ANNUAL DISCLOSURE INFORMATION

Pertaining to

City of Portland, Oregon

First Lien Sewer System Revenue & Refunding Bonds:

$163,500,000	2004 Series A	Dated November 30, 2004
$93,080,000	2004 Series B	Dated November 30, 2004
$144,850,000	2005 Series A	Dated June 16, 2005
$177,845,000	2006 Series A	Dated May 25, 2006
$193,510,000	2007 Series A	Dated March 8, 2007
$333,015,000	2008 Series A	Dated April 17, 2008

Second Lien Sewer System Revenue & Refunding Bonds:

$87,135,000	2006 Series B	Dated May 25, 2006
$195,700,000	2008 Series B	Dated April 17, 2008
$407,850,000	2010 Series A	Dated August 19, 2010
$210,965,000	2013 Series A	Dated September 17, 2013

February 15, 2014

MATURITY SCHEDULES − FIRST LIEN BONDS:

$163,500,000 FIRST LIEN SEWER SYSTEM REVENUE BONDS, 2004 SERIES A DATED NOVEMBER 30, 2004

Due 1-Oct	Principal Amount	Interest Rate	CUSIP 736742
2014	$7,700,000	5.00%	KL 0
2015	8,090,000	5.00%	KM 8
2016	8,510,000	5.00%	KN 6
2017	8,900,000	4.00%	KP 1
2018	9,310,000	5.00%	KQ 9
2019	9,790,000	5.00%	KR 7
2020	10,290,000	5.00%	KS 5
2021	10,770,000	4.25%	KT 3
2022	11,290,000	5.00%	KU 0
2023	11,860,000	5.00%	KV 8
2024	12,470,000	5.00%	KW 6

$93,080,000 FIRST LIEN SEWER SYSTEM REVENUE REFUNDING BONDS, 2004 SERIES B DATED NOVEMBER 30, 2004

Due 1-Jun	Principal Amount	Interest Rate	CUSIP 736742
2014	$2,020,000	5.00%	LE 5
2015	2,125,000	5.00%	LF 2
2016	37,575,000	5.00%	LG 0
2017	39,480,000	5.00%	LH 8

MATURITY SCHEDULES − FIRST LIEN BONDS (continued):

$144,850,000 FIRST LIEN SEWER SYSTEM REVENUE REFUNDING BONDS, 2005 SERIES A
DATED JUNE 16, 2005

Due 1-Aug	Principal Amount	Interest Rate	CUSIP 736742
2018	$45,890,000	5.00%	MA 2
2019	48,250,000	5.00%	MB 0
2020	50,710,000	5.00%	MC 8

$177,845,000 FIRST LIEN SEWER SYSTEM REVENUE BONDS, 2006 SERIES A
DATED MAY 25, 2006

Due 1-Jun	Principal Amount	Interest Rate	CUSIP 736742
2014	$5,340,000	5.000%	MQ 7
2015	5,610,000	5.000%	MR 5
2016	5,890,000	5.000%	MS 3
2017	6,185,000	5.000%	MT 1
2018	6,495,000	5.000%	MU 8
2019	6,820,000	4.500%	MV 6
2020	7,125,000	4.500%	MW 4
2021	7,445,000	4.625%	MX 2
2022	7,790,000	4.625%	MY 0
2023	8,150,000	4.750%	MZ 7
2024	8,535,000	4.750%	NA 1
2025	8,945,000	4.750%	NB 9
2026	9,370,000	4.750%	NC 7
2027	9,810,000	4.500%	ND 5
2028	10,255,000	4.500%	NE 3
2029	10,715,000	4.500%	NF 0
**			
2031	22,900,000	4.500%	NH 6

MATURITY SCHEDULES − FIRST LIEN BONDS (continued):

$193,510,000 FIRST LIEN SEWER SYSTEM REVENUE REFUNDING BONDS, 2007 SERIES A
DATED MARCH 8, 2007

Due 1-Jun	Principal Amount	Interest Rate	CUSIP 736742
2014	$30,020,000	5.00%	PU 5
2015	31,530,000	5.00%	PV 3

$333,015,000 FIRST LIEN SEWER SYSTEM REVENUE AND REFUNDING BONDS, 2008 SERIES A
DATED APRIL 17, 2008

Due 15-Jun	Principal Amount	Interest Rate	CUSIP 736742
2014	$12,975,000	5.00%	QD2
2015	13,620,000	5.00%	QE0
2016	14,305,000	5.00%	QF7
2017	15,010,000	5.00%	QG5
2018	58,060,000	5.00%	QH3
2019	7,940,000	4.25%	QJ9
2020	8,275,000	4.25%	QK6
2021	8,630,000	4.25%	QL4
2022	8,995,000	4.50%	QM2
2023	9,400,000	4.50%	QN0
2024	9,820,000	4.75%	QP5
2025	10,290,000	4.75%	QQ3
2026	10,780,000	4.75%	QR1
2027	11,290,000	4.75%	QS9
2028	11,825,000	4.75%	QT7
2029	12,385,000	4.75%	QU4
2030	12,975,000	4.75%	QV2
**			
2033	42,740,000	4.75%	QY6

MATURITY SCHEDULES − SECOND LIEN BONDS:

$87,135,000 SECOND LIEN SEWER SYSTEM REVENUE BONDS, 2006 SERIES B DATED MAY 25, 2006

Due 1-Jun	Principal Amount	Interest Rate	CUSIP 736742
2014	$2,580,000	5.00%	NR 4
2015	2,705,000	5.00%	NS 2
2016	2,840,000	5.00%	NT 0
2017	2,985,000	5.00%	NU 7
2018	3,135,000	5.00%	NV 5
2019	3,290,000	5.00%	NW 3
2020	3,455,000	5.00%	NX 1
2021	3,625,000	5.00%	NY 9
2022	3,810,000	5.00%	NZ 6
2023	4,000,000	5.00%	PA 9
2024	4,200,000	5.00%	PB 7
2025	4,410,000	5.00%	PC 5
2026	4,630,000	5.00%	PD 3
2027	4,860,000	5.00%	PE 1
2028	5,105,000	5.00%	PF 8
**			
2031	16,815,000	4.50%	PJ 0

MATURITY SCHEDULES − SECOND LIEN BONDS (continued):

$195,700,000 SECOND LIEN SEWER SYSTEM REVENUE AND REFUNDING BONDS, 2008 SERIES B
DATED APRIL 17, 2008

Due 15-Jun	Principal Amount	Interest Rate	CUSIP 736742
2014	$1,625,000	5.00%	RE9
2015	1,705,000	5.00%	RF6
2016	1,790,000	5.00%	RG4
2017	1,880,000	5.00%	RH2
2018	1,975,000	5.00%	RJ8
2019	7,445,000	5.00%	RK5
2020	6,930,000	5.00%	RL3
2021	7,625,000	5.00%	RM1
2022	60,900,000	5.00%	RN9
2023	63,970,000	5.00%	RP4
2024	2,645,000	5.00%	RQ2
2025	2,780,000	5.00%	RR0
2026	2,920,000	5.00%	RS8
**			
2028	6,280,000	5.00%	RU3
**			
2030	6,920,000	5.00%	RW9
**			
2033	11,740,000	5.00%	RZ2

MATURITY SCHEDULES − SECOND LIEN BONDS (continued):

$407,850,000 SECOND LIEN SEWER SYSTEM REVENUE BONDS, 2010 SERIES A DATED AUGUST 19, 2010

Due 1-Jun	Principal Amount	Interest Rate	CUSIP 736742
2014	$9,950,000	5.00%	SV0
2015	10,440,000	5.00%	SW8
2016	10,960,000	5.00%	SX6
2017	11,510,000	5.00%	SY4
2018	12,090,000	5.00%	SZ1
2019	12,690,000	5.00%	TA5
2020	13,330,000	5.00%	TB3
2021	13,990,000	4.00%	TC1
2022	14,550,000	4.00%	TD9
2023	15,140,000	4.00%	TE7
2024	15,740,000	4.25%	TF4
2025	16,410,000	4.25%	TG2
2026	17,110,000	5.00%	TH0
2027	17,960,000	5.00%	TJ6
2028	18,860,000	5.00%	TK3
2029	19,800,000	5.00%	TL1
2030	20,790,000	5.00%	TM9
2031	21,830,000	5.00%	TN7
2032	22,930,000	5.00%	TP2
2033	24,070,000	5.00%	TQ0
2034	25,270,000	5.00%	TR8
2035	26,540,000	5.00%	TS6

MATURITY SCHEDULES − SECOND LIEN BONDS (continued):

$210,965,000 SECOND LIEN SEWER SYSTEM REVENUE BONDS, 2013 SERIES A
DATED SEPTEMBER 17, 2013

Due 1-Aug	Principal Amount	Interest Rate	CUSIP 736742
2014	$6,120,000	3.00%	TT4
2015	6,240,000	1.00%	TU1
2016	6,430,000	5.00%	TV9
2017	6,765,000	5.00%	TW7
2018	7,105,000	5.00%	TX5
2019	7,470,000	5.00%	TY3
2020	7,860,000	5.00%	TZ0
2021	8,260,000	5.00%	UA3
2022	8,685,000	5.00%	UB1
2023	13,250,000	5.00%	UC9
2024	6,190,000	5.00%	UD7
2025	6,510,000	5.00%	UE5
2026	6,840,000	5.00%	UF2
2027	7,160,000	4.00%	UG0
2028	7,450,000	4.00%	UH8
2029	7,795,000	5.00%	UJ4
2030	8,195,000	5.00%	UK1
2031	8,615,000	5.00%	UL9
2032	9,055,000	5.00%	UM7
2033	9,520,000	5.00%	UN5
2034	10,010,000	5.00%	UP0
2035	10,525,000	5.00%	UQ8
2036	11,060,000	5.00%	UR6
2037	11,630,000	5.00%	US4
2038	12,225,000	5.00%	UT2

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2008 Series B – Dated April 17, 2008

$407,850,000 Second Lien Sewer System Revenue Bonds
2010 Series A – Dated August 19, 2010

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2013 Series A – Dated September 17, 2013

Information Updated as of February 15, 2014

SEWER SYSTEM FINANCIAL AND OPERATING INFORMATION

FUND ACCOUNTING SYSTEM

The Bureau's financial reporting system is organized into five primary funds. These funds and their financial reporting purposes are described as follows.

Sewer System Operating Fund

The Sewer System Operating Fund provides for the day-to-day operation, maintenance and management of Bureau programs. All payments for Sewer System personnel, materials and services are made within the Sewer System Operating Fund, with reimbursement from the Sewer System Construction Fund (described below) for capital improvements. There are two sub-funds within the Sewer System Operating Fund. One is to account for Systems Development Charges in accordance with State law and the other serves as a debt service reserve for Oregon State Revolving Loan Fund loans.

Environmental Remediation Fund

The Environmental Remediation Fund has in the past supported the City's waste disposal site remediation activities and contributes funds to the Portland Harbor Superfund investigation. Beginning FY 2005-06, all expenditures for the Portland Harbor Superfund program occur in this fund, funded through a dedicated fee on sanitary and stormwater bills, and operating revenues of the Environmental Remediation Fund.

Sewer System Construction Fund

The Sewer System Construction Fund provides for the funding of Sewer System capital improvements, holding equity contributions and net bond proceeds until requested by the Sewer System Operating Fund for reimbursements of certain capital-related expenditures. As bond proceeds are being spent, they are segregated from other resources and held in a sub-fund within the Sewer System Construction Fund.

Sewer System Debt Redemption Fund

The Sewer System Debt Redemption Fund is a single fund that provides for payment of City debt incurred in conjunction with construction of Sewage System facilities. Cash funded reserves are held in sub-funds within the Sewer System Debt Redemption Fund.

Sewer System Rate Stabilization Fund

The Sewer System Rate Stabilization Fund allows for better financial management by enabling the City to level fluctuations in Sewer System revenues from year to year.

For financial reporting purposes, all of the above referenced funds (except the Environmental Remediation Fund) are included within the Sewage Disposal Fund, the financial statements of which are reported in the Appendix.

HISTORICAL REVENUES AND EXPENDITURES

The City has maintained Sewer System Gross Revenues sufficient to provide for all operating expenditures and debt service, and has met legal debt service coverage requirements. In addition to meeting these requirements, the City's Sewer System Gross Revenues have provided substantial cash to finance the capital improvement program ("CIP") in combination with federal grants and the proceeds of revenue bond sales. Historical results of the Bureau's financial operations are shown in the following table. Audited statements of revenues, expenditures, changes in retained earnings, and the audited balance sheet for the Sewer System Operating Fund are presented in the Appendix.

Table 1
CITY OF PORTLAND, OREGON
Sewer System
Historical Operating Results (1)

Fiscal Year	2008-09	2009-10	2010-11	2011-12	2012-13
(In thousands of dollars, except for debt service coverage)					
GROSS REVENUES (1)					
Total Operating Revenues (2)	$215,169	$223,774	$241,255	$251,854	$268,065
Interest Earnings	7,287	2,115	1,981	1,091	571
System Development Charges	7,791	4,566	5,431	9,138	12,949
Cash Transfers In -					
Rate Stabilization Fund (2)	10,000	9,750	29,500	18,585	7,550
Other Funds	1,331	1,234	2,225	2,095	3,391
TOTAL GROSS REVENUES	$241,578	$241,440	$280,391	$282,764	$292,525
OPERATING EXPENSES					
Operating Expenses (3)	$84,871	$87,213	$89,421	$93,966	$102,303
Cash Transfers Out -					
Rate Stabilization Fund (2)	0	0	0	0	0
TOTAL OPERATING EXPENSES	$84,871	$87,213	$89,421	$93,966	$102,303
NET REVENUES	$156,706	$154,227	$190,970	$187,969	$190,222
DEBT SERVICE					
First Lien Bonds	$90,026	$90,032	$97,804	$97,790	$97,806
Second Lien Bonds	$29,598	$28,504	$48,484	$49,092	$49,075
TOTAL DEBT SERVICE	$119,624	$118,536	$146,288	$146,881	$146,882
DEBT SERVICE COVERAGE (4)					
With Rate Stabilization Transfers					
First Lien Bonds	1.74x	1.71x	1.95x	1.92x	1.94x
First and Second Lien Bonds	1.31x	1.30x	1.31x	1.29x	1.30x
Without Rate Stabilization Transfers					
First Lien Bonds	1.63x	1.60x	1.65x	1.74x	1.87x
First and Second Lien Bonds	1.23x	1.22x	1.10x	1.16x	1.24x

Notes:

(1) As defined in the First Lien Bond Ordinance.
(2) Transfers from the Rate Stabilization Fund are used to balance coverage to the planning standard. The current planning standard for stabilized coverage is 1.50 times the annual debt service on the First Lien Bonds and 1.30 times combined annual debt service on First and Second Lien Bonds.
(3) Excluding depreciation expense.
(4) The debt service coverage shown may differ slightly from information that has been published in prior year City Comprehensive Annual Financial Reports as the result of corrections to prior year calculations. None of the corrections had a significant impact on coverage amounts.

Source: Bureau of Environmental Services.

USER CHARGE BILLING AND COLLECTION SYSTEM

Ratemaking and Authorization

Section 11-302 of the City Charter authorizes the City Council to fix fees and charges for connection to and use of the Sewer System. Sewer user fees and connection charges are formally reviewed every year by the Bureau. Rates required to support proposed activities and meet all obligations to bondholders under the Ordinance are submitted annually by the Director of the Bureau to the City Council for review and approval. No governmental approval, other than the City Council's, is required. The City Council approved an average increase to fees and charges of approximately 5.32 percent for FY 2013-14 in May 2013. Over the last 20 years, rate increases have averaged 6.6 percent annually.

Billings and Collections

Sewer System billings and collection services for retail customers are provided by the City's Water Bureau. Bills sent to customers include separate line items for water and Sewer System services. As of April 2013, Sewer System billings and collection services for retail customers are on a quarterly cycle for approximately 168,451 accounts, a bimonthly cycle for approximately 5,461 accounts, and on a monthly basis for 5,524 large user accounts. Bills sent to customers include separate line items for sewer, stormwater, and water services. For delinquent bills, the Water Bureau implements service shutoffs on behalf of the Bureau.

As of April 2013, there were 5,461 accounts receiving water from the Rockwood Water People's Utility District, or the Lorna Water District. Since they are not City water customers, there is no water shutoff option for collection of delinquent sewer bills for these customers. Past due balances currently total approximately $1.6 million for this group. Liens have been used for owner-occupied single family properties in the past.

Wholesale customers are billed at various times during a fiscal year ranging from bi-monthly to quarterly. As of June 30, 2013, no wholesale customer was delinquent with respect to billed charges.

Clean River Rewards Program

To reflect the contributions to stormwater management made by individuals who install stormwater facilities on site, the City Council directed the Bureau to develop a discount program for stormwater charges. That program, referred to as the Clean River Rewards Program, was implemented on October 30, 2006. It provides for up to a 35 percent discount on the stormwater portion of the bill for customers who manage all stormwater on-site.

In the nearly seven years since the Clean River Rewards Program was implemented, approximately 35,500 customers have registered for and are receiving discounts on their stormwater bills, which represents approximately 20 percent of the total customer base. Funding is provided by adjusting stormwater rates for all classes of customers upward to offset the revenue reductions from the stormwater discount program.

Low Income Discounts

In May of 1997 the City Council approved an expanded version of an existing low-income assistance program. For FY 2013-14, the bill discount is 46 percent of a typical low-income customer bill, which lowers sewer bills for eligible residential households by approximately $28.08 per month or $336.96 per year. Funding is provided by adjusting rates for all classes of customers upward to offset the revenue reductions from the low-income discount program. Total sewer revenue redistribution from low-income discount rates was $3.0 million for FY 2012-13.

Extra Strength Charges

Prior to 2012, the Bureau monitored and charged about 72 commercial/industrial customers for extra strength sanitary sewage discharges based upon samples taken and laboratory analysis of their sewage discharges. However, as many as 2,500 other customers are believed to have discharge strength significantly higher than the residential or baseline strength. Therefore the cost of treatment for the added loading from these customers historically has been borne by others.

The Bureau has developed a "class average" system of strength-based rates for commercial and industrial customers that will improve both customer equity and pollution prevention incentives. Apart from implementation costs, this is a revenue-neutral program, with the estimated $2.1 million collected in FY 2012-13 resulting in lower rates for other customers systemwide. The program also is intended to provide an economic incentive to customers to reduce grease discharges, which is important to the Bureau for both regulatory compliance and reduced maintenance costs.

Wholesale Rates

The City currently provides contractual services to one major wholesale customer, the City of Lake Oswego, Oregon, and several smaller wholesale customers, including county service districts and portions of two other cities. Each wholesale service contract provides for full cost recovery during the life of the contract. Charges to wholesale customers were $4,018,548 for FY 2012-13, which were approximately 1.37 percent of Gross Revenues.

Table 2
CITY OF PORTLAND, OREGON
Sewer System
Historical Monthly Rates and Charges (1)

Fiscal Year	2008-09	2009-10	2010-11	2011-12	2012-13
CUSTOMER CLASS					
Residential					
Sanitary Volume ($/ccf)	6.17	6.61	7.01	7.63	8.20
Impervious Area Charge ($/1000 sq. ft.)	8.07	8.64	9.42	9.65	10.18
Average Single-Family Monthly Bill($/account) (2)	46.89	50.15	53.33	56.52	59.57
Commercial					
Sanitary Volume ($/ccf)	6.347	6.743	7.135	7.719	8.181
Cooling (Clean) Water to Storm Sewer ($/ccf)	0.651	0.726	0.736	0.777	0.824
Impervious Area Charge ($/1000 sq. ft.)	8.77	9.25	10.00	10.30	10.77
Extra Strength					
Biochemical Oxygen Demand ($/lb.)	0.505	0.527	0.547	0.583	0.574
Suspended Solids ($/lb.)	0.603	0.639	0.667	0.711	0.696
Capital Charges					
Sanitary System Development Charge ($/EDU)	3,520	3,835	4,089	4,335	4,335
Year-to-Year Percentage Increase in Avg. Single-Family Monthly Bill (2)	5.7%	7.0%	6.4%	5.9%	5.4%

Notes:

(1) Abbreviations used in the table include the following: "ccf" (hundred cubic feet) and "EDU" (Equivalent Dwelling Units).
(2) Average bills have been restated to reflect average annual billed consumption, which is lower than winter average use.

Source: Bureau of Environmental Services.

Major Retail Users

The following table presents the top users of the Sewer System, as measured by user charges. The charges represent a combination of users' sanitary sewer and stormwater service accounts.

Table 3
CITY OF PORTLAND, OREGON
Sewer System
Largest Bureau Customers (FY 2012-13)

CUSTOMER	Total Sewer Charges	Percentage of Rate Revenues
Darigold Inc.	$2,195,072	0.85%
Oregon Health Sciences University (OHSU)	1,967,397	0.76
Portland Public Schools	1,952,082	0.75
Precision Castparts	1,788,383	0.69
Siltronic Corp.	1,443,279	0.56
Port of Portland	1,433,442	0.55
American Property Management	1,118,340	0.43
Portland State University	1,080,922	0.42
Fred Meyer Inc.	1,050,752	0.41
Swan Island Dairy	998,722	0.39
Total	$15,028,391	4.97%

Source: City of Portland.

UTILITY LICENSE FEE

The Utility License Fee is paid directly to the City's General Fund for the right to operate a public or private utility within the City. The fee is levied per City Code Chapter 7.14. The Bureau, the Water Bureau, and City-owned golf courses pay this fee along with private utilities such as cable, telephone, gas, and electric.

Currently, the utility license fee is not subject to regulation by State law and may be raised at the discretion of the City Council. The Utility License Fee is subordinated to the payment of debt service on the First Lien Bonds and Second Lien Bonds.

On September 1, 2004, the City Council voted to cap utility license fees for the water and sewer utilities at the FY 2004-05 budgeted levels until those levels represent five percent of retail utility revenues. Consequently, the Bureau's budgeted utility license fee payment has remained at $12.8 million since FY 2007-08. This was to continue until that amount represents five percent of utility revenues. After that time, utility license fee payments would grow again, but could not exceed five percent of utility revenues. In FY 2012-13, utility license fees payments exceeded the capped amount, totalling $12.83 million. In FY 2013-14, the utility license fees payments are projected to be $13.7 million.

OUTSTANDING SEWER SYSTEM DEBT

Revenue Bonds

The following table shows outstanding First and Second Lien Bonds as of February 15, 2014.

Table 4
CITY OF PORTLAND, OREGON
Sewer System
Outstanding First and Second Lien Bonds

Issue	Dated	Final Maturity	Original Par Amount	Amount Outstanding
First Lien Bonds				
2004 Series A Bonds	11/30/2004	10/1/2024	$163,500,000	$108,980,000
2004 Series B Bonds	11/30/2004	6/1/2017	93,080,000	81,200,000
2005 Series A Bonds	6/16/2005	8/1/2020	144,850,000	144,850,000
2006 Series A Bonds	5/25/2006	6/15/2031	177,845,000	147,380,000
2007 Series A Bonds	3/8/2007	6/1/2015	193,510,000	61,550,000
2008 Series A Bonds	4/17/2008	6/15/2033	333,015,000	279,315,000
			$1,105,800,000	$823,275,000
Second Lien Bonds				
2006 Series B Bonds	5/25/2006	6/15/2031	$87,135,000	$72,445,000
2008 Series B Bonds	4/17/2008	6/15/2033	195,700,000	189,130,000
2010 Series A Bonds	8/19/2010	3/1/2035	407,850,000	371,960,000
2013 Series A Bonds	9/17/2013	8/1/2038	210,965,000	210,965,000
Subtotal			$901,650,000	$844,500,000
Total			$2,007,450,000	$1,667,775,000

Source: City of Portland.

The following table shows the Sewer System's annual debt service requirements associated with outstanding First Lien Bonds and Second Lien Bonds.

Table 5
CITY OF PORTLAND, OREGON
SEWER SYSTEM REVENUE BONDS
Annual Debt Service Requirements (1)

Fiscal Year Ending 30-Jun	First Lien Bond Debt Service	Second Lien Bond Debt Service	Total First and Second Lien Bond Debt Service
2014	$97,785,644	$48,803,195	$146,588,839
2015	97,802,394	61,115,350	158,917,744
2016	100,038,394	61,109,850	161,148,244
2017	100,059,894	61,113,400	161,173,294
2018	100,905,394	61,124,775	162,030,169
2019	92,624,644	66,483,025	159,107,669
2020	92,629,294	65,602,400	158,231,694
2021	92,615,981	65,948,400	158,564,381
2022	40,631,013	118,843,300	159,474,313
2023	40,639,838	118,877,175	159,517,013
2024	40,625,963	58,364,700	98,990,663
2025	40,635,850	50,822,500	91,458,350
2026	27,855,438	50,828,075	78,683,513
2027	27,848,313	50,816,325	78,664,638
2028	27,850,588	50,822,875	78,673,463
2029	27,847,425	50,816,675	78,664,100
2030	27,851,963	50,817,850	78,669,813
2031	27,846,650	50,824,350	78,671,000
2032	15,619,625	44,712,875	60,332,500
2033	15,623,463	44,704,125	60,327,588
2034	-	40,391,000	40,391,000
2035	-	40,399,250	40,399,250
2036	-	12,533,875	12,533,875
2037	-	12,529,250	12,529,250
2038	-	12,532,000	12,532,000
2039	-	12,530,625	12,530,625
TOTAL	$1,135,337,768	$1,363,467,220	$2,498,804,988

Notes:

(1) Totals may not sum due to rounding.

Source: City of Portland.

NATIONAL/MBIA-INSURED BONDS

The City has purchased financial guaranty insurance policies issued by the MBIA Insurance Corporation ("MBIA") for various issues and maturities of Sewer System Revenue Bonds. Since the date of issue, MBIA has been restructured. The insurer for these bonds is now National Public Finance Guarantee Corporation ("National").

The financial guaranty insurance policies provide for payment of the principal and interest on certain maturities of the City's First Lien Sewer System Revenue Bonds, 2006 Series A, and the First Lien Sewer System Revenue Refunding Bonds, 2007 Series A (collectively the "First Lien National/MBIA-Insured Bonds"); and the Second Lien Sewer System Revenue Bonds, 2006 Series B (the "Second Lien National-Insured Bonds").

As of the date of this Annual Disclosure document, the underlying ratings on the First Lien National/MBIA-Insured Bonds are Aa2/AA by Moody's Investors Service and Standard and Poor's, respectively, which are higher than the National ratings of Baa2/BBB. The underlying ratings on the Second Lien National/MBIA-Insured Bonds are Aa3/AA by Moody's Investors Service and Standard and Poor's, respectively, which also are higher than the National ratings. According to Moody's rating of MBIA on December 19, 2011, "Moody's ratings on securities that are guaranteed or "wrapped" by a financial guarantor are generally maintained at a level equal to the higher of the following: a) the rating of the guarantor (if rated at the investment grade level); or b) the published underlying rating (and for structured securities, the outlined in Moody's special comment entitled 'Assignment of Wrapped Ratings When Financial Guarantor Falls Below Investment Grade' (May, 2008); and Moody's November 10, 2008 announcement entitled 'Moody's Modifies Approach to Rating Structured Finance Securities Wrapped by Financial Guarantors'." According to Standard and Poor's publication titled, '*The Interaction of Bond Insurance and Credit Ratings*', dated August 24, 2009, "When we have assigned a Standard and Poor's underlying ratings ("SPUR"), the issue credit rating on a fully insured bond issue is the higher of the bond insurance provider's rating or the SPUR."

The affected maturities are listed in Table 6 below.

Table 6
CITY OF PORTLAND, OREGON
First Lien National/MBIA-Insured and Second Lien National/MBIA-Insured Bonds

First Lien Sewer System Revenue Bonds,
2006 Series A – Dated May 25, 2006

Due 1-Jun	Principal Amount	Interest Rate	CUSIP 736742
2014	$5,340,000	5.000%	MQ 7
2015	5,610,000	5.000%	MR 5
2016	5,890,000	5.000%	MS 3
2017	6,185,000	5.000%	MT 1
2018	6,495,000	5.000%	MU 8
2019	6,820,000	4.500%	MV 6
2020	7,125,000	4.500%	MW 4
2021	7,445,000	4.625%	MX 2
2022	7,790,000	4.625%	MY 0
2023	8,150,000	4.750%	MZ 7
2024	8,535,000	4.750%	NA 1
2025	8,945,000	4.750%	NB 9
2026	9,370,000	4.750%	NC 7
2027	9,810,000	4.500%	ND 5
2028	10,255,000	4.500%	NE 3
2029	10,715,000	4.500%	NF 0
**			
2031	22,900,000	4.500%	NH 6

Table 6 (continued)
CITY OF PORTLAND, OREGON
First Lien National/MBIA-Insured and Second Lien National/MBIA-Insured Bonds

First Lien Sewer System Revenue Refunding Bonds,
2007 Series A – Dated March 8, 2007

Due 1-Jun	Principal Amount	Interest Rate	CUSIP 736742
2014	$30,020,000	5.00%	PU 5
2015	31,530,000	5.00%	PV 3

Second Lien Sewer System Revenue Bonds,
2006 Series B – Dated May 25, 2006

Due 1-Jun	Principal Amount	Interest Rate	CUSIP 736742
2014	$2,580,000	5.00%	NR 4
2015	2,705,000	5.00%	NS 2
2016	2,840,000	5.00%	NT 0
2017	2,985,000	5.00%	NU 7
2018	3,135,000	5.00%	NV 5
2019	3,290,000	5.00%	NW 3
2020	3,455,000	5.00%	NX 1
2021	3,625,000	5.00%	NY 9
2022	3,810,000	5.00%	NZ 6
2023	4,000,000	5.00%	PA 9
2024	4,200,000	5.00%	PB 7
2025	4,410,000	5.00%	PC 5
2026	4,630,000	5.00%	PD 3
2027	4,860,000	5.00%	PE 1
2028	5,105,000	5.00%	PF 8
**			
2031	16,815,000	4.50%	PJ 0

Source: City of Portland.

AGM/FSA-INSURED BONDS

The City has purchased financial guaranty insurance policies issued by Financial Security Assurance, Inc. ("FSA") for various issues and maturities of Sewer System Revenue Bonds. In July 2009, Assured Guaranty acquired FSA and the insurer for these bonds is now Assured Guaranty Municipal Corp. ("AGM").

The financial guaranty insurance policies provide for payment of the principal and interest on certain maturities of the City's First Lien Sewer System Revenue Bonds, 2004 Series A, the First Lien Sewer System Revenue Refunding Bonds, 2004 Series B, the First Lien Sewer System Revenue Refunding Bonds, 2005 Series A, and the First Lien Sewer System Revenue and Refunding Bonds, 2008 Series A (collectively, the "First Lien AGM/FSA-Insured Bonds"); and the Second Lien Sewer System Revenue and Refunding Bonds, 2003 Series A, and the Second Lien Sewer System Revenue and Refunding Bonds, 2008 Series B (collectively, the "Second Lien AGM/FSA-Insured Bonds").

As of the date of this Annual Disclosure document, the underlying ratings on the First Lien AGM/FSA-Insured Bonds are Aa2/AA by Moody's Investors Service and Standard and Poor's, respectively, which are above the AGM ratings of A2/AA-. The underlying ratings on the Second Lien AGM/FSA-Insured Bonds are Aa3/AA by Moody's Investors Service and Standard and Poor's, respectively, which are above the AGM ratings. According to Moody's rating of AGM on January 17, 2013, "Moody's ratings on securities that are guaranteed or "wrapped" by a financial guarantor are generally maintained at a level equal to the higher of the following: a) the rating of the guarantor (if rated at the investment grade level); or b) the published or unpublished underlying rating (and for structured securities, the published or unpublished underlying rating). Moody's approach to rating wrapped transactions is outlined in Moody's special comment entitled 'Assignment of Wrapped Ratings When Financial Guarantor Falls Below Investment Grade' (May, 2008); and Moody's November 10, 2008 announcement entitled 'Moody's Modifies Approach to Rating Structured Finance Securities Wrapped by Financial Guarantors'." According to Standard and Poor's publication titled, '*The Interaction of Bond Insurance and Credit Ratings*', dated August 24, 2009, "When we have assigned a Standard and Poor's underlying ratings ("SPUR"), the issue credit rating on a fully insured bond issue is the higher of the bond insurance provider's rating or the SPUR."

The affected maturities are listed in Table 7 below.

Table 7
CITY OF PORTLAND, OREGON
First Lien AGM/FSA-Insured and Second Lien AGM/FSA-Insured Bonds

First Lien Sewer System Revenue Bonds,
2004 Series A – Dated November 30, 2004

Due 1-Oct	Principal Amount	Interest Rate	CUSIP 736742
2014	$7,700,000	5.00%	KL 0
2015	8,090,000	5.00%	KM 8
2016	8,510,000	5.00%	KN 6
2017	8,900,000	4.00%	KP 1
2018	9,310,000	5.00%	KQ 9
2019	9,790,000	5.00%	KR 7
2020	10,290,000	5.00%	KS 5
2021	10,770,000	4.25%	KT 3
2022	11,290,000	5.00%	KU 0
2023	11,860,000	5.00%	KV 8
2024	12,470,000	5.00%	KW 6

Table 7 (continued)
CITY OF PORTLAND, OREGON
First Lien AGM/FSA-Insured and Second Lien AGM/FSA-Insured Bonds

First Lien Sewer System Revenue Refunding Bonds,
2004 Series B – Dated November 30, 2004

Due 1-Jun	Principal Amount	Interest Rate	CUSIP 736742
2014	$2,020,000	5.00%	LE 5
2015	2,125,000	5.00%	LF 2
2016	37,575,000	5.00%	LG 0
2017	39,480,000	5.00%	LH 8

First Lien Sewer System Revenue Refunding Bonds,
2005 Series A – Dated June 16, 2005

Due 1-Aug	Principal Amount	Interest Rate	CUSIP 736742
2018	$45,890,000	5.00%	MA 2
2019	48,250,000	5.00%	MB 0
2020	50,710,000	5.00%	MC 8

First Lien Sewer System Revenue and Refunding Bonds
2008 Series A – Dated April 17, 2008

Due 15-Jun	Principal Amount	Interest Rate	CUSIP 736742
2014	$12,975,000	5.00%	QD2
2015	13,620,000	5.00%	QE0
2016	14,305,000	5.00%	QF7
2017	15,010,000	5.00%	QG5

Table 7 (continued)
CITY OF PORTLAND, OREGON
First Lien AGM/FSA-Insured and Second Lien AGM/FSA-Insured Bonds

Second Lien Sewer System Revenue and Refunding Bonds
2008 Series B– Dated April 17, 2008

Due 15-Jun	Principal Amount	Interest Rate	CUSIP 736742
2013	$1,545,000	5.00%	RD1
2014	1,625,000	5.00%	RE9
2015	1,705,000	5.00%	RF6
2016	1,790,000	5.00%	RG4
2017	1,880,000	5.00%	RH2
2018	1,975,000	5.00%	RJ8
2019	7,445,000	5.00%	RK5
2020	6,930,000	5.00%	RL3
2021	7,625,000	5.00%	RM1
2022	60,900,000	5.00%	RN9
2023	63,970,000	5.00%	RP4

Source: City of Portland.

RESERVE ACCOUNTS, RESERVE EQUIVALENTS AND RESERVE CREDIT FACILITIES

First Lien Bond Reserve Account

The First Lien Bond Reserve Account is a pooled reserve account that secures all currently outstanding First Lien Bonds. The First Lien Bond Reserve Account is fully funded with "First Lien Bond Reserve Equivalents" and contains no cash and investments, as shown in the table below. The First Lien Bond Required Reserve is currently approximately $70.0 million. The current balance in the First Lien Bond Reserve Account, which is the aggregate face amount of First Lien Bond Reserve Equivalents, is approximately $88.2 million.

Table 8
CITY OF PORTLAND, OREGON
First Lien Bond Reserve Account (1)

Series of Bonds Secured	Date of Issue	Maturity Date	Surety Provider	Surety Face Value	Ratings (4)
2004 Series A	11/30/2004	10/01/2024	AGM (2)	$12,789,475	A2/AA-
2004 Series B	11/30/2004	06/01/2017	AGM (2)	9,308,000	A2/AA-
2005 Series A	06/16/2005	08/01/2020	AGM(2)	14,485,000	A2/AA-
2006 Series A	05/25/2006	06/15/2031	NPFG (3)	12,230,744	Baa1/A
2007 Series A	03/08/2007	06/01/2015	NPFG (3)	21,137,600	Baa1/A
2008 Series A	04/17/2008	06/15/2033	AGM (2)	18,280,050	A2/AA-

Notes:

(1) As of February 15, 2014.

(2) The City purchased Reserve Equivalents from Financial Security Assurance Inc. to fund the First Lien Required Reserve. In July 2009, Assured Guaranty acquired FSA and the surety bond provider for these bonds is now Assured Guaranty Municipal Corp. ("AGM")

(3) The City has purchased Reserve Equivalents from MBIA Insurance Corporation ("MBIA") to fund the First Lien Required Reserve. Since the date of issue, MBIA has been restructured. The surety provider for these bonds is now National Public Finance Guarantee Corporation ("NPFG").

(4) Ratings for surety providers are from Moody's Investors Service and Standard and Poor's, respectively.

Source: City of Portland.

The City is required to maintain a balance in the First Lien Bond Reserve Account that is equal to the First Lien Bond Required Reserve. The "First Lien Bond Required Reserve" is the lesser of: the maximum annual debt service on all outstanding First Lien Bonds; one hundred twenty-five percent of average annual debt service on all outstanding First Lien Bonds; or ten percent of the proceeds of all outstanding issues of First Lien Bonds (as the term "proceeds" is used in Section 148(d) of the Code).

The First Lien Bond Ordinance provides that the First Lien Bond Reserve Account is deemed to contain the amount available to be paid under First Lien Bond Reserve Equivalents. The City currently believes that it could draw the full face amount under all First Lien Bond Reserve Equivalents shown in Table 8.

Second Lien Bond Reserve Account

The Second Lien Bond Reserve Account consists of subaccounts that secure different Series of Second Lien Bonds. All of the subaccounts are fully funded. The subaccounts in the Second Lien Bond Reserve Account for the Second Lien Sewer System Revenue Bonds, 2006 Series B and the Second Lien Sewer System Revenue and Refunding Bonds, 2008 Series B currently contain the Reserve Credit Facilities shown in the following table. The subaccounts in the Second Lien Bond Reserve Account for the Second Lien Sewer System Revenue Bonds, 2010 Series A and the Second Lien Sewer System Revenue Bonds, 2013 Series A contain cash or investments.

Table 9
CITY OF PORTLAND, OREGON
Funding of Second Lien Bond Reserve Subaccounts (1)

Series of Bonds Secured	Date of Issue	Maturity Date	Surety Provider/ Cash	Surety Face Value/ Cash	Ratings (4)
2006 Series B	05/25/2006	6/15/2031	NPFG (2)	$6,118,475	Baa1/A
2008 Series B	04/17/2008	6/15/2033	AGM (3)	17,028,836	A2/AA-
2010 Series A	08/19/2010	3/1/2035	Cash	27,870,500 (5)	N/A
2013 Series A	09/17/2013	8/1/2038	Cash	17,905,146 (6)	N/A

Notes:

(1) As of February 15, 2014.

(2) The City purchased Reserve Credit Facilities from Financial Security Assurance Inc. to fund the Second Lien Bond Reserve Requirement for the 2006 Series B Bonds. In July 2009, Assured Guaranty acquired FSA and the surety bond provider for these bonds is now Assured Guaranty Municipal Corp. ("AGM")

(3) The City has purchased a Reserve Credit Facility from MBIA Insurance Corporation ("MBIA") to fund the Second Lien Bond Reserve Requirement for the 2008 Series B Bonds. Since the date of issue, MBIA has been restructured. The surety provider for these bonds is now National Public Finance Guarantee Corporation ("NPFG").

(4) Ratings for surety providers are from Moody's Investors Service and Standard and Poor's, respectively.

(5) 2010 Series A Reserve Subaccount funded at the maximum annual debt service for that Series of Second Lien Bonds as of the issue date.

(6) 2013 Series A Reserve Subaccount funded at 125 percent of average annual debt service for that Series of Second Lien Bonds as of the issue date.

Source: City of Portland.

The Master Second Lien Bond Declaration provides that each subaccount in the Second Lien Bond Reserve Account is deemed to contain the amount available to be paid under all Reserve Equivalents that are credited to that subaccount. The City currently believes that the amount available to be paid under each Reserve Equivalent shown in Table 9 is equal to its full face amount.

PORTLAND PUBLIC WATER DISTRICT INITIATIVE

A citizen group, Portlanders for Water Reform, has expressed concern about recent utility rate increases, operational decisions, and spending priorities, and is sponsoring an initiative petition to refer a measure to amend the City Charter. The petition must obtain 29,786 signatures from eligible City voters by January 21, 2014, in order to be placed on the ballot for the May 20, 2014 election. On February 6, 2014, the City's Auditor's Office received statistical sampling reports from the Multnomah County Elections Office which estimate that the petition has 32,858 valid signatures of Portland registered voters and therefore qualifies for the ballot. Oregon law allows the measure to be approved by a majority of City voters who vote on the measure. If approved, the measure would transfer authority to operate and manage the City's sewer and water systems from the City Council to the "Portland Public Water District," a separate group that would be formed as part of the City but governed by a new, elected, seven-member board, and would take effect on January 1, 2015.

The City cannot predict whether City voters will approve the ballot measure; however, if the measure is approved by a majority of City voters who cast ballots:

A. The Portland Public Water District would be legally obligated to operate the water and sewer systems in compliance with all bond covenants made by the City before the creation of the Portland Public Water District, including covenants related to the Bonds issued under the First Lien Bond Ordinance and the Master Second Lien Bond Declaration and their related supplemental bond declarations; and,

B. The Portland Public Water District would not be obligated to comply with current internal planning and management standards for the water and sewer systems.

The City cannot predict how the measure, if approved, would affect future operational and financial decisions related to the sewer and water systems other than as required by bond covenants.

CITY FINANCIAL AND OPERATING INFORMATION

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OVERVIEW OF FINANCIAL OPERATIONS

Basis of Accounting

The governmental fund types, expendable trust funds, and agency funds are maintained on the modified accrual basis of accounting. The accrual basis of accounting is used for all enterprise funds. The City's accounting practices conform to generally accepted accounting principles as interpreted by the Governmental Accounting Standards Board (the "GASB").

Fiscal Year

July 1 to June 30.

Audits

The Oregon Municipal Audit Law (ORS 297.405 - 297.555) requires an audit and examination be made of the accounts and financial affairs of every municipal corporation at least once each year. The audit shall be made by accountants whose names are included on the roster prepared by the State Board of Accountancy. Moss Adams LLP has performed auditing services for FY 2002-03 through FY 2012-13.

A complete copy of the City's FY 2012-13 audit is available on the City's web site at http://www.portlandoregon.gov/bfs/64083. The City's web site is listed for reference only, and is not part of this Annual Disclosure document. Excerpts of the City's audited financial statements for the City's General Fund on a Generally Accepted Accounting Principles (GAAP) basis are found in the Appendix.

Financial Reporting

The City has received the Government Finance Officers Association's ("GFOA") Certificate of Achievement for Excellence in Financial Reporting every year since 1982. According to GFOA, the Certificate of Achievement is "the highest form of recognition in the area of governmental financial reporting." To be awarded the certificate, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose content conforms to program requirements and satisfies both generally accepted accounting principles and applicable legal requirements.

CITY BUDGET PROCESS

The City prepares annual budgets for all its bureaus and funds in accordance with provisions of Oregon Local Budget Law. The law provides standard procedures for the preparation, presentation, administration, and public notice for public sector budgets. At the outset of the process, the Mayor or the full City Council reviews overall goals, establishes priorities, and provides direction to bureaus. The Council conducts an extensive public information process to obtain direct public input on City service priorities, and most bureaus include key stakeholders in developing their budget requests.

In addition to this public outreach process, the City created the Portland Utilities Review Board (the "PURB") in 1994. The PURB, an appointed body of nine interested citizens who provide independent and representative customer review of water, sewer, stormwater, and solid waste financial plans and rates, operates in an advisory capacity to Council. In January 2014, the City Council approved a five-year contract with the Citizens' Utility Board of Oregon, an independent consumer advocacy nonprofit organization, to provide input regarding the City's water and sewer bureaus on behalf of residential customers. The Citizens' Utility Board will provide recommendations to the City Council on capital spending, rates, and customer service issues.

A five-year General Fund financial forecast, which serves as the basis for determining resources available for budgeting, is also provided to the City Council along with budget requests. Major City bureaus generally prepare and submit five-year financial plans and Capital Improvement Plans. The City Budget Office, which was created by the City Council in December 2012, coordinates the budget development process

Bureau budget requests are reviewed by the Mayor and Council members, as well as a panel of community advisors. The Mayor develops a Proposed Budget that addresses City Council priorities, public input, and balancing requirements. Following presentation of the Proposed Budget, a community hearing is scheduled wherein public testimony is taken. A budget summary and notice of hearing are published prior to the hearings. The City Council, sitting as the Budget Committee, considers the testimony from the community and can alter the budget proposal before voting to approve the budget.

The City Council transmits the Approved Budget to the Tax Supervising and Conservation Commission (the "TSCC"), an oversight board appointed by the governor, for public hearing and review for compliance with budget law. Upon certification by the TSCC, the City Council holds a final public hearing prior to adoption. Final adoption of the City's budget is required to be through a vote of the Council no later than June 30. All committee meetings and budget hearings are open to the public.

INSURANCE

The City is self-insured for workers' compensation, general liability claims and certain employees' medical coverage in internal service funds. The Oregon Tort Claims Act (ORS 30.260 to 30.300) limits certain claims against the City for personal injury, death and property damage or destruction as described below. Claims under federal jurisdiction are not subject to such limitations.

The City estimates liability for incurred losses for reported and unreported claims for workers' compensation, general and fleet liability and employee medical coverage (included in accrued self insurance claims in the combined statement of net assets). Workers' compensation, general and fleet liability estimates are primarily based on individual case estimates for reported claims and through historical data for unreported claims as determined by the City's Risk Management Services and independent actuarial studies. Liabilities are based on estimated ultimate cost of settling claims, including effects of inflation and other societal and economic factors. Estimated liability is then discounted by the City's expected rate of return and anticipated timing of cash outlays to determine present value of the liability. For fiscal year ending June 30, 2014 the expected rate of return used was 0.40 percent. For fiscal year ending June 30, 2015, the expected rate of return used was 0.50 percent and for subsequent years, the expected rate of return was 0.60 percent. The Bureau of Human Resources and the employee benefits consultant determines relevant employees' medical coverage estimates.

The City provides insurance coverage that the City deems to be adequate, appropriate, and actuarially sound to meet the City's anticipated settlements, obligations and outstanding liabilities as described above. Current levels of accrued claims and retained earnings are viewed as reasonable provisions for expected future losses. An excess liability coverage insurance policy covers occurrences in excess of $1,000,000 to policy limits for covered loss excluding law enforcement liability. Effective November 12, 2013, the excess liability for law enforcement requires a $2.5 million retention before insurance begins coverage. An excess workers' compensation coverage insurance policy covers claims in excess of $850,000 for occurrences after July 1, 2012. The City purchases commercial insurance for claims in excess of coverage provided by the self-insurance fund.

Personal Injury and Death Claim

Under ORS 30.272, the liability of a local public body and its officers, employees and agents acting within the scope of their employment or duties, to any single claimant for covered personal injury or death claims (and not property claims) arising out of a single accident or occurrence may not exceed $633,300 for causes of action arising on or after July 1, 2013, and before July 1, 2014. This cap increases incrementally through June 30, 2015, to $666,700. The liability limits to all claimants for covered personal injury or death claims (and not property claims) arising from a single accident or occurrence increases to $1,266,700 for causes of action arising on or after July 1, 2013, and before July 1, 2014, and incrementally to $1,333,300 through June 30, 2015.

For causes of action arising on or after July 1, 2015, the liability limits for both a single claimant and all claimants will be adjusted based on a determination by a State Court Administrator of the percentage increase or decrease in the cost of living for the previous calendar year as provided in the formula in ORS 30.272. The adjustment may not exceed three percent for any year.

Property Damage or Destruction Claim

Under ORS 30.273, the liability of a public body and its officers, employees and agents acting within the scope of their employment or duties, for covered claims for damage and destruction of property that arise from causes of action arising on or after July 1, 2013, and before July 1, 2014, are as follows: (a) $106,700 for any single claimant and (b) $533,400 to all claimants. These liability limits are adjusted based on a determination by a State Court Administrator of the percentage increase or decrease in the cost of living for the previous calendar year as provided in the formula in ORS 30.273. The adjustment may not exceed three percent for any year.

PENSION PLANS

Overview

The Oregon Public Employees Retirement System ("PERS" or "the Statewide PERS System") provides statewide defined benefit retirement plans for units of state government, political subdivisions, community colleges, and school districts. Most public employers in Oregon, including the City, participate in PERS. PERS is administered under Oregon Revised Statutes (ORS) Chapter 238, Chapter 238A, and Internal Revenue Code Section 401(a) by the Public Employees Retirement Board (the "PERS Board"). The PERS Board is responsible for setting policies and for providing administrative direction to PERS. Benefits provided through PERS are paid from the Oregon Public Employees' Retirement Fund ("OPERF"). PERS is a cost-sharing, multiple-employer public employee retirement system.

City employees (other than certain fire and police personnel), after six months of employment, participate in one of three retirement pension benefit programs provided through PERS as described below. The three PERS pension programs include two closed defined benefit programs and one program that has features of both defined benefit and defined contribution plans. In a defined benefit plan, the investment risk for the plan assets is borne by the employer. In a defined contribution plan, the investment risk for the plan assets is borne by the employee. A combination of participating employer contributions (determined by the PERS Board based upon the results of actuarial valuations), investment earnings and employee contributions (currently 6 percent of salaries and 9 percent for police and fire employees) fund these pension programs. See "—Employer Contribution Rates and Amounts" and "—Fire and Police Disability and Retirement Plan" below.

Benefit Programs

Employees hired before January 1, 1996 are known as "Tier 1" participants. The retirement benefits applicable to Tier 1 participants are based on a defined benefit model. Tier 1 has an assumed earnings rate guarantee of 7.75 percent and a normal retirement age of 58. PERS maintains a "Tier One Rate Guarantee Reserve" which is credited with investment earnings in excess of the assumed earnings rate guarantee and used to offset the effects of investment earnings below the assumed earnings rate guarantee. As of June 30, 2013, the balance of this reserve was negative $0.3 million. As of June 30, 2013, there were 39,554 active members and 19,160 inactive members for a total of 58,714 Tier 1 members in the Statewide PERS System.

Employees hired on or after January 1, 1996, and before August 29, 2003, are known as "Tier 2" participants. The Tier 2 program also provides a defined benefit but with lower expected costs to employers than under the Tier 1 benefit. There is no assumed earnings rate guarantee and Tier 2 has a higher normal retirement age of 60. As of June 30, 2013, there were 45,190 active members and 16,889 inactive members for a total of 62,079 Tier 2 members in the Statewide PERS System.

Employees hired on or after August 29, 2003 are participants in a successor retirement program to the Tier 1 and Tier 2 retirement programs (the "T1/T2 Pension Programs") known as the Oregon Public Service Retirement Plan ("OPSRP"). OPSRP consists of a defined benefit plan and also offers the Individual Account Program ("IAP"), which offers a defined contribution benefit. As of June 30, 2013, there were 78,515 active members and 8,770 inactive members for a total of 87,285 OPSRP Pension Program members.

Effective January 1, 2004, all active Tier 1 and Tier 2 employees also became members of the IAP. Tier 1 and Tier 2 employees retain their existing T1/T2 Pension Program account, but member contributions are now deposited into the member's IAP account, not into the member's PERS account.

Apportionment of City Assets and Liabilities

The City is pooled with the State of Oregon and other Oregon local government and community college public employers for its T1/T2 Pension Programs (the "State and Local Government Rate Pool" or "SLGRP"), and the SLGRP's assets and liabilities are pooled. These assets and liabilities are not tracked or calculated on an employer basis or allocated to individual employers. The City's portion of the SLGRP's assets and liabilities is based on the City's proportionate share of SLGRP's pooled covered payroll. OPSRP's assets and liabilities are pooled on a program-wide basis. These assets and liabilities are not tracked or calculated on an employer basis or allocated to individual employers. The City's share of OPSRP's assets and liabilities is based on the City's proportionate share of OPSRP's pooled covered payroll. The City's proportionate liability of the T1/T2 Pension Programs and OPSRP may increase if other pool participants fail to pay their full employer contributions.

Employer Asset Valuation and Liabilities

Oregon statutes require an actuarial valuation of the Statewide PERS System by a competent actuary at least once every two years. The PERS current actuary, Milliman, Inc. replaced the prior actuary, Mercer (US), Inc. ("Mercer") in January 2012. Under current practice, actuarial valuations are performed annually, but only valuations as of the end of each odd-numbered year are used to determine annual required employer contribution rates that employers will be required to pay to fund the obligations of T1/T2 Pension Programs, OPSRP and the PERS-sponsored Retirement Health Insurance Account Plan ("RHIA"). See "POST-EMPLOYMENT RETIREMENT BENEFITS" below. Valuations are released approximately one year after the valuation date.

An employer's unfunded actuarial liability ("UAL") is the excess of the actuarially determined present value of the employer's benefit obligations to employees over the existing actuarially determined assets available to pay those benefits. At its September 27, 2013 meeting, the PERS Board modified certain methods and assumptions, which are used beginning for the 2012 actuarial valuations. The following table shows methods and assumptions adopted by the PERS Board, which are the basis for the actuarial valuations.

Table 10
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
Actuarial Assumptions and Methods

ASSUMPTION/METHOD	PREVIOUS (2004-2011 VALUATIONS)	CURRENT (2012 VALUATION)
Actuarial Cost Method:	Projected Unit Credit	Entry Age Normal
UAL Method:		
T1/T2 Programs	Level Percentage of Payroll over 20 years (fixed)	Level Percentage of Payroll over 20 years (fixed) (1)
OPSRP	Level Percentage of Payroll over 16 years (fixed)	Level Percentage of Payroll over 16 years (fixed)
Asset Valuation Method:	Market Value (2)	Market Value (2)
Investment Rate of Return:	8.00%	7.75%
Payroll Growth Rate:	3.75%	3.75%
Inflation Level:	2.75%	2.75%
Contribution Rate Stabilization Method:	Contribution rate may increase or decrease by 3% of payroll or by 20% of the previous rate; whichever is greater, when an employer's funded status is between 80% and 120%. At a funded status of 70% or less, or 130% or more, the limitation doubles to 6% of payroll or 40% of the previous rate, whichever is greater. At a funded status between 70% and 80% or 120% and 130%, the limitation increases in increments between 3%-6% of payroll or 20%-40% of the previous rate, whichever is greater.	Contribution rate may increase or decrease by 3% of payroll or by 20% of the previous rate; whichever is greater, when an employer's funded status is between 70% and 130%. At a funded status of 60% or less, or 140% or more, the limitation doubles to 6% of payroll or 40% of the previous rate, whichever is greater. At a funded status between 60% and 70% or 130% and 140%, the limitation increases in increments between 3%-6% of payroll or 20%-40% of the previous rate, whichever is greater.

Notes:

(1) Although the UAL amortization method remains unchanged, the PERS Board directed Milliman to re-amortize the UAL for the T1/T2 Programs from the 2007, 2009, and 2011 valuations to restart the 20-year amortization period for those UALs effective with the 2013 valuation report.
(2) Market value of assets reduced by value of assets in statutory reserves (contingency, capital preservation and rate guarantee reserves).

Source: Oregon Public Employees Retirement System.

The PERS actuary released its 2011 valuation for the Statewide PERS System as of December 31, 2011 (the "2011 System Valuation") on October 26, 2012 and its 2012 valuation for the Statewide PERS System as of December 31, 2012 (the "2012 System Valuation") on December 13, 2013. These reports include system-wide actuarial valuations for the T1/T2 Pension Programs and OPSRP.

The PERS actuary released the City's individual 2011 valuation report as of December 31, 2011 (the "2011 City Report") on September 28, 2012, and its individual 2012 valuation as of December 31, 2012 (the "2012 City Report") on December 27, 2013. These valuation reports provide the City's portion of (a) the SLGRP based on the City's proportionate share of the total SLGRP covered payroll as of the valuation date, (b) OPSRP based on the City's proportionate share of total OPSRP covered payroll as of the valuation date, and (c) the RHIA.

The tables below provide historical summary valuation information for the Statewide PERS System and for the City.

Table 11
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
Summary of Statewide PERS System Funding Levels
($ in Millions) [1]

	STATEWIDE PERS SYSTEM			
Calendar Year	Actuarial Value of Assets	Actuarial Liability	Unfunded Actuarial Liability	Funded Ratio
2003	$42,753.3	$44,078.1	$1,324.8	97.0%
2004 [2][3]	45,708.3	47,398.6	1,690.3	96.4
2005 [4]	51,403.9	49,294.0	-2,109.9	104.3
2006	56,616.5	51,252.9	-5,363.6	110.5
2007	59,327.8	52,871.2	-6,456.6	112.2
2008	43,520.6	54,259.5	10,738.9	80.2
2009	48,729.2	56,810.6	8,081.4	85.8
2010	51,583.6	59,329.5	7,745.9	86.9
2011	50,168.2	61,198.4	11,030.2	82.0
2012[5]	54,784.1	60,405.2	5,621.1	90.7

Notes:

(1) Composed of Tier 1/Tier 2 and OPSRP pensions but excluding retiree healthcare subsidies of RHIA. Includes side accounts resulting from employer supplemental deposits, including proceeds of pension obligation bonds.

(2) In 2003, the Oregon Legislative Assembly enacted significant changes to the System and created OPSRP. The 2003 legislative reforms were enacted in response to a growing UAL of the System and to increasing charges to public employers to fund the Statewide PERS System.

(3) Effective with the 2004 System valuation, the cost method changed from Entry Age Normal to Projected Unit Credit, and the actuarial value of assets was changed from a four-year smoothed value to market value among other changes.

(4) Assets and liabilities for OPSRP are first valued in the 2005 OPSRP Valuation.

(5) Reflects legislative changes in Senate Bill 822 adopted during the 2013 session of the Oregon State Legislature and assumptions and methods adopted by the PERS Board on September 27, 2013, and recent legislative changes in Senate Bills 861 and 862 adopted during the 2013 special session of the Oregon State Legislature. See “RECENT DEVELOPMENTS” below.

Source: Oregon Public Employees Retirement System.

Table 12
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
Summary of City Funding Levels
($ in Millions) [1]

Calendar Year	Actuarial Value of Assets	Actuarial Liability	Unfunded Actuarial Liability	Funded Ratio
2003	$1,187.4	$1,159.2	($28.2)	102.4%
2004 (2) (3)	1,295.5	1,294.9	(0.6)	100.0
2005 (4)	1,459.9	1,367.1	(92.8)	106.8
2006	1,619.3	1,432.0	(187.3)	113.1
2007	1,635.0	1,410.8	(224.2)	115.9
2008	1,280.6	1,539.9	259.2	83.2
2009	1,424.0	1,606.0	182.0	88.7
2010	1,499.8	1,672.5	172.7	89.7
2011	1,459.0	1,724.2	265.3	84.6
2012[5]	1,624.8	1,744.3	119.5	93.2

Notes:

(1) Composed of Tier 1/Tier 2 and OPSRP pensions but excluding retiree healthcare subsidies of RHIA. City information is calculated separately for the SLGRP and OPSRP using the City's payroll as a percentage of combined payroll of the respective rate pools. Includes impact of pension obligation bonds.

(2) In 2003, the Oregon Legislative Assembly enacted significant changes to the Statewide PERS System and created OPSRP. The 2003 legislative reforms were enacted in response to a growing UAL of the System and to increasing charges to public employers to fund the Statewide PERS System.

(3) Effective with the 2004 System valuation, the cost method changed from Entry Age Normal to Projected Unit Credit, and the actuarial value of assets was changed from a four-year smoothed value to market value among other changes.

(4) Assets and liabilities for OPSRP are first valued in the 2005 OPSRP Valuation.

(5) Reflects legislative changes in Senate Bill 822 adopted during the 2013 session of the Oregon State Legislature and assumptions and methods adopted by the PERS Board on September 27, 2013 and recent legislative changes in Senate Bills 861 and 862 adopted during the 2013 special session of the Oregon State Legislature. See "RECENT DEVELOPMENTS" below.

Source: Oregon Public Employees Retirement System.

The following table presents a history of the City's member payroll, unfunded actuarial liability and ratio of unfunded actuarial liability to payroll.

Table 13
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
City Payroll for PERS Members and Unfunded Actuarial Liability

Calendar Year	Payroll	Unfunded Actuarial Liability	Unfunded Liability to Payroll Ratio
2003	$201,036,519	($28,240,751)	-14%
2004	220,669,089	(587,340)	0%
2005	226,295,315	(92,818,145)	-41%
2006	242,259,162	(187,332,041)	-77%
2007	259,889,403	(224,199,619)	-86%
2008	289,371,762	259,241,423	90%
2009	303,851,551	182,019,126	60%
2010	307,538,429	172,726,579	56%
2011	303,508,135	265,267,189	87%
2012	311,688,601	119,477,128	38%

Source: Oregon Public Employees Retirement System.

The funded status of the pension programs may change depending on the market performance of the securities that the OPERF is invested in, future changes in compensation and benefits of covered employees, demographic characteristics of members and methodologies and assumptions used by the actuary in estimating the assets and liabilities of PERS. Additionally, the market value of the investments held in the OPERF is determined using various sources.

State Investment Policy

The Oregon State Treasury is the investment officer for the state of Oregon. Investment standards are established in ORS 293.726 and require funds to be managed as a prudent investor would do. The Oregon Investment Council ("OIC") establishes policies for the investment and reinvestment of moneys in PERS investment funds. Policies are established based on the primary investment asset class of each investment manager. The OIC has approved the following asset classes for the OPERF: Short-Term Investing, Fixed Income, Real Estate, Public and Private Equities, and Alternative Investments. In addition, OPERF invests in the Opportunity Portfolio, which may be populated with investment approaches across a wide range of investment opportunities with no limitation as to asset classes or strategies. The target investment portfolio mix at fair market value as of June 30, 2012, is 43 percent public equity, 16 percent private equity, 25 percent debt securities, 11 percent real estate, and 5 percent alternative equity.

The following table presents a 10-year history of investment returns for the OPERF.

Table 14
OREGON PUBLIC EMPLOYEES RETIREMENT FUND
Oregon PERS Investment Returns (1)

Fiscal Year Ending	Net Returns (%)
2004	17.8
2005	13.9
2006	14.4
2007	18.6
2008	-3.5
2009	-22.2
2010	17.0
2011	22.3
2012	1.6
2013	12.7

Notes:

(1) Total fund performance, excluding variable account.

Source: "Oregon PERS Monthly Returns" as of June 30 of the respective fiscal year shown in the table, website of the Oregon State Treasurer, Investment Division, Oregon Public Employees Retirement Fund (OPERF) as of January 23, 2014.

The following table presents annualized investment returns over the most recent 1-year, 3-year and 5-year periods. Calculations were prepared using a time-weighted rate of return based on market rates in accordance with the Global Investment Performance Standards performance presentation standards.

Table 15
OREGON PUBLIC EMPLOYEES RETIREMENT FUND
Annualized Investment Results (1)

	Annualized		
Periods Ending June 30, 2013	1-Year	3-Year	5-Year
Total Portfolio, Excluding Variable	12.7%	11.9%	5.0%

Notes:

(1) Total fund performance, excluding variable account.

Source: Comprehensive Annual Financial Report Oregon Public Employees Retirement System, An Agency of the State of Oregon.

Employer Contribution Rates and Amounts

The PERS Board is required by State statute to determine liabilities of the Statewide PERS System from time to time and to set contributions of participating employers at a level that ensures liabilities of the Statewide PERS System will be funded no more than 40 years after the date on which the determination is made. ORS 238.225 requires participating public employers to pay the amounts the PERS Board determines to be actuarially necessary to fund benefits provided to employees.

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. Employer contribution rates are based upon the current and projected cost of benefits and the anticipated level of funding available from the OPERF, including known and anticipated investment performance of the OPERF.

At the end of each odd-numbered year, actuarial valuations determine the employer contribution rates that are officially set by the PERS Board. All employers participating in PERS are required to make their contribution to PERS based on the employer contribution rates set by the PERS Board. The City's employer contribution rates were derived using a rate stabilization methodology (the "Rate Collar") designed to cap rate increases and reduce large fluctuations in employer contribution rates. Such rate increases are shifted to future biennia, including the 2013-15 biennium. See Table 10 for a summary of the Rate Collar in effect for the 2011 City Report and the 2012 City Report.

In 2013, the PERS Board and the Oregon Legislative Assembly took various actions that resulted in changes to the assumptions and methodologies for determining the employer contribution rates. Legislation was signed by the Governor on May 6, 2013 ("SB 822") that includes changes to compensation and benefits of PERS covered employees. SB 822 also includes a direction to the PERS Board to defer a 1.9% of payroll rate increase into future biennia. As a result of these actions, the employer contribution rates f or the 2013-15 biennium have been modified from those originally presented in the 2011 City Report. See "—Recent Developments" below.

The table below shows the City's current employer contribution rates, which incorporate the rate reduction resulting from passage of Senate Bill 822 and the accompanying budget note and were adopted by the PERS Board on May 31, 2013. The table also shows the City's advisory rates for the 2015-17 biennium as reported in the 2012 City Report. The advisory rates reflect the impact of legislation passed during the 2013 Oregon Legislature Special Session and are based on assumptions and methodologies adopted by the PERS Board at its September 27, 2013, meeting. See Table 10 for a summary of the assumptions and methodologies. Advisory rates are used by the City in projecting and planning for pension costs in future years. The rates reported in the table do not include the six percent and nine percent employee contribution rates for contributions to the IAP paid by the City. The City's contribution rates may increase or decrease due to a variety of factors, including the investment performance of the OPERF, the use of pension-related reserves, further changes to system valuation methodology and assumptions and decisions by the PERS Board, and changes in benefits resulting from legislative modifications.

Table 16
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM
Current and Future Employer Contribution Rates
Percentage of Covered Payroll (1)

Payrolls Paid	Current Rates 2013-15	Advisory Rates 2015-17
T1/T2	9.34%	12.94%
OPSRP General Services	7.52%	6.92%
OPSRP Police and Fire	10.25%	11.02%

Notes:

(1) For FY 2012-13, one percent of the City's covered payroll for the three pension benefit programs was approximately: $1,748,163 for T1/T2 Pension Programs; $1,026,965 for OPSRP general services; and $273,966 for OPSRP police and fire.

Source: City of Portland, Oregon Public Employees Retirement System, 2012 City Report prepared by Milliman.

T1/T2 Pension Programs employees and OPSRP employees are required by state statute to contribute six percent of their annual salary to the respective programs. Employers are allowed to pay the employees' contribution in addition to the required employers' contribution. The City has elected to make the employee contribution. An employer also may elect via written employment policy or agreement to make additional employer contributions to its employees' IAP accounts in an amount that can range from not less than one percent of salary to no more than six percent of salary and must be a whole percentage. Employers may make this policy or agreement for specific groups of their employees. The City has elected to make an optional contribution to the IAP accounts of public safety employees hired after January 1, 2007 of an additional three percent of their annual salary.

City Funding Policy

The City currently has no Council-approved policy regarding funding of its pension liability. However, the City has always funded its full employer contribution as required by ORS 238.225. See "—Employer Contribution Rates and Amounts" above.

Pension Obligation Bonds

In addition to their PERS contribution, City bureaus in existence as of November 10, 1999 (the issue date of the bonds) are required to make a contribution to pay debt service on outstanding Limited Tax Pension Obligation Revenue Bonds (the "Pension Obligation Bonds"), which were issued to fund the City's share of the unfunded actuarial liabilities of PERS as of December 31, 1997. The Pension Obligation Bonds were issued in three series: one series of fixed rate bonds in an amount of $150,848,346 and two series of auction rate securities in an aggregate amount of $150,000,000. The final maturity of the fixed rate Pension Obligation Bonds is June 1, 2029. Pension Obligation

Bonds issued as auction rate securities mature on June 1, 2019. Table 17 presents debt service on the City's Pension Obligation Bonds for the past ten fiscal years.

Proceeds of the Pension Obligation Bonds were deposited in an account with PERS. The City opted to amortize the original deposit ratably over the life of the bonds. Table 17 below shows the amount of bonds amortized annually and debt service paid by the City on its Pension Obligation Bonds. As of June 30, 2013, the remaining unamortized balance of the bond proceeds deposited with PERS was $141,138,188.

Total City Pension and RHIA Contribution

The following table shows the amount of City contributions paid to PERS for the three pension programs including amounts paid by the City for the employee contribution, as well as contributions to RHIA. Contributions include the payments from the Fire and Police Disability and Retirement Fund for pensions of police and firefighters participating in the T1/T2 Pension Programs and OPSRP. Fire and Police Disability and Retirement Fund contributions are funded from a dedicated Citywide property tax levy. See "—Fire and Police Disability and Retirement Fund" below. In FY 2012-13, 55.0 percent of the total cash contribution was for the employer share, 41.3 percent was for the employee share, and 3.6 percent of the total was for the City's contribution to RHIA.

The City made its required contribution for its pension obligation in all years. See "—Employer Contribution Rates and Amounts" above.

Table 17
CITY OF PORTLAND, OREGON
City Contributions to PERS and Total Pension-Related Contributions

Fiscal Year	Total City Required Contribution (1)	Amortization of Pension Obligation Bonds (2)	City's Cash Contribution to PERS (3)	Debt Service on Pension Obligation Bonds	Total Cash Contribution for Pension Costs
2004	$27,390,839	$8,579,719	$18,811,120	$10,255,372	$29,066,492
2005	28,857,496	8,579,719	20,277,777	11,987,632	32,265,409
2006	29,765,118	8,597,252	21,167,866	14,635,732	35,803,598
2007	31,172,696	8,597,252	22,575,444	18,990,492	41,565,936
2008	32,779,658	8,597,252	24,182,406	19,839,413	44,021,819
2009	43,924,072	8,597,252	35,326,820	22,049,937	57,376,757
2010	41,195,860	8,597,252	32,598,608	18,253,638	50,852,246
2011	42,219,332	8,597,252	33,622,080	16,413,710	50,035,790
2012	53,826,983	8,597,252	45,229,731	17,738,966	62,968,697
2013	53,875,808	8,597,252	45,278,556	19,432,611	64,711,167

Notes:

(1) Includes City's statutorily required employer contribution for T1/T2 and OPSRP pension programs, its pension contribution on behalf of employees, and its contribution to the RHIA.

(2) Change in amortization amounts between FY 2004-05 and FY 2005-06 reflects correction in amortization schedule.

(3) Includes contributions from FPDR property tax levy and other non-General Fund bureaus such as the Water Bureau and the Bureau of Environmental Services.

Source: City of Portland

Recent Developments

Changes to PERS During the 2013 Legislative Session

During the 2013 Legislative Session, the Legislative Assembly made changes to PERS by enacting Senate Bill 822 ("SB 822"), which was signed by the Governor on May 6, 2013, to further limit annual benefits cost of living adjustments ("COLAs") and eliminate a benefit increase for out-of-state retirees based on Oregon income tax. Expenditure reductions from these two changes reduced the required employer contribution amount to PERS from all employers by approximately $460 million for the 2013-2015 biennium. The changes are estimated to reduce the total accrued actuarial liability of the System by approximately $2.6 billion and reduced employer contribution rates by an average

of 2.5 percent of payroll for the 2013-2015 biennium. Lawsuits challenging the constitutionality of the changes made by SB 822 have been filed in the Oregon Supreme Court. See "Litigation—Challenges to PERS Reforms" below.

A budget note attached to SB 822 (the "Budget Note") directed the PERS Board to defer a portion of the currently scheduled employer rate increase (up to an additional 1.9 percent of covered employer payroll) from the 2013-2015 biennium to future biennia. SB 822 is expected to produce employer contribution savings for the City for the 2013-2015 biennium. At its May 31, 2013 meeting, the PERS Board adopted a methodology by which all PERS employers received a reduction of up to the aggregate 4.4 percent of covered payroll in their employer contribution rates for the 2013-2015 biennium; however, no jurisdiction may pay less than the rate at which it paid in 2011-2013, excluding the impact of side accounts resulting from employer supplemental deposits (typically financed through issuance of pension obligation bonds) and other rate adjustments specific to individual employers.

Implementing the 1.9 percent of payroll employer contribution rate deferral of the 2013-2015 employer contribution rates is not expected to impact the actuarial accrued liability of the Statewide PERS System; it is, however, expected to create a contribution shortfall to the Statewide PERS System of approximately $350 million in the 2013-2015 biennium. As such, employer contribution rates would need to be increased by approximately 0.3 percent of covered payroll over a 20-year amortization period beginning in the 2015-2017 biennium to restore the contribution shortfall from the rate deferral and the associated foregone earnings over the applicable unfunded liability amortization period. However, see "—2013 Oregon Legislative Special Session" below.

2013 Oregon Legislative Special Session

The Governor called the Legislative Assembly into a special session that began on September 30, 2013, and concluded on October 2, 2013 (the "Special Session"). During the Special Session, the Legislative Assembly adopted Senate Bill 861 ("SB 861") and senate Bill 862 ("SB 862"), which were signed by the Governor on October 8, 2013. Included in these bills are provisions that adjust and limit cost-of-living benefit increases for retirees, exclude salary increases given to pay for insurance costs from the final average salary used to calculate pension benefits, and reduce legislators' participation in PERS. The changes from SB 861 and SB 862 are estimated to result in a reduction of approximately $2 billion in the accrued liability of the Statewide PERS System as reflected in the 2012 System Valuation Presentation provided by Milliman to the PERS Board on September 27, 2013. This reduction takes into account changes made during the 2013 Legislative Session from SB 822 as well as a reduction in employer contribution rates of approximately two percent (but does not take into consideration any rate collars or other PERS Board or legislative actions that could impact employer rates). The reduction in Statewide PERS System liabilities resulting from SB 861 is expected to be used to offset the 1.9 percent rate deferral ordered by the PERS Board in response to the budget note in SB 822. This will eliminate an anticipated 0.3 percent increase in employer rates that was expected to begin in the 2017-19 biennium to address the 1.9 percent rate deferral. See "—Changes to PERS During the 2013 Legislative Session" above. The City cannot predict whether any legislation related to PERS would withstand any legal challenges. See "Litigation—Challenges to PERS Reforms" below.

Litigation

Challenges to PERS Reforms

Several cases have been filed on behalf of PERS retirees and active employees challenging changes to PERS retirement benefits that were enacted by the Legislative Assembly in the 2013 Legislative Session and the 2013 Oregon Legislative Special Session. See "Recent Developments—Changes to PERS during the 2013 Legislative Session." The cases have been filed directly with the Oregon Supreme Court. The petitioners allege that SB 822 and SB 861 constitute a breach of contract as well as an impairment of contract and a taking of property rights in violation of the Oregon and United States constitutions. In the cases filed on behalf of several union retirees and employees, the petitioners have requested the appointment of a special master to gather evidence and establish findings of fact. They also have requested the issuance of a preliminary injunction enjoining the implementation of SB 822 and SB 861, a declaration that SB 822 and SB 861 are unconstitutional or, alternatively, damages in the amount of the difference between benefits paid with and without SB 822 and SB 861, and reimbursement of attorney fees and costs. The SB 822 and SB 861 challenges have been joined and the Supreme Court has referred them to a special master for fact finding. If SB 822 or SB 861 is enjoined or held unconstitutional, the anticipated savings from the PERS changes that were calculated as part of the City's adopted budget and plan may not be realized for the 2013-2015 biennium and future biennia. No challenges to SB 862 have been filed.

Fire and Police Disability and Retirement Fund

The following discussion pertains to the City's Fire and Police Disability and Retirement ("FPDR") Fund. Most of the fire and police sworn personnel are covered under the FPDR Plan. The FPDR Plan consists of three tiers, two of which are now closed to new employees. FPDR One, the original plan, and FPDR Two, in which most active fire and police personnel participate, are single-employer, defined-benefit plans administered by the FPDR Board. FPDR Three participants are part of OPSRP for retirement benefits and are under the FPDR Plan for disability and death benefits. For information regarding OPSRP and the employee and employer contribution rates for OPSRP, see "PENSION PLANS – General," above. The authority for the FPDR Plan's vesting and benefit provisions is contained in the Charter of the

City. A ballot measure approved by voters November 6, 2012, changed the eligibility for membership in the FPDR Plan of fire and police personnel from generally upon employment to after six months of continuous sworn employment. The FPDR Plan provides for service-connected disability benefits at 75 percent of salary, reduced by 50 percent of any wages earned in other employment with a 25 percent of salary minimum, for the first year of disability and 25 to 75 percent of salary in later years, depending on medical status and ability to obtain other employment. The FPDR Plan also provides for nonservice-connected disability benefits at zero to 50 percent of salary.

Effective July 1, 1990, the FPDR Plan was amended to create the FPDR Two tier, which provides for the payment of benefits upon termination of employment on or after attaining age fifty-five, or on or after attaining age fifty if the member has twenty-five or more years of service. Members become 100 percent vested after five years of service. Members enrolled in the FPDR Plan prior to July 1, 1990, were required to make an election as to whether they wished to fall under the provisions of the FPDR Plan as constituted prior to July 1, 1990 (now called FPDR One) or become subject to the new FPDR Two provisions after June 30, 1990.

On November 7, 2006, voters in the City of Portland passed a measure that created the FPDR Three tier and changed the retirement plan benefits of new members to OPSRP. The FPDR levy pays the employee and employer portions of the OPSRP contribution. Performance audits have been implemented to assess the implementation of the FPDR Plan reforms. The initial and follow-up disability program audits have been performed, and a pension program audit was completed in January 2010.

Another ballot measure passed by the voters November 6, 2007, also made new retirees from active service eligible for payment by the FPDR Fund of medical and hospital expenses associated with their job-related injuries and illnesses accepted before retirement. The change is effective for retirees after January 1, 2007. New state legislation governing workers' compensation law requires that the FPDR Fund treat 12 cancers as presumptive occupational illnesses for firefighters effective January 1, 2010.

The November 6, 2012, ballot measure also clarified final pay calculations, eliminated a provision to increase vested termination benefits if the member was subsequently employed in PERS-covered service prior to FPDR retirement, and reduced the eligibility threshold for non-service connected death before retirement from ten years of service to five.

The FPDR Plan is funded by a special property tax levy which cannot exceed two and eight-tenth mills on each dollar of valuation of property ($2.80 per $1,000 of real market value) not exempt from such levy. The FPDR property tax levy has been sufficient in all years to meet required annual benefit payments. In the event that funding for the FPDR Plan is less than the required payment of benefits to be made in any particular year, the FPDR Fund could receive advances from the FPDR Reserve Fund first and other City funds second, to make up the difference. Repayment of advances, if any, would be made from the special property tax levy in the succeeding year. In the event that the special property tax levy is insufficient to pay benefits because benefits paid exceed the two and eight-tenth mills limit, other City funds would be required to make up the difference. The FY 2013-14 levy of $136,383,540 required a tax rate of $2.7822 per $1,000 of assessed property value, or approximately $1.6227 per $1,000 of gross real market value.

In accordance with the Charter's provisions, there are no requirements to fund the Plan using actuarial techniques, and the Charter indicates that the City cannot pre-fund the FPDR Plan benefits. As required by the Charter, the FPDR Fund's Board of Trustees estimates the amount of money required to pay and discharge all requirements of the FPDR Fund for the succeeding fiscal year and submits this estimate to the City Council. The Council is required by Charter to annually levy a tax sufficient to provide amounts necessary to fund the estimated requirements for the upcoming year provided by the FPDR Fund's Board of Trustees. While the FPDR Fund has not experienced any funding shortfalls to date, future funding is dependent on the availability of property tax revenues and, in the absence of sufficient property tax revenues, City funds.

The FPDR Fund's Board periodically assesses the future availability of property tax revenues by having projections and simulations performed in connection with the actuarial valuation of the Fund. The most recent assessment was as of June 30, 2012. The Fund's Board believes that, under a wide range of simulated economic scenarios in the foreseeable future, the future FPDR Fund levy would remain under $2.80 per $1,000 of real market value, but reaching the $2.80 threshold has a five percent or greater probability level starting in fiscal year 2028 and an almost 10 percent probability in fiscal year 2030. The levy requirement is expected to begin declining in fiscal year 2031.

Recognizing that the economic conditions have changed significantly over the past few years, the City reviewed the discount rate and assumptions utilized in the calculations of the actuarial valuation, including actuarial accrued pension liabilities and net pension obligation, and determined they should be revised to more closely match the funding and investment returns that actually are achieved under existing investment. The City revised the rate for the June 30, 2012, valuation from 4.00 percent to 3.50 percent. This change increased the unfunded actuarial liability by $226 million. Overall the unfunded actuarial liability increased from $2.53 billion on July 1, 2010, to $2.88 billion on July 1, 2012.

OTHER POST-EMPLOYMENT RETIREMENT BENEFITS ("OPEB")

The City's OPEB liability includes two separate plans. The City provides a contribution to the State of Oregon PERS cost-sharing multiple-employer defined benefit plan and an implicit rate subsidy for retiree Health Insurance Continuation premiums.

PERS Program

Retirees who receive pension benefits through the T1/T2 Pension Programs and are enrolled in certain PERS-administered health insurance programs may also receive a subsidy towards the payment of health insurance premiums. Under ORS 238.420, retirees may receive a subsidy for Medicare supplemental health insurance of up to $60 per month towards the cost of their health insurance premiums under the RHIA program. RHIA's assets and liabilities are pooled on a system-wide basis. These assets and liabilities are not tracked or calculated on an employer basis. The City's allocated share of the RHIA program's assets and liabilities is based on the City's proportionate share of the program's pooled covered payroll. According to the 2011 City Report, the City's allocated share of the RHIA program's UAL is $7,862,531 as of December 31, 2011, and according to the 2012 City Report, the City's allocated share of the RHIA program's UAL is $6,539,359 as of December 31, 2012.

The City's current total contribution rate to fund RHIA benefits for T1/T2 employees is 0.59 percent and for OPSRP general services employees and police and fire employees is 0.50 percent.

Health Insurance Continuation Option

Distinct from the PERS program, Oregon municipalities, including the City, are required to allow retirees and their dependents to continue to receive health insurance by paying the premiums themselves at a rate that is blended with the rate for current employees until retirees and spouses are eligible for federal Medicare coverage and until children reach the age of 18 (the "Health Insurance Continuation Option"). GASB 45 refers to this as an implicit subsidy and therefore requires the corresponding liability to be determined and reported.

The OPEB liability associated with the Health Insurance Continuation Option is an actuarially determined amount calculated in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The valuation is prepared using the Entry Age Normal actuarial cost method and amortized over an open period of 30 years using the level percentage of projected pay. Other assumptions include a 3.5 percent investment rate of return, and annual healthcare cost trend rates of one to 9.5 percent for health insurance, zero to six percent for dental insurance, and zero to three percent for vision. The City's unfunded actuarial accrued liability for OPEB is solely attributable to the Health Insurance Continuation Option and at the valuation date of July 1, 2011 (the date of the most recent actuarial valuation), is estimated to be $104,946,292. Actuarial valuations for the Health Insurance Continuation Option are undertaken every two years. A new valuation study will be undertaken for reporting the OPEB liability as of July 1, 2013.

For FY 2012-13, the annual required contribution (the "ARC") of the employer to be recognized as the annual employer OPEB cost was $9,566,141. For fiscal year ended June 30, 2013, the City benefits paid on behalf of retirees exceeded the premiums they paid by $3,983,198. The City elected to not pre-fund the FY 2012-13 employer's ARC of $9,566,141. The amount unfunded in FY 2012-13 is $36,399,053, which is the OPEB obligation from the beginning of the fiscal year, plus the ARC for FY 2012-13, less payments made in relation to the FY 2012-13 ARC. The City expects to use a pay-as-you-go approach to fund its actuarial accrued liability and ARC, but will monitor its OPEB liability and assess whether a different approach is needed in future years.

LITIGATION

Members of the public and advocacy groups from time to time assert that they intend to file a legal action against the City challenging certain programs, laws or actions that the City, its officers or bureaus have taken. Because the City cannot be certain as to whether such actions will actually be filed, the legal assertions that may be made in a potential action or the remedy sought in terms of the amount of damages or performance requested of the City, the City includes as threatened litigation only situations in which the City is engaged in active settlement negotiations with a person or group in order to pre-empt filing of a lawsuit.

The City discloses only pending or threatened litigation that the City has determined may have a materially adverse impact on the financial position of the Bureau or the Sewer System. The current level of materiality involves litigation where the damages or performance sought has a reasonable probability of imposing liability of $5 million or more against the Bureau or the Sewer System. Except as noted in the following paragraphs, there is no litigation pending or threatened against the City which would materially and adversely affect the financial condition of the Bureau or the Sewer System.

In December 2000, Portland Harbor was listed as a federal Superfund site and the City of Portland received General Notice Letters from the U.S. Environmental Protection Agency stating that the City may have liability for releases of hazardous substances, pollutants or contaminants in the Willamette River. The City may also have liabilities to Natural Resource Trustees of the Willamette River (including federal, state and tribal resource agencies) for damages to natural resources in Portland Harbor. The EPA has not selected a cleanup remedy for the site and the costs associated with the remedy have not been allocated among the numerous potentially liable parties. The Natural Resource Trustees have not determined the total damages to natural resources and those costs have not been allocated among the numerous potentially liable parties. The City believes that an estimate of maximum City exposure of the Portland Harbor cleanup cannot be made at

this time. The City will defend against a significant allocation of liability to the City. The City has not identified potential sources of funding for costs allocated to the City, but such sources could include resources of the Bureau.

On December 6, 2011, the City received a complaint in *Anderson et al. v. City of Portland*, Multnomah County Circuit Court case No. 1112-15957. The complaint challenges certain expenditures by the Bureau and the Water Bureau and asks for an order requiring the City to reimburse the Water Fund and Sewage Disposal Fund for those expenditures. The complaint does not allege the amount in dispute or the source of the reimbursement. The City estimates that if plaintiffs prevailed on all claims and a court ordered the relief requested, the reimbursement amount could exceed $50 million. The City has not identified potential sources of any court-ordered reimbursement, but such sources could include any legally available resources of the City, including the General Fund. The City will vigorously defend the lawsuit and believes that it is unlikely that the plaintiffs will prevail on the majority of the claims alleged. Motions by both parties have been filed with Multnomah County Circuit Court. The first summary judgment hearing will be heard by the court in February 2014.

APPENDIX
EXCERPTS FROM AUDITED FINANCIAL STATEMENTS

INTRODUCTION TO EXCERPTS OF FINANCIAL STATEMENTS

The financial statements of the City have been audited by independent certified public accountants for the fiscal years 2009, 2010, 2011, 2012 and 2013. Copies of these financial statements containing the reports of the independent certified public accountants are available on the City's website at:

http://www.portlandoregon.gov/bfs/26053

The following pages in this Appendix A are excerpted from the City's Comprehensive Annual Financial Reports of the City for Fiscal Years ending June 30, 2009 through June 30, 2013. Any Notes that follow the tabular data have been prepared by the City and have not been reviewed by the independent auditor.

A CONSENT OF THE INDEPENDENT AUDITOR WAS NOT REQUESTED. THE AUDITOR WAS NOT REQUESTED TO PERFORM AND HAS NOT PERFORMED ANY SERVICE IN CONNECTION WITH THIS DISCLOSURE DOCUMENT AND IS THEREFORE NOT ASSOCIATED WITH THIS DISCLOSURE DOCUMENT.

CITY OF PORTLAND, OREGON
SEWAGE DISPOSAL FUND
STATEMENT OF NET ASSETS
As of June 30

	2009	2010	2011	2012	2013
ASSETS					
Current assets (unrestricted):					
Cash and investments	$ 77,591,298	$ 52,151,004	$ 42,679,782	$ 31,939,279	$ 26,876,179
Receivables					
Accounts, net	36,021,211	36,961,411	39,820,839	44,453,631	48,499,600
Assessments	4,938,001	2,997,035	3,847,378	585,357	700,046
Advances	10,000	-	-	-	-
Accrued interest	1,891,102	560,514	1,045,815	347,510	153,460
Due from other funds	1,303,924	21,013	21,013	21,013	-
Due from component unit	-	-	75,000	5,000	-
Internal loans	-	500,940	16,700,000	-	-
Inventories	1,074,639	1,140,815	1,291,697	1,335,900	1,362,289
Prepaid expenses	2,113,087	1,571,500	757,176	-	-
Total current assets (unrestricted)	124,943,262	95,904,232	106,238,700	78,687,690	77,591,574
Current assets (restricted)					
Cash and investments	-	2,217,812	13,428,254	1,085,641	-
Total current assets (restricted)	-	2,217,812	13,428,254	1,085,641	-
Total current assets	124,943,262	98,122,044	119,666,954	79,773,331	77,591,574
Noncurrent assets (unrestricted):					
Capital assets, not being depreciated or amortized:					
Land	46,657,942	44,587,339	54,565,230	62,091,165	67,271,989
Construction in progress	505,635,924	660,198,402	800,494,115	142,267,439	143,972,297
Intangible assets:					
Land use rights	-	-	11,988,421	12,122,209	13,733,820
Capital assets, being depreciated or amortized:					
Plant, buildings and improvements	20,392,764	31,112,788	21,146,577	21,146,575	21,146,575
Equipment	28,311,433	29,798,884	22,884,843	27,104,061	27,708,229
Intangible assets:					
Software	-	-	8,594,081	9,710,018	8,716,383
Infrastructure	2,089,164,385	2,148,662,039	2,241,748,831	3,031,438,190	3,123,451,365
Capitalized leases	306,728	306,728	-	-	-
Accumulated depreciation and amortizatio	(263,805,874)	(293,159,335)	(323,209,523)	(351,363,155)	(387,944,082)
Capital assets net of accumulated depreciation and amortization	2,426,663,302	2,621,506,845	2,838,212,575	2,954,516,502	3,018,056,576
Receivables:					
Internal loan	-	21,700,000	-	-	-
Assessments	-	-	-	3,538,231	3,576,109
Pre-paid pension obligation	22,952,002	21,827,822	20,703,641	19,579,460	18,455,279
Total noncurrent assets (unrestricted)	2,449,615,304	2,665,034,667	2,858,916,216	2,977,634,193	3,040,087,964
Noncurrent assets (restricted):					
Cash and investments	72,203,826	53,244,370	115,677,506	28,070,500	28,070,500
Total non-current assets	2,521,819,130	2,718,279,037	2,974,593,722	3,005,704,693	3,068,158,464
Total assets	2,646,762,392	2,816,401,081	3,094,260,676	3,085,478,024	3,145,750,038

CITY OF PORTLAND, OREGON
SEWAGE DISPOSAL FUND
STATEMENT OF NET ASSETS
As of June 30

	2009	2010	2011	2012	2013
LIABILITIES					
Current liabilites (payable from unrestricted assets):					
Accounts payable	$18,112,711	$24,882,897	$6,415,162	$11,683,405	$15,877,453
Compensated absences	2,098,956	2,641,467	3,008,431	3,278,581	3,615,684
Due to component unit	1,814,662	-	-	-	25,000
Capital leases payable	84,772	-	-	-	-
Unearned revenue	683,732	499,378	591,126	549,721	617,592
Bonds payable	53,284,499	62,454,523	77,063,726	80,245,847	83,546,071
Notes and loans payable	1,157,893	7,910,345	1,280,253	1,354,862	1,368,041
Accrued interest payable	7,656,185	7,802,355	13,410,551	13,038,480	12,807,890
Pollution remediation	-	277,500	153,000	145,000	99,000
Other liabilities	342,333	265,876	126,157	136,115	134,750
Total current liabilities (unrestricted)	85,235,743	106,734,341	102,048,406	110,432,011	118,091,481
Current liabilites (payable from restricted assets):					
Accounts payable	-	$2,217,812	$13,428,254	$1,085,641	$0
Total current liabilities (restricted)	-	2,217,812	13,428,254	1,085,641	-
Total current liabilities	85,235,743	108,952,153	115,476,660	111,517,652	118,091,481
Noncurrent liabilities:					
Compensated absences	1,422,569	876,594	656,020	569,863	365,582
Bonds payable	1,387,785,456	1,319,152,128	1,673,468,737	1,593,222,889	1,509,676,818
Notes and loans payable	18,877,070	172,385,128	19,291,988	19,178,792	96,428,059
Capital leases payable	-	-	-		
Prepaid sewer assessment	37,698	-	-		
Accrued interest payable	3,954,617	4,716,240	6,481,013	7,364,966	8,320,348
Other postemployment benefits	709,049	901,537	1,157,019	1,284,644	1,426,170
Pollution remediation	-	45,000	172,000	415,000	85,000
Other liabilities	-	21,774	34,491	146,794	94,837
Total noncurrent liabilities	1,412,786,459	1,498,098,401	1,701,261,268	1,622,182,948	1,616,396,814
Total liabilities	1,498,022,202	1,607,050,554	1,816,737,928	1,733,700,600	1,734,488,295
NET ASSETS					
Net investment in capital assets	1,065,106,461	1,136,948,380	1,213,009,965	1,317,654,559	1,382,838,427
Restricted for:					
Debt service	200,000	200,000	200,000	200,000	200,000
Capital projects	-	53,044,371	-	-	-
Unrestricted	83,433,729	19,157,776	64,312,783	33,922,865	28,223,316
Total net assets	$ 1,148,540,190	$ 1,209,350,527	$ 1,277,522,748	$ 1,351,777,424	$ 1,411,261,743

Source: City of Portland audited financial statements.

CITY OF PORTLAND, OREGON
SEWAGE DISPOSAL FUND
STATEMENT OF REVENUES, EXPENSES, and CHANGES IN FUND NET ASSETS
Fiscal Years Ending June 30

	2009	2010	2011	2012	2013
Operating revenues:					
Service charges and fees	$226,397,001	$219,312,766	$239,654,867	$255,238,165	$276,217,238
Service charges and fees provided internally	-	-	-	-	3,390,534
Licenses and permits	1,094,165	1,042,164	1,103,843	1,428,987	1,405,704
Rents and reimbursements	55,780	123,566	66,146	71,291	71,799
Miscellaneous	712,433	8,885,510	4,576,102	1,732,379	2,685,315
Total operating revenues	228,259,379	229,364,006	245,400,958	258,470,822	283,770,590
Operating expenses:					
Salaries and wages	38,918,743	41,486,812	42,831,171	46,008,644	47,319,527
Operating supplies	3,394,636	3,398,251	3,614,671	3,428,085	3,923,604
Professional services	37,765,018	38,907,719	39,330,658	35,452,114	3,487,969
Services and materials provided internally	-	-	-	-	33,662,713
Utilities	5,171,400	4,372,847	4,147,994	5,053,988	5,381,126
Claims	-	-	-	7,640.00	-
Miscellaneous	1,909,729	423,054	1,285,846	6,677,789	10,362,058
Utility license fees	12,809,321	12,809,321	12,809,321	12,809,321	12,672,638
Depreciation expense	29,511,785	29,535,000	30,320,911	30,158,176	39,459,906
Total operating expenses	129,480,632	130,933,004	134,340,572	139,595,757	156,269,541
Operating income (loss)	98,778,747	98,431,002	111,060,386	118,875,065	127,501,049
Nonoperating revenues (expenses):					
Gain (loss) on sale of capital assets	(252,088)	36,531	292,955	(150,009)	(38,716)
Investment earnings	7,926,561	687,287	2,836,518	709,195	321,701
Interest expense	(50,336,722)	(39,406,741)	(47,006,826)	(46,130,545)	(63,535,315)
Debt issuance costs	(102,499)	(124,150)	(1,006,118)	(104,887)	(182,450)
Miscellaneous	(1,124,180)	-	-	-	(14,835.00)
Total nonoperating revenues (expenses)	(43,888,928)	(38,807,073)	(44,883,471)	(45,676,246)	(63,449,615)
Income (loss) before contributions and transfers	54,889,819	59,623,929	66,176,915	73,198,819	64,051,434
Transfers in	62,100	119,037	295,348	151,552	160,655
Transfers out	(799,601)	(690,649)	(441,074)	(415,016)	(442,672)
Capital contributions	2,053,939	958,038	2,141,032	1,319,321	2,714,902
Income before special item	56,206,257	60,010,355	68,172,221	74,254,676	66,484,319
Special Item					
Capital asset write-off	-	-	-	-	(7,000,000)
Change in net position	56,206,257	60,010,355	68,172,221	74,254,676	59,484,319
Total net assets -- beginning, as restated	1,092,533,933	1,149,340,172	1,209,350,527	1,277,522,748	1,351,777,424
Total net assets -- ending	$ 1,148,740,190	$ 1,209,350,527	$ 1,277,522,748	$ 1,351,777,424	$ 1,411,261,743

Source: City of Portland audited financial statements.

CITY OF PORTLAND, OREGON
SEWAGE DISPOSAL FUND
STATEMENT OF CASH FLOWS
For Fiscal Years Ending June 30

	2009	2010	2011	2012	2013
CASH FLOWS FROM OPERATING ACTIVITY					
Receipts from customers and users	$ 221,276,452	$ 206,963,404	$ 245,915,334	$ 268,684,172	$ 275,644,129
Receipts from interfund services provided	1,980,135	2,517,052	2,095,050	2,363,095	3,411,547
Payments to suppliers	(30,947,656)	(9,559,183)	(25,214,112)	(22,861,577)	(17,001,840)
Payments to employees	(38,037,233)	(40,173,608)	(41,305,118)	(44,572,845)	(45,920,998)
Payments for interfund services used	(32,501,504)	(43,014,730)	(43,507,055)	(47,328,672)	(49,810,572)
Other receipts (payments)	64,555	333,520	12,816	324	610,262
Net cash provided by operating activities	121,834,749	117,066,455	137,996,915	156,284,497	166,932,528
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in	62,100	119,037	109,486	65,505	117,066
Transfers out	(799,601)	(690,649)	(388,970)	(415,016)	(442,672)
Net cash provided (used) by noncapital financing activities	(737,501)	(571,612)	(279,484)	(349,511)	(325,606)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of bonds and notes	33,297	161,431,827	409,316,352	1,267,882	78,617,308
Premium on bonds and notes issued	-	-	42,143,289	-	-
Sale of capital assets	311,639	116,235	76,144	380,831	324,698
Acquisiton of capital assets	(182,453,198)	(222,900,227)	(244,535,041)	(145,587,575)	(107,619,737)
Principal paid on bonds, notes and capital leases	(48,909,205)	(54,540,592)	(234,858,270)	(70,001,109)	(73,499,469)
Interest paid on bonds, notes and capital leases	(60,756,963)	(44,677,749)	(47,032,648)	(53,987,750)	(70,911,764)
Debt issuance costs	(102,499)	(124,150)	(1,006,118)	(104,887)	(182,450)
Net cash provided (used) by capital related financing activities	(291,876,929)	(160,694,656)	(75,896,292)	(268,032,608)	(173,271,414)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	8,179,318	2,017,875	2,351,217	1,407,500	515,751
Net increase (decrease) in cash and cash equivalents	(162,600,363)	(42,181,938)	64,172,356	(110,690,122)	(6,148,741)
CASH AND CASH EQUIVALENTS July 1, Prior Year	312,395,487	149,795,124	107,613,186	171,785,542	61,095,420
CASH AND CASH EQUIVALENTS June 30, Current Year	$ 149,795,124	$ 107,613,186	$ 171,785,542	$ 61,095,420	$ 54,946,679
Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets:					
Unrestricted cash and cash equivalents	$77,591,298	$52,151,004	$42,679,782	$31,939,279	$26,876,179
Restricted cash and cash equivalents	72,203,826	55,462,182	129,105,760	29,156,141	28,070,500
Total	$149,795,124	$107,613,186	$171,785,542	$61,095,420	$54,946,679

CITY OF PORTLAND, OREGON
SEWAGE DISPOSAL FUND
STATEMENT OF CASH FLOWS (Continued)
For Fiscal Years Ending June 30

	2009	2010	2011	2012	2013
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	$ 98,778,747	$ 98,431,002	$ 111,060,386	$ 118,875,065	$ 127,501,049
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization of capital assets	29,511,785	29,535,000	30,320,911	30,158,176	39,459,906
Provision for uncollectible accounts	1,224,893	1,380,583	1,204,408	1,183,469	800,086
Change in assets and liabilities:					
Accounts and contracts receivable	(6,489,105)	1,295,950	(2,975,673)	(4,211,114)	(3,874,441)
Inventories	(61,237)	(66,176)	(150,882)	(44,203)	(26,389)
Accounts payable	(2,934,608)	8,987,998	(7,257,293)	(7,074,370)	3,108,407
Compensated absences	535,690	(3,464)	146,390	183,993	132,822
Due from (to) other funds	1,524,738	(531,751)	(75,000)	70,000	21,013
Due from (to) component unit	-	-	-	-	30,000
Internal loans receivable	-	(22,200,940)	5,500,940	16,700,000	-
Unearned revenue	85,899	(184,354)	91,748	(41,405)	67,871
Accrued other postemployment benefits	345,820	192,488	255,482	127,625	141,526
Pollution remediation	-	-	-	-	(376,000)
Other accrued liabilities	(687,873)	230,119	(124,502)	357,261	(53,322)
Net cash provided by operating activities	$ 121,834,749	$ 117,066,455	$ 137,996,915	$ 156,284,497	$ 166,932,528
Noncash information					
Prepaid PERS amortization	1,124,180	1,124,180	(1,124,180)	(1,124,181)	(1,124,181)
Capital contribution	2,053,939	958,038	2,141,032	1,319,321	2,714,902
Special item: Capital asset write-off	-	-	-	-	(7,000,000)
Increase in fair value of investments (classified as cash equivalents)	134,351	(1,427,627)	855,563	(381,966)	(249,324)

Source: City of Portland audited financial statements.