPORTS SERVED BY DAILY SCHEDULED ROUNDTRIP PASSENGER JET FLIGHTS

Phoenix Sky Harbor International Airport

(first week of May 2010)



Source: Official Airline Guides, Inc.

The ensuing comparison of current airline service at Sky Harbor with service offered over the past 10 years is based on published flight schedules for the first week of May in 2000, 2009, and 2010.

The number of cities served nonstop at Sky Harbor declined between 2000 and 2010, as shown in Table 10. Over the 10-year period, the total number of daily departing flights and scheduled seats declined on short- and medium-haul routes but increased on long-haul routes.

From 2000 to 2010, the increase in the number of regional jet flights at Sky Harbor offset the decline in the number of turboprop flights, although there was a net gain in the number of seats offered. The number of flights and seats on mainline jet flights declined roughly 20% over the 10-year period. Over the past year, the number of departing flights and seats declined, reflecting the national trend of service reductions.

The comparison of nonstop jet service presented in Table 11 reveals how airline service has changed over the past 10 years in the top 15 domestic O&D city-pair markets for Sky Harbor. The top 15 routes accounted for 60% of all scheduled flight departures at Sky Harbor in May 2010.

Competing nonstop service was offered in all of the top 15 markets in May 2010, with three markets served by four airlines and another eight markets served by three airlines. Nonstop service was provided in all of Sky Harbor's top 15 O&D passenger markets by US Airways and in 12 of the top 15 markets by Southwest.

International Service

Scheduled international service at Sky Harbor grew substantially, from 100 to 206 weekly flights, between May 2000 and May 2010, as shown in Table 12. Nearly two-thirds of this increase was due to a sizable increase in the number of flights to Mexico. Additionally, international service was initiated to both Costa Rica and Jamaica over the period.

Table 10
DAILY SCHEDULED DOMESTIC PASSENGER SERVICE
Phoenix Sky Harbor International Airport
(for the first week in May)

	2000	2009	2010
NUMBER OF CITIES SERVED NONSTOP	**78**	**72**	**71**
Change from previous year shown		(6)	(1)
By aircraft type:			
Total jet	63	67	66
Mainline jet	*55*	*55*	*58*
Regional jet	*12*	*22*	*22*
Turboprop	18	10	8
By stage length:			
Short-haul (<600 mi.)	30	21	20
Medium-short haul (600-1200 mi.)	19	17	17
Medium-long haul (1200-1800 mi.)	17	17	17
Long-haul (>1800 mi.)	12	17	17
AVERAGE DAILY DEPARTING FLIGHTS	**622**	**523**	**503**
Change from previous year shown		(100)	(20)
By aircraft type:			
Total jet	562	501	482
Mainline jet	*530*	*418*	*412*
Regional jet	*31*	*83*	*71*
Turboprop	60	22	21
By stage length:			
Short-haul (<600 mi.)	301	213	207
Medium-short haul (600-1200 mi.)	182	164	156
Medium-long haul (1200-1800 mi.)	97	90	90
Long-haul (>1800 mi.)	41	55	50
AVERAGE DAILY SCHEDULED SEATS	**76,963**	**66,148**	**64,928**
Change from previous year shown		(10,815)	(1,220)
By aircraft type:			
Total jet	75,210	65,424	64,250
Mainline jet	*73,638*	*59,435*	*59,007*
Regional jet	*1,571*	*5,989*	*5,243*
Turboprop	1,753	724	678
By stage length:			
Short-haul (<600 mi.)	32,462	23,443	22,962
Medium-short haul (600-1200 mi.)	23,629	21,245	20,697
Medium-long haul (1200-1800 mi.)	14,595	13,012	13,347
Long-haul (>1800 mi.)	6,277	8,447	7,921

Note: Columns may not add to totals shown because of rounding.
Source: *Official Airline Guide.*

Table 11
COMPARISON OF NONSTOP JET SERVICE
IN THE TOP 15 DOMESTIC O&D PASSENGER MARKETS
Phoenix Sky Harbor International Airport
(for the first week in May)

Rank *(a)*	City market / *Airport*	Nonstop mileage	Airlines offering nonstop service *(b)*	Number of carriers serving *(c)* 2000	2009	2010	Weekly scheduled jet flight departures 2000	2009	2010
1	Los Angeles	351	UA,US,WN	3	3	3	638	475	451
	Los Angeles		*UA,US,WN*	*3*	*3*	*3*	*319*	*164*	*155*
	Santa Ana		*US,WN*	*1*	*2*	*2*	*53*	*107*	*98*
	Burbank		*US,WN*	*2*	*2*	*2*	*87*	*82*	*79*
	Ontario		*US,WN*	*2*	*2*	*2*	*145*	*94*	*92*
	Long Beach		*US*	*1*	*1*	*1*	*34*	*28*	*27*
2	San Francisco *(d)*	639	UA,US,WN	3	3	3	268	240	240
3	Chicago *(e)*	1,442	AA,UA,US,WN	5	4	4	154	150	148
4	Denver	603	F9,UA,US,WN	3	4	4	155	177	161
5	New York *(f)*	2,143	B6,CO,DL,US	3	4	4	82	86	85
6	Las Vegas	255	US,WN	3	2	2	257	163	170
7	Seattle	1,106	AS,US,WN	3	3	3	103	98	91
8	San Diego	302	US,WN	3	2	2	155	129	123
9	Minneapolis/ St. Paul	1,276	DL,SY,US	3	3	3	76	70	72
10	Washington DC/ Baltimore *(g)*	1,973	UA,US,WN	3	3	3	56	74	62
11	Dallas/ Ft. Worth *(h)*	868	AA,US	3	2	2	137	98	98
12	Salt Lake City	507	DL,US,WN	3	3	3	109	139	134
13	Portland	1,008	AS,US,WN	3	3	3	63	77	75
14	Detroit	1,668	DL,US,WN	3	3	3	64	54	61
15	Philadelphia	2,071	US,WN	1	2	2	49	56	49
	Total---top 15 markets			12	11	11	2,366	2,086	2,020
	All other markets						1,567	1,419	1,355
	Total---all markets			13	14	14	3,933	3,505	3,375

(a) Top 15 city markets ranked by domestic outbound O&D passengers for the 12 months ended June 30, 2009.
(b) For the first week of May 2010. Carrier legend: AA=American, AS=Alaska, B6=JetBlue, CO=Continental, DL=Delta/Northwest, F9=Frontier, SY=Sun Country, UA=United, US=US Airways, WN=Southwest.
(c) Each mainline carrier and its regional code-sharing affiliates were counted as one airline.
(d) Market includes San Francisco, Oakland, and San Jose airports.
(e) Market includes O'Hare and Midway airports.
(f) Market includes LaGuardia, Newark, and Kennedy airports.
(g) Market includes Dulles, Reagan, and Baltimore airports.
(h) Market includes Dallas/Fort Worth Airport and Love Field.

Source: *Official Airline Guide.*

Table 12

WEEKLY SCHEDULED INTERNATIONAL PASSENGER FLIGHTS

Phoenix Sky Harbor International Airport

(for the first week of May)

Destination country Airport	Carrier *(a)*	Flight departures per week 2000	 2009	 2010
Total		**100**	**200**	**206**
Mexico		**77**	**128**	**140**
Los Cabos	US Airways	16	30	30
Puerto Vallarta	US Airways	7	27	27
Mazatlan	US Airways	1	16	16
Mexico City		14	7	14
	US Airways	*7*	*7*	*14*
	Aeromexico	*7*	-	-
Hermosillo		15	14	14
	US Airways	*7*	*7*	*7*
	Aeromexico	*8*	*7*	*7*
Guadalajara		3	14	21
	US Airways	-	*14*	*21*
	Aeromexico	*3*	-	-
Cancun	US Airways	-	9	9
Guaymas		19	7	7
	US Airways	*14*	*7*	*7*
	Aeromexico	*5*	-	-
Acapulco	US Airways	1	2	1
Ixtapa/ Zihuatanejo	US Airways	1	1	1
Manzanillo	US Airways	-	1	-
Canada		**16**	**65**	**56**
Calgary		-	25	23
	US Airways	-	*14*	*14*
	WestJet	-	*9*	*7*
	Air Canada	-	*2*	*2*
Vancouver		9	14	14
	US Airways	*7*	*14*	*14*
	Alaska	*2*	-	-
Edmonton		-	11	11
	US Airways	-	*8*	*9*
	WestJet	-	*3*	*2*
Toronto		7	14	7
	Air Canada	*7*	*7*	*7*
	US Airways	-	*7*	-
Winnipeg	WestJet	-	1	1
Costa Rica		**-**	**1**	**1**
San Jose	US Airways		1	1
United Kingdom		**7**	**6**	**6**
London-Heathrow	British Airways	-	6	6
London-Gatwick	British Airways	7	-	-
Jamaica		**-**	**-**	**3**
Montego Bay	US Airways	-	-	3

(a) Includes regional code-sharing affiliates, if any.

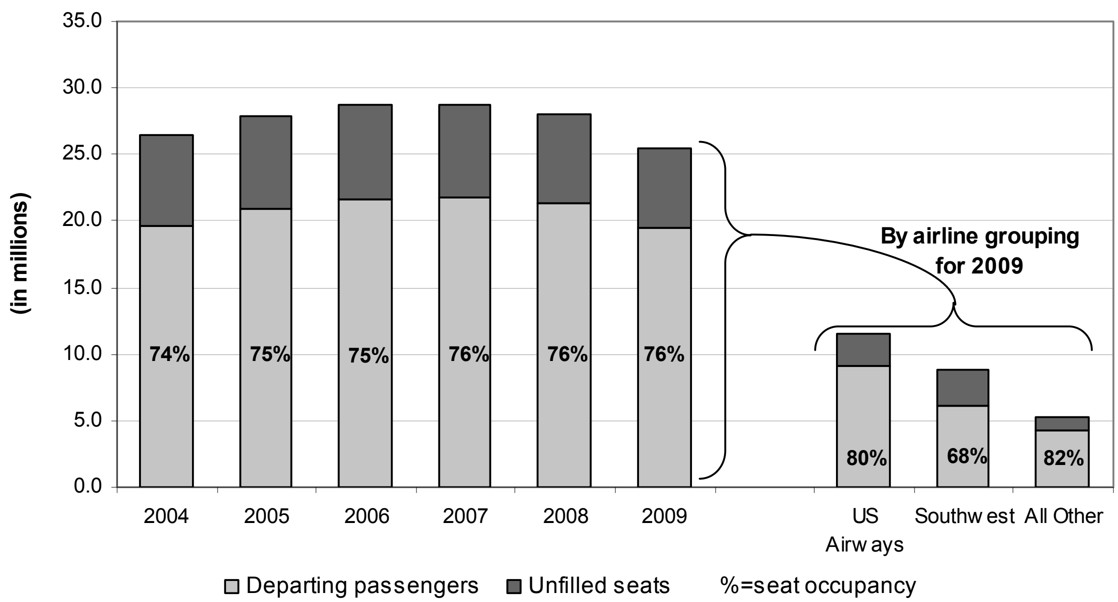
Source: *Official Airline Guide.*

Destinations in Mexico account for more than two-thirds of the international flights at Sky Harbor. Of the 140 flights operated to Mexico in the first week of May 2010, 133 were operated by US Airways and 7 by Aeromexico. Of the 66 other weekly international flights from Sky Harbor, 56 were destined for Canada, 6 for London's Heathrow Airport, 3 for Jamaica, and 1 for Costa Rica. US Airways operated 174 of the 206 international weekly flights departing from Sky Harbor.

Aircraft Capacity and Seat Occupancy

The total number of scheduled seats provided at Sky Harbor declined in net terms between FY 2004 and FY 2009, as shown on Figure 10. In FY 2009, the number of departing seats was 4.5% lower than it was 5 years earlier, but overall seat occupancy increased by nearly 3 percentage points (from 73.5% to 76.3%).

Figure 10
SEAT CAPACITY OCCUPIED ON DEPARTING SCHEDULED FLIGHTS
Phoenix Sky Harbor International Airport
(Fiscal Years)



Notes: Percentages shown reflect proportion of departing seats occupied by revenue passengers, including "through" passengers (i.e., those who neither deplaned nor enplaned at Sky Harbor).

Excludes non-revenue passengers.

Sources: U.S. DOT, Schedule T100.

Seat occupancy varies significantly among the airlines serving Sky Harbor. In FY 2009, Southwest operated with the lowest seat occupancy (68%), substantially lower than that for US Airways (80%) and all other airlines serving Sky Harbor (82%). Southwest has historically operated with lower seat occupancies system-wide, compared with legacy network airlines.

Moreover, Southwest tends to rely more on "through traffic" at Sky Harbor than US Airways. Through passengers (i.e., those who neither deplane nor enplane at Sky Harbor) accounted for approximately 10% of Southwest's departing passenger load at Sky Harbor in FY 2009 compared with less than 3% for US Airways. Consequently, Southwest filled only 61% of its departing seats with passengers enplaning at Sky Harbor.

In FY 2010, Southwest has reduced its departing seat capacity at Sky Harbor by approximately 7.5%, year-over-year—a period during which US Airways held its capacity nearly constant. Southwest credits its "schedule optimizer" software in enabling the airline to reduce its capacity to such an extent while, at the same time, accommodating what is estimated to be approximately 2.5% more enplaned passengers at Sky Harbor.

Passenger Traffic by Segment

The total number of enplaned passengers at Sky Harbor increased an average of 3.2% per year from FY 1999 through FY 2007, and then declined in FY 2008 and FY 2009, as shown in Table 13. Connecting passengers drove the majority of passenger growth over the 10-year period from FY 1999 to FY 2009, increasing an average of 3.2% per year compared with 0.7% per year for O&D passengers. In FY 2009, international enplaned passengers accounted for 4.9% of total enplaned passengers, up from 2.6% in FY 1999, reflecting a faster rate of growth for international passengers at Sky Harbor.

Table 13
PASSENGER TRENDS BY FLIGHT DESTINATION AND TYPE OF PASSENGER
Phoenix Sky Harbor International Airport
(Fiscal Years; enplaned passengers, in thousands)

	By flight destination		By type of passenger			**Percent change from**
Year	Domestic	International	O&D	Connecting	**Total**	**previous year**
1999	15,692	414	10,586	5,519	**16,105**	
2000	16,688	435	10,700	6,423	**17,123**	**6.3%**
2001	17,521	555	10,927	7,149	**18,076**	**5.6**
2002	16,368	548	10,072	6,844	**16,916**	**(6.4)**
2003	17,530	652	10,911	7,271	**18,182**	**7.5**
2004	18,221	735	11,546	7,411	**18,956**	**4.3**
2005	19,258	811	12,256	7,813	**20,070**	**5.9**
2006	19,750	893	12,656	7,986	**20,642**	**2.9**
2007	19,892	871	12,815	7,948	**20,763**	**0.6**
2008	19,752	916	12,808	7,860	**20,668**	**(0.5)**
2009	17,980	932	11,323	7,589	**18,912**	**(8.5)**
Compound annual growth rate						
1999-2007	3.0%	9.7%	2.4%	4.7%	**3.2%**	
2007-2009	(4.9)	3.4	(6.0)	(2.3)	**(4.6)**	
1999-2009	1.4	8.5	0.7	3.2	**1.6**	
Percent of total						
1999	97.4%	2.6%	65.7%	34.3%	**100.0%**	
2007	95.8	4.2	61.7	38.3	**100.0**	
2009	95.1	4.9	59.9	40.1	**100.0**	

Note: Rows may not add to totals shown because of rounding.

Sources: City of Phoenix Aviation Department; U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

O&D passengers represented 59.9% of total enplaned passengers at Sky Harbor in FY 2009, down from 65.7% in FY 1999. Domestic passengers account for most of the O&D passengers, as shown in Table 14. The number of domestic O&D enplaned passengers increased 2.5% per year, on average, between FY 1999 and FY 2007, before declining 15% over the subsequent 2 years.

Table 14
ORIGIN-DESTINATION PASSENGER TRENDS
Phoenix Sky Harbor International Airport
(Fiscal Years; enplaned passengers, in thousands)

Year	Domestic O&D passengers	International O&D passengers: on international flights *(a)*	International O&D passengers: on domestic flights *(b)*	International O&D passengers: Total	**Total O&D passengers** *(c)*	**Percent change from previous year**
1999	9,917	271	297	568	**10,586**	
2000	10,613	273	344	617	**10,700**	**1.1%**
2001	10,542	338	351	689	**10,927**	**2.1**
2002	9,425	320	270	590	**10,072**	**(7.8)**
2003	10,023	366	262	627	**10,911**	**8.3**
2004	10,675	371	309	680	**11,546**	**5.8**
2005	11,410	380	350	729	**12,256**	**6.2**
2006	11,878	455	391	845	**12,656**	**3.3**
2007	12,091	476	404	880	**12,815**	**1.3**
2008	11,688	486	456	942	**12,808**	**(0.1)**
2009	10,245	503	425	928	**11,323**	**(11.6)**
Compound annual growth rate						
1999-2007	2.5%	7.3%	3.9%	5.6%	**2.4%**	
2007-2009	(8.0)	2.8	2.6	2.7	**(6.0)**	
1999-2009	0.3	6.4	3.7	5.0	**0.7**	

(a) Includes international O&D passengers on scheduled flights, along with small numbers of passengers on charter flights, non-revenue passengers, and international-to-international connections.
(b) Passengers who boarded domestic flights to other U.S. gateway airports where they connected with flights to their international destinations.
(c) Domestic O&D Passengers and International O&D Passengers may not add to Total O&D Passengers because of (i) passengers on charter flights, (ii) inconsistencies in reporting by carriers to Sky Harbor, and iii) sampling errors in the U.S. DOT *Air Passenger Origin Destination Survey*.

Sources: City of Phoenix Aviation Department; U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

International O&D passengers can be divided into two categories. The first category consists of passengers bound for international destinations who board international flights at Sky Harbor. The second category consists of travelers bound for international destinations who board domestic flights (and are counted as domestic enplaned passengers) at Sky Harbor and exit the United States via connecting flights at other U.S. gateway airports.* These passengers represent potential users of increased international air service at Sky Harbor in the future. The total number of

*For this reason, the category of "international passengers" is a broader segment of traffic than the subset of "international enplaned passengers."

international O&D passengers at Sky Harbor increased 5.1% per year, on average, from FY 1999 through FY 2009—significantly higher than the 0.3% average rate of growth for domestic O&D passengers.

The other major passenger segment at Sky Harbor—connecting passengers—represented 40.1% of total enplaned passengers in FY 2009. They are categorized into two groups: (1) connections from one domestic flight to another and (2) connections from a domestic flight to an international flight, or vice versa (gateway connections), as shown in Table 15.* In FY 2009, domestic-to-domestic connections accounted for 88.7% of all connecting passengers at Sky Harbor, while gateway connections accounted for the remaining 11.3%. Between FY 1999 and FY 2007, connecting traffic at Sky Harbor increased 4.7% per year, on average. This was driven, in large part, by an expansion in the scale of America West's hub operation at Sky Harbor between FY 1999 and FY 2001. Between FY 2007 and FY 2009, growth in domestic-to-domestic connections turned negative (-3.1% per year, on average), while gateway connections continued to show strong growth (5.3% per year).

The total number of passengers at Sky Harbor that were bound for international destinations nearly doubled from FY 1999 through FY 2009, as shown in Table 16. Total international passenger traffic at Sky Harbor includes all airline travelers who originated international trips, whether they boarded a domestic or an international flight, and those who made a connection to an international flight. In FY 2009, originating international travelers represented roughly two-thirds of total international travelers at Sky Harbor, with connections accounting for the remaining third.

Of all passengers originating international trips at Sky Harbor, the proportion that boarded international flights at Sky Harbor increased somewhat over the past 10 years. In FY 2009, 54.2% began their international trips from Sky Harbor on international flights, compared with 47.7% in FY 1999. This was due in part to an increase in nonstop scheduled flights to international destinations at Sky Harbor.

Over the past 10 years, the number of passengers departing Sky Harbor on international flights increased significantly, as shown in Table 17. The gain was almost entirely attributable to increases in passengers bound for Mexico and Canada. The decline over the 10-year period in the number of passengers bound for Europe (primarily the United Kingdom), was partially mitigated by an increase in passengers bound for other world areas (primarily Costa Rica).

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*A third type of connecting passenger, connecting from one international flight to another, is not reported separately by the airlines, but it is believed that the number of these connections at Sky Harbor is not material.

Table 15
CONNECTING PASSENGER TRENDS
Phoenix Sky Harbor International Airport
(Fiscal Years; enplaned passengers, in thousands)

Year	Connections between dom. flights	% of total	Gateway connections between dom. and intl. flights	% of total	**Total connecting passengers**	**Percent change from previous year**
1999	5,239	94.9%	281	5.1%	**5,519**	
2000	6,102	95.0	321	5.0	**6,423**	**16.4%**
2001	6,716	93.9	433	6.1	**7,149**	**11.3**
2002	6,387	93.3	456	6.7	**6,844**	**(4.3)**
2003	6,703	92.2	568	7.8	**7,271**	**6.2**
2004	6,690	90.3	721	9.7	**7,411**	**1.9**
2005	6,940	88.8	873	11.2	**7,813**	**5.4**
2006	7,114	89.1	872	10.9	**7,986**	**2.2**
2007	7,176	90.3	773	9.7	**7,948**	**(0.5)**
2008	7,008	89.2	852	10.8	**7,860**	**(1.1)**
2009	6,734	88.7	856	11.3	**7,589**	**(3.4)**
Compound annual growth rate						
1999-2007	4.0%		13.5%		**4.7%**	
2007-2009	(3.1)		5.3		**(2.3)**	
1999-2009	2.5		11.8		**3.2**	

Note: Rows may not add to totals shown because of rounding.

Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

Seasonality

Passenger traffic at Sky Harbor is fairly stable throughout the year and tends to fluctuate only slightly above and below the monthly average, as shown on Figure 11.

Passenger Traffic by Airline

The concentration of passenger traffic on flights operated by Sky Harbor's top two airlines—US Airways and Southwest—has increased modestly since FY 2001. (See Table 18.) More than three-quarters (77.5%) of all passengers enplaned at Sky Harbor in FY 2009 boarded flights operated by either US Airways (and its affiliated carrier, Mesa Airlines) or Southwest, up from 73.1% in FY 2001. Delta and Northwest, Sky Harbor's fifth and sixth ranking airlines in FY 2001, together ranked as the third-largest airline at Sky Harbor in FY 2009, following their merger. There were no material shifts in airline shares of enplaned passengers in the first 11 months of FY 2010.

Table 16
INTERNATIONAL ENPLANED PASSENGER TRENDS
Phoenix Sky Harbor International Airport
(Fiscal Years; enplaned passengers, in thousands)

	Originating					
Year	On intl. flights	On dom. flights *(a)*	Total	Connecting *(b)*	**Total**	**Percent change from previous year**
1999	271	297	568	143	**711**	
2000	273	344	617	162	**779**	**9.6%**
2001	338	351	689	217	**906**	**16.3**
2002	320	270	590	227	**817**	**(9.8)**
2003	366	262	627	286	**914**	**11.8**
2004	371	309	680	364	**1,044**	**14.3**
2005	380	350	729	432	**1,161**	**11.2**
2006	455	391	845	438	**1,283**	**10.5**
2007	476	404	880	395	**1,275**	**(0.6)**
2008	486	456	942	430	**1,372**	**7.6**
2009	503	425	928	429	**1,357**	**(1.1)**
Compound annual growth rate						
1999-2007	7.3%	3.9%	5.6%	13.6%	**7.6%**	
2007-2009	2.8	2.6	2.7	4.2	**3.2**	
1999-2009	6.4	3.7	5.0	11.6	**6.7**	

Notes: The above figures may differ from the passenger statistics reported by the airlines to Sky Harbor.

Tables 16 and 17 present different segments of traffic derived from different data sources.

(a) Passengers who originated international trips on domestic flights at Sky Harbor and exited the country via other U.S. gateway airports.

(b) Passengers connecting at Sky Harbor from domestic to international scheduled flights.

Sources: City of Phoenix Aviation Department; U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

US Airways and Southwest together accounted for the majority of the increase in enplaned passengers over the 8-year period. Increases in enplaned passengers were also reported by Continental, Frontier, AirTran, Hawaiian, and JetBlue, while declines were reported by Delta, United, American, and Alaska.

Table 17
DEPARTING PASSENGERS BY MAJOR INTERNATIONAL PASSENGER MARKET
Phoenix Sky Harbor International Airport
(Fiscal Years; passengers in thousands)

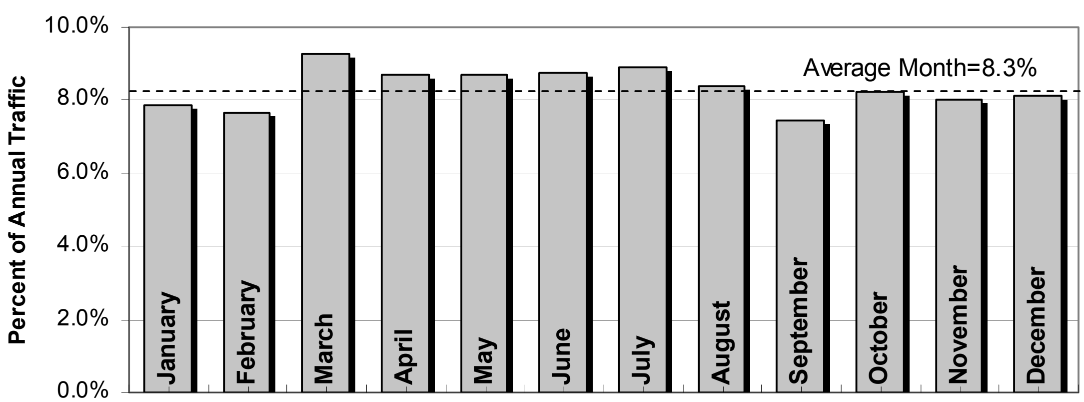
International market area	1999	2005	2006	2007	2008	2009	CAGR 1999-2009
Mexico	250	449	507	487	521	516	7.5%
Canada	109	271	291	297	299	322	11.5%
United Kingdom	109	83	91	81	79	74	-3.8%
Europe (excluding U.K.)	5	-	-	-	-	-	n.c.
Other *(a)*	-	33	22	16	15	15	n.a.
Total	473	837	910	880	913	928	7.0%
Percent change from previous year			8.8%	(3.3%)	3.7%	1.6%	

Notes: CAGR=Compound annual growth rate; n.a.=not applicable; n.c.=not calculated.
Columns may not add to totals shown because of rounding.
Tables 16 and 17 present different segments of traffic derived from different data sources.
Includes both O&D and connecting passengers departing from Sky Harbor on scheduled and non-scheduled international flights.

(a) Mostly passengers on flights to Costa Rica.

Sources: U.S. DOT, Schedules T100 and 298C T1.

Figure 11
MONTHLY VARIATION OF ENPLANED PASSENGERS
Phoenix Sky Harbor International Airport
(Fiscal Years 2005 through 2009)



Note: Based on 5-year monthly average, from July 2004 through June 2009.

Source: City of Phoenix Aviation Department.

Table 18

AIRLINE SHARES OF TOTAL ENPLANED PASSENGERS

Phoenix Sky Harbor International Airport

(Fiscal Years except as noted, listed in descending order by FY 2009)

	Fiscal Years					July-May only	
Published airline	2001	2002	2007	2008	2009	FY 2009	FY 2010
Total	**18,076,059**	**16,915,967**	**20,762,870**	**20,667,530**	**18,912,120**	**17,306,371**	**17,431,541**
US Airways *(a)*	8,426,482	8,021,126	9,660,048	9,784,717	9,221,795	8,420,347	8,429,751
Southwest	4,797,159	4,729,726	6,240,937	6,052,552	5,431,992	4,964,975	5,084,926
Delta *(b)*	1,394,913	1,290,788	1,180,998	1,340,302	1,180,336	1,084,349	1,140,066
United	1,017,128	725,418	913,608	776,579	684,758	630,623	629,077
American *(c)*	987,337	791,857	752,317	700,978	638,183	588,642	573,389
Continental	452,740	404,947	619,682	610,212	568,749	521,568	508,985
Alaska	385,733	378,919	376,946	382,930	332,754	305,189	301,781
Frontier	113,960	98,108	238,723	219,522	225,050	207,837	196,536
AirTran	-	-	44,467	148,120	114,165	104,797	81,651
Hawaiian	-	-	84,820	86,755	87,649	80,189	77,639
British Airways	80,572	68,231	87,104	87,041	79,479	71,332	69,640
JetBlue	-	-	120,435	85,395	76,917	69,989	74,250
All Other	420,035	406,847	442,785	392,427	270,293	256,534	263,850
				Share of total			
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
US Airways *(a)*	46.6%	47.4%	46.5%	47.3%	48.8%	48.7%	48.4%
Southwest	26.5	28.0	30.1	29.3	28.7	28.7	29.2
Delta *(b)*	7.7	7.6	5.7	6.5	6.2	6.3	6.5
United	5.6	4.3	4.4	3.8	3.6	3.6	3.6
American *(c)*	5.5	4.7	3.6	3.4	3.4	3.4	3.3
Continental	2.5	2.4	3.0	3.0	3.0	3.0	2.9
Alaska	2.1	2.2	1.8	1.9	1.8	1.8	1.7
Frontier	0.6	0.6	1.1	1.1	1.2	1.2	1.1
AirTran	-	-	0.2	0.7	0.6	0.6	0.5
Hawaiian	-	-	0.4	0.4	0.5	0.5	0.4
British Airways	0.4	0.4	0.4	0.4	0.4	0.4	0.4
JetBlue	-	-	0.6	0.4	0.4	0.4	0.4
All Other	2.3	2.4	2.1	1.9	1.4	1.5	1.5

Notes: Passengers reported by regional affiliates have been grouped with their respective code-sharing partners. Columns may not add to totals shown because of rounding.

(a) America West is included here with US Airways for all years shown, despite the fact the merger with US Airways occurred in October 2005.

(b) Northwest Airlines is included here with Delta for all years shown, despite the fact the merger with Delta occurred in October 2008.

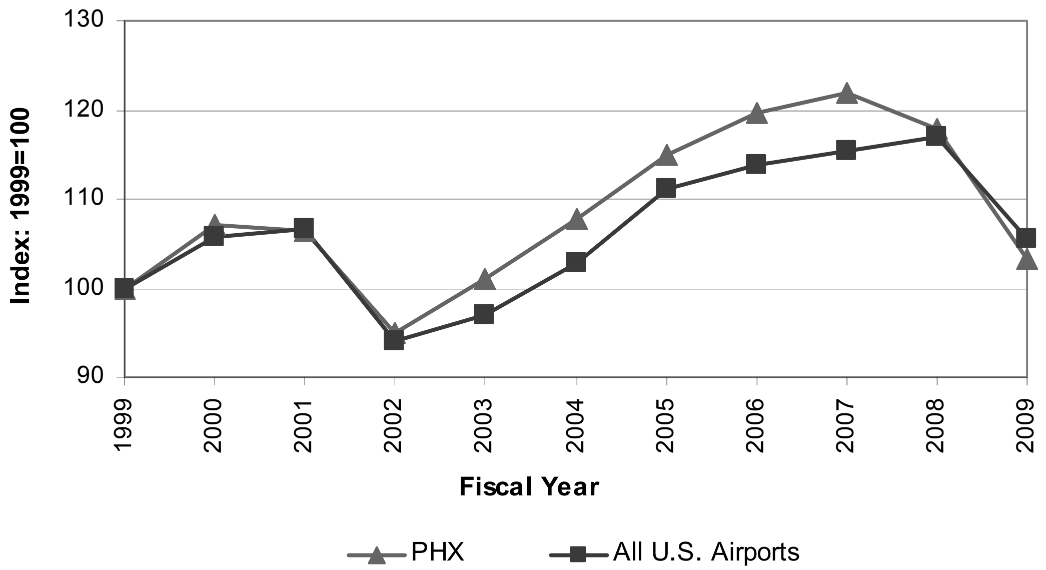
(c) TWA is included here with American Airlines, despite the fact that American started reporting TWA passengers with its own as of December 2001.

Source: City of Phoenix Aviation Department.

Domestic O&D Passengers

The trend in domestic O&D passengers at Sky Harbor resembles the nationwide pattern of domestic O&D passenger growth, as shown on Figure 12. Relative to the nation, Sky Harbor experienced a slightly quicker recovery in FY 2003 to FY 2007, only to experience a more pronounced decline during the most recent economic downturn.

Figure 12
INDEX OF OUTBOUND DOMESTIC O&D PASSENGERS
Phoenix Sky Harbor International Airport and All U.S. Airports
(for the 12 months ended June 30)



Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

The number of domestic O&D passengers at Sky Harbor in FY 2009 was 3.3% higher than in FY 1999, as shown in Table 19. The slight net increase over the 10-year period resulted from relatively strong growth in long-haul passenger traffic (1,800+ miles) and moderate growth in medium-haul traffic (600-1,800 miles), only slightly more than offsetting the substantial decline in short-haul traffic (<600 miles).

Of the domestic O&D passengers using Sky Harbor, visitors have historically outnumbered area residents. The relative proportion of visitors and residents was virtually unchanged over the past 10 years.

Table 19
DOMESTIC O&D PASSENGERS BY PASSENGER TRIP DISTANCE AND TYPE OF PASSENGER
Phoenix Sky Harbor International Airport
(Fiscal Years)

	Domestic O&D passengers		% of total		CAGR
	1999	2009	1999	2009	1999-2009
Total	**9,917,000**	**10,244,860**	**100.0%**	**100.0%**	**0.3%**
By passenger trip distance:					
Short haul (<600 mi)	3,016,350	2,309,610	30.4	22.5	-2.6
Medium-short haul (600-1,200 mi)	2,936,330	3,220,790	29.6	31.4	0.9
Medium-long haul (1,201-1,800 mi)	2,331,180	2,592,160	23.5	25.3	1.1
Long haul (>1,800 mi)	1,633,140	2,122,300	16.5	20.7	2.7
By type of passenger:					
Resident	4,444,799	4,566,134	44.8	44.6	0.3
Visitor	5,472,201	5,678,726	55.2	55.4	0.4

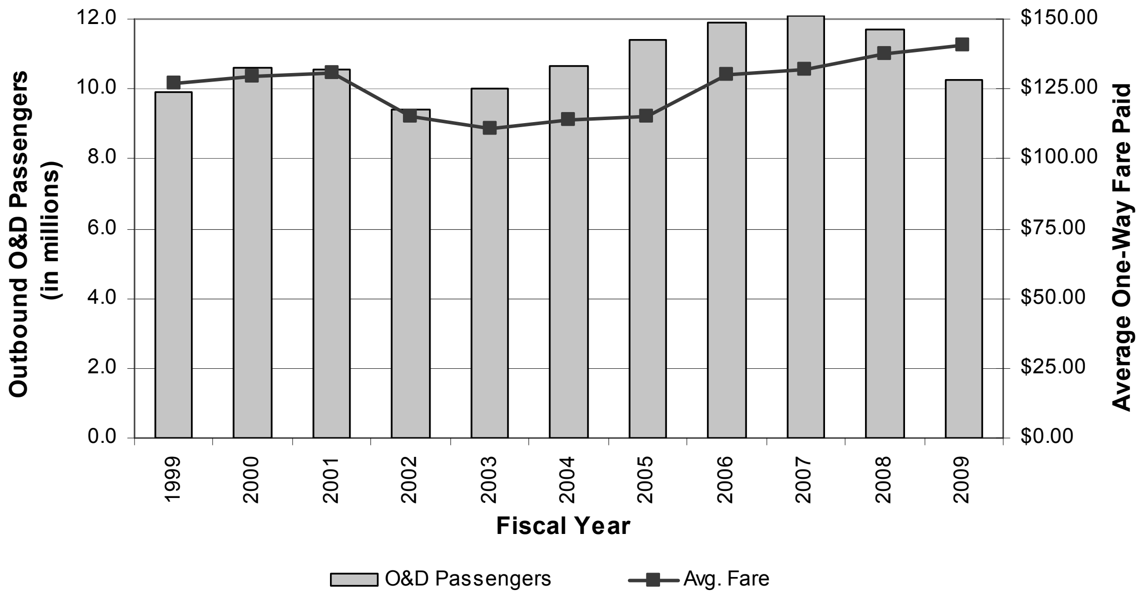
Note: CAGR=Compound annual growth rate.

Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

A comparison of domestic O&D passengers and average domestic airfares at Sky Harbor from FY 1999 to FY 2009 is shown on Figure 13. In general, fare increases dampen passenger traffic while fare decreases tend to stimulate traffic. FY 2002 was an exception; passenger numbers (short-haul travelers, in particular) dropped sharply in the aftermath of the 2001 economic recession and the September 11, 2001 terrorist attacks. After the airlines lowered fares in an effort to re-ignite demand, air travel demand responded both to the recovering economy and to the fare stimulus, and passenger traffic at Sky Harbor grew strongly between FY 2002 and FY 2005, while fares were relatively stable. Over the next 2 years, a marked increase in average airfares coincided with a deceleration in growth in domestic O&D traffic at Sky Harbor. As the nation sank into recession in FY 2008 and FY 2009, travel demand weakened significantly and domestic O&D passenger levels declined.

The reported average airfare data reflected on Figure 13 are exclusive of ancillary charges (fees for checked baggage and preferred seating, for example) which have become widespread in the airline industry over the past 2 years. Hence, average airfares as reported to U.S. DOT by the airlines increasingly understate (by as much as 10% or more) the traveler's true cost of airline travel.

Figure 13
DOMESTIC O&D PASSENGERS AND AVERAGE FARE PAID
Phoenix Sky Harbor International Airport
(Fiscal Years)



Note: Average one-way fares shown are net of all taxes, fees, and passenger facility charges and exclude ancillary fees charged by the airlines.

Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

Top 15 Domestic O&D Markets

Changes over the past 10 years in enplaned passengers and average airfares paid in Sky Harbor's top 15 domestic O&D passenger markets are shown in Table 20. This table illustrates the stimulative effect of lower airfares on passenger traffic and, conversely, the dampening effect of higher airfares. For example, the five Sky Harbor markets with the most pronounced declines in average airfares between FY 1999 and FY 2009, namely, Denver, New York, Minneapolis/St. Paul, Dallas-Fort Worth, and Philadelphia, experienced some of the highest rates of passenger increases in the top 15 markets. By contrast, increases in the average airfare ranged between 36% and 62% in the four Sky Harbor markets that showed traffic declines over the 10-year period, namely, the Los Angeles area, the San Francisco Bay Area, Las Vegas, and San Diego.

Table 20

COMPARISON OF PASSENGERS AND FARES PAID IN SKY HARBOR'S TOP 20 DOMESTIC O&D MARKETS

Phoenix Sky Harbor International Airport

(Fiscal Years; ranked by 2009 passengers)

		Domestic outbound O&D passengers						Average one-way fare paid *(a)*			
	City market			% of total		1999-2009				1999-2009	
Rank	*Airport*	1999	2009	1999	2009	Change	% change	1999	2009	Change	% change
1	Los Angeles	1,289,810	954,000	13.0%	9.3%	-335,810	-26.0%	$59.82	$90.32	$30.50	51.0%
	Los Angeles	*634,060*	*317,300*	*6.4*	*3.1*	*-316,760*	*-50.0*	*52.30*	*90.55*	*38.25*	*73.1*
	Santa Ana	*76,100*	*260,030*	*0.8*	*2.5*	*183,930*	*241.7*	*153.11*	*91.25*	*-61.85*	*-40.4*
	Burbank	*221,360*	*202,310*	*2.2*	*2.0*	*-19,050*	*-8.6*	*52.62*	*89.85*	*37.23*	*70.8*
	Ontario	*269,200*	*147,410*	*2.7*	*1.4*	*-121,790*	*-45.2*	*52.84*	*89.40*	*36.56*	*69.2*
	Long Beach	*89,090*	*26,950*	*0.9*	*0.3*	*-62,140*	*-69.7*	*72.60*	*87.20*	*14.60*	*20.1*
2	San Francisco *(b)*	701,950	585,140	7.1	5.7	-116,810	-16.6	89.09	121.46	32.36	36.3
3	Chicago *(c)*	537,510	573,830	5.4	5.6	36,320	6.8	155.38	146.16	-9.22	-5.9
4	Denver	294,230	471,240	3.0	4.6	177,010	60.2	152.84	93.54	-59.30	-38.8
5	New York *(d)*	356,990	433,560	3.6	4.2	76,570	21.4	245.36	193.72	-51.63	-21.0
6	Las Vegas	487,100	383,270	4.9	3.7	-103,830	-21.3	53.38	84.83	31.44	58.9
7	Seattle	293,200	370,710	3.0	3.6	77,510	26.4	114.96	126.79	11.83	10.3
8	San Diego	404,550	321,520	4.1	3.1	-83,030	-20.5	51.72	83.95	32.23	62.3
9	Minneapolis/ St. Paul	232,710	315,520	2.3	3.1	82,810	35.6	160.11	138.34	-21.77	-13.6
10	Washington DC/ Baltimore *(e)*	269,790	295,090	2.7	2.9	25,300	9.4	178.80	198.34	19.55	10.9
11	Dallas/ Ft. Worth *(f)*	210,090	260,360	2.1	2.5	50,270	23.9	210.88	162.74	-48.13	-22.8
12	Salt Lake City	243,770	247,860	2.5	2.4	4,090	1.7	81.54	111.17	29.63	36.3
13	Portland	193,340	229,810	1.9	2.2	36,470	18.9	114.81	123.70	8.89	7.7
14	Detroit	195,500	229,370	2.0	2.2	33,870	17.3	149.88	152.21	2.33	1.6
15	Philadelphia	119,520	176,370	1.2	1.7	56,850	47.6	213.28	168.46	-44.82	-21.0
	Total---top 15 markets	5,830,060	5,847,650	58.8%	57.1%	17,590	0.3%	$113.73	$126.69	$12.96	11.4%
	All other markets	4,086,940	4,397,210	41.2	42.9	310,270	7.6	146.04	158.84	12.80	8.8
	Total---all markets	9,917,000	10,244,860	100.0%	100.0%	327,860	3.3%	$127.05	$140.49	$13.44	10.6%

Note: Figures may not add to totals shown because of rounding.

(a) Average one-way fares shown are net of all taxes, fees, and PFCs and exclude ancillary fees charged by the airlines.

(b) Market includes San Francisco, Oakland, and San Jose airports.

(c) Market includes O'Hare and Midway airports.

(d) Market includes LaGuardia, Newark, and Kennedy airports.

(e) Market includes Dulles, Reagan, and Baltimore airports.

(f) Market includes Dallas/ Ft. Worth Airport and Love Field.

Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

Domestic Connections

During FY 2009, US Airways and Southwest accommodated 4.9 million and 1.5 million domestic-to-domestic connecting passengers, respectively, at Sky Harbor. The breakdown of these connecting passengers by geographic regions of origin and destination, as defined on Figure 9, is presented in Table 21. The primary difference between connecting patterns at Sky Harbor on the two airlines is a heavier concentration on West-South connections by Southwest, given that airline's traditional focus on the south-central region of the country, versus a greater diversification of geographical connecting flows for US Airways, including greater proportions of transcontinental (West-Northeast) and intra-West connections.

Table 21
DOMESTIC-TO-DOMESTIC CONNECTING PASSENGERS BY U.S. GEOGRAPHIC REGION
US Airways and Southwest Airlines
Phoenix Sky Harbor International Airport
(Fiscal Year 2009)

	US Airways *(a)*		**Southwest** *(b)*	
Category of passengers, by region	Passengers	% of total	Passengers	% of total
Total	**4,921,655**	**100.0%**	**1,492,155**	**100.0%**
Between the west and the south	2,151,545	43.7	867,645	58.1
Between the west and the midwest	1,127,820	22.9	294,545	19.7
Between points within the west	823,920	16.7	160,800	10.8
Between the west and the northeast	781,780	15.9	167,820	11.2
All other	36,590	0.7	1,345	0.1

Note: Figures may not add to totals shown because of rounding.

(a) Includes only those connections made from one US Airways flight to another US Airways flight. Includes regional code-sharing affiliates.

(b) Includes only those connections made from one Southwest flight to another Southwest flight.

Source: U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.

Passenger Facility Charge-Eligible Passengers

Airport sponsors are allowed to impose a passenger facility charge (PFC) on eligible enplaned passengers to generate revenues for airport projects that preserve or enhance safety, security, or capacity; mitigate noise impacts; or provide opportunities for enhanced competition among air carriers.

According to federal regulation, certain enplaned passengers are exempt from paying a PFC. The exemption with widest application at most airports, including Sky Harbor, is for passengers who are traveling on frequent flyer award tickets and flight crews. In FY 2009, an estimated 8% of enplaned passengers were exempted due to flying on frequent-flyer program award tickets. Additional federal exclusions include: certain passengers on multi-segment connecting flights (based on a maximum charge of $18.00 per round trip ticket – or four flight segments); certain passengers using tickets purchased outside the United States; and passengers flying "essential air service" routes. Additionally, the City currently excludes certain other small classes of users operating at Sky Harbor.

PFC-eligible enplaned passengers by fiscal year are imputed based upon annual PFC collections, enplaned passengers, and the net PFC rate charged. In FY 2009 the estimated PFC-eligible percentage declined to 87.8%, primarily due to timing differences in remittance of PFC collections by Southwest Airlines.*

Table 22
PFC-ELIGIBLE ENPLANED PASSENGERS
Phoenix Sky Harbor International Airport
(Fiscal Years; passengers and PFC collections in thousands)

Fiscal Year	Enplaned passengers	PFC collections	Net PFC rate *(a)*	Estim. PFC-eligible enplaned passengers	Estim. PFC-eligible percentage
2007	20,763	$84,212	$4.39	19,183	92.4%
2008	20,668	85,964	4.39	19,582	94.7
2009	18,912	72,924	4.39	16,611	87.8

(a) The City imposes a $4.50 charge; however, per federal regulation 11 cents of each PFC is held by the airlines as compensation for collecting, handling, and remitting the PFC revenue.

Source: City of Phoenix Aviation Department.

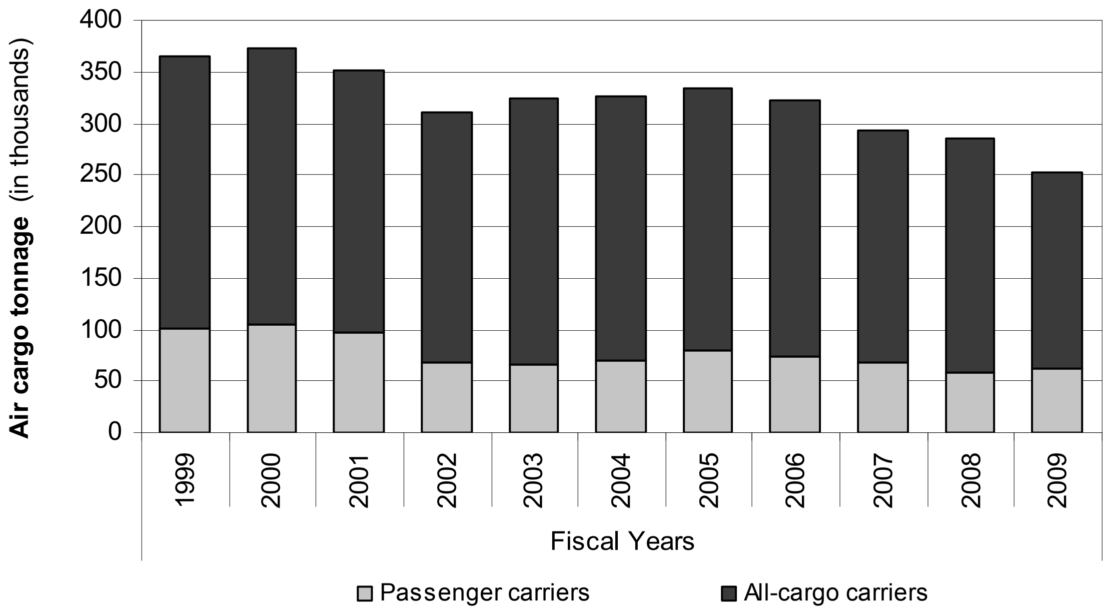
*In FY 2008, Southwest Airlines remitted 13 months of PFC revenues, whereas in FY 2009 it only remitted 11 months of PFC revenues. When compensating for this timing difference, the estimated PFC-eligible passenger percentage for Sky Harbor is above 90% for both years, or 91% for the 3 year period. The Aviation Department assesses a penalty for late remittance.

AIR CARGO ACTIVITY

Air cargo activity at Sky Harbor has declined over the past 10 years, as shown on Figure 14. The top two all-cargo carriers at Sky Harbor in FY 2009 were FedEx (44% market share) and UPS (20%), while US Airways (16%) and Southwest (6%) represented the largest passenger airlines by cargo tonnage.

The long-term declining trend in air cargo tonnage seen at Sky Harbor is not uncommon among U.S. airports; shipper (consumer) cost sensitivity has shifted some cargo formerly transported by air to cheaper surface modes of transport.

Figure 14
TOTAL AIR CARGO TONNAGE BY TYPE OF CARRIER
Phoenix Sky Harbor International Airport
(Fiscal Years)



Note: Enplaned and deplaned freight and mail shown in tons.
Figures may not add to totals shown because of rounding.

Source: City of Phoenix Aviation Department.

Year-over year declines in cargo tonnage at Sky Harbor tapered off in the first 5 months of FY 2010 and, in December 2009, positive growth returned. The net result was a 2.5% increase in cargo tonnage at Sky Harbor in the first 11 months of FY 2010, relative to the same period of FY 2009.

KEY FACTORS AFFECTING FUTURE AIRLINE TRAFFIC

In addition to the economy and demographics of Sky Harbor's service region, discussed earlier, key factors that will affect airline traffic at Sky Harbor include:

- Economic and political conditions
- Financial health of the airline industry
- Airline service and routes
- Airline competition and airfares
- Airline consolidation and alliances
- Availability and price of aviation fuel
- Aviation safety and security concerns
- Capacity of the national air traffic control system
- Capacity of Sky Harbor
- Phoenix-Mesa Gateway Airport

Economic and Political Conditions

As noted earlier in this section, airline passenger traffic nationwide has correlated closely with the state of the U.S. economy and levels of real disposable income. Recession in the U.S. economy in 2001 and stagnant economic conditions in 2002 contributed to reduced passenger numbers during those years. The recession that began in late 2007, combined with reduced discretionary income, contributed to reduced airline travel demand in 2008 and 2009 and may continue to do so in the near term.

With the globalization of business and the increased importance of international trade and tourism, growth in the U.S. economy has become more closely tied to worldwide economic, political, and social conditions. As a result, international economics, trade balances, currency exchange rates, political relationships, and hostilities are important influences on passenger traffic at major U.S. airports. Sustained future increases in domestic and international passenger traffic will depend on stable and peaceful international conditions and global economic growth.

Historically, growth in air travel demand to and from the MSA has been fostered by strong population growth, the economic health and expansion of the MSA, and the attractiveness of the MSA as a business and leisure destination. The MSA economy was affected by the current recession to a much greater extent than the U.S. overall, and the near-term economic outlook is less robust than for the nation. However, the MSA and Arizona economies appear poised for a resumption of growth and the long-term outlook for economic growth continues to exceed the national average.

Financial Health of the Airline Industry

The number of passengers using Sky Harbor will depend partly on the profitability of the U.S. airline industry and the associated ability of the industry and individual airlines, particularly US Airways and Southwest, to make the necessary investments to continue providing service.

The 1990-1991 recession, coupled with increased operating costs and security concerns during the Gulf War, generated then-record financial losses in the airline industry. Those losses put particular pressures on financially weak or highly indebted airlines, forcing many to seek bankruptcy protection, sell productive assets, lay off workers, reduce service, or discontinue operations.

Between 1995 and 2000, the airline industry was profitable, but as a result of the 2001 economic recession, the disruption of the airline industry that followed the September 2001 terrorist attacks, increased fuel and other operating costs, and price competition, the industry again experienced large financial losses. In 2001 through 2005, the major U.S. passenger airlines collectively recorded net losses of approximately $40 billion.

To mitigate those losses, all of the major network airlines restructured their route networks and flight schedules and reached agreement with their employees, lessors, vendors, and creditors to cut costs, either under Chapter 11 bankruptcy protection or the possibility of such. US Airways twice filed for bankruptcy protection, in August 2002 and September 2004, before emerging in September 2005 following its merger with America West Airlines. In 2004, US Airways drastically reduced service at its Pittsburgh hub. In December 2002, United Airlines filed for bankruptcy protection (emerged in February 2006). In 2003, American Airlines avoided filing for bankruptcy protection only after obtaining labor cost concessions from its employees and drastically reducing service at its St. Louis hub. In September 2005, Northwest filed for bankruptcy protection (emerged in May 2007). In 2005, Delta eliminated its Dallas/Fort Worth hub and downsized its Cincinnati hub. Among smaller airlines, between 2003 and 2005, Hawaiian Airlines, ATA Airlines, Aloha Airlines, and Independence Air filed for bankruptcy protection. (Of these airlines, only Hawaiian was still operating as of July 2010.) In April 2008, Frontier Airlines filed for Chapter 11 bankruptcy protection but continued to operate; the airline emerged from bankruptcy in October 2009 following its acquisition by Republic Airways Holdings. Mesa Air Group, parent company of Mesa Airlines and operator of US Airways Express flights at Sky Harbor, filed for Chapter 11 bankruptcy protection in January 2010 and continues to operate.

In 2006 and 2007, the U.S. passenger airline industry as a whole was profitable, but in 2008, as oil and aviation fuel prices increased to unprecedented levels, the industry experienced a profitability crisis. The industry responded by grounding older, less fuel-efficient aircraft, adopting fuel-saving operating practices, hedging fuel requirements, reducing scheduled seat capacity, eliminating unprofitable routes, laying off employees, reducing employee compensation, reducing other nonfuel expenses, increasing airfares, and imposing other fees and charges. The U.S. passenger airlines collectively reduced domestic capacity (as measured by available seat-miles) by approximately 4% in 2008 and a further 8% in 2009.

Continuing losses by the U.S. airlines could deplete limited cash reserves and force any of them to seek bankruptcy protection or liquidate.

Airline Service and Routes

Sky Harbor serves as a gateway to the MSA and a connecting hub. The number of O&D passengers depends on the intrinsic attractiveness of the MSA as a business and leisure destination and the propensity of its residents to travel. The number of connecting passengers, on the other hand, depends on the airline service provided at Sky Harbor and at other airports.

Most mainline airlines have developed hub-and-spoke systems that allow them to offer high-frequency service in many city-pair markets. Because most connecting passengers have a choice of airlines and intermediate airports, connecting traffic at an airport depends on the route networks and flight schedules of the airlines serving that airport and competing hub airports.

Sky Harbor is one of the most important hubs in US Airways' system and one of the largest focus cities in Southwest's route network. Roughly 40% of passengers at Sky Harbor connect between flights. As a result, a material share of the passenger traffic at Sky Harbor results from the route networks and flight schedules of US Airways and Southwest rather than the economy of Sky Harbor's service region. If either or both of these airlines were to reduce connecting service at Sky Harbor, such flights would not necessarily be replaced by other airlines, although reductions in service by any airline would create business opportunities for others.

Airline Competition and Airfares

Airline fares and ancillary fees have an important effect on passenger demand, particularly for relatively short trips, for which the automobile and other travel modes are potential alternatives, and for price-sensitive "discretionary" travel. The price elasticity of demand for airline travel increases in weak economic conditions when the disposable income of potential airline travelers is reduced. Airfares are influenced by airline capacity and yield management; passenger demand; airline market presence; labor, fuel, and other airline operating costs; airline debt burden; taxes, fees, and other charges assessed by governmental and airport agencies; and competitive factors. Future passenger numbers, both nationwide and at Sky Harbor, will depend on the level of airline fares and ancillary fees.

Overcapacity in the industry, the ability of consumers to compare airfares and book flights easily via the Internet, and other competitive factors combined to reduce airfares between 2000 and 2005. During that period, the average domestic yield for U.S. airlines was reduced from 14.9 cents to 12.7 cents per passenger-mile. Despite a period of elevated yields in the subsequent few years, travel demand weakened considerably in 2009, particularly for first- and business-class travel, in the face of the severe economic downturn. The average domestic yield for U.S. airlines in the first half of 2009 was 13.1 cents.

Airline Consolidation and Alliances

In response to competitive pressures, the U.S. airline industry has consolidated. In April 2001, American completed an acquisition of failing Trans World Airlines. In August 2001, merger plans for United and US Airways were proposed, but rejected by the U.S. DOT because of concerns about reduced airline competition. In September 2005, US Airways and America West merged. In April 2010, Republic Airways Holdings announced that Midwest and Frontier Airlines would merge under the Frontier brand.

In May 2010, United and Continental announced their intent to merge. It remains to be seen whether the necessary regulatory and shareholder approvals for the merger will be granted. Further airline consolidation remains possible and could change airline service patterns, particularly at the connecting hub airports of the merging airlines.

Alliances, joint ventures, and other marketing arrangements provide airlines with many of the advantages of mergers, and all of the large U.S. network airlines are members of such alliances with foreign-flag airlines. Alliances typically involve marketing, code-sharing, and scheduling arrangements to facilitate the transfer of passengers between the airlines. Joint ventures involve even closer cooperation and the sharing of costs and revenues on certain routes.

Availability and Price of Aviation Fuel

The price of aviation fuel is a critical and uncertain factor affecting airline operating economics. Fuel prices are particularly sensitive to worldwide political instability and economic uncertainty. Beginning in 2003, fuel prices increased as a result of the invasion and occupation of Iraq; political unrest in Nigeria and other oil-producing countries; the rapidly growing economies of China, India, and other developing countries; and other factors influencing the demand for and supply of oil. By mid-2008, average fuel prices were three times higher than they were in mid-2004 and represented the largest item of airline operating expense, accounting for between 30% and 40% of expenses for most airlines. Increased fuel prices have been an important contributor to recent airline industry losses. In the second half of 2008, fuel prices fell sharply as demand declined worldwide, although prices rose somewhat through 2009 and early 2010, partly as a result of a weakened U.S. dollar.

Airline industry analysts hold differing views on how oil and aviation fuel prices may change in the near term. However, there is widespread agreement that fuel prices are likely to remain high relative to historical levels and to increase over the long term as global energy demand increases in the face of finite and increasingly expensive oil supplies.

Aviation fuel prices will continue to affect future airline service, airfares, and passenger numbers. Airline operating economics will also be affected as regulatory costs are imposed on air travel and the airline industry as part of efforts to reduce aircraft emissions contributing to global climate change.

Aviation Safety and Security Concerns

Concerns about the safety of airline travel and the effectiveness of security precautions influence passenger travel behavior and airline travel demand. Anxieties about the safety of flying and the inconveniences and delays associated with security screening procedures lead to both the avoidance of travel and the switching from air to surface modes of transportation for short trips.

Safety concerns in the aftermath of the terrorist attacks in September 2001 were largely responsible for the steep decline in airline travel nationwide in 2002. Since 2001, government agencies, airlines, and airport operators have upgraded security measures to guard against changing threats and maintain confidence in the safety of airline travel. These measures include strengthened aircraft cockpit doors, changed flight crew procedures, increased presence of armed sky marshals, federalization of airport security functions under the Transportation Security Administration (TSA), more effective dissemination of information about threats, more intensive screening of passengers and baggage, and deployment of new screening technologies.

Public health concerns have also affected air travel demand from time to time. In 2003, concerns about the spread of severe acute respiratory syndrome (SARS) led public health agencies to issue advisories against nonessential travel to certain regions of the world. In 2009, concerns about the spread of influenza caused by the H1N1 virus reduced certain international travel, particularly to and from Mexico and Asia.

Historically, airline travel demand has recovered after temporary decreases stemming from terrorist attacks or threats, hijackings, aircraft crashes, public health concerns, and international hostilities. Provided that precautions by government agencies, airlines, and airport operators serve to maintain confidence in the safety of commercial aviation without imposing unacceptable inconveniences for airline travelers, it can be expected that future demand for airline travel at Sky Harbor will depend primarily on economic, not safety or security, factors.

Capacity of the National Air Traffic Control System

Demands on the national air traffic control system have, in the past, caused delays and operational restrictions affecting airline schedules and passenger traffic. The FAA is gradually implementing its Next Generation Air Transport System (NextGen) air traffic management programs to modernize and automate the guidance and communications equipment of the air traffic control system and enhance the use of airspace and runways through improved air navigation aids and procedures. After 2001, and again in 2008 and 2009, air traffic delays decreased as a result of reduced numbers of aircraft operations, but, as air travel demand increases in the future, flight delays and restrictions will recur.

Capacity of Sky Harbor

In addition to any future constraints that may be imposed by the capacity of the national air traffic control system, future growth in airline traffic at Sky Harbor will depend on the capacity at Sky Harbor itself. The Aviation Department believes capacity at Sky Harbor is sufficient to accommodate future growth over the forecast period.

Phoenix-Mesa Gateway Airport

The City is a member government in the Phoenix-Mesa Gateway Airport Authority, which owns and operates Phoenix-Mesa Gateway Airport, located approximately 30 miles southeast of Sky Harbor. Over the forecast period, air service at Phoenix-Mesa Gateway Airport is expected to be complementary to air service at Sky Harbor. It is unlikely, for cost reasons, that any airline serving Sky Harbor would split its operation between the two airports, and it is not envisaged that any incumbent airline would transfer its Sky Harbor operations to Phoenix-Mesa Gateway Airport during the forecast period. Phoenix-Mesa Gateway Airport offers an alternative airport for a new entrant airline wanting to serve the MSA; however, the current economic and industry environment make the creation of a new entrant airline somewhat unlikely in the near term. Nevertheless, even if a new entrant airline did choose to serve Phoenix-Mesa Gateway Airport, the impact on traffic at Sky Harbor would likely be minimal. In FY 2009, less than 250,000 passengers enplaned at Phoenix-Mesa Gateway Airport, a small number relative to the 18.9 million passengers enplaned at Sky Harbor.

AIRLINE TRAFFIC FORECASTS

In developing the airline traffic forecasts that follow, it was assumed that, over the long term, the number of enplaned passengers at Sky Harbor will increase as a function of growth in the economy of the MSA and continued airline competition. It was assumed that airline service at Sky Harbor will not be constrained by the availability of aviation fuel, limitations in the capacity of the air traffic control system or Sky Harbor, charges for the use of aviation facilities, or government policies or actions that restrict growth.

The forecasts of airline traffic at Sky Harbor were developed taking into account analyses of (1) historical trends in passenger traffic at Sky Harbor, (2) recent trends in monthly passenger traffic at Sky Harbor, (3) historical and projected economic indicators for the MSA and national economic trends, and (4) flight schedules filed by the airlines and published by Official Airline Guides, Inc.

Near-Term Growth

In FY 2010 and FY 2011, growth in the number of enplaned passengers at Sky Harbor is predicated on three assumptions:

1. Given that airline travel tends to lag the economy, and given that the economy of the MSA has been disproportionally affected by the recent economic recession, the modest economic recovery and expansion that is generally forecast to take place during 2010 will lead to a gradual strengthening of air travel demand at Sky Harbor in FY 2011.

2. The number of departing seats at Sky Harbor in FY 2010 is projected to decrease 2.1% compared with FY 2009. Modest capacity growth of approximately 1.0% will occur in FY 2011 compared with FY 2010.

3. Senate Bill 1070, Arizona's new immigration legislation, was signed into law in April 2010 with a July 29, 2010 effective date. The law makes it a criminal misdemeanor for a foreign national to be in Arizona without carrying federally-required registration documentation. As of mid-June, the bill was the subject of legal challenges. The effect of this law, if any, on passenger traffic is currently unknown. It is assumed that Senate Bill 1070 will have no material positive or negative effect upon enplaned passenger levels at Sky Harbor.

Longer-Term Growth

In FY 2012 and beyond, the airline traffic forecasts for Sky Harbor were based on the following assumptions:

1. National and global economic growth will support future increases in passenger traffic. The economy of the MSA will continue to increase faster over the long term than that of the nation, despite more severe economic turmoil in the near term, consistent with the projected growth in key economic indicators presented in the earlier section, "Economic Outlook."

2. Demand for passenger travel to/from the MSA will remain strong based on the strength of the local economy, the area's population growth, and the MSA's relative attractiveness as a tourist and convention destination.

3. Given that (a) many of the major O&D markets for Sky Harbor have already been stimulated by lower fares, (b) the connecting hub operations at Sky Harbor are mature and highly developed, and (c) many other air travel markets across the country have not yet been subject to the same degree of lower-fare stimulation, domestic airline traffic at Sky Harbor will grow at rates lower than traffic growth nationwide. In January 2010, the FAA released its latest forecast of U.S. systemwide enplaned passengers, which are envisaged to increase 2.6% per year, on average, from 2009 to 2016.

4. Notwithstanding the foregoing assumption, the level of airline service will continue to improve at Sky Harbor, particularly in long-haul domestic markets and in international markets, thereby stimulating passenger traffic in those markets and attracting more passengers to connect between flights at Sky Harbor.

5. Sky Harbor will continue to serve primarily domestic O&D passengers and, secondarily, to serve as a connecting hub for the operations of US Airways and as one of the key airports in the route system of Southwest Airlines.

6. US Airways and Southwest Airlines will direct their focus increasingly on serving longer-haul routes from Sky Harbor.

7. Domestic airfares and ancillary charges at Sky Harbor will increase somewhat faster than the overall rate of domestic inflation. Factors that will constrain airfares include the following: (a) a relatively high level of competition and, hence, aggressive pricing in Sky Harbor's major domestic O&D markets; and (b) reduced airfares used to stimulate leisure travel in a tourism market such as Phoenix.

8. The technology supporting travel substitutes (e.g., videoconferencing) will provide an increasingly viable alternative to domestic business travel, resulting in a gradual decline in the proportion of business travel to and from Phoenix.

9. No major act of terrorism, war, disease, or other extraordinary unforeseen event will materially affect airline travel in the United States during the forecast period.

10. Increases in fuel prices will not affect the ability of the airlines to serve Sky Harbor or offer competitive airfares.

11. The North American Free Trade Agreement (NAFTA) will continue to enhance transborder travel potential with Mexico and Canada.

Enplaned Passenger Forecast

Following 2 years of declining passenger volumes, the number of enplaned passengers at Sky Harbor is expected to stabilize in FY 2010, as economic growth begins to return. Over the longer term, passenger growth is expected to strengthen, tempered somewhat by such considerations as a mature airline travel market at Sky Harbor, high levels of competitive service and airfares, and elevated jet fuel prices. The forecast presented herein is not constrained by any facility capacity considerations.

Table 23 presents historical and forecast numbers of enplaned passengers at Sky Harbor through FY 2016, and Figure 15 presents the data graphically. Following a significant decline in the number of enplaned passengers in FY 2009 (down 8.5%), a year of essentially flat passenger traffic (up 0.1%) is forecast at Sky Harbor in FY 2010. Based upon data for the first 11 months of FY 2010 (through May), passenger traffic was up 0.7% at Sky Harbor over the same period for FY 2009.

Table 23
HISTORICAL AND FORECAST ENPLANED PASSENGERS
BY SECTOR AND BY TYPE OF PASSENGER
Phoenix Sky Harbor International Airport
(Fiscal Years; passengers in thousands)

This forecast was prepared on the basis of the information and assumptions given in the text. The achievement of any forecast is dependent upon the occurrence of future events which cannot be assured. Therefore, the actual results may vary from the forecast, and the variance could be material.

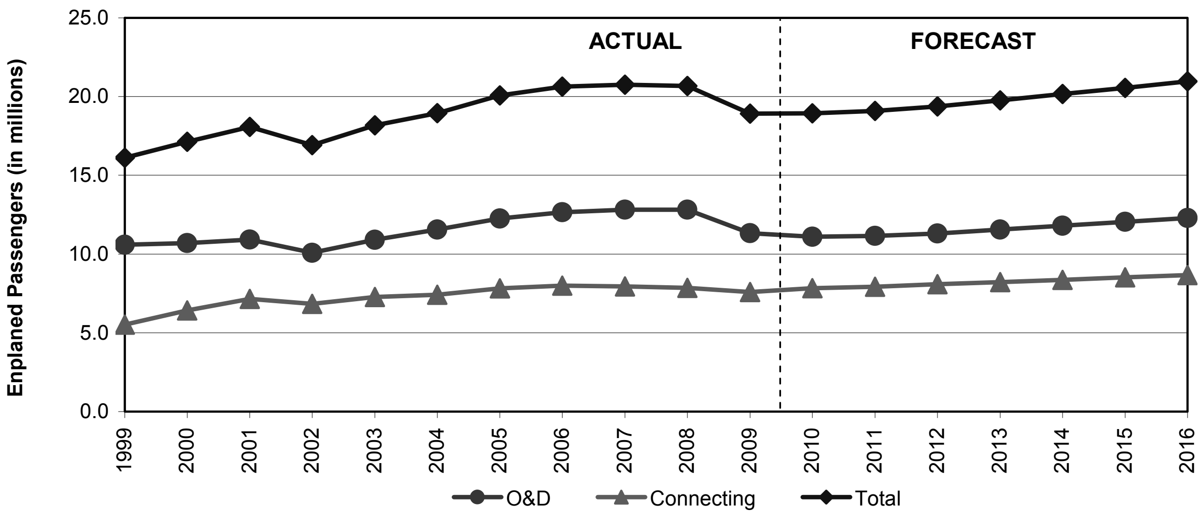
	By flight destination		By type of passenger: Origin-Destination (O&D)					**Percent**
Year	Domestic	International	Resident	Visitor	Total O&D	Connecting	**Total**	**change from previous year**
1999	15,692	414	n.c.	n.c.	10,586	5,519	**16,105**	
2000	16,688	435	n.c.	n.c.	10,700	6,423	**17,123**	**6.3%**
2001	17,521	555	n.c.	n.c.	10,927	7,149	**18,076**	**5.6**
2002	16,368	548	n.c.	n.c.	10,072	6,844	**16,916**	**(6.4)**
2003	17,530	652	n.c.	n.c.	10,911	7,271	**18,182**	**7.5**
2004	18,221	735	5,180	6,366	11,546	7,411	**18,956**	**4.3**
2005	19,258	811	5,504	6,753	12,256	7,813	**20,070**	**5.9**
2006	19,750	893	5,774	6,882	12,656	7,986	**20,642**	**2.9**
2007	19,892	871	5,887	6,928	12,815	7,948	**20,763**	**0.6**
2008	19,752	916	5,903	6,905	12,808	7,860	**20,668**	**(0.5)**
2009A	17,980	932	5,143	6,179	11,323	7,589	**18,912**	**(8.5)**
2010F	17,943	992	5,044	6,058	11,102	7,833	**18,935**	**0.1**
2011	18,017	1,068	5,074	6,079	11,153	7,932	**19,085**	**0.8**
2012	18,285	1,095	5,147	6,159	11,306	8,074	**19,380**	**1.5**
2013	18,644	1,122	5,261	6,286	11,548	8,217	**19,765**	**2.0**
2014	19,006	1,149	5,376	6,415	11,791	8,364	**20,155**	**2.0**
2015	19,378	1,177	5,495	6,548	12,042	8,513	**20,555**	**2.0**
2016	19,754	1,206	5,614	6,681	12,296	8,665	**20,960**	**2.0**
Compound annual growth rate:								
Historical:								
1999-2007	3.0%	9.7%	n.a.	n.a.	2.4%	4.7%	**3.2%**	
2007-2009	(4.9)	3.4	(6.5)	(5.6)	(6.0)	(2.3)	**(4.6)**	
1999-2009	1.4	8.5	n.a.	n.a.	0.7	3.2	**1.6**	
Forecast:								
2009-2011	0.1%	7.1%	(0.7%)	(0.8%)	(0.8%)	2.2%	**0.5%**	
2011-2016	1.9	2.5	2.0	1.9	2.0	1.8	**1.9**	
2009-2016	1.4	3.8	1.3	1.1	1.2	1.9	**1.5**	

Notes: A=Actual; F=Forecast. n.c.=not calculated; n.a.=not applicable.

Sources: Actual—City of Phoenix Aviation Department; U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.
Forecast—Jacobs Consultancy.

Figure 15
ENPLANED PASSENGER FORECAST
Phoenix Sky Harbor International Airport
(Fiscal Years)

This forecast was prepared on the basis of the information and assumptions given in the text. The achievement of any forecast is dependent upon the occurrence of future events which cannot be assured. Therefore, the actual results may vary from the forecast, and the variance could be material.



Sources: Actual—City of Phoenix Aviation Department; U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.
Forecast—Jacobs Consultancy.

After FY 2010, the number of enplaned passengers at Sky Harbor is expected to accelerate toward a longer-term growth rate of 2.0% per year. Growth in the number of international passengers is forecast to exceed domestic growth, while growth in numbers of O&D passengers is forecast to slightly outpace connecting passengers, generally in line with historical patterns at Sky Harbor since FY 2002. In FY 2016, total enplaned passengers are forecast to number 20.96 million, 0.9% above Sky Harbor's FY 2007 enplaned passenger peak.

The FY 2016 passenger forecast for Sky Harbor is somewhat lower (200,000 enplaned passengers) than the 21.16 million enplaned passengers forecast in Federal Fiscal Year (FFY) 2016 by the FAA in its Terminal Area Forecast. This is attributable to the FAA forecasting a more rapid rebound (averaging 2.5%-3.0%, per year) between FFY 2010 and FFY 2013, and a slightly stronger long-term growth rate (2.2% per year) thereafter.

It was assumed that the ratio of PFC–eligible passengers to total enplaned passengers would remain at 90% throughout the forecast period. Table 24 presents the PFC-eligible passenger forecast derived from the enplaned passenger forecast.

Table 24
ACTUAL AND FORECAST
PFC-ELIGIBLE ENPLANED PASSENGERS
Phoenix Sky Harbor International Airport
(Fiscal Years)

This forecast was prepared on the basis of the information and assumptions given in the text. The achievement of any forecast is dependent upon the occurrence of future events which cannot be assured. Therefore, the actual results may vary from the forecast, and the variance could be material.

Year	Enplaned passengers	Estimated PFC-eligible percentage	Estimated PFC-eligible enplaned passengers
2007	20,762,870	92.4%	19,183,000
2008	20,667,530	94.7	19,582,000
2009A	18,912,120	87.8	16,611,000
2010F	18,935,000	90.0	17,040,000
2011	19,085,000	90.0	17,175,000
2012	19,380,000	90.0	17,440,000
2013	19,765,000	90.0	17,790,000
2014	20,155,000	90.0	18,140,000
2015	20,555,000	90.0	18,500,000
2016	20,960,000	90.0	18,865,000

Notes: A=Actual; F=Forecast.
Sources: Actual---City of Phoenix Aviation Department; U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.
Forecast---Jacobs Consultancy.

Aircraft Operations Forecast

Table 25 presents historical and forecast passenger flight operations for passenger flights at Sky Harbor for FY 2004 through FY 2016. The forecast was derived from the enplaned passenger forecasts and analysis of historical trends in aircraft operations at Sky Harbor. Key metrics, such as average enplaned passenger load factor and aircraft seat capacity were used in developing these forecasts. No constraints on operations growth were assumed. This forecast excludes all-cargo, general aviation, and military flights.

From FY 2009 through FY 2016, passenger aircraft operations are forecast to increase at an average of 0.8% per year, compared with forecast average annual increases in enplaned passengers of 1.5%. The difference between forecast operations and enplaned passengers results from anticipated modest increases in average seats per flight and passenger load factor.

Table 25
FORECAST TRENDS IN PASSENGER FLIGHT OPERATIONS
Phoenix Sky Harbor International Airport
(Fiscal Years; enplaned passengers and departing seats in thousands)

This forecast was prepared on the basis of the information and assumptions given in the text. The achievement of any forecast is dependent upon the occurrence of future events which cannot be assured. Therefore, the actual results may vary from the forecast, and the variance could be material.

Year	Enpl. passengers	Enpl. psgr. load factor *(a)*	Departing seats	Average seats per flight	Departing passenger flights	**Total psgr. flight ops.** *(b)*	**Percent change from previous year**
2004	18,956	70.9%	26,753	122	219,090	**438,180**	
2005	20,070	71.7	27,998	124	225,530	**451,060**	**2.9%**
2006	20,642	71.8	28,761	125	230,854	**461,708**	**2.4**
2007	20,763	71.8	28,929	127	227,908	**455,816**	**(1.3)**
2008	20,668	73.3	28,203	127	221,389	**442,778**	**(2.9)**
2009A	18,912	74.0	25,559	128	200,196	**400,392**	**(9.6)**
2010F	18,935	75.7	25,012	128	195,400	**390,800**	**(2.4)**
2011	19,085	75.6	25,235	128	196,700	**393,400**	**0.7**
2012	19,380	75.8	25,567	129	198,800	**397,600**	**1.1**
2013	19,765	75.9	26,041	129	202,000	**404,000**	**1.6**
2014	20,155	76.0	26,520	129	205,300	**410,600**	**1.6**
2015	20,555	76.0	27,046	130	208,800	**417,600**	**1.7**
2016	20,960	76.0	27,579	130	212,300	**424,600**	**1.7**
Compound annual growth rate:							
Historical:							
2004-2007	3.1%		2.6%		1.3%	**1.3%**	
2007-2009	(4.6)		(6.0)		(6.3)	**(6.3)**	
2004-2009	(0.0)		(0.9)		(1.8)	**(1.8)**	
Forecast:							
2009-2011	0.5%		(0.6%)		(0.9%)	**(0.9%)**	
2011-2016	1.9		1.8		1.5	**1.5**	
2009-2016	1.5		1.1		0.8	**0.8**	

Note: A=Actual; F=Forecast.

(a) Load factor calculation based on enplanements and excludes "through" passengers.
(b) Sum of flight arrivals and departures.

Sources: Historical---City of Phoenix Aviation Department; U.S. DOT, Schedule T100; *Official Airline Guide*.
Forecast—Jacobs Consultancy.

Hypothetical Scenario

The hypothetical scenario was developed to provide the basis to test the Aviation Department's projected financial results under a scenario that could hypothetically arise either (1) if, following a merger between US Airways and another airline, Sky Harbor's role in the combined airline's route network were to be drastically reduced, or (2) US Airways were to be forced into bankruptcy and liquidation. For the purposes of this hypothetical scenario, US Airways was assumed to dramatically reduce service at Sky Harbor effective the beginning of FY 2011.

Specifically, it was assumed that:

- Other airlines would increase service to meet O&D passenger demand fairly rapidly during the FY 2011 to FY 2013 period and then more gradually in the following years. This service would occur largely through these airlines' connecting hub airports. O&D demand would recover slowly due to decreased service frequencies and non-stop destinations.

- Southwest would expand its service offerings at Sky Harbor in response to US Airways' capacity reductions. While these flight additions would have the effect of increasing Southwest's connecting activity at Sky Harbor somewhat, the overall number of connections at Sky Harbor would fall by nearly half, reducing Sky Harbor's importance as a national connecting hub. No airline would mount a connecting operation at Sky Harbor comparable in size to the current US Airways hub.

- Sky Harbor would continue to be a connecting point for regional flights.

- Most international routes to Mexico and Canada would be served predominantly by foreign-flag airlines.

In FY 2016, the number of O&D passengers in the hypothetical scenario will nearly have recovered to the base forecast, but the number of connecting passengers is forecast to be only 55% of the base forecast number. (See Table 26 and Figure 16.) Overall, the number of enplaned passengers in the hypothetical scenario is 80% of the base forecast number. The percentage of O&D enplaned passengers at Sky Harbor in FY 2016 are approximately 72% in the hypothetical scenario as compared to 59% in the base forecast.

Table 26
HYPOTHETICAL SCENARIO OF ENPLANED PASSENGERS
BY SECTOR AND BY TYPE OF PASSENGER
Phoenix Sky Harbor International Airport
(Fiscal Years; in thousands)

This scenario was based upon purely hypothetical assumptions, as described in the text.

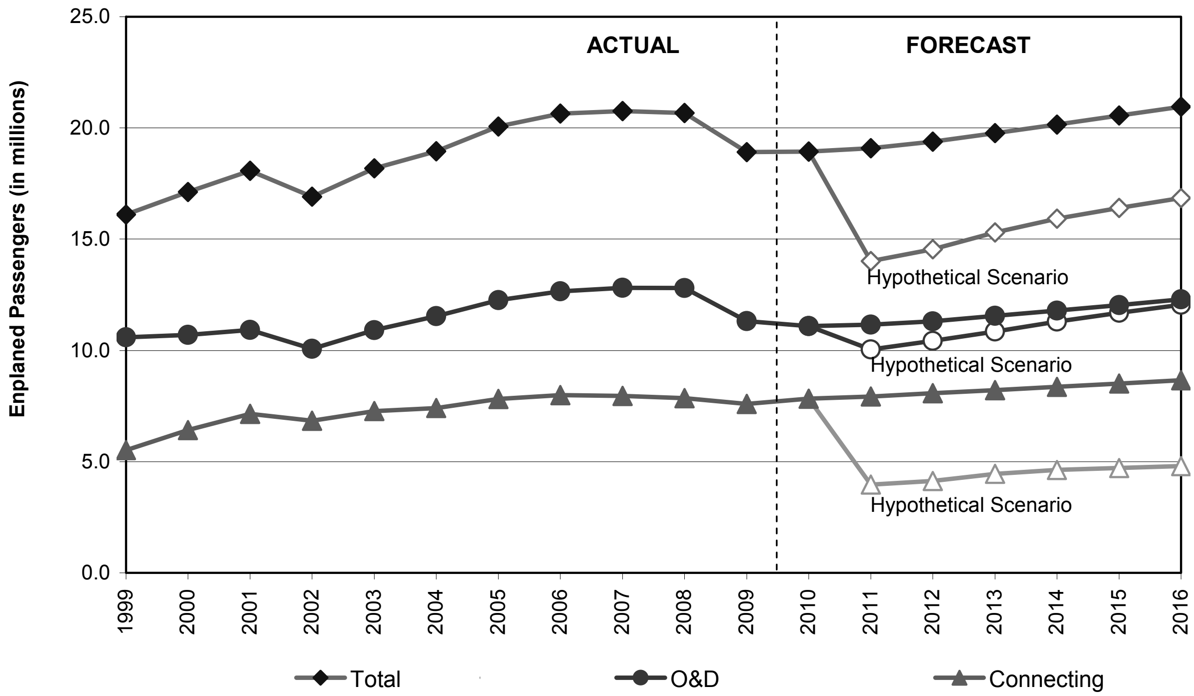
	By flight destination		By type of passenger			**Percent change from**
Year	Domestic	International	O&D	Connecting	**Total**	**previous year**
2009A	17,980	932	11,323	7,589	**18,912**	
2010H	17,943	992	11,102	7,833	**18,935**	**0.1%**
2011	13,243	772	10,049	3,966	**14,015**	**(26.0)**
2012	13,762	791	10,427	4,127	**14,553**	**3.8**
2013	14,489	811	10,851	4,449	**15,300**	**5.1**
2014	15,089	831	11,290	4,629	**15,920**	**4.1**
2015	15,552	851	11,692	4,711	**16,403**	**3.0**
2016	15,972	872	12,049	4,795	**16,844**	**2.7**
Compound annual growth rate:						
2009-2011	(14.2%)	(9.0%)	(5.8%)	(27.7%)	**(13.9%)**	
2011-2016	3.8	2.5	3.7	3.9	**3.7**	
2009-2016	(1.7)	(0.9)	0.9	(6.3)	**(1.6)**	

Note: A=Actual; H=Hypothetical Scenario.

Sources: Historical—City of Phoenix Aviation Department; U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.
Hypothetical Scenario—Jacobs Consultancy.

Figure 16
ENPLANED PASSENGER FORECAST AND HYPOTHETICAL SCENARIO
Phoenix Sky Harbor International Airport
(Fiscal Years)

These forecasts were prepared on the basis of the information and assumptions given in the text. The hypothetical scenario was based upon purely hypothetical assumptions. The achievement of any forecast is dependent upon the occurrence of future events which cannot be assured. Therefore, the actual results may vary from the forecast, and the variance could be material.



Sources: Historical—City of Phoenix Aviation Department; U.S. DOT, *Air Passenger Origin-Destination Survey*, reconciled to Schedules T100 and 298C T1.
Forecast and Hypothetical Scenario—Jacobs Consultancy.

FINANCIAL ANALYSIS

The purpose of the Report is to evaluate the ability of the City to satisfy the requirements of the Rate Covenant and the Junior Lien Rate Covenant during the forecast period taking into account the proposed 2010 Junior Bonds, and outstanding Senior Lien Bonds. The forecast covers the fiscal year ending June 30, 2010 (FY 2010) through FY 2016, inclusive (the forecast period).

FRAMEWORK FOR AIRPORT SYSTEM FINANCIAL OPERATIONS

The City accounts for Airport system financial operations as a separate Aviation Enterprise Fund according to generally accepted accounting principles for governmental entities, federal regulations related to airlines rates and related City ordinances, the requirements of the City bond ordinances, and the City Purchase Agreements, as discussed below.

Organization and Management

The Airport is operated as a self-supporting enterprise through the City's Aviation Department.* The Phoenix City Council establishes the major policies attendant to the development and operation of the Airport. The City operates under a Council-Manager form of government. The City Council consists of a Mayor and eight Council members. The Mayor is elected at-large. Council members are elected for 4-year staggered terms from separate districts on a non-partisan ballot. The Mayor and each member of Council have equal voting powers. The City Council appoints the City Manager who administers the policies relative to the Airport. The City Manager appoints the Aviation Director. The City Council adopts ordinances establishing fee structures for use of Airport facilities, including airline rates and charges.

The Phoenix Aviation Advisory Board is made up of nine members appointed by the City Council to 4-year terms and meets on a monthly basis. The Board provides non-binding advisory recommendations regarding Airport fees, including airline rates and charges, concession agreements, leases, master plans, noise studies, and development plans for the Airport.

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*The City owns Sky Harbor and two general aviation airports that are collectively defined as "Airport" in the City Ordinances and City Purchase Agreements. References in this section of the Report to "Airport" include all three airports. The City also is a fifth member government in the Phoenix-Mesa Gateway Airport Authority, which owns and operates the nearby Phoenix-Mesa Gateway Airport, however Phoenix-Mesa Gateway Airport is excluded from the definition of Airport.

The Aviation Department is headed by an 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. Reporting to the Aviation Director are three Assistant Aviation Directors. The Aviation Director and Assistant Aviation Directors head the Aviation Department staff. Certain accounting, bond financing, treasury, and related financial functions are performed by the City's Finance Department.

Airline Rates and Charges

The Phoenix City Code defines the terms and conditions by which airlines at Sky Harbor may use the airfield in common with other users and may occupy and use exclusive- and joint-use space in the terminal buildings. The City does not have long-term lease agreements with the airlines governing the use and occupancy of terminal space or the airfield at Sky Harbor. The terms are formalized in letters from the City authorizing month-to-month occupancy.

Additionally, Sky Harbor does not have a formal agreement with the airlines governing the rates and charges methodology for landing, terminal, and other fees. The Phoenix City Code provides that airline rents, fees, and charges be calculated pursuant to a compensatory rate-setting methodology. The City bears the risk of any shortfall in non-airline revenues and retains the benefit of any surplus in non-airline revenues for its own discretionary airport-related use.

Customarily, the rate budget is established at the beginning of the fiscal year. Additionally, the City has the flexibility to increase rates at any time during a fiscal year as necessary. The City reviews proposed rate changes and capital expenditures with airline representatives. Following the end of each fiscal year, the actual information for such fiscal year replaces the budgeted and estimated amounts used in the rate calculation to determine actual airline obligations for such fiscal year. The difference between these actual airline obligations and the amounts actually paid by the airlines is cleared through a settlement process.

Airline Revenues consists of landing fees, terminal rentals, and other charges paid to the City by airlines for use and occupancy of the Airport. Aviation Department management intends to adjust airline charges as necessary so as to increase Sky Harbor Airline revenues at an average annual rate of 4.5% in FY 2011, and 5% thereafter unless costs allocated to the airline rate base cannot support such increases. For the purpose of the Report, it was assumed that the City would continue to use this method to adjust airline charges during the forecast period and that airlines at Sky Harbor would pay such charges.

Bonds and Other Obligations

Outstanding Airport Bonds consist of Senior Bonds and Other Airport Bond Obligations. The 2010 Junior Bonds will be the first issuance of bonds under a new Junior Lien. The Airport also has outstanding the Rental Car Facility Charge Revenue Bonds, Series 2004, that are special revenue obligations as described below.

The City has relied upon the City of Phoenix Civic Improvement Corporation (CIC) to issue airport bonds on its behalf. The CIC enters into a Bond Indenture with the Bond Trustee; however, the City is obligated to make payments to the CIC through a City Purchase Agreement with the CIC. The payment obligations are limited to: (1) with respect to Senior Bonds, certain available Net Airport Revenues, Passenger Facility Charges, to the extent irrevocably committed, and Other Available Funds, and (2) with respect to Junior Bonds, certain available Designated Revenues, 2010 Recovery Zone Economic Development Bonds (RZEDB) Subsidy Payments, and Passenger Facility Charges, to the extent irrevocably committed, and Other Available Funds. There is no obligation or pledge of the full faith and credit or the ad valorem taxing powers of the City. Relevant bond documents are identified on Figure 17.

Figure 17
BONDS AND AUTHORIZING DOCUMENTS
City of Phoenix Aviation Department

MASTER AIRPORT REVENUE BOND ORDINANCE			
Senior Bonds		**Junior Bonds**	
Senior Bond Indenture	Senior City Purchase Agreement	Junior Bond Indenture	Junior City Purchase Agreement

OTHER OBLIGATIONS	
General Obligation Bonds	Excise Tax Bonds

CFC ORDINANCE	
Rental Car Facility Charge Revenue Bonds	
Rental Car Bond Indenture	Rental Car City Purchase Agreement

Source: City of Phoenix Aviation Department.

Senior Lien Obligations

All outstanding Bonds and Parity Bonds (or Senior Lien Obligations) were issued under (1) City Ordinance No. S-21974, as amended (the Bond Ordinance), (2) Bond Indentures between the CIC and the Bond Trustee, and (3) the respective City Purchase Agreements between the City and the CIC. Bonds include the CIC Senior Lien Airport Revenue Bonds, Series 1998, Series 2002, and Series 2008. Senior Lien Obligations are secured by a pledge of Net Airport Revenues.*

In Section 4.3 of the Bond Ordinance (and Section 4.6(a) of the Junior Lien City Purchase Agreement) (the Rate Covenant) the City covenants that:

> it will in each Fiscal Year establish, maintain and enforce schedules of rates, fees and charges for the use of the Airport (i) sufficient to produce Net Revenues at least equal to 125% of the amount required to be paid into the Bond Fund from the Revenue Fund, after subtracting Other Available Funds deposited in the Bond Fund, in such Fiscal Year and after subtracting any Passenger Facility Charge Credit applicable to such Fiscal Year…and (ii) sufficient to produce amounts required to be deposited in the Bond Reserve Fund and any separate bond reserve fund for such Fiscal Year.

To issue additional Senior Lien Obligations, the City is required under Section 3.3 of the Bond Ordinance to meet an historical and a prospective test (together, the Additional Bonds Test):

> An officer of the City shall certify that either the Net Revenues for the most recently completed Fiscal Year for which audited financial statements[**] are available or the Net Revenues for 12 consecutive months out of the most recent 18 calendar months, in each case together with Other Available Funds[***] deposited in the Bond Fund during such period, (i) were sufficient to satisfy the rate covenant set forth in Section 4.3 and (ii) would have been at least equal to 120% of Maximum Annual Debt Service for all Bonds to be Outstanding, including the Parity Bonds [i.e., Senior Lien Obligations] proposed to be issued; and

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*The term Net Airport Revenues means Revenues of the Airport, after provision for payment of all Cost of Maintenance and Operation.

**Also known as Comprehensive Annual Financial Report (CAFR).

***The term Other Available Funds means unrestricted grant money and other moneys available to the Airport which are not included in the definition of Revenues or Airport Revenues. Under the City Purchase Agreements, no credit is allowed for Other Available Funds so deposited.

> A Consultant provides a report which projects that Net Revenues will be sufficient to satisfy the rate covenant set forth in Section 4.3 (including any Parity Bonds [i.e., Senior Lien Obligations] to be issued) in each Fiscal Year after subtracting from the amount required to be paid into the Bond Fund from the Revenue Fund any applicable Passenger Facility Charge Credit,[*] which report addresses the period of time beginning with the first full Fiscal Year following the issuance of the Parity Bonds [i.e., Senior Lien Obligations] through the later of (i) three Fiscal Years following the expected date of completion (as provided to the Consultant by an officer of the City) of any construction projects to be financed at the Airport with the proceeds of the relevant Parity Bonds [i.e., Senior Lien Obligations] or (ii) five Fiscal Years following the issuance of the Parity Bonds [i.e., Senior Lien Obligations].

Senior Lien Obligations may be issued for refunding purposes without meeting the Additional Bonds Test described above, if the following conditions are met: an officer of the City certifies "that the Maximum Annual Debt Service…of all series to be Outstanding immediately after the date of…delivery of such refunding bonds is not greater than 110% of the Maximum Annual Debt Service…prior to…delivery of such refunding bonds…" and, the "bonds being refunded will no longer be Outstanding upon issuance of the refunding bonds."

The City reserved the right in the Bond Ordinance to provide for the issuance of obligations payable from Net Airport Revenues on a basis subordinate to the Senior Lien Obligations (e.g., Junior Lien Obligations and other Airport obligations as described below), but the Bond Ordinance does not specify terms and conditions applicable to such subordinate obligations other than to recognize that the flow of funds set forth therein may be altered to allow for payments to be made on a subordinate basis to the Bonds.

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*The Passenger Facility Charge Credit is defined to be "the amount of principal of and/or interest to come due on specified Bonds during any Fiscal Year to which Passenger Facility Charges…have received all required governmental approvals and have been irrevocably committed…to be used to pay [Debt Service] on such specified Bonds…unless such Passenger Facility Charges…are subsequently included in the definition of Airport Revenues."

Junior Lien Obligations*

Through the issuance of the 2010 Junior Bonds, the City is establishing a Junior Lien, with the terms and conditions of the Junior Lien defined in (1) a Bond Indenture between the CIC and the Bond Trustee, and (2) a Junior Lien City Purchase Agreement between the City and the CIC. The Junior Bonds are secured by a pledge of Designated Revenues.**

In Section 4.6(b) of the Junior Lien City Purchase Agreement (the Junior Lien Rate Covenant) the City covenants that, in addition to meeting the terms and conditions of the Rate Covenant pertaining to Senior Bonds, it will in each Fiscal Year establish, maintain, and enforce schedules of rates, fees, and charges for the use of the Airport (i) sufficient to produce Designated Revenues at least equal to 110% of the annual debt service requirements of the Junior Lien Obligations (net of Other Available Funds deposited into the Bond Fund in such Fiscal Year and after subtracting any Junior Lien Passenger Facility Charge Credit applicable to such Fiscal Year), and (ii) sufficient to produce any required payments to the 2010 Junior Lien Bond Reserve Fund or any separate bond reserve fund.

To issue additional Junior Lien Obligations, the City is required under Section 4.3 of the Junior Lien City Purchase Agreement to meet an historical <u>or</u> a prospective test (together, the Junior Lien Additional Bonds Test):

> An officer of the City shall certify that either the Designated Revenues for the most recently completed Fiscal Year for which audited financial statements are available or the Designated Revenues for any 12 consecutive months out of the most recent 24 calendar months were sufficient to satisfy the rate covenant set forth in Section 4.6(b) hereof and would have been at least equal to 110% of the Maximum Annual Junior Lien Debt Service for all Junior Lien Obligations to be Outstanding, including the Junior Lien Obligations proposed to be issued; or
>
> A Consultant provides a report which projects that Designated Revenues will be sufficient to satisfy the rate covenant set forth in Section 4.6(b) (including any Junior Lien Obligations to be issued) in each Fiscal Year after subtracting from the amount required to be paid into the Junior Lien Bond Fund from the Revenue Fund any applicable Junior Lien Passenger Facility Charge Credit, which report addresses the period of time beginning with the first full Fiscal Year following the issuance of the Junior Lien

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*The first issuance of junior lien bonds was in 2002; however, the junior lien bonds were redeemed during FY 2007. References to Junior Bonds in this Report relate to the 2010 Junior Bonds unless otherwise noted.

**The term Designated Revenues means Net Airport Revenues after provision for payment of Senior Lien Obligations.

Obligations through the later of (i) three Fiscal Years following the expected date of completion (as provided to the Consultant by an officer of the City) of any construction projects to be financed at the Airport with the proceeds of the relevant Junior Lien Obligations or (ii) five Fiscal Years following the issuance of the Junior Lien Obligations.

Junior Lien Obligations may be issued for refunding purposes without meeting the Junior Lien Additional Bonds Test described above, if certain conditions are met.

Other Airport Obligations

Other Airport obligations are subordinate to the Senior Lien Obligations and Junior Lien Obligations and currently consist of general obligation bonds, excise tax bonds, and commercial paper (CP).

- Airport general obligation bonds are general obligations of the City. Although the City's payment obligations are secured by its full faith and credit, the City has historically paid the principal and interest on these obligations from the Airport Improvement Fund, consistent with the provisions of the Bond Ordinance pertaining to the priority of payments from Net Airport Revenues.

- Airport excise tax bonds are special revenue obligations of the CIC and are payable by the CIC from amounts received under leases and purchase agreements between the City, as obligor, and the CIC, as obligee. Although the City's payment obligations under Airport excise tax bond leases and Purchase Agreements are secured solely by excise tax receipts, the City has historically paid such lease and payment obligations from the Airport Improvement Fund, consistent with the provisions of the Bond Ordinance pertaining to the priority of payments from Net Airport Revenues.

- The City has a $200 million CP program. The CP program is supported by Net Airport Revenues on a basis subordinate to the Senior Lien Obligations and the Junior Lien Obligations, consistent with the provisions of the Bond Ordinance pertaining to the priority of payments from Net Airport Revenues. As of June 30, 2010, the City expects the $200 million CP program to be fully drawn. With the issuance of the Improvement Bonds, the City intends to repay the full outstanding balance of the CP program. The City may continue the CP program and for the purposes of this Report it is assumed that approximately $66 million of Aviation CIP project costs are to be funded using the CP program (described later).

Special Revenue Obligations

The City is the obligor with respect to one issue of special revenue obligations that relates to Special Purpose Facilities, which is the Rental Car Facility Charge Revenue Bonds, Series 2004, issued to fund construction of the Consolidated Rental Car

Center. These obligations are not secured by Net Airport Revenues and are payable solely from certain receipts related to the operational activity at the Consolidated Rental Car Center. Debt service relating to special revenue obligations is excluded from annual debt service.

PASSENGER FACILITY CHARGES

The City's PFC program is administered in accordance with regulations set forth in 14 Code of Federal Regulations (CFR) Part 158. As discussed in the previous section under the caption "Historical Passengers and Airline Activity" under the subsection "PFC Eligible Passengers," PFCs are fees imposed on enplaned passengers up to a $4.50 level for the purpose of generating revenues for airport projects that preserve or enhance safety, security, or capacity; mitigate noise impacts; or provide opportunities for enhanced competition among air carriers. Allowable costs under the regulations include reasonable and necessary costs to carry out approved projects, including payment of debt service.

PFC Approvals

The City imposes a $4.50 PFC per eligible enplaned passenger at Sky Harbor. The City has the authority to collect and use $2.7 billion for PFC-eligible projects. The City's most recent application, known as PFC 6, was approved by the FAA in the amount of $1,858.6 million on April 30, 2009. (See Table 27.)

Table 27
SUMMARY OF PFC 6 APPROVAL
City of Phoenix Aviation Department
Sky Harbor International Airport
(in thousands)

	Pay-as-you-go	Bond Funds	Total
PHX Sky Train			
Construction	$ 270,000	$ 753,072	$ 1,023,072
Interest	--	765,564	765,564
Total	$ 270,000	$ 1,518,636	$ 1,788,636
Other Projects	$ 70,000	--	$ 70,000
Total	$ 340,000	$ 1,518,636	$ 1,858,636

Source: FAA Final Agency Decision for 09-09-C-00-PHX, April 30, 2009.

PFC 6 provided approval for the PHX Sky Train project in the amount of $1,788.6 million. The PHX Sky Train was approved at a $4.50 PFC level as a single project, although it was recognized that construction would be sequenced based upon available financial capacity and other considerations. The approval included amounts for construction, as well as interest and financing costs associated with the planned issuance of bonds.

Through April 30, 2010, the City had received $875.5 million in PFC Revenues. (See Table 28.)

Table 28
PFC AUTHORITY AND REVENUES
City of Phoenix Aviation Department
Sky Harbor International Airport
(as of April 30, 2010; in millions)

	Approval Amount	Revenues Applied	Remaining Authority
PFC 1	$ 93.2	$ 93.2	$ --
PFC 2	147.9	147.9	--
PFC 3	208.1	208.1	--
Subtotal Closed PFCs *(a)*	$ 449.2	$449.2	$ --
PFC 4	$ 222.3	$222.3	$ --
PFC 5	202.2	202.2	--
PFC 6	1,858.6	1.8	1,856.8
Subtotal Open PFCs *(b)*	$2,283.1	$426.3	$1,856.8
Total All PFC Applications	$2,732.3	$875.5	$1,856.8

(a) PFC 1, PFC 2, and PFC 3 have been closed.
(b) Open PFCs include PFC 4 applications 04-07-C-00-PHX ($177.8 million) and 04-07-C-01-PHX ($44.5 million), PFC 5 application 07-08-C-00-PHX, and PFC 6 application 09-09-C-00-PHX.

Source: FAA Final Agency Decisions and Project Physical and Financial Completion

PFC Framework

Under the Bond Ordinance and Junior Lien City Purchase Agreement, PFCs are excluded from the definition of Airport Revenues and Designated Revenues, respectively. Principal and interest due on specified Senior Lien Obligations* and Junior Lien Obligations, to which PFCs have been irrevocably committed or otherwise held in trust and set aside to pay debt service (the Passenger Facility Charge Credit and Junior Lien Passenger Facility Charge Credit, respectively) are excluded from debt service for the purposes of the Additional Bonds Test, Junior Lien Additional Bonds Test, Rate Covenant, and Junior Lien Rate Covenant.

*Currently there are no Senior Lien Obligations to which PFCs have been irrevocably committed.

Upon the issuance of the Improvement Bonds, PFCs will be irrevocably committed in an amount equal to Improvement Bonds Debt Service to the extent received by the City in any Fiscal Year, beginning on the date of issuance and ending June 30, 2016, unless subsequently extended or reestablished by the City in its discretion (the Commitment Period), to pay debt service. The Improvement Bonds will rely upon Designated Revenues, PFC Revenues, and the 2010 RZEDB Subsidy Payments related to the Series 2010B Junior Bonds as a source and security for repayment. The irrevocable commitment of PFC Revenues and 2010 RZEDB Subsidy Payments is made pursuant to Section 3.5 of the Junior Lien City Purchase Agreement.

2010 RZEDB Subsidy Payments

The CIC and the City expect to receive cash subsidy payments rebating a portion of the interest on the Series 2010B Junior Bonds from the United States Treasury in an amount equal to forty-five percent of the interest payable on the Series 2010B Junior Bonds (the 2010 RZEDB Subsidy Payments). The City covenants that it will take reasonable actions necessary to apply for and receive the 2010 RZEDB Subsidy Payments and, irrevocably commits, for the life of the bonds, to transfer such amounts to the Series 2010B Interest Subaccount of the PFC Interest Account (the depository for the Junior Lien Passenger Facility Charge Credit). Any 2010 RZEDB Subsidy Payments received by the CIC or the City will not constitute Airport Revenues, but will be irrevocably committed by the City and CIC towards the interest payments on the 2010B Junior Bonds.

The 2010 RZEDB Subsidy Payments for the Series 2010B Junior Bonds were estimated by Frasca & Associates based on the following assumptions: an average gross bond interest rate of 6.91% (before application of the 2010 RZEDB Subsidy Payments), timely receipt of a full 45% interest payment subsidy on or before each interest payment date.

RZEDB and PFC Revenue Forecast Assumptions

The Debt Service Requirements for the Improvement Bonds to be paid from the 2010 RZEDB Subsidy Payments and PFC Revenues during the forecast period (see Exhibit C) in this Report are excluded from the calculation of debt service coverage as permitted by the Bond Ordinance and Junior Lien City Purchase Agreement. For the purposes of this Report, we assumed the City could continue to collect a $4.50 PFC per enplaning passenger (net fee of $4.39 after airline compensation). Exhibit D contains the Application and Use of PFC Revenues assuming the 2010 RZEDB Subsidy Payments are received in full (45% of interest) and on a timely basis. Should the subsidy be less than full amount, the City plans to transfer additional PFC Revenues for payment of the Series 2010B Junior Bonds.

PFC Revenues will be used in the following manner during the forecast period:

- To pay debt service on the Improvement Bonds, through the irrevocable commitment.
- For existing approved projects contained in PFC 4, PFC 5, and PFC 6.
- For other PFC-eligible projects contained in the Aviation CIP, for which PFC approval will be obtained before utilizing PFC revenues on such projects.

AVIATION CAPITAL IMPROVEMENT PROGRAM

The Aviation Department has developed an Aviation Capital Improvement Program (Aviation CIP) through FY 2016 with project costs totaling $1.3 billion. The largest single project in the Aviation CIP is Stage 1 of the PHX Sky Train, which is estimated to cost $644.3 million. The project categories in the Aviation CIP and their estimated costs by year are shown on Exhibit A-1. The project categories in the Aviation CIP and their estimated funding are shown on Exhibit A-2. Major categories of projects are explained below.

The Aviation Department monitors demand forecasts and facility capacity frequently and is obliged periodically to respond to unanticipated requirements for capital investments. For instance, one ongoing study is seeking to identify the most prudent investment plan to balance extending the life of the oldest terminal facility with reconfiguration or expansion of newer facilities. In this case, the Aviation CIP includes certain costs related to extending the life of the terminal facilities, but not for projects that might be identified through the study. Similarly, a portion of the PHX Sky Train Stage 2 (as described below) may be accelerated into the period covered by the Aviation CIP. Aviation Department management is responsive to a rapidly changing aviation industry that is impacted by global, national, and local economies and other factors (See the chapter "Airline Traffic Analysis" and caption "Key Factors Affecting Future Airline Traffic"). Such factors may impact the traffic levels at Sky Harbor and thus could affect the demand and need for certain capital projects. Therefore the Aviation CIP as presented in this Report may be modified in future years.

PHX Sky Train

The PHX Sky Train is an automated people mover designed to carry over 35 million riders annually through seven stations along a guideway spanning approximately 5 miles (See page A-3 of this Report for a figure showing the alignment of the system). PHX Sky Train will be completed in two stages as described below. When the full PHX Sky Train (i.e., Stage 1 and Stage 2) is open in 2020, it will connect parking garages, passenger terminals, Valley Metro's light rail line and bus network, transportation centers near the east and west Sky Harbor access points for commercial and private vehicle passenger drop-off, and the rental car center. The PHX Sky Train will enhance Sky Harbor access and the regional surface transportation system by relieving severe roadway congestion on and around Sky Harbor and by serving as an inter-modal connector within Sky Harbor (virtually eliminating the Aviation Department's busing operations). The PHX Sky Train has been approved by the FAA for a $4.50 PFC collection rate, which required, in part, a finding by the FAA that the system makes a substantial contribution to reducing congestion.

As noted, PHX Sky Train will be completed in two stages. Stage 1 will be a fully operable system and will link the Valley Metro light rail station located on Washington Street at 44th Street with Terminal 4 via the East Economy Lot parking facilities. Stage 2 will link the Terminal 4 Station completed in Stage 1 with Terminal 3 and the rental car center.

PHX Sky Train Stage 1

Stage 1 of the PHX Sky Train is included in the Aviation CIP with a budget of $644.3 million. The train is scheduled to begin testing in April 2012, and is scheduled to be fully operational in November 2012 with passenger service expected during the first quarter of 2013. Major projects included in this stage are construction of the 44th Street Station, the station at the East Economy Lot parking facilities, the Terminal 4 Station, a train car maintenance and storage facility, guideways, utility relocations, modifications to existing buildings, and associated work. Stage 1 also includes the manufacture of 18 train cars, control systems, and operational systems. Most of the funding for Stage 1 will come from Improvement Bonds, as shown on Exhibit A-2.

Stage 1 development has reached several important milestones and is being undertaken using contracting techniques structured to improve cost certainty. The City's program oversight is provided by experienced City and Aviation Department staff, plus a contracted program manager, URS Corporation, that is solely focused on the PHX Sky Train. Civil design is being led by Gannett Fleming, Inc. and is over 95% complete. A Construction Manager at Risk contract has been awarded to Hensel Phelps Construction Company, and nearly 72% of construction contract value has been awarded with approximately 30% of the facilities construction already complete. The Stage 1 train system contract, using a Design-Build-Operate-Maintain delivery method, has been awarded to Bombardier Transportation Holdings USA, Inc. In total, 96% or more of the Stage 1 development costs are already contracted (see Table 29).

Table 29
PHX SKY TRAIN STAGE 1 COMMITMENT STATUS
City of Phoenix Aviation Department
Sky Harbor International Airport
(as of July 2010; in millions)

Category	Budget	Contracted	Percent Contracted
Design	$ 57.4	$ 57.4	100%
Construction	320.2	299.9	94%
Train System	187.5	187.5	100%
Subtotal	$565.1	$544.8	96%
Other *(a)*	79.2		
Total	$644.3		

(a) Other includes miscellaneous items and contingency, some of which are contracted but not separately identified and noted as such in the table.

Source: City of Phoenix Aviation Department.

An air conditioned bridge will connect the 44th Street Station with the Valley Metro light rail station. The 44th Street Station will be surrounded by a ground transportation center for Valley Metro buses, commercial vehicles, and passenger drop-off areas. The PHX Sky Train station at East Economy Lot parking facilities serves 9,430 garage and surface parking spaces representing over 40% of Sky Harbor's parking capacity. The Terminal 4 Station is being built above the passenger bridges connecting the concourses on the south side of the terminal. Travel time from the 44th Street Station to Terminal 4 will be less than 5 minutes, including the stop at the East Economy Lot station.

PHX Sky Train cars and systems use proven technology and are similar to the new systems in Dallas/Fort Worth and London Heathrow international airports. The system will operate 24 hours a day using 3-car trains with capacity for 162 passengers and luggage arriving in stations every 2 to 3 minutes.

PHX Sky Train Stage 2

As part of Aviation CIP, the Terminal 3 station and guideway between Terminals 3 and 4 are being designed presently so the segment could be placed into construction rapidly if funding becomes available before the full Stage 2 is funded. For example, the Aviation Department may seek American Recovery and Reinvestment Act (ARRA) funding through the recently established TIGER II Discretionary Grant Program.

The Aviation CIP includes a portion of design costs for Stage 2. Other than design, Stage 2 costs are not included in the Aviation CIP and are not included in the financial analyses in this Report. Construction of Stage 2 is scheduled to commence in 2016 leading to full system being in operation in 2020. Stage 2 is estimated to cost $930 million, inclusive of the design fees.

Other Aviation CIP Projects

Other Aviation CIP projects are listed below:

- **Air Cargo ($8.8 million):** Includes work to be done on the East Apron of the West Air Cargo area.
- **Development Studies ($50.5 million):** Projects in this category include studies for several noise and geographic information system projects, airside pavement study, Terminal Area Monitoring Systems, Americans with Disability Act Transition Plan improvements, and environmental remediation projects.
- **General Aviation ($10.1 million):** Projects include fuel cleanup and other miscellaneous projects.
- **Infrastructure ($10.8 million):** These projects include Common Use Terminal Systems for Terminal 4, labor management systems, Property Management Information Systems, access control and monitoring studies and other technological projects.
- **Land Acquisition including Noise Mitigation ($157.6 million):** Areas in and around Sky Harbor are impacted by noise. The major projects in this category are the acquisition of land north of Sky Harbor (Part 150 Land), the Voluntary Acquisition and Relocation Services for acquired properties, and Sound Insulation Mitigation Services.
- **Maintenance Facilities ($6.9 million):** Projects include rehabilitation of Heating, Ventilation, and Air Conditioning Systems; trash bunker and materials yard relocation; and other remodeling and refurbishing of facilities.
- **Parking Facilities ($7.5 million):** Includes Rental Car Center visitor lot improvements, Terminal 4 garage lighting upgrades, and enhancements to taxi/limo hold areas.
- **Roadways ($17.4 million):** The projects related to roadways include general roadway pavement restoration, pavement replacement at Buckeye Road, and Air Lane improvements.

- **Runway and Taxiway Improvements ($63.1 million):** Projects include airfield lighting, signage, and computer control systems; taxiway pavement rehabilitation and maintenance; east end 7R/25L runway safety area (RSA) compliance and taxiway hotel connector; Taxiway C West fill-in; Taxiway A reconstruction; infield pavement projects; and utility access upgrades.

- **Security Facilities ($34.3 million):** Projects are related to Sky Harbor security including Inline Explosive Detection Systems (EDS) for Terminal 3, access control and alarm monitoring systems, emergency communication center expansion, mobile command vehicle, barrier devices, and other security upgrades.

- **Terminal 3 ($8.1 million):** Projects in this category include improving the north passenger checkpoint, elevator upgrades, auto door replacement, and baggage carousel replacement.

- **Terminal 4 ($53.8 million):** Projects in this category include moving walkway replacements, food & beverage master plan, fire system upgrades, restroom remodeling, sidewalk/road rehabilitation, and preconditions air system upgrades.

- **Deer Valley Airport ($31.6 million):** Projects include RSA improvements, Taxiway Alpha reconstruction, South Ramp reconstruction, and airfield signage.

- **Goodyear Airport ($5.5 million):** Projects include Taxiway Alpha intersections, tenant building roof repairs, and construction of a new Taxiway B and connectors.

- **Phoenix-Mesa Gateway Airport ($8.2 million):** The City is providing limited capital funding as part of its investment in this airport.

- **Other Miscellaneous and Contingency ($148.9 million):** This is funding for aviation contingency, including planned terminal modifications to extend the existing life of facilities and a reserve for capital projects in FY 2016 that have not yet been defined.

PLAN OF FINANCE

The major sources of funds for projects in the Aviation CIP are shown in Exhibits A-2 and B. The Aviation Department plans to fund certain project costs of the Aviation CIP through Airport Improvement Program (AIP) grants administered by the FAA, contributions from the Transportation Security Administration (TSA), passenger facility charge (PFC) revenues, customer facility charge (CFC) revenues, internal funds, and the proceeds of borrowings, including certain bonds previously issued, a Commercial Paper (CP) program, and the Improvement Bonds.

The City recently negotiated an Other Transaction Agreement (OTA) with the TSA related to reimbursement of costs for Terminal 3 and Terminal 4 explosive detection screening systems for checked baggage. The TSA agreed to fund 90% of expenditures up to $26.6 million. The Aviation Department plans to use the TSA funds to reimburse the PFC fund, since the City had used PFCs as a funding source prior to receipt of the OTA.

The City is eligible to receive FAA grants under the AIP for up to 75% of the costs of eligible projects. Grants are received as either entitlement grants, based on the number of enplaned passengers, program funding and formulas, or as discretionary grants, based on FAA determination of the priority of projects at airports nationally. Additionally the City is eligible to receive ARRA grants (currently being used for a Taxiway C Project). FAA authorization and AIP funding expired on September 30, 2007; however, the FAA has continued operating under continuing resolutions which will expire July 3, 2010. For the purposes of this Report, it was assumed that Congress will pass a reauthorization bill or extend the current authorization so that no lapse in AIP funding authority will occur. A portion of the Aviation CIP is expected to be funded from AIP entitlement and discretionary grants; however, to the extent that funding is not available in the near term, the City is able to defer spending for these projects without impacting the overall operations of Sky Harbor, and such deferrals are assumed to not affect the air traffic forecasts, or the financial forecasts contained in this Report.

As stated previously, the City currently imposes a $4.50 PFC and for the purposes of this Report, it was assumed the City would continue to collect a PFC at the $4.50 level with no lapse in collections.

2010 Junior Bonds

The 2010 Junior Bonds are to be issued under (1) a Bond Indenture between the CIC and the Bond Trustee, and (2) a Junior Lien City Purchase Agreement between the City and the CIC. The Junior Bonds include Improvement Bonds and Refunding Bonds as described below.

Improvement Bonds

The City intends to issue the Improvement Bonds, in the par amount of $675,270,000.* Proceeds from the Improvement Bonds, with interest earnings during construction, are expected to be used for the following purposes:

- Pay the costs of Stage 1 of the PHX Sky Train and certain other planned capital improvement projects in the Aviation CIP.

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*Preliminary and subject to change.

- Reimburse the commercial paper program.
- Fund a deposit to the 2010 Junior Lien Bond Reserve Fund allocable to the Improvement Bonds.
- Pay the costs of issuing the Improvement Bonds, including underwriters' discount and financing, legal, and other costs.

The Improvement Bonds are secured by a pledge of Designated Revenues, 2010 RZEDB Subsidy Payments, and irrevocably committed PFC Revenues during the commitment period.

Refunding Bonds

The City intends to issue the Refunding Bonds in the aggregate principal amount of $34,770,000* to refund the Senior Lien Airport Revenue Bonds, Series 1998A. The Refunding Bonds will not provide proceeds for any portion of the Aviation CIP. The Refunding Bonds are secured by a pledge of Designated Revenues.

Future Bonds

In the future the City may issue additional Senior Lien Obligations under the Bond Ordinance on parity with other outstanding Senior Lien Obligations. Additionally the City may issue additional Junior Lien Obligations on parity with the planned 2010 Junior Bonds. As described later, the City has a CP program and intends to use the CP program for ongoing Aviation CIP projects. During the forecast period only $68 million is forecast to be utilized for projects, and no funding is needed until FY 2012.

Based on information currently available, the City does not plan to issue additional Senior Lien Obligations or Junior Lien Obligations during the forecast period.

DEBT SERVICE REQUIREMENTS

Debt service requirements are described below for outstanding Senior Lien Obligations; the proposed 2010 Junior Bonds, and Other Airport Obligations.

Senior Lien Obligations

Exhibit C presents estimated debt service requirements on the outstanding Senior Lien Obligations. Outstanding principal on the Senior Lien Obligations as of July 1, 2010 was $679.5 million, which is equivalent to $35 per enplaned passenger based on FY 2011 forecasted passenger levels. If the Series 1998A bonds are refunded using the proposed Refunding Bonds, the outstanding principal and debt per enplaned passenger are reduced by $34.3 million and $1, respectively.

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*Preliminary and subject to change.

The City intends to transfer from the Airport Improvement Fund $19.6 million to the debt service reserve fund for the Senior Lien Airport Revenue Bonds, Series 2002, as shown in Exhibit G of the Report.

2010 Junior Bonds

Improvement Bonds

The City intends to issue the Improvement Bonds, in the par amount of $675,270,000.* Debt Service for the proposed Improvement Bonds was estimated by Frasca & Associates based on the following assumptions: a delivery date in September 2010, final maturity in July 2040, a debt service reserve sufficient to satisfy the requirement, an effective average interest rate of 5.21% (net of the 2010 RZEDB Subsidy Payments), and a 2-year interest only period and 28-year amortization period.

The reserve requirements allocable to the Improvement Bonds will be satisfied by establishing a 2010 Junior Lien Bond Reserve Fund and funding it with proceeds.

Refunding Bonds

The City intends to issue the Refunding Bonds in the aggregate principal amount of $34,770,000* to refund the Senior Lien Airport Revenue Bonds, Series 1998A. Senior Lien Debt Service is reduced accordingly; however, the amount of debt service pertaining to the Refunding Bonds was not reduced to account for savings that may result from the refinancing. The City will deposit funds from the Airport Improvement Fund into the 2010 Junior Lien Bond Reserve Fund to satisfy the reserve requirement allocable to the Refunding Bonds (as shown in Exhibit G of this Report).

Other Airport Obligations

General Obligation Bonds and Excise Tax Bonds

Exhibit C also presents estimated debt service requirements on the outstanding Airport general obligation bonds and airport excise tax bonds. Outstanding principal on these obligations as of July 1, 2010 is $11.9 million ($11.3 million general obligation and $0.6 million excise tax bonds).

CP Program

The City has a CP program which it intends to use for interim funding of ongoing Aviation CIP projects. The current $200 million CP Program is assumed to be maintained throughout the forecast period. Through FY 2016, it is assumed that $68 million of CP will be needed for Aviation CIP projects. CP capacity is

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*Preliminary and subject to change.

maintained by the City as a management tool to provide financial flexibility to meet other needs that may arise in the future.

The CP program is subordinate to the Senior Lien Obligations and the Junior Lien Obligations. The CP program is supported by Junior Subordinate Lien Revenues.* Costs associated with the CP program were estimated by Frasca & Associates based on the following assumptions: no amortization of principal throughout the forecast period; an interest rate of 0.65% in FY 2010, 1.0% in FY 2011 and 2.0% thereafter; and letter of credit fees based upon the terms of the existing letter of credit reimbursement agreement.

COST OF MAINTENANCE AND OPERATION

In the Bond Ordinance, the term Cost of Maintenance and Operation (or operating expenses) means "all expenditures (exclusive of depreciation and interest on money borrowed) which are necessary to the efficient maintenance and operation of the Airport and its facilities, such expenditures to include the items normally included as essential expenditures in the operating budgets of municipally owned airports." We rely upon the City's actual expenditures on a budgetary basis as reported in the City's Comprehensive Annual Financial Report (CAFR), Exhibit E-4, Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Budget Basis, for the best representation of historical Cost of Maintenance and Operation (See section "Accounting Bases" below).

Recent Historical Trends

After a period of growth in operating expenses between FY 2005 and FY 2007, the Aviation Department has returned to moderate levels of annual operating expense growth. Two major factors fueled the growth between FY 2005 and FY 2007: (1) enplanements reached an all time high of 20.8 million in FY 2007, and (2) the City began a rental car bus service (January 2006) to serve the new consolidated rental car facility.** Between FY 2005 and FY 2007 operating expenses increased 14.5% annually, on average. Between FY 2007 and FY 2009 the Aviation Department aggressively pursued cost reductions to help mitigate the impact of the economic downturn that started in 2008. Operating expenses grew on average 1.1% annually

*Junior Subordinate Lien Revenues is defined in the Commercial Paper documents.

**However, the rental car busing service expenses, which also include costs for the bus maintenance facility and certain related items, are reimbursable expenses for which the City expects to be paid from non-Airport Revenues held by the trustee for the Rental Car Facility Charge Revenue Bonds, Series 2004. Such reimbursement payments are included as Airport Revenues and labeled "RCC Busing Service Reimbursement" on Table 33 and in Exhibit F of this Report.

over that period. Between FY 2009 and FY 2011 operating expenses are budgeted to grow 2.8% annually, on average.

The recent economic downturn impacted the City's General Fund revenues. The City projected a revenue shortfall and quickly implemented various strategies to increase revenues and reduce operating expenses to eliminate, or substantially reduce, the projected revenue shortfall. Agreements were reached with City employees for at least a 3.2% wage and benefit concession for FY 2011 and FY 2012. The labor groups include the Aviation Department and other departments providing direct services to the Aviation Department. The labor concessions are expected to help the Aviation Department contain levels of expense growth in the near term.

FY 2011 Preliminary Budget

Operating expenses in the FY 2011 preliminary budget are expected to increase 2.4% over FY 2010. Supplies and equipment/minor improvements are expected to decrease, while Personal Services and Contractual Services are expected to increase moderately. The City does not expect material changes as a result of new facilities and/or new contracts and services in FY 2011. (See Tables 30 and 31.)

Table 30
OPERATING EXPENSES BY CHARACTER
2010 ESTIMATE AND 2011 BUDGET
City of Phoenix Aviation Department
(for the 12 months ending June 30; in thousands)

	Estimate 2010	Budget 2011	% Change
Personal Services	$ 96,000	$ 97,871	1.9%
Contractual Services	90,154	93,296	3.5
Supplies	11,234	11,402	1.5
Equipment/Minor Improvements	2,242	1,923	(14.2)
Total Operating Expenses	$199,631	$204,493	2.4%

	% Total	
	2010	2011
Personal Services	48%	48%
Contractual Services	45	46
Supplies	6	6
Equipment/Minor Improvements	1	1
Total Operating Expenses	100%	100%

Notes: Amounts represent the Aviation Department's preliminary estimate for FY 2010 and preliminary budget for FY 2011.
Includes operating expenses for Rental Car busing that are reimbursed using available CFC Revenues.
Figures may not add to totals due to rounding.

Source: City of Phoenix Aviation Department.

Table 31
OPERATING EXPENSES BY DIVISION
2011 PRELIMINARY BUDGET
City of Phoenix Aviation Department
(for the 12 months ending June 30, 2011; in thousands)

	Personal Services	Contractual Services	Supplies	Equipment/ Minor Imp.	Total
Aviation Divisions					
Facilities and Services	$29,685	$35,147	$6,152	$1,798	$72,782
Operations	14,648	33,088	4,035	111	51,881
Technology	4,617	9,609	815	--	15,040
Aviation Administration	3,498	2,853	66	--	6,416
Business and Properties	2,216	3,179	38	--	5,432
Community Relations	1,161	2,532	77	--	3,770
Financial Management	2,812	393	19	--	3,223
General Aviation	2,284	1,236	156	15	3,690
Planning and Environmental	861	1,008	10	--	1,880
Design and Construction Services	(560)	527	23	--	(10)
Capital Management	(3,941)	3,725	12	--	(204)
Aviation Divisions: Subtotal	$57,279	$93,296	$11,402	$1,923	$163,901
Interdepartmental Charges					
Police	$19,473				$ 19,473
Fire	11,781				11,781
Parks and Recreation	2,035				2,035
Information Technology	2,225				2,225
Law Department Civil Services	1,395				1,395
Audit Services	931				931
Other	2,752				2,752
Interdepartmental Charges: Subtotal	$40,592				$ 40,592
Total Operating Expenses	$97,871	$93,296	$11,402	$1,923	$204,493

Notes: Amounts represent the Aviation Department's preliminary budget for FY 2011. Figures may not add to totals due to rounding.

Source: City of Phoenix Aviation Department.

Personal Services

Personal services are budgeted at $97.9 million in FY 2011, or 48% of total operating expenses, making it the largest expense category. Personal services operating expenses are directly related to salaries and employee benefits. As noted earlier, the City reached agreement on concessions in FY 2011 and FY 2012 with employees. Overall, personal services expense is budgeted to increase $2.1 million compared to FY 2010.

Interdepartmental charges/credits, which are included in personal services, are budgeted at $40.6 million in FY 2011, or 20% of total operating expenses. Interdepartmental charges/credits include the cost of City services related to the Airport. Major services include: police ($19.5 million), fire ($11.8 million), direct City administrative services ($5.9 million, including internal audit, information technology, finance, others), City parks services ($2.0 million), and City legal services ($1.4 million).

Contractual Services

In FY 2011, contractual services are budgeted at $93.3 million, or 46% of total operating expenses. Major elements of the contractual services category are summarized below.

- **Utilities.** Utilities are $18.0 million in the FY 2011 budget and include electricity, water, solid waste disposal, gas, telephone, and sewer services.

- **Public Parking.** Parking contracts are budgeted at $12.2 million in the FY 2011 budget and major contractors include Ace Parking Management and Scheidt & Bachmann USA. Ace Parking Management provides general parking management oversight, cleaning, maintenance, and security monitoring services. Scheidt & Bachmann provides revenue control services. The City retains all revenues from the public parking operations.

- **Baggage Handling**. Elite Line Services operates, maintains, and repairs certain baggage handling systems at a FY 2011 budgeted cost of $3.6 million.

- **Bus Service.** Veolia Transportation Services provides the airport-wide shuttle bus services at Sky Harbor for a FY 2011 budgeted cost of $23 million. Services covered under the contract include Rental Car, Public Parking, Inter-terminal, and Employee busing. The contract expires December 2014 and is based on a per hour fee which includes overhead.

- **Custodial Services.** The budgeted amount for contractual custodial services in FY 2011 is $7.8 million. In FY 2007 the City began a transition to shift custodial services from City staff to contractors. The City now relies upon contractors for custodial services in Terminal 2, Terminal 4, the bus maintenance facility, and public areas of the rental car center. City employees currently provide custodial services in Terminal 3. Contracted custodial services were only $1.5 million in FY 2007, before the transition began. The increases in contract custodial services since FY 2007 have been offset completely by reductions in City personal services costs.

Supplies and Equipment/Minor Improvements

Remaining operating expenses are primarily related to supplies and equipment/minor improvements. In FY 2009, these two expense categories are collectively budgeted at $13.3 million, or 6.5% of total operating expenses.

FY 2012-2016 Forecast

The FY 2012-2016 forecast includes a base forecast of operating expenses, incremental operating expenses for the PHX Sky Train Stage 1, and a forecast of total operating expenses as summarized below.

Base Cost of Maintenance and Operation

Cost of Maintenance and Operation expenses, excluding the incremental costs for the PHX Sky Train Stage 1 operations, are forecast to increase at an annual rate of 3% in FY 2012 and FY 2013, then 5% thereafter. The Aviation Department expects to continue to constrain expense growth over the forecast period to help offset the impact of the Aviation CIP on airline tenants that are charged on the basis of cost recovery, as described earlier.

Incremental Cost of Maintenance and Operation

The PHX Sky Train Stage 1 is scheduled to begin testing in April 2012, and is scheduled to be fully operational in November 2012 with passenger service expected during the first quarter of 2013. PHX Sky Train Stage 1 will link the Valley Metro light rail station located on Washington Street at 44th Street with Terminal 4 via the East Economy Lot parking facilities. The PHX Sky Train station at East Economy Lot parking facilities serves 9,430 garage and surface parking spaces representing 86% of Sky Harbor's remote parking capacity. The incremental PHX Sky Train Stage 1 costs are pro rated in FY 2012 for a partial year of service. Incremental costs include Personal Services; directly related to salaries and employee benefits of the Aviation Department staff; Contractual Services; and Utilities. (See Table 32.)

The Aviation Department plans to add 31 new staff to support operation of PHX Sky Train Stage 1. Incremental Personal Services costs of $7.8 million are planned.

Major contractual services include the system supplier for the train, new costs of utilities, but are net of busing savings for routes that can be eliminated or reduced:

- **Bombardier.** Bombardier Transportation Holding USA, Inc. was awarded a 10-year contract to Design-Build-Operate-Maintain the PHX Sky Train Stage 1. The contract is indexed to the consumer price index and the first year is estimated at $7.4 million.

- **Utilities.** The Aviation Department has studied the costs for utilities related to automated train systems and projects the utilities to operate the PHX Sky Train Stage 1 and stations at $2.1 million annually.

- **Bus savings / Veolia.** Stage 1 will reduce or eliminate the need for certain bus routes. Veolia Transportation Services currently provides the airport-wide shuttle bus services at Sky Harbor for a FY 2011 budgeted cost of $23 million. The Aviation Department estimates bus savings of $4.7 million per year, or roughly 20% of the current costs to operate airport-wide busing services; however, only $2.7 million in savings will be realized in FY 2013 (due to the half year of Stage 1 passenger service operations).

Table 32
PHX SKY TRAIN STAGE 1 INCREMENTAL COSTS
City of Phoenix Aviation Department
(for the 12 months ending June 30; in thousands)

	2013
Base Cost of Maintenance and Operations	$216,946
Incremental Cost of Maintenance and Operations	
Personal Services	$ 7,806
Contractual Services	
System Supplier	7,422
Power for Train	2,119
Bus Savings *(a)*	(2,740)
Subtotal Contractual Services	$ 6,802
Total Incremental Cost of Maintenance and Operations	$ 14,607
Total Cost of Maintenance and Operations	$231,553

(a) Partial year of savings.
Source: City of Phoenix Aviation Department,

Total Cost of Maintenance and Operation

The total Cost of Maintenance and Operation are shown in Exhibit E. The City believes the forecasted rate of expense growth is reasonable to assume based upon (1) historical trends, (2) the projected PHX Sky Train O&M costs and bus service reductions, and (3) management objectives relative to future growth and expectations regarding internal staffing and contracted services.

Central Service Cost Allocation

Central service cost allocation expenses are charges for certain City services provided to the Aviation Department and are not otherwise directly charged to the Aviation Department. The amount of allocation is determined on an annual basis by the City Finance Department. The Aviation Department does not directly pay these expenditures through its operating budget nor does it plan for these costs through its operation and maintenance budget.

The Cost of Maintenance and Operation as defined in the Bond Ordinance and clarified by bond counsel does not include central service cost allocation. The forecast of Net Airport Revenues, Designated Revenues, Rate Covenant, and Additional Bonds Test do not include this allocation, which is directly paid using the Airport Improvement Fund to the extent funds are available. In FY 2011, the allocation is budgeted at $5.2 million. In FY 2012, the allocation is budgeted at $5.3 million. Thereafter, the allocation is forecast to grow modestly.

AIRPORT REVENUES

The term Revenues (or Airport Revenues) means all revenues or income received by the City directly or indirectly from the use and operation of the Airport, except for certain exclusions. (See Table 34.) Revenues also include interest on invested money and profits realized from the sale of investments held in funds established pursuant to the Bond Ordinance, except for the Construction Fund, the Project Fund, and the Rebate Fund.* We rely upon the City's CAFR, Exhibit E-4, Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Budget Basis, as the best representation of actual historical Revenues (See section "Accounting Bases" below).

Excluded from Revenues are monies received from state and federal grants, proceeds received from property damage insurance claims that are used to repair or replace Airport facilities or property, PFC Revenues, 2010 RZEDB Subsidy Payments, proceeds received from the sale of any bonds or other obligations, and Special Purpose Facilities revenues.

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*The Construction Fund is a special fund into which proceeds of Senior Lien Obligations issued for the purpose of improving and extending the Airport are deposited. The Rebate Fund is a special fund created to collect interest earnings subject to "rebate" under United States Treasury Regulations.

Table 33
TOTAL REVENUES
City of Phoenix Aviation Department
(for the 12 months ending June 30; in thousands)

	2008		2009		Forecast 2016	
	Revenues	% of Ttl	Revenues	% of Ttl	Revenues	% of Ttl
Operating Revenues						
Landing and Terminal Fees						
Airline Landing Fees (a)	$ 34,780	11%	$ 37,213	13%	$ 52,440	14%
Airline Terminal Fees	54,094	17%	57,930	20%	73,647	19%
Total Airline Revenues (less Baggage System Fees)	$ 88,874	29%	$ 95,143	33%	$ 126,087	33%
Baggage System Fees (b)	-	0%	694	0%	2,263	1%
Total Airline Revenues	$ 88,874	29%	$ 95,837	33%	$ 128,350	34%
Nonairline Terminal Revenues	34,762	11%	32,258	11%	40,849	11%
Misc. Other Landing and Terminal Fees	11,932	4%	12,438	4%	15,298	4%
Total Landing and Terminal Fees	$ 135,568	44%	$ 140,533	49%	$ 184,497	49%
Ground Transportation						
Parking (Public and Employee)	$ 81,356	26%	$ 70,541	24%	$ 96,685	25%
Car Rentals	38,987	13%	31,132	11%	34,481	9%
Total Parking and Car Rentals	$ 120,344	39%	$ 101,673	35%	$ 131,167	35%
Taxis	571	0%	643	0%	2,873	1%
Other	689	0%	910	0%	3,030	1%
Total Ground Transportation	$ 121,604	39%	$ 103,225	36%	$ 137,070	36%
Other Revenues						
Hangars	$ 3,827	1%	$ 3,854	1%	$ 4,740	1%
Land Rental	11,448	4%	11,404	4%	14,025	4%
Building and Facility Rentals	2,481	1%	1,969	1%	2,422	1%
Facility Lease Reimbursement (RCC)	6,698	2%	6,696	2%	8,690	2%
Other	7,333	2%	6,839	2%	6,347	2%
Total Other Revenues	$ 31,787	10%	$ 30,762	11%	$ 36,224	10%
Total Operating Revenues	$ 288,958	93%	$ 274,519	95%	$ 357,791	94%
Interest Income	9,709	3%	8,358	3%	5,110	1%
Total Revenues prior to RCC Reimbursement	$ 298,667	96%	$ 282,877	98%	$ 362,901	95%
RCC Busing Service Reimbursement (c)	11,441	4%	6,808	2%	17,147	5%
Total Revenues	$ 310,108	100%	$ 289,685	100%	$ 380,048	100%

Notes: Columns may not add to total due to rounding.

(a) Historical landing fees include Rates & Charges settlement adjustments.
(b) 2009 Baggage System Fee revenues are for collections beginning February 2009.
(c) Reimbursement of operating expenses for Rental Car busing using available CFC Revenues.

Source: City of Phoenix Aviation Department.

Landing and Terminal Fees

Landing and terminal fees include airline revenues; nonairline terminal revenues; and miscellaneous other landing and terminal fees.

Airline Revenues

As noted earlier under the caption "Framework for Airport System Financial Operations" under the subsection "Airline Rates and Charges" the rate budget is established at the beginning of the fiscal year. Aviation Department Management intends to adjust airline charges as necessary so as to increase Sky Harbor Airline Revenues at an average annual rate of 4.5% in FY 2011, and 5% thereafter unless costs allocated to the airline rate base cannot support such increases. For the purpose of the Report, it was assumed that the City would continue to use this method to adjust airline charges during the forecast period and that airlines at Sky Harbor would pay such charges.

Nonairline Terminal Revenues

In general, concession revenues are significantly related to the following factors: (1) the rental provisions set out in concession agreements; (2) the level and mix of passenger traffic and spending patterns; (3) inflation; (4) the ability of concessionaires to increase revenues by increasing prices or increasing volume; and (5) various other factors, such as concessions environment, store locations and merchandise mix.

Except as specifically noted below, the forecasts of concession revenues apply the following assumptions: (1) prevailing rental provisions will remain in effect over the forecast period; (2) concession revenues will generally increase in relation to enplaned passengers; (3) increases in concession prices will be constrained below the general level of inflation; and (4) the development of concession revenue will not be constrained by facilities or new development.

Food and Beverage. Food and beverage revenues consist mainly of rents and concession fees paid by concessionaires for in-terminal operations. Most contracts provide for a concession fee equal to scheduled percentages of gross sales subject to a minimum annual guarantee. The City has major exclusive concession agreements at Sky Harbor as follows: (1) Host International, Inc. covering food and beverage operations in Terminal 3 (expires March 2011), (2) Delaware North covering food and beverage operations in Terminal 2 (expires February 2014), (3) Host International, Inc. covering food and beverage operations in Terminal 4 (expires June 2012). Revenues were forecast in relation to enplaned passengers, assuming no material change in contract terms or any expansion of space devoted to concessionaires. Changes resulting from PHX Sky Train Stage 1 construction in Terminal 4—which is expected to impact only two small concessionaires—was not considered in the forecast as the Aviation Department is evaluating options for relocation.

General Merchandise. General merchandise revenues consist of concession fees paid by news, gift, duty free, and specialty retail shops. Revenues were forecast in relation to enplaned passengers, assuming no material change in contract terms with concessionaires or any expansion of space devoted to concessionaires. The City has over 45 contracts with different vendors including Paradies; HMS Host, Inc.; Delstar Group; HDS Retail; Casa Fenix; and others. Nearly all of the agreements have substantially similar terms providing for concession fees equal to scheduled percentages of gross sales subject to a minimum annual guarantee. The agreements for general merchandise operations in Terminal 2 and Terminal 4 expire June 2013. The agreements for general merchandise operations in Terminal 3 are currently on a month-to-month term.

Advertising. The Aviation Department currently has contracts with (1) Clear Channel Airports covering advertising displays in Terminal 2, Terminal 3, Terminal 4, and the Executive Terminal, (2) Clear Channel Outdoor for outdoor/billboard advertising, and (3) American Outdoor for outdoor/billboard advertising. The contracts provide for a concession fee equal to a percentage of gross receipts or a minimum annual guarantee, whichever is greater. Advertising revenues were $2.6 million in FY 2009. The Aviation Department plans to separately release Request for Proposals for (a) inter-terminal bus and transit advertising, and (b) the expansion of outdoor advertising opportunities. The Aviation Department expects revenues to increase to $3.8 million by FY 2012. Thereafter, revenues are expected to increase with enplaned passengers and Consumer Price Index (CPI).

Miscellaneous Other Landing and Terminal Fees

This revenue category comprised around $12.4million of annual revenues in FY 2009. This category generally relates to non-signatory airlines and includes tenant office rent, commercial use permit fees, air cargo fees, and common facility charges.

Ground Transportation

Ground transportation includes public parking, employee parking, car rentals, and taxis and other ground transportation.

Public Parking

Public parking at Sky Harbor is accommodated in three types of facilities: terminal garages, economy garages, and economy surface lots. Parking customers are divided into two distinct groups determined by their duration of stay: hourly customers and daily customers.

Hourly customers stay for less time than required to reach the daily maximums per parking structure and primarily park in the terminal garages. Hourly customers constitute the bulk of the parking transactions, but only 11% of the overall parking revenues.

Daily customers stay for more time than needed to reach the daily maximum per parking structure. Daily customers are a small amount of total parking transactions, but produce 89% of revenue.

Table 34 presents public parking capacity, revenues, and transactions.

Table 34

PUBLIC PARKING CAPACITY, REVENUES, AND TRANSACTIONS

City of Phoenix Aviation Department

Sky Harbor International Airport

(for the 12 months ending June 30, 2009; in thousands)

	Parking	Revenues			Transactions		
	Spaces	Hourly	Daily	Total	Hourly	Daily	Total
Parking Facilities							
Terminal Garages							
T-2 Covered	1,152	$ 847	$ 1,018	$ 1,865	239	13	252
T-2 Upper	1,174	161	2,527	2,688	45	84	129
T-3	1,860	1,748	3,945	5,692	444	48	492
T-4	6,923	4,837	28,649	33,485	1,143	469	1,611
Subtotal	11,109	$7,592	$36,139	$43,731	1,871	614	2,484
East Economy Garages	5,830	$ 11	$ 9,085	$ 9,096	3	200	203
Economy Surface Lots							
West Economy	1,556	$ 25	$ 4,093	$ 4,118	6	110	116
East Economy	3,600	43	11,829	11,872	9	330	339
Subtotal	5,156	$ 68	$15,922	$15,990	15	439	454
Total	22,095	$7,671	$61,145	$68,817	1,888	1,253	3,141

Source: City of Phoenix Aviation Department.

Over the last 5 years, the Aviation Department has closely monitored parking capacity and, in an effort to maintain customer service levels and manage capacity in the facilities, the City increased daily parking rates in January 2006 and again in January 2008. Additionally, the Aviation Department increased hourly parking rates in July 2008.

During the economic recession, parking revenues were negatively impacted. In FY 2008, parking revenues reached a record $81.4 million. In FY 2009, there was a $10.8 million (13.3%) reduction in revenues. In FY 2010, based upon 11 months of data, the Aviation Department expects an additional $5.2 million (7.4%) reduction in revenues.

The revenue reductions between FY 2008 and FY 2010 are attributed to (1) decreases in resident passengers and (2) decreases in parking transactions per resident passenger. In FY 2009, there was a 12.4% decline in resident passengers while the transactions per resident passenger declined 5.1%. In FY 2010, resident passengers are expected to continue to decline 1.9%, while transactions per resident passenger are expected to continue to decline 6.7%.

The Aviation Department requested and received City Council approval on April 16, 2008 to increase the daily maximum rate, not to exceed $35 in the terminal garages, $16 in the economy garages, and $14 in the economy surface lots. The Aviation Department has recently reviewed the assumptions for daily parking rates and plans to increase daily rates consistently in January of each year as evidenced in Table 35. There are no planned changes to increase the hourly parking rate which is currently $4.00 per hour.

Table 35
PUBLIC PARKING DAILY RATE APPROVAL AND PLANNED INCREASES
City of Phoenix Aviation Department
Sky Harbor International Airport

	Approved by Council	Current	Planned Jan-11	Jan-12	Jan-13	Jan-14	Jan-15
Parking Facilities							
Terminal Garages							
T-2 Covered	$35	$25	$25	$26	$27	$28	$29
T-2 Upper	14	8	9	10	11	12	13
T-3	35	25	25	26	27	28	29
T-4	35	25	25	26	27	28	29
Economy Garages							
East Economy Garages	16	10	11	12	13	14	15
Economy Surface Lots							
West Economy	14	8	9	10	11	12	13
East Economy	14	8	9	10	11	12	13

Source: City of Phoenix Aviation Department.

Seven off-airport operators provide additional parking facilities near Sky Harbor. The operators have a total of approximately 6,600 spaces with published rates ranging from $5 per day (uncovered) to $12 per day (covered).

Future parking revenues are generally forecast on the basis of (1) historical trends in parking revenue per originating resident passenger and per transaction broken into two duration types (hourly and daily customers), (2) planned future increases in daily parking rates, and (3) forecast increases in the number of originating resident passengers.

Employee Parking

Employee parking includes paid parking for 12,150 permitted employees that are provided access to designated employee parking locations at Sky Harbor. Employee parking revenues were approximately $5.0 million in FY 2009. Revenues are forecast assuming no change to the number of permitted employees and the Aviation Department's plans to increase the employee parking rates from the current base of $40.00 per month by $10.00 per month each year in January until the monthly rate reaches $60.00.

Car Rentals

Rental car revenues are derived from (1) on-Airport concession agreements at Sky Harbor, that specify the greater of 10% of revenues or minimum annual guarantees, be remitted annually ($31.0 million in FY 2009), and (2) ordinances requiring off-Airport rental car companies doing business at Sky Harbor remit 7% of airport derived revenues ($0.1 million in FY 2009).

On-Airport Concession Revenues. The City has on-airport rental car concession agreements with the following eight companies or their franchisees operating at Sky Harbor: Advantage, Alamo/National, Avis, Budget, Dollar, Enterprise, Hertz, and Thrifty. The agreements expire in January 2016 and authorize the companies to operate automobile rental businesses at Sky Harbor subject to various conditions, including the payment of a concession fee equal to the greater of 10% of gross receipts or a minimum annual guarantee. The minimum annual guarantee is subject to automatic adjustment to the greater of 75% of the previous year's concession fees or the current minimum annual guarantee. The rental car agreements do not allow assignment in the event of consolidation, or reductions in minimum annual guarantee. (See Table 36.)

Table 36
RENTAL CAR MINIMUM ANNUAL GUARANTEE
City of Phoenix Aviation Department
Sky Harbor International Airport
(for contract years ending December 31; in thousands)

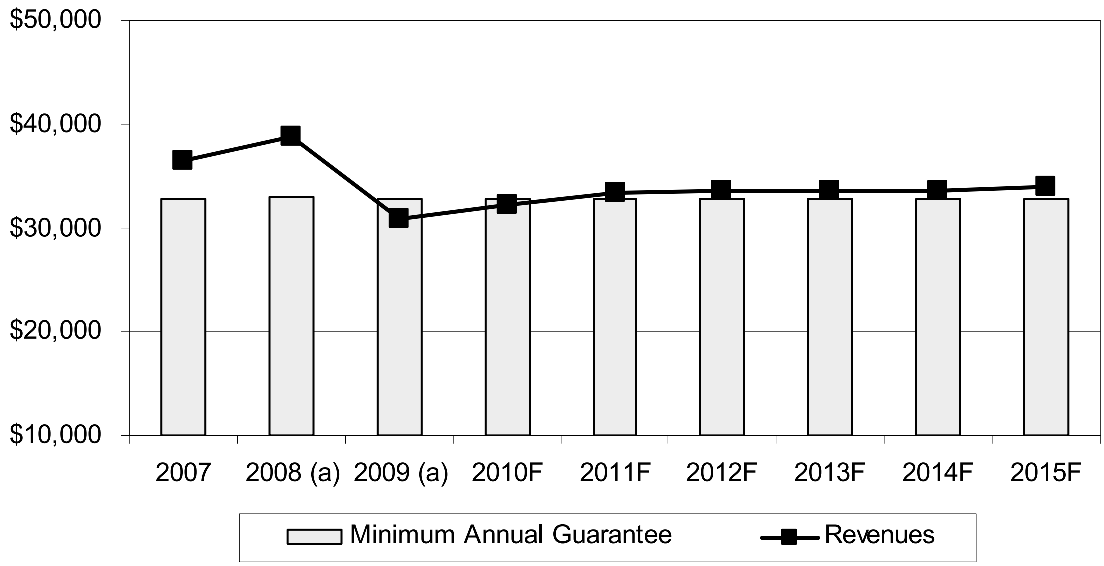
	2009
Avis	$ 5,655
Budget	3,571
Dollar	2,675
Enterprise	2,401
Fox	539
Hertz	8,059
National Alamo	6,575
Payless	521
Simply Wheelz	965
Thrifty	1,770
	$ 32,731

Source: City of Phoenix Aviation Department.

While the minimum annual guarantee is applied annually, the Aviation Department collects the greater of 10% of gross receipts or one-twelfth of the minimum annual guarantee each month for the contract year (contract years start January 1 and end December 31). Due to slight seasonality in rental car transactions, this causes the Aviation Department to over collect revenues in certain months. The Aviation Department performs a settlement to reimburse the rental car companies for any over collections, and such amounts are reimbursed in subsequent contract years.

On-Airport rental car concession revenues are forecast as a function of visitor enplaned passengers, rental car transactions, transaction days, rental car rates per transaction day, company market share, and minimum annual guarantees. In FY 2009, rental car rates per transaction day were $49.72 per day on average and the average length of rental was 4.2 days. The forecast assumes that rental car rates per transaction day and the average length of rental will remain steady at FY 2010 rates; however, using these assumptions, nearly every rental car company is forecast to pay the minimum annual guarantee through the forecast period. Annual settlements will continue to occur due to the difference in contract and fiscal years; however we have not forecast any settlement beyond FY 2010 (for contract year 2010) nor have we forecast over-collections. (See Figure 18.)

Figure 18
ON-AIRPORT RENTAL CAR CONCESSION REVENUES
City of Phoenix Aviation Department
Sky Harbor International Airport
(for the 12 months ending June 30; in thousands)



(a) The Aviation Department over collected revenues in FY 2008 and settled the amount in FY 2009.

Source: City of Phoenix Aviation Department.

Off-Airport Revenues. Off-Airport rental car companies are subject to a 7% fee on the share of gross revenues derived from customers transported between Sky Harbor and the consolidated rental car facility. Revenues are forecast to increase with the rate of growth in visitor enplaned passengers.

Taxis and Other Ground Transportation

Taxicab services and other commercial vehicles are discussed below.

Taxicab Services. In the fall of 2009, the Aviation Department issued a Taxicab Services Request for Proposals for a maximum of 180 taxicabs to operate at Sky Harbor. Selection was based upon the annual bid amounts per taxicab for qualified bidders. Three companies were selected and entered into contracts with the Aviation Department.* The annual bid amounts for the 180 taxicabs replaced a $400 annual license fee that the Aviation Department will no longer charge to

*One company responsible for 20 taxicabs later declared bankruptcy, but was replaced with another service provider without material impact to Aviation Department revenues.

taxicab operator(s). The average bid amount for the 180 vehicles is $15,763 per vehicle per year, resulting in $2.9 million in revenues per year, which is assumed throughout the forecast period without growth. Previously taxi revenues generated from the license fee were less than $0.1 million per year.

Other Commercial Vehicles. Certain commercial vehicles are subject to fees for the privilege of picking up and dropping off passengers at Sky Harbor. The fees may include an access fee, contract, or trip fee, all of which can vary depending upon the class of vehicle. The Aviation Department currently charges certain commercial transportation operators, primarily taxicabs, a $1 trip fee. The current trip fee generates approximately $0.6 million annually from taxicabs. The Aviation Department plans to increase the existing trip fees and to expand the trip fee program to include such operators as: Scheduled Van Service, Off-Airport Parking Shuttles, Hotel/Motel Shuttles, VIP Shuttles, and Inter City Shuttles. The Aviation Department plans to implement these changes no later than January 2011. The Aviation Department estimates that based on current trip volumes and planned per trip fees by vehicle class, $1.7 million in new revenues will be collected annually.

Other Revenues

Other revenues include the following:

- **Hangars.** As noted the City owns two general aviation airports that, together with Sky Harbor, contribute to this revenue category.

- **Land Rentals.** The City has entered into various ground leases for areas on Airport property, most notably in Sky Harbor Center. Most of these are long-term development leases whose rentals are subject to annual adjustment based upon inflation.

- **Building and Facility Rentals.** The City has entered into various leases for areas on Airport property, most notably in Sky Harbor Center.

- **Facility Lease Reimbursements.** The consolidated rental car center sits within the Sky Harbor boundary on a 141-acre site west of the terminal buildings and has 5,651 ready/return garage spaces and a 113,000 square-foot customer service building. The facility houses on-Airport rental car companies at one location (including a parcel for small operators). Additionally off-Airport rental car companies are required to transport Sky Harbor customers to and from the rental car center. Facility lease reimbursements are made by tenants pursuant to long term ground leases that expire January 2026. The reimbursements are calculated annually by the Aviation Department to recover the costs of operating and maintaining the common areas of the rental car center. Reimbursements are forecast to increase at the base rate of growth in Operating and Maintenance expenses.

- **Other.** This minor category of revenue includes fuel sales, security badge fees, delinquent fees, certain fuel sales, recovery of damage claims, and other miscellaneous income.

Non-Operating Revenues

Non-operating revenues include the Rental Car busing reimbursement amounts and interest income. The busing service reimbursement is provided using available customer facility charge (CFC) funds and is forecast as a function of the operating expenses eligible for such reimbursement contained in the forecast Cost of Maintenance and Operation for a given year. Interest income is forecast based upon available fund balances at earnings rates of 0.5% in FY 2010 and 1% thereafter.

Funding of the Busing Service Reimbursement

The CIC issued on behalf of the City $260 million in Rental Car Facility Charge Revenue Bonds, Series 2004, (CFC Bonds) for the rental car center project. As noted above under the section "Framework for Airport Financial System Operations" under the caption "Bonds and Other Obligations" and under the subsection "Special Revenue Obligations," the CFC Bonds are not payable from Airport Revenues but are secured from a CFC imposed by City Council, paid by rental car customers, and remitted by rental car companies obtaining customers from Sky Harbor. Both on-Airport and off-Airport rental car companies are currently required to collect and remit a $6.00 CFC per transaction day.

The City deposits CFC receipts with a trustee for the benefit of the CFC Bonds. The total CFC receipts to be deposited during FY 2010 with the CFC trustee is estimated to be approximately $36 million. The CFC trustee uses the deposited CFC receipts and interest earnings thereon to pay debt service on the CFC Bonds, pay certain costs, make monthly transfers to the City to fund payment of the rental car busing service operating expenses described above in the "Cost of Maintenance and Operation" section, maintain reserves at their required balances, and fund certain related capital expenditures. The Aviation Department's FY 2011 budget for Cost of Maintenance and Operation expenses contained rental car busing service operating expenses of $13.9 million, which are being reimbursed by the CFC trustee.

The CFCs are pledged in priority to (1) certain incidental administrative costs, (2) debt service on CFC Bonds and related reserve funds, and (3) certain CFC-eligible operating expenses, generally related to the rental car buses (described earlier) defined as Transportation O&M Expenses in the CFC Bond Documents, and related Maintenance and Operation reserve funds. Since the CFC Bonds are special obligations of the CIC secured by CFCs, the debt service is excluded from the Additional Bonds Test, Junior Lien Additional Bonds Test, and Rate Covenant, and Junior Lien Rate Covenant calculations in this Report. Additional operating expenses, such as facility operations costs, are charged annually to the rental car companies using a cost-based methodology through the facility lease and are not reimbursed with CFCs.

ACCOUNTING BASES

The Aviation Department, through the Aviation Enterprise fund within the City, reports its financial operations as a governmental enterprise in accordance with generally accepted accounting principles (GAAP) for governmental entities and the accrual basis of accounting.

Under the accrual basis of accounting, revenues and expenses are recognized and recorded when earned or incurred. Budgetary accounting is on a modified accrual basis plus encumbrances. Differences between the two bases of reporting include the treatment of (1) central service cost allocations; (2) encumbrances; (3) grant revenues; (4) investment income; and (5) reserves on fund balances. As a result, differences exist between the treatment of accounting transactions under the budgetary and accrual basis of accounting and some of the differences may be material.

This Report relies primarily upon the Bond Ordinance as a basis for presentation. Therefore, references to certain terms such as Cost of Maintenance and Operation, and Revenues, have meanings that are defined under the Bond Ordinance, which may be different than as set forth in GAAP. In certain cases, for the purposes of debt service coverage and rate covenant compliance, the City may rely upon Other Available Funds as defined in the Bond Ordinance, which though not included in the definition of Revenues, essentially has an impact similar to a revenue in calculating debt service coverage and rate covenant compliance. Other Available Funds may, for example, include grant funds that are not typically included as revenue under GAAP.

Additionally, while Airport Revenues as defined in the Bond Ordinance do not include CFC receipts, amounts reimbursed to the City by the CFC trustee to pay the rental car busing service operating expenses included as a Cost of Maintenance and Operation under the Bond Ordinance are included as Airport Revenues or Revenues.

The Bond Ordinance should be read in its entirety for an understanding of the defined terms as references contained in this Report do not purport to be comprehensive.

The City's CAFR, Exhibit E-4, Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Budget Basis, is used as the best representation of historical Cost of Maintenance and Operation expenses and Revenues.

APPLICATION OF REVENUES

The Bond Ordinance in Section 2.2, and the Junior Lien City Purchase Agreement in Section 2.6, defines the application of Revenues with respect to priority and amount. The City is permitted by subsequent ordinance to establish additional funds or subaccounts relating to the payment of obligations subordinate in Lien to the payment of the Senior Lien Obligations.

As depicted on Figure 19, the City is required to deposit all Revenues into the Revenue Fund and apply Revenues in the following amounts and order of priority:

1. Operation and Maintenance Fund. The City shall from time to time deposit into the Operation and Maintenance Fund amounts sufficient to pay the Cost of Maintenance and Operation.

2. Senior Bond Fund. The City shall deposit monthly into the Principal Account and the Interest Account of the Bond Fund amounts equal to the Principal Requirement and the Interest Requirement, respectively.

3. Senior Bond Reserve Funds. The City shall, from time to time, deposit into the Bond Reserve Fund and every separate bond reserve fund established for Senior Lien Obligations not secured by the Bond Reserve Fund, amounts then required to be deposited to the Bond Reserve Fund or any separate bond reserve fund. (Note: this was updated in the Junior Lien City Purchase Agreement, Section 2.6(c)).

4. Junior Bond Fund and Reserve Funds. In Section 2.4 of the Junior Lien City Purchase Agreement, the City established a Junior Lien Bond Fund for the payment of Junior Lien Obligations, which contains a Junior Lien Interest Account and a Junior Lien Principal Account. The City shall deposit into the Junior Bond Funds the amounts necessary to pay Junior Lien Interest and Principal Requirements and make required reserve fund deposits after taking into account the Junior Lien Passenger Facility Charge Credit.

5. Airport Improvement Fund. The City may from time to time deposit into the Airport Improvement Fund such amounts as it determines. Amounts in the Airport Improvement Fund may be used for any lawful purpose. Under Section 2.6 of the Bond Ordinance, the City is allowed to pay obligations for general obligation bonds and lease or installment purchase agreements from the Airport Improvement Fund. Additionally, the Airport Improvement Fund is used to hold adequate discretionary reserves for Cost of Maintenance and

Operation Expenses, internal Capital Reserves, and debt service reserves for Senior Lien Obligations (none required under the Ordinance).*

APPLICATION OF PFC REVENUES

In Section 2.5 of the City Purchase Agreement, the City established a PFC Revenue Fund, which contains a PFC Interest Account (including a Series 2010B Interest Subaccount) and a PFC Principal Account. Annually, the City shall deposit, during the Commitment Period, all PFC Revenues into the PFC Revenue Account for application in the following amounts and order of priority:

1. PFC Interest Account. The City shall deposit monthly into the PFC Interest Account of the PFC Revenue Fund until the amount on deposit is equal to the Junior Lien Interest Requirements for the then current Bond Year.

2. PFC Principal Account. The City shall deposit into the PFC Principal Account of the PFC Revenue Fund until the amount on deposit is equal to the Junior Lien Principal Requirements for the then current Bond Year.

3. 2010 Junior Lien Bond Reserve Fund. The City shall deposit the amount necessary to maintain the amount on deposit at the 2010 Junior Lien Debt Service Reserve Requirement to the extent amounts have been withdrawn to pay debt service on the 2010 Junior Bonds.

Additionally, to the extent PFC Revenues in any month exceed the requirements of the PFC Interest Account, the PFC Principal Account, and the 2010 Junior Lien Bond Reserve Account, remaining PFCs may be applied to any other fund or account as permitted under the Junior Lien City Purchase Agreement or for any lawful purpose.

Amounts on deposit in the PFC Interest Account and the PFC Principal Account shall be transferred to the Junior Lien Bond Fund to pay Junior Lien Interest

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*An agreement between the City and the CIC related to the issuance of the CFC Bonds requires the trustee of the CFC Bonds to hold and maintain a reserve fund equal to one-half of the amount to be transferred to the City for reimbursement of the rental car busing service expenses during the upcoming bond year. The agreement also requires the City to hold a reserve, which was funded from CFC receipts and is maintained by amounts transferred from the CFC trustee, equal to one and a half times the reimbursement amount. Should there be a deficiency in the reserve held by the CFC trustee that cannot be replenished from available CFC funds and that the City chooses not to replenish from its CFC-funded reserve, the City is then required by the agreement to use "amounts on deposit in the Airport Improvement Fund . . . not required to pay debt service on . . . Airport Obligations" to cure the deficiency.

Requirements and Junior Lien Principal Requirements, respectively, as provided for in Section 2.4 of the City Purchase Agreement.

As described in Section 5.3 of the Junior Lien Bond Indenture, payments transferred to the Junior Lien Bond Fund shall be applied in the following manner and order of priority:

1. 2010 Junior Lien Interest Account. The Bond Trustee shall deposit in December and June an amount equal to the interest to be paid on the Outstanding 2010 Junior Bonds as it becomes due.

2. 2010 Junior Lien Principal Account. The Bond Trustee shall deposit in June of each year in each Bond Year in which 2010 Junior Bonds mature or are subject to mandatory redemption an amount equal to the principal amount at maturity plus an amount equal to any mandatory sinking fund redemption requirements.

3. 2010 Junior Lien Redemption Account. Optional prepayments made by the City of any installment of principal that is to be applied to redeem 2010 Junior Bonds shall be credited to the Junior Lien Redemption Account.

2010 RZEDB Subsidy Payments are to be deposited to the Series 2010B Subaccount of the PFC Interest Account and applied to interest on the Series 2010B Junior Bonds.

Exhibit G presents the application of Revenues during the forecast period.

DEBT SERVICE COVERAGE AND RATE COVENANT COMPLIANCE

Debt service coverage and rate covenant compliance are discussed below for Senior Lien Obligations and Junior Lien Obligations.

Senior Lien Obligations

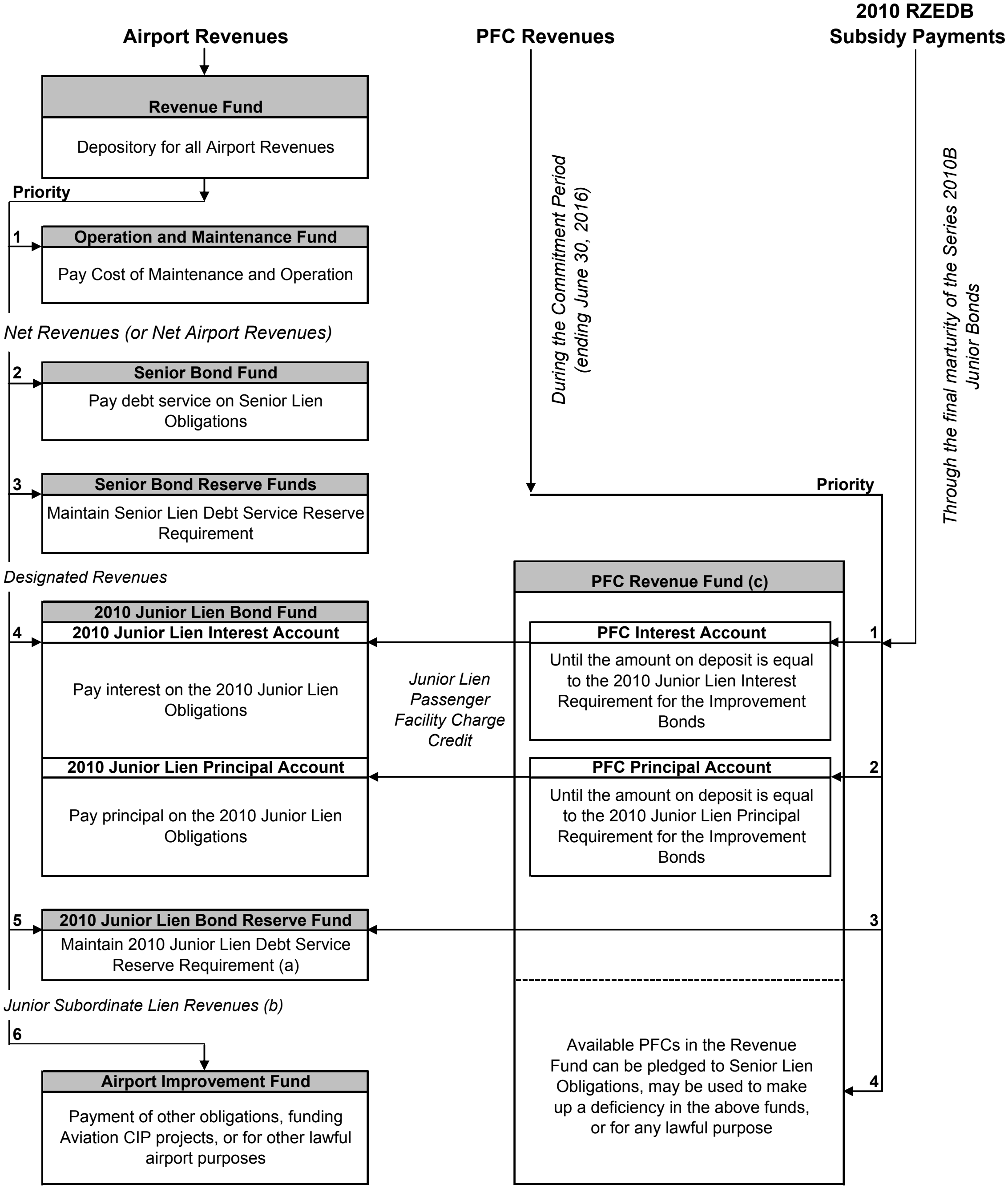
In Section 4.3 of the Bond Ordinance (the Rate Covenant), the City covenants that "it will in each Fiscal Year establish, maintain and enforce schedules of rates, fees and charges for the use of the Airport (i) sufficient to produce Net [Airport] Revenues at least equal to 125% of the amount required to be paid into the Bond Fund from the Revenue Fund, net of Other Available Funds deposited in the Bond Fund, in such Fiscal Year and net of any Passenger Facility Charge Credit applicable to such Fiscal Year…and (ii) sufficient to produce amounts required to be deposited in the Bond Reserve Fund and any separate bond reserve fund for such Fiscal Year."

Exhibit H demonstrates satisfaction of the Rate Covenant during the forecast period.

Figure 19

APPLICATION OF REVENUES AND PFC REVENUES
BOND ORDINANCE AND JUNIOR LIEN CITY PURCHASE AGREEMENT

City of Phoenix Aviation Department



(a) PFC Revenues will be transferred to the 2010 Junior Lien Bond Reserve Fund to the extent amounts have been withdrawn to pay Improvement Bonds Debt Service.

(b) Junior Subordinate Lien Revenues is defined in the Commercial Paper documents.

(c) The PFC Interest Account and PFC Principal Account are accounts within the PFC Revenue Fund. Additionally there is a Series 2010B Interest Subaccount of the PFC Interest Account where 2010 RZEDB Subsidy Payments are deposited for payment of interest on the Series 2010B Junior Bonds.

Source: City of Phoenix Aviation Department.

Junior Lien Obligations

In Section 4.6(b) of the Junior Lien City Purchase Agreement, the City covenants that "it will in each Fiscal Year establish, maintain, and enforce schedules of rates, fees, and charges for the use of the Airport (i) sufficient to produce Designated Revenues at least equal to 110% of the amount required to be paid into the Junior Lien Bond Fund from the Revenue Fund, net of Other Available Funds deposited in the Junior Lien Bond Fund, in such Fiscal Year after subtracting any Junior Lien Passenger Facility Charge Credit applicable to such Fiscal Year"…"and (ii) sufficient to produce amounts required to be deposited in the 2010 Junior Lien Bond Reserve Fund and any separate reserve fund for the Junior Lien Obligations for such Fiscal Year."

Exhibit H demonstrates satisfaction of the Junior Lien Rate Covenant during the forecast period.

HYPOTHETICAL SCENARIO FINANCIAL PROJECTIONS

Exhibit I-1 summarizes forecast financial results through FY 2016 as presented in Exhibits A through H and discussed in the preceding sections. Revenues and operating expenses were estimated assuming the baseline forecasts of enplaned passengers and aircraft landed weight presented in Table 23 in the earlier chapter. (See the chapter "Airline Traffic Analysis" and caption "Airline Traffic Forecasts" and the subsection "Enplaned Passenger Forecast").

Exhibit I-2 summarizes projected financial results through FY 2016 associated with the hypothetical scenario passenger forecasts of enplaned passengers and aircraft landed weight presented in Table 26. (See the chapter "Airline Traffic Analysis" and caption "Airline Traffic Forecasts" and the subsection "Hypothetical Scenario").

For the hypothetical scenario financial projections, the Aviation CIP shown in Exhibit A-1 was assumed to be implemented to the same schedule assumed for the baseline forecasts, notwithstanding the reduced passenger traffic, and to be financed with the same sources as shown in Exhibit A-2.

All assumptions underlying the hypothetical scenario financial projections are the same as those for the baseline financial forecasts, except revenues forecast based on passenger numbers, such as PFC revenues, concession revenues, parking revenues, and rental car revenues.

Under the hypothetical scenario the Aviation Department is able to satisfy the requirements of the Rate Covenant and Junior Lien Rate Covenant.

Exhibit A-1

ESTIMATED COSTS AND CASH FLOW
AVIATION CAPITAL IMPROVEMENT PROGRAM
CITY OF PHOENIX AVIATION DEPARTMENT
(for the 12 months ending June 30; in thousands)

Group Category	Total	Cost by Year /1 Prior	2010	2011	2012	2013	2014	2015	2016
PHX Sky Train									
Stage 1	$ 644,325	$ 48,239	$ 149,378	$ 218,413	$ 186,095	$ 41,307	$ 894	$ -	$ -
Stage 2 Design	58,800	-	7,130	9,670	-	-	-	8,000	34,000
Subtotal PHX Sky Train	$ 703,125	$ 48,239	$ 156,508	$ 228,083	$ 186,095	$ 41,307	$ 894	$ 8,000	$ 34,000
Other CIP Projects									
Air Cargo	$ 8,780	$ -	$ 2,145	$ -	$ -	$ 6,635	$ -	$ -	$ -
Development Studies	50,546	-	6,907	4,298	9,495	10,295	10,146	9,407	-
General Aviation	10,098	-	2,318	1,800	1,495	1,495	1,495	1,495	-
Infrastructure	10,768	-	3,174	6,594	1,000	-	-	-	-
Land Acquisition	157,619	51,019	41,151	25,450	10,000	10,000	10,000	10,000	-
Maintenance Facilities	6,882	-	1,672	925	2,785	500	500	500	-
Parking Facilities	7,528	-	91	6,928	509	-	-	-	-
Percent for Arts	8,208	-	231	7,977	-	-	-	-	-
Roadways	17,422	-	1,489	3,933	3,000	3,000	3,000	3,000	-
Runway and Taxiway Improvements	63,145	-	31,283	18,918	8,444	1,500	1,500	1,500	-
Security Facilities	34,293	-	21,482	6,955	4,049	1,675	132	-	-
Terminal 3	8,077	-	4,893	1,815	1,369	-	-	-	-
Terminal 4	53,815	-	6,060	15,545	19,685	7,458	2,534	2,534	-
Deer Valley Airport	31,608	-	6,836	9,470	6,052	5,000	4,250	-	-
Goodyear Airport	5,460	-	539	3,434	1,274	54	159	-	-
Phoenix-Mesa Gateway Airport	8,200	-	1,300	1,300	1,400	1,400	1,400	1,400	-
Other Miscellaneous and Contingency	148,916	-	1,460	20,737	20,476	5,903	13,440	11,900	75,000
Subtotal Other CIP Projects	$ 631,365	$ 51,019	$ 133,030	$ 136,079	$ 91,032	$ 54,915	$ 48,556	$ 41,736	$ 75,000
Total All Projects	$ 1,334,491	$ 99,258	$ 289,537	$ 364,161	$ 277,127	$ 96,222	$ 49,449	$ 49,736	$ 109,000

Source: City of Phoenix Aviation Department.
Note: 1. Adjustments were made to the PHX Budgetary Capital Improvement Program to represent the cash flow and timing of the PHX Sky Train and to exclude projects contingent on legislative action.

Exhibit A-2

ESTIMATED SOURCES OF FUNDS
AVIATION CAPITAL IMPROVEMENT PROGRAM
CITY OF PHOENIX AVIATION DEPARTMENT
(in thousands)

Group Category	Total	Federal Grants	Misc. Other /2	PFC Pay-as-you-go	Series 2010A-B Junior Bonds	2008 Bonds	Commercial Paper	Operating Rev. (AIF)
		Funding Sources /1						
PHX Sky Train								
Stage 1	$ 644,325	$ -	$ -	$ 6,853	$ 573,350	$ 41,893	$ -	$ 22,229
Stage 2 Design	58,800	-	-	58,800	-	-	-	-
Subtotal PHX Sky Train	$ 703,125	$ -	$ -	$ 65,653	$ 573,350	$ 41,893	$ -	$ 22,229
Other CIP Projects								
Air Cargo	$ 8,780	$ 7,580	$ -	$ -	$ -	$ -	$ -	$ 1,200
Development Studies	50,546	32,863	3,315	1,828	-	1,570	-	10,972
General Aviation	10,098	-	-	-	-	-	-	10,098
Infrastructure	10,768	-	-	-	-	4,113	-	6,655
Land Acquisition	157,619	40,000	-	25,073	51,019	-	28,823	12,705
Maintenance Facilities	6,882	-	-	-	-	17	-	6,865
Parking Facilities	7,528	-	35	-	-	56	-	7,437
Percent for Arts	8,208	-	-	-	8,208	-	-	-
Roadways	17,422	-	-	-	-	2,267	14,207	948
Runway and Taxiway Improvements	63,145	33,092	-	9,348	-	9,514	-	11,190
Security Facilities	34,293	-	-	26,870	-	92	-	7,331
Terminal 3	8,077	-	-	2,536	-	1,988	-	3,553
Terminal 4	53,815	-	-	27,119	-	11,840	-	14,856
Deer Valley Airport	31,608	27,352	-	-	-	2,314	-	1,942
Goodyear Airport	5,460	3,115	-	-	-	-	-	2,345
Phoenix-Mesa Gateway Airport	8,200	-	-	-	-	-	-	8,200
Other Miscellaneous and Contingency	148,916	34,385	5	25,030	-	30,717	25,000	33,779
Subtotal Other CIP Projects	$ 631,365	$ 178,387	$ 3,355	$ 117,804	$ 59,226	$ 64,488	$ 68,030	$ 140,076
Total All Projects	$ 1,334,491	$ 178,387	$ 3,355	$ 183,457	$ 632,576	$ 106,382	$ 68,030	$ 162,304

Source: City of Phoenix Aviation Department.

Note:
1. Adjustments were made to the PHX Budgetary Capital Improvement Program to represent the cash flow and timing of the PHX Sky Train and to exclude projects contingent on legislative action.
2. Miscellaneous Other includes Customer Facility Charges and private funding through tenant reimbursements.

Exhibit B

ESTIMATED PLAN OF FINANCE
2010 JUNIOR LIEN AIRPORT REVENUE BONDS
CITY OF PHOENIX AVIATION DEPARTMENT
(in thousands)

	Series 2010A Tax Exempt Bonds	Series 2010B Taxable Bonds	Subtotal Series 2010A-B Improvement Bonds	Series 2010C Tax Exempt Refunding Bonds	Total
SOURCES OF FUNDS					
Par Amount of Bonds	$ 653,925	$ 21,345	$ 675,270	$ 34,770	$ 710,040
Premium / (Discount)	19,517	-	19,517	-	19,517
Cash Contribution	-	-	-	2,971	2,971
Project Fund Earnings	541	17	558	-	558
Total All Sources	$ 673,982	$ 21,362	$ 695,344	$ 37,741	$ 733,085
USES OF FUNDS					
Capital Costs					
PHX Sky Train Stage 1	$ 573,350	$ -	$ 573,350	$ -	$ 573,350
Other CIP Projects	39,848	19,378	59,226	-	59,226
Total Project Costs	$ 613,198	$ 19,378	$ 632,576	$ -	$ 632,576
Escrow Fund	-	-	-	34,509	34,509
Debt Service Reserve Fund	55,872	1,824	57,696	2,971	60,667
Cost of Issuance	4,904	160	5,065	261	5,325
Rounding	7	-	7	0	8
Total Uses of Funds	$ 673,982	$ 21,362	$ 695,344	$ 37,741	$ 733,085

Source: City of Phoenix Aviation Department and Frasca & Associates.

Exhibit C

ESTIMATED DEBT SERVICE
CITY OF PHOENIX AVIATION DEPARTMENT
(for the 12 months ending June 30; in thousands)

	Historical			Forecast						
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Outstanding Bond Obligations										
Outstanding Revenue Bonds										
Senior Lien Obligations										
City of Phoenix Airport Revenue Bonds	$ 6,492	$ 6,488	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
CIC Airport Revenue Bonds /1	25,462	25,589	55,964	54,588	53,098	57,819	52,711	53,396	52,097	52,140
Total Outstanding Senior Lien Obligations	$ 31,955	$ 32,078	$ 55,964	$ 54,588	$ 53,098	$ 57,819	$ 52,711	$ 53,396	$ 52,097	$ 52,140
2002 Junior Lien Obligations										
CIC Airport Revenue Bonds	11,860	-	-	-	-	-	-	-	-	-
Total Outstanding Revenue Bonds	$ 43,815	$ 32,078	$ 55,964	$ 54,588	$ 53,098	$ 57,819	$ 52,711	$ 53,396	$ 52,097	$ 52,140
Other Airport Bond Obligations										
General Obligation Bonds	$ 4,694	$ 4,550	$ 1,948	$ 1,343	$ 1,314	$ 1,315	$ 1,105	$ 871	$ 4,437	$ 4,493
Excise Tax Bonds	9,310	8,667	311	311	645	-	-	-	-	-
Total Other Airport Bond Obligations	$ 14,004	$ 13,217	$ 2,260	$ 1,654	$ 1,959	$ 1,315	$ 1,105	$ 871	$ 4,437	$ 4,493
Total Outstanding Bond Obligations	$ 57,819	$ 45,295	$ 58,224	$ 56,242	$ 55,057	$ 59,134	$ 53,815	$ 54,267	$ 56,534	$ 56,633
2010 Junior Lien Obligations										
Series 2010A	$ -	$ -	$ -	$ -	$ 30,971	$ 35,621	$ 46,601	$ 46,597	$ 46,601	$ 46,597
Series 2010B	-	-	-	-	1,283	1,476	1,476	1,476	1,476	1,476
Series 2010C /1	-	-	-	-	1,712	1,715	1,714	1,713	1,712	1,717
Total 2010 Junior Lien Obligations	$ -	$ -	$ -	$ -	$ 33,966	$ 38,812	$ 49,791	$ 49,786	$ 49,789	$ 49,789
Total Bond Obligations	$ 57,819	$ 45,295	$ 58,224	$ 56,242	$ 89,024	$ 97,946	$ 103,606	$ 104,053	$ 106,323	$ 106,422
Summary										
Senior Lien Obligations	$ 31,955	$ 32,078	$ 55,964	$ 54,588	$ 53,098	$ 57,819	$ 52,711	$ 53,396	$ 52,097	$ 52,140
2002 Junior Lien Obligations	11,860	-	-	-	-	-	-	-	-	-
2010 Junior Lien Obligations	-	-	-	-	33,966	38,812	49,791	49,786	49,789	49,789
General Obligation Bonds	4,694	4,550	1,948	1,343	1,314	1,315	1,105	871	4,437	4,493
Excise Tax Bonds	9,310	8,667	311	311	645	-	-	-	-	-
Total Obligations	$ 57,819	$ 45,295	$ 58,224	$ 56,242	$ 89,024	$ 97,946	$ 103,606	$ 104,053	$ 106,323	$ 106,422

Source: Outstanding Bond Obligations: City of Phoenix Aviation Department; 2010 Junior Lien Obligations: Frasca & Associates.

Note: 1. It is assumed the City will refund for savings all or a portion of the outstanding Senior Lien Series 1998A Bonds using 2010 Junior Bonds, Series C. See "Financial Analysis - Debt Service Requirements - Refunding Bonds."

Exhibit D

APPLICATION AND USE OF PFC REVENUES
CITY OF PHOENIX AVIATION DEPARTMENT
(for the 12 months ending June 30; in thousands except for per passenger fees)

The forecasts presented in this exhibit were prepared using information from the sources indicated, and assumptions listed below, and as provided in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, there are likely to be differences between the forecasts and actual results, and those differences may be material.

	Historical 2007	2008	2009	Forecast 2010	2011	2012	2013	2014	2015	2016
PFC collections and PFC debt service										
Enplaned passengers	20,763	20,668	18,912	18,935	19,085	19,380	19,765	20,155	20,555	20,960
Multiplied by: Percent of PFC eligible passengers	92.4%	94.7%	87.8%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%
PFC eligible enplaned passengers /1	19,183	19,582	16,611	17,040	17,175	17,440	17,790	18,140	18,500	18,865
PFC per passenger fee	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50	$ 4.50
Less: PFC airline collection fee	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11
Net PFC per passenger fee	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39	$ 4.39
PFC Collections (or passenger fees)	$ 84,212	$ 85,964	$ 72,924	$ 74,803	$ 75,396	$ 76,562	$ 78,098	$ 79,632	$ 81,213	$ 82,817
PFC applied to Debt Service										
2002 Junior Lien Obligations	$ (11,860)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2010 Junior Lien Obligations, Improvement Bonds										
Series 2010A	$ -	$ -	$ -	$ -	$ (30,971)	$ (35,621)	$ (46,601)	$ (46,597)	$ (46,601)	$ (46,597)
Series 2010B (Net of 2010 RZEDB Subsidy Payments) /2	-	-	-	-	(706)	(812)	(812)	(812)	(812)	(812)
PFC passenger fees net of Debt Service	$ 72,352	$ 85,964	$ 72,924	$ 74,803	$ 43,719	$ 40,128	$ 30,685	$ 32,223	$ 33,800	$ 35,409
PFC cash flow net of debt service										
PFC Fund beginning balance				$ (53,174)	$ (34,385)	$ 22,038	$ 46,971	$ 72,927	$ 105,349	$ 131,352
Deposits										
PFC passenger fees net of debt service				$ 74,803	$ 43,719	$ 40,128	$ 30,685	$ 32,223	$ 33,800	$ 35,409
Interest Income				94	188	191	195	199	203	207
Transfer from Airport Improvement Fund /3				1,534	-	-	-	-	-	-
2010 Junior Bond proceeds				-	51,019	-	-	-	-	-
Total Deposits				$ 76,431	$ 94,926	$ 40,320	$ 30,880	$ 32,422	$ 34,003	$ 35,616
Withdrawals										
Pay-as-you-go expenditures										
Non-PHX Sky Train CIP Projects										
PFC 4 & PFC 5				$ (40,719)	$ (5,524)	$ -	$ -	$ -	$ -	$ -
PFC 6				(9,793)	(16,457)	(15,387)	(4,924)	-	-	-
Future Applications				-	-	-	-	-	-	(25,000)
Subtotal Non-PHX Sky Train CIP Projects				$ (50,512)	$ (21,981)	$ (15,387)	$ (4,924)	$ -	$ -	$ (25,000)
PHX Sky Train (PFC 6)										
Stage 1				$ -	$ (6,853)	$ -	$ -	$ -	$ -	$ -
Stage 2 Design				(7,130)	(9,670)	-	-	-	(8,000)	(34,000)
Subtotal PHX Sky Train				$ (7,130)	$ (16,523)	$ -	$ -	$ -	$ (8,000)	$ (34,000)
Total Withdrawals				$ (57,642)	$ (38,504)	$ (15,387)	$ (4,924)	$ -	$ (8,000)	$ (59,000)
PFC Fund ending balance /4				$ (34,385)	$ 22,038	$ 46,971	$ 72,927	$ 105,349	$ 131,352	$ 107,968

Source: City of Phoenix Aviation Department and Jacobs Consultancy.

Note:
1. In FY 2009 the estimated PFC Eligible Percentage declined to 87.8%, primarily due to timing differences in remittance of PFC collections by Southwest Airlines. See Airline Traffic Analysis - Historical Passenger and Airline Activity - PFC-Eligible Passengers.
2. Should the subsidy be less than the full 45%, it is anticipated the City would transfer additional PFC Revenues for payment of the Series 2010B Junior Bonds debt service. See "Financial Analysis – Passenger Facility Charges - 2010 RZEDB Subsidy Payments."
3. The City, as part of a review and close out of PFC 1-3, determined that $1.5 million of ineligible PFC spending occurred and has reimbursed the PFC fund using Airport Improvement Funds.
4. The City has an unencumbered Airport Improvement Fund reserve (as shown on Exhibit G) that is available to support the PFC fund in FY 2010.

Exhibit E

EXPENSES
CITY OF PHOENIX AVIATION DEPARTMENT
(for the 12 months ending June 30; in thousands)

The forecasts presented in this exhibit were prepared using information from the sources indicated, and assumptions listed below, and as provided in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, there are likely to be differences between the forecasts and actual results, and those differences may be material.

	Historical			Estimate /3	Budget /3					
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Cost of Maintenance and Operation /1										
Base Expenses										
Personal Services	$ 90,823	$ 94,846	$ 92,857	$ 96,000	$ 97,871	$ 100,807	$ 103,831	$ 109,023	$ 114,474	$ 120,198
Contractual Services	80,671	86,575	85,715	90,154	93,296	96,095	98,978	103,927	109,123	114,579
Supplies	13,648	13,361	11,210	11,234	11,402	11,744	12,097	12,702	13,337	14,003
Equipment/Minor Improvements	4,247	4,811	3,722	2,242	1,923	1,981	2,040	2,142	2,249	2,362
Total Base Expenses	$ 189,388	$ 199,593	$ 193,503	$ 199,631	$ 204,493	$ 210,627	$ 216,946	$ 227,794	$ 239,183	$ 251,142
% Growth		5.4%	-3.1%	3.2%	2.4%	3.0%	3.0%	5.0%	5.0%	5.0%
Incremental for PHX Sky Train Stage 1 /2										
Personal Services						$ 1,301	$ 7,806	$ 8,176	$ 8,585	$ 9,014
Contractual Services						1,590	6,802	4,939	5,033	5,127
Total Incremental for PHX Sky Train Stage 1						$ 2,891	$ 14,607	$ 13,115	$ 13,617	$ 14,141
Total Expenses	$ 189,388	$ 199,593	$ 193,503	$ 199,631	$ 204,493	$ 213,519	$ 231,553	$ 240,908	$ 252,801	$ 265,283
% Growth		5.4%	-3.1%	3.2%	2.4%	4.4%	8.4%	4.0%	4.9%	4.9%

Source: City of Phoenix Aviation Department and Jacobs Consultancy.

Notes:
1. Includes Transportation O&M Expenses for Rental Car busing reimbursed using available CFC revenues. See "Financial Analysis - Airport Revenues - Funding of the Busing Service Reimbursement."
2. PHX Sky Train testing/operations begin in February 2012; PHX Sky Train passenger utilization and bus savings begin in December 2012.
3. Amounts represent the Aviation Department's preliminary estimate for FY 2010 and preliminary budget for FY 2011 respectively.

Exhibit F

REVENUES
CITY OF PHOENIX AVIATION DEPARTMENT
(for the 12 months ending June 30; in thousands)

The forecasts presented in this exhibit were prepared using information from the sources indicated, and assumptions listed below, and as provided in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, there are likely to be differences between the forecasts and actual results, and those differences may be material.

	Historical			Forecast						
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Operating Revenues										
Landing and Terminal Fees										
Airline Landing Fees /1	$ 34,289	$ 34,780	$ 37,213	$ 38,505	$ 41,088	$ 43,142	$ 45,299	$ 47,564	$ 49,943	$ 52,440
Airline Terminal Fees	52,147	54,094	57,930	56,024	57,705	60,590	63,619	66,800	70,140	73,647
Subtotal Airline Revenues	$ 86,436	$ 88,874	$ 95,143	$ 94,529	$ 98,793	$ 103,732	$ 108,919	$ 114,365	$ 120,083	$ 126,087
Baggage System Fees /2	-	-	694	1,799	1,842	1,924	1,955	2,052	2,155	2,263
Total Airline Revenues	$ 86,436	$ 88,874	$ 95,837	$ 96,328	$ 100,635	$ 105,656	$ 110,873	$ 116,417	$ 122,238	$ 128,350
Nonairline Terminal Revenues	35,438	34,762	32,258	32,781	34,036	35,581	36,832	38,122	39,462	40,849
Misc. Other Landing and Terminal Fees	10,453	11,932	12,438	12,812	13,196	13,592	14,000	14,420	14,852	15,298
Total Landing and Terminal Fees	$ 132,327	$ 135,568	$ 140,533	$ 141,921	$ 147,867	$ 154,829	$ 161,705	$ 168,959	$ 176,552	$ 184,497
Ground Transportation										
Parking (Public and Employee)	$ 79,793	$ 81,356	$ 70,541	$ 65,293	$ 68,451	$ 74,378	$ 80,728	$ 86,576	$ 92,661	$ 96,685
Car Rentals	36,645	38,987	31,132	32,375	33,544	33,595	33,681	33,785	34,098	34,481
Total Parking and Car Rentals	$ 116,438	$ 120,344	$ 101,673	$ 97,668	$ 101,995	$ 107,973	$ 114,409	$ 120,361	$ 126,760	$ 131,167
Taxis	660	571	643	1,756	2,873	2,873	2,873	2,873	2,873	2,873
Other	951	689	910	905	1,761	2,625	2,721	2,820	2,923	3,030
Total Ground Transportation	$ 118,048	$ 121,604	$ 103,225	$ 100,330	$ 106,628	$ 113,470	$ 120,003	$ 126,054	$ 132,556	$ 137,070
Other Revenues										
Hangars	$ 2,814	$ 3,827	$ 3,854	$ 3,970	$ 4,089	$ 4,212	$ 4,338	$ 4,468	$ 4,602	$ 4,740
Land Rental	9,372	11,448	11,404	11,746	12,098	12,461	12,835	13,220	13,617	14,025
Building and Facility Rentals	2,496	2,481	1,969	2,028	2,089	2,152	2,216	2,283	2,351	2,422
Facility Lease Reimbursement (RCC)	6,088	6,698	6,696	6,908	7,076	7,288	7,507	7,882	8,276	8,690
Other	6,779	7,333	6,839	5,315	5,475	5,639	5,808	5,982	6,162	6,347
Total Other Revenues	$ 27,549	$ 31,787	$ 30,762	$ 29,967	$ 30,827	$ 31,752	$ 32,705	$ 33,836	$ 35,009	$ 36,224
Total Operating Revenues	$ 277,924	$ 288,958	$ 274,519	$ 272,218	$ 285,323	$ 300,051	$ 314,413	$ 328,849	$ 344,117	$ 357,791
Interest Income	8,848	9,709	8,358	1,679	3,707	3,870	4,140	4,478	4,868	5,110
Total Revenues prior to RCC Reimbursement	$ 286,771	$ 298,667	$ 282,877	$ 273,896	$ 289,030	$ 303,921	$ 318,552	$ 333,326	$ 348,984	$ 362,901
RCC Busing Service Reimbursement /3	10,080	11,441	6,808	13,305	13,962	14,381	14,812	15,553	16,331	17,147
Total Revenues	$ 296,851	$ 310,108	$ 289,685	$ 287,201	$ 302,992	$ 318,302	$ 333,364	$ 348,879	$ 365,315	$ 380,048

Source: City of Phoenix Aviation Department and Jacobs Consultancy.

Notes:
1. 2010 landing fees include $1.1 million in Rates & Charges annual settlement.
2. 2009 Baggage System Fee revenues are for collections beginning February 2009.
3. Reimbursement of Transportation O&M Expenses for Rental Car busing using available CFC revenues. See "Financial Analysis - Airport Revenues - Funding of the Busing Service Reimbursement."

Exhibit F-1

COST PER ENPLANED PASSENGER
CITY OF PHOENIX AVIATION DEPARTMENT
(for the 12 months ending June 30; in thousands except CPE)

The forecasts presented in this exhibit were prepared using information from the sources indicated, and assumptions listed below, and as provided in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, there are likely to be differences between the forecasts and actual results, and those differences may be material.

	Historical			Forecast						
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Airline Revenues										
Airline Landing Fees	$ 34,289	$ 34,780	$ 35,536	$ 39,891	$ 41,088	$ 43,142	$ 45,299	$ 47,564	$ 49,943	$ 52,440
Rates & Charges Settlement	-	-	1,677	(1,386)	-	-	-	-	-	-
Subtotal	$ 34,289	$ 34,780	$ 37,213	$ 38,505	$ 41,088	$ 43,142	$ 45,299	$ 47,564	$ 49,943	$ 52,440
Airline Terminal Fees										
Exclusive Space	$ 36,789	$ 38,353	$ 41,505	$ 40,368	$ 41,579	$ 43,658	$ 45,841	$ 48,133	$ 50,540	$ 53,067
Joint Use Fees	15,358	15,741	16,425	15,655	16,125	16,931	17,778	18,667	19,600	20,580
Subtotal Airline Terminal Fees	$ 52,147	$ 54,094	$ 57,930	$ 56,024	$ 57,705	$ 60,590	$ 63,619	$ 66,800	$ 70,140	$ 73,647
Total Airline Revenues	$ 86,436	$ 88,874	$ 95,143	$ 94,529	$ 98,793	$ 103,732	$ 108,919	$ 114,365	$ 120,083	$ 126,087
% Change		2.8%	7.1%	-0.6%	4.5%	5.0%	5.0%	5.0%	5.0%	5.0%
Enplaned Passengers	20,763	20,668	18,912	18,935	19,085	19,380	19,765	20,155	20,555	20,960
% Change		-0.5%	-8.5%	0.1%	0.8%	1.5%	2.0%	2.0%	2.0%	2.0%
Cost Per Enplaned Passenger (CPE)	$ 4.16	$ 4.30	$ 5.03	$ 4.99	$ 5.18	$ 5.35	$ 5.51	$ 5.67	$ 5.84	$ 6.02
% Change		3.3%	17.0%	-0.8%	3.7%	3.4%	3.0%	3.0%	3.0%	3.0%

Source: City of Phoenix Aviation Department and Jacobs Consultancy.

Exhibit G

FORECAST APPLICATION OF REVENUES
CITY OF PHOENIX AVIATION DEPARTMENT
(for the 12 months ending June 30; in thousands)

The forecasts presented in this exhibit were prepared using information from the sources indicated, and assumptions listed below, and as provided in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, there are likely to be differences between the forecasts and actual results, and those differences may be material.

		2010	2011	2012	2013	2014	2015	2016
APPLICATION OF REVENUES	[A]							
Revenues		$ 287,201	$ 302,992	$ 318,302	$ 333,364	$ 348,879	$ 365,315	$ 380,048
Application of Revenues								
Operation and Maintenance Fund		$ 199,631	$ 204,493	$ 213,519	$ 231,553	$ 240,908	$ 252,801	$ 265,283
Senior Lien Bond Fund		54,588	53,098	57,819	52,711	53,396	52,097	52,140
Less: Passenger Facility Charge Credit		-	-	-	-	-	-	-
Less: Other Available Funds		-	-	-	-	-	-	-
Senior Bond Reserve Fund		-	-	-	-	-	-	-
Subtotal		$ 254,219	$ 257,591	$ 271,337	$ 284,264	$ 294,304	$ 304,898	$ 317,423
Junior Lien Bond Fund		-	33,966	38,812	49,791	49,786	49,789	49,789
Less: Junior Lien Passenger Facility Charge Credit		-	(31,677)	(36,433)	(47,413)	(47,409)	(47,413)	(47,408)
Less: 2010 RZEDB Subsidy Payments		-	(577)	(664)	(664)	(664)	(664)	(664)
Less: Other Available Funds		-	-	-	-	-	-	-
Junior Lien Bond Reserve Fund		-	-	-	-	-	-	-
Total	[B]	$ 254,219	$ 259,303	$ 273,052	$ 285,978	$ 296,017	$ 306,610	$ 319,139
Deposit to Airport Improvement Fund	[C=A-B]	$ 32,983	$ 43,688	$ 45,250	$ 47,387	$ 52,862	$ 58,705	$ 60,909
Total Application of Revenues		$ 287,201	$ 302,992	$ 318,302	$ 333,364	$ 348,879	$ 365,315	$ 380,048
AIRPORT IMPROVEMENT FUND ACTIVITY								
Beginning balance		$ 306,205	$ 304,984	$ 259,603	$ 275,904	$ 302,883	$ 336,686	$ 375,708
Deposit after Revenues Applied	[=C]	32,983	43,688	45,250	47,387	52,862	58,705	60,909
Uses of Funds:								
Transfer to PFC Fund /1		(1,534)	-	-	-	-	-	-
Transfer to Debt Service Reserve Funds /2		-	(22,585)	-	-	-	-	-
Debt Service Payments								
General Obligation Bonds		(1,343)	(1,314)	(1,315)	(1,105)	(871)	(4,437)	(4,493)
Excise Tax Bonds		(311)	(645)	-	-	-	-	-
Commercial Paper		(1,247)	(815)	(1,084)	(1,130)	(1,165)	(1,198)	(1,429)
Central Services Staff and Administration		(5,037)	(5,175)	(5,279)	(5,384)	(5,492)	(5,602)	(5,714)
Pay-as-you-go funding for CIP		(24,732)	(58,534)	(21,272)	(12,789)	(11,532)	(8,446)	(25,000)
Ending balance /3		$ 304,984	$ 259,603	$ 275,904	$ 302,883	$ 336,686	$ 375,708	$ 399,981

Source: City of Phoenix Aviation Department and Jacobs Consultancy.

Note:
1. The City, as part of a review and close out of PFC 1-3, determined that $1.5 million of ineligible PFC spending occurred and reimbursed the PFC Fund using Airport Improvement Funds.
2. The City intends to transfer from the Airport Improvement Fund, $19.6 million to the debt service reserve fund for the Senior Lien Airport Revenue Bonds, Series 2002, and an approximate $2.9 million debt service reserve for the Refunding Bonds.
3. A portion of the FY 2010 balance shown here ($34 million) is available to support the PFC fund (as shown on Exhibit D).

Exhibit H

FORECAST NET REVENUES AND DEBT SERVICE COVERAGE
CITY OF PHOENIX AVIATION DEPARTMENT
(for the 12 months ending June 30; in thousands)

The forecasts presented in this exhibit were prepared using information from the sources indicated, and assumptions listed below, and as provided in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, there are likely to be differences between the forecasts and actual results, and those differences may be material.

		2010	2011	2012	2013	2014	2015	2016
Net Airport Revenues								
Revenues		$ 287,201	$ 302,992	$ 318,302	$ 333,364	$ 348,879	$ 365,315	$ 380,048
Less: Cost of Maintenance and Operation		199,631	204,493	213,519	231,553	240,908	252,801	265,283
Net Airport Revenues	[A]	$ 87,571	$ 98,499	$ 104,783	$ 101,811	$ 107,971	$ 112,514	$ 114,765
Senior Lien Obligations								
Principal and Interest Requirements		$ 54,588	$ 53,098	$ 57,819	$ 52,711	$ 53,396	$ 52,097	$ 52,140
Less: Passenger Facility Charge Credit		-	-	-	-	-	-	-
Less: Other Available Funds		-	-	-	-	-	-	-
Net Principal and Interest Requirements	[B]	$ 54,588	$ 53,098	$ 57,819	$ 52,711	$ 53,396	$ 52,097	$ 52,140
Senior Lien Obligation Debt Service Coverage	[A/B]	**1.60**	**1.86**	**1.81**	**1.93**	**2.02**	**2.16**	**2.20**
Required Deposits to Senior Bond Reserve Fund	[C]	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Designated Revenues	[D=A-B-C]	$ 32,983	$ 45,400	$ 46,964	$ 49,100	$ 54,575	$ 60,417	$ 62,625
Junior Lien Obligations								
Principal and Interest Requirements		$ -	$ 33,966	$ 38,812	$ 49,791	$ 49,786	$ 49,789	$ 49,789
Less: Junior Lien Passenger Facility Charge Credit		-	(31,677)	(36,433)	(47,413)	(47,409)	(47,413)	(47,408)
Less: 2010 RZEDB Subsidy Payments		-	(577)	(664)	(664)	(664)	(664)	(664)
Less: Other Available Funds		-	-	-	-	-	-	-
Net Principal and Interest Requirements	[E]	$ -	$ 1,712	$ 1,715	$ 1,714	$ 1,713	$ 1,712	$ 1,717
Required Deposits to Junior Bond Reserve Fund	[F]	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Junior Lien Obligation Debt Service Coverage	[D/E]	**n.a.**	**26.51**	**27.39**	**28.65**	**31.86**	**35.28**	**36.48**
Junior Subordinate Lien Revenues	[G=D-E-F]	$ 32,983	$ 43,688	$ 45,250	$ 47,387	$ 52,862	$ 58,705	$ 60,909
Other Airport Obligations								
Airport General Obligation Bonds /1		$ 1,343	$ 1,314	$ 1,315	$ 1,105	$ 871	$ 4,437	$ 4,493
Airport Excise Tax Bonds		311	645	-	-	-	-	-
Commercial Paper		1,247	815	1,084	1,130	1,165	1,198	1,429
Total Debt Service on Other Airport Obligations	[H]	$ 2,901	$ 2,774	$ 2,399	$ 2,234	$ 2,036	$ 5,635	$ 5,922
Aggregate Debt Service Coverage Ratios								
Senior and Junior Lien Obligations	[A/(B+E)]	**1.60**	**1.80**	**1.76**	**1.87**	**1.96**	**2.09**	**2.13**
All Obligations	[A/(B+E+H)]	**1.52**	**1.71**	**1.69**	**1.80**	**1.89**	**1.89**	**1.92**

Source: City of Phoenix Aviation Department and Jacobs Consultancy.

Note: 1. The City has no legal obligation to pay debt service on General Obligation Bonds that are currently paid using available Airport Improvement Funds from any source other than ad valorem property taxes.

Exhibit I-1

SUMMARY OF PROJECTED FINANCIAL RESULTS: BASE CASE PASSENGER FORECAST
CITY OF PHOENIX AVIATION DEPARTMENT
(for the 12 months ending June 30; in thousands except for CPE and coverage calculations)

The forecasts presented in this exhibit were prepared using information from the sources indicated, and assumptions listed below, and as provided in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances could occur. Therefore, there are likely to be differences between the forecasts and actual results, and those differences may be material.

	2010	2011	2012	2013	2014	2015	2016
ENPLANED PASSENGERS	18,935	19,085	19,380	19,765	20,155	20,555	20,960
FORECAST NET REVENUES AND DEBT SERVICE COVERAGE							
Net Airport Revenues							
Revenues							
Airline Landing Fees /1	$ 38,505	$ 41,088	$ 43,142	$ 45,299	$ 47,564	$ 49,943	$ 52,440
Airline Terminal Fees	56,024	57,705	60,590	63,619	66,800	70,140	73,647
Subtotal Airline Revenues	$ 94,529	$ 98,793	$ 103,732	$ 108,919	$ 114,365	$ 120,083	$ 126,087
% Growth		4.5%	5.0%	5.0%	5.0%	5.0%	5.0%
Cost Per Enplaned Passenger (CPE)	$ 4.99	$ 5.18	$ 5.35	$ 5.51	$ 5.67	$ 5.84	$ 6.02
% Growth		3.7%	3.4%	3.0%	3.0%	3.0%	3.0%
Parking	65,293	68,451	74,378	80,728	86,576	92,661	96,685
Car Rentals	32,375	33,544	33,595	33,681	33,785	34,098	34,481
All Other	95,004	102,204	106,597	110,037	114,153	118,472	122,795
Total Revenues	$ 287,201	$ 302,992	$ 318,302	$ 333,364	$ 348,879	$ 365,315	$ 380,048
Less: Cost of Maintenance and Operation	(199,631)	(204,493)	(213,519)	(231,553)	(240,908)	(252,801)	(265,283)
Net Airport Revenues	$ 87,571	$ 98,499	$ 104,783	$ 101,811	$ 107,971	$ 112,514	$ 114,765
Less: Net Senior Lien Obligations Requirements	(54,588)	(53,098)	(57,819)	(52,711)	(53,396)	(52,097)	(52,140)
Designated Revenues	$ 32,983	$ 45,400	$ 46,964	$ 49,100	$ 54,575	$ 60,417	$ 62,625
Less: Net Junior Lien Obligations Requirements	-	(1,712)	(1,715)	(1,714)	(1,713)	(1,712)	(1,717)
Junior Subordinate Lien Revenues / Deposit to AIF	$ 32,983	$ 43,688	$ 45,250	$ 47,387	$ 52,862	$ 58,705	$ 60,909
Debt Service Coverage Ratios Per Bond Documents							
Senior Lien Obligations	**1.60**	**1.86**	**1.81**	**1.93**	**2.02**	**2.16**	**2.20**
Junior Lien Obligations	**n.a.**	**26.51**	**27.39**	**28.65**	**31.86**	**35.28**	**36.48**
Aggregate Debt Service Coverage Ratios							
Senior and Junior Lien Obligations	**1.60**	**1.80**	**1.76**	**1.87**	**1.96**	**2.09**	**2.13**
All Obligations	**1.52**	**1.71**	**1.69**	**1.80**	**1.89**	**1.89**	**1.92**
FUND BALANCES							
Airport Improvement Fund (AIF)	$ 304,984	$ 259,603	$ 275,904	$ 302,883	$ 336,686	$ 375,708	$ 399,981
Passenger Facility Charge (PFC)	(34,385)	22,038	46,971	72,927	105,349	131,352	107,968

Source: City of Phoenix Aviation Department and Jacobs Consultancy.

Notes: 1. 2010 landing fees include $1.1 million in Rates & Charges annual settlement.

Exhibit I-2

SUMMARY OF PROJECTED FINANCIAL RESULTS: HYPOTHETICAL SCENARIO PASSENGER FORECAST
CITY OF PHOENIX AVIATION DEPARTMENT
(for the 12 months ending June 30; in thousands except for CPE and coverage calculations)

This scenario was based upon hypothetical assumptions, as described in the text.

	2010	2011	2012	2013	2014	2015	2016
ENPLANED PASSENGERS	18,935	14,015	14,553	15,300	15,920	16,403	16,844
FORECAST NET REVENUES AND DEBT SERVICE COVERAGE							
Net Airport Revenues							
Revenues							
Airline Landing Fees /1	$ 38,505	$ 41,088	$ 43,142	$ 45,299	$ 47,564	$ 49,943	$ 52,440
Airline Terminal Fees	56,024	57,705	60,590	63,619	66,800	70,140	73,647
Subtotal Airline Revenues	$ 94,529	$ 98,793	$ 103,732	$ 108,919	$ 114,365	$ 120,083	$ 126,087
% Growth		4.5%	5.0%	5.0%	5.0%	5.0%	5.0%
Cost Per Enplaned Passenger (CPE)	$ 4.99	$ 7.05	$ 7.13	$ 7.12	$ 7.18	$ 7.32	$ 7.46
% Growth		41.2%	1.1%	-0.1%	0.9%	1.9%	1.9%
Parking	65,293	62,286	69,190	76,364	83,255	90,208	95,312
Car Rentals	32,375	33,183	33,307	33,447	33,592	33,736	34,189
All Other	95,004	93,047	97,624	101,539	105,916	110,220	114,562
Total Revenues	$ 287,201	$ 287,308	$ 303,854	$ 320,269	$ 337,127	$ 354,247	$ 370,150
Less: Cost of Maintenance and Operation	(199,631)	(204,493)	(213,519)	(231,553)	(240,908)	(252,801)	(265,283)
Net Airport Revenues	$ 87,571	$ 82,815	$ 90,335	$ 88,715	$ 96,219	$ 101,447	$ 104,867
Less: Net Senior Lien Obligations Requirements	(54,588)	(53,098)	(57,819)	(52,711)	(53,396)	(52,097)	(52,140)
Designated Revenues	$ 32,983	$ 29,717	$ 32,516	$ 36,005	$ 42,824	$ 49,349	$ 52,727
Less: Net Junior Lien Obligations Requirements	-	(1,712)	(1,715)	(1,714)	(1,713)	(1,712)	(1,717)
Junior Subordinate Lien Revenues / Deposit to AIF	$ 32,983	$ 28,005	$ 30,802	$ 34,291	$ 41,110	$ 47,637	$ 51,010
Debt Service Coverage Ratios Per Bond Documents							
Senior Lien Obligations	**1.60**	**1.56**	**1.56**	**1.68**	**1.80**	**1.95**	**2.01**
Junior Lien Obligations	**n.a.**	**17.36**	**18.97**	**21.01**	**25.00**	**28.82**	**30.72**
Aggregate Debt Service Coverage Ratios							
Senior and Junior Lien Obligations	**1.60**	**1.51**	**1.52**	**1.63**	**1.75**	**1.89**	**1.95**
All Obligations	**1.52**	**1.44**	**1.46**	**1.57**	**1.68**	**1.71**	**1.75**
FUND BALANCES							
Airport Improvement Fund (AIF)	$ 304,984	$ 243,920	$ 245,772	$ 259,656	$ 281,707	$ 309,661	$ 324,036
Passenger Facility Charge (PFC)	(34,385)	1,956	7,789	16,053	31,699	41,257	1,787

Source: City of Phoenix Aviation Department and Jacobs Consultancy.
Notes: 1. 2010 landing fees include $1.1 million in Rates & Charges annual settlement.

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APPENDIX B

CITY OF PHOENIX, ARIZONA — DESCRIPTION

OVERVIEW

Phoenix is the fifth 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, Goodyear, Tolleson, El Mirage, Surprise, Litchfield Park and Avondale; the towns of Buckeye and Gilbert 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's 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's population at 983,403 and the 2005 census recorded Phoenix's population at 1,475,834. As of April 1, 2010 the City encompasses 519.10 square miles, with the City of Phoenix Planning Department estimating the City's population at 1,688,640.

Population Statistics
Phoenix, Maricopa County and Arizona

								Percent Change	
Area	**1950**	**1960**	**1970**	**1980**	**1990**	**2000**	**2010(1)**	**1950-10**	**1990-10**
Phoenix	106,818	439,170	584,303	789,704	983,403	1,321,045	1,688,640	1,480.9%	71.7%
Maricopa County	331,770	663,510	971,228	1,509,175	2,122,101	3,072,149	4,023,331	1,112.7	89.6
State of Arizona	749,587	1,301,161	1,775,399	2,716,546	3,665,228	5,130,632	6,683,129	791.6	82.3

(1) Population figures for Maricopa County and the State of Arizona are as of July 1, 2009 (latest available data). Population figures for the City of Phoenix are as of April 1, 2010.

Source: Population figures prior to 2004 are from the U.S. Department of Commerce, Census Bureau. The 2009 estimated population figures for Maricopa County and the State of Arizona are from the Arizona Department of Economic Security. The April 1, 2010 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, AirTran, Alaska, American, British Airways, Continental, Delta, ExpressJet (Continental Express), Frontier, Great Lakes, Hawaiian, JetBlue, Mesa (dba US Airways Express), Mesaba (Delta Connection), Midwest, SkyWest (dba Delta Connection and United Express), Southwest, Sun Country, United, US Airways and WestJet. Interstate 10, Interstate 17, U.S. Highways 60, 70, 80, 89, State Highways 51, 85, 93 and State Routes 101, 202, and 303 all traverse the City.

The metropolitan area is presently served by 33 elementary school districts, 6 high school districts, 17 unified school districts and 2 technical institutes, operating over 700 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 17 schools/colleges and has a total enrollment of more than 67,000 undergraduate, graduate, and professional students on four 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 nearly 9,000 students. The Arizona State University Polytechnic campus opened in 1996, is located in southeast Metro Phoenix in the city of Mesa, and has an enrollment of more than 9,100 students. The Arizona State University Downtown Phoenix campus opened August 21, 2006 and has an enrollment of more than 8,400 students. The City also contains a private graduate school and a number of private universities, colleges, and technical institutions. The 2000 Census indicated that 59% of the adult residents of Maricopa County are college educated.

SIGNIFICANT DEVELOPMENTS

Downtown Development

In 1979, the City adopted the Downtown Redevelopment Area plan for a 1.5 square mile area of downtown to revitalize the urban center of the city. Redevelopment efforts to date have resulted in the construction of residential units as well as numerous public and private redevelopment projects that have produced several amenities and services for employers, residents and visitors.

In 1984, a group of downtown business leaders founded the Phoenix Community 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.

In December 2004, the Phoenix City Council adopted a ten-year plan for downtown entitled "Downtown Phoenix: A Strategic Vision and Blueprint for the Future" (the "Downtown Strategic Plan"). The plan was developed by the combined efforts of the City, Phoenix Community Alliance, Downtown Phoenix Partnership, and Arizona State University. The plan serves as a framework for the City to pursue the comprehensive revitalization of Downtown Phoenix and serves as a guide for decision-making as specific plans and projects are pursued.

The Downtown Phoenix Urban Form Project (the "Project") is a collaborative planning process to shape future growth and to help realize the Downtown Strategic Plan of a livelier, more integrated and sustainable downtown. The City has embarked on this project due to heightened development interest.

General Plan

In 1985, the Phoenix City Council adopted the General Plan, a long-range plan based on the Urban Village Concept. The overall goal of the Urban Village Concept (now referred to as the Urban Village Model) is to offer Phoenix residents a choice of lifestyles in which residents may live, work and enjoy leisure time activities within the same urban village. The Urban Village Model also gives residents the opportunity to play a major role in shaping these choices. It is a unique concept that has provided a high degree of citizen participation in local land use planning processes.

The General Plan guides future development in Phoenix through the establishment of fifteen urban villages, each with an approximate population of 125,000. Each village has its own village planning committee. The committees, guided by and responsible to the Planning Commission, are comprised of 15-21 citizens, most of whom live in their respective village. Planning activities include identifying the attitudes, problems, and issues impacting 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.

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.

As required by State law, the General Plan must be updated at least every ten years. On July 1, 2009, the Phoenix City Council approved plans to implement a public participation process in developing the Phoenix General Plan 2020. The updated General Plan will focus on promoting a healthy, sustainable future and providing clear direction for that future.

Phoenix Convention Center

Redevelopment of the downtown Phoenix area has accompanied the construction and expansion of the Phoenix Convention Center (previously Phoenix Civic Plaza). Opened in 1972, the original convention and cultural center 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 Symphony Hall.

In 1980, the Phoenix City Council authorized the first expansion of the Phoenix Convention Center, adding a new structure connected directly to the existing facility. The additional space expanded the total convention space to 306,000 square feet. Construction of the $55 million addition commenced in late 1982 and was completed in June 1985, effectively doubling the size of the facility. In November 1995, the City completed a $31.5 million modernization and refurbishing program for the Phoenix Convention Center.

In 1998, construction began on the Civic Plaza East Garage, a 2,891-space parking facility to serve Phoenix Convention Center 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 "Committee") to make recommendations on several issues regarding Phoenix Convention Center expansion, including potential funding sources and State involvement. The membership included four State Senators, four State Representatives and nine public members. The Committee recognized the significant statewide benefit of convention business and unanimously recommended 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 in State or other non-City funding sources for the construction, expansion, modification and improvement of the Phoenix Convention Center. In June 2003, the Arizona Legislature approved spending up to $300 million in State money to match the City's contribution. Combined, the $600 million expansion project effectively tripled the size of the current facility by adding approximately 600,000 square feet of meeting and exhibition space.

In 2001, Phoenix voters approved an additional $18.5 million in general obligation bonds for the renovation of the adjacent Symphony Hall. In order to minimize disruption to event activity, the construction schedule for Symphony Hall was aligned with the first phase of the Phoenix Convention Center expansion. In June 2003, the City Council approved the final development concept and selected the design team and the construction management team for the Phoenix Convention Center expansion and Symphony Hall renovation.

Construction of phase one of the Phoenix Convention Center expansion and the Symphony Hall renovation began in June 2004. Symphony Hall re-opened September 3, 2005 after renovations were completed during phase one. Significant improvements included a new entrance, plaza facing, wall paneling, carpeting, seating, roofing and an upgraded lobby. Phase one of the Phoenix Convention Center expansion, known as the West Building, was completed in July 2006. The four-level West Building includes a 45,000 square foot ballroom, an Executive Conference Center, 64,000 square feet of exhibition hall space and 26,000 square feet of meeting space.

Phase two construction on the new Phoenix Convention Center North Building was completed in December 2008. The four-level North Building features amenities such as a 46,000 square foot street-level ballroom, 56 meeting rooms, over 300,000 square feet of exhibition hall space on the lower level, 190,000 square feet of exhibition hall space on the upper level and a food court with six themed eateries. The North Building is connected to the West Building via a pedestrian bridge on the third level and below ground through the lower level exhibition hall. The fully expanded Phoenix Convention Center, which welcomed its first convention in January 2009, now offers approximately 900,000 square feet of rentable convention space and is one of the top 20 facilities in the country in terms of size.

The Phoenix Convention Center expansion had a significant impact on Arizona during the five-year construction period. From December 18, 2003 through November 30, 2008, 95 percent of the work was performed by Arizona residents, 11,684 people were employed on the project, $89.0 million was paid in wages and $26.9 million was paid in state construction taxes.

The Phoenix Convention Center surpassed their projected goals for 2009, hosting 69 conventions with 306,429 delegates, which equates to an economic impact of approximately $445 million in direct spending.

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, business development and imaging and promotional arm for all of its members. GPEC's mission is to market the region globally to attract quality businesses and champion foundational efforts to improve the region's competitiveness.

The City of Phoenix has been a GPEC member since its inception. The City's Community and Economic Development Department (CEDD) works closely with GPEC to attract new wealth-generating employers to Phoenix. GPEC's collaborative regional economic development model, "GPEC Next", includes several initiatives aimed at achieving a competitive and sustainable regional economy. These initiatives include a California strategy and other competitor market prospecting, renewable energy cluster development, international economic development and health care expansion.

Since 2000, CEDD has directly assisted in the attraction of 180 new employers to the City of Phoenix by working with GPEC and other economic development partners. These companies represent more than 36,000 new jobs and approximately $2.4 billion in new capital investment.

Arts, Cultural and Sports Facilities

The City purchased the Orpheum Theatre building in 1984. In 1985, the building was placed on the National Register of Historic Places. Citizens approved partial funding of a $14 million renovation in 1988. The Orpheum Theatre Foundation provided the balance of the funding. The theatre has been returned to its original splendor and was reopened on January 28, 1997.

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

The Phoenix Art Museum, located at Central Avenue and McDowell Street began an expansion in December 2004. The $50 million project added nearly 30,000 square feet to the museum complex, most of which is utilized for exhibition space to benefit the museum's 290,000 annual visitors. $18.2 million of the total project cost was financed with bond funds approved by Phoenix voters in 2001. The remaining funds were raised from individuals and philanthropic organizations. The expansion was completed in November 2006.

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 nearly 127,000 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 24,000 square feet and cost $3.5 million. The Phoenix Museum of History opened to the public in January 1996 and the Arizona Science Center opened in April 1997. In addition to the museums, an 800-space parking garage was developed. The parking garage was completed in November 1995.

An agreement between the City and a private company was reached for development of a 4,800-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 approximately $39 million. Construction began in September 2000 and was completed in April 2002.

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 Phoenix Convention Center. 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 $100 million. The City acquired and cleared the land for the project at a cost of $12.8 million and contributed $35 million toward construction. The Suns contributed an additional $515,000 for land acquisition and were responsible for the balance of the construction costs (approximately $52 million). Construction began in November 1990 and America West Arena (currently US Airways Center) opened in June 1992.

A multi-phased renovation of US Airways Center began in the spring of 2001 and was completed in early 2005. Exterior renovations included the addition of a 15,000 square foot climate controlled pavilion on the main entrance plaza, expansion of the north façade to accommodate street level restaurants along Jefferson Street and the construction of a pedestrian passageway from Jefferson Street to Jackson Street. The interior renovations consisted of concourse improvements, seating enhancements and additional restrooms. The second phase of renovations brought significant technology improvements including a new scoreboard and wrap around LED boards, as well as expansion of the Platinum Club, and other core building improvements, all of which ensure the Center's continued state of the art status. The renovations were completed at a total cost of approximately $57 million funded jointly by the City and the Suns.

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.

In April 2009, the City completed construction on the Civic Space Park. The 2.77-acre park in the heart of Downtown Phoenix, bounded by First and Central Avenues and Van Buren and Fillmore Streets, offers residents, workers, students and visitors a unique urban design. The park contains sustainable features such as solar panel shade structures, which generate power for the park's lighting and electrical needs and pervious concrete and pavers to reduce heat reflection and allow rainfall to seep through to the ground. The park also includes interactive water and light features, green spaces and a beautiful 100-foot aerial art sculpture. The historic 1926 A.E. England Building is located inside Civic Space Park and hosts an auditorium as well as office, meeting and retail space.

Commercial Development

In the 1970's, Arizona's three major commercial banks (at that time The Valley National Bank of Arizona, First Interstate Bank, and The Arizona Bank) located their high-rise headquarters buildings in the downtown area. 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 1970's also saw the development of two downtown high-rise hotels. The Hyatt and Wyndham properties combine to provide 1,242 hotel rooms in downtown Phoenix. As an outgrowth of the many downtown development and redevelopment projects, there has been a rapid increase in hotel room demand from business, leisure and convention travelers visiting the area. To meet this demand, the City of Phoenix constructed a new 1,000-room hotel on the northwest corner of Third Street and Van Buren Street. Adjacent to the Arizona Center and several office and entertainment venues, the hotel contains approximately 10,000 square feet of retail space, including a coffee shop, lounge, restaurant, and fitness facilities; a 30,000 square foot ballroom; and additional meeting space. Starwood Hotels and Resorts was selected as the hotel's operator under the company's Sheraton flag. Design of the hotel began in early 2005 and construction began in March 2006. The Sheraton Phoenix Downtown Hotel opened September 2008 to support the additional hotel demand generated by the recently completed expansion of the Phoenix Convention Center. The opening of the hotel increases the number of hotel rooms in downtown Phoenix to 2,850.

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, in the center of downtown Phoenix in 1988. In conjunction with this project, the City constructed a 1,456 space underground public parking garage 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 Phoenix Community 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 Convention Center known as the Arizona Center. The development includes office and retail use as well as a three-acre public plaza. Arizona Public Service occupies a 450,000 square foot office tower, which was completed in March 1989. 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 in 1998. The plans for Collier Center included 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 One North Central Building (formerly the 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. Construction was completed in November 2001.

In 2005, the City exchanged the City-owned historic Hanny's Building located at First and Adams Streets for the historic A.E. England Building located next to the ASU Downtown Phoenix campus at 424 North Central. The A.E. England Building, owned and operated by the City of Phoenix Parks and Recreation Department, was renovated for mixed retail and community use. The 30,000 square foot Hanny's Building was renovated into a restaurant that opened in December 2008. The Historic Preservation Commission and the City assisted with approximately $400,000 of the estimated $4 million renovation costs.

The City entered into an agreement with One Central Park East Associates LLC to develop a $185 million 26-story office tower at the northwest corner of First and Van Buren streets. The One Central Park East building houses the world headquarters for Freeport-McMoRan Copper & Gold Inc. (formerly Phelps Dodge Corporation). The City provided property tax assistance and abandonment of right-of-way for the 485,700 square foot building of Class A office space, 8,500 square feet of ground level retail space and 590 parking spaces. Construction began in October 2007 and was completed in November 2009.

CityScape is a 5-acre, mixed-use development that blends urban living with work, shopping and entertainment and will include restaurants, a grocery store, offices, condominiums and outdoor event space. The project encompasses three blocks in downtown Phoenix and is adjacent to the US Airways Center and within two blocks of Chase Field. Construction on CityScape began in the fall of 2007 with the first phase expected to open in late summer 2010. The entire project will be built out over several years based on market demand, with the majority of construction planned to be completed by 2011.

Biotechnology and Education

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 to 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 six-story, 170,000 square foot research facility for IGC and TGen located at Fifth and Van Buren Streets. Construction began in late July 2003 with occupancy occurring in December 2004. The Phoenix Biomedical Center is expected to employ approximately 350 employees earning average salaries of $70,000 annually. Build-out of the 28-acre biotechnology campus is expected to provide approximately six million square feet of research and academic space.

In August 2004, the Arizona Board of Regents, the University of Arizona (U of A) and Arizona State University (ASU) (collectively, the Arizona Biomedical Collaborative) entered into a Memorandum of Understanding outlining a combined vision to expand the U of A's colleges of medicine and pharmacy in downtown Phoenix, perform complementary research and develop facilities at the Phoenix Biomedical Campus located on Van Buren Street between Fifth and Seventh Streets. The U of A College of Medicine has renovated three historic former Phoenix Union High School buildings located on the Phoenix Biomedical Campus for the first phase of the medical school. The $27 million renovation project began in March 2005 and was completed in September 2006. The first Arizona Biomedical Collaborative building (the, *"ABC I"*) is a four-story, 85,000 square foot building located just north of the historic Phoenix Union High School buildings along Fifth Street. Research within ABC I will focus on several areas including cancer, diabetes, neurological and cardiovascular diseases. The $30 million facility includes academic space for the ASU Department of Biomedical Informatics on floors one and two and wet lab space for the U of A College of Medicine — Phoenix on floors three and four. Construction began in September 2005 and was completed July 2007. Planning for the next two facilities, the Health Sciences Education Building and Arizona Biomedical Collaborative II, and the completion of the 28-acre campus has begun. The initial phase is expected to be completed in fall 2012. The two facilities will add approximately 550,000 square feet to the Phoenix Biomedical Campus.

In 2004, ASU announced plans to expand its downtown Phoenix campus. Development of the ASU Downtown Phoenix campus is expected to occur over the next 10-12 years and include three million square feet of development.

The first phase of the ASU Downtown Phoenix campus expansion, which opened in August 2006, offers a wide range of undergraduate and graduate programs from the College of Public Programs and the University College. The second phase, which remains ongoing, currently offers programs from the state-of-the-art Walter Cronkite School of Journalism and Mass Communications, KAET/Channel 8 and the College of Nursing & Healthcare Innovation.

As part of the second phase of the ASU Downtown Phoenix campus expansion, construction was completed on the 82,000 square foot ASU College of Nursing and Healthcare Innovation facility. The innovative design creates a sense of arrival for the northeast corner of the campus and downtown. With over a third of the materials utilized for this project containing recycled content, the new facility is on track to achieve the Leadership in Energy and Environmental Design (LEED) certified Silver or Gold status.

By August 2008, the campus had an enrollment of more than 8,400 students and 1,200 faculty and staff. In addition, a new student housing tower was constructed on the campus between First and Second streets on Taylor Street. The tower, which is 13 stories high and accommodates 750 beds, opened in August 2008. Construction of a second tower, which accommodates an additional 550 beds, was completed and opened in August 2009.

The U.S. Post Office building at Central Avenue and Fillmore Street houses the student union. Retail postal services remain in the building, and a veranda was added along the south side of the building to be used for concerts, outdoor films and other activities. The conversion of the U.S. Post Office building was completed in March 2010.

When fully developed the campus is expected to serve 15,000 students with 1,800 faculty and staff and include 4,000 student housing beds. ASU Downtown Phoenix is expected to eventually create 7,700 jobs, generate more than $570 million in total economic impact and provide $7.3 million annually in City sales tax.

Neighborhood Revitalization and Downtown Housing

The City's downtown redevelopment program is complemented by the Neighborhood Services Department's (NSD) programs through which NSD works to preserve and improve the physical, social and economic health of Phoenix neighborhoods. NSD has created programs to assist neighborhoods citywide and supports and aggressively works to revitalize targeted neighborhoods. City projects are complemented by neighborhood-based programs such as clean-ups, blight elimination and graffiti prevention that are often led by neighborhood stakeholders, including businesses, residents and schools.

Targeted neighborhood strategies are more comprehensive and concentrated in approach, involving redevelopment of blighted or under-used properties, proactive code enforcement, housing rehabilitation, infill housing development, infrastructure improvements, neighborhood capacity building and economic development. Targeted neighborhoods include Neighborhood Initiative Areas, Redevelopment Areas, West Phoenix Revitalization Area, Rental Renaissance Neighborhoods and designated Neighborhood Renewal Task Force Areas.

Through initiatives and partnerships, NSD is developing new homes, selling and rehabbing foreclosed properties, building several commercial projects, completing a neighborhood learning center, has boarded up or cleared over 150 blighted properties and constructed neighborhood sidewalks, street improvements and lighting, trails and safe paths, loop streets and other critical projects that sustain neighborhood health and vitality.

Construction of The Metropolitan Apartments, a project sponsored by the City and the Phoenix Community 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 a 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 seven-acre site bounded by First Avenue, Third Avenue, Portland Street 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 Campaige 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 vary in size from 1,000 to 1,750 square feet with original prices ranging from $135,000 to $235,000. Construction began in summer of 2002 and was completed 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 and the condominiums were available for occupancy in the winter of 2003.

In November 2001, the City entered into an agreement for the development of 31 loft-style homes ranging in size from 1,300 to 1,900 square feet with sale prices starting at $285,000. The Stadium Lofts at Copper Square are located at the northwest corner of Second and Buchanan Streets. Construction began in December 2001 and the homes were ready for occupancy in October 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 Orpheum Lofts, including 90 luxury lofts, associated parking and ancillary commercial space. The City assisted with the historic rehabilitation of the building and upgrades to the public infrastructure and off-site improvements. The renovations began in 2002, and the work was completed in the spring of 2005.

In the summer of 2003, Post Properties and Desert Viking Properties, 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 is 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 approximately $18 million and was completed in March 2006.

In March 2004, the City entered into an agreement with Portland Place Partners to develop vacant land on Portland Street between Third Avenue and Central Avenue. Portland Place is an urban residential development that consists of 54 units in a six-story condominium tower and brownstones. Construction of Portland Place was completed in July 2007.

On July 1, 2004, the City Council authorized staff to enter into a disposition and development agreement with Urban Form Development, LLC for a mixed-use residential project on City-owned property located at 215/217 East McKinley Street. Named 215 East McKinley, the development includes 14 residential units. Construction began in March 2006 and was completed in the fall of 2007.

WP South Acquisitions, LLC began construction in the spring of 2005 of a mixed-use residential project on a City-owned parcel and adjacent privately-owned property at the northwest corner of Fourth and Fillmore Streets. Alta Phoenix Lofts consists of approximately 325 market-rate rental residential units in an eight-story building with up to 10,000 square feet of street level commercial space and live/work units and a six-story parking structure with 450 parking spaces. The project is valued at approximately $32 million. Occupancy began in March 2009.

The Summit at Copper Square, a $32 million project adjacent to Chase Field, was completed in late 2007. The 22-story residential project on the southwest corner of Fourth Street and Jackson Street, consists of 167 ownership loft, studio, and luxury condominium units.

Grace Communities completed demolition of an office building located at the northeast corner of First Avenue and Monroe Street in June 2005 and constructed the tallest residential tower in Arizona. 44 Monroe consists of a 34-story mixed-use high-rise with 196 ownership condominium units, a recreation area, fitness center, theater, parking and approximately 3,300 square feet of commercial development. The $140 million project was completed in August 2008.

The City of Phoenix obtained a HOPE VI (Home Ownership Opportunities for People Everywhere) grant from the U.S. Department of Housing and Urban Development (HUD) to fund the revitalization of the Matthew Henson public housing site and surrounding community. The overall goals of HOPE VI are to assist public housing authorities in replacing severely distressed housing, increasing resident self-sufficiency and home ownership opportunities, creating incentives to encourage investment, and lessening concentrations of poverty by promoting mixed-income communities. The HOPE VI Special Redevelopment Area encompasses the area between Seventh and Fifteenth Avenues and Grant and Pima Streets. The project is a concentrated, mixed-income development of 611 affordable housing units with a community resource center, youth activity center, public parks, community gardens and swimming pools. The demolition and reconstruction phase began in December 2003. The return of eligible residents began in December 2005 with final occupancy taking place in the fall of 2008.

Government Facilities

A 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, completed in 1994, includes a 1,500-space parking structure that contains 43,000 square feet of office and retail space and is located between Washington and Jefferson Streets and Third and Fourth Avenues.

The Burton Barr Central Library celebrated its grand opening in May 1995. The five-story, 284,000 square-foot library accommodates 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, was completed in the fall of 1999. 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. 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 completed construction of a 550,000 square-foot federal courthouse in September 2000. 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.

Maricopa County is currently constructing a new courthouse in downtown Phoenix at First Avenue and Madison Street. Once completed, the new 16-story courthouse will provide 683,000 square feet of space and will include 32 criminal courtrooms. Construction of the $340 million courthouse is expected to be completed in late 2011 with move-in scheduled for early 2012.

Downtown Streetscape

Construction on an $8.9 million streetscape project in downtown Phoenix was completed in February 1995. The 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, US Airways Center, 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 build out of Jackson Street from First Avenue to Ninth Avenue and the City would be responsible for its maintenance. The \$3.2 million project included a three-month community input process to identify the parameters of the street layout, landscape, sidewalk, lighting and design elements. Construction began March 2004 and was completed in November 2004.

In the fall of 2006, the City of Phoenix began construction of two streetscape projects on the ASU Downtown Phoenix campus. The projects, which included Taylor Mall and First Street, were completed in January 2009. Taylor Mall is a tree-lined, pedestrian-friendly sidewalk and street between the Civic Space Park and Arizona Center that contains public art, inviting benches, and sustainable water features. A traffic signal and crosswalk allows pedestrians to cross Central Avenue and light rail tracks to enter the Civic Space Park safely from Taylor Mall. In addition, the west side of First Street from Polk Street to Fillmore Street has been improved with lighting, shade and landscaping.

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 2.7-acre site includes a 4,000 square-foot passenger services building for ticket sales, security, and restrooms; a 16,000 square-foot passenger plaza that 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 \$9.3 million, with the Federal Transit Administration funding 80% and the City funding 20% of the project. Rail stations were constructed on the east and west ends of the site, and the facility will undergo renovation in the future.

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 a light rail system as well as mass transit, including expanded bus service and other transportation improvements. Construction of an approximately \$1.4 billion, 20-mile light rail starter segment connecting north central Phoenix (19th Avenue and Bethany Home Road) with Tempe and Mesa (Main and Sycamore Road) began in the fall of 2004 and opened for operations in December 2008. The total cost of the project was funded with Federal grant funds and City sales tax revenues.

The City has entered into an intergovernmental agreement with Valley Metro Rail, Inc. (METRO) to design, build, operate and maintain a 4.6-mile extension to the initial light rail system. The Northwest Extension as initially planned would extend the original light rail system northwest from 19th Avenue and Montebello (just south of Bethany Home Road) to 25th Avenue and Mountain View Road. Design, land acquisition and landscaping for 3.2-miles of the extension are scheduled to be completed by 2010. Light rail construction on the 3.2-mile extension as well as completion of the remaining 1.4-miles of the extension will be finished as funding becomes available.

Renovation of the Sunnyslope Transit Center was completed in June 2007. As part of the renovation, a security and customer information building was constructed for customer service and security staff, enabling the City to sell fare media and provide customer information. Staff began working at the transit center in July 2007. Renovation of the Paradise Valley Mall Transit Center started in the second quarter of 2008 to enhance security and customer shading. The renovation was completed in June 2009.

Construction of a new West Transit Facility was completed November 2007. This facility provides additional capacity to operate and maintain buses for the Phoenix transit system. The facility was designed to accommodate 250 buses and replace a rented facility, which could only accommodate 75 buses. The additional capacity will help address future expansion of the Phoenix bus system.

Renovation of the North Transit Facility began in January 2008. The refurbishment will target safety, mechanical and electrical needs to extend the life of the facility. Completion of the project is expected in January 2011.

Construction of a RAPID bus service park-and-ride facility near the intersection of I-17 and Happy Valley Road began in March 2010. RAPID bus routes provide non-stop bus service to downtown Phoenix and are very popular. Amenities will include a security building, closed circuit television monitoring, shaded parking and passenger loading areas. The park-and-ride facility is expected to be completed in February 2011.

Phoenix Sky Harbor Center

The creation of 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. The leasehold interest in the property was acquired by First States Investors LLC on June 30, 2003.

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 July 1993, the City received 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.

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 individuals.

In April 2002, America West Airlines (now US Airways) completed construction of a $35 million, 15,000 square-foot flight training center and systems operation control facility on a 17-acre site at Sky Harbor Center.

In December 2005, Bank One (now JPMorgan Chase) completed a $70 million, 400,000 square-foot regional processing center to support its banking and financial operations. The facility accommodates 1,500 additional employees. JP Morgan Chase is currently developing a new parking garage on the facility to accommodate the hiring of additional employees as it remodels and builds out the first floor of its building. The leasehold interest was acquired by Brookfield Asset Management in late 2008.

Other sizeable tenants at Phoenix Sky Harbor Center include Greyhound, Community Tire (formerly Knudson Tire), Level 3 Communications, Lincoln Sky Harbor LLC, the City of Phoenix, Horseheads Industrial Capital II, LLC and Walton CWAZ Phoenix, LLC.

In July 2001, the Phoenix City Council approved the concept of a consolidated rental car center (RCC) for Phoenix 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 and to $6.00 effective January 1, 2009. The RCC is located on approximately 143 acres located within Sky Harbor Center and opened on January 19, 2006. The development includes 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 was funded with CFC revenues and bond funds and cost approximately $285 million.

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 (now US Airways) announced plans to expand its Phoenix operations over the next several years. In March 1998, the City Council approved an airport capital expansion program funded primarily by passenger facility charges and airport revenue bonds. Approved projects included rebuilding runways in concrete, construction of two new airport fire stations, a new Terminal 4 concourse to provide more capacity for US Airways, and additional parking facilities at Terminal 4. All of these projects 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 were funds for land acquisition, a residential sound assistance program, an airport automated train 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, but moved forward as passenger traffic at Phoenix Sky Harbor International Airport began to recover to pre-September 2001 levels.

In February 2007, the City Council approved a $2.9 billion, ten-year Airport Development Program (ADP), which updated and replaced the 2000 airport expansion program. The ADP includes the design and construction of the PHX Sky Train at Phoenix Sky Harbor International Airport, development of additional gates at Phoenix Sky Harbor International Airport and facility rehabilitation and maintenance. Recent downturns within the airline industry and the wider national economic downturn have resulted in reductions to passenger traffic at Phoenix Sky Harbor International Airport. As a result of traffic and revenue declines, Phoenix Sky Harbor International Airport management reduced operating expenditures and deferred some non-essential capital projects until traffic and revenues resume growth. These reductions and deferrals will enable management to continue design and construction of phase one of the PHX Sky Train project and other vital facility projects at Phoenix Sky Harbor International Airport.

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 2005. A citizens bond committee consisting of approximately 700 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 14, 2006 when the voters approved all seven propositions totaling $878.5 million in new general obligation bond authorizations. The propositions and the amount of bonds authorized are shown in the following table.

2006 Bond Program	Amount Authorized
Police, Fire and Homeland Security	$177,000,000
Education Facilities	198,700,000
Library and Youth, Senior and Cultural Facilities	133,800,000
Parks, Open Space and Recreational Facilities	120,500,000
Streets, Storm Sewers and Flood Protection	147,400,000
Affordable Housing and Neighborhood Revitalization	85,000,000
Computer Technology	16,100,000
Total	$878,500,000

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 consists 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 is an Assistant City Manager, an Executive Assistant to the City Manager, a Public Safety Manager, the City Auditor, the Finance Director, the Human Resources Director, the Government Relations Director, the City Attorney and three 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 24 departments, 14 functions and 15,539 employees include police, Municipal Court, 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 2009-10 through an adopted operating budget of $3,673.5 million. Of this, the general purpose funds budget totals $1,111.8 million, which is for general municipal services and excludes enterprise activities such as water, sewer, refuse and airports and special revenue funds such as grants, secondary property taxes, Arizona Highway User Revenues, impact fees and voter-approved dedicated sales taxes. On March 2, 2010, due to continuing declines in local and state sales tax revenues and a significant decline in state-shared income tax revenues, the City Council approved general fund budget reductions for 2009-10 and 2010-11. The original general fund budget shortfall was more than $275 million, but with department efficiencies, a new tax on food for home consumption and employee wage and benefit concessions, general fund program and service cuts were reduced to $63.7 million, including approximately 593 positions. The budget reductions were effective April 5, 2010.

Elected Officials

Phil Gordon, Mayor

Mayor Gordon began his second term as Mayor in January 2008. 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 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.

Michael Nowakowski, Vice Mayor, District 7

Vice Mayor Nowakowski began his first term on the City Council in January 2008. Mr. Nowakowski is currently the General Manager of a non-profit radio station, coming from previous work with the Catholic Diocese of Phoenix where he served as Assistant Director of the Office of Youth and Young Adult Ministry. Mr. Nowakowski has served on several boards and committees including co-chairman of the 2006 City of Phoenix Historic Preservation Bond Committee, member of the City of Phoenix Police Chief's Advisory Board, founding member of the Mayor's Anti-Graffiti Task Force, City of Phoenix Census 2000 Committee, Phoenix Union High School Superintendent's Advisory Board, chairman of Santa Rosa Neighborhood Council and in 2008 was appointed commissioner for the Western Maricopa Enterprise Zone. Mr. Nowakowski holds a bachelor's degree in liberal arts in religious studies from Arizona State University.

Sal DiCiccio, Councilmember, District 6

Councilmember DiCiccio began his most recent term on the City Council in January 2010. Mr. DiCiccio previously served on the City Council from 1994 to 2000. Mr. DiCiccio currently works with state, tribal, county and municipal governments as well as national business entities to develop business opportunities in Arizona. Mr. DiCiccio has served on several boards and committees including the Arizona Municipal Tax Code Commission, the State Land Conservation Task Force, the Arizona Growing Smarter Working Advisory Committee, the Maricopa County Planning Commission and the Arizona FARE Committee. Mr. DiCiccio is also a member of the Fiesta Bowl Committee, the South East Valley Regional Association of Realtors, the National Association of Realtors and the Board of Directors for the Arizona Center for the Blind. Mr. DiCiccio is a small business professional and holds a bachelor's degree in business from Arizona State University.

Bill Gates, Councilmember, District 3

Councilmember Gates began his first term on the City Council in January 2010. Mr. Gates has served in a variety of capacities with several nonprofit and community organizations, including the Wounded Warriors Project, Valley Leadership, INROADS, American Legion Boys State and the Young Lawyers Division of the State Bar. Mr. Gates was appointed to the Board of Trustees for the Christopher Columbus Fellowship Foundation in 2006, and he was awarded the Mark J. Santana Award by the Arizona Foundation for Legal Services and Education for exceptional service in law-related education. Mr. Gates is a lawyer for PING, a local golf equipment manufacturer. Mr. Gates received his bachelor's degree in Political Science and Economics from Drake University and earned his law degree from Harvard Law School.

Michael Johnson, Councilmember, District 8

Councilmember Johnson began his third consecutive term on the City Council in January 2010. 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.

Claude Mattox, Councilmember, District 5

Councilmember Mattox began his third consecutive term on the City Council in January 2008. 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.

Peggy Neely, Councilmember, District 2

Councilmember Neely began her third consecutive term on the City Council in January 2010. Ms. Neely is a real estate broker and owner of Arizona Home Team, which 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. Ms. Neely is chair of the Maricopa Association of Governments Regional Council Executive Committee and serves on the Phoenix Women's Sports Association Board and the Greater Phoenix Convention Center & Visitors Bureau Board of Directors.

Tom Simplot, Councilmember, District 4

Councilmember Simplot began his second consecutive term on the City Council in January 2010. 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.

Thelda Williams, Councilmember, District 1

Councilmember Williams rejoined the City Council in January 2008, having previously served on the Council from 1989 to 1996 and as interim mayor in 1994. Before rejoining the City Council, Ms. Williams served on the Maricopa County Animal Care and Control Agency, the Governor's Commission to Prevent Violence Against Women and the Phoenix Sky Harbor International Airport Master Plan Committee.

Administrative Staff

DAVID CAVAZOS
City Manager

Mr. Cavazos was appointed City Manager in November 2009. Prior to his appointment as City Manager, Mr. Cavazos served as a Deputy City Manager since January 2005. Before working in the City Manager's Office, Mr. Cavazos served as the Acting Aviation Director at Phoenix Sky Harbor International Airport and the Economic Development Administrator with the City's Community and Economic Development Department. Originally from Chicago, he relocated to Phoenix in 1987 to participate in the nationally recognized City of Phoenix Management Intern Program. He has earned four City Manager Excellence Awards and received numerous business development advocacy awards, including Arizona SBA Minority and Small Business Advocate of the Year. Mr. Cavazos currently serves on the board of directors for the Downtown Phoenix Partnership, Phoenix Children's Hospital and the Executive Board of the Arizona-Mexico Commission. He has a master's degree in Management and Public Policy from Carnegie Mellon University.

ED ZUERCHER
Assistant City Manager

Mr. Zuercher was appointed Assistant City Manager in November 2009. Prior to his appointment as Assistant City Manager, Mr. Zuercher served as a Deputy City Manager since November 2007. Before working in the City Manager's Office, Mr. Zuercher served as Co-Chief of Staff to the Mayor, Executive Assistant to the City Manager, Public Transit Director and Assistant to the City Manager and Management Assistant in the City Manager's Office and Budget & Research Department. Originally from Kansas, he participated in the City of Phoenix Management Intern Program from 1993 to 1994. Mr. Zuercher served as chairperson of the Public Safety Pension Retirement System from 2005-2009 and currently serves on the Greater Phoenix Convention and Visitors Bureau board. He has a master's degree from the University of Kansas.

DAVID KRIETOR
Deputy City Manager

Mr. Krietor was appointed Deputy City Manager in June 2006. Prior to his appointment as Deputy City Manager, Mr. Krietor served as Chief of Staff for Mayor Phil Gordon's Office, Aviation Director and Community and Economic Development Director. In his current capacity, Mr. Krietor oversees the Aviation Department, Economic Development Department, Convention Center, Development Services and Planning Department, Fire Department and Public Information Office. He holds a master's degree in public administration and a bachelor's degree in business management from Syracuse University.

GARY VERBURG
City Attorney

Mr. Verburg was appointed City Attorney in August 2005. Previously he worked nearly twenty years in private practice specializing in negotiations, litigation and prosecutions for Tribal Governments and municipalities. From 1997 to 2000, he was Deputy City Attorney, Assistant City Attorney, and City Attorney for the city of Glendale, Arizona. He began working for the City of Phoenix as the Chief Assistant City Attorney in 2000. He received his bachelor's degree in political science and economics from the University of Utah and his law degree from the Antioch School of Law in Washington, D.C.

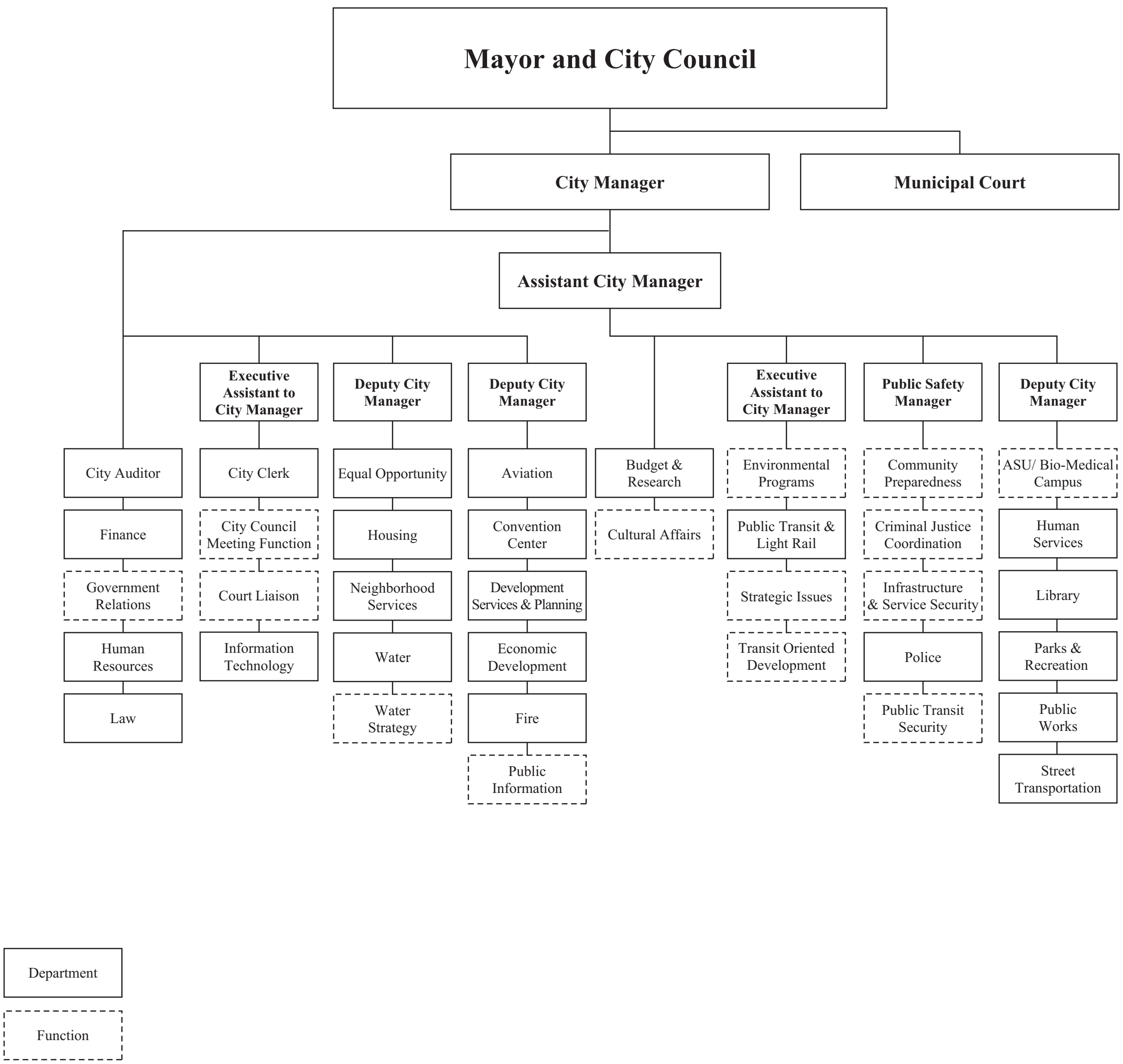
DANNY MURPHY
Aviation Director

Mr. Murphy was appointed Aviation Director in June 2007. His management experience with the City of Phoenix includes Acting Water Services Director, Chief Information Officer, Assistant Information Technology Department Director, Chief Information Technology Manager and Deputy City Clerk. Mr. Murphy is a graduate of the Harvard University Program for Senior Executives in State and Local Government and holds a master's degree in business administration and a bachelor's of science degree from Northeast Louisiana University.

JEFF DEWITT
Finance Director

Mr. DeWitt was appointed Finance Director in February 2010 after having served as Interim Finance Director since March 2009. He is responsible for the management of over $7 billion in assets. Mr. DeWitt served as Assistant Finance Director since 2002 where he was responsible for the oversight of several areas including debt management, investments and cash management, water and wastewater financial planning and rate development, financial systems applications and support and financial accounting and reporting. Throughout his career in the Finance Department, Mr. DeWitt has been involved in the planning and issuance of more than $4 billion of debt to fund capital expenditures. Mr. DeWitt holds a bachelor's degree from Eastern Illinois University and a master's degree from Southern Illinois University at Carbondale. He is a member of the Government Finance Officers Association and has served on the American Water Works Association Rates and Charges Committee for eight years where he has taught national seminars on financial planning and water rate development.

CITY OF PHOENIX



Effective July 26, 2010

Awards

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

- **2009 All-America City Award**

The City of Phoenix was the recipient of the National Civic League's All-America City award, the fifth time the City has earned the recognition, for its collaborative projects that involve the community and address critical issues. The City highlighted the newly developed urban education campuses (Arizona State University Downtown Phoenix Campus and Phoenix Biomedical Campus), the Phoenix Parks and Preserve Initiative and the innovative library teen spaces.

- **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.

- **ASPA National Public Service Award**

In April 2005, City Manager Frank Fairbanks was awarded the National Public Service Award, the highest public service award given by the American Society for Public Administration and the National Public Academy of Public Administration for distinction in public service. Mr. Fairbanks was recognized for his work in developing e-government, achieving a "AAA" excise tax revenue bond rating from Standard & Poor's and his membership on local business and community boards.

- **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 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 nations 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.

- **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.

- **2007-2008 Technology Achievement Awards**

The City of Phoenix was the recipient of two Public Technology, Inc. awards. The Aviation Department received an achievement award for its disaster recovery system to maintain uninterrupted airport operations. The project used site server clustering and disk mirroring technology to consolidate many diverse airport systems. The Neighborhood Services Department received an achievement award for its mobile data access system. This system allows field staff to access permitting, utility and property information systems by using laptops, docking ports and wireless printers. This use of mobile technology allows field staff to work more efficiently and effectively to improve conditions of existing housing stock.

- **2006-2007 Technology Achievement Awards**

The City of Phoenix was the recipient of four Public Technology, Inc. awards. The Neighborhood Services Department received an achievement award for its use of an on-line system to track graffiti occurrences and to collect restitution from perpetrators. This system works with a mobile technology system that the Neighborhood Services Department established to fight graffiti, which also received an award in 2005. The Fire Department received an achievement award for implementing an interface between the City Fire Department's CAD system and the State Department of Transportation traffic management center. The Information Technology Department received an achievement award for implementing a standards-based, site-wide text resizing tool that makes the City website more accessible to users with impaired vision. The City also received an achievement award for implementing a wireless system that facilitates scalehouse transactions for residential collection commercial vehicles.

- **2005-2006 Technology Achievement Awards**

The City of Phoenix was the recipient of three Public Technology, Inc. awards. The Neighborhood Services Department received an achievement award for its use of a mobile technology system that allows code enforcement inspectors to use laptops to access databases via wireless connection from anywhere in the City of Phoenix. Implementation of the mobile technology improves customer service and increases employee efficiency. An achievement award was also received by the Aviation Department for implementing a "Stage 'n Go" Waiting Lot. A software-driven system combines airline flight arrival information from twenty-four airlines serving three terminals into a single data stream. The data is transferred via the airport's new gigabit fiber-optic data communications system to a parking lot established near the airport entrance, where flight information is presented on a large electronic display board. An honorable mention was received by the Water Services Department for using a web-based system for monitoring, tracking and reporting Joint Exercise of Powers Agreement (JEPA) regulations.

- **2004 Technology Achievement Awards**

The City of Phoenix was the recipient of four Public Technology, Inc. awards. The Police Department received an achievement award for its use of a programmable, motion or voice activated camera as a graffiti deterrent and an honorable mention for the internet posting of calibration records for the City's Intoxylizer breath testing instruments. An honorable mention was received for the use of Personal Digital Assistants (PDA) in a housing conditions study partnership with Arizona State University. Use of PDAs increase data collection accuracy, productivity and efficiency. An achievement award was also received for "Master Plan Park/Cross-Country Track" which demonstrated the collaborative process between city agencies in the creation of a 688 acre park.

- **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.

- **National Association of Housing and Redevelopment Officials (NAHRO) Awards**

In July 2007, the City received three Awards of Merit for its efforts at removing neighborhood blight, building infill housing and removing health and safety hazards from homes in the community. The award represents community development efforts that addressed more than 1,200 blighted properties in central Phoenix, built

17 affordable infill homes, rehabilitated more than 100 homes, created approximately 200 jobs for low-and moderate-income residents, designed and created a Neighborhood Resource Center and remedied child health and safety hazards in 120 housing units.

In October 2005, the City received an Award of Excellence for the Housing Department's "Bringing Information/Technology to Seniors" program to help residents learn basic to advanced computer and internet skills. In order to provide accessibility, computer labs were installed in most of the City's senior and disabled-designated housing communities, complete with classroom instruction on using the internet, employment assistance, printshop training, photo restoration, resume writing and general computer assistance.

In July 2004, the City received the Award of Merit for its redevelopment accomplishments achieved in the North Village Center Neighborhood Initiative Area. The award represents the culmination of numerous projects including the Sunnyslope Village Shopping Center, three in-fill developments, two revitalization projects, public art and comprehensive streetscape improvements.

- **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.

- **Sister Cities Innovation Award for Education**

In July 2004, the Phoenix Sister Cities Commission received an award from Sister Cities International in recognition for its long-term and comprehensive efforts and programs in the area of education. Specifically cited were the Commission's annual youth ambassador exchange program, short and long-term teacher exchanges, the Global Connections World Technology Conference and the Chengdu management training program.

- **Sister Cities Best Overall Sister City Program Award**

In July 2008, the Phoenix Sister Cities Commission received the Sister Cities International Best Overall Sister City Program in the U.S. for cities with a population of 500,000 or more award, its highest honor. This is the seventh time in the past 13 years that Phoenix has won this award. Phoenix Sister Cities highlights include a new and improved Youth Ambassador Exchange Program; a significant increase in arts and culture projects including the second annual WorldFEST celebration promoting its 10 sister cities; the Vincenzo Bellini Opera project with Catania, Italy; a police training program for Hermosillo, Mexico; and economic development projects with Chengdu, China; Catania, Italy; and Calgary, Canada as well as trade missions with Calgary and Catania.

- **CIO Magazine Awards**

In August 2005, the City of Phoenix was one of 100 organizations worldwide awarded the CIO-100 award. The award recognizes companies and organizations around the world that exemplify the highest level of operational and strategic excellence in the use of technology. The 2005 award theme was the Bold 100, which recognized those executives and organizations that embrace risk for the sake of reward. The City was recognized for its leadership in developing the Phoenix Regional Wireless Network, a wide-area digital radio network that will be used primarily by public safety personnel. The system is designed to allow communication between emergency personnel both within the City of Phoenix as well as among the seventeen surrounding cities and towns.

In August 2003, the City of Phoenix was selected as one of 100 organizations worldwide to receive the 2003 CIO-100 award. The 2003 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.

- **ASA Award of Excellence**

In November 2006, the City of Phoenix Parks and Recreation Department received an award from the Amateur Softball Association (ASA) for conducting two of the highest-rated national championships in 2006. The City of Phoenix hosted the 2006 ASA Coed Major National Championship and the 18 and under 2006 Girls Western National Championship.

- **Air Carrier Airport Safety Award**

In July 2006, the City of Phoenix Aviation Department received an award from the Federal Aviation Administration Western Pacific Airports District Office. The Phoenix airport received the honor for its innovative solutions and partnerships that have resulted in enhanced airport safety.

- **2007 Top Ten Digital Cities Award**

The City of Phoenix was the recipient of a Center for Digital Government award for excellence in information technology policies and best practices in state and local government.

- **2008 Pro Patria Award**

The City of Phoenix was the recipient of an Employer Support of the Guard and Reserve (ESGR) award for supporting employees deployed in Operation Enduring/Iraqi Freedom. The Pro Patria award is presented annually to employers who demonstrate exceptional support for U.S. national defense by adopting personnel policies that make it easier for employees to participate in the National Guard and Reserve.

- **2008 LEEDS Silver Certification Award**

The City of Phoenix Convention Center was the recipient of the U.S. Green Building Council’s award for its use of the Leadership in Energy and Environmental Design (LEED) rating system. The Convention Center’s West Building was designed to achieve LEED certification for energy use, lighting, water and material use as well as incorporating a variety of other sustainable strategies.

ECONOMY & DEMOGRAPHICS[1]

Overview

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 trend as the Phoenix area has been one of the most rapidly growing metropolitan statistical areas (MSA)[2] in the country in recent decades in terms of population, employment and personal income growth.

There are numerous reasons why one area of the country outperforms others. Some reasons why Greater Phoenix grows are subjective. Greater 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 Greater Phoenix grows. The median housing price of an existing single-family home in the Greater Phoenix area increased significantly between 2003 and mid-2005; however, prices plateaued in mid-2005 and 2006 and declined by 5.1% in 2007 and 26.3% in 2008. As of the fourth quarter 2009, median housing prices for both new and resales had declined 50.5% from the peak in the second quarter 2006, according to data released by Arizona State University. While the decrease in home values has negative repercussions, the decline increased affordability of housing and again made the median housing price in Greater Phoenix low relative to most major western cities such as Los Angeles, San Diego, Denver, Houston, Albuquerque and Seattle. According to the National Association of Realtors, as of the fourth quarter of 2009, the U.S. median sales price for an existing (resale) single-family home was $172,900 and the median sales price for a similar home in Greater Phoenix was $143,900. The Greater Phoenix labor force is relatively young and well-educated. The median age in Maricopa County 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.

As of year-end 2009, the Phoenix-Mesa-Glendale MSA accounts for approximately 65.5% of Arizona's population, 70.9% of Arizona's employment and 68.8% of Arizona's personal income. Over the last five years from 2004 through 2009, the Phoenix-Mesa-Glendale MSA has accounted for approximately 74.5% of the increase in Arizona's population and 79.7% of the state's employment growth. From 1950 to 2009, U.S. population grew 101.6% while Greater Phoenix grew 1,068.0% from 374,961 in 1950 to approximately 4,379,634[3] people in 2009. From 1999 to 2009, population growth was 39.4% in Greater Phoenix compared to 10.0% for the U.S. as a whole. According to the U.S. Census Bureau, as of 2009 the Greater Phoenix area was the 12th largest metropolitan statistical area in the nation. According to the University of Arizona, the population of Greater Phoenix is expected to grow to 5.1 million by 2015 and 5.8 million by 2020. The table on the following page shows historical population and growth information for Greater Phoenix in comparison to peer MSAs.

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(1) The economic information contained herein has been taken from a report prepared for the City of Phoenix by Elliott D. Pollack & Company.

(2) In 1994, the U.S. Office of Management and Budget (OMB) redefined the Phoenix Metropolitan Statistical Area (MSA) to include both Maricopa and Pinal Counties. The Arizona Department of Economic Security released historical employment data on this redefined Phoenix-Mesa-Scottsdale MSA from 1990 through November 2009. Prior to 1990, detailed industry sub-sector employment data is not available for the Phoenix-Mesa-Scottsdale MSA. In December 2009, the OMB renamed the Phoenix-Mesa-Scottsdale MSA to the Phoenix-Mesa-Glendale MSA. When historical data for the Phoenix-Mesa-Glendale 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-Glendale MSA employment and 95% of the MSA's population. "Greater Phoenix" refers to the Phoenix-Mesa-Glendale MSA, unless otherwise noted.

(3) This 2009 number is from the Arizona Department of Commerce, Research Administration released in December 2009. The population numbers on the following page differ slightly and were published by the U.S. Census Bureau.

POPULATION
Metropolitan Statistical Areas
(in thousands)

	1980	1990	2000	2009(3)	Percent Growth 1980-90	1990-00	2000-09
Phoenix-Mesa-Glendale, AZ(1)	1,600.1	2,238.5	3,251.9	4,364.1	39.9%	45.3%	34.2%
Albuquerque, NM	485.4	589.1	729.6	857.9	21.4	23.8	17.6
Atlanta, GA	2,233.2	2,960.0	4,248.0	5,475.2	32.5	43.5	28.9
Austin — San Marcos, TX	585.1	846.2	1,249.8	1,705.1	44.6	47.7	36.4
Dallas, TX	2,055.3	2,676.3	3,451.2	4,326.4	30.2	29.0	25.4
Denver — Boulder, CO	1,618.5	1,848.3	2,179.2	2,552.2	14.2	17.9	17.1
El Paso, TX	479.9	591.6	679.6	751.3	23.3	14.9	10.6
Fort Worth — Arlington, TX	990.9	1,361.0	1,710.3	2,121.2	37.3	25.7	24.0
Houston, TX	2,753.2	3,322.0	4,715.4	5,867.5	20.7	41.9	24.4
Jacksonville, FL	737.5	906.7	1,122.8	1,328.1	22.9	23.8	18.3
Las Vegas, NV	528.0	852.7	1,375.8	1,902.8	61.5	61.3	38.3
Los Angeles — Long Beach, CA	7,477.2	8,863.2	9,519.3	9,848.0	18.5	7.4	3.5
Oakland, CA	1,761.7	2,082.9	2,392.6	2,532.8	18.2	14.9	5.9
Orange County, CA	1,932.9	2,410.6	2,846.3	3,026.8	24.7	18.1	6.3
Orlando, FL	700.1	1,224.8	1,644.6	2,082.4	74.9	34.3	26.6
Riverside — San Bernardino, CA	1,558.2	2,588.8	3,254.8	4,143.1	66.1	25.7	27.3
Sacramento, CA	986.4	1,340.0	1,796.9	2,127.4	35.8	34.1	18.4
Salt Lake City — Ogden, UT(2)	910.2	1,072.2	972.5	1,130.3	17.8	−9.3	16.2
San Antonio, TX	1,088.9	1,324.7	1,711.7	2,072.1	21.7	29.2	21.1
San Diego, CA	1,861.8	2,498.0	2,813.8	3,053.8	34.2	12.6	8.5
San Francisco, CA	1,488.9	1,603.7	1,731.2	1,785.1	7.7	8.0	3.1
San Jose, CA	1,295.1	1,497.6	1,735.8	1,839.7	15.6	15.9	6.0
Seattle — Bellevue — Everett, WA	1,651.7	2,033.2	2,343.1	2,611.0	23.1	15.2	11.4
Tampa, FL	1,569.1	2,067.9	2,396.0	2,742.3	31.8	15.9	14.5
Tucson, AZ	531.4	666.9	843.7	1,020.2	25.5	26.5	20.9

(1) In 1994, the U.S. Office of Management and Budget (OMB) redefined the Phoenix Metropolitan Statistical Area (MSA) to include both Maricopa and Pinal counties.

(2) In 2006, the U.S. Office of Management and Budget redefined the Salt Lake City — Ogden Metropolitan Statistical Area (MSA) into two separate areas, the Salt Lake City MSA and the Ogden — Clearfield MSA. Data prior to 2000 reflects the Salt Lake City — Ogden MSA. Data for 2000 and later reflects the Salt Lake City MSA only.

(3) The 2009 numbers are July 1 estimates, as opposed to the Census date of April 1 in each of the other columns.

Source: U.S. Department of Commerce, Census Bureau.

The rapid population growth has been accompanied by even greater employment growth. Non-agriculture wage and salary employment from 1950 through February 2010 in the Phoenix-Mesa-Glendale MSA was up 2,176.3% to 1,693,600 jobs, while the U.S. as a whole grew 183.4%.

Employment growth has also yielded gains in personal income. In 1999, personal income increased by 7.0%, while in 2000, 2001, 2002, 2003, 2004, 2005, 2006 and 2007 (the latest available data), personal income increased 10.9%, 4.5%, 4.4%, 5.5%, 8.9%, 10.9%, 9.7% and 4.3%, respectively. However, due to continued decreases in employment, increases in personal income are expected to slow. The Greater Phoenix Blue Chip Economic Forecast, a consensus forecast of a number of local economists, estimates personal income to increase by 3.0% in 2008, decrease by 1.0% in 2009 and increase by 1.0% in 2010.

Business Climate

The Greater Phoenix area enjoys a very positive business climate as evidenced by statistics from the U.S. Census Bureau on the number of business establishments in Maricopa County. From 1982 to 2007, the latest available data, total business establishments increased 164.5%. Growth was strong in all categories: firms with employees of 100 to 499 increased 241.1% over the twenty-five year period; while employers with 500 or more employees increased 321.2% and employers with fewer than 100 employees increased 162.5%.

Employment

Historically, during periods of national economic expansion, Phoenix-Mesa-Glendale 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-Glendale MSA has usually continued to grow, albeit slowly. It has taken a national recession for the Phoenix-Mesa-Glendale MSA to experience employment declines. The National Bureau of Economic Research (NBER) maintains the chronology of the national business cycles and identifies the dates of expansion and recession. On December 1, 2008, the NBER declared that the nation was in a recession and that the recession began in December 2007. The duration of the national recession will likely define the duration of the negative growth in employment for Greater Phoenix. Although many economists believe the recession ended in the summer of 2009, the NBER has not officially declared the recession over and the following information assumes the recession is ongoing.

Over the last several decades, Greater Phoenix has become economically healthier and more diversified. During the March 1975 to January 1980 expansion, Phoenix-Mesa-Glendale MSA employment increased 47.1% versus an increase of 18.2% nationally. This exceeded the expansion in other growth areas such as San Diego, Denver and Houston. During the expansion period that began in November 1982, Phoenix-Mesa-Glendale MSA employment growth again outpaced that of comparable fast growth areas. During the November 1982 to July 1990 expansion, Phoenix-Mesa-Glendale MSA employment increased 49.4% versus an increase of 22.4% nationally. During the March 1991 to March 2001 expansion, Phoenix-Mesa-Glendale MSA employment increased 58.4% versus an increase of 22.3% nationally. During the November 2001 to December 2007 expansion, employment in the Phoenix-Mesa-Glendale MSA increased 21.3% versus an increase of 5.3% nationally. During the 1980 to 1982 recession, Phoenix-Mesa-Glendale MSA employment increased 6.0% versus a decrease of 0.2% nationally. During the July 1990 to March 1991 recession, Phoenix-Mesa-Glendale MSA employment increased 3.0% versus a decrease of 1.7% nationally. During the March 2001 through November 2001 recession, Phoenix-Mesa-Glendale MSA employment declined 1.0% versus an increase of 0.1% nationally. Since the most recent recession began in December 2007 through February 2010, Phoenix-Mesa-Glendale MSA employment decreased 12.9% versus a decrease of 7.8% nationally. See the table on the following page for historical percentage changes in wage and salary growth for Greater Phoenix and other peer MSAs during recessionary and expansion 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 that were quite positive. These included reasonably strong growth in the national economy, an increase in international trade, strength in Greater Phoenix's manufacturing sector, especially the high-tech manufacturing sector, a sustained expansion in single-family housing within Greater Phoenix, strong retail sales within Greater Phoenix, and an end to defense cutbacks by the Federal government.

The years 1993 through early 2001 were strong growth years for the Greater Phoenix economy. Employment in 2001 increased 1.2% following increases of 3.5%, 4.6%, 5.4%, 5.4% and 7.2% in 2000, 1999, 1998, 1997 and 1996, respectively. Several of the economic sectors that usually hold Greater 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. 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 were especially slow to recover and as a lagging indicator may more accurately describe the state of the economy. In October 2001, employment growth in Greater Phoenix turned negative for the first time since the 1991 recession and remained negative until July 2002. Overall, employment decreased 0.1% in 2002. The Phoenix economy began to rebound in

2003 and employment grew 1.5%, once again exceeding growth in the U.S. as a whole. Greater Phoenix employment was up 3.9% in 2004, 6.2% in 2005 and 6.0% in 2006. In response to the slowing economy related to problems in the subprime mortgage market and tight credit, Greater Phoenix employment began to slow in 2007. In 2007, employment increased only 1.6%. In 2008 and 2009, as the national and Greater Phoenix economies continued to be impacted by the deepening recession, employment in Greater Phoenix decreased 2.5% and 7.9% while the U.S. as a whole decreased 0.6% and 4.3%, respectively. For the first two months of 2010, Greater Phoenix employment decreased 4.7% while the U.S. as a whole decreased 2.7% compared to the similar period in 2009. Employment in Greater Phoenix will continue to be under severe pressure until a trough is reached in the local housing market, credit markets stabilize and the national economy begins to recover.

NON-AGRICULTURAL WAGE & SALARY EMPLOYMENT
Metropolitan Statistical Areas
Not Seasonally Adjusted

	RECESSION PERIODS					EXPANSION PERIODS				
	Nov. 1973 to Mar. 1975	Jan. 1980 to Nov. 1982	July 1990 to Mar. 1991	Mar. 2001 to Nov. 2001	Dec. 2007 to Feb. 2010	Nov. 1970 to Nov. 1973	Mar. 1975 to Jan. 1980	Nov. 1982 to July 1990	Mar. 1991 to Mar. 2001	Nov. 2001 to Dec. 2007
U.S. Average	(3.7)%	(0.2)%	(1.7)%	0.1%	(7.8)%	10.9%	18.2%	22.4%	22.3%	5.3%
Phoenix, AZ(1)	(5.6)	6.0	3.0	(1.0)	(12.9)	35.3	47.1	49.4	58.4	21.3
Tucson, AZ	0.7	6.4	8.0	(0.7)	(8.6)	33.0	27.1	24.3	35.3	11.8
Albuquerque, NM(2)	(3.0)	4.6	(1.1)	0.2	(7.0)	26.0	30.2	43.7	34.9	10.0
Atlanta, GA(2)	(7.3)	7.7	(2.7)	(0.1)	(9.6)	19.2	35.3	52.7	46.5	7.7
Austin, TX	6.1	18.3	4.4	(2.0)	(2.2)	26.4	31.9	37.8	70.4	15.3
Dallas, TX(2)	N/A	9.6	(1.0)	(2.1)	(6.3)	16.4	32.7	28.1	43.1	8.4
Denver-Boulder, CO(2)	(2.7)	8.9	0.7	(1.5)	(8.1)	22.5	30.6	11.5	44.6	5.3
El Paso, TX	1.2	3.7	(0.9)	(1.1)	(4.0)	19.7	21.9	27.5	23.9	10.4
Houston, TX	3.7	10.3	0.6	0.7	(4.7)	19.9	39.7	19.7	28.1	13.0
Los Angeles-Long Beach, CA	(3.1)	(2.6)	(2.5)	(1.4)	(10.2)	9.5	20.5	17.4	2.8	2.9
Oakland, CA	(1.5)	0.7	0.0	(1.7)	(11.8)	—	16.9	29.6	21.2	1.2
Portland, OR(2)	(2.0)	(5.6)	(0.9)	(1.4)	(9.9)	15.0	27.6	39.6	35.2	10.0
Salt Lake City, UT	1.6	3.4	2.0	(0.8)	(9.3)	15.9	23.2	(6.1)	51.1	14.4
San Antonio, TX(2)	0.1	8.9	1.3	(0.3)	(3.7)	14.3	25.6	26.3	38.3	13.5
San Diego, CA	1.7	2.8	0.3	1.4	(9.0)	18.7	37.0	44.9	25.7	7.4
San Francisco, CA(3)	0.5	1.5	(1.4)	(6.1)	(9.3)	N/A	17.0	8.8	16.2	(1.3)
San Jose, CA(2)	(0.7)	7.4	(1.5)	(8.8)	(9.5)	22.6	44.3	17.6	30.0	(4.5)
Seattle, WA(2)	2.6	(1.1)	(1.2)	(1.6)	(8.2)	10.3	37.1	45.6	26.9	8.4

— = Data not available.

(1) In 1994, the U.S. Office of Management and Budget (OMB) redefined the Phoenix Metropolitan Statistical Area (MSA) to include both Maricopa and Pinal counties. Data prior to 1974 reflects Maricopa County data only.

(2) In 2003, the U.S. Office of Management and Budget redefined these areas to reflect data from the 2000 Census. Data for the redefined areas has been recalculated to reflect the change back to 1990 only.

(3) Prior to 1982, the San Francisco MSA included Oakland, CA.

Source: Labor Market Information from various states.

NON-FARM WAGE & SALARY EMPLOYMENT
Percent Distribution
Annual Averages through February 2010

Sector	Phoenix-Mesa-Glendale MSA	United States
Manufacturing	6.4%	9.0%
Natural Resources & Mining	0.2	0.5
Construction	5.0	4.1
Total Goods Producing	11.6	13.6
Transportation, Warehousing, Utilities	3.6	3.6
Trade	17.5	15.4
Information	1.6	2.1
Financial Activities	8.0	5.9
Services	43.4	41.7
Government	14.3	17.7
Total Service Producing	88.4	86.4
Non-Farm Wage & Salary	100.0%	100.0%

Note: Annual averages may not add due to rounding.

Source: Arizona Department of Economic Security, U.S. Department of Labor.

The diversity of the employment mix is the primary reason why one sector alone has typically 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 employment mix of the Phoenix-Mesa-Glendale MSA is well diversified and mirrors that of the United States in many respects. However, it is somewhat over-represented in construction and financial employment when compared to the U.S. as a whole, due to the rapid population and employment growth. It is under-represented in manufacturing, but its manufacturing mix is much more concentrated in high technology than that of the United States. As of February 2010, high technology manufacturing represents 45.1% of the manufacturing jobs in Greater Phoenix versus 13.7% nationally. This is a significant, positive factor in the long run because these high-technology manufacturing sectors are likely to grow at rates greater than that of non-high-tech manufacturing. However, these industries tend to be cyclical in nature and therefore, during periods of slower national economic growth, Greater Phoenix manufacturing will likely be negatively affected. In addition, manufacturing employment in the U.S. has been affected by the movement of manufacturing jobs to less expensive labor markets abroad. During the most recent expansion cycle, manufacturing employment grew in Greater Phoenix but never managed to turn positive for the nation as a whole. In addition, the rate of manufacturing growth was slower in Greater Phoenix during this expansion cycle compared to past cycles.

Arizona's manufacturing industry is concentrated in the Phoenix metropolitan area. According to the Arizona Department of Commerce, Research Administration, the Phoenix-Mesa-Glendale MSA has approximately 3,478 manufacturing firms employing approximately 112,769 workers as of the second quarter of 2009 (latest available data). This represents 74.1% of the State's total manufacturing employment. Major manufacturers located in Greater Phoenix include Honeywell, Intel, Freeport-McMoRan Copper & Gold, Boeing, General Dynamics, IBM, Freescale, Avnet, Sonora Quest Laboratories and Shamrock Foods. As of February 2010, employment in manufacturing accounted for 6.4% of total non-agricultural wage and salary employment in the Phoenix-Mesa-Glendale MSA. In 2006, manufacturing employment in Greater Phoenix grew 2.4% compared to a 0.5% decrease nationally. In 2007, manufacturing employment in Greater Phoenix declined 1.9%, compared to a 2.0% decrease nationally. In 2008, manufacturing employment in Greater Phoenix declined 5.5% compared to a 3.4% decrease nationally. In 2009, manufacturing employment in Greater Phoenix declined 12.1%, compared to an 11.4% decrease nationally. Through February 2010, manufacturing employment in Greater Phoenix declined 10.0% over the same year-to-date period in 2009 compared to a 7.4% decrease nationally. The Greater Phoenix Blue Chip Economic Forecast estimates that total manufacturing employment in Greater Phoenix will increase 0.2% in 2010.

NON-FARM WAGE AND SALARY EMPLOYMENT
Phoenix-Mesa-Glendale
Metropolitan Statistical Area

(Yearly Average in thousands)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
National Resources and Mining	2.4	2.2	2.0	2.1	2.2	2.7	3.2	3.8	3.0	2.9
Construction	128.3	126.1	129.3	141.6	163.9	180.1	169.4	139.4	96.1	83.8
Manufacturing	153.2	137.5	130.9	131.9	136.5	139.9	137.2	129.7	114.0	108.4
Trade, Transportation, and Utilities										
Wholesale Trade	79.6	78.4	77.5	79.2	82.9	87.1	89.8	89.3	84.2	86.5
Retail Trade	186.2	188.0	192.1	201.0	216.5	227.5	234.5	227.4	209.0	208.2
Transp., Warehousing, and Utilities	58.6	59.1	59.3	60.5	62.6	65.0	67.5	67.0	62.5	61.1
Information	41.6	39.4	37.4	34.6	33.3	32.4	31.2	31.2	29.3	27.5
Financial Activities	129.6	131.2	134.5	138.7	147.0	153.4	153.6	147.3	139.3	134.5
Professional and Business Services	259.4	253.5	258.6	273.8	296.8	319.1	325.3	309.5	275.7	267.3
Education and Health Services	143.7	153.0	163.3	173.6	184.1	196.3	206.2	217.9	224.1	227.8
Leisure and Hospitality	152.5	153.5	156.0	161.9	170.4	180.5	186.2	184.6	174.6	172.3
Other Services	59.3	61.6	62.5	64.2	66.0	71.0	72.1	73.4	68.6	66.2
Government	203.4	212.7	216.5	220.8	225.5	229.2	238.7	246.0	239.1	240.5
Total	1,597.7	1,596.1	1,619.8	1,683.8	1,787.8	1,884.1	1,914.8	1,866.3	1,719.6	1,686.8

* Year-to-date through February 2010.

Note: Annual averages may not add due to rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics; Arizona Department of Commerce, Research Administration.

Greater Phoenix trade employment was up 5.1% in 2006 and 3.1% in 2007. Greater Phoenix trade employment declined 2.3% in 2008 and 7.4% in 2009. Through February 2010, Greater Phoenix trade employment declined 1.5% over the same year-to-date period in 2009. Employment in trade, accounting for 17.5% of total non-agricultural wage and salary employment in the Phoenix-Mesa-Glendale MSA, is affected by retail sales. Trade employment increases as retail sales rise, and trade employment decreases as retail sales fall. According to the Arizona Department of Revenue, retail sales were up 7.9% in 2006, 0.1% in 2007 but declined 10.3% in 2008 and another 10.6% in 2009. For the first three months of 2010, retail sales were down 4.5% over the similar period in 2009. The Greater Phoenix Blue Chip Economic Forecast estimates an increase in retail sales of 3.5% in 2010.

The expansion of the Greater Phoenix economy in the past has generated employment in the financial activities category. This sector includes finance and insurance employment and real estate, rental and leasing employment. Employment in financial activities accounts for 8.0% of total non-agricultural wage and salary employment in the Phoenix-Mesa-Glendale MSA. Employment in this sector increased 4.4% in 2006 and 0.1% in 2007, but declined 4.1% in 2008 and 5.4% in 2009. Through February 2010, Greater Phoenix financial activities employment declined 5.0% over the same year-to-date period in 2009. The slowdown of the Greater Phoenix economy has caused the slowdown in finance and insurance employment. Similarly, the slowdown in housing has contributed to the decline in real estate employment.

The services industry, particularly business services, has also contributed to the sustained historical growth in Greater Phoenix. The services employment category has four sub-categories including professional and business, educational & health, leisure & hospitality and other services. In total, services account for 43.4% of total non-agricultural wage and salary employment in the Phoenix-Mesa-Glendale MSA. During the last expansion from November 2001 through December 2007, services employment increased 28.7% in Greater Phoenix compared to 13.2% nationally. Employment in this sector increased 6.9% in 2006, 3.0% in 2007 and declined 0.6% in 2008 and 5.4% in 2009. Through February 2010, Greater Phoenix services employment declined 2.8% over the same year-to-date period in 2009.

Professional and business services employment, 36.3% of total services industry employment, is a strong contributor to services growth. During the last expansion from November 2001 through December 2007, professional and business services employment increased 24.0% in Greater Phoenix. Employment in this service industry sub-category increased 7.5% in 2006 and 1.9% in 2007. The slowdown in the national economy since the current recession began has affected professional and business services in the Phoenix-Mesa-Glendale MSA. Employment in this service industry sub-category decreased 4.9% in 2008 and 10.9% in 2009. Through February 2010, Greater Phoenix professional and business services employment declined 6.1% over the same year-to-date period in 2009.

A significant portion of services industry employment is related to tourism. Leisure and hospitality employment, 23.7% of total services employment, has slowed due to the slowdown in the national economy. During the last expansion from November 2001 through December 2007, leisure and hospitality services employment increased 24.6% in Greater Phoenix. Construction of three resorts within Greater 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. A number of hotels within Greater Phoenix were completed in 2007 and early 2008. The Marriott Renaissance at Westgate, Marriott Residence Inn, Hampton Inn at Westgate, Spring Hill Suites, Holiday Inn Express and the Comfort Inn all opened in Glendale adding a total of 917 hotel rooms. Three notable hotels within Greater Phoenix were completed in the second half of 2008. The Phoenix Downtown Sheraton Hotel (1,000 rooms), The W Hotel Scottsdale (224 rooms), and the Intercontinental Montelucia Resort and Spa in Paradise Valley (293 rooms) opened adding a total of 1,517 hotel rooms. In addition, 13 select-service hotels opened throughout Greater Phoenix totaling approximately 1,500 rooms. Overall market conditions and the continued pressure on the capital markets have dramatically slowed hotel development throughout Greater Phoenix. The Hilton Phoenix Chandler and the aloft Hotel Tempe opened in the first half of 2009 adding 333 hotel rooms. In addition to a limited number of select-service hotels, the most notable hotel that opened in the second half of 2009 was Gila River Casino Hotel (260 rooms). Hotels scheduled to open in 2010 include the Talking Stick Resort at Casino Arizona (500 rooms) and the Radisson Hotel Glendale (120 rooms). With the exception of the hotels scheduled to open in 2010, new hotel openings in Greater Phoenix will be limited to a moderate number of select-service properties, with no other notable hotels likely to open until the 2011-2012 timeframe. Employment in this services industry sub-category increased 5.9% in 2006, 3.2% in 2007 and declined 0.9% in 2008 and 5.4% in 2009. Through February 2010, Greater Phoenix leisure and hospitality services employment declined 3.7% over the same year-to-date period in 2009. Employment in this sub-sector is expected to remain slow as the national economy slowly recovers.

Educational and health services employment is related to population flows and the aging of the population and should continue to grow in Greater Phoenix. During the last expansion from November 2001 through December 2007, educational and health services employment increased 42.9% in Greater Phoenix. Employment in this services industry sub-category increased 6.6% in 2006, 5.0% in 2007 and 5.7% in 2008. Educational and health services employment has begun to slow due to the current economy, the slowing population flows and the current school district budget dilemmas. Employment in this services industry sub-category slowed to 2.8% in 2009. Through February 2010, Greater Phoenix educational and health services employment increased 3.1% over the same year-to-date period in 2009.

The government sector includes employment in federal, state and local governments as well as state and local education categories. Employment in government accounts for 14.3% of total non-agricultural wage and salary employment in the Phoenix-Mesa-Glendale MSA. In 2006, total government sector employment advanced 1.6% over 2005 compared to an increase of 5.4% for all sectors combined. In 2007, total government sector employment advanced 4.1% over 2006 compared to an increase of 1.6% for all sectors combined. In 2008, total government sector employment advanced 3.1% over 2007 compared to a decrease of 2.5% for all sectors combined. The current economic slowdown and State of Arizona budget problems have created a decrease in government sector education, which in turn resulted in a 2.8% decrease in Greater Phoenix government sector employment in 2009. Through February 2010, Greater Phoenix government sector employment declined 3.2% over the same year-to-date period in 2009. See the table on the following page for major employers in Greater Phoenix within each main employment sector.

MAJOR PRIVATE-SECTOR EMPLOYERS IN ARIZONA

(ranked by number of employees)

Company	Employment	Type of Business
Wal-Mart Stores Inc.	31,280	Retail Trade
Banner Health Arizona	27,431	Health Services
Wells Fargo & Company	14,000	Services
Apollo Group Inc.	**12,299**	**Services**
Raytheon Company	11,500	Manufacturing
Honeywell	10,145	Manufacturing
Bank of America	10,000	Services
Intel Corporation	10,000	Manufacturing
JPMorgan Chase & Co.	9,300	Services
US Airways	**8,646**	**Services**
Catholic Healthcare West	7,771	Health Services
American Express	7,324	Services
Scottsdale Health Care	6,500	Health Services
Freeport McMoRan Copper & Gold, Inc.	**6,100**	**Mining**
Avnet, Inc.	**5,300**	**Services**
Safeway, Inc.	5,249	Retail Trade
Mayo Clinic Hospital	5,059	Health Services
Fry's Food & Drug Stores	4,745	Retail Trade
The Boeing Company	4,700	Manufacturing
Salt River Project	4,461	Services
Southwest Airlines	3,851	Services
Abrazo Health Care — Vanguard Health Systems	3,842	Health Services
PetSmart, Inc.	**3,392**	**Retail Trade**
Qwest Communications	3,390	Services
General Dynamics C4 Systems	3,200	Manufacturing

Note: Bolded rows represent Fortune 1000 companies headquartered in the MSA.

Source: Phoenix Business Journal, *2010 Book of Lists*.

Unemployment

The Phoenix-Mesa-Glendale MSA average unemployment rate has generally been consistently below the State and national average. In 2006, the average unemployment rate in the Phoenix-Mesa-Glendale MSA was 3.5% compared to 4.1% for Arizona and 4.6% for the U.S. In 2007, the average unemployment rate in the Phoenix-Mesa-Glendale MSA was 3.3% compared to 3.8% for Arizona and 4.6% for the U.S. In 2008, the average unemployment rate in the Phoenix-Mesa-Glendale MSA was 4.9% compared to 5.9% for Arizona and 5.8% for the U.S. The unemployment rates began to increase rapidly in mid-2008. In 2009, the average unemployment rate for the Phoenix-Mesa-Glendale MSA was 8.5% compared to 9.0% for Arizona and 9.3% for the U.S. In the month of February 2010, the average unemployment rate for the Phoenix-Mesa-Glendale MSA was 9.2% compared to 9.8% for Arizona and 9.7% for the U.S. The table below shows unemployment statistics for Greater Phoenix in comparison to Arizona and the nation.

COMPARATIVE UNEMPLOYMENT STATISTICS
Phoenix-Mesa-Glendale
Metropolitan Statistical Area
(Annual Average, Seasonally Adjusted)

			Unemployment Rate		
Year	Employed Phoenix-Mesa-Glendale MSA	Unemployed Phoenix-Mesa-Glendale MSA	Phoenix-Mesa-Glendale MSA	Arizona	U.S.
2010*	1,917,400	194,100	9.2%	9.8%	9.7%
2009	1,925,300	178,100	8.5%	9.0%	9.3%
2008	2,011,000	103,700	4.9	5.9	5.8
2007	1,984,600	67,600	3.3	3.8	4.6
2006	1,937,800	70,900	3.5	4.1	4.6
2005	1,853,100	78,900	4.1	4.6	5.1
2004	1,783,600	82,600	4.4	4.9	5.5
2003	1,727,300	95,600	5.2	5.7	6.0
2002	1,686,600	100,650	5.6	6.0	5.8
2001	1,648,600	72,300	4.2	4.7	4.8
2000	1,609,100	55,700	3.3	4.0	4.0
1999	1,591,100	51,200	3.1	4.5	4.2
1998	1,534,500	45,100	2.9	4.3	4.5
1997	1,465,800	45,500	3.0	4.6	4.9

* Data as of February 2010.

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, when the State faced a national recession, a severe real estate recession and defense cutbacks. Using Arizona State University data, which includes Maricopa County and part of Pinal County (the Apache Junction area), 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.

In addition to a decline in single-family permits, the City of Phoenix had also experienced a decline in market share for residential permits within the Greater Phoenix area in the late-1990s and early-2000s. This was a result of the final 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. However, this trend reversed itself in the mid-2000s with strong growth in a number of new communities within the City of Phoenix. Likewise, many communities outside the City's boundary had reached build-out. The City of Phoenix captured 23.5% of the market in 2003, 28.3% of the market in 2004, 27.0% of the market in 2005, 30.8% of the market in 2006, 37.4% of the market in 2007, 27.5% of the market in 2008 and 25.8% of the market in 2009. The long term average capture rate for the City of Phoenix is 25.6%.

Similar to market share, single-family permits issued in Greater Phoenix increased 7.2% to 38,745 permits in 2002. Both 2003 and 2004 were record years for single-family construction with permit issuance up 19.7% and 28.6% to 46,382 and 59,731 permits, respectively. In 2005, single-family permits issued increased 3.0% to 61,447 permits. In an over response to high demand for single-family homes between 2003 and mid-2005 and increasing home prices, an excess number of single-family housing units were built during this period, even as demand began to slow by late 2005. This excess housing inventory resulted in a reduction in the number of single-family housing permits issued in Greater Phoenix of 36.9% to 38,764 permits in 2006. In 2006, the number of single-family units built was more consistent with the demographic demand and for the first time in several years, completions (closings) exceeded new permits. This indicated that builders were beginning to work off their existing inventory. Despite the reduction in the number of single-family housing permits, 2006 was still the fourth strongest housing year on record, which appears to indicate that 2004 and 2005 were extremely robust years and that the market began to return to a more sustainable level. As further evidence of the market's return to a more sustainable level, permits were down 22.5% to 30,029 permits in 2007, down 52.1% to 14,375 permits in 2008 and down another 41.0% to 8,487 permits in 2009.

Single-family housing prices in Greater Phoenix increased significantly between mid-2004 and mid-2005. According to the Multiple Listing Service (MLS), housing listing prices jumped 96.8% to a median listed price of $359,900 in May 2005. This record increase in listing prices appears to have been the result of a transitory supply/demand imbalance caused by strong population flows, a large number of homes purchased for investment purposes, a jump in demand for second homes and vacation homes, the movement of people from apartments into single-family homes, easy credit, and excess liquidity in the financial markets. In addition, during that period from mid-2004 to mid-2005, there was a substantial decline in the number of units in the MLS and an increase in the delivery time of new homes by homebuilders due to factors such as the inability of cities to process entitlements in a timely manner due to high workloads and labor bottlenecks.

Housing price increases began to level in 2006 as a result of slowing demand, which increased the number of units listed in the MLS, and lessened investor activity. In fact, housing prices began declining in 2007 in Greater Phoenix as they did nationally. According to the S&P/Case-Shiller Home Price Index (a series that tracks changes in existing single-family home prices given a constant level of quality), Greater Phoenix housing prices increased only 0.3% in 2006, declined 15.3% in 2007 and were down another 18.4% in 2008. Downward pressure on prices continued through most of 2009, but appears to be waning. While home prices have started to turn around, existing single-family home prices declined 9.2% in 2009 and were down 50.5% from the peak in June 2006. As a result of the sharp decline in single-family home prices over the last few years, Greater Phoenix is once again more affordable than many major metropolitan areas in the west. As of fourth quarter 2009, the median price of an existing single-family home in Greater Phoenix was $143,900, compared to $172,900 nationally.

As the economy remains weak both nationally and locally, the current excess supply of single-family houses along with the number of foreclosures has increased, thus adding more inventory to an already oversupplied market. In addition, tighter credit standards, continued declines in employment and significant slowdowns in population growth have reduced the size of the buyer pool. These problems appear to be slowly abating. There has been a recent upturn in the sale of existing single-family homes due to dramatic increases in affordability. The considerable decrease in home prices has attracted buyers that normally would not be in the market and investors that want to take advantage of the low prices. A full recovery could be three to five years away even though the bottom of this housing cycle appears to have been reached in 2009.

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, 2002, 2003, 2004, 2005 and 2006 there were 8,009, 7,201, 5,134, 4,682, 4,997, 3,250 and 3,922 units permitted, respectively. Multi-family housing construction was hit hard during those years by low interest rates that made single-family housing more affordable. As a result, demand for single-family homes increased while demand for multi-family homes subsided. Permits increased to 6,676 in 2007 and decreased slightly to 6,365 in 2008. During 2009, only 637 multi-family permits were issued. The Greater Phoenix Blue Chip Economic Forecast projects multi-family permits to increase to 1,080 in 2010 and increase to 1,500 in 2011. Despite the fluctuation in demand, multi-family housing has enjoyed low levels of vacancy since 1993 due to modest levels of construction. More recently, vacancy rates were 5.0% in 2005 and 5.3% in 2006, but increased to 8.5% at year-end 2007, 10.2% at year-end 2008 and 14.2% at year-end 2009. The low vacancy rates, in 2005 and 2006, despite the fact that absorption was relatively modest in those years, was due to a decrease in the number of apartments in Greater Phoenix in 2005 and again in 2006. According to the Arizona State University Real Estate Center, more than 18,500 multi-family units were converted into condominiums in 2005 and 2006. Because of this tighter market, rents for apartments increased in 2005 and 2006 and continued to increase in 2007. This trend has started to reverse as condominiums are being converted back to apartments, apartments experience substantial competition from single-family rental homes and population inflows slow. The Greater Phoenix Blue Chip Economic Forecast projects multi-family vacancy rates to decrease slightly to 12.8% in 2010 and 11.7% in 2011.

The commercial real estate market is currently experiencing the same supply and demand imbalance that exerted downward pressure on single-family housing prices and new housing permits from 2007 through 2009. The imbalance in the commercial market has lagged the residential market due to the commercial market's long lead times between project conceptualization and project completion. Most of the commercial buildings that were completed in 2009 were conceptualized and started when the market was still strong. The decrease in demand is a result of declines in employment growth, the general economic downturn and the inability of investors to access the credit markets due to the severe credit crunch. Other factors affecting commercial real estate include increasing delinquency rates on outstanding commercial loans, an increasing number of balloon payments coming due at a time when the underlying commercial real estate collateral is worth substantially less than the amount of the outstanding loan amount and higher vacancy rates translating into poor cash flows deterring investors from buying the financially distressed properties.

The year 1996 was the first since 1991 that new office construction took place. Vacancy rates peaked in 1986 at just over 30%, but declined to 7.5% in 1997. In 2005, a total of 857,900 square feet of office space was added to the market, while 3.1 million square feet was absorbed. In addition, nearly 1.2 million square feet of office space was converted to office condominiums and residential condominiums. As a result, the office vacancy rate in 2005 declined to 12.6%. In 2006, a total of 2.2 million square feet of office space was added to the market, while 3.2 million square feet was absorbed. As of year-end 2006, the office vacancy rate declined to 11.1%. In 2007, a total of 4.9 million square feet of office space was added to the market, while 1.5 million square feet was absorbed. As of year-end 2007, the office vacancy rate increased to 13.9%. In 2008, 3.4 million square feet of office space was added to the market, while a net 603,000 square feet was vacated. As of year-end 2008, the office vacancy rate increased to 19.1%. In 2009, 1.8 million square feet of office space was added to the market, while absorption was a negative 2.4 million square feet. In addition, there was still 1.4 million square feet of office space in the construction pipeline as of year-end 2009. In 2009, the office vacancy rate increased to 24.5%. According to the Greater Phoenix Blue Chip Economic Forecast, office space absorption is expected to be negative for 2010 and only slightly positive in 2011. Greater Phoenix new office construction is expected to decline to less than 1 million square feet in 2010 and near zero in 2011. Due to the high level of vacancy rates, it is likely to be several years before any significant new office space is required.

Along with the rapid growth in single-family housing over the last decade, the corresponding demand for retail space was relatively strong. More recently, additional supply has slowed due to the slowdown in overall retail sales. Retail 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, the retail vacancy rates rose to 6.6% in 2001, 7.3% in 2002 and 7.4% in 2003, but dropped to 6.1% in 2004, 5.3% in 2005 and 5.1% in 2006 in response to the strengthening economy. In 2007, 11.1 million square feet of inventory was added, while 9.4 million square feet was absorbed. Therefore, the retail vacancy rate increased in 2007 to 6.2%. In 2008, 6.2 million square feet of inventory was added, while 3.4 million square feet was absorbed, increasing the retail vacancy rate to 7.5%. In 2009, 4.4 million square feet of inventory was added, while absorption was a negative 1.0 million square feet, increasing the retail vacancy rate to 11.4%. The significant slowdown in new residential construction suggests a negative outlook for the retail market. According to the Greater Phoenix Blue Chip Economic Forecast, retail vacancy rates are projected to be 13.0% at year-end 2010, the highest since 1991.

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. 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. In 2003, 3.4 million square feet was added and 4.4 million square feet was absorbed, pushing the vacancy rate down to 9.7%. In 2004, 4.5 million square feet was added while 6.3 million square feet was absorbed, reducing the vacancy rate to 8.5%. In 2005, 6.3 million square feet of industrial space was built and 12.3 million square feet was absorbed, reducing the vacancy rate to 5.6%. In 2006, 7.0 million square feet of industrial space was built and 6.0 million square feet was absorbed, increasing the vacancy rate to 6.7%. In 2007, 13.9 million square feet of industrial space was built and 8.4 million square feet was absorbed, increasing the vacancy rate to 8.4%. In 2008, 13.5 million square feet of industrial space was built and 2.3 million square feet was absorbed, increasing the vacancy rate to 12.5%. In 2009, 4.8 million square feet of industrial space was built and absorption was a negative 12.8 million square feet, increasing the vacancy rate to 16.1%. The Greater Phoenix Blue Chip Economic Forecast projects a total of 1.2 million square feet to be completed in 2010 and 300,000 square feet to be absorbed. This would continue to push vacancy rates up in 2010.

The long-term demographics of Greater Phoenix suggest that the housing market will perform well over time and that the current slowdown is cyclical in nature. Nonetheless, the slowdown is a near-term problem and as completions continue to slow, the economy as a whole is affected. Commercial construction has weakened in response to employment declines, a slowdown in population growth and higher vacancy rates. After growing by 4.2% in 2000 and 4.1% in 2001, construction employment declined 1.7% in 2002, but increased 2.5% in 2003, 9.5% in 2004, 15.7% in 2005 and 9.9% in 2006. Construction employment declined 5.9% in 2007, declined 17.7% in 2008 and was down another 31.1% in 2009. Through February 2010, Greater Phoenix construction employment declined 22.2% over the same year-to-date period in 2009.

VALUE OF BUILDING PERMITS
CITY OF PHOENIX
($ in thousands)

Year	Residential	Commercial	Industrial	Other	Total
2009	$ 608,734	$ 189,887	$114,331	$1,083,857	$1,996,809
2008	706,043	1,343,712	175,831	1,596,875	3,822,461
2007	1,376,263	1,226,910	150,945	1,356,322	4,110,440
2006	1,958,189	1,105,289	145,799	1,061,248	4,270,525
2005	2,613,500	841,115	151,348	740,718	4,346,681
2004	2,424,526	521,307	47,951	898,179	3,891,963
2003	1,633,586	401,306	41,803	692,690	2,769,385
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

Source: Center for Real Estate, College of Business Administration, Arizona State University.

VALUE OF BUILDING PERMITS
MARICOPA COUNTY
($ in thousands)

Year	Residential	Commercial	Industrial	Other	Total
2009	$1,879,028	$1,184,110	$189,970	$1,482,834	$ 4,735,942
2008	2,648,031	3,877,594	315,845	2,408,825	9,250,295
2007	5,022,311	4,375,147	321,195	2,257,246	11,975,899
2006	6,512,139	3,397,828	286,877	2,085,842	12,282,686
2005	9,125,736	3,143,475	267,259	1,470,131	14,006,601
2004	9,165,871	2,057,732	139,029	1,622,472	12,985,104
2003	7,039,184	1,541,602	87,682	1,399,822	10,068,290
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

Source: Center for Real Estate, College of Business Administration, Arizona State University.

NEW HOUSING STARTS (1)

Year	City of Phoenix	Maricopa County
2009	1,971	7,638
2008	5,046	18,366
2007	13,277	35,465
2006	12,413	40,294
2005	15,148	56,018
2004	16,664	58,822
2003	11,257	47,808
2002	9,154	43,737
2001	9,754	43,732
2000	8,052	43,908
1999	9,836	47,406

(1) Reflects housing units authorized, including single-family, multi-family and mobile homes.

Source: Arizona Real Estate Center, College of Business Administration, Arizona State University.

Outlook/Conclusion

The national recession continues to suppress the Greater Phoenix economy; however, signs that the national economy is stabilizing are beginning to emerge and new economic stimulus programs by the federal government, though not expected to change the underlying dynamics of the national economy, are expected to add an additional boost to the economy. The City has been awarded more than $423 million in federal stimulus funding with the majority of the funds earmarked for capital projects throughout the City. Though not official, many economic forecasters believe that the national recession ended in the summer of 2009. According to the National Blue Chip Economic Indicators panel, real Gross Domestic Product (GDP) growth is expected to increase by 3.1% in 2010 and 3.0% in 2011.

The current downturn has been severe in Greater Phoenix. The local economy is very dependent on growth and the recession has caused a significant decline in both population growth and jobs. According to the Greater Phoenix Blue Chip Economic Indicators panel, the rate of employment growth is expected to decline 0.2% in 2010. According to the Arizona Department of Commerce, Research Administration, population in Greater Phoenix increased 2.4% in 2008 and only 0.9% in 2009. Population growth is expected to increase 1.6% in 2010. According to the Greater Phoenix Blue Chip Economic Forecast, retail sales, which declined 10.3% in 2008 and 10.6% in 2009, are projected to increase by 3.5% in 2010. Personal income grew by 4.3% in 2007 and is projected to grow by 3.0% in 2008, decrease by 1.0% in 2009 and increase by 1.0% in 2010.

Overall, the Greater Phoenix economy will take several years to recovery. Nevertheless, Phoenix continues to be an attractive place to live and work and it is expected to continue to grow at a rate greater than the U.S. as a whole. The City of Phoenix along with the Greater Phoenix Economic Council are working together to attract wealth-generating companies from outside the region to Phoenix. These high-wage industries include aerospace and aviation, advanced business services, bioscience, high tech and sustainability. Employers that have recently relocated their headquarters or major operations to Phoenix include W.L. Gore, Republic Services, Shutterfly and American Presidential Lines/Neptune Orient Lines.

The recent drop in home prices has made Phoenix housing very affordable compared to most other western cities. Affordable housing is expected to be another key reason why Phoenix will emerge from the recent recession stronger than many other areas of the country.

MARICOPA COUNTY RETAIL SALES
($ in millions)

Year	Amount	Percentage Change
2010*	$ 8,354	−4.5%
2009	35,028	−10.6
2008	39,199	−10.3
2007	43,712	0.1
2006	43,686	7.9
2005	40,500	14.2
2004	35,466	9.6
2003	32,371	5.5
2002	30,690	0.3
2001	30,606	1.5
2000	30,168	8.4
1999	27,825	10.4
1998	25,207	7.9
1997	23,360	7.8

* Year-to-date percentage change through March 2010 compared to the same period in 2009.

Source: Arizona Department of Revenue.

SCHEDULED AIRLINES SERVING PHOENIX SKY HARBOR INTERNATIONAL AIRPORT

Aeromexico
Air Canada
AirTran Airways
Alaska Airlines
American Airlines
British Airways
Continental Airlines(1)
Delta Airlines
Frontier Airlines(2)
Great Lakes Airlines
Hawaiian Airlines
JetBlue Airways
Mesa Airlines (dba US Airways Express)
Mesaba (Delta Connection)
Midwest Airlines(2)
SkyWest Airlines (dba Delta Connection and United Express)
Southwest Airlines
Sun Country
United Airlines(1)
US Airways
WestJet

(1) In early May 2010, United and Continental announced their intent to merge.

(2) In April 2010, Republic Airways Holdings announced that Midwest and Frontier would merge under the Frontier brand.

Source: City of Phoenix Aviation Department.

PHOENIX SKY HARBOR INTERNATIONAL AIRPORT TRAFFIC

AIR PASSENGER ARRIVALS

	2009-10	% Change Year Ago	2008-09	% Change Year Ago	2007-08	% Change Year Ago
March	1,751,706	-10.2%	1,949,849	-1.5%	1,979,640	2.4%
April	1,620,257	-8.3	1,766,118	-0.8	1,780,858	0.3
May	1,555,673	-9.8	1,724,492	-4.7	1,809,750	2.1
June	1,584,073	-7.3	1,708,692	-6.3	1,823,099	1.6
July	1,684,927	-4.5	1,764,788	-6.8	1,894,069	0.5
August	1,612,836	-3.9	1,677,806	-8.1	1,825,818	3.0
September	1,433,994	-1.1	1,449,305	-12.1	1,648,236	7.0
October	1,616,310	1.2	1,596,478	-9.8	1,769,457	3.6
November	1,535,721	3.1	1,489,505	-12.7	1,706,961	-1.0
December	1,634,551	2.7	1,591,010	-2.3	1,627,891	-5.4
January	1,534,535	1.5	1,511,668	-10.4	1,686,201	-1.8
February	1,467,374	2.6	1,429,892	-14.2	1,666,166	0.6
Total	19,031,957	-3.2%	19,659,603	-7.3%	21,218,146	1.0%

AIR PASSENGER DEPARTURES

	2009-10	% Change Year Ago	2008-09	% Change Year Ago	2007-08	% Change Year Ago
March	1,746,691	-9.2%	1,922,896	0.4%	1,915,064	2.1%
April	1,672,307	-4.3	1,746,996	-4.3	1,825,490	1.3
May	1,608,064	-8.7	1,761,520	-4.2	1,839,401	2.1
June	1,605,749	-6.8	1,723,285	-6.2	1,837,093	1.2
July	1,659,848	-3.6	1,722,176	-6.0	1,831,731	0.4
August	1,561,173	-4.7	1,638,304	-7.8	1,776,777	4.4
September	1,404,465	-0.5	1,412,132	-11.6	1,597,970	6.5
October	1,573,013	0.2	1,569,288	-9.4	1,732,157	4.4
November	1,537,113	4.2	1,475,675	-12.8	1,692,331	0.2
December	1,604,166	1.5	1,580,604	-2.3	1,618,250	-4.1
January	1,530,672	2.9	1,487,884	-8.9	1,634,106	-1.4
February	1,437,078	3.0	1,394,933	-14.4	1,629,107	0.6
Total	18,940,339	-2.5%	19,435,693	-7.1%	20,929,477	1.4%

TOTAL AIR TRAFFIC

	2009-10	% Change Year Ago	2008-09	% Change Year Ago	2007-08	% Change Year Ago
March	3,498,397	-9.7%	3,872,745	-0.6%	3,894,704	2.2%
April	3,292,564	-6.3	3,513,114	-2.6	3,606,348	0.8
May	3,163,737	-9.2	3,486,012	-4.5	3,649,151	2.1
June	3,189,822	-7.1	3,431,977	-6.2	3,660,192	1.4
July	3,344,775	-4.1	3,486,964	-6.4	3,725,800	0.4
August	3,174,009	-4.3	3,316,110	-8.0	3,602,595	3.7
September	2,838,459	-0.8	2,861,437	-11.9	3,246,206	6.7
October	3,189,323	0.7	3,165,766	-9.6	3,501,614	4.0
November	3,072,834	3.6	2,965,180	-12.8	3,399,292	-0.4
December	3,238,717	2.1	3,171,614	-2.3	3,246,141	-4.7
January	3,065,207	2.2	2,999,552	-9.7	3,320,307	-1.6
February	2,904,452	2.8	2,824,825	-14.3	3,295,273	0.6
Total	37,972,296	-2.9%	39,095,296	-7.2%	42,147,623	1.2%

Source: Monthly statistical reports provided by individual airlines and compiled by City of Phoenix Aviation Department staff.

FINANCIAL INSTITUTIONS SERVING METRO PHOENIX
TOTAL ASSETS OVER $20 MILLION

Banks
JPMorgan Chase, N.A.
Bank of America, N.A.
Wells Fargo Bank of Arizona, N.A.
Meridian Bank, N.A.
Alliance Bank of Arizona
BNC National Bank
The Harris Bank, N.A.
Sunrise Bank of Arizona
AmTrust Bank
Bank of Arizona, N.A.
The Biltmore Bank of Arizona
Arizona Bank & Trust
Copper Star Bank
Western National Bank
Goldwater Bank, N.A.
National Bank of Arizona
Legacy Bank
Heritage Bank, N.A.
Country Bank
First Bank of Arizona
Towne Bank of Arizona
Bank 1440
Summit Bank
UMB Bank Arizona, N.A.
Metro Phoenix Bank
Pinnacle Bank
First Western Trust Bank
First National Bank of Scottsdale
Gateway Commercial Bank
Republic Bank AZ, N.A.
SunBank, N.A.
West Valley National Bank
Sonoran Bank

Savings Institutions
First Arizona Savings FSB
Nordstrom FSB

Source: Federal Deposit Insurance Corporation.

APPENDIX C

CITY OF PHOENIX, ARIZONA — FINANCIAL DATA

VALUATIONS

2009-10 Fiscal Year

Secondary Assessed Valuation	$ 18,861,238,355(1)
Primary Assessed Valuation	16,061,683,146(2)
Full Cash Value	169,320,057,644(3)

(1) Secondary assessed valuation represents the amount used in determining property tax levies for the payment of principal and interest on certain bonds and the calculation of the maximum permissible bonded indebtedness.

(2) Primary 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.

The basis of assessment for all property classifications is shown in the following table. 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)

Tax Years	Mines(2)	Utilities(2)	Railroads	Commercial and Industrial(3)(4)	Residential(5)	Agriculture(4)
1980-82	52%	44%	34%	25.0%	10%	16%
1983	38	38	30	25.0	10	16
1984	36	36	23	25.0	10	16
1985	34	34	(6)	25.0	10	16
1986	32	32	(6)	25.0	10	16
1987-94	30	30	(6)	25.0	10	16
1995	29	29	(6)	25.0	10	16
1996	28	28	(6)	25.0	10	16
1997	27	27	(6)	25.0	10	16
1998	26	26	(6)	25.0	10	16
1999-05	25	25	(6)	25.0	10	16
2006	25	25	(6)	24.5	10	16
2007	25	25	(6)	24.0	10	16
2008	25	25	(6)	23.0	10	16
2009	25	25	(6)	22.0	10	16

(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) 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.

(3) Legislation passed in 2006 reduced the assessment factor for these properties by 0.5% in tax years 2006 and 2007. Subsequent legislation passed in 2007 reduces the assessment factor for these properties by 1.0% each year beginning in tax year 2008 through tax year 2011, with a 20% factor in effect for tax years 2011 and thereafter.

(4) Legislation authorized by an amendment to the Constitution of Arizona by vote at the November 5, 1996 general election provided for a reduced assessment factor 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 the applicable assessment factor.

(5) 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.

(6) 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.

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. On November 2006, voters of the State passed Proposition 101 which adjusts the base for the maximum allowable Primary property tax levy limit to the actual 2005 property taxes levied. 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 this system, a valuation date is established as of 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 years 2001, 2003 and 2005. Starting with tax year 2007, the Maricopa County Assessor began reassessing existing properties within these classes on an annual cycle.

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 meets 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
2009-10	$169,320,057,644	$516,184,657,086	$761,880,919,611
2008-09	167,520,964,412	516,677,464,629	754,817,457,814
2007-08	140,052,671,158	431,682,163,259	620,858,275,155
2006-07	100,948,090,933	301,474,323,450	452,456,989,697
2005-06	92,214,844,914	273,817,028,101	404,018,871,420
2004-05	83,439,807,440	245,835,671,707	346,671,753,858
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

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
2009-10	$18,861,238,355	$57,984,051,727	$86,525,272,506
2008-09	18,856,072,373	58,303,635,287	86,183,351,753
2007-08	16,068,816,499	49,534,573,826	71,852,630,420
2006-07	12,261,133,763	36,294,693,601	54,436,547,031
2005-06	11,419,619,072	33,197,218,398	48,938,261,134
2004-05	10,489,921,645	30,066,986,670	44,480,893,202
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

Source: Arizona Department of Revenue, Division of Property and Special Taxes and Maricopa County Finance Department.

Net Secondary Assessed Valuation by Classification, City of Phoenix

Fiscal Year	Commercial/ Utilities/ Industrial(1)	Residential	Rural & Other	Total
2009-10	$8,099,847,280	$ 9,937,630,776	$823,760,299	$18,861,238,355
2008-09	7,378,159,709	10,598,307,425	879,605,239	18,856,072,373
2007-08	6,466,328,588	8,915,253,350	687,234,561	16,068,816,499
2006-07	5,902,715,308	5,770,797,928	587,620,527	12,261,133,763
2005-06	5,409,748,435	5,523,958,014	485,912,623	11,419,619,072
2004-05	5,279,810,811	4,768,483,562	441,627,272	10,489,921,645
2003-04	4,818,034,587	4,617,599,480	356,554,348	9,792,188,415
2002-03	4,604,780,196	3,817,331,864	380,771,418	8,802,883,478
2001-02	4,178,526,093	3,739,298,266	314,309,417	8,232,133,776
2000-01	3,868,110,167	3,392,356,918	312,743,931	7,573,211,016

(1) In 2000-01, Maricopa County began utilizing new legal class codes for the classification of property as required by legislation passed by the Arizona Legislature. Due to the change in legal class codes, Utilities have been combined with Commercial and Industrial property.

Source: Maricopa County Finance Department.

Primary Assessed Valuation History

Fiscal Year	City of Phoenix	Maricopa County	State of Arizona
2009-10	$16,061,683,146	$49,675,117,156	$74,780,095,377
2008-09	14,664,583,196	44,881,602,698	67,556,592,601
2007-08	12,890,386,440	38,930,267,545	58,327,805,577
2006-07	11,430,545,989	33,807,465,267	50,663,763,292
2005-06	10,637,360,762	31,010,284,705	46,046,096,197
2004-05	9,800,420,933	28,070,870,413	41,886,818,760
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

Source: Arizona Department of Revenue, Division of Property and Special Taxes and Maricopa County Finance Department.

City of Phoenix, Arizona
Major Taxpayers
2009-10

Taxpayer	2009-10 Secondary Assessed Valuation	As % of City Total Secondary Assessed Valuation
Arizona Public Service Company	$ 408,584,276	2.17%
Qwest Communications	167,792,087	0.89
Westcor Company LP	89,408,143	0.47
Southwest Gas Corporation	80,545,429	0.43
Host Kierland LLC	65,843,635	0.35
Cox Communications	52,526,648	0.28
AT&T Corporation	50,085,823	0.27
Teachers Insurance & Annuity Association of America	48,828,964	0.26
LBA Realty Fund II WBP LLC	48,657,707	0.26
Metropolitan Life Insurance Company	47,910,762	0.25
Starwood Hotels and Resorts	47,578,085	0.25
Safeway Inc.	42,135,199	0.22
Target Corporation	40,875,683	0.22
VHS Acquisition Subsidiary Number I Inc.	38,553,101	0.20
Honeywell International Inc.	36,794,871	0.19
Riverpoint Lots LLC	36,120,000	0.19
Kroger Company	34,286,660	0.18
Wal-mart Stores Inc.	34,109,748	0.18
Wells Fargo Bank	33,982,639	0.18
Presson Advisory LLC	31,643,508	0.17
Total	$1,436,262,968	7.61%

Source: Maricopa County Assessor's Office, Arizona State Department of Revenue 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 2009-10 and for the past ten fiscal years, as well as the tax collection record of the City's levy for the 2009-10 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
2009-10	$1.82	$321,817,125	$192,774,933	59.9%	$202,688,553	63.0%
2008-09	1.82	311,291,668	298,351,332	95.8	305,714,351	98.2
2007-08	1.82	266,891,526	258,970,653	97.0	263,352,805	98.7
2006-07	1.82	216,131,676	211,510,896	97.9	212,563,481	98.4
2005-06	1.82	201,122,162	195,836,381	97.4	197,761,387	98.3
2004-05	1.82	185,055,818	180,951,426	97.8	183,449,718	99.1
2003-04	1.82	171,899,460	167,281,374	97.3	170,593,456	99.2
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

(1) Reflects amounts collected on each year's levy through June 30, the end of the fiscal year, and the current fiscal year through April 2010.

(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 2009-10

Overlapping Municipality	Total Tax Rate Inside City of Phoenix
Inside Agua Fria Union High School District No. 216	
Inside Litchfield Elementary School District No. 79(3)	$ 9.7614
Inside Glendale Union High School District No. 205	
Inside Washington Elementary School District No. 6(3)	10.1266
Inside Glendale Elementary School District No. 40(3)	11.0351
Inside Phoenix Union High School District No. 210	
Inside Phoenix Elementary School District No. 1	10.8343
Inside Riverside Elementary School District No. 2	8.8468
Inside Isaac Elementary School District No. 5	14.7147
Inside Wilson Elementary School District No. 7	12.5596
Inside Osborn Elementary School District No. 8	10.3041
Inside Creighton Elementary School District No. 14	9.5842
Inside Murphy Elementary School District No. 21	10.7957
Inside Balsz Elementary School District No. 31	10.1700
Inside Madison Elementary School District No. 38	9.9107
Inside Laveen Elementary School District No. 59	11.3146
Inside Roosevelt Elementary School District No. 66	12.4885
Inside Alhambra Elementary School District No. 68	12.5344
Inside Cartwright Elementary School District No. 83(3)	12.1400
Inside Tempe Union High School District No. 213	
Inside Tempe Elementary School District No. 3(2)	9.9477
Inside Kyrene Elementary School District No. 28(2)	9.5726
Inside Tolleson Union High School District No. 214	
Inside Tolleson Elementary School District No. 17	10.4008
Inside Fowler Elementary School District No. 45(3)	9.4807
Inside Union Elementary School District No. 62	9.1554
Inside Littleton Elementary School District No. 65	10.2631
Inside Pendergast Elementary School District No. 92(3)	11.7437
Inside Scottsdale Unified School District No. 48(2)	8.2279
Inside Paradise Valley Unified School District No. 69(3)	9.0603
Inside Cave Creek Unified School District No. 93	5.9924
Inside Deer Valley Unified School District No. 97(3)	8.9344

(1) Included in the computation for each of the overlapping municipalities is the City of Phoenix tax rate of $1.8200, the Maricopa County tax rate of $0.9909, the Education Equalization District tax rate of $0.3306, the Maricopa County Flood Control District tax rate of $0.1367, the Central Arizona Water Conservation District tax rate of $0.1000, the Maricopa County Library District tax rate of $0.0353, the Volunteer Fire District Assistance tax rate of $0.0057, the Maricopa Special Health Care District tax rate of $0.0914 and the Maricopa County Community College District tax rate of $0.8844.

(2) Includes the East Valley Institute of Technology tax rate of $0.0500.

(3) Includes the West Maricopa Education Center tax rate of $0.0500.

Source: Maricopa County Finance Department.

STATEMENT OF BONDED INDEBTEDNESS (1)

Purpose	Non-Enterprise General Obligation Bonds (General Obligation Bonds)	Revenue Supported General Obligation Bonds (General Obligation Bonds)	Total General Obligation Bonds (General Obligation Bonds)	Revenue Bonds	Total Bonds
Various	$1,547,027,571	$ —	$1,547,027,571	$ —	$1,547,027,571
Airport	—	12,195,000	12,195,000	—	12,195,000
Sanitary Sewer	—	47,241,813	47,241,813	—	47,241,813
Solid Waste	—	19,540,000	19,540,000	—	19,540,000
Water	—	71,474,575	71,474,575	—	71,474,575
Street & Highway	—	—	—	70,165,920	70,165,920
Subtotal	1,547,027,571	150,451,388	1,697,478,959	70,165,920	1,767,644,879
Less: Restricted Funds	277,490,982	—	277,490,982	—	277,490,982
Direct Debt	1,269,536,589	150,451,388	1,419,987,977	70,165,920	1,490,153,897
Less: Revenue Supported	—	150,451,388	150,451,388	70,165,920	220,617,308
Net Debt	$1,269,536,589	$ —	$1,269,536,589	$ —	$1,269,536,589

(1) Represents general obligation bonds outstanding as of April 1, 2010. 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.

Annual Debt Service Requirements
General Obligation Bonded Debt Outstanding

Fiscal Year Ending June 30,	Total Debt Service Requirements(1)	Less: Enterprise Supported	Net Debt Service Requirements
2010	$ 139,746,620	$ 26,556,797	$ 113,189,823
2011	161,099,072	42,004,901	119,094,171
2012	146,908,495	15,325,849	131,582,646
2013	136,284,338	15,194,686	121,089,652
2014	121,426,077	10,878,411	110,547,666
2015	142,723,308	14,555,058	128,168,250
2016	173,733,967	29,640,232	144,093,735
2017	148,474,905	9,315,520	139,159,385
2018	148,949,656	9,383,882	139,565,774
2019	140,432,116	3,463,820	136,968,296
2020	136,665,581	2,942,757	133,722,824
2021	122,970,639	1,550,908	121,419,731
2022	122,360,325	715,825	121,644,500
2023	116,316,737	—	116,316,737
2024	112,699,745	—	112,699,745
2025	112,733,623	—	112,733,623
2026	82,965,540	—	82,965,540
2027	82,935,307	—	82,935,307
2028	42,396,681	—	42,396,681
2029	26,876,583	—	26,876,583
2030	26,508,310	—	26,508,310
2031	26,128,944	—	26,128,944
2032	25,732,168	—	25,732,168
2033	25,326,929	—	25,326,929
2034	24,906,645	—	24,906,645
	$2,547,302,311	$181,528,646	$2,365,773,665

(1) Represents debt service requirements on general obligation bonds outstanding as of April 1, 2010. 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.

On October 27, 2009, the City issued $280,955,000 par amount of Qualified Build America Bonds (Direct Pay). The City elected to receive subsidy payments, in the amount of 35% of each interest payment on the Qualified Build America Bonds, paid directly to the City by the United States of America. Debt service is shown gross of subsidy payments.

Direct General Obligation Bonded Debt Outstanding

Issue Date	Original Issuance	Purpose	Maturity Dates	Bonds Outstanding As of 4-1-10(1)
12-01-89	$ 12,241,589	Various Improvements — Minibonds	7-1-00/10	$ 1,150,330
12-06-91	30,000,000	Sanitary Sewer Improvements	7-1-95/11	9,776,103
04-15-93	335,165,000	Refunding	7-1-95/10	5,500,000
12-01-93	17,229,249	Various Improvements — Minibonds	7-1-04/14	2,251,816
07-01-95	85,000,000	Refunding	7-1-10/17	31,195,000
07-15-00	50,000,000	Various Improvements	7-1-03/10	605,000
12-12-01	6,075,000	Sanitary Sewer Improvements	7-1-03/21	4,305,710
06-01-02	10,000,000	Various Improvements (Taxable)	7-1-10	2,000,000
06-01-02	89,970,000	Various Improvements	7-1-15/27	41,465,000
06-01-02	144,495,000	Refunding	7-1-03/18	75,405,000
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	78,500,000
03-01-04	200,000,000	Various Improvements	7-1-10/28	157,230,000
03-01-04	50,870,000	Refunding	7-1-11/19	39,165,000
07-01-05	257,000,000	Various Improvements	7-1-11/25	231,820,000
06-13-07	342,700,000	Various Improvements	7-1-13/27	342,700,000
06-13-07	151,720,000	Refunding	7-1-09/27	146,575,000
06-13-07	77,550,000	Various Improvements (Taxable)	7-1-08/13	52,115,000
10-27-09	280,955,000	Various Improvements (Taxable)	7-1-20/34	280,955,000
10-27-09	69,045,000	Various Improvements (Taxable)	7-1-15/20	69,045,000
10-27-09	117,195,000	Refunding	7-1-11/23	117,195,000
Total Direct General Obligation Debt Outstanding				1,697,478,959
Less: Principal Redemption Funds held in Restricted Fund				277,490,982
Total Direct General Obligation Debt Outstanding				1,419,987,977
Less: General Obligation Bonded Debt Supported from Enterprise Revenues				150,451,388
Net Direct General Obligation Bonded Debt Outstanding				$1,269,536,589

(1) Represents general obligation bonds outstanding as of April 1, 2010.

City of Phoenix
Street and Highway User Revenue Bonds Outstanding

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 4-1-10
03-15-92	$117,880,000	Street & Highway Refunding (Junior Lien)	7-1-93/11	6.50%	$ 3,465,000
12-15-92	58,225,920	Street & Highway Refunding (Junior Lien)	7-1-94/13	7.96	13,390,920
01-01-99	10,375,000	Street & Highway Refunding (Junior Lien)	7-1-99/11	4.36	3,025,000
05-01-02	123,125,000	Street & Highway Refunding (Junior Lien)	7-1-03/11	4.77	28,560,000
06-01-03	47,360,000	Street & Highway Refunding	7-1-05/11	4.59	21,725,000
Total Street & Highway User Revenue Bonds Outstanding					$70,165,920

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% 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, 2010 is shown below, based upon 2009-10 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	$3,772,247,671
Direct General Obligation Bonds Outstanding	1,291,428,959(1)
Unused 20% Limitation Borrowing Capacity	$2,480,818,712

All Other General Obligation Bonds

6% Constitutional Limitation		$1,131,674,301
Direct General Obligation Bonds Outstanding	$406,050,000(1)	
Less: Principal Redemption Funds held in Restricted Fund as of April 1, 2010	277,490,982	
Direct General Obligation Bonds Outstanding		128,559,018
Unused 6% Limitation Borrowing Capacity		$1,003,115,283

(1) Represents general obligation bonds outstanding as of April 1, 2010.

NET DIRECT AND OVERLAPPING GENERAL OBLIGATION BONDED DEBT AND DEBT RATIOS

	As of April 1, 2010(1)
City of Phoenix	$1,269,536,589
Maricopa County Community College District	217,407,000
Various Elementary School Districts	466,815,000
Various High School Districts	420,445,000
Various Unified School Districts	377,085,000
Net Direct and Overlapping General Obligation Bonded Debt	$2,751,288,589

(1) Represents the net direct debt of the City of Phoenix as of April 1, 2010. The direct debt for the various school districts is as of July 1, 2009, the latest available data.

Excludes $128,558 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 $3,695,000 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 to deliver Colorado River water to central and southern Arizona. The obligation is evidenced by a master repayment agreement between the CAWCD and the Department of the Interior. The CAWCD repayment obligation was reduced from over $2 billion to $1.65 billion as a result of a settlement between the United States and CAWCD over the amount of the repayment obligations and repayment terms. The settlement provided that 73% of the repayment obligation bear interest at the rate of 3.342% per annum on the unpaid balance, and 27% of the repayment obligation be non-interest bearing. The repayment will take place over a period of 50 years with the final payment in 2046. The City of Phoenix portion is estimated to be $59 million and will be paid by the end of 2011. The remaining payments include $1.8 million in the year 2010 and $1.4 million in 2011.

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 $0.10 per $100 of assessed valuation for the 2009-10 fiscal year.

Net Direct And Overlapping General Obligation Bonded Debt Ratios

	Per Capita Debt (Pop. Est. @ 4-1-10 1,688,640	As Percent of City's 2009-10 Secondary Assessed Valuation	As Percent of City's 2009-10 Full Cash Valuation
Direct General Obligation Bonded Debt Outstanding as of April 1, 2010	$ 840.91	7.53%	0.84%
Net Direct General Obligation Bonded Debt Outstanding as of April 1, 2010	751.81	6.73	0.75
Net Direct and Overlapping General Obligation Bonded Debt Outstanding as of April 1, 2010	1,629.29	14.59	1.62

Overlapping General Obligation Bonded Debt, Net Assessed Valuations and Tax Rates
As of July 1, 2009
(in thousands)

Overlapping Municipality	2009-10 Net Secondary Assessed Valuation	Net Bonded Debt	Approximate Applicable Percent	Net Overlapping Bonded Debt	2009-10 Tax Rate Per $100 Assessed
State of Arizona	$86,525,273	$ —	21.8%	$ —	—
Maricopa County	57,984,052	—	32.5	—	0.9909
Maricopa County Community College District	57,984,052	668,945	32.5	217,407	0.8844
Elementary School Districts:					
Phoenix S.D. No. 1	1,077,675	61,490	100.0	61,490	3.4942
Riverside S.D. No. 2	459,278	13,460	96.8	13,029	1.5067
Tempe S.D. No. 3	2,276,858	107,840	16.2	17,470	3.2816
Isaac S.D. No. 5	285,438	1,270	100.0	1,270	7.3746
Washington S.D. No. 6	2,203,865	93,410	97.0	90,608	3.0775
Wilson S.D. No. 7	165,528	5,430	100.0	5,430	5.2195
Osborn S.D. No. 8	771,562	51,025	100.0	51,025	2.9640
Creighton S.D. No. 14	681,971	2,280	88.4	2,016	2.2441
Tolleson S.D. No. 17	275,147	9,755	26.7	2,605	3.9095
Murphy S.D. No. 21	183,164	6,940	100.0	6,940	3.4556
Kyrene S.D. No. 28	2,858,289	120,945	39.3	47,531	2.9065
Balsz S.D. No. 31	481,944	8,280	94.2	7,800	2.8299
Madison S.D. No. 38	1,538,312	61,760	100.0	61,760	2.5706
Fowler S.D. No. 45	392,305	15,740	89.5	14,087	2.9394
Laveen S.D. No. 59	387,313	21,095	75.5	15,927	3.9745
Union S.D. No. 62	94,872	200	96.0	192	2.6641
Littleton S.D. No. 65	389,531	13,390	14.7	1,968	3.7718
Roosevelt S.D. No. 66	1,084,002	35,270	98.5	34,741	5.1484
Alhambra S.D. No. 68	620,206	24,395	81.8	19,955	5.1943
Litchfield S.D. No. 79	988,321	35,705	0.7	250	2.6215
Cartwright S.D. No. 83	556,386	—	100.0	—	4.7499
Pendergast S.D. No. 92	545,329	23,930	44.8	10,721	5.2024
High School Districts:					
Glendale Union No. 205	2,794,705	97,635	76.5	74,691	2.6041
Phoenix Union No. 210	8,292,781	286,790	95.8	274,745	2.9451
Tempe Union No. 213	5,135,147	107,465	29.1	31,272	2.2211
Tolleson Union No. 214	1,697,183	82,015	48.2	39,531	2.0963
Agua Fria Union No. 216	1,540,297	51,475	0.4	206	2.6949
Unified School Districts:					
Scottsdale No. 48	7,201,680	301,315	13.5	40,678	3.7829
Paradise Valley No. 69	4,783,977	327,650	67.4	220,836	4.6153
Cave Creek No. 93	2,880,270	20,660	10.0	2,066	1.5974
Deer Valley No. 97	3,546,358	207,125	54.8	113,505	4.4894
Total Overlapping General Obligation Bonded Debt				$1,481,752	

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:

Municipality	Authorized and Unissued Bonds
Maricopa County Community College District	$301,093,000
Creighton Elementary School District No. 14	44,000,000
Deer Valley Unified Elementary School District No. 97	118,000,000
Fowler Elementary School District No. 45	18,710,000
Kyrene Elementary School District No. 28	22,350,000
Laveen Elementary School District No. 59	38,400,000
Litchfield Elementary School District No. 79	20,000,000
Littleton Elementary School District No. 65	7,600,000
Madison Elementary School District No. 38	12,000,000
Murphy Elementary School District No. 21	5,000,000
Paradise Valley Unified Elementary School District No. 69	25,625,000
Pendergast Elementary School District No. 92	18,535,000
Riverside Elementary School District No. 2	850,000
Roosevelt Elementary School District No. 66	40,000,000
Tempe Elementary School District No. 3	51,830,000
Tolleson Elementary School District No. 17	8,560,000
Tolleson Union High School District No. 214	6,600,000
Union Elementary School District No. 62	12,360,000

OTHER LONG-TERM OBLIGATIONS

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 Phoenix 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 Phoenix 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 Corporation to finance the facilities, and has pledged its excise tax collections for these payments. The City's excise tax collections in 2003-04 totaled $638,598,000, in 2004-05 totaled $689,130,000, in 2005-06 totaled $801,402,000, in 2006-07 totaled $864,381,000, in 2007-08 totaled $884,160,000 and in 2008-09 totaled $846,865,000. These amounts do not include revenues from various 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 Corporation. There are four such excluded voter approved tax rate increases.

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 May 20, 2008, City of Phoenix voters approved a 30-year extension of the 0.1% tax for the acquisition of desert preserve open space and the development and improvement of regional and neighborhood parks in Phoenix. This extension will also expand the possible uses of these funds to include operational expenses such as salaries for park rangers and maintenance workers. Forty percent of the revenues produced by the extension will be used to acquire land for Phoenix's Sonoran Preserve. The remaining sixty percent will be used to finance improvements to parks throughout 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.

On September 11, 2007, voters approved a 0.2% increase in the City's privilege license tax rate. Eighty percent of the revenues produced by the increase will be used by the Phoenix Police Department to recruit, hire, train and equip at least 500 police officers and police personnel; hire crime scene investigation (CSI) forensic teams; and to make service calls more efficient. Twenty percent of the revenues produced by the increase will be used by the Phoenix Fire Department to recruit, hire, train and equip at least 100 firefighters and fire personnel to improve fire protection services.

City of Phoenix Civic Improvement Corporation
Senior Lien Debt Outstanding

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 4-1-10
06-01-99	$ 79,000,000	Phoenix Municipal Courthouse	7-1-05/10	5.34%	$ 2,035,000
06-01-99	15,000,000	Adams Street Garage	7-1-05/11	5.35	800,000
05-01-03	47,600,000	New City Hall Refunding	7-1-04/29	4.73	21,735,000
06-01-07	103,605,000	Municipal Facilities Refunding(1)	7-1-09/29	4.85	103,340,000
Total City of Phoenix Improvement Corporation Senior Lien Debt Outstanding					$127,910,000

(1) Debt service requirements on $895,000 of these obligations are supported by airport revenues.

City of Phoenix Civic Improvement Corporation
Schedule of Annual Debt Service Requirements
Senior Lien Debt Outstanding

Fiscal Year	Principal	Interest	Total
2009-10	$ 4,025,000	$ 6,146,412	$ 10,171,412
2010-11	4,225,000	5,942,825	10,167,825
2011-12	4,415,000	5,755,825	10,170,825
2012-13	4,605,000	5,553,625	10,158,625
2013-14	4,845,000	5,323,375	10,168,375
2014-15	5,065,000	5,099,225	10,164,225
2015-16	5,295,000	4,869,550	10,164,550
2016-17	5,565,000	4,604,800	10,169,800
2017-18	5,840,000	4,326,550	10,166,550
2018-19	6,135,000	4,034,550	10,169,550
2019-20	6,435,000	3,727,800	10,162,800
2020-21	6,760,000	3,406,050	10,166,050
2021-22	7,095,000	3,068,050	10,163,050
2022-23	7,455,000	2,713,300	10,168,300
2023-24	7,805,000	2,365,312	10,170,312
2024-25	8,175,000	1,994,575	10,169,575
2025-26	8,560,000	1,606,263	10,166,263
2026-27	8,975,000	1,199,663	10,174,663
2027-28	9,385,000	780,763	10,165,763
2028-29	7,250,000	342,712	7,592,712
	$127,910,000	$72,861,225	$200,771,225

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 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. These bonds have been refunded through the City of Phoenix Civic Improvement Corporation.

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.

The City entered into a loan agreement with the City of Phoenix Civic Improvement Corporation to finance a portion of the costs to construct, expand, modify and improve the Phoenix Convention Center. The Corporation issued bonds to fund a portion of the costs of the Phoenix Convention Center expansion project and the City pledged its excise taxes to make loan 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.

City of Phoenix Civic Improvement Corporation
Subordinated Junior Lien Debt Outstanding (1)

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 4-1-10
01-15-98	$ 48,740,000	Municipal Multipurpose Arena Refunding (Taxable)	7-1-98/19	6.12%	$ 32,220,000
08-01-00	65,000,000	Municipal Facilities	7-1-01/11	5.35	4,710,000
05-01-03	80,000,000	Solid Waste Improvements(2)	7-1-04/14	4.93	17,910,000
05-01-03	25,000,000	Municipal Facilities	7-1-05/25	4.37	19,195,000
05-01-03	25,000,000	Municipal Facilities (Taxable)	7-1-09/33	5.59	24,480,000
05-01-03	10,000,000	Municipal Facilities (Taxable)	7-1-09/33	5.60	9,795,000
06-01-04	22,000,000	Municipal Facilities	7-1-06/25	5.09	13,910,000
09-13-05	300,000,000	Convention Center Expansion	7-1-17/41	4.98	300,000,000
06-01-06	84,265,000	Solid Waste Improvements(2)	7-1-07/26	4.68	76,945,000
06-01-06	28,230,000	Municipal Facilities	7-1-07/13	4.47	14,790,000
06-01-06	41,920,000	Municipal Facilities (Taxable)	7-1-07/35	6.10	40,645,000
06-01-07	21,115,000	Municipal Facilities	7-1-08/27	4.74	19,790,000
06-01-07	71,820,000	Municipal Facilities Refunding(3)	7-1-09/23	4.93	69,835,000
06-01-07	35,670,000	Convention Center East Garage Refunding (Taxable)	7-1-08/22	5.73	32,980,000
Total City of Phoenix Civic Improvement Corporation Subordinated Junior Lien Debt Outstanding					$677,205,000

(1) Schedule includes subordinated junior lien debt issued by the City of Phoenix Civic Improvement Corporation, but does not include subordinated junior lien debt incurred by the City of Phoenix or State of Arizona Distribution Revenue Bonds issued by the City of Phoenix Civic Improvement Corporation. See page C-21 for a schedule of outstanding subordinated junior lien debt issued by the City of Phoenix and page C-24 for a description of the State of Arizona Distribution Revenue Bonds issued by the City of Phoenix Civic Improvement Corporation. Schedule also does not include bonds issued by the Downtown Phoenix Hotel Corporation for which a portion of excise taxes have been pledged in the event hotel revenues are insufficient to make debt service payments on the bonds. See page C-22 for additional information and a schedule of outstanding debt issued by the Downtown Phoenix Hotel Corporation.

(2) Debt service requirements on these obligations are supported by solid waste revenues.

(3) Debt service requirements on $45,845,000 of these obligations are supported by solid waste revenues.

City of Phoenix Civic Improvement Corporation
Schedule of Annual Debt Service Requirements
Subordinated Junior Lien Debt Outstanding (1)

Fiscal Year	Principal	Interest	Total
2009-10	$ 23,225,000	$ 34,402,948	$ 57,627,948
2010-11	25,215,000	33,225,282	58,440,282
2011-12	23,160,000	31,934,778	55,094,778
2012-13	24,140,000	30,796,820	54,936,820
2013-14	22,515,000	29,605,542	52,120,542
2014-15	22,880,000	28,496,073	51,376,073
2015-16	22,920,000	27,359,616	50,279,616
2016-17	27,080,000	26,216,392	53,296,392
2017-18	28,330,000	24,867,412	53,197,412
2018-19	29,840,000	23,380,070	53,220,070
2019-20	26,585,000	21,809,738	48,394,738
2020-21	26,850,000	20,440,350	47,290,350
2021-22	28,030,000	19,055,022	47,085,022
2022-23	25,850,000	17,606,860	43,456,860
2023-24	20,755,000	16,310,898	37,065,898
2024-25	20,555,000	15,248,037	35,803,037
2025-26	21,405,000	14,188,600	35,593,600
2026-27	15,455,000	13,134,275	28,589,275
2027-28	14,580,000	12,352,725	26,932,725
2028-29	15,330,000	11,609,138	26,939,138
2029-30	16,115,000	10,826,025	26,941,025
2030-31	16,930,000	10,001,600	26,931,600
2031-32	17,825,000	9,115,512	26,940,512
2032-33	18,755,000	8,182,313	26,937,313
2033-34	17,100,000	7,200,150	24,300,150
2034-35	17,985,000	6,317,900	24,302,900
2035-36	15,850,000	5,389,750	21,239,750
2036-37	16,640,000	4,597,250	21,237,250
2037-38	17,470,000	3,765,250	21,235,250
2038-39	18,345,000	2,891,750	21,236,750
2039-40	19,265,000	1,974,500	21,239,500
2040-41	20,225,000	1,011,250	21,236,250
	$677,205,000	$523,313,826	$1,200,518,826

(1) Schedule includes debt service on subordinated junior lien debt issued by the City of Phoenix Civic Improvement Corporation. Schedule does not include debt service on subordinated junior lien debt incurred by the City of Phoenix or debt service on State of Arizona Distribution Revenue Bonds issued by the City of Phoenix Civic Improvement Corporation. See page C-21 for a schedule of subordinated junior lien debt issued by the City of Phoenix and page C-24 for a description of the State of Arizona Distribution Revenue Bonds issued by the City of Phoenix Civic Improvement Corporation. Schedule also does not include debt service on bonds issued by the Downtown Phoenix Hotel Corporation for which a portion of Excise Taxes have been pledged in the event hotel revenues are insufficient to make debt service payments on the bonds. See page C-23 for a schedule of debt service on outstanding debt issued by the Downtown Phoenix Hotel Corporation.

The City entered into a financing agreement to be used for refinancing the costs of acquiring property for the Arizona Center, an 8-block mixed use development in downtown Phoenix, acquiring land and constructing an amphitheater, purchasing a multi-family housing facility and various other City projects. The City pledged excise taxes for payments which are due under the financing agreement. The pledge for payments under this agreement is on a parity with the pledge of such taxes for 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

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 4-1-10
07-01-04	$35,465,000	Refunding	8-1-05/24	4.68%	$30,625,000
Total Subordinated Junior Lien Debt Outstanding					$30,625,000

City of Phoenix
Schedule of Annual Debt Service Requirements
Subordinated Junior Lien Debt Outstanding

Fiscal Year	Principal	Interest	Total
2009-10	$ 1,175,000	$ 1,425,790	$ 2,600,790
2010-11	1,230,000	1,381,727	2,611,727
2011-12	1,275,000	1,332,528	2,607,528
2012-13	1,315,000	1,281,527	2,596,527
2013-14	1,365,000	1,228,928	2,593,928
2014-15	1,420,000	1,174,327	2,594,327
2015-16	1,230,000	1,114,688	2,344,688
2016-17	1,295,000	1,053,187	2,348,187
2017-18	1,355,000	988,438	2,343,438
2018-19	1,420,000	920,687	2,340,687
2019-20	3,180,000	849,688	4,029,688
2020-21	3,340,000	690,687	4,030,687
2021-22	3,505,000	523,688	4,028,688
2022-23	3,675,000	357,200	4,032,200
2023-24	3,845,000	182,637	4,027,637
	$30,625,000	$14,505,727	$45,130,727

The Downtown Phoenix Hotel Corporation issued senior revenue bonds and subordinate revenue bonds to finance the planning, design, engineering, development, construction, equipping, furnishing and opening of a hotel located in downtown Phoenix. The bonds are special revenue obligations of the corporation, payable solely, except as further described below, from gross operating revenues derived by the corporation from operation of the hotel, subject only to the payment of certain operation and maintenance expenses, and from certain funds and accounts created under an indenture. The bonds are further secured by senior and subordinate leasehold deeds of trust granted to the trustee by the corporation with respect to the corporation's leasehold interest in the site and the hotel. The subordinate bonds are payable and secured on a basis junior and subordinate to the senior bonds with respect to the revenues of the hotel and the corporation's leasehold interest in the site and the hotel.

The subordinate bonds are also secured by amounts received from the City under a room block leaseback agreement in the event hotel revenues are insufficient to make debt service payments on the subordinate bonds. Pursuant to the room block leaseback agreement, the obligation of the City to make lease payments is secured by a pledge of certain sports facilities taxes. Under the room block leaseback agreement, the City pledges all right, title and interest of the City, whether now owned or hereafter acquired, in and to the sports facilities taxes on deposit in or credited to the sports facilities fund for the payment of lease payments and the performance of the obligations under the room block leaseback agreement.

Sports facilities taxes are one component of excise taxes and include (1) an incremental three percent tax levied on the gross income from the business activity of any hotel or motel engaging within the City in the business of charging for lodging and/or lodging space furnished to any person who, for a period of not more than thirty consecutive days, obtains lodging or lodging space in any hotel or motel, and (2) an incremental two percent tax levied on the gross income from the business activity of any person engaging in the business of leasing, licensing for use, or renting any motor vehicle with a gross vehicle weight of less than twelve thousand pounds for a term of not more than thirty-one calendar days.

The City has covenanted in the room block leaseback agreement to first apply excise taxes (other than sports facilities taxes) to the payment of senior excise tax obligations before applying sports facilities taxes. The City's pledge of sports facilities taxes under the room block leaseback agreement is a second priority pledge of the sports facilities taxes and therefore is subordinate and junior to the City's first priority pledge of excise taxes (which includes sports facilities taxes) with respect to the City's senior excise tax obligations.

Downtown Phoenix Hotel Corporation
Hotel Revenue Bonds Outstanding

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 4-1-10
12-20-05	$156,710,000	Hotel — Senior Revenue	7-1-12/40	4.99%	$156,710,000
12-20-05	164,425,000	Hotel — Subordinate Revenue	7-1-19/40	4.95	164,425,000
12-20-05	28,865,000	Hotel — Subordinate Revenue (Taxable)	7-1-12/19	5.24	28,865,000
Total Hotel Revenue Debt Outstanding					$350,000,000

Downtown Phoenix Hotel Corporation
Schedule of Annual Debt Service Requirements

Fiscal Year	Senior Revenue Bonds			Subordinate Revenue Bonds			Combined Annual Debt Service Requirements		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2009-10	$ —	$ 7,800,075	$ 7,800,075	$ —	$ 9,611,554	$ 9,611,554	$ —	$ 17,411,629	$ 17,411,629
2010-11	—	7,800,075	7,800,075	—	9,611,554	9,611,554	—	17,411,629	17,411,629
2011-12	1,470,000	7,800,075	9,270,075	3,095,000	9,611,554	12,706,554	4,565,000	17,411,629	21,976,629
2012-13	1,635,000	7,726,575	9,361,575	3,255,000	9,452,780	12,707,780	4,890,000	17,179,355	22,069,355
2013-14	1,810,000	7,644,825	9,454,825	3,420,000	9,284,822	12,704,822	5,230,000	16,929,647	22,159,647
2014-15	1,995,000	7,554,325	9,549,325	3,600,000	9,107,324	12,707,324	5,595,000	16,661,649	22,256,649
2015-16	2,190,000	7,454,575	9,644,575	3,790,000	8,919,764	12,709,764	5,980,000	16,374,339	22,354,339
2016-17	2,400,000	7,339,600	9,739,600	3,990,000	8,721,168	12,711,168	6,390,000	16,060,768	22,450,768
2017-18	2,625,000	7,213,600	9,838,600	4,200,000	8,510,895	12,710,895	6,825,000	15,724,495	22,549,495
2018-19	2,830,000	7,108,600	9,938,600	4,420,000	8,288,715	12,708,715	7,250,000	15,397,315	22,647,315
2019-20	3,045,000	6,991,862	10,036,862	4,645,000	8,064,738	12,709,738	7,690,000	15,056,600	22,746,600
2020-21	3,275,000	6,862,450	10,137,450	4,840,000	7,867,325	12,707,325	8,115,000	14,729,775	22,844,775
2021-22	3,515,000	6,723,263	10,238,263	5,085,000	7,625,325	12,710,325	8,600,000	14,348,588	22,948,588
2022-23	3,800,000	6,538,725	10,338,725	5,340,000	7,371,075	12,711,075	9,140,000	13,909,800	23,049,800
2023-24	4,105,000	6,339,225	10,444,225	5,605,000	7,104,075	12,709,075	9,710,000	13,443,300	23,153,300
2024-25	4,425,000	6,123,713	10,548,713	5,885,000	6,823,825	12,708,825	10,310,000	12,947,538	23,257,538
2025-26	4,760,000	5,891,400	10,651,400	6,180,000	6,529,575	12,709,575	10,940,000	12,420,975	23,360,975
2026-27	5,120,000	5,641,500	10,761,500	6,490,000	6,220,575	12,710,575	11,610,000	11,862,075	23,472,075
2027-28	5,480,000	5,385,500	10,865,500	6,790,000	5,920,413	12,710,413	12,270,000	11,305,913	23,575,913
2028-29	5,865,000	5,111,500	10,976,500	7,100,000	5,606,375	12,706,375	12,965,000	10,717,875	23,682,875
2029-30	6,265,000	4,818,250	11,083,250	7,430,000	5,278,000	12,708,000	13,695,000	10,096,250	23,791,250
2030-31	6,690,000	4,505,000	11,195,000	7,800,000	4,906,500	12,706,500	14,490,000	9,411,500	23,901,500
2031-32	7,140,000	4,170,500	11,310,500	8,190,000	4,516,500	12,706,500	15,330,000	8,687,000	24,017,000
2032-33	7,610,000	3,813,500	11,423,500	8,600,000	4,107,000	12,707,000	16,210,000	7,920,500	24,130,500
2033-34	8,105,000	3,433,000	11,538,000	9,030,000	3,677,000	12,707,000	17,135,000	7,110,000	24,245,000
2034-35	8,625,000	3,027,750	11,652,750	9,485,000	3,225,500	12,710,500	18,110,000	6,253,250	24,363,250
2035-36	9,170,000	2,596,500	11,766,500	9,960,000	2,751,250	12,711,250	19,130,000	5,347,750	24,477,750
2036-37	9,750,000	2,138,000	11,888,000	10,455,000	2,253,250	12,708,250	20,205,000	4,391,250	24,596,250
2037-38	10,355,000	1,650,500	12,005,500	10,980,000	1,730,500	12,710,500	21,335,000	3,381,000	24,716,000
2038-39	10,990,000	1,132,750	12,122,750	11,525,000	1,181,500	12,706,500	22,515,000	2,314,250	24,829,250
2039-40	11,665,000	583,250	12,248,250	12,105,000	605,250	12,710,250	23,770,000	1,188,500	24,958,500
	$156,710,000	$168,920,463	$325,630,463	$193,290,000	$194,485,681	$387,775,681	$350,000,000	$363,406,144	$713,406,144

The City entered into a loan agreement with the City of Phoenix Civic Improvement Corporation to finance a portion of the costs to construct, expand, modify and improve the Phoenix Convention Center to create additional rentable convention space. The Corporation issued bonds to fund a portion of the costs of the Phoenix Convention Center expansion project. The source of revenue for the City's payment under the loan agreement is State distributions the City receives pursuant to legislation passed in 2003 authorizing up to fifty percent State funding for certain convention center developments in the State. The schedule of State distributions will be sufficient to make loan payments when due and the City has agreed to make the loan payments required to pay debt service on the bonds when due from the State distributions. The first State distribution was received on August 1, 2009.

City of Phoenix Civic Improvement Corporation
State of Arizona Distribution Revenue Bonded Debt Outstanding

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 4-1-10
10-06-05	$275,362,351.75	Convention Center Expansion	7-1-12/44	4.72%	$275,362,351.75
Total State of Arizona Distribution Revenue Bonded Debt					$275,362,351.75

City of Phoenix Civic Improvement Corporation
Schedule of Annual Debt Service Requirements
State of Arizona Distribution Revenue Bonded Debt Outstanding

Fiscal Year	Principal	Interest	Compounded Interest	Total Debt Service
2011-12	$ 460,208.70	$ —	$ 134,791.30	$ 595,000
2012-13	14,777,800.00	—	5,222,200.00	20,000,000
2013-14	—	20,449,000	—	20,449,000
2014-15	—	20,449,000	—	20,449,000
2015-16	—	20,449,000	—	20,449,000
2016-17	—	20,449,000	—	20,449,000
2017-18	1,484,036.00	20,449,000	565,964.00	22,499,000
2018-19	1,915,439.40	20,336,250	744,560.60	22,996,250
2019-20	2,374,494.70	20,189,950	935,505.30	23,499,950
2020-21	2,851,493.40	20,007,900	1,138,506.60	23,997,900
2021-22	3,353,331.60	19,788,450	1,356,668.40	24,498,450
2022-23	3,882,660.70	19,529,400	1,587,339.30	24,999,400
2023-24	4,443,799.80	19,228,550	1,826,200.20	25,498,550
2024-25	5,027,387.85	18,883,700	2,087,612.15	25,998,700
2025-26	5,639,202.30	18,492,375	2,365,797.70	26,497,375
2026-27	6,287,082.70	18,052,100	2,657,917.30	26,997,100
2027-28	6,972,383.00	17,560,125	2,962,617.00	27,495,125
2028-29	7,697,628.90	17,013,700	3,287,371.10	27,998,700
2029-30	8,465,538.90	16,409,525	3,624,461.10	28,499,525
2030-31	9,274,258.40	15,744,575	3,980,741.60	28,999,575
2031-32	10,123,692.00	15,015,550	4,356,308.00	29,495,550
2032-33	11,032,587.00	14,219,150	4,747,413.00	29,999,150
2033-34	11,637,351.75	13,351,250	5,007,648.25	29,996,250
2034-35	12,267,767.20	12,435,775	5,292,232.80	29,995,775
2035-36	12,935,793.00	11,469,975	5,594,207.00	29,999,975
2036-37	13,634,005.65	10,450,825	5,910,994.35	29,995,825
2037-38	14,372,964.80	9,375,850	6,247,035.20	29,995,850
2038-39	15,164,105.20	8,241,750	6,590,894.80	29,996,750
2039-40	15,997,068.00	7,045,225	6,952,932.00	29,995,225
2040-41	16,878,823.60	5,782,975	7,336,176.40	29,997,975
2041-42	17,805,886.80	4,451,150	7,739,113.20	29,996,150
2042-43	18,785,228.00	3,046,175	8,164,772.00	29,996,175
2043-44	19,820,332.40	1,563,925	8,614,667.60	29,998,925
Total	$275,362,351.75	$459,931,175	$117,032,648.25	$852,326,175

The City entered into a loan agreement with the City of Phoenix Civic Improvement Corporation to finance a portion of the costs of designing, acquiring, constructing and equipping the City's light rail transit system. The Corporation issued bonds to provide the funds for the loan to the City, and the City pledged its excise tax collections from the 0.4% increase in the City's privilege license tax rate approved by City voters on March 14, 2000, to make loan payments sufficient to pay principal and interest on the bonds. This pledge secures only the loan agreement and the corresponding payment of debt service on the bonds.

City of Phoenix Civic Improvement Corporation
Transit Excise Tax Revenue Bonded Debt Outstanding

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 4-1-10
12-10-04	$500,000,000	Light Rail Project	7-1-06/20	5.01%	$453,480,000
Total Transit Excise Tax Revenue Bonded Debt					$453,480,000

City of Phoenix Civic Improvement Corporation
Schedule of Annual Debt Service Requirements
Transit Excise Tax Revenue Bonded Debt Outstanding

Fiscal Year	Principal	Interest	Total
2009-10	$ 20,560,000	$ 22,742,038	$ 43,302,038
2010-11	23,755,000	21,714,038	45,469,038
2011-12	27,215,000	20,526,287	47,741,287
2012-13	31,035,000	19,097,500	50,132,500
2013-14	35,090,000	17,545,750	52,635,750
2014-15	39,480,000	15,791,250	55,271,250
2015-16	44,215,000	13,817,250	58,032,250
2016-17	49,330,000	11,606,500	60,936,500
2017-18	54,840,000	9,140,000	63,980,000
2018-19	60,780,000	6,398,000	67,178,000
2019-20	67,180,000	3,359,000	70,539,000
	$453,480,000	$161,737,613	$615,217,613

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 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 to be Outstanding(1)

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds to be Outstanding As of 9-1-10
05-01-02	$ 23,225,000	Airport Improvements	7-1-08/13	5.54%	$ 16,575,000
05-01-02	231,390,000	Airport Improvements	7-1-14/32	5.32	231,390,000
06-18-08	206,840,000	Airport Improvements	7-1-20/38	5.00	206,840,000
06-18-08	43,160,000	Airport Improvements	7-1-12/19	5.20	43,160,000
06-18-08	109,850,000	Airport Improvements Refunding	7-1-09/22	4.69	94,985,000
06-18-08	68,520,000	Airport Improvements Refunding	7-1-09/20	5.23	52,310,000
Total Senior Lien Airport Revenue Bonded Debt Outstanding					$645,260,000

(1) Schedule is net of the Bonds Being Refunded.

City of Phoenix Civic Improvement Corporation
Schedule of Annual Debt Service Requirements
Senior Lien Airport Revenue Bonded Debt to be Outstanding(1)

Fiscal Year	Principal	Interest	Total
2010-11	$ 19,990,000	$ 33,108,450	$ 53,098,450
2011-12	25,655,000	32,163,775	57,818,775
2012-13	21,905,000	30,805,550	52,710,550
2013-14	23,730,000	29,665,675	53,395,675
2014-15	23,670,000	28,427,325	52,097,325
2015-16	24,975,000	27,164,700	52,139,700
2016-17	26,310,000	25,852,875	52,162,875
2017-18	27,765,000	24,448,950	52,213,950
2018-19	29,255,000	23,029,962	52,284,962
2019-20	30,960,000	21,533,650	52,493,650
2020-21	27,275,000	19,949,762	47,224,762
2021-22	28,665,000	18,559,475	47,224,475
2022-23	19,595,000	17,126,850	36,721,850
2023-24	20,610,000	16,117,712	36,727,712
2024-25	21,670,000	15,056,275	36,726,275
2025-26	22,790,000	13,940,213	36,730,213
2026-27	23,960,000	12,766,438	36,726,438
2027-28	25,195,000	11,532,363	36,727,363
2028-29	26,485,000	10,237,100	36,722,100
2029-30	27,850,000	8,872,900	36,722,900
2030-31	29,290,000	7,438,350	36,728,350
2031-32	30,795,000	5,929,588	36,724,588
2032-33	12,770,000	4,343,250	17,113,250
2033-34	13,410,000	3,704,750	17,114,750
2034-35	14,080,000	3,034,250	17,114,250
2035-36	14,785,000	2,330,250	17,115,250
2036-37	15,520,000	1,591,000	17,111,000
2037-38	16,300,000	815,000	17,115,000
	$645,260,000	$449,546,438	$1,094,806,438

(1) Schedule is net of the Bonds Being Refunded.

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 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 to be Outstanding

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds to be Outstanding As of 9-1-10
09-01-10	$642,680,000	Airport Improvements	7-1-13/40	4.99%	$642,680,000(1)
09-01-10	21,345,000	Airport Improvements	7-1-40	6.60	21,345,000(1)(2)
09-01-10	32,080,000	Airport Refunding	7-1-23/25	5.00	32,080,000
Total Junior Lien Airport Revenue Bonded Debt Outstanding					$696,105,000

(1) Debt service due on or before July 1, 2016 on these bonds is also secured by an irrevocable commitment of net proceeds of a passenger facility charge imposed by the City and collected on behalf of the City by non-exempt passenger air carriers at Sky Harbor International Airport. The passenger facility charge is currently imposed at the rate of $4.50 per qualifying enplaned passenger, and is required to be remitted to the City less any accrued interest and an $0.11 per passenger facility charge airline collection fee.

(2) Represents bonds issued as Recovery Zone Economic Development Bonds for purposes of the American Recovery and Reinvestment Act of 2009 and the Internal Revenue Code of 1986. Subject to the City's compliance with certain requirements of the Code, the City expects to receive semiannual cash subsidy payments rebating a portion of the interest on these bonds from the United States Treasury in an amount equal to forty-five percent of the interest payable each respective interest payment date.

City of Phoenix Civic Improvement Corporation
Schedule of Annual Debt Service Requirements
Junior Lien Airport Revenue Bonded Debt to be Outstanding(1)

Fiscal Year	Principal	Interest	Total
2010-11	$ —	$ 28,967,918	$ 28,967,918
2011-12	—	34,761,501	34,761,501
2012-13	11,710,000	34,761,501	46,471,501
2013-14	12,105,000	34,363,101	46,468,101
2014-15	12,705,000	33,763,851	46,468,851
2015-16	13,310,000	33,160,151	46,470,151
2016-17	13,960,000	32,510,601	46,470,601
2017-18	14,655,000	31,816,851	46,471,851
2018-19	15,285,000	31,186,801	46,471,801
2019-20	16,025,000	30,443,751	46,468,751
2020-21	16,785,000	29,684,276	46,469,276
2021-22	17,620,000	28,850,026	46,470,026
2022-23	28,675,000	27,969,026	56,644,026
2023-24	30,110,000	26,535,276	56,645,276
2024-25	31,615,000	25,029,776	56,644,776
2025-26	21,365,000	23,502,183	44,867,183
2026-27	22,430,000	22,433,933	44,863,933
2027-28	23,555,000	21,312,433	44,867,433
2028-29	24,730,000	20,134,683	44,864,683
2029-30	25,965,000	18,898,183	44,863,183
2030-31	27,200,000	17,663,108	44,863,108
2031-32	28,570,000	16,303,108	44,873,108
2032-33	30,065,000	14,803,183	44,868,183
2033-34	31,645,000	13,224,770	44,869,770
2034-35	33,230,000	11,642,520	44,872,520
2035-36	34,890,000	9,981,020	44,871,020
2036-37	36,635,000	8,236,520	44,871,520
2037-38	38,465,000	6,404,770	44,869,770
2038-39	40,390,000	4,481,520	44,871,520
2039-40	42,410,000	2,462,020	44,872,020
	$696,105,000	$675,288,361	$1,371,393,361

(1) Includes debt service on $21,345,000 par amount of Recovery Zone Economic Development Bonds — Direct Payment. The City elected to receive subsidy payments, in the amount of 45% of each interest payment on the bonds, paid directly to the City by the United States of America. Debt service has not been reduced by the expected subsidy payments.

The City entered into a 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 Phoenix Sky Harbor International Airport. The City of Phoenix Civic Improvement Corporation issued 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 Outstanding

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 4-1-10
06-02-04	$260,000,000	Rental Car Facility	7-1-07/29	6.08%	$241,420,000
Total Rental Car Facility Charge Bonded Debt Outstanding					$241,420,000

City of Phoenix Civic Improvement Corporation
Schedule of Annual Debt Service Requirements
Rental Car Facility Charge Bonded Debt Outstanding

Fiscal Year	Principal	Interest	Total
2009-10	$ 6,735,000	$ 14,541,789	$ 21,276,789
2010-11	7,065,000	14,209,079	21,274,079
2011-12	7,435,000	13,838,167	21,273,167
2012-13	7,845,000	13,431,473	21,276,473
2013-14	8,285,000	12,992,152	21,277,152
2014-15	8,750,000	12,526,536	21,276,536
2015-16	9,255,000	12,021,660	21,276,660
2016-17	9,795,000	11,478,392	21,273,392
2017-18	10,370,000	10,903,426	21,273,426
2018-19	10,990,000	10,284,336	21,274,336
2019-20	11,645,000	9,628,234	21,273,234
2020-21	12,365,000	8,909,737	21,274,737
2021-22	13,130,000	8,146,816	21,276,816
2022-23	13,940,000	7,336,696	21,276,696
2023-24	14,800,000	6,476,597	21,276,597
2024-25	15,710,000	5,563,438	21,273,438
2025-26	16,695,000	4,581,562	21,276,562
2026-27	17,740,000	3,538,125	21,278,125
2027-28	18,845,000	2,429,375	21,274,375
2028-29	20,025,000	1,251,563	21,276,563
	$241,420,000	$184,089,153	$425,509,153

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 4-1-10
08-01-01	$ 99,980,000	Water System Refunding	7-1-02/24	5.24%	$ 73,250,000
04-01-02	220,000,000	Water System Improvements	7-1-07/26	5.14	199,385,000
10-01-03	11,325,000	Water System Refunding	7-1-05/22	4.29	10,965,000
07-01-04	27,775,000	McMullen Valley & Water Rights Refunding	8-1-06/17	4.06	21,100,000
06-01-05	600,000,000	Water System Improvements	7-1-10/29	4.90	600,000,000
06-02-09	450,000,000	Water System Improvements	7-1-14/39	4.99	450,000,000
06-02-09	90,295,000	Water System Refunding	7-1-10/19	4.47	90,295,000
Total Junior Lien Water Revenue Bonded Debt					$1,444,995,000

City of Phoenix Civic Improvement Corporation
Schedule of Annual Debt Service Requirements
Junior Lien Water System Revenue Debt Outstanding

Fiscal Year	Principal	Interest	Total
2009-10	$ 37,960,000	$ 73,605,058	$ 111,565,058
2010-11	40,085,000	69,670,344	109,755,344
2011-12	38,945,000	67,650,669	106,595,669
2012-13	40,705,000	65,894,181	106,599,181
2013-14	54,575,000	63,863,731	118,438,731
2014-15	57,220,000	61,218,800	118,438,800
2015-16	49,660,000	58,363,550	108,023,550
2016-17	62,520,000	55,921,687	118,441,687
2017-18	65,670,000	52,768,900	118,438,900
2018-19	68,915,000	49,522,344	118,437,344
2019-20	63,385,000	46,067,006	109,452,006
2020-21	66,620,000	42,834,900	109,454,900
2021-22	69,970,000	39,484,388	109,454,388
2022-23	71,405,000	36,049,587	107,454,587
2023-24	75,010,000	32,445,738	107,455,738
2024-25	71,200,000	28,771,862	99,971,862
2025-26	74,665,000	25,310,913	99,975,913
2026-27	60,410,000	21,681,425	82,091,425
2027-28	63,325,000	18,769,613	82,094,613
2028-29	66,410,000	15,603,362	82,013,362
2029-30	19,590,000	12,300,238	31,890,238
2030-31	20,565,000	11,320,737	31,885,737
2031-32	21,595,000	10,292,488	31,887,488
2032-33	22,675,000	9,212,737	31,887,737
2033-34	23,810,000	8,078,988	31,888,988
2034-35	25,000,000	6,888,487	31,888,487
2035-36	26,245,000	5,641,538	31,886,538
2036-37	27,555,000	4,332,487	31,887,487
2037-38	28,930,000	2,958,075	31,888,075
2038-39	30,375,000	1,515,075	31,890,075
	$1,444,995,000	$998,038,908	$2,443,033,908

The City entered into city purchase 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 of Phoenix Civic Improvement Corporation issued bonds for acquiring and constructing additional facilities and various other improvements and the City made a senior lien pledge of net wastewater system operating revenues. Amounts due on the bonds and pursuant to the city purchase agreements are as follows:

City of Phoenix Civic Improvement Corporation
Senior Lien Wastewater System Revenue Debt Outstanding

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 4-1-10
01-11-05	$102,020,000	Wastewater System Refunding	7-1-06/15	4.92%	$ 72,855,000
11-18-08	133,400,000	Wastewater System Refunding	7-1-16/24	5.50	133,400,000
Total Senior Lien Wastewater System Revenue Bonded Debt					$206,255,000

City of Phoenix Civic Improvement Corporation
Schedule of Annual Debt Service Requirements
Senior Lien Wastewater System Revenue Debt Outstanding

Fiscal Year	Principal	Interest	Total
2009-10	$ 10,760,000	$10,913,500	$ 21,673,500
2010-11	11,245,000	10,428,900	21,673,900
2011-12	11,805,000	9,874,200	21,679,200
2012-13	12,385,000	9,289,250	21,674,250
2013-14	13,005,000	8,670,000	21,675,000
2014-15	13,655,000	8,019,750	21,674,750
2015-16	14,390,000	7,337,000	21,727,000
2016-17	15,140,000	6,545,550	21,685,550
2017-18	11,145,000	5,712,850	16,857,850
2018-19	11,715,000	5,099,875	16,814,875
2019-20	12,325,000	4,455,550	16,780,550
2020-21	12,955,000	3,777,675	16,732,675
2021-22	13,620,000	3,065,150	16,685,150
2022-23	20,515,000	2,316,050	22,831,050
2023-24	21,595,000	1,187,725	22,782,725
	$206,255,000	$96,693,025	$302,948,025

The City entered into city 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 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 and pursuant to the city purchase agreements are as follows:

City of Phoenix Civic Improvement Corporation
Junior Lien Wastewater System Revenue Debt Outstanding

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Bonds Outstanding As of 4-1-10
06-01-00	$135,000,000	Wastewater System Improvements	7-1-05/10	6.01%	$ 4,895,000
07-01-01	166,260,000	Wastewater System Refunding	7-1-02/24	5.14	150,005,000
12-01-04	180,000,000	Wastewater System Improvements	7-1-10/29	4.97	175,040,000
11-27-07	300,000,000	Wastewater System Improvements	7-1-12/37	4.98	300,000,000
Total Junior Lien Wastewater System Revenue Bonded Debt					$629,940,000

City of Phoenix Civic Improvement Corporation
Schedule of Annual Debt Service Requirements
Junior Lien Wastewater System Revenue Debt Outstanding

Fiscal Year	Principal	Interest	Total
2009-10	$ 14,185,000	$ 31,509,954	$ 45,694,954
2010-11	14,940,000	30,754,529	45,694,529
2011-12	21,170,000	29,984,629	51,154,629
2012-13	22,195,000	29,041,600	51,236,600
2013-14	19,500,000	27,878,062	47,378,062
2014-15	8,400,000	26,901,825	35,301,825
2015-16	21,630,000	26,518,575	48,148,575
2016-17	22,780,000	25,408,669	48,188,669
2017-18	28,745,000	24,275,225	53,020,225
2018-19	30,240,000	22,818,387	53,058,387
2019-20	31,790,000	21,306,387	53,096,387
2020-21	33,425,000	19,716,887	53,141,887
2021-22	35,165,000	18,026,525	53,191,525
2022-23	30,775,000	16,272,062	47,047,062
2023-24	32,360,000	14,733,312	47,093,312
2024-25	22,245,000	13,115,313	35,360,313
2025-26	23,415,000	12,003,063	35,418,063
2026-27	24,645,000	10,832,313	35,477,313
2027-28	25,940,000	9,603,188	35,543,188
2028-29	27,300,000	8,306,188	35,606,188
2029-30	14,310,000	6,954,750	21,264,750
2030-31	15,095,000	6,239,250	21,334,250
2031-32	15,925,000	5,484,500	21,409,500
2032-33	16,800,000	4,688,250	21,488,250
2033-34	17,725,000	3,848,250	21,573,250
2034-35	18,700,000	2,962,000	21,662,000
2035-36	19,730,000	2,027,000	21,757,000
2036-37	20,810,000	1,040,500	21,850,500
	$629,940,000	$452,251,193	$1,082,191,193

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 $150,000,000 of its Wastewater System Revenue Bond Anticipation Notes, Series 2009 (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

Issue Date	Original Issuance	Purpose	Maturity Dates	Average Interest Rate	Notes Outstanding As of 4-1-10
07-02-09	$100,000,000	Wastewater System Improvements	Up to 270 days	Various	$100,000,000
Total Junior Subordinated Wastewater System Revenue Debt Outstanding					$100,000,000

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 Veolia Transportation Inc, MV Transportation, First Transit Inc., Regional Public Transportation Authority and Valley Metro Rail Inc. (Metro). Metro began providing dedicated light rail transit service on December 27, 2008. The actual annual costs for all contracts through June 30, 2009 were $131,776,968, of which 13.0% was reimbursed by other local governmental entities that have contracted for service. The estimated liability for all contracts for 2009-10 is $142,355,390, of which approximately 13.1% is to be reimbursed by other local governmental entities that have contracted for service.

The City annually applies for a Federal Transit Formula Grant from the Department of Transportation, Federal Transit Administration (FTA). The grant provides from 80% to 94.3% federal funding for capital projects in the approved program of projects. The FTA requires local funds to match the awarded grants. The City has been the recipient of FTA grants since 1975.

From 1981-82 to February 2010, the City received State of Arizona aid 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.

In addition, on August 31, 1998, then-Governor Jane Hull signed into law a transit funding bill (LTAF II) which provided communities in Arizona additional transportation funds. Initially, LTAF II funds could be used for any transportation purpose in communities outside Maricopa County, as well as communities within Maricopa County with populations less than 50,000. In 2000, additional legislation limited the use of LTAF II funds to public transportation only. Prior to 2003, the Vehicle License Tax (VLT) and the State General Fund were the primary contributors to the LTAF II fund. From 2003 to 2008, the Power Ball lottery earnings were the single contributor to the LTAF II fund. Beginning in 2009, the state combined the State lottery revenues and the Power Ball lottery revenues into one fund that contributed to both the LTAF and the LTAF II funds. The overall fund must have exceeded $31 million annually in order to distribute funding, and distributions were capped at $9 million for LTAF II and $23 million for LTAF for any fiscal year.

On November 2, 2004 Maricopa County voters approved Proposition 400, which basically extended the County's one-half percent sales tax for transportation funding for an additional 20 years. The countywide one-half percent sales tax will provide funding for freeways, streets, bus transit, rural transit, dial-a-ride and light rail. Combined with projected federal matching funds, the tax is expected to provide $5 billion for transit improvements over the life of the tax.

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 system. 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 $2.7 billion in funding through May 31, 2020.

The State aid from LTAF and LTAF II, along with the City's general revenues, the City's dedicated transit sales tax revenues and the funding from the County's dedicated transit sales tax revenues, were the sources of required local funds to match awarded FTA grants. On March 11, 2010, Governor Jan Brewer signed a State budget package that permanently eliminated funding to the LTAF and the LTAF II as well as any further distributions to cities and towns. The City's general revenues, the City's dedicated transit sales tax revenues and the funding from the County's dedicated transit sales tax revenues are now the sole sources of required local funds to match awarded FTA grants.

SUMMARY OF AUTHORIZED, ISSUED AND UNISSUED BONDS

Purpose	Original Authorization (1)	Bonds Issued	Remaining Authorization
GENERAL OBLIGATION BONDS:			
Affordable Housing and Neighborhood Revitalization	$ 81,000,000	$ 57,645,000	$ 23,355,000
Computer Technology	136,400,000	131,485,000	4,915,000
Education Facilities	198,700,000	186,950,000	11,750,000
Environmental Cleanup	37,600,000	31,245,000	6,355,000
Family, Senior and Youth Cultural Facilities	170,922,000	127,615,000	43,307,000
Fire Protection	136,205,000	104,500,000	31,705,000
Freeway Mitigation, Neighborhood Stabilization and Slum and Blight Elimination	29,285,000	28,285,000	1,000,000
Historic Preservation	12,000,000	11,075,000	925,000
Library Facilities	62,178,000	51,775,000	10,403,000
Neighborhood Protection and Senior Centers	74,000,000	71,645,000	2,355,000
Parks, Open Space and Recreational Facilities	192,500,000	144,900,000	47,600,000
Police Protection	186,095,000	138,540,000	47,555,000
Street Improvements	169,700,000	145,190,000	24,510,000
Storm Sewer Systems and Flood Protection	131,400,000	114,780,000	16,620,000
Total General Obligation Bonds	$1,617,985,000	$1,345,630,000	$272,355,000

(1) This is the original authorization of those 1988, 2001 and 2006 authorizations which still have a portion unissued.

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APPENDIX D

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 2.0%, while the rate for utilities is 2.7%, advertising is 0.5%, transient room rental is 5.0%, short-term car rental is 4.0%, telecommunications is 4.7% and commercial real estate rental is 2.1%. The City collected $593,605,000 from all privilege license tax categories in fiscal year 2004-05, $697,213,000 in fiscal year 2005-06, $739,467,000 in fiscal year 2006-07, $744,697,000 in fiscal year 2007-08 and $693,354,000 in fiscal year 2008-09. The estimate for 2009-10 is $623,550,000.

Privilege License Tax Rates by Category

Category	Rate(1)
Mining	0.1%
Advertising	0.5
Amusement	2.0
Contracting	2.0
Leasing/Rental of Tangible Personal Property	2.0
Printing	2.0
Publishing	2.0
Residential Real Estate Rentals	2.0
Restaurants and Bars	2.0
Retail	2.0
Food for Home Consumption	2.0(2)
Transportation	2.0
Commercial Real Estate Rentals	2.1
Utilities	2.7
Short-term Car Rental	4.0
Telecommunications	4.7
Hotel/Motel	5.0
Jet Fuel	$0.00732/gallon

(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 $25.3 million in 2004-05, $29.6 million in 2005-06, $31.1 million in 2006-07, $29.0 million in 2007-08 and $24.3 million in 2008-09. The estimate for 2009-10 is $21.9 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, effective November 1, 1999. 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. On May 20, 2008, City of Phoenix voters approved a 30-year extension of this tax. This extension also expands the possible uses of these funds to include operational expenses such as salaries for park rangers and maintenance workers.

Forty percent of the revenues produced by the extension will be used to acquire land for Phoenix's Sonoran Preserve. The remaining sixty percent will be used to finance improvements to parks throughout the City. The extension became effective July 1, 2008. The increase generated $25.4 million in 2004-05, $29.6 million in 2005-06, $31.1 million in 2006-07, $29.0 million in 2007-08 and $24.3 million in 2008-09. The estimate for 2009-10 is $21.9 million.

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 $101.5 million in 2004-05, $118.5 million in 2005-06, $124.4 million in 2006-07, $115.9 million in 2007-08 and $97.3 million in 2008-09. The estimate for 2009-10 is $87.7 million.

On September 11, 2007, City of Phoenix voters approved a 0.2% increase in the City's privilege license (sales) tax rate. Eighty percent of the revenues produced by the increase will be used by the Phoenix Police Department to recruit, hire, train and equip at least 500 police officers and police personnel; hire crime scene investigation (CSI) forensic teams; and to make service calls more efficient. Twenty percent of the revenues produced by the increase will be used by the Phoenix Fire Department to recruit, hire, train and equip at least 100 firefighters and fire personnel to improve fire protection services. The increase affects all privilege license tax categories except advertising, utilities, cable television, jet fuel, telecommunications and mining, and became effective December 1, 2007. The increase generated $32.2 million in 2007-08 and $46.6 million in 2008-09. The estimate for 2009-10 is $43.9 million.

(2) On February 2, 2010, the Phoenix City Council approved a 2.0% privilege license (sales) tax rate on the sale of food for home consumption. The tax became effective April 1, 2010, to be levied for a period of five years.

State Shared Revenues

The City received a total of $426,380,000 in State-shared revenues in fiscal year 2004-05, $474,440,000 in fiscal year 2005-06, $507,376,000 in fiscal year 2006-07, $534,271,000 in fiscal year 2007-08 and $513,154,000 in fiscal year 2008-09. The estimate for 2009-10 is $455,433,000.

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(1)	Distribution Share
Mining — Severance	2.5%	80%
Mining, Oil & Gas	3.125	32
Transportation & Towing	6.6	20
Utilities	6.6	20
Communications	6.6	20
Railroads & Aircraft.	6.6	20
Publishing	6.6	20
Printing	6.6	20
Private Car/Pipelines	6.6	20
Contracting	6.6	20
Restaurants and Bars	6.6	40
Amusements	6.6	40
Rentals/Personal Property	6.6	40
Retail(2)	6.6	40
Hotel/Motel	6.5	50
Membership Camping	6.6	40
Rental Occupancy	3.0	66.67
Use	6.6	0
Jet Fuel (1st 10 million Gallons)	$0.0305/gallon	40
Timbering — Ponderosa Pine	$2.13/1,000 board ft.	80
Timbering — Severance — Other	$1.51/1,000 board ft.	80

(1) On May 18, 2010, Arizona voters approved a 1.0% temporary increase in the State's transaction privilege and use (sales) tax rate. The revenues produced by the temporary increase are not subject to distribution to counties, municipalities or other governmental entities. Two-thirds of the revenues produced by the temporary increase will be appropriated for public primary and secondary education and the remaining one-third will be appropriated for health and human services and public safety purposes. The increase affects all transaction privilege tax categories except mining, rental occupancy, jet fuel and timbering and became effective June 1, 2010. The temporary increase will continue for thirty-six consecutive calendar months after which the temporary tax increase will be repealed from and after May 31, 2013.

(2) Effective July 1, 1980, sales of food were exempted from the tax.

State Sales Tax Receipts

Fiscal Year	Amount
2009-10 (Estimate)	$106,798,000
2008-09	122,593,000
2007-08	135,134,000
2006-07	141,466,000
2005-06	141,194,000
2004-05	123,788,000
2003-04	111,594,000
2002-03	103,408,000
2001-02	102,211,000
2000-01	105,331,000
1999-00	101,708,000

State Income Tax Receipts

For fiscal year 1999-2000, cities throughout Arizona shared in 15.8% of the State personal and corporate income taxes collected two years previously in relation to their population as determined by the latest census. 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 of $7.1 million for Phoenix in 2000-01 and each year thereafter. For fiscal years 2002-03 and 2003-04, cities shared 14.8% of collections. This reduction from 15.0% was made in the 2002 legislative session and was approved for two fiscal years. Cities again shared 15.0% of collections beginning in fiscal year 2004-05.

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 distributions are based on amounts collected for the fiscal year two years prior to the current fiscal year, the first decrease occurred in fiscal year 2000-01. The distribution to the City was estimated to decrease $1.9 million in 2000-01 and $3.5 million each year thereafter.

State Income Tax Receipts

Fiscal Year	Amount
2009-10 (Estimate)	$190,541,000
2008-09	220,806,000
2007-08	207,694,000
2006-07	167,560,000
2005-06	138,313,000
2004-05	121,440,000
2003-04	119,118,000
2002-03	140,600,000
2001-02	137,787,000
2000-01	133,684,000
1999-00	127,374,000

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 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 Tax 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). Effective September 1, 2005 through December 31, 2010, the use fuel tax rate for vehicles transporting forest products was reduced $0.13 per gallon from

$0.26 to $0.13 per gallon. Effective September 26, 2008, the use fuel rate for non-commercial trucks 25 years old or older with a historical vehicle plate was reduced $.08 per gallon from $0.26 to $0.18 per gallon.

In 2008, the Arizona Legislature enacted legislation that requires the annual purchase of an Off-Highway Vehicle (OHV) decal for the operation of any All-Terrain Vehicle (ATV) or OHV in Arizona that was designed by the manufacturer primarily for travel over unimproved terrain and has an unladen weight of eighteen hundred pounds or less. Effective January 1, 2009, the current annual cost of the OHV decal is $25.00. In addition, if an OHV will be operated primarily off-highway, the vehicle is eligible for a reduced Vehicle License Tax (VLT) of $3.00 and waiver of the registration fee. The legislation requires that seventy percent of the OHV user fees collected be deposited into the off-highway vehicle recreation fund and thirty percent be deposited into the Arizona Highway User Revenue Fund.

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 receive 19%, cities receive 27.5%, and cities with a population over 300,000 receive 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 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 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 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 $83 million ($55 million from the Highway User Revenue Fund and $28 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 distribution to DPS was approximately $79 million ($49 million from the Highway User Revenue Fund and $30 million from the State Highway Fund). For 2004-05, the distribution to DPS was approximately $81 million ($51 million from the Highway User Revenue Fund and $30 million from the State Highway Fund. For 2005-06, the distribution to DPS was approximately $106 million ($64 million from the Highway User Revenue Fund and $42 million from the State Highway Fund). For 2006-07, the distribution totaled $20 million ($10 million from the Highway User Revenue Fund and $10 million from the State Highway Fund). For 2007-08, the distribution totaled $62 million ($10 million from the Highway User Revenue Fund and $52 million from the State Highway Fund). For 2008-09 the distribution totaled $126 million ($85 million from the Highway User Revenue Fund and $41 million from the State Highway Fund). The projected distribution for 2009-10 is $120 million ($79 million from the Highway User Revenue Fund and $41 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 that had previously restricted this distribution of funds from being used for controlled-access purposes. Based on the 1995 special census, effective July 1, 1996, Phoenix, Tucson and Mesa share in this distribution.

City of Phoenix, Arizona

Highway User Tax Revenues		Vehicle License Tax Receipts	
Fiscal Year	Amount	Fiscal Year	Amount
2009-10 (Estimate)	$102,839,000	2009-10 (Estimate)	$51,484,000
2008-09	109,620,000	2008-09	53,629,000
2007-08	125,289,000	2007-08	59,244,000
2006-07	130,223,000	2006-07	61,158,000
2005-06	124,791,000	2005-06	63,108,000
2004-05	117,464,000	2004-05	56,552,000
2003-04	111,757,000	2003-04	53,522,000
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

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 with a population greater than 300,000 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. 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. The City received $7,246,000 in 2003-04, $7,136,000 in 2004-05, $7,034,000 in 2005-06, $6,969,000 in 2006-07, 6,910,000 in 2007-08 and $6,506,000 in 2008-09. As of February 2010, the City received $3,771,000 for 2009-10.

In addition, on August 31, 1998, then-Governor Jane Hull signed into law a transit funding bill (LTAF II) that provided 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 remained, the City did not receive any funding in 2001-02 or 2002-03. The City received $1,796,695 for 2003-04, $3,327,527 for 2004-05, $1,286,510 for 2005-06, $4,356,918 for 2006-07, $2,411,209 for 2007-08 and $2,782,417 for 2008-09. As of February 2010, the City received $2,166,944 for 2009-10.

On March 11, 2010, Governor Jan Brewer signed a State budget package that permanently eliminated funding to the LTAF and the LTAF II as well as any further distributions to cities and towns, effective immediately.

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, Maricopa County held a special election 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.

With passage of the transportation excise tax in Maricopa County in 1985, the Regional Public Transportation Authority was created within the boundaries of the County on January 1, 1986. 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. 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.

On November 2, 2004 Maricopa County voters approved Proposition 400, which basically extended the County's one-half percent sales tax for transportation funding for an additional 20 years. The countywide one-half percent sales tax will provide funding for freeways, streets, bus transit, rural transit, dial-a-ride and light rail. Combined with projected federal matching funds, the tax is expected to provide $5 billion for transit improvements over the life of the tax. It will support the creation of an integrated "supergrid" bus and dial-a-ride network that offers consistent service levels across the region; an expanded Express bus and bus rapid transit network that addresses both suburb-to-central-city and suburb-to-suburb commute trips; expansion of light rail transit; and associated capital investments, including new buses and Intelligent Transportation System improvements, as well as passenger and operations facilities. For 2005-06, the tax generated $51.1 million with the funding being split $29.0 million for bus operating and bus capital and $22.1 million for light rail/high capacity transit capital. For 2006-07, the tax generated $130.2 million with funding being split $73.9 million for bus operating and capital and $56.3 million for light rail/high capacity transit capital. For 2007-08, the tax generated $126.3 million with funding being split $71.7 million for bus operating and capital and $54.6 million for light rail/high capacity transit capital. For 2008-09, the tax generated $109.0 million with funding being split $61.9 million for bus operating and capital and $47.1 million for light rail/high capacity transit capital.

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 system. 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 $2.7 billion in funding through May 31, 2020.

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APPENDIX E

STATE 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 2008-09 expenditure limit supplied by the Economic Estimates Commission was $1,286,467,284. The City increased this limit to $7,385,889,000 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 2007 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 is in effect through 2011-12. Previously established exclusions for pay-as-you-go capital projects continue to apply. In August 2011, Phoenix voters will be asked to approve an extension to the four-year home rule option to be effective 2012-13 through 2015-16.

On November 3, 1981, Phoenix voters approved four propositions that 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.

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APPENDIX F

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 "individual 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, 2009. 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 2008-09 were $67,152,987, equivalent to 11.78% of the estimated annual active member payroll, compared with 12.12% in 2007-08. The annual active member covered payroll for the year ended June 30, 2009 was $539,468,000.

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 RP 2000 Mortality Table Combined Healthy Annuitants. Salaries are expected to rise 4.5% due to inflation, 0.5% for other across-the-board factors, and from 0.0% to 3.8%, 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, 2009, net assets available for benefits were less than the actuarial accrued liability by $622,946,000, compared with a lack of $504,950,000 at June 30, 2008. The total actuarial accrued liability increased $117,996,000 from 2008 to 2009.

Rodwan Consulting Company, Actuaries & Consultants commented in their June 30, 2009 valuation report of the Plan:

> The overall experience of the Retirement Plan during the year ended June 30, 2009 was less favorable than expected based on long-term assumptions. The recognized rate of return on the smoothed market value of assets was less than the long-term assumed rate and was the primary source of the unfavorable experience, along with the rate of retirements during the year. Less than assumed salary increases partially offset the unfavorable experience.

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 projected unit credit cost method. Normal cost is funded on a current basis. The unfunded actuarial accrued liability is funded over a closed period of 30 years, 27 years remaining as of June 30, 2009. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the projected unit credit 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 8.5%. Non-disability mortality rates equal the RP2000 Healthy Annuitant Mortality Table, male table with no adjustment, female table with one-year set-forward. Salaries are expected to rise 5.5% due to inflation and from 0% to 3%, 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 normal cost less a credit (spread over an open period of twenty years) for the amount by which valuation assets exceed the actuarial accrued liability or plus a debit (spread over a closed period of twenty-seven years) for the amount by which the actuarial accrued liability exceeds the valuation assets. In 2008-09 the City's contribution amounted to 25.02% for police and 25.70% for fire.

For the year ended June 30, 2009, covered payroll was $251,906,000 for police and $124,785,000 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 less than the actuarial accrued liability as of June 30, 2009 and June 30, 2008 by $547,250,000 and $559,385,000, respectively.

For fire, net assets available for benefits were less than the actuarial accrued liability as of June 30, 2009 and June 30, 2008 by $280,029,000 and $291,211,000, 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, 28.00% for the year ended June 30, 2009, to fully fund benefits for active members. Total contributions for the fiscal year ended June 30, 2009 were $195,000, which consisted of $156,000 from the City and $39,000 from members.

APPENDIX G

HEALTH CARE BENEFITS FOR RETIRED EMPLOYEES

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45 (GASB 45) which addresses how state and local governments should account for and report costs and obligations related to post-employment health care and other post-employment non-pension benefits (OPEB). GASB 45 generally requires that the annual cost of OPEB and the outstanding obligations and commitments related to OPEB be accounted for and reported in essentially the same manner as pensions. Annual OPEB costs typically will be based on actuarially determined amounts that, if paid on an ongoing basis, would provide sufficient resources to pay benefits as they come due. The provisions of GASB 45 do not require governments to fund their OPEB plans. GASB 45 establishes accounting standards, including disclosure requirements for the post employment plans, the funding policies, the actuarial valuation process and assumptions, and the extent to which the plans have been funded over time.

The City provides certain post-employment health care benefits for its retired employees. Retired employees meeting certain qualifications are eligible to participate in the City's health insurance program along with the City's active employees. Employees eligible to retire in 15 years or less from August 1, 2007, will receive a monthly subsidy from the City's Medical Expense Reimbursement Plan (MERP) when they retire. Contributions by the City (plus earnings thereon) are the sole source of funding for the MERP.

The monthly subsidy reimburses retirees for qualified medical expenses, including hospital, doctor and prescription drug charges. The City's contribution varies with length of service or bargaining unit, from $117 to $202 per month for each retiree. Retirees may be eligible for additional City contributions depending on their bargaining unit, retirement date, or enrollment in the City's medical insurance program.

Benefit eligible employees with more than 15 years until retirement eligibility, as of August 1, 2007, will receive $150 per month while employed by the City as a defined contribution to the Post Employment Health Plan (PEHP). This is a 100% employer-paid benefit. The program provides employees who have a payroll deduction for City medical insurance coverage (single or family) with a PEHP account. This account is to be used by the employee when he/she retires or separates employment with the City for qualified medical expenses (including health insurance premiums).

The City has implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions, effective June 30, 2008, and is implementing these requirements prospectively. The City's annual OPEB expense is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

In November 2009, an updated actuarial study was completed by an actuarial firm to value this post-employment benefit. Results of the valuation are as follows:

Actuarial Accrued Liability (AAL)	**$425 million**
Annual Required Contribution (ARC)	**$39 million**
Amortization Period	**24 years**

The ARC is made up of two components — the Normal Cost and the Amortization Amount. The Normal Cost, which is the present value of the benefits deemed to accrue in the plan year, is $7.0 million. The Amortized Amount, which is the present value of the accrued benefit, is $32.0 million. The Amortized Amount has been calculated on a level dollar basis over a 24 year amortization period. The City has established a trust for the MERP benefits and fully intends to contribute the ARC each year to fund the OPEB liability. The City has developed an investment policy for the trust with the objective of achieving a long-term return on assets contributed to the trust of 7.0 percent. The City's Comprehensive Annual Financial Report (CAFR) reflects proper treatment and note disclosure of Health Care Benefit for Retired Employees in accordance with GASB 45 beginning with the fiscal year ended June 30, 2008.

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APPENDIX H

SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS

The following information summarizes or paraphrases certain provisions of the Airport Revenue Bond Ordinance, the City Purchase Agreement and the Indenture. 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 are definitions in summary form of certain terms used in the Airport Revenue Bond Ordinance, the City Purchase Agreement and the Indenture:

"Airport" 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.

"Airport Improvement Fund" means the fund of that name created in Article II of the Airport Revenue Bond Ordinance.

"Airport Revenues" or *"Revenues"* means all income and revenue received by the City directly or indirectly from the use and operation of the Airport, including but without limitation, revenues pledged, dedicated or allocated for the benefit of the Airport, rentals, landing fees, use charges, income from the sale of services, fuel, oil and other supplies or commodities, income from the use for agricultural purposes of portions of the Airport not currently used for Airport purposes, fees from concessions, amounts received from or in behalf of the Arizona National Guard, parking meter and parking lot receipts, storage locker and restroom income, income from communication services, fees or income from limousine, taxi and car rental services, bar and restaurant income, advertising revenues, receipts derived from the lease or any other contractual arrangement with respect to the use of the Airport, receipts from the sale of any property of the Airport, proceeds of any insurance covering business interruption loss. Airport Revenues and Revenues also includes income received from the investment of any moneys held in the funds and accounts (other than the Construction Fund and the Rebate Fund) created under the Airport Revenue Bond Ordinance. Airport Revenues and Revenues shall not include the following: (i) money received as grants or gifts from the United States of America or the State of Arizona, except to the extent that any such money shall be received as payments for use of the Airport or its facilities; (ii) proceeds received on insurance resulting from casualty damage to assets of the Airport to the extent such proceeds are used to repair or replace facilities or property of the Airport; (iii) rentals or other charges derived by the City under and pursuant to a lease or leases relating to Special Purpose Facilities; (iv) the proceeds of the sale of any Bonds or other obligations issued for Airport purposes; or (v) receipts from Passenger Facility Charges.

"Bondholder" means the registered owner of one or more Bonds.

"Bond Fund" means the fund of that name described in Article II of the Airport Revenue Bond Ordinance.

"Bond Payment Date" means the dates established for the payment of interest on any Bonds or Principal Requirement on any Bonds as set forth in the Series Ordinance authorizing such Bonds.

"Bond Reserve Fund" means a common reserve for the Bonds as may be secured thereby under their terms.

"Bond Year" means a twelve month period beginning July 2 of the calendar year and ending on the next succeeding July 1, or such other period as set forth in a Series Ordinance.

"Bonds" or *"Parity Bonds"* or *"Senior Lien Obligations"* means obligations payable from Net Airport Revenues.

"City" means the City of Phoenix, Arizona.

"City Manager" means the official of the City performing the duties now performed by the City Manager.

"City Purchase Agreement" or *"Agreement"* means, the Junior Lien City Purchase Agreement dated as of August 1, 2010 between the City and the Corporation.

"Clerk" or *"City Clerk"* means the official of the City performing the duties now performed by the City Clerk.

"Code" means the Internal Revenue Code of 1986, as amended and supplemented from time to time, and shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations, to the extent applicable to the Bonds for the use of proceeds of the Bonds or the Airport.

"Commercial Paper" means Junior Lien Obligations or Senior Lien Obligations with a maturity of not more than 270 days from the date of issuance and which are issued and reissued from time to time.

"Commitment Period" means (i) with respect to the Improvement Bonds, the period beginning on the date of issuance of the Improvement Bonds through and including June 30, 2016 and (ii) with respect to other obligations, such other period as may be established. The City, in its discretion, by written direction to the Trustee, may extend, establish or reestablish any Commitment Period.

"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.

"Construction Fund" means the fund of that name referred to in Article II of the Airport Revenue Bond Ordinance.

"Consultant" means a firm of consultants or professionals experienced in the development, planning, financing, operation or management of airports or airport facilities.

"Cost of Maintenance and Operation" means all expenditures (exclusive of depreciation and interest on money borrowed) which are necessary to the efficient maintenance and operation of the Airport and its facilities, such expenditures to include the items normally included as essential expenditures in the operating budgets of municipally owned airports.

"Council" means the Mayor and Council of the City of Phoenix or such other body as may from time to time be acting as the body which governs said City.

"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 Bond Reserve Fund as described in Article II, Section 2.6 of the Airport Revenue Bond Ordinance.

"Debt Service Reserve Requirement" means, with respect to the Senior Lien Obligations, Maximum Annual Debt Service, provided that if the Debt Service Reserve Requirement is satisfied with the proceeds of obligations the interest on which is excludible from gross income for federal income tax purposes, then the amount of proceeds used in order to satisfy the Debt Service Reserve Requirement shall not exceed any

restrictions relating to the use of such funds for such purpose set forth in the Code. The Debt Service Reserve Requirement may be recalculated from time to time as Bonds are rendered no longer Outstanding.

"Derivative Product" means an agreement of the City entered into in accordance with Section 2.13 of the Airport Revenue Bond Ordinance.

"Event of Default" means one of the events defined as such in the City Purchase Agreement or Indenture as the case may be.

"Finance Director" means the official of the City performing the duties now performed by the Finance Director.

"Fiscal Year" means the 12-month period used by the City for its general accounting purposes as the same may be changed from time to time, said fiscal year currently extending from July 1 to June 30.

"Improvement Bonds" means, collectively the Tax-Exempt Improvement Bonds and the Taxable Improvement Bonds.

"Improvement Bonds Debt Service" means the principal of, and interest on, the Improvement Bonds coming due in any Fiscal Year.

"Indenture" means, the Bond Indenture dated as August 1, 2010 between the Corporation and the Trustee.

"Independent Certified Public Accountant" means a firm of certified public accountants which is not in the regular employ of the City on a salary basis.

"Interest Account" means the account of that name established in Article II of the Airport Revenue Bond Ordinance.

"Interest Requirement" means the amount of interest falling due on the next Bond Payment Date, net of any amounts deposited in the Interest Account or Construction Fund which are available to pay interest on Bonds.

"Investment Earnings" means all interest received on and profits derived from investments made with any money held under the Indenture.

"Junior Lien Bond Fund" means the Junior Lien Bond Fund established pursuant to the City Purchase Agreement.

"Junior Lien Credit Facility" means a Credit Facility with respect to the Junior Lien Obligations.

"Junior Lien Derivative Product" means a swap agreement, forward agreement, interest rate agreement or other similar agreement of the City entered into in accordance with Section 2.6 of the City Purchase Agreement.

"Junior Lien Interest Account" means the Junior Lien Interest Account of the Junior Lien Bond Fund established pursuant to Section 2.4 of the City Purchase Agreement.

"Junior Lien Interest Payment Date" means the dates established for the payment of Interest Requirements on any Junior Lien Obligations.

"Junior Lien Interest Requirement" means the amount of interest due on Junior Lien Obligations.

"Junior Lien Obligation Documents" means any ordinance, indenture, contract or agreement of the City constituting or authorizing Junior Lien Obligations.

"Junior Lien Obligations" means payment obligations issued or assumed by the City subsequent to issuance thereof, including the payment of the Purchase Price to be used to pay debt service on the 2010 Junior Bonds and obligations which are to rank on a parity therewith and share *pro rata* in payments to be made by the City from Designated Revenues.

"Junior Lien Passenger Facility Charge Credit" means the amount of principal of and/or interest to come due on specified Junior Lien Obligations during any Fiscal Year to which Passenger Facility Charges, state and/or federal grants or other moneys have received all required governmental approvals and have been irrevocably committed or are held by the Trustee or another fiduciary and are to be set aside exclusively to be used to pay Junior Lien Interest Requirements and/or Junior Lien Principal Requirements on such specified Junior Lien Obligations during the period of such commitment (unless such Passenger Facility Charges, state and/or other moneys are subsequently included in the definition of Airport Revenues).

"Junior Lien Principal Account" means the Junior Lien Principal Account established pursuant to Section 2.4 of the City Purchase Agreement.

"Junior Lien Principal Payment Date" means the dates established for the payment of Principal Requirements on Junior Lien Obligations.

"Junior Lien Principal Requirement" means, as of any date of calculation, the sum of (a) the principal amount due on Junior Lien Obligations plus (b) the amount of principal of Junior Lien Obligations required to be redeemed pursuant to a mandatory redemption feature. In computing the Junior Lien Principal Requirement, an amount of Junior Lien Obligations 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 Junior Lien Obligations maturing on the scheduled maturity date. In the case of Junior Lien Obligations supported by a Junior Lien Credit Facility, the Junior Lien Principal Requirements for such Junior Lien Obligations shall be determined in accordance with the principal retirement schedule specified in the Junior Lien Obligation Documents authorizing the issuance or providing for the sale of Junior Lien Obligations, rather than any amortization schedule set forth in such Junior Lien Credit Facility. Junior Lien Obligation Documents authorizing Junior Lien Obligations which are Junior Lien Compound Interest Bonds may amend the definition of *"Junior Lien Principal Requirement."*

"Maximum Annual Debt Service" means an amount of money equal to the highest aggregate Principal Requirement and Interest Requirements to fall due and payable in the current or any future Bond Year of all Outstanding Bonds, as adjusted for any Derivative Product entered into with a Qualified Counterparty in accordance with Section 2.13 of the Airport Revenue Bond Ordinance and less any applicable Passenger Facility Charge Credit. For purposes of this Ordinance, an adjustment for a Derivative Product with a Qualified Counterparty pursuant to Section 2.13 of the Airport Revenue Bond Ordinance means: (i) the City shall treat the amount or rate of interest payable with respect to the Parity Bonds to which such Derivative Product relates as the interest rate payable under such Derivative Product; and (ii) the City may disregard the notional principal amount of any such Derivative Product with a Qualified Counterparty. 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 at the lesser of (i) the maximum rate which such Bonds may bear under the terms of their issuance or (ii) the rate of interest established for long-term bonds by the 20-year 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 Finance Director of the City after consultation with one or more reputable, experienced investment bankers as being equivalent thereto) (the *"Variable Rate Assumption"*). With respect to any Bonds issued as Commercial Paper 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 Series Ordinance 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 Annual Junior Lien Debt Service" means an amount equal to the highest aggregate Junior Lien Principal Requirement and Junior Lien Interest Requirements to fall due and payable in the current or any future Bond Year of all Outstanding Junior Lien Obligations, as adjusted pursuant to any Junior Lien Derivative Product with a Qualified Junior Lien Counterparty in accordance with Section 2.7 of the City Purchase Agreement and less any applicable Junior Lien Passenger Facility Charge Credit. In case any Junior Lien Obligations outstanding or proposed to be issued shall bear interest at a variable rate, the Junior Lien

Interest Requirement of such Junior Lien Obligations in each Bond Year during which such variable rate applies shall be computed at the lesser of (i) the maximum rate which such Junior Lien Obligations may bear under the terms of their issuance or (ii) the rate of interest established for long-term bonds by the 20-year 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 Finance Director of the City after consultation with one or more reputable, experienced investment bankers as being equivalent thereto) (the *"Variable Rate Assumption"*). With respect to any Commercial Paper issued or proposed to be issued, the Junior Lien Principal Requirement shall be calculated as if the entire amount of Commercial Paper authorized to be issued under the Junior Lien 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 Junior Lien Interest Requirement shall be computed using the Variable Rate Assumption.

"Moody's" means Moody's Investors Service, Inc. and its successors or assigns.

"Net Airport Revenues" or *"Net Revenues"* means the Revenues of the Airport, after provision for payment of all Cost of Maintenance and Operation.

"Operation and Maintenance Fund" means the fund of that name established in Article II of the Airport Revenue Bond Ordinance.

"Other Available Funds" means passenger facility charges, unrestricted grant money and other moneys available to the Airport which are not included in the definition of Revenues or Airport Revenues.

"Other Available Moneys" means Other Available Funds which the City elects to make available for a particular purpose.

"Outstanding" means all obligations of the class concerned which shall have been issued and delivered with the exception of (a) obligations in lieu of which other obligations have been issued under agreement to replace lost, mutilated or destroyed obligations, (b) obligations surrendered by the holders in exchange for other obligations and (c) obligations for the payment of which provision has been made as provided in the Senior Lien Obligation Documents or Junior Lien Obligation Documents.

"Passenger Facility Charge Credit" means the amount of principal of and/or interest to come due on specified Bonds during any Fiscal Year to which Passenger Facility Charges, state and/or federal grants or other moneys have received all required governmental approvals and have been irrevocably committed or are held in the Bond Fund or otherwise in trust by or on behalf of the Paying Agent and are to be set aside exclusively to be used to pay Interest Requirements and/or Principal Requirements on such specified Bonds during the period of such commitment (unless such Passenger Facility Charges, state and/or other moneys are subsequently included in the definition of Airport Revenues).

"Passenger Facility Charges" means charges collected by the City pursuant to the authority granted by the Aviation Safety and Capacity Expansion Act of 1990 and 14 CFR Part 158, as amended from time to time, in respect of any component of the Airport and interest earnings thereon, net of amounts that collecting air carriers are entitled to retain for collecting, handling and remitting such passenger facility charge revenues.

"Paying Agent" means the paying agent for each series of Bonds as set forth in the Series Ordinance authorizing such Bonds.

"Permitted Investments" means, to the extent from time to time permitted by law (including provisions of the City Charter) as investments for City money:

(a) Qualified Permitted Investments;

(b) obligations of, or obligations guaranteed as to the timely payment of principal and interest by, the United States of America or any agency or instrumentality thereof when such obligations are backed by the full faith and credit of the United States of America;

(c) Federal Housing Administration debentures which must not be redeemable prior to their stated maturity;

(d) obligations of the Federal Home Loan Mortgage Corporation (including only securities guaranteed as to timely payment of principal and interest);

(e) obligations of the Farm Credit System;

(f) obligations of Federal Home Loan Banks;

(g) obligations of the Federal National Mortgage Association (excluding interest-only stripped securities);

(h) obligations of the Student Loan Marketing Association *("SLMA")* excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date;

(i) obligations of Resolution Funding Corporation *("REFCORP")*;

(j) federal funds, unsecured certificates of deposit, time deposits and banker's acceptances (in each case, having maturities of not more than 365 days) of any bank, the short-term obligations of which are rated in one of the two highest applicable rating categories by the Rating Agency;

(k) deposits which are fully insured by the Federal Deposit Insurance Corporation *("FDIC")*;

(l) debt obligations rated in one of the two highest applicable rating categories by the Rating Agency (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date);

(m) commercial paper having maturities not in excess of one year rated in one of the two highest applicable rating categories by the Rating Agency;

(n) investment in money market funds rated in one of the two highest applicable rating categories by the Rating Agency;

(o) repurchase agreements with any transferor with long-term unsecured debt rated in the highest applicable rating categories or commercial paper rated in one of the two highest applicable rating categories by the Rating Agency; and

(p) U.S. Treasury STRIPS, REFCORP STRIPS (stripped by the Federal Reserve Bank of New York) and any stripped securities assessed or rated in one of the two highest applicable rating categories by the Rating Agency.

"PFC Revenue Fund" means the PFC Revenue Fund established pursuant to Section 2.5 of the City Purchase Agreement.

"PFC Revenues" means Passenger Facility Charges, to the extent received by the City in each Fiscal Year, plus interest earnings on the PFC Revenue Fund.

"Principal Account" means the account of that name created in Article II of the Airport Revenue Bond Ordinance.

"Principal Payment Date" means the dates established for the payment of Principal Requirements on any Bonds as set forth in the Series Ordinance authorizing such 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. A

Series Ordinance authorizing the issuance or providing for the sale of Parity Bonds which are Compound Interest Bonds may amend the definition of *"Principal Requirement"*.

"Property" means any or all of the components of the project actually funded with proceeds of the Improvement Bonds.

"Purchase Price" means the sum of the payments required by the City Purchase Agreement to be paid by the City to the Corporation.

"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, or if none of the Bonds are then rated by Moody's or S&P, any other nationally recognized rating agency or (ii) the obligations of which are guaranteed by an entity described in clause (i).

"Qualified Junior Lien Counterparty" means a counterparty to a Junior Lien 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, or if none of the Junior Lien Obligations are then rated by Moody's or S&P, any other nationally recognized rating agency, (ii) the obligations of 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 Qualified 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.

"Qualified Permitted Investments" means any one or more of the following classes of investments:

(i) direct obligations issued by the United States government or one of its agencies or obligations fully guaranteed by the United States government as to principal and interest;

(ii) any other evidences of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in clause (i) above; and

(iii) to the extent permitted by law at the time of making such investment, 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 (a) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, (b) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (i) or clause (ii) above, which fund may be applied only to the payment of interest when due, principal of 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 (c) as to which the principal of and interest on the bonds and obligations of the character described in clause (i) or clause (ii) above, which have been deposited in such fund along with any cash on deposit in such fund is sufficient to pay interest when due, principal of and redemption premium, if any, on the bonds or other obligations described in this clause (iii) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (iii), as appropriate.

"Rating Agency" means Moody's if any of the Bonds are then rated by Moody's and S&P if the Bonds are then rated by S&P.

"Refunding Bonds" means the Corporation's Junior Lien Airport Revenue Refunding Bonds, Series 2010C.

"Revenue Fund" means the fund of that name created in Article II of the Airport Revenue Bond Ordinance.

"S&P" means Standard & Poor's Rating Group and its successors or assigns.

"Senior Lien Obligations" means Bonds or Parity Bonds.

"Senior Lien Obligation Documents" means any ordinance, indenture, contract or agreement of the City constituting or authorizing Senior Lien Obligations.

"Series Ordinance" means an ordinance or ordinances (which may be supplemented by one or more ordinances) to be adopted prior to the delivery of any series of Parity Bonds; said ordinance as supplemented shall establish the date or dates of the pertinent series of Parity Bonds, the schedule of maturities thereof, whether any will be Compound Interest Bonds, the name of the purchaser of each series of Parity Bonds, the purchase price thereof, the rate or rates of interest to be borne thereby and the method by which interest is to be calculated, and the terms and conditions, if any, under which such Bonds may be made subject to redemption (mandatory or optional) prior to maturity and such other details as the City may determine.

"Special Purpose Facilities" means (1) hangars, aircraft overhaul, maintenance or repair shops, reservation centers, motels, hotels, storage facilities, garages, cargo handling buildings and necessary ramp areas incidental thereto, and other similar facilities, (2) projects as now or hereafter provided in the Industrial Development Financing Act (Title 35, Chapter 5 of the Arizona Revised Statutes), and (3) such other facilities or projects as the City shall designate as a Special Purpose Facility, and the cost of construction and acquisition of which facilities are financed with the proceeds of bonds, notes, leases, purchase agreements or other obligations which are payable solely from revenues of the Special Purpose Facility or revenues of the user of the Special Purpose Facilities.

"Tax Certificate" means the Arbitrage and Tax Certificate (Recovery Zone Economic Development Bonds) relating to the Taxable Improvement Bonds.

"Tax-Exempt Bonds" means, collectively, the Tax-Exempt Improvement Bonds and the Refunding Bonds.

"Tax-Exempt Improvement Bonds" means the Corporation's Junior Lien Airport Revenue Bonds, Series 2010A.

"Tax Exemption Certificate" means the Tax Exemption Certificate and Agreement relating to the Tax-Exempt Bonds.

"Taxable Improvement Bonds" means the Corporation's Junior Lien Airport Revenue Bonds, Taxable Series 2010B (Recovery Zone Economic Development Bonds — Direct Payment).

"Trustee" means U.S. Bank National Association in its capacity as trustee under the Indenture, or any successor thereto.

"2010 RZEDB Subsidy Payments" means cash subsidy payments from the U.S. Treasury rebating a portion of the interest on the Series 2010B Junior Bonds pursuant to the American Recovery and Reinvestment Act of 2009.

"2010 Junior Lien Bond Fund" means the Junior Lien Bond Fund established pursuant to Section 5.1 of the Indenture.

"2010 Junior Lien Bond Payment Date" means a date on which principal or interest shall be payable on the 2010 Junior Bonds in accordance with their respective terms as long as any 2010 Junior Bonds are Outstanding.

"2010 Junior Lien Bond Reserve Fund" means the 2010 Junior Lien Bond Reserve Fund established pursuant to Section 2.8 of the City Purchase Agreement and assigned to the Trustee under the Indenture.

"2010 Junior Lien Debt Service Reserve Requirement" means the least of: (i) Maximum Annual Junior Lien Debt Service without regard to any applicable Junior Lien Passenger Facility Charge Credit, (ii) 10% of

the stated principal amount of the 2010 Junior Bonds and (iii) 125% of the average annual Junior Lien Principal Requirements and Junior Lien Interest Requirements with respect to the 2010 Junior Bonds. The Junior Lien Debt Service Reserve Requirement may be recalculated from time to time as Junior Lien Obligations are rendered no longer Outstanding.

"2010 Junior Lien Interest Account" means the Junior Lien Interest Account of the 2010 Junior Lien Bond Fund.

"2010 Junior Lien Interest Requirement" means the Junior Lien Interest Requirement for the 2010 Junior Bonds.

"2010 Junior Lien Principal Account" means the 2010 Junior Lien Principal Account of the 2010 Junior Lien Bond Fund.

"2010 Junior Lien Principal Requirement" means the 2010 Junior Lien Principal Requirement for the 2010 Junior Bonds.

"2010 Junior Lien Redemption Account" means the 2010 Junior Lien Redemption Account of the 2010 Bond Fund.

THE AIRPORT REVENUE BOND ORDINANCE

SECTION 2.1. *Pledge.* All Bonds are special obligations of the City payable from and secured by the Net Airport Revenues and moneys, securities and funds pledged therefore. There are hereby pledged for the payment of Principal Requirement, Interest Requirement and redemption premium on the Bonds in accordance with their terms and the provisions of the Airport Revenue Bond Ordinance and any Series Ordinance, subject to the provisions of any Series Ordinance permitting the application thereof for the purposes and on the terms and conditions set forth in the Series Ordinance, (1) the Net Airport Revenues, and (2) moneys held in the Bond Fund established or confirmed by the Airport Revenue Bond Ordinance or any Series Ordinance.

SECTION 2.2. *Establishment of Funds.* For a description of Section 2.2, as modified by the City Purchase Agreement, see *"THE CITY PURCHASE AGREEMENT — Section 2.6. Revised Flow of Funds Under Airport Revenue Bond Ordinance*."

SECTION 2.3. *Operation and Maintenance Fund.* Amounts deposited in the Operation and Maintenance Fund shall be used to pay Cost of Maintenance and Operation.

SECTION 2.4. *Bond Fund.* Amounts deposited in the Bond Fund shall be deposited into either the Principal Account or the Interest Account. Amounts deposited in the Principal Account shall be used to pay Principal Requirements and amounts held in the Interest Account shall be used to pay Interest Requirements on Bonds. Moneys in the Principal Account and Interest Account shall be transferred at least one business day before each Principal Payment Date or Bond Payment Date, as applicable, to the appropriate Paying Agent for each series of Bonds.

SECTION 2.5. *Bond Reserve Fund.* Amounts held in the Bond Reserve Fund shall be used to make payments on any Bonds secured by the Bond Reserve Fund to the extent there are insufficient funds in the Bond Fund to make such payment. The City hereby agrees to fund the Bond Reserve Fund in an amount equal to the Debt Service Reserve Requirement provided that the initial funding of the Bond Reserve Fund and any subsequent increase in the Bond Reserve Fund due to the issuance of Parity Bonds secured thereby shall be made in equal monthly deposits over not more than a twenty-four (24) month period from the date of issuance of the Parity Bonds. In the event amounts are withdrawn from the Bond Reserve Fund in order to make payments on any Bonds secured thereby or in the event amounts in the Bond Reserve Fund are valued and the value thereof is less than the Debt Service Reserve Requirement, the City agrees to replenish the Bond Reserve Fund to the Debt Service Reserve Requirement by payment under the method described above, commencing on the first day of the month following such withdrawal from the Bond Reserve Fund or valuation of the Bond Reserve Fund. The City reserves the right to establish a separate bond reserve fund for any Parity Bonds which pursuant to the terms of the Series Ordinance authorizing such Parity Bonds is not secured by the Bond Reserve Fund.

* * *

The funding of any separate bond reserve fund for a series of the Refunding Bonds may be made by depositing a surety bond or similar financial instrument into such separate bond reserve fund provided that the surety bond or similar financial instrument meets the requirements set forth below with regard to funding the Bond Reserve Fund with a surety bond or similar financial instrument. The funding of any separate bond reserve fund and the replenishment of the separate bond reserve fund shall be set forth in the Series Ordinance establishing such separate bond reserve fund, provided that the funding and replenishment of such separate bond reserve fund may be made pro rata with any funding or replenishment of the Bond Reserve Fund.

The City reserves the right at any time to deposit a surety bond or similar financial instrument into the Bond Reserve Fund in order to fund the Bond Reserve Fund to the required level. If the City chooses to deposit a surety bond or similar financial instrument into the Bond Reserve Fund, then the City shall receive a certificate or opinion to the effect that the surety bond or financial instrument is a binding obligation of the issuer thereof and shall receive evidence that the issuer thereof has a credit rating in one of the top two rating categories of a nationally recognized credit rating service, and, if the surety bond or similar financial instrument is replacing proceeds of obligations the interest on which is excludible from gross income for federal income tax purposes, then the City shall also receive an opinion of a firm of attorneys experienced in the practice of municipal bond law which opinion is to the effect that replacing such proceeds with a surety bond or similar financial instrument will not adversely affect the exclusion from gross income of the interest on such obligations for federal income tax purposes. Each such surety bond or similar financial instrument shall be unconditional and irrevocable and shall provide such security as is described in this section with respect to which the surety bond or similar financial instrument is purchased. Notwithstanding Article VIII, the City reserves the right, if it deems it necessary in order to acquire such surety bond or other financial instrument, to amend this Ordinance without the consent of any of the holders of the Bonds in order to provide for the repayment of amounts drawn under such surety bond or other financial instrument, in order to secure the amounts to be repaid which security may be subordinate only to payments of Cost of Maintenance and Operation and payments into the Bond Fund, or to grant the provider of such surety bond or other financial instrument such additional rights as the City deems necessary. Further, in lieu of making deposits to the Bond Reserve Fund or any separate bond reserve fund pursuant to this Section 2.5, the City may transfer the amounts which would have been deposited to the Bond Reserve Fund or any separate bond reserve fund to a Credit Facility as reimbursement for amounts paid under any insurance policy, surety bond or other similar financial instrument.

In the event the Bond Reserve Fund contains both cash or Permitted Investments and a surety bond or other financial instrument, then the cash and Permitted Investments shall be liquidated prior to drawing upon the surety bond or financial instrument. Further, replenishment of the Bond Reserve Fund shall be made first to the reinstatement of such surety bond or other financial instrument and then, at the option of the City, to cash or Permitted Investments.

SECTION 2.6. *Airport Improvement Fund.* Amounts held in the Airport Improvement Fund may be used for any lawful airport purpose including but not limited to the payment of obligations of the City relating to the Airport including general obligation bonds issued for airport purposes and any obligations owed by the City pursuant to leases or installment purchase agreements or other obligations relating to the Airport.

SECTION 2.7. *Construction Fund.* A special fund is hereby created and designated *"City of Phoenix Airport Construction Fund"* (the *"Construction Fund"*) into which the City shall deposit proceeds of Parity Bonds hereafter issued for the purpose of improving and extending the Airport. The money in said fund shall be applied to the payment of the cost of adding to, extending, improving, bettering and reconstructing the Airport and related facilities, or for the repayment of advances made for that purpose in accordance with and subject to the provisions and restrictions set forth in this Section or may be transferred to the Bond Fund if necessary to pay Principal Requirements or Interest Requirements on Bonds or if funds have been deposited therein to pay capitalized interest on Bonds. Any monies in said fund not presently needed for the payment of current obligations during the course of construction may be invested in Permitted Investments which provide funds in a manner expected to meet the needs of the project being financed. Any such investments shall be held for the account of the Construction Fund until maturity or until sold, and at maturity or upon such sale the proceeds received therefrom including accrued interest and premium, if any, shall be immediately deposited in said fund and shall be disposed of in the manner and for the purposes herein provided. Moneys may be transferred from the Construction Fund in accordance with policies of the City relating to the expenditure of City moneys.

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SECTION 2.9. *Investment of Funds and Accounts.* Money in the aforementioned funds and accounts shall be invested and reinvested in Permitted Investments at the highest rates reasonably available (except to the extent that a restricted yield is required or advisable under the Code). Money in the Interest Account and the Principal Account may be invested by the City in Permitted Investments maturing or redeemable at the option of the holder prior to the next succeeding Bond Payment Date or Principal Payment Date, as applicable, but whenever the aggregate of the money in said accounts exceeds the amount necessary to pay interest and principal falling due on the next Bond Payment Date, such excess may be invested in Permitted Investments maturing or redeemable at the option of the holder prior to the next following Bond Payment Date. Whenever any money in the Bond Reserve Fund invested as above provided is needed for the payment of Principal Requirements of or Interest Requirements on the Bonds the City shall cause such investments to be liquidated at current market prices, to the amount required, without further instructions and shall cause the proceeds of such liquidation to be applied to the payment of Principal Requirements and Interest Requirements. Money in each of said funds shall be accounted for as a separate and special fund apart from all other City funds, *provided* that investments of money therein may be made in a pool of investments together with other money of the City of Phoenix so long as sufficient Permitted Investments in said pool, not allocated to other investments of contractually or legally limited duration, are available to meet the requirements of the foregoing provisions hereof.

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SECTION 2.13. *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 Net Airport 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 Section 2.2 of the Airport Revenue Bond Ordinance 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 Net Airport 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 Bonds test set forth in Article III subject to the provisions set forth below in this Section 2.13. In determining whether the Parity Bonds test is satisfied in connection with any such agreements, the City is permitted to treat the amount or rate of interest on the Parity Bonds to which the applicable agreement applies as the amount payable under such agreement, provided that any agreement is with a Qualified Counterparty, thus the City is permitted to include the interest rate payable under such agreements in calculating the additional bonds test established in Article III. 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 agrees to give written notice to the Rating Agency not less than thirty (30) days prior to entering into a Derivative Product payable from Net Airport Revenues.

SECTION 3.1. *No Prior Lien Bonds nor Parity Bonds Except as Herein Permitted.* The Bonds shall enjoy complete parity of lien on the Net Airport Revenues despite the fact that any of the Bonds may be delivered at an earlier date than any other of the Bonds. The City shall not (i) issue other obligations of any kind or nature or (ii) assume any additional obligations in connection with the acquisition by the City of other Airport facilities, payable from or enjoying a lien on the Net Airport Revenues or any part thereof having priority over or (except as hereinafter permitted) parity with the Bonds.

SECTION 3.2. *Additional Bonds for Refunding Purposes.* Any or all of the Bonds may be refunded at maturity, upon redemption in accordance with their terms or with the consent of the holders thereof, and the refunding bonds so issued shall constitute Parity Bonds; *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 3.3. *Parity Bonds Generally.* For a description of Section 3.3, as modified by the City Purchase Agreement, see "*THE CITY PURCHASE AGREEMENT — Section 4.5. Additional Senior Lien Obligations Generally.*"

SECTION 4.1. *In General.* The City hereby makes the following covenants, in addition to all other covenants in this Bond Ordinance, with each and every successive holder of any of the Bonds (including Parity Bonds) so long as any of said Bonds remain Outstanding.

SECTION 4.2. *Maintenance of the Airport in Good Condition.* The City shall maintain the Airport in good condition and operate the same in a proper and economical manner.

SECTION 4.3. *Rate Covenant.* The City covenants that it will in each Fiscal Year establish, maintain and enforce schedules of rates, fees and charges for the use of the Airport (i) sufficient to produce Net Airport Revenues at least equal to 125% of the amount required to be paid into the Bond Fund from the Revenue Fund, after subtracting Other Available Funds deposited in the Bond Fund, in such Fiscal Year and subtracting any Passenger Facility Charge Credit applicable to such Fiscal Year, provided that for purposes of this Section, the Principal Requirement and Interest Requirement for a series of Bonds to which a Derivative Product with a Qualified Counterparty applies may be determined after giving effect to the amount of interest paid on the Bonds plus/minus the amount due to/from the Qualified Counterparty with regard to the interest it has paid on the Derivative Product and exclusive of any payment which may be owed by the City upon termination prior to maturity of such Derivative Product and (ii) sufficient to produce amounts required to be deposited in the Bond Reserve Fund and any separate bond reserve fund for such Fiscal Year.

SECTION 4.4. *Books and Records.* The City shall maintain proper books and records accounting for the operation of the Airport. Such books and records shall be kept in accordance with standard accounting practices and procedures customarily used for airports of similar nature to the Airport. The City will cause such books to be audited annually by an Independent Certified Public Accountant.

SECTION 4.5. *Insurance.* The City will cause to be procured and maintained insurance (which may take the form of or include an adequately-funded program of self-insurance) covering the Airport properties and operations, of such kind and in the amounts normally carried by airports of comparable size, location and operations, including, but without limitation, fidelity insurance, public liability insurance, property damage insurance, fire and extended coverage insurance, use and occupancy or rental value insurance, product liability insurance, workmen's compensation insurance and hanger keeper's liability insurance. To the extent the City accumulates and maintains a fund for self-insurance, such insurance may be substituted for all or part of the insurance otherwise required to be carried under the provisions of this paragraph. All policies providing use and occupancy or rental value insurance shall be made payable to and deposited with the City and the City shall have the sole right to receive any proceeds of such policies and to collect any receipt for claims thereunder; provided, however, that any and all proceeds of use and occupancy or rental value insurance paid to the City shall be deposited by it forthwith to the credit of the Revenue Fund.

SECTION 4.6. *Sale or Lease of Airport.* The City covenants not to sell essential Airport property, whether real or personal, unless an officer of the City certifies that the City will be able to continue to meet the rate covenant set forth in Section 4.3 hereof in each of the five years after the sale or certifies that the value of the property to be sold and sold within the last twelve months does not exceed five percent (5%) of the total fair market value of the assets of the Airport as determined by an officer of the City.

Notwithstanding any of the foregoing provisions of this section, leases and other agreements and contracts for use of any services or facilities of the airport in effect at the time of delivery of the Bonds shall not be subject to revision except by agreement between the parties, with the concurrence of the Consultants, and the city may enter into new leases, or other agreements or contracts for the use of services or facilities of the airport on such terms and for such periods of times as the City shall determine to be proper; provided, however, that no such new lease, agreement or contract shall provide for the payments of rents, fees or charges at a rate less than the rate prevailing at the airport for similar services or facilities at the time of delivery of the Bonds unless such rents, fees or charges shall be approved by the Consultants; and provided further that no such new lease agreement or contract (except land leases and except those which provide for a fixed minimum rental or a percentage of gross income, whichever is larger) shall be for a term exceeding 3 years unless:

1. It be negotiated on a net rent basis, or

2. It contains provisions for renegotiation of the amount of the required payments without limit of intervals of not more than 3 years beginning with the date thereof;

and providing further that no new lease, agreement or contract which provides for a fixed minimum rental or a percentage of gross income, whichever is larger, shall be for a term exceeding 10 years unless it contains provision for renegotiation of the fixed minimum rental and of the percentage of gross income without limit at the end of the initial 10 years, and at the end of each 5-year period thereafter.

SECTION 4.7. *Satisfaction of Liens.* The City will from time to time duly pay and discharge or cause to be paid and discharged all taxes, assessments and other governmental charges, if any, lawfully imposed upon the Airport or any part thereof or upon the Net Airport Revenues, as well as any lawful claims for labor, materials or supplies which if unpaid might by law become a lien or charge upon the Airport or the Revenues or any part thereof or which might impair the security of the Bonds, except when the City in good faith contests its liability to pay the same.

* * *

SECTION 7.1 *Provision for Payment.* Bonds for the payment or redemption of which sufficient moneys or sufficient Qualified Permitted Investments (as evidenced by the report of an Independent Certified Public Accountant) shall have been deposited with a bank or trust company doing business in the State of Arizona (whether upon or prior to the maturity or the redemption date of such Bonds) shall be deemed to be paid and no longer Outstanding under this Ordinance; *provided, however,* that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been duly given or firm arrangements shall have been made for the giving thereof. Qualified Permitted Investments shall be considered sufficient for purposes of this Article VII only if said investments fall due and bear interest in such amounts and at such times as will assure sufficient cash (whether or not such Qualified Permitted Investments are redeemed by the City thereof pursuant to any right of redemption) to pay currently maturing interest and to pay principal and redemption premiums if any when due on the Bonds without rendering the interest on any Bonds taxable under the Code.

The City may at any time surrender to the Bond Registrar for cancellation by it any Bonds previously authenticated and delivered hereunder which the City may have acquired in any manner whatsoever. All such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

SECTION 8.1. *Supplemental Ordinances and Resolutions Not Requiring Consent of Bondholders.* The City, from time to time and at any time, subject to the conditions and restrictions in this Ordinance contained, may enact one or more ordinances or resolutions or both which thereafter shall form a part hereof, for any one or more or all of the following purposes:

(a) To add to the covenants and agreements of the City in this Ordinance contained, other covenants and agreements thereafter to be observed or to surrender, restrict or limit any right or power herein reserved to or conferred upon the City (including but not limited to the right to issue Parity Bonds under Article III);

(b) To make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in this Ordinance, to permit the issuance of coupon Bonds, capital appreciation bonds or cross over refunding bonds, or in regard to matters or questions arising under this Ordinance, as the City may deem necessary or desirable and not inconsistent with this Ordinance but only if such modifications do not result in materially diminishing the security hereby granted to the owners of any Bonds at the time Outstanding.

(c) To increase the size or scope of the Airport.

(d) To make amendments with respect to the use of an insurance policy, surety bond or other form of security in the Bond Reserve Fund and of the type referred to in Section 2.12 with respect to changes in the City's accounting system.

Any supplemental ordinance or resolution authorized by the provisions of this Section 8.1 may be enacted by the City without the consent of or notice to the owners of any of the Bonds at the time Outstanding, notwithstanding any of the provisions of Section 8.2.

SECTION 8.2. *Supplemental Ordinances Requiring Consent of Bondholders.* With the consent (evidenced as provided in Article VI) of the owners of not less than 51% in principal amount of the Bonds, the City may from time to time and at any time adopt an ordinance or ordinances supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Ordinance or of any supplemental ordinance; *provided, however,* that no such supplemental ordinance shall (1) extend the fixed maturity of any Bond or reduce the rate of interest thereon or extend the time of payment of interest, or reduce the amount of the principal thereof, or reduce or extend the time for payment of any premium payable on the redemption thereof, without the consent of the owner of each Bond so effected, or (2) reduce the aforesaid percentage of owners of the Bonds required to approve any such supplemental ordinance without the consent of the owners of all Bonds, or (3) deprive the owner of a Bond of the right to payment of the Bond or from the Net Revenues, in each case, without the consent of the owners of all Bonds so effected. For purposes of determining whether the 51% test of the preceding sentence shall have been met, the principal amount of any Compound Interest Bonds from time to time Outstanding shall be determined by reference to the accreted value of such Compound Interest Bonds on the date of such determination. No amendment may be made under this Section 8.2 which affects the rights or duties of the insurer of any of the Bonds or any Credit Facility (including the issuer of any insurance policy or surety bond deposited in the Bond Reserve Fund or any separate bond reserve fund) without its consent.

It shall not be necessary for the consent of the Bondholders under this Section 8.2 to approve the particular form of any proposed supplemental ordinance, but it shall be sufficient if such consent shall approve the substance thereof.

Promptly after the enactment by the City of any supplemental ordinance pursuant to the provisions of this Section 8.2, the City shall cause the Bond Registrar to mail a notice by registered or certified mail to the registered owners of all Bonds Outstanding at their addresses shown on the Bond Register or at such other address as is furnished in writing by such registered owner to the Bond Registrar setting forth in general terms the substance of such supplemental ordinance.

* * *

THE CITY PURCHASE AGREEMENT

SECTION 2.3. *Project Fund.* The City or the Corporation on behalf of the City shall establish and maintain a separate fund known as the "Series 2010 Junior Lien Airport Project Fund" (the *"Project Fund"*), which shall contain a Series 2010A Account and a Series 2010B Account. The net proceeds of the Improvement Bonds, except as set forth in subsection (c) hereof, shall be deposited in the Project Fund upon receipt by the City or the Corporation in accordance with the Indenture. In addition, the City may, but shall not be required to deposit additional funds in the Project Fund. Moneys in the Project Fund shall be disbursed by the City or the Corporation, for the following purposes and for no other purposes:

(a) costs and expenses relating to the issuance, sale and delivery of the 2010 Junior Bonds, provided that such costs and expenses allocable to the Taxable Improvement Bonds shall not exceed two percent (2%) of the proceeds of the Taxable Improvement Bonds;

(b) 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;

(c) reimbursement of capital expenditures relating to the Project (i) with respect to the Tax-Exempt Improvement Bonds advanced prior to the issuance thereof and (ii) with respect to the Taxable Improvement Bonds, advanced prior to the issuance thereof, but on or after February 17, 2009; provided that any proceeds of the Taxable Improvement Bonds, other than those to be applied for costs of issuance, shall not be deposited to the Series 2010B Account; and

(d) payment of the Purchase Price representing interest on the Improvement Bonds during the construction and acquisition of the Project.

* * *

SECTION 2.4. *Establishment of Junior Lien Bond Fund.* As authorized by Section 2.2 of the Airport Revenue Bond Ordinance, the City hereby establishes for the payment of Junior Lien Obligations a Junior Lien Bond Fund, which shall contain the Junior Lien Interest Account and the Junior Lien Principal Account. Amounts deposited in the Junior Lien Bond Fund shall be deposited into either the Junior Lien Principal Account or the Junior Lien Interest Account. Amounts deposited in the Junior Lien Principal Account shall be used to pay Junior Lien Principal Requirements and amounts held in the Junior Lien Interest Account shall be used to pay Junior Lien Interest Requirements. Moneys in the Junior Lien Principal Account and Junior Lien Interest Account shall be transferred at least one Business Day before each Junior Lien Principal Payment Date or Junior Lien Interest Payment Date, as applicable, to the appropriate paying agent for each series of Junior Lien Obligations to be applied as required under the Junior Lien Obligation Documents.

SECTION 2.5. *Establishment of PFC Revenue Fund.* As authorized by Section 2.2 of the Airport Revenue Bond Ordinance, the City hereby establishes the PFC Revenue Fund, which shall contain the PFC Interest Account (including a Series 2010B Interest Subaccount thereof) and the PFC Principal Account. The City may establish additional similar accounts for other obligations payable in whole or in part from the PFC Revenues. The City shall deposit all PFC Revenues into the PFC Revenue Fund for application in the following order of priority:

(a) Monthly to the PFC Interest Account until the amount on deposit therein, including the amount on deposit in the Series 2010B Interest Subaccount, is equal to the 2010 Junior Lien Interest Requirement for the then current Bond Year with respect to the Improvement Bonds for transfer from the PFC Interest Account, including the Series 2010B Interest Subaccount, to the Junior Lien Bond Fund at least two Business Days prior to a Junior Lien Interest Payment Date;

(b) Monthly to the PFC Principal Account until the amount on deposit therein is equal to the 2010 Junior Lien Principal Requirement for the then current Bond Year with respect to the Improvement Bonds for transfer from the PFC Principal Account to the Junior Lien Bond Fund at least two Business Days prior to a Junior Principal Payment Date;

(c) Monthly to the 2010 Junior Lien Bond Reserve Fund the amount necessary to maintain the amount on deposit therein at the 2010 Junior Lien Debt Service Reserve Requirement to the extent amounts have been withdrawn to pay debt service on the Improvement Bonds;

(d) To the extent PFC Revenues in any month exceed the requirements set forth in (a), (b) and (c) above, to any other fund or account established by the City under the Airport Revenue Bond Ordinance or any other lawful purpose, in each case consistent with applicable federal law relating to Passenger Facility Charges.

Notwithstanding the foregoing, the requirements set forth in (a), (b) and (c) above shall not apply with respect to any PFC Revenues received after the Commitment Period. Furthermore, the City reserves the right to modify the flow of funds set forth herein in connection with the issuance of obligations payable in whole or in part on a parity with, or subordinate to, the irrevocable commitment of the PFC Revenues for the benefit of the owners of the Improvement Bonds.

Investment earnings on amounts on deposit in the PFC Revenue Fund shall be applied in the same manner as all other PFC Revenues. To the extent that Designated Revenues are credited to any fund or account to provide for payment of the Improvement Bonds and PFC Revenues subsequently become available prior to the expenditure of such Designated Revenues, such Designated Revenues shall be applied as otherwise provided in Section 2.6 of the City Purchase Agreement.

Amounts in the Series 2010B Interest Subaccount shall be applied to pay interest due with respect to the Taxable Improvement Bonds.

SECTION 2.6. *Revised Flow of Funds Under Airport Revenue Bond Ordinance.* As authorized by Section 2.2 of the Airport Revenue Bond Ordinance, Revenues deposited to the Revenue Fund shall be transferred to the following funds in the following order of priority:

(a) From time to time into the Operation and Maintenance Fund sufficient moneys to pay Cost of Maintenance and Operations;

(b) Monthly into the Bond Fund, which shall contain the Principal Account and the Interest Account, deposits equal to one-twelfth of the Principal Requirement of Senior Lien Obligations which mature or are subject to mandatory sinking fund redemption on the following Principal Payment Date and one-sixth of the Interest Requirement of Senior Lien Obligations, provided that such one-twelfth and one-sixth fractions may be revised if the Principal Requirement and Interest Requirement are not due annually and semiannually, respectively, in a manner to provide for equal monthly payments into the Bond Fund to pay Principal Requirements and Interest Requirements to become due on the next Principal Payment Date or Bond Payment Date, respectively;

(c) From time to time into the Bond Reserve Fund and every separate bond reserve fund established for Parity Bonds not secured by the Bond Reserve Fund pursuant to Section 2.5 of the Airport Revenue Bond Ordinance, amounts then required to be deposited to the Bond Reserve Fund or any separate bond reserve fund pursuant to Section 2.5 of the Airport Revenue Bond Ordinance, provided that such deposits may be transferred to a Credit Facility in order to reimburse such Credit Facility for amounts paid out under any insurance policy or surety bond securing any of the Bonds;

(d) Monthly to the Junior Lien Bond Fund, (i) into the Junior Lien Principal Account amounts equal to one-twelfth of the Junior Lien Principal Requirement of Junior Lien Obligations for the next succeeding Junior Lien Principal Payment Date and (ii) into the Junior Lien Interest Account amounts equal to one-sixth of the Junior Lien Interest Requirement for the next succeeding Junior Lien Interest Payment Date, in each case less any amounts which are to be paid from an irrevocable commitment from another funding source including those provided in Sections 3.5(b) and 3.5(c) hereof, provided that such one-twelfth and one-sixth fractions may be revised if the Junior Lien Principal Requirement and Junior Lien Interest Requirement are not due annually and semiannually, respectively, in a manner to provide for equal monthly payments into the Junior Lien Bond Fund to pay Junior Lien Principal Requirements and Junior Lien Interest Requirements to become due on the next succeeding Junior Lien Principal Payment Date or Junior Lien Interest Payment Date, respectively.

(e) From time to time into any reserve fund established for Junior Lien Obligations including the 2010 Junior Lien Bond Reserve Fund (to the extent PFC Revenues are not available as required pursuant to Section 2.5(c) of the City Purchase Agreement), amounts then required to be deposited therein under the terms of the Junior Lien Obligation Documents, provided that such deposits may be transferred to a Junior Lien Credit Facility in order to reimburse such Junior Lien Credit Facility for amounts paid out under any insurance policy or surety bond securing any of the Junior Lien Obligations and related costs.

(f) From time to time into the Airport Improvement Fund such funds as the City chooses to deposit therein.

The City may establish one or more additional funds, accounts or subaccounts including funds, accounts or subaccounts for the payment of obligations subordinate in lien to the payment of the Junior Lien Obligations. In the event the City establishes additional funds, accounts or subaccounts for the payment of obligations subordinate in lien to the payment of the Junior Lien Obligations, the City reserves the right to provide that deposits into such funds, accounts or subaccounts may be made in a manner which is prior to deposits to be made into the Airport Improvement Fund. The City further reserves the right to provide that any moneys held in such additional funds, accounts or subaccounts may not be used to pay amounts due on any Junior Lien Obligations.

SECTION 2.7. *Derivative Products.* The City reserves the right to enter into Derivative Products pursuant to Section 2.13 of the Airport Revenue Bond Ordinance. The City also 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 Designated 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 Section 2.2 of the Airport Revenue Bond Ordinance and in Section 2.6 of the City Purchase Agreement provided that such revisions, except as permitted pursuant to Section 2.13 of the Airport Revenue Bond Ordinance, do not result in payments under such agreements being made on a basis which is senior to the payment of any Junior Lien Obligations. To the extent the City enters into such agreements and pledges Designated Revenues to the payment of such agreements on a parity with the Junior Lien Obligations, such agreements may only be incurred if the City satisfies the relevant additional obligations test set forth in Article IV hereof subject to the provisions set forth below in this Section 2.7. In determining whether the additional obligations test is satisfied in connection with any such agreements, the City is permitted to treat the amount or rate of interest on the Junior Lien Obligations to which the applicable agreement applies as the amount payable under such agreement, provided that any agreement is with a Qualified Junior Lien Counterparty, thus the City is permitted to include the net payment due under such agreements in calculating the additional obligations test established in Article IV. Further, the City is permitted to disregard the notional principal amount of any such agreement provided that such agreement is with a Qualified Junior Lien Counterparty. The City agrees to give written notice to the Rating Agency not less than thirty (30) days prior to entering into a Junior Lien Derivative Product payable from Designated Revenues.

SECTION 2.8. *2010 Junior Lien Bond Reserve Fund.* As permitted by Section 2.2 of the Airport Revenue Bond Ordinance, the City hereby establishes with the Bond Trustee, as assignee of the Corporation under the Indenture, a separate 2010 Junior Lien Bond Reserve Fund which shall be used to make payments on the 2010 Junior Bonds and shall not be available to make payments on any other Junior Lien Obligations or Senior Lien Obligations or any of the City's obligations hereunder other than pursuant to Section 3.3(a), (b) and (c) of the City Purchase Agreement.

The 2010 Junior Lien Bond Reserve Fund shall be funded in an amount equal to the 2010 Junior Lien Debt Service Reserve Requirement. The 2010 Junior Lien Bond Reserve Fund may be funded with cash, Permitted Investments (as defined in the Airport Revenue Bond Ordinance) or a surety bond or other similar financial instrument meeting the requirements of Section 2.5 of the Airport Revenue Bond Ordinance but with a rating of "Aaa" by Moody's and "AAA" by S&P if in the form of a surety bond or insurance policy (a *"Qualified Surety Bond"*). In the event the City chooses to provide Qualified Surety Bond in substitution for the initial cash deposit or 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 has the required credit ratings. Any substitution of a Qualified Surety Bond for a cash deposit funded from 2010 Junior Bond proceeds shall be subject to receipt by the City of an opinion of nationally recognized bond counsel that such substitution will not cause interest or any of the Tax-Exempt Bonds to become includible in gross income for federal income tax purposes, or with respect to the Taxable Improvement Bonds, adversely affect their eligibility for 2010 RZEDB Subsidy Payments. Each such Qualified Surety Bond shall be unconditional and irrevocable and shall provide such security as is described in Section 2.5 of the Airport Revenue Bond Ordinance. In the event the 2010 Junior Lien Bond Reserve Fund contains both cash or Permitted Investments and a surety bond or other financial instrument, then the cash and Permitted Investments shall be liquidated prior to drawing upon the surety bond or financial instrument. Further, replenishment of the 2010 Junior Lien Bond Reserve Fund shall be made, subject to the flow of funds established in Sections 2.5 and 2.6 of the City Purchase Agreement, first to the reinstatement of such Qualified Surety Bond and then, at the option of the City, to cash or Permitted Investments. In the event the amount on deposit in the 2010 Junior Lien Bond Reserve Fund consists of cash or Permitted Investments with a value in excess of the 2010 Junior Lien Debt Service Reserve Requirement, the Bond Trustee shall, at the direction of the City, transfer such excess to the City.

In the event amounts are withdrawn from the 2010 Junior Lien Bond Reserve Fund to pay principal of or interest on the 2010 Junior Bonds, the City shall replenish the 2010 Junior Lien Bond Reserve Fund as required by Sections 2.5 and 2.6 of the City Purchase Agreement and/or reimburse the provider of a Qualified Surety Bond on a pro rata basis with amounts to be used to reimburse a Junior Lien Credit Facility for Junior Lien Obligations other than the 2010 Junior Bonds, and/or replenish any other reserve funds established for Junior Lien Obligations on a basis subordinate to payment of Junior Lien Obligations.

SECTION 2.9. *Additional Requirements for Qualified Surety Bond.* (a) A Qualified Surety Bond which is a letter of credit shall be payable in one or more draws upon presentation by the beneficiary of a sight draft accompanied by its certificate that it then holds insufficient funds to make a required payment of principal or interest on the 2010 Junior Lien Bonds. The draws shall be payable within two days of presentation of the sight draft. The letter of credit shall be for a term of not less than three years. The issuer of the letter of credit shall be required to notify the City and the Trustee, not later than three months prior to the stated expiration date of the letter of credit, as to whether such expiration date shall be extended, and if so, shall indicate the new expiration date.

(b) If such notice indicates that the expiration date shall not be extended, the City shall deposit in the 2010 Junior Lien Bond Reserve Fund an amount sufficient to cause the cash or Permitted Investments on deposit in the 2010 Junior Lien Bond Reserve Fund together with any other qualifying credit instruments, to equal the 2010 Junior Lien Debt Service Reserve Fund Requirement, such deposit to be paid in equal installments on at least a semi-annual basis over the remaining term of the letter of credit, unless a replacement Qualified Surety Bond is provided. The letter of credit shall permit a draw in full not less than two weeks prior to the expiration or termination of such letter of credit if the letter of credit has not been replaced or renewed. The Trustee shall draw upon the letter of credit prior to its expiration or termination unless an acceptable replacement is in place or the 2010 Junior Lien Bond Reserve Fund is fully funded in its required amount.

(c) The obligation to reimburse the issuer of a Qualified Surety Bond for any fees, expenses, claims or draws upon such Qualified Surety Bond shall be subordinate to the payment of debt service on the 2010 Junior Lien Bonds. The right of the issuer of a Qualified Surety Bond to payment or reimbursement of its fees and expenses shall be subordinated to cash replenishment of the 2010 Junior Lien Bond Reserve Fund, and, subject to the second and third succeeding sentences, its right to reimbursement for claims or draws shall be on a parity with the cash replenishment of the 2010 Junior Lien Bond Reserve Fund. The Qualified Surety Bond shall provide for a revolving feature under which the amount available thereunder will be reinstated to the extent of any reimbursement of draws or claims paid. If the revolving feature is suspended or terminated for any reason, the right of the issuer of the Qualified Surety Bond to reimbursement will be further subordinated to cash replenishment of the 2010 Junior Lien Bond Reserve Fund to an amount equal to the difference between the full original amount available under the 2010 Junior Lien Bond Reserve Fund credit instrument and the amount then available for further draws or claims. If (i) the issuer of a Qualified Surety Bond becomes insolvent or (ii) the issuer of a Qualified Surety Bond defaults in its payment obligations thereunder or (iii) the claims-paying ability of the issuer of the insurance policy or surety bond falls below a S&P "AAA" or a Moody's "Aaa" or (iv) the rating of the issuer of the letter of credit falls below a S&P "AA" or Moody's "Aa" (in each case without regard to "+'"s or "−'"s or numerical distinctions within a rating category), the obligation to reimburse the issuer of the Qualified Surety Bond shall be subordinate to the cash replenishment of the 2010 Junior Lien Bond Reserve Fund.

(d) If (i) the revolving reinstatement feature described in the preceding paragraph is suspended or terminated or (ii) the rating of the claims paying ability of the issuer of the surety bond or insurance policy falls below a S&P "AAA" or a Moody's "Aaa" or (iii) the rating of the issuer of the letter of credit falls below S&P "AA" or Moody's "Aa" (in each case without regard to "+'"s or "−'"s or numerical distinctions within a rating category), the City shall either (i) deposit into the 2010 Junior Lien Bond Reserve Fund an amount sufficient to cause the cash or permitted investments on deposit in the 2010 Junior Lien Bond Reserve Fund to equal the 2010 Junior Lien Debt Service Reserve Requirement, such amount to be paid over the ensuing five years in equal installments deposited at least semi-annually or (ii) replace such instrument with a Qualified Surety Bond within six months of such occurrence. In the event the rating of the claims-paying ability of the issuer of the surety bond or insurance policy falls below "A" or the rating of the issuer of the letter of credit falls below "A" (in each case without regard to "+"s or "−"s or numerical distinctions within a rating category), or (iii) the issuer of the Qualified Surety Bond defaults in its payment obligation or (iv) the issuer of the Qualified Surety Bond becomes insolvent, the Corporation shall cause the City to either (A) deposit into the 2010 Junior Lien Bond Reserve Fund in an amount equal to the 2010 Junior Lien Debt Service Reserve Requirement, such amount to be paid over the ensuing year in equal installments on at least a semi-annual basis or (B) replace such instrument with a Qualified Surety Bond within six months of such occurrence.

(e) Where applicable, the amount available for draws or claims under the Qualified Surety Bond may be reduced by the amount of cash or permitted investments deposited in the 2010 Junior Lien Bond Reserve Fund pursuant to subparagraph (c).

(f) If the City chooses the above described alternatives to a cash-funded 2010 Junior Lien Bond Reserve Fund, any amounts owed by the City to the issuer of such credit instrument as a result of a draw thereon or a claim thereunder, as appropriate, shall be included in any calculation of debt service requirements required to be made pursuant to Sections 4.2, 4.3 and 4.6(b) of the City Purchase Agreement.

SECTION 2.10. *Reserve Funds for Additional Junior Lien Obligations.* The City reserves the right to establish and maintain additional reserve funds required in connection with the issuance, and for the benefit of, additional Junior Lien Obligations. The funding of such reserve funds shall be subject to Section 2.5 of the City Purchase Agreement.

* * *

SECTION 3.3. *Amounts of Purchase Price Payable Upon Issuance of 2010 Junior Bonds.* The City agrees that it will pay, except as provided in Section 3.5(b) of the City Purchase Agreement, solely from the Designated Revenues, Other Available Moneys and funds committed pursuant to Sections 3.5(b) and 3.5(c) of the City Purchase Agreement, as the Purchase Price of the Property, the aggregate of the amounts for which provision is made in this Section and elsewhere in this City Purchase Agreement.

(a) On or before the last Business Day of each December and June, commencing December 31, 2010, until principal of and interest on the 2010 Junior Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, the City shall pay into the 2010 Junior Lien Interest Account, solely from the Designated Revenues, Other Available Moneys and funds committed pursuant to Sections 3.5(b) and 3.5(c) of the City Purchase Agreement, a sum equal to the interest on the 2010 Junior Bonds falling due on the next succeeding 2010 Junior Lien Bond Payment Date.

(b) On or before the last Business Day of June, 20 and the last Business Day of each June thereafter, until principal of and interest on the Bonds has been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, the City shall pay into the 2010 Junior Lien Principal Account, solely from the Designated Revenues, Other Available Moneys and funds committed pursuant to Sections 3.5(b) and 3.5(c) of the City Purchase Agreement, a sum equal to the 2010 Junior Lien Principal Requirement for the then current Bond Year.

(c) If at any 2010 Junior Lien Bond Payment Date following delivery of the 2010 Junior Bonds the balance available in the 2010 Junior Lien Bond Fund is insufficient to make required payments of principal and interest due on such date, the City will pay, solely from the Designated Revenues, Other Available Moneys and funds committed pursuant to Sections 3.5(b) and 3.5(c) of the City Purchase Agreement, any such deficiency in sufficient time to prevent default in the payment of principal of or interest on the 2010 Junior Bonds falling due on such 2010 Junior Lien Bond Payment Date; provided however, that any amount at any time held by the Trustee in the 2010 Junior Lien Bond Interest Account shall be credited against the aforesaid obligations next thereafter required to be met by the City, but only to the extent such amount is in excess of the amount required for payment of past due interest on any Junior Lien Obligations, whether or not such Junior Lien Obligations shall have been presented for payment.

(d) The City shall pay to the Trustee its fees and expenses in accordance with the provisions of the Indenture.

(e) In the event the City should fail to pay when due any of the amounts required in this Section, the item or installment so in default shall continue as an obligation of the City payable, except as provided in Section 3.5(b) of the City Purchase Agreement, solely from the Designated Revenues, until the amount in default shall have been fully paid, and the City agrees to pay the same with interest thereon at the rate applicable to the corresponding maturities of 2010 Junior Bonds, from the date said payment was to be made to the date of payment by the City until paid.

(f) The City shall pay to the official entitled to collect the same, when due, all taxes of whatever nature, if any, that may be imposed upon the Property, the Corporation, its property, operations or income, whether by state, local or federal government, and including every governmental charge whether for services rendered or not, which the Corporation is required or may be required by law to pay with respect to the Property.

(g) To the extent not paid from proceeds of the 2010 Junior Bonds, the City shall pay to the Corporation amounts sufficient to reimburse the Corporation for all its expenses in connection with the issuance of the 2010 Junior Bonds and the City Purchase Agreement if and when paid by the Corporation. Such amounts shall be paid from the Designated Revenues to the Corporation or its order upon receipt by the City Representative of requisitions therefor.

* * *

SECTION 3.5. *Limitation on Source of City Payments; Passenger Facility Charges; 2010 RZEDB Subsidy Payments*.

(a) Except to the extent the City determines to make payments from Other Available Moneys and funds committed pursuant to Sections 3.5(b) and 3.5(c) of the City Purchase Agreement, all amounts to be paid by the City under any section of this City Purchase Agreement shall be payable solely from the Designated Revenues. Under no circumstances shall amounts paid under this City Purchase Agreement from Other Available Moneys constitute a pledge of such Other Available Moneys and 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 hereby irrevocably commits PFC Revenues during the Commitment Period to Improvement Bonds Debt Service and covenants that it will take all action reasonably necessary to cause the collection and remittance to the City of all PFC Revenues and to apply such amounts, during the Commitment Period, as provided in Section 2.5 hereof.

(c) The City covenants that it will take all action reasonably necessary to apply for and receive the 2010 RZEDB Subsidy Payments and, irrevocably commits to transfer such amounts to the Series 2010B Interest Subaccount of the PFC Interest Account as provided in Section 2.5 of the City Purchase Agreement.

(d) The City expressly reserves the right, to the extent permitted by federal law, to irrevocably commit Passenger Facility Charges received during any Fiscal Year or portion thereof to the payment of the Junior Lien Interest Requirements and/or Junior Lien Principal Requirements for one or more subsequent series of Junior Lien Obligations or Principal Requirements or Interest Requirements on Senior Lien Obligations or to expand any such commitments subsequent to issuance of such obligations. Such irrevocable commitment may be on a parity with or on a basis subordinate to, the irrevocable commitment with respect to Improvement Bonds Debt Service. Such declaration shall be made in writing by the City Representative and delivered to the trustee or paying agent as applicable for the Junior Lien Obligations or Senior Lien Obligations receiving the benefit of such irrevocable commitment on or before the beginning of the period of the irrevocable commitment.

* * *

SECTION 4.1. *Prior Lien Airport Revenue Obligations.* The City shall not incur any obligations payable from the Net Revenues except for (a) additional Senior Lien Obligations issued for the purpose of refunding other Senior Lien Obligations upon meeting the conditions specified in the Senior Lien Obligation Documents and upon meeting the conditions specified in Section 4.4 of the City Purchase Agreement, (b) additional Senior Lien Obligations issued for other than refunding purposes upon meeting the conditions specified in the Senior Lien Obligation Documents and upon meeting the conditions specified in Section 4.5 hereof and (c) Derivative Products meeting the requirements of the Airport Revenue Bond Ordinance.

The City shall not incur any obligations payable from the Designated Revenues in the future on a parity with its obligations under this City Purchase Agreement except for (i) additional Junior Lien Obligations entered into or issued for the purpose of refunding the 2010 Junior Bonds, Junior Lien Obligations or Senior Lien Obligations if upon the incurring of such Junior Lien Obligations, the conditions specified in Section 4.2 of the City Purchase Agreement are met, or (ii) additional Junior Lien Obligations entered into or issued for purposes other than refunding the 2010 Junior Bonds, other Junior Lien Obligations or Senior Lien Obligations if, upon the incurring of such Junior Lien Obligations, the conditions specified in Section 4.3 of the City Purchase Agreement are met.

Subject to the foregoing, the City reserves the right to incur additional Senior Lien Obligations and Junior Lien Obligations.

SECTION 4.2. *Additional Junior Lien Obligations for Refunding Purposes.* Any or all of the 2010 Junior Bonds, Junior Lien Obligations or Senior Lien 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 Junior Lien Obligations *provided, however*, that:

(a) An officer of the City shall certify that the Maximum Annual Junior Lien Debt Service becoming due and payable from the date of such determination to maturity or earlier redemption on the Junior Lien Obligations 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 Junior Lien Debt Service becoming due and payable from the date of such determination to maturity or earlier redemption on the Junior Lien Obligations 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. *Junior Lien Obligations Generally.* Junior Lien Obligations issued subsequent to the 2010 Junior Bonds may also be issued if the following conditions are satisfied:

(a) An officer of the City shall certify that either the Designated Revenues for the most recently completed Fiscal Year for which audited financial statements are available or the Designated Revenues for any 12 consecutive months out of the most recent 24 calendar months were sufficient to satisfy the rate covenant set forth in Section 4.6(b) hereof and would have been at least equal to 110% of the Maximum Annual Junior Lien Debt Service for all Junior Lien Obligations to be Outstanding, including the Junior Lien Obligations proposed to be issued; or

(b) A Consultant provides a report which projects that Designated Revenues will be sufficient to satisfy the rate covenant set forth in Section 4.6(b) (including any Junior Lien Obligations to be issued) in each Fiscal Year after subtracting from the amount required to be paid into the Junior Lien Bond Fund from the Revenue Fund any applicable Junior Lien Passenger Facility Charge Credit, which report addresses the period of time beginning with the first full Fiscal Year following the issuance of the Junior Lien Obligations through the later of (i) three Fiscal Years following the expected date of completion (as provided to the Consultant by an officer of the City) of any construction projects to be financed at the Airport with the proceeds of the relevant Junior Lien Obligations or (ii) five Fiscal Years following the issuance of the Junior Lien Obligations.

* * *

SECTION 4.5. *Additional Senior Lien Obligations Generally.* Senior Lien Obligations may also be issued if the following conditions are satisfied:

(a) An officer of the City shall certify that either the Net Revenues for the most recently completed Fiscal Year for which audited financial statements are available or the Net Revenues for any 12 consecutive months out of the most recent 18 calendar months (i) were sufficient to satisfy the rate covenant set forth in Section 4.6(a) of the City Purchase Agreement and (ii) would have been at least equal to 120% of Maximum Annual Debt Service for all Bonds to be Outstanding, including the Parity Bonds proposed to be issued; and

(b) A Consultant provides a report which projects that Net Revenues will be sufficient to satisfy the rate covenant set forth in Section 4.6(a) (including any Parity Bonds to be issued) in each Fiscal Year after subtracting from the amount required to be paid into the Bond Fund from the Revenue Fund any applicable Passenger Facility Charge Credit, which report addresses the period of time beginning with the first full Fiscal Year following the issuance of the Parity Bonds through the later of (i) three Fiscal Years following the expected date of completion (as provided to the Consultant by an officer of the City) of any construction projects to be financed at the Airport with the proceeds of the relevant Parity Bonds or (ii) five Fiscal Years following the issuance of the Parity Bonds.

SECTION 4.6. *Rate Covenant.* The City further covenants that it will in each Fiscal Year establish, maintain and enforce schedules of rates, fees and charges for the use of the Airport (i) sufficient to produce Designated Revenues at least equal to 110% of the amount required to be paid into the Junior Lien Bond Fund from the Revenue Fund, net of Other Available Funds deposited in the Junior Lien Bond Fund, in such Fiscal Year after subtracting any Junior Lien Passenger Facility Charge Credit applicable to such Fiscal Year, provided that for purposes of this Section, the Junior Lien Principal Requirement and Junior Lien Interest Requirement for a series of Junior Lien Obligations to which a Junior Lien Derivative Project with a Qualified Junior Lien Counterparty applies may be determined after giving effect to the netting provisions of Section 2.7 of the City Purchase Agreement and exclusive of any payment which may be owed by the City upon termination prior to maturity of such Derivative Product and (ii) sufficient to produce amounts required to be deposited in the 2010 Junior Lien Bond Reserve Fund and any separate bond reserve fund for Junior Lien Obligations for such Fiscal Year.

Section 4.7. *Subordinate Junior Lien Obligations.* The City reserves the right to issue or enter into obligations payable from Designated Revenues after payment of Junior Lien Obligations, which are subordinate to the City's obligation to pay the Purchase Price hereunder.

* * *

Section 5.1. *In General.* The City hereby makes the following covenants, in addition to those contained in the Airport Revenue Bond Ordinance (which are incorporated by reference herein) and in Article IV hereof, so long as any of the 2010 Junior Bonds remain Outstanding under the Indenture. The Corporation, or the Trustee, as their respective interests appear, shall have the right to enforce all of the covenants and agreements of the City contained in the Airport Revenue Bond Ordinance.

* * *

Section 7.1. *Events of Default.* Any one or more of the following events (herein called *"Events of Default"*) shall constitute a default hereunder:

(a) The City shall fail to make any payment of the Purchase Price when due under Section 3.3(a) or (b) of the City Purchase Agreement when due; or

(b) The City shall fail to make any payment of the Purchase Price under Section 3.3(c) or (d) of the City Purchase Agreement 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, however, under no circumstances may amounts due hereunder be accelerated. The Corporation may assign any or all of its rights and privileges under this Section to the Trustee, and upon furnishing evidence of such assignment to the City, the Trustee may, subject to Section 7.12 of the Indenture, exercise any or all of such rights or privileges as it may deem advisable.

Section 7.3. *Default by Corporation.* The Corporation shall in no event be in default in the performance of any of its obligations hereunder unless and until the Corporation shall have failed to perform such obligation within 30 days or such additional time as is reasonably required to correct any such default after notice by the City to the Corporation properly specifying wherein the Corporation has failed to perform any such obligation. No default by the Corporation shall relieve the City of its obligations to make the various payments herein required, so long as any of the 2010 Junior Bonds remain outstanding; however, the City may exercise any other remedy available at law or in equity to require the Corporation to remedy such default so long as such remedy does not interfere with or endanger the payments required to be made to the Trustee under the Indenture.

THE INDENTURE

The information set forth below summarizes or paraphrases certain provisions of the Indenture.

Section 1.3. *2010 Junior Bonds Not General Obligations of the Corporation.* The 2010 Junior Bonds herein authorized and the payments to be made by the Corporation thereon and into the various funds established under this Indenture are not general obligations of the Corporation but are limited obligations payable solely from payments under the City Purchase Agreement.

* * *

Section 5.3. *Flow of Funds.* So long as any 2010 Junior Bonds are Outstanding, in each Bond Year, payments received by the Trustee shall be applied in the following manner and order of priority:

(a) *2010 Junior Lien Interest Account.* The Trustee shall deposit to the 2010 Junior Lien Interest Account on or before the last Business Day of each December and June an amount equal to the amount of interest to be paid on Outstanding 2010 Junior Bonds on the next Bond Payment Date. Moneys in the 2010 Junior Lien Interest Account shall be used to pay interest on the 2010 Junior Bonds as it becomes due.

(b) *2010 Junior Lien Principal Account.* The Trustee shall deposit to the 2010 Junior Lien Principal Account on or before the last Business Day of each June (in each Bond Year ending on a date on which 2010 Junior Bonds mature), an amount equal to the principal amount at maturity plus an amount equal to any mandatory sinking fund redemption requirement of Section 3.2(b) of the Indenture of 2010 Junior Bonds Outstanding which will mature or be subject to mandatory redemption on the last day of such Bond Year. Moneys in the 2010 Junior Lien Principal Account shall be used to retire 2010 Junior Bonds by payment at their scheduled maturity or their mandatory sinking fund retirement date.

(c) *2010 Junior Lien Redemption Account.* If the City makes an optional prepayment of any installment of principal which is to be applied to redeem 2010 Junior Bonds in accordance with Section 3.2(a) hereof and specifying the amount and maturities of 2010 Junior Bonds to be redeemed and the optional redemption date, the amount so paid shall be credited to the 2010 Junior Lien Redemption Account and applied promptly by the Trustee, first, to cause the amounts credited to the 2010 Junior Lien Interest Account or the 2010 Junior Lien Principal Account of the 2010 Junior Lien Bond Fund, in that order, to be not less than the amounts then required to be credited thereto, and, second, to retire 2010 Junior Bonds by purchase, redemption or both purchase and redemption in accordance with the City's directions.

Section 5.4. *2010 Junior Lien Bond Reserve Fund.* (a) In accordance with Section 2.2 of the Airport Revenue Bond Ordinance, the Corporation has assigned to the Trustee the separate 2010 Junior Lien Bond Reserve Fund which shall be used to make payments on the 2010 Junior Bonds and shall not be available to make payments on any other Parity Bonds (as defined in the Airport Revenue Bond Ordinance) or any of the City's obligations under the City Purchase Agreement other than pursuant to Section 3.3(a), (b) and (c) thereof. In the event there is not on deposit the amounts at the times in the respective accounts described in Section 5.3(a), (b) or (c) hereof, the amount of such deficiency shall be paid directly from the 2010 Junior Lien Bond Reserve Fund.

(b) The 2010 Junior Bond Reserve Fund may be funded with cash, Permitted Investments or a Qualified Surety Bond meeting the requirements of Sections 2.8 and 2.9 of the City Purchase Agreement and Section 2.5 of the Airport Revenue Bond Ordinance. The City has caused to be deposited with the Bond Trustee cash in an amount equal to the 2010 Junior Lien Debt Service Reserve Requirement. In the event the City chooses to provide Qualified Surety Bond in substitution for the initial cash deposit or 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 has the required credit ratings. Any substitution of a Qualified Surety Bond for a cash deposit funded from 2010 Junior Bond proceeds shall be subject to receipt by the City of an opinion of nationally recognized bond counsel that such substitution will not cause interest or any of the Tax-Exempt Bonds to become includible in gross income for federal income tax purposes, or with respect to the Taxable Improvement Bonds, adversely affect their eligibility for 2010 BAB Subsidy Payments. Each such Qualified Surety Bond shall be unconditional and irrevocable and shall provide such security as is described in Section 2.5 of the Airport Revenue Bond Ordinance. In the event the 2010 Junior Lien Bond Reserve Fund contains both cash or Permitted Investments and a surety bond or other financial instrument, then the cash and Permitted Investments shall be liquidated prior to drawing upon the surety bond or financial instrument. Further, replenishment of the 2010 Junior Lien Bond Reserve Fund shall be made, subject to the flow of funds established in Sections 2.5 and 2.6 of the City Purchase Agreement, first to the reinstatement of such Qualified Surety Bond and then, at the option of the City, to cash or Permitted Investments. In the event the amount on deposit in the 2010 Junior Lien Bond Reserve Fund consists of cash or Permitted Investments with a value in excess of the 2010 Junior Lien Debt Service Reserve Requirement, the Bond Trustee shall, at the direction of the City, transfer such excess to the City.

Section 6.1. *Payment of Principal and Interest.* Subject to the limited liability and sources of payment specified herein, the Corporation covenants that it will promptly cause to be paid amounts due on the 2010 Junior

Bonds at the place, on the dates and in the manner provided herein and in said 2010 Junior Bonds according to the terms thereof. The amounts due on the 2010 Junior Bonds are payable solely from moneys held or received by the Trustee hereunder or under the Purchase Agreement, all of which are hereby specifically assigned and pledged to such payment in the manner and to the extent specified herein and nothing herein or in the 2010 Junior Bonds shall be construed as assigning or pledging any other funds or assets of the Corporation.

* * *

SECTION 6.4. *Rights under Purchase Agreement.* The Corporation agrees that the Trustee in its own name or in the name of the Corporation upon notice to the Corporation may enforce all rights of the Corporation and all obligations of the City (except with respect to the Corporation's rights to indemnity and to reimbursement or payment of expenses and fees and certain other rights that are not assigned hereunder) under the Purchase Agreement for and on behalf of the Holders, whether or not the Corporation is then in default hereunder.

* * *

SECTION 7.1. *Events of Default.* Each of the following is hereby declared an *"Event of Default"* hereunder:

(a) If payment of any installment of interest on any 2010 Junior Lien 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 2010 Junior Lien 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 as provided herein or in the 2010 Junior Bonds 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 2010 Junior Bonds then Outstanding;

(e) Any *"Event of Default"* under the City Purchase Agreement; or

(f) The City fails to comply with any applicable provision of the Tax Exemption Certificate with the result that interest on any of the 2010 Junior Bonds becomes includible in gross income for purposes of federal income taxes.

SECTION 7.2. *Remedies and Enforcement of Remedies.* (a) Upon the occurrence and continuance of any Event of Default and in accordance with Article VII hereof and Article VII of the Purchase Agreement, the Trustee may, and upon the written request of the Holders of not less than a majority in principal amount of the 2010 Junior 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 2010 Junior Bondholders hereunder and the 2010 Junior 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 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 Article VII of the City Purchase Agreement, subject to any limitations on such remedies set forth in Article VII.

(b) Regardless of the happening of an Event of Default and subject to Section 7.7 of the Indenture, the Trustee, if requested in writing by the Holders of not less than a majority in principal amount of the 2010 Junior 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 hereof, 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 2010 Junior 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 Indenture and then only to the extent of the amount to be so redeemed and only pursuant to Article III of the Indenture, amounts due hereunder.

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 2010 Junior Bond Fund, and all amounts held by the Trustee hereunder shall be applied as follows:

First: To the payment of amounts, if any, payable pursuant to the Tax Exemption Certificate;

Second: To the payment to the Persons entitled thereto of all installments of interest (including interest on amounts unpaid when due on the 2010 Junior 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

Third: To the payment to the Persons entitled thereto of the unpaid Principal Installments or redemption price of any 2010 Junior 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 2010 Junior 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 2010 Junior 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 2010 Junior Bond until such 2010 Junior 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 2010 Junior 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 2010 Junior Lien Bond Fund contains the amounts then required to be credited thereto, any balance remaining shall be paid to the City.

SECTION 7.5. *Remedies Not Exclusive.* No remedy by the terms hereof conferred upon or reserved to the Trustee or the 2010 Junior Bondholders is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or existing at law or in equity or by statute on or after the date hereof.

SECTION 7.6. *Remedies Vested in Trustee.* All rights of action (including the right to file proof of claims) hereunder or under any of the 2010 Junior Bonds may be enforced by the Trustee, without the possession of any of the 2010 Junior Bonds or the production thereof in any trial or other proceedings relating thereto. Any such suit or proceeding may be brought without the necessity of joining as plaintiffs or defendants any Holders of the 2010 Junior Bonds. Subject to the provisions of Section 7.4 of the Indenture, any recovery or judgment shall be for the equal benefit of the Holders of the Outstanding 2010 Junior Bonds.

SECTION 7.7. *Individual 2010 Junior Bondholder Action Restricted.* (a) No Holder of any 2010 Junior 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 2010 Junior Bonds Outstanding, shall have made written request to the Trustee to proceed to exercise the powers granted herein; and

(ii) Such 2010 Junior Bondholders shall have offered the Trustee reasonable security or indemnity as provided in Section 8.2(e) of the Indenture; 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 2010 Junior Bonds then Outstanding.

(b) No one or more Holders of 2010 Junior Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the security hereof or to enforce any right hereunder except in the manner herein provided and for the equal benefit of the Holders of all 2010 Junior Bonds Outstanding.

(c) Nothing contained herein shall affect or impair, or be construed to affect or impair, the right of the Holder of any 2010 Junior Bond (i) to receive payment of the principal of or interest on such 2010 Junior 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 2010 Junior 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 2010 Junior Bonds.

* * *

SECTION 7.9. *Termination of Proceedings.* In case any proceeding taken on account of an Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the 2010 Junior Bondholders, then the Corporation, the Trustee and the 2010 Junior Bondholders shall be restored to their former positions and rights hereunder, and all rights and powers of the Trustee and the 2010 Junior Bondholders shall continue as if no such proceeding had been taken.

* * *

SECTION 9.1. *Supplements not Requiring Consent of 2010 Junior 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 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 herein 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 2010 Junior 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 pursuant to the terms of Section 8.6 and Section 8.11 hereof;

(f) To permit 2010 Junior Bonds in bearer form if, in the opinion of Bond Counsel received by the Corporation and the Trustee, such action will not cause the interest on any Tax-Exempt Bonds to become includible in gross income for purposes of federal income taxes;

(g) To preserve the exclusion of the interest on the Tax-Exempt Bonds from gross income for purposes of federal or State income taxes and to preserve the power of the Corporation to continue to issue bonds or other obligations (specifically not limited to the Tax-Exempt Bonds authorized hereby) the interest on which is likewise exempt from federal and State income taxes; and

(h) To adopt procedures for the disclosure of information to 2010 Junior 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 the Indenture by agreement of the Trustee, the Corporation and the City.

SECTION 9.3. *Execution and Effect of Supplements.* (a) In executing any Supplement, the Trustee and Corporation shall be entitled to receive and to rely upon an opinion of counsel stating that the execution of such Supplement is authorized or permitted hereby. The Trustee may but shall not be obligated to enter into any such Supplement which affects the Trustee's own rights, duties or immunities.

(b) Any Supplement under this Article which adversely affects the rights of the City shall not become effective unless and until the City shall have consented in writing to the execution and delivery of such Supplement. In this regard the Trustee shall cause notice of the proposed execution and delivery of any such Supplement together with a copy of the proposed Supplement to be delivered to the City at least ten days prior to the date of its proposed execution and delivery in the case of a Supplement referred to in Section 9.1 of the Indenture and at least ten days prior to the date of mailing of the notice of the proposed execution and delivery in the case of a Supplement referred to in Section 9.2.

(c) Upon the execution and delivery of any Supplement in accordance with this Article, the provisions hereof shall be modified in accordance therewith and such Supplement shall form a part hereof for all purposes and every Holder of a 2010 Junior Bond theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

(d) Any 2010 Junior Bond authenticated and delivered after the execution and delivery of any Supplement in accordance with this Article may, and if required by the Corporation or the Trustee shall, bear a notation in form approved by the Corporation and Trustee as to any matter provided for in such Supplement. If the Corporation shall so determine, upon advice of Bond Counsel, new 2010 Junior Bonds so modified as to conform in the opinion of the Trustee and the Corporation to any such Supplement may be executed by the Corporation and authenticated and delivered by the Trustee in exchange for and upon surrender of 2010 Junior Bonds then Outstanding.

SECTION 9.4. *Amendments to City Purchase Agreement Not Requiring Consent of 2010 Junior 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; (iii) to preserve the exclusion of the interest on the 2010 Junior Bonds from gross income for purposes of federal or State income taxes and to preserve the power of the Corporation to continue to issue bonds or other obligations (specifically not limited to the Tax-Exempt 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 Exhibit A to the City Purchase Agreement at any time without notice to or consent of the Trustee or the Holders.

SECTION 9.5. *Amendments to Purchase Agreement Requiring Consent of* 2010 *Junior Bondholders.* (a) Except for amendments, changes or modification to the Purchase Agreement referred to in Section 9.4 of the Indenture and subject to the terms and provisions and limitations contained in this Article and not otherwise, the Trustee may consent to and join with the City in the execution and delivery of any amendment, change or modification to the Purchase Agreement only upon the consent of not less than a majority in principal amount of

2010 Junior Bonds then Outstanding, given as provided in this Section, provided, however, no such amendment, change or modification may affect the obligation of the City to make payments under the Purchase Agreement or reduce the amount of or extend the time for making such payments without the consent of the Holders of all 2010 Junior Bonds then Outstanding.

(b) If at any time the Corporation and the City shall request the consent of the Trustee to any such amendment, change or modification to the Purchase Agreement the Trustee shall, upon being satisfactorily indemnified by the City with respect to expenses, cause notice of the proposed amendment, change or modification to be given in the same manner as provided in Section 9.2 of the Indenture with respect to Supplements hereto. Such notice shall briefly set forth the nature of the proposed amendment, change or modification and shall state that copies thereof are on file at the office of the Trustee for inspection by all 2010 Junior Bondholders.

(c) If the consent to and approval of the execution of such amendment, change or modification is given by the Holders of not less than the aggregate principal amount or number of 2010 Junior Bonds specified in subsection (a) within the time and in the manner provided by Section 9.2 hereof with respect to Supplements hereto, but not otherwise, such amendment, change or modification may be consented to, executed and delivered upon the terms and conditions and with like binding effect upon the Holders as provided in Sections 9.2 and 9.3 of the Indenture with respect to Supplements hereto.

SECTION 10.1. *Discharge.* If payment of all principal of, premium, if any, and interest on all of the 2010 Junior Bonds in accordance with their terms and as provided herein is made, or is provided for in accordance with this Article and Article VII of the Airport Revenue Bond Ordinance, and if all other sums, if any, payable by the Corporation hereunder shall be paid, then the liens, estates and security interests granted hereby shall cease. Thereupon, upon the request of the Corporation, and upon receipt by the Trustee of an opinion of counsel addressed to the Corporation and Trustee stating that all conditions precedent to the satisfaction and discharge of the lien hereof 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 2010 Junior 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 2010 Junior Bonds previously authenticated and delivered which the Corporation or the City may have acquired in any manner whatsoever and such 2010 Junior Bonds upon such surrender and cancellation shall be deemed to be paid and retired.

SECTION 10.2. *Providing for Payment of 2010 Junior Bonds.* Payment of all or any part of the 2010 Junior Bonds in authorized denominations may be provided for by the deposit with the Trustee or a qualified institution under Article VII of the Airport Revenue Bond Ordinance as agent for the Trustee (the *"Depository Trustee"*) of moneys or Qualified Permitted Investments which are not redeemable in advance of their maturity dates, or which are redeemable in advance of their maturity dates only at the option of the Holder thereof, or both. The moneys and the maturing principal and interest income on such Qualified Permitted Investments, 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, to pay when due the principal or redemption price of and interest on such 2010 Junior Bonds. The moneys and Defeasance Obligations shall be held by the Trustee irrevocably in trust for the Holders of such 2010 Junior Bonds solely for the purpose of paying the principal, or redemption price of and interest on such 2010 Junior Bonds as the same shall mature, come due or become payable upon prior redemption, and, if applicable, upon simultaneous direction, expressed to be irrevocable, to the Trustee and the Depository Trustee as to the dates upon which any such 2010 Junior Bonds are to be redeemed prior to their respective maturities.

If payment of 2010 Junior Bonds is so provided for, the Trustee or the Depository Trustee shall mail a notice so stating to each Holder of a 2010 Junior Bond so provided for 2010 Junior Bonds, the payment of which has been provided for in accordance with this Section, shall no longer be deemed Outstanding hereunder or secured hereby. The obligation of the Corporation in respect of such 2010 Junior Bonds shall nevertheless continue but the Holders thereof shall thereafter be entitled to payment only from the moneys or Qualified Permitted Investments deposited with the Trustee or the Depository Trustee to provide for the payment of such 2010 Junior Bonds.

APPENDIX I

PROPOSED FORM OF LEGAL OPINION OF BOND COUNSEL

[LETTERHEAD OF GREENBERG TRAURIG, LLP]

[TO BE DATED CLOSING DATE]

We hereby certify that we have examined a certified copy of the proceedings of the City of Phoenix Civic Improvement Corporation (the *"Corporation"*) passed preliminary to the issue of its Junior Lien Airport Revenue Bonds, Series 2010A (the *"Tax-Exempt Improvement Bonds"*) in the amount of $642,680,000, Junior Lien Airport Revenue Refunding Bonds, Series 2010C (the *"Refunding Bonds"* and together with the Tax-Exempt Improvement Bonds, the *"Tax-Exempt Bonds"*) in the initial principal amount of $32,080,000, and Junior Lien Airport Revenue Bonds, Taxable Series 2010B (Recovery Zone Economic Development Bonds-Direct Payment) (the *"Taxable Improvement Bonds")* in the initial principal amount of $21,345,000, in fully registered form, dated as of the date of initial delivery. The Tax-Exempt Bonds and the Taxable Improvement Bonds (collectively, the *"2010 Junior Bonds"*) are being issued to refund obligations previously issued for airport purposes and to pay for certain improvements to the airport facilities of the City of Phoenix, Arizona (the "*City*").

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 Indentures (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 2010 Junior 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 2010 Junior Bonds are being issued pursuant to a Bond Indenture, dated as of August 1, 2010 (the *"Indenture"*), between the Corporation and U.S. Bank National Association, as trustee. The 2010 Junior Bonds are payable solely, as to both principal and interest, from payments made by the City under the Junior Lien City Purchase Agreement, dated as of August 1, 2010 (the *"City Purchase Agreement"*), between the Corporation and the City.

Based upon the foregoing, we are of the opinion as of this date, which is the date of initial delivery of the 2010 Junior Bonds against payment therefor, that:

1. The Indenture, the City Purchase Agreement and the 2010 Junior Bonds have been duly authorized, executed and delivered by the Corporation and are valid and binding upon and enforceable against the Corporation.

2. The 2010 Junior Bonds constitute special obligations of the Corporation, and the principal of and interest and any premium on the 2010 Junior 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 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 junior lien pledge of net revenues received from the City's airport facilities. Debt service on the Tax-Exempt Improvement Bonds and the Taxable Improvement Bonds (collectively, the *"Improvement Bonds"*) is further secured by an irrevocable commitment of PFC Revenues (as defined in the City Purchase Agreement) in an amount equal to debt service on the Improvement Bonds due on or before July 1, 2016. Debt service on the Taxable Improvement Bonds is further secured by an irrevocable commitment of 2010 Recovery Zone Economic Development Bonds Subsidy Payments (as defined in the City Purchase Agreement). 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 Rebate Fund), which junior lien pledge of net revenues to the 2010 Junior Bonds and irrevocable commitment of such PFC Revenues to debt service on the Improvement Bonds will be perfected only as to the revenues and other moneys on deposit in the funds and accounts created by the Indenture. The 2010 Junior Bonds and the payment of debt service are not secured by an obligation or pledge of any moneys raised by taxation; the 2010 Junior 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. The Internal Revenue Code of 1986, as amended (the *"Code"*), includes requirements which the City and the Corporation must continue to meet after the issuance of the Tax-Exempt Bonds in order that interest on the Tax-Exempt Bonds not be included in gross income for federal income tax purposes. The failure of the City and the Corporation to meet these requirements may cause interest on the Tax-Exempt Bonds to be included in gross income for federal income tax purposes retroactive to their date of issuance. The City and the Corporation have covenanted to take the actions required by the Code in order to maintain the exclusion from gross income for federal income tax purposes of interest on the Tax-Exempt Bonds. (Subject to the limitations in the last paragraph hereof, the City and the Corporation have full legal power and authority to comply with such covenants.) Under existing statutes, regulations, rulings and court decisions, subject to the assumption stated in the last sentence of this paragraph, interest on the Tax-Exempt Bonds is excludible from the gross income of the owners thereof for federal income tax purposes, and, if the foregoing is the case, the interest on the Tax-Exempt Bonds is exempt from income taxation under the laws of the State of Arizona. Interest on the Tax-Exempt Bonds will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Tax-Exempt Bonds is taken into account in determining adjusted current earnings for purposes of computing the federal alternative minimum tax imposed on corporations. We express no opinion regarding other federal tax consequences resulting from the ownership, receipt or accrual of interest on, or disposition of, the 2010 Junior Bonds. In rendering the opinion expressed above, we have assumed continuing compliance with the tax covenants referred to above that must be met after the issuance of the 2010 Junior Bonds in order that interest on the 2010 Junior Bonds not be included in gross income for federal tax purposes.

We are of the opinion that interest on the Taxable Improvement Bonds is includible in gross income of the owners thereof for federal income tax purposes and therefore is not exempt from present federal income taxation. We express no opinion as to the exclusion of interest on the Taxable Improvement Bonds from gross income for Arizona income tax purposes. Ownership of the Taxable Improvement 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 arising with respect to the Taxable Improvement Bonds.

In rendering the foregoing opinions, we have assumed and relied upon compliance with the City's and the Corporation's covenants and the accuracy, which we have not independently verified, of the City's and the Corporation's representations and certifications contained in the transcript. The accuracy of those representations and certifications, and the City's and the Corporation's compliance with those covenants, may be necessary for the interest on the Tax-Exempt Bonds to be and remain excluded from gross income for federal and State income tax purposes and for certain of the other tax effects stated above. Failure to comply with certain requirements subsequent to issuance of the Tax-Exempt Bonds could cause interest on the Tax-Exempt Bonds to be included in gross income for federal and State income tax purposes retroactively to the date of issuance of the Tax-Exempt Bonds.

The rights of the owners of the Bonds and the enforceability of those rights 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.

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 revise 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.

Respectfully submitted,

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APPENDIX J

FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the *"Undertaking"*), dated September 1, 2010, is executed and delivered by the City of Phoenix, Arizona (the *"City"*), in connection with the issuance of $642,680,000 City of Phoenix Civic Improvement Corporation Junior Lien Airport Revenue Bonds, Series 2010A (the *"Tax-Exempt Improvement Bonds"*), $32,080,000 City of Phoenix Civic Improvement Corporation Junior Lien Airport Revenue Refunding Bonds, Series 2010C (the *"Refunding Bonds"* and together with the Tax-Exempt Improvement Bonds, the *"Tax-Exempt Bonds"*) and $21,345,000 Junior Lien Airport Revenue Bonds, Taxable Series 2010B (Recovery Zone Economic Development Bonds-Direct Payment) (the *"Taxable Improvement Bonds"* and, together with the Tax-Exempt Bonds, the *"2010 Junior Bonds"*). The 2010 Junior Bonds are being issued pursuant to a Trust Indenture, dated as of August 1, 2010 (the *"Indenture"*), 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 2010 Junior 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 2010 Junior Bonds at the time the 2010 Junior 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 2010 Junior 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 August 1, 2010, 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.

EMMA means the Electronic Municipal Market Access system of the MSRB. As of the date of this Undertaking, information regarding submissions to EMMA is available at http://emma.msrb.org.

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.

Participating Underwriter means each broker, dealer or municipal securities dealer acting as an underwriter in the primary offering of the 2010 Junior 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.

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 2010 Junior Bonds are as follows:

Tax-Exempt Improvement Bonds, Series 2010A

Maturity Date	CUSIP No.	Coupon	Maturity Date	CUSIP No.	Coupon
7/1/2013	71883MFW9	2.000%	7/1/2021	71883MGE8	4.000%
7/1/2013	71883MGQ1	3.000	7/1/2021	71883MGY4	5.000
7/1/2013	71883MHD9	4.000	7/1/2022	71883MGF5	5.000
7/1/2014	71883MFX7	3.000	7/1/2023	71883MGG3	5.000
7/1/2014	71883MGR9	5.000	7/1/2024	71883MGH1	5.000
7/1/2015	71883MFY5	4.000	7/1/2025	71883MGJ7	4.125
7/1/2015	71883MGS7	5.000	7/1/2025	71883MGZ1	5.000
7/1/2016	71883MFZ2	4.000	7/1/2026	71883MGK4	5.000
7/1/2016	71883MGT5	5.000	7/1/2027	71883MGL2	5.000
7/1/2017	71883MGA6	4.000	7/1/2028	71883MGM0	5.000
7/1/2017	71883MGU2	5.000	7/1/2029	71883MGN8	5.000
7/1/2018	71883MGB4	3.000	7/1/2030	71883MGP3	4.500
7/1/2018	71883MGV0	5.000	7/1/2030	71883MHF4	5.000
7/1/2019	71883MGC2	4.000	7/1/2031	71883MHA5	5.000
7/1/2019	71883MGW8	5.000	7/1/2033	71883MHB3	5.250
7/1/2020	71883MGD0	3.500	7/1/2034	71883MHC1	5.000
7/1/2020	71883MGX6	5.000	7/1/2040	71883MHE7	5.000

Taxable Improvement Bonds, Series 2010B
(Recovery Zone Economic Development Bonds-Direct Pay)

Maturity Date	CUSIP No.	Coupon
7/1/2040	71883MHG2	6.600%

Refunding Bonds, Series 2010C

Maturity Date	CUSIP No.	Coupon	Maturity Date	CUSIP No.	Coupon
7/1/2023	71883MHH0	5.000%	7/1/2025	71883MHK3	5.000%
7/1/2024	71883MHJ6	5.000			

The Final Official Statement relating to the 2010 Junior Bonds is dated August 11, 2010 (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 (in the form and by the dates set forth in *Exhibit I*) to the MSRB through EMMA. 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 Undertaking, 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 the MSRB through EMMA. Notwithstanding the foregoing, notice of optional or unscheduled redemption of any of the 2010 Junior Bonds or defeasance of any 2010 Junior Bonds need not be given under this Undertaking any earlier than the notice (if any) of such redemption or defeasance is given to the holders of the 2010 Junior Bonds pursuant to the Indenture.

6. *Duty to Update.* The City shall determine, in the manner it deems appropriate, the address of EMMA or such alternate repository specified by the MSRB 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 the MSRB through EMMA, 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 2010 Junior 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 holders of the 2010 Junior Bonds 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 Undertaking, 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 2010 Junior Bonds, as determined by parties unaffiliated with the City (such as the Trustee) or by approving vote of the holders of the 2010 Junior Bonds 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 2010 Junior Bonds under the City Purchase Agreement. The City shall give notice in a timely manner if such event occurs, to the MSRB through EMMA.

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 2010 Junior 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 Undertaking 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 David Cavazos
Its City Manager

By: ______________________________
Jeff DeWitt
Finance Director

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 of the type contained in the Final Official Statement under the following tables or captions: "   .

(1) Table 3 — "City of Phoenix Civic Improvement Corporation Senior Lien Airport Revenue Bonds Outstanding";

(2) Table 4 — "Historical PFC Collections" (most recently completed Fiscal Year);

(3) Table 5 — "PFC Approvals and Revenues";

(4) Table 7 — "Airlines Reporting Enplaned Passengers and Air Cargo" (most recently completed Fiscal Year);

(5) Table 8 — "Total Emplaned Passengers by Airline" (most recently completed Fiscal Year);

(6) "Aviation Capital Improvement Program" (most recent capital improvement program as of the most recently completed Fiscal Year, but excluding Table 10 and information incorporated by reference to Exhibit A-1 in "Appendix A — Report of the Airport Consultant");

(7) Table 11 — "Historical Average Cost Per Enplanement" (most recently completed Fiscal Year);

(8) Table 12 — "City of Phoenix Aviation Department Enterprise Fund Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances" (most recently completed Fiscal Year).

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 the MSRB through EMMA 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 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 the MSRB through EMMA, by February 1 of each year, commencing February 1, 2011, 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 the MSRB through EMMA 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 Undertaking, 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 Tax-Exempt Bonds
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
12. Failure to provide annual financial information as required